

# **Summary Report**

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

### **Year 2015**



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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 2016.

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## COMPOSITION OF THE STATUTORY BODIES\*

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Stefano Bizzocchi - Vice Chairman  
Silvia Cecchetti  
Giovanni Luca Ghiotti  
Francesco Mancini  
Aldo Simoncini

### **Board of Statutory Auditors**

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### **Directorate General**

Lorenzo Savorelli - Director General  
Daniele Bernardi - Deputy Director General

### **Supervision Committee**

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Giuliano Battistini  
Patrizio Ettore Cherubini  
Fabio Mazza

The Central Bank Statutes (Law no. 96 of 29 June 2005, as subsequently amended and supplemented) require the Bank to report 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 General Meeting of the Shareholders and then forwarded to the Great and General Council through the office of the Secretary of State for Finance.

\* as at 30 May 2016



## TABLE OF CONTENTS

<b>1</b>	<b>THE FINANCIAL SYSTEM .....</b>	<b>10</b>
1.1	The banking system .....	11
1.1.1	Ownership structures .....	11
1.1.2	Size and structure of the system .....	11
1.1.3	Assets and liabilities .....	13
1.1.4	Review of loans to customers .....	16
1.1.5	Funding .....	21
1.1.6	Fiduciary activities in the banking sector .....	24
1.1.7	The capital .....	25
1.1.8	Profitability and efficiency .....	27
1.1.9	Liquidity .....	31
1.1.10	Data in the banking system concerning the use of cash .....	33
1.2	The sector of the financial/fiduciary companies and investment companies ..	37
1.2.1	Size and structure of the system .....	37
1.2.2	Assets and liabilities .....	38
1.2.3	Fiduciary activities .....	41
1.2.4	The capital .....	42
1.2.5	Profitability and efficiency .....	44
1.3	Rest of the system .....	45
1.3.1	Management companies (MCs) .....	45
1.3.2	Insurance undertakings .....	47
1.3.3	Insurance and reinsurance intermediaries .....	49
1.3.4	Cold-calling parties .....	50
<b>2</b>	<b>THE INSTITUTIONAL FUNCTIONS .....</b>	<b>51</b>
2.1	The Supervision and protection of investors .....	51
2.1.1	Supervisory policy .....	51
2.1.2	The Supervision Committee .....	51
2.1.3	The activities of the Supervision Department .....	52
2.1.4	Regulatory interventions .....	54
2.1.5	Information supervision .....	56
2.1.5.1	Monitoring of the liquidity situations of banks .....	56
2.1.5.2	National and international statistics .....	57
2.1.5.3	Central Credit Register .....	57
2.1.5.4	Other assets .....	58
2.1.6	Controls over the banking and financial system .....	58
2.1.6.1	Documentary controls .....	58



2.1.6.2	<i>Inspections</i> .....	61
2.1.6.3	<i>Protest Information Service</i> .....	62
2.2	<b>The role of the institutional representative in relation to International Financial Organisations, Central Banks and Supervisory Authorities</b> .....	64
2.3	<b>Management of counterfeit banknotes and coins in Euro</b> .....	67
2.4	<b>Cash handling</b> .....	69
2.5	<b>Trust Register</b> .....	70
2.6	<b>Advice and cooperation activity</b> .....	71
2.6.1	<i>Regulatory advice</i> .....	71
2.6.2	<i>Cooperation with the Single Court</i> .....	74
2.6.3	<i>Summary of other forms of advice and cooperation activity</i> .....	75
2.7	<b>The Currency Authority</b> .....	76
2.8	<b>The payment system</b> .....	78
2.9	<b>Register of fiduciary shareholdings</b> .....	81
2.10	<b>State Treasury</b> .....	82
2.11	<b>State Tax Department</b> .....	85
	<i>Notes: figures in millions of Euro</i> .....	85
2.11.1	<i>Entries in the Register</i> .....	86
2.11.2	<i>Collection activities</i> .....	88
2.11.3	<i>Enforcement procedures</i> .....	88
2.11.4	<i>The Single Tax Bill ("Cartella Unica delle Tasse" - CAUTA)</i> .....	89
	<i>Auctions of movable assets</i> .....	89
2.11.5	<i>Civil Actions</i> .....	90
2.12	<b>Management of liquidity and the financial portfolio</b> .....	90
2.13	<b>Second social security pillar (FONDISS)</b> .....	92
3	<b>INTERNAL RESOURCES</b> .....	94
3.1	<b>Human resources and corporate staff</b> .....	94
3.2	<b>Organisation chart</b> .....	95

## NOTICE

Unless specified otherwise, data was processed by the Central Bank. Variations are calculated on the original values (not rounded up/down); similarly, the sum of the values rounded up/down may not be the same as the aggregate values provided. 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

FIA	Financial Intelligence Agency
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
CTU	Consulente Tecnico d'Ufficio (Court Appointed Technical Expert)
FATCA	Foreign Account Tax Compliance Act
IMF	International Monetary Fund
FONDISS	Supplementary Welfare fund of the Social Security Institution
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 Marinense 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



## 1 THE FINANCIAL SYSTEM

As at 31 December 2015, the financial system of San Marino was comprised of 9 banks, 9 financial/fiduciary companies, 1 investment company, 2 management companies and 2 insurance undertakings (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). Two of the 9 banks were no longer active<sup>1</sup>. At the same time 6 of the 23 authorised parties mentioned above were also authorised to exercise the Office of Professional Trustee.

In 2015, following the withdrawal of the authorisation to exercise reserved activities, 1 bank<sup>2</sup>, inactive since 2013, and 1 fiduciary company were cancelled from the Register of Authorised Parties, following the ruling for administrative compulsory winding-up. The aforementioned bank was later placed under voluntary winding-up, after the prior certification of the prerequisites for a regular completion of the winding-up proceeding, pursuant to the provisions of article 99 of Law No. 165/2005 as subsequently amended and supplemented.

As at 31/12/2015, 4 banks and 1 insurance company were entered in the Register of Parent Companies.

In the first months of 2016, after renouncing to exercise the reserved activities, 1 financial company was cancelled from the register of authorised parties (the cancellation occurred on 21/01/2016), whereas the first Payment Institution of San Marino was entered in the aforementioned Register (entry made on 27/04/2016).

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

Authorised parties	2013	2014	2015	31/03/2016
Banks	10*	10*	9**	9**
Financial/fiduciary companies	14***	10***	9***	8***
Investment companies	1	1	1	1
Management companies	2	2	2	2
Insurance undertakings	2	2	2	2
<b>Total</b>	<b>29</b>	<b>25</b>	<b>23</b>	<b>22</b>
Insurance and reinsurance intermediaries	51	51	47****	48

Notes: \* Three banks, although still registered in the Register of Authorised Parties, were not operational.

\*\* Two banks, although still registered in the Register of Authorised Parties, were not operational.

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

\*\*\*\* The number includes 10 natural persons, 25 legal persons, 12 banks and financial companies that also carry out insurance mediation activities; out of the 47 intermediaries, 4 were 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 2015, 47 intermediaries were registered, 4 of which suspended. In 2015, 3 new intermediaries were registered whereas 7 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, 27 of which are Italian and the remaining 20 from other countries.

In the first three months of 2016, with reference to the insurance intermediaries, 1 new operator was registered whereas there were no cancellations or suspensions. During the same period, 1 insurance company was registered, and 2 were cancelled, due to merger by incorporation,

<sup>1</sup> The two banks no longer active are Banca Partner S.p.A. and Euro Commercial Bank S.p.A.

<sup>2</sup> The bank in question is Banca Commerciale Sammarinese S.p.A.



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 2015 based on the authorisations issued, pursuant to Law No. 165 of 17 November 2005 and No. 42 of 1 March 2010.

**Table 2 - Operators entered in the Register of Authorised Parties as at 31/12/2015**

Authorisations	Banks	Other financial undertakings	Total
Number of operators	9	14	<b>23</b>
<i>of which authorised to exercise the reserved activities pursuant to Law No. 165 dated 17 November 2005</i>			
A) Banking activities	9		<b>9</b>
B) Loan granting activities	9	7	<b>16</b>
C) Fiduciary activities	9	9	<b>18</b>
D) Investment services	9	10	<b>19</b>
E) Collective investment services		2	<b>2</b>
F) Non-traditional collective investment services		2	<b>2</b>
G) Insurance activities		2	<b>2</b>
H) Reinsurance activities			
I) Payment services	9		<b>9</b>
J) Electronic money issuing services	9		<b>9</b>
K) Foreign exchange mediation activities	9	7	<b>16</b>
L) Investment in equity interests	9	7	<b>16</b>
<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	<b>6</b>

Notes: \*As at 31/12/2015, a self-employed professional was also entered in the Register of Authorised Trustees of the Republic of San Marino.

## **1.1 The banking system**

### **1.1.1 Ownership structures**

As at 31 December 2015, as reported above, 9 banks were registered in the Register of Authorised Parties and, of these 9 banks, 2 were no longer active<sup>3</sup>, one since July 2012 and the other since September 2013, following the contribution of the banking business unit, in one case, and the transfer of assets and liabilities in favour of another bank in San Marino, in the other case. Of the 7 active banks, as at 31/12/2015 2 had a shareholders' structure comprised mainly by non-resident persons, mostly fiduciary companies or holding companies.

At the same date, the assets of the 2 active bank with a mainly foreign shareholding was equal to Euro 1.5 billion, representing 26.1% of the total assets of the entire banking system, which amounts to Euro 5.7 billion.

### **1.1.2 Size and structure of the system**

After the momentary consolidation of the financial statements of the banks, registered in the three year period 2012-2014, in the year under review the system was affected as a result of the Italian decree concerning the emergence and return of capital held abroad (the so called

<sup>3</sup> The two banks no longer active are Banca Partner S.p.A. and Euro Commercial Bank S.p.A.



*Voluntary Disclosure*) and total assets registered a drop by 6.4%, to 5.7 billion Euro, from 6.1 billion Euro in 2014.

With reference to the asset profile, equity decreased by 23 billion Euro (-4.7%) mainly due to the lower value of the item "share capital", which reflects the exiting of a bank from the system as well as the operating losses recognised in 2015, partially offset by the increase in reserves following the revaluation of real estate properties.

Total funding dropped by 603 million Euro, to 6.8 billion Euro (-8.1%), following the reduction in direct funding (comprised of collection of savings and interbank funding) by 352 million Euro and indirect funding by 251 million Euro.

Total gross loans, equal to 3.7 billion Euro, registered a drop by 6.3% (-251 million) compared to the end of the financial year 2014.

The number of employees in the banking sector is equal to 622 units, down by 5 units compared to the previous year. The impact on the aggregate number of employees in the country is equal to 3.4%.

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

Indicators	2013	2014	2015
<b>Size indicators</b>			
Total Assets	6,141	6,082	5,692
Inter-bank loans	473	539	464
Gross loans to customers*	4,188	3,976	3,726
Total funding	7,209	7,413	6,810
Direct funding	5,087	5,210	4,858
Collection of savings**	5,016	5,147	4,802
Interbank funding	71	63	57
Indirect funding***	2,122	2,203	1,951
<b>Structural indicators</b>			
Number of operators	10	10	9
Number of branches	59	56	55
Number of employees	614	627	622
% Employees on total employees	3.3	3.5	3.4
<b>Other statistical data</b>			
GDP (current prices)****	1,405	1,391	1,411
Resident population	32,572	32,789	33,005
Total number of employees	18,392	17,998	18,082
Population / Branches	552	586	600
Total assets / GDP	4.4	4.4	4.0
Total funding / GDP	5.1	5.3	4.8

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 2015 GDP figure is a projection calculated by the International Monetary Fund.

### 1.1.3 Assets and liabilities

**Assets** – The drop in banking assets in 2015, equal to 390 million Euro, mainly reflects a reduction in: net loans to customers including leasing (-207 million), securities portfolio (-108 million) and inter-bank loans (-74 million). The divestment of financial assets is to be regarded as linked to the requirement to maintain the treasury balances following the financial disbursements connected to the Italian decree of *Voluntary Disclosure*, which increased in the second half of the year, decree that, obviously, also affected the dynamics of credit lines granting by the banks.

The persistence of the effects of the negative economic situation that affects the economic system of both San Marino and Italy, the consequent weakness in the demand, supply side policies that, also because of the aforementioned Italian decree for the return of capitals held abroad, were extremely cautious and the repayments received connected to the exposures related to the Delta group, contributed to the further reduction of the amount of the net loans to customers.

In 2015, the balance of the debt securities held in the portfolio by the banks decreased by 49 million Euro (-4.7%), down to 995 million Euro. The drop of shares and other capital instruments was even sharper (-59 million, equal to -27%) down to an aggregate of 159 million Euro.

Capital instruments include 110 million Euro in units of closed-end mutual investment funds – held only by banks of San Marino and that invest mainly in non-performing loans of banks – incorporated also pursuant to specific legislative measures in connection with system operations and interventions made for savings protection purposes.

Holdings increased from 181 million Euro to 185 million Euro, reflecting an increase by 3 million in the holdings in companies of the group, which amount to Euro 139 million, and an increase by 1 million in other shareholdings, which amount to 45 million Euro.

The aggregate “Fixed assets and other assets items”, virtually unchanged from 2014, now totalling 703 million Euro, includes, inter alia, tangible and intangible fixed assets (excluding financial leasing transactions) for 165 million Euro and the item “Other assets” for 535 million Euro, mainly comprised of the portfolio of bills subject to collection, the amounts resulting from the recognition by the State of tax credits generated by the difference between assets and liabilities acquired from banks in a state of crisis with reference to operations of the banking system that took place in recent years, also including other assets items linked thereto, as well as tax credits resulting from the exercise of options for the deductibility of tax losses for the previous financial years. The amount of the aforementioned tax credits inclusive of the other related assets is equal to 215 million Euro.

**Liabilities and capital** – Within the context of the collection of savings<sup>4</sup> the reduction in its main components is worth noting: debts with customers equal to 2,258 million Euro, dropped by 48 million (-2.1%), debts represented by financial instruments dropped by 330 million to 2,390 million Euro (-12.1%). On the contrary, subordinated liabilities registered a positive trend, up by 29 million to 143 million Euro, which mainly reflects two placements to the general public made by two intermediaries, intended for the purpose of strengthening the regulatory capital.

The aggregate “Other liabilities items”, equal to 365 million Euro, is down by 16 million compared to the previous financial year, mainly due to the reduction in the Risks and Costs Fund (-11 million) and “Other liabilities” (-4 million).

The item “Capital and reserves”, equal to 480 million Euro, registers a drop by 44 million due to a reduction in: reserves for 22 million Euro (the increase in the item related to the revaluation of real estate properties was more than offset by the utilisation of the aforementioned losses of the previous financial years), share capital for 11 million, share premium for 5 million and,

<sup>4</sup> The collection of savings is reserved for the general public and does not include banks, whose figures are instead considered in the Interbank funding.



lastly, the increase by 6 million in the losses carried forward, which are now equal to 43 million Euro.

The operating results of the system, though negative for 41 million Euro, improved compared to the previous year, when the banking system registered losses for 90 million Euro. Of nine intermediaries, two alone account for 86% of all losses. Two banks registered profits for an aggregate of Euro 2.9 million.

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

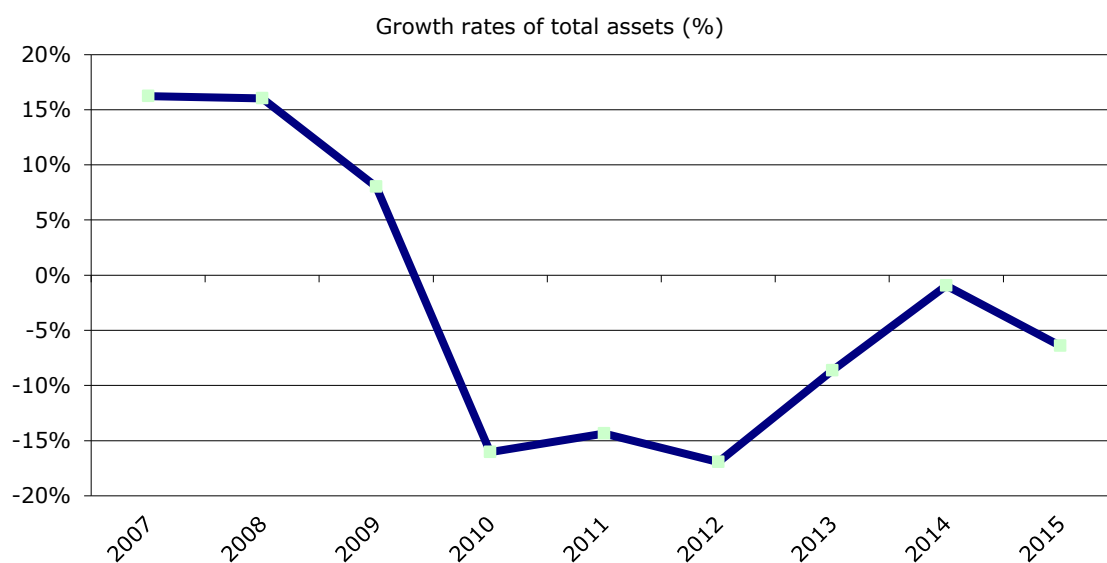
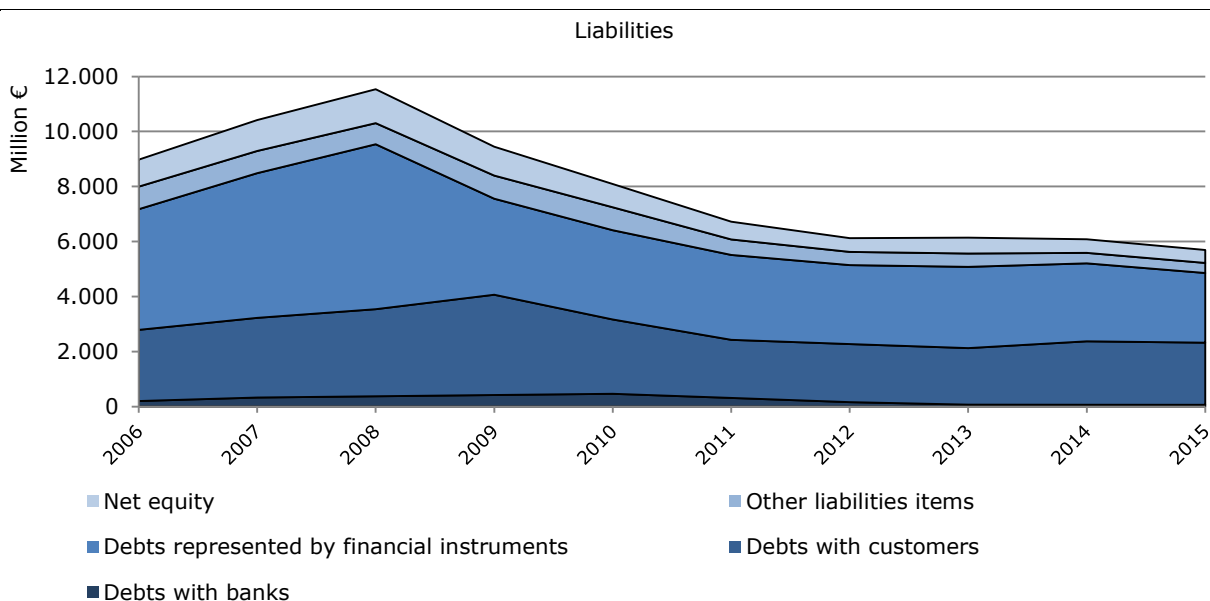
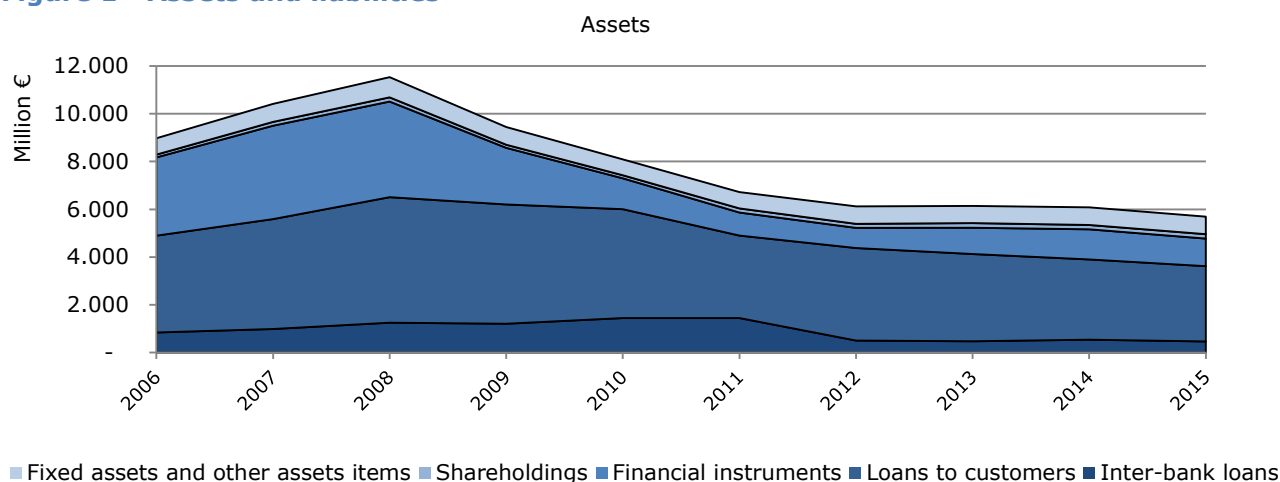
<b>Assets</b>	<b>2014</b>	<b>2015</b>	<b>Var %</b>	<b>Liabilities</b>	<b>2014</b>	<b>2015</b>	<b>Var %</b>
Cash and cash equivalents	26	29	15.0%				
Inter-bank loans	539	464	-13.8%	Debts with banks	67	65	-3.2%
Loans to customers*	3,361	3,154	-6.2%	Debts with customers	2,306	2,258	-2.1%
<i>of which Financial leasing</i>	229	209					
<i>of which assets pending leasing</i>	34	27		Debts represented by financial instruments	2,720	2,390	-12.1%
Financial instruments	1,262	1,154	-8.5%				
<i>of which debt securities</i>	1,044	995		Subordinated Liabilities	114	143	25.4%
				Other liabilities items	381	365	-4.2%
Shareholdings	181	185	2.1%				
Subscribed capital not paid in	3	1	-70.3%	Capital and reserves**	524	480	-8.4%
Own shares	1	1	23.3%	Revaluation reserves	60	32	-47.3%
Fixed assets and other assets items	710	703	-1.0%	Operating results	-90	-41	54.9%
<b>Total assets</b>	<b>6,082</b>	<b>5,692</b>	<b>-6.4%</b>	<b>Total liabilities</b>	<b>6,082</b>	<b>5,692</b>	<b>-6.4%</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 share premiums.

**Figure 1 - Assets and liabilities**



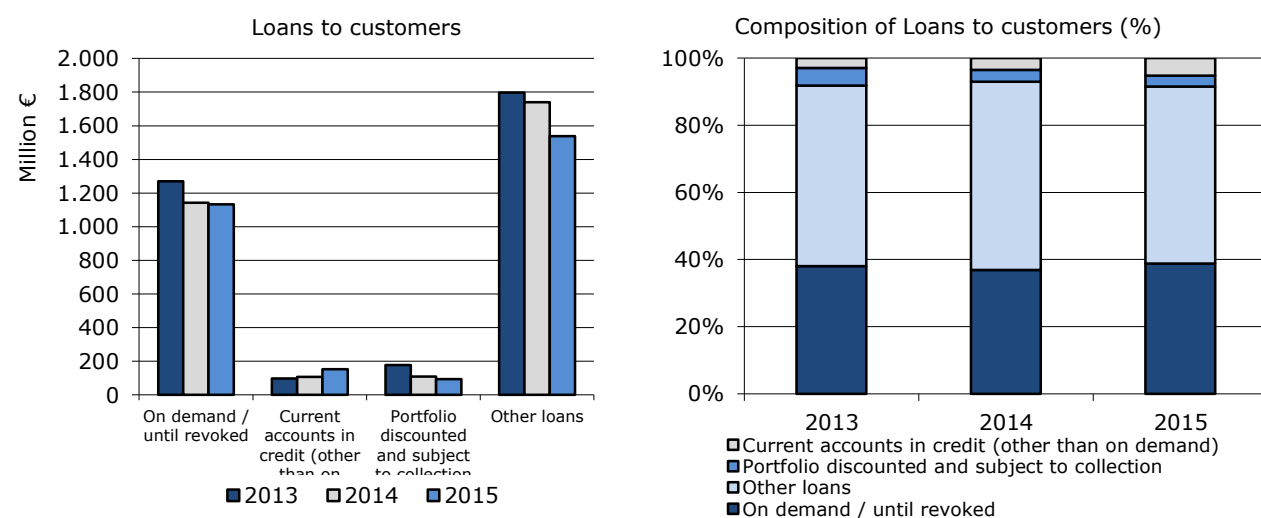
### 1.1.4 Review of loans to customers

**Credits** – Net exposures towards customers amount to 3,154 million Euro, down from the previous year by 207 million (-6.2%). The impact of net loans on the total assets remained virtually unchanged at 55.4%. These loans account for 65.7% of the collection of savings, and thus substantially confirm the value registered in the previous year. Net loans to customers dropped by 37% from the end of 2009, when the aggregate had reached its maximum level at 4,996 million Euro.

As regards the credit exposures broken down by technical form (Figure 2)<sup>5</sup>, there is, as evidenced also in the previous year, a contraction of all components in absolute terms, with the exception of current accounts in credit (other than on demand), which grew by 42.6% to 153 million Euro. In details, on demand / until revoked credits (equal to 1,133 million Euro) dropped by 0.8%, the portfolio discounted and subject to collection registered a decrease by 14.2% to 93 million and, finally the residual category, but the one with the greatest value in absolute terms, "Other loans"<sup>6</sup> registered a decrease of 11.5%, to 1,539 million Euro.

As regards the composition of the afore-mentioned technical forms, it should be noted that the category "On demand / until revoked" accounts for 38.8% of the total, the category "current accounts in credit (other than on demand)" accounts for 5.3%, "Portfolio Discounted and subject to collection" represents 3.2% of the aggregate, while the "Other loans" account for the remaining 52.7%.

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



The analysis of the breakdown of the aggregate "Net Loans" (including financial leasing) by economic sectors (Figure 3), shows the reduction in the exposures towards all categories of borrowers except for the Government and public sector. Specifically, the aforementioned contraction affected: non-financial undertakings (-63 million, equal to -3.1%), households (-35 million., equal to -4.5%), financial undertakings (-73 million, equal to -16.4%) and the residual category "Other borrowers" (-43 million, equal to -53.4%). The loans to the Government and public sector, on the contrary, increased by 5 million (+10.9%).

<sup>5</sup> These values do not include the amounts related to the residual credit on the financial leasing transactions, which amount to 236 million Euro, in its two components: leased fixed assets (for 209 million Euro) and fixed assets pending leasing (for 27 million Euro).

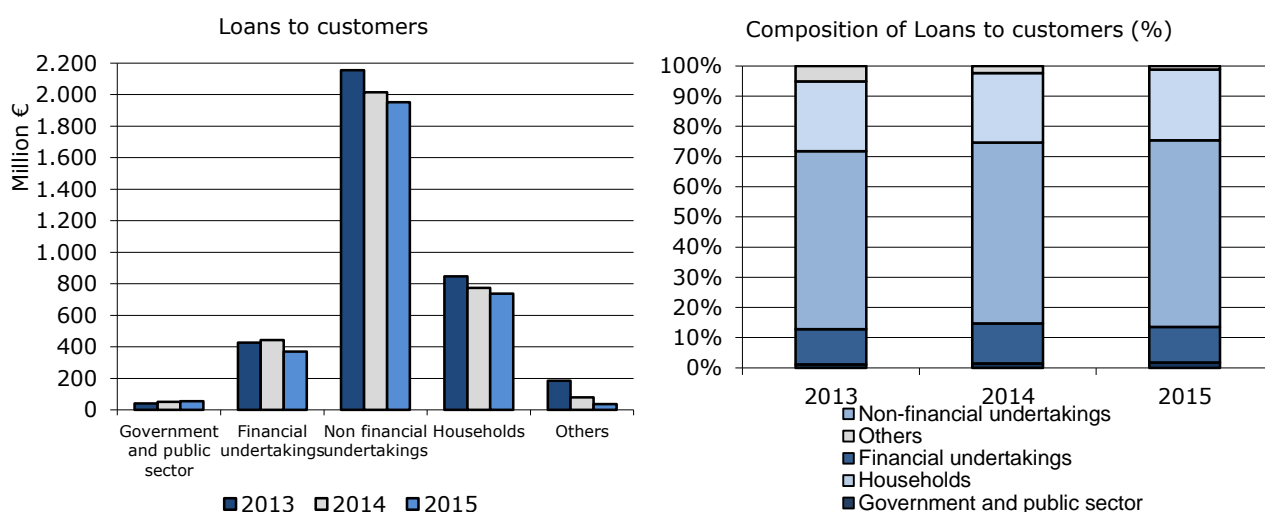
<sup>6</sup> This category includes, inter alia, the restructured loans related to the Delta Group referred to in the Restructuring Agreement of the main bank of the system, pursuant to article 182 bis of the Italian Bankruptcy Law.

The breakdown by residual life of the loans evidences that the “on demand” category represents over 25.7% of the total equal to 810 million Euro, the category of between 1 day and 18 months, with 14.1% of the aggregate, is equal to 446 million, whereas medium- to long-term loans (inclusive of exposures with a residual life of more than 18 months) amount to 1,540 million and represent 48.8% of aggregate loans. The residual part (358 million, equal to 11.3%) is made of exposures without maturity (including bad loans).

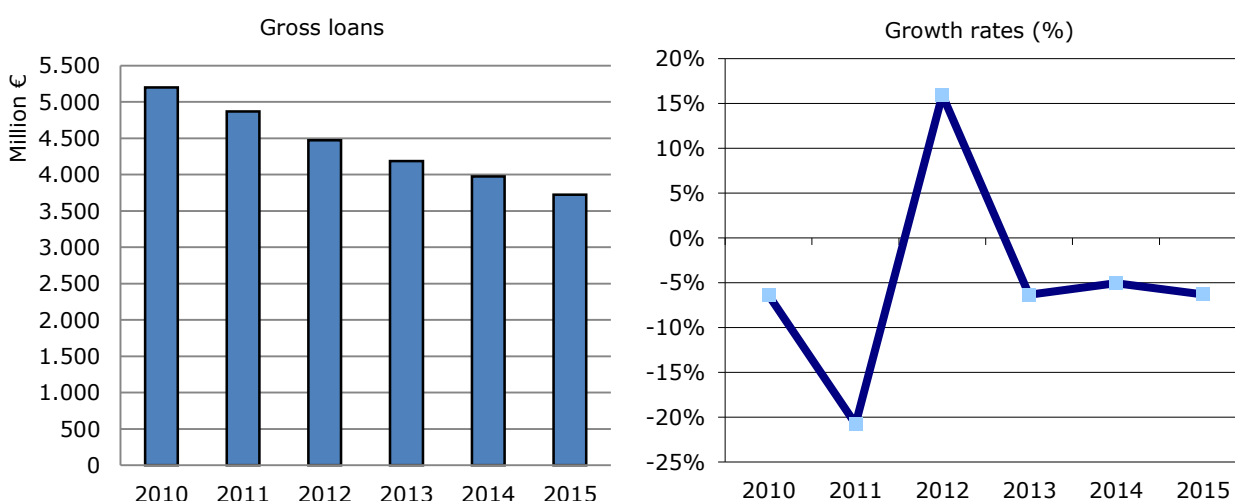
The concentration of loans, defined by the ratio, for each intermediary, between the value of net exposures towards the 30 major borrowers (including credit institutions and excluding subsidiary financial undertakings) and the corresponding total value of the loans, shows values of between 35.4% and 70%<sup>7</sup>; the average, unweighted value of the index is equal to 48.7%.

Gross loans dropped by 251 million Euro, to 3,726 million. The decrease compared to the previous year is equal to 6.3%.

**Figure 3 - Breakdown of net loans to customer by business sector**



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



**Credit quality** – Credit trend continues to be affected by the unsatisfactory trend of the economic situation and by the long period of economic and financial crisis. The latter, started in

<sup>7</sup> The calculation of the loan concentration ratios does not include the smallest bank of the system, which is a subsidiary of another banking intermediary.



2008, had a far greater impact on San Marino than in the major countries<sup>8</sup> since it occurred together with a series of external *shocks*, such as the winding-up of the companies of the Delta group, the confirmation of the inclusion of San Marino - for several years - in the so called *black list* of the main economic and commercial partner, with great harm to the domestic enterprises, and the repeated foreign measures for the repatriation of capitals, which contributed to weaken an economic and financial system that, substantially, so far has had no access to foreign capital markets and cannot rely on a lender of last resort.

The considerable amount of non-performing loans currently represents a great concern for the stability of the banking system and an obstacle to the economic recovery. In fact, if, on one side, the considerable level reached by such impaired exposures reduces the profitability of the banks since they are, substantially, non-interest bearing assets that, on the contrary, represent a burden for the profit and loss account (and for the capital needs) due to adjustments and operating costs connected thereto - thus weakening the ability of the bank to get capital by means of self-financing activities - on the other side, they may contribute increasing the risk aversion of the institutions, reducing their willingness to grant loans with subsequent negative effects on the development of the local economy.

The impact of gross non-performing loans<sup>9</sup> on the total gross loans to customers increased, in the year in question, to 52.6% from 48.8% of the previous year. Consequently, gross performing loans dropped to 47.4% of total loans (Figure 5).

