

# ANDORRA

i el seu Sistema Financer  
*and its Financial System*

2005



ASSOCIACIÓ DE BANCs ANDORRANS

**ANDORRA**  
and its Financial System



## PRESENTATION

Following considerable expansion in previous years, the worldwide economy slowed down in 2005, continuing with the trend observed in 2004. Despite this downward trend, the economy has been highly dynamic and it can be said that overall 2005 has been a positive year.

In 2005 the worldwide economy has been supported mainly by consistent growth of activity in the United States, which has kept unemployment at the lowest levels for the last four years. There has also been an economic boom in India and China, together with expansion in Japan which appears to be starting to recover from the economic recession in which it has been immersed over the past ten years.

Although certain stability has been recovered in the Euro Zone, the growth rate in recent years has been slightly lower than the worldwide average.

The most characteristic feature of the expanding international economy has been the relatively high growth in production rates in a climate of low inflation. However, the year has closed with oil prices at US\$ 60 per barrel, almost doubling prices in 2004.

This economic prosperity has also been reflected in the growth of financial markets. The stock markets of developed countries have reacted positively, favoured by low interest rates, low volatility and unusually reduced risk premiums. The Euro Stoxx index has accumulated gains of 23% in 2005, significantly above the 3% of the US S&P 500.

According to estimates by the United Nations, it is expected that developing countries will continue with the same moderate growth as in recent years, and that India and China will continue to be the most dynamic economies.

During the first half of 2005 internal demand in the Euro Zone has been weak, continuing with the trend detected since the second half of 2004. This situation has slightly improved in the second half of the year due to very favourable financial conditions, which have boosted investment and to the strength of the Euro vs. the US dollar, enabling the volume of exports to improve significantly.

The Spanish economy is growing at a favourable rate and slightly exceeds European growth. This economic growth has been driven mainly by excellent internal demand. However, it should also be taken into consideration that although household consumption has stabilised, wealth has continued to increase, partly due to the creation of jobs, leading to a general revaluation of financial and real estate markets.

France has had a politically delicate year, undergoing a serious socio-political crisis which has brought to light difficulties on the outskirts of its large cities. However, the impact on economic results has been low, with moderate growth accompanied by controlled inflation and a significant drop in unemployment rates. It should also be noted that in 2005, France has reached the EU public deficit objectives for the first time in four years.

Long-term interest rates have remained low in both nominal and real terms, in virtually all economies. However, unlike in the last four years, there has been a positive difference in 2005 between the USA and the Euro Zone. This situation has led to a reduction in income on public borrowing in the European Monetary Union in the first half of 2005, whilst USA figures have remained practically the same.

On 1 December 2005 the ECB raised official interest rates to 2.25% for the first time in the last two years. Despite this quarter of a point rise, interest rates continue to remain at all time lows.

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# I. THE PRINCIPALITY OF ANDORRA



# I. THE PRINCIPALITY OF ANDORRA

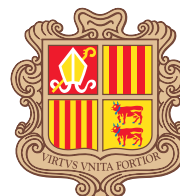
## I.1. INTRODUCTION

The Principality of Andorra is a European micro-State located in the Central Pyrenees between France and Spain, 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 the 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>). Only 4% of its small area is arable land, 1% is developed and the rest is covered by forests, fields and dormant land. Most of the land is property of the “Comuns” (Town councils).

The Andorran flag and coat of arms are shown below:





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 (2,946 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  $-2^{\circ}\text{C}$ , while the average maximum temperature is  $24^{\circ}\text{C}$ . Snowfall is frequent and rain mainly falls between the months of October and May. Water is one of the most important natural resources, allowing for the exploitation of hydroelectric and thermal energy.

In 2005 Andorra had a population of 78,549 inhabitants, 36% of them with Andorran nationality and 35.7% of them with Spanish nationality.

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 does not have its own currency and therefore adopted the Euro, like the other member states of the European Union, on 1 January 2002.

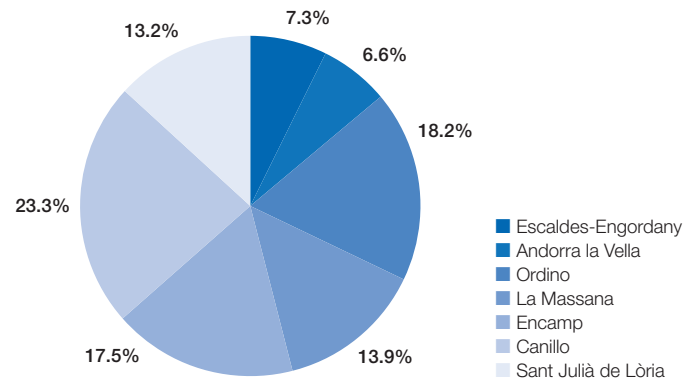
As shown further on in this publication, Andorra is divided for administrative purposes into seven parishes with varying surface areas and populations. Each of these parishes has its own “Comú” (Town council). The seven parishes are: Canillo, Encamp, Ordino, la Massana, Andorra la Vella, Sant Julià de Lòria and Escaldes-Engordany.





The surface areas of the parishes are distributed as follows:

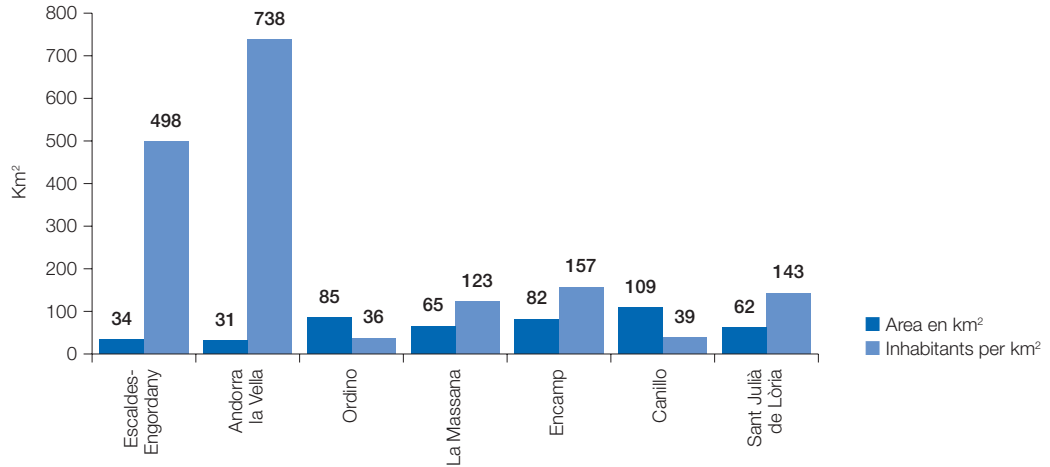
### Distribution of surface areas of parishes



Source: Andorra. Socioeconomic yearbook 2005

In addition, the surface areas of the parishes and their population are as follows:

### Surface area and population of parishes 2005



Source: Andorra. Socioeconomic yearbook 2005

Andorra is connected with Spain by the main road running alongside the Valira River and with France through the Envalira mountain pass.

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

**From Spain:**

Madrid 600 km  
Barcelona 210 km

**From France:**

Paris 900 km  
Marseille 757 km  
Toulouse 196 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 Ax les Thermes or l'Hospitalet in France and from Puigcerdà and Lleida in Spain in less than an hour by road.

The nearest airports are in Barcelona and Girona (Spain) and Toulouse and Perpignan (France). Currently there is a plan to bring into operation the airport in Seu d'Urgell (Spain), 10 km from Andorra. This airport was used in the past.

The Andorran Telecommunications Service ("Servei de Telecomunicacions d'Andorra - STA") provides other kinds of communication by telephone, telegraph, fax and mobile telephone (GSM).

There are two postal services in the Principality, the French and Spanish systems. Internal post is free of charge.

Spanish and French public and private television channels can be viewed in the country and there are various radio stations. Four newspapers are edited in Andorra, together with various magazines of general interest in Catalan, the country's official language.

## I.2. HISTORY

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 agreement 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.

At the same time, the Bishop of Urgell entered into conflict with the County of Foix. This conflict was resolved with 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 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*" represented independence in Andorra for more than 700 years.

At a later date, the co-rulers' rights over Andorra were transferred to the kings of France, the heirs of the counts of Foix.

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 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 a fully democratic electoral system for over 700 years.

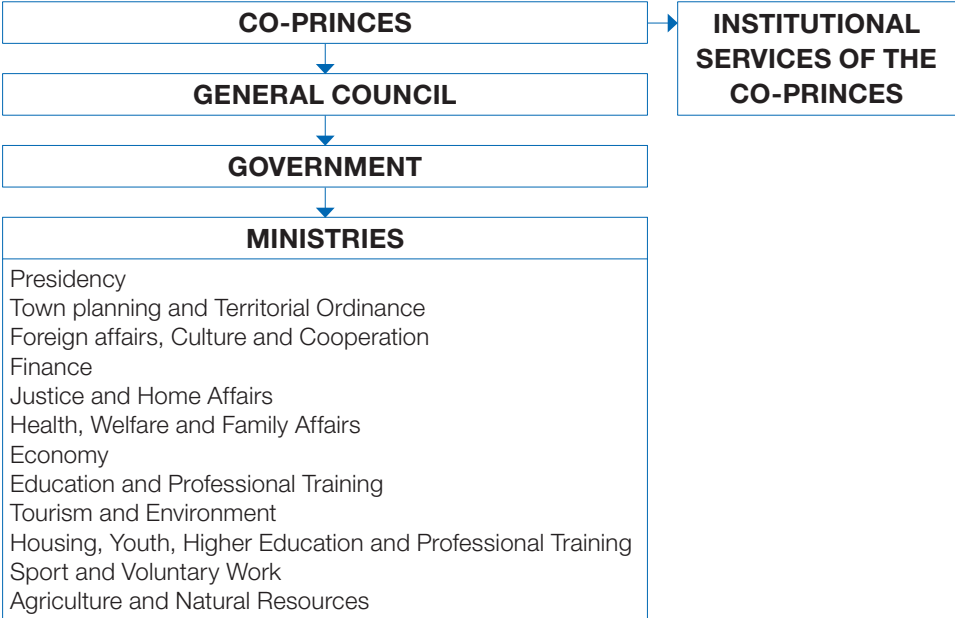
As a result, the Andorran citizens assumed sovereignty, but the co-princes, severally and jointly, are still the head of State. This position is occupied exclusively and personally by the Bishop of Urgell (currently Excellency Mr. Enric Vives i Sicília) and the President of the French Republic (currently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



### I.3. POLITICAL INSTITUTIONS

#### Main Institutions and Political Bodies

A chart of the main institutions in Andorra is as follows:



Source: KPMG

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 calling general elections; calling referendums on political matters when requested to do so by the Head of the Government and the majority of the General Council; sanctioning and passing laws, etc. Those who countersign the actions of the co-princes are held liable thereto.

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 subsyndic elected by the General Council. With the approval of the Constitution, the regulations originating in the General Council receive the unitary denomination of laws.

Andorra has the following **political parties** with parliamentary representation: The *Partit Liberal d'Andorra* (affiliated to the International Liberal, the European Liberal Democrat and Reform Party and the International Network of Liberal Women), the *Partit Socialdemòcrata* (affiliated to the International Socialists), the *Centre Demòcrata Andorrà*, *Segle 21* and *Renovació Democràtica*.

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 legislative powers (please refer to the composition of the current Government in Chapter "IV – Information of interest").

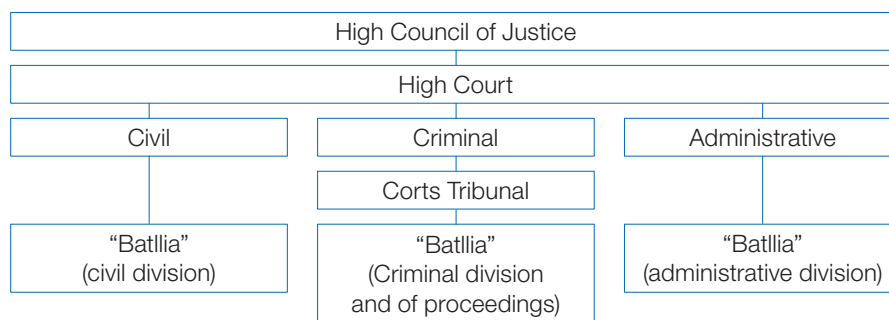
Andorra is divided for administrative purposes into seven parishes: Canillo, Encamp, Ordino, la Massana, Andorra la Vella, Sant Julià de Lòria and Escaldes-Engordany. The representative and administrative body of the parish is the “**Comú**” which acts through its Council. The Constitution defines the “*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 High Consul (cònsol major) and Low Consul (cònsol menor).

## Other Political Institutions

**Constitutional Tribunal.** This 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.

**Citizens’ ombudsman.** This institution 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. It 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.

**Andorran legal system.** This system is structured into a sole organisation. The jurisdictional power is exercised by the “*batlles*” (a kind of first instance magistrates court specific to Andorra), the “*Batlles*” Tribunal, the Courts Tribunal and the High Court of Justice, together with the respective presidents of these tribunals and includes three jurisdictions: civil, criminal and administrative.



Source: KPMG

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.

The **High Council of Justice** is the body representing, governing and administering the judicial system which oversees the independence and adequate functioning of Justice. 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 **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.

The **Andorran Chamber of Commerce, Industry and Services** 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 all kinds of corporate advisory services. All businesses, industries and members inscribed in the Government’s Chamber of Commerce and Industry are under the obligation to register in its census.

## I.4. LEGAL SYSTEM

- Andorran **mercantile companies** must have their registered office in Andorra in one of the following legal forms:
  - Public limited liability company (SA)
  - Private limited liability company (SL)

Company capital must be comprised of at least two thirds Andorran capital. Andorran capital is understood to be that of individuals or legal entities with Andorran nationality and foreign individuals with at least twenty years uninterrupted residency in Andorra (this period is reduced to ten years for Spanish and French citizens in accordance with the “Trilateral Agreement” relating to the entry, circulation, residency and establishment of its nationals).

Nevertheless, in the case of Andorran banking entities the Law regulating the basic administrative regime of banking entities, dated 30 June 1998, stipulates that 51% of their capital can be held by foreign credit entities.

- In order to carry out **commercial and industrial** activities, foreign individuals need to have resided in Andorra for over twenty years to be able to own a commercial or industrial establishment. In accordance with the “Trilateral Agreement” French and Spanish citizens only need to have resided in Andorra for ten years. **Liberal professions** are governed by a specific law which requires twenty years of residence for foreigners and that they hold the corresponding university qualification from an Andorran, French or Spanish university or an officially validated qualification from another country. The Government can grant ten-year liberal profession permits at its own discretion, which may be renewed depending on specific Andorran requirements and the specialisation and personal circumstances of the applicant.
- A Social Security system was created in Andorra in 1968 and covers illness and old age. Adherence to the **Caixa Andorrana de Seguretat Social (CASS)** is obligatory for all wage earners and optional for non wage earners resident in Andorra. Social security contributions for wage earners range between 5% and 9% of the salary and contributions of 13% are made by employers. Contributions for non wage earners consist of an annually reviewed rate calculated based on the average salary declared in the previous year. Foreign workers must have a work permit granted by the Andorran Ministry of Home Affairs. The granting of permits by the Ministry of Home Affairs is subject to a quota approved by the General Council.
- Individuals over the age of 18 who wish to reside in Andorra without working must obtain a “**passive residence**” authorisation from the Andorran Ministry of Home Affairs. This kind of authorisation is governed by the Qualified Law for the modification of passive residency dated 28 November 1996.
- Non-resident individuals over the age of 18 and those individuals who have resided in Andorra for less than 20 years require authorisation from the Government to be able to acquire a **dwelling** under the horizontal property regime with the corresponding parking space. In this case, plots of land for a chalet or detached house cannot exceed 1,000 m<sup>2</sup>.
- **Andorran nationality** can be acquired by foreigners who marry Andorrans, provided that they can prove uninterrupted residence in Andorra for a prior period of three years. Foreigners who have lived for at least twenty years in Andorra may also apply to the Government for Andorran nationality. The Andorran Constitution does not allow dual nationality.



## II. ECONOMIC ENVIRONMENT



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### INTRODUCTION

Andorra is a developed and growing economy with a long history. This growth, that over the past few years has been also observed in the neighbouring countries of France and Spain, has been very positive for the Andorran economy, which depends to a large extent on these countries because it focuses on the services sector, especially tourism. However, growth in recent years has dropped somewhat, having an impact on the economic variables which, although positive, no longer show the same growth rates as in previous years.

Andorra's expansion in recent years has mainly been reflected in the services sector. This sector is the country's main economic driver and during 2005 comprises approximately 89% of companies and 80% of employment in Andorra. The construction sector represents nearly 8% of companies and 16% of employment in Andorra. Andorra continues to have a deficit workforce and therefore continued demand has been mainly covered by workers from Spain and Portugal.

The purpose of the first part of this publication is to analyse the main characteristics of the Andorran economy, highlighting the most significant changes that have taken place from previous years.

## II.1. GENERAL INFORMATION

### Population: Demographic data

One of the factors influencing the Andorran economy over the years has been its heavy dependence on foreign labour, affecting economic growth and the structure of the Andorran population.

The Andorran population has grown by 2.18% in 2005 compared to the previous year. Growth has tended to be stabilised and the improved control by the Immigration Authorities, following the administrative regularisation of immigrant workers in recent years, has enabled us to obtain an accurate figure for the number of inhabitants residing in the country.

Growth has been fairly irregular in each parish, with increases of between 3.07% and 9.60% in all parishes, with the exception of Escaldes-Engordany recording a drop of 4.97%. This has been due to the regularisation of administrative immigration registers instead of an actual decline in population figures.

<b>Registered population by parishes</b> (Number of people)					
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Canillo	3,014	3,205	3,707	4,225	4,633
Encamp	10,627	10,772	11,832	12,924	13,225
Ordino	2,366	2,485	2,767	3,066	3,309
La Massana	6,375	6,660	7,264	7,973	8,510
Andorra la Vella	20,787	20,724	22,035	22,884	23,587
Sant Julià de Lòria	7,646	7,785	8,313	8,885	9,207
Escaldes-Engordany	15,519	15,528	16,402	16,918	16,078
<b>TOTAL</b>	<b>66,334</b>	<b>67,159</b>	<b>72,320</b>	<b>76,875</b>	<b>78,549</b>

*Source: Ministry of Justice and Home Affairs*

Birth and death rates in the Principality stand at 10.54% and 3.51% respectively and are stable with respect to 2004. Birth rates are similar to the European average, whereas death rates are much lower. From data gathered on births and deaths it can be seen that the population of Andorra has experienced positive growth of 552 people in 2005. This figure represents 0.70% of the Principality's population, the same percentage as for 2004. The number of immigrants has risen by 1,122 people, significantly below the levels in recent years.

<b>Natural population movement</b> (Number of people)					
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Births	733	749	721	814	828
Deaths	215	218	221	281	276
Natural growth	518	531	500	533	552
Birth rate (per thousand)	11.05	11.15	9.97	10.59	10.54
Death rate (per thousand)	3.24	3.25	3.06	3.65	3.51
Natural growth rate (per thousand)	7.81	7.91	6.91	6.93	7.03
Total population growth	490	825	5,161	4,555	1,674
Increased migration or census regularisation	-28	294	4,661	4,022	1,122

*Source: Ministry of Justice and Home Affairs*



The structure of the Andorran population historically comprises different nationalities. Over the last 30 years Spaniards have represented the largest part. However, during 2005 this trend has reversed and Andorrans now represent the most significant percentage of the Principality's population.

The table below shows a breakdown of the Andorran population. In 2005, 35.97% of the population was formed of Andorrans, 35.74% of Spaniards, 14.38% of Portuguese and 6.46% of French residents. Therefore, foreign residents represent 64.03% of the Andorran population. It can also be concluded that during 2005 the population increased, mainly due to Portuguese immigration and the rise in birth rates.

<b>Evolution of population by nationality</b>						
(Number of people)						
	<u>1980</u>	<u>1995</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Andorrans	9,792	19,653	25,467	26,506	27,465	28,251
Spaniards	20,378	28,778	26,073	27,680	28,728	28,073
French	2,474	4,299	4,334	4,718	5,095	5,078
Portuguese	1,092	6,885	6,729	8,311	9,980	11,294
Others	1,724	4,244	4,556	5,105	5,607	5,853
<b>TOTAL</b>	<b>35,460</b>	<b>63,859</b>	<b>67,159</b>	<b>72,320</b>	<b>76,875</b>	<b>78,549</b>

*Source: Ministry of Justice and Home Affairs*

Historical evolution shows that most of the population is concentrated between 15 and 64 years of age. The Principality's population is therefore fairly young in relation to neighbouring countries. This can be partly explained by immigration of population at a working age and by the rise, in absolute and relative terms, in the section of population under 14 years of age.

<b>Structure of the population by age</b>					
(Number of people)					
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Up to 14 years of age	10,093	10,166	10,777	11,398	11,832
From 15 to 64 years of age	47,642	48,089	52,415	56,289	57,441
65 years of age and over	8,599	8,904	9,128	9,188	9,276
<b>TOTAL</b>	<b>66,334</b>	<b>67,159</b>	<b>72,320</b>	<b>76,875</b>	<b>78,549</b>

*Source: Ministry of Justice and Home Affairs*

## Employment market

In 2005, the yearly average number of jobs increased by 3.73% from 48,738 to 50,556. New registrations with the *Caixa Andorrana de Seguretat Social (CASS)* (Andorran social security system), an indicator of economic activity in the Principality, stand at 5,850, a large figure similar to that of the previous year, proof of the high level of personnel turnover in certain sectors.

<b>Jobs</b> (Annual average)	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
	Jobs	42,185	44,058	46,537	48,738

*Source: Monthly Gazette of the Andorran Government*

<b>New registrations with CASS</b> (Annual)	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
	New registrations	6,144	6,232	5,880	5,871

*Source: Caixa Andorrana de Seguretat Social*

In addition, the table below shows that the Andorran employment rate exceeds the European rate by six percentage points.

<b>Employment rate</b> (Percentage)	<u>ANDORRA</u>		<u>UE- 15</u>	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
	Employment rate (*)	73.00	76.00	64.70

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

*Source: Caixa Andorrana de Seguretat Social, Eurostat and Bank of Spain*

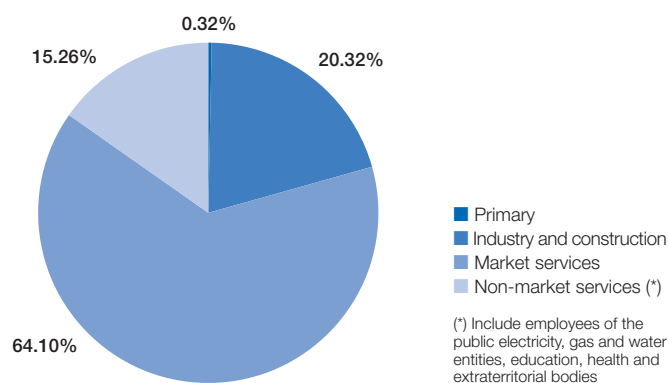
The table below shows the 3.23% rise in the number of wage earners over the last two years and also illustrates the importance of the tertiary sector within the Andorran economy, representing approximately 80% of the total (this figure includes workers employed in the public administration, electricity, gas and water sectors, education, health and extraterritorial bodies). The importance of wage earners working in commerce and tourism-related activities, such as the hotel and restaurant trade, should be noted.

<b>Number of wage earners by sector</b>			
<i>(Average)</i>			
	<b>2004</b>	<b>2005</b>	<b>Var. (%) 04-05</b>
Agriculture, livestock, hunting and forestry	139	138	-0.72%
Manufacturing industries	1,629	1,710	4.97%
Production and distribution of electricity power, gas and water	156	160	2.56%
Construction	6,282	6,747	7.40%
Trading and repair of motor vehicles	11,261	11,404	1.27%
Hotel trade	5,606	5,648	0.75%
Transport, warehousing and communications	1,277	1,271	-0.47%
Financial system	1,446	1,510	4.43%
Real estate and rental activities; corporate services	3,613	3,757	3.98%
Public administration, obligatory social defence and security	3,831	4,030	5.19%
Education	592	610	3.04%
Health and veterinary activities, social services	1,232	1,302	5.68%
Other social activities and community services, personal services	2,295	2,352	2.48%
Homes employing domestic service	1,206	1,245	3.23%
Extraterritorial bodies	8	9	12.50%
Domestic services to the community (neighbours' associations)	250	254	1.60%
Volunteers without activity	264	269	1.89%
<b>TOTAL</b>	<b>41,087</b>	<b>42,416</b>	<b>3.23%</b>

*Source: Monthly Gazette of the Andorran Government*

The other workers are distributed between the industrial and construction sectors, whilst the primary sector only represents 0.3%, as shown in the pie chart below:

**Distribution of wage earners by sector 2005**



*Source: Caixa Andorrana de Seguretat Social and Eurostat*

The notable presence of tertiary activities in the economy, especially tourism-related activities, implies the existence of flexible contracts and seasonal jobs.

