

# ANDORRA

## 2013 AND ITS FINANCIAL SYSTEM



# ANDORRA

and its Financial System



ASSOCIACIÓ DE BANCs ANDORRANS

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We are very pleased to present this eighteenth edition of *ANDORRA AND ITS FINANCIAL SYSTEM*, which was introduced with the purpose of presenting economic and social data on the Principality of Andorra and its banking sector in particular.

Over the years, *ANDORRA AND ITS FINANCIAL SYSTEM* has become a pioneer publication within the sector given the fact that it is published by one of the few banking associations that offers aggregate data on its banking system with the aim of becoming a useful tool of reference.

*ANDORRA AND ITS FINANCIAL SYSTEM* is structured into five chapters. The first chapter entitled "The Principality of Andorra" introduces us to the history of Andorra, the main data of the country and its institutions. The following chapter on the "Andorran legal framework" explains Andorran legislation within the mercantile, labour and tax fields as well as that relating to the financial system. This section is completed by an overview of the evolution of the legal and regulatory framework of the Andorran financial system from an international perspective. The third chapter on the "Economic Environment" offers us an analysis of the evolution of the different sectors of the Andorran economy and the macro-economic indicators. The chapter on the "Banking Sector" presents the main data for the system and it offers a general view of this important pillar of the Andorran economy as well as the future challenges that are associated with an increasing presence in the international arena. The publication concludes with a section containing "Information of interest", which describes the different organs of the government and institutions.

The Association of Andorran Banks, which encompasses all the banking entities present within the Andorran financial market and which represents the interests of all its members, works actively to increase people's awareness of the country and to strengthen the image and presence of the banking sector beyond our borders.

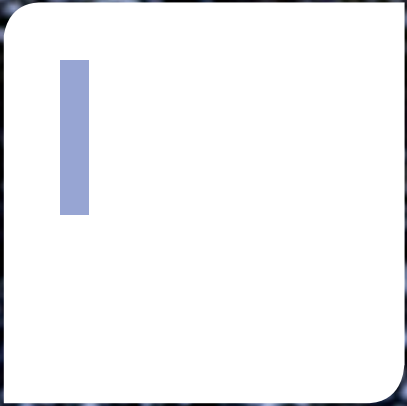
Working along these lines, the Andorran banks have continued to adapt to the new economic environment and they have confirmed their solidity by offering on-going displays of solvency in the face of an international context that is proving to be particularly complex for the banking sector. The excellent solvency and liquidity ratios of the country's banks are among the highest in Europe. These indicators underline the positive evolution of the Andorran financial system as well as its consolidation within the internal and foreign markets and they also highlight the diversification and growth of its business.

The Andorran banking sector has prepared itself for the various future challenges that will appear, especially in terms of adapting its services and processes to international standards in order to be able to compete with other financial markets around the world under equal conditions.

We are confident that this publication will contribute to creating a better body of knowledge and a greater awareness of the Principality of Andorra, and more particularly of our banking sector and its more than 1,300 professionals.







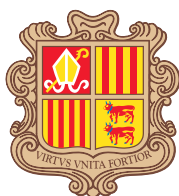
# THE PRINCIPALITY OF ANDORRA

## I.1. Introduction to Andorra

The **Principality of Andorra** is a **European micro-State** located in the Central Pyrenees between Spain and France, members of the European Union, sharing a southern and western border of 64 km with Spain and a Northern border of 57 km with France. The capital of Andorra is Andorra la Vella.

Andorra covers a surface area of approximately **468 km<sup>2</sup>** and is larger than that of other small European States such as San Marino (61 km<sup>2</sup>), Liechtenstein (157 km<sup>2</sup>) or the Principality of Monaco (1.5 km<sup>2</sup>).

The Andorran flag and coat of arms are shown below:



The official language of Andorra is **Catalan**, although Spanish and French are also widely spoken due to the economic and social contacts with these neighbouring countries. English is also used for commercial and financial purposes.

The Principality of Andorra, before the signature of the Monetary Agreement, did not have an official currency and had not signed any agreement with any States to adopt their currency, that's why it adopted the **euro** on 1<sup>st</sup> January 2002 on the same day as other Member States of the European Union. The Spanish peseta and the French franc had circulated de facto in Andorra until then and they were then replaced by the euro.

On 30<sup>th</sup> June 2011, the Principality of Andorra signed a Monetary Agreement with the European Union to make the euro the official currency of the Principality of Andorra. With the ratification of this Agreement, the Principality of Andorra had the right to issue euro coins, for both circulation and collectors, and it is obliged to accept euro notes and coins issued by the Eurosystem and by the Member States that have adopted the euro as legal tender.

The first Andorran Euros will be probably put in circulation during 2014.

Andorra is a mountainous country. Its lowest point is where the Runer River meets with the Valira River (838 m) and its highest point is the peak of Coma Pedrosa (2,942 m). The climate in Andorra is considered to be dry and Mediterranean. Temperatures vary slightly between the mountain and valley areas, mainly due to significant differences in altitude. The average minimum temperature is -2°C, while the average maximum temperature is 24°C. Snowfall is frequent between the months of October and April and rain falls mainly in spring and autumn. Water is one of the most important natural resources, allowing for the exploitation of hydroelectric energy and thermal activities.

In 2013 Andorra had a **population** of 76,098 (76,246 in 2012), 45.98% with Andorran nationality (45.14% in 2012), 26.37% with Spanish nationality (26.65% in 2012), 14.20% with Portuguese nationality (14.73% in 2012), 4.86% with French nationality (4.98% in 2012) and 1.28% with British nationality (1.26% in 2012). The remaining 7.31% of the population comprises more than 20 different nationalities, in addition to those stated above. [\[graph 1\]](#)

As can be observed in the graph, an analysis of the population in 2013 by age group reveals that, for both men and women, the age group 30-49 years represents the highest concentration of population. Data from previous years also shows that the population distribution has followed the same trend for several decades, whereby the highest concentration is found among people of a working age. This concentration reflects the reality of the Andorran labour market since a high percentage of the active population comes from outside Andorra due to the shortage of internal human resources. These work-

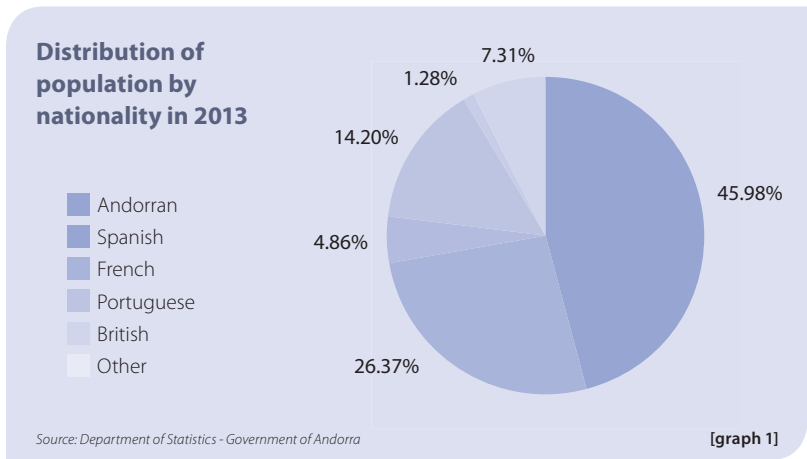
ers do not usually form part of a stable family unit resident in the country, and they therefore return to their country of origin when they reach retirement age. [graph 2]

**Andorran nationality** can be acquired in different ways and in the case of foreigners who marry Andorrans, it is granted provided that they can prove uninterrupted residence in Andorra for a prior period of three years. Other foreigners who have lived for at least twenty years in Andorra may also apply for Andorran nationality. The Andorran Constitution does not allow dual nationality.

In Andorra, there are different **types of residence** to choose from, depending mainly on whether or not one wishes to carry on a professional activity in the Principality. The Qualified Immigration Law 9/2012 of 31<sup>st</sup> May regulates aspects concerned with the entry, stay and establishment of one or several non-Andorran persons in Andorra. This law envisages a work and residence regime as well as a residence regime without a lucrative activity. Among other aspects, it establishes the three types of residence permits without lucrative activity (known hitherto as passive residence) that exist and which are as follows:

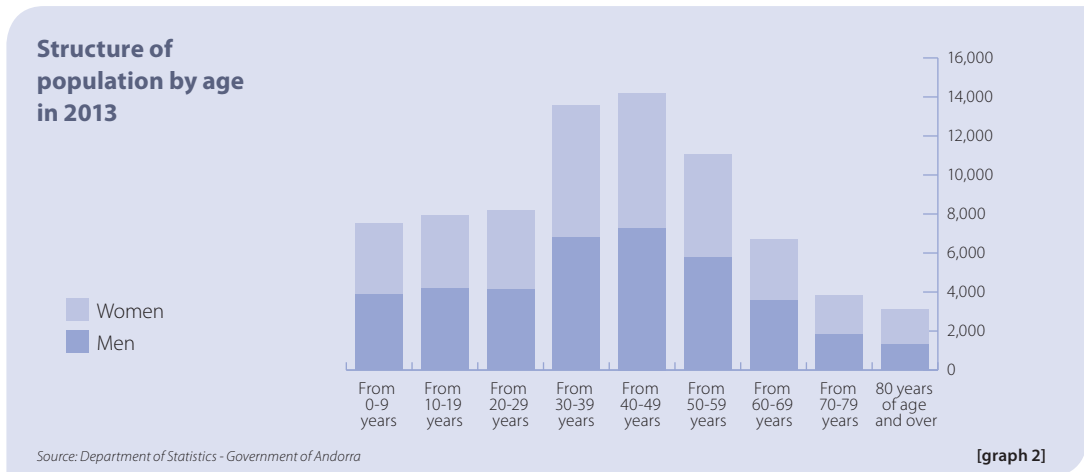
- Residence without any lucrative activity.
- Residence for professional reasons.
- Residence for reasons of scientific, cultural and sporting interest.

*Law 10/2012 on Foreign Investment in the Principality of Andorra* was passed on 21<sup>st</sup> June 2012, allowing the liberalization of foreign investments in all sectors of the economy and it establishes that the economic rights of physical persons are acquired when they obtain their legal residence permit in the Principality. Non-resident physical persons who are legally of age and who wish to acquire real estate in Andorra will be subject to prior authorization from the competent Ministry provided that they do not hold Andorran nationality.



**Andorra's educational system** is multilingual and based on a plural and mixed structure, as public education is available in three different systems: Andorran (which celebrated 30 years of existence in September 2012), French and Spanish and private education is also available in a school which follows the Spanish system. Students who wish to continue into higher education can choose between remaining in Andorra and following professional training or university studies through the degree courses offered by the University of Andorra or pursuing their higher studies abroad. The majority of Andorran students who choose the latter option move to the neighbouring countries of France and Spain. The University of Andorra, founded in July 1997, offers classroom-based, virtual and post-graduate courses. The educational institution "La Salle" inaugurated on 28<sup>th</sup> June 2012 a new university in Andorra (La Salle-Andorra Open University) which offer on-line and semi-distance courses in Technology and Social Sciences.

Similarly, a Law was passed on 30<sup>th</sup> October 2008, authorizing the creation of the Universitat de les Valls, the first private university in Andorra, which opened the Faculty of Odontological Science as the first centre of the university in September 2012. The Decree of the Government of Andorra







As shown below, Andorra is divided for administrative purposes into seven territories called **parishes** with varying surface areas and populations. Each of these parishes has its own *Comú* (Town council). The seven parishes are Canillo, Encamp, Ordino, La Massana, Andorra la Vella, Sant Julià de Lòria and Escaldes-Engordany. [map 1]

The surface areas of the seven parishes and their population in 2013 are as follows: [graph 3]

To reach the Principality by motorway from the main cities of the neighbouring countries, the **distances** are follows:

**From Spain:**

Madrid 612 km.  
Barcelona 198 km.

**From France:**

Paris 961 km.  
Marseille 534 km.  
Toulouse 186 km.

Andorra is connected by public and private transport to the main cities of the neighbouring countries.

The Principality does not have its own railway network, although it can be reached from Lleida or Puigcerdà in Spain and from Ax les Thermes or L'Hospitalet in France in less than an hour by road.

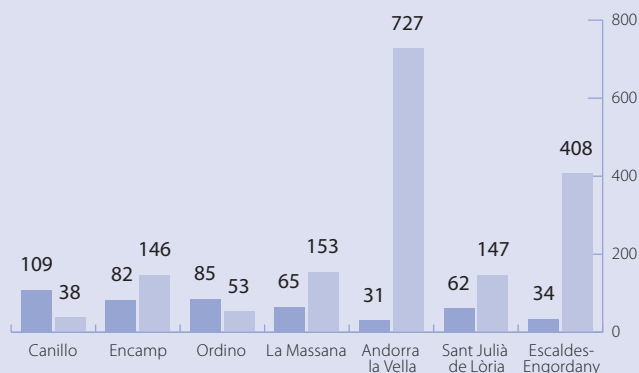
The nearest airports are in Toulouse and Perpignan (France) and Barcelona, Lleida, Girona and Reus (Spain).

The Principality has a high-speed fibre optic network that offers 100 Mbps symmetrical Internet speeds and it has a 3G mobile network that is in constant evolution, and these allow and facilitate the professional sectors to develop their tasks in the best possible way and helps them gain competitiveness with their clear commitment to innovation aimed at positioning Andorra as a Smart Country.

of 1<sup>st</sup> February 2012 approved the study plan for its Master in Odontology, thereby giving state status to the diploma, which means that it is recognized in all the Member States of the European Space for Higher Education.

**Surface areas and population of parishes 2013**

■ Area in Km<sup>2</sup>  
■ Inhabitants per Km<sup>2</sup>



(Km<sup>2</sup>) Source: Department of Statistics - Government of Andorra

[graph 3]

## I.2. History of Andorra

Andorra’s history is documented in scripts discovered in the 9<sup>th</sup> century, which record the first written evidence relating to Andorra.

A Carolingian order dating from 843 and signed by Charles the Bald, granted the Valleys of Andorra to Sunifred, Count of Urgell. In 988, Borrell II, the Count of Barcelona and Urgell gave Andorra to the Diocese of Urgell in exchange for property within the County of Cerdanya. The Bishop of Urgell therefore became the temporary sovereign of the Valleys.

However in the following centuries, the Bishop of Urgell entered into conflict with the Count of Foix who wanted to recover what previously belonged to him. This conflict was resolved upon the signing of the first and second *Pariatges* (feudal charters) in 1278 and 1288, between the Bishop of Urgell and the Count of Foix. These arbitrary rulings established an indivisible joint ownership of the valleys, conferring equal seigniorial rights and powers between the Bishop and the Count (who established the taxes to be paid by the Andorrans and exercised joint justice through the *batlles* — a kind of first instance magistrates court specific to Andorra—, the military obligations of the Andorrans and the appointment of notaries and curates). In short, the *Pariatges*, signed over 700 years ago, represented Andorra’s independence.

At a later date, the co-rulers’ rights over Andorra were transferred to the kings of France, the heirs of the Count of Foix and subsequently to the President of the French Republic.

At the beginning of the 1980s it was obvious that Andorra’s institutions needed to be reformed. As a result of the separation of powers in 1981 an agreement was drafted between the co-princes, with the creation of the Andorran Government, known as the Executive Council, and the Head of Government. In accordance with the co-princes, different reforms were then introduced such as the Criminal Code and the Administrative Code.

A great change took place in Andorra on 14<sup>th</sup> March 1993, when the Constitution was approved by referendum. The Constitution converted the Principality of Andorra into an independent legal, democratic and welfare State. Although this may seem recent, the Principality of Andorra has in fact been governed by its own institutional system for over 700 years.

As a result, the Andorran citizens assumed sovereignty, but the co-princes, jointly and severally, are still the head of State. This position is occupied exclusively and personally by the Bishop of Urgell (currently his Grace Mr. Enric Vives i Sicília) and the President of the French Republic (currently his Excellency Mr. François Hollande). Each co-prince appoints a personal representative in the Principality of Andorra.

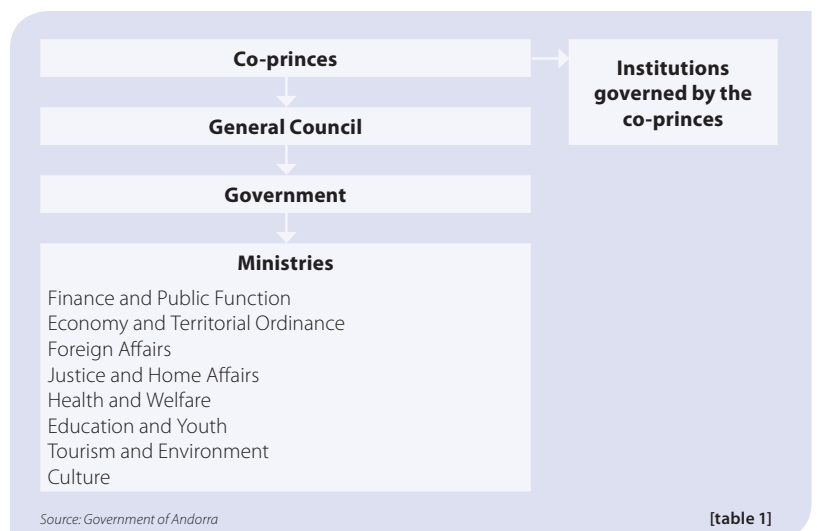
## I.3. Andorran Institutions

### Main Institutions and Political Bodies

A chart of the main institutions in Andorra is as follows: [table 1]

As explained above, Andorra drafted a modern Constitution and created a parliamentary co-principality in 1993.

The **co-princes** arbitrate and moderate in the functioning of the public and institutional powers. Some of their functions include the sanctioning and passing of laws, calling general elections; calling referendums on political matters when requested to do so by the Head of Government and the majority of the General Council. Those who countersign the actions of the co-princes are held liable thereto.



[table 1]

The **General Council** (Andorran Parliament) is the highest representative body of the Andorran people and exercises legislative power, approves Government budgets, appoints the Head of Government and promotes and controls the political actions of the Government. The General Council is formed of 28 members who are elected by universal suffrage every 4 years. Half of these councillors are elected for the parishes and the other half for the national constituency. The General Council is governed by the Syndic's office, headed by the Syndic general and the vice-Syndic elected by the General Council. With the approval of the Constitution, the regulations originating in the General Council receive the unitary denomination of laws.

Since April 2013 Andorra has the following **political parties** with parliamentary representation: Demòcrates per Andorra, Socialdemocràcia i Progrés d'Andorra and the Partit Socialdemòcrata (affiliated to the International Socialists).

The **Government** is the executive body of the State and is formed of the Head of Government and ministers. The Head of Government is elected by the General Council and directs the national and international policies of Andorra, the State administration and exercises regulatory powers (please refer to the composition of the current Government in Chapter V – Information of interest).

Andorra is divided for administrative purposes into seven parishes: Canillo, Encamp, Ordino, La Massana, Andorra la Vella, Sant Julià de Lòria and Escaldes-Engordany. The representative and administrative body of the parish is the **Comú** which acts through its Council. The Constitution defines the *Comuns* as public corporations with legal status and with local legislative power, subject to the law, by way of by-laws, regulations and decrees. The voters of each parish elect ten councillors, two of whom are appointed as Mayor (*Cònsol Major*) and vice Mayor (*Cònsol Menor*).

The **Accounts Tribunal** is an independent technical body linked to the General Council which taxes public spending. It is also in charge of verifying the transparency of the public Administration's economic, financial and accounting management.

## Other Institutions

**Andorran legal bodies:** The mission of the legal bodies is to ensure all public authorities comply with the law, control the legality of administrative activities, and offer all citizens effective protection when exercising their rights and defending their legitimate interests.

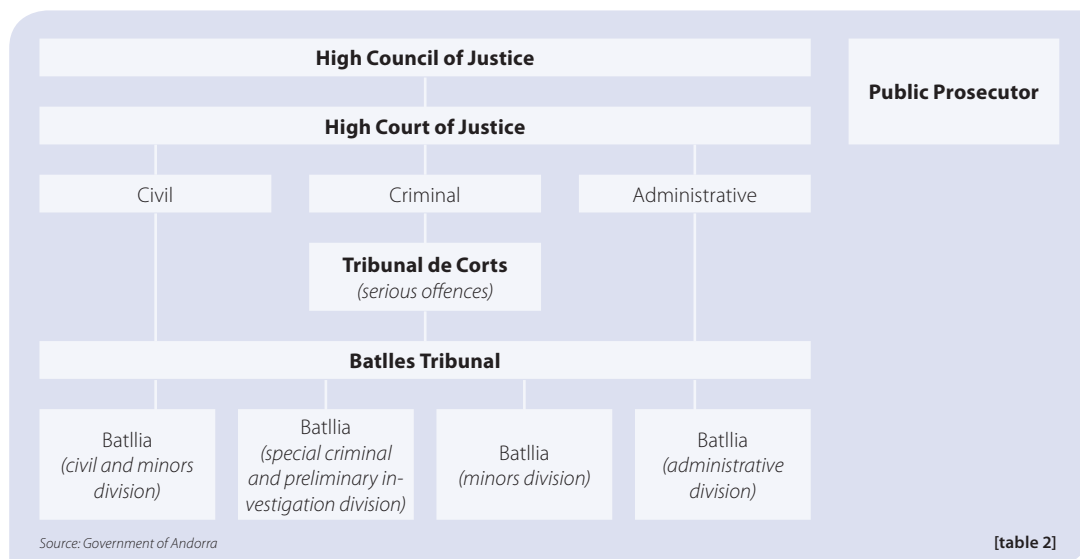
The **Citizens' ombudsman** is an institution which defends and oversees compliance and application of the rights and liberties included in the Constitution, acting as a commissioner or delegate for the General Council. The Citizens' ombudsman receives and processes all complaints and claims relating to citizens' dealings with all the public administrations and entities in the Principality, responding with independence and impartiality.

The **Andorran Data Protection Agency** (APDA), created by the *Andorran Data Protection Act 15/2003 of 18<sup>th</sup> December 2003*, is a public institution with its own legal status and full capacity to perform its own functions to exercise authority over the treatment of personal information provided by individuals, private entities and Andorra's public administration. It is an independent authority which performs its functions objectively and in full independence from the Andorran public entities. Its objective is to ensure respect for the fundamental rights of individuals in all automated or manual processes involving an exchange of personal information, with particular importance placed on privacy protection rights.

The **Andorran Tax and Border Agency** (AAFF) is the body entrusted with the management of all direct taxation matters resulting from the tax reform process that the Andorran state implemented after the signing of the Monetary Agreement to modernise its fiscal system and to bring it into line with the systems in neighbouring countries. The AAFF is a public institution that takes the form of a public law entity with its own legal and autonomous status; it takes its inspiration from the international recommendations received from the World Customs Organization and from the IMF, among others. The agency grew out of the merger between the Taxation Department and the Customs Department, the aim being to speed up and improve the management, liquidation, collection, control and inspection of taxes, and this involved the creation or restructuring of a series of taxation figures in force in the Principality. By bringing the two departments together, the agency can offer guarantees in the fight against the various forms of tax fraud and other illicit activities, in coordination and cooperation with other tax administrations as well as with other public law corporations and associations within the taxation field.

An organisational chart of the Andorran legal system is as follows: [table 2](#)

The **Constitutional Tribunal** is the highest Constitutional body and its rulings bind public powers and individuals. It approves its own regulations



and it is solely subject to the Constitution and the Qualified Constitutional Tribunal Law when exercising its functions. It consists of four constitutional magistrates, one for each of the co-princes, and two for the General Council, each with a mandate of eight years, which cannot be renewed for consecutive periods.

The **High Council of Justice** is the body representing, governing and administering the judicial system which oversees the independence and adequate functioning of Justice. It is comprised of five appointed members, one for each co-prince, one for the Syndic general, one for the Head of Government and one for the magistrates and *batlles* (judges specific to Andorra). This council is in charge of appointing *batlles*, magistrates, the Public Prosecutor, assistant prosecutors and judicial secretaries, exercising a disciplinary function and promoting the conditions required to ensure that the judicial authorities have the adequate means to carry out their functions.

The **Public Prosecutor** is the body which oversees the defence and application of law and order, as well as protecting the independence of the courts and promoting the application of the law in the courts to protect the rights of the citizens and to defend general interests. It consists of members appointed by the High Council of Justice at the

request of the Government, with renewable mandates of six years.

The **High Court of Justice** has the highest level of authority in the Principality's legal system and consists of a president and eight magistrates appointed by the High Council of Justice. It consists of a civil court, a criminal court, and an administrative appeals and social security court.

The **Tribunal de Corts** is responsible for hearing cases in the first instance regarding serious offences and enforcing sentences and other rulings. This tribunal hears appeals against criminal sentences for minor criminal offences passed by the *Batlles Tribunal*, and for breaches of the criminal law passed by the *batlles* (judges specific to Andorra). Through its president it performs prison-related duties and enforces sentences. It currently consists of a president, a vice president, a magistrate and two assistant magistrates.

The **Batllia of Andorra** hears in the first instance civil, criminal and administrative cases and consists of the *batlles* (judges specific to Andorra), judicial secretaries and a President. The President of the *Batlles Tribunal* is also the President of the *Batllia*. As a collegiate tribunal, the *Batlles Tribunal* has three divisions: civil, criminal and administrative, plus a preliminary investigation division.

## Other Bodies

The **Andorran National Institute of Finance** (INAF) is a public entity with its own legal status and full capacity to operate either publicly or privately, independently from the central government. As an authority of the Andorran financial system, the INAF promotes and endorses the correct functioning and stability of the financial system. The Institute has the power to carry out all the actions

that are necessary to ensure the correct development of its supervision and control functions, disciplinary and sanctioning power, treasury and public debt management services, financial agency, international relations, advice and studies.

The **Andorran Financial Intelligence Unit** (UIF) is an independent body created to foster and

coordinate measures to prevent money laundering and terrorist funding. This unit was created in 2000 under the Law for international cooperation on criminal matters and the combat against the laundering of money or securities arising from international crime, following recommendations of the European Council's MONEYVAL Committee and the 40 recommendations from the FATF (Financial Action Task Force). This body became known as the Unit for the Prevention of Money Laundering and it started operations in July 2001.

At the present time, the Permanent Commission for the Prevention of Money Laundering is working on several legislative amendments, which are intended to bring our procedures further into line with required international standards.

The **Unit for the Prevention and the Fight against Corruption** (UPLC) is a department of the central Administration and it depends directly on the Ministry of Finance and Public Service of the Government of Andorra. It was created by Decree on 16<sup>th</sup> January 2008 within the framework of the anticorruption policy that was being undertaken at that time; its aim is to centralize and coordinate actions that might concern local Administrations, national bodies and entities with an international scope and this led to the Government deciding on the appropriate resources to define and efficiently implement the measures and initiatives that it hopes to adopt.

The **Andorran Chamber of Commerce, Industry and Services** (CCIS) is a publicly-owned entity with its own legal status and full capacity to operate its own functions. It is a consultative body forming part of the public administration and its main aim is to promote and strengthen economic and business activity in the country, defend the interests of businesses and provide a range of corporate advisory services. All traders, manufacturers and providers of services registered in the Government's Registry of Commerce and Industry must be included in the Chamber census.

**Andorra Development and Investment** (ADI) is a public limited company under private law, which was established in January 2009 with the aim of strengthening, diversifying and modernizing the Andorran economy and attracting investment as well as foreign business promoters. It has therefore a double objective: on the one hand, to offer incentives for the creation and development of new sec-

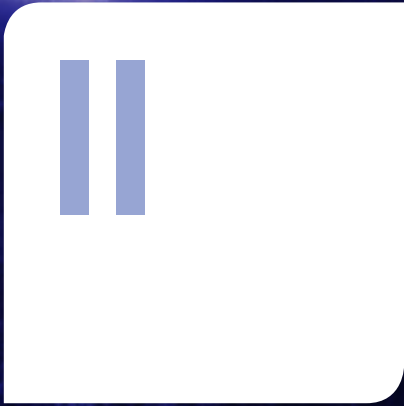
tors or incipient sectors to strengthen and diversify the Andorran economy, and on the other, to strategically position the Principality of Andorra as an open, modern and attractive economy at an international level. With the coming into effect of *Foreign Investment Law 10/2012 of 21<sup>st</sup> June in the Principality of Andorra*, it has been considered necessary to draw up an implementation plan for economic liberalization through a public and private project that has been established under the name of *Iniciativa Actua*. This long-term project seeks to provide the initiative with the necessary resources required for the economic promotion of Andorra and to offer the best possible service to investors, whilst simultaneously encouraging the necessary degree of transversality between Ministries and public and semi-public companies, for the benefit of the private sector.

**Andorra Turisme** is a public company created on 21<sup>st</sup> September 2007, which commenced its activity on 1<sup>st</sup> March 2008 and which depends on the Ministry of Tourism and Environment. The aim of this company is to improve the competitive position of tourism in the Principality, creating and promoting tourist products by applying quality, innovation and knowledge management.

The **Institute of Andorran Studies** (IEA) started operating with its own legal status and it is chaired by Minister responsible for research. The Law of 1996 defines the Institute as a research centre at the service of Andorra. At the present time, it is structured around the Andorra Centre for Snow and Mountain Research (CENMA) and the Centre for Sociological Research (CRES). The first conducts studies into climate change while the second examines aspects of Andorran society. Its scope of activity is defined by its Management Committee within a long-term plan.

The **University of Andorra** (UdA) is a public institution established in 1997 which offers classroom-based, virtual and postgraduate courses, as well as a doctorate program. Its classroom-based courses include education sciences, business administration, nursing (specialization in obstetrics and gynaecology) and IT, as well as professional postgraduate courses in administration and finance and computing management. First and second cycle virtual courses can also be followed. The university also offers the possibility to take postgraduate courses and refresher courses aimed at professionals from different fields, which guarantee them continued and innovative training.







## II ANDORRAN LEGAL FRAMEWORK

### II.1. Mercantile framework

- The registered offices of **Andorran companies** must be located in Andorra and these companies must have been incorporated in accordance with the *Law 20/2007 of 18<sup>th</sup> October on private limited companies and public limited companies*. This Law establishes the following legal forms for companies: public liability company (*societat anònima (SA)*) and private limited liability company (*societat de responsabilitat limitada (SL)*), both of which can be solely owned.

It should be highlighted that by virtue of the articles of *Law 20/2007*, governing the inscription of various deeds and contracts, the Mercantile Registry contributes towards increasing the security of mercantile legal transactions. The actions of the Mercantile Registry are regulated in the *Decree dated 20<sup>th</sup> February 2008 approving the Regulation governing the Mercantile Registry*, which was subsequently amended by the *Decree dated 26<sup>th</sup> March 2008*.

The companies that, on 22<sup>nd</sup> November 2007 when *Law 20/2007* came into force, had not been or were not incorporated as public or private limited companies, with activities involving the production or exchange of goods or services through the market are considered as general partnerships and are governed by the provisions of the Andorran Mercantile Company Regulation approved by the General Council on 19<sup>th</sup> May 1983. In general partnerships, all partners have unlimited joint and several responsibility to honour the company's debts.

The revised text of the articles and the complementary provisions of *Law 20/2007* of 18<sup>th</sup> October on Public Limited companies and Limited Liability Companies amended by *Law 4/2008* of 15<sup>th</sup> May, by *Law 93/2010* of 16<sup>th</sup> December on

measures for the promotion of economic and social activity and the rationalization and optimization of the resources of the Administration, by *Law 10/2012*, of 21<sup>st</sup> June on foreign investment in the Principality of Andorra, and by *Law 28/2013* of 19<sup>th</sup> December was published on 5<sup>th</sup> March 2014.

Private foreign investment has become a strategic tool within the policy to foment economic growth and it is an instrument used by states that are seeking to capture such resources in order to attract entrepreneurs, talent, innovation and knowledge. Accordingly, with the liberalization of foreign investment through *Law 10/2012 on foreign investment in the Principality of Andorra*, foreign participation in Andorran companies can now reach 100% of the capital, and together with the signing of double taxation agreements following the recent application of direct taxation on companies and economic activities, this should make a contribution to economic development by offering a greater diversification of the economy and contributing more value added. In essence, the economic liberalization is a path towards a new phase of growth and prosperity in the Andorran economy and society.

It should be taken into consideration that the liberalization of foreign investments in all sectors of the economy is also accompanied by a major reform concerning economic rights for physical persons. Accordingly, it is established that the economic rights of physical persons are acquired when they obtain legal residency status in the Principality. In particular, current legislation on the exercise of liberal professions has been amended, eliminating the twenty year residence requirement for non-nationals to be able to exercise a professional activity in Andorra.

Andorran banking entities are governed by specific legislation regulating the financial sector, especially the *Law 7/2013 of 9<sup>th</sup> May governing the legal regime for entities operating in the Andorran financial system and other provisions regulating the exercise of financial activities in the Principality of Andorra*; *Law 8/2013, of 9<sup>th</sup> May on the administrative requirements and operating conditions for entities operating within the financial system, investor protection, market abuse and the Financial Collateral Arrangements*, which until now were established in *Laws 13/2010 and 14/2010*, which have been revised in order to provide greater legal security to the legislative framework regulating the Andorran financial system; and *Law 35/2010 of 3<sup>rd</sup> June on the regime of authorization for the creation of new entities operating within the Andorran financial system*.

*Law 2/2008 of 8<sup>th</sup> April 2008* was amended by *Law 36/2008 of 18<sup>th</sup> December 2008* which clarifies queries arising from the publication of the first law regarding the interpretation of the procedure for the authorisation of direct foreign invest-

ments and the degree of liberalisation thereof. *Law 2/2008 of 8<sup>th</sup> April 2008 on Foreign Investments in the Principality of Andorra*, *Law 36/2008, of 18<sup>th</sup> December, amending Law 2/2008 of 8<sup>th</sup> April 2008 on Foreign Investments in the Principality of Andorra* are repealed by the entry into force of *Law 10/2012, of 21<sup>st</sup> June, on foreign investment in the Principality of Andorra*.

Andorran companies are under the obligation to keep and retain accounting records, prepare and authorise for issue their annual accounts and the proposed distribution of profit within six months from year end, and submit these annual accounts to audit when two of the following circumstances prevail during two consecutive years:

- Total assets exceed Euros 3,600,000;
- Net sales exceed Euros 6,000,000;
- The headcount exceeds 25 employees.

Nonetheless, the audit obligation established by *Law 20/2007* will not apply until the Audit Law has been approved.

According to *Law 30/2007 on the Company Accounting* which has come into force for financial years starting 1<sup>st</sup> January 2009 and thereafter, Andorran mercantile companies and individuals that perform business or professional activities have to keep accounting records that are ordered and appropriate for the nature and size of their business in accordance with International Accounting Standards and International Financial Reporting Standards, as established in the General Chart of Accounts that the Andorran Government published on 30<sup>th</sup> July 2008 and which entered into force on 1<sup>st</sup> January 2009.

Furthermore, in accordance with prevailing legislation, companies must present a certificate approving the annual accounts and the proposal for the distribution of profits or application of losses, along with a copy of the annual accounts

and auditors' report, where necessary, within a month from approving the annual accounts. This obligation will be applicable for years starting 1<sup>st</sup> January 2009 and thereafter.

The *Law 30/2007 on the Company Accounting* was amended by:

- *Law 8/2010 of 22<sup>nd</sup> April 2010* to establish the disciplinary regime to guarantee compliance with the accounting obligations established in *Law 30/2007* as well as extend the threshold for adopting this simplified accounting regime to Euros 250,000 of annual turnover, thus allowing a larger number of businesses to adhere to this regime.
- *Law 26/2011 of 29<sup>th</sup> December 2011* simplifying the accounting and managing regime; extending the thresholds under which business persons or physical persons do not have to deposit the accounts with the Administration from 100,000 euros to 150,000 euros. The sum of 250,000 euros corresponding to the maximum annual income in order to be able to apply the simplified accounting regime is also eliminated, and the determination thereof is left to be decided by regulations so that the Administration can adjust the annual accounts models according to the evolution of the business fabric of the country.

On 28<sup>th</sup> December 2010 the *Decree approving the Regulation governing the preparation of consolidated annual accounts* was enacted, developing the chapter established in *Law 30/2007* regarding the scope of consolidation.

- The objective of the *Law governing foundations dated 12<sup>th</sup> June 2008* is to respond to social demand for regulating private foundations of public or social interest, taking into consideration the legal tradition and experience of neighbouring countries.

## II.2. Labour framework

■ A Social Security system was created in Andorra in 1968 and covers illness and old age and is administrated by the **Caixa Andorrana de Seguretat Social** (CASS). On 3<sup>rd</sup> October 2008 the General Council approved the *Law 17/2008 on Social Security* which entered into force on 1<sup>st</sup> November 2009. One of the main changes as a result of this new legislation is that adherence to the CASS will not only be obligatory for wage-earners and pensioners, but also self-employed individuals. This new system also includes significant improvements to the social benefits system and establishes new parameters for social security contributions. Social security contributions for wage-earners will, therefore, range between 5.5% and 10.5% of their salary and contributions of 14.5% will be made by employers. Self-employed individuals will contribute between 20% and 25% of the average total monthly salary of wage-earners who adhere to the CASS during the immediately preceding calendar year.

*Law 25/2011 of 29<sup>th</sup> December 2011* amending *Law 17/2008 of 3<sup>rd</sup> October* on social security is intended to improve the social and health protection of groups with difficulties and help rationalize expenditure objectives.

*Law 17/2008 on Social Security of 3<sup>rd</sup> October* is currently undergoing a significant review to continue guaranteeing the viability of the system.

The purpose of *Law 17/2012 of 8<sup>th</sup> October, amending the fourth transitory provision of Law 17/2008 on Social Security*, is to extend the period for persons who were not previously obliged to be affiliated to the social security system to regularise their situation and adapt to *Law 17/2008 up to 30<sup>th</sup> June 2013*, by which time the bases of the new Social Security law will presumably have been approved.

The purpose of *Law 9/2013 of 23<sup>rd</sup> May, which amends Law 25/2011 of 29<sup>th</sup> December and Law 17/2008 of 3<sup>rd</sup> October on social security*, is to adjust the regulation of certain aspects in order to facilitate their application and on the other hand, to introduce some changes both to the original text and to the revision carried out by *Law 25/2011*, mainly aimed at avoiding situations that proved especially difficult for contributors.

■ *Law 34/2008 governing health and safety in the workplace dated 18<sup>th</sup> December 2008* regulates the general principles for protection already established in the majority of European countries. The aim of this law is to prevent labour risks and protect the health and safety of workers by eliminating or mitigating any risk factors and improving information, consultations, participation and the training of workers and their delegates, as well as introducing general guidelines for applying the aforementioned principles and measures for promoting an improvement in health and safety in the workplace. This law entered into force on 18<sup>th</sup> March 2009.