The aggregate of gross non-performing loans amounts to 1,959 million Euro (Table 5), up by 17 million compared to the previous financial year. Net non-performing loans increased by 57 million to 1,396 million Euro. The difference between the increase in net non-performing loans and the increase in the relevant gross values (40 million Euro) substantially reflects the use of adjustments, already made, by an intermediary to write-off assets that previously were not classified as loans.

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

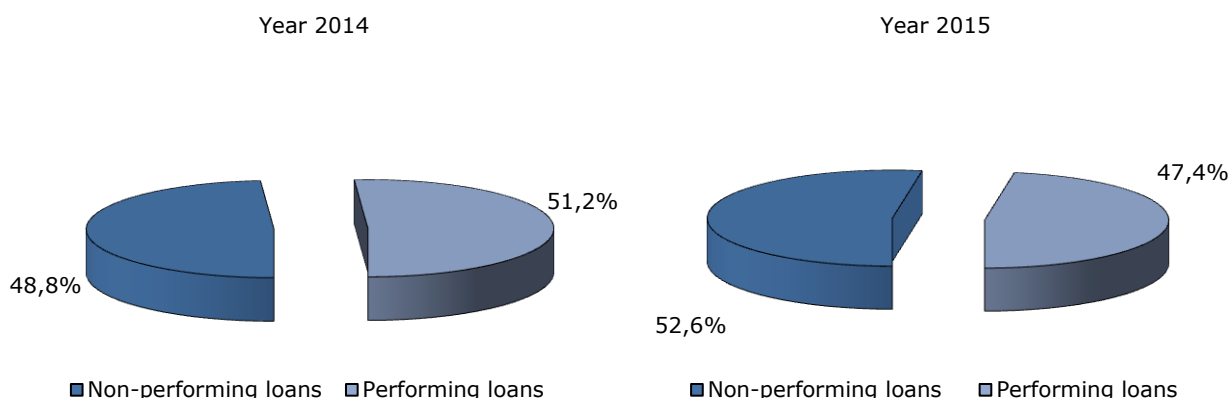


Figure 6 shows the trend of gross non-performing loans during the three-year period 2013-2015, highlighting the breakdown into the components of net non-performing loans and value adjustments, as well as the impact of the aforementioned impaired gross exposures on the total gross loans.

<sup>8</sup> To this regard, it should be noted that the gross domestic product of San Marino decreased by approximately one third compared to the period before the crisis.

<sup>9</sup> Pursuant to Regulation No. 2007-07, doubtful loans include the following: bad loans, substandard loans, restructured loans, expired and/or past due loans and unsecured loans towards countries at risk.



Gross bad loans increased by 49 million, to 775 million Euro. This increase is determined mainly by the effect of loans previously classified as substandard loans, partly offset by the write-off of exposures already classified as bad loans. The aggregate in question represents 39.6% of gross non-performing loans (37.4% in 2014) and 20.8% of total gross loans (18.2% in 2014) (Figure 7).

Within the category "gross non-performing loans", the most significant element is represented, also for the year under review, by restructured loans, the amount of which, including adjustments, is equal to 787 million Euro, up by 34 million from 2014. The increase of said element, which accounts for 40.2% of the aggregate of gross non-performing loans and is comprised mainly by credits resulting from the aforementioned *Restructuring Agreement concerning debts of the Delta group*, is caused by the inclusion under restructured loans of an element previously classified otherwise, which more than offset the amounts collected with the execution of such Agreement.

The remaining non-performing loans include, it is worth noting, the reduction of gross substandard loans by 64 million, to Euro 304 million; in 2014 this aggregate also included, inter alia, the aforementioned shares in Delta as well as loans previously classified as performing loans. Gross expired and/or past due loans, equal to Euro 53 million, are down by Euro 9 million, whereas gross unsecured loans towards countries at risk amount to Euro 40 million (+ 7 million compared to 2014).

Net of value adjustments, non-performing loans represent 44.3% of the total amount of net loans, up from 39.8% registered at the end of 2014.

Net non-performing loans, equal to Euro 1,396 million, are divided in: bad loans for Euro 327 million (up by approximately 44 million compared to the previous year), substandard loans for Euro 246 million (down by 13 million), restructured loans for Euro 732 million (up by 26 million), expired and/or past due loans for Euro 51 million (down by 7 million) and, finally, unsecured loans towards countries at risk for Euro 39 million (+7 million from 2014).

**Table 5 – Quality of credit**

	Loans gross of value adjustments				Hedging rate*		Portion on the total of loans net of value adjustments	
	2014	%	2015	%	2014	2015	2014	2015
Loans to customers**	3,976	100.0%	3,726	100.0%	15.5%	15.3%	100.0%	100.0%
Performing loans	2,034	51.2%	1,767	47.4%	0.6%	0.5%	60.2%	55.7%
Non-performing loans	1,942	48.8%	1,959	52.6%	31.1%	28.7%	39.8%	44.3%
<i>Bad loans</i>	726	18.2%	775	20.8%	61.1%	57.8%	8.4%	10.4%
<i>Substandard loans</i>	368	9.3%	304	8.2%	29.6%	18.9%	7.7%	7.8%
<i>Restructured loans</i>	753	18.9%	787	21.1%	6.3%	7.0%	21.0%	23.2%
<i>Expired and/or past due</i>	62	1.6%	53	1.4%	4.5%	2.4%	1.8%	1.6%
<i>Loans to countries at risk</i>	33	0.8%	40	1.1%	1.5%	1.6%	1.0%	1.2%

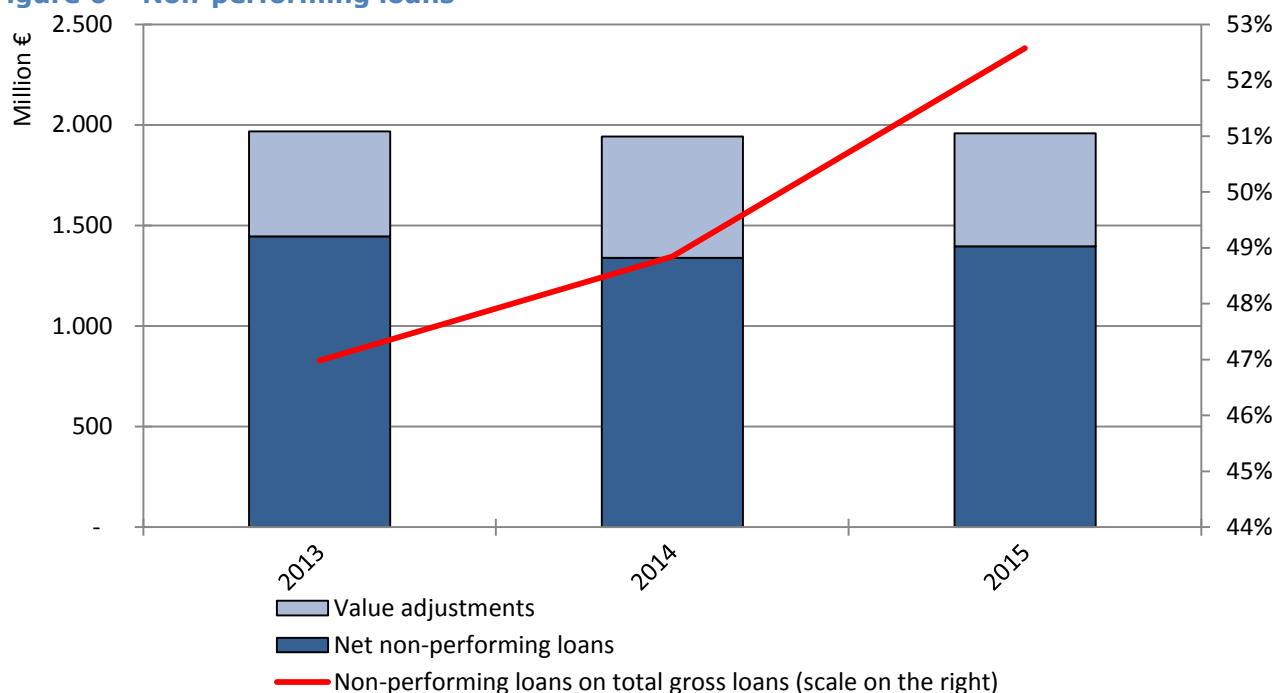
Notes: The data on "Loans gross of value adjustments" relating to the years 2014 and 2015 is expressed in millions of Euro.

\* 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 – Non-performing loans**



Net bad loans represent approximately 79.6% of the regulatory capital (70.1% in 2014); substantially, the further worsening of the ratio is determined by the considerable increase in the above-mentioned non-performing loans.

With reference to the hedging rate of non-performing loans, measured as the ratio between adjustments and the gross amount of the aforementioned *non performing* exposures, a drop was registered from 31.1% as at the end of 2014, to 28.7% (Table 5), also due to the use, by an intermediary, of adjustments prudentially made before, to write-off assets that previously were not classified as loans.

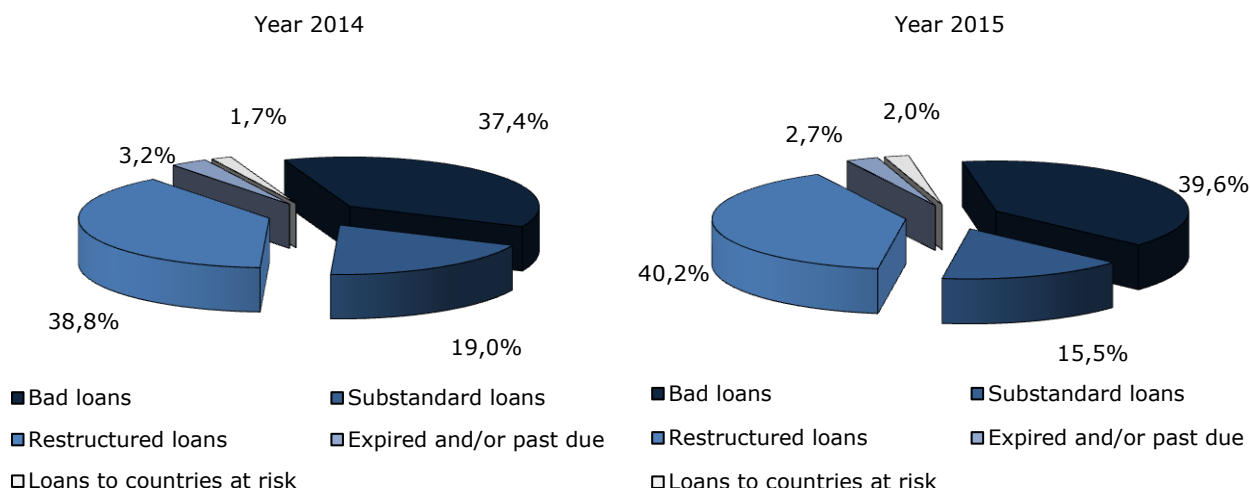
Within the above non-performing loans category, the hedging rate referred to bad loans dropped to 57.8% from the previous 61.1% and that on the substandard loans dropped significantly from 29.6% to 18.9%. The hedging rate for restructured loans<sup>10</sup>, equal to 7% (up from 6.3% registered the previous year) obviously does not take into account the write off made from time to time on this category of loans.

From the review of the breakdown of net bad loans by businesses sector<sup>11</sup>, it appears that the aforementioned category of non-performing loans is concentrated particularly in the following categories: households (103 million Euro, equal to 31.5% of the total), utilities (82 million, equal to 25.1%), industry (60 million, equal to 18.3%) construction (43 million, equal to 13.3%).

<sup>10</sup> 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.

<sup>11</sup> The data on net bad loans broken down by business sector, available as from the end of 2014, is dealt with in the supervisory report named "Monthly statement of accounts for banks" referred to in Circular No. 2015-01.

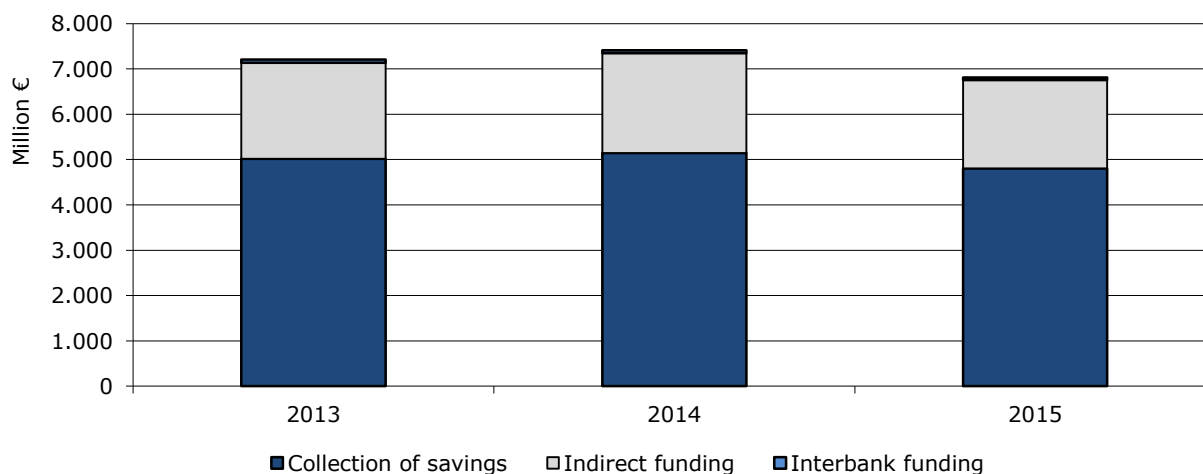
**Figure 7 -Breakdown of non-performing loans (gross figures)**



### 1.1.5 Funding

**Total funding** – At the end of 2015, the total funding<sup>12</sup> of the banking system amounted to Euro 6,810 million, down by 603 million (-8.1% compared to the previous year). This decrease reflects the outflows connected to the Italian adoption of the *Voluntary Disclosure*. In detail, direct funding, equal to Euro 4,858 million, decreased by 352 million (-6.8%) mainly due to the drop by 345 million (-6.7%) registered in the collection of savings, down to 4,802 million, accompanied by the decrease by 7 million in interbank funding<sup>13</sup> (-10.5%) that amounts to 57 million. Indirect funding, amounting to Euro 1,951 million, is also down by 251 million (-11.4%) (Figure 8).

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



<sup>12</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).

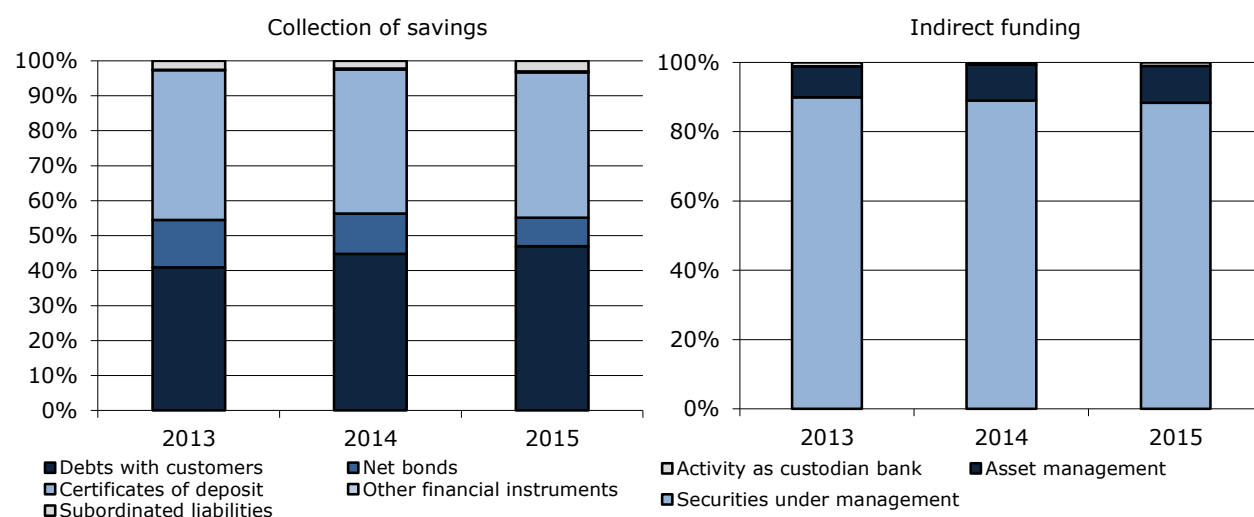
<sup>13</sup> As from this Annual Report, interbank funding will no longer include the debt balances on the mutual accounts opened for services rendered, in compliance with the definition of the aforementioned funding set in Regulation No. 2007-07.



*Collection of savings* – All of the main components of the collection of savings, which, as evidenced above, registered a drop of 345 million, also decreased, except for subordinated liabilities. Specifically, debts represented by financial instruments<sup>14</sup>, equal to 2,390 million, decreased by 330 million (-12.1%), and are comprised mainly of certificates of deposit, for 1,995 million, down by 126 million, and bonds for 390 million, down by 204 million. Debts with customers, represented essentially by on demand debts, amount to 2,258 million and register a decrease by 48 million compared to the previous year (-2.1%)<sup>15</sup>. The most significant of the remaining components of the collection of savings, is represented by the subordinated liabilities, for 143 million, up by 29 million from the previous year (+25.4%), due to two placements with the general public made by two banks, which more than offset an issue expired during the year in exam<sup>16</sup>.

The comparison of the structure of the collection of savings as at the end of 2015 with that of the previous year shows that the trend, already evident in the previous year, continues to highlight a change in its composition, to the benefit of the components that can be immediately cashed, represented by on demand deposits. Specifically, the percentage of the main items of the collection of savings is as follows: debts with customers account for 47%, from 44.8% in the previous year; certificates of deposit account for 41.6%, from 41.2% in the previous year, whereas bonds and subordinated liabilities account for 8.1% (from 11.6%) and 3% (from 2.2%) respectively (Figure 9).

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



*Indirect funding* – The outflows of indirect funding substantially reflect the drop in securities under administration, down by 236 million to 1,723 million (-12.1%). Asset management, equal to 208 million, registered a decrease by 21 million (-9.3%), whereas, on the contrary, the component represented by financial instruments and cash related to the activities as custodian bank is up by Euro 6 million to Euro 20 million. Securities under administration and asset management represent 88.3% and 10.7% of indirect funding, respectively.

<sup>14</sup> The aggregate in question does not include subordinated liabilities, dealt with separately.

<sup>15</sup> A review by residual life of debts with customers shows that the 'on demand' category amounts to 2,080 million Euro (92.1% of the total amount of deposits, up from 90.2% in 2014), the category included between 1 day and 18 months amounts to 160 million Euro (7.1% of total, from 9% the previous year), while the medium- to long-term deposits (with residual maturity of more than 18 months) total 18 million Euro, amounting to 0.8%.

<sup>16</sup> To this regard, it should be noted that, inter alia, in the first quarter of 2016 the Central Bank started an articulated analysis with regard to the banking and financial system – by means of an off-site intervention – on the subordinated financial instruments held in customers' portfolios. Within the context of this analysis, which is still in progress, the Central Bank notified to the intermediaries that pending the subsequent activities for the analysis of the information received, it will not authorise the placement of new subordinated loans to non-professional clients (see the paragraph concerning the supervisory activity).

**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**

In 2015 the Central Bank issued the authorisation to publish 10 prospectuses for the placement of financial instruments to the general public, pursuant to the discipline governing investment solicitation referred to in Title I, Part III of the LISF. The applications received refer only to bonds issued by the banks of San Marino. The number of requests accepted in 2015, the same as in the previous year, confirms the decreasing *trend* emerged in the last few years, of the use of this kind of collection of savings from the public. The maximum nominal amount that may be issued related to the aggregate of all issues the prospectuses of which were authorised in 2015 is equal to Euro 223 million; this amount is slightly lower than that of 2014, when the nominal amount authorised to be issued reached Euro 233 million. Of the 10 applications received, 8 were related to senior bonds and 2 to subordinated bonds; the recent events that involved thousands of subscribers of subordinated securities issued by some Italian banks, persuaded the institutions of San Marino to limit the use of such instrument for the collection of savings from the public. In the first quarter of 2016, the Central Bank also suspended the authorisations to publish prospectuses for subordinated bonds to be placed to the public, until further notice.

All bonds have a fixed rate coupon structure and a duration of 3 to 7 years, with an average duration of 4 years and 8 months compared to the average duration of 3 years and 10 months of the senior bonds issued in 2014. In 2015, the impact of the collection of savings made through bond issues on the total collection of savings was equal to approximately 11%, compared to 14% in 2014; this data, beside confirming also in 2015 the residual nature of this form of funding, also confirms the decrease in the use of bond issues by the authorised parties as instrument of direct collection of savings.

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

	2014	2015
<b>Banks</b>	<b>10</b>	<b>10</b>
Senior	9	8
Subordinated	1	2
<b>Financial companies</b>	<b>0</b>	<b>0</b>
Senior	0	0
<b>Total</b>	<b>10</b>	<b>10</b>

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

	2014		2015	
	Nominal amount approved	Nominal amount placed	Nominal amount approved	Nominal amount placed
<b>Banks</b>	<b>233,000,000</b>	<b>151,066,000</b>	<b>223,000,000</b>	<b>104,657,000</b>
Senior	228,000,000	149,251,000	163,000,000	75,861,000
Subordinated	5,000,000	1,815,000	60,000,000	28,796,000
<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>233,000,000</b>	<b>151,066,000</b>	<b>223,000,000</b>	<b>104,657,000</b>

As at 31 December 2015, the nominal amount placed of the loans intended for the customers, the prospectus of which was approved in the same year, was equal to approximately Euro 104 million, with ratio of 47% of the amounts authorised, down from 65% registered the previous year. As at 31



March 2016, the nominal amount placed, taking into account that on 31 December 2015 the placement of certain bonds had not been completed yet, was equal to approximately Euro 108 million, with a slightly higher placement rate of 48%.

There were 26 bond issues that reached maturity in 2015, mostly placed with the general public in previous years, 25 of which had been issued by banks and 1 by a financial company.

In the first three months of 2016, no new applications were received for the approval of prospectuses related to bond issues of banks to be placed to the public.

As regards issues reserved to professional clients, in 2015 an application was filed by a bank for the inclusion in the regulatory capital of a hybrid capitalisation instrument intended for professional clients, for a nominal amount of maximum Euro 40 million. The authorisation was released at the end of the first quarter of 2016 and the loan was placed in its entirety. This type of instrument, provided for in Regulation No. 2007-07 and issued for the first time by authorised parties of San Marino, combines the features of own funds with those typical of indebtedness and provides for restrictions to the remuneration of the subscriber in case of a negative performance of operations and, in case of winding-up of the issuer, the subordination of the repayment to the prior satisfaction of the other non-equally subordinated creditors.

As regards the applications by corporations, not subject to the supervision of the Central Bank, for the release of the authorisation referred to in article 31, paragraph 3 of the Companies Law No. 47/2006, it should be noted that in 2015 only one application was received from a joint stock company, which is currently still pending.

Additionally, at the end of 2015 an application was received from another joint stock company not subject to supervision, for the renegotiation of the terms of a bond the issuance of which was authorised by the Central Bank in 2008; at the end of the first quarter of 2016 this application is still under review.

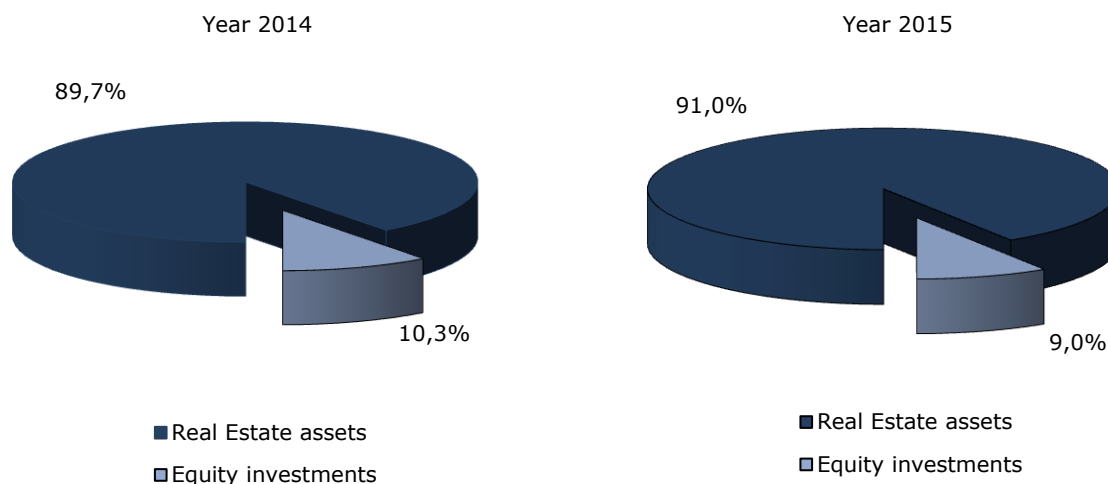
In the first quarter of 2016, no new applications were received from other non-supervised parties. It should be noted that the last issue of bonds by unsupervised companies took place in 2009.

#### **1.1.6 *Fiduciary activities in the banking sector***

At the end of 2015, fiduciary activities were carried out by 4 banks of the system that administered on a fiduciary basis Euro 142 million, down by 2 million from the corresponding data at the end of 2014. This amount of 142 million represents 36.8% of total fiduciary activities, up from 29.2% registered before, taking into account that the remainder (63.2%) is managed by financial fiduciary companies (see paragraph 1.2).

The analysis of the fiduciary activities broken down by technical form evidences that the impact of the fiduciary administration of real estate assets (type 1) remains virtually unchanged from the previous financial year, totalling Euro 129 million (which represents 91% of the total) and that the fiduciary administration of equity investments (type 2), equal to Euro 13 million, is down by approximately 2 million (corresponding to 9%) (Figure 10).

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



Within the context of type 2 mandates related to the fiduciary administration of equity investments, it should be noted that interest refers, almost entirely, to companies of San Marino (99.9% of the total amount); Italy is the second country as regards the establishment of companies held on a fiduciary basis, with a residual 0.1%.

#### **1.1.7 The capital**

*Net equity* – At the end of 2015, the capital of the banking system amounted to Euro 470 million, down by 23 million compared to the previous financial year (-4.7%) and was comprised of positive components for Euro 555 million (share capital for 419 million, share premium reserve for Euro 2 million, reserves for 99 million, revaluation reserves for 32 million, fund for general banking risks for 3 million) and of negative components for 84 million (losses carried forward for 43 million and operating losses for Euro 41 million). Details on the reasons behind the results of the aggregate are available in point 1.1.2.

The ratio between net equity and total assets increased to 8.3% from the previous 8.1% mainly due to a decrease in assets proportionally greater than that registered in net equity.

*Regulatory capital*<sup>17</sup> - At the end of 2015, the aggregate regulatory capital (RC)<sup>18</sup> amounted to Euro 411 million, up by 7 million compared to the previous year (+1.9%). Specifically, the tier 1 capital increased by Euro 16 million (+4.2%) to 392 million due to the use of part of the revaluation reserves (previously created and created in 2015) for covering the losses of the previous financial years. Tier 2 capital registered a decrease by 11 million, to 132 million Euro (-7.9%), mainly as a consequence of the drop in revaluation reserves, only partly offset by the increase in subordinated liabilities.

The deductions from the total capital (the sum of tier 1 capital and tier 2 capital) decreased by approximately 3 million, to 114 million Euro, mainly due to the decrease in shareholdings in

<sup>17</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>18</sup> The following equity indicators are calculated on 7 banks, thus excluding the inactive banks from the calculation of the supervisory indicators, in relation to both 2015 and 2014.



financial undertakings and hybrid capitalisation instruments and subordinated instruments held in the assets of banks and issued by other intermediaries.

*Risk-Weighted Assets* – In the year under review credit risk-weighted assets (exposed net of any value adjustments) registered a drop of 300 million, to 3,245 million (-8.5%) substantially determined by the reduction in both credit-related risk positions (including leasing)<sup>19</sup> and in investments in financial instruments, which more than offset the increase in bad loans. 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) is equal to 61.4%, slightly below the level of 61.7% registered the previous year.

*Solvency ratio and other capitalisation indicators* – The overall dynamics described above determined, on one side, a decrease of the net equity amount of the system and, on the other side, an improvement in the prudential supervision indicators, including regulatory capital (Table 8). The system solvency ratio<sup>20</sup> increased from 11.4% to 12.7%, thus remaining above the minimum requirement of the prudential supervision discipline that requires a solvency of at least 11%. To this regard, it should be noted that only one of the active banks of the system has a solvency value lower than the minimum regulatory one. To this regard, the bank in question carried out, in the first months of 2016, some extraordinary transactions, including the issue of a hybrid capitalisation instrument with a positive effect, all other conditions being equal, on the solvency level of the intermediary. The impact of the tier 1 capital on the total credit risk-weighted assets is equal to 12.1%, up from the 10.6% registered at end of 2014.

The difference between the regulatory capital and the total minimum capital requirement (RPCM), the latter being equal to the sum of the individual needs expected for credit risks and operational risks, represents the available capital margin (MPD). This margin, after going down to zero in 2014, increased to Euro 41 million at the end of 2015.

The financial structure margin (FSM), calculated as the difference between regulatory capital and the components of the assets held as investment (represented by durable capital goods and shareholdings not deducted from the regulatory capital), showed a contraction, going from 195 million in 2014 to 166 million Euro, due to the significant increase in the value of durable capital goods, mostly determined by the revaluation of the real estate properties made by some intermediaries in the year under review pursuant to the Law No. 160/2015<sup>21</sup>.

Finally, the system's financial leverage, calculated as the ratio between the total assets, net of intangible assets, and the tier 1 capital, dropped to 14.4 from 16 registered in 2014.

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

<b>Capital adequacy (end-of-period data)*</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Net equity ( <i>Million Euro</i> )	577	493	470
Regulatory capital ( <i>Million Euro</i> )	500	403	411
Solvency ratio ( <i>percentage values</i> )	13.6	11.4	12.7
Tier 1 capital/credit risk-weighted assets ( <i>percentage values</i> )	12.1	10.6	12.1
Available capital margin (MPD) ( <i>Million Euro</i> )	79	0	41
Financial structure margin (FSM) ( <i>Million Euro</i> )	281	195	166
Financial leverage	13.7	16.0	14.4

Notes: \* In 2015, the data refers to 7 banks, excluding 2 inactive institutions; in 2013 and 2014, the data refers to 7 banks excluding 3 inactive intermediaries.

<sup>19</sup> Bad loans are not included but are dealt with separately.

<sup>20</sup> The solvency ratio is represented by the ratio between the regulatory capital and the total risk assets of the bank, weighted for the risk of loss due to the default of debtors.

<sup>21</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.



### 1.1.8 Profitability and efficiency

The system's net operating results dropped by 41 million Euro, with an improvement compared to the corresponding value of the previous year, equal to -90 million, due to the effect of total losses amounting to Euro 44 million registered by 7 banks (including the 2 inactive banks), offset to a small extent by the profits from the remaining 2 banks totalling 3 million Euro.

All interim results of the reclassified profit and loss account of the system up to the gross operating margin worsened compared to the previous financial year and the improvement in the net operating result is substantially due to the lower impact of the provisions and adjustments made in the year under review (Table 9).

Specifically, the items of interest received and paid show a decrease, resulting from both the drop in market rates and the erosion of the mediated volumes, with the latter that were affected by the *Voluntary Disclosure* procedure. The interest margin of the system is down by approximately Euro 1 million, at 43 million, affected, inter alia, by a lower flexibility in payable rates compared to those applied by the intermediaries of the Eurosystem, which may benefit from the conventional and non-conventional measures of monetary policy of the ECB.

Table 10 shows the trend of the average interest rate on loans to customers net of adjustments, and of the average interest rate on the collection of savings: despite the significant decrease of both rates, the spread between the two average rates slightly decreased compared to the value of the previous year, down to 1.24% from 1.25% previously registered. This spread, which is negatively affected, as regards the cost of funding, by the increased transparency abroad of the banking system of San Marino and the effects connected to the *Voluntary Disclosure*, and, as regards the return on loans, by the narrowness of the domestic market, remain low. In particular, the average rate on loans dropped from 3.10% to 2.82%, while the average rate on the collection of savings fell from 1.85% to 1.58%<sup>22</sup>.

The ratio between interest-bearing assets and interest-paying liabilities<sup>23</sup> at the end of 2015 was equal to 95% (unchanged from the previous year). The average return on interest-bearing assets reached 2.56%, down by 20 basis points compared to 2014; in the same period, the average cost of interest-paying liabilities dropped by 27 basis points, to 1.57%<sup>24</sup>.

Income from services, equal to Euro 70 million, registered a drop of 3 million resulting from the decrease in the item "Other operating proceeds".

The mediation margin dropped by 21 million compared to the previous financial year, to Euro 117 million (-15.3%), reflecting the decrease in interest margin and income from services, as mentioned above, and, most of all, the significant fall registered in net profits from financial operations, which amount to Euro 2 million from Euro 19 million registered before, also as a consequence of a less favourable trend in the financial markets compared to the previous year.

<sup>22</sup> The average interest rate on loans at time t is calculated by comparing the interest received on loans to customers at time t with the arithmetic average of loans, calculated as values net of adjustments, at time t and t-1 (including accruals). 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 (including accruals).

<sup>23</sup> Interest-bearing assets consist of net loans to customers, 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>24</sup> The average yield of interest-bearing assets at time t is calculated by comparing the sum of interest received on: loans to customers, 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 (including accruals). 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 (including accruals).



In spite of a substantial stability of administrative costs, amounting to Euro 73 million (+0.6%), operating costs dropped by approximately 3 million, to 122 million, as a result of the decrease in value adjustments on intangible and tangible fixed assets.

Given that operating costs are greater than the mediation margin, the gross operating margin of the system is negative by Euro 5 million, compared to +12 million registered in 2014. The ratio between operating costs and mediation margin increased to 105% from the previous 91%.