The table below shows the importance of the services sector for the Andorran economy. This sector generates approximately 80% of Andorra's GDP. It should be taken into consideration that the services sector not only includes commerce, hotels and restaurants but also banks, which have considerable importance. Agricultural production is limited, as only 2% of the land is arable (tobacco is cultivated in almost all of the country's fields) and most foodstuffs are imported.

<b>Number of companies by sector of activity</b>				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>% of total</u>
<b>Number of companies by sector</b>	<b>7,844</b>	<b>7,990</b>	<b>8,377</b>	<b>100.00%</b>
Primary	83	80	82	0.98%
Industry and energy	180	180	194	2.32%
Construction	594	614	653	7.80%
Services	6,987	7,116	7,448	88.90%

*Source: Caixa Andorrana de Seguretat Social*

## Growth of salaries

There is no collective bargaining system in Andorra to establish yearly salary levels. However, the Andorran Government sets the minimum hourly salary rate at a national level.

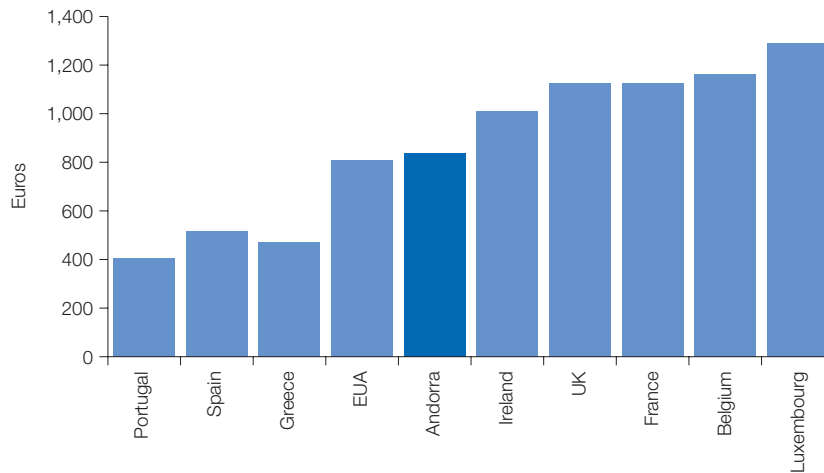
The growth of the minimum salary is shown in the table below, together with the average salary for the Principality from 1995 to date. The table shows that the minimum salary has continued to improve over the last few years until reaching an average figure of monthly Euros 838 in 2005.

<b>Growth of average and minimum salaries in Andorra</b>						
(Monthly Euros)						
	<u>1995</u>	<u>2001</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>Var. (%) 04-05</u>
Average salaries	1,021	1,317	1,454	1,531	1,619	5.75%
Minimum salaries	616	725	771	783	838	7.02%

*Source: Monthly Gazette of the Andorran Government*

The following table shows a comparison of the minimum salaries in 2005 between Andorra and other countries. It can be observed that although Andorra has a lower minimum salary than countries such as France, the United Kingdom and Luxembourg, it has a higher minimum salary than Spain or Portugal.

## Minimum salaries 2005



Source: Eurostat and Study Service - Ministry of Finance

Average salaries in different sectors have risen during the year.

### Average salaries per sector

(Monthly Euros)

	2004	2005	Var. (%) 04-05
Agriculture, livestock, hunting and forestry	1,045	1,138	8.90%
Manufacturing industries	1,586	1,680	5.93%
Production and distribution of electricity power, gas and water	2,696	2,798	3.78%
Construction	1,610	1,705	5.90%
Trading and repair of motor vehicles	1,399	1,462	4.50%
Hotel trade	1,228	1,288	4.89%
Transport, warehousing and communications	1,591	1,740	9.37%
Financial system	3,151	3,268	3.71%
Real estate and rental activities; corporate services	1,515	1,570	3.63%
Public administration, obligatory social defence and security	1,909	1,998	4.66%
Education	1,706	1,738	1.88%
Health and veterinary activities, social services	1,654	1,741	5.26%
Other social activities and community services, personal services	1,378	1,457	5.73%
Homes employing domestic service	907	987	8.82%
Extraterritorial bodies	1,284	1,426	11.06%
Domestic services to the community (neighbours' associations)	793	839	5.80%
Volunteers without activity	1,453	1,591	9.50%
<b>AVERAGE</b>	<b>1,583</b>	<b>1,672</b>	<b>5.62%</b>

Source: Caixa Andorrana de Seguretat Social

In 2005, the highest average salaries can be found in the financial sector and the sector producing and distributing electricity power, gas and water. These salaries are significantly above average (Euros 1,672). It should be highlighted that although the average salary in the declared voluntary sector is up 9% (Euros 1,591 in 2005), it is still lower than the average salary.

Domestic services in private homes are up 8.82% on 2004, whereas domestic services in the community have risen by 5.80%.



## Education

Data show positive trends in schooling, with the educated population increasing progressively from 1999-2000 to date. In the 2004-2005 school year the population receiving schooling has risen 2.12% with respect to the same period of the previous year. As shown in the table below, this increase has been higher than that of the previous year, as the variation from 2002-2003 to 2003-2004 was 0.75%.

<b>Population receiving schooling by educational levels</b>						
(Number of students)						
	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>
School	9,276	9,432	9,701	9,992	10,128	10,477
University	1,341	1,397	1,434	1,288	1,276	1,173
Non-university	227	253	256	276	239	240
<b>TOTAL</b>	<b>10,844</b>	<b>11,082</b>	<b>11,391</b>	<b>11,556</b>	<b>11,643</b>	<b>11,890</b>

*Source: Ministry of Education and Professional Training / Institute of Andorran Studies*

The following table shows the evolution of the three educational systems in Andorra, which all have more or less the same number of students. The Andorran system shows the highest growth rates. This system is fully consolidated at all levels, from primary to university education and is adapted to the educational needs of the country. For this reason, the Andorran educational system is highly acknowledged by Andorran students.

<b>Student population by kinds of education</b>						
(Number of students)						
	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>
<b>French educational system</b>	<b>3,586</b>	<b>3,534</b>	<b>3,546</b>	<b>3,538</b>	<b>3,575</b>	<b>3,650</b>
French schools	3,586	3,534	3,546	3,538	3,575	3,650
<b>Spanish educational system</b>	<b>3,510</b>	<b>3,546</b>	<b>3,611</b>	<b>3,684</b>	<b>3,587</b>	<b>3,499</b>
Spanish schools	1,580	1,494	1,467	1,469	1,349	1,269
Church schools	1,930	1,946	1,955	1,977	1,978	1,957
Private schools	-	106	189	238	260	273
<b>Andorran educational system</b>	<b>2,180</b>	<b>2,352</b>	<b>2,544</b>	<b>2,770</b>	<b>2,966</b>	<b>3,328</b>
Andorran schools	2,002	2,219	2,453	2,701	2,904	3,257
Professional schools	76	66	70	61	52	60
Specialised schools	102	67	21	-	-	-
Socio-educational adaptation programme	-	-	-	8	10	11
<b>TOTAL</b>	<b>9,276</b>	<b>9,432</b>	<b>9,701</b>	<b>9,992</b>	<b>10,128</b>	<b>10,477</b>

Note 1: Statistics as of the 2002-2003 school year do not include all students enrolled at the Ntra. Sra. de Meritxell specialised school, which does not form part of the educational system.

Note 2: Students from the Socio-educational adaptation programme are included in the Basic Secondary Level as of the 2002-2003 school year. This Programme has been designed to provide assistance to students with difficulty in adapting to the school environment.

*Source: Ministry of Education and Professional Training / Institute of Andorran Studies*

Concerning the university population, 54.90% of Andorrans study in Spain, 15.43% in France and 29.16% in Andorra (a growing figure in recent years).

<b>University population by country of study</b>						
(Number of students)						
	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>
Andorra	227	275	377	307	330	342
Spain	837	847	796	746	721	644
France	256	259	248	218	212	181
Others	21	16	13	17	13	6
<b>TOTAL</b>	<b>1,341</b>	<b>1,397</b>	<b>1,434</b>	<b>1,288</b>	<b>1,276</b>	<b>1,173</b>

*Source: Ministry of Education and Professional Training / Institute of Andorran Studies*

## II.2 MAIN ECONOMIC VARIABLES

### National income and income per capita

The evolution of the national income of the Andorran economy is an ideal and very useful indicator for measuring a country's economic growth, as it can be compared with that of other countries. Although Andorra does not have an official estimation of national income, certain private entities make yearly estimates of this macroeconomic indicator.

The table below shows growth statistics for national income per capita over the last few years.

<b>National income and income per capita</b>						
	<b>1990</b>	<b>2000</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
National income (millions of Euros)	651	1,380	1,583	1,716	1,841	1,903
Income per capita (Euros)	11,947	20,959	23,566	23,732	23,954	24,224
Variation in national income with respect to the previous year	2.30%	9.96%	7.39%	8.40%	7.28%	3.37%
Variation in income per capita (base 100 in 1990)	100	175	197	199	201	203

*Source: Crèdit Andorrà and OECD*

A comparative analysis of the Andorran gross domestic product with the main European countries and the USA and Japan is shown below. As can be observed, the GDP per capita in the Principality stands above the average in the Euro Zone, above that of Spain and very much below that of countries such as Luxembourg, Switzerland, USA and Japan.

<b>GDP per capita, 2004</b>	
(In Euros)	
<b>Country</b>	<b>Balance</b>
<b>Andorra</b>	<b>23,953</b>
Germany	26,297
Spain	19,419
France	26,271
Luxembourg	56,245
Switzerland	39,689
USA	29,318
Japan	28,322
<b>EU AVERAGE</b>	<b>20,183</b>

*Source: Crèdit Andorrà and IMF*

## Consumer price index

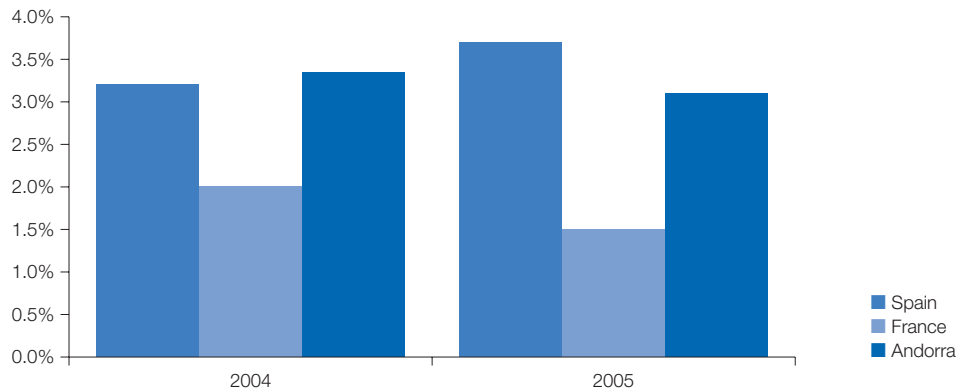
Andorra's Consumer Price Index (CPI) for 2005 is higher than the average in the Euro Zone, but is lower than Spain, the country with which Andorra has the strongest economic links.

Unified year-on year CPI 2005	
<b>Andorra</b>	<b>3.1%</b>
Germany	2.1%
Spain	4.1%
France	2.4%
Luxembourg	3.6%
Portugal	-
Switzerland	1.2%
USA	3.0%
Japan	0.1%
Italy	2.3%
Ireland	3.0%
United Kingdom	2.2%
<b>Euro Zone</b>	<b>2.2%</b>

*Source: Guitrans, Lukor INE, OECD and Study Service - Ministry of Finance*

Details of the growth of the consumer price index in Andorra, France and Spain for the last two years, are shown in the graph below:

**Evolution of inflation in Andorra, Spain and France**



*Source: Guitrans, Lukor INE, OECD and Study Service - Ministry of Finance*

The following table shows more detailed data for Andorra.

<b>Consumer price index</b>					
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Foodstuffs, beverages and tobacco	3.5%	5.3%	3.5%	1.8%	1.1%
Clothing and footwear	6.1%	1.1%	1.4%	1.1%	1.8%
Housing, water, gas, electricity	1.9%	3.1%	3.1%	7.2%	5.0%
Furniture, domestic appliances	4.2%	1.5%	3.0%	2.9%	1.2%
Health (non-subsidised expenditure)	3.0%	2.6%	3.6%	1.0%	2.7%
Transport	0.5%	3.3%	3.3%	5.9%	5.4%
Recreation and entertainment	2.5%	-0.4%	-0.4%	-1.0%	0.3%
Education	3.7%	6.2%	2.7%	3.2%	4.4%
Hotels, cafés and restaurants	4.3%	7.6%	4.1%	5.2%	4.8%
Sundry goods and services	0.3%	1.3%	1.7%	1.1%	1.6%
<b>GENERAL INDEX</b>	<b>2.8%</b>	<b>3.4%</b>	<b>2.9%</b>	<b>3.4%</b>	<b>2.8%</b>

*Source: Monthly Gazette of the Andorran Government*

The consumer price index went up by 2.8% during 2005, compared to 3.4% in 2004, mainly due to a 5.0% rise in housing, water, gas and electricity prices; a 5.4% increase in transport prices; and a 4.8% rise in hotel, café and restaurant prices.

<b>Special groups</b>					
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Foodstuffs	3.6%	5.6%	3.0%	1.6%	1.3%
Energy	-7.2%	5.5%	2.0%	15.9%	11.8%
Services (excluding housing rental)	3.7%	4.3%	3.0%	4.3%	4.4%
General index excluding tobacco	2.7%	3.3%	2.6%	3.5%	3.4%
<b>GENERAL INDEX</b>	<b>2.8%</b>	<b>3.4%</b>	<b>2.9%</b>	<b>3.4%</b>	<b>2.8%</b>

*Source: Monthly Gazette of the Andorran Government*



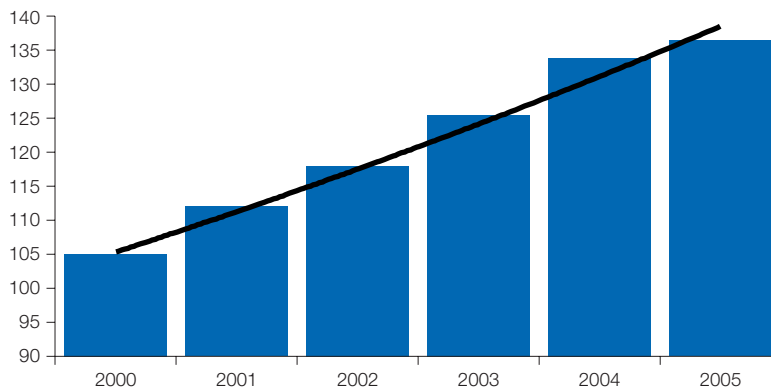
## Electricity consumption

Electricity consumption is a useful indicator for estimating the progress of a country's activity. The evolution of electricity consumption over the last six years is shown below.

<b>Electricity consumption</b>						
(MW/h)	2001	2002	2003	2004	2005	Var. (%) 04-05
Domestic use	70,009	76,670	78,945	83,610	84,203	0.71%
Distribution	61,695	65,699	71,772	76,282	74,953	-1.74%
Hotels and restaurants	51,791	55,560	63,657	68,778	68,430	-0.51%
Other services	47,616	52,980	54,600	57,617	61,889	7.41%
Financial services	17,530	18,641	19,556	21,536	22,560	4.75%
Ski resorts	18,608	16,409	14,944	16,983	16,102	-5.19%
Administrations	14,528	13,736	15,438	17,102	17,818	4.19%
Construction and auxiliary activities	9,129	7,652	7,749	7,785	7,149	-8.17%
Industries	6,541	6,343	5,332	5,386	5,110	-5.12%
Public lighting	4,749	5,077	5,151	5,710	5,873	2.85%
Other distributors	137,570	144,441	155,236	164,720	171,375	4.04%
<b>TOTAL</b>	<b>439,766</b>	<b>463,208</b>	<b>492,380</b>	<b>525,509</b>	<b>535,462</b>	<b>1.89%</b>

*Source: Monthly Gazette of the Andorran Government*

### Variation in energy consumption (base 100=1999)



*Source: Monthly Gazette of the Andorran Government*

From the graph above it can be observed that, as a whole, electricity consumption has risen by 1.89% since 2004.

It can also be seen that the most significant nucleus of total electricity consumption is concentrated mainly on domestic consumption, representing 15.72%, whereas in the services sector, including distribution, consumption represents 14% and in the hotel and catering business it represents 12.78%. This confirms once again that the tertiary sector is the main asset of the country's economy.

## Telecommunications

Over the last few years, there has been a rise in the number of telephone subscribers, especially mobile telephone users, which is in line with the growth this sector has experienced in neighbouring countries. In 2005, 28% of all subscribers in the telecommunications sector were mobile telephone users.

<b>Subscriptions to telecommunication service 2005</b>					
(Units)					
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>Land line telephones</b>	<b>42,393</b>	<b>43,561</b>	<b>45,065</b>	<b>45,348</b>	<b>45,653</b>
Telephone lines	34,505	34,922	35,171	35,040	35,178
XDSL channels	7,888	8,639	9,894	10,308	10,475
<b>Mobile telephones</b>	<b>29,429</b>	<b>32,790</b>	<b>51,893</b>	<b>58,366</b>	<b>61,212</b>
Mobiland contract	28,605	31,325	33,796	33,733	34,773
Mobiland Clic prepayment (1)	824	1,465	18,097	24,633	26,439
<b>Data lines</b>	<b>680</b>	<b>657</b>	<b>681</b>	<b>679</b>	<b>678</b>
Commuted lines	208	197	201	219	222
Specialised lines	472	460	480	460	456
Total capacity contracted in Kbps	-	-	199,277	257,266	291,413
<b>ADSL (2)</b>	<b>-</b>	<b>1,148</b>	<b>3,601</b>	<b>6,282</b>	<b>8,121</b>

(1): Mobiland Clic entered into service in June 2000. The Mobiland Clic data for 2001 and 2002 relating to the prepayment cards sold by Servei de Telecomunicacions d'Andorra as of January 2003

(2) The ADSL line entered into service in January 2002

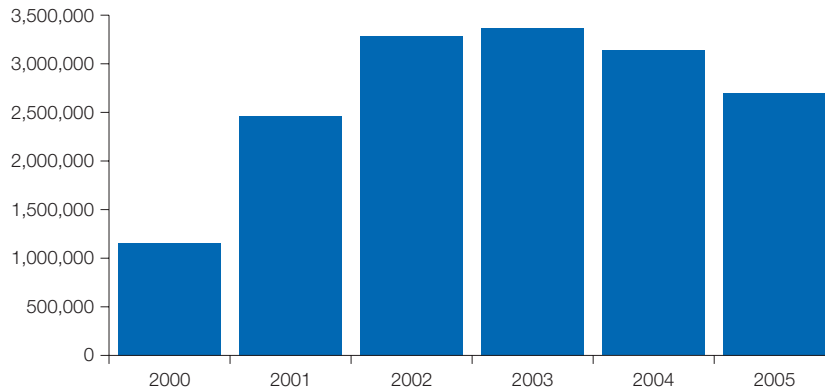
Source: Servei de Telecomunicacions d'Andorra

<b>Internet communications</b>						
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<b>Var. (%) 04-05</b>
Hours on-line	2,459,754	3,285,298	3,363,927	3,136,660	2,697,409	-14.00%

Source: Monthly Gazette of the Andorran Government

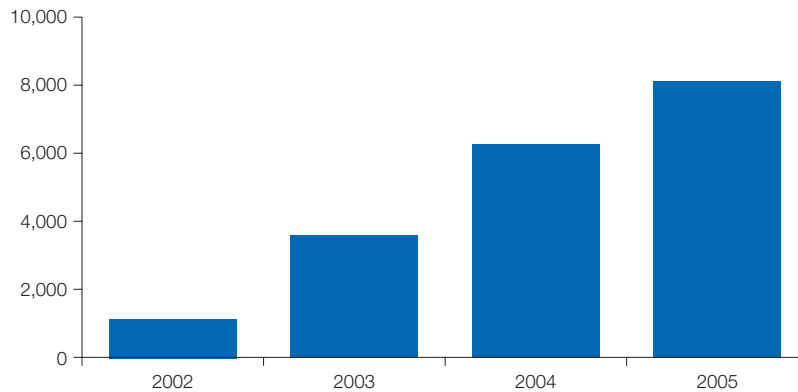
The importance of internet connection is also of special note, with the total number of hours on-line amounting to 2,697,409 hours in 2005. Nevertheless, this figure has fallen by 14% during the year due to the rise in the increasing number of ADSL subscribers, who are not included in the previous calculation of hours on-line. This explains the evolution of the following two graphs:

### Evolution of Internet connection hours



Source: Servei de Telecomunicacions d'Andorra

### Evolution of ADSL Internet communications



Source: Servei de Telecomunicacions d'Andorra

## Licensed vehicles

Another of the economic indicators to be taken into consideration is that of vehicle licensing, which is an indication of the general dynamism of the Andorran economy. Vehicle licensing in Andorra (which includes mopeds, special vehicles and snowmobiles) is down 3.55% since 2004, although it remains at a high figure of 6,855 in relation to the total population.

<b>Licensed vehicles</b>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<b>Var. (%) 04-05</b>
Total vehicles	5,236	5,975	6,441	7,107	6,855	-3.55%

*Source: Monthly Gazette of the Andorran Government*

Fuel relates to vehicles and energy. The sharp increase in the “Energy” caption (included in the general index) is mainly due to high fuel prices in recent years. The table below shows the evolution of the maximum prices of this product over the last five years.

<b>Fuel prices</b> (Euros)	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<b>Var. (%) 04-05</b>
Four-star petrol	0.74	0.81	0.81	0.92	0.95	3.26%
95 octane petrol	0.67	0.75	0.74	0.85	0.89	4.71%
98 octane petrol	0.71	0.79	0.79	0.89	0.93	4.49%
Diesel	0.54	0.60	0.60	0.73	0.79	8.22%
Domestic fuel	0.36	0.41	0.40	0.54	0.61	12.96%

*Source: Monthly Gazette of the Andorran Government*

## II.3. PUBLIC SECTOR

The Andorran public sector is comprised of the Central Government, seven local councils known as “*comuns*” (one for each of the seven parishes forming the Andorran territory) and parapublic entities.

### Central Government

The Government’s budget for 2006 is Euros 340,496 thousand, up 10.37% on that for 2005. This rise is mainly due to the increase in indirect tax revenues. The relative importance of the items included therein has not varied significantly.

<b>Central Government budget</b> (Euros)				
	<u>Budget 2005</u>	<u>% of total</u>	<u>Budget 2006</u>	<u>% of total</u>
<b>Total income</b>	<b>308,500,216</b>	<b>100.00%</b>	<b>340,496,272</b>	<b>100.00%</b>
Indirect taxes	218,808,959	70.92%	257,782,353	75.71%
Other income	42,322,986	13.72%	35,556,792	10.44%
Changes in net financial assets	113,233	0.04%	116,630	0.03%
Changes in net financial liabilities	47,255,038	15.32%	47,040,497	13.82%
<b>Total expenses and investments</b>	<b>308,500,216</b>	<b>100.00%</b>	<b>340,496,272</b>	<b>100.00%</b>
Investments	103,045,893	33.40%	111,135,898	32.64%
Transfers	92,758,154	30.07%	97,139,125	28.53%
Operating expenses	107,014,788	34.69%	123,795,377	36.36%
Financial expenses	5,119,000	1.66%	7,912,492	2.32%
Financial assets	550,000	0.18%	501,000	0.15%
Financial liabilities	12,381	-	12,380	-

*Source: Andorran Government*

The public debt of the Principality of Andorra is generated by the Government and the “*Comuns*”. At the end of 2004, the Government’s financial debt amounted to approximately Euros 225 million, representing 13% of the national income of the Principality. As in previous years, Andorra strictly complies with Maastricht criteria (stipulating that public debt cannot exceed 60% of gross domestic product), with public debt only exceeding 3% of gross domestic product.



The graph below shows the evolution of income and Central Government spending since 2000.

