

ANDORRA

i el seu Sistema Financer
and its Financial System

2008



ANDORRA
and its Financial System

PRESENTATION

During 2008 the worldwide economy has undergone a change in cycle, with the majority of countries plunging into a serious economic recession originating from the crisis in international financial markets. Consequently, investors and consumers have lost confidence at global level. The actual GDP of advanced economies has therefore dropped by 7.50% in the last quarter of 2008. Forecasts for 2009 show a 1.30% reduction in the GDP and a gradual recovery for 2010, with growth of 1.90%.

The US economy has possibly been that which has most suffered the consequences of the growing financial tension and the ongoing slow down of the construction sector. Nevertheless, Western Europe and the advanced economies of Asia have also been seriously jeopardised by the collapse of the worldwide economy, the worsening of their financial problems and, in certain cases, changes in the real estate sector.

The economies of emerging countries have also experienced serious problems, reporting a 4% decline during the last quarter of 2008. This situation has particularly affected East Asian countries which mainly depend on exports of manufacturers and those of emerging countries of Europe and the Commonwealth of Independent States (CIS), growth of which is closely related to capital inflows.

The rapid slowdown in worldwide activity has coincided with depleted inflationary pressure. Year-on-year inflation of advanced economies at December 2008 dropped by approximately 1%, except for Japan, which reached 0.40%. Inflation also fluctuated significantly in the different emerging economies during 2008.

Some of the political measures taken in the majority of countries are as follows:

- Injection of public capital.
- Liquidity supply services.
- Expansive monetary measures.
- Tax stimulation programmes.

Europe has also entered into a deep recession with inflation falling considerably as a result of a drop in consumption, investments and exports in all sectors of the economy. Even though more active economic policy measures are adopted, it is highly likely that the deceleration of Europe will be prolonged until the beginning of 2010, when a gradual recovery is due to start.

The Spanish year-on-year GDP growth rate stood at 1.16% in 2008, compared to 3.80% in 2007. Nevertheless, growth in the Spanish economy has exceeded that of the US (1.11%), Germany (1.29%) and Luxembourg (0.68%).

The IMF forecasts that the Spanish economy will drop by 1% in 2009 and warns that if no significant changes are made the country will plunge into a cycle of low growth and high unemployment, generat-

ing an ongoing rise in public debt. In addition, inflation in Spain is higher than that of its neighbouring countries and one of the structural problems of its economy is the low level of productivity.

France's year-on-year growth rate stands at 0.72%, lower than that of the majority of European economies and its 1.9% growth for 2007. This deceleration is due once again to the serious international financial crisis and the drop in foreign and domestic demand. The French Government forecasts that 2009 will be the first year of recession in France since 1993, in which the GDP has dropped by 0.9%.

Although economic growth in the Principality of Andorra has exceeded that of the Euro zone average, it has also been affected by the serious international crisis, especially during the second half of 2008 and the first quarter of 2009, with the consequent drop in consumption, especially relating to tourism which is one of the mainstays of the Andorran economy. During 2008, the number of tourists and day trippers fell by 5.11%.

During 2008 Andorra has continued to work on diversifying the structure of its economy in an environment of globalised economic crisis, but has especially focused its efforts on improving efficiency and competitiveness in those sectors of the economy which have been key to economic growth in recent years: tourism, hotels, commerce, skiing and the financial sector, by improving the quality of service, placing special emphasis on boosting innovation.

Andorra has continued with measures started in previous years to boost innovative initiatives expanding it internationally and creating a capacity to sustain the growth of its economy, population and wealth.

The Government has therefore initiated a new phase to open up, modernise and diversify the economy. It is working in conjunction with Andorra Development and Investment (*Andorra Desenvolupament i Inversió* (ADI)) to promote the Andorran economy worldwide and to attract investors in strategic sectors such as audiovisual, electronic commerce, aesthetic medicine, industrial production, research, development and training, in order to diversify the Andorran economy.

The Commerce Improvement Plan (*Pla de Millora del Comerç*) is also being worked on. This is a strategic plan to improve the competitiveness of commerce, based on criteria of quality, specialisation and professionalism. This plan aims to promote a favourable commercial environment with the objective of creating a unique and exceptional shopping experience for customers, offering modern retail outlets adapted to international trends and providing high quality and innovative services and products.

In an environment marked by international financial crisis and a globalised economic recession, the results obtained by Andorran banks have fallen, although illustrating prudent and sound management. Now that the uninterrupted phase of economic growth has come to an end, the environment is more difficult and demanding and there is a clear difference with regard to more stable entities with better business models and improved management teams. The Andorran banking sector is therefore prepared to serenely and confidently face future challenges.

CONTENTS

I. The Principality of Andorra **Page 9**

- I.1. Introduction to Andorra Page 11
- I.2. History of Andorra Page 15
- I.3. Andorran institutions Page 16

II. Andorran legal framework **Page 21**

- II.1. Mercantile framework Page 23
- II.2. Labour framework Page 25
- II.3. Tax system Page 26
- II.4. Legislative framework of the financial system Page 31
- II.5. Developments in the financial system's regulatory framework Page 36
- II.6. Evolution of the legal and regulatory framework of the Andorran financial system in an international context Page 44

III. Economic environment **Page 49**

- III.1. Introduction Page 51
- III.2. General information Page 52
- III.3. Main economic variables Page 58
- III.4. Public sector Page 64
- III.5. Economic sectors Page 68

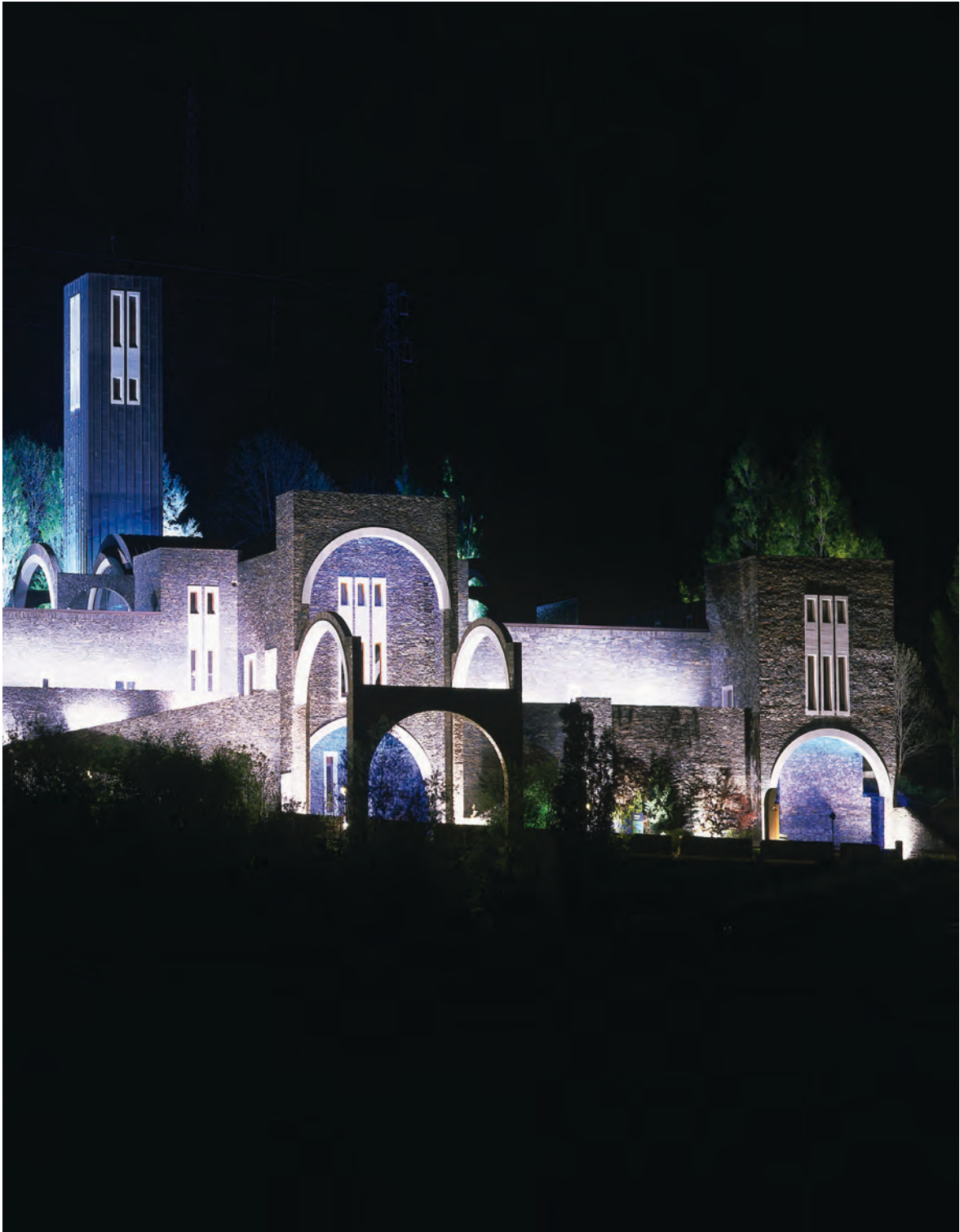
IV. Banking sector **Page 89**

- IV.1. Introduction Page 91
- IV.2. Association of Andorran Banks Page 93
- IV.3. The banking sector Page 96