The negative net operating income, equal to Euro -54 million (improved from -143 million registered in 2014) reflects provisions and value adjustments on credits and financial fixed assets, net of value recoveries for an aggregate of Euro 48 million, which were much lower than those registered the previous financial year.

The extraordinary operating balance is equal to Euro 15 million and reflects the exercise, by one bank, of the option for the deductibility of tax losses, as provided for by article 22 of Law No. 160/2015.

Finally, income taxes for Euro 2 million bring the operating results to Euro -41 million, as mentioned above.

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

Reclassified Profit and Loss Account	2013	2014	2015	Absolute var. (2015-2014)	Var. % (2015-2014)
1 - Interest received and other proceeds	142	138	122	-16	-11.6%
2 - Interest paid and other costs	-100	-94	-79	15	16.3%
<b>A - Interest margin</b>	<b>43</b>	<b>44</b>	<b>43</b>	<b>-1</b>	<b>-1.5%</b>
3 - Commissions earned	27	26	26	0	0.7%
4 - Commissions paid	-5	-5	-5	0	-3.8%
5 - Other operating proceeds	29	52	49	-3	-6.0%
6 - Other operating costs	0	0	0	0	2.3%
<b>B - Service revenues</b>	<b>51</b>	<b>73</b>	<b>70</b>	<b>-3</b>	<b>-4.3%</b>
7 - Dividends and other proceeds	3	2	2	0	2.3%
8 - Profits (losses) from financial operations	9	19	2	-17	-89.7%
<b>C - Mediation margin</b>	<b>105</b>	<b>138</b>	<b>117</b>	<b>-21</b>	<b>-15.3%</b>
9 - Administrative costs	-77	-72	-73	0	-0.6%
10 - Value adjustments on intangible and tangible fixed assets	-34	-53	-49	4	6.9%
<b>D - Operating costs</b>	<b>-111</b>	<b>-125</b>	<b>-122</b>	<b>3</b>	<b>2.6%</b>
<b>E - Gross operating margin</b>	<b>-6</b>	<b>12</b>	<b>-5</b>	<b>-18</b>	<b>-143.6%</b>
11 - Provisions for risks and costs	-6	-4	-1	3	82.9%
12 - Provisions to the credit risk funds	-22	0	-2	-2	!
13 - Value adjustments on credits and provisions for guarantees and commitments	-74	-129	-40	89	69.0%
14 - Value recoveries on credits and provisions for guarantees and commitments	25	3	11	8	307.6%
15 - Value adjustments on financial fixed assets	-8	-25	-17	9	33.5%
16 - Value recoveries on financial fixed assets	0	0	0	0	
<b>F - Net operating income</b>	<b>-91</b>	<b>-143</b>	<b>-54</b>	<b>90</b>	<b>62.5%</b>
17 - Extraordinary proceeds	100	53	23	-30	-56.6%
18 - Extraordinary costs	-52	-4	-8	-4	-83.1%
<b>G - Gross operating margin of extraordinary operations</b>	<b>48</b>	<b>49</b>	<b>15</b>	<b>-34</b>	<b>-68.8%</b>
<b>H - Gross margin</b>	<b>-43</b>	<b>-94</b>	<b>-39</b>	<b>56</b>	<b>59.2%</b>
19 - Income taxes for the financial year	0	5	-2	-7	-144.1%
<b>I - Net result*</b>	<b>-44</b>	<b>-90</b>	<b>-41</b>	<b>49</b>	<b>54.6%</b>
20 - Variation to the fund for general banking risks	10	0	0	0	-100.0%
<b>Operating results</b>	<b>-33</b>	<b>-90</b>	<b>-41</b>	<b>49</b>	<b>54.9%</b>

Notes: figures in millions of Euro.

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

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

	2013	2014	2015
Average interest rate on loans*	3.00%	3.10%	2.82%
Average interest rate on collection of savings*	1.97%	1.85%	1.58%
Spread	1.03%	1.25%	1.24%

Notes: \* Interest is calculated by considering loans net of value adjustments.



**Figure 11 – Contribution of the main profit and loss account items to the variation of the operating results between 2014 and 2015**

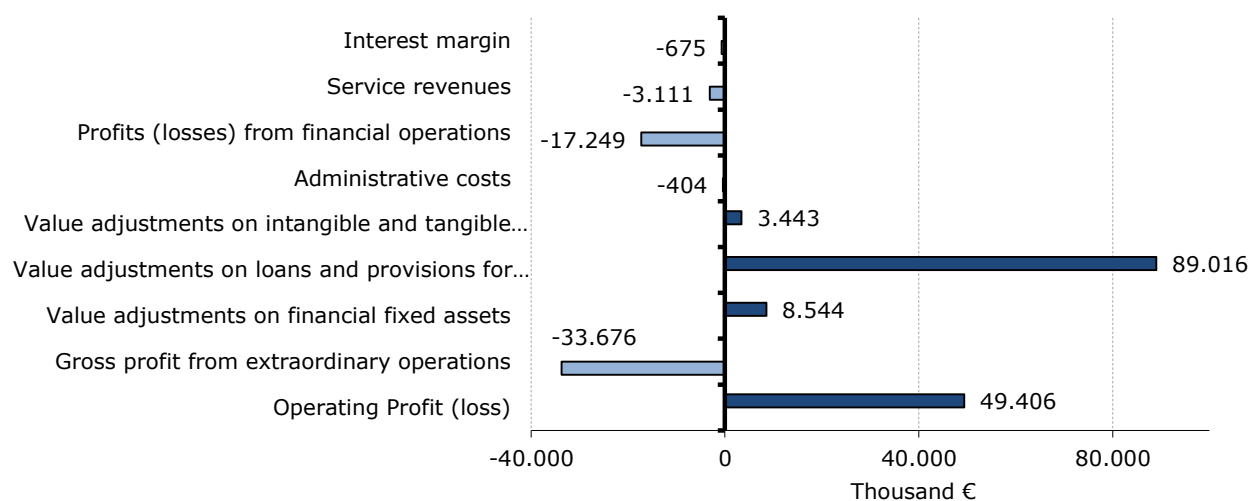


Figure 12 highlights the trend of the system operating results of the last 5 years.

**Figure 12 – Operating losses**

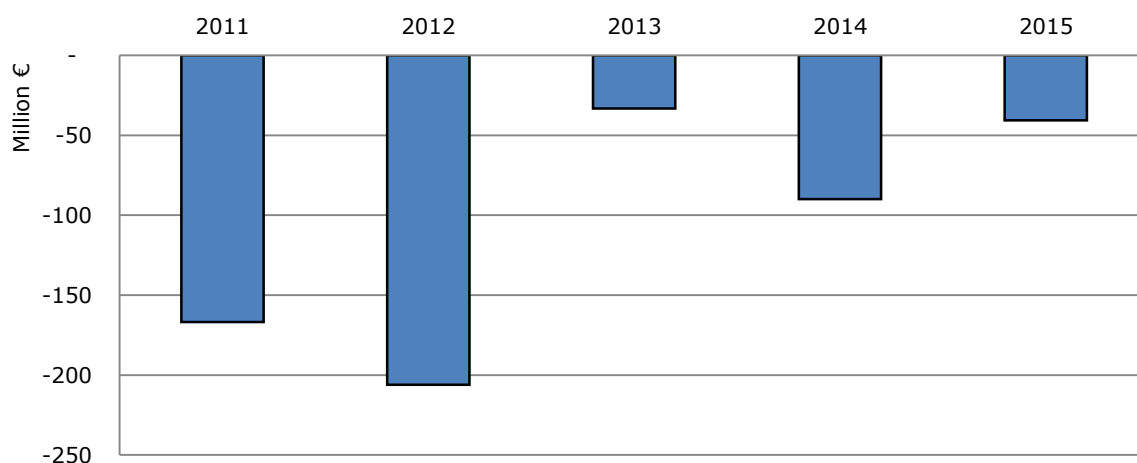


Table 11 shows the main profitability, cost and efficiency indicators of the banking system, calculated for the three years 2013-2015. In this respect, the return on assets (ROA) is equal to -0.9% (-2.3% in 2014), whereas the return on assets to shareholders (equity), represented by the ROE, amounts to -8.4% (from -16.8% in 2014). The ratio between interest margin and mediation margin, as an indicator of the contribution made by traditional activities to banking income, increased to 37% from the previous 31.8%. The ratio between interest margin and average assets (equal to 0.7%), is virtually unchanged, whereas the impact of both the mediation margin and the gross operating margin on the afore-mentioned average total assets is worsening.

With reference to cost and efficiency indicators, the average cost of staff and administrative costs per employee remained virtually unchanged at approximately Euro 73 thousand and Euro 117 thousand respectively. Operating costs per employee, on the other hand,

dropped from Euro 202 thousand to Euro 195 thousand, affected by the decrease in value adjustments on intangible and tangible fixed assets (see *above*).

The mediation margin per employee is down compared to the previous year, to approximately Euro 187 thousand. The gross operating margin per employee is down compared to the previous year, to approximately Euro -9 thousand. The average total funding per employee and net loans to customers are down from 11.8 million and 5.7 million, respectively, registered in 2014, to Euro 11.4 million and Euro 5.2 million in 2015.

The Cost-Income Ratio efficiency indicator, calculated as a ratio between structural costs (operating costs) and the mediation margin, worsened compared to 2014, to 104.6% (from 91% previously registered).

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

	2013	2014	2015
<b>Profitability indicators</b>			
Return on Average Assets (ROA)*	-1.5%	-2.3%	-0.9%
Return on Average Equity (ROE)**	-5.2%	-16.8%	-8.4%
Interest received/Interest-bearing assets	2.79%	2.76%	2.56%
Interest paid/Interest-paying liabilities	1.95%	1.84%	1.57%
Interest margin/Mediation margin	40.9%	31.8%	37.0%
Interest margin/Total assets	0.7%	0.7%	0.7%
Mediation margin/Total assets	1.7%	2.3%	2.0%
Gross operating margin/Total assets	-0.1%	0.2%	-0.1%
<b>Cost and efficiency indicators</b>			
Labour costs/number of employees (Thousand €)	75.1	72.8	73.4
Administrative costs per employee (Thousand €)	125.0	116.7	116.6
Operating costs per employee (Thousand €)	180.6	201.9	195.4
Mediation margin per employee (Thousand €)	170.9	221.8	186.8
Gross operating margin per employee (Thousand €)	-9.8	19.9	-8.6
Total funding per employee (Thousand €)	11,916	11,783	11,387
Net loans to customers per employee (Thousand €)	6,131	5,653	5,217
Cost-Income Ratio (operating costs on mediation margin)	105.7%	91.0%	104.6%
Value adjustments on credits/Gross loans to customers	1.7%	3.2%	1.0%

Notes: \* 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 Central Bank continuously monitors the liquidity risk<sup>25</sup> in the San Marino banking system through specific 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 face 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,

<sup>25</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 lines 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.



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*.

From 10 July 2015, the aforementioned report named “Weekly liquidity monitoring” is supplemented by a new statement through which information are taken from each bank as regards the collection of savings that were, or are to be, regularised for the purposes of the *Voluntary Disclosure* (VD) and on the outflows occurred and estimated whether connected or not to the Italian measure mentioned above for the emergence of financial and capital assets held abroad in breach of tax requirements.

The liquidity available in 7 days<sup>26</sup>, which at the end of 2014 was equal to Euro 1,092 billion, increased up to a maximum level of Euro 1,202 million in July 2015, as a consequence of policies implemented by the intermediaries and aimed at increasing the assets readily available for liquidation, and was then affected by a significant down trend mainly due to the outflows connected to the VD. The liquidity available in 7 days. Equal to 982 million as at the end of 2015, dropped further in the first quarter of 2016<sup>27</sup> totalling 823 million at the end of such period. The latter figure represents 43% of the aggregate of customers’ demand deposits, gradually down from 48% as at the end of 2015 and 53% as at the end of 2014 (Figure 13).

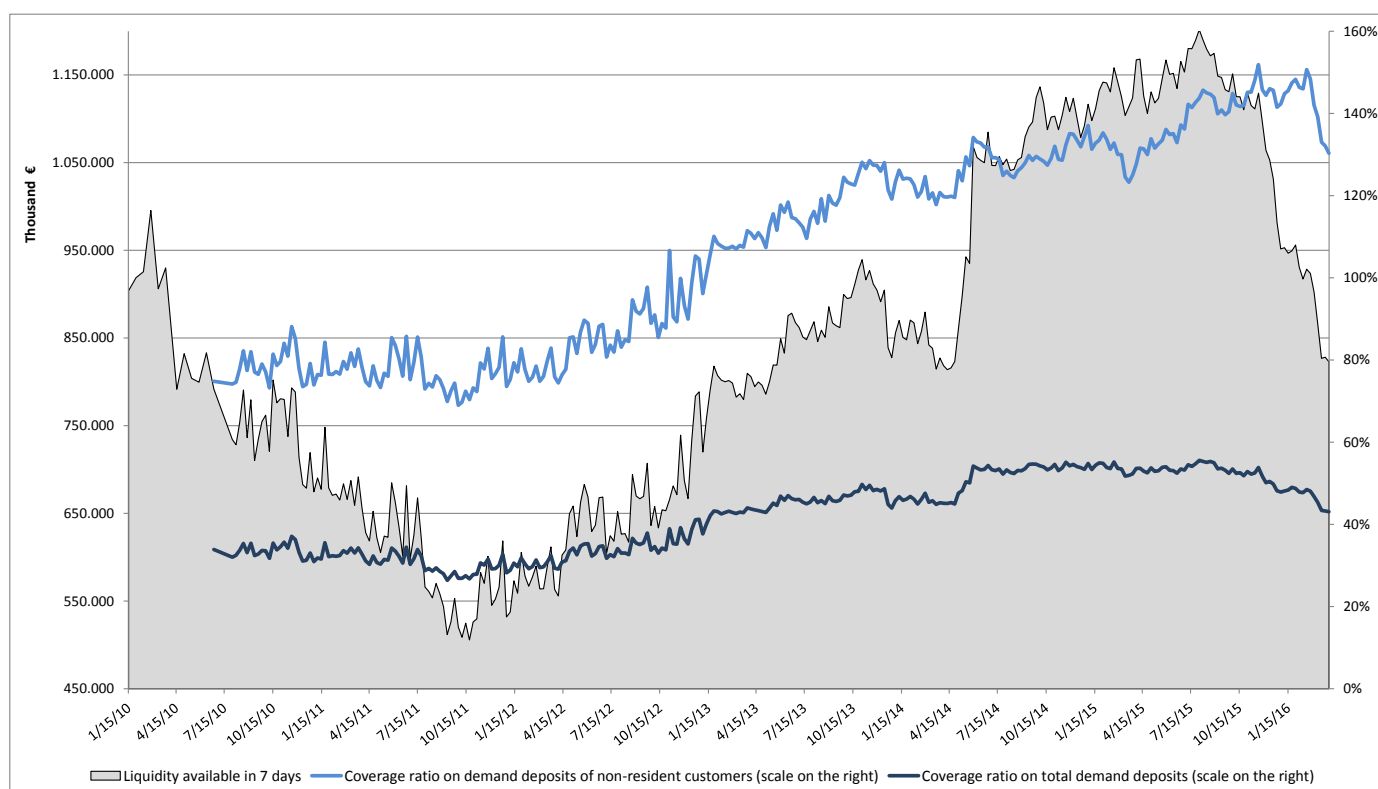
The trend of the liquidity available in 7 days is confirmed also by the average values of the period: in the whole of 2015, the aforementioned average aggregate, equal to Euro 1,133 billion, was higher than the corresponding value of 2014, which totalled 990 million. The first quarter of 2016 shows an average value of the indicator in question equal to Euro 907 million. The analysis of the above mentioned Figure 13 shows that, at the end of the first quarter of 2016, the liquidity of the system was still higher than the average levels of the period 2010-2013.

At the end of the first quarter of 2016, the impact of liquidity available in 7 days on demand deposits referable to non-resident customers (so-called *coverage ratio*), which measures the ability to cope with possible outflows of on demand deposits, is equal to 130.3%, down from 141.5% registered at the end of 2015 and 134.4% at the end of 2014. At the end of the first quarter of 2016, the *coverage ratio* on demand deposits referred solely to Italian customers is equal to 148% against 160.6% at the end of the previous year, and 168% in 2014.

<sup>26</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). This calculation does not include the interbank relations of San Marino, inclusive of the deposits of banks with the Central Bank for the purposes of the compulsory reserve (equal to Euro 112 million at the end of 2015) or with other technical forms (demand deposits or term deposits).

<sup>27</sup> The data refers to 1 April 2016 (bank holiday in San Marino).

**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

The banking system of San Marino registers a reduction in customers' use of cash, thus confirming the downward trend already recorded in previous years.

This decrease is confirmed also by the turnover indicator of cash (obtained by comparing the sum of withdrawals at the counter, withdrawals at ATMs and deposits at the counter, to the total debts with customers), which decreased from 9.1% in the fourth quarter of 2014 to 8.2% in the same period in 2015. Both values are falling, withdrawals and deposits, however, show a proportionally greater reduction compared to debts with customers.

**Table 12 – Cash movements**

Withdrawals and deposits	2014				2015			
	I Quarter	II Quarter	III Quarter	IV Quarter	I Quarter	II Quarter	III Quarter	IV Quarter
Withdrawals	116,609	117,292	114,765	120,944	107,224	114,895	113,303	106,471
<i>of which withdrawals at counters</i>	22,851	25,356	26,897	25,004	24,728	30,621	32,591	28,977
Deposits	90,211	89,957	100,446	89,090	74,134	79,862	87,319	78,012

Notes: figures in thousands of Euro.

Specifically, in 2015, withdrawals of cash decreased by 28 million Euro, while cash deposits during the same period were reduced by 50 million Euro. In the year under review, the total withdrawals amounted to 442 million Euro, Euro 117 million of which were made through ATMs (up



from 100 million in 2014), against deposits that, in the same period, amounted to 319 million Euro<sup>28</sup>.

The examination of Figure 14 confirms the trend evidenced in the last few years, of convergence between the values of cash withdrawals and deposits, as well as the continuous decrease in the value of both aggregates. The analysis of the aforementioned Figure 14 also evidences, starting from the fourth quarter of 2012, a clear correspondence between deposits and withdrawals at the counter. "ATM withdrawals", which for the current year were equal to 117 million Euro, make up for the difference between the total value of deposits and that of withdrawals.

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

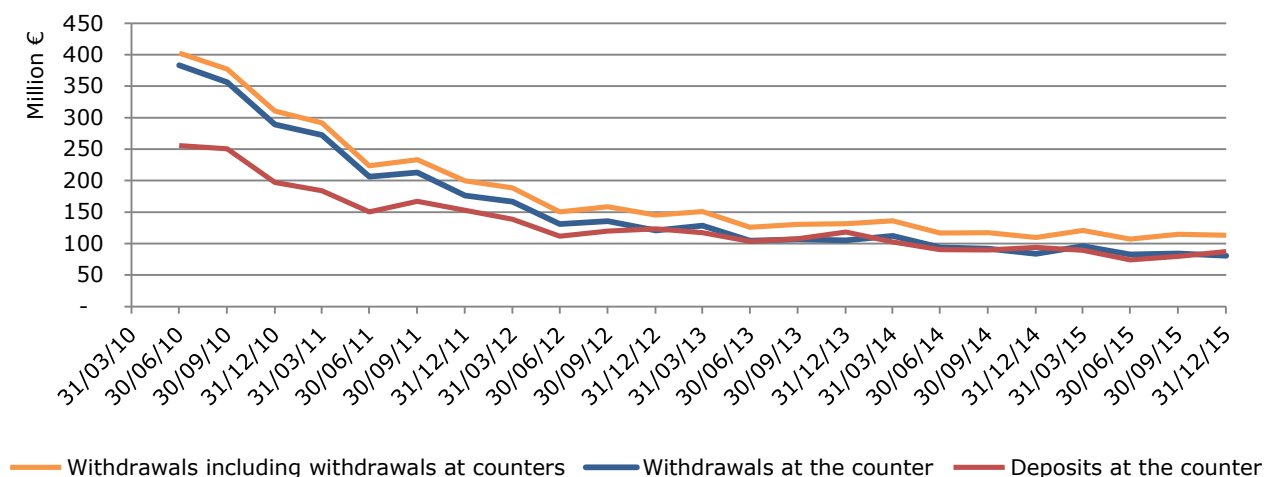


Table 13 summarises the trend in cash withdrawals and deposits made at bank counters from 1 January 2014 to 31 December 2015<sup>29</sup>. The analysis does not include transactions via ATMs as it is not possible to determine the residence and sector for transactions made via cards issued by parties other than the reporting party.

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

Withdrawals according to residence	2014				2015			
	I Quarter	II Quarter	III Quarter	IV Quarter	I Quarter	II Quarter	III Quarter	IV Quarter
<b>Withdrawals at the counter</b>	<b>93,759</b>	<b>91,936</b>	<b>87,868</b>	<b>95,940</b>	<b>82,496</b>	<b>84,274</b>	<b>80,712</b>	<b>77,494</b>
- of which residents in San Marino	60,472	60,651	57,445	61,659	50,001	51,978	50,322	53,045
- of which residents in Italy	30,962	29,026	28,258	32,028	30,933	30,876	28,845	22,809
- of which, resident in the EU Area excluding Italy	342	845	785	761	492	534	533	661
- of which residents in the Rest of the World	1,983	1,414	1,380	1,492	1,071	887	1,013	979

Notes: figures in thousands of Euro.

<sup>28</sup> The increase in the positive spread between cash withdrawals and deposits registered in 2015 compared to 2014 led to a similar increase in the external procurement of cash, as specified in detail in paragraph 2.4 below.

<sup>29</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.



Withdrawals by business sector	2014				2015			
	I Quarter	II Quarter	III Quarter	IV Quarter	I Quarter	II Quarter	III Quarter	IV Quarter
<b>Withdrawals at the counter</b>	<b>93,759</b>	<b>91,936</b>	<b>87,868</b>	<b>95,940</b>	<b>82,496</b>	<b>84,274</b>	<b>80,712</b>	<b>77,494</b>
- of which Public Administrations	163	133	107	220	77	123	104	140
- of which Non-banking financial undertakings	1,359	1,145	1,001	1,157	975	954	946	677
- of which Non-financial undertakings	12,714	11,869	10,715	11,776	9,283	9,122	8,404	8,895
- of which Households	79,045	78,209	72,576	82,274	71,747	73,629	70,805	67,325
- of which Other	477	579	469	513	413	446	454	457

Notes: figures in thousands of Euro.

Deposits according to residence	2014				2015			
	I Quarter	II Quarter	III Quarter	IV Quarter	I Quarter	II Quarter	III Quarter	IV Quarter
<b>Deposits at the counter</b>	<b>90,211</b>	<b>89,957</b>	<b>100,446</b>	<b>89,090</b>	<b>74,134</b>	<b>79,862</b>	<b>87,319</b>	<b>78,012</b>
- of which residents in San Marino	78,773	80,735	90,125	80,517	67,922	74,024	81,440	73,038
- of which residents in Italy	10,471	8,525	9,697	7,906	5,807	5,483	5,525	4,508
- of which, resident in the EU Area excluding Italy	91	339	136	160	142	128	85	214
- of which residents in the Rest of the World	876	358	488	507	263	226	270	251

Notes: figures in thousands of Euro.

Payments by business sector	2014				2015			
	I Quarter	II Quarter	III Quarter	IV Quarter	I Quarter	II Quarter	III Quarter	IV Quarter
<b>Deposits at the counter</b>	<b>90,211</b>	<b>89,957</b>	<b>100,446</b>	<b>89,090</b>	<b>74,134</b>	<b>79,862</b>	<b>87,319</b>	<b>78,012</b>
- of which Public Administrations	4,034	4,316	4,539	4,691	3,833	4,195	4,496	3,696
- of which Non-banking financial undertakings	1,364	1,578	1,143	2,195	727	777	690	620
- of which Non-financial undertakings	45,107	46,702	52,151	48,876	43,679	48,679	53,301	48,984
- of which Households	38,970	36,613	41,828	32,635	25,185	25,539	28,088	24,039
- of which Other	736	747	785	693	710	672	745	672

Notes: figures in thousands of Euro.

From a review of the percentage breakdown of cash flows by business sectors, represented in Table 14, we note that, with regard to withdrawals, 2015 saw an increase of the portion relating to households, which grew from 85.3% to 87.2% and compensates for the decrease registered in the sectors of financial undertakings (excluding banks) and non-financial undertakings, which dropped, respectively, from 1.3% to 1.1% and from 12.7% to 11%. 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 52.2% to 61.0% and public administrations from 4.8% to 5.1%, and a decrease in the portion concerning households, which dropped from 40.6% to 32.2%, which confirms the trend of previous years.



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

Percentage of the withdrawals by business sector	2014	2015
<b>Withdrawals at the counter</b>		
- Public Administrations	0.2%	0.1%
- Non-banking financial undertakings	1.3%	1.1%
- Non-financial undertakings	12.6%	11.0%
- Households	85.3%	87.2%
- Other	0.6%	0.5%

Percentage of payments by business sector	2014	2015
<b>Deposits at the counter</b>		
- Public Administrations	4.8%	5.1%
- Non-banking financial undertakings	1.7%	0.9%
- Non-financial undertakings	52.2%	61.0%
- Households	40.6%	32.2%
- Other	0.8%	0.9%

A review of the breakdown according to residence and business sector (Table 15) confirms both the drop in cash withdrawals by households resident in San Marino, down from 190 million Euro in 2014 to 166 million Euro in 2015 (-11.3%), as well as the decrease related to households resident in Italy, down from 119 million Euro in 2014 to 113 million Euro in 2015 (-5.5%).

As regards the cash deposits made by households with residence in San Marino, a drop by 32 million Euro was registered (-25.9%) from 124 million Euro to 92 million Euro. Cash deposits by households resident in Italy are down by 14 million Euro (-60.2%), totalling, in the IV quarter of 2015, 9.4 million Euro.

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

Withdrawals by business sector and residence	2014				2015			
	I Quarter	II Quarter	III Quarter	IV Quarter	I Quarter	II Quarter	III Quarter	IV Quarter
<b>Withdrawals at the counter</b>	<b>93,759</b>	<b>91,936</b>	<b>87,868</b>	<b>95,940</b>	<b>82,496</b>	<b>84,274</b>	<b>80,712</b>	<b>77,494</b>
<b>- of which Households</b>	<b>79,045</b>	<b>78,209</b>	<b>75,576</b>	<b>82,274</b>	<b>71,747</b>	<b>73,629</b>	<b>70,805</b>	<b>67,325</b>
- of which residents in San Marino	46,861	47,778	45,961	49,025	39,968	41,909	40,989	43,386
- of which residents in Italy	30,640	28,793	28,012	31,740	30,731	30,603	28,667	22,646
- of which, resident in the EU Area excluding Italy	332	766	733	676	446	509	514	645
- of which residents in the Rest of the World	1,212	873	871	832	601	608	635	648
<b>- of which Non-financial undertakings</b>	<b>12,714</b>	<b>11,869</b>	<b>10,715</b>	<b>11,776</b>	<b>9,283</b>	<b>9,122</b>	<b>8,404</b>	<b>8,895</b>
- of which residents in San Marino	11,826	11,114	9,978	10,809	8,618	8,675	7,865	8,431

Notes: Figures in thousands of Euro.

Payments by business sector and residence	2014				2015			
	I Quarter	II Quarter	III Quarter	IV Quarter	I Quarter	II Quarter	III Quarter	IV Quarter
<b>Deposits at the counter</b>	<b>90,211</b>	<b>89,957</b>	<b>100,446</b>	<b>89,090</b>	<b>74,134</b>	<b>79,862</b>	<b>87,319</b>	<b>78,012</b>
<b>- of which Households</b>	<b>38,970</b>	<b>36,613</b>	<b>41,828</b>	<b>32,635</b>	<b>25,185</b>	<b>25,539</b>	<b>28,088</b>	<b>24,039</b>
- of which residents in San Marino	30,622	30,849	35,018	27,599	21,934	22,809	25,135	22,087
- of which residents in Italy	7,699	5,205	6,298	4,434	2,870	2,407	2,605	1,516
- of which, resident in the EU Area excluding Italy	82	307	129	127	123	107	85	195
- of which residents in the Rest of the World	567	253	384	475	258	217	263	240
<b>- of which Non-financial undertakings</b>	<b>45,107</b>	<b>46,702</b>	<b>52,151</b>	<b>48,876</b>	<b>43,679</b>	<b>48,679</b>	<b>53,301</b>	<b>48,984</b>
- of which residents in San Marino	42,049	43,292	48,651	45,370	40,774	45,629	50,432	46,025

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

As at 31 December 2015, the segment referring to financial/fiduciary companies and investment companies consisted of 10 operators, namely 9 financial/fiduciary companies and 1 investment company. Specifically, in the group of financial/fiduciary companies, from August 2013, 1 company no longer exercises the activities reserved pursuant to D) K) and L) referred to under Annex 1 of the 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 2014, the number of operators is down by 1 unit since 1 operator was subject to administrative compulsory winding-up (order dated 23/05/2015) with the subsequent removal from the Register of Authorised Parties.

The financial statements data outlined below refer to 8 intermediaries, since one company was removed from the Register of Authorised Parties in January 2016 (see below) and another intermediary did not transmit the financial statements report.

The analysis of the aggregated data, as at 31/12/2015, confirms the trend in the sector of a decrease in operating volumes and number of employees; this decrease, however, is, for certain aspects, less evident compared to the decreasing trend of previous years, except for the segment of fiduciary activities, where the drop in volumes was more significant (approximately -30%) compared to 2014 (-8.4%) as well as the drop in the number of employees. With reference to the number of employees, even though the decrease was, in absolute terms, the same, in percentage terms it was equal to 18.5% compared to 15.6% registered in 2014.

In details, the number of employees came down by 10 units to 44 against the 54 at the end of 2014, which represents 0.2% of all employees in the Republic of San Marino. In operational terms, total assets amounted to 308 million Euro (-11% compared with 2014) and the volume of loans amounted to 319 million Euro, down from 351 million in 2014.

The main indicators are reported in the following Table 16.



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

Indicators	2013	2014	2015
Number of operators	15	11	10
Total assets (Million Euro)	409	346	308
Gross loans* (Million Euro)	392	351	319
Fiduciary activities (Million Euro)	381	349	243
Number of employees	64	54	44
% Employees on total employees	0.3	0.3	0.2
Total assets / GDP**	0.3	0.2	0.2

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

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

On 21 January 2016, as mentioned above, 1 entity was removed from the Register of Authorised Parties after renouncing to exercise the reserved activities.

### **1.2.2 Assets and liabilities**

In 2015, the value of net loans (including financial leasing transactions<sup>30</sup>) went from Euro 322 million to 293 million, with a reduction of 29 million, equivalent in terms of percentage to 9.1% (Table 17)<sup>31</sup>. The contraction is primarily attributable to financial leasing transactions, amounting to about 18 million Euro, referring to both leased assets, decreased from 183 million to 170 million Euro (-7.2%), and assets pending leasing, which went from 88 million to 84 million (-4.9%).

The total net loans included tied-up loans, amounting to 30.3 million Euro, which decreased by 6.6 million (-17.8%), and loans included in current assets, equal to 8.9 million, which decreased by 5.4 million Euro (-37.7%).

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 7.1 million Euro, compared to 14 million Euro in the previous year (-49.1%), tangible and intangible fixed assets, equal to 6 million Euro, decreased by 19.1% compared to 2014, while the other assets items (including cash and cash equivalents and accrued revenues and deferred expenses) dropped to 2.2 million Euro from 2.5 million registered before. The only component in contrast with this trend is that of Shareholdings that, virtually reduced to zero in 2014, are now equal to 0.1 million Euro.

As regards liabilities, there is a reduction in total debt of 28 million (-9.6%), with a figure at the end of 2015 amounting to 265 million Euro. In particular, the short-term debts dropped from 233.1 million to 210.5 million Euro (-22.6 million Euro, equal to -9.7%) and the medium/long term debts register a decrease from 59.9 million Euro to 54.5 million (-5.4 million Euro, equal to -9%).

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 245.5 million Euro (-24.4 million compared to 2014), equal to 92.7% of total debts. More in detail, short term debts with banks and financial institutions represent 73.8%, whereas those medium-long terms are equal to 18.9%. The rest of the debt is mainly due to "Other

<sup>30</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>31</sup> The net worth and profit and loss account data referring to the financial year 2014 underwent some changes as compared to those given in the relevant Summary Report, following reporting adjustments of the 2014 financial statements data sent by some intermediaries to correct previous submissions.

debts" (13.1 million Euro, equal to 4.9%) and bonds (4.5 million Euro, down by 5 million, with a weight of 1.7%).

The net equity decreased by 9.2 million, reaching 39.7 million Euro (-18,8%), mainly due to the lack of information concerning the data of the financial statements of an operator in the sector, removed in the first quarter of 2016 (-7.7 million) and, with regard to existing companies, mainly due to losses for the period.

The aggregate "Other liabilities items" amounted to 3.6 million, highlighting a decrease by 0.8 million, due substantially to the decrease in the "Provisions with special uses" item.

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

Assets	2014	2015	Var. %	Liabilities	2014	2015	Var. %
Fixed assets	7.4	6.0	-19.1%	Short-term debts	233.1	210.5	-9.7%
				<i>of which: with banks and</i>	219.8	195.5	-11.0%
				<i>financial institutions</i>			
Total loans*	322.3	292.8	-9.1%				
<i>of which: leasing</i>	182.6	169.5	-7.2%				
<i>of which: assets pending</i>				Medium/long-term debts	59.9	54.5	-9.0%
<i>leasing</i>	88.5	84.1	-4.9%				
Securities	14.0	7.1	-49.1%	<i>of which: with banks and</i>	50.2	50.0	-0.4%
				<i>financial institutions</i>			
Shareholdings	0.0	0.1	1785.7%	Other liabilities items	4.4	3.6	-18.4%
Other assets items	2.5	2.2	-12.4%	Net equity**	48.9	39.7	-18.8%
<b>Total assets</b>	<b>346.3</b>	<b>308.3</b>	<b>-11.0%</b>	<b>Total liabilities</b>	<b>346.3</b>	<b>308.3</b>	<b>-11.0%</b>

Notes: figures in millions of Euro.