■ The objective of the *Law 35/2008 governing the labour relations code dated 18<sup>th</sup> December 2008* is to aggregate in a single legal text, the issues already regulated in *Law 8/2003 of 12<sup>th</sup> June 2003 governing employment contracts*, including matters not previously dealt with, such as the regulation of collective representation rights and the entitlement of workers to call meetings and collectively negotiate collective labour agreements. This law entered into force on 18<sup>th</sup> March 2009.

■ The purpose of the *Qualified trade union Law 33/2008 dated 18<sup>th</sup> December 2008* is to regulate trade union rights and the legal regime of trade union organisations and to establish the requirements for their incorporation, the responsibilities thereof and their representative capacity, including trade union actions. This law entered into force on 18<sup>th</sup> March 2009.

■ The *Regulation governing welfare benefits dated 16<sup>th</sup> February 2011* reduces the term of residency for obtaining welfare benefits to cover basic needs and raises the level of legal security established to date by the *Regulation governing welfare benefits of 23<sup>rd</sup> June 2010*. These benefits are extended to those workers who have become unemployed involuntarily and who undertake to participate in professional training initiatives and accept any appropriate job offers they may receive.

## II.3. Tax framework

### Introduction

In our recent history, the approval of the Customs Union Agreement between the Principality of Andorra and the European Economic Community (1990) and subsequently the Constitution (1993), provides a new scenario for the developing Andorran tax system.

The Andorran tax system is currently mainly based on indirect taxation, but is in the process of being modified to establish Andorra on an international level as a country with a tax system that is comparable with European Union and OECD countries.

Consequently, in 2010 the *Law 95/2010 on company income tax* and the *Law 96/2010 on taxation of income earned from economic activities* which came into force on 1<sup>st</sup> January 2012 were passed as well as the *Law 94/2010 on the taxation of income earned by non-residents for tax purposes*, which came into force on 1<sup>st</sup> April 2011.

Once the taxes levied on business income for both physical persons and entities were introduced as well as the tax on the income of non fiscal residents, the session of the General Council on 24<sup>th</sup> April 2014 passed the *Law on the Taxation of Income of Physical Persons*, the purpose of which is to complete the configuration of the Andorran fis-

cal framework in income tax matters. The Law will come into force on 1<sup>st</sup> January 2015.

On 21<sup>st</sup> June 2012, the General Council passed *Law 11/2012 on General Indirect Taxation (IGI)*, the aim of which is to regulate and introduce a tax for the first time in the history of the Principality of Andorra aimed at turning the Andorran fiscal system into a modern one comparable to those in our neighbouring countries. The introduction of this law saw a series of taxes that had been the backbone of the taxation system in Andorra up to now being replaced; these are the tax on goods (IMI), the indirect tax on internal production (IPI), the tax on commercial activities (IAC) and the indirect tax on services (ISI). This law came into force on 1<sup>st</sup> January 2013.

The creation or remodelling of the taxes should result in a solid and efficient organization, which carries out the management, liquidation, collection, control and inspection of these new taxes. Following these lines, the Government set up a commission on 9<sup>th</sup> February 2011 to create the Andorran Fiscal and Border Agency, thereby merging various entities of the General Administration in such a way that there is now one single fiscal organization for managing and controlling all state taxes. This agency started operating on 1<sup>st</sup> January 2013.

### Central Government taxes

The *Law governing taxation of 19<sup>th</sup> December 1996* sets out the basic reference framework for the pre-eminent application of taxes within the Principality and includes the principles of justice, legality and reserve, generality and fair distribution of the tax burdens established in the Constitution. The aforementioned law establishes the general rules which govern taxation, in the absence of a specific law to the contrary.

As mentioned above, the Andorran tax system is currently a fiscal reform process started with the introduction of new direct and indirect taxes, accompanied by an amendment of its tax system, which is intended to result in a modern Andorran fiscal system comparable to those of our neighbouring countries, whilst bearing in mind the peculiarities of our country and its economic structure. [\[table 1\]](#)

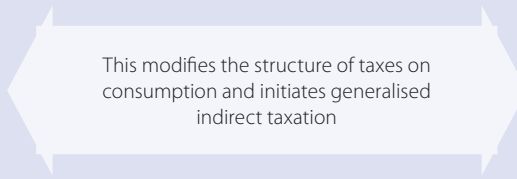
### Taxes and indirect taxes

#### General Indirect Tax (IGI)

On 21<sup>st</sup> June 2012 *Law 11/2012 for a General Indirect Tax* was passed for the purpose of regulating and introducing this tax concept for the first time in the history of the Principality of Andorra in accordance with the provisions of Directive 2006/112/EC.

Law 11/2013, of 23<sup>rd</sup> May, amending Law 11/2012, of 21<sup>st</sup> June, on the general indirect tax incorporates a special regime for used goods. *Law 10/2014, amending General Indirect Tax Law 11/2012*, which adjusted and adapted a number of aspects related to the functioning of the tax, was passed on 3<sup>rd</sup> June 2014.

## Customs Union Agreement 1990



### Rates and Indirect taxes (\*)

Specials	On merchandise	On services (ISI)	On returns on savings	On notary and public services	On real estate	Others
<ul style="list-style-type: none"> <li>- Taxes on alcohol (2008)</li> <li>- Taxes on tobacco (2008)</li> <li>- Taxes on hydrocarbons (2008)</li> </ul>	<ul style="list-style-type: none"> <li>- Taxes on consumption (1985)</li> <li>- Common foreign tariff (1991)</li> </ul>	<ul style="list-style-type: none"> <li>- Insurance services (2002)</li> </ul>	<ul style="list-style-type: none"> <li>- On returns on savings in the form of interest payments (2005)</li> <li>- On returns on savings in the form of interest payments made by individuals residents in EU (2005)</li> </ul>	<ul style="list-style-type: none"> <li>- Trademark Office fees (1995)</li> <li>- Register of Economic activity holder fees (1995)</li> <li>- Legal fees (1995)</li> </ul>	<ul style="list-style-type: none"> <li>- Tax on real estate transactions (ITP) (2001)</li> <li>- Capital gains tax (2007)</li> </ul>	<ul style="list-style-type: none"> <li>- Vehicle ownership tax (1994)</li> <li>- On bingo (1996)</li> <li>- Rate for Christmas Lottery (Joc del quinto) (1996)</li> <li>- On immigration (2002)</li> <li>- Rate for public tariffs (2008)</li> <li>- Rate for work applications (2012)</li> <li>- Rate for animal health and food safety (2012)</li> </ul>

## Monetary Agreement 2011

Modernization of the fiscal system to bring it into line with that of other countries and to obtain a fairer distribution of the tax burden

### Direct taxes

### General Indirect Tax (\*)

#### On companies

- Company income tax (2010, modified in 2011)

#### On taxation of income

- On income earned by non-residents for tax purposes (2010, modified in 2011)  
 - On income earned from economic activities (2010, modified in 2011)  
 - On income earned by physical persons (2014)

(\*) The Law of 26<sup>th</sup> June 1991 on Indirect Taxation on Goods, the Law of 5<sup>th</sup> April 1994 for the Tax on Electrical and Telephone Consumption charges, the Law of 2<sup>nd</sup> May 2000 establishing a tax on notary services, the Law of 14<sup>th</sup> May 2002 for an indirect tax on the provision of banking services and financial services, the Law of 3<sup>rd</sup> November 2004 for an indirect tax on the provision of business and professional services, the Law of 3<sup>rd</sup> November 2004 for an Indirect Tax on Internal Production and the Law of 3<sup>rd</sup> November 2004 for an indirect tax on commercial activities were repealed from 1<sup>st</sup> January 2013, the date on which the General Indirect Tax Law came into force.

The general indirect tax is levied on any clear economic capacity, provided that the final consumption of a good or service occurs, and accordingly as a general tax on consumption, it becomes a cornerstone of indirect taxation. Its substitutes most of the indirect taxes that have been applied up to now, which were an imperfect attempt to tax consumption in our territory in recent years. In this way, the framework for direct taxation becomes more neutral and efficient for companies and fairer to citizens.

The tax is applied at all stages during the production and distribution of goods and services as well as on imports of goods, and all operations are subject to a tax rate that ranges from 0% to 9.5%. The details of these rates are as follow:

- General rate: 4.5% levied whenever the application of another rate is not expressly envisaged.
- Reduced rate: this rate of 1% is applied only to the operations defined in article 58 of the Law.
- Super reduced rate: 0% is applied to essential products and services as defined in article 59 of the Law.
- Increased rate: 9.5% applicable to banking and financial services.

This Law came into force on 1<sup>st</sup> January 2013.

### **Indirect taxation on the rendering of insurance services (ISI)**

On 14<sup>th</sup> May 2002 the *Law governing indirect taxation on the rendering of insurance services* which became applicable as of 13<sup>th</sup> June 2002, was approved. In accordance with this Law, the rendering of insurance services is taxed at 4%. The tax payable is calculated using a system which estimates the value of the services rendered which involve the coverage of a risk based on economic and financial figures.

### **Special taxes**

The *Law 27/2008 governing special taxes dated 20<sup>th</sup> November 2008* was created to unify indirect taxation on imports with the neighbouring countries of the Principality. This law establishes a tax on certain special products such as alcohol, tobacco and hydrocarbons, which generate social costs which are mostly borne by the State and then society in general.

On 22<sup>nd</sup> April 2010 *Law 11/2010* was approved amending *Law 27/2008 governing special taxes dated*

*20<sup>th</sup> November 2008*. This amendment introduces some slight changes to *Law 27/2008* with the aim of improving the management of special taxes, whilst not increasing the tax burden on operators who use hydrocarbons and tackling the issue of illegal trafficking which may be encouraged by price differences.

On 15<sup>th</sup> February 2011 *Law 3/2011* was approved *modifying the general consumption tax tariff*. This law modifies article 9 of *Law 11/2010* with the aim of regulating differences in tobacco prices in relation to neighbouring countries deriving from the tax rises in those countries.

On 1<sup>st</sup> March 2012, 18<sup>th</sup> April 2013 and 19<sup>th</sup> September 2013 *Law 1/2012, 1/2013* and *14/2013* have been approved *modifying the general consumption tax tariff* respectively, in order to review and internally adjust the tax rates applied to tobacco and especially revise the tax rates on consumption that are applied to tobacco products.

### **Local taxes**

On 27<sup>th</sup> June 2003 the General Council approved the *Comuns Finance Law 10/2003 ("Llei de les finances comunals")* for self-regulation regarding taxation and financial management, establishing an adequate framework allowing the *Comuns* to create their own tax and financial jurisdiction and unify their tax framework. This Law also regulates *Comuns* borrowing, setting maximum limits and control mechanisms contributing to a more stable and financially balanced public sector in Andorra.

The *Comuns Finance Law* establishes the tax jurisdiction of the *Comuns* with regard to the following taxes:

- Traditional household taxes *Foc i Lloc* (meaning hearth and home).
- Taxes for the rendering of communal services.
- Taxes and rights on government documentation and authorisations.
- Tax on commercial, industrial, and non-commercial professional activities.
- Real estate taxes on buildings and land, rental income, and real estate transactions registered in the property registry of the *Comuns*.
- Participation of the *Comuns* in the tax on vehicle ownership, which is a governmental tax based on the number of vehicles registered in the Government register.



## Taxation on real estate

### Taxation of real estate transactions (*"Impost sobre transmissions patrimonials immobiliàries (ITP)"*)

The *Law governing tax on real estate dated 15<sup>th</sup> December 2000* was modified by *Law 7/2006 dated 21<sup>st</sup> June 2006*. This tax is levied directly on onerous or lucrative transactions to transfer real estate between living persons, and from the creation or transfer of rights over these assets. This tax is also levied on the transfer of shares or other equity investments in mercantile companies, and from the creation or transfer of rights over these shares or other equity investments when at least 50% of the company's assets comprise real estate and when the acquiring party obtains one fifth of the company as a result of the transfer of shares or other equity investments or creation or the transfer of rights over these assets.

This tax is applicable to all transfers of real estate located in the Principality of Andorra and to the creation or transfer of rights over this real estate, which can be exercised in Andorra. The tax rate is set at 4%.

Nonetheless, article 4 of this law establishes a number of exemptions from this tax when certain conditions are fulfilled. The main change resulting from *Law 7/2006* is the introduction of an exemption for the acquisition of a first home when certain personal and economic circumstances prevail.

### Capital gains tax on real estate (*"Impost sobre plusvàlues en les transmissions patrimonials immobiliàries"*)

The *Law 21/2006 governing capital gains tax on real estate* was enacted on *14<sup>th</sup> December 2006*. This tax is levied directly on capital gains arising from the onerous or lucrative transfer of real estate between living persons, and from the creation or transfer of rights over these assets. This law was amended on *3<sup>rd</sup> October 2008* with the approval of *Law 19/2008* which entered into force on *28<sup>th</sup> October 2008*.

This tax is applicable to all transfers of real estate located in the Principality of Andorra and to the creation or transfer of rights over this real estate, which can be exercised in Andorra. The transfer of shares

of mercantile companies is also subject to this tax, as is the concession or transfer of rights over these shares, when at least 50% of the company's assets are comprised of properties and that as a result of the transfer of shares or the concession or transfer of rights thereon, the acquirer holds more than a fifth of the company's capital.

The tax rate is set at 0% to 15% based on the number of years the real estate has been owned by the taxpayer.

## Taxation on savings

In its session held on *21<sup>st</sup> February 2005*, the General Council of the Principality of Andorra ratified the **Agreement between the Principality of Andorra and the European Union relating to measures equivalent to those included in Council Directive 2003/48/EC regarding taxation on savings in the form of interest payments**. In its session held on *13<sup>th</sup> June 2005* the Law applying this Agreement was approved. On *20<sup>th</sup> June 2007* the Decree modifying model 420: "Declaration of taxation on savings" included as an appendix to the aforementioned *Law 11/2005*.

This law establishes the obligation to make a withholding at source on interest payments made by paying agents located in the Principality of Andorra to beneficial owners who are individuals resident in one of the European Union member States. This withholding was equivalent to 15% during the first three years, 20% from *1<sup>st</sup> July 2008* until *1<sup>st</sup> July 2011* and 35% as of *1<sup>st</sup> July 2011*. 75% of the amount levied by the Government of Andorra, arising from this withholding obligation by paying agents, is transferred to the EU countries where the beneficial owners reside. Income from pension and insurance contracts is exempt from the application of the Agreement.

At the present time, the Government of Andorra is involved in negotiations to review the Agreement between the Principality of Andorra and the European Community concerning the establishment of measures equivalent to those envisaged in Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments, which has been in force in Andorra since *1<sup>st</sup> June 2005*.



## Direct taxation

### Tax on the income of physical persons

The passing of Law 5/2014 of 24<sup>th</sup> April 2014 on the Taxation of the Income of Physical Persons completes the configuration of the Andorran fiscal framework in matters of income tax. The structuring of the tax is based on the separation of income into two major sections: on the one hand, general income, which comprises income from work, income deriving from economic activities and income from equity; and, on the other, income from savings, a concept which includes income from capital gains and profits and losses from capital. This tax has been levied on income generated by physical persons from 1<sup>st</sup> January 2015.

### Taxation of income earned by non-residents for tax purposes

*Law 94/2010 of 29<sup>th</sup> December 2010 on the taxation of income earned by non-residents for tax purposes* modified by *Law 18/2011 of 1<sup>st</sup> December 2011* taxes the income earned on economic activities conducted in Andorra by individuals or entities not resident for tax purposes and the income earned on employment by individuals not resident for tax purposes, provided that these individuals do not adhere to the Principality's social security system or liable to pay company income tax or tax on the economic activities of individuals. This tax is applicable to income generated by individuals or entities not resident for tax purposes as from 1<sup>st</sup> April 2011.

### Agreements for the exchange of tax information upon prior request

Following the Paris Declaration of 10<sup>th</sup> March 2009, the Principality implemented a process for adopting OECD international standards, whereby it has signed various agreements for the exchange of tax information upon prior request. The declaration described the Principality of Andorra's intention to begin a process of legislative reform to modify the bank's code of secrecy regarding the exchange of information in compliance with article 26 of the OECD Convention. A standardisation process was subsequently initiated to bring Andorra into line with other OECD countries.

On 5<sup>th</sup> November 2013, and continuing the policy introduced in 2009 with the signing of the Paris Declaration, an Agreement was signed with the

### Company income tax and tax on economic activities

With the entry into force of *Law 95/2010 on company income tax dated 29<sup>th</sup> December 2010* modified by *Law 17/2011 of 1<sup>st</sup> December 2011*, the *Law on the Register of Economic activity holder tax dated 20<sup>th</sup> December 1995* is revoked. This Law unitarily taxes all income earned by entities resident in the Principality of Andorra for tax purposes which conduct an economic activity. A tax rate of 10% is applied to those taxpayers subject to this tax and a rate of 0% is applied to those institutions regulated by *Law 10/2008 regulating collective investment undertakings*.

*Law 96/2010 on taxation of income earned from economic activities dated 29<sup>th</sup> December 2010* modified by *Law 19/2011 of 1<sup>st</sup> December 2011* taxes gains obtained by individuals resident in the Principality of Andorra for tax purposes who conduct economic activities but have not formed a company to perform these activities. A tax rate of 10% is applied to individuals liable to pay this tax.

Economic activities include leasing activities and the purchase and sale of property, taking into account the elimination of double taxation in Andorra and that the tax payable on these activities is therefore reduced by any *Comuns* tax on rental income or capital gains tax on real estate paid by the taxpayer, as the case may be.

These laws and the taxes regulated by them will be applicable to fiscal periods starting from 1<sup>st</sup> January 2012.

OECD concerning mutual administrative assistance in fiscal matters. This multilateral agreement guarantees confidentiality and it represents a step forward in terms of safeguarding Andorra's reputation as an international financial market in the same line as other OECD countries. In addition to showing the country's predisposition to adapt to international standards, the Andorran banks also reinforce the security that is greatly appreciated by their clients and for which they are known. This Agreement maintains the same level of fiscal cooperation established under the bilateral agreements signed by Andorra, in other words, it envisages the exchange of information upon request at the same time as it guarantees the rights of investors.

### Law 3/2009 for the exchange of tax information upon prior request dated 7<sup>th</sup> September 2009

As announced in the Paris Declaration, on 7<sup>th</sup> September 2009 the General Council of Andorra approved the *Law for the exchange of tax information upon prior request*.

The standard, on the basis of which the Principality signed subsequent agreements on the exchange of information, complies with all the criteria required by the OECD in relation to the exchange of tax information, specifically the criteria stipulated in article 26 of the OECD Model Tax Convention. This article establishes that the exchange of information is necessary for the correct application of the tax convention and for the administration and application of the tax laws of the countries party to the convention.

This legal text establishes a new framework for legal security in the relations between the Principality and other countries regarding the exchange of information and places particular emphasis on key issues related to the mechanisms for ensuring the confidentiality of customers, as follows:

- The request for information must be justifiable and well-founded; guarantees are therefore established for this purpose, such as a limit for obtaining or providing information which the requesting State cannot obtain under its own legislation.
- A notification procedure is implemented granting the possibility to oppose the request for information by means of a duly justifiable appeal to the relevant authority.
- The agreement is not valid retroactively, meaning that the principle prevails whereby no customer information will be provided in relation to situations that predate the date on which each bilateral agreement comes into force.
- Fishing expeditions, i.e. collective and generalised requests for information are prohibited.
- Confidentiality is guaranteed and the level playing field principle (guarantee of equal conditions for everyone) is upheld in relation to other agreements that have been signed previously.

Furthermore, exchanges of information on request, in response to justifiable and well-founded requests, will be effective for fiscal years which commence following the date on which each bilateral agreement comes into force, i.e. after the last notification that the agreement has been ratified by the respective Parliaments, plus an additional period, usually of three months, in the cases for which this period has been established. For example, if an

agreement is ratified by the respective parliaments of the countries party to the agreement on 2<sup>nd</sup> June 2011, and there is an additional period of three months, the agreement will come into force on 2<sup>nd</sup> September 2011 and will be effective during the fiscal year 2012, i.e. as from 1<sup>st</sup> January 2012.

The practical implementation of Law 3/2009 on the exchange of information on fiscal matters upon a prior request throughout these almost five years, has highlighted certain shortcomings that need to be completed and corrected in order to comply with the international obligations that were undertaken in their day, following the commitment to international cooperation relating to the exchange of information in fiscal matters, and the need to respect the criteria and the constantly evolving interpretation that the OECD makes of these obligations. Law 12/2014 of 26<sup>th</sup> June was passed on 26<sup>th</sup> June 2014, and it amends Law 3/2009, on the exchange of information on fiscal matters upon a prior request.

#### Signing of the agreements for the exchange of tax information upon prior request

Following its ratification of the Law, between September 2009 and November 2010 the Government of Andorra signed bilateral agreements for the exchange of fiscal information upon prior request with 22 countries (20 have already entered into force): Austria (17/09/09), Liechtenstein (18/09/09), Monaco (18/09/09), San Marino (21/09/09), France (22/09/09), Belgium (23/10/09), Argentina (26/10/09), the Netherlands (6/11/09), Portugal (30/11/09), Spain (14/01/10), Sweden, Finland, Norway, Denmark, Iceland, Greenland and the Faroe Islands (24/02/10), Germany (25/11/2010), Australia (24/09/11), Poland (15/06/12), the Czech Republic (11/06/13) and Switzerland (17/03/14).

These signed agreements considerably exceed the minimum 12 agreements required by the OECD and, consequently, in February 2010 the OECD included Andorra within the "group of jurisdictions considered to have substantially implemented the international tax standards". As a result, the OECD, together with the key executive bodies involved in the international relations of the Principality, such as the countries of France and Spain, have highlighted the efforts and commitment of Andorra's institutions in adapting to the new economic order.

To date, signed agreements have all entered into force with the exception of Belgium and Switzerland. The entry into force of the tax agreement between Andorra and Spain led to Andorra's removal from Spain's list of tax havens.

## **Regulation to develop Law 3/2009 for the exchange of tax information upon prior request**

On 23<sup>rd</sup> February 2011 the regulation was approved developing *Law 3/2009 for the exchange of tax information upon prior request*, which determines and specifies the requirements that must be met by both foreign authorities and Andorran public authorities within the framework of a request for information, based on Law 3/2009 and the bilateral agreements applicable. Prior requests for the exchange of information should be presented in writing with the objective clearly stated and generalised requests for information will not be accepted. The regulation also establishes the criteria for processing the requests for the exchange of information which should be formulated and sent to the relevant Ministry of Finance.

## **II.4. Legislative framework of the financial system**

The Andorran legislative framework is in line with that of neighbouring countries and covers aspects such as transactions, solvency and money laundering or securities arising from criminal activities and the financing of terrorism and other matters, as described below.

A summary of legislation relating to the financial system prevailing to date is as follows:

- ▀ The **Law regulating insurance companies** in the Principality of Andorra dated 11<sup>th</sup> May 1989 includes the fundamental characteristics to be able to operate in Andorra.
- ▀ The **Law 7/2013 on the legal regime of the entities operating within the Andorran financial system and other provisions regulating the exercise of financial activities in the Principality of Andorra** dated 9<sup>th</sup> May 2013, which revokes Law regulating the operational functions of the different components of the financial system dated 19<sup>th</sup> December 1996, as well as Law 24/2008 regulating the legal regime for non-banking financial institutions offering specialized finance sets out the legal regime of the entities operating within the financial system and regulates financial activities in the Principality of Andorra, how to access the activity and how to exercise it.
- ▀ The **Law 8/2013** of 9<sup>th</sup> May 2013 **on the organizational requirements and the operational conditions of entities operating within the**

On 5<sup>th</sup> November 2013 the Government of Andorra signed the Agreement regarding mutual administrative assistance in fiscal matters with the OECD. This is another step in the application of mechanisms and instruments to establish the bases and procedures for mutual assistance in common fiscal matters. This multilateral agreement guarantees confidentiality and it represents a step forward in the same line as the other countries of the OECD with the aim of overseeing Andorra's reputation as an international financial market. In addition to showing the predisposition of the country to adapt to international standards, the Andorran banks reinforce the security for which they have gained a reputation among their clients.

**financial system, investor protection, market abuse and the Financial Collateral Arrangements**, which repeals the *Law of 27<sup>th</sup> November 1993 regulating the financial system*, establishes the organizational requirements and operating conditions for the exercise of the activities of the entities operating within the financial system; the minimum requirements to be followed by the entities operating within the financial system to safeguard investor protection; the obligations, prohibitions and the penalties system for market abuse by any physical person or legal entity, understood as operations based on the use of insider information and market manipulation, so as to contribute to the integrity of the financial markets and increase the trust of investors in these markets; and the regulatory framework of the contractual netting agreements and Financial Collateral Arrangements.

The revised text of *Law 8/2013 on the organizational requirements and the operating conditions of entities operating within the financial system, investor protection, market abuse and the financial guarantee agreements* was published on 19<sup>th</sup> February 2014 and includes all the amendments carried out up to now.

As a result of the approval of the aforementioned laws, *Law 13/2010 on the legal regime for financial investment entities and management companies of collective investment undertakings* and *Law 14/2010 on the legal regime for banking entities and basic administrative regime for entities operating in the financial system* were revoked.

The composition of the financial system, in accordance with the prevailing legislation, is as follows:

- a) the financial activities regulated and exercised by the entities operating within the Andorran financial system;
  - i) Banking entities;
  - ii) Financial investment entities;
    - financial investment companies;
    - financial investment agencies;
    - asset management companies;
    - financial consultants.
  - iii) Management companies of collective investment undertakings; and
  - iv) Non-banking financial institutions, in specialised credit.
- b) Andorran financial markets;
- c) other activities related to the entities operating within the financial system and the Andorran financial markets, including professional associations in the financial sector.

Finally, any financial agent acting on behalf of, or on account of any of the entities operating within the financial system in accordance with the provisions of article 27 of *Law 7/2013* also forms part of the Andorran financial system.

- Long before the promotion of the *Law of 27<sup>th</sup> November 1993 regulating the financial system*, the Andorran financial system, concerned about transmitting seriousness and commitment to third parties, had already promoted its self-regulation, through the Association of Andorran Banks (*Associació de Bancs Andorranos* (ABA)).
- The *Law regulating mandatory investment coefficients dated 30<sup>th</sup> June 1994* sets out a mandatory coefficient, which has to be covered by public funds and which, in accordance with the aforementioned law, is only currently applicable to banking entities. This law was promulgated by the *Decree dated 9<sup>th</sup> December 2009 approving the Decree amending the Decree governing the Law regulating mandatory investment coefficients dated 22<sup>nd</sup> August 1994*, which established the requirement to maintain 2% of the assets of banking entities in public funds. Debt issues are defined as public funds for the purposes of calculating mandatory investment coefficients. The last public debt issue subscribed by Andorran banking entities on 31<sup>st</sup> December 2013, regulated by the *Decree governing the issue of public debt in the Principality of Andorra dated 24<sup>th</sup> December 2013* and fully subscribed by the Andorran banking entities is therefore taken into consideration for the purpose of complying with this coefficient.
- **Law 1/2011 for the creation of a deposit guarantee system for banking entities, dated 2<sup>nd</sup>**

*February 2011*. To date, the *Law regulating deposit guarantee reserves and other operational obligations dated 11<sup>th</sup> May 1995* established mechanisms to guarantee the capital adequacy and stability of the Andorran banking system, but without constituting a direct guarantee to reimburse the deposits made by deposit holders in the event that they became unavailable. The entry into force of this law adapts Andorran legislation to the requirements of the European Union on this matter and establishes a regime that is better designed to protect the robustness and capital adequacy of the Andorran financial system in relation to its deposit holders. The guarantee system is “ex-post” and the maximum amounts covered are Euros 100,000 per depositor and Euros 100,000 per investor for each entity.

On 9<sup>th</sup> May 2012, the Regulations for the organization and functioning of the Commission for Managing the System guaranteeing deposits and investments of the Andorran banking entities were passed, and their purpose is to determine the principles of action of the Commission Managing the System guaranteeing deposits and investments for banking entities, the basic rules of its organization and operation, and the rules of conduct for its members, within the framework of the legislation applicable thereto.

- The ***Law for the protection of the banks code of secrecy and prevention of laundering of money or securities from criminal activities dated 11<sup>th</sup> May 1995*** achieves two objectives. Firstly, to give legal form to the commitment to combat the laundering of money and secondly, to ratify the banking principle of not interfering in the affairs of the clients.

For many years, the combat against the laundering of money obtained through illegal activities has been one of the country’s priorities, especially for the Andorran banking system. In 1990 the Andorran banking system opted for voluntary self-regulation by adopting a code of professional practice and Andorra also modified its Criminal Code by introducing the assumption of the laundering of money obtained through criminal activities.

On 11<sup>th</sup> May 1995 the first law against international crime was approved and the legislative framework was completed in 2000 with the ***Law for international cooperation on criminal matters and the combat against the laundering of money or securities arising from international crime*** approved by the General Council on 29<sup>th</sup> December 2000, giving rise to the creation of the Laundering Prevention Unit (UPB). The UPB became known as the Andorran Financial Intelligence Unit (UIF) when the new *Law 28/2008* dated 11<sup>th</sup> December came into force. It is the independent body for the promotion and

coordination of money laundering and terrorism financing prevention measures. This legislation implies the following for all financial entities:

- The defining of strict procedures to identify customers.
- The establishing of adequate procedures and controls to detect suspicious operations arising from organised crime.
- The training of personnel in specific money laundering prevention programmes.
- An external auditor reviewing the level of compliance with the above points.

On 13<sup>th</sup> February 2008 the Andorran Government approved the Decree relating to the creation and operations of the Permanent Commission for the Prevention of Money Laundering and Financing of Terrorism in order to improve coordination between all the bodies and ministries involved in preventing and combating money laundering and the financing of terrorism, and to develop a multidisciplinary and global approach and be more effective and flexible when adopting measures. This commission is led by the head of the UIF and comprises representatives from the Presidency, Finance, Justice, Home Affairs, Economy, Foreign Affairs ministries and the INAF when dealing with matters affecting the financial system and from the UIF. This commission meets at least once every three months.

On 11<sup>th</sup> December 2008, *Law 28/2008* was approved, amending the **Law for international cooperation on criminal matters and the combat against the laundering of money or securities arising from international crime dated 29<sup>th</sup> December 2000**. This law entered into force on 21<sup>st</sup> April 2009 and has served to bring Andorran legislation prevailing to date into line with international legislation and regulations, especially relating to the third European directive on this matter. As a result of this new law the UPB is now known as the Andorran Financial Intelligence Unit (UIF). The most significant changes introduced as a result of this legislative amendment have been: the extended scope of parties under obligation, the defining of politically exposed individuals, the defining of rightful owners, a greater precision when detailing obligations of the parties under obligation, the introduction of risk criteria, the obligatory nature of the UIF's technical communiqués and the explicit prohibition of "screen banks" and anonymous accounts.

On 16<sup>th</sup> September 2009, the **modified text on the Law for international cooperation on criminal matters and the combat against the laundering of money or securities arising from international crime and against the financing of terrorism** was published.

As a result of the enactment of *Law 28/2008*, the Regulation governing this legislation has been amended. On 20<sup>th</sup> May 2009, the Regulation of the Law for international cooperation on criminal matters and the combat against the laundering of money or securities arising from international crime and against the financing of terrorism was published, thereby revoking the Regulation of the Law for international cooperation on criminal matters and the combat against the laundering of money of 31<sup>st</sup> July 2002. This new regulation describes and develops the prevailing legislation on this matter which comprises organisational and functional aspects of the UIF and defines the way in which parties under obligation must comply with the law and the procedures that they must follow should a transaction potentially relating to the laundering of money gained from criminal activities be detected. The legislation also stipulates the training which those people who form part of the internal control and communication bodies should have received and refers to the personnel working for these bodies, the duty of professional secrecy, international cooperation, the exchange of information and disciplinary proceedings. This regulation was modified on 25<sup>th</sup> May 2011 by the Regulation amending the Regulation of the Law for international cooperation on criminal matters and the combat against the laundering of money or securities arising from international crime and the financing of terrorism of 13<sup>th</sup> May 2009.

On 25<sup>th</sup> May 2011 Law 4/2011 was urgently passed following an extraordinary procedure, and **it amends the Law of 29<sup>th</sup> December 2000 on International Criminal Co-operation and the Fight against the Laundering of Money or Securities resulting from International Crime and against the Financing of Terrorism**. This Law, which came into force on 23<sup>rd</sup> June 2011, consists of seven articles which, for the most part convert the preventive measures already applied by those subject to the law and which require explicit regulations in accordance with international standards into positive law. Among other questions, the concept of effective beneficiary is broadened, the sum for cash sales of high value articles which generate the obligations that the Law establishes is reduced, the regime of simplified diligence measures is intensified while additional protection measures of tax obligors when they make declarations of suspicion are also introduced.

Furthermore, on 25<sup>th</sup> May 2011, the General Council also used extraordinary procedures to urgently approve the ratification of the **United Nations Convention against Transnational Organized Crime, signed in New York on 15<sup>th</sup> November 2000**. This Convention came into force on 22<sup>nd</sup> October 2011.



On 18<sup>th</sup> May 2011, the Government of Andorra passed a **Decree amending the Regulations passed by Decree on 13<sup>th</sup> May 2009** for the purpose of regulating the measures to prevent the laundering of capitals and the financing of terrorism in greater detail, which require explicit regulations in accordance with international standards. This Decree was published in the BOPA (Official Gazette of the Principality of Andorra) on 25<sup>th</sup> May 2011 and it came into force the day after its publication. Among other matters, it improves the regulation of obligations relating to the identification and verification of clients and true rights holders, which were already applied in their majority by the persons bound by these obligations, it intensifies the regime of simplified diligence measures and contemplates possible specific counter measures concerning high risk territories at the request of the UIF.

On 10<sup>th</sup> October 2013 *Law 20/2013 amending Law for international cooperation on criminal matters and the combat against the laundering of money or securities arising from international crime and against the financing of terrorism, dated 29<sup>th</sup> December 2000* was approved. This law came into force on 31<sup>st</sup> October 2013 in order to introduce the legal acts and regulatory provisions of the European Union established in the annex of the Monetary Agreement signed between the Principality of Andorra and the European Union into the Andorran legal system.

On 27<sup>th</sup> March 2014 *Law 4/2014 amending Law for international cooperation on criminal matters and the combat against the laundering of money or securities arising from international crime and against the financing of terrorism, dated 29<sup>th</sup> December 2000* was approved. This law has been adapted to the essential standards established in New Recommendations 6 and 7 of the Financial Action Task Force (FATF) passed in February 2012.

- In February 2005 the new Andorran **Criminal Code** was approved by significantly redefining the concept of money laundering, in such a way that the range of possible criminal activities giving rise to money laundering has expanded. Consequently, this amendment to the Criminal Code has also affected certain articles of the aforementioned *Law for international cooperation on criminal matters and the combat against the laundering of money or securities arising from international crime and against the financing of terrorism*.

Various amendments have subsequently been made to *Law 9/2005* of the Andorran Criminal Code to adapt it to European and international regulations governing the prevention of money laundering and the financing of terrorism. Some of the most important modifications are listed below:

- On 18<sup>th</sup> October 2007 *Qualified Law 17/2007* amending *Law 9/2005* governing the Andorran Criminal Code, was approved, which includes a series of reforms to bring the Andorran Criminal Code into line with all the provisions of the Criminal Law Convention on Corruption, adopted by the European Council on 27<sup>th</sup> January 1999 and ratified by the Principality of Andorra on 8<sup>th</sup> November 2001.
- On 20<sup>th</sup> December 2007 *Qualified Law 29/2007* was approved, amending article 409 of *Qualified Law 9/2005* of 21<sup>st</sup> February 2005, governing the Andorran Criminal Code on the prevention of money laundering and securities.
- On 3<sup>rd</sup> October 2008 the General Council approved *Qualified Law 15/2008* amending *Qualified Law 9/2005* dated 21<sup>st</sup> February 2005 governing the Andorran Criminal Code. The main reasons for this amendment were the need for certain technical modifications to increase the operative nature of the law and to include the entry into force of certain international treaties signed by Andorra. This recent amendment has led to the inclusion of article 366 bis which deals with the crime of “financing terrorism”. Consequently, on 12<sup>th</sup> June 2008 the *United Nations Convention for the suppression of the financing of terrorism* signed by the Andorran Government on 10<sup>th</sup> November 2001 was ratified.
- On 11<sup>th</sup> October 2012 the General Council approved *Qualified Law 18/2012* amending *Qualified Law 9/2005* dated 21<sup>st</sup> February 2005 governing the Andorran Criminal Code. The main reason for this amendment of certain articles was to align the criminal law with the international treaties signed or ratified by Andorra as well as the recommendations of the Group of States Against Corruption (GRECO) in order to adapt the aforementioned regulations to the requirements of our State to meet international standards, especially in matters relating to corruption and the financing of terrorism.
- On 10<sup>th</sup> October 2013, the General Council passed *Qualified Law 18/2013*, amending the Penal Code. The Law which came into force on 31<sup>st</sup> October 2013 amends and creates other articles of greater importance following certain recommendations made by Moneyval in its fourth Assessment Report of 8<sup>th</sup> March 2012, and mainly affect matters dealing with the laundering of money or securities, market manipulation and the use of insider information.

The aforementioned text of the Andorran Criminal Code and the Criminal Procedures Code was published on 24<sup>th</sup> December 2008.

Similarly, it was seen that certain amendments needed to be made to the Code of Criminal Procedure to bring it into line with the aforementioned treaties and recommendations, and

this led to the passing of Qualified Law 19/2012 amending Qualified Law 16/2008 of 3<sup>rd</sup> October, amending the Code of Criminal Procedure of 10<sup>th</sup> December 1998.

Furthermore, Qualified Law 19/2013, amending the Code of Criminal Procedure was passed on 10<sup>th</sup> October 2013 in order to comply with Council Decision 2007/845/JHI established in the annex of the Monetary Agreement and it establishes that each Member State will create or appoint a national asset recovery body to facilitate the monitoring and identification of the proceeds of crime which might be subject to seizure of confiscation.

Numbered accounts do not hinder the authorities, as the banks comply with know-your-customer rules. External auditors are requested to be particularly diligent with these kinds of accounts as well as in other areas exposed to the risk of money laundering.

A combination of the provisions outlined above and the strict application of these provisions by all the agents involved, especially regarding the efforts made by the financial sector, inter alia, to adequately train all of its employees, has ensured that reports issued by the various international bodies have been favourable. Consequently, Moneyval adopted the first and second progress reports in the third round of mutual evaluation of the Principality of Andorra on 10<sup>th</sup> December 2008 and 9<sup>th</sup> December 2010, respectively.

During the month of March 2011 the Principality received the on-site visit of the Moneyval delegation within the framework of the 4<sup>th</sup> round of mutual evaluations. The assessment team examined the efficiency of the application of the main recommendations (key and core recommendations) and other recommendations of the FATF, whether related or not to the results of the 3<sup>rd</sup> assessment. On 8<sup>th</sup> March 2012, the 38<sup>th</sup> Plenary Meeting of Moneyval adopted the assessment report and included the Principality of Andorra in the regular follow-up procedure. On 31<sup>st</sup> March 2014, the 44<sup>th</sup> Plenary Meeting of Moneyval passed the Andorran follow-up report, which contained the latest regulatory developments in the matter.