V. Information of interest **Page 125**

- V.1. Andorran banking groups Page 127
- V.2. Other information of interest Page 137

I. THE PRINCIPALITY OF ANDORRA



I. THE PRINCIPALITY OF ANDORRA

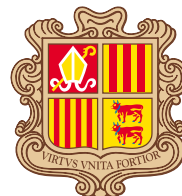
I.1. INTRODUCTION TO ANDORRA

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



Andorra covers a surface area of approximately **468 km²** and is larger than the other small European States such as San Marino (61 km²), Liechtenstein (157 km²) or the Principality of Monaco (1.5 km²).

The Andorran flag and coat of arms are shown below:



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

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

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°C, while the average maximum temperature is 24°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 energy and thermal activities.

In 2008 Andorra had a **population** of 84,484 inhabitants, 37% of them with Andorran nationality, 32% with Spanish nationality, 16% with Portuguese nationality, 6% with French nationality and 1% with British nationality. The remaining 8% of the population comprises more than 16 different nationalities, in addition to those stated above.

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.

Foreign 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.

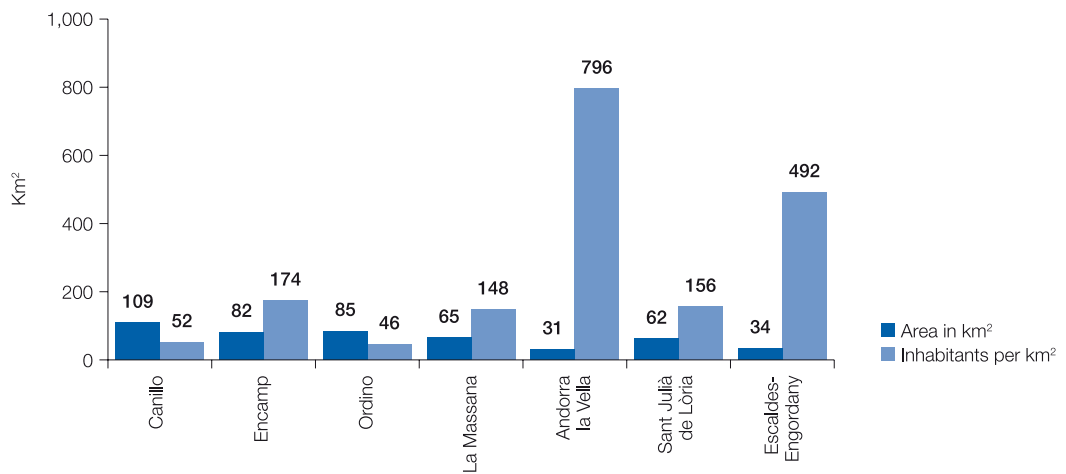
Non-resident individuals over the age of 18 and those individuals who have resided in Andorra for less than 20 years require authorisation from the Government to be able to acquire a **dwelling** under the horizontal property regime with the corresponding parking space. In this case plots of land for a chalet or detached house cannot exceed 1,000 m². The residency period for Spanish and French citizens is lowered to ten years due to the application of the “Trilateral Agreement” relating to the entry, circulation, stay and settling of these nationals. The residency period is also lowered to ten years for Portuguese citizens in accordance with the “Bilateral Agreement” relating to the entry, circulation, stay and settling of these nationals.

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 seven parishes and their population in 2008 are as follows:

Surface areas and population of parishes 2008



Source: Study Service of the Andorran Government - Ministry of Finance

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

From Spain:

Madrid 600 km
Barcelona 210 km

From France:

Paris 900 km
Marseille 532 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 Lleida or Puigcerdà in Spain and from Ax-les-Thermes or L'Hospitalet in France in less than an hour by road.

The nearest airports are in Toulouse and Perpignan (France) and Barcelona, Girona and Reus (Spain). During the first half of 2009 test flights have been made from Alguaire Airport (Lleida, Spain), which is forecast to enter service at the end of 2009. Currently there is also a plan to bring into operation the previously used airport in La Seu d'Urgell (Spain), 10 km from Andorra.

The Andorran Telecommunications Service (Andorra Telecom) provides other kinds of communication by land line and mobile telephone (GSM and 3G), basic internet and broadband (ADSL), optical fibre (FITH) and digital terrestrial television (DVB - T), GPRS, telegraph, telex and fax.

I.2. HISTORY OF ANDORRA

Andorra's history is documented in scripts discovered in the 9th century, which record the first written evidence relating to Andorra.

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

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

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

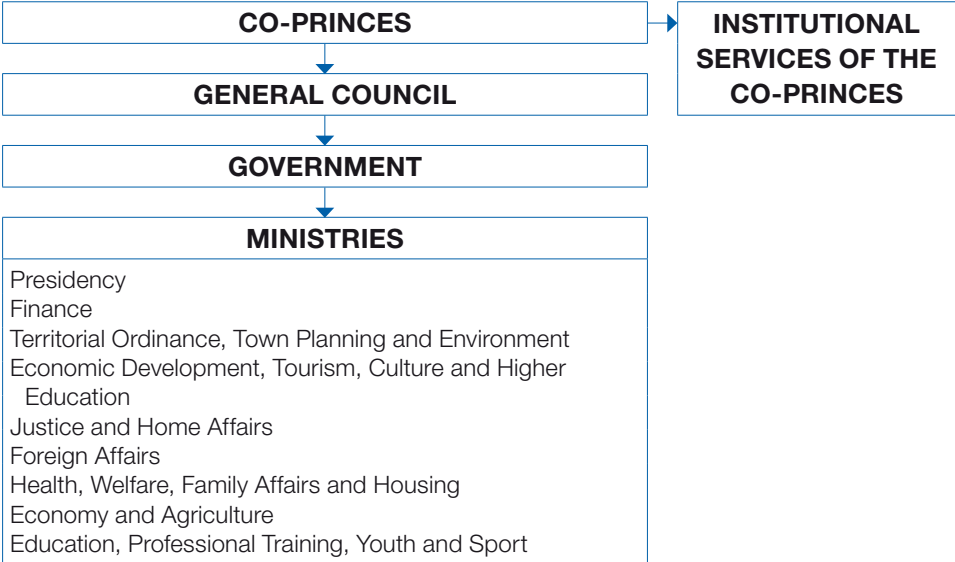
A great change took place in Andorra on 14 March 1993, when the Constitution was approved by referendum. The Constitution converted the Principality of Andorra into an independent legal, democratic and welfare State. Although this may seem recent, the Principality of Andorra has in fact been governed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

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

I.3. ANDORRAN INSTITUTIONS

Main Institutions and Political Bodies

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



Source: Andorran Government - Year 2008

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

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

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

Prior to 26 April 2009, the date on which general elections were held in the Principality, Andorra had the following **political parties** with parliamentary representation: The *Partit Liberal d'Andorra* (affiliated to the International Liberals, the European Liberal Democrat and Reform Party and the International Network of Liberal Women), the *Partit Socialdemòcrata* (affiliated to the International Socialists), the *Centre Democràtica Andorrà* (affiliated to the International Central Democrats), *Segle 21* and *Renovació Democràtica*. Since 19 May 2009 the political parties with representation in the new Andorran Parliament are the *Partit Socialdemòcrata* (affiliated to the International Socialists) and the *Coalició Reformista*, formed for different parties such as the *Partit Liberal d'Andorra* (affiliated to the International Liberals) and finally *Andorra pel Canvi*, a citizens' platform set up in the last quarter of 2008.