<b>Central Government</b>							
<b>Liquidation of Central Government income</b>							
(Thousands of Euros)							
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>% of total</u>	<u>Var. (%) 04-05</u>
Indirect taxes	157,979	173,616	180,641	195,998	213,345	83.41%	8.85%
Taxes and other income	15,865	17,461	19,018	19,943	18,732	7.32%	-6.07%
Transfers	-	17	70	45	39	0.02%	-13.33%
Equity income	45,349	33,490	26,415	26,221	23,672	9.25%	-9.72%
<b>Total non-financial income</b>	<b>219,193</b>	<b>224,584</b>	<b>226,144</b>	<b>242,207</b>	<b>255,788</b>	<b>100.00%</b>	<b>5.61%</b>
Financial assets	182	165	124	108	87		-19.44%
Financial liabilities	131,063	27,233	25,228	38,176	260,169		-
<b>TOTAL INCOME</b>	<b>350,438</b>	<b>251,982</b>	<b>251,496</b>	<b>280,491</b>	<b>516,044</b>		<b>83.98%</b>
<b>Liquidation of Central Government expenses</b>							
(Thousands of Euros)							
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>% of total</u>	<u>Var. (%) 04-05</u>
<b>Current expenses</b>	<b>124,070</b>	<b>128,861</b>	<b>138,914</b>	<b>153,590</b>	<b>175,551</b>	<b>59.20%</b>	<b>14.30%</b>
Personnel expenses	49,902	55,460	61,229	66,260	72,238	24.36%	9.02%
Current assets and services	33,211	29,345	31,992	37,063	40,277	13.58%	8.67%
Interest	5,611	5,196	4,729	4,570	5,213	1.76%	14.07%
Transfers	35,346	38,860	40,964	45,697	57,823	19.50%	26.54%
<b>Capital expenditure</b>	<b>103,620</b>	<b>115,752</b>	<b>106,230</b>	<b>121,918</b>	<b>120,993</b>	<b>40.80%</b>	<b>-0.76%</b>
Real investments	66,193	75,322	65,899	71,562	78,875	26.60%	10.22%
Capital transfers	37,427	40,430	40,331	50,356	42,118	14.20%	-16.36%
<b>Total non-financial expenses</b>	<b>227,690</b>	<b>244,613</b>	<b>245,144</b>	<b>275,508</b>	<b>296,544</b>	<b>100.00%</b>	<b>7.64%</b>
Financial operations	131,043	126	629	87	188,315		-
<b>TOTAL EXPENSES</b>	<b>358,733</b>	<b>244,739</b>	<b>245,773</b>	<b>275,595</b>	<b>484,859</b>		<b>75.93%</b>

Source: Study Service - Ministry of Finance

## Parapublic entities

Parapublic entities were incorporated between 1968 and 2000 in response to the need to create and strengthen public health and social services to the community (*Centre Hospitalari Andorrà, Servei Andorrà d'Atenció Sanitària* (Andorran health authorities), retirement homes, *Caixa Andorrana de Seguretat Social* (Andorran social security system), and in more technical sectors (*Servei de Telecomunicacions d'Andorra, Forces Elèctriques d'Andorra*; Andorran National Institute of Finance (*Institut Nacional Andorrà de Finances*), *Centre Nacional d'Informàtica d'Andorra; Ràdio i Televisió d'Andorra*).

These entities have been accompanied by the dynamic success of private companies, which have been generating strong economic growth in Andorra, reaching the privileged levels we have today.

A comparison of the budgets of these entities for 2005 and 2006 is as follows:

<b>Spending budgets for Andorran parapublic entities for 2005 and 2006</b>			
(Thousands of Euros)			
	<b>2005</b>	<b>2006</b>	<b>Var. (%) 05-06</b>
Forces Elèctriques d'Andorra (FEDA)	50,929	48,386	-4.99%
Servei de Telecomunicacions d'Andorra (STA)	86,959	83,753	-3.69%
Servei Andorrà d'Atenció Sanitària (SAAS)	32,142	36,616	13.92%
Caixa Andorrana de Seguretat Social (CASS)	131,480	205,840	56.56%
Andorran National Institute of Finance ("Institut Nacional Andorrà de Finances - INAF")	2,196	2,482	13.02%
Residència Solà d'Enclar	1,173	1,273	8.52%
Institute of Andorran Studies ("Institut d'Estudis Andorrans - IEA")	856	873	1.98%
University of Andorra ("Universitat d'Andorra - UdA")	2,261	2,686	18.80%
Escola de Formació de Professions Esportives i de Muntanya (EFPEM)	370	465	25.67%
<b>TOTAL</b>	<b>308,365</b>	<b>382,375</b>	<b>24.00%</b>

*Source: Andorran Government*

## Local Government

The Andorran “Comuns” obtain a large part of their annual revenues from transfers received from the Andorran Government, and the remaining amount from funds they collect and other income. Details of the main captions of the 2006 income and expense budgets for the “Comuns” are as follows:

<b>Local government budget for 2006</b>							
(In Euros)							
	<u>Canillo</u>	<u>Encamp</u>	<u>Ordino</u>	<u>La Massana</u>	<u>Andorra la Vella</u>	<u>Sant Julià de Lòria</u>	<u>Escaldes-Engordany</u>
<b>Total income</b>	<b>14,157,092</b>	<b>36,337,035</b>	<b>23,852,576</b>	<b>20,961,192</b>	<b>42,808,004</b>	<b>16,986,775</b>	<b>33,935,601</b>
Transfers	5,041,000	7,666,504	7,547,588	5,415,379	8,304,103	6,123,721	7,580,500
Own collection of funds and others	9,116,092	28,670,399	10,584,034	10,545,813	27,264,700	8,895,655	14,359,664
Financial liabilities	-	48	5,720,954	5,000,000	7,239,201	1,967,399	11,995,437
Financial assets	-	84	-	-	-	-	-
<b>Total expenses and investments</b>	<b>14,157,092</b>	<b>36,337,035</b>	<b>23,852,576</b>	<b>20,961,192</b>	<b>42,808,004</b>	<b>16,986,775</b>	<b>33,935,601</b>
Investments	7,090,500	10,020,890	13,905,620	10,611,250	16,175,245	5,569,700	16,703,818
Operating expenses	4,580,792	18,427,681	7,122,487	7,719,170	24,735,117	9,652,270	13,980,768
Transfers	588,800	1,632,383	563,669	695,580	710,050	399,805	564,427
Financial expenses	519,947	908,511	405,800	317,003	532,592	165,000	993,588
Financial assets	-	48	-	1,200,000	-	1,000,000	-
Financial liabilities	1,377,053	5,347,522	1,855,000	418,189	655,000	200,000	1,693,000
<b>Budget result</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Source: Andorran Government

Since the enactment of the Capital Transfer Tax in July 2001, the “Comuns” have significantly increased their revenues due to the rise in the volume of real estate transactions. The table below shows the evolution of the Capital Transfer Tax collected for 2003, 2004 and 2005.

<b>Collection of Capital Transfer Tax</b>			
(Thousands of Euros)			
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Capital transfers	12.7	14.9	16.0

Source: Ministry of Finance

## II.4. ECONOMIC SECTORS

### Introduction

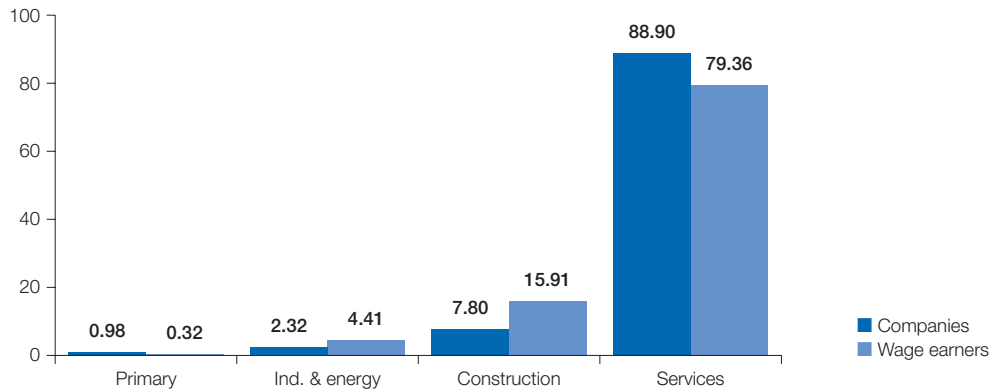
Until the beginning of the 20th century the Andorran economy was that of subsistence, based on agriculture, livestock farming and commerce. After the Second World War the Andorran economy started to boom, mainly induced by the same rate of growth in neighbouring States.

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

From information available on the Principality we have been unable to examine each sector's contribution to the gross domestic product (GDP) and, for this reason, the production structure had to be analysed by extracting employment data. These data have been analysed in the section describing the composition of the working population by sector.

The Principality of Andorra has 8,377 companies and employs a total of 42,416 people. Small companies predominate within the Andorran business structure. The following graph clearly shows that the services sector has significant importance within the business structure of Andorra, which is also higher than that of all the developed European economies. Construction is ranked second (7.80%), whilst industry and primary activities have a lower importance.

**Distribution of companies and wage earners by sector 2005 (in %)**



Source: Caixa Andorrana de Seguretat Social and Monthly Gazette of the Andorran Government

## Primary sector

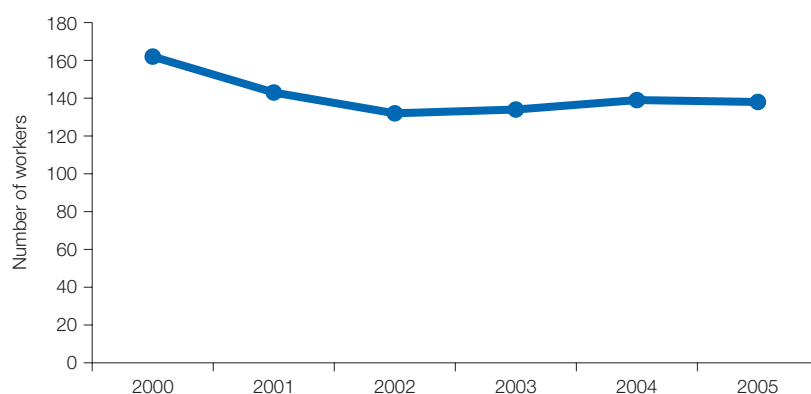
Until the end of the 1950s the primary sector played a significant part in the Andorran economy. It was dominated by small and highly fragmented, family-run farms involved in crop and/or livestock farming. This situation has gradually changed as tourism has gained importance and progressed. Since the fifties and sixties, most farm land has been used to construct hotels and holiday homes. Since then, the primary sector has been in constant decline and only generates slightly more than 0.30% of total employment and comprises actually almost 1% of total companies.

The table below shows the growth in average employment and the average number of primary sector companies since 2001.

<b>Number of companies and workers in the primary sector</b>					
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Average number of companies	84	83	83	80	82
Average number of workers	143	132	134	139	138

*Source: Caixa Andorrana de Seguretat Social and Monthly Gazette of the Andorran Government*

### Evolution of the average number of workers per company in the primary sector



*Source: Caixa Andorrana de Seguretat Social and Monthly Gazette of the Andorran Government*

Although this sector is continuing to lose importance, 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 not just as a productive sector.

In this regard the Andorran Association of Farmers and Stockbreeders (*“Associació de Pagesos i Ramaders”*) and the Ministry of Agriculture and Environment (*“Ministeri d’Agricultura i Medi Ambient”*) promote livestock farming through the granting of subsidies and the firm backing of a pilot project for the production of Andorran beef.

## Secondary sector

### Industry

The industrial sector represented only 2.32% of companies and 4.41% of the wage earning population in 2005.

In 2005 the number of manufacturing companies has increased.

<b>Number of companies</b>	<b>2004</b>	<b>2005</b>	<b>% of total</b>	<b>Var. (%) 04-05</b>
Manufacturing industries	172	187	96.39%	8.72%
Production and distribution of electricity power, gas and water	8	7	3.61%	-12.50%
<b>TOTAL</b>	<b>180</b>	<b>194</b>	<b>100.00%</b>	<b>7.78%</b>

*Source: Caixa Andorrana de Seguretat Social*

<b>Number of wage earners (Average)</b>	<b>2004</b>	<b>2005</b>	<b>% of total</b>	<b>Var. (%) 04-05</b>
Manufacturing industries	1,629	1,710	91.44%	4.97%
Production and distribution of electricity power, gas and water	156	160	8.56%	2.56%
<b>TOTAL</b>	<b>1,785</b>	<b>1,870</b>	<b>100.00%</b>	<b>4.76%</b>

*Source: Caixa Andorrana de Seguretat Social and Monthly Gazette of the Andorran Government*

It can be observed that import and export figures within the industrial sector have risen since 2004. It should be highlighted that total exports, especially relating to sugars and sugared products, are up 16.33%.

<b>Total imports and exports (Millions of Euros)</b>	<b>2005</b>	<b>% of total</b>	<b>Var. (%) 04-05</b>
<b>Total imports</b>	<b>1,441</b>	<b>100.00%</b>	<b>2.13%</b>
<b>Main captions</b>			
Beverages, alcohol and vinegars	60	4.16%	-1.82%
Perfumes and cosmetics	98	6.80%	1.03%
Clothes and accessories	76	5.27%	2.70%
Boilers, machines, mechanical appliances and machines	86	5.97%	-
Electrical appliances	186	12.91%	-11.00%
Motor vehicles, tractors, bicycles	163	11.31%	4.49%
<b>Total exports</b>	<b>114</b>	<b>100.00%</b>	<b>16.33%</b>
<b>Main captions</b>			
Sugars and sugared products	23	20.18%	187.50%
Perfumes and cosmetics	3	2.63%	-40.00%
Boilers, machines, mechanical appliances and machines	6	5.26%	50.00%
Electrical appliances	21	18.42%	-16.00%
Motor vehicles, tractors, bicycles	19	16.67%	-13.64%
Optical, photography, cinema, measuring equipment, etc.	7	6.14%	16.67%

*Source: Monthly Gazette of the Andorran Government*

Small companies predominate in the sector's business structure. Approximately 53% of companies have 5 or less employees and only 9% have a headcount of more than 25.

## Construction

Construction, which has traditionally made up the largest part of the secondary sector, is experiencing rapid growth and becoming the most dynamic sector in the Andorran economy. This is evidenced by indicators showing that the number of construction companies has increased by 6.35% from 614 in 2004 to 653 at present, whilst the number of workers has gone up by 7.40% from 6,282 to 6,747 over the same period. In 2005 the construction sector employs 15.91% of the total working population and comprises 7.80% of the country's companies.

### Number of companies and wage earners 2005

	2004	2005	Var. (%) 04-05
Number of companies	614	653	6.35%
Number of wage earners	6,282	6,747	7.40%

Source: Caixa Andorrana de Seguretat Social and Monthly Gazette of the Andorran Government

The importance of construction has been directly linked to the increase in the square metres of land authorised for building development. The table below shows the square metres of land authorised for development in the 7 parishes. It can be observed that in all cases the number of building permits for 2005 has dropped.

### Square metres of land authorised for development

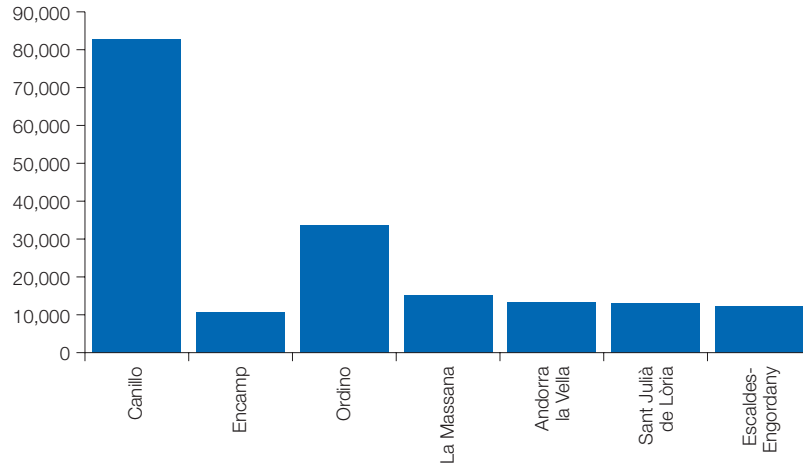
	2001	2002	2003	2004	2005	Var. (%) 04-05
Canillo	53,901	84,534	60,057	198,857	82,888	-58.32%
Encamp	32,092	15,283	37,592	56,856	10,616	-81.33%
Ordino	13,258	27,594	14,486	51,406	33,787	-34.27%
La Massana	56,738	25,751	75,707	96,240	15,275	-84.13%
Andorra la Vella	127,914	53,369	146,334	55,789	13,304	-76.15%
Sant Julià de Lòria	42,776	10,640	29,453	49,555	13,044	-73.68%
Escaldes-Engordany	48,892	92,747	92,551	97,048	12,235	-87.39%
<b>TOTAL</b>	<b>375,571</b>	<b>309,918</b>	<b>456,180</b>	<b>605,751</b>	<b>181,149</b>	<b>-70.10%</b>

Source: Monthly Gazette of the Andorran Government



The following graph shows the construction boom in Canillo (82,888 m<sup>2</sup>), a large difference with the other parishes.

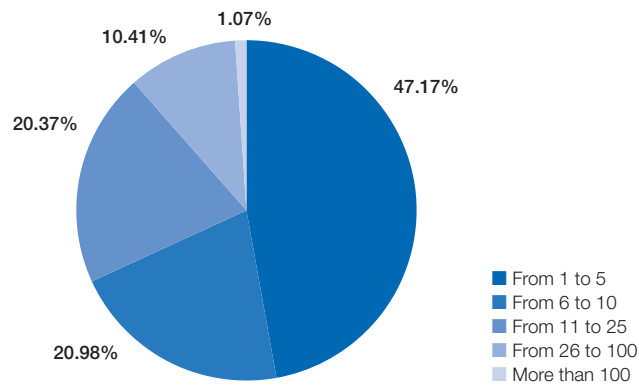
### Evolution of square metres of land authorised for development



Source: Monthly Gazette of the Andorran Government

The sector is mainly comprised of small companies, with the exception of large construction groups. Almost half of the companies have 5 or less employees, whilst only 10.41% have a headcount of more than 25.

### Distribution of construction companies by number of wage earners 2005



Source: Caixa Andorrana de Seguretat Social

The following table shows that the number of square metres of land authorised for development has fallen for each kind of construction.

<b>Surface area authorised for development</b>		
(Square metres)		
	<u>2005</u>	<u>Var. (%)</u> <u>04-05</u>
Apartments	137,094	-73.36%
Chalets	6,987	-82.98%
Other buildings (*)	37,068	-25.88%
<b>Total</b>	<b>181,149</b>	<b>-70.10%</b>

(\*) Other buildings comprises offices, shops and hotels

*Source: Ministry of Town Planning and Territorial Ordinance*

Apartments continue to be the most commonly constructed kind of building and occupy 75.68% of total square metres of land developed.

## Tertiary sector: Services

### Introduction

The lack of raw materials and energy sources 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 the leading sector in the Andorran economy, employing an average of 33,661 wage earners, representing approximately 80% of the total figure.

As illustrated below, during the period 2004-2005 the number of companies and wage earners in the sector has generally risen.

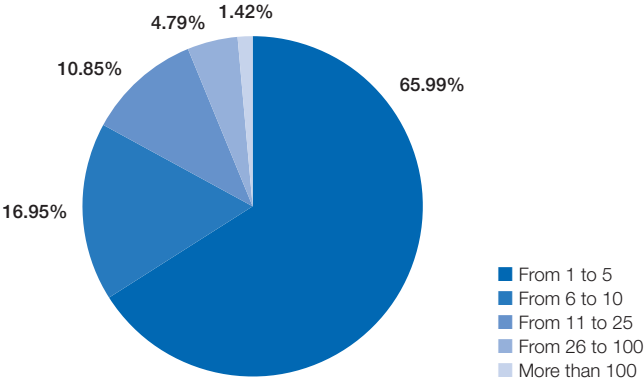
<b>Number of companies and wage earners in the tertiary sector</b>				
	<b>2004</b>	<b>2005</b>	<b>% of total</b>	<b>Var. (%) 04-05</b>
<b>Number of companies</b>	<b>7,116</b>	<b>7,448</b>	<b>100.00%</b>	<b>4.66%</b>
Trading and repair of motor vehicles	1,478	1,435	19.27%	-2.91%
Hotel trade	714	698	9.37%	-2.24%
Transport, warehousing and communications	178	190	2.55%	6.74%
Financial system	63	70	0.94%	11.11%
Real estate and rental activities; corporate services	675	720	9.67%	6.67%
Public administration, obligatory social defence and security	25	29	0.39%	16.00%
Education	33	38	0.51%	15.15%
Health and veterinary activities, social services	138	150	2.01%	8.69%
Other social activities and community services, personal services	306	340	4.56%	11.11%
Homes employing domestic service	2,767	3,076	41.30%	11.17%
Extraterritorial bodies	4	5	0.07%	25.00%
Domestic services to the community (neighbours' associations)	477	491	6.59%	2.94%
Volunteers without activity	258	206	2.77%	-20.16%
<b>Number of wage earners</b>	<b>32,881</b>	<b>33,661</b>	<b>100.00%</b>	<b>2.37%</b>
Trading and repair of motor vehicles	11,261	11,404	33.88%	1.27%
Hotel trade	5,606	5,648	16.78%	0.75%
Transport, warehousing and communications	1,277	1,271	3.77%	-0.47%
Financial system	1,446	1,510	4.48%	4.43%
Real estate and rental activities; corporate services	3,613	3,757	11.16%	3.98%
Public administration, obligatory social defence and security	3,831	4,030	11.97%	5.19%
Education	592	610	1.81%	3.04%
Health and veterinary activities, social services	1,232	1,302	3.87%	5.68%
Other social activities and community services, personal services	2,295	2,352	6.99%	2.48%
Homes employing domestic service	1,206	1,245	3.70%	3.23%
Extraterritorial bodies	8	9	0.03%	12.50%
Domestic services to the community (neighbours' associations)	250	254	0.75%	1.60%
Volunteers without activity	264	269	0.81%	1.89%

*Source: Caixa Andorrana de Seguretat Social*

The tables above show 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 financial sector.

The business structure of the sector mainly comprises small companies. Therefore, 65.99% of the companies have 5 or less employees, whilst 4.79% have a headcount exceeding 25, and only 1.42% have more than 100 employees.

**Distribution of service companies by number of wage earners 2005**



Source: Caixa Andorrana de Seguretat Social

## Tourism

Commerce, one of the key activities of the Principality's economy, complements and is directly related to tourism. Commercial activities comprise 30% of wage earners in the sector, which is mainly formed of small businesses.

Tourism is one of the main driving forces behind the Andorran economy. Each year approximately 11 million visitors come to the Principality.

The Principality is one of the most important leisure centres in the Pyrenees with over 30,000 hotel beds, 5 ski resorts and a wide variety and number of businesses.

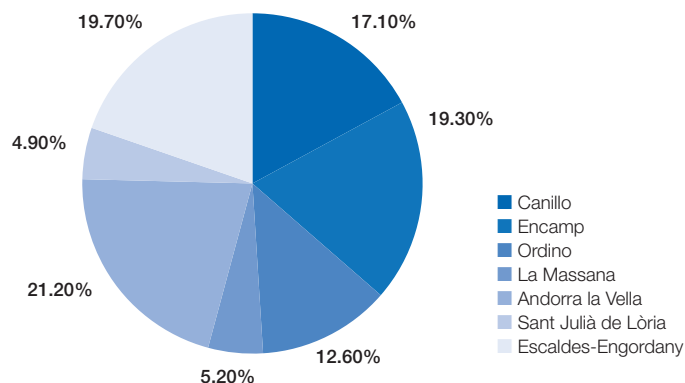
Hotel accommodation represents 68.05% of tourism-related activities for 2005, above hostels or residences, pensions, boarding houses, Aparthotels and holiday apartments. Andorra has 200 hotels with a capacity for 26,154 beds, 21.20% of which are located in Andorra la Vella, 17.10% in Canillo, 19.30% in Encamp, 19.70% in Escaldes-Engordany, 12.60% in Ordino. The remaining hotels are in la Massana and Sant Julià de Lòria.