In the same way, the Principality has adapted its legal system to community regulations on the prevention of money laundering and the fight against terrorist financing in fulfilment of the Monetary Accord signed with the European Union and passed by the General Council of Andorra on 24<sup>th</sup> November 2011. The European Commission validated this transposition process at the end of 2013.

The Principality's banking entities are conscious of the fundamental role they play in efficiently eliminating and combating money laundering and the financing of terrorism and have therefore

demonstrated their commitment through the electronic platform set up in mid-2009 by the Association of Andorran Banks. This online training platform on money laundering and combating the financing of terrorism includes up-to-date information and both national and international legislation on this matter and was made available to employees of the Andorran banking sector at the end of 2010.

- At an international level, it should be noted that as a result of the regulations established in Andorran legislation against money laundering, the Principality of Andorra entered into a collaboration agreement on 1<sup>st</sup> January 2001 with the **United States Internal Revenue Service** (IRS).

In addition, all the banking entities and other financial entities in the Principality have also individually entered into this agreement with the IRS therefore obtaining the status of **Qualified Intermediary** (QI).

During 2006 both Andorra as a country and the entities forming part of the Andorran financial system renewed their status as *Qualified Intermediary*, which is effective for six years (during which time, the entities will be subject to audits established by the IRS).

On 1<sup>st</sup> January 2011, the Law on the "Emergency Economic Stabilization Act of 2008" entered into force incorporating new reporting obligations for brokers essentially requiring them to inform their clients *US Persons* and the IRS of the tax income earned by them on financial instrument operations through presentation of model 1099-B. As from 1<sup>st</sup> January, the tax return is filed on the basis of the earnings generated by variable income operations and shares, irrespective of the origin of the issuer. As of 2012 and 2013 the reporting and declaration obligation will extend to transactions involving investment fund units and debt instruments, respectively.

Before 25<sup>th</sup> April 2014, banking entities and investment funds will be bound by FATCA regulations through registration with the IRS (Internal Revenue Service). The FATCA (Foreign Account Tax Compliance Act) was passed by Law on 10<sup>th</sup> March 2010 (Hiring Act). The purpose of this Law is to prevent tax evasion by US persons. Foreign Financial Institutions (FFIs) are obliged to sign an agreement with the Internal Revenue Service (IRS), according to which they undertake to communicate certain information concerning their clients to the IRS. If an FFI does not sign the aforementioned agreement, the institution (and its clients) will be subject to retentions of 30% on all interest, dividends and sales proceeding from securities and other income coming from the United States, which is paid to either a US resident or a non-US resident.

- The **Law regulating the capital adequacy and liquidity criteria of financial institutions** dated 29<sup>th</sup> February 1996, subsequently amended on 12<sup>th</sup> December 1996, establishes the capital adequacy ratio at a minimum of 10% and the liquidity ratio at a minimum of 40%.

The revised text of the *Law regulating the solvency and liquidity criteria of financial entities* was published on 19<sup>th</sup> February 2014, including the amendments made by Amendment Law of 12<sup>th</sup> December 1996, amending the *Law regulating the solvency and liquidity criteria of financial entities* of 29<sup>th</sup> February 1996, the third additional provision of Law 14/2003, of 23<sup>rd</sup> October, on the Andorran National Institute of Finance, the first additional provision of Law 24/2008, of 30<sup>th</sup> October, on the legal regime of non-banking financial entities involved in specialized credit, the sixth final provision of Law 7/2013, of 9<sup>th</sup> May, on the legal regime of the entities operating in the Andorran financial system and other provisions regulating the exercise of financial activities in the Principality of Andorra, and the first final and repealing provision of Law 10/2013 on the Andorran National Institute of Finance of 23<sup>rd</sup> May.

- The **Law regulating the disciplinary regime of the financial system** dated 27<sup>th</sup> November 1997 aims to promote correctness and conscientiousness when carrying out professional financial activities and guarantee the stability and solvency of the Andorran financial system. This Law has been partially amended by Law 35/2010 of 3<sup>rd</sup> June 2010 on the regime for authorising the creation of new operating entities in the Andorran financial system.

A Legislative Decree was also published on 19<sup>th</sup> February 2014 approving the revised text of the Law regulating the disciplinary regime of the financial system and it includes the amendments made by the fourth additional provision of Law 14/2003, of 23<sup>rd</sup> October, on the Andorran National Institute of Finance, the first additional provision of Law 35/2010 of 3<sup>rd</sup> June, on the regime authorizing the creation of new entities operating within the Andorran financial system, the first final provision of Law 1/2011, of 2<sup>nd</sup> February on the creation of a system guaranteeing deposits for banking entities, the third, fourth and fifth final provisions of Law 7/2013, of 9<sup>th</sup> May, on the legal regime of the entities operating in the Andorran financial system and other provisions regulating the exercise of financial activities in the Principality of Andorra, and the second final provision of Law 10/2013 on the Andorran National Institute of Finance of 23<sup>rd</sup> May.

- The **Decree approving the Chart of Accounts for financial entities** dated 19<sup>th</sup> January 2000 defines the principles, criteria and basic accounting standards for financial entities in Andorra.

This allows the INAF to effectively supervise the financial system. This Chart of Accounts entered into force on 1<sup>st</sup> January 2000 and is applicable to all the operational components of the Andorran financial system.

The Technical Communiqués issued by the INAF complement and update the legislation relating to the Chart of Accounts for the financial system, so that it does not become out of date.

Some of these Communiqués make it obligatory to report additional control information, complementing the financial statements to the INAF, every month or quarter, in order to detect the aforementioned entities' exposure to market and liquidity risks and the concentration of risks and loan losses and take corrective measures against these risks.

- The **Law 11/2012 for indirect taxation** dated 21<sup>st</sup> June 2012, introduces an increased tax rate of 9.5% applicable to banking and financial services.

- The **Law for indirect taxation on insurance services rendered** dated 14<sup>th</sup> May 2002, under the framework of the Law for indirect taxation on services rendered establishes a system for calculating the taxation basis, at the same time as determining a tax rate of 4% applicable to insurance entities, which are outside the framework of this law:

- Social Security regime.
- Capitalisation products, such as pension funds, retirement schemes or other similar products.

- On 20<sup>th</sup> June 2013 the new **Andorran National Institute of Finance (INAF) Law 10/2013 of 23<sup>rd</sup> May**, was enacted, thereby revoking Law 14/2003, of 23<sup>rd</sup> October.

Ten years after the adoption of the aforementioned regulations, a review of Law 14/2003 became necessary in order to give the INAF the necessary means to reach its objectives and to broaden these, bearing in mind the necessary inclusive nature of the scope of the INAF within the current context. This is characterised by the changes and the international expansion of the Andorran financial system, as well as by the evolution of the financial markets at an international level and the specific commitments Andorra had undertaken with the European Union through the signing of the Monetary Agreement that came into force on 1<sup>st</sup> April 2012.

- The INAF issues Technical Communiqués with which entities in the financial sector are obliged to comply.

- On 4<sup>th</sup> April 2011 a **Memorandum of Understanding (MoU)** was signed between Andorra



and Spain constituting an agreement for a consolidated cooperation in supervisory matters between the supervising authority of the Andorran financial system (INAF) and of the Spanish financial system (Bank of Spain). This agreement establishes the terms of the protocol for the relationship and collaboration between these two authorities. It also enables the supervisory authority of the country of origin to request corporate information and any other information required for the supervision and control of consolidated risks of banking groups from the relevant authority of the country where the entity has subsidiaries.

- The **Law 10/2008 regulating Andorran collective investment undertakings** dated 12<sup>th</sup> June 2008 includes a generic definition of what is understood as investment undertakings in the Principality, regulates its functioning and the distribution of these undertakings abroad, as well as the distribution of foreign investment undertakings in Andorra. This law entered into force on 17<sup>th</sup> July 2008.

The revised text of *Law 10/2008 of 12<sup>th</sup> June on the regulation of collective investment undertakings under Andorran law* was published on 19<sup>th</sup> February 2014 and it included the amendments made by the fourth additional provision of *Law 8/2013 of 9<sup>th</sup> May on the organizational requirements and the operating conditions of entities operating within the financial system, investor protection, market abuse and the financial guarantee agreements*; the third final provision of *Law 10/2013 of 23<sup>rd</sup> May on the Andorran National Institute of Finance*; and the first final provision of *Law 28/2013 of 19<sup>th</sup> December, amending Law 20/2007 of 18<sup>th</sup> October, on Public Limited Companies and Limited Liability Companies*, amended by *Law 4/2008 of 15<sup>th</sup> May* and by *Law 93/2010 of 16<sup>th</sup> December*.

- The **Law 35/2010 on the legal regime for authorising the creation of new operating entities within the Andorran financial system**, dated 3<sup>rd</sup> June 2010. This law aims to establish the legal regime for authorising the creation of new operating entities, thereby overcoming the current situation of status quo being faced by the Andorran financial system in compliance with the requirements of prevailing legislation. A special regime of direct foreign investments is contemplated which will consist of allowing foreign interests in operating entities of the Andorran financial system to account for 100% of their share capital or voting rights, thus significantly opening up the Andorran financial system. To date foreign interests are allowed to account for 51% of share capital.

*The revised text of Law 35/2010 of 3<sup>rd</sup> June on the regime authorizing the creation of new entities operating within the Andorran financial system* was published on 19<sup>th</sup> February 2014, including the amendments made by *Law 10/2013 on the Andorran National Institute of Finance of 23<sup>rd</sup> May*.

- On 17<sup>th</sup> September 2013, the INAF was accepted as a new ordinary member of the International Organization of Securities Commissions (IOSCO). Andorra thus fulfils one of the compromises undertaken upon signing the Monetary Agreement with the European Union, which required the signing of the protocol within a maximum period of 18 months from the moment that it came into effect on 1<sup>st</sup> April 2012. This formalizes reciprocal cooperation, assistance and exchange of information with the regulatory and supervisory authorities of markets around the world for the purposes of regulating and supervising securities markets at an international level.

## II.5. Developments in the financial system's regulatory framework

Andorra is a country in evolution and with a clear projection abroad. This has meant that a series of needs have been created within the country and a new economic framework is being developed to bring the Andorran economy into line with its neighbouring countries. As a result, Andorra has been rapidly and constantly adapting its legislative framework to international standards and it will continue to do so in coming months. The legislative and regulatory framework of the Andorran financial system has also been adapting to international standards.

Andorran banking is continuously monitoring the most up-to-date issues such as international regulations and legislation, strategic sector risks, supervisory systems, good practice requirements defined by the Basel Committee, the challenges of ensuring financial stability, confidentiality and transparency, new financial and insurance products, as well as ethics, professional practices and corporate governance of the financial system, in addition to other matters of interest to the sector.

On 30<sup>th</sup> June 2011, the Principality of Andorra signed a Monetary Agreement with the European Union and this was deposited with the European Commission in Brussels on 23<sup>rd</sup> February 2012 and came into force on 1<sup>st</sup> April 2012.

The Monetary Agreement between the Principality of Andorra and the European Union recognises the Euro as the official legal tender of the Principality and grants the right to coinage (*senyoratge*). *Law 17/2013 on the introduction of the euro within the framework of the Monetary Agreement signed between the Principality of Andorra and the Union European* was passed on 10<sup>th</sup> October 2013.

The agreement is also more comprehensive and comprises:

- the application of European legislation on the protection of the Euro against fraud and falsification, regulations on notes and coins in Euros, the prevention of money laundering and certain European regulations on banking and finance by means of direct transposition or equivalent measures in accordance with a defined schedule.

- the signing of the IOSCO protocol for multilateral agreement on consultations, cooperation and the exchange of information on the securities market, which in accordance with what has been mentioned in the previous section, was signed on 17<sup>th</sup> September 2013.

The Andorran legal system has been changed since the Monetary Agreement came into effect on 1<sup>st</sup> April 2012 in order to adapt it to the legal acts and regulatory provisions of the European Union established in the annex of the Agreement on matters concerning the protection of the euro against fraud and falsification, the rules on euro notes and coins, and on matters related to the prevention of money laundering.

On 11<sup>th</sup> June 2013, the European Commission communicated the amendment of the annex of the Monetary Agreement, as envisaged under article 8 of the Agreement. The aim of the amendment is to take into consideration any new legal acts and regulations of the EU that are relevant as well as the amendments made to the existing texts.

The Principality is making a significant effort to bring its legislative framework into line with the Community *acquis*, particularly, in relation to banking and finance legislation. Andorra will therefore have to legislate over the next four years on issues such as capital adequacy to adapt to the requirements of Basel II and III; payment methods, to join SEPA or to adapt the accounting framework of the Andorran financial system to IFRS (International Financial Reporting Standards). The Association of Andorran Banks and operating entities of the financial system have already been working on all these areas, although application of them would require a major overhaul of Andorran legal and financial regulations and an increase in the technical monitoring resources of banking and financial entities on the one hand and the public sector and the INAF on the other.

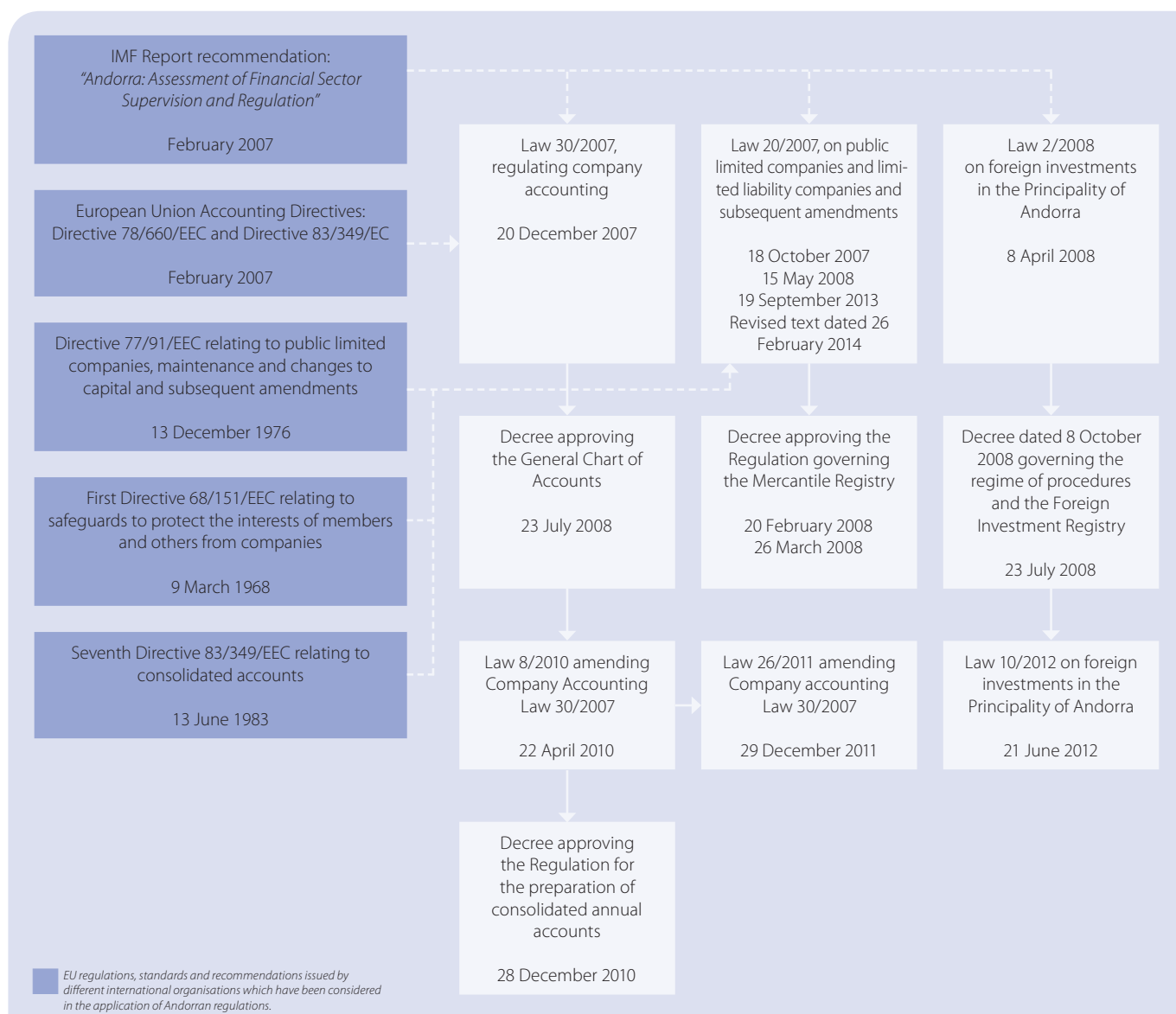
Likewise, it will be necessary to monitor the negotiations that the European Union has initiated with the Governments of Andorra, Switzerland, San Marino, Liechtenstein and Monaco concerning amendments to the agreement on taxation of savings, and these will be subject to the approval and coming into effect of the new standards developed by the OECD.

## II.6. Evolution of the legal and regulatory framework of the Andorran financial system in an international context

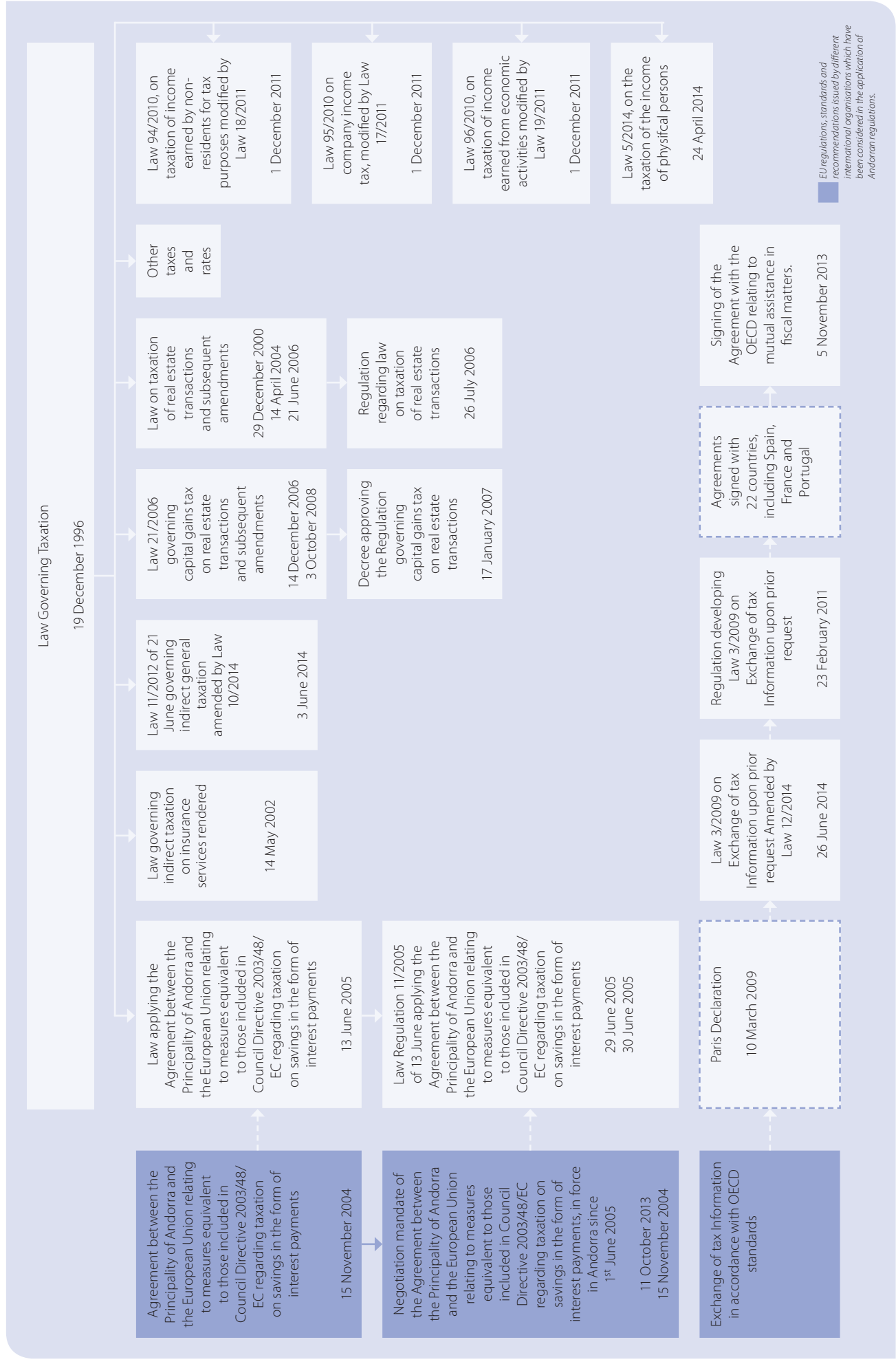
The main regulatory provisions and initiatives governing financial activity in the Principality of Andorra are illustrated below, identifying the regulatory framework and the recommendations of international bodies such as the International Monetary Fund (IMF), MONEYVAL or the OECD, for the purpose of ensuring compliance with best

practices and international standards which guarantee the stability of the financial system and the combat against criminal activities, as well as the transposition of legal provisions to ensure that the banking and financial sector complies with the Monetary Agreement between the Principality of Andorra and the European Union.

### Evolution of Andorran legislation: corporate and accounting



## Evolution of Andorran legislation: taxation



## Evolution of Andorran legislation: taxation. Chronology of events in relation to the process experienced in the Principality

1998		OECD prepares first reports on tax havens.
2000	June	OECD prepares a list of all the non-cooperating countries, comprising 40 jurisdictions, one of which is Andorra.
2000-2003		31 of these countries sign letters of intent to comply with OECD standards and become part of a new "grey list". Andorra remains on the list of non-cooperating countries.
2004		Andorra signs an agreement with the EU on the taxation of returns on savings, an equivalent measure to the exchange of information.
2009	13 February	Visit from Christian Frémont, representative of the French co-prince Nicolas Sarkozy, to request that the Andorran Government adopt measures to facilitate the exchange of tax information.
	10 March	Andorra signs the Paris Declaration, which establishes a schedule of legislative reforms to assist in complying with OECD requirements.
	2 April	The OECD announces that Andorra is now on its "grey list".
	September	Andorra approves the Law on the exchange of tax information upon prior request (07/09/09). Tax information exchange agreements are signed with Austria (17/09/09), Liechtenstein (18/09/09), Monaco (18/09/09), San Marino (21/09/09) and France (22/09/09).
	October	Andorra signs tax information exchange agreements with Belgium (23/10/09) and Argentina (26/10/09).
	November	Andorra signs a tax information exchange agreement with the Netherlands (6/11/09) and Portugal (30/11/09).
2010	January	Andorra signs a tax information exchange agreement with Spain (14/01/10).
	February	Andorra signs agreements with Sweden, Finland, Norway, Denmark, Iceland, Greenland and the Faroe Islands (24/02/10).  The OECD includes Andorra within the group of 'jurisdictions which have substantially implemented international tax standards'.
	November	Andorra signs a tax information exchange agreement with Germany (25/11/10) and has now signed a total of 18 agreements.
2011	June	Andorra signs the Monetary Agreement with the European Union recognising the Euro as the official legal tender of the Principality of Andorra.
	August	1 <sup>st</sup> round of evaluation by the Peer Review Group (Global Forum).
	September	Andorra signs a tax information exchange agreement with Australia (24/09/11).
2012	March	4 <sup>th</sup> round of evaluation by the Moneyval (Regular Follow-up).
	4 April	Signing of the non-double taxation Convention between the Principality of Andorra and the French Republic.
	June	Andorra signs a tax information exchange agreement with Poland (15/06/12).
2013	2 April	Andorra signs the non-double taxation Convention with France.
	June	Andorra signs a tax information exchange agreement with the Czech Republic (11/06/13).
	17 September	The INAF is accepted into the IOSCO as a full member.
	11 October	Andorra agrees a negotiation mandate for the Agreement with the European Community for the establishment of measures equivalent to those envisaged under Directive 2003/48/CE.
	5 November	Signing of the Agreement with the OECD relating to mutual assistance in fiscal matters.
2014	March	Andorra signs an agreement for the exchange of fiscal information with the Swiss Confederation (17/03/14) and has now signed a total of 22 agreements.
	2 June	Andorra signs a Non Double Taxation Agreement with Luxemburg, making it the second non double taxation agreement signed by Andorra.

## Evolution of Andorran legislation: money laundering













## III ECONOMIC ENVIRONMENT

### III.1. Introduction

Since the emergence of the tourism sector in the 1960s, over the last 50 years Andorra has experienced exceptional growth in its economy, population and income per capita, which has resulted in a modern and prosperous economy. Likewise, the slowdown of the Andorran economy in recent years has drained the economic model which until now has permitted the sustained growth of the Principality's economy.

Andorra's economic model to date has been mainly based on tourism (skiing and commerce), the financial sector and, to a lesser extent, construction and real estate in recent years. The current economic situation has made it clear that a new economic model based on human capital, competitiveness and knowledge is essential, although this will not necessarily cause the more traditional sectors of the Andorran economy to disappear.

In Andorra, the main macroeconomic indicators that we will analyze throughout this chapter show a similar situation to that of previous years, even though a change of trend can be observed. It is necessary to bear in mind that 2013 has seen a slight recovery of the main Western economies. The debt crisis threw up new challenges that needed to be overcome and this resulted in austerity measures being applied. Furthermore, the asymmetric behaviour of certain economies in Europe has hindered the measures that need to be adopted to reactivate the economy: notwithstanding the moderate recovery of countries such as Germany or France, Spain on the other hand remains immersed in a crisis situation and it faces a fight to prevent the loss of further jobs, with the unemployment level at 26.03% of the active population.

With the aim of modernising the Andorran legal framework and boosting economic activity, the new *Companies Act* was approved in the Principality in 2007 and the *Foreign Investments Law* was enacted in 2008, enabling the Andorran economy to gradually open up to foreign capital, which was repealed during 2012 by *Law 10/2012 on Foreign Investment in the Principality of Andorra*, and which seeks to offer a greater diversification of the economy and contribute more value added. As well, in January 2009 the *Company Accounting Law* came into force which was developed with the approval of the General Chart of Accounts.

In March in the same year the *Paris Declaration* was signed and the *Law for the exchange of tax information upon prior request* was approved and Andorra subsequently signed bilateral agreements for the exchange of information with 22 countries, including Spain, France and Portugal, as well as approval of the regulations contained therein, as explained in further detail in chapter "II. Andorran Legal Framework" of this publication.

In order to bring the Andorran tax system into line with those of the neighbouring countries and open the Andorran economy up to foreign markets, the Andorran General Council approved in 2010 the *Laws on income tax and the taxation of income earned from economic activities* as well as the *Law on the taxation of income earned by non-residents for tax purposes*. As explained in the Tax Framework section of chapter "II. Andorran Legal Framework", the first two taxes will be applicable to the tax periods starting from 1<sup>st</sup> January 2012; the Law on the taxation of income earned by non-residents for tax purposes came into force on 1<sup>st</sup> April 2011. Likewise, during 2012, the Andorran General Council approved the *Law on the General Indirect Tax*, which came into force on 1<sup>st</sup> January 2013, and which brought it into line with the Community Directive on matters of indirect taxes. The *Personal Income Tax Law* was passed on 24<sup>th</sup> April 2014, completing the configuration of the fiscal framework in matters of income tax, and will come into force on 1<sup>st</sup> January 2015.

One of the main strategies of the Government of Andorra since the end of 2011 has been to promote private foreign investment in order to diversify the economy, create new economic sectors and increase the competitiveness of already existing sectors. Therefore, the liberalization of foreign investments, together with the signing of non double taxation agreements, following the recent application of direct taxation on companies, economic activities and personal income, need to place the Andorran economy in a position that can allow it to compete on equal terms with the neighbouring economies, and at the same time it must make

Andorra an attractive destination for new sectors and companies.

To this end, the Government of Andorra has promoted the ACTUA initiative. This is a public/private entity that brings together several ministries, government agencies, associations and/or entities from the private sector, and its mission is to help

open up the economy to foreign companies and facilitate investment and the economic diversification of Andorra.

Notwithstanding, the Andorran Government has continued to promote quality tourism and the appeal of the Principality's commerce sector, the main reasons for visits from tourists.

## III.2. Main economic variables

### National income and per capita income

Gross Domestic Product (GDP) is one of the essential macroeconomic aggregate for assessing the production of resident units of all economies. Since 2002 the statistics department of the Government of Andorra has made its estimates using so-called indirect methods, from variables that are co-related to the evolution of the same.

As we can see in the following table, national income began to fall in 2008 with the start of the economic crisis and it was situated at 2,447 million Euros in 2013. This negative trend seems to have eased off in recent years. For the first time since the start of the crisis, the Gross Value Added (GVA) of

the economy grew, rising from 2,202 million Euros in 2012 to 2,209 million Euros in 2013. The graph also shows that GNP grew by 61% since 2000. [\[graph 1\]](#)

In the following table we can see the evolution of per capita income (nominal) since 2009. In 2010 and notwithstanding the economic recession, there was an increase in per capita income, which can be explained by the loss of population in Andorra, which was higher than the fall in the GDP during this period. In line with the evolution of GDP and maintaining the population level during 2012 and 2013, there was a slowing down in the decrease of per capita income. [\[table 1\]](#)

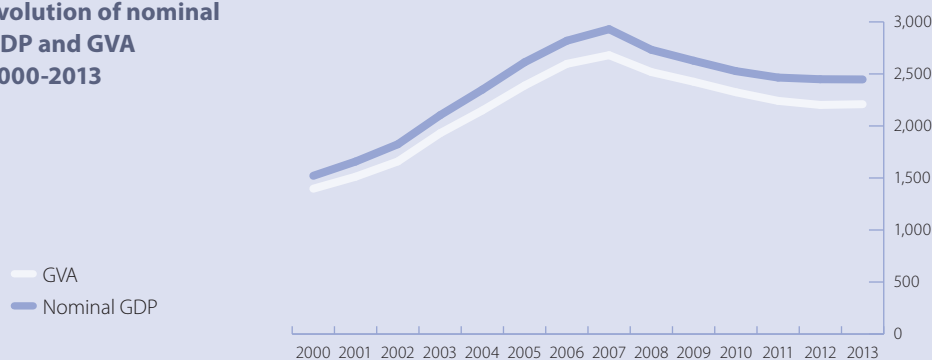
#### National income and per capita income (Nominal)

	2009	2010	2011	2012	2013
National income (Millions of Euros)	2,627	2,527	2,465	2,449	2,447
Per capita income (Euros)	35,697	35,946	35,335	35,102	34,975
Estimated population	73,600	70,290	69,772	69,758	69,966
Variation in per capita income	-	0.70%	(1.70%)	(0.66%)	(0.36%)

Source: Department of Statistics - Government of Andorra

[table 1]

#### Evolution of nominal GDP and GVA 2000-2013



(Millions of euros) Source: Department of Statistics - Government of Andorra

[graph 1]

### Consumer price index

The annual variation of the Andorran Consumer Price Index (CPI) for 2013 was 0.00%. It has risen from 0.00% in 2009, 1.60% in 2010 and 2.5% in 2011 to 1.10% in 2012, and falling to 0.00% in 2013.

The area with the most significant price increases in 2013 was education, which increased by 2.6%. On the other hand, it is worth emphasising the fall in prices for the recreation group (-1.8%) and housing (-1.8%). The inflation data for Andorra has remained at a level that is slightly below that of the index for Spain (+0.3%) and it was seven tenths lower than the CPI of France (+0.7%).

Underlying inflation, which includes the more volatile components (fresh food and energy products), fell by one percentage point compared to the

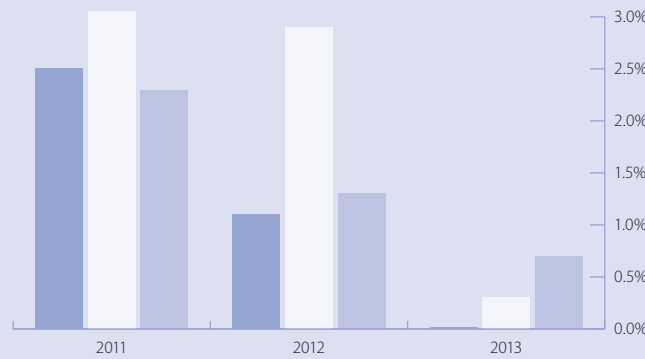
previous year, reaching 0.4%, a rate that remains above the general index (+0.00%) and higher than the underlying inflation registered in Spain (+0.2%), where most consumer goods come from.

Details of the evolution of the Andorran, French and Spanish year-on-year consumer price indexes for the last three years are as follows: [\[graph 2\]](#)

The graph above shows an overall drop in the year-on-year CPI for the three economies, in line with trends observed in the other countries of the Euro Zone. At 0.30%, Andorra's rate of inflation is similar to that of Spain, where consumer prices have fallen significantly with the expiry of the IVA-related fiscal changes that were promoted the previous year, but it is below the 0.70% rate in France.

**Evolution of year-on-year inflation in Andorra, Spain and France**

■ Andorra  
 ■ Spain  
 ■ France



Source: Department of Statistics - Government of Andorra

[graph 2]

### Employment market

The annual average number of jobs for 2013 is decreasing again in comparison with the previous year (-2.51%), falling to 41,837 jobs, due to the national and international economic crisis since the second half of 2008, which has had a negative effect on the number of jobs on offer in the employment market. The reduction in the number of jobs on offer has been especially relevant in those sectors of the Andorran economy which have experienced the most notable decline in activity, such as construction, industrial and services-related activities.

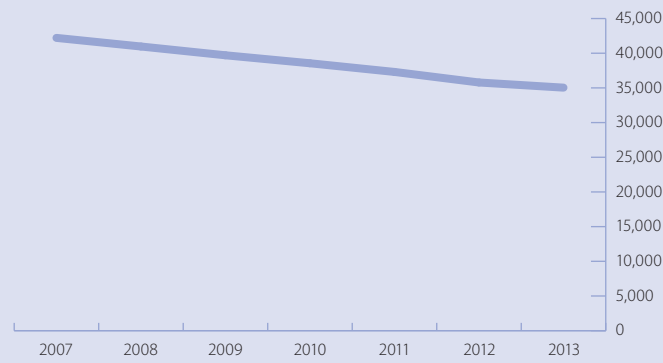
In 2007 the growing trend in the number of wage earners started to reverse, reporting a fall of 0.34% that consolidated itself during the following years in the context of a change of economic cycle. Since

2007, a total of 8,196 jobs have been lost, which corresponds to an average monthly loss of about 110 jobs. However, in a period of international financial crisis and economic recession, the decrease in the number of jobs and wage earners in Andorra has been well below that reported in the majority of neighbouring economies. [\[graph 3\]](#)

In the case of Andorra, one of the main causes for the loss of jobs and wage earners during 2013 has been, as it was in 2012, the plunge in economic activity in the secondary sector, mainly involving construction (employing 64.39% of total wage earners in the secondary sector), followed by the tertiary sector, specifically commerce and the hotel and restaurant trade (employing 55.39% of total wage earners in the private tertiary sector).



### Evolution of wage earners 2007-2013



Source: Department of Statistics - Government of Andorra

[graph 3]

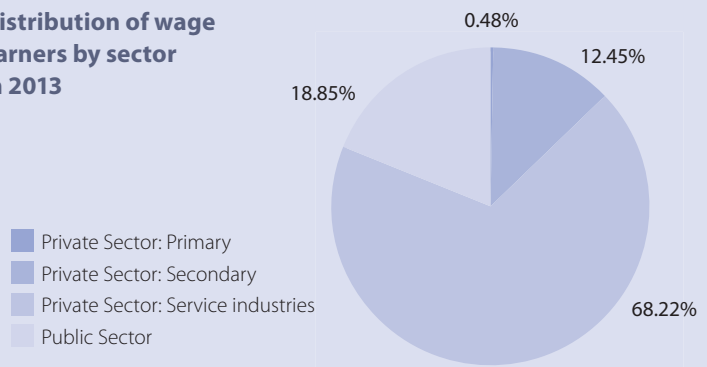
The economic sector experiencing the most significant decline in wage earners is construction, which has lost 17 jobs that represents down 12.92% (15.46% in 2012), followed by the commercial sector and motor vehicle repairs, the hotel sector and manufacturing industries, in addition to households that employ domestic staff, which have lost 275, 92, 67 and 61 jobs respectively since 2012, representing a drop of 3.06%, 1.99%, 4.61% and 4.65% respectively.

As shown in the graph illustrating the wage earners registered with the *Caixa Andorrana de Seguretat Social* (Social Security System; hereinafter the CASS) by sector, the tertiary sector's importance to the Andorran economy is highly significant, 68.22% of total wage earners in 2013, followed by the public sector (18.85%), the secondary sector -industry and construction- (12.45%) and finally the primary sector (0.48%). [graph 4]

On the other hand, the comparison of employment rates presented in the graph below shows the employment rate in Andorra to be slightly higher than that of the EU-27 countries. [table 2]

The variation in the employment rate in Andorra compared to 2012 has been negative, with a decrease of 1.51% (in 2012 it fell by 1.70%) since the active population fell by 0.6% while the fall in the salaried population was 2.07%. The 27 member states of the European Union experienced no variation and have recorded the same employment rate (0.16% in 2012).

### Distribution of wage earners by sector in 2013



Source: Department of Statistics - Government of Andorra

[graph 4]

### Employment rate

	ANDORRA		UE-27	
	2012	2013	2012	2013
Employment rate (*)	65.29	64.31	64.20	64.20

(\*) Wage earning population as percentage of population from 15 to 64 years of age

(Percentage) Source: Andorran Social Security System and Eurostat

[table 2]



### Growth of salaries

Unlike other neighbouring countries, Andorra has no collective bargaining system to establish yearly salary levels. However, the Andorran Government sets the minimum hourly salary rate at a national level.

In 2013, the average salary has decreased by 2.40%. [\[table 3\]](#)

The graph below shows a comparison of minimum salaries between Andorra and other EU countries. It can be observed that the minimum salary in Andorra is between that of Spain and the UK, but lower than that of Monaco and Luxembourg. [\[graph 5\]](#)

In 2013, the financial system and the electricity, gas and water production and distribution sector are those sub-sectors registering the highest average salaries, considerably higher than the average salaries declared to the CASS (Euros 4,649 and Euros 3,178, respectively). It is worth mentioning the fact that that extractive industries fell by 37.16% and extraterritorial bodies by 11.58%.