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

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

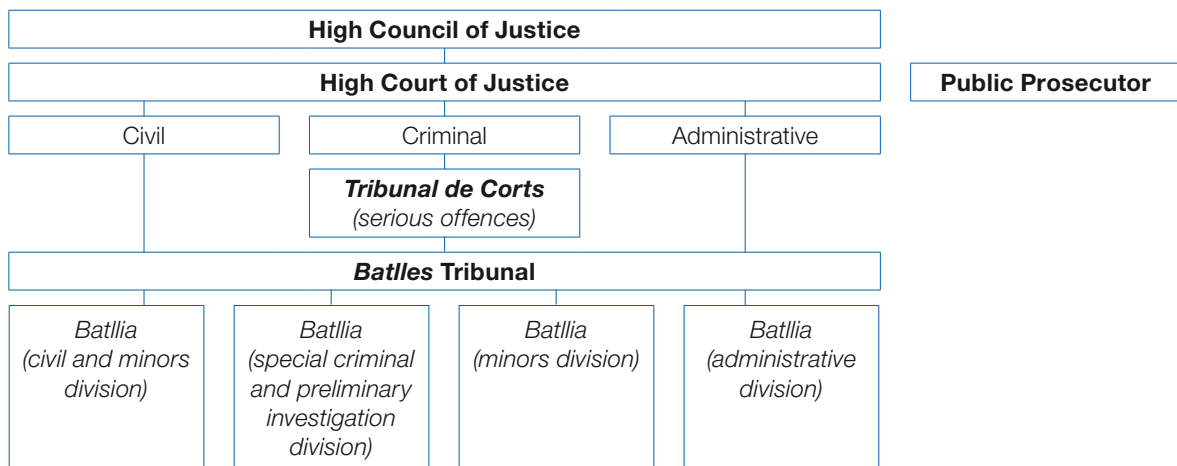
The **Accounts Tribunal** is an independent technical body linked to the General Council which taxes public spending. It is also in charge of verifying the transparency of the public Administration's economic, financial and accounting management.

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. The Citizens' ombudsman receives and processes all complaints and claims relating to citizens' dealings with all the public administrations and entities in the Principality, responding with independence and impartiality.

Other Institutions

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

An organisational chart of the Andorran legal system is as follows:



Source: Andorran Government

The **Constitutional Tribunal** is the highest Constitutional body and its rulings bind public powers and individuals. It approves its own regulations and it is solely subject to the Constitution and the Qualified Constitutional Tribunal Law when exercising its functions. It consists of four constitutional magistrates, one for each of the co-princes, and two for the General Council, each with a mandate of eight years, which cannot be renewed for consecutive periods.

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

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

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

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

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

Other Bodies

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

The **Andorran Financial Intelligence Unit** (UIF) is an independent body created to foster and coordinate measures to prevent money laundering and terrorist funding. This unit was created in the year 2000 under the Law for international cooperation on criminal matters and the combat against the laundering of money or securities arising from international crime, following recommendations of the European Council's MONEYVAL Committee and the 40 recommendations and nine special recommendations from the FATF (Financial Action Task Force). The UIF (prior to 21 April 2009 known as the Money Laundering Prevention Unit (UPB)) was created in 2000.

The **Corruption Prevention Unit** forms part of the structure and function of the ministry with presidency powers, currently the Ministry of the Presidency. This unit has powers regarding anti-corruption measures and to this end promotes and coordinates all the central government's governance activities. The Decree governing the functioning of this unit came into force on 24 January 2008.

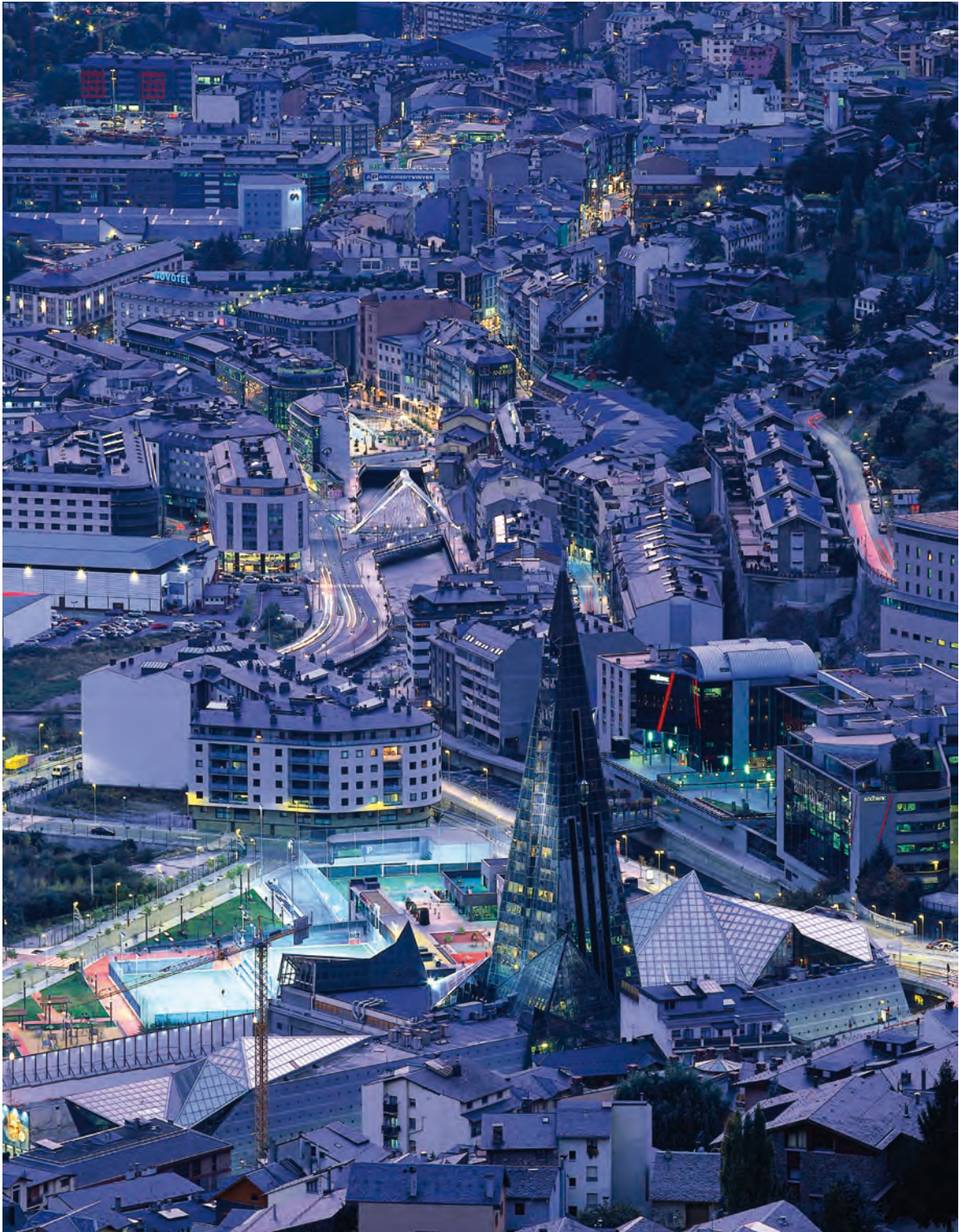
The **Andorran Chamber of Commerce, Industry and Services** (CCIS) is a publicly-owned entity with its own legal status and full capacity to operate its own functions. It is a consultative body forming part of the public administration and its main aim is to promote and strengthen economic and

business activity in the country, defend the interests of businesses and provide a range of corporate advisory services. All businesses, commerce, industries and liberal professionals inscribed in the Government's Registry have to register in the census of the Andorran Chamber of Commerce, Industry and Services.

The main objective of the **Andorran Institute of Legal, Economic and Financial Studies** (JEF) is to promote and organise training, research and publication activities relating to legal, economic and financial matters at an international level and in relation to the European Union. The patrons of this foundation are the Andorran Government, the Association of Andorran Banks, the Andorran Chamber of Commerce, Industry and Services.