### Accommodation for 2005

	Establishments		Beds		Var. (%) 04-05
	2005	2005	% of total		
Hotels	200	26,154	68.05%		-1.7
Hostels or residences	17	764	1.99%		-0.8
Boarding houses	14	524	1.36%		0.0
Aparthotels	23	3,443	8.96%		11.6
Holiday apartments	41	7,551	19.64%		10.2
<b>Total</b>	<b>295</b>	<b>38,436</b>	<b>100.00%</b>		<b>1.6</b>

Source: Monthly Gazette of the Andorran Government

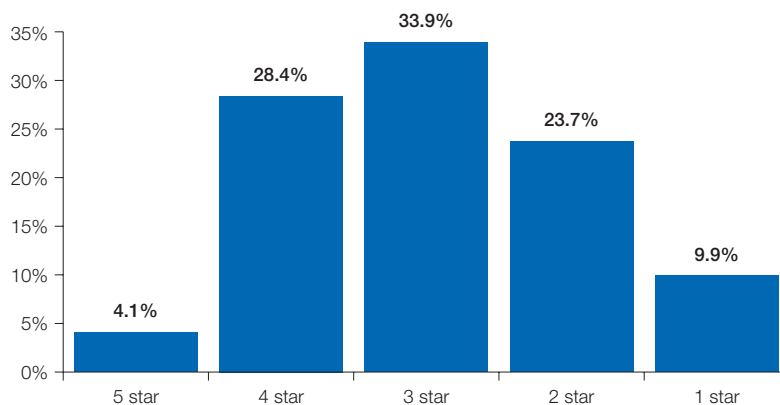
### Distribution of hotel rooms per parish 2005



Source: Ministry of Tourism and Environment. Department of Tourism

It can be observed that there are many two, three and four star category hotels in Andorra, representing 86% of total establishments.

### Distribution of hotel beds by category 2005



Source: Ministry of Tourism and Environment. Department of Tourism

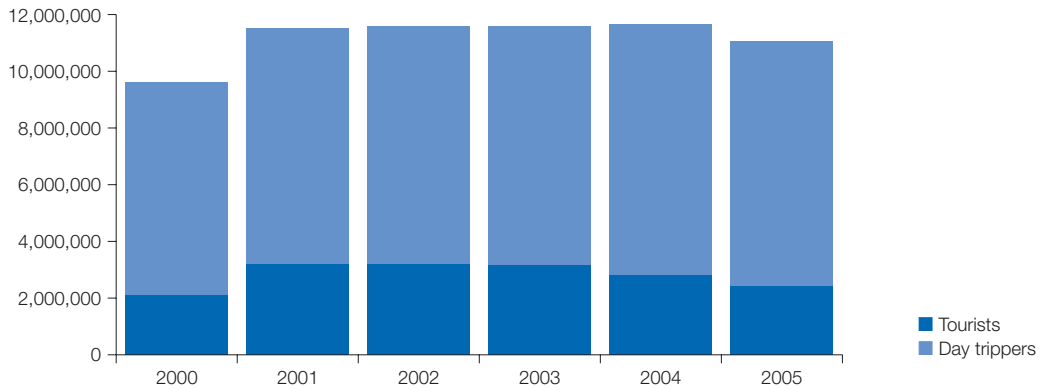
This sector has experienced a drop in the number of visitors compared to 2004, although the figure remains high. It should be noted that the majority of visitors are Spanish or French.

Number of visitors	2004	2005	% of total	Var. (%) 04-05
	<b>Total</b>	<b>11,668,460</b>	<b>11,049,490</b>	<b>100.00%</b>
Tourists (1)	2,791,116	2,418,409	21.89%	-13.35%
Day-trippers (2)	8,877,344	8,631,081	78.11%	-2.77%
<b>Entry border</b>				
Sant Julià de Lòria	7,087,423	6,831,168	61.82%	-3.62%
Pas de la Casa	4,581,037	4,218,322	38.18%	-7.92%
<b>Nationalities</b>				
Spanish	6,558,158	6,321,568	57.21%	-3.61%
French	4,760,823	4,397,195	39.80%	-7.64%
Other nationalities	349,479	330,727	2.99%	-5.37%

(1): Any visitor spending more than one day in the country (2): Any visitor spending only one day in the country

Source: Monthly Gazette of the Andorran Government

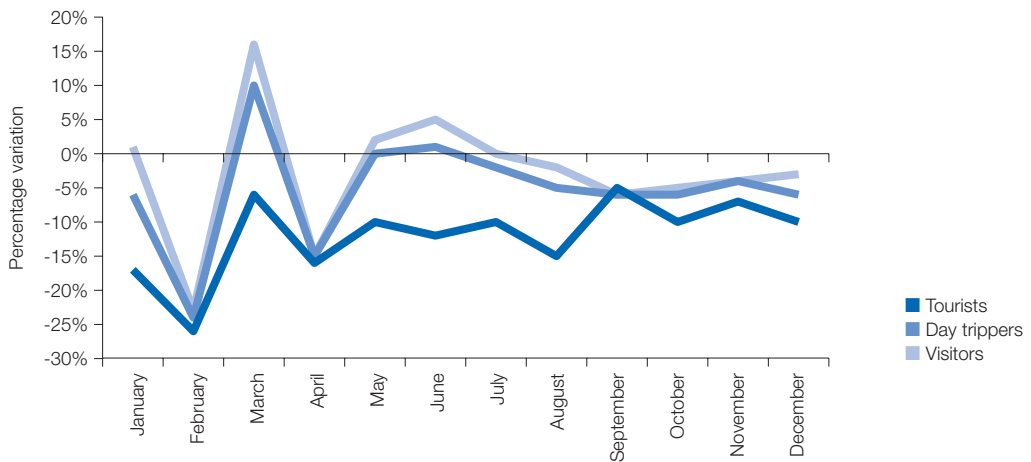
### Evolution of the number of visitors 2000-2005



Source: Ministry of Tourism and Environment. Department of Tourism

The following graph shows the variation in the number of tourists and day trippers in the period 2004-2005.

### Variation in monthly visitors to Andorra 2004-2005

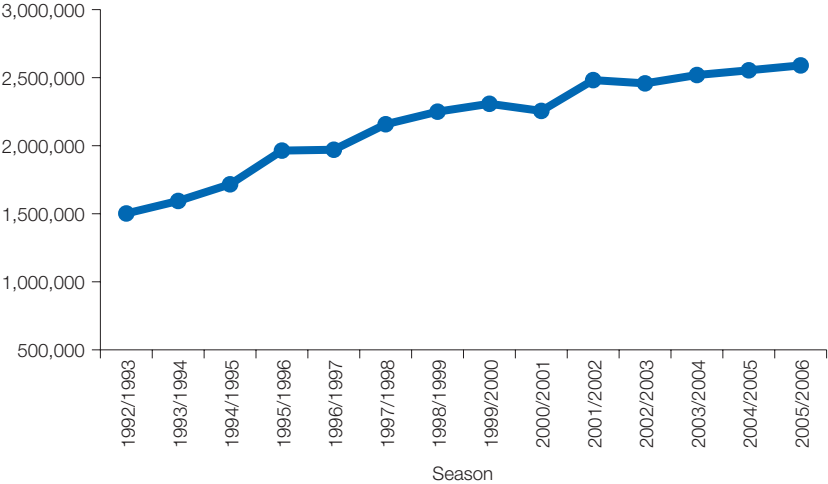


Source: Monthly Gazette of the Andorran Government



In order to evaluate the tourism sector, the total number of days of ski in the country's ski resorts should also be taken into consideration. This concept makes reference to the number of days in which it has been possible to ski in each resort during the whole of the ski season. In this regard, there has been a positive 1% increase in days of ski compared to the previous season, showing a clearly upward trend over the last 10 years, with an accumulated rise of 28%, as plotted in the graph below.

**Total days of ski**



Source: Ski Andorra

The Principality of Andorra has the largest skiable area in the Pyrenees and one of the most extensive in Europe, comprising five modernly equipped ski resorts totalling over 2,500 hectares.

In the 2003/2004 ski season, the Pas de la Casa-Grau Roig and Soldeu el Tarter resorts signed a commercial agreement joining them under the name of 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 customers to use both resorts with a single ski pass.

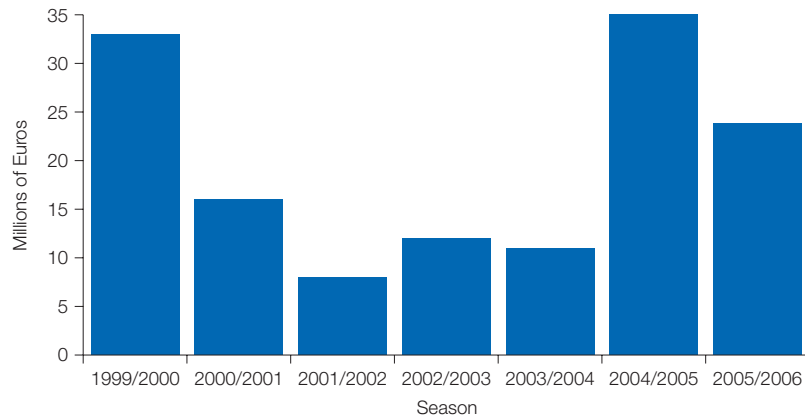
The table below shows details of the skiing facilities available in the Principality, together with a summary of their main features:

<b>Ski resort facilities 2005</b>					
<b>Resort</b>	<b>Km of slopes</b>	<b>Ski runs</b>	<b>Snow machines</b>	<b>Ski lifts</b>	<b>Skier Capacity / per hour</b>
Pal-Arinsal	63	41	371	28	34,100
Ordino-Arcalís	26	25	74	14	16,510
La Rabassa (*)	17	5	-	-	-
Pas de la Casa-Grau Roig	100	55	427	28	46,175
Soldeu-El Tarter	90	52	427	32	38,750
<b>TOTAL</b>	<b>296</b>	<b>178</b>	<b>1,299</b>	<b>102</b>	<b>135,535</b>

(\*) Cross country skiing  
 Source: Ski Andorra

The Andorran ski resorts have made large investments, especially in the 2004-2005 season. Nowadays, the Principality has unbeatable skiing facilities. Details of investments made in recent years are as follows:

### Ski resort investments



Source: Ski Andorra

## Commerce

As mentioned above, the importance of tourism to the Andorran economy means that those sectors of activity that are directly related to tourism, such as all trading-related activities, have the most impact on the Principality's economy.

The significant reliance of Andorra's commercial sector on exports gives it a number of distinctive features compared to other countries. 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.

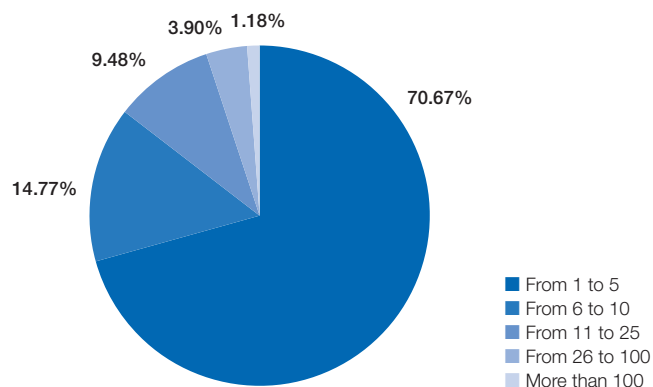
Commerce is one of Andorra's tourist attractions and represents a significant part of the Andorran economy. This sector employs 19% of companies and 35% of wage earners in the Andorran services sector. Although the number of companies has dropped slightly in 2005, the number of wage earners has risen.

Number of companies and wage earners		
	2004	2005
<b>Number of companies</b>	<b>1,478</b>	<b>1,435</b>
<b>Number of wage earners</b>	<b>11,260</b>	<b>11,441</b>
Sale, trading and repair of motor vehicles (...)	1,358	1,384
Wholesale trade and intermediaries, except for motor vehicles and motorcycles	2,301	2,359
Retail trade, except for motor vehicle trading (...)	7,601	7,698

*Source: Caixa Andorrana de Seguretat Social*

Most of the working population is employed in small companies. Approximately 71% of businesses have a headcount of 5 or less.

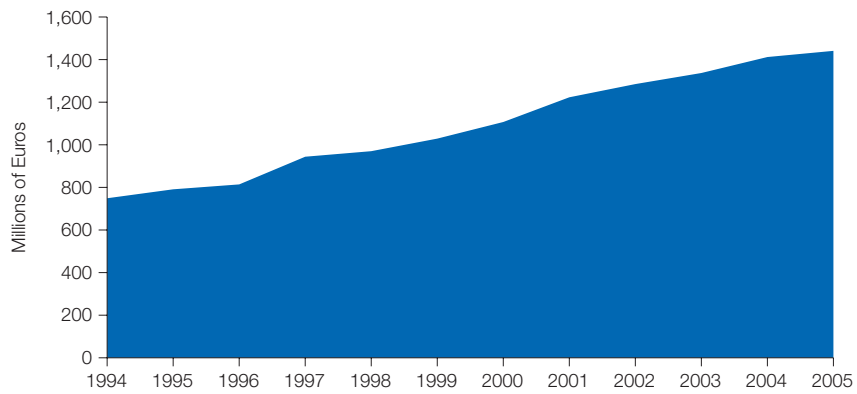
**Distribution of commerces by number of wage earners 2005**



*Source: Caixa Andorrana de Seguretat Social*

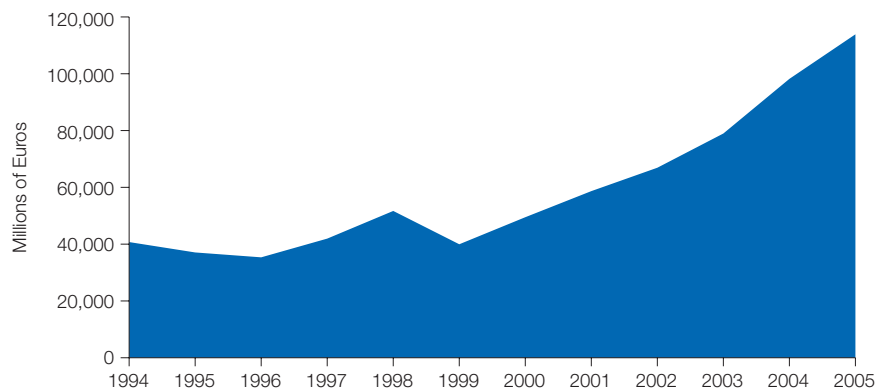
The evolution of exports and imports over the last few years is a reliable indicator of the situation of commerce in Andorra.

### Growth in imports 1994-2005



Source: Monthly Gazette of the Andorran Government

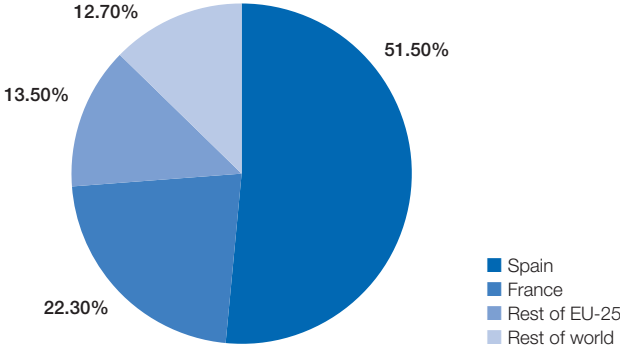
### Growth in exports 1994-2005



Source: Monthly Gazette of the Andorran Government

The pie chart below shows the geographical distribution of imports per country of origin. More than half of imports are from Spain and 22.30% from France.

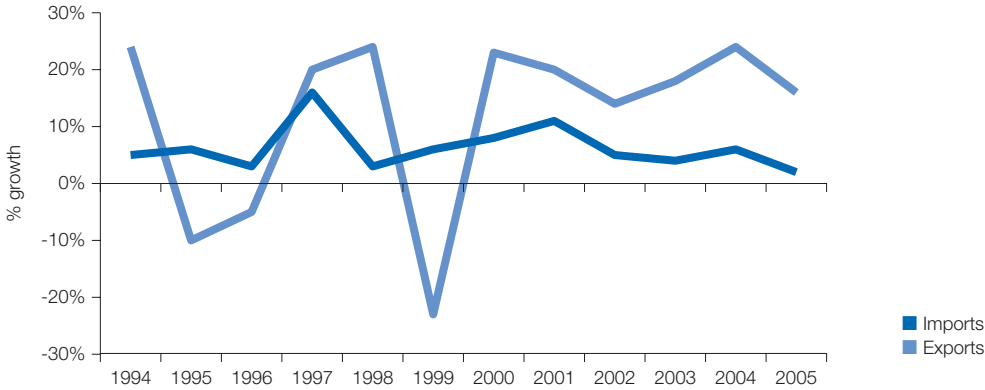
**Geographical distribution of imports 2005**



Source: Andorran Customs Authorities

Likewise, variations in imports and exports over the last 10 years are as follows:

**Commercial flows with foreign countries (Growth rate)**



Source: Monthly Gazette of the Andorran Government

The table below shows imports and exports per product in 2005 and also illustrates that the most relevant imported and exported products are electrical appliances and vehicles.

<b>Imports and exports per product in 2005</b>				
(Thousands of Euros)				
	<u>Imports</u>	<u>% of total</u>	<u>Exports</u>	<u>% of total</u>
Electrical appliances	186	12.93%	21	18.70%
Vehicles, cars, tractors, bicycles	163	11.33%	19	16.25%
Clothes and accessories	76	5.25%	2	1.27%
Perfumes and cosmetics	98	6.81%	4	3.02%
Boilers, machines, mechanical appliances and machines	86	5.97%	6	5.17%
Beverages, alcohol and vinegars	60	4.16%	-	0.12%
Fuels and mineral oils, bituminous material	66	4.58%	-	-
Optical, photography, cinematographic, measuring equipment, etc.	27	1.86%	7	6.31%
Tobacco	37	2.59%	-	0.25%
Furniture and lighting	40	2.77%	2	1.50%
Toys, sports equipment	35	2.46%	-	0.12%
Footwear	31	2.12%	-	0.27%
Milk and lactic products, eggs, honey	28	1.93%	-	-
Pearls, stones, precious metals, dress jewellery, coins	18	1.24%	1	1.08%
Others	490	34.00%	52	45.94%
<b>TOTAL</b>	<b>1,441</b>	<b>100.00%</b>	<b>114</b>	<b>100.00%</b>

*Source: Monthly Gazette of the Andorran Government*

## Financial sector

The Andorran financial system is one of the mainstays of activity in the Andorran economy, with its nucleus being the banking system. Insurance companies and other consumer credit or equity management companies also operate in the Principality.

<b>Number of companies</b> (Financial and insurance bodies of the financial system)		
	<u>2004</u>	<u>2005</u>
Number of companies	63	70
Number of banking entities	6	5
Number of branches	53	56

*Source: Caixa Andorrana de Seguretat Social, Study Service - Ministry of Finance and Association of Andorran Banks*

<b>Number of wage earners</b>				
	<u>2004</u>	<u>2005</u>	<u>% of total</u>	<u>Var. (%) 04-05</u>
<b>Number of wage earners</b>	<b>1,445</b>	<b>1,510</b>	<b>100.00%</b>	<b>4.50%</b>
Financial activities, except for insurance activities	1,210	1,256	83.18%	3.80%
Insurance activity, except for obligatory Social Security	234	253	16.75%	8.12%
Auxiliary financial activities	1	1	0.07%	-

*Source: Caixa Andorrana de Seguretat Social, Study Service - Ministry of Finance and Association of Andorran Banks*

The Andorran banking system is characterised by its high capital adequacy ratio compared to other financial markets, due to a strong policy of capitalisation right from the onset. These features are dealt with in section “III. Financial environment”.



## II.5. TAX SYSTEM

### Introduction

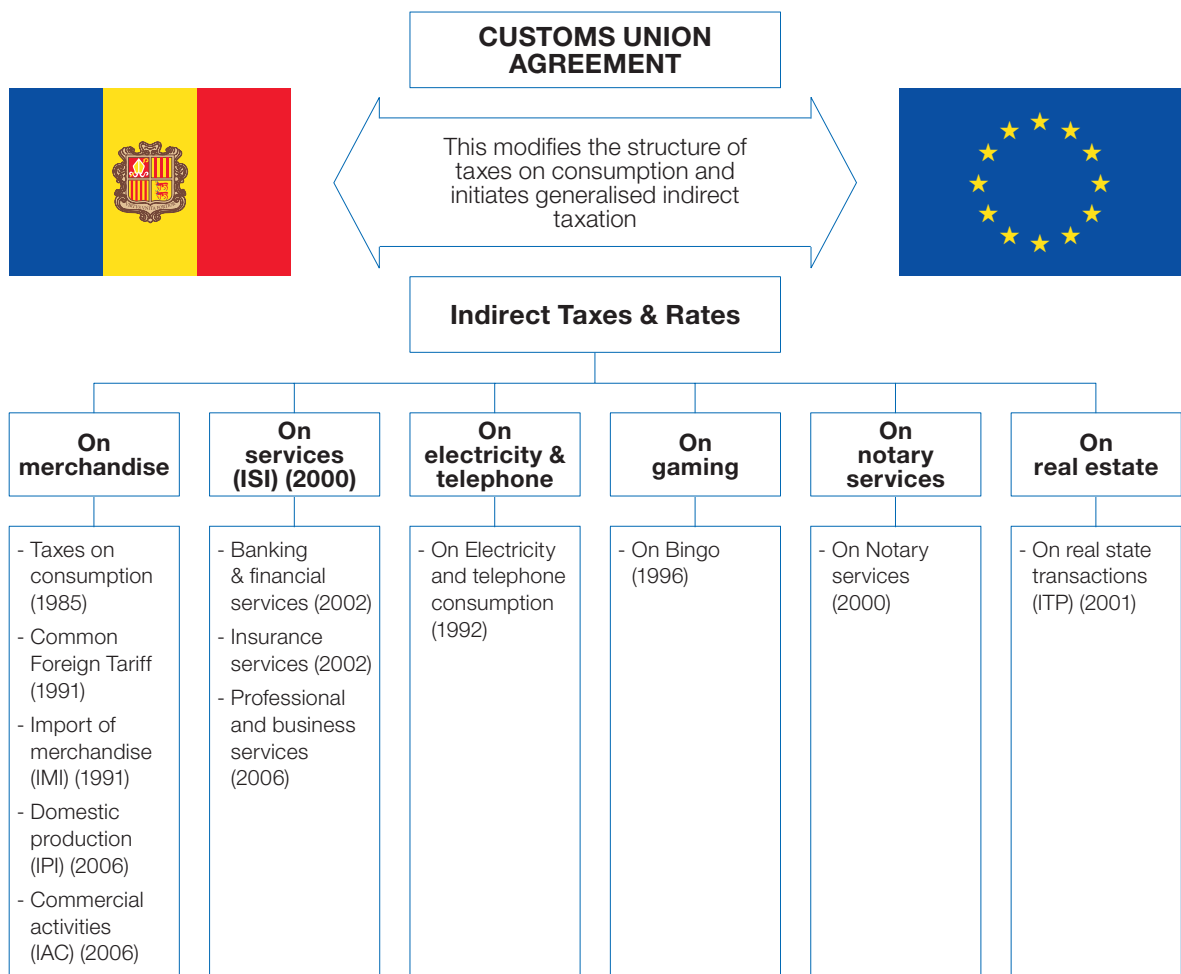
The Andorran tax system is based on indirect taxation. There is no direct taxation on company profits or on personal wealth or income in the Principality of Andorra.

Indirect taxes and rates provide the main source of income for public entities. Approximately 65% of these taxes relate to taxes on imports, which are mainly charged to non-residents, since the majority of the products imported are subsequently sold to tourists.

### Central Government taxes

The Law governing taxation of 19 December 1998 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 governed by the indirect taxation system summarised in the table below:



## Tax on merchandise

### **Indirect Merchandise Tax (“*Impost de Mercaderies - IMI*”):**

The Indirect Merchandise Tax (IMI) was created upon the introduction of the trading agreement between Andorra and the European Union in 1991 and it levies taxes on the production and import of merchandise.

This is a tax on imports of products listed in chapters 1-24 of the Unified System of Designating and Coding Merchandise, and which includes exclusively foodstuffs destined for end consumption or preparation. The amount is determined by applying a percentage of the value of the merchandise and, in certain cases, a fixed amount per product unit. The aforementioned percentage ranges between 1% and 12%, depending on the merchandise. Details are as follows:

- Reduced rate: 1% applied to products stated in chapters 1 to 24 of the Unified system, which is added to the Consumption Tax on imports.
- Normal rate: 4% applied to the majority of products.
- Increased rate: 7% applied to electronic, perfume and optical products, etc.
- Special rate: 12% applied to jewellery and recreational equipment.