The evolution of average salaries was negative in all sectors and especially in the secondary and public sectors at 10.24% and 4.29% respectively, compared to 2012. [\[graph 6\]](#)

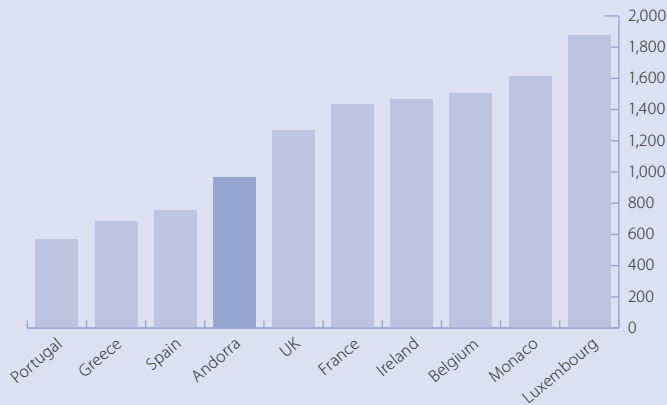
#### Growth of average and minimum salaries in Andorra

	1995	2008	2009	2010	2011	2012	2013	Var. (%) 12-13
Average salaries	1,021	1,947	1,983	1,995	2,015	2,003	1,955	(2.40%)
Minimum salaries	616	898	915	915	929	952	962	1.09%

(Monthly Euros) Source: Department of Statistics - Government of Andorra

[\[table 3\]](#)

#### Minimum salaries 2013



(Euros) Source: Eurostat and Department of Statistics - Government of Andorra

[\[graph 5\]](#)

#### Evolution of average salaries per sector



(Euros) Source: Department of Statistics - Government of Andorra

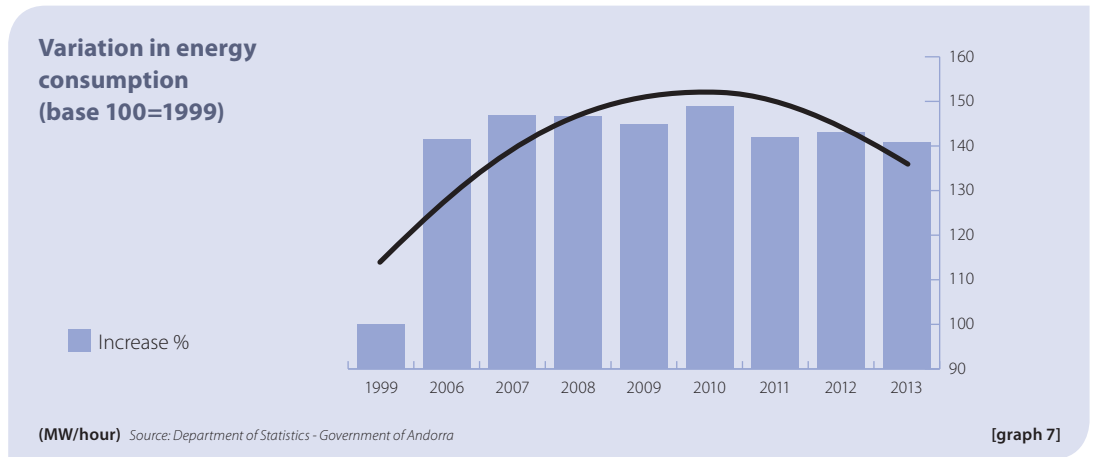
[\[graph 6\]](#)

## Consumption of electrical power

Electricity consumption is a useful indicator for estimating the progress of a country's economic activity. The evolution of electricity consumption over recent years using 1999 as the index year is shown below.

The graph above shows that energy consumption had a 1.56% decrease on the level reached in 2012, which was up 0.77% in relation to 2011. [\[graph 7\]](#)

Ski resorts was the core area where electrical consumption fell the most, with a drop of 18%, followed by constructions and ancillary activities with a drop of 15.62%, while a significant increase in consumption was registered in the area covered by industries and street lighting, which had a positive variation of 37.70% compared to 2012 (2012: 0.07%) and 5.92% (2012: 6.32%) respectively.



## Telecommunications

The telecommunications sector is characterised by an extremely accelerated rate of growth and innovation in recent years, with products being rapidly replaced by more updated ones. Mobile telephones now account for the largest number of subscribers in our country, with a total of 64,043 subscribers at the end of 2013 compared to 48,012 fixed telephone line subscribers.

In this regard, the process of withdrawing copper lines started during 2013 and the objective is to switch off the ADSL network in 2014.

Andorra is the European leader in the deployment of fibre optic technology. This is evidenced by the FTTH Council Europe, which highlights the totality of the roll-out of the Andorran network; together with Latvia and Lithuania, Andorra is one of only three countries to reach a penetration level of 100%, with the European average situated at 24%.

## Vehicle Licensing and Fuel

One of the indicators of internal demand in the Andorran economy is the number of licensed vehicles. The automobile sector is one of the sectors that has been most affected by the crisis, although it has registered an increase in 2013, with vehicle registrations increasing by 10.09%. In total, the registration of 2,487 vehicles in 2013 is less than half of the registrations ten years ago.

[table 4 and graph 8]

Cars represent approximately 70% of total licensed vehicles and motorcycles 17%. These two groups reached their all-time records in 2005, with a total of 4,491 vehicles and 1,266 motorcycles being registered. Furthermore, licensing of other types of vehicles, such as trucks or mopeds, has decreased, even though the importance as a percentage of total licensed vehicles is significantly lower than in the case of cars, generating a fairly insignificant effect on the variation in total demand for vehicles. Despite the negative trend of the two previous years, 2013 brought positive expectations and a slight recovery.

In addition to analysing the total number of licensed vehicles, the import and export of vehicles in and out of the Principality should also be taken into consideration. Net imports during 2013 have amounted to Euros 79,664,563, 19.18% higher than those made in 2012. In 2012 they decreased by 16.43%.

Another indicator of consumption is fuel imports, which in 2013 have slightly decreased, compared to 2012, with 180 million litres, a figure lower than in 1998. This sector is very closely linked to tourist consumption and it is sensitive to the price differential between Andorra and the neighbouring countries. As far as domestic fuel is concerned, it gains importance, while imports of unleaded petrol and motor diesel have fallen by 6.30% and 4.19% respectively. Unlike the previous year, imports of kerosene and carbureactors reversed the trend of imports with a considerable increase of 52.92%. [table 5]

### Licensed vehicles

	2007	2008	2009	2010	2011	2012	2013	Var. (%) 12-13
Total vehicles	4,690	3,497	2,788	2,893	2,525	2,259	2,487	10.09%

Source: Department of Statistics - Government of Andorra

[table 4]

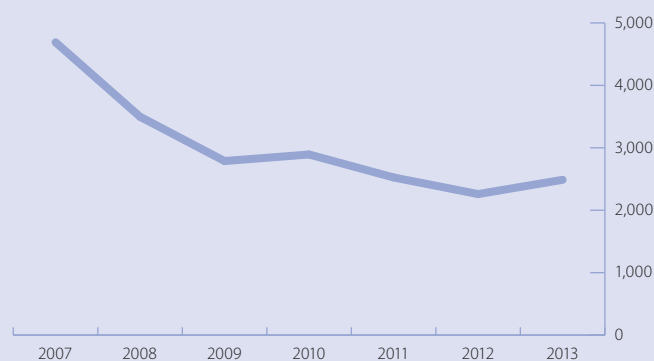
### Fuel Import

	2009	2010	2011	2012	2013	Var. (%) 12-13
Unleaded gas	29,960,088	28,563,574	28,080,840	27,191,927	25,478,296	(6.30%)
Diesel oil locomotion	100,287,482	99,399,880	102,216,532	101,249,226	97,007,606	(4.19%)
Domestic fuel	64,467,574	66,778,762	54,298,678	55,834,708	57,507,520	3.00%
Kerosene and kerosene for jet engines	93,427	127,936	131,958	93,560	143,075	52.92%
<b>TOTAL</b>	<b>194,808,571</b>	<b>194,870,152</b>	<b>184,728,008</b>	<b>184,369,421</b>	<b>180,136,497</b>	<b>(2.30%)</b>

(Liters) Source: Department of Statistics - Government of Andorra

[table 5]

### Evolution of licensed vehicles between 2007-2013



Source: Department of Statistics - Government of Andorra

[graph 8]

### III.3. Public sector

The Andorran public sector is comprised of the Central Government, seven *Comuns* (equivalent to town councils), i.e. one for each of the seven parishes of Andorra, and parapublic entities, which are a group of entities fully owned by the public sector, which manage public services and other areas. Parapublic entities include health and social service entities such as the *Centre Hospitalari Andorrà*, the Andorran Health Service (*Servei Andorrà d'Atenció Sanitària (SAAS)*), retirement homes for the elderly

and the Andorran Social Security Authority (*Caixa Andorrana de la Seguretat Social (CASS)*), energy suppliers and telecommunications providers such as *Forces Elèctriques d'Andorra (FEDA)* and *Andorra Telecom*; and other bodies such as the Andorran National Institute of Finance (*Institut Nacional Andorrà de Finances (INAF)*) and the Andorran National IT Centre (*Centre Nacional d'Informàtica d'Andorra*) and Radio & Television of Andorra (*Ràdio i Televisió d'Andorra (RTVA)*).

#### Central Government

A Government's domestic budget is one of the main aspects to be taken into account when analysing the economy of a country, as it can influence its levels and management. Therefore, it is essential to consider the distribution and total amount of the budget and the objectives to be reached.

Another important aspect is the situation of the Government's treasury, as this conditions a significant part of the budgetary structure. Since 2001 the Andorran Government has had a trade surplus, whereas since 2006 it has shown a trade deficit as a result, inter alia, of capital investments.

In 2013, the Government deficit was 23.5 million Euros, a figure which is considered the best result for the last ten years. Income increased by 6.5% (392.1 million which includes the 40 million Euros of Andorra Telecom). The new taxes have established themselves although collection has been conditioned by refunds and deductions in the case of

some taxes. Expenditure fell by 17.25%, as a result of the payment for the work on Dos Valires tunnel and La Tàpia tunnel. [\[table 6\]](#)

On 24<sup>th</sup> November 2010 the Principality of Andorra offered its first issue of public debt through Treasury Bills, which was open to private investors. Since then, there have been three new debt issuances in the form of Treasury Bills with a maturity of between 12 and 18 months. On 18<sup>th</sup> December 2013, an issuance of long-term debt took the form of government bonds for the first time. The issue incorporates the international standards in the matter to ensure that securities issued in Andorra can be listed on international markets.

These operations are a response to the desire to diversify borrowing, which to date had been entirely supported by Andorran banks. In 2013, borrowing from Andorran banks as a whole represented 51.8% (it represented 58% in 2012).

#### Central Government budget and liquidation

	Budget 2013	% of total Budget	Liquidation budget 2013	% of total Liquidation	Var. (%) Liq./Budget
<b>TOTAL INCOME</b>	<b>972,664</b>	<b>100.00%</b>	<b>1,062,382</b>	<b>100.00%</b>	<b>9.22%</b>
Direct taxes	72,231	7.42%	32,908	3.10%	(54.44%)
Indirect taxes	262,214	26.96%	275,998	25.98%	5.26%
Other income	29,381	3.02%	83,232	7.83%	-
Changes in net financial assets	53	0.01%	967	0.09%	-
Changes in net financial liabilities	608,785	62.59%	669,277	63.00%	9.94%
<b>TOTAL EXPENSES AND INVESTMENTS</b>	<b>1,084,922</b>	<b>100.00%</b>	<b>1,024,573</b>	<b>100.00%</b>	<b>(5.56%)</b>
Investments	74,039	6.82%	36,676	3.58%	(50.46%)
Transfers	187,032	17.24%	177,343	17.31%	(5.18%)
Operating expenses	146,950	13.54%	138,562	13.52%	(5.71%)
Financial expenses	26,638	2.46%	23,849	2.33%	(10.47%)
Financial assets	2,074	0.19%	1,994	0.19%	(3.86%)
Financial liabilities	648,189	59.75%	646,149	63.07%	(0.31%)

(Thousands of Euros) Source: Ministry of Finance and Public Function - Government of Andorra

[table 6]

## Local Government

The Andorran *Comuns* obtain their annual revenues from transfers received from the Andorran Government, and the remaining amount from funds they collect and other income.

The table below shows total revenue and expenses for each of the *Comuns*, according to the 2013 budget, and illustrates that the most significant source of income collected 55.58% (57.93% in 2012) is included under the "Own collection of funds and others" caption, which comprises taxes and rates of the *Comuns*. 42.14% relates to transfers received from the Government (37.81% in 2012), where the *Comuns'* greater dependence on transfers received from the Government stands out. 68.60% of *Comuns* expenses relates to "Operating expenses",

comprising expenses relating to personnel, goods and services. 8.12% corresponds to investments and the remaining 23.28% to transfers, financial expenses and financial liabilities.

The table below also provides details of the budget clearance for 2012, showing possible deviations: [\[table 7\]](#)

All the *Comuns* have experienced a certain degree of variation between the initial budget for 2013 and the revenue and expense clearance budget for the year. An analysis of the 2013 budget clearance for the different *Comuns*, the parish registering a deficit was Sant Julià de Lòria with 541 thousand Euros.

### Local government budget and liquidation for 2013

	Budget	Liquidation	Diversion
<b>TOTAL INCOME</b>	<b>130,040,180</b>	<b>131,605,028</b>	<b>1.20%</b>
Canillo	13,791,468	13,362,769	(3.11%)
Encamp	21,754,766	27,159,632	24.84%
Ordino	12,535,858	14,227,497	13.49%
La Massana	12,162,573	12,427,828	2.18%
Andorra la Vella	36,630,930	32,679,017	(10.79%)
Sant Julià de Lòria	12,203,285	11,668,174	(4.38%)
Escaldes-Engordany	20,961,300	20,080,111	(4.20%)
<b>TOTAL EXPENSES</b>	<b>137,584,351</b>	<b>117,420,647</b>	<b>(14.66%)</b>
Canillo	13,791,468	9,997,281	(27.51%)
Encamp	23,988,275	22,867,922	(4.67%)
Ordino	13,691,816	11,683,013	(14.67%)
La Massana	12,286,807	10,131,565	(17.54%)
Andorra la Vella	40,845,116	32,156,641	(21.27%)
Sant Julià de Lòria	12,019,570	12,209,831	1.58%
Escaldes-Engordany	20,961,299	18,374,394	(12.34%)
<b>BUDGET / LIQUIDATION RESULT</b>	<b>(7,544,172)</b>	<b>14,184,381</b>	<b>-</b>

(Euros) Source: *Comuns of the Principality of Andorra*

[table 7]



### III.4. Evolution of the Andorran economy during 2013

#### Introduction

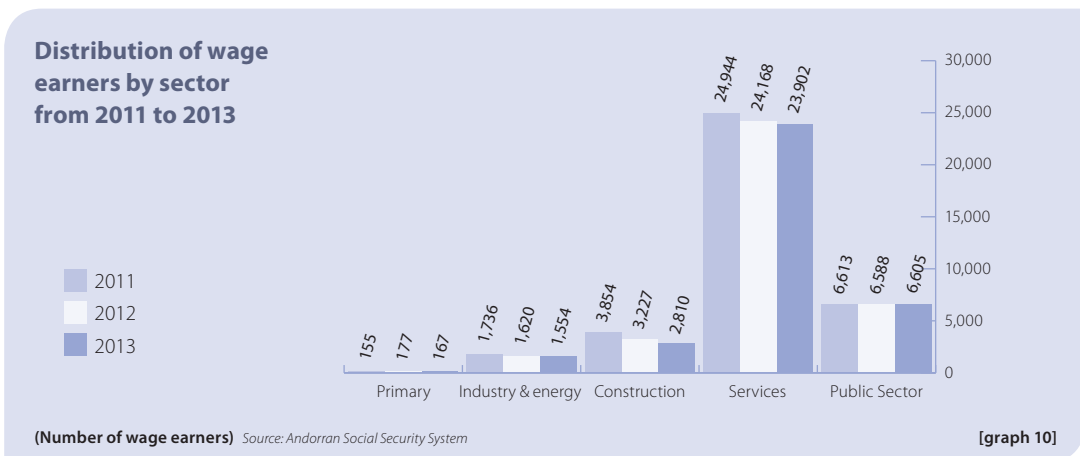
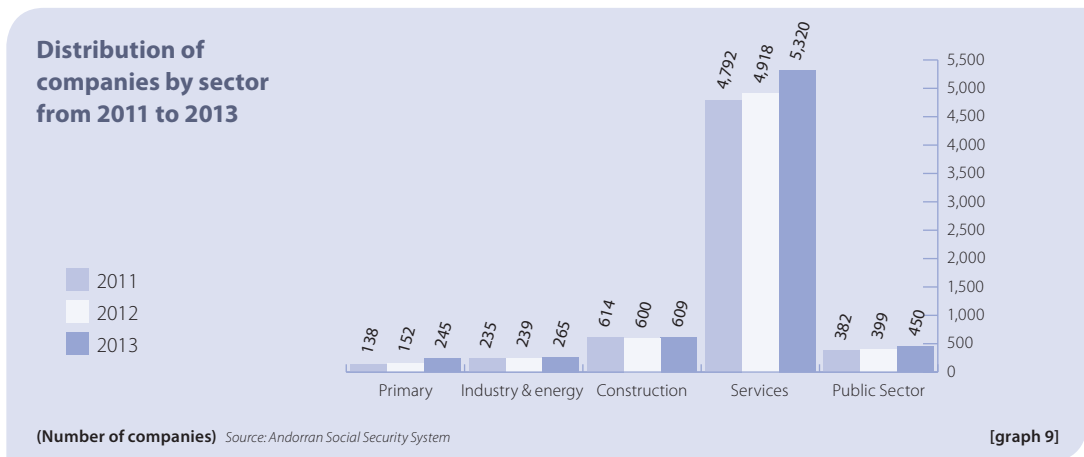
Until the beginning of the 20th century the economy in the Principality was that of subsistence, based on agriculture, livestock farming and commerce. After the Second World War the Andorran economy started to boom, mainly induced by the same rate of growth in neighbouring states.

This development has been reflected in an economy based mainly on the tourism and commercial sectors, which have expanded thanks to ideal climatic and geographical characteristics and are heavily dependent on the foreign sector, on the financial sector and, in recent decades, also leading to growth in the construction sector.

In 2013, in an environment of global economic deceleration, the business structure of the Andorran economy has altered slightly with a 3.15% decrease in companies with more than 100 employees and a 1.78% increase in those with 5 or less, to the

detriment of companies with between 6 and 100 employees, which have dropped by 1.94%. Despite this variation, companies with 5 or less employees continue to represent 78.08% of the Principality's business structure. At the end of 2013, the Principality of Andorra has 6,889 companies and 35,038 wage earners.

The following graph shows that the services sector continues to have significant importance in the Andorran labour market and employs 68.22% of the population, followed by the construction and public sectors with 18.85% and 8.02%, respectively. During 2013 the number of wage earners has dropped by 2.12%, 14.84% of whom worked in the construction sector, which has lost 417 wage earners, 1.11% of whom worked in the services sector with 266 wage earners and the remaining 4.25% of whom worked in the industrial and energy sector with 66 wage earners. [graphs 9 and 10]



The Andorran economic model is based on tourism, the financial sector and, in recent years, construction, making it much more vulnerable when neighbouring countries experience an economic downturn, due to the low level of diversification in Andorra's economy, which depends to a large extent on tourism.

Government policy focuses on several objectives, such as encouraging activity in traditional

### Primary sector

From the second half of the 20<sup>th</sup> century to the 1990s the primary sector has experienced an economic downturn, until reaching the stability of recent years. This sector represented just over 3.55% of the total number of companies in 2013. It employs 0.48% of the total working population. Notwithstanding, certain sectors of this sector, such as the cultivation of tobacco and livestock farming, have had significant influence on the economy until recent years, which the Government is continuing to support through grants.

Although this sector has continued to lose importance during recent decades, it should be emphasised that developed nations are constantly taking measures to maintain and revive the primary sector, since these nations have come to consider this sector as key to environmental conservation and global development. 2010 closed with 132 registered companies and 2013 with 245, and the number of wage earners has increased by 12.83% since 2010.

The Ministry of Economy and Territory and the Andorran Association of Farmers and Stockbreeders (*Associació de Pagesos i Ramaders*) are therefore working to revitalise the Principality's primary sector as it is considered critical to diversifying the economy as well as being a key factor in protecting the environment and Andorra's natural resources. For this reason, the *Agriculture and Stockbreeding Law* passed by the General Council in 2000, has promoted a series of direct aid measures such as the aid to promote traditional mountain stockbreeding practices, the aid program to promote meadow harvests and aid to promote quality control. This aid is received by farm owners who have declared livestock in the Census and who fulfil a series of requirements established under

sectors such as tourism with the celebration of major events and construction with direct impact measures such as the amendment of the *Qualified Law on Town Planning and the arrangement of the territory* to unblock town planning projects. On the other hand, the major objective is to promote economic diversification through policies designed to attract foreign capital with the implementation of the Actua Initiative.

the Regulations. The production of veal from the country with a stamp of quality has also been promoted, through campaigns to promote Andorra programme for quality meat. In 2013, this initiative was recognised by the competent bodies of the EU as a Protected Geographical Indication (Meat of Andorra PGI). In 2013, there were 322 farms registered in the Farm Registry and 121 of these had livestock while 201 did not.

The Andorran Association of Farmers and Stockbreeders has implemented studies on the feasibility of aromatic and medicinal plants growing and subsequent transformation, as well as the research plan of the variety of potato. The aim is to find varieties to offer a quality product adapted to current consumer trends and to be able to commercialise Andorran agricultural produce with seals of quality.

The Department of Agriculture has provided over the past years help for the development of new agrarian practices which has resulted in the implementation of new forms of tillage and farming in Andorra, such as vineyards, medicinal plants and truffles, allowing the country's farms to diversify their production.

The Andorran Association of Farmers and Stockbreeders is working on boosting the country's honey production under a seal of quality designed to provide guarantees for its production. As part of its project to revive the primary sector of the Andorran economy, the Department of Agriculture is collaborating with the Ministry of Tourism and Environment to convert agriculture and stockbreeding into natural and cultural heritage, therefore making it a new tourist attraction in the Principality.

## Secondary sector

### Industry and energy

There are two kinds of industry in Andorra: the extractive industry, i.e. extracting raw materials directly from natural resources and the manufacturing industry, which involves the use of machinery and manual labour to produce goods for their subsequent use or sale. Only 0.01% of the country's wage earners are employed in the extractive industry through one sole company whilst 3.96% are employed in the manufacturing industry through a total of 255 different companies. The manufacturing sector is characterised by weak internal demand, a lack of specialised workforce and a rise in competition regarding production costs. During 2013 the number of companies has grown by 9.91% in relation to 2012, and the number of wage earners has dropped by 4.61%.

The industry and energy sectors maintain a low relative importance with regard to the production structure of the country. Social Security (CASS) registered workers employed in the production and distribution of electricity, gas and water represent an average of 0.47% of the total workforce in 2013. The Andorran energy sector is closely linked to the international scenario and in particular to neighbouring countries, as it is highly dependent on other countries for its supply sources. In 2013, the Principality has produced 19.71% of the country's energy consumption and 80.29% has been imported from Spain and France (49.03% and 31.26% respectively). Given this dependence, the FEDA has

implemented a large diversity of projects with the aim of producing more electricity from Andorra, diversifying the country's energy sources, strengthening the electrical networks and promoting the responsible use of energy.

The electrical sector has not been liberalised and *Forces Elèctriques d'Andorra* (FEDA) is the country's only producer and importer of electricity, supplying the other distributors in the country such as *Nord Andorra, SA*, *Mútua Elèctrica de Sant Julià*, *Societat Explotadora i Repartidora del Comú d'Encamp, SA* and *Unió Elèctrica d'Encamp*.

Industries with a specific importance within the sector are those relating to wood manufacturing, tobacco, foodstuffs and beverages, which have varied in number in recent years. In contrast, the number of companies in the electricity, gas and water production and distribution sector has remained stable mainly due to the fact that they are parapublic entities.

The business structure of the sector, taking into consideration the distribution of workers in the companies, is dominated by small companies. 65.28% of these companies employ 1 to 5 workers (64.85% in 2012), 17.36% employ 6 to 10 workers (17.15% in 2012) and 12.83% employ 11 to 25 workers (12.55% in 2012). Only 4.53% have a headcount exceeding 25 employees (5.44% in 2012).

### Construction

Prior to 2007 the Andorran construction sector was characterised by the upward trend sustained over the past decade, as is the case of Andorra's neighbouring countries. Nevertheless, this trend reversed due, inter alia, to the cease of transactions in the real estate market, causing a drop in activity in the construction sector which has continued into 2013. The sector has experienced a 2.56% fall in the number of companies (from 625 companies in 2009 to 609 companies in 2013) which in turn has led to a 46.43% reduction in the number of wage earners (from 5,245 workers in 2009 to 2,810 workers in 2013).

Despite this downturn, the number of wage earners in construction still represents 8.02% of total wage earners registered with the Social Security (CASS) in 2013 (13.21% in 2009) and 8.84% of Andorran companies (10.40% in 2009).

In order to mitigate the effects of this deceleration and promote spending on construction, the Andorran Government is implementing a series of measures, such as the approval of a regulation to establish a programme of grants and preferential loans to encourage the modernisation of real estate, industrial safety, accessibility, energy efficiency or savings and improvements to building *façades*.

As already mentioned in this chapter, the Andorran business structure is strongly dominated by small companies; 67.82% of companies from the construction sector employ a number of workers equal to or less than 5, 17.57% employ between 6 and 10 workers, 10.51% employ between 11 and 25 workers and the remaining 4.11% of the companies have more than 25 workers.

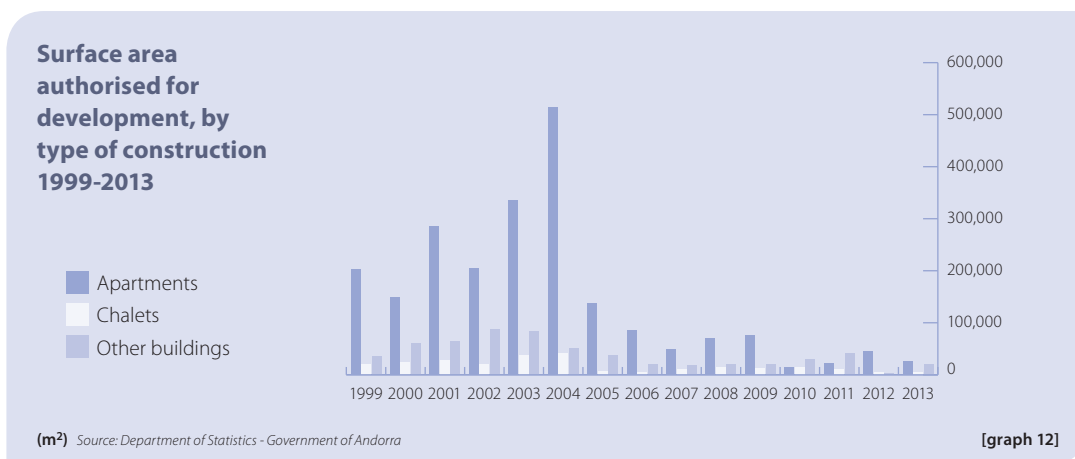
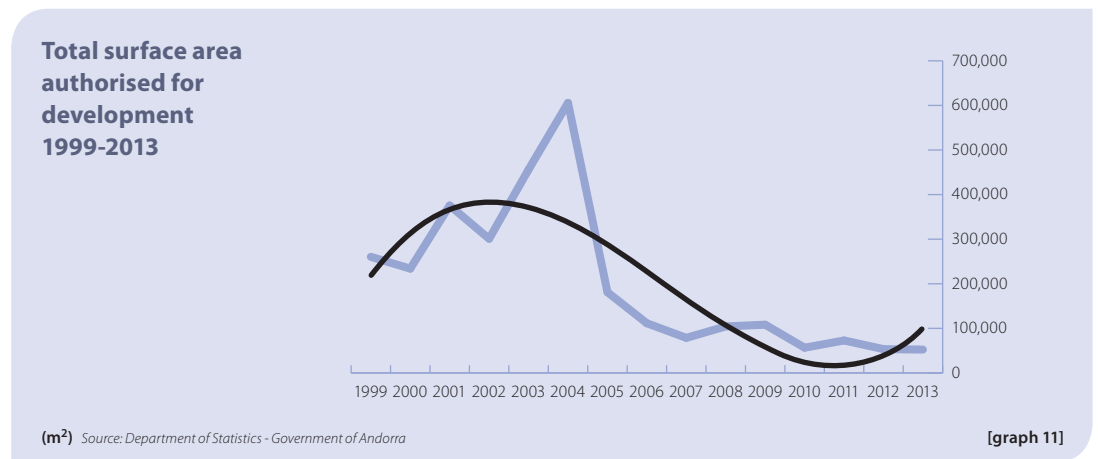
The construction boom in recent years has been closely linked to the growth in the areas of land authorised for development. Nonetheless, it should be mentioned that the peak in construction shown in the graph below took place in 2004 due to the May 2003 moratorium. Subsequently, the total area of land authorised for development in Andorra dropped to levels below those of 1997. However, as shown in the graph below, 2008 marked the start of a change in trend, which continued during 2009. In 2013 total square metres authorised for development fell by 2%. [graph 11]

The table below shows the number of square metres of land authorised for development by type of construction: [graph 12]

The above graph shows a clear decline in area of land authorised for development compared to

2009. As outlined above, several factors have contributed to the downturn in construction in Andorra; the May 2003 moratorium that led to a construction boom which has gradually stabilised and the slowdown in the Andorran real estate market, also experienced in other European countries. This real estate market downturn is the result of the international financial crisis coinciding with the bursting of the real estate bubble formed over the last decade.

The graph also illustrates that during 2008 and 2009 the square metres authorised for the development of apartments rose slightly as a result of the approval and/or modification of urbanisation plans in the majority of parishes. However, subsequent periods have not yet been affected by these approvals and/or modifications and the graph shows that fewer square metres have been requested for this kind of construction than others.



## Tertiary sector

### Services

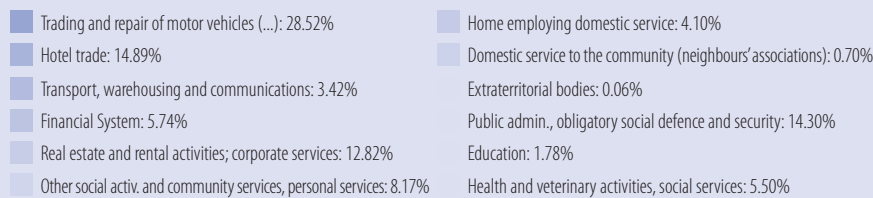
The lack of raw materials and energy sources in the Principality has forced the economy to look abroad, giving preference to service sectors, such as tourism, commerce, hotels and finance, in detriment to manufacturing industries.

The tertiary sector is a key sector in the Andorran economy. During 2013 it has employed 23,902 individuals, representing 68.22% of the total workforce and a total of 5,320 companies (77.21% of total) have operated in the service sector.

The graph below shows that the tertiary sector mainly groups together commerce and tourism-related activities and services. However it also includes important activities such as public administration, liberal professions and the Andorran financial sector. [graph 13]

The business structure of the sector mainly comprises small companies. Therefore, 78.98% of the companies have 5 or fewer employees, whilst 17.14% have 6 to 25 employees, 2.98% have a headcount exceeding 25 and only 0.90% has more than 100 employees.

#### Number of wage earners on Service industries



Source: Department of Statistics - Government of Andorra

[graph 13]

### Tourism

As already mentioned, commerce is one of the key activities of the Principality's economy, which complements and is directly related to tourism. Nevertheless, since 2002 there has been a drop in the number of tourists and overnight stays. In light of these circumstances, the Principality is committed to increasing the number of tourists, overnight stays, and expenditure per visitor, while simultaneously gaining the loyalty of customers who have already visited the country to encourage them to return more frequently. The objective of these measures is to maintain Andorra's position as a leading tourist destination in Europe.

*Andorra Turisme* has been created to coordinate and manage the initiatives grouped under this pillar, which is a public entity set up by the Andorran Government in 2008 to improve the promotion and coordination of the management of tourism in Andorra for the purpose of increasing the Principality's excellence as a tourist destination and jointly commercialise Andorra's public and private tourist attractions.

Likewise, the Andorra Convention Bureau is an entity entrusted with promoting Andorra as a destination for the organization of events, meetings, congresses, conventions and incentive trips. Andorra Convention Bureau, created in 2010, is a product club formed by the participation of companies from the private sector which are directly related to the business tourism segment and Andorra Turisme.

Efforts have been ongoing within the tourist area to revitalise the sector.

The number of visitors fell by 3.2% during 2013, with 7,644,611 persons visiting the country; the figure for 2012 was 7,900,440 visitors. However, the number of tourists grew by 4.1% rising from 2,237,939 in 2012 to 2,328,658 in 2013. The fall in the number of day trippers is very closely related to the economic situation in the neighbouring countries, which have suffered the consequences of the recession, and it was also affected by the closure of the access points into France over a long period during the winter of 2013.



In order to slow down the fall in the number of visitors and increase the number of tourists, the Ministry of Tourism and the Environment is carrying out several communication actions through Andorra Turisme and is maintaining an ongoing presence in the most important markets. The number of annual campaigns has risen from 2 to 5, and these are segmented and adapted according to what Andorra has to offer for each season and there is a transversal message with different angles to offer continuity and a permanent positioning. The actions during 2013 included the white (snow) campaign, the spring campaign, the green campaign and the Andorra Shopping Festival. Micro campaigns were implemented in parallel to these in order to communicate what the offers of the shops and stores.

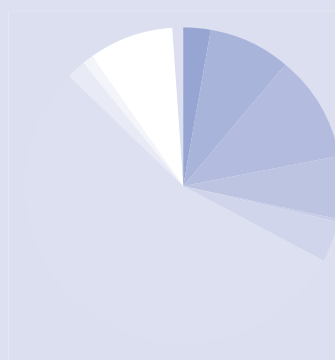
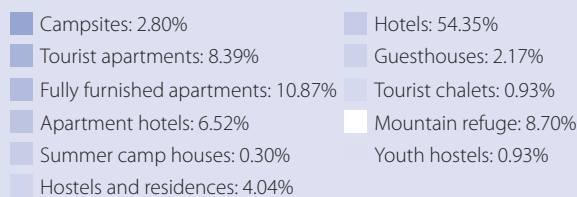
An effort has been made to strengthen on-line communication channels with 35% of the total investment and the allocation of a larger budget to the French market, which accounts for 43% of the overall investment, with investment for France becoming larger than that for Spain for the first time.

Other priority communication projects for 2013 included the launch of Andorra's new tourist web site *www.visitandorra.com* and the new on-line touristic strategy which hopes to see an increase in the awareness of Andorra in the source markets. The web site has built up a user database of more than 400,000 contacts thanks to the various campaigns.

A new commercial structure has been created in Europe with commercial agents present in Spain, Portugal, France, Belgium and the United Kingdom. Commercial actions have also been undertaken in the countries of the East as well as outside Europe, *workshops* have been organized with the Andorran tourist sector in the Czech Republic and Israel and commercial visits to Brazil and Colombia have culminated in the signing of a collaboration agreement with these countries.

Andorra Turisme continues its work to improve Andorra's reputation as a tourist destination and to attract tourists through the organization or sponsorship of sporting and cultural events. In July 2013, Cirque du Soleil performed for the first time in Andorra staging *Scalada*, a unique and exclusive spectacle for Andorra which was a huge success. We can also highlight the following winter events: The Dorado Free Ride, the Men's European Cup in Alpine Skiing, the World Championship of Ski Mountaineering, the SBX World Cup, the Total Fight, the Flying Kilometre World Cup and the Andros Trophy. And in the summer, the *Ultratrail* and *Ronda dels Cims* events, the Trial World Championship, the 25<sup>th</sup> Tour of the Mountain Passes of Andorra, the Andorra Triathlon, the MTB World Cup, the *Vuelta a España* (Tour of Spain) and the Barcelona-Andorra stage of the Cycling Tour.

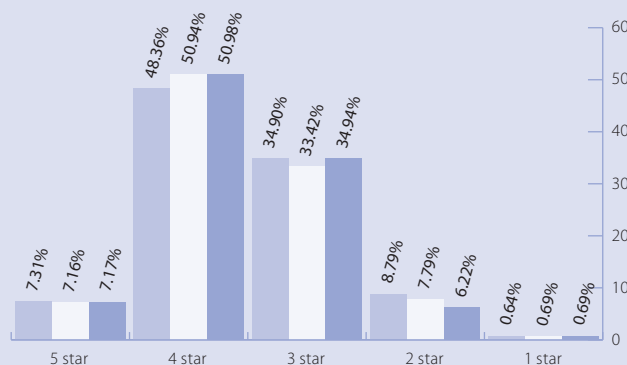
### Distribution of tourist accommodation by type



Source: Ministry of Tourism and Environment - Department of Tourism

[graph 14]

### Distribution of beds by category from 2011 to 2013



Source: Ministry of Tourism and Environment - Department of Tourism

[graph 15]

As far as the hotel sector is concerned, Andorra had 322 duly classified tourist accommodation establishments in 2013, offering a total capacity of 41,376 beds, which represents an approximate increase of 2% compared to the previous year. Hotel accommodation represents approximately 54.35% of tourist accommodation for 2013, above the other type of accommodation, with a slight fall compared to 2012, when they represented 56.92%. [graph 14]

The distribution of beds by category during 2013 has varied in line with the strategic outlook for innovation and quality improvement implemented by most Andorran businesses for many years. As the following graph shows, we can highlight that in the case of the hotels in 2013, there are 16,489 beds in the 4- and 5-star category, representing 58.15% of the total number of beds, while 34.94% of the beds on offer were in the 3-star category (6.21% in the 2-star category and 0.70% in the 1-star category). [graph 15].

The restructuring and improvement of hotel infrastructure in the Principality over the past years has enhanced the hotels on offer in Andorra, with the focus on proposing a better tourist experience, improving the quality of services and the level of customer service.

The Government of Andorra passed the following regulations related to tourist accommodation:

- Regulations of the Register of Tourist Accommodation Occupancy (ROAT). This came into effect on 12<sup>th</sup> April 2013 and will allow an improved monitoring of the tourists who stay at the country's establishments.
- Regulations for the classification of rural accommodation and the use of the official control and warranty stamp "Classification Plaque of Andorran rural house/cabin". This took effect on 25<sup>th</sup> April 2013 and it will help the development of rural tourism, which is well established in other European destinations.

As well as the wide range of hotel accommodation on offer, Andorra is also renowned for its restaurants, offering avant-garde cuisine that combines traditional and contemporary dishes. Visitors can discover this cuisine through a choice of gastronomic events and tours such as those organised in "bordes", typical mountain restaurants. Andorran agricultural products are promoted, emphasizing quality meat (the "Carn d'Andorra" (Meat of Andorra) name was formally registered as a Protected Geographical Indication –IGP–) in 2013, the *trumfa* (local potato), aromatic plants, medicinal plants, honey and other products.