Since 7 April 2009 **Andorra Development and Investment** (ADI) has replaced and continues with the activities of the Office for Business Innovation (OIE). ADI, a public company with private rights, initiates a new phase as the agency in charge of promoting the economy of the Principality, with the mission of diversifying and modernising the Andorran economy. At an international level, ADI's objectives are to position and promote Andorra as an open, modern and attractive economy for making investments and creating new companies in an environment of opportunities. ADI is engaged in welcoming and supporting these value added projects and at domestic level, its objective is to render support to local entrepreneurs wanting to expand internationally.

II. ANDORRAN LEGAL FRAMEWORK



II. ANDORRAN LEGAL FRAMEWORK

II.1. MERCANTILE FRAMEWORK

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

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

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

A foreign company can relocate its registered offices to Andorra and acquire Andorran nationality provided that it complies with all the legal provisions established by legislation prevailing in Andorra and it is permitted under the legislation of the country of origin for the purpose of retaining its legal form.

Nonetheless, on 8 April 2008 the General Council approved the new “*Law on Foreign Investments in the Principality of Andorra*” 2/2008 which will come into force on 7 November 2008. The framework of this new law establishes immediate access to foreign capital in certain sectors of the economy, subsequent to authorisation from the Andorran Government in the event that the investment is equal to or exceeds 50% of share capital, such as the audiovisual sector, e-commerce, aesthetic medicine and wellness, training, industrial production based on new technologies and research and development. In contrast, strategic sectors will not have access to foreign capital. The Government will have to present the General Council with its proposals for access to new sectors within two and six years.

For the remaining sectors and activities, current legislation governing foreign investments establishes that the capital of Andorran companies must be comprised of at least 51% Andorran capital (67% in accordance with legislation prior to 7 November 2008). 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; nonetheless, this period is reduced to ten years for Spanish and French citizens, as stated in the “*Trilateral Agreement*” relating to the entry, circulation, residency and establishment of Spanish and French citizens in Andorra. This period is also reduced to ten years for Portuguese citizens as stipulated in the “*Bilateral Agreement*” which establishes the main principles relating to the entry, circulation and residency of Portuguese citizens in Andorra as well as Andorran citizens in Portugal.

This legislation is not applicable to Andorran banking entities that are governed by specific legislation regulating the financial sector, especially the “*Law regulating the basic administrative regime of Andorran banking entities*” dated 30 June 1998. This law permits foreign credit institutions to invest in up to 51% of the capital of Andorran banking entities.

Law 2/2008 of 8 April 2008 has been amended by *Law 36/2008 of 18 December 2008* which clarifies queries arising from the publication of the first law regarding the interpretation of the procedure for the

authorisation of direct foreign investments and the degree of liberalisation thereof. This law entered into force on 22 January 2009.

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

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

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

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

Furthermore, in accordance with prevailing legislation, companies must present a certificate approving the annual accounts and the proposal for the distribution of profits or application of losses, along with a copy of the annual accounts and auditors’ report, where necessary, within a month from approving the annual accounts. This obligation will be applicable for years starting 1 January 2009 and thereafter.

- 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” and “Bilateral Agreement” French, Spanish and Portuguese citizens, respectively only need to have resided in Andorra for ten years.

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

- **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. In its session held on 8 May 2008, the General Council approved a new law governing the activity of liberal professionals.
- The objective of the **Law governing foundations** dated 12 June 2008 is to respond to social demand for regulating private foundations of public or social interest, taking into consideration the legal tradition and experience of neighbouring countries. This law entered into force the day after it was published in the Andorran Official Gazette, except for article 1 of chapter II, which did not enter into force until 12 December 2008.

II.2. LABOUR FRAMEWORK

- 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 pensioners 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 certain quotas approved by the General Council. On 3 October 2008 the General Council approved the *Social Security Law 17/2008* which will enter into force on 1 November 2009. One of the main changes as a result of this new legislation is that adherence to the CASS will not only be obligatory for wage-earners and pensioners, but also self-employed individuals. This new system also includes significant improvements to the social benefits system.
- *Law 34/2008 governing health and safety in the workplace dated 18 December 2008* regulates the general principles for protection already established in the majority of European countries. The aim of this law is to prevent labour risks and protect the health and safety of workers by eliminating or mitigating any risk factors and improving information, consultations, participation and the training of workers and their delegates, as well as introducing general guidelines for applying the aforementioned principles and measures for promoting an improvement in health and safety in the workplace. This law entered into force on 18 March 2009.
- The objective of the **Law governing the labour relations code dated 18 December 2008** is to aggregate in a single legal text, the issues already regulated in *Law 8/2003 of 12 June 2003 governing employment contracts*, including matters not previously dealt with, such as the regulation of collective representation rights and the entitlement of workers to call meetings and collectively negotiate collective labour agreements. This law entered into force on 18 March 2009.
- The objective of the **Qualified trade union law dated 18 December 2008** is to delimit trade union rights and the legal regime of trade union organisations and to establish the requirements for their incorporation, the responsibilities thereof and their representative capacity, including trade union actions. This law entered into force on 18 March 2009.

II.3. TAX SYSTEM

Introduction

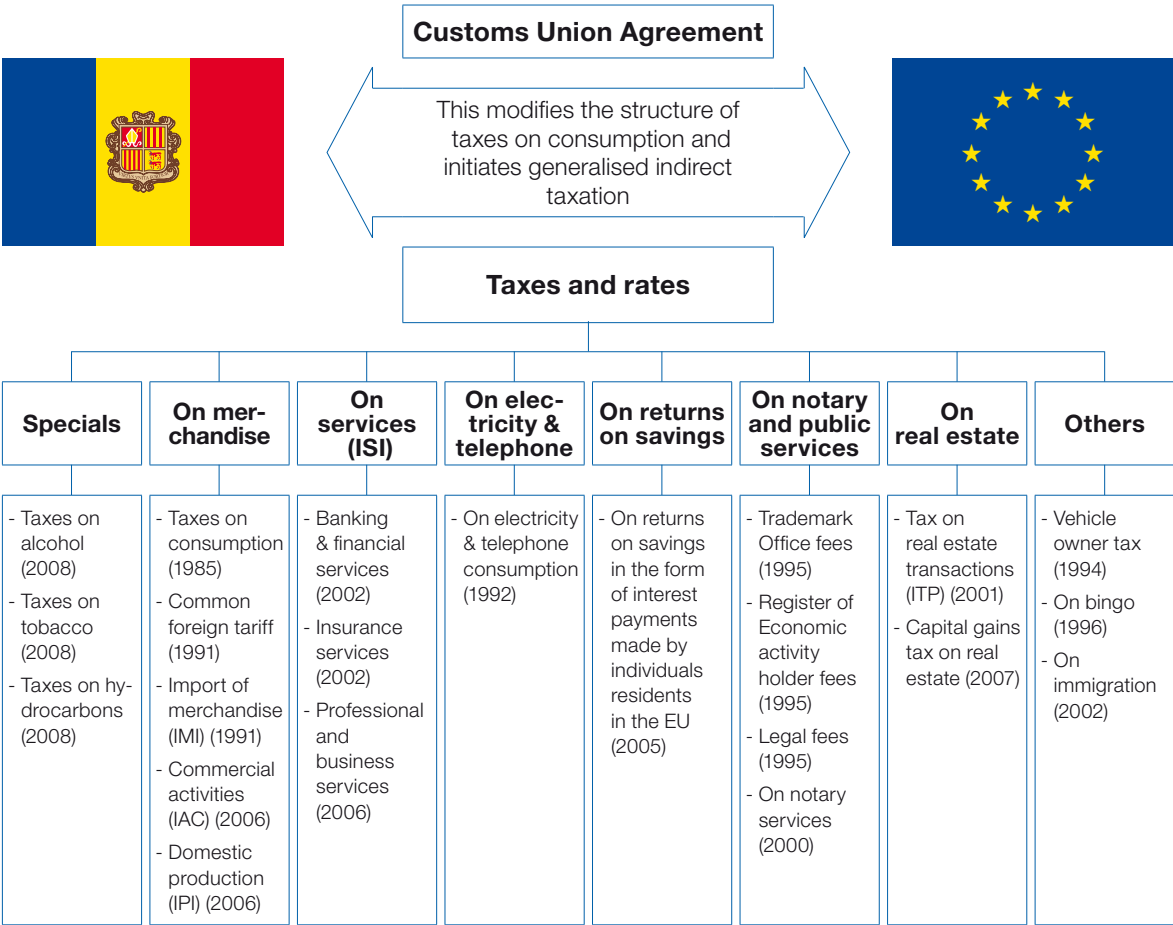
In our recent history, the approval of the Customs Union Agreement between the Principality of Andorra and the European Economic Community (1990) and subsequently the Constitution (1993), provides a new scenario for the developing Andorran tax system.