Certain products such as books or printed matter, wheelchairs and other vehicles for disabled people, as well as certain motor vehicle accessories are free of Indirect Merchandise Tax.

The Law also defines tax rates on fuel and minimum tax rates on certain merchandise, such as tobacco.

Since 1996, the Andorran customs authorities have been collecting a Common Foreign Tariff (“*Tarifa Exterior Comuna - TEC*”) on imports of industrial products originating from countries which are not members of the European Union.

### **Indirect tax on domestic production (“*Impost Indirecte sobre la producció Interna - IPI*”).**

This tax entered into force on 1 January 2006 for the purpose of generalising indirect taxation on all merchandise in the Andorran economy.

This tax is levied on the delivery of goods produced or manufactured by business people and professionals in Andorra. The tax is calculated by applying a rate on the value of the good produced (tax base). The percentage defrayed to the end customer ranges between 1% and 12% depending on the type of merchandise. Details are as follows:

- Reduced rate: 1% applied to products stated in chapters 1 to 24 of the Unified system, ie. mainly the production of foodstuffs.
- Normal rate: 4% applied to the production of the majority of products.
- Increased rate: 7% applied to the manufacture of electronic and perfume products, amongst others.
- Special rate: 12% applied to the manufacture of jewellery and recreational equipment.

## **Tax on commercial activities (“Impost sobre les activitats comercials - IAC”).**

This tax is levied at source and in the sole commercialisation phase of goods either imported into or manufactured in the country. For the purpose of this tax, commercialisation is understood to be the retail sale and wholesale to the end consumer.

The applicable tax rate regarding imports and the delivery of goods produced or manufactured in Andorra, consists of a equivalence charge added to the Indirect Merchandise Tax (IMI) rate or the Indirect Tax on Domestic Production to which the commercialised goods are subject.

Details of the equivalence charges applied for each tax rate are as follows:

<b>IMI/IPI Applicable tax rates</b>	<b>Equivalence charge</b>
0%	0.0%
1%	0.0%
4%	0.8%
7%	1.4%
12%	2.4%

## **Tax on Services**

### **Indirect Taxation on Services Rendered (“Impost Indirecte sobre els serveis - ISI”):**

The Law governing indirect taxation on services rendered was approved on 13 April 2000. This established the basis for indirect taxation on services rendered in Andorra by business people and professionals, individuals or legal entities, residents and non-residents, but excludes those services subject to the Law on the IMI. The three tax rates applied are: a reduced rate of 1%; a normal rate of 4% and an increased rate of 7%.

As an addition to the abovementioned law, on 14 May 2002 the Law governing indirect taxation on banking and financial services and the Law governing indirect taxation on the rendering of insurance services were approved and became applicable as of 13 June 2002. In accordance with these Laws, the rendering of banking and financial services is taxed at 7% and the rendering of insurance services at 4%. The tax payable is calculated using a system which estimates the value of the services rendered based on economic and financial figures. The indirect tax on banking services rendered has risen from 7% to 12% as from 1 April 2005.

In addition, on 1 January 2006 Indirect Taxation on the rendering of Business and Professional Services came into force for the purpose of generalising the indirect taxation of all sectors of the Andorran economy. This new tax is levied on services rendered by business people and professionals in the Principality of Andorra. The tax is calculated by applying a tax rate on the value of the service rendered (tax base). The percentage defrayed to the customer is 1% (reduced rate) and 4% (normal rate).

## Local taxes

On 27 June 2003 the General Council approved the “Comuns” Finance Law (“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.

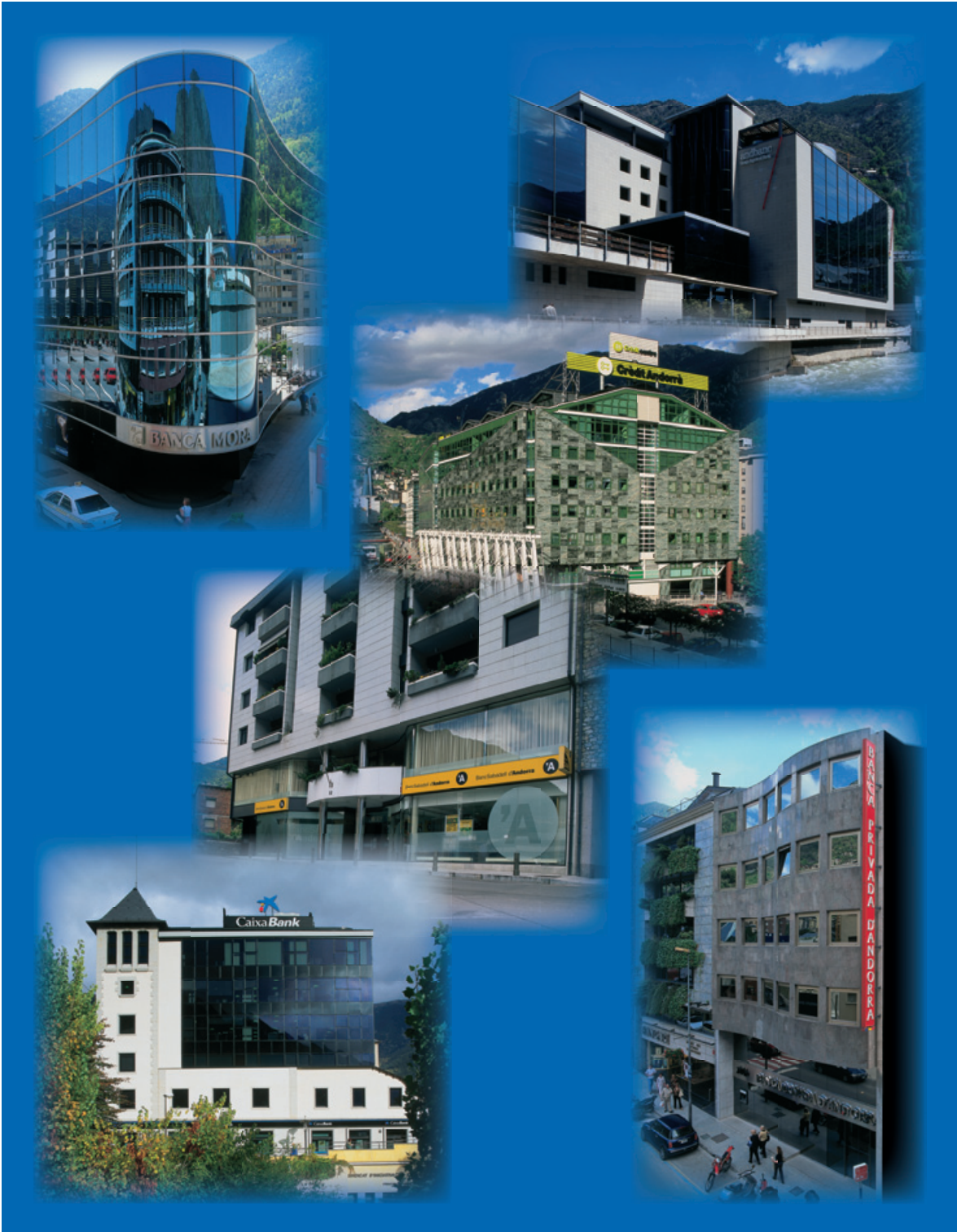
The main taxes applied over the past few years in the “Comuns” have been as follows:

- Taxes for services provided in respect of public cleaning services, public lighting, drinking water, parking prohibited signs and rates.
- Taxes for permits and authorisations for construction work, changes of trade name and registered address, installation of signs, etc.
- Taxes on commercial and industrial activity, renting, acquisition or ownership of real estate.

The “Comuns” Finance Law also establishes the tax jurisdiction of the “Comuns” with regard to the following taxes:

- Traditional “*Foc i Lloc*” (meaning hearth and home) household taxes.
- Taxes for the rendering of the “Comuns” services.
- Taxes and rights on government documentation and authorisations.
- Incorporation of 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”. The “Comuns” also collect approximately 50% of this tax.

# III. FINANCIAL ENVIRONMENT



## III. FINANCIAL ENVIRONMENT

### III.1. INTRODUCTION

The Andorran financial system is well known for its solid financial reputation as a result of the strict and rigorous application of the international standards regulating it. The financial system is one of the mainstays of the Andorran economy and is characterised by the capital adequacy of its banking system compared to other financial markets, thanks to the strong capitalisation policy implemented since its creation.

The importance of the banking sector within the Andorran financial sector should be highlighted. This sector has a total of five entities (on 21 July 2005 Crèdit Andorrà acquired 100% of CaixaBank) and is regulated by the “Andorran National Institute of Finance Law” dated 23 October 2003. The Andorran banking sector has over 75 years experience in this activity, is comprised of 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.

The year 2005 has ended with aggregate profit of approximately Euros 285 million, 5% up on that of 2004. This increase has been accompanied, among other factors, by strong growth in loans (26.06% in 2005) motivated by a rise in real estate investments in Andorra during 2005, and 27.10% growth in aggregate memorandum accounts to approximately Euros 36,500 million.

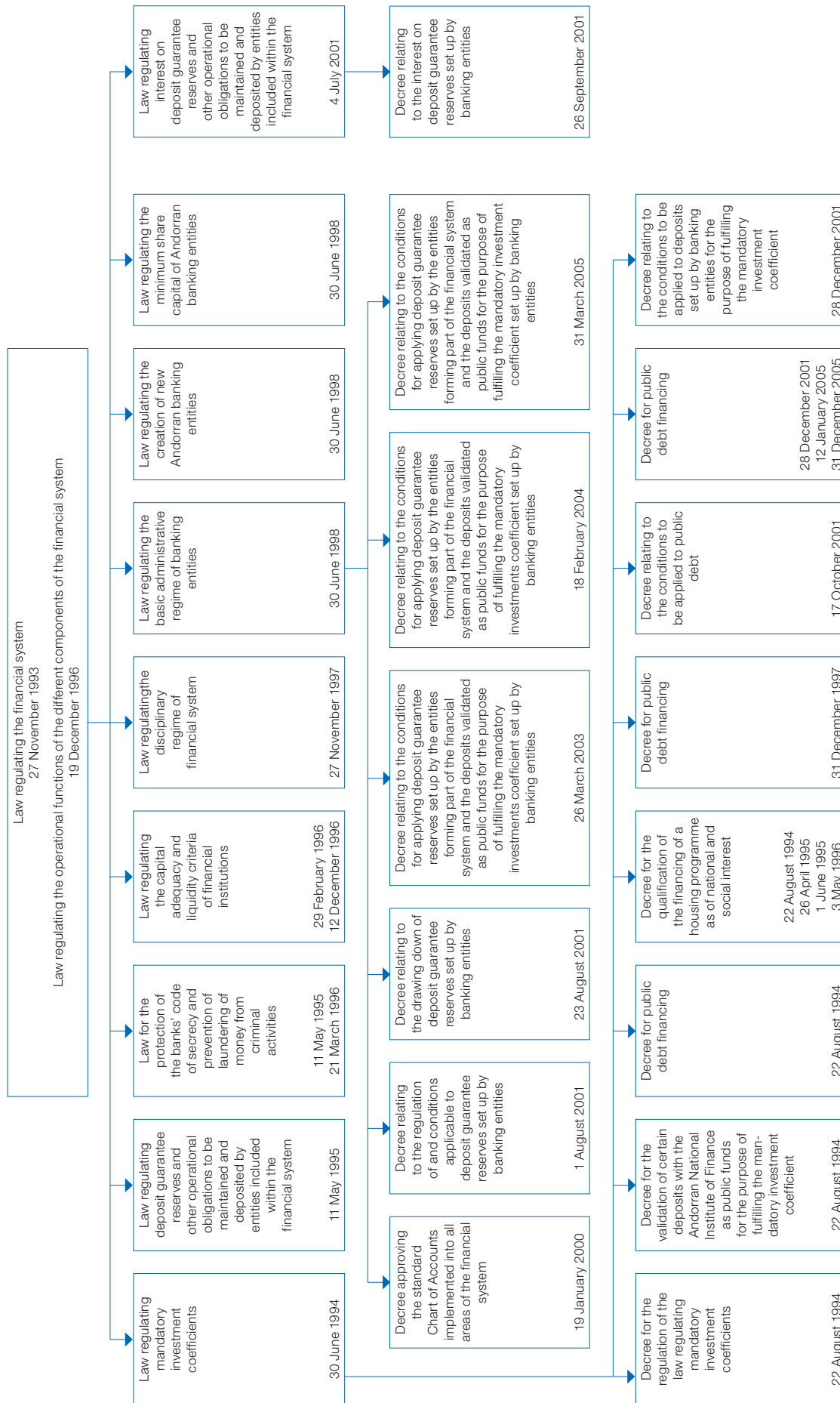
The Principality of Andorra does not have its own currency and therefore adopted the Euro, like the other member states of the European Union, on 1 January 2002.

In 2005 and for the third consecutive year, the international economic environment has been favourable, despite a slowdown in the worldwide economy compared to the previous year. Growth in the global product stood at 3.25% and international trade has risen by 6.5%, slightly lower than the 5% and 9.5% recorded in 2004.

Although the worldwide economy has grown considerably, especially in emerging countries, a decline in Asian countries and in the USA should be highlighted, mainly caused by the sharp rise in the oil prices, reaching all time highs in more than two decades and due to the effect of the increase in consumer borrowing. GDP in the Euro zone is up approximately 1.3% in 2005, slightly lower than the 1.8% in 2004 and continuing the downward trend in mainly caused by the strength of the Euro against the US Dollar.

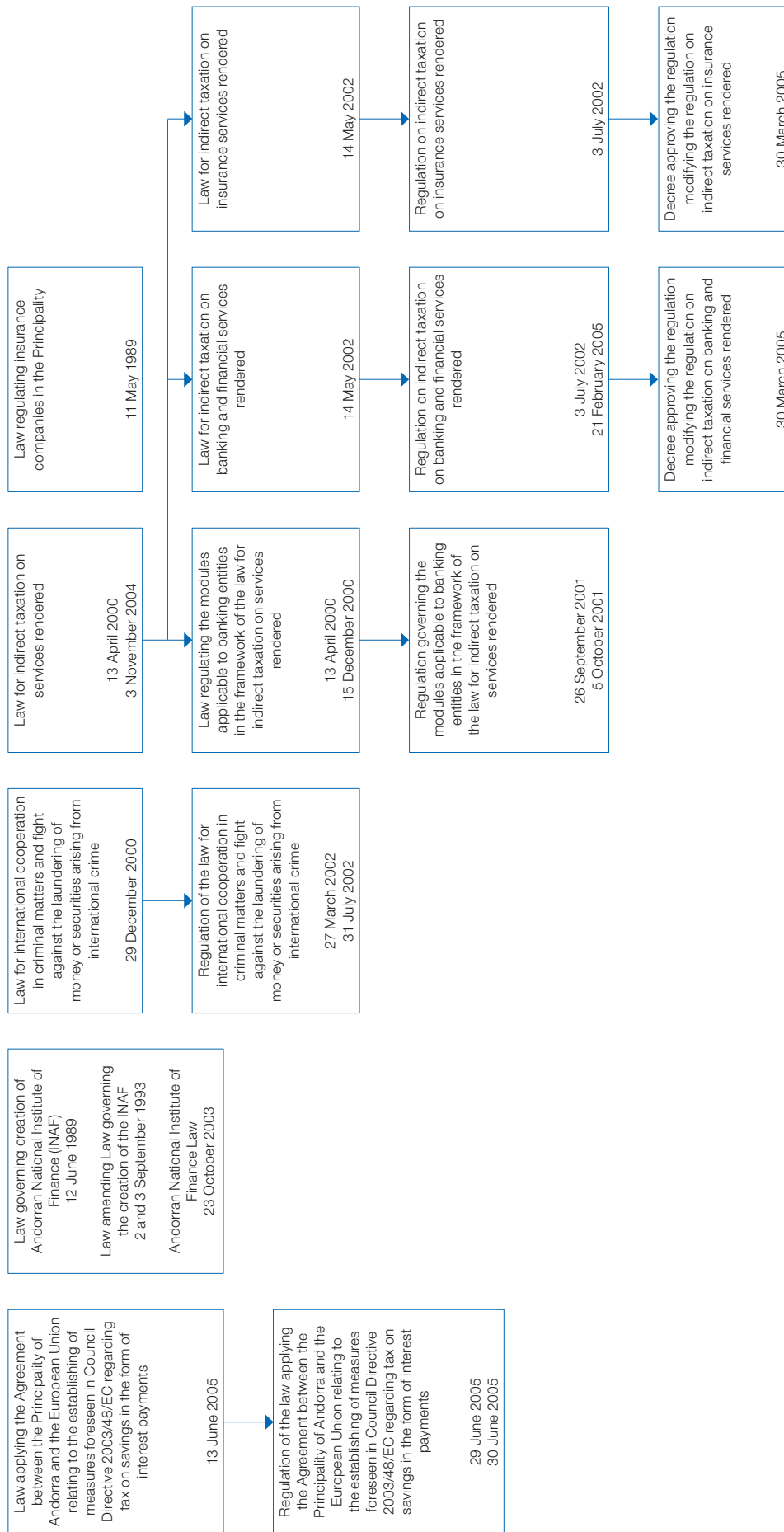


## Legislative Chart of the Andorran Financial System (1)





## Legislative Chart of the Andorran Financial System (2)



## III.2. REGULATION

### Legislative framework

The summarised table shown in the previous section outlines all of the prevailing laws and decrees relating to the Andorran financial system in 2005. An explanatory summary of this legislation prior to 2005 is as follows:

- The “Law regulating the financial system” defines the different groups comprising the financial system, as follows:
  - Operational components.
    - The “Law regulating the operational functions of the different components of the financial system” establishes four components:
      - Banking entities
      - Non-banking financial institutions, in specialised credit
      - Financial investment entities
      - Financial entities offering various services
    - Professional associations in the financial sector
  - Bodies of technical executive authority.
- The “Law regulating mandatory investment coefficients” 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.
- The “Law regulating deposit guarantee reserves” establishes the minimum reserves of shareholders’ equity to guarantee the operational obligations of the entities included in the financial system.
- The “Law for the protection of the banks’ code of secrecy and prevention of laundering of money or securities from criminal activities” aims to achieve two objectives. Firstly, to give legal form to the commitment to fight the laundering of money and secondly, to ratify the banking principle of not interfering in the affairs of the clients.
- The “Law regulating the capital adequacy and liquidity criteria of financial institutions” establishes the capital adequacy ratio at a minimum of 10% and the liquidity ratio at a minimum of 40%.
- The “Law regulating the disciplinary regime of the financial system” aims to promote correctness and conscientiousness when carrying out professional financial activities. It also aims to protect the financial system.
- The “Law regulating the basic administrative regime of Andorran banking entities” allows the investment of credit entities in up to 51% of the capital. It also establishes administrative requirements with the aim of meeting all the conditions which promote the quality and security of the management.
- The “Decree approving the Chart of Accounts for financial entities” 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 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 new Chart of Accounts for the financial system, so that it does not become out of date in the short term.

Some of these Communiqués make it obligatory to report additional quarterly control information to the INAF, complementing the financial statements, 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 regulating the creation of new Andorran banking entities” governs the authorisation of the creation of banking entities and specifically established the possibility of granting two licences in 1999 and 2000.
- The “Law regulating the minimum share capital of Andorran banking entities” establishes that they should be incorporated with a minimum share capital of Euros 30 million.
- The “Law regulating interest on deposit guarantee reserves and other operational obligations to be maintained and deposited by entities included within the financial system” under the framework of the “Law regulating the operational functions of the different components of the financial system” establishes the method of applying interest and other conditions applicable to the deposit guarantee reserves set up by banking entities. Three decrees stem from this Law:
  - “Decree relating to the regulation of and conditions applicable to deposit guarantee reserves set up by banking entities”, which stipulates that the percentage applicable to reserves is 2.25% of the volume of investments, with a deduction for those set up using shareholders' equity originating from banking sources.
  - “Decree relating to the drawing down of deposit guarantee reserves set up by banking entities”, which establishes that the Ministry of Finance may authorise banking entities, which so request, to draw down guarantee reserves.
  - “Decree relating to the interest on deposit guarantee reserves set up by banking entities”, which establishes that in the period from 1 January 2001 to 31 July 2001 the deposit guarantee reserves will bear interest at a rate of 4.722%.
  - Decree relating to the terms applicable to the deposit guarantee reserves set up by banking entities within the financial system and equivalents such as public funds for the purpose of complying with the mandatory investment coefficient set up by financial entities, which establishes that in the period from 1 January 2003 to 31 March 2003 the deposit guarantee reserves will bear interest at a rate of 2.725%.
  - On 18 February 2004 a Decree came into force relating to the terms applicable to the deposit guarantee reserves set up by banking entities within the financial system and equivalents such as public funds for the purpose of complying with the mandatory investment coefficient set up by financial entities, which establishes that in the period between 31 December 2003 and 1 March 2004 the deposit guarantee reserves will bear interest at a rate of 1.996%.
  - On 31 March 2005 a Decree was enacted relating to the terms applicable to the deposit guarantee reserves set up by banking entities within the financial system and equivalents such as public funds for the purpose of complying with the mandatory investment coefficient set up by financial entities, which establishes that in the period between 31 December 2004 and 1 March 2005 the deposit guarantee reserves will bear interest at a rate of 2.025%.

- The “Law regulating insurance companies” in the Principality includes the fundamental characteristics to be able to operate in Andorra.
- The “Law governing indirect taxation on services rendered” establishes the basis for indirect taxation on services rendered in Andorra by business people or professionals, individuals or legal entities, residents and non-residents. It excludes services which are included in the scope of the “Law governing indirect taxation on merchandise”. The tax rates applied to the rendering of services defined by this law are:
  - A reduced rate of 1%
  - A normal rate of 4%
  - An increased rate of 7%
- The “Law for indirect taxation on banking and financial services rendered” under the framework of the “Law for indirect taxation on services rendered” establishes the system for calculating the payment basis, at the same time as determining a tax rate of 7% applicable to banking entities, non-banking financial entities in specialised credit, financial investment entities and financial entities offering various services. As from 1 April 2005 the indirect taxation on banking and financial services has been increased from 7% to 12%.
- The “Law for indirect taxation on insurance services rendered” under the framework of the “Law for indirect taxation on services rendered” establishes a system for calculating the payment 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.
- 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 December 2000, gives rise to the creation of the Laundering Prevention Unit (UPB), which is the independent body for the promotion and coordination of money laundering 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 programmes.
  - An external auditor reviewing the level of compliance with the above points.

This Law substitutes the previous “Law for the protection of the banks’ code of secrecy and prevention of laundering of money or securities from criminal activities” dated 11 May 1995.

On 31 July 2002 the “Regulation of the Law for international cooperation on criminal matters and the fight against money laundering” was enacted which, inter alia, establishes the organisation and functioning of the UPB, the obligations for diligence and declaration from individuals, as well as the procedures to follow upon detecting suspicious operations.

- On 23 October 2003 the “Andorran National Institute of Finance Law” was enacted to redefine its functions and give it more independence and, to generally bring its jurisdiction into line with supervising entities of other countries.

## Other agreements

- At an international level, it should be noted that as a result of the regulations established within the aforementioned law against money laundering (29 December 2000), with reference to the Know-Your-Customer rules, the Principality of Andorra entered into a collaboration agreement on 1 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 entered into the said agreement with the IRS in particular, therefore obtaining the status of Qualified Intermediary.

- Long before the enactment of the Law of 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 Andorrans - ABA”*).
- In its session held on 13 June 2005, the General Council of the Principality of Andorra approved the “Law applying the Agreement between Andorra and the European Union regarding taxation on savings in the form of interest payments”. This law establishes the obligation to make a withholding at source on interest payments made by payer agents established in Andorra to effective beneficiaries, individuals resident in one of the EU member States.

This withholding will be 15% over the first three years of applying the agreement, 20% over the next three years and 35% thereafter. 75% of the amount collected is transferred to the countries of residence of the effective beneficiaries, whilst the Principality of Andorra retains 25%. In addition a voluntary distribution procedure is established whereby the beneficiaries of the income can avoid the withholding. Insurance products are exempt from application of the agreement.

## Self-regulation of the sector

The **Association of Andorran Banks (ABA)** was founded on 11 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 November 1993. On this date the Andorran Government authorised that Banc Agrícola i Comercial d’Andorra, SA and Banca Reig, SA (now merged into Andbanc Grup Agrícola Reig, SA); Banc Internacional d’Andorra, SA; Banca Mora, SA; Banca Cassany, SA (now called Banca Privada d’Andorra, SA); Crèdit Andorrà, SA; Caixa d’Estalvis i Pensions de Barcelona, “la Caixa” (now called CaixaBank, SA) 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 it was agreed that BancSabadell d’Andorra, SA would join the Association of Andorran Banks.