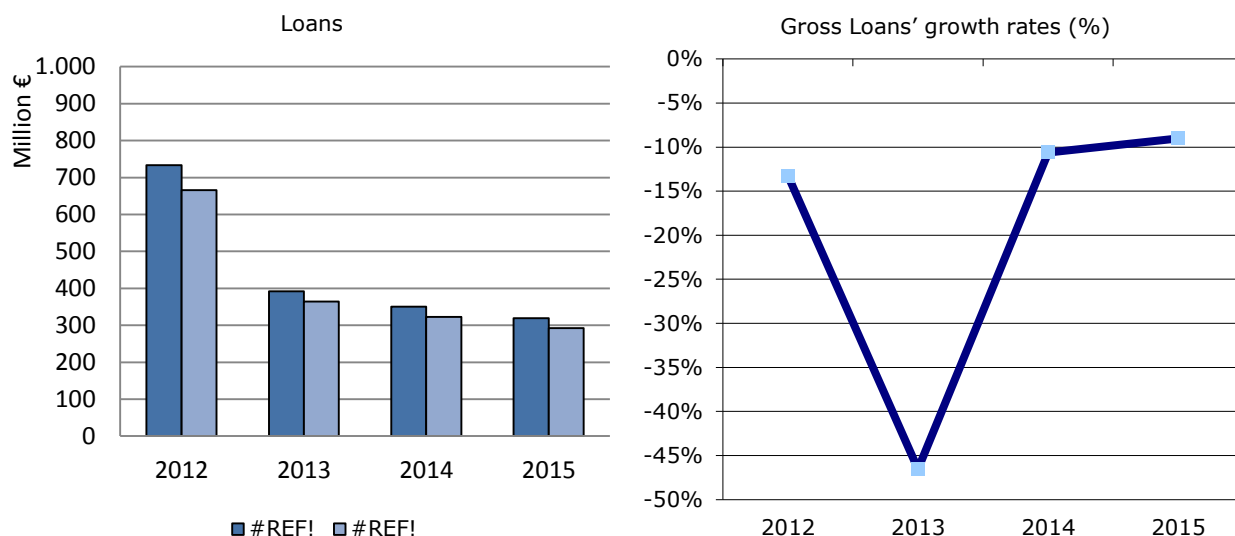
\* Includes assets under leasing and assets pending leasing; the values are net of the adjustment provisions.

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

Gross loans, including financial leasing transactions (Figure 15), reach 319 million, registering a decrease of 31.5 million Euro (-9%) mostly due to the above-mentioned dynamics of the financial lease segment.



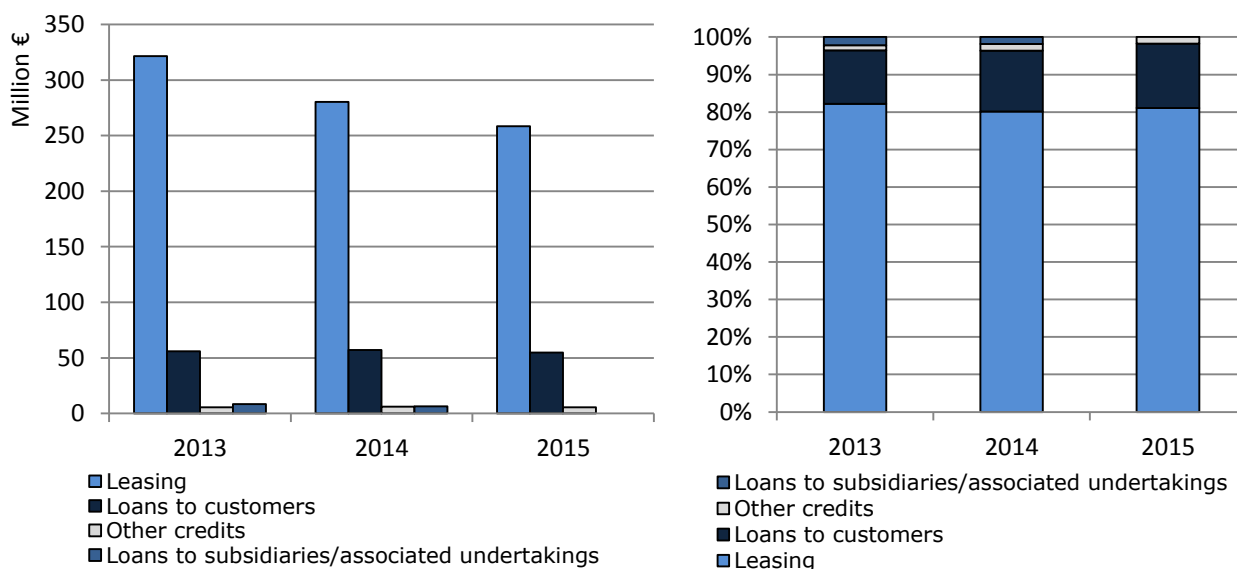
**Figure 15 - Loans for the financial/fiduciary companies sector**



The breakdown of gross loans by technical form (Figure 16) shows, also for the financial year 2015, how the component attributable to finance leasing is still largely predominant, amounting to 258.3 million Euro, although decreasing by 7.8% compared to 2014. With regard to the other main components, short and medium-long term loans to customers amount to 54.8 million Euro (-3.7%), and the item "Other Credits" is equal to 5.6 million Euro (-8.2%). Loans to subsidiaries and associated undertakings were brought down to zero (-6.5 million Euro).

As regards the impact of the aforementioned technical forms on the amount of gross loans, it should be noted that the credits deriving from financial leasing transactions represent 81% of the total, with a slight increase from 79.9% of the previous financial year, loans to customer also increased from 16.2% to 17.2% whereas "Other Credits" went from 1.7% to 1.8%.

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



The impact of gross non-performing loans<sup>32</sup> on the total loans rose from 37.1% to 45.4% (Table 18). Specifically, an increase is registered in gross non-performing loans (+11.1 million) together with a change in the composition of their major components, with an increase in bad loans (+7.5 million), a reduction in substandard loans (-10.2 million) and an increase in restructured loans (+13.9 million). Gross bad loans represent approximately 25.6% of the loans before adjustments and result mainly from financial leasing transactions.

The risk provisions for loans amounted to 28.6 million<sup>33</sup>, from 26.8 million recorded in the previous financial year.

**Table 18 - non-performing loans/Loans (gross figures)**

Indicators	2014	2015
Non-performing loans/Loans	37.1%	45.4%

### 1.2.3 Fiduciary activities

As at 31 December 2015, 9<sup>34</sup> companies were authorised to perform fiduciary activities; also considering the absence of any data concerning one intermediary, only 5 of such companies reported any volumes for fiduciary activities, for an aggregate of 242.8 million Euro, down by 105.8 million (-30.3%) compared to the data as at the end of 2014.

This amount represents 63.2% of total fiduciary activities, while the remainder (36.8%) is managed by credit institutions (see point 1.1.6).

The change from the data as at the end of 2014 is due essentially to the major intermediary of this segment and the decrease substantially reflects withdrawals related to the *Voluntary Disclosure* procedure.

With reference to the breakdown of fiduciary activities by technical form (Figure 17), the most significant component is related to the fiduciary administration of Real Estate assets (type 1), which amounted to 140.8 million Euro, with a 58% impact on the total, down by 73 million Euro compared to the previous year. At the end of 2015, the fiduciary administration of equity investments (type 2) was equal to 93.3 million Euro, with a 38.4% impact on the total, also decreased compared to the previous year by 36.5 million Euro. The remaining two types (fiduciary loans to third parties and fiduciary administration of other movable or intangible assets) are equal to 2.5 million and 6.1 million respectively.

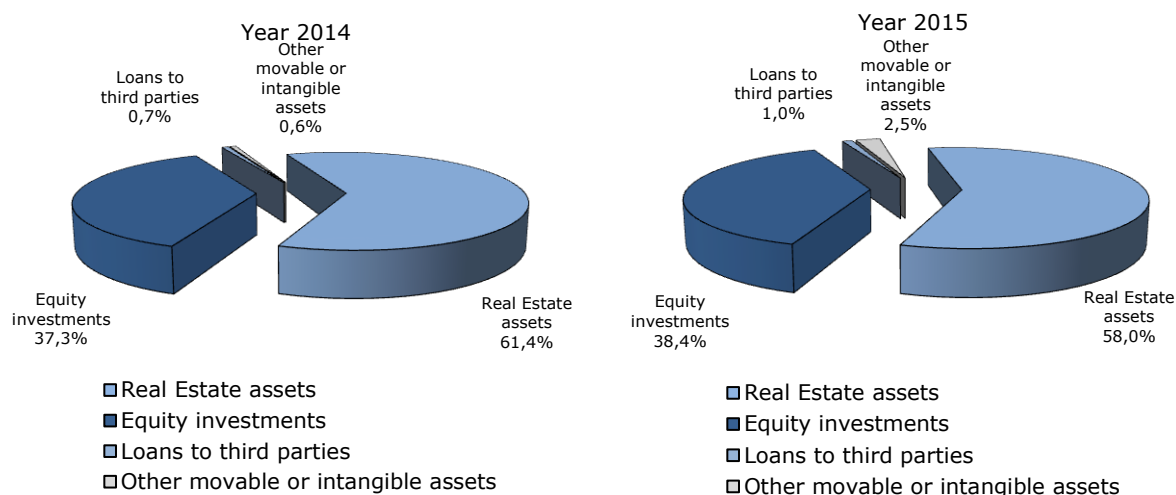
<sup>32</sup> The data relating to non-performing loans is derived from the prospectuses supplementing the financial statements report.

<sup>33</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 (source: prospectuses supplementing the financial statements report).

<sup>34</sup> One financial company, even though inactive in the exercise of some of the reserved activities since August 2013 (see point 1.2.1), continues to perform fiduciary activities in favour of existing customers, pending the complete transfer and/or divestment of existing accounts to other authorised parties.

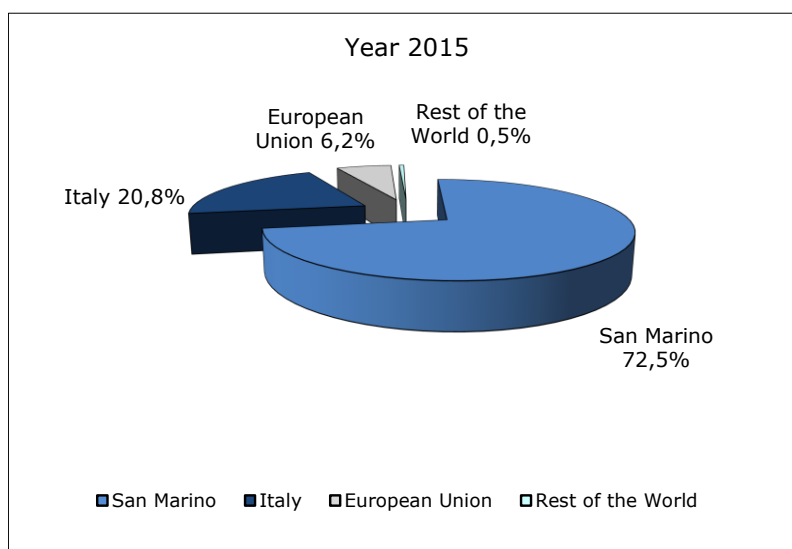


**Figure 17 - Composition of fiduciary activities by technical form**



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 (72.5% of the total amount); Italy is the second country in terms of establishment of companies held on a fiduciary basis (20.8%), whilst shareholdings in companies with registered office in other countries are marginal with a prevalence of EU countries, amounting to 6.2% 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 2015 amounts to 39.7 million Euro, decreased by 9.2 million Euro compared to the previous year (-18.83%). Capital in the segment is constituted mainly by share capital for 41.6 Euro, ordinary reserve for 0.4 million, extraordinary reserve for 6.3 million, other



reserves for 0.7 million, general financial risk fund for 0.3 million Euro, losses carried forward for 7.9 million and operating losses amounting to 1.8 million Euro.

As outlined in point 1.2.2 above, the decrease in the aggregate in question mainly reflects the absence of the financial statements data of one operator removed from the Register of Authorised Parties on 21/1/2016 and exempted from the transmission of the financial statements report, as well as the considerable negative result of one operator of the segment.

The ratio between capital and total assets dropped to 12.9% from the previous 14.1%.

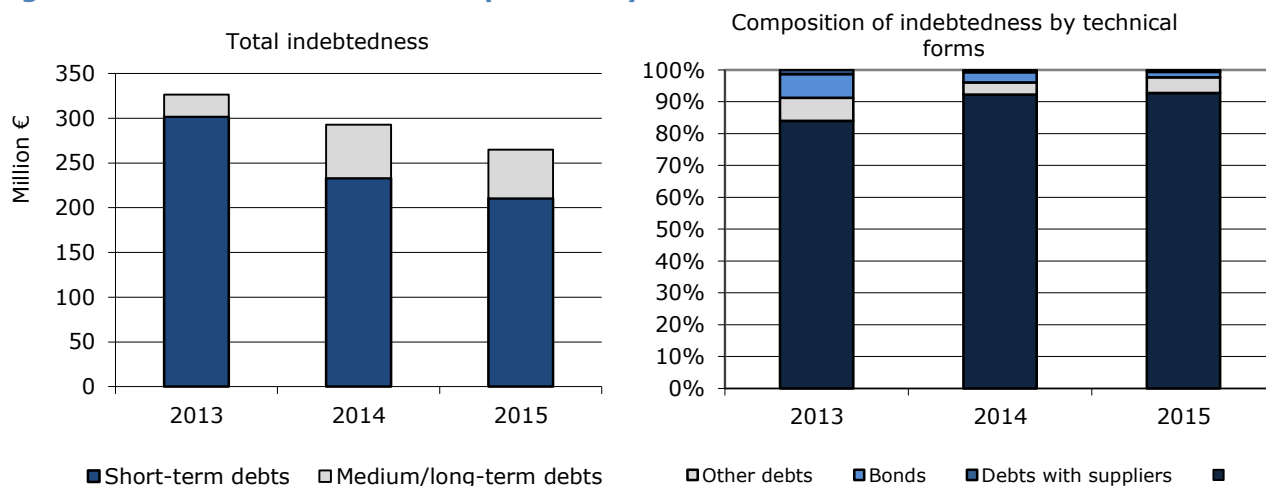
At the end of 2015, the regulatory capital of the system<sup>35</sup> amounted to 36.9 million Euro, with a decrease by 9.5 million Euro compared to the previous year (-20.5%), largely due to the same reasons affecting the change in net equity. In particular: the tier 1 capital registers a contraction of 6.2 million Euro (-14.3%), totalling 37.2 million Euro, the tier 2 capital decreases by 3.4 million Euro to 0.01 million (-97.9%) and the total items to be deducted from the overall aggregate, amounting to 0.3 million, are down by 0.01 million.

At the end of 2015, 2 companies reported individual regulatory capitals lower than those required pursuant to laws and regulations in force<sup>36</sup>; the resulting corrective supervisory activities are being carried out. Credit risk-weighted assets decreased by 13.2%, and amount to 228.8 million Euro (-34.7 million).

The overall dynamics described above determined a drop in the system *solvency* ratio from 17.6% to 16.1%. All financial companies, at the end of 2015, 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, 12.0% and 12.1%, decreased compared to the corresponding figures in 2014, amounting to 13.4% and 12.5%.

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



<sup>35</sup> The calculation of the regulatory capital is based on 5 intermediaries, taking into account that companies authorised to carry out only fiduciary activities and investment companies are not required to file the prudential supervision report and that, as at 31 December 2015, two companies authorised to carry out lending activities were exempted from transmitting the aforementioned report.

<sup>36</sup> Regulation no. 2011-03 stipulates that the regulatory capital must not be lower than the greater of the minimum capital required to carry out lending activities and the sum of minimum coverages of capital requirement for risks of debtors default and operational risks. The two companies mentioned above reported a regulatory capital lower than the minimum capital required to carry out lending activities, even though they met the minimum solvency ratio of 8%.



### 1.2.5 Profitability and efficiency

The net operating results of the financial-fiduciary companies and investment companies segment recorded a reduction of 1.8 million, up from the loss registered by the system for the financial year that, in 2014, amounted to approximately 7.9 million Euro.

The profit and loss account data, outlined below, are influenced mainly by the decrease in volumes occurred between 2014 and 2015, related to one operator in the segment.

An examination of the Reclassified Profit and Loss Account (Table 19) highlights a worsening of the mediation margin, which went from 7.7 million to 6.5 million Euro (-16.5%), influenced mainly by the drop in net interest margin, down to 4.1 million from the previous amount of 5 million Euro (-16.9%), due to a 1.8 million decrease in interest received, only in part offset by the reduction in interest paid by 1 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 2.6 million to 2.4 million Euro (-7.1%), reflecting primarily the decrease in commissions earned, also affected the variation of the mediation margin, although in a much less significant manner than the decrease in interest margin. Finally, the item "Net profits (losses) from financial operations" registered a negative value equal to -0.1 million Euro, down compared to the previous year, equal to +0.1 million Euro.

Operating costs decreased by 1.7 million reaching 5.1 million Euro as a result, mainly, of the decrease in administrative costs, which went from 6.2 million to 4.5 million Euro (-27.0%). The latter are mainly constituted by labour costs, equal to 2.8 million Euro (down by 0.3 million compared to the previous year), and by costs for remunerations and consultancy fees which amounted to 1.4 million Euro (down by 0.4 million).

The impact of operating costs on the mediation margin dropped by 79.1% from 88.2%, contributing to the increase in gross operating margin, which went from 0.9 million to 1.3 million Euro (+47.8%).

The provisions and value adjustments amounted to 3.3 million Euro, down by 5.7 million Euro compared to 2014, being influenced by the decrease in the devaluations on financial fixed assets (shareholdings) and tied-up loans. This component determines a negative net operating income of 1.9 million Euro, considerably better than the -8.1 million Euro registered in 2014.

As mentioned earlier, the system of financial/fiduciary companies and of investment undertakings closed the financial year 2015 with an operating loss of 1.8 million Euro.

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

Reclassified Profit and Loss Account	2014	2015	Absolute var. (2015-2014)	Var % (2015-2014)*
Interest received and other proceeds	9,584	7,733	-1,851	-19.3%
Interest paid and other costs	-4,595	-3,588	1,008	21.9%
<b>Interest margin</b>	<b>4,988</b>	<b>4,145</b>	<b>-843</b>	<b>-16.9%</b>
Commissions earned	2,984	2,642	-342	-11.5%
Commissions paid	-152	-131	21	13.7%
other financial revenues/costs	-205	-71	134	65.5%
<b>Service revenues</b>	<b>2,628</b>	<b>2,440</b>	<b>-188</b>	<b>-7.1%</b>
Profits from financial operations	112	-147	-258	-231.6%
Dividends and other proceeds	0	17	17	n.a.

<b>Mediation margin</b>	<b>7,727</b>	<b>6,455</b>	<b>-1,272</b>	<b>-16.5%</b>
Net administrative costs	-6,194	-4,519	1,675	27.0%
Value adjustments on intangible and tangible fixed assets	-620	-589	33	5.4%
<b>Operating costs</b>	<b>-6,814</b>	<b>-5,106</b>	<b>1,708</b>	<b>25.1%</b>
<b>Gross operating margin</b>	<b>913</b>	<b>1,350</b>	<b>436</b>	<b>47.8%</b>
Provisions and value adjustments	-8,971	-3,267	5,704	63.6%
<b>Net operating income</b>	<b>-8,057</b>	<b>-1,917</b>	<b>6,140</b>	<b>76.2%</b>
Extraordinary proceeds	941	715	-227	-24.1%
Extraordinary costs	-712	-504	208	29.2%
<b>Gross operating margin of extraordinary operations</b>	<b>229</b>	<b>211</b>	<b>-19</b>	<b>-8.1%</b>
<b>Gross margin</b>	<b>-7,828</b>	<b>-1,707</b>	<b>6,121</b>	<b>78.2%</b>
Income taxes for the financial year	-84	-75	9	10.8%
<b>Operating results</b>	<b>-7,912</b>	<b>-1,782</b>	<b>6,130</b>	<b>77.5%</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 -0.6% (from -2.1% in 2014), whilst the ROE went from -12.2% to -4.0%. As regards the efficiency profiles, administrative costs per employee went down from 115 thousand to approximately 103 thousand Euro, while the Cost-Income Ratio went from 88.2% to 79.1% in the previous year (Table 20).

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

<b>Indicators</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Return on Average Assets (ROA)*	-1.0%	-2.1%	-0.6%
Return on Average Equity (ROE)**	18.6%	-12.2%	-4.0%
Cost-Income Ratio***	83.0%	88.2%	79.1%
Administrative costs per employee****	126.3	114.7	102.7

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 (MCs)

In 2015, the regulations concerning the collective investment services segment registered several changes following the issuance of Regulation no. 2015-03. Specifically, the latter modified and supplemented the prudential supervision discipline on this regard, referred to in Regulation no. 2006-03 on collective investment services, particularly as regards the requirements of good repute and of the attitude of ensuring sound and prudent management practices by the shareholders, establishment of the term deposit for the purposes of the incorporation of new MCs, and it introduced the possibility to have one subscriber only for the mutual investments funds known as "with contribution funds", only for a maximum period of 18 months, which may be extended by the Central Bank upon grounded request from the MC.

The structure of this sector remained stable also in 2015, with 2 management companies authorised to provide collective investment services. However, it should be noted that, in the first part of 2016, the initial phase of the path for the authorisation to carry out reserved activities was



successfully completed, in favour of one newly incorporated MC, the application of which was filed in the last part of 2014. Specifically, the new MC was authorised to carry out the activities referred to in letters E (collective investment services), F (non-traditional collective investment services), D4 (management of portfolios of financial instruments), D6 (placement with no irrevocable commitment of financial instruments), only as regards units of Mutual investment funds incorporated by the MC itself, as referred to in Annex 1 of the LISF. Moreover, in the first quarter of 2016, a new application was received aimed at obtaining the authorisation to carry out non-traditional collective investment only, in favour of another newly incorporated MC. This application is still in the preliminary stage.

As regards the dynamics relating to the funds managed by the two MCs, it should be noted that, in 2015, an open-end mutual investment fund intended for the general public was activated, already authorised in 2014.

In the first quarter of 2016, an additional alternative open-end mutual investment fund was activated, reserved to professional clients, already authorised in 2013 and, moreover, the creation of a new alternative open-end mutual investment fund reserved to professional clients was authorised. However, in the first part of 2016, within the context of the release of the aforementioned authorisation in favour of the newly created MC, the creation was also approved of 5 open-end mutual investment funds of the UCITS III type, directed at the general public.

Taking into account the new regulatory framework of reference as outlined above, in the first quarter of 2016 4 applications were received for the authorisation to the creation of mutual investment funds with contribution, to which non-performing loans, real estate properties resulting from terminated leasing transactions as well as shareholdings would be transferred. An application for authorisation was also received for the creation of a new alternative close-end mutual investment fund reserved to professional clients, the investment line of which mainly refers to claims and papers representing claims, including non-performing loans as well as real estate properties and real property rights. These requests, 5 in aggregate, 3 of which refer to the MC the application of which is still in the preliminary stage, are currently being assessed.

In the first part of 2016, the activities were initiated for the winding-up of 3 alternative closed-end mutual investment funds reserved to professional clients, linked to one MC, which had approximately US Dollars 230 thousand under management.

Overall, at the end of 2015, the two management companies had 17 San Marino mutual funds under management, compared to 16 funds managed in 2014. In aggregate, therefore, the funds under management are: 11 alternative open-end and reserved for professional customers, 1 closed-end also reserved for professional clients, 3 set up - also pursuant to specific decree-laws - in the context of banking restructuring operations and are closed-end and held exclusively by San Marino banks and with investment mainly in non-performing loans originating from banks, and finally 2 open-end and intended for the general public.

By the end of 2015, the net equity of the aforementioned 17 funds amounted to a total of 138 million Euro, in line with the data as at the end of 2014 (referring to the 16 funds managed at the time). Specifically, these volumes are mainly concentrated in the three closed-end funds reserved for San Marino banks that manage largely non-performing loans resulting from situations of banking crises. The net equity of the latter funds at the end of 2015 amounted to 110 million Euro, accounting for approximately 80% of the volumes under consideration. The assets under management referring to the remaining 14 funds were, on the contrary, limited to 28 million Euro, at the end of 2015, compared to 22 million as at the end of 2014.

As regards loan funds, the Law no. 189 of 22 December 2015 assigned to the Central Bank, on an extraordinary basis, the function of investigation support to the Financial Administration, in order to verify and properly determine any tax credits referred to in the Decree-law no. 174 dated 27 October 2011 - as extended in the scope of application pursuant to article 8 of the Decree-law no. 61 of 28 March 2012 - and in the Decree-law no. 72 of 27 June 2013. The

aforementioned checks will be performed by the Central Bank and by the competent Offices of the Financial Administration, within the scope of the application of provisions regarding time-frame, conditions and criteria for the recognition as tax credit, which will be included in an implementation circular which will be issued by the Secretary of State for Finance and Budget, already provided for in the aforementioned Decree-laws.

### 1.3.2 Insurance undertakings

During the financial year 2015, the 2 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. To this regard, it is confirmed that the collection of insurance premiums is carried out mainly through the banking channel of San Marino.

The aggregate of gross premiums recorded<sup>37</sup> is equal to approximately 36 million Euro, down by approximately 53% compared to the amount collected in 2014. In detail, approximately 21.8 million Euro are related mainly to policies of class III<sup>38</sup> and, to a residual extent, to policies of class V<sup>39</sup>, whereas approximately 14.2 million Euro are related to contracts of class I<sup>40</sup>.

**Table 21 – Collection of premiums for 2014 and 2015**

	2015	2014	Percentage variations
Class I	14.2	28.3	-49.8%
Classes III and V	21.8	48.2	-54.9%
<b>Total</b>	<b>36</b>	<b>76.5</b>	<b>-53%</b>

Notes: figures in millions of Euro.

As at 31 December 2015, the total volume for investments from insurance companies of San Marino was approximately 422.9 million Euro, down by 16.5% compared to the amount collected in 2014, broken down as per the following Table 22.

**Table 22 – Total volume for investments 2014 and 2015**

	2015	2014	Percentage variations
Class C <sup>41</sup>	86.9	98.1	-11.4%
<i>of which bonds and other debt securities</i>	64	74.2	-13.8%
Class D <sup>42</sup>	336	408.1	-17.7%
<b>Total</b>	<b>422.9</b>	<b>506.2</b>	<b>-16.5%</b>

Notes: figures in millions of Euro.

In 2015, class C investments, the risk of which is borne by the companies, decreased from approximately 98.1 million Euro to approximately 86.9 million Euro (down by approximately 11.4%). To this regard, it should be noted that the investment in bonds and other debt securities remained at high levels. At the end of 2015 the investments, the risk on which is borne by the insured, mainly connected to dedicated internal funds, amounted to around Euro 336 million, down by 17.7% during the financial year.

<sup>37</sup> The relevant definition is included in annex F to Regulation no. 2009-01.

<sup>38</sup> Unit linked and dedicated contracts.

<sup>39</sup> Capitalisation operations.

<sup>40</sup> Policies eligible for revaluation and "pure risk" policies.

<sup>41</sup> They are related to real estate properties (lands and buildings) and financial investments in companies of the group and other controlled companies as well as in other financial instruments (shares, investment funds units, bonds, etc.).

<sup>42</sup> Referring mainly to dedicated internal funds.



This trend reflects the volume of the liquidations made, mainly, for redemption, which, in 2015, amounted to an aggregate of approximately 132.7 million Euro, up by 158% from 51.4 million Euro registered in 2014. This increase was determined also by the impact related to the adoption of the Italian *Voluntary Disclosure*, the effects of which are evident also for Banks and Financial/fiduciary companies and Investment companies, as specified in the preceding paragraphs.

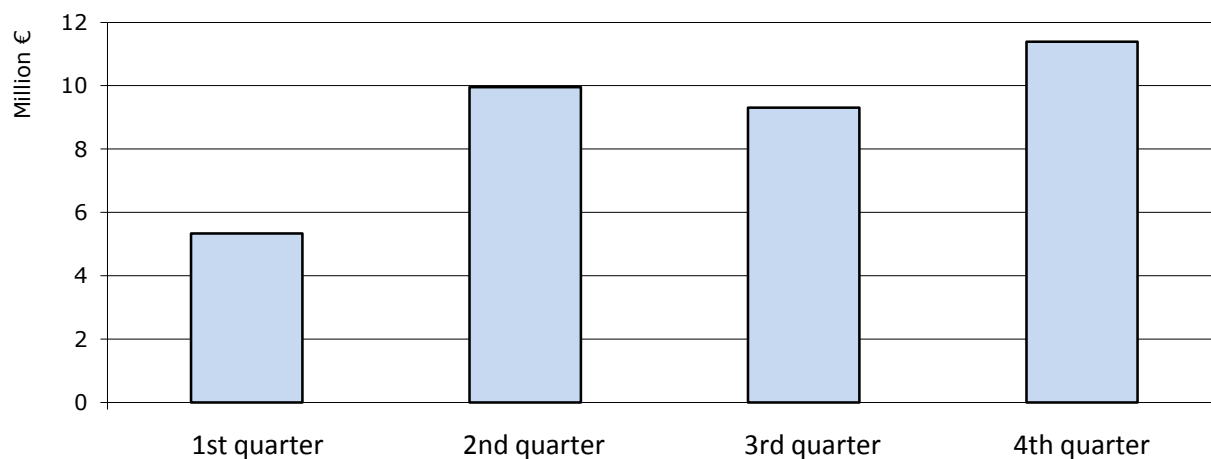
As regards the liabilities items, with reference to the technical reserves, they totalled around 418.4 million Euro as at 31 December 2015, with an overall decrease of approximately 16.6% from the previous year.

Most of the technical reserves (80.3%) refers to contracts where performance is linked to dedicated internal fund and *unit linked* contracts (life policies where the benefit offered by the insurer depends on the unit value trend of an investment fund internal or external to the insurance undertaking), whereas the remaining 19.7% consists of mathematical reserves and other Class C technical reserves that decreased from about 93.6 million Euro in 2014 to 82.5 million Euro at the end of 2015.

In terms of economic management, insurance undertakings recorded an aggregate profit of approximately 247 thousand Euro (compared with an aggregate profit of approximately 404 thousand Euro in 2014). The seventh year of operations<sup>43</sup> thus registered a positive economic result, albeit with a reduction in profitability compared with 2014; this was due to an overall decrease in the technical operating margin that, however, did not affect the ratio between operating results and gross premiums recorded, which is equal to 0.7%, substantially stable compared to 2014.

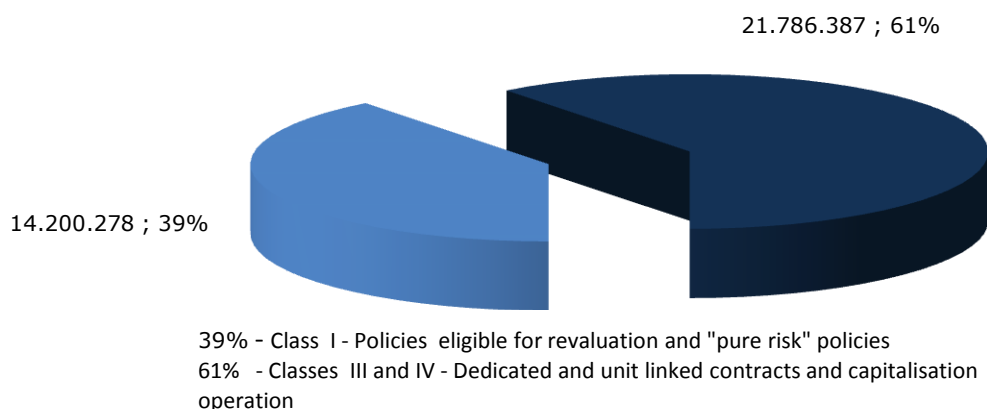
However, there was a worsening of the *expense ratio* efficiency indicator (ratio between operating expenses and gross premiums recorded) in 2015 coming in at 7.6% (around 3.9% in the 2014 financial year) due mainly to the reduction in recognised gross premiums detailed above.

**Figure 20 - Breakdown by quarter of the gross premiums recorded in 2015**



<sup>43</sup> Authorisation formalities for the two companies were completed in May 2009.

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



### 1.3.3 Insurance and reinsurance intermediaries

At the end of 2015, an aggregate of 47 persons are registered in the Public Register of Insurance Intermediaries, divided into natural persons and sole proprietorships (10 persons), companies (25 persons) and banks and financial undertakings (12 persons). In 2015, there had been 7 cancellations from the Register and 3 new entries.

**Table 23 – Number of parties registered in the Register of insurance and reinsurance intermediaries**

	Section A Natural persons and sole proprietorships	Section B Companies	Section C Banks and financial companies	Total
Active	8	23	12	43
Suspended	2	2	0	4
<b>Total</b>	<b>10</b>	<b>25</b>	<b>12</b>	<b>47</b>

As regards the volume of the activities carried out by the registered intermediaries, the total amount of premiums collected in aggregate in 2015 in favour of foreign insurance undertakings was equal to approximately 45 million Euro, of which approximately 36.1 million Euro related to the class of non-life insurance, and 8.9 million Euro related to the class of life insurance, slightly increased from the total of premiums mediated in 2014.

The breakdown of the amount of premiums collected by type of intermediary and insurance class in 2015 is summarised in the Table below.