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

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 Indirecte (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, i.e. 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)*”)

The tax on commercial activities entered into force on 3 November 2004 and was amended on 27 October 2006. 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 an 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:

IMI/IPI Applicable tax rates	Equivalence charge
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. This law was subsequently amended by *Law 16/2004 dated 3 November 2004*. 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*, amended by *Law 3/2005 dated 21 February 2005*, and the *Law governing indirect taxation on the rendering of insurance services which became applicable as of 13 June 2002*. In accordance with these Laws, the rendering of banking and financial services is taxed at 12% 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.

In addition, on 1 January 2006 the *Law 17/2004 dated 3 November 2004* governing 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. Should services be rendered by a business person or professional established outside Andorra, and the target or beneficiary of the taxed service is a business person or professional established in Andorra, it is the target or beneficiary of the service rendered which is under the obligation to pay tax. 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).

Special taxes

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

Taxation on real estate

Taxation of real estate transactions (“*Impost sobre transmissions patrimonials immobiliàries (ITP)*”)

The Law governing tax on real estate was enacted on 29 December 2000 and modified by *Law 7 dated 21 June 2006*. This tax is levied directly on onerous or lucrative transactions to transfer real estate between living persons, and from the creation or transfer of rights over these assets. This tax is also levied on the transfer of shares or other equity investments in mercantile companies, and from the creation or transfer of rights over these shares or other equity investments when at least 50% of the company's assets comprise real estate and when the acquiring party obtains a fifth part of interest in the company as a result of the transfer of shares or other equity investments or creation or the transfer of rights over these assets.

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

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

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

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

This tax is applicable to all transfers of real estate located in the Principality of Andorra and to the creation or transfer of rights over this real estate, which can be exercised in Andorra. The transfer of shares of mercantile companies is also subject to this tax, as is the concession or transfer of rights over these shares, when at least 50% of the company's assets are comprised of properties and that as a result of the transfer of shares or the concession or transfer of rights thereon, the acquirer holds more than a fifth of the company's capital.

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

Taxation on savings

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

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

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

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

II.4. LEGISLATIVE FRAMEWORK OF THE FINANCIAL SYSTEM

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

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

- The “**Law regulating insurance companies**” in the Principality of Andorra *dated 11 May 1989* includes the fundamental characteristics to be able to operate in Andorra.
- The “**Law regulating the financial system**” *dated 27 November 1993* and the “**Law regulating the operational functions of the different components of the financial system**” *dated 19 December 1996* define the legislative framework regulating professional activities in the financial sector and the following operational functions of the different components of the financial system:
 - Operational 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.
- Long before the enactment of the *Law of 27 November 1993 regulating the financial system*, the Andorran financial system, concerned about transmitting seriousness and commitment to third parties, had already promoted its self-regulation, through the Association of Andorran Banks (“*Associació de Bancs Andorrans*” (ABA)).
- The “**Law regulating mandatory investment coefficients**” *dated 30 June 1994* sets out a mandatory coefficient, which has to be covered by public funds and which, in accordance with the aforementioned law, is only currently applicable to banking entities. This law was promulgated by the Decree governing the *Law regulating mandatory investment coefficients dated 22 August 1994* and the Decree of the same date officially recognising certain deposits with the Andorran National Institute of Finance (INAF) as public funds for the purpose of complying with the mandatory investment coefficients. Public debt issues are also regulated in this framework. Public debt was last issued on 31 December 2005 and was regulated by the Decree of the same date governing the issue of public debt.
- The “**Law regulating deposit guarantee reserves**” *dated 11 May 1995* establishes the minimum reserves of shareholders’ equity to guarantee the operational obligations of the entities included in the financial system.
- The “**Law regulating remuneration on deposit guarantee reserves and other operational obligations to be maintained and deposited by entities included within the financial system**” establishes the method of applying interest remuneration and other conditions applicable to the deposit guarantee reserves set up by banking entities. The following decrees stem from this *Law dated 4 July 2001*:
 - Decree relating to the drawing down of deposit guarantee reserves set up by banking entities dated 23 August 2001, which establishes that the Ministry of Finance may authorise banking entities, which so request, to draw down guarantee reserves.

- The Decree enacted on 23 January 2008 relating to the terms applicable to the deposit guarantee reserves set up by banking entities within the financial system establishes the following:
 - The effective percentage applicable when calculating the amount banking entities must appropriate to reserves is 1.25% of the volume of all investments, with a deduction for those set up using shareholders' equity originating from banking sources based on the individual balance sheets of the banking entities as at 31 December 2002.
 - From 31 December 2007 to 31 January 2008, both inclusive, the deposit guarantee reserves set up in the Andorran National Institute of Finance (INAF) by entities forming part of the financial system accrued interest at a rate of 4.338%.
 - From 31 January 2008 to 31 December 2008, the last working day of the year, deposit guarantee reserves set up in the Andorran National Institute of Finance (INAF) by entities forming part of the financial system bore interest at 11-month interbank market rates prevailing for operations with effective date at 31 January 2008. These interest rates are calculated based on the Euribor rate of the two previous working days published by the European Central Bank.
- The Decree enacted on 18 February 2009 relating to the terms applicable to the deposit guarantee reserves set up by banking entities within the financial system establishes the following:
 - The effective percentage applicable when calculating the amount banking entities must appropriate to reserves is 1.25% of the volume of all investments, with a deduction for those set up using shareholders' equity originating from banking sources based on the individual balance sheets of the banking entities as at 31 December 2002.
 - From 31 December 2008 to 27 February 2009, both inclusive, the deposit guarantee reserves set up in the Andorran National Institute of Finance (INAF) by entities forming part of the financial system accrued interest at a rate of 2.1475%.
 - From 27 February 2009 to 31 December 2009, the last working day of the year, deposit guarantee reserves set up in the Andorran National Institute of Finance (INAF) by entities forming part of the financial system bore interest at 10-month interbank market rates prevailing for operations with effective date at 27 February 2008. These interest rates are calculated based on the Euribor rate of the two previous working days published by the European Central Bank.

■ The “**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 achieves two objectives. Firstly, to give legal form to the commitment to combat the laundering of money and secondly, to ratify the banking principle of not interfering in the affairs of the clients.

■ 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 became known as the Andorran Financial Intelligence Unit (*UIF*) on 21 April 2009. The *UIF* is the independent body for the promotion and coordination of money laundering and terrorism financing prevention measures. This legislation implies the following for all financial entities:

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

This law substitutes the previous legislation.

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 func-

tioning of the Money Laundering Prevention Unit (*UPB*) (created in 2000) the obligations for diligence and declaration from individuals, as well as the procedures to follow upon detecting suspicious operations.

On 13 February 2008 the Andorran Government approved the Decree relating to the creation and operations of the Permanent Commission for the Prevention of Money Laundering and Terrorism Finance in order to improve coordination between all the bodies and ministries involved in preventing and combating money laundering and terrorism finance, and to develop a multidisciplinary and global approach and be more effective and flexible when adopting measures. This commission is led by the Laundering Prevention Unit and comprises representatives from the Presidency, Finance, Justice, Home Affairs, Economy, and Foreign Affairs ministries and the Laundering Prevention Unit. When issues arise that affect the Andorran financial system, a representative of the Andorran National Institute of Finance (INAF) can also attend the commission's meetings, which are held at least once every three months.

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

As a result of the enactment of the *Law 28/2008*, its related Regulation, comprising organisational and functional aspects of the UIF has been amended. This regulation establishes the way in which parties under obligation must comply with the law and defines the procedures that they must follow should a transaction potentially relating to money laundering and the financing of terrorism be detected.

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 individually entered into this agreement with the IRS therefore obtaining the status of **Qualified Intermediary (QI)**.

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

- The "**Law regulating the capital adequacy and liquidity criteria of financial institutions**" dated 29 February 1996, subsequently amended on 12 December 1996, 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**" dated 27 November 1997 aims to promote correctness and conscientiousness when carrying out professional financial activities. It also aims to protect the financial system.

- The “**Law regulating the creation of new Andorran banking entities**” dated 30 June 1998 governs the authorisation of the creation of banking entities and specifically establishes the possibility of granting two licences in 1999 and 2000.