The framework of self-regulation of the banking system through the ABA, includes an agreement dated 9 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 and at the same time guaranteeing best banking practice and corporate image within the Andorran financial market.

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

It should also be highlighted that various commissions (formed of members from the different Andorran banks) meet regularly at the ABA to ensure best banking practice. These commissions deal with current matters relating to the sector such as the indirect tax on services rendered (ISI), the Internal Revenue Service (IRS), prevention of money laundering, compliance and legal issues, tax on savings, the Data Protection Act, methods of payment, International Financial Reporting Standards and other issues of interest.

### III.3. BANKING SYSTEM

The banking entities established in the Principality basically offer traditional universal banking services. Over the last few years, the entities have started to progressively integrate new technology into the services they render to customers. At present, all entities in the country offer the possibility of customers carrying out certain banking transactions on the internet.

The Andorran banking system is made up of the following entities:

#### ■ **Andbanc Grup Agrícola Reig, SA**

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), the *Agrícola Reig Group* was formed. On 10 May 2002 this bank changed its name to *Andbanc Grup Agrícola Reig, SA*. In this publication the bank appears as Andbanc.

#### ■ **Banc Internacional, SA**

This bank was incorporated in 1958 as *Banca Coma*. In 1970 its name was changed to *Banc Internacional d'Andorra, SA*.

#### ■ **Banca Mora, SA**

This bank was incorporated in 1952.

**Banc Internacional, SA and Banca Mora, SA** operate jointly and file consolidated financial statements and other data. On 9 March 2006 the Mora family acquired a 51% interest in the capital of Banc Internacional, SA through the purchase of shares from BBVA. These two banks are known as **BIBM** in this publication.

#### ■ **Banca Privada d'Andorra, SA**

This bank was 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.

#### ■ **CaixaBank, SA**

On 1 August 1997 CaixaBank, SA, was incorporated as a limited company under Andorran law, for the purpose of continuing with the financial activity (since 1934) which until then had been performed by the 5 branches of the *Caixa d'Estalvis i Pensions de Barcelona* ("la Caixa") in Andorra.

#### ■ **Crèdit Andorrà, SA**

Crèdit Andorrà was incorporated in 1949 and on 21 July 2005 it acquired 100% of CaixaBank, SA and therefore the data of both banks have been consolidated for 2005 under the name of Crèdit Andorrà Group. For comparative purposes with 2004 (for which there is no consolidated data) the CaixaBank name has been maintained.

#### ■ **BancSabadell d'Andorra, SA**

Incorporated in 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. The branches providing banking services in the Principality, together with the number of cash dispensers and employees in the sector at 31 December 2005 and 2004 are shown below:

	Number of branches		Number of employees		Number of cash dispensers	
	2004	2005	2004	2005	2004	2005
ANDBANC	12	13	279	283	26	32
BIBM	10	10	237	242	26	26
BPA	3	5	149	169	16	18
CAIXABANK	7	-	120	-	12	-
CRÈDIT ANDORRÀ GROUP (*)	17	24	289	411	33	47
BANCSABADELL D'ANDORRA	4	4	61	75	9	11
<b>TOTAL</b>	<b>53</b>	<b>56</b>	<b>1,135</b>	<b>1,180</b>	<b>122</b>	<b>134</b>

(\*) Includes CaixaBank in 2005

Source: Association of Andorran Banks

This year the number of branches has risen to 56 (3 more than in 2004), distributed between the seven parishes of the Principality. In 2005 the number of employees has increased by 3.96%, ie. 45 workers.



## Balance sheets of Andorran banks

Details of the balance sheets of Andorran banking entities for 2005 and 2004 are as follows:

<b>Balance sheet data of Andorran banks 2005</b>					
(Thousands of Euros)					
	<b>ANDBANC</b>	<b>BIBM</b>	<b>BPA</b>	<b>CRÉDIT ANDORRÀ GROUP (*)</b>	<b>BANC- SABADELL D'ANDORRA</b>
Cash and central banks OECD	8,699	16,556	4,997	30,899	4,685
INAF	18,836	29,159	8,531	47,287	6,220
Financial intermediaries	164,738	1,440,122	21,766	1,126,137	4,917
Loans	1,149,730	932,232	610,797	1,923,743	359,438
Securities portfolio	636,047	118,758	162,050	458,257	57,073
Gains on consolidation	-	-	-	176,101	-
Intangible assets	8,138	5,254	5,807	12,487	1,331
Tangible assets	48,399	54,842	59,015	110,821	13,074
Prepayments and accrued receivables	24,703	9,143	4,054	33,074	2,837
Other assets	20,773	4,675	9,411	43,977	5,320
<b>TOTAL ASSETS</b>	<b>2,080,063</b>	<b>2,610,741</b>	<b>886,428</b>	<b>3,962,783</b>	<b>454,895</b>
INAF	19,606	36,618	30,376	63,404	6,248
Due to banks and credit entities	353,588	81,808	36,544	203,119	143
Customer deposits	1,285,934	2,025,459	716,817	2,879,458	401,199
Debts represented by securities	-	-	-	40,945	7,000
Provision for liabilities and charges	4,882	46,825	-	25,053	-
Provision for general risks	800	5,560	902	60,463	-
Subordinated liabilities	-	-	-	100,000	1,572
Accruals	16,379	10,652	6,153	28,584	1,775
Other liabilities	19,566	10,683	13,741	44,277	6,830
Share capital	68,061	42,407	33,000	70,000	30,068
Reserves	266,278	266,751	33,415	391,103	671
Profit	74,795	83,978	21,680	101,275	3,401
Prior years' results	-	-	-	102	(4,012)
Interim dividends	(30,131)	-	(6,200)	(45,000)	-
Minority interest	305	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>2,080,063</b>	<b>2,610,741</b>	<b>886,428</b>	<b>3,962,783</b>	<b>454,895</b>

(\*) Includes CaixaBank in 2005

Source: Annual reports of banking entities

## Balance sheet data of Andorran banks 2004

(Thousands of Euros)

	<u>ANDBANC</u>	<u>BIBM</u>	<u>BPA</u>	<u>CAIXABANK</u>	<u>CRÈDIT ANDORRÀ</u>	<u>BANC-SABADELL D'ANDORRA</u>
Cash and central banks OECD	7,793	14,880	4,520	4,354	24,187	6,796
INAF	32,515	47,749	11,631	17,956	48,894	6,220
Financial intermediaries	200,498	1,244,867	37,064	643,022	1,151,600	2,618
Loans	886,679	843,595	449,135	389,688	1,103,992	316,556
Securities portfolio	607,810	139,773	252,007	16,419	330,211	42,606
Intangible assets	8,893	5,673	4,353	-	10,367	1,261
Tangible assets	48,568	53,774	56,083	14,157	78,573	12,030
Prepayments and accrued receivables	21,367	8,449	2,691	22,076	23,523	2,358
Other assets	21,470	5,105	6,008	6,312	23,790	4,123
<b>TOTAL ASSETS</b>	<b>1,835,593</b>	<b>2,363,865</b>	<b>823,492</b>	<b>1,113,984</b>	<b>2,795,137</b>	<b>394,568</b>
INAF	49,950	55,228	32,291	18,162	49,137	6,223
Due to banks and credit entities	282,920	74,015	1,950	49,797	42,253	1,049
Customer deposits	1,107,688	1,839,809	700,824	853,895	2,060,498	344,803
Debts represented by securities	-	-	-	-	54,779	10,000
Provision for liabilities and charges	4,701	45,807	-	21,753	3,066	-
Provision for general risks	800	6,752	902	688	58,393	162
Subordinated liabilities	-	-	-	-	-	1,572
Accruals	9,750	8,751	4,199	21,907	20,708	1,515
Other liabilities	12,933	10,351	13,111	5,450	21,927	2,517
Share capital	68,061	42,407	33,000	30,055	70,000	30,068
Reserves	259,796	260,522	24,741	89,166	376,544	491
Profit	66,745	79,823	18,674	23,111	80,731	2,061
Prior years' results	-	-	-	-	101	(5,893)
Interim dividends	(28,029)	(59,600)	(6,200)	-	(43,000)	-
Minority interest	278	-	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>1,835,593</b>	<b>2,363,865</b>	<b>823,492</b>	<b>1,113,984</b>	<b>2,795,137</b>	<b>394,568</b>

Source: Annual reports of banking entities

## Aggregate balance sheets of Andorran banks

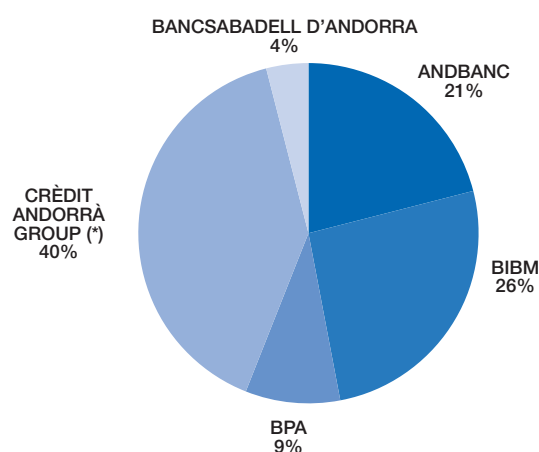
At the end of 2005, the aggregate assets of Andorran banking amounted to Euros 9,995 million, with aggregate shareholders' equity of Euros 1,402 million.

Details of the aggregate balance sheets of the Andorran banking system for 2004 and 2005 are as follows:

<b>Changes in the aggregate balance sheet</b>					
(Thousands of Euros)					
	<u>2004</u>	<u>% of total</u>	<u>2005</u>	<u>% of total</u>	<u>Var. (%)</u> <u>04-05</u>
<b>ASSETS</b>					
Cash and central banks OECD	62,530	0.67%	65,836	0.66%	5.29%
INAF	164,965	1.77%	110,033	1.10%	-33.30%
Financial intermediaries	3,279,669	35.16%	2,757,680	27.59%	-15.92%
Loans	3,989,645	42.78%	4,975,940	49.79%	24.72%
Securities portfolio	1,388,826	14.89%	1,432,185	14.33%	3.12%
Gains on consolidation	-	-	176,101	1.76%	-
Intangible assets	30,547	0.33%	33,017	0.33%	8.09%
Tangible assets	263,185	2.82%	286,151	2.86%	8.73%
Prepayments and accrued receivables	80,464	0.86%	73,811	0.74%	-8.27%
Other assets	66,808	0.72%	84,156	0.84%	25.97%
<b>TOTAL ASSETS</b>	<b>9,326,639</b>	<b>100.00%</b>	<b>9,994,910</b>	<b>100.00%</b>	<b>7.17%</b>
<b>LIABILITIES</b>					
INAF	210,991	2.26%	156,252	1.56%	-25.94%
Due to banks and credit entities	451,984	4.85%	675,202	6.75%	49.39%
Customer deposits	6,907,517	74.06%	7,308,867	73.12%	5.81%
Debts represented by securities	64,779	0.69%	47,945	0.48%	-25.99%
Provision for liabilities and charges	75,327	0.81%	76,760	0.77%	1.90%
Provision for general risks	67,697	0.73%	67,725	0.68%	0.04%
Subordinated liabilities	1,572	0.02%	101,572	1.02%	-
Accruals	66,830	0.72%	63,543	0.64%	-4.92%
Other liabilities	66,289	0.71%	95,097	0.95%	43.46%
Share capital	273,591	2.93%	243,536	2.44%	-10.99%
Reserves	1,011,260	10.84%	958,218	9.59%	-5.25%
Profit	271,145	2.91%	285,129	2.85%	5.16%
Prior years' results	(5,792)	-0.06%	(3,910)	-0.04%	-32.49%
Interim dividends	(136,829)	-1.47%	(81,331)	-0.81%	-40.56%
Minority interest	278	-	305	-	9.71%
<b>TOTAL LIABILITIES</b>	<b>9,326,639</b>	<b>100.00%</b>	<b>9,994,910</b>	<b>100.00%</b>	<b>7.17%</b>

Source: Annual reports of banking entities

## Distribution of aggregate assets and liabilities by banking entity 2005



(\*) Includes CaixaBank in 2005

Source: Annual reports of banking entities

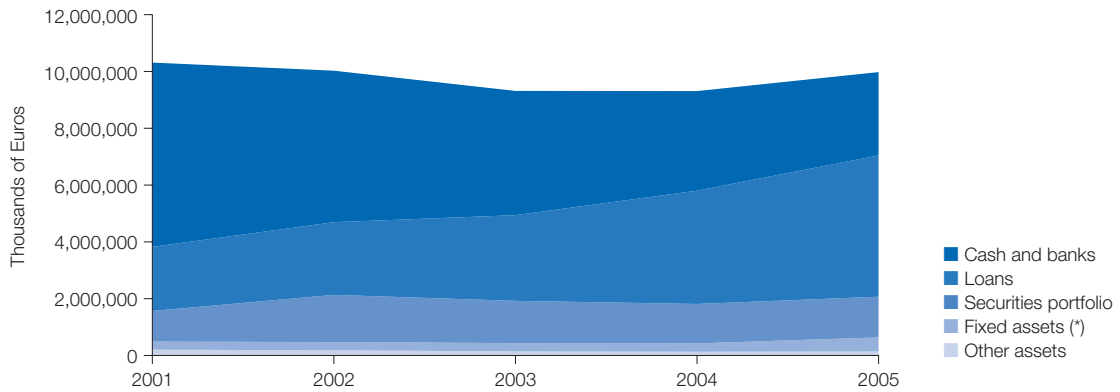
### Aggregate assets

In 2000, the INAF issued a statement giving banks the opportunity of reclassifying the “Due from banks, term deposits” and “Other financial intermediaries, term deposits” captions as a single caption: “Financial intermediaries – sight and term deposits” in order to comply with international accounting standards. Half of the banking entities have adopted this option, whilst the other half have classified “Due from banks and other financial intermediaries, term deposits” under the “Loans” caption, as stipulated by the Chart of Accounts for 2000.

During 2005 the changes in the composition of aggregate assets of financial entities, originating in 2004, have become more pronounced. The “Financial intermediaries” caption is down 15.92%, whilst loans show the most significant rise in aggregate assets (24.72%) caused by the low interest rates despite increases over the past few months. The growth in this caption, representing 49.79% of aggregate assets, has also been boosted by the favourable current economic situation in Andorra, which has kept loan losses at considerably low levels. It should be noted that “Gains on consolidation” have arisen as a result of Crèdit Andorrà’s purchase of CaixaBank on 21 July 2005. This caption is included under Fixed assets in the comparative charts and graphs.

The graph below shows the growth of the aggregate assets over the last four years. The drop in the “Cash in hand and at banks” caption (including the Cash and central banks of the OECD, INAF and Financial intermediaries items) can be clearly observed. In addition, the decline in the total aggregate assets observed over the past few years has been reversed in 2005 partly due to the recovery in the “Securities Portfolio” caption and the continued growth in “Loans”, which has meant that aggregate assets, amounting to Euros 9,995 million, have returned to 2002 levels.

### Evolution of aggregate assets 2001-2005

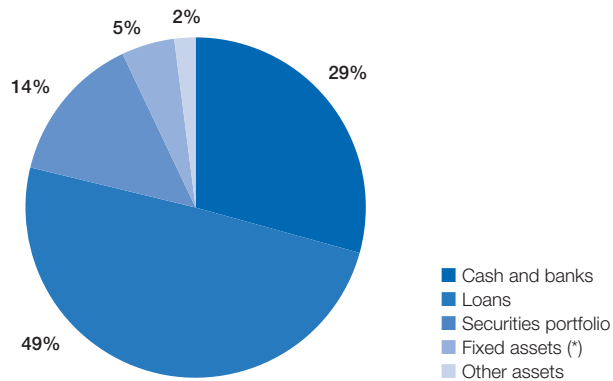


(\*) Fixed assets include gains on consolidation of the Crèdit Andorrà Group in 2005

Source: Annual reports of banking entities

The structure of the aggregate assets for 2005 is shown in the pie chart below:

### Structure of aggregate assets 2005



(\*) Fixed assets include gains on consolidation of the Crèdit Andorrà Group in 2005

Source: Annual reports of banking entities

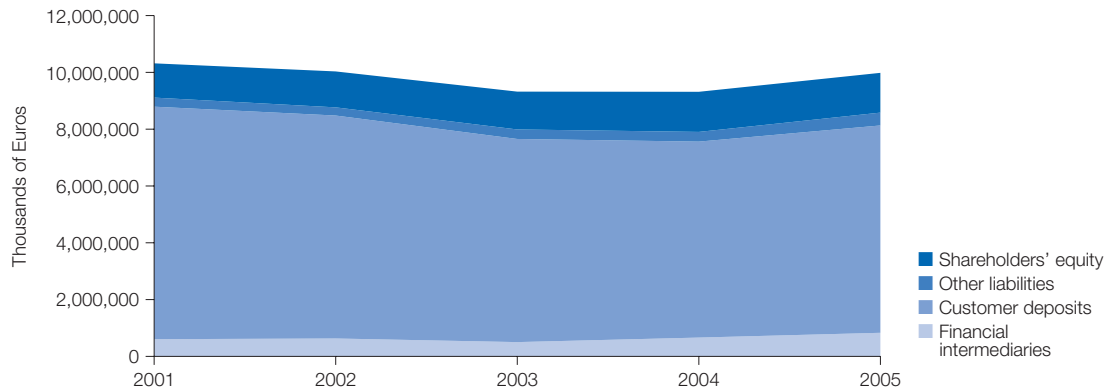
Details of the items forming part of the captions included in the above graphs are as follows:

- Cash and central banks include deposits in savings banks, OECD central banks and the INAF, and financial intermediaries.
- Loans include loans and credits to customers, account overdrafts and notes.
- The most important items recorded under Securities portfolio are bonds and other fixed interest securities, investments in group companies and investment bodies.
- Fixed assets comprise the tangible and intangible assets and positive consolidation differences.
- Other assets include other assets and prepayments and accrued receivables.

## Aggregate liabilities

As in previous years, the most significant item in aggregate liabilities is “Customer deposits” (which include both interbank and customer deposits), showing an increase of 5.81%.

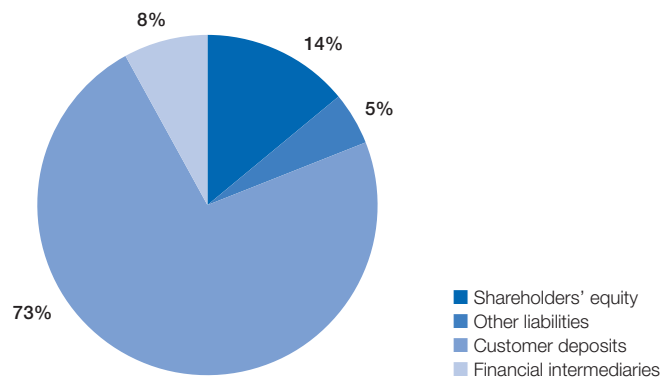
### Evolution of aggregate liabilities 2001-2005



Source: Annual reports of banking entities

The following pie chart illustrates that “Customer deposits” represent the most significant part (73%) of the aggregate liabilities. “Shareholders’ equity” makes up 14%, whilst the remaining liabilities are formed mainly of “Financial intermediaries” (8%) and “Other liabilities” (5%).

### Structure of aggregate liabilities 2005



Source: Annual reports of banking entities

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

- Shareholders’ equity includes share capital, reserves, results and minority interest (where applicable).
- Other liabilities include provisions, accruals and debts represented by securities.
- Customer deposits is the largest liability caption.
- Financial intermediaries include deposits from the INAF, banks and credit entities.

## Loans

Loans are up 26.06% on 2004, confirming the recent trend towards an increase in this caption. It should be noted that the following data excludes the “Provision for loan losses”.

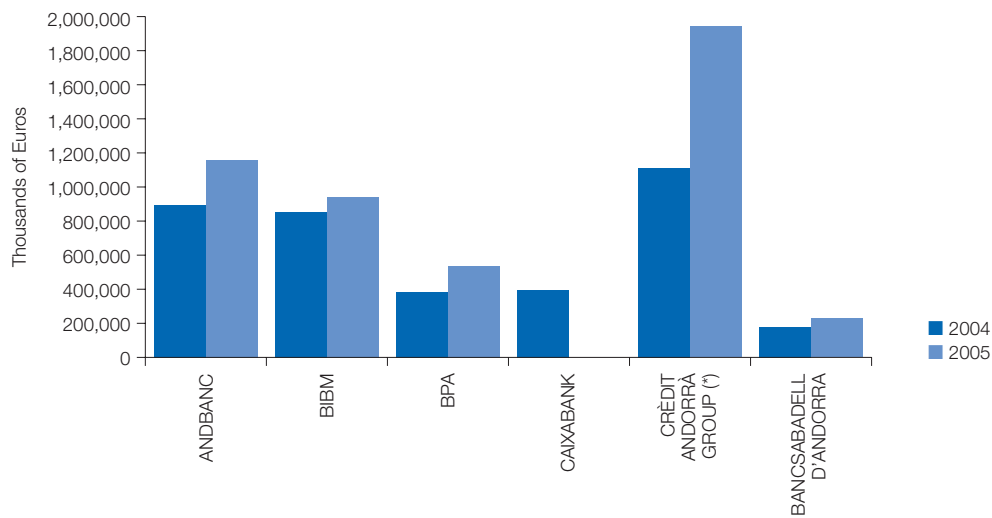
	2004		2005		Var. (%) 04-05
	Loans	% of total	Loans	% of total	
ANDBANC	892,296	23.41%	1,157,037	24.08%	29.67%
BIBM	851,901	22.35%	940,735	19.58%	10.43%
BPA	384,070	10.08%	535,881	11.16%	39.53%
CAIXABANK	394,377	10.35%	-	-	-
CRÈDIT ANDORRÀ GROUP (*)	1,111,770	29.17%	1,942,398	40.43%	74.71%
BANCSABADELL D'ANDORRA	176,734	4.64%	228,185	4.75%	29.11%
<b>TOTAL</b>	<b>3,811,148</b>	<b>100.00%</b>	<b>4,804,236</b>	<b>100.00%</b>	<b>26.06%</b>

(\*) Includes CaixaBank in 2005

Source: Annual reports of banking entities

The graph below shows the changes in loans over the last two years:

**Evolution of loans 2004-2005**



(\*) Includes CaixaBank in 2005

Source: Annual reports of banking entities

## Customer deposits

Despite the sharp growth in disintermediation, customer deposits are up 5.81% on 2004, reversing the general trend experienced over the last few years of transferring part of customer balances to other intermediated funds.