**Table 24 – Amount of premiums collected by type of insurance intermediary and insurance class**

	Section A		Section B		Section C		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
Class of Life Insurance	6	4.3	2.8	1.8	0.1	0.1	8.9	6.2
Class of Non-life Insurance	9.3	10.2	26.6	26.9	0.2	0.2	36.1	37.3
<b>Total</b>	<b>15.3</b>	<b>14.5</b>	<b>29.4</b>	<b>28.7</b>	<b>0.3</b>	<b>0.3</b>	<b>45</b>	<b>43.5</b>

Notes: figures in millions of Euro.



It is worth noting that the mediation made by Banks and Financial undertakings for the account of foreign insurance undertakings is absolutely negligible, given that these intermediaries are mostly active in the mediation on behalf of insurance companies of San Marino. The breakdown of the amount of premiums collected by type of policyholder and insurance class in 2015 is outlined below. The increase is worth noting in the premiums collected related to policies for the class of life insurance for both policyholders resident in San Marino and resident abroad.

**Table 25 – Amount of premiums collected by type of policyholder and insurance class**

	Policyholder resident in San Marino		Policyholder resident abroad		Total	
	2015	2014	2015	2014	2015	2014
Class of Life Insurance	7.1	5.3	1.8	0.9	8.9	6.2
Class of Non-life Insurance	33.1	33.4	3	3.9	36.1	37.3
<b>Total</b>	<b>40.2</b>	<b>38.7</b>	<b>4.8</b>	<b>4.8</b>	<b>45</b>	<b>43.5</b>

Notes: figures in millions of Euro.

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

The Public Register of Financial Promoters was established in 2014 following the issuance of Regulation no. 2014-01 on financial promotion and cold-calling. The aforementioned register published on the website of the Central Bank, includes a specific section dedicated to the employees of authorised parties exercising cold-calling activities. Such register represents an element of transparency and protection of the public since it makes it possible to acquire updated information on natural persons - financial promoters or employees of financial intermediaries - authorised to carry out the activities for the promotion and placement of financial instruments and investment services outside of the registered office or branches of the financial intermediaries.

In 2015, the investigation concerning 26 bank employees the applications of whom were suspended in 2014 due to lack of documentation was terminated, with the registration of 15 persons and the withdrawal of the applications related to the remaining 11 persons. Additionally the Central Bank received, also in 2015, 4 new applications: one related to the registration in the Register of Financial Promoters, rejected due to the failure to meet the requirements provided for by the regulations, and three filed by as many authorised parties for the registration in the Register of Cold-calling Parties of an aggregate of 12 employees. Upon termination of the investigation, aimed at verifying the existence of the requirements of good repute and professionalism provided for by the Regulation no. 2014-01, the Central Bank registered in such Register of Cold-calling Parties 2 employees, suspended the authorisation process for 6 persons due to incomplete documentation and to the emergence of some investigation requirements, and rejected the application related to the remaining 4 employees.

Moreover, in the first quarter of 2016, the investigation was completed concerning 1 employee of an authorised party, whose application had already been filed in 2015 but rejected due to lack of the necessary requirements, with the registration of the employee in the aforementioned Register of Cold-calling Parties.

For the purposes of a complete information, it should be noted that at the beginning of 2015, at the request of a party, one financial promoter, the only entity registered by virtue of article 156, paragraph 5 of the Law no. 165 of 17 November 2005 (LISF) was cancelled from the Register. Moreover, in the same year, three requests for cancellation filed by two authorised parties were accepted, for a total of 5 employees, whereas in the first quarter of 2016 one request for cancellation was accepted related to one employee of an authorised party. Therefore, as at 31 March 2016, there were 29 employees of authorised parties and no financial promoter registered in the Register.



## 2 THE INSTITUTIONAL FUNCTIONS

### 2.1 The Supervision and protection of investors

#### 2.1.1 Supervisory policy

In 2015, the supervisory activities initially continued on the same lines followed in 2014, aimed at: consolidating international relationships, particularly within the scope of the relationship with the International Monetary Fund and the European Union; strengthening documentary checks and inspections; strengthening of the measures for the protection of financial stability also by launching specific systemic projects.

Starting from the second half of 2015, following a drastic change in the composition of the Supervision Committee and in some senior executives of the Supervision Department, the activities were initially focused internally, for the purpose of limiting the negative effects on the Supervisory activities resulting from such change.

Subsequently, the activities were focused on monitoring the potential effects on the liquidity profile of the banks of San Marino resulting from the Italian decree of "*Voluntary Disclosure*". This monitoring was performed for prevention purposes on the liquidity profiles of individual intermediaries and it also involved a complete *asset quality review* of the financial instruments in the portfolio. The information gathered, together with the micro-prudential controls on the situation of the individual institutions, also allowed, based on the data gathered, the development of a specific strategic plan for managing potential liquidity risks (see below).

Additional supervisory activities were represented, besides documentary checks and inspections on the operations of the authorised parties, by specific scopes such as the analysis of the impact of the adoption of the Community rules on the system and, at the end of 2015, by the start of an in-depth analysis on non-performing loans in the financial system, which continued at the beginning of 2016, thanks to the cooperation on this issue of the International Monetary Fund, both before and during the visit ex. article IV at the beginning of March, with the preparation currently underway of the strategic management plan of the NPLs.

The relations with the international organisations continued on an ongoing basis and were extended to the World Bank within the context of the *National Risk Assessment* program, to the European Central Bank for the development of new European statistics, and to the rating agency Fitch, for which CBSM is the point of contact as regards the definition of the sovereign rating of San Marino.

In 2015, some projects relevant for the entire system were developed, starting from the Central Credit Register of San Marino, which will represent an instrument capable of enhancing the set of information available to the intermediaries for the granting of credit exposures. In 2015, the activities were launched for the creation of a payment institution with the joint commitment of 5 banking institutions, a project to which CBSM devoted the utmost attention since from the initial stage prior to the creation of the company, because of its potential effects in terms of independence of the system in the payment services sector.

#### 2.1.2 The Supervision Committee

The Supervision Committee is the statutory body whose function is to manage supervisory functions. In 2015, the resolutions approved were aimed at supporting the process for the modernisation of the supervisory regulatory framework, at fully implementing the reform of the sanctioning procedures of the Central Bank, and at intervening in the situations of individual companies.

During 2015, the Supervision Committee held 79 meetings in which 294 decisions were passed, compared to 62 meetings and 218 decisions in 2014.



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.

Additionally, the situation of banks inactive following previous corporate crises, with reference to which the most appropriate procedures for an orderly exit from the sector of authorised parties have been defined, was carefully assessed, together with the performance of the compulsory winding-up and voluntary winding-up procedures of 29 persons, on which the Central Bank will, however, maintain a supervisory control until the completion of the procedure.

## **Box 2: Status of disputes resulting from supervisory activities**

### **Premise**

The implementation of disciplinary measures (suspending administrative bodies, extraordinary administration and administrative compulsory winding-up), as well as the frequency with which sanctions were imposed, have made it essential in recent years to resolutely deal with the 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 2015 (administrative compulsory winding-up of Servizi Fiduciari S.p.A.) was not challenged and is now consolidated. There are no further pending disputes.

### **Sanctioning procedures**

As specified in Box 4 (see below), 92 sanctioning procedures in aggregate were initiated and finalised in 2015. None of the subsequent measures adopted was challenged before the Administrative Court of First Instance, given that the relevant recipients availed themselves of the possibility to settle with a cash payment.

Overall, there are 22 disputes pending concerning administrative sanctions applied prior to 2015.

### **Other disputes**

The Central Bank has also 3 disputes pending, of which one refers to the notification to a corporate official of the temporary loss of the requirements of good repute, one refers to the appeal against the measure for the removal ex officio from the Register of insurance and reinsurance intermediaries and, the last one, initiated in the first quarter of 2016, refers to a claim for damages.

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

In 2015, the activities of the Supervision Department were initially affected by an organisational change that, launched in April, involved an in-depth review of the internal processes underlying the supervisory activities. Later, the Department strongly focused on the ordinary activities related, in particular, to review and investigation for the authorisation processes received from the authorised parties, from the collection of statistical data for the purpose of preparing the international statistics and making available the information required for the documentary and inspection supervisory activity.

Subsequently, further actions were carried out aimed at streamlining the internal processes and strengthening the supervisory activities, within a situation of reduced resources that, therefore, required a greater concentration on priority issues, as described in the following paragraphs.

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

#### Premise

The previous report, referred to 2014, detailed the factors that inverted the trend, started in 2013, of the alarming increase in the disciplinary procedures initiated by the Central Bank up to 2012. Specifically, it was stressed that the comprehensive supervision action undertaken over the last few years – focusing, on the one hand, on strengthening the financial system, with the consolidation/concentration of intermediaries, and on the other, at facilitating the exit of marginal intermediaries wherever possible, from the supervisory context – resulted in a significant drop in the number of procedures initiated in 2014 (1 in total) compared to previous years.

This trend continued also in 2015, when only one disciplinary procedure was started, related to the initiation of the administrative compulsory winding-up of Servizi Fiduciari S.p.A.

#### Criteria behind adopting measures

The adoption of these types of measures, which have been the direct responsibility of the Central Bank for some years now, have always been considered by the latter as a *last resort* to solving business problems. Whenever possible, the Supervision Authority tries to solve the corporate crises through the use of non-traumatic procedures, using preventive measures, provided for in the 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 upon demand from the Supervision Authority (for instance, article 46 of the LISF), adopt the necessary corrective measures prior to the appearance of the crisis, for the purpose of protecting investors, creditors or other stakeholders

(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 winding-up 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 by pervasive conflicts of interest.

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

#### Procedures started in 2015

In 2015, the Central Bank started only one disciplinary procedure, ordering the administrative compulsory winding-up for Servizi Fiduciari S.p.A. due to extremely serious management irregularities and regulatory infringements. The reasons behind the adoption of the aforementioned disciplinary measure, as in other cases, are mainly connected to the unreliability of the shareholders' base and corporate bodies, conflicts of interest, significant irregularities in the organisational structure and internal control procedures as well as capital losses.

#### Status of procedures outstanding in 2015 and the outlook for the main business crises

In 2015 and in the first three months of 2016, the Central Bank continued its management of administrative compulsory winding-up procedures. The following is noted in respect of the more significant:

- 1) **Credito Sammarinese S.p.A. (CSA).** The bank has been placed under administrative compulsory winding-up since 11 October 2011. As explained, assets were transferred between the end of 2012 and the start of 2013 by the assignee banks (of CSA assets and liabilities) to the "vehicle" company specifically established to manage the assets of the former CSA (Reserved



closed-end fund, called Loan Management). The liquidators defined two subsequent supplements to the original transfer agreement, executed some transactions, affecting both liabilities and assets, paid a distribution to preferential creditors and returned some assets to the lawful owners. Additionally the Central Bank authorised a *datio in solutum* transaction, which would allow the repayment of the existing debt toward Polis and, thus, the completion of the Procedure.

- 2) **Polis S.p.A.** The winding-up procedure started in September 2011. In the first quarter of 2016, the Central Bank authorised Polis to make a distribution in favour of Fund Loan Management, the only preferential creditor remained, and to the residual unsecured creditors, subject to the prior execution of the *datio in solutum* transaction between Credito Sammarinese S.p.A. and Polis itself, so as to extinguish its claim against the parent company, which was previously authorised by the Central Bank. Specifically, following this distribution, which was authorised by the Central Bank, the remaining assets will be used by the Procedure to pay the last expenses and make a final distribution to the unsecured creditors, subject to the previous specific authorisation issued for this purpose. After such transactions are completed, the procedure may then be terminated.
- 4) **Fincapital S.p.A.** As is well-known, the winding-up 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. In 2015, the liquidators continued the negotiations regarding the transfer of corporate assets with the only bank assignee of the credits, the execution of which was delayed also due to the discovery of certain critical issues of a legal nature. This procedure is expected to be completed by the end of 2016.
- 5) **San Marino Investimenti S.p.A. (S.M.I.).** The winding-up procedure was started in July 2012. The list of liabilities was filed in November 2013, and 7 objections were filed against it; one of such objections was finally settled, 4 are pending settlement, whereas the remaining 2 are still in the investigation phase. The procedure was significantly involved in the activities for the realisation of the assets and is a part in many legal proceedings (assets and liabilities). The Liquidators are negotiating a block transfer of the residual credits. At the moment it is not possible, however, to make any distribution to the unsecured creditors, since there are still some objections pending. Consequently, this procedure is not expected to be completed in a short time.
- 6) **Berfin S.p.A.** The company has been placed under compulsory winding-up in July 2011. Following the filing of the list of 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. In 2015, the company was declared as insolvent. According to the Liquidators, currently there is the possibility that the Procedure may be closed in a short time.

#### **2.1.4 Regulatory interventions**

The Central Bank issued 3 Regulations and 2 Circulars in respect of its regulatory activities.

As regards the Regulations, the first in chronological order is Regulation no. 2015-01 "Regulation on Information Supervision for Banks", which regulates the supervisory reports for the banks by defining a general and uniform framework of the rules for the preparation, control, approval and transmission of such reports to the Central Bank.

The second text, "Regulation on National Payment Systems", reviews, on one hand, the discipline currently in force governing the management of the National Payment System for the purposes of a better compliance with SEPA standards and, on the other, introduces a series of corrective measures to the provisions contained in the "Regulation on Payment and Electronic Money Institutions", for the purposes of a complete implementation of Directives no. 2007/64/EC (the so called PSD) and 2009/110/EC (the so called EMD), consistently with the provisions of the Monetary Agreement.

The last Regulation is the annual "Miscellany of measures aimed at reviewing the supervisory provisions currently in force" that, besides introducing reviews and updates to the secondary measures for the purposes of their harmonising, also introduced:

- a) the extraordinary moratorium as at 30 September 2016 of the terms for the mandatory disposal by banks and financial institutions of the equity investments and real estate properties acquired within the context of debt recovery;
- b) the possibility, within a given period and subject to the occurrence of certain conditions, to create mutual investment funds, provided they are closed-end and with contribution, with one single participant/contributing party, for the purpose of facilitating the use of such instrument as a "vehicle" (SPV) so as to achieve a more efficient management of the NPLs;
- c) the reduction from 5% to 2% of the investment threshold for the purposes of the publication of the shareholders in the Register of Authorised Parties, with the consequent improvement of the transparency of the system;
- d) the obligation for banks, financial companies and payment and electronic money institutions to create a complaints department and to include in the contract with the client the possibility to settle disputes out-of-court including, but not limited to, through the use of arbitration.

As regards the first Circular, named "Monthly information requirements to banks concerning the statement of accounts (monthly statement of accounts of banks)", it changed the monthly and quarterly accounting requirements of the banks, in compliance with the provisions of the aforementioned Regulation on information supervision. This Circular enhanced, on one side, the quality of the information and simplified the overall reporting framework, whereas on the other side it re-qualified the set of information of the data acquired by the banking system, also for the purpose of obtaining full consistency with the new reports required by the European Central Bank and by the International Monetary Fund.

The second Circular, named "information requirements concerning the Central Credit Register", implemented article 50 of Law no. 165/2005, by establishing and regulating, also in San Marino, the Credit Risk Centralisation Service, as regards both its general aspects and the more technical and detailed aspects. As a consequence of this measure, the first data on the credit risks entered in the Central Register refer to 31 March 2016.

Finally, it is worth mentioning here, being ancillary to the regulatory activities in the strict sense, the growing amount of assistance and consulting provided on a technical-regulatory level by the Central Bank, through the interpretation and analysis of the supervisory regulations. This activity, in fact, is not required only by the professionals who already work in the national financial system, through the filing of "Inquiries", but also, and often, by external persons, both resident and non-resident, interested in learning the peculiarities of the financial regulation of San Marino, also in terms of comparison with foreign legal systems. Specifically, in 2015, 47 interpretation inquiries were satisfied, with a frequency of nearly one every week.



## 2.1.5 Information supervision

In 2015, the activity of information supervision, in addition to the ordinary operations for the formal and substantial checking of the supervisory reports, grew in three main directions: monitoring of the liquidity situation of banks, national and international statistics, Central Credit Register.

### 2.1.5.1 Monitoring of the liquidity situations of banks

With reference to the risks of a possible worsening of the liquidity profile of the banks of San Marino linked to the *Voluntary Disclosure* decree, starting from June 2015 a series of actions were initiated for the purpose of intensifying the monitoring of the liquidity situation of the banks of San Marino<sup>44</sup>.

As from July 2015, periodic meetings were held with the Bankers Association of San Marino in order to facilitate the discussions amongst the intermediaries and between the latter and the Supervisory Authority as regards the results of the VD and any possible joint actions to be implemented. These meetings were also used to explain the actions for the subsequent implementation by the Central Bank.

The existing reporting schemes that, on a weekly basis, report the liquidity data of the banks, were integrated so as to take information from each intermediary as regards the collection of savings that were, or are to be, regularised within the context of the VD procedure, as well as the amount of the possible related outflows. The first disclosures under the new reporting schemes started in July 2015 and will continue also for the entire 2016, in order to monitor the complete development of the effects of the VD on the liquidity profiles of the banks.

The new information gathered were used to fine-tune the Central Bank model of analysis of the liquidity profile, in order to determine, based on the data reported, the data on the potential risk of the individual intermediaries. Additionally, for the purpose of expanding the set of information of the individual intermediaries and thus in order to be aware of the development of the VD, starting from August 2015 the Central Bank activated a specific fortnightly statistical return flow of the liquidity data available in the system and on the estimates of regularisation and outflow linked to the *Voluntary Disclosure*. The return flow is integrated, on a monthly basis, by the main accounting data of loans (broken down by creditworthiness) and collection of savings, derived from the Monthly Statement of Accounts of Banks (*Situazione Contabile Mensile Banche* or SCMB), in order to make available to the intermediaries also the information related to the current dynamics in the banking system for such aggregates.

In July 2015 the Central Bank asked all banks of San Marino to carry out a self-assessment of the liquidity profile, requesting, inter alia, that a report be transmitted to the Supervisory Authority, approved by the Board of Directors, on the response capabilities, in term of actions and instruments, as regards a possible liquidity strain. Following the receipt and analysis of the self-assessment document, two series of meetings were started with the directorate general of the banks of San Marino, in the months of August and September 2015, aimed at analysing in depth the situations of the individual intermediaries and at providing the appropriate directions to mitigate the potential risk of a liquidity strain.

In the same period, the Central Bank also prepared a "Strategic plan for managing potential liquidity crises resulting from the *Voluntary Disclosure*", inclusive of a series of actions that may be realised in the short term in order to prevent potential liquidity crises for the banking system. The plan, following its approval by the Governing Council in August 2015, was presented to the Committee for Credit and Savings at the beginning of September, and then the related interventions were activated, also, in some cases, through regulatory initiatives of the Government.

<sup>44</sup> Analyses of the possible risks were implemented also in 2014, in cooperation with the Bankers Association of San Marino.



### 2.1.5.2 National and international statistics

In 2015, by using the data available in the supervisory reports, the aforementioned return flow was realised for the bank intermediaries, which represents a considerable expansion of the statistical information available, previously limited only to the fiduciary activities. Toward the end of 2015, a specific project was also launched for the preparation of a specific quarterly supervisory bulletin, with data on the main financial aggregates and information, and on the activities of the Supervisory Authority, which will be available on the web site of the Central Bank thus increasing the set of information available to the public with reference to the financial system of San Marino.

The financial year 2015 was also characterised, as the year before, by the activities related to the periodic preparation of the international statistics for the International Monetary Fund (IMF): *Monetary and Financial Statistics* (MFS) and *Financial Soundness Indicators* (FSIs). Specifically, as regards the MFS data, the transition was completed to the new SRF reporting requested by the IMF, based on the new reporting schemes requested from, and completed by, the banks as from June 2015.

The activities related to the international statistics focused also on the analysis of the periodical data requests by the European Central Bank, which will start from the reference date of September 2016. To this regard, the works for the preparation of the procedure and analysis of the data required continued, based also on the specific training of the employees of the Central Bank at the premises of the ECB in Frankfurt, in October 2015.

### 2.1.5.3 Central Credit Register

The credit risks centralisation service (or Central Credit Register – CCR), provided for by article 50 of the LISF, was implemented with circular 2015-02, issued on 22 December 2015.

The formal implementation of the legislative provisions completes a complex project, started in 2014, supported by the active involvement of several organisational units of the bank and some external persons (IT suppliers and offices of the Public Administration). In 2015, the works focused mainly on the definition of the functional requirements of the Central Credit Register; additionally, the development of the programme was completed and the tests started, also with the cooperation of some pilot intermediaries (two banks).

The Central Credit Register of the Republic of San Marino is a service managed by the Central Bank, based on the information provided by the reporting intermediaries (banks, financial companies and mutual investment funds) for the data related to credit disbursements in excess of the threshold amounts set (250 Euro for clients classified as bad loans and 10,000 Euro for the remaining positions).

The information supplied by the individual intermediaries is consolidated by the Central Bank and thus returned on a periodic basis to the intermediaries, supplying information regarding the overall exposure of the borrowing customers. The CCR also provides for the possibility to obtain information on the overall exposure of new potential risk positions, in order to allow a better analysis of the creditworthiness related to the new disbursements of credit to be approved.

The Central Credit Register also provides for the possibility to liaise with equivalent services managed by other Central Banks, thus expanding the information managed also with regard to the borrowers of foreign intermediaries, if beneficiaries of actual or potential disbursements by entities of San Marino.

The Central Credit Register was started, from a technical perspective, on 31 March 2016, with the beginning of the transmission of personal data by the reporting intermediaries, related to



approximately 20,000 persons<sup>45</sup> and the transmission of the amount data related to the credit disbursements, made on 9 May 2016, related to the data as of 31 March 2016; the transmission of the data will continue on a quarterly basis until 30 September 2016, and it will be made on a monthly basis thereafter. Starting from the data referred to 30 September 2016, they will be returned to the reporting intermediaries with a flow consolidated by individual reporting parties and it will be possible to request specific information regarding, specifically, persons under assessment for possible new credit disbursements.

#### *2.1.5.4 Other assets*

In 2015, the Central Bank coordinated two missions of the International Monetary Fund as regards the financial system: at the beginning of the year, with the visit ex article IV, and in September, with an update meeting. Moreover, also in 2015, in June and December, the Central Bank maintained the relationships with the rating agency Fitch, which had to assign a rating on the expected medium- to long-term financial stability of the country; also in this case, the support of the Central Bank was focused on the data of the financial system.

Until 11 September 2015, the monitoring continued on the data reported by the banks in the database of ID details held at the Central Bank and related to the transactions transferred between the Republic of San Marino and Italy, aimed at allowing the transferor bank (Istituto Centrale delle Banche Popolari) to obtain all information required to satisfy the Italian anti-money laundering requirements. With the inclusion of San Marino in the list of countries considered as peers for anti-money laundering purposes, formalised with a specific decree of the Italian Government, as from 11 September 2015 the feeding of information into the database of ID details was suspended and the monitoring activities were limited to the information already included in the database.

At the beginning of 2016, the Central Bank, also with reference to the critical issues detected in Italy at the end of 2015, started a specific qualitative-quantitative survey of the subordinated loans held or issued by the intermediaries of San Marino for the purpose of identifying, in particular, potential critical elements in the placement of such instruments with private customers. Purpose of this survey is to obtain, inter alia, data on the weight of these instruments in the portfolio of customers as well as information on the placement processes for such instruments by the intermediaries. As mentioned above, until the completion of the survey the Central Bank prudentially suspended the authorisation to issue new subordinated loans to ordinary customers.

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

#### *2.1.6.1 Documentary controls*

As in previous years, in 2015 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 corporate officials, 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.

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<sup>45</sup> With the first transmission of the personal data, a unique code is assigned to each person who will, then, be registered only once in the CCR, even in case of credit disbursements made by several intermediaries. This code is used for all subsequent reports and requests for information.



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 share capital of authorised intermediaries, approval of public investment solicitation, issuance of Mutual Investment Funds, etc.).

A significant portion of the activities was focused on verifying the requirements and supervising the processes for the incorporation of new companies, and the relevant qualifications to exercise reserved activities pursuant to the LISF (see Payment Institution and new management company). Additionally, the foregoing was significantly affected by both the activities for urging some authorised parties to ensure that their procedures for participating to the share capital of the relevant ownership structure satisfy the requirements provided for under the modified regulations concerning the LISF on this issue, already introduced in 2014, as well as the monitoring of the risks implied in the exercise of reserved activities, and thus of the prudential parameters governed by the supervisory provisions.

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

- fact-finding, to expand the set of information available to the Supervisory Authority. These interventions make it possible to analyse the intermediaries' operations as required to prepare the relevant corrective measures, and are 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, aimed at specific corrective actions that the supervised person is required to implement in order to remedy problems and anomalies related to the organisational, capital, revenue and financial profiles.

In 2015, 152 interventions for an off-site supervision of a fact-finding, preventive and corrective type, were carried out on the authorised parties of the banking, financial, insurance and asset management sectors, including the supervised parties (insurance intermediaries). In the first three months of 2016, there were 17 of the same type of interventions.

The following Table 26 summarises the off-site supervision interventions divided by purpose (preventive, fact-finding and corrective interventions) carried out in 2015 and in the first quarter of 2016 with regard to banks, financial/fiduciary companies and management companies only.

**Table 26 - Off-site supervision interventions**

Type of intervention	2015			2016 I Quarter		
	Banks	Financial companies Fiduciary companies	Management companies	Banks	Financial companies Fiduciary companies	Management companies
Fact-finding	55	23	7	8	1	0
Preventive	18	1	2	0	0	0
Corrective	16	8	2	4	3	1
<b>Total</b>	<b>89</b>	<b>32</b>	<b>11</b>	<b>12</b>	<b>4</b>	<b>1</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 winding-up). In the period 1 January 2015 – 31 March 2016, the following communications, inter alia, were sent:

- a) 411 connected to authorisation processes<sup>46 47</sup>. Specifically, 171 authorisations were issued and 19 were denied<sup>48</sup>, whereas there were 166 requests for additional investigations<sup>49</sup>. As regards the main authorisation procedures, they referred to the exercise of reserved activities pursuant to the provisions of the LISF, the supervisory reports and the prudential supervision, the outsourcing of activities functional to the companies, ownership structures, amendments to the Statutes, the determination of the deposit of the compulsory reserve, the publication of the prospectuses and regulations referred to the issuance of bonds, the publication of the administrative regulations related to mutual investment funds;
- b) 74 related to notifications and replies to enquiries on different topics, especially concerning the interpretation of supervisory regulations;
- c) 107 referred to relations with other public authorities (FIA, J. A., etc.);
- d) 226 related to the opening of sanctioning procedures and to the actual imposition and/or dismissal of the charges, in case of proven infringements of the supervisory discipline;
- e) 65 referred to exchanges with disciplinary procedure bodies, in the scope of which directives are provided to the extraordinary procedures body and/or liquidator, authorisations are issued and responses are provided on 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 winding-up. In 2015 and up to the first quarter of 2016, there were 16 procedures pending, including one started in 2015 against a financial company (see Box 4: Disciplinary procedures and evolution of the current corporate crises).

Finally, subsequent to confirmed infringements of supervision regulations by intermediaries, discovered during inspections and documentary checks, in 2015 92 proceedings were initiated and closed, whereas in the first quarter of 2016 16 new sanctioning procedures were initiated (see Box 5: Sanctioning procedures).

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

##### **Premise**

During 2015 and the first quarter of 2016, the Central Bank continued to activate sanctioning procedures against corporate officials (Directors, Statutory Auditors, and Director Generals), in addition to auditors and members of authorised parties, pursuant to Decree No. 76/2006 as subsequently amended and supplemented, once the relevant prerequisites had been ascertained.

<sup>(46)</sup> The scope of the authorisation procedures also includes the releases of clearances and/or approvals or other authorisation-related actions, whatever their name.

<sup>(47)</sup> The data does not include the authorisation procedures released within the context of disciplinary procedures, referred to in letter e) below.

<sup>(48)</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>(49)</sup> This figure does not include the interventions in the preliminary phase, which are already included with the fact-finding interventions.

As in previous years, also in 2015 and in the first quarter of 2016, the irregularities found mainly referred to infringements of the prudential supervision regulations, especially with regard to the provisions regarding organisational and internal control structures.

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

There were 92 sanctioning procedures that were started and completed in 2015, which related to 2 banks, 2 insurance undertakings and 6 financial companies. Of the 92 proceedings, 2 ended with a dismissal. The final sanctioning measures were never challenged before the Administrative Court. Overall, the sanctions imposed amounted to 324,650 Euro. All persons sanctioned, with only one exception, availed themselves of the possibility to settle with a cash payment by paying an amount equal to half the imposed sanction, and thus the amount actually collected is equal to 162,600 Euro.

16 sanctioning procedures were opened in the first quarter of 2016.

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

The administrative proceedings started and completed in 2015 refer to the regulatory framework of Law no. 96/2005, Law no. 165/2005 and the Decree no. 76/2006, as amended by the decree no. 77/2014, which not only extended the definition for parties liable for sanctions by including also the employees that are entrusted with specific corporate operational and internal audit functions, but also provided for details of the entire proceeding and the criteria that must be followed by the Central Bank in applying the sanctions as well as the cases for excluding and/or mitigating the sanction itself.

#### **2.1.6.2 Inspections**

Inspection activities for the two-year period 2015-2016 were planned based on a series of factors, both internal and external, establishing that the priority must be the continuation of the activities related to the quality of the credit portfolio of the banks (Asset Quality Review) and the performance of the activities planned in 2014 and not carried out yet.

The planning also took into account certain restrictions related to the resources available as from the second half of 2015. Specifically, reference is made to the full-time use of two resources of the On-site Supervision Service in the project NRA (*National Risk Assessment* – national assessment programme focused on the laundering and terrorism financing risks, performed with the cooperation of the World Bank), to the appointment of the Head of Service as Interim Head of Supervision Department, and to the impossibility to benefit, as in the past, from the cooperation, within the context of inspection activities, of colleagues of the Supervised Entities Service, with reference to the organisational restructuring of the unit following the increase in tasks and the resignation of the manager responsible.

In this context, the Service ensured the continuation of the cycle of assessments focused on the credit risk, in order to satisfy the need for an *asset quality review*, as recommended by the IMF, as well as for the purposes of a better understanding of this risk which is by far the most serious for the banking system of San Marino, and the relevant impacts also in terms of capital and liquidity.

The aforementioned cycle, started at the end of 2013 with the broad assessments on a bank, completed in the first half of 2014, continued in 2015, after a preliminary phase of analysis of data and information by the Supervisory Reporting and Methodologies Service, with no. 2 focused assessments (one of which is now completed whereas the other is about to be completed) with as many banks. This cycle will continue also in 2016 with the objective of starting, by the end of the year, all the inspection activities required to be able to perform the credit risk assessments also on the remaining banks.



On the other hand, the cycle of inspections on the mediation activities with ICBPI (Central Institute of Italian Co-operative Banks) was suspended. This cycle was started in 2013 with the inclusion, by Italy, of San Marino in the list of countries with equivalent laws for anti-money laundering purposes with the consequent abolition of the mediation.

Additionally, the first targeted actions on insurance intermediaries were planned and initiated, specifically as regards the compliance with the prescribed requirements of segregation in the locations where the activity is carried out and the maintenance of own bank accounts and the accounts for managing the premiums.

Finally, no, 2 in-depth inspections were started and completed at some fiduciary companies, one of which led to a decree of administrative compulsory winding-up.

Hereafter, in Table 27, the inspection activities for the years 2012 to 2015 are summarised.

**Table 27 - On-site supervision inspections**

	2012			2013			2014			2015		
	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	20	2	4
of which spread-spectrum	1	4	0	1	1	0	0	1	0	0	2	1
of which aimed	2	1	2	8	0	1	12	3	5	14	0	2
of which specific	5	2	0	5	3	0	0	0	0	6	0	1
<b>Total</b>	<b>17</b>			<b>19</b>			<b>21</b>			<b>26</b>		

The main anomalies detected during the supervisory inspections are, in brief, mainly connected to the problem of the conflicts of interest in corporate management and to anomalies in the processes for the disbursements, management, monitoring, classification and assessment of the credits.

Finally, the service continued its cooperation with the Financial Intelligence Agency by reporting, in 2015, no. 7 suspicious transactions (no. 3 for banks, no. 3 for financial companies and no. 1 for an insurance company) and making no 11 exchanges of information for cooperation purposes, within the context of anti-money laundering activities (no. 5 banks, no. 6 financial companies), often related to the issue of the identification of the beneficial owners, which continues to be dealt with by supervised parties more in form than in substance. During the first quarter of 2016, 3 more exchanges of information for cooperation purposes were transmitted to the FIA.

Additionally, a report was made also to the tax authorities.

As mentioned above, in 2016 the inspection activities focused on the credit risk and the activities on insurance intermediaries will continue.

The Head and Deputy Head of Service (from when the Head also covers the role of interim Head of the Supervision Department, and as such participates to the activities in question) are members of the National Anti-Money Laundering Technical Commission ex article 15 bis of Law no. 92/2008.