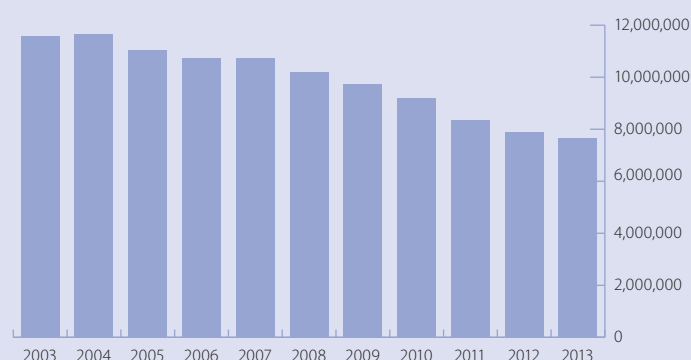
The Andorran Government is collaborating with the *Comuns*, the Andorran Hotel Union (*Unió Hoteleria d'Andorra*) and several other associations to promote local and international gastronomic events. Andorra organizes several relevant gastronomic events: *Andorra a taula*, the *Valls del Nord Lo Mandongo* Winter Cooking Workshops, *La Massana Fogons* and *la Mostra Gastronòmica d'Andorra* (Gastronomic Week), which takes place in Ordino with an extensive programme including a series of gastronomic talks given by experts from Andorra and neighbouring countries.

Furthermore, they have worked together with the business sector to strengthen Andorra in new tourist markets such as Poland, the Czech Republic, Israel and Brazil among others. Actions are being undertaken in these more distant markets which might possibly become important sources of tourists for Andorra. Likewise, the country maintains its presence in the main markets of France and Spain, and in others further afield such as Portugal, United Kingdom, Russia and the Benelux.

As the following graph shows, the fall in the number of visitors slowed down in 2013 and dropped by 3.24% compared to 2012. It is interesting to note the fall in the number of Spanish day trippers and tourists and we should also emphasise the increase in the number of French tourists as well as the growth in the number of tourists of other nationalities.

[graph 16]

**Evolution of number of visitors 2003-2013**



Source: Department of Statistics - Government of Andorra

[graph 16]

As far as the 2013-2014 Winter season is concerned, the 8.2% increase in the total number tourists deserves particular mention. On the other hand, the number of ski days sold increased by 18.19%, rising from 1,994,028 to 2,356,664 ski days sold, thereby breaking through the 2 million barrier. Finally, the 4.09% fall in the number of Spanish tourists and the 164.99% increase in Russian tourists are also worthy of mention. [graph 17]

The Principality of Andorra has the largest skiable surface area in the Pyrenees with more than 3,100 hectares of skiable terrain comprising three modern resorts. These resorts are located in the skiable areas known as GRANDVALIRA and VALLNORD. Andorra also has a winter sports camp called NATURLANDIA-La Rabassa.

In the 2003/2004 ski season, the Grandvalira Pas de la Casa-Grau Roig and Soldeu el Tarter resorts signed a commercial agreement to create a single skiable area commercialised as GRANDVALIRA. Although Andorra had the largest ski resort in the Pyrenees before this date, this agreement also means that it now has one of the most important resorts in Southern Europe.

Furthermore, starting from the 2004/2005 ski season, the Pal-Arinsal and Ordino-Arcalís ski resorts have joined for commercial purposes under the name of VALLNORD, enabling clients to use both resorts with a single ski pass.

The two resorts have a total of 210 skiable kilometres and several circuits for other snow-related activities and adventure sports.

GRANDVALIRA is formed by 6 sectors: Pas de la Casa, Grau Roig, Soldeu, El Tarter, Canillo and En-

camp, covering a total of 1,926 hectares distributed across 118 slopes and with a capacity for 100,700 skiers per hour.

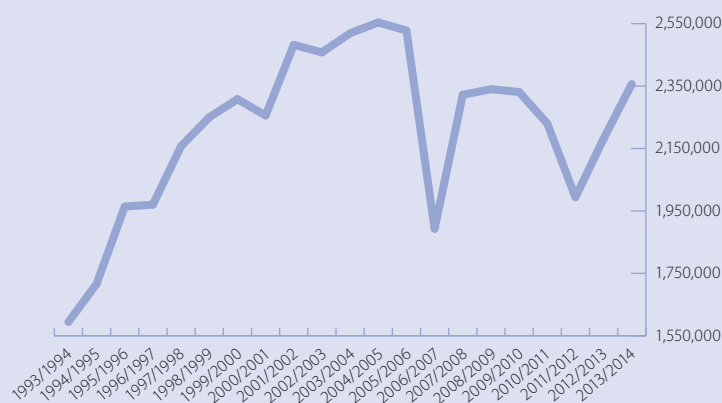
In February 2012, the Avet slope at Grandvalira-Soldeu hosted the Women's World Cup in downhill skiing. The best skiers on the international scene competed in the disciplines of slalom and giant slalom. In March 2014, Grandvalira hosted the Finals of the European Cup on the Àliga (El Tarter) and Avet (Soldeu) slopes. Southern Europe's largest ski resort will host the Finals of the European Cup in Speed Skiing during the 2014-15 snow campaign and the great white circus will return to Grandvalira in 2016 for a new edition of the World Cup when the emblematic Àliga slope will be the competition stadium once again.

The Speed Skiing World Cup is another of the competitions that has taken a foothold in Grandvalira. Grandvalira-Grau Roig was also the venue for the competition in this discipline at the end of February 2012, in April 2013 and again in February of this year. The world's fastest skiers competed on the Antenes (2012-2013) and Riberal slopes (2014) reaching the dizzying speeds of 155 km/h on the former and 185 km/h on the latter.

VALLNORD has three skiable sectors, Pal, Arinsal and Arcalis, covering a total of 1,149 hectares, 67 slopes and with a capacity for 55,690 skiers per hour.

As well as a wide range of winter activities, the two skiable areas offer summer activities to promote family tourism outside the Principality's normal high season, such as go-karting and a golf course, along with other more specialised summer sports and international competitions.

Evolution of total days of ski



Source: Ski Andorra

[graph 17]

NATURLANDIA, situated in Sant Julià de Lòria, has more than 330 hectares divided into two sectors, situated at an altitude of 1,600 and 2,000 metres respectively. The Andorra adventure park has more than 15 km of marked cross-country ski slopes in winter and several circuits for the practice of activities that can be enjoyed together with the family during all year. The range of activities is very extensive: trekking routes, quad bike trips, with 4x4 buggies, electrical vehicles, BTT, pony riding, horses, zip-line, archery and a mini-golf course, among other amenities. The most noteworthy activities include the Airtrekk, which is the largest Sky Trail in Europe. This structure consists of 10 towers and has 3 different levels of difficulty with different circuits made up of ropes and walkways. The most visited activity in the park is, undoubtedly, the Tobotronic, the world's longest alpine coaster.

The new Naturlandia animal park completes the offer of activities with its extensive zone situated 2,000 metres above sea level, where visitors can view species such as brown bears, Siberian wolves, three types of fallow deer, red deer, muflons, Ibe-

rian ibex and roe deer. The park also has a farm school where younger children can interact with farm animals that are typical of Andorra. It includes two semi-buried spaces where bears and wolves can be viewed at close range. The park also has different museums and sensorial zones and one audiovisual zone. Naturlandia has a wide selection of restaurants and also it also offers two accommodation facilities.

The table below shows details of the skiing facilities available in the Principality, together with a summary of their main features: [table 8]

The Andorran ski resorts have made significant investments which have provided the Principality with unbeatable skiing facilities, amounting to 9,150,000 Euros during the 2013/2014 season. Details of investments made in recent years are as follows: [graph 18]

Wellness or leisure centres with thermal waters are another tourist attraction that the Principality has to offer.

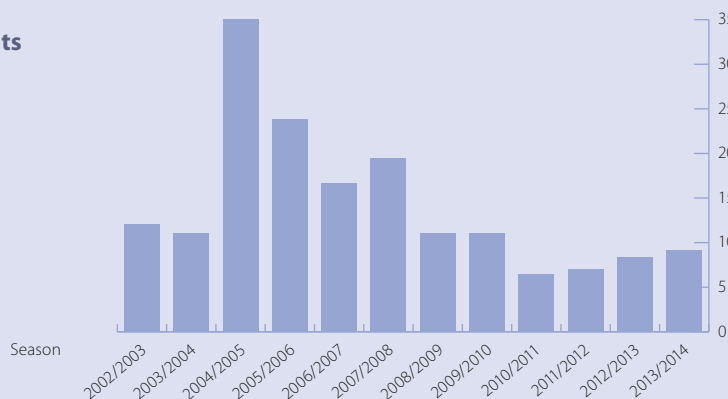
### Andorra ski resort facilities 2013

Ski resort	Km of slopes	Ski runs	Snow machines	% Snowmaking	Ski lifts	Skiers capacity / per hour
VALLNORD: Pal - Arinsal	63	42	296	45%	30	39,180
VALLNORD: Ordino - Arcalís	30	27	106	60%	15	16,510
GRANDVALIRA	210	118	1,013	65%	64	100,700
<b>TOTAL</b>	<b>303</b>	<b>187</b>	<b>1,415</b>	<b>57%</b>	<b>109</b>	<b>156,390</b>

Source: Ski Andorra

[table 8]

### Evolution of ski resort investments



(Millions of Euros) Source: Ski Andorra

[graph 18]

Set in a majestic and privileged location in Escaldes-Engordany, Caldea and its spectacular aquatic installations offer patrons the chance to spend hours enjoying the thermal spa and to take advantage of the endless benefits of the therapeutic thermal waters. Hydro massages, waterfalls, gooseneck and steam outlets are some of the services that allow visitors to experience water in all its various states. This is a fun way to enter the world of balneotherapy, which can be enjoyed together with friends and family.

For those clients who wish to spend time experiencing a state of wellbeing, the new INÚU wellness centre offers totally personalised rooms that are adapted to the preferences of each client, the time that they dispose of and the area that they wish to focus on. To obtain the total wellness of the client, INÚU uses the properties of the thermal waters, and for each case it combines the most specialised treatments in the 5 thematic areas of experiences: water, beauty, nutrition, sensorial and mind and body. The centre, with its unique architecture, offers spacious thermal areas that gleam in natural light as well as treatment cabins, a private wellness area for exclusive use, a spectacular gymnasium-loft and a restaurant that offers a nutrition-based menu. The new INÚU wellness centre, situated in the same building as Caldea, opened its doors on 15<sup>th</sup> January 2013.

### Commerce

The importance of tourism to the Andorran economy, as outlined above, means that those sectors of activity that are directly related to tourism, such as all commerce-related activities, have the most impact on the Principality's economy. This sector represents 24.26% of the country's companies and 24.83% of all employees.

The significant reliance of Andorra's commercial sector on demand from abroad renders it a number of distinctive features compared to the same sector in other countries, in which internal demand is the main driving force behind commerce. The Andorran trade sector can be split into wholesale and retail trade. The reliance on imports, which are subsequently distributed, means that on many occasions the importers of such products also act as wholesalers and are the owners of wholesale businesses.

Commerce is one of Andorra's tourist attractions and has been one of the mainstays of the Andorran economy, not only due to the relevance of the total number of businesses and employees, but also because the tax on imports, borne by Andorran commerce and generally passed on to the end consumer, has been one of the Andorran State's principal sources of income to date.

The Water and Madriu Valley Visitors' Centre (CIAM) is a cultural space designed to experience, enjoy and learn about water and the Madriu-Perafita-Claror Valley, two of the most important natural resources in the parish of Escaldes-Engordany and the Principality of Andorra.

The CIAM presents water and the Madriu Valley in a playful and interactive way using a series of sensorial and informational supports, with multiple projection screens, handling devices, interactive tables and offers surprising experiences such as the chance to walk on the water of the Valira d'Orient river, swim under a waterfall without getting wet or play in a water vapour square.

A visit to the CIAM allows us to experience traditional uses of water, especially the thermal waters that spout from the fountains of Escaldes-Engordany, we discover the secrets of the Madriu valley and are told about the heritage, natural and cultural values, of this valley, which was declared a UNESCO heritage site in 2004 within the cultural landscape category.

In addition, Andorra has an increasing number of hotels specialising in health and beauty treatments, which complement the tourism services offered in the country.

Andorra's tradition for commerce has gained international fame due to more than 1,500 modern establishments, the most competitive prices, and flexible opening times. The majority of these establishments are located in the parishes of Andorra la Vella (the capital), Escaldes-Engordany and Pas de la Casa. Nonetheless, the parish of Sant Julià de Lòria also has a number of large shopping centres.

Up until a short time ago, commerce was a tourist attraction due to the price differences between Andorra and the neighbouring countries of Spain and France. At present, although the Principality is not a member of the EU it is subject to taxes on consumption, albeit lower than those of EU countries, meaning that goods such as perfumes, the leading brands of clothing and jewellery continue to attract tourists to the Principality of Andorra.

In addition to the price differences, one of the main advantages of Andorra as a tourist destination is the fact that a large number of innovative and specialised outlets selling products from all over the world are concentrated in a small area.



## Number of companies and wage earners

	2012	2013	% of total 2013	Var. (%) 12-13
<b>Number of companies</b>	<b>1,592</b>	<b>1,671</b>	<b>100.00%</b>	<b>4.96%</b>
<b>Number of wage earners</b>	<b>8,975</b>	<b>8,700</b>	<b>100.00%</b>	<b>(3.06%)</b>
Sale, trading and repair of motor vehicles (...)	1,103	1,048	12.05%	(4.99%)
Wholesale trade and intermediaries, except for motor vehicles and motorcycles	2,276	2,171	24.95%	(4.61%)
Retail trade, except for motor vehicle trading (...)	5,596	5,481	63.00%	(2.06%)

Source: Andorran Social Security System and Department of Statistics - Government of Andorra

[table 9]

Details of the number of companies and wage earners in Andorra's retail sector during 2012 and 2013, by type of establishment are shown in the table: [table 9]

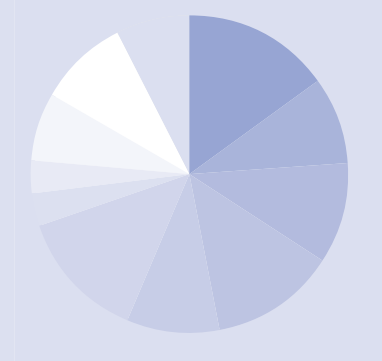
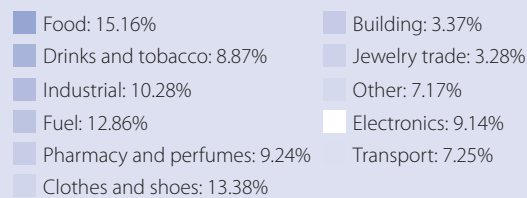
As is the case in other sectors, the majority of businesses employ 1 to 25 workers, representing 97.01% of total companies in this sector in the case of commerce and motor vehicle repairs, whilst only 2.99% employ more than 25 workers.

A reliable indicator of the status of Andorran commerce is the evolution of imports and exports in recent years. The trade deficit has been an ongoing structural feature of the Andorran economy.

It is worth mentioning that 2013 saw a change of trend in the evolution of imports, with a slight growth of 0.28% registered for the period. However, exports have continued to fall by 32.08% compared to 2012. The graph below shows the importance that each type of product has in terms of the total value of imports. [graph 19]

It should be taken into consideration that the export figures are not completely accurate since not all the tourists purchasing products in Andorra declare their exports because Spanish law establishes a limit on the value of each type of product that must be declared on entering Spain, as is the case in France. [graph 20]

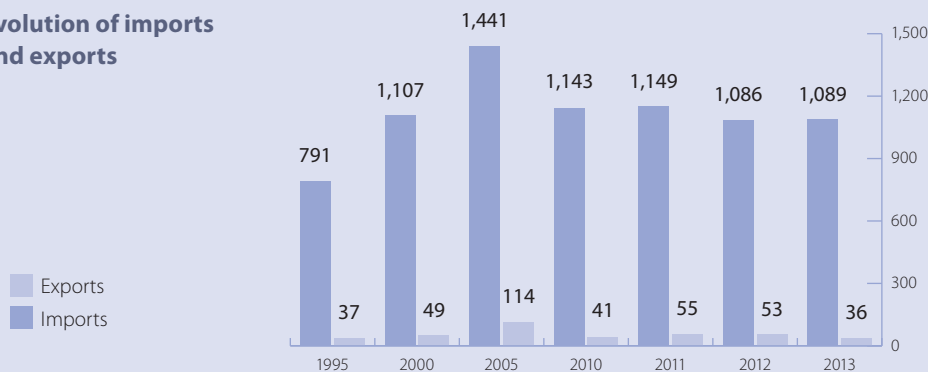
### Distribution of imports by chapters in values 2013



Source: Department of Statistics - Government of Andorra

[graph 19]

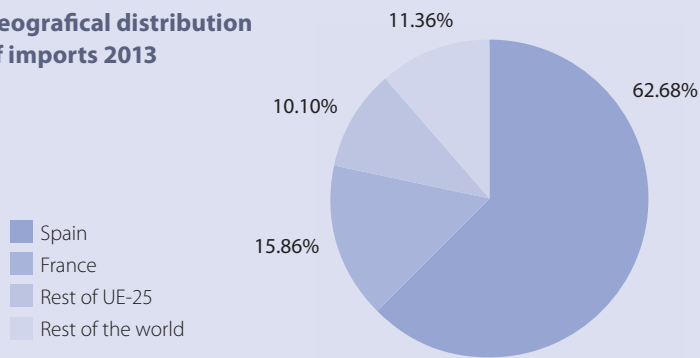
### Evolution of imports and exports



(Millions of Euros) Source: Department of Statistics - Government of Andorra

[graph 20]

### Geographical distribution of imports 2013

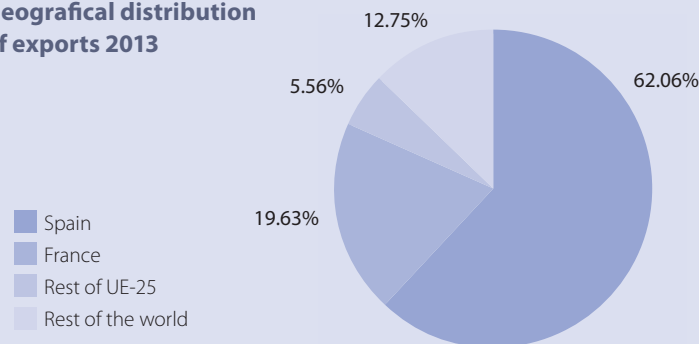


Source: Department of Statistics - Government of Andorra

[graph 21]

The pie charts below show the geographical distribution of imports and exports by country of origin or destination. The Principality mainly has trade agreements with Spain and France. [graphs 21 and 22]

### Geographical distribution of exports 2013



Source: Department of Statistics - Government of Andorra

[graph 22]

## Financial sector

The Andorran financial sector is one of the mainstays of activity in the Andorran economy due to its significant contribution to Andorra's GDP (the financial and insurance sector accounts for approximately 19%), with its nucleus being the banking system. Insurance companies, other asset management entities, investment undertaking management entities and specialised non-banking credit entities also operate in the Principality.

The **Andorran National Institute of Finance** (INAF) was founded in 1989 and supervises and regulates the Andorran financial system, with the exception of insurance companies (that do not belong to banking groups), which are currently supervised by the Andorran Government's Ministry of Finance.

The **Financial Intelligence Unit of Andorra** (UIF) is an independent organ whose mission is to promote and coordinate the measures to prevent money laundering and the financing of terrorism. It was created in 2000 –starting its functions in July 2001 under the name Anti-Money Laundering Prevention Unit– under the *Law on International Criminal Co-operation and the Fight against the Laundering of Money or Securities resulting from International Crime*, which follows the instructions of the MONEYVAL Committee of the Council of Europe as well as the 40 FATF Recommendations.

The financial system comprises 5 banking groups, 1 specialised credit entity, 8 investment undertaking management entities, 3 asset management companies and 29 insurance companies, 14 of which are branches of foreign insurance companies authorised to operate in the Principality. The banking sector employs 1,434 individuals in the Principality of Andorra, representing approximately 80% of the total number of wage earners in the financial sector.

The Andorran banking system has always been characterised by its high capital adequacy ratio compared to other financial markets, resulting from a strong capitalisation policy right from the start.

It should be noted that the Andorran banking system has established much stricter capital adequacy and liquidity ratios than most other countries, in order to ensure its good reputation at international level. The performance of these two ratios illustrates the conservative and prudent management of Andorran banks, which avail of a privileged situation in a scenario of international crisis marked by a lack of trust in the financial markets.

Due to their particular nature these features, which are a key part of this publication, are dealt with in chapter "IV. Banking sector".

# IV



## IV BANKING SECTOR

### IV.1. Introduction

The financial system is one of the main pillars of the Andorran economy and combined with the insurance sector it contributes approximately 19% to Gross Domestic Product (GDP). It is characterised by its financial reputation as a result of the strict and rigorous application of the international regulatory standards. Furthermore, the Andorran financial system, which is mainly focused on banking, is characterised by the high capital adequacy and liquidity ratios of its banking system compared to other financial markets (22% and 66.71%, respectively) due to its conservative and prudent management.

The Andorran banking sector comprises a total of five banking groups and has more than 80 years' experience in this activity. The banking entities in Andorra render banking services (retail and private banking), asset management, brokering and insurance services. Andorran legislation does not permit opaque structures, such as trusts, or private foundations to promote offshore investment structures, which prevent the identification of beneficiaries.

This sector employs highly qualified personnel and operates within a politically and socially stable environment, in a country with more than 700 years of history, tradition and dynamism and is regulated and supervised by the Andorran National Institute of Finance (INAF) governed by *Law 10/2013 dated 23<sup>rd</sup> May*, which has come into force on 20<sup>th</sup> June 2013 and which repeals *Law 14/2003, of 23<sup>rd</sup> October*. Furthermore, the Financial Intelligence Unit (UIF) created in 2000 is an independent body, the aim of which is to promote and coordinate measures to prevent money laundering and the financing of terrorism.

The strictness of the Andorran banking system in supervising and verifying the origin and destination of funds is guaranteed by expert organisations such as the International Monetary Fund (IMF) and the European Council. The five Andorran banking entities operate in international markets, applying standards and best practices. A good example of this is that all the Andorran banks are certified as qualified intermediaries by the IRS (Internal Revenue Service) of the United States of America.

Despite a somewhat difficult global economic environment, the financial system has managed to withstand and cope with the constant regulatory changes in international financial regulations; these include adapting to measures for international criminal cooperation and the fight against money laundering, the implementation of the legislation included in the Monetary Accord and the US initiative embodied in the Foreign Account Tax Compliance Act (FATCA), to mention just a few.

Another important change has been the INAF joining the International Organization of Securities Commissions (IOSCO), which offers a better regulatory framework that allows significant capital efficiencies as well as broader, more efficient and safer capital markets that are beneficial for all participants in capital markets around the world.

At a national level, the main developments deserving special mention include the adaptation of the Andorran fiscal framework to European standards with the introduction of the Corporate Tax and the General Indirect Tax (IGI) in 2012 and the endorsement of the tax on the income of physical persons (IRPF) during 2014, which will come into effect in 2015.

In 2013, the financial sector continued to adapt to the new economic environment with a 16.61% increase in the managed resources of clients and a 4.25% rise in the aggregate result of the Andorran banks. The financial margin of the Andorran banks has reached 198 million Euros and ordinary revenue has risen to 680 million, 11.04% higher than 2012.

Thus, the Andorran financial system confirmed its solidity throughout 2013, offering on-going proof of its solvency against the backdrop of a particularly complex international context for the banking sector. Excellent capital adequacy and liquidity ratios are amongst the highest of all European countries. These indicators illustrate the positive performance of the Andorran financial system, its consolidation in the domestic market and the progress made in the internationalisation process currently underway amongst Andorran banks, which has led to a diversification and growth in business, as well as the expansion of their banking structures and an in-

crease in the aggregate number of employees, thus obtaining a better efficiency ratio than in 2012.

In the forthcoming years we expect to see the sector adapting to European banking regulations, the development of the standards for fiscal transparency within the framework of the OECD and a con-

solidation of the new Andorran fiscal framework, to mention just a few aspects. In this difficult and complex international context, the more solid entities will differentiate themselves through better business models and better teams of professionals. The banking sector is prepared to face up to the challenges of the future with serenity and confidence.

## IV.2. Association of Andorran Banks (“Associació de Bancs Andorrans”)

The **Association of Andorran Banks** (ABA) was founded on 11<sup>th</sup> November 1960 and was formalised in a document which included the commitment to hold a series of monthly meetings which have taken place over the past years up until 17<sup>th</sup> November 1993.

On this date the Andorran Government authorised that Banc Agrícol i Comercial d’Andorra, SA and Banca Reig, SA (now merged into Andorra Banc Agrícol Reig, SA); Banca Cassany, SA (now called Banca Privada d’Andorra, SA); Banc Internacional d’Andorra, SA (now called Mora Banc Grup, SA); Banca Mora, SA (now called Mora Banc, SAU); Crèdit Andorrà, SA; Caixa d’Estalvis i Pensions de Barcelona, “la Caixa” (subsequently called CaixaBank, SA and currently merged into the Crèdit Andorrà, SA Group) could set up an association with its own legal status in accordance with Decree no. 40/A/93. The statutory activity of this association is to represent the collective interests of credit establishments, particularly in relation to the public administration; to provide information to its members and the general public; to undertake studies on any matter of common interest, on its own initiative or upon request from the Andorran Government; to draft and propose appropriate recommendations for the banking profession; to cooperate between different credit entities and to create, organise and manage services of common interest. In 2000 Banc Sabadell d’Andorra, SA was incorporated into the ABA after obtaining the necessary approval.

The framework of self-regulation of the banking system through the ABA includes an agreement dated 9<sup>th</sup> April 1990, which addresses the diligence obligation of the banking and savings institutions in Andorra.

The main pacts included in this agreement are as follows:

- Application of the criteria established by the Basel Committee on banking regulations and supervisory practices, known as the Cooke Committee.
- The obligation to submit financial statements for review by independent external auditors and to file these financial statements with the relevant public authority.
- The obligation to ensure that the identities of the clients are accurately verified.
- The maintenance of the banks’ code of secrecy, including the obligation of ensuring that the financial system is not used for laundering capital originating from serious criminal offences under the provisions of Andorran Law.
- The setting up of a commission to supervise the application of the pacts of this agreement.

The ABA currently continues to represent the interests of all its members, all the banking entities operating in Andorra and at the same time guaranteeing best banking practice and corporate image.

ABA’s organisational structure is formed of a chairman and a vice-chairman, posts which are rotated every year amongst the members, and a permanent management body comprising a general manager.

The main responsibilities and duties of the ABA are as follows:

- Represent and defend the interests at all levels of its members.
- Protect the prestige, professional image and development and competitiveness of Andorran banking both domestically and internationally. According to this aim, during 2007 and 2008, the ABA undertook a study in order to draw up an Institutional Plan that would allow the Andorran financial system to be guaranteed within the



institutional environment, both in Andorra and abroad, ensuring that the statutory standards and regulations of the Andorran financial system are in line with international standards.

- Implement initiatives aimed at improving the sector's technical standards in order to avoid illegal conduct of business by unqualified outsiders and any other irregular activities.
- Promote respectful sector cooperation through reciprocal competition and informing its members of issues of common concern.
- Ensure transparency in the application of conditions to clients and aim to complement professional ethics inherent to the profession.
- Collaborate with public entities either voluntarily or at the request of the Government, local corporations, and other public and parapublic entities by preparing reports, studies and recommendations, and economic action, forecast or recovery plans.
- Set up and participate in foundations and private entities, and participate in public entities and institutions on the condition that their objective is to promote economic, cultural, sporting and social welfare in the Principality and, in general, improve the standard of living of its citizens.

In relation to promoting economic and social welfare, the ABA is a member of the Andorran Chamber of Commerce, Industry and Services (*Cambra de Comerç, Indústria i Serveis d'Andorra (CCIS)*) and the Andorran Business Confederation (*Confederació Empresarial Andorrana (CEA)*). The mission of both these institutions is to represent companies in Andorran society, encourage social

dialogue, and develop a favourable environment for conducting economic activity.

- Promote the professional training of credit entity personnel, especially adequate training in relation to the prevention of money laundering and financing of terrorism, to ensure each credit entity complies with its obligations to prevent money laundering and safeguard professional secrecy.
- During the second half of 2009, the ABA began work on the development of an electronic online training platform related to money laundering and combating the financing of terrorism, which includes up-to-date information and both national and international legislation on this matter. This online training platform was made available to employees of the Andorran banking sector at the end of 2010.
- Develop, organise and manage services which are of common interest to the Association's members.
  - Contribute to the cultural and scientific development of Andorran society and publish details of the functions and services rendered by credit entities in relation to the economic development and mercantile activities of Andorran society to ensure they are satisfactorily appreciated.

The ABA's functional structure comprises a number of technical commissions formed of members of the various Andorran banks, who meet regularly at the ABA's premises. These technical commissions analyse and discuss issues related to their area of work in order to guarantee banking best practice, including topical issues and strategies for the sector.



## IV.3. The banking sector

The Andorran banking system is based on a universal banking model, including specialised banking services, retail banking and private banking. Andorran banks offer a complete range of banking services, including credit operations, equity management and financial advisory services, liability operations, financial analysis and other services (credit cards, transfers etc.). They also have subsidiaries which are specialised in financing, insurance and asset management.

The most significant aggregate data for Andorran banking for 2012 and 2013 are as: [table 1](#)

The Andorran banking system is made up of five banking groups which include the following six banking entities:

### ■ Andorra Banc Agrícola Reig, SA

The Andorra Banc Agrícola Reig, SA entity was born as a result of the merger in August 2001 between *Banc Agrícola i Comercial d'Andorra, SA* (founded in 1930) and *Banca Reig, SA* (founded in 1956). In this publication, it will appear under the name of ANDBANK Agrícola Reig Group.

### ■ Mora Banc Group, SA

Set up in 1958 under the name of *Banca Coma*, it changed its name to *Banc Internacional d'Andorra, SA* in 1970 and to *Mora Banc Group, SA* in November 2011.

### ■ Mora Banc, SAU

Founded in 1952, it was known as Banca Mora until November 2011.

### Mora Banc Group, SA and Mora Banc, SAU

operate together under the MoraBanc brand name and they present their financial statements and other data in a consolidated manner. In this publication they appear under the name MORA-BANC GROUP.

### ■ Banca Privada d'Andorra, SA

Incorporated in 1958 as *Banca Cassany*. In 1994 its name was changed to *Banca Privada d'Andorra, SA*. This bank appears as BPA in this publication.

### ■ Crèdit Andorrà Group

Incorporated in 1949, the data is presented under the name of Crèdit Andorrà Group in this publication.

### ■ BancSabadell d'Andorra, SA

Incorporated in June 2000. This bank appears as BancSabadell d'Andorra in this publication.

The above mentioned banking entities operate in all the main urban areas of the country through an extensive network of branches. There are a total of 40 branches distributed throughout the seven parishes which comprise the Principality of Andorra. The branches providing banking services in the Principality, together with the number of cash dispensers and Andorran bank employees, including those abroad, at 31<sup>st</sup> December 2012 and 2013 are shown below: [table 2](#)

	2012	2013
Total assets	15,234,158	15,869,667
Gross loans	7,479,465	7,148,928
Assets under management	35,390,075	41,267,760
Profit	196,838	205,197
ROE	12.67%	12.61%
ROA	1.34%	1.30%
Efficiency ratio	48.77%	47.96%
Capital adequacy ratio	21.22%	22.00%
Liquidity ratio	65.45%	66.71%

(Thousands of Euros) Source: Association of Andorran Banks

[table 1]

	Andorra and abroad		Andorra			
	Number of employees		Number of branches		Number of cash dispensers	
	2012	2013	2012	2013	2012	2013
ANDBANK	634	752	9	9	29	25
MORABANC GROUP	326	341	9	9	33	33
BPA	547	556	8	5	27	27
CRÈDIT ANDORRÀ GROUP	662	696	12	11	43	44
BANCSABADELL D'ANDORRA	112	117	6	6	21	22
<b>TOTAL</b>	<b>2,281</b>	<b>2,462</b>	<b>44</b>	<b>40</b>	<b>153</b>	<b>151</b>

Source: Association of Andorran Banks

[table 2]

## International expansion of the Andorran banks



[map 1]

In 2013 the number of employees has increased by 7.94%, i.e. 181 workers, who are mainly located abroad, in line with the process of international expansion implemented by the Andorran banks. At present, four of the five banking groups are in the process of international expansion, as shown: [\[map 1\]](#)

### ▀ Andbank

ANDBANK started the internationalization process of Andorran banks in 2001 when it opened the banking entity under the name Andbank (Bahamas) Ltd, now called Andbank (Bahamas). After this, Andbank continued its international expansion with the acquisition of other financial and banking entities, such as wealth managers, representation offices and banking licences and its desire is to position itself as a financial and banking group of reference.

It currently has an international presence in Switzerland (AndPrivateWealth, SA – Wealth Management Company), Miami (Andbank Wealth Management – Financial Services), Andbank Advisory LLC – Financial Adviser, Andbank Brokerage LLC – Financial Intermediation Activities), Mexico (Columbus de Mexico, SA de CV - Wealth Management Company), Luxembourg (Andbank Asset Management Luxembourg, SA - Fund manager and Andbank Luxembourg, SA - Bank), Uruguay (And PB Financial Services Representative Office of Andorra Banc Agrícola Reig, SA and Quest Capital Advisers Agente de Valores, SA - Securities agency), Panama (Andbank (Panamá) SA – Bank

and Securities House), BVI (APW International Advisors Ltd. – Fund manager), Monaco (Andbank Monaco SAM – Bank), Brazil (LLA Participações Ltda – Fund and Portfolio Management Holding), Spain (Medipatrimonia Invest SL – Independent Financial Adviser, Andbank Wealth Management SGIC, SAU – Wealth Management Company– and Andbank Espanya, SAU – Bank).

### ▀ MoraBanc

The MoraBanc Group began its international expansion in 2008 with the opening of an independent wealth management company, Mora Wealth Management, in Zurich, Switzerland's leading financial centre. The international expansion continued in 2009 with the acquisition of a wealth management company in Miami, United States of America, which became Mora Wealth Management Miami. This corporate operation was the first to be carried out in North America and provides an excellent platform for rendering services to the private banking market in Latin America.

Since 2012, MoraBanc is also present in Montevideo (Uruguay) with a financial advice firm, and in Miami (United States) where it has a broker dealer, Mora WM Securities.

In 2013, MoraBanc opened its representative office in Dubai in the United Arab Emirates, under the name MoraBanc Middle East, thus becoming the first Andorran financial group to open an office in the Middle East.

This year, MoraBanc opened a fund manager in Luxembourg, Mora Asset Management Luxembourg, thereby broadening its international presence.

The growth of the MoraBanc group and its way of banking was recognized by the magazine *The Banker*, from the Financial Times group, with awarding of the 2013 prize for Bank of the Year in Andorra. It has also been recognized as the 20<sup>th</sup> most solvent bank in the world and the second within the euro zone in the latest ranking of the world's top 1000 banks prepared by the same publication.

#### ■ **Banca Privada d'Andorra (BPA)**

The Banca Privada d'Andorra Group is present in Luxembourg, through BPA Financing, S.à.r.l. (an investment and international financing company); in Switzerland, through BPA-IPWM (Suisse), SA (a company engaged in financial advisory services, investments and equity management); in Spain, through Banco de Madrid, S.A.U. and its fund managers —Interdin S.A.; Banco Madrid, Gestión de Activos, S.G.I.I.C., S.A.U. and its funds manager, Banco Madrid, Gestión de Activos, S.G.I.I.C., S.A.U. and the Interdin S.A. group (group dedicated to the administration and sale of securities); in Panama, through Banca Privada d'Andorra (Panamá), SA (which has an international banking licence to develop banking activities for non resident customers in the country), through BPA Valores, S.A. (engaged in securities trading) and through BPA International Trust, S.A.; and in Uruguay, through Noswey, S.A. (engaged in investment advisory).

#### ■ **Crédit Andorrà Group**

Credit Andorrà Group has continued to move forward as it seeks to implement its plan for international expansion, which is based on its strength in Andorra and sustainable growth that has seen it broaden its geographical presence: it is now present in Spain, Luxembourg, Switzerland, the United States of America (Miami), Mexico, Panama, Paraguay, Peru and Uruguay as well as the Principality of Andorra.

One aspect that stands out within the internationalization plan is the strengthening of its activity in Switzerland with the purchase of 9.9% of Banque Genevoise de Gestion, an operation that broadens the Group's Wealth Management activities in Europe and which also allows Crédit Andorrà to operate with five banking licences around the world helping it to offer a competitive and expert private banking service.

The Financial Times group, through the prestigious magazines *The Banker* and *Professional Wealth Management*, has recognized the business proposal of the Crédit Andorrà Group by awarding it the prize for the best bank in private banking in Andorra for 2013, the first time that an entity from the country has received this distinction. Similarly, the magazine *Global Banking & Financial Review* chose Crédit Andorrà as the best bank in the Principality for private banking in 2013.

The growth of Crédit Andorrà Group in the international market has also continued from the Insurance Group, firstly in Spain, with the opening of the life insurance company CA Life Insurance Experts (which has offices in Barcelona and Madrid) and subsequently in South America through CA Vincles in Chile, which offers actuarial and insurance services.

The activities of the Crédit Andorrà Group throughout the world:

- Private Banking and Wealth Management: Andorra, Europe (Spain, Luxembourg and Switzerland), United States of America (Miami) and Latin America (Mexico, Panama, Paraguay, Peru, Uruguay).
- Commercial Banking (Retail & Corporate): Andorra.
- Insurance: Andorra, Spain and Chile.
- Crédit Andorrà Foundation.

#### ■ **BancSabadell d'Andorra**

In contrast to the other entities, BancSabadell d'Andorra has not embarked on any international expansion plan.

## Corporate Social Responsibility (CSR)

Year after year, the entities of the Andorran banking sector have been consolidating their voluntary corporate social responsibility policies, based on responsible growth and a commitment towards society. Andorran entities present their corporate social responsibility policies, applying strict ethical criteria, at the entities themselves or through foundations.

The annual reports and notes to the annual accounts of Andorran entities set out the initiatives being carried out as a result of their commitment

towards society. There are numerous examples of these commitments which affect various areas: culture, sport, solidarity, education or the environment. There is an increasing trend in Andorra to present information in the aforementioned reports in a systematic manner, as is the case of other countries, to target groups with special interest in the entity's activities: shareholders, employees, customers, suppliers, society (referred to as "interested parties" or stakeholders). Some of the entities follow the Global Reporting Initiative (GRI) standards when drafting corporate social responsibility reports.