### Evolution of customer deposits

(Thousands of Euros)

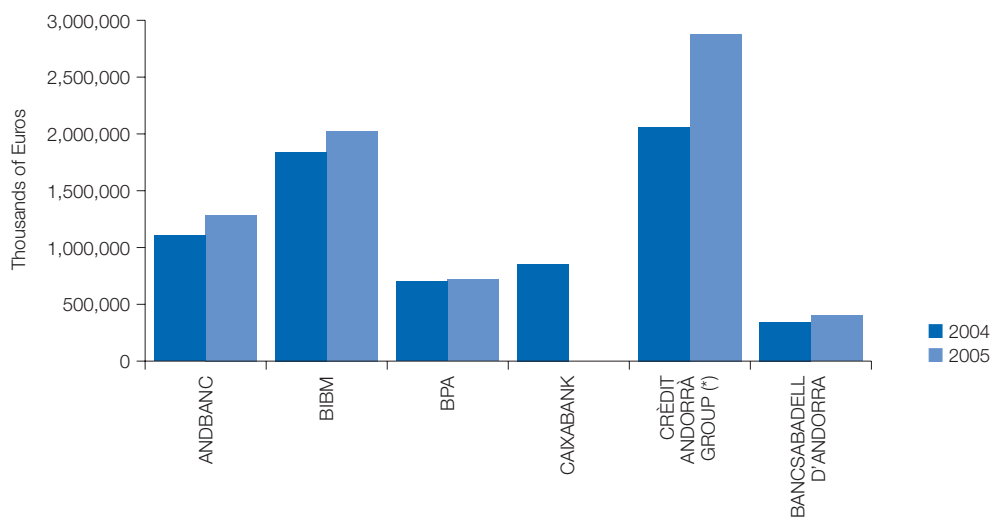
	2004		2005		Var. (%) 04-05
	Customer deposits	% of total	Customer deposits	% of total	
ANDBANC	1,107,688	16.04%	1,285,934	17.59%	16.09%
BIBM	1,839,809	26.63%	2,025,459	27.71%	10.09%
BPA	700,824	10.15%	716,817	9.81%	2.28%
CAIXABANK	853,895	12.36%	-	-	-
CRÈDIT ANDORRÀ GROUP (*)	2,060,498	29.83%	2,879,458	39.40%	39.75%
BANCSABADELL D'ANDORRA	344,803	4.99%	401,199	5.49%	16.36%
<b>TOTAL</b>	<b>6,907,517</b>	<b>100.00%</b>	<b>7,308,867</b>	<b>100.00%</b>	<b>5.81%</b>

(\*) Includes CaixaBank in 2005

Source: Annual reports of banking entities

The graph below shows the changes in customer deposits over the last two years:

### Evolution of customer deposits 2004-2005



(\*) Includes CaixaBank in 2005

Source: Annual reports of banking entities



## Loans to customer deposits ratio

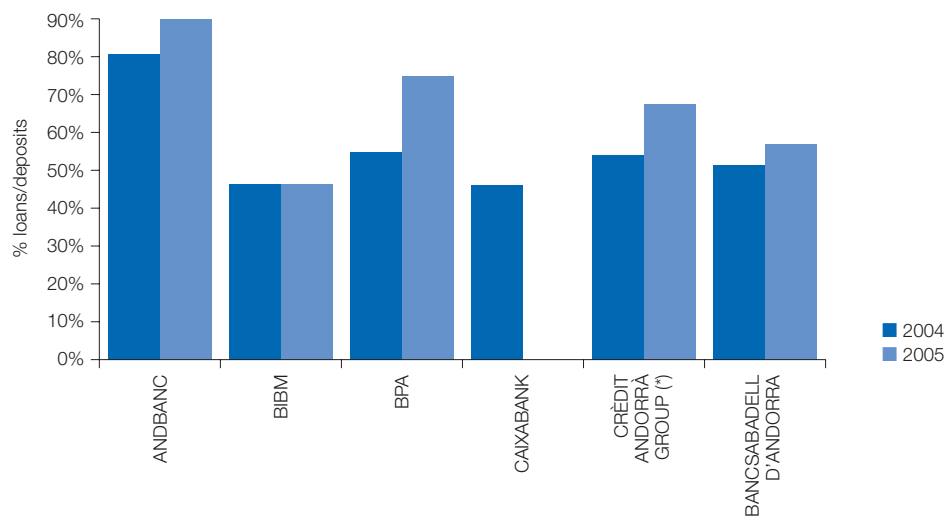
The following chart shows the evolution of the loans to customer deposits ratio for the different Andorran banking entities:

Loans to customer deposits ratio (Thousands of Euros)		
	2004	2005
ANDBANC	80.55%	89.98%
BIBM	46.30%	46.45%
BPA	54.80%	74.76%
CAIXABANK	46.19%	-
CRÈDIT ANDORRÀ GROUP (*)	53.96%	67.46%
BANCSABADELL D'ANDORRA	51.26%	56.88%
<b>TOTAL</b>	<b>55.17%</b>	<b>65.73%</b>

(\*) Includes CaixaBank in 2005  
Source: Annual reports of banking entities

As shown in the graph below, the sharp rise in loans has led to a 65.73% increase in the loans to customers deposit ratio, compared to the 55.17% in the previous year.

### Changes in loan to customer deposits ratio 2004-2005

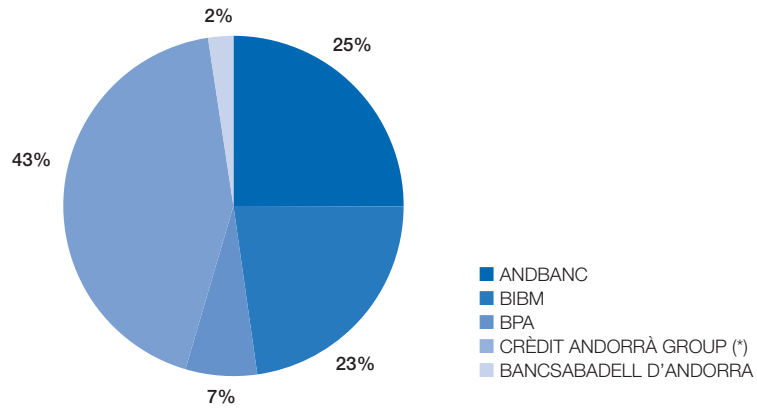


(\*) Includes CaixaBank in 2005

Source: Annual reports of banking entities

## Structure of aggregate memorandum accounts

### Aggregate memorandum accounts by entity 2005



(\*) Includes CaixaBank in 2005

Source: Annual reports of banking entities

During 2005 aggregate memorandum accounts are up 27.10%, totalling Euros 36,474 million. The largest caption, "Securities deposited and others held in custody", representing 56.17% of the total is up 16.23% on the previous year. The growth in the "Futures Operations" caption should also be highlighted. These futures have mainly been used as hedging instruments and are up 61.06%, to Euros 10,786 million, continuing with the increase started in 2004.

The table below shows details of the aggregate memorandum accounts at 31 December 2004 and 2005:

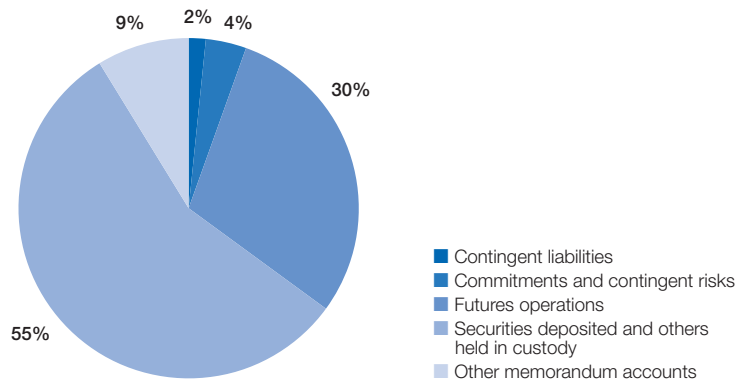
#### Evolution of aggregate memorandum accounts

(Thousands of Euros)

	2004	% of total	2005	% of total	Var. (%) 04-05
Contingent liabilities	613,200	2.14%	590,321	1.62%	-3.73%
Commitments and contingent risks	1,271,159	4.43%	1,408,926	3.86%	10.84%
Futures operations	6,696,686	23.33%	10,785,527	29.57%	61.06%
Securities deposited and others held in custody	17,627,535	61.43%	20,488,948	56.17%	16.23%
Other memorandum accounts	2,488,005	8.67%	3,200,514	8.78%	28.64%
<b>TOTAL MEMORANDUM ACCOUNTS</b>	<b>28,696,585</b>	<b>100.00%</b>	<b>36,474,236</b>	<b>100.00%</b>	<b>27.10%</b>

Source: Annual reports of banking entities

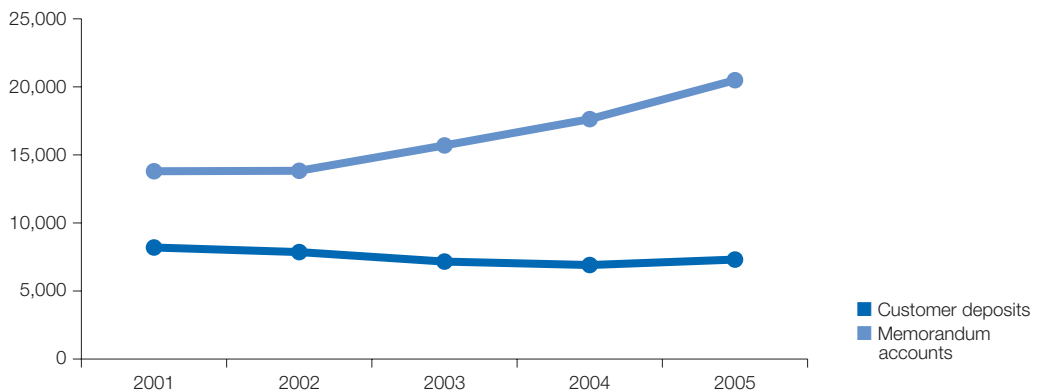
### Structure of aggregate memorandum accounts 2005



Source: Annual reports of banking entities

The graph below shows the gradual process of disintermediation in Andorran banking for the 2000 to 2005 period.

### Evolution of customer deposits and memorandum accounts (securities deposited and others held in custody)



Source: Annual reports of banking entities

The data shown above confirms the growth in disintermediation experienced by banking entities over the past few years. This is a sign of the growing interest in financial products with higher added value shown by customers and the wide variety of products offered by Andorran banking entities. This has also meant that in recent years derivatives have been used to hedge portfolios managed or under custody.

## Income statements of Andorran banks for 2005

Details of the income statements of each banking entity for 2005 and the aggregate figures of all the Andorran banks for 2004 and 2005 are as follows:

<b>Profit and loss data for Andorran banks: 2004 and 2005</b>								
(Thousands of Euros)								
	<b>ANDBANC</b>	<b>BIBM</b>	<b>BPA</b>	<b>CRÉDIT ANDORRÀ GROUP (*)</b>	<b>BANC-SABADELL D'ANDORRA</b>	<b>TOTAL 2005</b>	<b>TOTAL 2004</b>	<b>Var. (%) 04-05</b>
Interest and similar income	55,408	64,951	25,539	112,905	12,442	271,245	235,937	14.97%
Interest and similar charges	(27,438)	(35,862)	(16,035)	(55,529)	(7,882)	(142,746)	(110,207)	29.53%
Revenue from variable income securities	480	500	32	403	5	1,420	8,246	-
<b>FINANCIAL MARGIN</b>	<b>28,450</b>	<b>29,589</b>	<b>9,536</b>	<b>57,779</b>	<b>4,565</b>	<b>129,919</b>	<b>133,976</b>	<b>-3.03%</b>
Commission	85,455	93,290	31,809	121,189	5,545	337,288	285,943	17.96%
Profits on financial operations	16,207	8,435	4,755	19,380	1,562	50,339	42,737	17.79%
Other profit on ordinary activities	991	214	1,119	435	61	2,820	2,857	-1.30%
<b>MARGIN ON ORDINARY ACTIVITIES</b>	<b>131,103</b>	<b>131,528</b>	<b>47,219</b>	<b>198,783</b>	<b>11,733</b>	<b>520,366</b>	<b>465,513</b>	<b>11.78%</b>
Personnel expenses	(22,548)	(15,388)	(8,845)	(29,871)	(3,319)	(79,971)	(71,240)	12.26%
General expenses	(26,769)	(21,273)	(13,790)	(39,445)	(3,615)	(104,892)	(81,516)	28.68%
Depreciation and provisions	(7,411)	(6,516)	(3,420)	(19,901)	(1,552)	(38,800)	(28,352)	36.85%
Provisions for depreciation of assets, net of recoveries	-	(386)	(203)	(80)	-	(669)	(203)	-
<b>OPERATING MARGIN</b>	<b>74,375</b>	<b>87,965</b>	<b>20,961</b>	<b>109,486</b>	<b>3,247</b>	<b>296,034</b>	<b>284,202</b>	<b>4.16%</b>
Provisions for loan losses, net of recoveries	(1,199)	(676)	(368)	(7,377)	130	(9,490)	(4,682)	-
Provisions for liabilities and charges, net of recoveries	-	(10)	-	373	-	363	(3,052)	-
Allowance to provision for general risks	-	(5,712)	-	(1,251)	-	(6,963)	(6,263)	11.18%
<b>PROFIT ON ORDINARY ACTIVITIES</b>	<b>73,176</b>	<b>81,567</b>	<b>20,593</b>	<b>101,231</b>	<b>3,377</b>	<b>279,944</b>	<b>270,205</b>	<b>3.60%</b>
Net extraordinary income	1,751	2,411	1,087	44	24	5,317	1,032	-
Losses attributable to minority interest	(132)	-	-	-	-	(132)	(92)	43.48%
<b>PROFIT ATTRIBUTABLE TO THE GROUP</b>	<b>74,795</b>	<b>83,978</b>	<b>21,680</b>	<b>101,275</b>	<b>3,401</b>	<b>285,129</b>	<b>271,145</b>	<b>5.16%</b>

(\*) Includes CaixaBank in 2005

Source: Annual reports of banking entities

As a whole the Andorran banking entities have generated profits of Euros 285 million in 2005, 5.16% up on the previous year.

## Financial margin

As can be seen from the table below, in 2005 the aggregate financial margin of Andorran banking entities amounted to Euros 129,919 thousand and dropped by 3.03% in relation to 2004 (2004 vs. 2003: -6.09%), caused, among other factors, by the low interest rates in the Euro Zone.

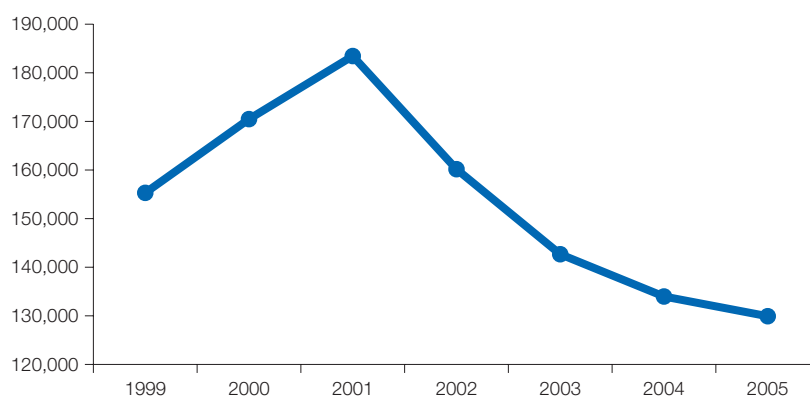
<b>Financial margin by banking entity</b>			
(Thousands of Euros)			
	<u>2004</u>	<u>2005</u>	<u>Var. (%) 04-05</u>
ANDBANC	28,673	28,450	-0.78%
BIBM	29,425	29,589	0.56%
BPA	8,773	9,536	8.70%
CAIXABANK	14,636	-	-
CRÈDIT ANDORRÀ GROUP (*)	48,620	57,779	18.84%
BANCSABADELL D'ANDORRA	3,849	4,565	18.60%
<b>TOTAL FINANCIAL MARGIN</b>	<b>133,976</b>	<b>129,919</b>	<b>-3.03%</b>

(\*) Includes CaixaBank in 2005

Source: Annual reports of banking entities

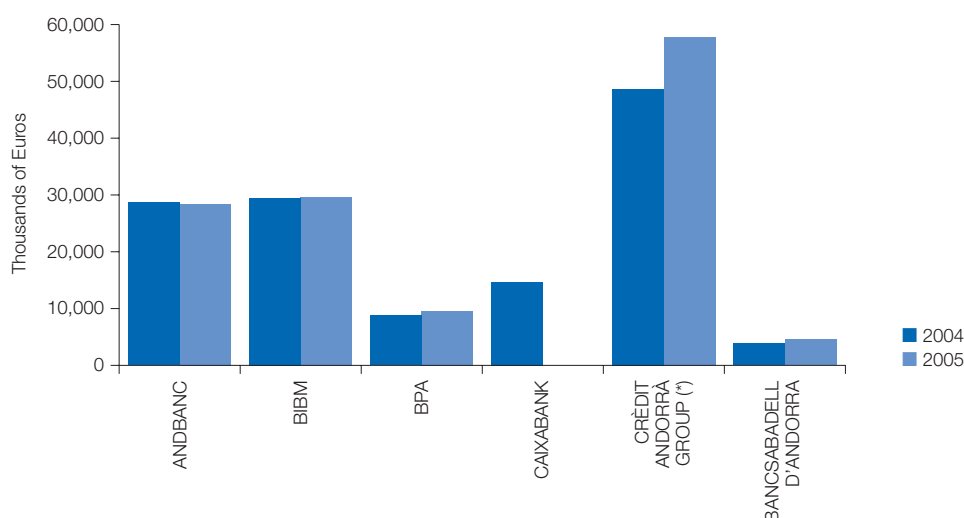
The evolution of the aggregate financial margin for the last seven years, together with the financial margin by banking entity for 2004 and 2005 are shown in the graphs below:

**Evolution of aggregate financial margin 1999-2005**



Source: Annual reports of banking entities

### Evolution of financial margin 2004-2005



(\*) Includes CaixaBank in 2005

Source: Annual reports of banking entities

### Margin on ordinary activities

The table below shows that the aggregate ordinary margin for the year is up 11.78% to Euros 520,366 thousand. This is mainly due to the rise in commissions (+17.96%). This growth can be basically explained by the increase in commission generated on high added value products and services, by the more active management of the banks' shareholders' equity and by the growth in all lines of business, together with measures to cut costs and increase income.

#### Margin on ordinary activities by banking entity

(Thousands of Euros)

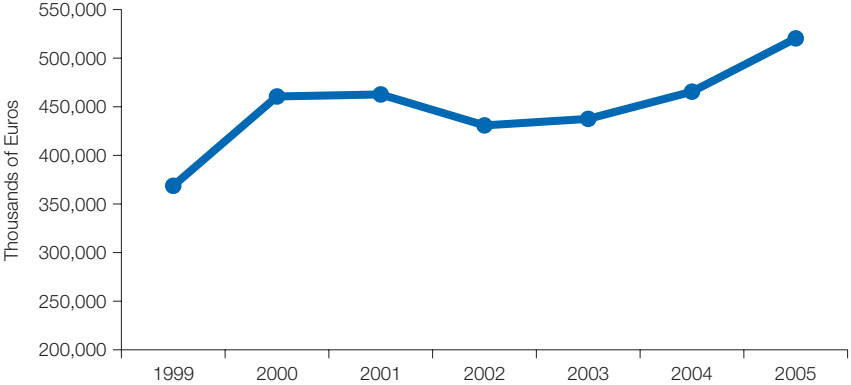
	2004	2005	Var. (%) 04-05
ANDBANC	117,736	131,103	11.35%
BIBM	127,257	131,528	3.36%
BPA	39,897	47,219	18.35%
CAIXABANK	41,598	-	-
CRÈDIT ANDORRÀ GROUP (*)	129,564	198,783	53.42%
BANCSABADELL D'ANDORRA	9,461	11,733	24.01%
<b>TOTAL MARGIN ON ORDINARY ACTIVITIES</b>	<b>465,513</b>	<b>520,366</b>	<b>11.78%</b>

(\*) Includes CaixaBank in 2005

Source: Annual reports of banking entities

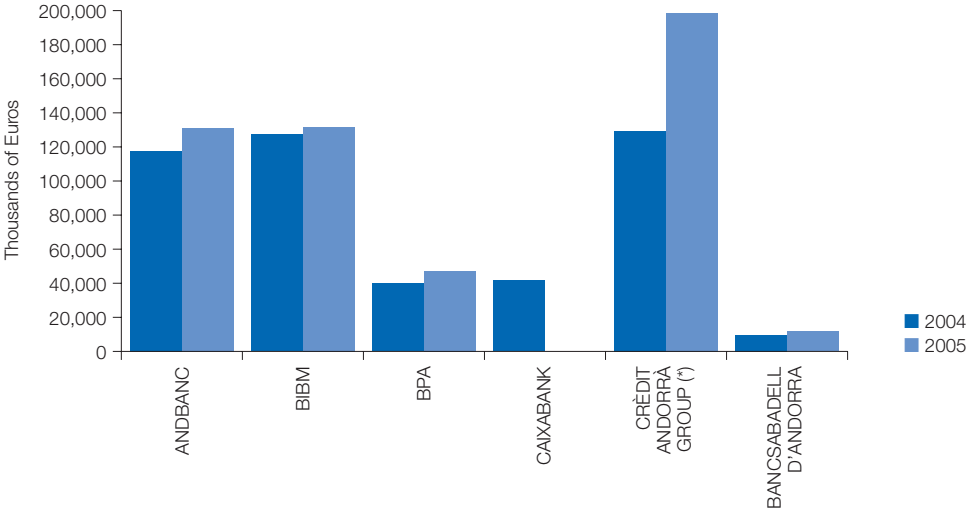
The aggregate margin on ordinary activities for each banking entity over the last seven years, together with a graph showing its evolution for 2004 and 2005 is as follows:

**Evolution of aggregate margin on ordinary activities 1999-2005**



Source: Annual reports of banking entities

**Evolution of margin on ordinary activities 2004-2005**



(\*) Includes CaixaBank in 2005

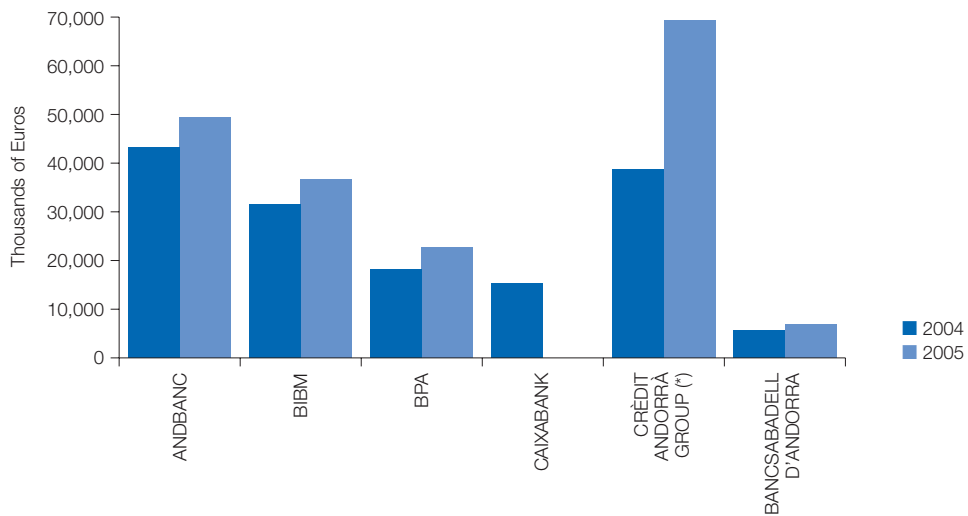
Source: Annual reports of banking entities

## Transformation costs

In 2005 transformation costs of Andorran banking entities (including “Personnel expenses” and “General expenses”) amounted to Euros 184,863 thousand, up 21.02% on 2004. However, transformation costs as a percentage of margin on ordinary activities have only varied by less than 3% compared to the previous year (32.81% in 2004 vs. 35.53% in 2005).

Transformation costs for each banking entity are shown in the following table and graph:

**Changes in transformation costs 2004-2005**



(\*) Includes CaixaBank in 2005

Source: Annual reports of banking entities

Based on the evolution of transformation costs, one of the indicators showing efficiency of the Andorran financial entities is the *efficiency ratio*, which measures the part of the margin on ordinary activities absorbed by the transformation costs. The average efficiency ratio of Andorran banking entities for 2005 represents approximately 38.09%.