#### 2.1.6.3 *Protest Information Service*

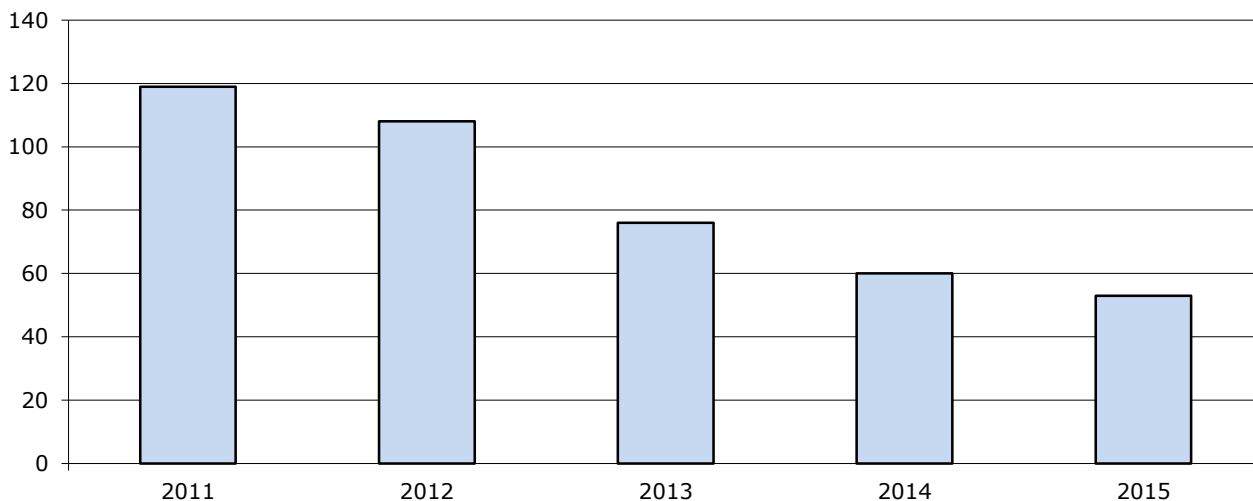
Pursuant to Circular no. 2014-01, entered into force on 1 January 2015, the Central Bank performs the Protest Information Service with the help of a specific IT procedure, specifically created within the context of the technical infrastructure of the RIS for the purpose of preserving

confidentiality in the exchange of information concerning the drawee parties of the protested cheques, and in order to optimise the management of the data processed, in terms of efficiency, correctness and completeness.

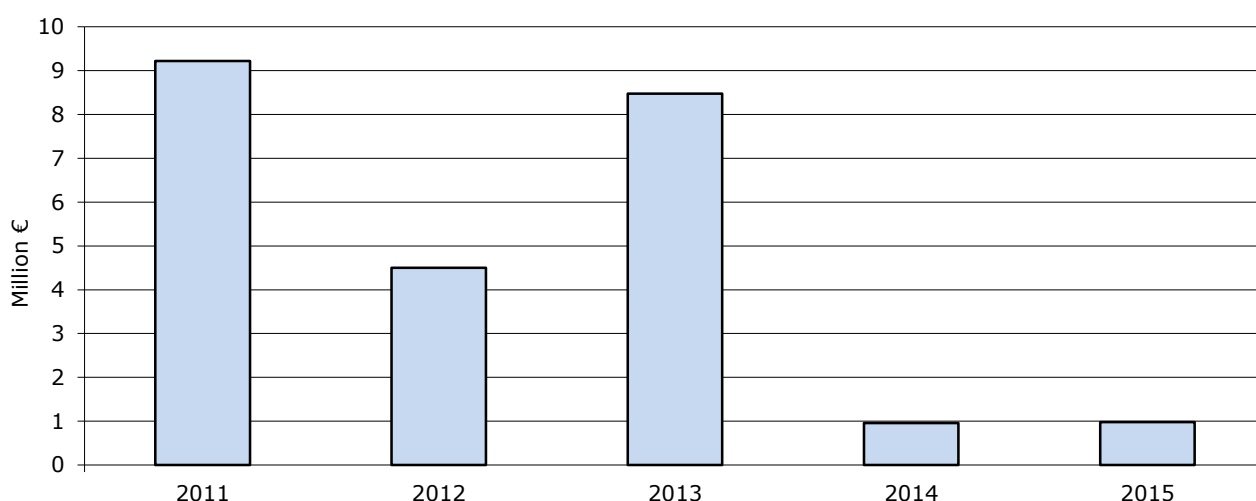
The reporting parties (banks of San Marino and Poste San Marino S.p.A.), through the aforementioned IT procedure, transmit on a monthly basis the data related to the cheques protested in the month of reference; the Central Bank shall acquire and aggregate the data received, for the purpose of transmitting the report with the same frequency to the receiving parties (banks of San Marino, financial companies and Poste San Marino S.p.A.).

Figure 22 and Figure 23 show, in a time frame from 2011 to 2015, the number of names related to the protested cheques and the aggregate amount in millions of Euro, respectively.

**Figure 22 - Number of the names related to the protested cheques**



**Figure 23 - Protested amounts**



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

Consistently with the functions provided for in article 40 of the Statutes, the Central Bank acts as institutional contact for the Republic of San Marino within the contexts of the relationships with the International Financial Organisations and with the Central Banks and Supervisory Authorities of other countries.

Within the context of the functions of advising the Great and General Council and the State Congress on monetary, credit, financial, currency and economic issues, the Central Bank cooperates with the authorities of San Marino in the international relationships concerning forms of international cooperation that affect, directly or indirectly, the financial system.

### International Monetary Fund - IMF

San Marino participates to the International Monetary Fund since 23 September 1992 and is subject to the annual assessments pursuant to article IV of the statutes of the Fund which allow a valuation on the health of the economy of San Marino.

Within the context of such consultations, the Central Bank was involved as national point of contact for the issues related to the financial system. In 2015, the consultations focused on the analysis of the main data and indicators of the system, particularly as regards to the following issues:

- the status of the *non-performing* loans and the relevant strategies for their gradual absorption;
- the liquidity of the system, in light of possible outflows of deposits of foreign customers following the adoption of tax compliance procedures initiated by the tax authorities of their countries of residence;
- the capital and economic balances of the systemically important banks;
- the state of the relations with the Bank of Italy;
- the compliance of the regulatory framework governing the financial system with the provisions of the Community *acquis* of the Monetary Agreement between San Marino and the EU.

Besides the aforementioned activities related to the consultations under article IV, the Central Bank also maintained, in 2015, continuous relationships with the Monetary Fund concerning the completion of questionnaires or information enquiries (including the *Annual Report on Exchange Arrangements and Exchange Restrictions* "AREAER") and the management of the financial position of the Republic of San Marino in the Fund.

In 2016, at the end of the consultation held from 8 to 16 March, the analysts of the assessment team of San Marino evidenced, within the context of the preliminary conclusions, that the country is gradually getting out of a long period of recession thanks to the measures adopted, also highlighting, however, the actions still required in order to take a path towards a more effective economic recovery:

*"San Marino is emerging from a prolonged recession. The authorities are to be commended for maintaining a prudent fiscal stance throughout, improving international cooperation significantly, and strengthening bank oversight and supervision. Going forward, the major challenges remain turning the nascent recovery into sustainable growth, the unfinished restructuring of Cassa di Risparmio della Repubblica di San Marino (CRSM), as well as the reduction of the high stock of non-performing loans (NPL) in the banking system. Financial sector issues should be dealt with swiftly to*

*enable the banking system to restart lending to the economy and minimize contingent fiscal liabilities. Fiscal discipline to rebuild buffers, including through the introduction of the VAT, should be a fiscal policy priority. In this regard, the government should also aim at gradual modest cuts to current expenditure to finance needed capital outlays. Further improvements in the business environment and labor market flexibility would facilitate rebalancing the economy, thus enabling a diversification of economic activity. Meanwhile, a continued focus on international cooperation remains paramount”.*

The 2016 mission was characterised, in particular, by a thorough analysis of the regulatory framework, of the operational instruments and organisational structures related to the issue of the collection of outstanding payments in order to identify possible interventions to improve the ability to reduce the *stocks of non-performing* loans in the financial system. The results of this analysis will be disclosed by the Fund within a specific report.

In the first few months of 2016, the application to the Monetary Fund was formalised by the authorities of San Marino for a technical assistance aimed at identifying options that could be used for developing a strategy designed to create the conditions for the strengthening of the Cassa di Risparmio della Repubblica di San Marino and for its repositioning on the market, in order to allow the gradual withdrawal of the State from the shareholders’ base and the recovery of the public resources invested. The technical assistance mission was carried out in the first weeks of the month of April, with the full involvement of the Central Bank.

### **World Bank**

In 2015, the Central Bank provided its contribution to the preparation of the report for the Republic of San Marino *Doing Business* 2016, which analyses the regulatory and tax rules and regulations applicable to the undertakings based on 11 sub-indicators (including the start of a business, credit access, international trading, taxation, register of property securities, protection of the investor) that comprise the global competitiveness index at a country level. The contribution of the Central Bank was mainly focused on the replies to questions concerning the “*Getting Credit*” section.

In the 2016 report, of 180 countries reviewed, San Marino ranks 76th in the general ranking, improving from the 2015 position (78th place – 93rd according to the previous valuation parameters), further reducing the parameter of the so called “distance from the border”, i.e. how many points separate San Marino from the best country (Singapore).

### **International Tax Cooperation of the Republic of San Marino**

Following the commitments assumed with the OECD in October 2014 during the Global Forum on the transparency and exchange of information for tax purposes (*Global Forum*), San Marino became one of the *early adopters* that apply the standard for the automatic exchange of information (*Common Reporting Standard*) starting from 1 January 2016. In line with the undertaking, in 2015 the agreement between San Marino and the EU, which introduced provisions equivalent to the directive 2003/43 (taxation of savings income), was renegotiated, by replacing the provisions of such agreement with a form of automatic exchange of financial information, based on the *Common Reporting Standard OECD*.

Additionally, on 28 October 2015, the inter-government agreement was signed between the Republic of San Marino and the United States of America for the application of some forms of tax cooperation based on the FATCA compliance standard (*Foreign Account Tax Compliance Act*).

Due to the aforementioned commitments assumed at an international level, in 2015 the State Congress established a working group in charge of preparing the regulations necessary to implement the standards of cooperation provided for in the agreements entered into. The Central Bank was involved in this working group and provided its contribution to the preparation of Law no. 174/2015 “International Tax Cooperation” and the resulting delegated second level regulations.





The new regulation, entered into force on 12 December 2015, represents a unique first level source for the laws and regulations governing the forms of international tax cooperation implemented by the Republic of San Marino based on the agreements entered into. Specifically, the law regulates the different types of information exchange (on request, automatic and voluntary) and defines tasks and roles of the competent authorities in charge of the implementation thereof.

Consistently with its statutory functions, the Central Bank is not competent for the implementation of international tax cooperation standards; upon request, however, it provides a continuous technical support to the Secretary of State for Finance and to the Government on this issue, also by participating to the delegations of San Marino involved in the works of the Global Forum, and to the delegations of San Marino in charge of the relationship with the groups responsible for assessing the compliance of the Republic of San Marino with the standards defined at an international level.

### **European Union: Monetary Agreement and Association Agreement**

The Central Bank also attended, in 2015, the works of the Joint Committee provided for by the Monetary Agreement entered into between San Marino and the EU in 2012. The joint group is comprised of the authorities of both parties involved in the implementation of the agreement and, *inter alia*, is responsible for verifying the correct implementation by San Marino of the regulations to be adopted pursuant to article 8 of the Agreement. The list of the regulations to be adopted, originally included into an annex to the agreement, is amended annually by the European Union based on the evolution of the Community *acquis* whereas the Joint Committee is responsible for defining the deadlines for the adoption of the different documents.

Within the context of the Joint Committee 2015, the Central Bank highlighted some critical points related to the implementation of certain provisions to be adopted, and submitted some proposals for overcoming them. Specifically, based on a structured study about the impact on the financial system of the regulatory documents provided for in the agreement, the problems were highlighted concerning the status of San Marino as non-EU country. Besides the critical points highlighted, which attracted the prompt attention of the European Union and on which specific meetings will be held in 2016, the activities for the adoption of the provisions provided for in the agreement continue as originally scheduled. Based on the most recent deadline, scheduled for September 2018, almost all of the provisions envisaged in the agreement will be adopted.

The Central Bank was also involved by the Secretary of State for Foreign Affairs in the preparatory works of a negotiation with the EU for the definition of an association agreement that would allow the Republic to be more integrated in the single European Market. The involvement of the Central Bank referred, in particular, to the aspects of the single capital market also in terms of a strict connection with the Monetary Agreement.

### **Relationship with the Supervisory Authority**

As regards bilateral relationships with other Supervisory Authorities, also in 2015 there was a continuous liaison with the Bank of Italy on the issues related to supervisory activities, the use of the Euro and the sharing of information concerning the central credit register. The execution of a *Memorandum of Understanding* continues to represent a priority target, however, the entry into force, in the European Union, of the *Single Supervision Mechanism* (SSM) could slow down the process due to the transfer of some responsibilities on international cooperation from the national authorities to the ECB.

Generally, the cooperation with foreign supervisory authorities may benefit, as from 2016, from the amendments made to article 103 of the LISF that replace the provisions according to which the exchange of information was admitted only with those authorities with which a memorandum was in force. Based on the new provisions, it will be possible to exchange information also absent any specific agreement, provided the conditions specified in the aforementioned article 103 are satisfied, including those related to confidentiality and reciprocity.



## Relationships with other international organisations

The relationship with IAIS (International Association of the Insurance Supervisor), of which the Central Bank is a regular member, continued also in 2015. Specifically, the preparatory activities continued for the execution, by the Central Bank, of the Multilateral Memorandum of Understanding (MMoU) of the IAIS, which represents an important legal basis that would allow cooperation and exchange of information on the supervision of the insurance sector between the signatory countries.

The multilateral memorandum may be executed only once a structured assessment process is successfully completed, aimed at verifying a series of requirements including those related to confidentiality of information and professional secret. The assessment process for the application of the Central Bank is still in progress.

As in the previous years, the relationship continued between the Bank and IADI (International Association of Deposit Insurers) the international organisation responsible for issuing the best practices on the regulation of guarantee schemes for depositors, and with the company in charge of determining the sovereign rating of the Republic of San Marino, which, in 2015, was confirmed at BBB+ with a stable outlook.

## 2.3 Management of counterfeit banknotes and coins in Euro

Banknotes and coins expressed in Euro and suspected to be counterfeit are transmitted to the Central Bank by the cash handlers pursuant to Regulation no. 2013-04 "Regulation on Euro banknotes and coins". The Central Bank, in its role as competent national authority, transmits them to the corresponding structures of analysis, for the relevant control and results.

The Euro banknotes and coins suspected of being counterfeit are electronically transmitted to the Central Bank by using the Euro Falsification Findings Computer System (SIRFE), made available by the Central Anti-fraud Payment Methods' Office (UCAMP), falling under the Italian Ministry of the Economy and Finance (MEF).

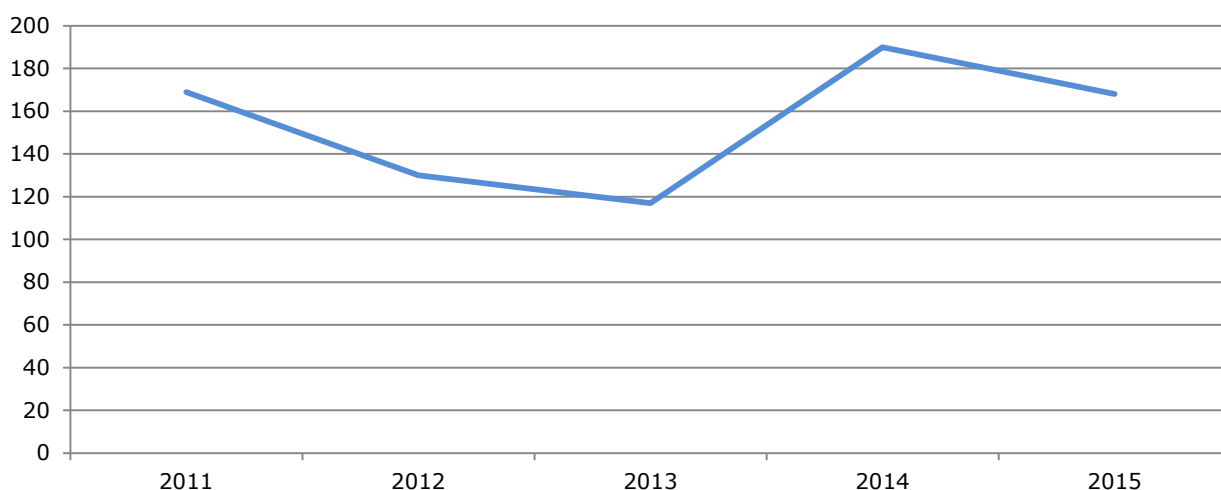
The banknotes and coins in currencies other than the Euro suspected of being counterfeit that do not fall under the scope of application of Regulation No. 2013-04, are transmitted by the cash handlers directly to the Anti-counterfeiting Central Office ("Ufficio Centrale per il Falso Monetario - UCFM"), established at the Central National Interpol Office of the Republic of San Marino.

The Figures below show the most significant data relating to activities carried out in 2015 and their comparison with the values of previous years.

In 2015, 168 banknotes in Euro were withdrawn from circulation and later found to be counterfeit, down 11.6% from the previous year (190 banknotes recognised as counterfeits in 2014); moreover, a slight increase was registered in coins in Euro found to be counterfeits (9 coins of 1 Euro, 6 coins of 0.5 Euro and 4 coins of 2 Euro), a situation, however, that remains limited.

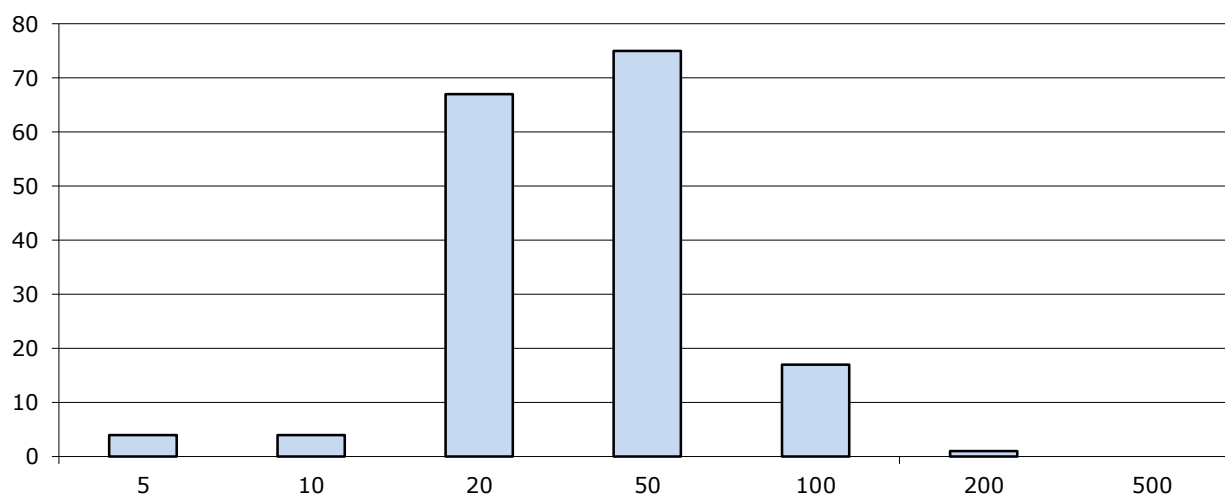


**Figure 24 - Number of counterfeit banknotes: comparison with annual data for the period 2011-2015**



The most counterfeit banknote was the 50 Euro banknote (75 pieces, equal to 44.6% of the total), followed by the 20 Euro banknote (67 pieces, equal to 39.9% of the total), the 100 Euro banknote (17 pieces equal to 10.1% of the total) and by the 5 and 10 Euro banknote (4 pieces each, equal to 2.4% of the total); only one case was detected of a counterfeit 200 Euro banknote, and none for the 500 Euro banknote.

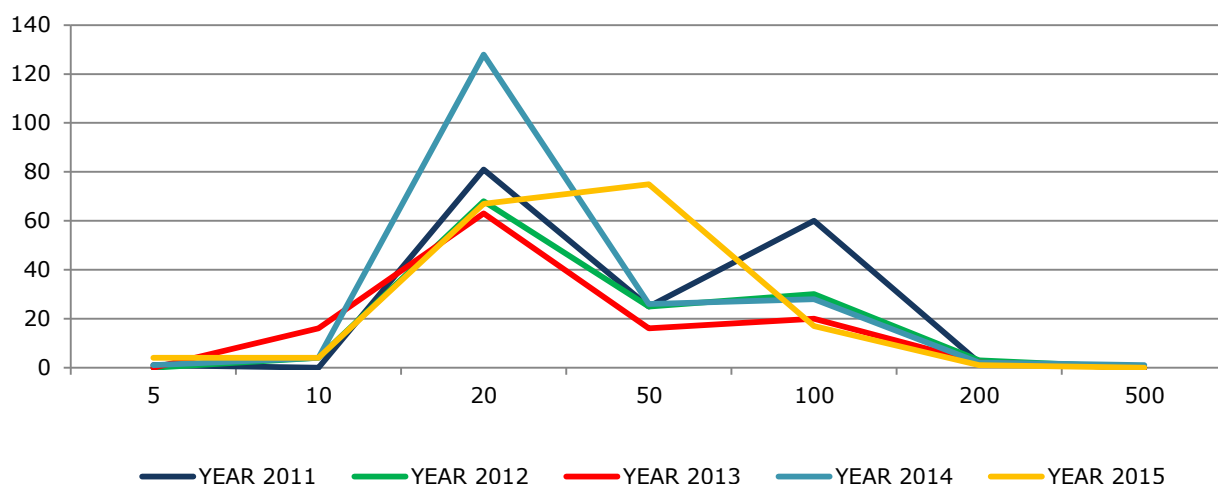
**Figure 25 - Counterfeit banknotes withdrawn from circulation in 2015: breakdown by denomination**



The breakdown of the notes by denomination registered the highest number of counterfeits in the 50 Euro banknotes, up from 2014, followed by the 20 and 100 Euro banknotes, the number of which dropped considerably; these three denominations, in aggregate, represent 94.6% of the counterfeit banknotes.

Figure 26 below shows the changes occurred within a time frame from 2011 to 2015.

**Figure 26 - Denomination of counterfeit banknotes: comparison with annual data for the period 2011-2015**



Overall, in 2015 a drop was registered in the banknotes identified, which is consistent with the data of the Bank of Italy that evidence a decrease by 4.6% compared to 2014 (162,245 counterfeit notes withdrawn in 2015 compared to 170,134 withdrawn in 2014).

Unlike in San Marino, the most counterfeit denomination in Italy was the 20 Euro banknote, accounting for 48.8% of the total, followed by the 50 Euro banknote, equal to 28.9% of the total and by the 100 Euro banknote, equal to 15.2% of the total counterfeits identified.

Additionally, it should also be noted that the European Central Bank notified that the number of banknotes withdrawn in 2015 increased by 7.3% compared to 2014 (899,000 notes from 838,000 notes withdrawn in 2014), despite a reduction by 2% in the second half compared to the first.

At a European level, the denominations of 20 Euro and 50 Euro registered the highest number of counterfeits, accounting, in the second half of 2015, for 83.3% of all counterfeits withdrawn (86% in the first half).

## 2.4 Cash handling

Cash requests from the banking system of San Marino were satisfied by the Central Bank through a specific cash procurement service from Italy, according to the procedures identified in 2008 with the competent Italian authorities, and in compliance with the domestic and European regulations from time to time in force on this issue.

The delivery of cash to the banking system of San Marino is carried out according to operational processes governed by a specific domestic regulation issued by the Central Bank. This regulation is continuously updated for the purpose of ensuring service efficiency, reducing operational risks and maintaining a high level of security, thanks also to the cooperation of the Police Force.

In compliance with the formalities required pursuant to the regulations of the respective countries involved, the specialised carriers in charge of cash transportation were provided with the declarations of cash transportation for an overall amount equal to or in excess of Euro 10,000 or its



counter value, pursuant to Regulation No. EC 1889/2005 and Delegated Decree No. 74 dated 19 June 2009.

For each cash procurement application transmitted to Italy, the Central Bank informs the Bank of Italy and the Italian bank used for the procurement of the cash, as regards the date and amount of the cash supply. The Italian correspondent bank is also informed of the amounts of cash booked by each bank in San Marino and the adjustment of the balance at the Central Bank; additionally, the Central Bank transmits a final monthly notice, reporting the amounts related to the cash distributed to each bank of San Marino, and the adjustment of the balance with the Central Bank.

As from January 2013, the management of cash is supported by an IT procedure named GestCash, made available by the Central Bank to the San Marino banking system. This procedure is capable of managing all operational notices, the authorisations and printing of the reports related to the supply and distribution of cash, and the internal transfers between banks and/or organisational units of the same bank.

In 2015, the Central Bank was supplied cash by its correspondent 25 times; subsequently, through 262 deliveries of cash, it distributed it to the banking system of San Marino. For the purposes of a complete information, it should be noted that the requests received from the banking system led to an increase in the amounts distributed compared to the previous year, equal to 21.8%; the Central Bank no longer supplies to the banking system of San Marino 500 Euro denominations, since 2008, and 200 Euro denominations, since the end of 2011.

Law no. 101 of 29 July 2013, named "Collection of provisions on banknotes and coins", assigned the functions linked to the management of cash to the Central Bank, which issued the "Regulation on Euro banknotes and coins" no. 2013-04 and the "Guide for compilation for statistical reports of cash handlers".

This regulation, issued in line with the European laws of reference and pursuant to the Monetary Agreement, regulates the role of the cash handler who is, inter alia, required to transmit statistical reports within the context of the activities for the recirculation of cash. In 2015, the statistical reports on the recirculation of cash were transmitted, as provided for, on a semi-annual basis by the cash handlers to the Central Bank, through a specific function available in the IT procedure GestCash. Within this function, the reports related to the devices compliant with the lists of ECB and EC (European Commission) used by the cash handlers are also managed.

In 2015, the Central Bank proceeded with the documentary checks within the context of the regulatory functions required from the Cash Handlers, for the purpose of ascertaining the correctness of the reports on the cash handling activities, referred to in Regulation no. 2013-04, as well as the compliance of the devices available for the banknotes and coin equipments.

The cooperation, started in the second half of 2015, between the Central Bank and Bank of Italy regarding cash, reached the definition, in the first months of 2016, of a specific memorandum of understanding, yet to be executed, which focuses on the presentation of the suspected counterfeit banknotes and the deposit with the Bank of Italy of the banknotes unsuited for circulation, and the transmission to the latter of statistical reports on the recirculation of the banknotes from the Central Bank to the Bank of Italy and of statistical information on the Euro coins issued by the Republic of San Marino.

## **2.5 Trust Register**

As at 31/12/2015, the number of trusts registered in the Register, net of cancellations stood at 109, with a considerable increase compared to the end of 2014, when there were 97 trusts registered (+12.64%). Therefore, with 15 new registrations and 3 cancellations, the trend is

confirmed, also in 2015, of continuous increase in the number of trusts, started in April 2010 (month when the new Register was created and of the handover of responsibilities from the Office of Industry to the Central Bank).

In 2015, the Office, in the performance of its activities, issued no. 2 administrative sanctions for infringement of Law no. 42/2010.

In addition to the ordinary activities, the Office was involved, also during the year just ended, in the activities of replying to the questionnaires transmitted by the different international organisations (most recently, that of the National Risk Assessment on anti-money laundering) as well as in the active participation to several working group on this issue.

Besides the usual annual training activities for candidate professional trustees or for satisfying training requirements, organised by the Central Bank Foundation, the staff of the Office also participated, as lecturers, to the symposium on trusts organised by the Court for trust and fiduciary relationships.

**Table 28 – Number of Trusts in the period 2010 – 2015 (net of cancelled trusts)**

	2010	2011	2012	2013	2014	2015
Trusts (net of those cancelled)	38	56	77	91	97	109

## 2.6 Advice and cooperation activity

The functions and activities that the Central Bank is required to perform continued to increase since its incorporation; many more functions were added in the years to the group of initial functions. In addition to the functions managed directly, it is important to mention the participation of the Bank to working groups and technical committees, the cooperation provided to other institutions of the Republic and the participation to projects strategically relevant for San Marino.

The sections below include specific in-depth analyses for the most significant consultancy and cooperation activities of the Bank in terms of commitment, or the regulatory advice (2.6.1) and the cooperation with the Single Court (2.6.2). For the purposes of a thorough understanding of the issue in question, and in order to provide a summary on such question, the activities and projects in which the Central Bank is involved are reported in Box 5, at the end of the paragraph, even if already mentioned in the specific parts of the Report.

### 2.6.1 Regulatory advice

The activity in question, in 2015, covered topics of different nature, and led to significant contributions. As regards standardisation, 3 strategic interventions for legislative proposals are worth noting, made by the Bank in 2015 and listed below:

- 1) Decree-law for the capital intended for the postal financial services within Poste San Marino S.p.A.;
- 2) Decree-law on urgent measures on financial operations;
- 3) supplementary articles included in the Budget Law for the end of 2015.

The first action, which as of today has had no follow up, was aimed at ensuring also in San Marino, a regime of prudential capital segregation between assets and accounts of the "Bancoposta" activities and those of the "traditional post office" activities for the purpose of protecting investors and as a necessary requirement to realise a very appropriate - also for the purposes of an efficient and effective supervisory action - accounting and organisational separation between the two



branches of activity, even if the legal entity is the same as its statutory bodies. In the opinion of the Central Bank, in fact, the adoption is urgently needed of a legislative measure that, to protect those who (potentially, a high number) will deposit their savings with the only "bank intermediary" totally State-controlled, would ensure the required separation of the capital of "Bancoposta" to cover the typical risks of the banking activity, although mitigated, in the case of Poste San Marino S.p.A., by the fact that it is not possible to take credit or financial exposures other than in favour of the State or of the Broader Public Sector, with the resulting lower capital needs compared to an ordinary bank.

The second action, instead, was in part implemented by the Decree-law no. 198 of 30 December 2015, as ratified by the Legislative Decree no. 4/2016. The proposal of the Central Bank gathered a series of urgent and mixed measures concerning financial operations but having the same purpose of updating the financial laws of San Marino by means of the provision of new contractual instruments between professional operators, and the streamlining of the debt recovery procedure and of the enforcement of the guarantees received, for the purposes of a greater liquidity of the assets of banks, financial companies and management companies. The urgency was due to the need to introduce provisions, the result of a technical cooperation with the Bankers Association of San Marino, prior to certain extraordinary foreign initiatives that could create disruption in the liquidity of the system, and this requires prompt supporting actions, also for redistribution purposes, by the Central Bank. In fact, the decree adopted in Italy (the so called "Voluntary Disclosure") generated an extraordinary need for liquidity for the banks of San Marino, need that was already satisfied in the past, with reference to previous Italian tax regularisation measures, also thanks to the system policies implemented and/or subsidised by the Central Bank that used, for redistribution purposes, the leverage of the Compulsory Reserve. The Decree-law approved regulates, for the first time, issues that are relevant for the development of the system, such as the dematerialisation of the debt securities issued by the State, by the Central Bank and by the financial undertakings of San Marino, and the opening of on-line passive accounts by the banks of San Marino. Moreover, some actions were taken aimed at reviewing the LISF so as to make the instrument of the Legal reserve even more flexible for the purpose of promptly supporting the needs of the system, as well as to expand the regulatory powers of the Central Bank regarding the collection of savings by financial undertakings and the use by the latter of the dematerialisation tool, by consistently adding a new "reserved activity" (Service for the centralised deposit of Financial instruments).

The third legislative proposal, which was fully implemented with Law no. 189/2015, was structured on 4 different guidelines:

- 1) the creation of legal bases to the assignment of authorities to the Bank within the context of tax credits so as to override the profile of the Observing Commissioner (article 47);
- 2) the provision for starting the contribution to the Guarantee Fund for Depositors and its new regulation for the due adoption of the Community acquis (article 56);
- 3) the provision for a memorandum of understanding between the Central Bank/FIA and the Tax Office for the start and definition of the new reporting duties of the supervisory authorities on tax issues (article 74);
- 4) the amendment of article 103 of the LISF so as to allow the Central Bank to exchange information with the equivalent foreign authorities also absent specific memoranda of understanding, provided reciprocity and confidentiality are satisfied (article 79).

With article 47, proposed by the Central Bank, the following objectives are achieved:

- a) the Agenda of the Great and General Council was fully implemented;
- b) the functions assigned to the Central Bank are specified more in details, also in order to include the profile of potential conflict of interest (between the State and the Banks) in which the

Supervisory Authority is working and to report to the Secretary of State for Finance and to the Financial Administration, respectively, its regulatory and decision making prerogatives;

- c) exempted the Central Bank from the confidentiality requirements referred to in article 29 of the Statutes - and the authorised parties from the requirements referred to in article 36 of the LISF - vis-a-vis the Public Administration for all information however acquired, also in the exercise of the supervisory functions, that could be useful for the application of the Decree-laws.

With article 56, proposed by the Central Bank, the following objectives are achieved:

- d) the scope of the intervention of the Fund is limited to administrative compulsory winding-up only;
- e) the initial endowment of the Fund was redefined to only the 5 million Euro contributed by the State ex. article 95 bis of Law no. 92/2008
- f) the contribution (ex ante) of the Banks was redefined to start from 2017 as regards covered deposits as at the end of 2016;
- g) the Central Bank was asked to review the regulation of the Fund for the purpose of making it consistent with the European directive to be implemented pursuant to the Monetary Agreement, prior to the beginning of the contributions by the Banks.

With article 74, proposed by the Central Bank, the following objectives are achieved:

- h) the tax-related reporting duties for the supervisory authorities were rebalanced, based on a greater consideration for independence, the different purposes of the institutions and different professional expertise of the Central Bank and FIA from those of the Financial Administration;
- i) the beginning of this cooperation is subject to the execution of a specific memorandum of understanding that would regulate the relevant limits, terms and procedures so as to avoid any uncertainty regarding any responsibility for omission by the supervisory and anti-money laundering inspectors.