The different initiatives at international level to standardise the presentation of non-financial information have been well received, as they enable entities to also be compared from this new perspective. In 2006, the Global Reporting Initiative published the new GRI G3 guide for preparing sustainability reports, which is most widely used when reporting on strategies and measures taken by organisations from an economic, social and environmental perspective.

A summary of the corporate social responsibility activities carried out by each of the entities which comprise the Andorran banking sector are as follows:

### **CSR at Andbank**

The Corporate Responsibility policy of Andbank is based on its main corporate values, which promote customer service, meritocracy and professionalism among other aspects. These are the pillars for the development of the company as a financial, banking and social entity that is integrated into its environment, in which sustainability and the environment prevail. During 2013, Andbank continued consolidating and strengthening the social project that reaffirms the compromise that the entity has acquired with the country, in areas such as the economy, education, culture and sport.

The entity continues to maintain close links with the communities with which it operates, generating value not through major corporative campaigns, but through high value added collaborations, such as the organization of economic conferences, the promotion of entrepreneurial projects, the creation of new socially-responsible business projects, collaborating for example in the organization of the Forum of Family-owned Companies or by getting close to young people by contributing to values associated with top level sport, such as effort, tenacity and perseverance that are associated with top level sport, and with which Andbank feels fully identified.

Within the social field, once again this year we can highlight the collaboration with the Andbank Solidarity Association of Collaborators (ASCA), created to provide support and project the demands for help and displays of solidarity that are received by the entity.

The most relevant contributions within the world of sport include the collaboration with the Andorran Olympic Committee (COA), whose objective is to improve Andorran sport and reinforce the external image of Andorra. As the national sport, skiing has received special support for yet another year through the sponsorship of the Andbank Freestyle Team, which is made up of young skiers and the

bank is also involved in the traditional Manuel Cerqueda Memorial Ski Race for Veterans, organized by the Ski Club of Andorra. As the sporting and leisure bases of young people, football and basketball receive support through the sponsorship of the Nike Camp. Golf has received special support once again from Andbank with the now traditional Andbank Golf Circuit.

Within the cultural sphere, the entity collaborates with the Spanish embassy in the awarding of the Manuel Cerqueda prize for short novels designed to give support to cultural dissemination in the country.

### **CSR at MoraBanc**

In accordance with the mission and values of MoraBanc, social responsibility is a structural element of the company's culture, and there is a high degree of involvement with the Andorran community. For this reason, the desire of MoraBanc is to make the entity a reference point in such matters, and it shows a clear commitment to quality, sustainability and respect for the environment, which has received this year again the classification as an entity with neutral carbon emissions. Likewise, it promotes initiatives of a social and informational nature, with the Music and Dance Season, which it has organized since 2011, being the most emblematic example, as well as several initiatives for the dissemination of scientific matters, which have involved groups from the liberal professionals. In sporting matters, in addition to its sponsorship of *Bàsquet Club Andorra*, the entity has also signed an agreement with FC Barcelona, making MoraBanc a Regional Partner of the Club. This agreement offers advantages for customers of the group. All these initiatives have a sole objective, that of reaffirming the compromise and commitment that the banking group has with the whole of Andorran society. In the solidarity section, MoraBanc introduced its solidarity card in December 2010 and has achieved that 30% of all cards were solidarity cards. The scheme sees acquisitions made by clients rounded upwards to the nearest euro or 10 cents, with the excess amount being given in the proportion decided by the customer to NGOs that have an agreement with the bank. The Group is committed to doubling customer contributions through donations in addition to 50% of all rounded off amounts. This initiative raised more than 108,000 Euros in 2013.

### **CR at Banca Privada d'Andorra (BPA)**

BPA's commitment to the principles of Corporate Responsibility forms a part of the Entity's business strategy and its day to day financial activity, aimed at maximizing the creation of shared value for customers, workers, shareholders and society as a

whole. BPA assumes the responsibilities of a socially responsible company that creates quality employment, and which has a work philosophy that places a priority on quality employment, equal opportunities and a balance between work and family life. In 2013, the entity revalidated the Responsible Family Business certificate awarded by the Másfamilia Foundation, with the endorsement of the Spanish Ministry of Health, Social Policy and Equality. Furthermore, the Banca Privada d'Andorra Private Foundation promotes the Xeridell Occupational Workshop which offers users labour, employment and therapeutical activities aimed at improving their quality of life and their relationship with their environment. It also works in favour of disabled persons —through the Tutelar Private Foundation of the Principality of Andorra— and children in situations of risk —through an agreement with the La Gavernera Children's Shelter. The BPA Private Foundation set up the Andorran Observatory on Childhood in 2013 together with Unicef and the Centre for Sociological Research (CRES) to analyse the situation of children and to promote actions that contribute to improving their well being. With the grants programme for paid work experience, which was extended in 2013 to include university students, BPA allows young students to experience the daily workings of a bank, acquire work habits and undergo specific training linked to the financial world, which can help them define their vocation. Within the cultural arena, Jaume Plensa's work *7 poetes* (7 Poets) has been loaned to the Commune of Andorra la Vella, with the objective of bring art closer to citizens and as a point of attraction to promote cultural tourism in Andorra.

### **CSR at Crèdit Andorrà Group**

The Crèdit Andorrà Group has assigned an overall investment of 2 million Euros (2.71% of the total net profit) to programmes and actions aimed at improving the present and achieving a better future for Andorra, as an expression of the vocation of service that defines the essence of the entity.

The value of the service to the country and the people can be seen most clearly in the Crèdit Andorrà Foundation, which has been active for more than 25 years. The Foundation is the backbone of the Bank's commitment to the development of Andorra, developed through financial resources and a wide programme of initiatives that have helped to make it the most important private foundation in the country.

The programme offering grants for higher studies is one of the most significant of the projects, and it has allowed 174 students to study in 46 universities around the world; there is also a project for the

elderly centred around L'espai, an extensive programme of conferences, seminars and workshops on health matters and an involvement in social support initiatives such as the Caritas Food Bank and the umbilical cord donation programme.

However, culture is the area in which the Foundation really comes into its own, through its sponsorship of the National Classical Orchestra of Andorra (ONCA) Foundation and the Foundation of Escena Nacional Andorrana (ENA), in addition to its role as a co-promoter of the Narciso Yepes Festival in conjunction with the Commune of Ordino.

The Crèdit Andorrà Group's commitment to the country is also expressed through a programme that provides support and economic sponsorship to initiatives for economic revitalization (such as the Trade Fair of Andorra la Vella) and to sectors that are strategic for the Principality, such as tourism and snow-related activities. One aspect that stands out in this latter area is the decision to continuing providing support to skiing, which is implemented by backing both the federations and clubs and the private initiatives designed to help promote the ski resorts.

In a complex context such as the current one, Crèdit Andorrà Group has given priority to the business fabric. The bank has a desire to stand side by side with business people, professionals and entrepreneurs through the organization of seminars, conferences and events. On the other hand, through the Crèdit Andorrà Chair in Markets, Organizations and Humanism at IESE Business School, it has contributed to raising awareness of the new path that Andorra has taken within the international economic arena.

### **CSR at BancSabadell d'Andorra**

BancSabadell d'Andorra considers that CSR is a medium to long-term commitment whereby the most important task is to progressively implement a timetable and a method for implementing measures. BancSabadell d'Andorra's corporate values are: the desire to provide a service, proximity, adaptability, commercial focus, innovation, professionalism, ethics and social responsibility, austerity, prudence and team work. The bank is aware of the fact that social responsibility is a step more than that required by law and has adopted its own ethical standards which are stricter than those legally required and avails of different self-regulating mechanisms. The bank also has a code of conduct, an internal conduct regulation for the area of securities and a Corporate Ethics Committee which is the body in charge of controlling and supervising ethical principles.

## Aggregate consolidated balance sheets of Andorran banks

Details of the aggregate consolidated balance sheets of Andorran banking entities for 2012 and 2013 are as follows: [table 3]

The evolution of the aggregated consolidated balance sheets of the Andorran banks since 2007 is shown below: [graph 1]

ASSETS	2012	% of total	2013	% of total	Var. (%) 12-13
Cash and central banks OECD	130,124	0.85%	202,263	1.27%	55.44%
INAF	1,050	0.01%	1,050	0.01%	-
Financial intermediaries	1,674,708	10.99%	1,992,566	12.56%	18.98%
Loans	7,383,576	48.47%	7,029,327	44.29%	(4.80%)
Securities portfolio	4,557,448	29.92%	4,960,369	31.26%	8.84%
Gains on consolidation	165,442	1.09%	178,626	1.13%	7.97%
Intangible assets	106,790	0.70%	123,544	0.78%	15.69%
Tangible assets	717,458	4.71%	780,567	4.92%	8.80%
Prepayment and accrued receivables	163,661	1.07%	161,734	1.01%	(1.18%)
Other assets	333,901	2.19%	439,621	2.77%	31.66%
<b>TOTAL ASSETS</b>	<b>15,234,158</b>	<b>100.00%</b>	<b>15,869,667</b>	<b>100.00%</b>	<b>4.17%</b>
<b>LIABILITIES</b>					
INAF	89,005	0.58%	116,133	0.73%	30.48%
Due to banks and credit entities	1,450,934	9.52%	1,953,346	12.31%	34.63%
Other financial intermediaries	11,781	0.08%	6,228	0.04%	(47.14%)
Customer deposits	10,728,404	70.42%	10,785,353	67.96%	0.53%
Debts represented by securities	661,421	4.34%	634,752	4.00%	(4.03%)
Provision for liabilities and charges	30,048	0.20%	30,122	0.19%	0.25%
Provision for general risks	8,237	0.05%	9,601	0.06%	16.56%
Subordinated liabilities	273,131	1.79%	271,453	1.71%	(0.61%)
Accruals	114,333	0.75%	128,045	0.81%	11.99%
Other liabilities	286,925	1.88%	268,273	1.69%	(6.50%)
Share capital	290,536	1.91%	291,317	1.84%	0.27%
Reserves	1,152,172	7.56%	1,223,422	7.71%	6.18%
Profit	196,830	1.29%	205,190	1.29%	4.25%
Prior years' result	(521)	-	-	-	-
Interim dividends	(64,499)	(0.42%)	(63,044)	(0.40%)	(2.26%)
Minority interest	5,421	0.05%	9,476	0.06%	74.80%
<b>TOTAL LIABILITIES</b>	<b>15,234,158</b>	<b>100.00%</b>	<b>15,869,667</b>	<b>100.00%</b>	<b>4.17%</b>

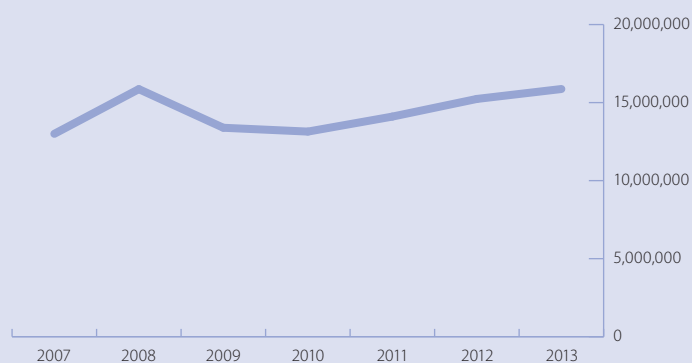
(Thousands of Euros) Source: Association of Andorran Banks

[table 3]

The consolidated balance sheets of each banking group for 2012 and 2013 can be found in chapter "V. Information of interest".

The distribution of the aggregate balance sheet by banking entity at 31<sup>st</sup> December 2012 is as follows: [graph 2]

### Evolution of the aggregated consolidated balance sheets 2007-2013



(Thousands of Euros) Source: Association of Andorran Banks

[graph 1]



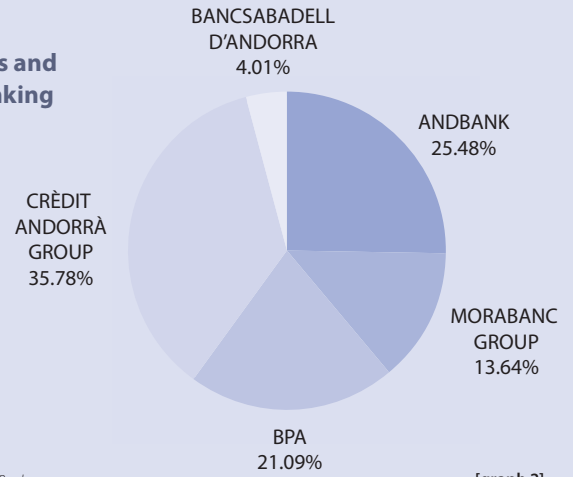
## Aggregate assets

The 2013 financial year saw an increase in the aggregate assets of Andorran banks, mainly in the "Securities portfolio" chapter, which was 8.84% compared to 2012 (representing 31.26% of total assets) and in the "Financial intermediaries" chapter with an increase of 18.98% compared to 2012 (representing 12.56% of total assets). The amount under the heading "Loans" fell slightly by 4.80% and represents 44.29% of all assets.

The 7.97% increase in the chapter on "Positive consolidation differences" is based on the acquisition of foreign companies within the framework of the internationalization process that the banking entities are currently immersed in. On the other hand, the "Other assets" chapter mainly corresponds to outstanding payments with the market counterparties.

The graph below shows the evolution of aggregate assets over the last six years, as a result of the transfer of customer deposits off the balance sheet, in 2009 aggregate assets decreased by 15.60% and, in 2010 this downward trend was more moderate with only a 1.83% drop recorded in relation to 2009. During these four last periods the deposits chapter

### Distribution of aggregate assets and liabilities by banking entity 2013



Source: Association of Andorran Banks

[graph 2]

has increased once again and aggregate assets have also increased by 20.75% as consequence.

[graph 3]

Loans and securities portfolio comprise a large part of the structure of total aggregate assets, representing 44.29% and 31.26%, respectively even though the reduction in relative terms of loans given the effect of the internationalization process.

[graph 4]

### Evolution of aggregate assets 2008-2013



(Thousands of Euros) Source: Association of Andorran Banks

[graph 3]

### Estructure of aggregate assets 2013



Source: Association of Andorran Banks

	2013
Cash and banks	2,195,879
Loans	7,029,327
Securities portfolio	4,960,369
Fixed assets	1,082,737
Other assets	601,355

(Thousands of Euros)

[graph 4]

Details of the items forming part of the captions included in the above graphs are as follows:

- Cash and banks include deposits in OECD Savings and Central banks, the INAF and financial intermediaries, which include loans with Banks and Credit Entities for four of the five banking groups forming part of the Andorran banking sector.
- Loans include loans and credits, account overdrafts and notes.

- The most important items included under securities portfolio are bonds and other fixed interest securities, investment funds and investments in group companies.
- Fixed assets comprise tangible and intangible assets, amortizable expenses and positive consolidation differences.
- Other assets include ongoing operations, stocks, options acquired and other taxes.

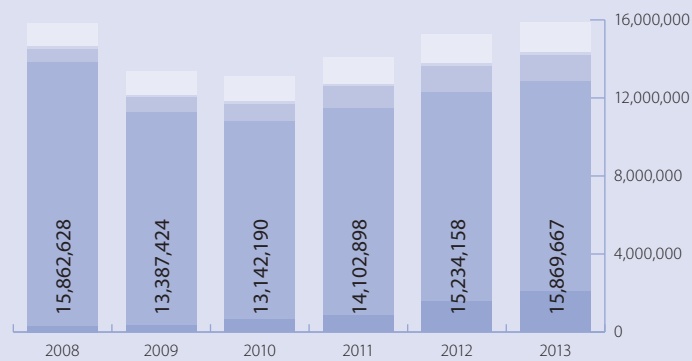
### Aggregate liabilities

As we saw in the previous section, the balance sheets of the Andorran banks have increased since 2010. The evolution of customer deposits has been directly affected by the variation in interest rates and therefore by international capitals markets as well as by the expansion policy of the banking entities, without taking away from their organic growth. [graph 5]

The pie chart below illustrates that the Andorran banks' aggregate liabilities at the 2013 close are characterised by the relative importance of customer deposits to the financing structure of Andorran banks, representing 67.96% of aggregate liabilities (70.42% in 2012). "Shareholders' equity" makes up 9.60% and "Results" make up 0.90%, whilst the remaining liabilities are formed mainly of "Other liabilities" (8.46%) and "Financial intermediaries" (13.08%). [graph 6]

#### Evolution of aggregate liabilities 2008-2013

- Financial intermediaries
- Customer deposits
- Other liabilities
- Results
- Shareholders' equity

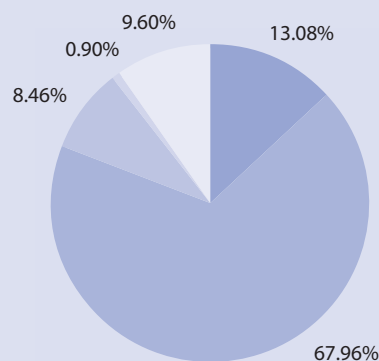


(Thousands of Euros) Source: Association of Andorran Banks

[graph 5]

#### Structure of aggregate liabilities 2013

- Financial intermediaries
- Customer deposits
- Other liabilities
- Results
- Shareholders' equity



Source: Association of Andorran Banks

[graph 6]

	2013
Financial intermediaries	2,075,707
Customer deposits	10,785,353
Other liabilities	1,342,246
Results	142,146
Shareholders' equity	1,524,215

(Thousands of Euros)

Details of the items forming part of the captions included in the above graphs are as follows:

- Shareholders' equity includes share capital, reserves and minority interests (where applicable).
- Results comprise profit for the year less dividends on account, prior years' profit (where applicable).
- Other liabilities: include provisions, accruals and debts represented by securities.
- Customer deposits are the largest liability caption.
- Financial intermediaries: include deposits from the INAF, Banks and Credit Entities.

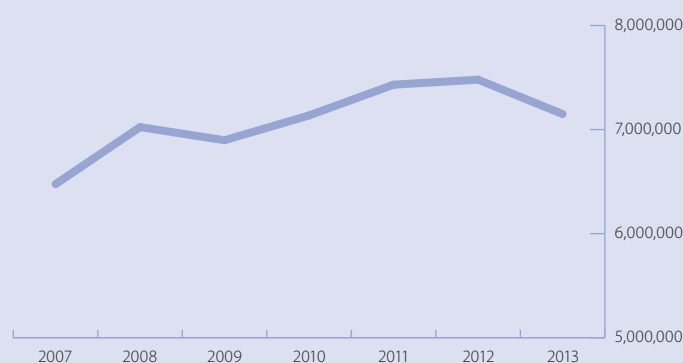
## Gross loans and discounts

The evolution of gross loans and discounts up to 2009 went from a growth rate of 8.46% in 2008 to a 1.80% fall in 2009, due mainly to the impact of the economic slowdown and the greater prudence of entities in extending loans. The aggregate growth has stood at 3.45%, 4.14% and 2.27% for the 2010, 2011 and 2012 periods, a fact that has indicated a certain recuperation of trust in the financial markets despite the fact that there was a 4.42% fall during 2013 as we can see below: [\[graph 7\]](#)

The following data relates to gross loans, as it does not include the "Provision for loan losses". This data is harmonised in accordance with international standards and therefore does not include loan balances with Banks and Credit Entities, but exclusively customer loans. [\[table 4\]](#)

The next graph shows the evolution of gross loans and discounts during the past three years. During this period, it can be observed that BPA is the banking entity which has shown least growth in absolute terms (Euros 153,017 thousand), followed by Andbank (Euros 57,309 thousand). In line with what has happened in many other neighbouring countries, the entities of the Andorran financial system have seen their demand for credit reduced due to a short-term factor. The low interest rates of 2012 must be taken into account in this analysis together with the high risk premiums that made it interesting to buy a credit at the same time as a financial product with greater yields. This ceased to be an interesting option in 2013, and there has been a slowdown in the demand for loans and credit. [\[graph 8\]](#)

### Evolution of aggregate gross loans and discounts 2007-2013



(Thousands of Euros) Source: Association of Andorran Banks

[graph 7]

### Evolution of gross loans and discounts by banking entity

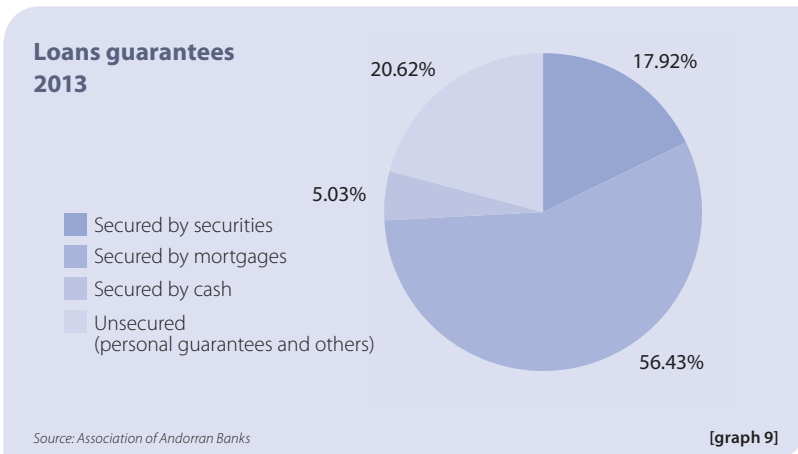
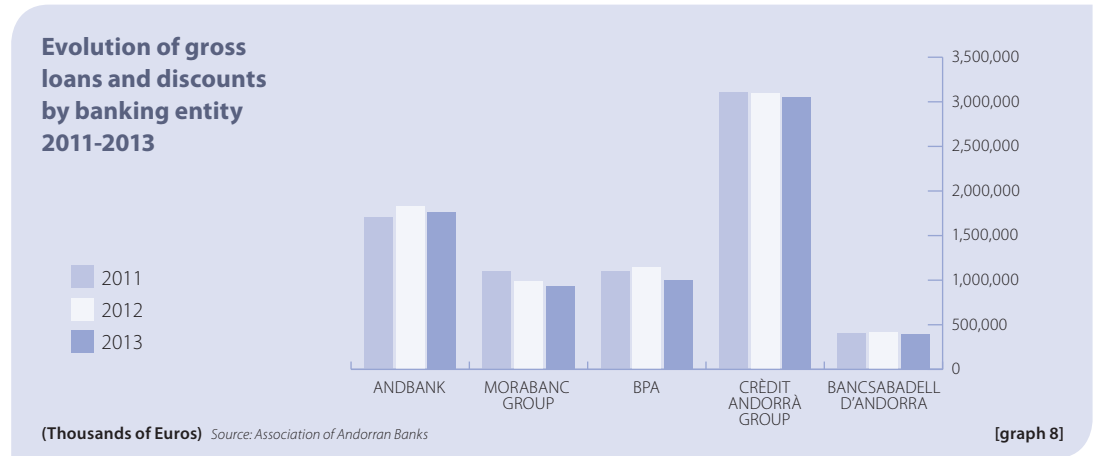
	2012	% of total	2013	% of total	Var. (%) 12-13
ANDBANK	1,825,144	24.40%	1,767,835	24.73%	(3.14%)
MORABANC GROUP	984,755	13.17%	935,382	13.08%	(5.01%)
BPA	1,149,767	15.37%	996,750	13.94%	(13.31%)
CRÉDIT ANDORRÀ GROUP	3,101,781	41.47%	3,053,700	42.72%	(1.55%)
BANCSABADELL D'ANDORRA	418,018	5.59%	395,261	5.53%	(5.44%)
<b>TOTAL</b>	<b>7,479,465</b>	<b>100.00%</b>	<b>7,148,928</b>	<b>100.00%</b>	<b>(4.42%)</b>

(Thousands of Euros) Source: Association of Andorran Banks

[table 4]

The "Loans" caption represents 44.29% of total aggregate assets, comprising mainly loans and credits to customers. Total collateralised loans represent 79.38%. As shown in the pie chart below, 17.92% of these loans relate to security guarantees, 56.43% to mortgage guarantees and 5.03% to monetary guarantees. 94.90% of loans have a risk rating of "Normal", 0.33% are "Past-due", respectively (95.66% and 0.93% in 2012 and 96.25% and 0.81% in 2011) and 4.77% are classed as "Doubtful" (3.41% in 2012 and 2.94% in 2011). [graph 9]

The aggregate default ratio of the Andorran banks was 4.77% on 31<sup>st</sup> December 2013 (doubtful receivables / loans and discounts to clients). This ratio has experienced an upward trend in recent years in line with the deterioration of the economic situation, although the default ratio of Andorran banks has remained considerably lower than the ratios recorded by the credit entities of neighbouring countries.

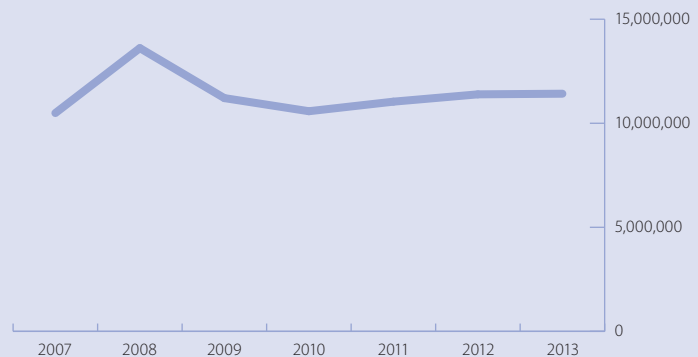


## Customer liabilities

The uncertainty generated by the international financial crisis led to a significant amount of customer funds managed off the balance sheet being transferred to more secure products, such as deposits during 2008. However, the upward trend of international capital markets in 2009 and 2010 has generated a 5.88% fall in customer liabilities (customer deposits managed by banking entities and structured products issued by banks) in relation to 2009 as part of the customer funds has been transferred off the balance sheet. This trend changed during the last three years, with a slight increase in deposits of 6.03% and an important increase in customer funds managed off-balance-sheet of 73.51%. [graph 10 and table 5]

The figure below shows the evolution of customer deposits over the last three financial years and we can see that MoraBanc is the banking entity which has fallen in absolute terms with 162 million Euros. In contrast, Crèdit Andorrà increased its figure for customer deposits by 265 million Euros in the period under consideration, followed by Andbank and BPA, with 159 and 99 million respectively. This slight general recovery in customer deposits is in line with the increase experienced in the customer funds managed off-balance-sheet due to the phase of internationalization that most banking entities are going through. [graph 11]

### Evolution of aggregate customer liabilities 2007-2013



(Thousands of Euros) Source: Association of Andorran Banks

[graph 10]

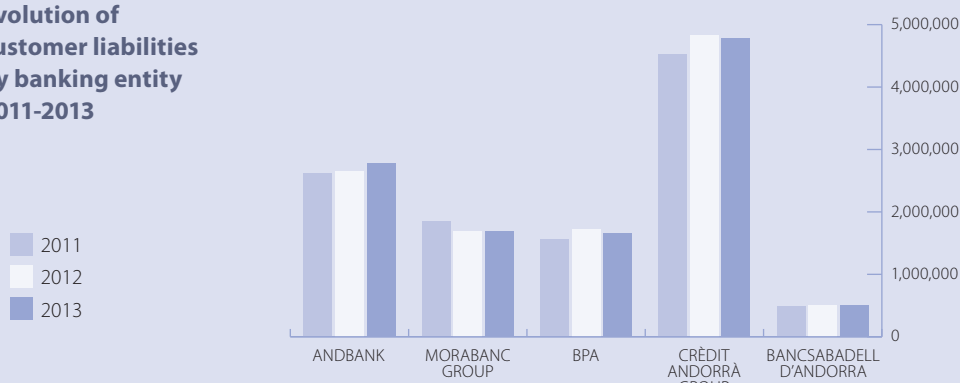
### Customer liabilities by banking entity

	2012	% of total	2013	% of total	Var. (%) 12-13
ANDBANK	2,648,655	23.25%	2,771,985	24.27%	4.66%
MORABANC GROUP	1,682,732	14.77%	1,689,057	14.79%	0.38%
BPA	1,724,112	15.14%	1,659,594	14.53%	(3.74%)
CRÈDIT ANDORRÀ GROUP	4,825,696	42.37%	4,788,001	41.93%	(0.78%)
BANCSABADELL D'ANDORRA	508,630	4.47%	511,468	4.48%	0.56%
<b>TOTAL</b>	<b>11,389,825</b>	<b>100.00%</b>	<b>11,420,105</b>	<b>100.00%</b>	<b>0.27%</b>

(Thousands of Euros) Source: Association of Andorran Banks

[table 5]

### Evolution of customer liabilities by banking entity 2011-2013



(Thousands of Euros) Source: Association of Andorran Banks

[graph 11]

### Gross loans to customer liabilities ratio

The following chart shows the evolution of the gross loans to customer liabilities ratio for the different Andorran banking entities in 2012 and 2013: [table 6]

#### Gross loans to customer liabilities ratio by banking entity

	2012	2013
ANDBANK	68.91%	63.78%
MORABANC GROUP	58.52%	55.38%
BPA	66.69%	60.06%
CRÈDIT ANDORRÀ GROUP	64.28%	63.78%
BANCSABADELL D'ANDORRA	82.19%	77.28%
<b>AGGREGATE RATIO</b>	<b>65.67%</b>	<b>62.60%</b>

Source: Association of Andorran Banks

[table 6]

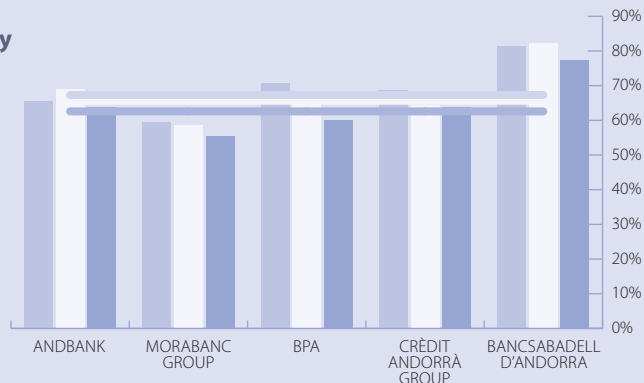
This ratio has been calculated after harmonising criteria with international standards to ensure the comparability of balances.

Aggregate ratio continues the slight fall which began in 2011 because customer liabilities increase by 0.27% while gross loans and discounts fall by 4.42%.

In general, all the banking entities have seen their loans to customer liabilities ratio fall. [graph 12]

#### Evolution in gross loans to customer liabilities ratio by banking entity 2011-2013

- 2011
- 2012
- 2013
- Average 2011
- Average 2012
- Average 2013



(Thousands of Euros) Source: Association of Andorran Banks

[graph 12]

### Aggregate assets under management

The assets under management by the Andorran banking entities including customers deposits and customer intermediations (guarded and non-guarded), saw growth of 16.61% during the 2013 financial year until reaching the sum of 41,268 million Euros, an amount which marks once again an all time high. The increase was mainly due to mediation for clients (shares, investment funds, debentures, etc.) which increased by 23.60% and which represents 73.86% of the managed resources. Customer deposits also increased, but to a lesser extent (0.53%). The increase in managed resources was mostly due to mediation for clients, a result of internationalization and the revaluation of the financial markets. [graph 13]

It should be taken into consideration that customer assets under management on and off the balance sheet by Andorran banks include other assets also managed by management companies forming part of Andorran banking groups.

The distribution of aggregate assets under management by banking entity, including deposits and customer intermediation, at 31<sup>st</sup> December 2013 is as follows: [graph 14]

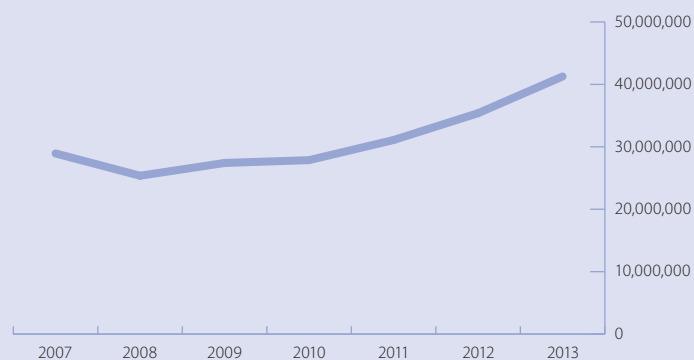
Details of aggregate assets managed off the balance sheet by Andorran banks, taking into consideration assets off the balance sheet and other assets managed by management companies and banking entities forming part of Andorra banking groups for 2012 and 2013 are as follows: [table 7]

The following graph shows the evolution of assets managed by the banking entities during the last five years, and their distribution between customer deposits and customer intermediation. [graph 15]

Rising interest rates led to the start of a trend in 2006 to transfer off-the-balance sheet customer assets to the balance sheets.



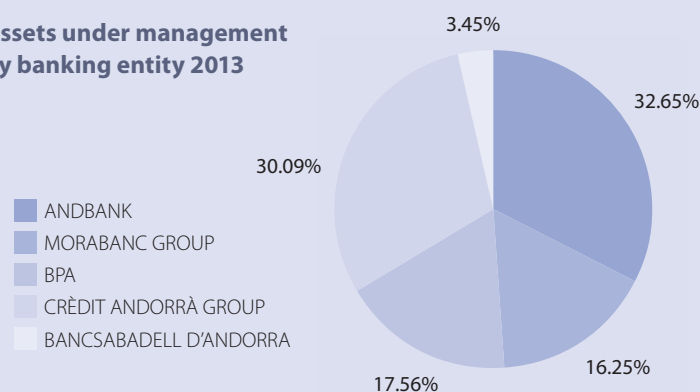
### Evolution of aggregate assets under management 2007-2013



(Thousands of Euros) Source: Association of Andorran Banks

[graph 13]

### Assets under management by banking entity 2013



Source: Association of Andorran Banks

[graph 14]

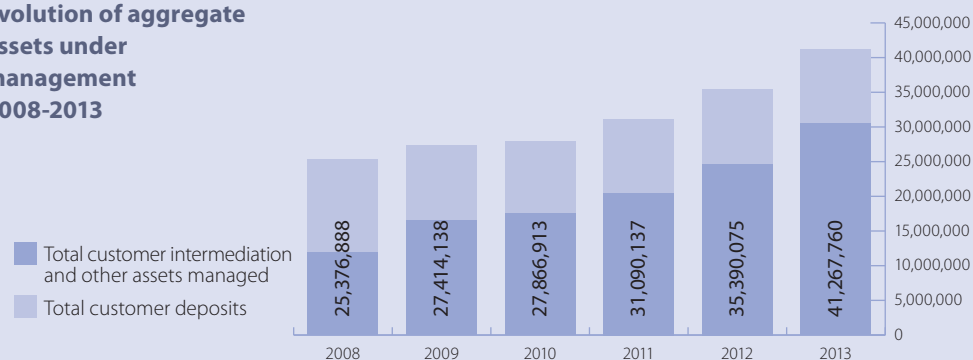
### Customer intermediation by banking entity

	2012	% of total	2013	% of total	Var. (%) 12-13
ANDBANK	8,467,283	34.34%	10,782,539	35.37%	27.34%
MORABANC GROUP	4,691,453	19.02%	5,016,273	16.46%	6.92%
BPA	3,751,854	15.21%	5,730,858	18.80%	52.75%
CRÈDIT ANDORRÀ GROUP	6,853,839	27.79%	7,971,200	26.15%	16.30%
BANC SABADELL D'ANDORRA	897,242	3.64%	981,537	3.22%	9.39%
<b>TOTAL</b>	<b>24,661,671</b>	<b>100.00%</b>	<b>30,482,407</b>	<b>100.00%</b>	<b>23.60%</b>

(Thousands of Euros) Source: Association of Andorran Banks

[table 7]

### Evolution of aggregate assets under management 2008-2013



(Thousands of Euros) Source: Association of Andorran Banks

[graph 15]

During 2008 and despite the drop in interest rates, particularly in the last quarter of the year, this trend became more pronounced, primarily because the uncertainty and volatility of the markets, which have been significantly affected by the international financial crisis, have changed investors' willingness to assume risk.

Since 2010, interest rates continued to fall until hitting a record low of 0.15% on 5<sup>th</sup> June 2014. The international financial markets have registered a

clear upward trend, thus reversing the trend begun in 2006 with growth in customer assets managed off the balance sheet of 73.51%, to the detriment of customer liabilities, which have registered a slight increase of 4.73% since the beginning of 2010.

The increase in customer funds managed off-balance-sheet is directly related to the phase of international expansion that the banking entities are immersed in.

### Aggregate consolidated memorandum accounts of Andorran banks

Details of the aggregate memorandum accounts of Andorran banks for 2012 and 2013 are as follows: [table 8]

Chapter "V. Information of interest" shows the consolidated memorandum accounts of each banking group. Distribution of the aggregate memorandum accounts of each entity for 2012 and 2013 is as follows: [graph 16]

During 2013 aggregate memorandum accounts have continued the upward trend initiated in 2010, amounting to a total of 55,915 million Euros. Notwithstanding the effect in the markets, this upward trend can be also explained by the phase of international expansion that most of the banking entities are currently undergoing.

The largest caption, "Securities deposited and others held in custody", representing 62.31% of total aggregate memorandum accounts of Andorran banks is up 25.08% on the previous year. The "Futures operations" caption is also up, with a rise of 23.79%, thereby raising the specific importance of these operations to 26.12% of total aggregate memorandum accounts. This increase is due to the moderate growth in futures operations generated by the higher number of future currency sales and acquisitions made as a result of the currency risk to which the balance sheets of both Andorran banks and their customers were exposed, and also interest rate futures operations and, to a lesser extent, options on financial instruments.

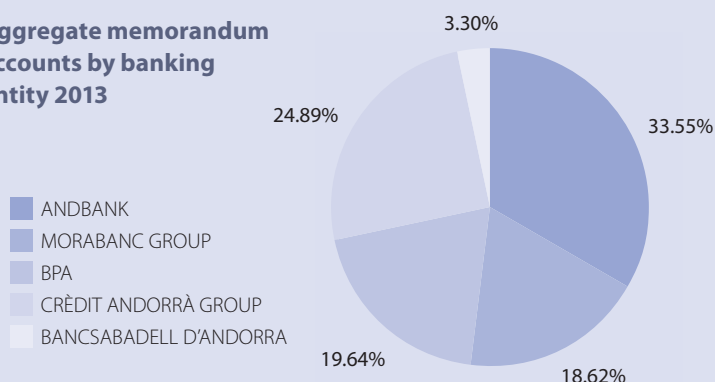
#### Aggregate memorandum accounts

	2012	% of total	2013	% of total	Var. (%) 12-13
Contingent liabilities	388,467	0.84%	376,520	0.67%	(3.08%)
Commitments and contingent risks	1,083,394	2.36%	1,053,770	1.89%	(2.73%)
Derivative financial instruments	11,798,249	25.64%	14,605,121	26.12%	23.79%
Securities deposited and others held in custody	27,855,725	60.54%	34,841,854	62.31%	25.08%
Other memorandum accounts for administrative control purposes only	4,884,615	10.62%	5,038,169	9.01%	3.14%
<b>TOTAL</b>	<b>46,010,450</b>	<b>100.00%</b>	<b>55,915,434</b>	<b>100.00%</b>	<b>21.53%</b>

(Thousands of Euros) Source: Association of Andorran Banks

[table 8]

#### Aggregate memorandum accounts by banking entity 2013



Source: Association of Andorran Banks

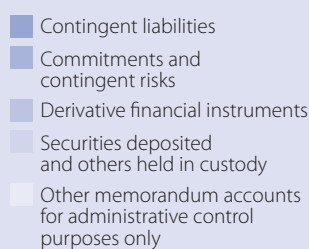
[graph 16]

The captions of “Contingent liabilities” and “Commitments and contingent risks” have fallen by 2.82% compared to 2012 and only represents 2.56% of the total of aggregate accounts.