- The “**Law regulating the minimum share capital of Andorran banking entities**” dated 30 June 1998, establishes that they should be incorporated with a minimum share capital of Euros 30 million.

- The “**Decree approving the Chart of Accounts for financial entities**” dated 19 January 2000 defines the principles, criteria and basic accounting standards for financial entities in Andorra. This allows the INAF to effectively supervise the financial system. This Chart of Accounts entered into force on 1 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 control information, complementing the financial statements to the INAF, every quarter, in order to detect the aforementioned entities’ exposure to market and liquidity risks and the concentration of risks and loan losses and take corrective measures against these risks.

- The “**Law regulating the basic administrative regime of Andorran banking entities**” dated 30 June 2000 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 “**Law for indirect taxation on banking and financial services rendered**” dated 14 May 2002, 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. Since 1 April 2005 the indirect tax on banking services rendered has risen from 7% to 12%.

- The “**Law for indirect taxation on insurance services rendered**” dated 14 May 2002, 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.

- On 23 October 2003 the “**Andorran National Institute of Finance Law**” (*INAF*) 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.

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

- In its session held on 21 February 2005, the General Council of the Principality of Andorra ratified the **Agreement between the Principality of Andorra and the European Union relating to measures equivalent to those included in Council Directive 2003/48/EC regarding taxation on savings in the form of interest payments**. In its session held on 13 June 2005 the Law applying this Agreement was approved. On 20 June 2007 the Decree was approved amending model 420: “Declaration of taxation on savings” included in the appendix of the *Law 11/2005* mentioned above.

This law establishes the obligation to make a withholding at source on interest payments made by paying agents located in the Principality of Andorra to beneficial owners who are individuals resident in one of the European Union member States. This withholding will be equivalent to 20% as from 1 July 2008 (15% to date and 35% as of 1 July 2011). The Andorran Government will transfer 75% of the amount arising from this obligation to the EU countries where the beneficial owners reside. Income from pension and insurance contracts is exempt from the application of the Agreement.

- The “**Law regulating Andorran collective investment undertakings**” dated 12 June 2008 includes a generic definition of what is understood as investment undertakings in the Principality, regulates its functioning and the distribution of these undertakings abroad, as well as the distribution of foreign investment undertakings in Andorra. This law entered into force on 17 July 2008.
- The “**Law governing the legal regime of non-banking financial entities in specialised credit**” dated 30 October 2008 establishes certain economic requirements for the personal, technical and economic bases on which entities’ activities have to be carried out, so that these entities comply with the requirements to ensure the quality and security of management in the Andorran financial system.

II.5. DEVELOPMENTS IN THE FINANCIAL SYSTEM'S REGULATORY FRAMEWORK

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 and a new economic framework is being developed to bring the Andorran economy into line with international standards. As a result, in recent months Andorra has been considerably modernising its legislative framework and it will continue to do so in coming months. The financial system's legislation and regulations are also being adapted to international standards.

Andorran banking is continuously monitoring the most up-to-date issues such as international regulations and legislation, strategic sector risks, supervisory systems, 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 4/2004 on 22 December 2004 which has involved significant changes to the accounting principles applied to date.

The entities comprising the Andorran financial system apply the accounting principles and criteria established in the General Chart of Accounts for the financial system approved by the Andorran Government on 19 January 2000. These standards, based on the accounting standards of the Bank of Spain at that time, are generally adequate, although they will be updated in accordance with International Financial Reporting Standards (IFRS). In accordance with *Company Accounting Law 30/2007* which entered into force for financial years starting 1 January 2009 and thereafter, Andorran mercantile companies must keep accounting records that are ordered and appropriate for the nature and size of their business in accordance with International Accounting Standards and International Financial Reporting Standards (IFRS), as established in the General Chart of Accounts published on 30 July 2008 and which came into force on 1 January 2009. Subsequent to the decree dated 23 July 2008 the Ministry of Finance or INAF, by delegation, is responsible for approving special accounting legislation for banking entities and other entities operating in the financial system adapted to *Company Accounting Law 30/2007 of 20 December 2007*.

During the first quarter of 2006 the Association of Andorran Banks ("*Associació de Bancs Andorrans (ABA)*") advised by the main auditing firms worldwide, completed a study of the impact that the process of adopting international financial reporting standards could have on the Chart of Accounts of the Andorran Financial System. This report has been distributed to all the Banks for their evaluation.

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 other risks (i.e. strategic or reputational risk) and establishes qualitative requirements concerning the management and control 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. The supervisor may request that an entity must hold a higher % of regulatory capital than that resulting from the application of Pillar I.
- *Pillar 3* aims to achieve market discipline characterised by 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. Therefore, for those entities aiming to optimise their regulatory capital this new scenario could have major implications for their 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.

On 21 March 2007 the Association of Andorran Banks (*“Associació de Bancs Andorrans (ABA)”*), in conjunction with the Catalan Accounting and Management Association (*“Associació Catalana de Comptabilitat i Direcció (ACCID)”*) presented a book, aimed at banking entities and insurance companies in the Principality, entitled *“La Indústria Bancària en el Marco de Basília II”* (*“The Banking Industry in the Framework of Basel II”*).

Furthermore, on 6 February 2009 the Andorran Institute of Legal, Economic and Financial Studies (*“Institut d'Estudis Jurídics, Econòmics i Financers (JEF)”*) organised a seminar entitled *“First Andorran Banking Day: Andorra and the new outlook for European banking”* in which the possible need for new capital requirements, the role of financial supervisory bodies and that of rating agencies in the current financial crisis was analysed.

Andorra is currently applying Basel I, which does not differ considerably from Basel II regarding the standardised approach. This will probably be the method used by the Andorran banking system, given its reduced size, as is the case of the majority of banks of the same size as Andorran banks in other European countries.

Money Laundering Prevention

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

On 11 May 1995 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 combat against the laundering of money or securities arising from international crime*" and the creation of a Laundering Prevention Unit (UPB). The UPB is an independent body in charge of promoting and coordinating money laundering and terrorism finance prevention measures and cooperating with foreign counterparts. This law also establishes, inter alia, exhaustive client diligence and maintaining of client files.

The "*Regulation of the Law for international cooperation on criminal matters and the combat against the laundering of money or securities arising from international crime*" was approved on 31 July 2002.

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

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

On 18 October 2007 Qualified *Law 17/2007* amending *Law 9/2005* governing the Andorran Criminal Code, was approved, which includes a series of reforms to bring the Andorran Criminal Code into line with all the provisions of the Criminal Law Convention on Corruption, adopted by the European Council on 27 January 1999 and ratified by the Principality of Andorra on 8 November 2001.

On 3 October 2008 the General Council approved Qualified *Law 15/2008* amending *Law 9/2005* dated 21 February 2005 governing the Andorran Criminal Code. The main reasons for this amendment were the need for certain technical modifications to increase the operative nature of the law, the entry into force of certain international treaties signed by Andorra and the provisions, the legislative texts of which needed adaptation.

This recent amendment has led to the inclusion of article 366 bis which deals with the crime of "financing terrorism". Consequently, on 12 June 2008 the "*United Nations Convention for the suppression of the financing of terrorism*" signed by the Andorran Government on 10 November 2001 was ratified.

The aforementioned text of the Andorran Criminal Code and the Criminal Procedures Code was published on 24 December 2008.

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

A combination of the provisions outlined above and the strict application of these provisions by all the agents involved, especially regarding the efforts made by the financial sector to adequately train all of its employees, has ensured that reports issued by the various international bodies have been favourable, especially Moneyval's progress report approved unanimously on 10 December 2008 in Strasbourg.

In May 2008 the UIF gave new training courses to update knowledge and information on money laundering and the combat against the financing of terrorism. These courses were focused on the current situation, at national and international level and were attended by personnel from the Andorran financial system and other economic sectors which are parties under obligation regarding money laundering matters.

Corporate Social Responsibility (CSR)

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

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

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

Details of the measures being taken by each entity in the Andorran banking sector are provided below:

CSR in Andbanc

In 2008 Andbanc has continued to promote CSR in various areas, such as a new environmental policy approved by the Board of Directors, which has introduced a considerable number of improvements. Andbanc's social project has included various initiatives to promote institutions in the country, such as drug prevention as part of the National Plan against Drug Dependency in conjunction with the Andorran Government, open days at various Andorran schools and donations to NGOs. In the area of sports, Andbanc has promoted sporting federations, sporting activities and the Andorran Olympic Committee and in the area of culture, it has been involved in various cultural fairs, concerts, exhibitions and Innova Música days, not to mention many other projects.