With article 79, proposed by the Central Bank, the following objectives are achieved:

- j) removed, only for the exchange of information, the procedural requirement of the cooperation agreement, now qualified as a possibility, and no longer as a condition, for the supervisory authority;
- k) as regards the exchange of information, the reciprocity requirement, the requirement concerning the intended use of the information exchanged and their confidentiality are confirmed, with the requirement of a prior written consent to their circulation or disclosure to any third parties;
- l) compliance, as far as compatible, of the text of article no. 103 with the corresponding article 16 of Law no. 92/2008, already subject, in 2009 and 2013, to corrective measures aimed at fostering the cooperation with foreign authorities;
- m) the Central Bank is allowed to renew and develop the relationships with equivalent foreign authorities, which already requested information, with the aim of fostering, through the consolidation of these relations of mutual exchange, the execution of those agreement preparatory to the internationalisation of the financial system of San Marino, both in terms of opening foreign markets to the operators of San Marino as well as in terms of opening the market of San Marino to foreign operators.

The advice provided by the Bank to the Executive was not limited, however, to the preparation of proposals for legislative actions, but it also led to a frequent and qualified technical assistance, acknowledged in the different parts of this report, with reference to the subject in question. Here, the following scopes are reported in detail since they are considered as the most relevant in terms of commitment and content.





## **Supplementary welfare (FONDISS)**

As regards supplementary welfare (Fondiss), the assistance supplied by the Central Bank to the Secretary of State for Health regarded the preparation of the Delegated Decree no. 39 of 30 March 2015 concerning the procedures for the identification of the managers of the capital of Fondiss, which implements article 5, paragraph 7, point 7 of Law no. 191/2011 which established the supplementary welfare in San Marino, subsequently ratified with amendments with the Delegated Decree no. 82 of 5 June 2015. This decree regulates the criteria and procedures with which the Administration Committee of Fondiss identifies the persons to whom its capital should be entrusted under management, setting, in particular, the procedures and principles that must be adopted in entrusting the financial resources available under management and defining the process for the selection of the managers.

Also with reference to Fondiss, the Central Bank provided technical assistance to the Secretary of State for Health, preparing specific analyses on the subject and translating into a technical-legal language certain strategic directions evidenced within the context of the activities and extended discussions organised by the Secretary of State for the purpose of defining common amendments to the laws to solve some current critical points existing in Law no. 191/2011.

## **Issue of national debt certificates**

A different type of technical assistance regarded the advice that the Central Bank provided to the Secretary of State for Finance on the issuing of national debt certificates; assistance that, in 2015, consisted mostly in the preparation of in-depth analyses on the issue or in the technical contribution provided for the definition of the articles contained in the Law no. 160/2015 (some of which were later amended with Law no. 189/2015). These articles set, in particular, certain basic criteria and the maximum aggregate amount of the issues, given that the specific definition of the features of each issuance of national debt certificates was delegated to the adoption of specific delegated decrees.

## **Guidelines for the recognition of certain items for the purposes of the determination of tax credits within the context of extraordinary transactions for the protection of the banking system.**

Another area in which the assistance of the Central Bank was requested in 2015 concerned the definition of some guidelines for the recognition of specific items for the purposes of the determination of tax credits recognised by the State within the context of extraordinary transactions for the protection of the banking system. Within this context, the Central Bank submitted to the attention of the Committee for Credit and Savings some technical in-depth analyses to allow such Committee to adopt guidelines on the recognition of certain items that have an impact on the updated determination of the amount of the tax credit.

### **2.6.2 Cooperation with the Single Court**

The cooperation with the Single Court was supplied within the scope of many issues provided for in the regulations or by agreements between the parties. Considering that additional forms of support to the Court are described in the specific parts of the Report and summarised in the box at the end of the paragraph, the most relevant, also in terms of efforts, of them are detailed below.

#### **a) Preparation of expert reports.**

As from 2007, the Central Bank performs, in its role as Court appointed technical expert (CTU) and on appointment from the Single Court of the Republic of San Marino, technical support activities regarding economic-financial aspects of civil actions and conciliation proceedings. In 2015, 5 technical support activities were assigned to the Central Bank, 1 of which was completed within the same year. Even considering the institutional relevance, the performance



of the aforementioned function entails an inappropriate overlapping in carrying out the role of the CTU with the role as Supervisory Authority, especially in proceedings that involve the supervised parties of the Central Bank itself.

b) The activity as Judicial Police pursuant to Art. 104 of the LISF.

As usual, the service participated, on appointment by the Judicial Authority, to the performance of judicial investigations with authorised parties, which resulted in no. 6 on-site activities and no. 2 preliminary activities. As in the past, some staff from the On-site Supervision Service who had been involved in the preliminary phases also within the context of international rogatory proceedings, or who had carried out investigations that resulted in reports presented to the Court, were called on as witnesses during the hearings.

c) The seizure of funds and valuables pursuant to Art. 37 of the Decree Law No. 134/2010

In 2015, the Central Bank did not receive new assignments pursuant to article no. 37 of the Decree-law no. 134/2010. Nonetheless, the Central Bank, as Supervisory Authority, continued to act for a correct custody of the funds that had been seized in the previous years with banks or other companies, for which, in any case, specific judicial custodians were appointed at the Authorised parties.

### **2.6.3 Summary of other forms of advice and cooperation activity**

In addition to the forms of advice reported above in detail, it is important to note that the Central Bank also provides advice and cooperation through the participation to national and international working groups, the attendance to technical committees and the participation to special projects with a strategic relevance for the banking and financial system of San Marino. A list of such activities is included, for the purposes of a complete information, in the following box.

#### **Box 5: Summary of the advice and cooperation activities performed by the Central Bank**

##### **Participation to international and national technical committees and working groups**

- Financial cooperation (Italy)
- SM-EU Monetary Agreement and regulatory adjustments
- Association agreement with the EU
- San Marino - EU Agreements on tax cooperation
- Participation to the National Anti-Money Laundering Technical Commission
- Implementation of the SM – USA agreements for the exchange of tax information and the implementation of the FATCA standard
- Implementation of the automatic exchange of tax information (Common Reporting Standard OECD)
- Transformation and reorganisation of the PA redemption system

##### **Projects in progress and about to be implemented**

- Participation to the project *National Risk Assessment* (NRA) regarding national assessment of laundering and terrorism financing risks
- Activation of the interbank fund for the protection depositors
- Function of investigation support to the Financial Administration as regards tax credits (article 47 of Law no. 189/2015)

##### **Cooperation with and support to other institutions and bodies of the Republic**

- Cooperation in the promotion and development of new payment instruments (virtual POS, CartaSi, electronic purse)



- Cooperation in the management of SMAC cards
- Cooperation with the Central Liaison Office and the Control and Supervision Office on Economic Affairs
- Cooperation with the Financial Intelligence Agency
- Support to the Broader Public Administration for adjustments resulting from the adoption of SEPA
- Support to the Broader Public Administration for the compilation of questionnaires and statistics requested by international organisations and related to economic, tax and financial issues
- Assistance on international bilateral meetings with foreign delegations

## 2.7 The Currency Authority

Law no. 96 of 29 June 2005 as subsequently amended, assigns to the Central Bank the role of Currency Authority of the Republic of San Marino, and thus the Central Bank has been institutionally authorised, since its incorporation, to control currency-related provisions and to carry out currency and foreign exchange transactions.

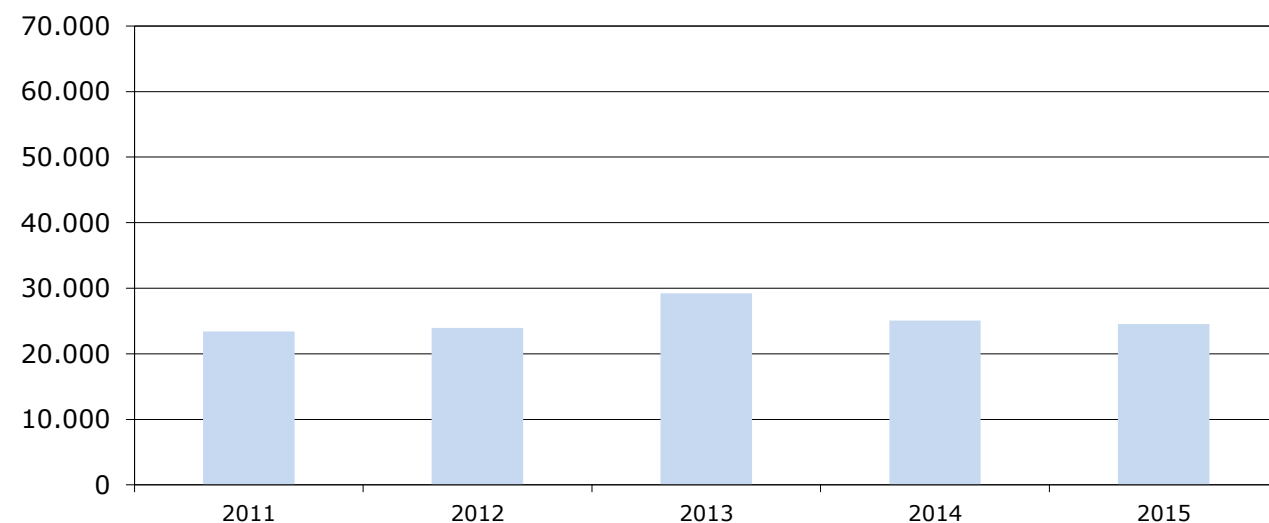
Pursuant to Law no. 41 of 25 April 1996, the Central Bank authorises the banks to carry out currency and/or foreign exchange transactions in compliance with the limits and conditions provided for in article III.V.12 of Regulation no. 2007-07 "Regulation on the collection of savings and banking activity" and subsequent amendments; currently there are 6 banks in San Marino authorised to operate directly with foreign institutions.

The above mentioned law also assigns to the Central Bank the control and supervision on the currency activities carried out by bank intermediaries.

In 2015, the Central Bank continued gathering statistical information on cross-border settlements made by the banks of San Marino, for their own account or for the account of their resident customers, for transactions with a value in excess of or equal to 15,500 Euro, through the model provided for in the reference regulations, named Statistical Currency Notification Forms (comunicazione valutaria statistica or CVS). The CVSs were transmitted to the Central Bank by the banking system through the Sammarinese Interbank Network, using a specific standard reporting model, in order to use a self-testing system, at the Central Bank, for identifying any errors in the reporting.

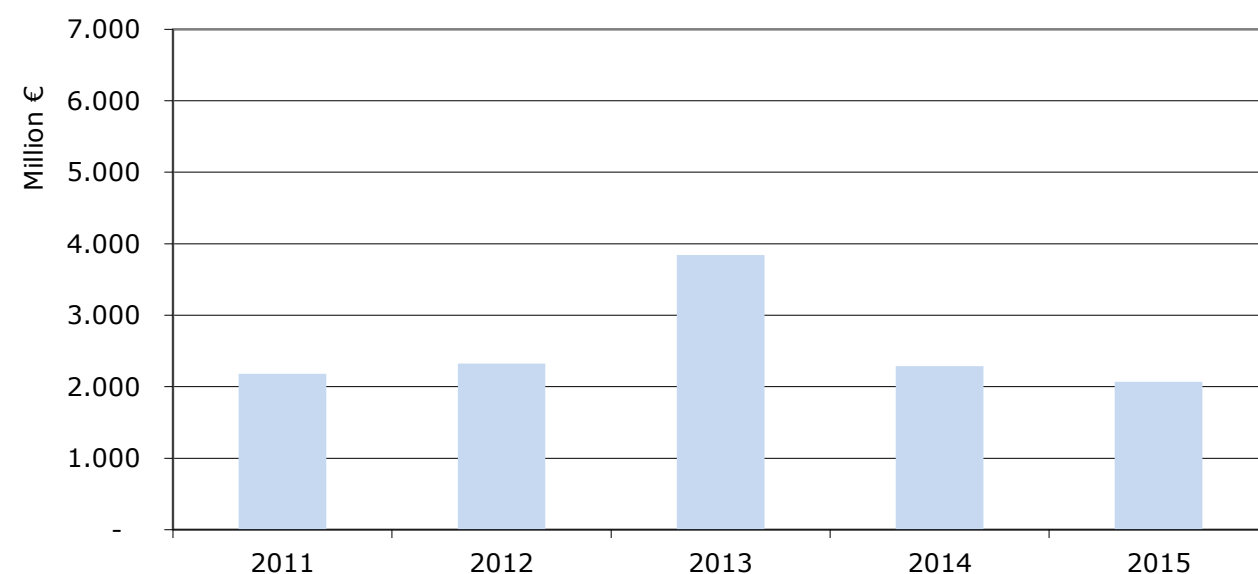
Figure 27 and Figure 28 show the flows transmitted by the banks to the Central Bank in the period 2011 - 2015.

**Figure 27 - Total flows (number of CVSs)**



24,510 CVSs were received from banks in 2015, compared with the 25,089 registered in 2014, down by 2.3% (Figure 27), whereas the value of the amounts settled decreased from 2,288 million Euro to 2,066 million Euro, down by 9.7% (Figure 28).

**Figure 28 - Amounts settled by the banking system of San Marino**

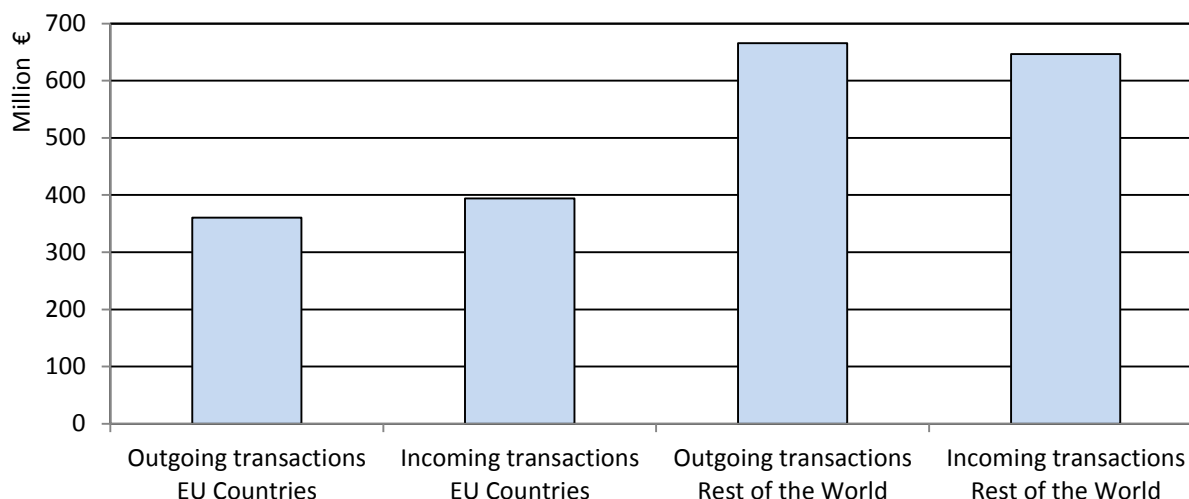


In 2015, CVSs concerning “incoming” transactions recorded a value of 1,040 million Euro, with a breakdown by geographical areas that evidences transactions with EU countries amounting to 394 million, corresponding to 37.9% of the total incoming transactions, and 646 million with the rest of the world, corresponding to 62.1% of the total incoming transactions.

In 2015, CVSs “outgoing” transactions recorded a value of 1,026 million Euro, with a breakdown by geographical areas that evidences transactions with EU countries amounting to 360 million, corresponding to 35.1% of the total incoming transactions and 666 million with the rest of the world, corresponding to 64.9% of the total outgoing transactions.



**Figure 29 - Incoming and outgoing transactions broken down by geographical areas**



It should be noted that, within the context of the duties resulting from the accession of the Republic of San Marino to the International Monetary Fund, the Central Bank also transmitted the quarterly reports on the statistical data of the Currency Composition of Foreign Exchange Reserves (COFER).

## **2.8 The payment system**

The Central Bank Statutes, under article 37 and article 38, assign to the Central Bank itself the functions of managing, regulating and supervising the payment system of the Republic of San Marino.

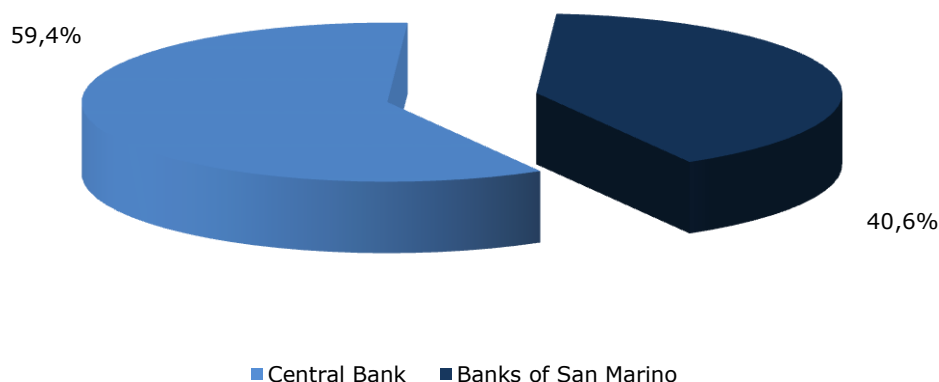
The payment system is defined as the aggregate of instruments, infrastructures, persons and rules, aimed at realising the transfer of money from one operator to another. In exercising such functions, the Central Bank specifies the operational standards to be followed, by issuing guidelines, recommendations, provisions and codes of conduct, helping to promote the efficiency of the economic and financial system, for the protection of the stability of the banking system of San Marino.

With reference to the payment instruments channelled to the RIS, the national payment system registered a decrease of 2.5% in the number of transactions, against a drop by 4.9% in the global value of the amounts settled.

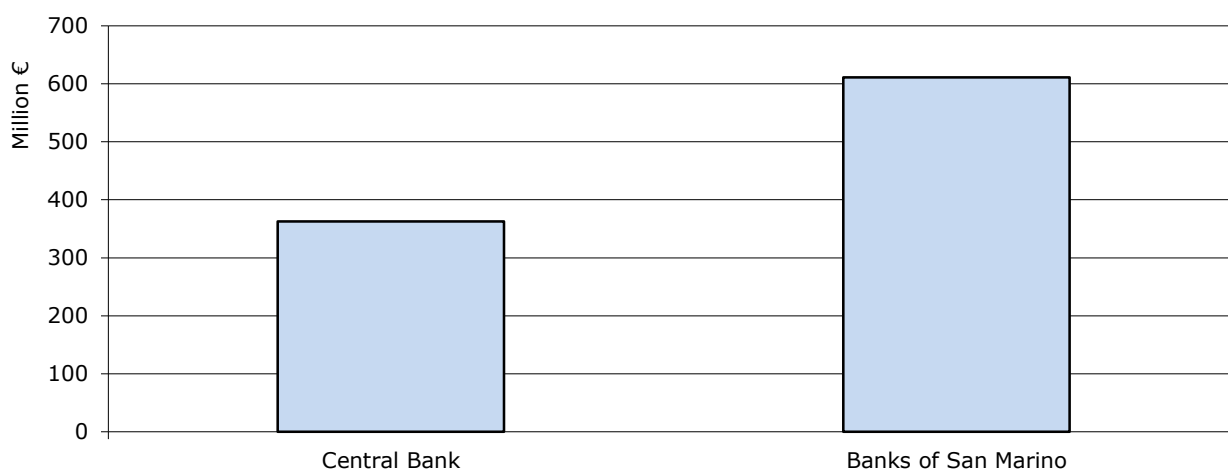
In 2015, the banking system transmitted approximately 411 national wire transfers, for a value of 973 million Euro. Figure 30 and 31 show the breakdown in percentages and in amounts settled, divided between Central Bank and the banks of San Marino.

It should be noted that the number of national wire transfers transmitted by the Central Bank has a considerable impact on the aggregate number of wire transfers at a system level; this reflects 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, in particular, characterised by a high number of transactions for small amounts.

**Figure 30 - Breakdown of the number of national wire transfers transmitted**



**Figure 31 - Amounts settled through national wire transfers**



From a comparison of the data for 2014-2015, it emerged that the number of wire transfers transmitted on the national network increased by 5.7%, whereas their amounts increased by 2.6%.

The national payment instrument *Direct Debit*, namely the payment instrument whereby the creditor requests to debit the debtor's account, in 2015 registered an increase in the number of transactions compared to the previous year. Approximately 357 thousand orders were recorded, for a value of approximately Euro 70 million; the increase from 2014 represents 1.7% of the number of *Direct Debits* transmitted by the Central Bank to the banks of San Marino, up by 17.5% in the amounts settled.

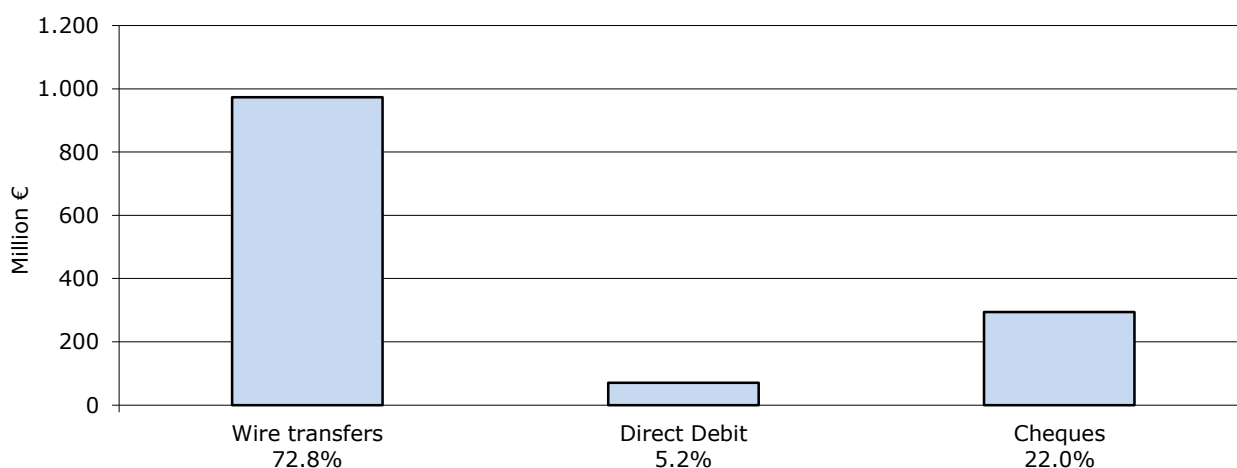
Pursuant to article 11, paragraphs 1, 2, 3 and 4 of the Regulation no. 2013-05, linked to Regulation no. 2014-04, direct transfers and debits have been standardised to SEPA regulations as from 1 February 2014; national wire transfers and direct debits (the latter only if in favour of the broader public administration sector) channelled on to the payment system of San Marino have been standardised to SEPA regulations as from 1 February 2016. It should be noted, however, that, with reference to national direct debits only, the standardisation to the new SEPA criteria is still in progress

The Central Bank manages and participates in the Paper Based Transactions service (SRD) pursuant to Regulation no. 04-2007, taking into account its two-fold role of manager and member of such service. The management of the SRD service is aimed at ensuring to the banks of San Marino that the exchange of securities, documents and correspondence will be carried out in accordance with the timing and procedures provided; specifically, the exchange of national cheques, negotiated and drawn on San Marino banks, is carried out by means of physical exchange and the relevant electronic exchange of the accounting flows and images through the RIS, as a prerequisite to the daily exchange being carried out.

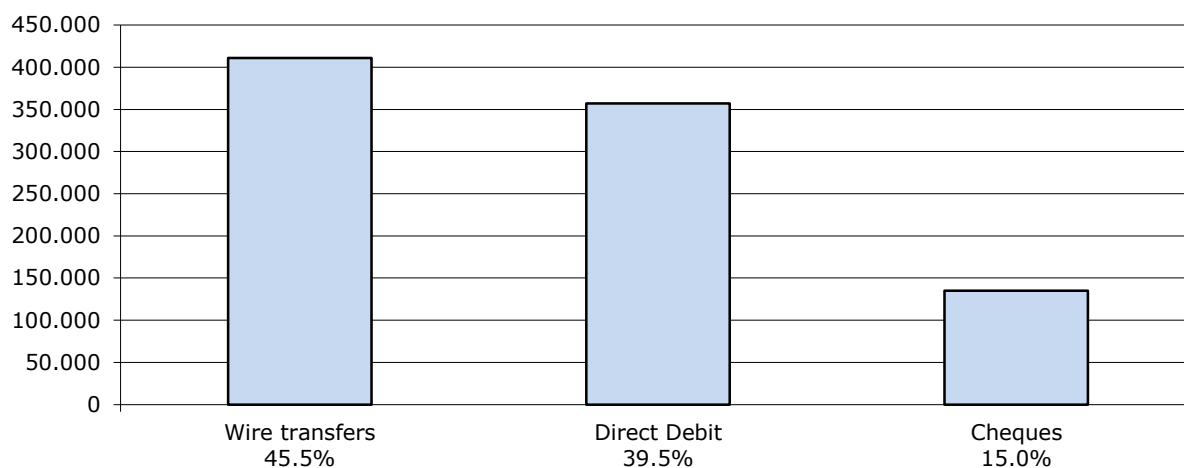
In 2015, the national cheques exchanged in the SRD service totalled around 135 thousand units for a value of approximately Euro 294 million; this means a decrease of 27.4% in the number and a decrease of 25.9% in value.

Figure 32 and Figure 33 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 32 - Amounts settled through wire transfers, Direct Debits and cheques**



**Figure 33 - Number of orders settled through wire transfers, Direct Debits and cheques**



The Central Bank, in its role as CB Customer (Central Bank Customer), accesses, through the Bank of Italy, the gross settlement payment system named TARGET2, the interbank communication of which is guaranteed through accession to the SWIFT network. This network ensures to the Central Bank the necessary interbank accessibility at international level.

With reference to the management of the Data Bank, pursuant to the Decree-law no. 65 of 14 May 2009 and the Regulation no. 2009-03 on the interbank data transmission between San Marino and Italy, related to payment transactions to and from the SEPA area, it should be noted that - following the inclusion of the Republic of San Marino in the so called *white list* of the countries regarded as equivalent for anti-money laundering purposes, made by decree of the Ministry of Economy and Finance, which is in force since May 2015 - the conditions now exist for the exchange of data between the Central Bank, the transferee banks and the transferor bank; to this regard, it should be noted that, starting from the day after 11 September 2015, this service has been suspended. Pursuant to article 9 of the aforementioned Regulation no. 2009-03, as from the same date the requirements to feed the data base, referred to in article 2 of the aforementioned Decree-law, were also suspended; until such date they were satisfied by the banks by means of a transmission of the information flows related to each payment transaction relevant by type or amount.

## **2.9 Register of fiduciary shareholdings**

Also in 2015, the activities related to the Register of Fiduciary Shareholdings referred mainly to receiving reports from San Marino and foreign fiduciary companies, and the exchange of information with the relevant offices and competent authorities.

The regulatory framework of reference concerning the exchange of information regarding the Register of Fiduciary Shareholdings, underwent a legislative amendment during 2015. Specifically, the Decree-law no. 125 of 30 July 2015 "*Verification of the requirements for those who maintain relationships with the Public Administration*", which ratified the Decree-law no. 70 of 13 May 2015, establishes that the Office or Entity of the Broader Public Administration Sector, only for the purpose of granting loans, contributions, benefits, incentives, awarding of public work contracts, or for verifying the requirements of Public Employees, may request the Central Bank to provide the information contained in the Register that refer to such persons, natural persons or legal persons, requesting such granting or award of public work contracts, or who are Public Employees. The aforementioned Decree no. 125/2015 also allows the Chamber of Commerce of the Republic of San



Marino, for the purpose of verifying the requirements of those who intend to get registered or are registered in the Register of Suppliers, access to the information contained in the register.

Additionally, pursuant to the same regulatory provisions referred to in the Decree no. 125/2015, the Industry, Trade and Crafts Office, in the cases provided for by article no. 20, paragraph 2, of Law no. 71 of 27 June 2013, transmits to the Central Bank the notices received from the fiduciary companies of San Marino as well as foreign fiduciary companies. The Central Bank, then, provides a feedback to the Industry, Trade and Crafts Office as regards the non-compliance or compliance of the notices received from such Office of Industry with the data contained in the Register.

In 2015 the Central Bank continued to cooperate with Offices and Authorities that have access to the information contained in the Register. Specifically, the exchange of information in favour of the Civil Police – Anti-fraud Unit and Interforce Group, was intensified, within the context of criminal proceedings and/or for international rogatory and of the Industry, Crafts and Trade Office, whereas the exchange of information with the Financial Intelligence Agency, Central Liaison Office, Control and Supervision Office on Economic Affairs and the Single Court remained virtually unchanged.

Moreover, following the aforementioned legislative development, information was exchanged with the Labour Office and the Patents and Trademarks Office.

The following Table 29 contains the summary data for activities carried out, with reference to the financial year 2015 and the first quarter of 2016.

**Table 29 – Activities carried out: requests and reports received**

Reports/disclosures	2015	2016 I Quarter
Number of reports received from fiduciary companies and banks*	111	24
Number of requests for information received from responsible Offices and Authorities**	53	13

Notes: \*Managing the reports also entailed requesting and transmitting some reports: 7 in 2015 and 3 in the first quarter of 2016.

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

Managing the requests received from the Offices and Authorities mentioned above also entailed, for the purpose of ensuring more complete and continuous information, subsequent supplements to the replies already provided: specifically, as regards one of the 53 requests received in 2015, several additional notices were required.

During 2015, the Industry Trade and Crafts Office was notified of a failure to comply with notification requirements on the part of one company, concerning information regarding fiduciary shareholdings in San Marino companies, according to the provisions of Art. 5 of Law no. 98/2010, for the purpose of applying monetary administrative sanctions.

## **2.10 State Treasury**

The service provided by the Treasury Department is governed by Law no. 35 of 3 March 1993, by the State's Accounting System referred to in Law no. 30 of 18 February 1998, by the



Accounting Regulation referred to in Decree no. 53 of 24 April 2003, in each case, as subsequently amended and supplemented, as well as by the Agreement entered into between the Public Administration and the Central Bank on 22 April 2004, with the relevant Economic Agreement, the latter expired on 31 December last year.

As shown in Table 30, Table 30 - Volumes processed expressed in relation to total orders in 2015 the transactions carried out were related to financial incoming movements for approximately 1,112 million Euro, down by -1.61% compared to the approximately 1,130 million of the previous financial year and by -17.01% compared to 2013; as regards the financial outgoing movements, transactions were made for approximately 1,052 million Euro, up by 1.93% compared to approximately 1,033 million in 2014 and down by -13.00% from 2013.

**Table 30 - Volumes processed expressed in relation to total orders**

Entity	2013		2014		2015	
	In-coming	Out-going	In-coming	Out-going	In-coming	Out-going
C.O.N.S.	6,253,604.78	5,583,856.14	5,217,531.00	4,834,168.37	4,859,386.14	4,638,349.04
University	7,402,874.90	5,664,854.66	6,669,632.26	5,257,970.75	6,564,353.12	6,073,933.59
A.A.S.L.P.	38,650,744.17	36,800,962.63	33,572,268.10	32,394,381.64	27,998,085.61	26,623,712.76
A.A.S.F.N.	16,054,253.16	15,626,511.25	-	-	-	-
State Board of the Games	454,936.01	325,266.87	366,204.46	305,100.49	279,560.26	204,840.64
A.A.C.N.M.	657,821.84	328,668.81	747,557.75	292,952.93	1,023,510.76	396,164.48
I.S.S.	259,853,260.09	250,973,068.97	289,535,842.35	279,142,842.75	322,810,865.26	313,283,282.60
FONDISS	7,717,976.55	1,458,637.04	15,334,218.96	14,113,830.87	11,270,785.08	10,056,374.83
The Most Excellent Chamber	694,109,941.41	638,217,343.33	534,723,533.77	494,316,207.24	511,439,924.91	478,502,999.70
A.A.S.S.	308,518,606.94	254,839,934.26	243,730,691.81	201,867,226.16	225,514,425.72	212,717,514.29
<b>Total</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>	<b>1,111,760,896.86</b>	<b>1,052,497,171.93</b>

In numbers, there were 77,437 transactions carried out for the account of the Public Administration in the financial year 2015, divided in 42,958 payment orders, 12,251 collection orders, 924 pending outgoing items and 21,304 pending incoming items.

**Table 31 - Volumes processed expressed in relation to the number of orders**

Entity	2013					2014					2015				
	REV	PPE	MAN	PPU	TOT	REV	PPE	MAN	PPU	TOT	REV	PPE	MAN	PPU	TOT
C.O.N.S.	440	101	2,162	90	2,793	401	75	1,998	34	2,508	407	105	1,957	48	2,517
University	290	135	2,460	38	2,923	257	102	2,634	48	3,041	187	64	2,614	33	2,898
A.A.S.L.P.	612	357	6,088	88	7,145	604	363	5,080	94	6,141	580	343	5,304	115	6,342
A.A.S.F.N.	251	29	657	99	1,036	-	-	-	-	-	-	-	-	-	-
State Board of the Games	191	47	191	68	497	180	43	240	79	542	207	89	206	53	555
A.A.C.N.M.	545	298	176	37	1,056	654	307	180	42	1,183	759	310	208	44	1,321
I.S.S.	3,483	4,066	15,576	197	23,322	3,228	4,459	16,115	195	23,997	3,426	4,758	16,011	193	24,388
FONDISS	2	1,114	33	0	1,149	8	1,287	83	12	1,390	9	1,503	116	12	1,640
The Most Excellent Chamber	6,774	13,589	10,917	629	31,909	5,933	12,695	11,172	275	30,075	5,428	13,350	10,546	242	29,566
A.A.S.S.	2,437	946	6,242	198	9,823	1,165	856	5,971	190	8,182	1,248	782	5,996	184	8,210
<b>Total</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>	<b>12,251</b>	<b>21,304</b>	<b>42,958</b>	<b>924</b>	<b>77,437</b>

The collection of incoming funds was made with the usual procedures, i.e. mainly through the branches of the banks present in the territory of San Marino, as regulated by a specific



Agreement entered into on 24 February 2005 between the Central Bank and the commercial banks, but also through the branches of the Treasury Department of the Central Bank. For both methods, the Treasury Department credited the amounts collected to management accounts of the Entities, creating pending incoming items on the areas of relevance of the individual offices of the Public Administration; subsequently it transmitted to such offices the relevant accounting vouchers, the hard-copy documents and the reporting.