The “Other memorandum accounts for administrative control purposes only” caption, which includes guarantees and commitments received and other memorandum accounts, has increased by 3.14% compared to the previous year. At 31<sup>st</sup> December 2013 this caption represents 9.01% of the total aggregate memorandum accounts of Andorran banks.

A breakdown of aggregate memorandum accounts at 31<sup>st</sup> December 2013 is as follows: [graph 17]

#### Structure of aggregate memorandum accounts 2013



Source: Association of Andorran Banks

[graph 17]

### Aggregate consolidated income statements for Andorran banks

Details of the aggregate consolidated income statements of Andorran banks for 2012 and 2013 are as follows: [table 9]

Chapter “V. Information of interest” shows the consolidated income statements of each banking group for 2012 and 2013.

The consolidated income of the Andorran banks as a whole has exceeded 200 million Euros (4.25% higher than the 2012 financial year). Ordinary rev-

enue has grown by 11.04% and operating income has increased to 293 million Euros (+37.51%).

Despite the adverse economic and financial environment, the Andorran banks have obtained aggregate results of about Euros 205 million Euros, maintaining good aggregate capital adequacy and liquidity ratios, which have stood at 22.00% and 66.71%, respectively, and are much higher than those of many international financial entities.

	2012	2013	Var. (%) 12-13
Interest and similar income	362,361	357,610	(1.31%)
Interest and similar charges	(155,034)	(161,847)	4.39%
Revenue from variable income securities	585	2,450	-
<b>FINANCIAL MARGIN</b>	<b>207,912</b>	<b>198,213</b>	<b>(4.66%)</b>
Commissions	334,652	363,465	8.61%
Profits on financial operations	68,348	117,986	72.63%
Other profit on ordinary activities	2,379	1,321	(44.47%)
<b>GROSS MARGIN</b>	<b>613,291</b>	<b>680,985</b>	<b>11.04%</b>
Personnel expenses	(179,072)	(193,241)	7.91%
General expenses	(162,990)	(133,349)	(18.19%)
Amortisation and depreciation, net of recoveries	(51,277)	(53,121)	3.60%
Provisions for depreciation of assets, net of recoveries	(6,813)	(8,189)	20.20%
<b>OPERATING MARGIN</b>	<b>213,139</b>	<b>293,085</b>	<b>37.51%</b>
Provisions for loan losses, net of recoveries	(32,397)	(63,630)	96.41%
Provisions for liabilities and charges, net of recoveries	3,468	127	(96.34%)
Allowance to provision for general risks	(3,150)	(4,720)	49.84%
<b>RESULTS ON ORDINARY ACTIVITIES</b>	<b>181,060</b>	<b>224,862</b>	<b>24.19%</b>
Net extraordinary income	15,296	2,586	(83.09%)
<b>PROFIT BEFORE TAXES</b>	<b>196,356</b>	<b>227,448</b>	<b>15.83%</b>
Corporate income tax	(4,882)	(18,708)	-
Foreign corporate income tax	5,665	(3,504)	-
<b>CONSOLIDATED RESULTS</b>	<b>197,139</b>	<b>205,236</b>	<b>4.11%</b>
Losses attributable to minority interest	(301)	(39)	(87.04%)
<b>PROFIT ATTRIBUTABLE TO THE GROUP</b>	<b>196,838</b>	<b>205,197</b>	<b>4.25%</b>

(Thousands of Euros) Source: Association of Andorran Banks

[table 9]

### Financial margin

As can be seen from the table below, in 2013 the aggregate financial margin of Andorran banking entities amounted to Euros 198,213 thousand and slightly fell by 4.66% in relation to 2012, because of an environment of low interest rates, notwithstanding the improvement in the yields of income securities. [table 10]

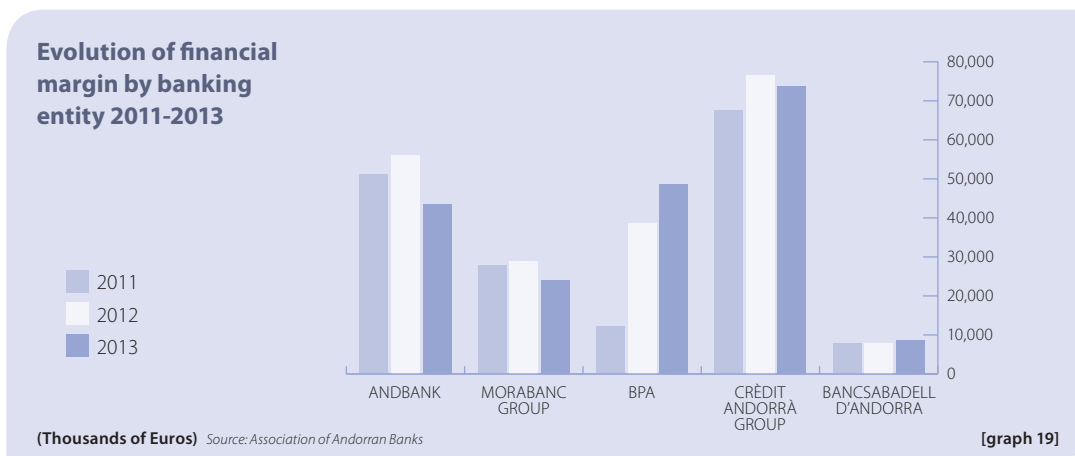
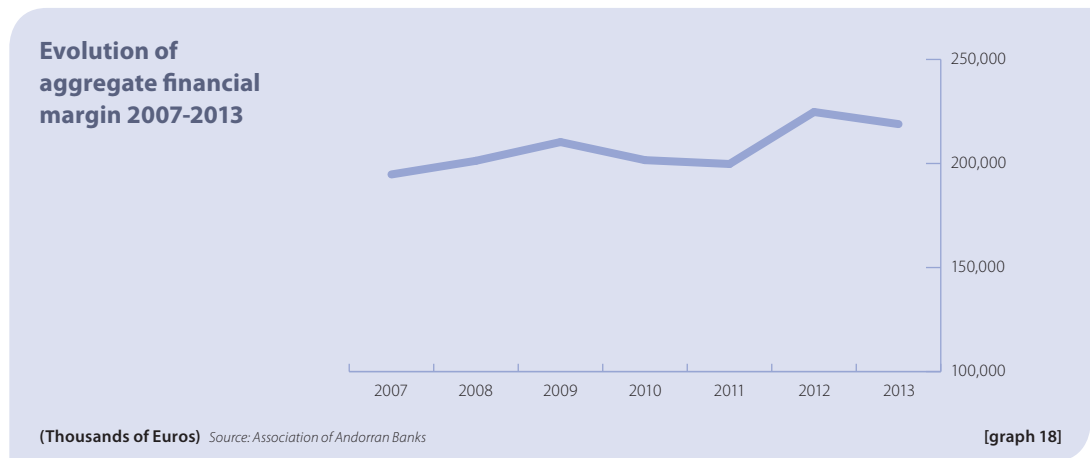
The evolution of the aggregate financial margin for the last seven years, together with the financial margin by banking entity for 2011, 2012 and 2013 financial years are shown in the graphs below: [graphs 18 and 19]

The evolution of this margin has varied from entity to entity because of different strategies followed in their investment policies.

**Financial margin by banking entity**

	2012	2013	Var. (%) 12-13
ANDBANK	56,013	43,439	(22.45%)
MORABANC GROUP	28,887	23,902	(17.26%)
BPA	38,665	48,524	25.50%
CRÈDIT ANDORRÀ GROUP	76,459	73,811	(3.46%)
BANCSABADELL D'ANDORRA	7,888	8,537	8.23%
<b>TOTAL</b>	<b>207,912</b>	<b>198,213</b>	<b>(4.66%)</b>

(Thousands of Euros) Source: Association of Andorran Banks [table 10]



## Gross margin

Despite the complexity of the financial environment, ordinary aggregate income reached a record level of 680,985 thousand Euros in 2013. This represents an 11.04% increase over 2012. The slight fall in ordinary revenue contrasts with the good results from financial operations and the increase in net commissions generated by the products and services on offer. [table 11]

The aggregate gross margin for each banking entity over the last seven years, together with a graph showing its evolution over the years 2011, 2012 and 2013 is as follows: [graphs 20 and 21]

The next graph shows how income from commissions remains the most significant element because of its contribution to gross margin, and the desire is for the growth in managed funds to continue as one of the driving forces so that it can continue contributing to improving the gross margin. On the other hand, we can also see an increase in the contribution that profits from financial operations have made to gross margin during the last year; in 2013 these accounted for 17.52% of the gross margin (in 2012 and 2011 they represented 11.53% and 7.50%, respectively). [graph 22]

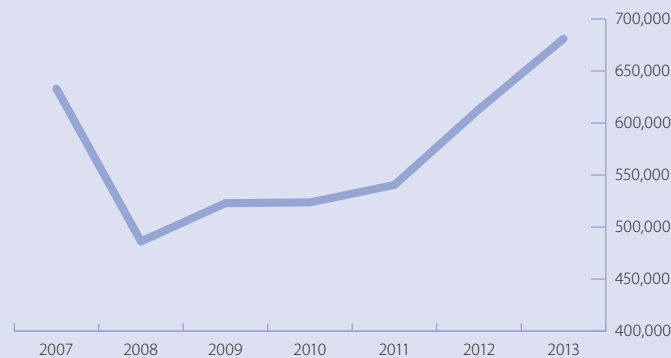
### Gross margin by banking entity

	2012	2013	Var. (%) 12-13
ANDBANK	189,692	194,611	2.59%
MORABANC GROUP	110,282	111,747	1.33%
BPA	99,919	122,867	22.97%
CRÈDIT ANDORRÀ GROUP	195,642	227,920	16.50%
BANCSABADELL D'ANDORRA	17,756	23,840	34.26%
<b>TOTAL</b>	<b>613,291</b>	<b>680,985</b>	<b>11.04%</b>

(Thousands of Euros) Source: Association of Andorran Banks

[table 11]

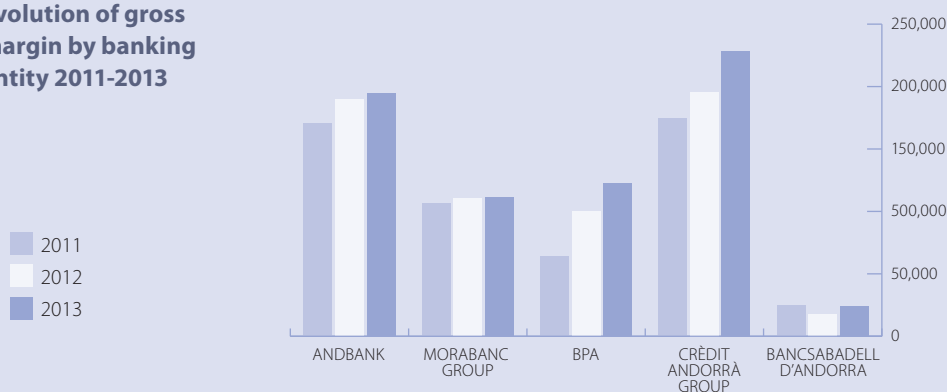
### Evolution of aggregate gross margin 2007-2013



(Thousands of Euros) Source: Association of Andorran Banks

[graph 20]

### Evolution of gross margin by banking entity 2011-2013

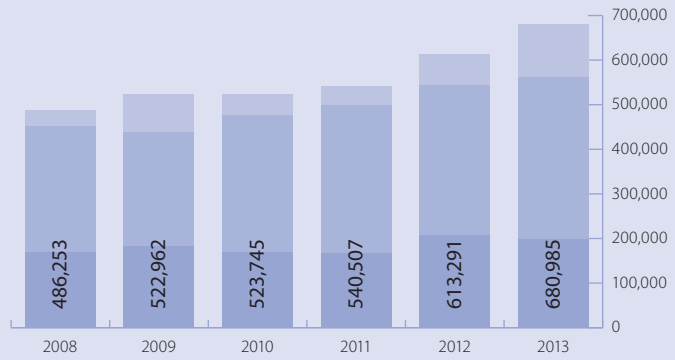


(Thousands of Euros) Source: Association of Andorran Banks

[graph 21]

### Evolution of aggregate gross margin 2008-2013

- Financial margin
- Net commissions
- Profits on financial operations and profit on ordinary activities



(Thousands of Euros) Source: Association of Andorran Banks

[graph 22]

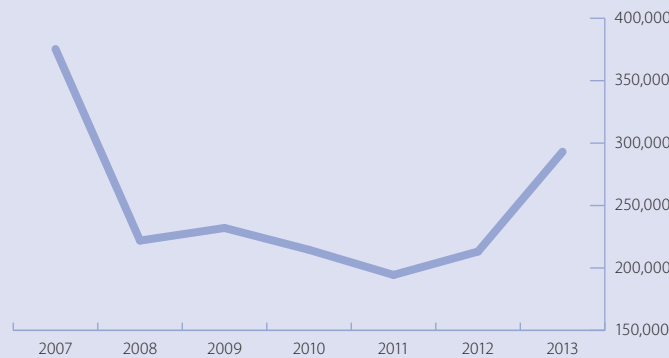
### Net operating margin

The project for the international expansion of the Andorran banks together with a responsible management of expenditure restraint coupled with significant growth in the number of clients and services with a greater value added has seen operating income reach 293.085 thousand Euros, 37.51% higher than in 2012. It is also necessary to take the effect of the General Indirect Tax, which came into force on 1<sup>st</sup> January 2013, into consideration. During 2012 and the previous years, the accrued expense

for the indirect tax on the provision of banking services and financial services was recorded in the general expenses section. [table 12]

The aggregate net operating margin for each banking entity over the last seven years, together with a graph showing its evolution over the years 2011, 2012 and 2013 is as follows: [graphs 23 and 24]

### Evolution of aggregate net operating margin 2007-2013

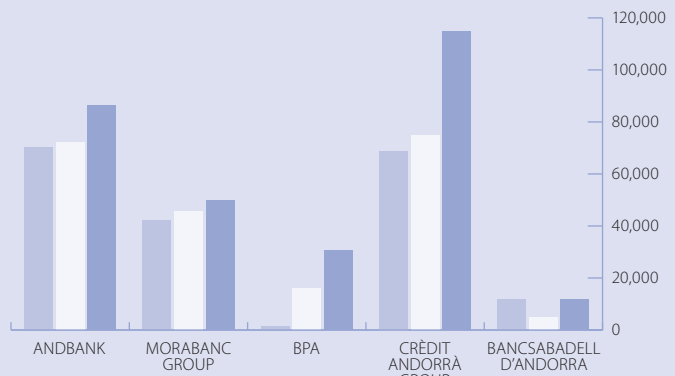


(Thousands of Euros) Source: Association of Andorran Banks

[graph 23]

### Evolution of net operating margin by banking entity 2011-2013

- 2011
- 2012
- 2013



(Thousands of Euros) Source: Association of Andorran Banks

[graph 24]



## Net operating margin by banking entity

	2012	2013	Var. (%) 12-13
ANDBANK	72,216	86,389	19.63%
MORABANC GROUP	45,422	49,664	9.34%
BPA	16,042	30,691	91.32%
CRÉDIT ANDORRÀ GROUP	74,610	114,699	53.73%
BANCSABADELL D'ANDORRA	4,849	11,642	-
<b>TOTAL</b>	<b>213,139</b>	<b>293,085</b>	<b>37.51%</b>

(Thousands of Euros) Source: Association of Andorran Banks

[table 12]

## Transformation costs

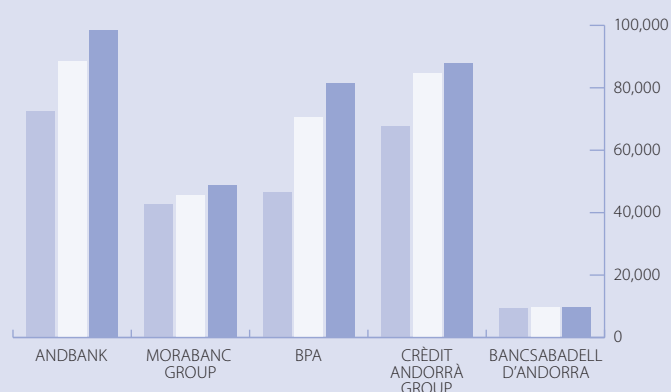
During 2013, aggregate transformation costs of Andorran banking entities, which comprise "Personnel expenses" and "General expenses" (including "Taxes", with the exception of taxes related to taxation on banking services rendered in 2012) have amounted to Euros 326,590 thousand, up 9.19% on 2012. The evolution of the transformation costs in the Andorran banks during 2013 denotes that, despite the current international crisis generated in the financial market, they have increased the number of employees, continued in their international expansion plan and consolidated the domestic market, whilst pursuing a stringent policy of optimising costs.

Changes in transformation costs for the 2011, 2012 and 2013 financial years for each of the banking entities comprising the Andorran banking system are as follows: [graph 25]

The composition of the Andorran banks' transformation costs has changed in recent years, with personnel expenses increasingly gaining relative importance compared to general expenses owing to the increased professionalization and specialization of the sector. Changes in the composition of transformation costs during the last six years are shown in the following graph: [graph 26]

### Evolution in transformation costs by banking entity 2011-2013

■ 2011  
■ 2012  
■ 2013

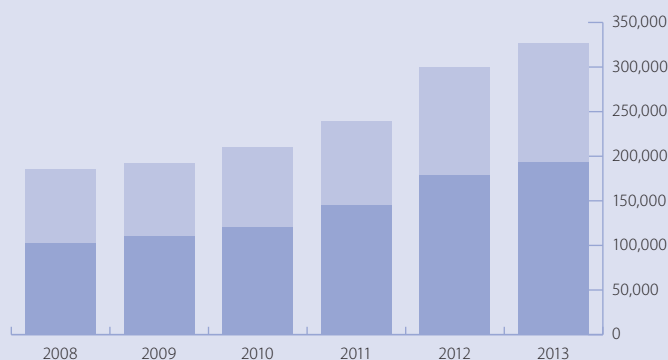


(Thousands of Euros) Source: Association of Andorran Banks

[graph 25]

### Changes in the structure of aggregate transformation costs 2008-2013

■ General expenses  
■ Personnel expenses



(Thousands of Euros) Source: Association of Andorran Banks

[graph 26]

When analysing changes in transformation costs, the efficiency ratio of the banking entities, which is an indicator used to measure the part of the gross margin absorbed by transformation costs of each entity, should also be considered.

The aggregate efficiency ratio of Andorran banking entities for 2013 stands at 47.96%, reflecting a very good efficiency ratio. Efficiency continues to be a key differentiating factor of the management model of Andorran banks and if the efficiency rate

of Andorran banks is compared with that of banking sectors in other European countries it continues to be one of the lowest rates.

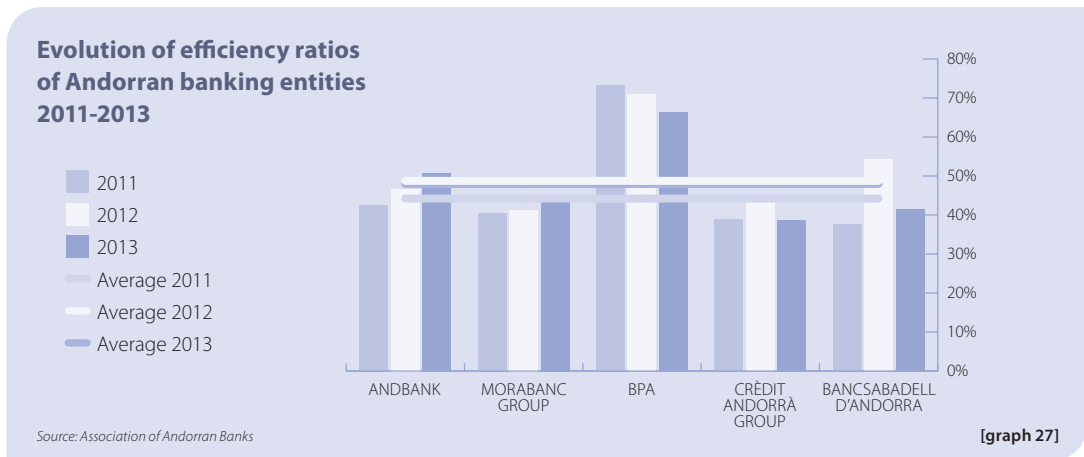
A graph and table showing the efficiency ratios of each entity for 2012 and 2013 are presented below. [table 13]

Changes in the efficiency ratios of Andorran banking entities over the 2011, 2012 and 2013 financial years are as follows: [graph 27]

**Efficiency ratio by banking entity**

	2012	2013
ANDBANK	46.69%	50.62%
MORABANC GROUP	41.30%	43.58%
BPA	70.83%	66.37%
CRÈDIT ANDORRÀ GROUP	43.24%	38.59%
BANCSABADELL D'ANDORRA	54.21%	41.47%
<b>AGGREGATE RATIO</b>	<b>48.77%</b>	<b>47.96%</b>

Source: Association of Andorran Banks [table 13]

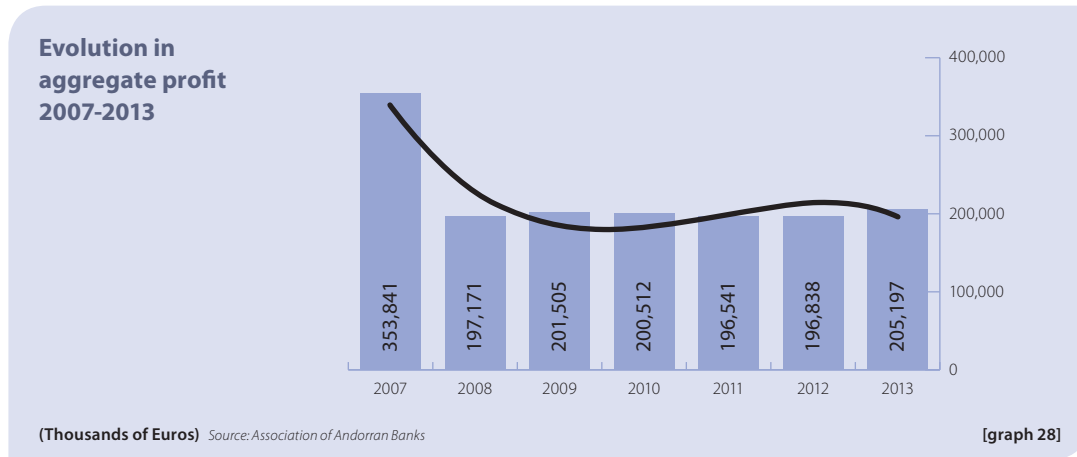


## Result

As a result of the 11.04% rise in gross margin and the 3.06% fall in operating costs, the aggregate net operating margin stands at Euros 293,085 thousand, up 37.51% on the same period of the previous year. This factor, together with a 112.67% increase in provision expenses, has caused the aggregate result of Andorran banking entities to increase by 4.25% compared to 2012. These results have been very positively valued, taking into consideration

the international economic scenario and especially the performance of global financial markets during 2013.

The graph below plots the changes in the aggregate profit of Andorran banking entities from 2007 to 2013 and the table illustrates the result for each banking entity: [\[graph 28 and table 14\]](#)



**Profit by banking entity**

	2012	2013	Var. (%) 12-13
ANDBANK	56,581	64,080	13.25%
MORABANC GROUP	45,175	42,375	(6.20%)
BPA	17,596	20,541	16.74%
CRÈDIT ANDORRÀ GROUP	70,862	71,241	0.53%
BANCSABADELL D'ANDORRA	6,624	6,960	5.07%
<b>TOTAL</b>	<b>196,838</b>	<b>205,197</b>	<b>4.25%</b>

(Thousands of Euros) Source: Association of Andorran Banks [table 14]

## Equity

Details and evolution of the equity of the Andorran banking groups at 31<sup>st</sup> December 2013 are as follows: [table 15 and graph 29]

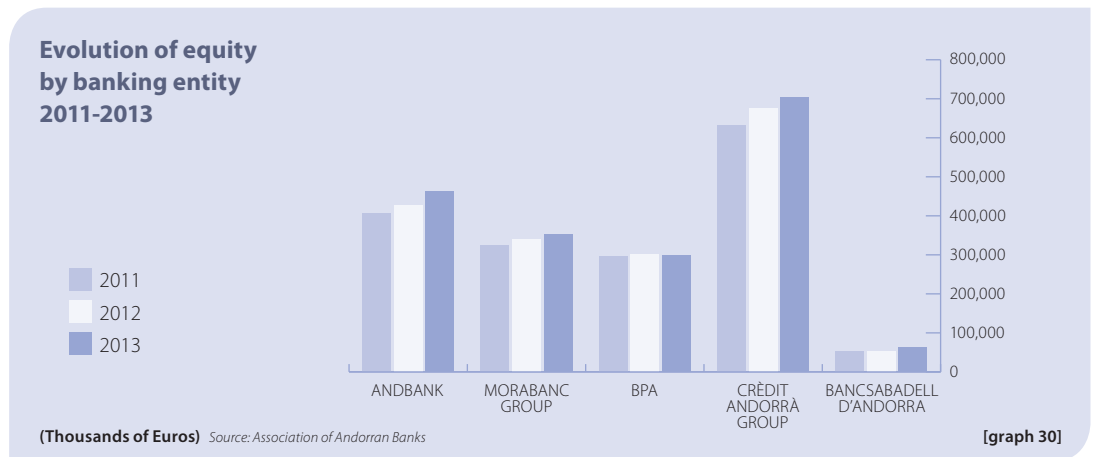
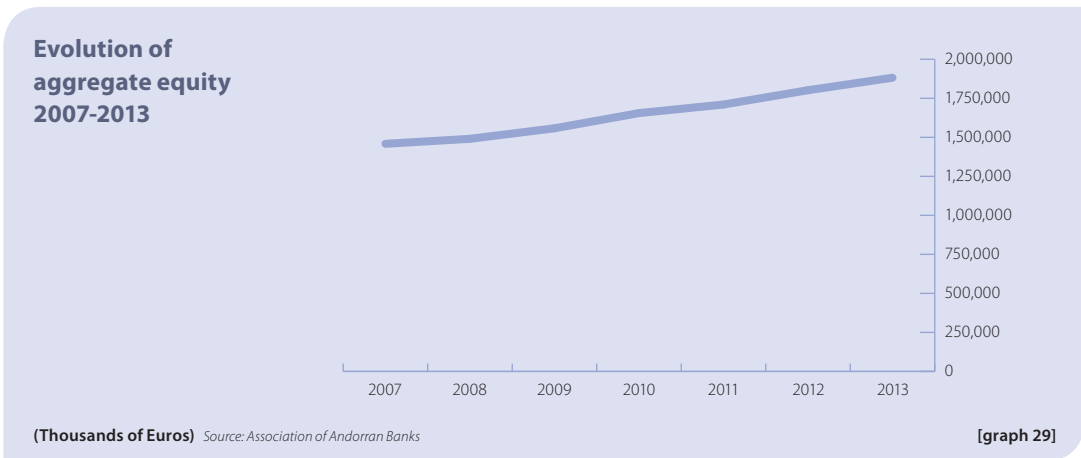
The evolution of the equity of the banking groups in the Andorran financial system from 2011 to 2013 is as follows: [graph 30]

### Equity by banking entity (\*)

	Total Equity
ANDBANK	462,843
MORABANC GROUP	352,438
BPA	299,762
CRÈDIT ANDORRÀ GROUP	704,588
BANCSABADELL D'ANDORRA	62,228
<b>TOTAL</b>	<b>1,881,859</b>

(\*) This includes subordinated liabilities

(Thousands of Euros) Source: Association of Andorran Banks [table 15]



## Capital adequacy and liquidity

On 29<sup>th</sup> February 1996 the General Council approved the *Law regulating the capital adequacy and liquidity criteria* of financial institutions. This Law was introduced to guarantee the solidity of the structure of the Andorran financial system and originated from a recommendation by the Basel Committee on Banking Regulations and Supervisory Practices.

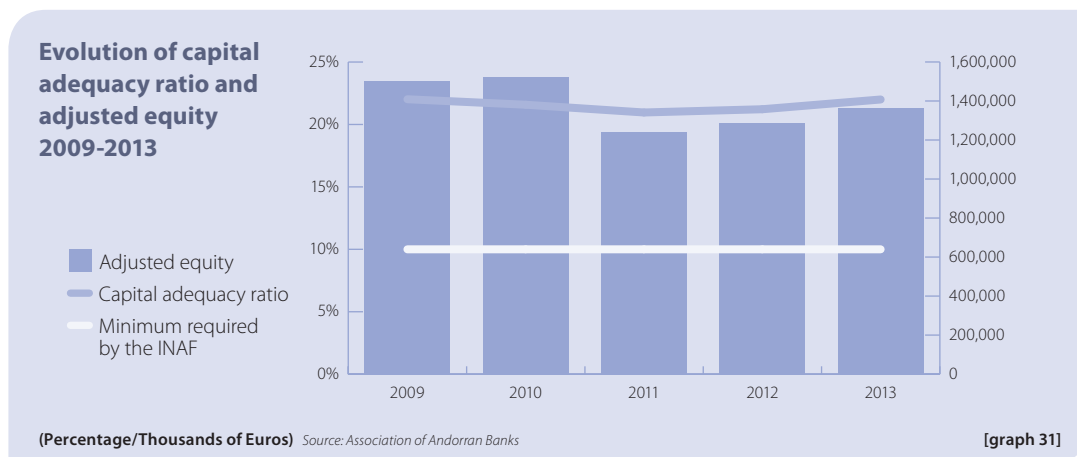
In order for the Andorran financial system to gain a positive reputation for being solvent at an in-

ternational level, minimum capital adequacy and liquidity ratios of 10% and 40% respectively, were introduced, which are more stringent than those prevailing in the majority of countries already using these ratios.

The table below shows the changes in the two ratios for each banking entity during 2012 and 2013 which, as can be clearly observed, significantly exceed the established minimums: [\[table 16\]](#)

	Capital adequacy		Liquidity	
	2012	2013	2012	2013
ANDBANK	21.39%	20.69%	65.99%	67.33%
MORABANC GROUP	31.97%	33.52%	76.00%	77.84%
BPA	19.04%	17.03%	64.27%	80.30%
CRÈDIT ANDORRÀ GROUP	17.80%	19.14%	59.35%	59.89%
BANCSABADELL D'ANDORRA	19.46%	22.78%	74.42%	86.58%
<b>AGGREGATE RATIO</b>	<b>21.22%</b>	<b>22.00%</b>	<b>65.45%</b>	<b>66.71%</b>

Source: Association of Andorran Banks [table 16]



The table above shows that the average capital adequacy ratio of Andorran banks at 31<sup>st</sup> December 2013 stands at 22%, 0.78 percentage points higher than in the previous year, which is still much higher than the 10% minimum required by the supervisor and higher than the solvency ratios of leading international private, retail or universal banking entities. Adjusted equity amounts to 1,362 million Euros, and accordingly the Andorran banks have a

capital base (own resources surplus) of 743 million Euros. [\[graph 31\]](#)

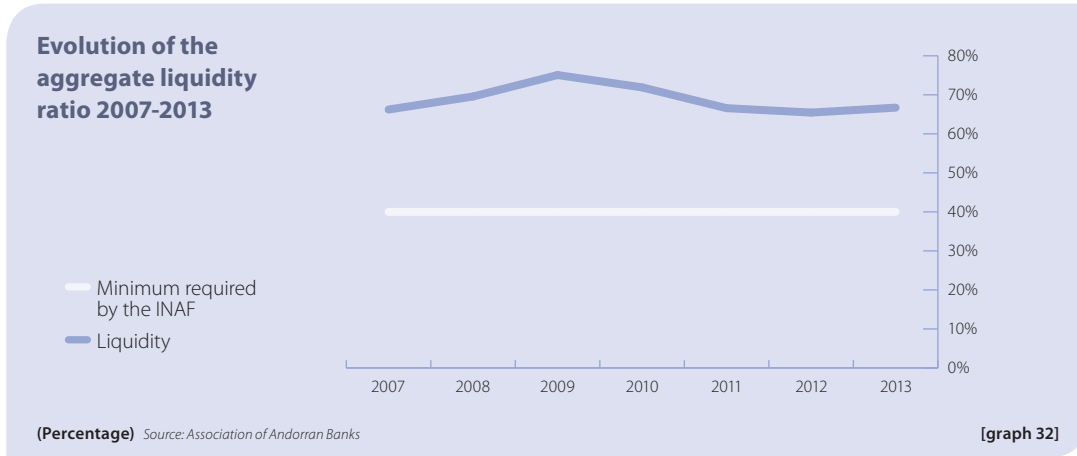
The aggregate liquidity ratio of Andorran banks at the same date stands at 66.71%, 1.26 percentage points higher than the figure for 2012 and which is maintained at a level above the 40% minimum required by the supervisor. Despite the fact that the lack of confidence in international financial markets

has restricted somewhat the interbank liquidity market, Andorran banking entities have demonstrated their privileged position, even managing to maintain their liquidity ratios at a similar level to previous years. [graph 32]

These two ratios illustrate the conservative and prudent management of Andorran banks.

Furthermore, on 2<sup>nd</sup> February 2011, the General Council of the Principality of Andorra passed *Law 1/2011 creating a deposit guarantee system* for bank-

ing entities with the aim of guaranteeing the return of deposited cash and securities funds to the depositors. Under the aforementioned Law, in order for the guarantee system to fulfil the obligations attributed to it therein, all banking entities authorized to operate in Andorra must create and maintain a restricted reserve to fulfil the guarantees covered, and an amount equivalent to this reserve must be invested in secure and liquid assets that fulfil a series of requirements established by the Law for this purpose.



### Average return on equity (ROE)

The average return on equity of Andorran banks for the year ended 31<sup>st</sup> December 2013 was 12.61% (calculating profit/average equity), down 0.06 percentage points on 2012.

The following table and graph show the average return on equity for each banking entity in 2012 and 2013. [table 17 and graph 33]

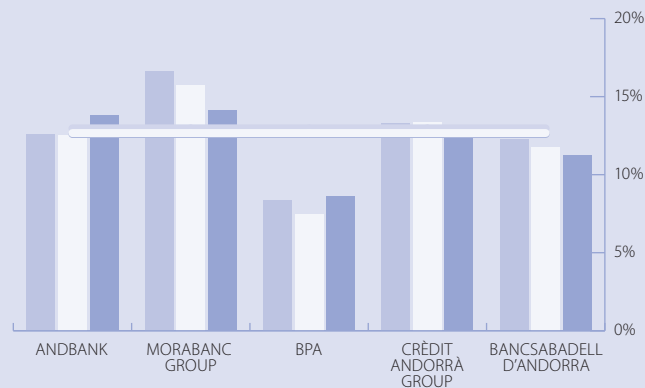
	2012	2013
ANDBANK	12.53%	13.81%
MORABANC GROUP	15.70%	14.10%
BPA	7.46%	8.63%
CRÈDIT ANDORRÀ GROUP	13.39%	12.66%
BANCSABADELL D'ANDORRA	11.53%	11.23%
<b>AGGREGATE RATIO</b>	<b>12.67%</b>	<b>12.61%</b>

Source: Association of Andorran Banks [table 17]



### Average return on equity by banking entity 2011-2013

- 2011
- 2012
- 2013
- Average 2011
- Average 2012
- Average 2013



Source: Association of Andorran Banks

[graph 33]

### Return on average assets (ROA)

The return on average assets of Andorran banks for the year ended 31<sup>st</sup> December 2013 stands at 1.30%, 0.04 percentage points down on 2012.

The following table and graph show the return on average assets (i.e. profit/average total assets) for each banking entity in 2012 and 2013:

[table 18 and graph 34]

It should be noted that both the return on average assets (ROA) and return on average equity (ROE) exceed those of the banking sectors of other European countries.

### Average return on assets (ROA)

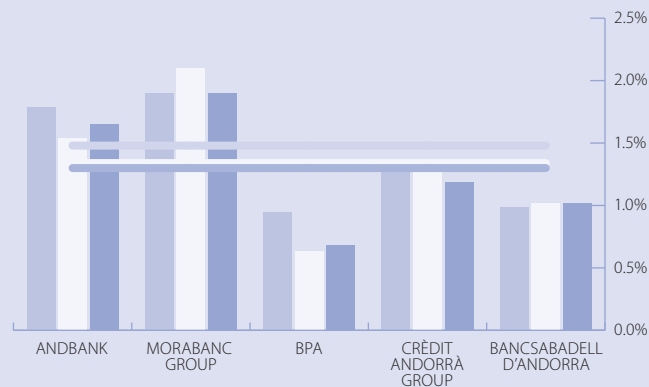
	2012	2013
ANDBANK	1.54%	1.65%
MORABANC GROUP	2.10%	1.90%
BPA	0.63%	0.68%
CRÉDIT ANDORRÀ GROUP	1.27%	1.19%
BANCSABADELL D'ANDORRA	1.02%	1.02%
<b>AGGREGATE RATIO</b>	<b>1.34%</b>	<b>1.30%</b>

Source: Association of Andorran Banks

[table 18]

### Average return on assets by banking entity 2011-2013

- 2011
- 2012
- 2013
- Average 2011
- Average 2012
- Average 2013



Source: Association of Andorran Banks

[graph 34]

## Ratings

Another indicator of the capital adequacy of the banking entities is the rating system prepared by specialised agencies such as Fitch Ratings, Moody's or Standard & Poor's.

The table below shows the ratings of the Andorran banking entities published by Fitch Ratings on 2<sup>nd</sup> June 2014. [table 19]

The latest sovereign rating update for the Principality of Andorra by Standard & Poor's at April 2014 has been A-1 for the long term and A-2 for the short term with a negative outlook, keeping the rating of the previous evaluation carried out in December 2013. In an economically adverse environment, the fact that this rating is maintained can be seen as a sign of confidence in the Andorran economy.

	Ratings		Agency
	Long term	Short term	
ANDBANK	A-	F2	Fitch Ratings
MORABANC GROUP	A-	F2	Fitch Ratings
BPA	BB+	B	Fitch Ratings
CRÈDIT ANDORRÀ GROUP	A-	F2	Fitch Ratings
BANCSABADELL D'ANDORRA (*)	-	-	-

(\*) With 51% ownership of Banc Sabadell

Source: Fitch Ratings reports as of June 2014.