CSR in Banc Internacional - Banca Mora (BIBM)

In its notes to the 2008 annual accounts, the BIBM Group presents its CSR programme focusing on building a better country. In the opinion of BIBM a company's development is based on sustainability and on the application of strict ethical criteria, so that it may act responsibly in its day-to-day activities. Corporate social responsibility policies are based on quality as a key competitive factor, on the decisive backing of sustainability and on the promotion of social initiatives. These initiatives include the divulging of scientific and medical issues through leading conferences and cultural projects such as the Andorran la Vella Season of Music and Dance, educational projects with the collaboration of professional institutes and sporting projects with the sponsorship of the Andorran Basketball Club. As a result, BIBM shows a serious commitment towards society through its CSR programme.

CR in Banca Privada d'Andorra (BPA)

BPA's management is governed by corporate responsibility (CR) principles. BPA has intensified its contributions in the social, assistance and environmental fields through the creation of the Banca Privada d'Andorra Foundation, therefore culminating the task initiated in 1998 with the annual BPA Solidarity Awards. These awards originated from BPA's desire to promote projects to improve the standard of living of certain groups in society and to reinforce the network of social entities in the country. BPA has also participated as founding sponsor in the creation of the Principality of Andorra's "Fundació Privada Tutelar", which assists with the legal protection of people with dependency. Furthermore, BPA carries out initiatives in the fields of employment, economics, the environment, social affairs, culture and sports, thus illustrating its philosophy and proving its involvement in all areas of corporate responsibility, as set out in its 2008 CR report.

CSR in the Crèdit Andorrà Group

Crèdit Andorrà has a firm commitment towards Andorran society. This is illustrated through various future projects for the development of the country and to improve the standard of living of its citizens, basically through the Crèdit Andorrà Foundation. In 2003, Crèdit Andorrà was the first bank to set up a line of employment in CSR and to publish a CSR report. It has also reached a level of application A as per GRI for its 2008 CSR report. The activities of the Crèdit Andorrà Foundation are focused on the social assistance, educational and cultural fields. It has consolidated its grants programme for students of higher education, is working on improving the standard of living of the elderly, is giving support to those affected by illnesses causing a serious social impact and is promoting culture through music with the collaboration of ONCA and JONCA and theatre with the collaboration of ENA, not to mention other important projects. The Crèdit Andorrà Chair in IESE and its collaboration with international economic projects should also be highlighted.

CSR in BancSabadell d'Andorra

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

SEPA (Europayments Area)

SEPA is a major project focused on creating a single European market for Euro payments. The objective of this project is to make it possible for European citizens and companies to make payments in Euros throughout the Euro zone from a single bank account, using a single series of payment instruments and with the same simplicity, efficiency and security as currently used in their respective countries.

This project aims not only to dispense with the difference currently existing in the European Union between national and cross border payment services in a practical and efficient manner, as this difference implies that Monetary Union is lacking, but also to cut costs for users.

Currently only member states of the European Economic Area can become SEPA members. These states must have implemented the appropriate processes to comply with SEPA requirements prior to 31 December 2012. Micro-States such as Monaco, San Marino and Andorra are waiting for the negotiations being held by Switzerland and Liechtenstein to be completed to be able to evaluate the situation. Nevertheless, Andorra is currently studying the requirements to be considered in view of its hypothetical membership of SEPA and the possible impact on the Andorran financial system.

MiFID (Markets in Financial Instruments Directive)

MiFID came into force on 1 November 2007 and its objective is to regulate Financial Markets by introducing a single market and a common regulatory regime for financial services in the 27 EU member States and in 3 other States of the European Economic Area: Iceland, Norway and Liechtenstein.

MiFID covers several issues related with financial markets and investment companies such as their organisational structure, corporate governance and risk management, customer classification and information on customers, procedures for managing conflicts of interest, procedures for obtaining information on transactions and execution of orders, the systematic internalisation of execution of orders, or the outsourcing of accounting services and processes. The conduct of business and the obligation to execute orders under conditions that are most favourable for the investor (best execution) are also key elements of the directive.

The main objectives of MiFID are as follows:

- To create a single EU market for financial services.
- To respond to changes and innovations regarding market security.
- To protect investors.

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 14/2003* of 23 October 2003, has created certain regulations governing ethics and conduct 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.

In general, the regulations governing ethics and conduct established in this communiqué are comparable with the principles and requirements established in the MiFID, with the exception of certain issues regarding reporting to clients.

The bill for the law governing the legal regime of banking entities and basic administrative regime for entities operating in the financial system is currently being admitted by Parliament. This law includes many aspects of the MiFID that are not covered by prevailing regulation.

It should be taken into consideration that the General Council was dissolved on 27 February 2009 for the general elections and all approval procedures were suspended. The new Andorran Government is therefore responsible for re-initiating the process of approving this law with the General Council or presenting a new proposal.

In January 2009 the ABA organised a MiFID course for specialists from the Andorran banking sector. The majority of the Andorran banking entities are working internally to bring their processes and systems into line with the standards established by this directive.

Financial laws

In order to unify Andorran legislation governing the financial system the following bills have been admitted to Parliament:

Bill on the legal regime for financial investment entities and management companies of collective investment undertakings

This bill aims to define the purpose of financial investment entities, establish the type of investment services and auxiliary services they offer and define the type of financial investment entities based on their operating activities. Finally, this bill also aims to establish the terms to access and exercise this activity and determine the legal regime for management companies of collective investment undertakings.

Bill on the legal regime of banking entities and basic administrative regime for entities operating in the financial system

This bill is based on the assumption established when the financial system was first legislated, consisting of the fact that Andorra must maintain a sound financial system from a structural and operational standpoint. This bill revokes the prevailing Law regulating the basic administrative regime of banking entities dated 30 June 1998 and its aim is to modify the legal regime of banking entities to avoid serious comparisons with other entities in the financial system and also to establish a basic administrative regime for the different operating entities forming part of the Andorran financial system.

Bill amending the law governing indirect tax on the rendering of banking and financial services

This bill aims to reduce the scope of application of the tax and exclude strictly financial transactions relating to financing and the receipt of banking liabilities. This exemption measure responds to the need to reduce both business credit and mortgage costs, due to the current economic downturn, for the purpose of reactivating the Andorran economy, especially the real estate market. Secondly, this measure involves simultaneously correcting the dual economic taxation resulting from indirect taxes on consumption and financing.

It should be taken into consideration that the General Council was dissolved on 27 February 2009 for the general elections and all approval procedures were suspended. The new Andorran Government is therefore responsible for re-initiating the process of approving these laws with the General Council or presenting new proposals.

Deposit guarantee reserve

The text regarding the legislative proposal to be presented by the INAF to the Andorran Government is currently being drafted. This proposal involves the creation of a deposit and investment guarantee reserve. Guarantee reserves currently exist.

Law on the reform of the insurance sector

Consideration is currently being given to preparing a bill on the reform of the legal framework of the insurance sector in the Principality of Andorra.

Laws reforming the tax system

In order to bring the Andorran tax system into line with those of the neighbouring countries and facilitate future negotiations regarding dual taxation agreements in line with OECD criteria, the Andorran Government's Finance Ministry is currently working to prepare the following bills:

VAT bill

This bill aims to unify the different indirect taxes prevailing in the Principality to simplify the Andorran indirect taxation system.

Bill on Andorran company income tax and economic activities tax

The purpose of the Law governing income tax is to regulate and implement this tax for the first time in the Principality of Andorra. The creation of this tax will be in line with the Principality's aim to become the centre of international financial services.

It should be taken into consideration that the General Council was dissolved on 27 February 2009 for the general elections and all approval procedures were suspended. The new Andorran Government is therefore responsible for re-initiating the process of approving these laws with the General Council or presenting new proposals.