**Figure 34 - Percentage volumes for collection and payment transactions executed by the Treasury Department in 2015**

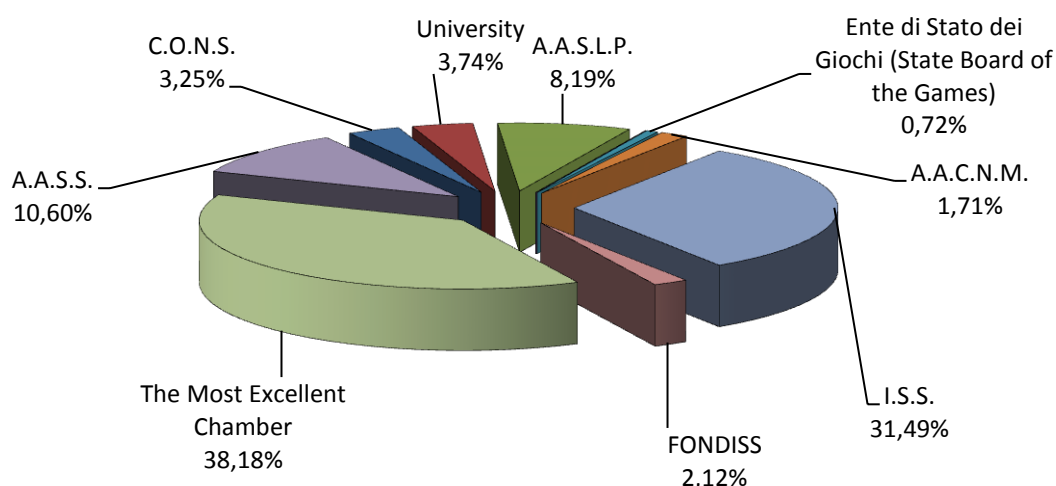


Figure 34 evidences that most of transactions, expressed as a percentage, were carried out for the account of the Most Excellent Chamber (38.18%) and of the I.S.S. - Social Security Institution (31.49%); followed by A.A.S.S. - State Autonomous Authority for Public Services (10.60%), A.A.S.L.P. - Autonomous State Authority for Public Works (8.19%), the University (3.74%), the C.O.N.S. - National Olympic Committee of San Marino (3.25%), FONDISS (2.12%) the A.A.C.N.M. - Authority for Civil Aviation and Maritime Navigation (1.71%) and the State Board of the Games (0.72%).

In 2015, the Treasury Department worked to facilitate the growth in collections through the instrument of the *direct debit*. This collection method is used mainly for the utilities of the State Autonomous Authority for Public Services, for school meal services, services performed by the Social Security Institution, management of the SMAC, both as discounts applied and as monthly top-up of the electronic purse.

In 2015, the Treasury Department, in addition to the Treasury-related collections, also managed, for the account of the Overdue Tax Collection Department, the collections related to the overdue Tax Collection notices and the collections made by the Collection Officers. Additionally, on instructions from the Overdue Tax Collection Department, the attachments on payment orders in favour of persons delinquent towards the Public Administration were also taken care of.

As regards the outgoing movements, during the financial year 2015 the use of the bank transfer (approximately 85%) prevailed over the drawing and receipt cheques. The use of the latter is still adopted for some types of payment by certain Entities. Specifically, in 2015 a considerable use was registered of cheques for paying pensions and tax refunds. However, it is expected that the use of the drawing and receipt cheques will decrease significantly, also due to article 24 of Law no. 146 of 19 September 2014 where, under paragraph 4, it is provided that tax payers must notify their current account for settling their credit positions

As regulated in the specific Agreement, the Treasury Department continued, in 2015, providing to the broader Public Administration deposit services in the technical form of a current account, based on the directions received from the requesting Entity/Office.

Finally, as usual, it prepared and transmitted periodically to the Broader Public Administration the reporting required by current regulations and agreements between the parties. Specifically, on a daily basis, it transmitted cash ledgers with the summary of incoming and outgoing movements for each Entity; on a monthly basis, it transmitted the statements of account, cash audits and the reconciliation statements required for balancing financial flows and the balances of the current accounts on which the amounts of the Entities are paid; as with every year, the Statement of Financial Conditions was prepared and transmitted, as provided for in article 3 of Law no. 35 of 3 March 1993 "Establishment of the Sole Treasury Service" (as amended by article no. 51 of Law no. 96 of 29 June 2005), and in the provisions referred to in Law no. 30 of 18 February 1998 "General Rules on the Accounting Legislation of the State" as subsequently amended and supplemented.

As regards future projects, the greatest challenges are related to the use of the direct debit for new types of collections, and, most of all, the reorganisation and adoption of new payment instruments capable of allowing the elimination of hard-copy forms and the reduction of processing times, costs and time required for crediting the Entities.

## 2.11 State Tax Department

The State Tax Department, open since 2005, is a Department active based on the guidelines provided for by the Law no. 70/2004 - which replaced the *Mano Regia* procedure - and performs the execution activities of recovery for the account of the financial administration.

The amounts collected in 2015 are equal to 15.4 million Euro. The most significant data of the activities of the Department are summarised in Table 32 below.

**Table 32 – Summary of the activities of the State Tax Department in 2015**

	2015
Entries in the Register	45,500,000
Collection of Entries (approximately)	15,400,000
Payment extensions executed (approximately)	9,200,000
Claims in insolvency proceedings (approximately)	6,900,000
Preparation of negative attachment reports (approximately)	3,300,000

Notes: figures in millions of Euro

From 2005 to date, additional legislative provisions were issued that expanded the types of credits that may be collected through a tax collection notice.

During these years the workload of the Department gradually increased given that the Bank, over the years, had to manage, besides the new entries in the Register, also those made in the previous years that were started but not completed yet; the files to be managed also include those related to the granting of payment extensions. Payment extension is an instrument that is increasingly used by the taxpayers; managing payment extensions starts with the verification of the conditions for its granting, provides for the periodic check of regularity in making the payments and the enforcement of the collateral in case of failure to comply with the repayment plan (generally of a five-year term). Also the files related to insolvency proceedings and similar increased over time.

In 2015, as in previous years, some highly challenging periods continued to occur, due to the complex economic and financial framework in which the Republic is acting.



In 2015, with the intent of enhancing the instruments and procedures aimed at increasing the collections for the account of the financial administration through the reorganisation of certain aspects of the Service, the Central Bank created a working group in charge of assessing the regulatory and procedural frameworks, the IT instruments and the number of resources currently available to the State Tax Department. Therefore, the Department is currently carrying out an analysis of the law for the purpose of preparing a proposal for its amendment aimed at making some procedures more effective; it is also preparing drafts of the implementing decrees referred to in Law no. 70/2004. Purpose of this work is to propose a new organisational model capable of enhancing the efficiency of the collection and the streamlining of costs, balancing the interest of the imposing Entities with the needs of citizens and enterprises, and coupling the recovery of the amounts due with an assessment of the individual cases in order to allow the taxpayer to pay his debt.

Finally, it is worth noting that in 2015 there was a significant increase in the certifications prepared by the Overdue Tax Collection Department at the direct request of the taxpayers, of the Chamber of Commerce, of the Office of Industry and of lawyers and accountants. In particular, these are certificates required for the definition of the taxpayer as qualified person for being registered in the register of suppliers of the public administration.

### 2.11.1 Entries in the Register

In 2015, the entries into the Register amounted to an aggregate of 45,474,856.17 Euro related to 240 entries for 37,977 items.

In the same period, releases from the Register amounted to 5 million Euro.

A reduction in the amounts of both the entries in the Register and the releases is registered compared to the previous year. On the contrary, the number of items entered in the Register, just as the number of the releases, is increased. Thus, in 2015 the average debt for each item was reduced to 1,200 Euro, from 1,500 of the previous year.

**Table 33 - Entries in the Register and releases**

Entries	2013		2014		2015	
	Amount	Number of entries	Amount	Number of entries	Amount	Number of entries
Managed	112,584,441.58	34,324	51,206,975.08	33,435	45,474,856.17	37,977
Released	26,454,845.57	2,680	7,270,224.86	2,149	5,168,462.45	2,463
% Released	23.5%	7.8%	14.2%	6.4%	11.4%	6.5%

**Table 34 - Entries in the Register in 2014-2015 broken down by Entity**

Entity	2014			2015		
	Amount	Entries	Number of entries	Amount	Entries	Number of entries
Most Excellent Chamber	43,586,457.20	71	26,813	32,535,577.44	67	26,551
Social Security Institution	7,546,477.85	115	6,189	10,187,875.48	140	10,110
State Autonomous Authority for Public Services	25,831.46	9	415	2,692,126.47	24	1,284
Central Bank	48,208.57	3	18	28,266.45	5	24
Financial Intelligence Agency	0.00	0	0	27,065.20	2	4
Autonomous State Authority for Public Works	0.00	0	0	3,945.13	2	4
<b>Total</b>	<b>51,206,975.08</b>	<b>198</b>	<b>33,435</b>	<b>45,474,856.17</b>	<b>240</b>	<b>37,977</b>

In the entries in the Register divided by Entities, besides the residual positions of the Central Bank, the Financial Intelligence Agency and the Autonomous State Authority for Public Works, there was a decrease in those for the Most Excellent Chamber, down, in percentage terms, from 85% of the total entries in the Register in 2014, to 71% of the total in 2015.

As regards the Social Security Institution, on the contrary, a considerable increase is registered compared to 2014: in terms of amount, it goes up from 15% of the total entered in the Register in 2014 to 22% of the total entered in the Register in 2015; Table 36 below will show the individual offices of the Social Security Institution that made the different entries in the Register. The increase was significant also for the Autonomous Authority for Public Services; if as at 31/12/2014 there were entries in the Register for an aggregate of 186,991.01 Euro, of which 25,831.43 registered in 2014, as at 31/12/2015 the entries in the Register were equal to 2,879,117.48 of which 2,692,126.47 registered in 2015. This is a considerable increase resulting from the possibility to enter in the Register and collect through the Overdue Tax Collection also utilities such a water, gas and electricity distribution, previously collected by other means. Of the 2.7 million Euro entered in 2015, 1.5 million Euro are related to just 2 taxpayers against whom the enforcements were already carried out that led to attachments for a value much lower than the debt payable.

**Table 35 - Entries in the Register in 2015 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 taxation section of the Tax Office	20,025,791.45	6,480	4,175,154.94	1,347
Direct taxation section of the Tax Office	7,454,555.77	947	114,557.25	7
Registry	4,170,943.16	18,210	52,170.87	171
Civil Police	298,278.64	604	4,777.80	5
Gendarmerie	15,534.00	24	203.25	1
Guardia di Rocca	45,633.84	41	604.00	1
Industry, Trade and Small Businesses	150,000.00	22	0.00	0
Labour	232,500.00	44	300.00	1
Vehicles Register	33,999.00	156	1,575.00	6
Inventories and assets of the State	108,341.58	23	5,170.92	1
<b>Total</b>	<b>32,535,577.44</b>	<b>26,551</b>	<b>4,354,514.03</b>	<b>1,540</b>

Of the entries of the Most Excellent Chamber, the highest entries were recorded by the Tax Office. The portion related to the indirect taxation section is equal to 61% of the total; the portion related to the direct taxation section is equal to 23%. Compared to 2014, the entries in the Register made by the indirect taxation section of the Tax Office recorded a considerable decrease, from 34.5 million in 2014 to 20 million in 2015. As regards the indirect taxation section, there is the opposite situation, since the entries in the Register increased from 3.6 million in 2014 to 7.5 million in 2015.

**Table 36 - Entries in the Register in 2015 made by offices of the Social Security Institution**

Office	Entry in the Register		Release from the Register	
	Amount	Number of entries	Amount	Number of entries
Contributions office	9,277,155.92	4,570	665,074.54	505
Public Healthcare Department	38,119.78	43	1,417.16	2
External healthcare benefits office	0.00	0	4,390.71	6
Accounting Office	54,433.96	393	3,212.18	44
Fondiss	818,165.82	5,104	39,433.00	324
<b>Total</b>	<b>10,187,875.48</b>	<b>10,110</b>	<b>713,527.59</b>	<b>881</b>



The entries in the Register made by the Social Security Institution, which increased, in aggregate, by 2.6 million Euro compared to 2014, register a considerable increase both as regards the contribution office, with entries in the Register up by 1.9 million Euro from 2014, as well as for FONDISS, up from entries in the Register for 124,413.50 Euro in 2014, to entries in the Register for 818,165.82 in 2015.

### **2.11.2 Collection activities**

In 2015, an aggregate of 15.4 million Euro were collected. Additionally, 142 thousand Euro in default interest and 83 thousand Euro in monetary sanctions were collected and paid to the financial administration.

In 2015, 69 new payment extensions were executed for an aggregate of 9.2 million Euro, 64 of which, for 9.1 million Euro, guaranteed by a mortgage on a real estate property and 5, for 123 thousand Euro, guaranteed by a bank guarantee. In 2015, 184 thousand Euro were collected and paid to the financial administration as payment extension interest. As at 31/12/2015, there were 3,864 items to be collected for which an extension was granted amounting to 14.2 million Euro against an initial amount of 16.9 million Euro.

In 2015, claims were lodged in 43 insolvency proceedings, 4 of which related to natural persons and 39 to legal persons. The claims lodged in 2015, amount to an aggregate of 6.9 million Euro. As at 31/12/2015, there were entries in the Register connected to insolvency proceedings for an aggregate of 87.9 million Euro. From 2005 to date, the aggregate amounts collected directly by the Department or by the imposing Entity as regards the proceedings initiated in the period 2005-2015 amounted to approximately 1.5 million; of this amount, less than 150 thousand were collected in 2015.

### **2.11.3 Enforcement procedures**

Overall, 437 attachments were executed in 2015 for credits of the financial administration payable by delinquent users; in these cases, when the taxpayer is at the same time debtor and creditor vis-a-vis the financial administration, the Overdue Tax Collection Department withholds, according to the procedure specified by law, as an advance or total payment the amount that should be paid to the taxpayer by such administration.

In 2015, the tax officials prepared 611 reports. There were 199 reports on attachments of movable assets, related to 170 taxpayers; there were 5 reports on real estate attachments related to 3 taxpayers. Additionally, 6 reports on attachments of salary were prepared against 4 taxpayers.

Some voluntary transfers of salary or pension were also formalised. At the end of the year over 100 c/a were active for the purposes of these payments, equally divided between one type of transfer and the other; for one taxpayer, a legal mortgage was registered on his/her real estate property.

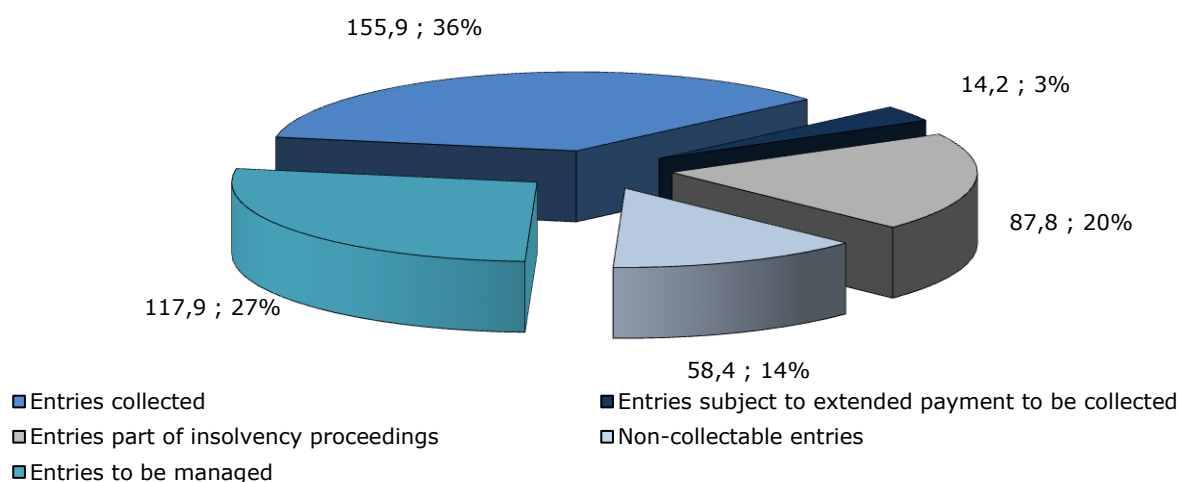
Additionally, 37 negative reports were prepared due to unknown whereabouts or a lack of means. In 2015, the entries for which such reports were prepared were related to entries in the Register for 3.3 million Euro, for 33 taxpayers, 9 of whom natural persons.

The figure below summarises the entries pending in the Register as at 31/12/2015. The overall summary of entries pending in the Register, equal to 434.3 million Euro, represents the difference between the amount entered in the Register from 2005 to 31/12/2015, equal to 542.8 million Euro, and that of the entries released in the same period, equal to 108.5 million. This amount is divided into entries collected for 155.9 million Euro (equal to 36% of the total), and entries with extended payment to be collected for 14.2 million Euro (equal to 3% of the total), entries in the Register connected to insolvency proceedings for 87.8 million Euro (equal to 20% of the total), entries in the Register for which a negative attachment report was prepared, for 58.4

million Euro (equal to 14% of the total) and, finally, entries in the Register still pending for 117.9 million Euro (equal to 27% of the total).

As regards the entries still pending, it should be noted that they are inclusive of entries related to 8 taxpayers for an aggregate amount of 30.4 million Euro for whom the Tax Office, pursuant to the delegated decree no. 24 of 27 February 2015, requested that all enforcements be suspended.

**Figure 35 - Summary of entries pending in the Register at 31/12/2015**



Notes: figures in millions of Euro.

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

In 2015, the Registry Office issued the entries in the Register CAUTA for 18,194 taxpayers, for an aggregate amount of 4.1 million Euro. As at 31 December 2015, CAUTA entries had been paid for 3.5 million Euro, whereas 549 thousand Euro were still to be paid (equal to 13.2% of the amounts entered in the Register).

As evidenced in Table 37, the results of the CAUTA entries in 2015 are in line with those of the previous years.

**Table 37 - Comparison of CAUTA-related data**

Entries	2013		2014		2015	
	Amount	Number of entries	Amount	Number of entries	Amount	Number of entries
Entered	4,516,204.27	18,746	4,366,566.06	18,715	4,147,413.60	18,194
Released	34,612.19	149	44,542.21	141	45,451.87	153
Collected by the Central Bank	3,898,048.34	16,930	3,676,674.15	16,756	3,533,318.46	16,386
To be managed	574,042.77	1,647	623,841.95	1,780	548,580.64	1,620
% Released	0.8%	0.8%	1.0%	0.7%	1.1%	0.8%
% Collected by the Central Bank	86.3%	90.3%	84.2%	89.5%	85.2%	90.1%
% To be managed	12.7%	8.8%	14.3%	9.5%	13.2%	8.9%

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

In 2015, besides the 2 auctions of movable assets held, as in the previous years, the results of which are shown in the table below, the Overdue Tax Collection Department organised





and managed also private tenders. These tenders regarded huge quantities of assets to be realised fast and in one single block, or assets that, due to their peculiarities, were not of general interest. An aggregate amount of 150 thousand Euro was collected from these tenders.

**Table 38 – Collections resulting from the auctions of movable assets**

	2013		2014		2015	
	I auction	II auction	I auction	II auction	I auction	II auction
Value of assets	326,031.00	312,427.00	310,567.00	544,371.35	445,845.00	258,943.20
Collected	171,273.37	234,968.05	223,230.12	175,827.96	209,753.05	136,864.91
% Collected	52.5%	75.2%	71.9%	32.3%	47.0%	52.9%

### 2.11.5 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 (recovery action) currently pending judgement;
- 2) an administrative appeal that was rejected;
- 3) two administrative appeals that were rejected at first instance and accepted at the appeal, for which in 2016 the third instance Judge confirmed the sentence of first instance.

### 2.12 Management of liquidity and the financial portfolio

The global growth in 2015 was equal to 3.1% (source IMF), slightly less than the global data registered in 2014, with 3.4%.

Growth forecasts for 2016, are set at 3.4% (IMF).

The data for 2015 is affected mostly by the economies of the emerging markets that registered data below expectations, mainly due to the drop in the demand for raw materials, with subsequent drop in prices, depreciation of national currencies and volatility in the financial markets.

One of the main causes of the drop in the demand for raw materials was the Chinese economy, with its economic growth of 6.9% in 2015 (source IMF) compared to 7.4% registered the previous year; during the year, the Central Bank of China (People's Bank Of China) had to repeatedly resort, within a few days in the middle of August, to three devaluation of the foreign exchange rate against the US dollar in order to support the real economy through exports.

Brazil, one of the major exporting countries of raw materials and one of the most affected by the international economic crisis, registered a negative growth of -3.8% compared to the small increase (+0.1%) of 2014 (source IMF).

In Europe, at the meeting held in January 2015, the ECB introduced the monetary policy instrument of the *quantitative easing*, aimed at increasing the liquidity available to the system through the purchase of different types of bonds; the overall amount of this measure, which provides for the monthly purchase of securities for 60 billion Euro, amounted to over one billion Euro in new liquidity; additionally, the measures adopted by the ECB in 2015 include the reduction of interest rate paid on the liquidity deposited by the banks with the central institution from -0.20% to -0.30% (this rate for on demand deposits was further reduced at the beginning of 2016 to -0.40%).

One of the main causes of strain and volatility on the financial markets worldwide in the first part of 2015 was the Greek crisis: the frictions between the Greek government and the international monetary and political authorities, and the failure to comply with the undertakings



taken by Greece as regards the repayment of the debts assumed with the International Monetary Fund, led to the suspension, by the European Central Bank, of the disbursement of the emergency funds to Greece.

Financial markets were heavily affected by the Greek crisis, with considerable widening of the spreads on the sovereign debt of the so called peripheral countries of the Euro area; the spread between the Italian ten year Btp and the German equivalent bounced back above 160 b.p. at the beginning of July, and the yields of sovereign bonds of the more virtuous countries also increased (the yield of the ten year German Bund got close to 1% in the first part of the month of June, during the worst phase of the Greek crisis).

Gradually, in Summer, the situation evolved positively with an agreement between the Greek government and the international authorities for the disbursement of a third bailout programme for the Greek economy against additional cuts to the public expenditure, thus preventing the exit of the country from the Euro zone.

At the end of November 2015, the International Monetary Fund decided, after a long assessment, that the Chinese currency, the Renminbi, meets the criteria required to enter the group of currency that comprise the reference basket for the *special drawing rights* (SDR); this decision will become effective from 1 October 2016.

Finally, in December the Federal Reserve increased, for the first time since 2006, the interest rate by 0.25% due to the gradual strengthening of the economy, with an unemployment rate at around 5% and an expected increase in inflation rate at the medium period target of 2%.

In 2015, due to the continuation of the expansionary actions of the ECB, the three-month Euribor, which is the main reference parameter for setting coupons of floating rate securities of the bond portfolio of the Central Bank, gradually decreased from a positive value, at the beginning of the year, of 0.07%, to a negative figure of -0.13% at the end of the year, with an average level in 2015 equal to -0.02%, against the average level of +0.21% registered in 2014.

In 2015, the amount of debts of the Central Bank with other banks was equal to 204 million Euro, up by 42% from to the end of 2014 when this data was equal to 143 million Euro; the debts with customers dropped by 28% compared to 2014, to 95.2 million Euro from 132.8 million Euro.

Overall, interest paid dropped from 0.6 to 0.05 million Euro, down by 91%.

Inter-bank loans increased by 49%, to 57.6 million Euro from 38.8 million Euro at the end of 2014.

The amount of the bond portfolio was equal to 253.6 million against 247.6 million Euro registered in 2014, up 2% in the balance.

Total interest received and other proceeds amounted to 2 million Euro, down by 17% compared to 2.5 million Euro in 2014; the portion of this figure related to interest on debt securities was equal to 1.7 million Euro, down by 13% from 2 million Euro registered the previous year.

The amount of profits from financial operations was equal to 0.6 million Euro, down by 84% compared to the 3.4 million Euro registered in 2014, mainly due to the widening of the credit spread on most of European issuers, as a consequence of the worsening of the creditworthiness which also reflects several factors of crisis that affect the metals and mining industry, the automotive segment (as for the Volkswagen, which spread also to the other issuers of the industry) and the banking and financial sector (with several cases of lack of confidence towards some operators of the industry due to the incumbent coming into force of the so called *bail in* procedure as from 1 January 2016); the continuous erosion and decrease in the interest rate level due to the many interventions of certain Central Banks, and, in particular, of the European Central Bank, which gradually implemented more expansive monetary policies in order to prevent existing deflationary



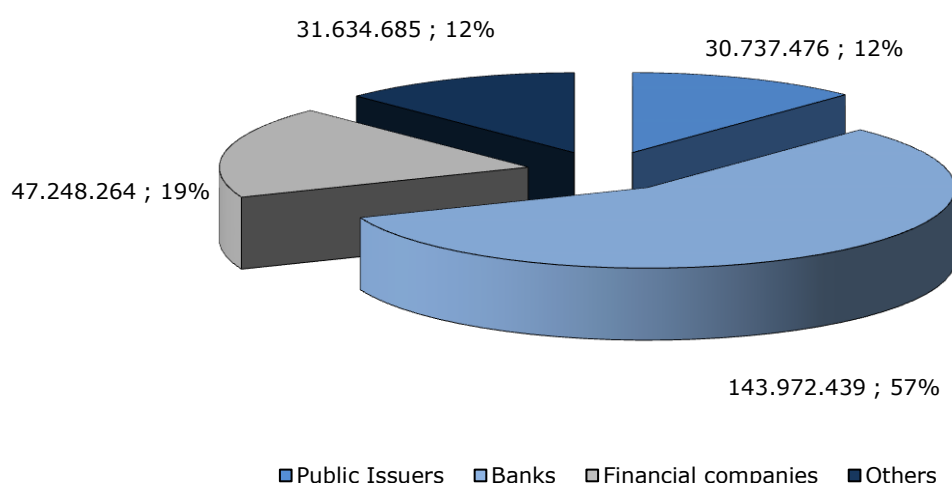
pressures in the Euro area, generally made the management of a portfolio of bonds expressed in the single currency increasingly less profitable.

Also in 2015 a continuous use was made of bond trading, taking advantage of the volatility of interest rate movements and changes in credit spread; this activity made it possible to partly mitigate both the negative effect due to the drop in the prices of the securities of many issuers and the extremely low level of returns on *investment grade* securities, which comprise the investment portfolio of the Central Bank.

With returns below zero for many maturities and issuers (it is estimated that, at the end of 2015, about 40% of sovereign issues in the Euro area had a yield below zero), the number of categories of securities and issuers on which the Central Bank may invest continues to decrease, just as the number of bank counterparts that trade these instruments in *market-maker* quantities and that no longer find the trading of such products sufficiently profitable to dedicate their capital and resources, thus reducing the liquidity of the market as well as trading possibilities.

Figure 36 below shows the size and composition of the securities portfolio of the Central Bank, broken down by sectors, at the end of 2015.

**Figure 36 - Composition of the bond portfolio**



Notes: Figures in Euro.

## 2.13 Second social security pillar (FONDISS)

As in the previous year, also in 2015 FONDISS continued to invest monthly in time deposits with the banks of San Marino the welfare contributions collected, with maturities of no more than twelve months.

As custodian bank of FONDISS, the Central Bank verified compliance with the investment restrictions, settled the transactions for opening the deposits with the banks of San Marino and followed the recovery of the funds upon maturity of such deposits, verifying the accuracy of the amounts.

Additionally, the Central Bank verified the data notified by FONDISS and related to the monthly unit value, verifying, in particular, the aggregate value of equity and the number of units outstanding.

**Table 39 – Financial instruments and other assets linked to the activities as custodian bank**

Year	31 December 2014	31 December 2015
Liquidity deposited with the Central Bank	1,045	316,775
Other assets other than financial instruments and liquidity (term deposits)	13,993,000	23,806,000
<b>Total</b>	<b>13,994,045</b>	<b>24,122,775</b>

Notes: Figures in Euro, excluding accruals.



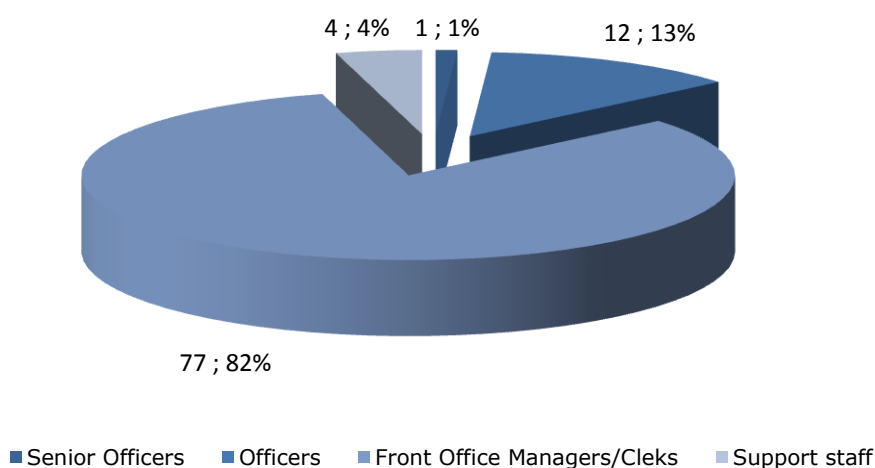
### 3 INTERNAL RESOURCES

#### 3.1 Human resources and corporate staff

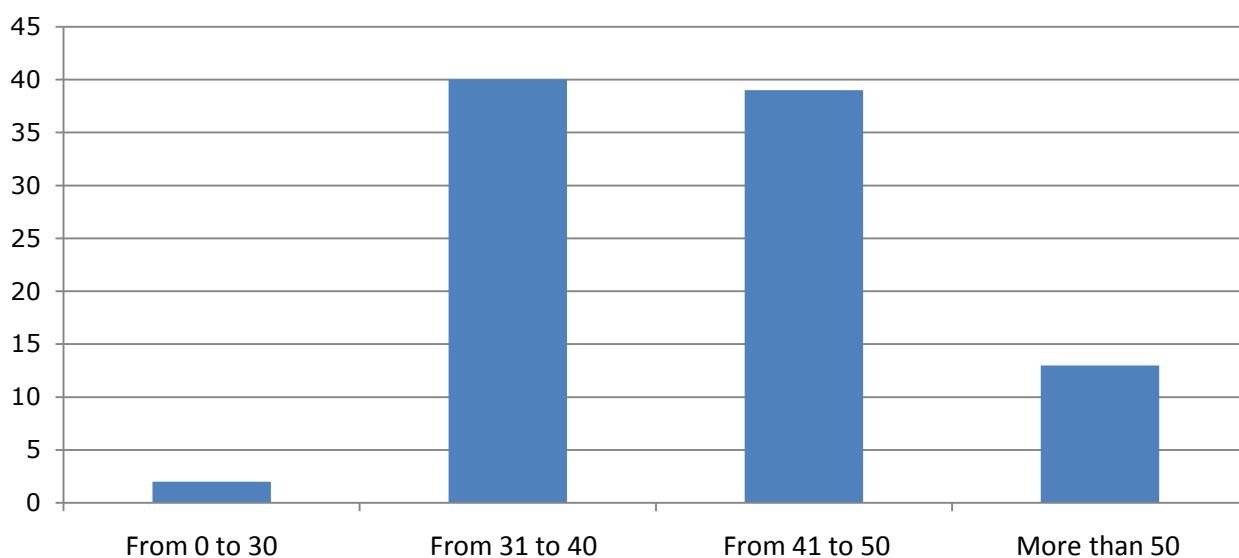
As at 31 December 2015, the number of employees of the Central Bank was equal to 94, 15 of which working at the Financial Intelligence Agency. The average age is of 42 years while female staff represent 51% of the total.

The breakdown into contractual categories is set forth below in Figure 37 whilst in Figure 38 we can find the breakdown of staff by age (data as at 31/12/2015).

**Figure 37 - Breakdown of Central Bank and FIA staff according to contract categories**



**Figure 38 - Breakdown of Bank and FIA staff by age (number of employees)**



Compared to 2014, the staff has not increased in number; there were two terminations of the employment and two new employees were hired, one of whom on a fixed term contract to replace one resource absent but entitled to maintain the job.

The real average resources working in the bank, considering hirings, resignations, long term leaves and part time employees was equal to 87.85.

In 2015, a number of high professional profiles left the Supervision Department, and this called for a strengthening and support plan; thus, internal transfers of resources were arranged trying to leverage the best the expertise already available.

Education focused specifically on some internal activities and *in house* courses; these included an education and training programme for the staff of operational areas, particularly with reference to the recent regulatory developments on anti-money laundering. Overall, approximately 1,200 hours of education were delivered, up by 82% from the previous year, with an average of 12 hours per employee.

The Central Bank should be provided with adequate resources, so as to be able to perform its functions and duties autonomously, also through the specialised training of the staff. This will also allow the Bank to deal with demanding challenges, the new projects and commitments assumed at an international level by the Republic of San Marino, as well as those resulting from the evolution of the credit and financial market of San Marino.

### **3.2 Organisation chart**

In 2015, two plans were implemented for the reorganisation of the Central Bank, by adopting medium term measures, in order to satisfy the operational needs of the Supervision Department, which also led to a different distribution of tasks within the Services of the Department itself.

In March 2016, with reference to the credit risk centralisation service managed by the Central Bank, and in compliance with the provisions of article 50 of Law no. 165/2005 (LISF) and of the Circular no. 2015-02 of the Bank "Information Requirements concerning the Central Credit Register", a new organisational unit was created within the Supervisory Reporting and Methodologies Service (Supervision Department), named Central Credit Register.



**Figure 39 - Organisational chart as at 31/03/2016**