[table 19]

The majority of the new aspects of this last agency report are positive. Analysts expect to see a slow recovery in growth throughout 2014 and they also expect to see a recovery in the labour market. The report points out that foreign investment projects equivalent to 1.8% of Gross Domestic Product have been approved, and this has helped to slow down the negative trend in employment and economic activity, and this in turn will spur a recovery in growth.

With regard to budgetary policy, Standard & Poor's highlights the results obtained in the liquidation of the 2013 budget. It points to the fact that the public deficit has fallen to 7 per cent of income, whereas in previous financial years it was situated at 23 and 16 per cent, and it highlights the fact that

the extraordinary dividends of Andorra Telecom have helped to obtain a surplus equivalent to 4 per cent of income. The agency endorses the use of this formula provided that it is limited in time so as not to undermine the investment capacity of the company. However, analysts point out that income expectations are positive about the chances of the economy to recover and for the imminent introduction of the tax on income.

Standard & Poor's justifies maintaining the negative perspective because growth perspectives are incipient as a result of the weakness represented by a concentration in financial services and tourism as well as the impact of the economic situation in the neighbouring countries.





# V INFORMATION OF INTEREST<sup>(1)</sup>

## Andorra Banc Agrícola Reig, SA

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Mr. Òscar Ribas Reig

### Chairman:

Mr. Manel Cerqueda Donadeu

### Vice Chairman:

Mr. Oriol Ribas Duró

### Chief Executive Officer and Director:

Mr. Jordi Comas Planas

### Deputy CEO:

Mr. Ricard Tubau Roca

### Deputy CEO Corporate Services:

Mr. José Luis Muñoz Lasuén

## V.1. Andorran banking groups

### Consolidated balance sheets of Andorra Banc Agrícola Reig, SA (Andbank) at 31<sup>st</sup> December 2012 and 2013

	2012	% of total	2013	% of total	Var. (%) 12-13
<b>ASSETS</b>					
Cash and central banks OECD	42,197	1.14%	37,265	0.92%	(11.69%)
INAF	210	0.01%	210	0.01%	-
Financial intermediaries	537,038	14.51%	578,430	14.31%	7.71%
Loans	1,792,920	48.44%	1,727,661	42.73%	(3.64%)
Securities portfolio	993,937	26.86%	1,147,427	28.38%	15.44%
Gains on consolidation	33,664	0.91%	34,912	0.86%	3.71%
Intangible assets and amortisable costs	14,161	0.38%	19,173	0.47%	35.39%
Tangible assets	133,681	3.61%	147,343	3.64%	10.22%
Prepayment and accrued receivables	56,764	1.53%	37,751	0.93%	(33.49%)
Other assets	96,449	2.61%	312,805	7.74%	-
<b>TOTAL ASSETS</b>	<b>3,701,021</b>	<b>100.00%</b>	<b>4,042,977</b>	<b>100.00%</b>	<b>9.24%</b>
<b>LIABILITIES</b>					
INAF	1,278	0.03%	2,058	0.05%	61.03%
Due to banks and credit entities	447,949	12.10%	641,253	15.86%	43.15%
Other financial intermediaries	1,102	0.03%	301	0.01%	(72.69%)
Customer deposits	2,580,506	69.72%	2,690,727	66.55%	4.27%
Debts represented by securities	68,149	1.84%	81,258	2.01%	19.24%
Provision for liabilities and charges	9,885	0.27%	11,713	0.29%	18.49%
Provision for general risks	4,193	0.11%	5,393	0.13%	28.62%
Subordinated liabilities	-	-	-	-	-
Accruals	23,595	0.64%	26,124	0.65%	10.72%
Other liabilities	118,095	3.19%	102,204	2.53%	(13.46%)
Share capital	78,061	2.11%	78,842	1.95%	1.00%
Reserves	330,126	8.92%	357,068	8.83%	8.16%
Profit	56,581	1.53%	64,080	1.58%	13.25%
Prior years' result	-	-	-	-	-
Interim dividends	(18,499)	(0.50%)	(18,044)	(0.45%)	(2.46%)
Minority interest	-	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>3,701,021</b>	<b>100.00%</b>	<b>4,042,977</b>	<b>100.00%</b>	<b>9.24%</b>

(Thousands of Euros) Source: Annual report of banking entity

(1) Information of interest relates to posts occupied by individuals prior to 30<sup>th</sup> June 2014



**Consolidated memorandum accounts of Andorra Banc Agrícola Reig, SA (Andbank)  
at 31<sup>st</sup> December 2012 and 2013**

	2012	% of total	2013	% of total	Var. (%) 12-13
Contingent liabilities	67,700	0.45%	73,895	0.39%	9.15%
Commitments and contingent risks	277,216	1.86%	348,050	1.86%	25.55%
Derivative financial instruments	5,782,708	38.73%	8,209,787	43.76%	41.97%
Securities deposited and others held in custody	7,306,208	48.93%	8,701,609	46.39%	19.10%
Other memorandum accounts for administrative control purposes only	1,498,314	10.03%	1,425,699	7.60%	(4.85%)
<b>TOTAL</b>	<b>14,932,146</b>	<b>100.00%</b>	<b>18,759,040</b>	<b>100.00%</b>	<b>25.63%</b>

(Thousands of Euros) Source: Annual report of banking entity

**Consolidated income statements of Andorra Banc Agrícola Reig, SA (Andbank)  
for the years ended 31<sup>st</sup> December 2012 and 2013**

	2012	2013	Var. (%) 12-13
Interest and similar income	96,577	111,104	15.04%
Interest and similar charges	(40,681)	(68,621)	68.68%
Revenue from variable income securities	117	956	-
<b>FINANCIAL MARGIN</b>	<b>56,013</b>	<b>43,439</b>	<b>(22.45%)</b>
Commissions	105,082	111,002	5.63%
Profits on financial operations	27,490	39,281	42.89%
Other profit on ordinary activities	1,107	889	(19.69%)
<b>MARGIN ON ORDINARY ACTIVITIES</b>	<b>189,692</b>	<b>194,611</b>	<b>2.59%</b>
Personnel expenses	(60,103)	(64,168)	6.76%
General expenses	(43,871)	(34,337)	(21.73%)
Amortisation and depreciation, net of recoveries	(8,902)	(7,411)	(16.75%)
Provisions for depreciation of assets, net of recoveries	(4,600)	(2,306)	(49.87%)
<b>OPERATING MARGIN</b>	<b>72,216</b>	<b>86,389</b>	<b>19.63%</b>
Provisions for loan losses, net of recoveries	(14,630)	(13,640)	(6.77%)
Provisions for liabilities and charges, net of recoveries	5,175	(1,334)	-
Allowance to provision for general risks	(2,000)	(1,200)	(40.00%)
<b>RESULTS ON ORDINARY ACTIVITIES</b>	<b>60,761</b>	<b>70,215</b>	<b>15.56%</b>
Net extraordinary income	(1,436)	1,091	-
<b>PROFIT BEFORE TAXES</b>	<b>59,325</b>	<b>71,306</b>	<b>20.20%</b>
Corporate income tax	(2,620)	(7,813)	-
Foreign corporate income tax	(124)	587	-
<b>CONSOLIDATED RESULTS</b>	<b>56,581</b>	<b>64,080</b>	<b>13.25%</b>
Results attributable to minority interest	-	-	-
<b>RESULTS ATTRIBUTABLE TO THE GROUP</b>	<b>56,581</b>	<b>64,080</b>	<b>13.25%</b>

(Thousands of Euros) Source: Annual report of banking entity

**Mora Banc Group, SA**

Av. Meritxell, 96  
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(Principality of Andorra)  
Tel. +376 884488 - Fax +376 884499  
www.morabanc.com

**Honorary Chairman:**

Mr. Joan Mora Font

**Chairman:**

Mr. Francesc Mora Sagués

**Chief Executive Officer:**

Mr. Gilles Serra (until June, 15<sup>th</sup> 2014)

**Chief Executive Officer:**

Mr. Pedro González Grau (from June, 16<sup>th</sup> 2014)

**Mora Banc, SAU**

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**Chairman:**

Mr. Jordi Mora Magriñà

**Chief Executive Officer:**

Mr. Gilles Serra (until June, 15<sup>th</sup> 2014)

**Chief Executive Officer:**

Mr. Pedro González Grau (from June, 16<sup>th</sup> 2014)

### Consolidated balance sheets of Banc Internacional d'Andorra, SA, Banca Mora, SAU (MoraBanc Group) at 31<sup>st</sup> December 2012 and 2013

	2012	% of total	2013	% of total	Var. (%) 12-13
<b>ASSETS</b>					
Cash and central banks OECD	24,577	1.14%	21,401	0.99%	(12.92%)
INAF	210	0.01%	210	0.01%	-
Financial intermediaries	414,948	19.32%	662,010	30.57%	59.54%
Loans	977,334	45.51%	928,106	42.86%	(5.04%)
Securities portfolio	577,201	26.88%	420,396	19.42%	(27.17%)
Gains on consolidation	3,422	0.16%	3,422	0.16%	-
Intangible assets and amortisable costs	14,127	0.66%	10,338	0.48%	(26.82%)
Tangible assets	97,621	4.55%	101,145	4.67%	3.61%
Prepayment and accrued receivables	16,260	0.76%	11,352	0.52%	(30.18%)
Other assets	21,770	1.01%	6,866	0.32%	(68.46%)
<b>TOTAL ASSETS</b>	<b>2,147,470</b>	<b>100.00%</b>	<b>2,165,246</b>	<b>100.00%</b>	<b>0.83%</b>
<b>LIABILITIES</b>					
INAF	35,221	1.64%	26,297	1.21%	(25.34%)
Due to banks and credit entities	17,599	0.82%	19,088	0.87%	8.46%
Other financial intermediaries	-	-	-	-	-
Customer deposits	1,682,732	78.36%	1,689,057	78.01%	0.38%
Debts represented by securities	-	-	-	-	-
Provision for liabilities and charges	13,082	0.61%	12,875	0.59%	(1.58%)
Provision for general risks	-	-	-	-	-
Subordinated liabilities	60,000	2.79%	59,513	2.75%	(0.81%)
Accruals	27,041	1.26%	33,464	1.55%	23.75%
Other liabilities	26,594	1.24%	27,029	1.25%	1.64%
Share capital	42,407	1.97%	42,407	1.96%	-
Reserves	222,619	10.37%	238,143	11.00%	6.97%
Profit	45,175	2.10%	42,375	1.96%	(6.20%)
Prior years' result	-	-	-	-	-
Interim dividends	(25,000)	(1.16%)	(25,000)	(1.15%)	-
Minority interest	-	-	(2)	-	-
<b>TOTAL LIABILITIES</b>	<b>2,147,470</b>	<b>100.00%</b>	<b>2,165,246</b>	<b>100.00%</b>	<b>0.83%</b>

(Thousands of Euros) Source: Annual report of banking entity

(1) Information of interest relates to posts occupied by individuals prior to 30<sup>th</sup> June 2014



**Consolidated memorandum accounts of Banc Internacional d'Andorra, SA, Banca Mora, SAU (MoraBanc Group)  
at 31<sup>st</sup> December 2012 and 2013**

	2012	% of total	2013	% of total	Var. (%) 12-13
Contingent liabilities	82,131	0.81%	82,144	0.79%	0.02%
Commitments and contingent risks	189,919	1.87%	223,148	2.14%	17.50%
Derivative financial instruments	2,029,266	19.94%	2,148,960	20.64%	5.90%
Securities deposited and others held in custody	6,558,367	64.45%	6,552,473	62.92%	(0.09%)
Other memorandum accounts for administrative control purposes only	1,315,535	12.93%	1,407,333	13.51%	6.98%
<b>TOTAL</b>	<b>10,175,218</b>	<b>100.00%</b>	<b>10,414,058</b>	<b>100.00%</b>	<b>2.35%</b>

(Thousands of Euros) Source: Annual report of banking entity

**Consolidated income statements of Banc Internacional d'Andorra, SA, Banca Mora, SAU (MoraBanc Group)  
for the years ended 31<sup>st</sup> December 2012 and 2013**

	2012	2013	Var. (%) 12-13
Interest and similar income	45,542	35,372	(22.33%)
Interest and similar charges	(16,677)	(11,472)	(31.21%)
Revenue from variable income securities	22	2	(90.91%)
<b>FINANCIAL MARGIN</b>	<b>28,887</b>	<b>23,902</b>	<b>(17.26%)</b>
Commissions	70,451	74,277	5.43%
Profits on financial operations	10,778	13,397	24.30%
Other profit on ordinary activities	166	171	3.01%
<b>MARGIN ON ORDINARY ACTIVITIES</b>	<b>110,282</b>	<b>111,747</b>	<b>1.33%</b>
Personnel expenses	(27,148)	(28,567)	5.23%
General expenses	(25,844)	(20,137)	(22.08%)
Amortisation and depreciation, net of recoveries	(10,490)	(10,899)	3.90%
Provisions for depreciation of assets, net of recoveries	(1,378)	(2,480)	79.97%
<b>OPERATING MARGIN</b>	<b>45,422</b>	<b>49,664</b>	<b>9.34%</b>
Provisions for loan losses, net of recoveries	(1,792)	(1,245)	(30.52%)
Provisions for liabilities and charges, net of recoveries	(236)	(830)	-
Allowance to provision for general risks	-	-	-
<b>RESULTS ON ORDINARY ACTIVITIES</b>	<b>43,394</b>	<b>47,589</b>	<b>9.67%</b>
Net extraordinary income	3,235	(1,214)	-
<b>PROFIT BEFORE TAXES</b>	<b>46,629</b>	<b>46,375</b>	<b>(0.54%)</b>
Corporate income tax	(1,458)	(4,002)	-
Foreign corporate income tax	-	-	-
<b>CONSOLIDATED RESULTS</b>	<b>45,171</b>	<b>42,373</b>	<b>(6.19%)</b>
Results attributable to minority interest	4	2	(50.00%)
<b>RESULTS ATTRIBUTABLE TO THE GROUP</b>	<b>45,175</b>	<b>42,375</b>	<b>(6.20%)</b>

(Thousands of Euros) Source: Annual report of banking entity

**Banca Privada d'Andorra, SA**

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**Chairman:**  
Mr. Higini Cierco Noguer

**Chairman:**  
Mr. Ramon Cierco Noguer

**Chief Executive Officer - General Manager:**  
Mr. Joan Pau Miquel Prats

**Assistant General Manager:**  
Mr. Santi de Rosselló Piera

**Assistant General Manager:**  
Mr. Joan Cejudo Peña

**Assistant General Manager:**  
Mr. Xavier Campos Tomás

**Assistant General Manager:**  
Ms. Cristina Lozano Bonet

**Assistant General Manager:**  
Mr. Juan Carlos Peón Melón

**Consolidated balance sheets of Banca Privada d'Andorra, SA (BPA)  
at 31<sup>st</sup> December 2012 and 2013**

<b>ASSETS</b>	<b>2012</b>	<b>% of total</b>	<b>2013</b>	<b>% of total</b>	<b>Var. (%) 12-13</b>
Cash and central banks OECD	16,386	0.58%	18,219	0.54%	11.19%
INAF	210	0.01%	210	0.01%	-
Financial intermediaries	304,832	10.71%	396,872	11.86%	30.19%
Loans	1,124,663	39.52%	975,371	29.14%	(13.27%)
Securities portfolio	1,005,315	35.33%	1,573,531	47.01%	56.52%
Gains on consolidation	87,275	3.06%	98,351	2.94%	12.69%
Intangible assets and amortisable costs	19,266	0.68%	29,023	0.87%	50.64%
Tangible assets	141,305	4.97%	145,425	4.35%	2.92%
Prepayment and accrued receivables	29,467	1.04%	49,506	1.48%	68.00%
Other assets	116,744	4.10%	60,397	1.80%	(48.27%)
<b>TOTAL ASSETS</b>	<b>2,845,463</b>	<b>100.00%</b>	<b>3,346,905</b>	<b>100.00%</b>	<b>17.62%</b>
<b>LIABILITIES</b>					
INAF	557	0.02%	47,983	1.43%	-
Due to banks and credit entities	691,174	24.29%	1,206,028	36.03%	74.49%
Other financial intermediaries	228	0.01%	143	-	(37.28%)
Customer deposits	1,621,477	56.98%	1,516,235	45.30%	(6.49%)
Debts represented by securities	102,635	3.61%	143,359	4.28%	39.68%
Provision for liabilities and charges	4,064	0.14%	3,048	0.09%	(25.00%)
Provision for general risks	2,000	0.07%	1,093	0.04%	(45.35%)
Subordinated liabilities	63,131	2.22%	61,940	1.85%	(1.89%)
Accruals	23,524	0.83%	30,037	0.90%	27.69%
Other liabilities	99,853	3.51%	99,180	2.96%	(0.67%)
Share capital	70,000	2.46%	70,000	2.09%	-
Reserves	150,712	5.30%	147,288	4.40%	(2.27%)
Profit	17,588	0.62%	20,534	0.61%	16.75%
Prior years' result	(521)	(0.02%)	-	-	-
Interim dividends	(1,000)	(0.04%)	-	-	-
Minority interest	41	-	37	-	(9.76%)
<b>TOTAL LIABILITIES</b>	<b>2,845,463</b>	<b>100.00%</b>	<b>3,346,905</b>	<b>100.00%</b>	<b>17.62%</b>

(Thousands of Euros) Source: Annual report of banking entity

(1) Information of interest relates to posts occupied by individuals prior to 30<sup>th</sup> June 2014

**Consolidated memorandum accounts of Banca Privada d'Andorra, SA (BPA)  
at 31<sup>st</sup> December 2012 and 2013**

	2012	% of total	2013	% of total	Var. (%) 12-13
Contingent liabilities	69,565	0.87%	44,717	0.41%	(35.72%)
Commitments and contingent risks	154,553	1.93%	127,616	1.16%	(17.43%)
Derivative financial instruments	1,568,824	19.62%	1,355,427	12.35%	(13.60%)
Securities deposited and others held in custody	5,752,031	71.94%	8,981,828	81.80%	56.15%
Other memorandum accounts for administrative control purposes only	450,166	5.63%	470,186	4.28%	4.45%
<b>TOTAL</b>	<b>7,995,139</b>	<b>100.00%</b>	<b>10,979,774</b>	<b>100.00%</b>	<b>37.33%</b>

(Thousands of Euros) Source: Annual report of banking entity

**Consolidated income statements of Banca Privada d'Andorra, SA (BPA)  
for the years ended 31<sup>st</sup> December 2012 and 2013**

	2012	2013	Var. (%) 12-13
Interest and similar income	72,829	75,044	3.04%
Interest and similar charges	(34,126)	(27,027)	(20.80%)
Revenue from variable income securities	(38)	507	-
<b>FINANCIAL MARGIN</b>	<b>38,665</b>	<b>48,524</b>	<b>25.50%</b>
Commissions	48,466	54,014	11.45%
Profits on financial operations	12,540	19,000	51.52%
Other profit on ordinary activities	248	1,329	-
<b>MARGIN ON ORDINARY ACTIVITIES</b>	<b>99,919</b>	<b>122,867</b>	<b>22.97%</b>
Personnel expenses	(37,171)	(41,687)	12.15%
General expenses	(38,062)	(39,854)	4.71%
Amortisation and depreciation, net of recoveries	(8,639)	(10,232)	18.44%
Provisions for depreciation of assets, net of recoveries	(5)	(403)	-
<b>OPERATING MARGIN</b>	<b>16,042</b>	<b>30,691</b>	<b>91.32%</b>
Provisions for loan losses, net of recoveries	(6,535)	(7,935)	21.42%
Provisions for liabilities and charges, net of recoveries	(735)	2,269	-
Allowance to provision for general risks	-	-	-
<b>RESULTS ON ORDINARY ACTIVITIES</b>	<b>8,772</b>	<b>25,025</b>	<b>-</b>
Net extraordinary income	2,040	448	(78.04%)
<b>PROFIT BEFORE TAXES</b>	<b>10,812</b>	<b>25,473</b>	<b>-</b>
Corporate income tax	852	(925)	-
Foreign corporate income tax	5,924	(4,014)	-
<b>CONSOLIDATED RESULTS</b>	<b>17,588</b>	<b>20,534</b>	<b>16.75%</b>
Results attributable to minority interest	8	7	(12.50%)
<b>RESULTS ATTRIBUTABLE TO THE GROUP</b>	<b>17,596</b>	<b>20,541</b>	<b>16.74%</b>

(Thousands of Euros) Source: Annual report of banking entity

## Crédit Andorrà Group

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(Principality of Andorra)  
Tel. +376 888000 - Fax +376 888021  
www.creditandorrargroup.com

**Chairman:**

Mr. Jaume Casal Mor

**Vice Chairman:**

Mr. Antoni Pintat Mas

**Chief Executive Officer:**

Mr. Josep Peralba Duró

**General Manager:**

Mr. Xavier Cornella Castel

### Consolidated balance sheets of Crédit Andorrà Group at 31<sup>st</sup> December 2012 and 2013

ASSETS	2012	% of total	2013	% of total	Var. (%) 12-13
Cash and central banks OECD	40,061	0.68%	118,939	2.09%	-
INAF	210	-	210	-	-
Financial intermediaries	369,156	6.26%	303,880	5.35%	(17.68%)
Loans	3,071,818	52.08%	3,006,858	52.96%	(2.11%)
Securities portfolio	1,851,627	31.39%	1,669,288	29.40%	(9.85%)
Gains on consolidation	41,081	0.70%	41,941	0.74%	2.09%
Intangible assets and amortisable costs	56,234	0.95%	62,125	1.09%	10.48%
Tangible assets	321,346	5.45%	363,003	6.39%	12.96%
Prepayment and accrued receivables	55,063	0.93%	56,696	1.00%	2.97%
Other assets	91,933	1.56%	55,299	0.98%	(39.85%)
<b>TOTAL ASSETS</b>	<b>5,898,529</b>	<b>100.00%</b>	<b>5,678,239</b>	<b>100.00%</b>	<b>(3.73%)</b>
<b>LIABILITIES</b>					
INAF	6,799	0.12%	679	0.01%	(90.01%)
Due to banks and credit entities	286,202	4.85%	82,073	1.45%	(71.32%)
Other financial intermediaries	10,193	0.17%	5,318	0.09%	(47.83%)
Customer deposits	4,454,875	75.53%	4,447,272	78.32%	(0.17%)
Debts represented by securities	370,821	6.29%	340,729	6.00%	(8.11%)
Provision for liabilities and charges	2,359	0.04%	2,062	0.04%	(12.59%)
Provision for general risks	-	-	-	-	-
Subordinated liabilities	150,000	2.54%	150,000	2.64%	-
Accruals	35,705	0.61%	34,119	0.60%	(4.44%)
Other liabilities	30,117	0.50%	31,958	0.56%	6.11%
Share capital	70,000	1.19%	70,000	1.23%	-
Reserves	425,216	7.21%	453,347	7.98%	6.62%
Profit	70,862	1.20%	71,241	1.26%	0.53%
Prior years' result	-	-	-	-	-
Interim dividends	(20,000)	(0.34%)	(20,000)	(0.35%)	-
Minority interest	5,380	0.09%	9,441	0.17%	75.48%
<b>TOTAL LIABILITIES</b>	<b>5,898,529</b>	<b>100.00%</b>	<b>5,678,239</b>	<b>100.00%</b>	<b>(3.73%)</b>

(Thousands of Euros) Source: Annual report of banking entity

(1) Information of interest relates to posts occupied by individuals prior to 30<sup>th</sup> June 2014

## Consolidated memorandum accounts of Crèdit Andorrà Group at 31<sup>st</sup> December 2012 and 2013

	2012	% of total	2013	% of total	Var. (%) 12-13
Contingent liabilities	147,697	1.31%	160,317	1.15%	8.54%
Commitments and contingent risks	420,099	3.74%	320,547	2.30%	(23.70%)
Derivative financial instruments	2,145,966	19.08%	2,625,806	18.86%	22.36%
Securities deposited and others held in custody	7,080,540	62.95%	9,246,092	66.42%	30.58%
Other memorandum accounts for administrative control purposes only	1,452,876	12.92%	1,567,270	11.26%	7.87%
<b>TOTAL</b>	<b>11,247,178</b>	<b>100.00%</b>	<b>13,920,032</b>	<b>100.00%</b>	<b>23.76%</b>

(Thousands of Euros) Source: Annual report of banking entity

## Consolidated income statements of Crèdit Andorrà Group for the years ended 31<sup>st</sup> December 2012 and 2013

	2012	2013	Var. (%) 12-13
Interest and similar income	127,427	119,061	(6.57%)
Interest and similar charges	(51,452)	(46,235)	(10.14%)
Revenue from variable income securities	484	985	-
<b>FINANCIAL MARGIN</b>	<b>76,459</b>	<b>73,811</b>	<b>(3.46%)</b>
Commissions	100,488	112,519	11.97%
Profits on financial operations	17,903	42,713	-
Other profit on ordinary activities	792	(1,123)	-
<b>MARGIN ON ORDINARY ACTIVITIES</b>	<b>195,642</b>	<b>227,920</b>	<b>16.50%</b>
Personnel expenses	(48,856)	(52,810)	8.09%
General expenses	(50,464)	(35,144)	(30.36%)
Amortisation and depreciation, net of recoveries	(21,003)	(22,412)	6.71%
Provisions for depreciation of assets, net of recoveries	(709)	(2,855)	-
<b>OPERATING MARGIN</b>	<b>74,610</b>	<b>114,699</b>	<b>53.73%</b>
Provisions for loan losses, net of recoveries	(9,692)	(37,474)	-
Provisions for liabilities and charges, net of recoveries	(254)	(265)	4.33%
Allowance to provision for general risks	-	-	-
<b>RESULTS ON ORDINARY ACTIVITIES</b>	<b>64,664</b>	<b>76,960</b>	<b>19.02%</b>
Net extraordinary income	8,196	(53)	-
<b>PROFIT BEFORE TAXES</b>	<b>72,860</b>	<b>76,907</b>	<b>5.55%</b>
Corporate income tax	(1,550)	(5,541)	-
Foreign corporate income tax	(135)	(77)	(42.96%)
<b>CONSOLIDATED RESULTS</b>	<b>71,175</b>	<b>71,289</b>	<b>0.16%</b>
Results attributable to minority interest	(313)	(48)	(84.66%)
<b>RESULTS ATTRIBUTABLE TO THE GROUP</b>	<b>70,862</b>	<b>71,241</b>	<b>0.53%</b>

(Thousands of Euros) Source: Annual report of banking entity

**BancSabadell d'Andorra, SA**

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(Principality of Andorra)  
Tel. +376 735600 - Fax +376 735601  
www.bsa.ad

**Chairman:**

Mr. Robert Cassany Vila

**Chief Executive Officer:**

Mr. Miquel Alabern Comas

**General Manager:**

Mr. Josep Segura Solà

**Consolidated balance sheets of BancSabadell d'Andorra, SA  
at 31<sup>st</sup> December 2012 and 2013**

<b>ASSETS</b>	<b>2012</b>	<b>% of total</b>	<b>2013</b>	<b>% of total</b>	<b>Var. (%) 12-13</b>
Cash and central banks OECD	6,903	1.08%	6,439	1.01%	(6.72%)
INAF	210	0.04%	210	0.04%	-
Financial intermediaries	48,734	7.59%	51,374	8.07%	5.42%
Loans	416,841	64.96%	391,331	61.50%	(6.12%)
Securities portfolio	129,368	20.16%	149,727	23.53%	15.74%
Gains on consolidation	-	-	-	-	-
Intangible assets and amortisable costs	3,002	0.47%	2,885	0.45%	(3.90%)
Tangible assets	23,505	3.66%	23,651	3.72%	0.62%
Prepayment and accrued receivables	6,107	0.95%	6,429	1.01%	5.27%
Other assets	7,005	1.09%	4,254	0.67%	(39.27%)
<b>TOTAL ASSETS</b>	<b>641,675</b>	<b>100.00%</b>	<b>636,300</b>	<b>100.00%</b>	<b>(0.84%)</b>
<b>LIABILITIES</b>					
INAF	45,150	7.04%	39,116	6.15%	(13.36%)
Due to banks and credit entities	8,010	1.25%	4,904	0.77%	(38.78%)
Other financial intermediaries	258	0.04%	466	0.07%	80.62%
Customer deposits	388,814	60.59%	442,062	69.47%	13.69%
Debts represented by securities	119,816	18.67%	69,406	10.91%	(42.07%)
Provision for liabilities and charges	658	0.10%	424	0.07%	(35.56%)
Provision for general risks	2,044	0.32%	3,115	0.49%	52.40%
Subordinated liabilities	-	-	-	-	-
Accruals	4,468	0.70%	4,301	0.68%	(3.74%)
Other liabilities	12,266	1.91%	7,902	1.24%	(35.58%)
Share capital	30,068	4.69%	30,068	4.73%	-
Reserves	23,499	3.66%	27,576	4.33%	17.35%
Profit	6,624	1.03%	6,960	1.09%	5.07%
Prior years' result	-	-	-	-	-
Interim dividends	-	-	-	-	-
Minority interest	-	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>641,675</b>	<b>100.00%</b>	<b>636,300</b>	<b>100.00%</b>	<b>(0.84%)</b>

(Thousands of Euros) Source: Annual report of banking entity

(1) Information of interest relates to posts occupied by individuals prior to 30<sup>th</sup> June 2014



**Consolidated memorandum accounts of BancSabadell d'Andorra, SA  
at 31<sup>st</sup> December 2012 and 2013**

	2012	% of total	2013	% of total	Var. (%) 12-13
Contingent liabilities	21,374	1.29%	15,447	0.84%	(27.73%)
Commitments and contingent risks	41,607	2.51%	34,409	1.87%	(17.30%)
Derivative financial instruments	271,485	16.35%	265,141	14.39%	(2.34%)
Securities deposited and others held in custody	1,158,579	69.75%	1,359,852	73.80%	17.37%
Other memorandum accounts for administrative control purposes only	167,724	10.10%	167,681	9.10%	(0.03%)
<b>TOTAL</b>	<b>1,660,769</b>	<b>100.00%</b>	<b>1,842,530</b>	<b>100.00%</b>	<b>10.94%</b>

(Thousands of Euros) Source: Annual report of banking entity

**Consolidated income statements of BancSabadell d'Andorra, SA  
for the years ended 31<sup>st</sup> December 2012 and 2013**

	2012	2013	Var. (%) 12-13
Interest and similar income	19,986	17,029	(14.80%)
Interest and similar charges	(12,098)	(8,492)	(29.81%)
Revenue from variable income securities	-	-	-
<b>FINANCIAL MARGIN</b>	<b>7,888</b>	<b>8,537</b>	<b>8.23%</b>
Commissions	10,165	11,653	14.64%
Profits on financial operations	(363)	3,595	-
Other profit on ordinary activities	66	55	(16.67%)
<b>MARGIN ON ORDINARY ACTIVITIES</b>	<b>17,756</b>	<b>23,840</b>	<b>34.26%</b>
Personnel expenses	(5,794)	(6,009)	3.71%
General expenses	(4,749)	(3,877)	(18.36%)
Amortisation and depreciation, net of recoveries	(2,243)	(2,167)	(3.39%)
Provisions for depreciation of assets, net of recoveries	(121)	(145)	19.83%
<b>OPERATING MARGIN</b>	<b>4,849</b>	<b>11,642</b>	-
Provisions for loan losses, net of recoveries	252	(3,336)	-
Provisions for liabilities and charges, net of recoveries	(482)	287	-
Allowance to provision for general risks	(1,150)	(3,520)	-
<b>RESULTS ON ORDINARY ACTIVITIES</b>	<b>3,469</b>	<b>5,073</b>	<b>46.24%</b>
Net extraordinary income	3,261	2,314	(29.04%)
<b>PROFIT BEFORE TAXES</b>	<b>6,730</b>	<b>7,387</b>	<b>9.76%</b>
Corporate income tax	(106)	(427)	-
Foreign corporate income tax	-	-	-
<b>CONSOLIDATED RESULTS</b>	<b>6,624</b>	<b>6,960</b>	<b>5.07%</b>
Results attributable to minority interest	-	-	-
<b>RESULTS ATTRIBUTABLE TO THE GROUP</b>	<b>6,624</b>	<b>6,960</b>	<b>5.07%</b>

(Thousands of Euros) Source: Annual report of banking entity

## V.2. Other information of interest

### Government of Andorra

Ed. Administratiu de Govern  
C/ Prat de la Creu, 62-64  
AD500 Andorra la Vella  
(Principality of Andorra)  
Tel. +376 875700  
www.govern.ad

### The Andorran Government is formed as follows:

#### Head of Government:

The Hon. Mr. Antoni Martí Petit

#### Minister of Finance and Public Function:

The Hon. Mr. Jordi Cinca Mateos

#### Minister of Economy and Territory:

The Hon. Mr. Jordi Alcobé Font

#### Minister of Foreign Affairs:

The Hon. Mr. Gilbert Saboya Sunyé

#### Minister of Justice and Home Affairs:

The Hon. Mr. Xavier Espot Zamora

#### Minister of Health and Welfare:

The Hon. Ms. Cristina Rodríguez Galan

#### Minister of Education and Youth:

The Hon. Ms. Roser Suñé Pascuet

#### Minister of Tourism and Environment:

The Hon. Mr. Francesc Camp Torres

#### Minister of Culture:

The Hon. Mr. Albert Esteve Garcia

#### Secretary General:

Mr. Jordi Casadevall Touseil

#### Head of the Government Cabinet:

Mr. Esteve Vidal Ferrer

### Andorran National Institute of Finance (Institut Nacional Andorrà de Finances (INAF))

C/ Bonaventura Armengol, 10  
Ed. Montclar, bloc 2, 4a planta  
AD500 Andorra la Vella  
(Principality of Andorra)  
Tel. +376 808898 - Fax +376 865977  
www.inaf.ad

#### Chairman:

Mr. Raül González Fernández

#### General Manager:

Ms. Maria Cosan Canut

### Association of Andorran Banks (Associació de Bancs Andorrans (ABA))

C/ Ciutat de Consuegra, 16  
Ed. l'Illa, esc. A, 2n pis  
AD500 Andorra la Vella  
(Principality of Andorra)  
Tel. +376 807110 - Fax +376 866847  
www.aba.ad

#### Chairman:

Mr. Miquel Alabern Comas

#### Vice Chairman:

Xavier Cornella Castel

#### General Manager:

Ms. Esther Puigcercós Font

### Andorran Financial Intelligence Unit (Unitat d'Intel·ligència Financera d'Andorra (UIF))

C/ Dr. Vilanova, 15-17 (planta -4)  
AD500 Andorra la Vella  
(Principality of Andorra)  
Tel. +376 806730 - Fax: +376 828842  
www.uif.ad

#### Director:

Mr. Carles Fiñana Pifarré

**Corruption Prevention Unit**  
*(Unitat de Prevenció i Lluita contra la*  
*Corrupció (UPLC))*

Ed. Administratiu de Govern  
C/ Prat de la Creu, 62-64  
AD500 Andorra la Vella  
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Tel. + 376 875606 - Fax: + 376 875695  
www.uprevencio.ad

**Head of Unit:**

Ms. Clàudia Cornella Durany

**Andorran Development and Investment**  
*(Andorra Desenvolupament i Inversió*  
*(ADI))*

C/ Camí de la Grau  
Ed. Prat del Rull, 2n pis, Despatx 212  
AD500 Andorra la Vella  
(Principality of Andorra)  
Tel. + 376 812020 - Fax: +376 812021  
www.adi.ad

**Director:**

Mr. Carles Aleix Martínez

**Andorran Tax and Border Agency (AAFF)**  
*(Agència Andorrana Fiscal i de Fronteres*  
*(AAFF))*

Baixada del Molí, 26  
AD500 Andorra la Vella  
(Principality of Andorra)  
Tel. + 376 885005 - Fax: +376 816244  
www.impostos.ad

**Director:**

Mr. Albert Hinojosa Besolí

**Andorran Chamber of Commerce,  
Industry and Services**  
*(Cambra de Comerç, Indústria i Serveis*  
*d'Andorra (CCIS))*

C/ Prat de la Creu, 8, baixos, Despatx 107  
AD500 Andorra la Vella  
(Principality of Andorra)  
Tel. +376 809292 - Fax +376 809293  
www.ccis.ad

**Chairman:**

Mr. Marc Pantebre Palmitjavila

**Director:**

Ms. Pilar Escaler Penella

**Andorran Business Confederation**  
*(Confederació Empresarial Andorrana*  
*(CEA))*

C/ Prat de la Creu, 59-65, esc. B, 2n pis  
AD500 Andorra la Vella  
(Principality of Andorra)  
Tel. +376 800020 - Fax: +376 800024  
www.cea.ad

**Chairman:**

Mr. Xavier Altimir Planes

**Director:**

Ms. Sílvia Gabarre Iglesias

**Andorran Institute of Economists**  
*(Col·legi d'Economistes d'Andorra (COEA))*

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(Principality of Andorra)  
Tel. +376 868678 - Fax: +376 807817  
www.coea.net

**Dean:**

Mr. Xavier Prats Martínez

**Secretary:**

Mr. Vladimir Fernández Armengol

**University of Andorra**  
*(Universitat d'Andorra (UdA))*

Plaça de la Germandat, 7  
AD600 Sant Julià de Lòria  
(Principality of Andorra)  
Tel. +376 743000 - Fax: +376 743043  
www.uda.ad

**Vice-Chancellor:**

The Hon. Mr. Daniel Bastida Obiols

**Andorran Data Protection Agency**  
*(Agència Andorrana de Protecció de Dades*  
*(APDA))*

C/ Dr. Vilanova, 15, Nova seu del Consell General  
(planta -5)  
AD500 Andorra la Vella  
(Principality of Andorra)  
Tel. +376 808115 - Fax: +376 808118  
www.apda.ad

**Head:**

Mr. Joan Crespo Piedra

**Institute of Andorran Studies**  
**(Institut d'Estudis Andorrans (IEA))**

Av. Rocafort, 21-23  
Ed. Molí, 3r pis  
AD600 Sant Julià de Lòria  
(Principality of Andorra)  
Tel. +376 742630 - Fax: +376 843585  
www.iea.ad

**Chairman:**

The Hon. Ms. Roser Suñé Pascuet

**Director:**

Mr. Jordi Guillamet Anton

**Andorra Turisme**

C/ Prat de la Creu, 59-65, esc. D, 4t pis  
AD500 Andorra la Vella  
(Principality of Andorra)  
Tel. +376 891189 - Fax: +376 828123  
www.andorra.ad

**Chairman:**

The Hon. Mr. Francesc Camp Torres

**Director:**

Mr. Betim Budzaku





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ASSOCIACIÓ DE BANCS ANDORRANS