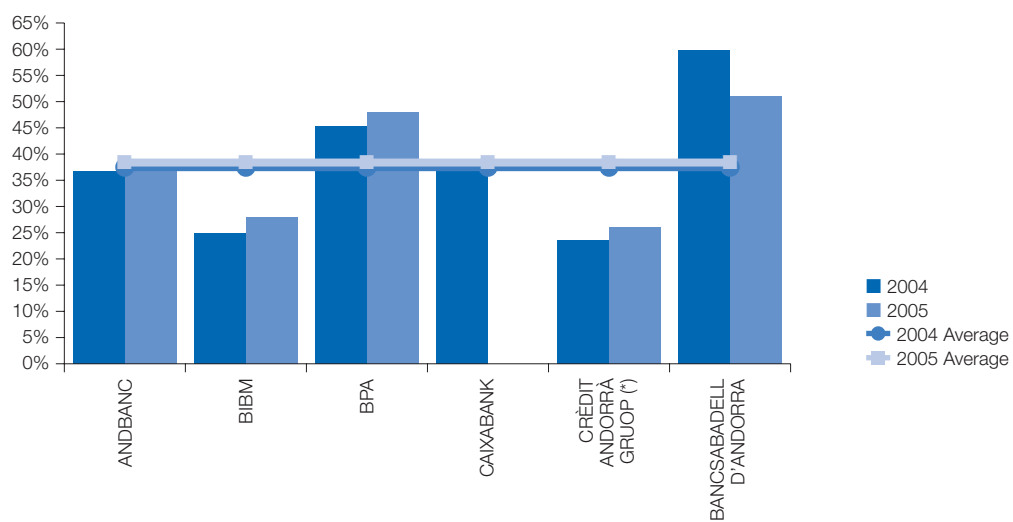
### Efficiency ratio by banking entity

	2004	2005
ANDBANC	36.78%	37.57%
BIBM	24.80%	27.87%
BPA	45.36%	47.94%
CAIXABANK	37.27%	-
CRÈDIT ANDORRÀ GROUP (*)	23.47%	26.06%
BANCSABADELL D'ANDORRA	59.87%	51.00%
<b>AVERAGE</b>	<b>37.93%</b>	<b>38.09%</b>

(\*) Includes CaixaBank in 2005

Source: Annual reports of banking entities

### Evolution of efficiency ratios of Andorran banking entities 2004-2005



(\*) Includes CaixaBank in 2005

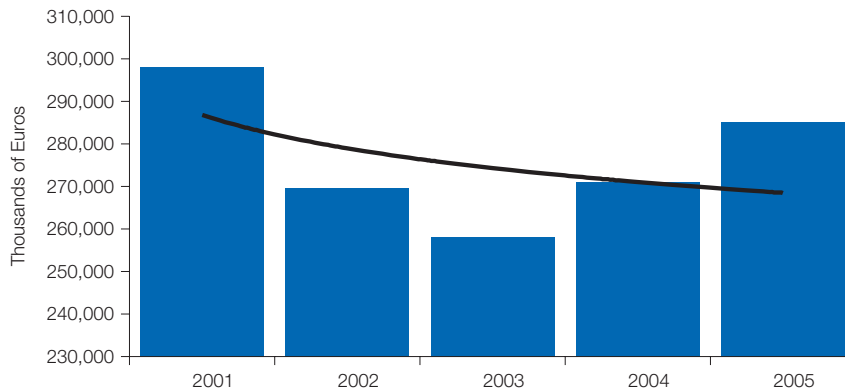
Source: Annual reports of banking entities

## Profit

As a result of the growth in the aggregate margin on ordinary activities and despite the aforementioned rise in transformation costs, the aggregate operating margin stands at Euros 296,034 thousand, up 4.16% on the same period of the previous year. Aggregate profit of Andorran banking entities has increased by 5.16%.

The graph below plots the changes in the aggregate profit of Andorran banking entities from 2001 to 2005 and the table illustrates the profit for each banking entity:

**Growth in aggregate profit 2001-2005**



Source: Annual reports of banking entities

### Profit by banking entity

(Thousands of Euros)

	2004	2005	Var. (%) 04-05
ANDBANC	66,745	74,795	12.06%
BIBM	79,823	83,978	5.21%
BPA	18,674	21,680	16.10%
CAIXABANK	23,111	-	-
CRÈDIT ANDORRÀ GROUP (*)	80,731	101,275	25.45%
BANCSABADELL D'ANDORRA	2,061	3,401	65.02%
<b>TOTAL PROFIT</b>	<b>271,145</b>	<b>285,129</b>	<b>5.16%</b>

(\*) Includes CaixaBank in 2005

Source: Annual reports of banking entities

## Average return on equity (ROE)

The average return on equity of Andorran banks for the year ended 31 December 2005 stood at 21.26% (calculating average profit/equity), up 2.02%. The following table and graph show the average return on equity for each banking entity in 2004 and 2005.

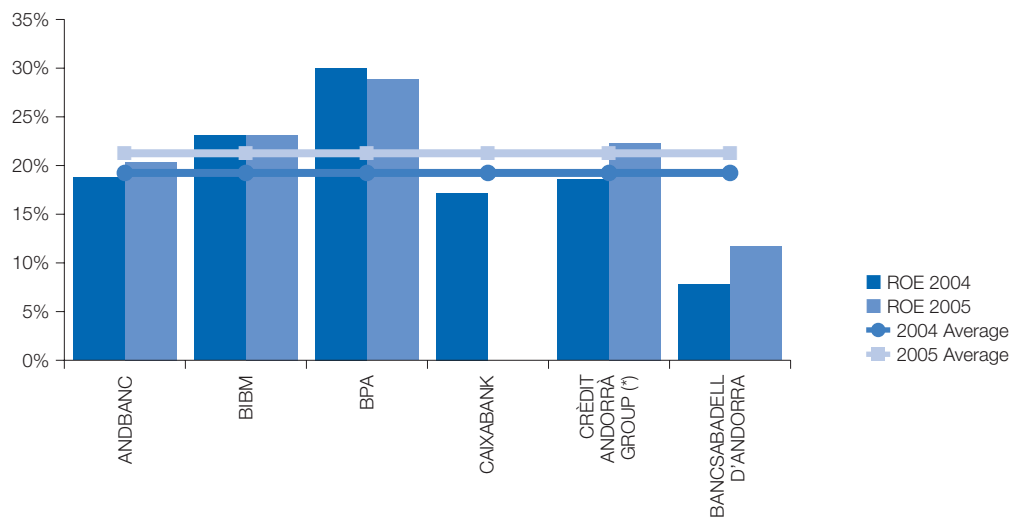
Average return on equity (ROE)		
	2004	2005
ANDBANC	18.79%	20.36%
BIBM	23.10%	23.11%
BPA	30.00%	28.82%
CAIXABANK	17.18%	-
CRÈDIT ANDORRÀ GROUP (*)	18.57%	22.31%
BANCSABADELL D'ANDORRA	7.80%	11.68%
<b>AVERAGE</b>	<b>19.24%</b>	<b>21.26%</b>

(\*) Includes CaixaBank in 2005

Source: Annual reports of banking entities

The following graph plots the return on equity over the last few years:

Average return on equity by banking entity



(\*) Includes CaixaBank in 2005

Source: Annual reports of banking entities

## Average return on assets (ROA)

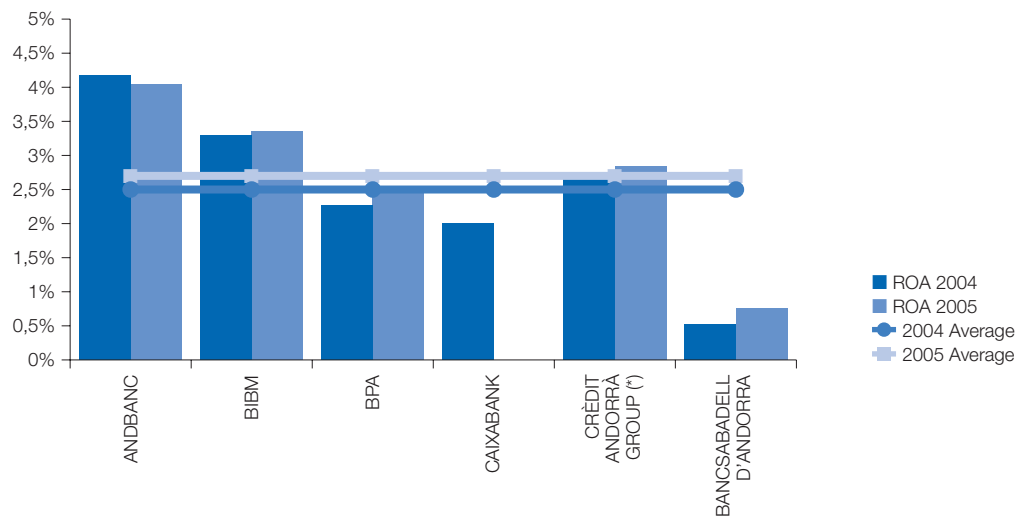
The average return on total assets of Andorran financial entities for the year ended 31 December 2005 stands at 2.70%, 0.20% up on 2004. The following table and graph show the average return on assets (calculating average profit/total assets) for each banking entity for 2004 and 2005:

Average return on assets (ROA)		
	2004	2005
ANDBANC	4.17%	4.04%
BIBM	3.30%	3.35%
BPA	2.27%	2.53%
CAIXABANK	2.00%	-
CRÈDIT ANDORRÀ GROUP (*)	2.75%	2.84%
BANCSABADELL D'ANDORRA	0.52%	0.76%
<b>AVERAGE</b>	<b>2.50%</b>	<b>2.70%</b>

(\*) Includes CaixaBank in 2005

Source: Annual reports of banking entities

### Average return on assets by banking entity and sector average



(\*) Includes CaixaBank in 2005

Source: Annual reports of banking entities

## Capital adequacy and liquidity

On 29 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 favourable reputation at an international level, 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 2004 and 2005 which, as can be clearly observed, significantly exceed the established minimums:

	Capital adequacy		Liquidity	
	2004	2005	2004	2005
ANDBANC	36.59%	33.85%	56.24%	52.82%
BIBM	32.75%	31.11%	70.07%	71.30%
BPA	21.60%	18.71%	63.84%	56.36%
CAIXABANK	32.49%	-	84.00%	-
CRÈDIT ANDORRÀ GROUP (*)	32.08%	19.92%	97.66%	66.71%
BANCSABADELL D'ANDORRA	14.37%	14.66%	72.25%	52.68%

(\*) Includes CaixaBank in 2005

Source: Annual reports of banking entities

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 given to some of Andorra's banking entities in 2005.

	Rating			Agency
	Long term	Short term	Financial strength	
ANDBANC	A	F1	B	Fitch Ratings
BIBM	Aa3	P-1	B	Moody's
BPA	BBB-	F3	C	Fitch Ratings
CRÈDIT ANDORRÀ GROUP (*)	A+	F1	A/B	Fitch Ratings
BANCSABADELL D'ANDORRA	-	-	-	-

(\*) Includes CaixaBank in 2005

Source: Reports from rating agencies at December 2005

It should be noted that the most recent rating update assigned to the Principality of Andorra by Standard & Poor's (sovereign rating) has been AA for the long term and A-1+ for the short term with outlook stable.

### **III.4. FUTURE TRENDS**

Andorra is a country in evolution, growth and with a clear projection abroad. This has meant that a series of needs have been created within the country, with interest being shown in developing a new economic framework to comply with international standards, both in the banking sector and the economy in general.

In this regard, Andorran banking is continuously monitoring the most up-to-date issues such as strategic sector risks, supervisory systems, Basel II requirements, the challenges of ensuring financial stability, the banks' code of secrecy and transparency, new financial products and bancassurance services, as well as ethics, professional practices and corporate governance of the financial system, in addition to other matters of interest to the sector.

Some of the issues on which the Andorran banking sector is currently working are as follows:

#### **International Financial Reporting Standards**

Globalisation is contributing to an inexorable standardisation of corporate reporting mechanisms. The growing demand for transparency and comparability of information has led to the need for internationally applicable accounting standards, enabling the financial statements of companies to be analysed irrespective of where they conduct their business. In this context, since 1 January 2005 quoted companies have been under the obligation to apply the International Financial Reporting Standards introduced by European Parliament and Council Regulation 1606/2002 and European Parliament and Council Directive 2001/65/EC, affecting all the neighbouring countries with which Andorra has close trading relations. For the banking sector, the Bank of Spain approved the new Circular 4 on 22 December 2004 which has involved significant changes to the accounting principles applied to date.

The Association of Andorran Banks (ABA), supported by the main auditing firms worldwide, has analysed the possible impact that the process of adopting international financial reporting standards could have on the Chart of Accounts of the Andorran financial system. Despite the major implications of such a process and in view of presence in increasing global markets, decisive measures must be taken in this regard.

#### **Basel II**

The complex nature of this Revised International Capital Framework and its links with the International Financial Reporting Standards (IFRS) and the regulatory and supervisory systems existing in each country, mean that Basel II is an opportunity and a challenge that is not without its difficulties. The ultimate objective of the Basel Committee on Banking Supervision is to improve the strength and reliability of the financial system by placing ever more emphasis on each entity's internal control over its risk management processes and models, the supervisory process and market practices.

Furthermore, the Framework not only focuses on traditional credit and market risks but also fixes capital adequacy requirements to cover operational risk and establishes qualitative requirements concerning the management of all such risks.

The three pillars comprising Basel II, which aim to align the regulatory requirements with the main economic principles of risk management, are as follows:

- *Pillar 1* establishes the regulatory capital requirements and maintains the traditional capital ratio at no lower than 8% of the risk-weighted assets, although it permits the use of sophisticated tools, to which many Andorran entities already have access, taking into consideration their risk profiles.
- *Pillar 2* defines the supervisory review process reinforcing the principles of internal control and corporate governance best practices. The regulatory bodies are therefore responsible for evaluating and intervening where necessary.
- *Pillar 3* aims to achieve market discipline by establishing an appropriate degree of information transparency and comparability.

To conclude, the Framework aims to ensure that entities that best manage their risks are able to benefit from certain advantages when calculating their capital adequacy requirements. Nevertheless, achieving this objective could have major implications for the entities' information technology systems, business processes, and financial objectives. However, the capital adequacy ratios reached by the Andorran banking system are more than adequate for facing these challenges.

## **Money Laundering Prevention**

For many years, the fight 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. Five years later, the first law against international crime was passed and the legal framework was completed in 2000 with the passing of the "Law for international cooperation on criminal matters and the fight against the laundering of money or securities arising from international crime" and the creation of a Laundering Prevention Unit (UPB); an independent body in charge of promoting and coordinating money laundering prevention measures and cooperating with foreign counterparts. Subsequently, in February 2005 the Andorran Criminal Code was modified once again by 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 fight against the laundering of money or securities arising from international crime".

This regulatory system and the dedication of all the agents involved, especially regarding the efforts made by the sector to adequately train all of its employees, has ensured that reports issued by the various international bodies have been favourable.

In this regard, the Andorran Government requested that the International Monetary Fund evaluate the sector's supervisory system and measures established to fight money laundering. The resulting report emphasises the solidity of the Principality's banking system and the adequacy of its regulations and supervision. With specific regard to this latter point, the analysis highlighted that practically all 25 of the principles outlined in Basel II, recognised as the international point of reference regarding these matters, were more than satisfactorily fulfilled.

## **Corporate Social Responsibility**

As a result of recent accounting scandals in certain countries, ever stricter regulations are being introduced in order to strengthen internal control systems and corporate governance best practices. Nevertheless, a firm commitment to corporate social responsibility goes beyond strict compliance

with the established standards and cannot just be seen as a strategy to improve an entity's public image through a corporate social responsibility plan, which must be immersed in the entities' values and philosophy.

All of the points set out in the sections above demonstrate that the sector is committed to offering a wide range of financial products and services in a transparent and responsible manner; continuously controlling the impacts its activities may have on the country and the Andorran society as a whole. Furthermore, the growing demands of increasing public awareness mean that the advances made by an entity are not only assessed from a financial perspective, but also from a social and environmental angle. Many of the Principality's banks have started including in their annual reports details of the initiatives they have been conducting, in some cases for a number of years, in relation to this commitment to social responsibility. Many examples of this span various areas including culture, sport, education or the environment. There is an increasing trend in other countries to present information in annual reports in a systematic manner to target the different groups with a special interest in the entity's activities: shareholders, employees, customers, suppliers, society, etc. (which are referred to as stakeholders). In order to ensure that investors can also make decisions based on other factors analysts are also demanding that major multinational corporations provide information to the market that is not just limited to traditional financial data. 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. It therefore appears that in the near future, the market may demand that corporations refer to both financial and non-financial matters when providing information to the public.

In the context of corporate social responsibility and in order to maintain a high level of professional discipline, which characterises the whole of the Andorran financial system, the INAF, as an authority within the system and exercising its functions stipulated by Law 14 of 23 October 2003, has created certain standards of ethics and conduct appropriate for all entities authorised to operate in the Andorran financial system, thus ensuring its efficient functioning and stability at all times. These regulations, outlined in Communiqué 163/05, define the regulations governing ethics and conduct that financial entities authorised to operate in the Principality of Andorra must respect at all times when carrying out their activities. These regulations are applicable as of 31 March 2006.

### **Agreement between the Principality of Andorra and the European Union regarding taxation on returns on savings in the form of interest payments**

As mentioned in section "III.2. Regulation" of this chapter, in its session held on 13 June 2005 the General Council of the Principality of Andorra approved the Law applying the Agreement between the Principality of Andorra and the European Union regarding taxation on returns on savings in the form of interest payments. This law stipulates the obligation to make a withholding at source on interest payments made by paying agents, established in the Principality of Andorra to individual beneficiaries resident in one of the member States of the European Union.

In compliance with this law, the financial entities have established a series of control procedures to make the corresponding withholdings on savings income in the form of interest payments and in their capacity as paying agents, to comply with the obligations included in the agreement and in the law governing the payment of the withholding.

It can be seen in the above sections that the Andorran financial sector is facing some very significant medium-term challenges. Many of these are interconnected and provide considerable opportunities, but will no doubt involve the need to make significant changes and refocus strategies.



## **SIGNIFICANT EVENTS IN 2006**

In accordance with the country's requirements, the Andorran Government's Ministry of the Economy is currently drafting new legislation regarding companies. This legislation is intended to be up-to-date, transparent and unified with respect to the neighbouring countries of the European Union. It is also foreseen that this new legislation will deal with taxation issues, allowing foreign investment in certain sectors of activity whilst protecting traditional sectors. It will also be of interest to companies and will help to promote growth and development of the country.

The main company-related laws in Andorra are as follows:

### **Company Law Bill**

This Law aims to clearly define the liability of company shareholders and directors; minimise related administration costs; speed up and make safer the process of incorporating companies; exert pressure on the figure of a "*prestanoms*" (nominee); admit solely-owned companies; make it obligatory for all companies to deposit annual accounts and make it obligatory for all companies reaching certain turnover levels, total assets and number of employees to be subject to audit.

### **Company Accounting Law Bill**

The objective of this law is to create up-to-date and generalised accounting for all business activities, focusing on the convergence towards International Accounting Standards (IAS). This will make it easier to compare company accounts with those from other countries, adapting them to the EU following the accounting model included in the Fourth Community Directive and making them flexible and adapted to the real situation of the Andorran economy, thus avoiding any unnecessary complications.

### **Law Bill governing Foreign Investment in the Principality of Andorra**

The main goals of this new Law are to attract foreign investment within a defined legal framework, increase liberalisation and competitiveness within the country, enter into EU cooperation agreements and provide incentives to new sectors of activity.

## IV. INFORMATION OF INTEREST



## IV. 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

Head of Government:	The Hon. Mr. Albert Pintat Santolària
Minister of Town Planning and Territorial Ordinance:	The Hon. Mr. Manel Pons Pifarré
Minister of Foreign Affairs, Culture and Cooperation:	The Hon. Mr. Juli Minoves Triquell
Minister of Finance:	The Hon. Mr. Ferran Mirapeix Lucas
Minister of Justice and Home Affairs:	The Hon. Mr. Josep Maria Cabanes Dalmau
Minister of Health, Welfare and Family Affairs:	The Hon. Ms. Montserrat Gil Torné
Minister of Economy:	The Hon. Mr. Joel Font Coma
Minister of Education and Professional Training:	The Hon. Ms. Roser Bastida Areny
Minister of Tourism and Environment:	The Hon. Mr. Antoni Puigdemívol Riberaygua
Minister of Housing, Youth, Higher Education and Research:	The Hon. Ms. Meritxell Mateu Pi
Minister of Sport and Voluntary Work:	The Hon. Mr. Carles Font Rossell
Minister of Agriculture and Natural Resources:	The Hon. Mr. Pere Torres Montellà
Secretary General:	Mr. Esteve Vidal Ferrer
Head of the Government Cabinet:	Ms. Anna Zamora Puigcercós
Head of Protocol:	Mr. Antoni Zamora Puigcercós

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

Av. Príncep Benlloch, 30, 3r – AD500 Andorra la Vella  
Principality of Andorra – Tel. +376 808898 – Fax +376 865977

Chairman:	Mr. Xavier Jordana Rossell
General Manager:	Mr. Carles Salvadó Miras

### 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

Chairman:	Mr. Joan Pau Miquel Prats
Vice Chairman:	Mr. Josep Peralba Duró
General Manager:	Mr. Antoni Armengol Aleix
Deputy Manager:	Ms. Clàudia Cornella Durany

(\*) The information of interest corresponds to the people and positions held at 30 June 2006

## **Andbanc Grup Agrícola Reig, SA**

Ed. Centre de Negoci – C/ Manuel Cerqueda i Escaler, 6 – AD700 Escaldes-Engordany  
Principality of Andorra – Tel. +376 873333 – Fax +376 863905

Honorary Chairman:	Mr. Òscar Ribas Reig
Chairman:	Mr. Manel Cerqueda Donadeu
Vice Chairman:	Mr. Oriol Ribas Duró
Director – General Manager:	Mr. Jaume Sabater Rovira

## **Banc Internacional d'Andorra, SA**

Av. Meritxell, 96 – AD500 Andorra la Vella  
Principality of Andorra – Tel. +376 884488 – Fax +376 884499

Honorary Chairman:	Mr. Joan Mora Font
Chairman:	Mr. Jordi Aristot Mora
Director – General Manager:	Mr. Joan Quera Font

## **Banca Mora, SA**

Av. Meritxell, 96 – AD500 Andorra la Vella  
Principality of Andorra – Tel. +376 884488 – Fax +376 884499

Honorary Chairman:	Mr. Joan Mora Font
Chairman:	Mr. Francesc Mora Sagués
Director - General Manager:	Mr. Joan Quera Font

## **Banca Privada d'Andorra, SA**

Av. Carlemany, 119 – AD700 Escaldes-Engordany  
Principality of Andorra – Tel. +376 873500 – Fax +376 873519

Chairman:	Mr. Higiní Cierco Noguer
Chairman:	Mr. Ramon Cierco Noguer
Director - General Manager:	Mr. Joan Pau Miquel Prats

(\*) The information of interest corresponds to the people and positions held at 30 June 2006



### **CaixaBank, SA (Crèdit Andorrà Group, SA)**

Plaça Rebés, 3 – AD500 Andorra la Vella  
Principality of Andorra – Tel. +376 874874 – Fax +376 829003

Chairman:	Mr. Antoni Pintat Santolària
Vice Chairman:	Mr. Antoni Pintat Argelich
Managing Director - General Manager:	Mr. Josep Peralba Duró
Assistant General Manager:	Mr. Xavier Cornella Grau

### **Crèdit Andorrà Group, SA**

Av. Meritxell, 80 – AD500 Andorra la Vella  
Principality of Andorra – Tel. +376 888000 – Fax +376 888021

Chairman:	Mr. Antoni Pintat Santolària
Vice Chairman:	Mr. Antoni Pintat Argelich
Managing Director - General Manager:	Mr. Josep Peralba Duró

### **BancSabadell d'Andorra, SA**

Av. del Fener, 7 – AD500 Andorra la Vella  
Principality of Andorra – Tel. +376 735600 – Fax +376 735601

Chairman:	Mr. Robert Cassany Vila
Director – General Manager:	Mr. Miquel Alabern Comas

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

C/ Prat de la Creu, 8, Despatx 204-205 – AD500 Andorra la Vella  
Principality of Andorra – Tel. +376 809292 – Fax +376 809293

Chairman:	Mr. Francesc Pallàs Viladomat
General Manager:	Ms. Pilar Escaler Penella

### **Money Laundering Prevention Unit ("Unitat de Prevenció del Blanqueig - UPB")**

C/ Prat de la Creu, 8 – AD500 Andorra la Vella  
Principality of Andorra – Tel. +376 806730 – Fax +376 828842

Director:	Mr. Jordi Pons Lluelles
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(\*) The information of interest corresponds to the people and positions held at 30 June 2006

**Association of Consumers and Users**  
**(“Associació de Consumidors i Usuaris - ACU”)**

Placeta Monjó, 2 – AD500 Andorra la Vella  
Principality of Andorra – Tel. +376 867456 – Fax +376 861466

Chairman: Ms. Angelina Mas Joaniquet

**Andorran Association of Micro, Small and Medium Sized Companies**  
**(“Associació de la Micro, Petita i Mitjana Empresa d’Andorra - PIME”)**

Av. Bra. Riberaigua, 25 – AD500 Andorra la Vella  
Principality of Andorra – Tel. +376 810050 – Fax +376 824344

Chairman: Mr. Marc Aleix Tugàs  
Secretary General: Mr. Claude Benet Mas

**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

Chairman: Mr. Xavier Altimir Planes  
Director: Ms. Conxita Mora Jordana

**Andorran Institute of Economists**  
**(“Col·legi d’Economistes d’Andorra - COEA”)**

C/ Bonaventura Armengol, 15 – AD500 Andorra la Vella  
Principality of Andorra – Tel. +376 807807 – Fax +376 807817

Dean: Mr. Gerard Martínez Díez  
Secretary: Mr. Roland Destrée Grimaldi

**University of Andorra (“Universitat d’Andorra - Uda”)**

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(\*) The information of interest corresponds to the people and positions held at 30 June 2006