Paris Declaration

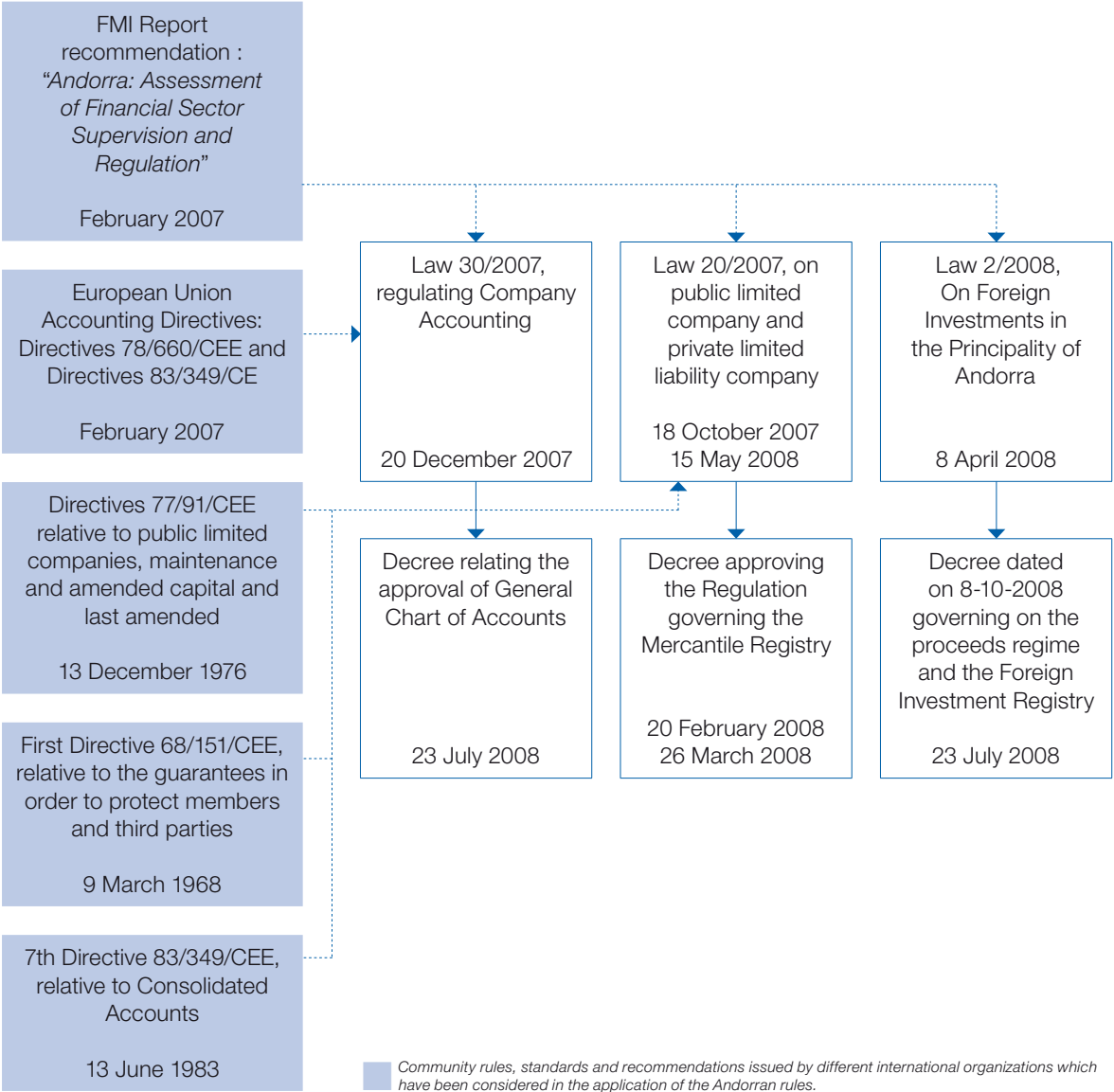
On 10 March 2009 the Government of the Principality of Andorra signed the Paris Declaration, formally undertaking to provide determined information on fiscal matters in the future, when justifiably requested, whilst respecting the principles of the OECD. This undertaking has positioned Andorra in the same situation as the other countries adhering to the commitment with the OECD which contemplates the level playing field principle (guarantee of equal conditions for everyone) and has enabled it to be deleted from the list of non-cooperating tax havens.

It can be seen in the above sections that the Andorran financial sector is facing some very significant medium and short-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.

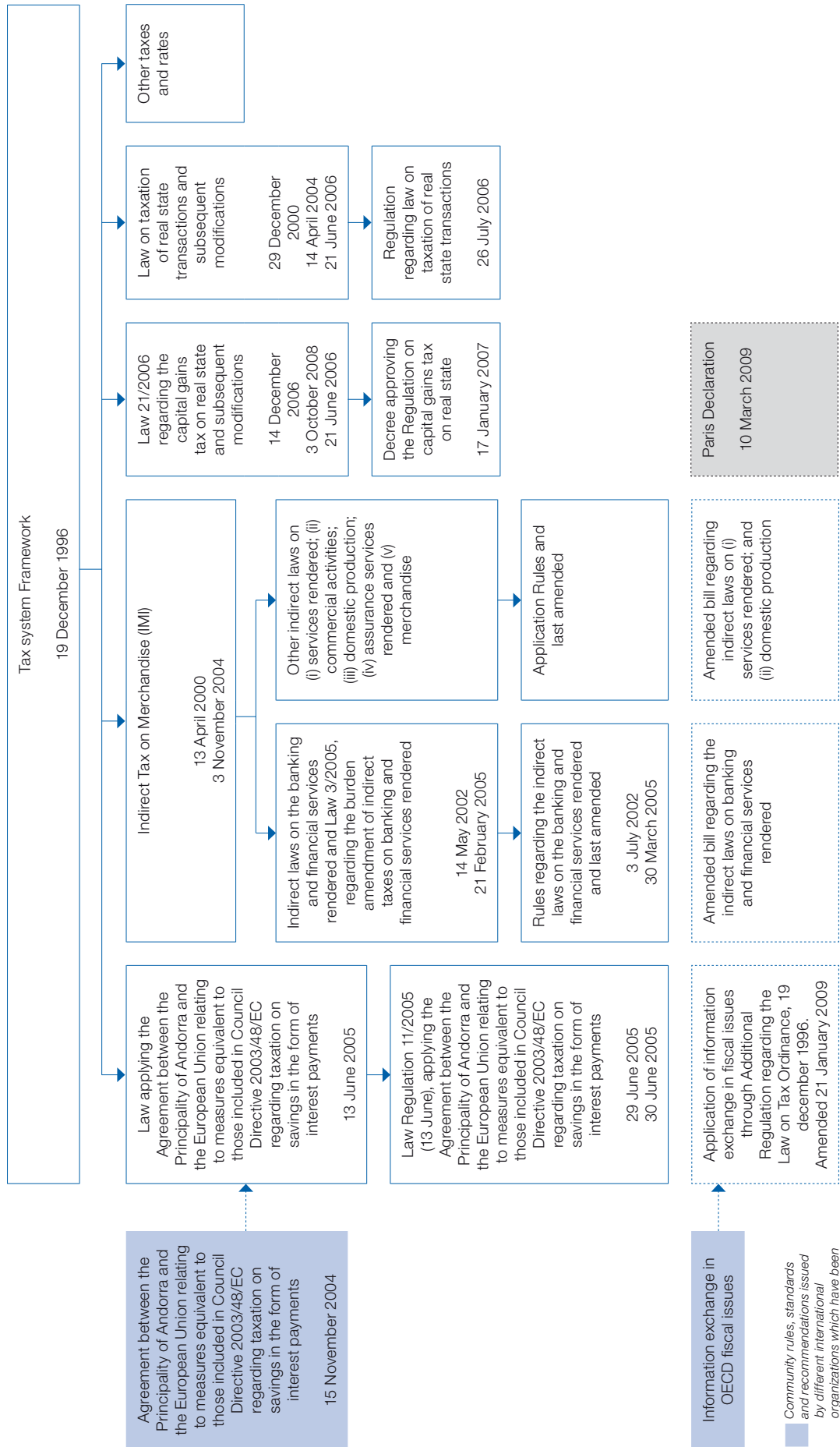
II.6. EVOLUTION OF THE LEGAL AND REGULATORY FRAMEWORK OF THE ANDORRAN FINANCIAL SYSTEM IN AN INTERNATIONAL CONTEXT

The main regulatory provisions and initiatives governing financial activity in the Principality of Andorra are illustrated below, identifying the regulatory framework and the recommendations of international bodies such as the International Monetary Fund (IMF), MONEYVAL or the OECD, for the purpose of ensuring compliance with best practices and international standards which guarantee the stability of the financial system and the combat against criminal activities.

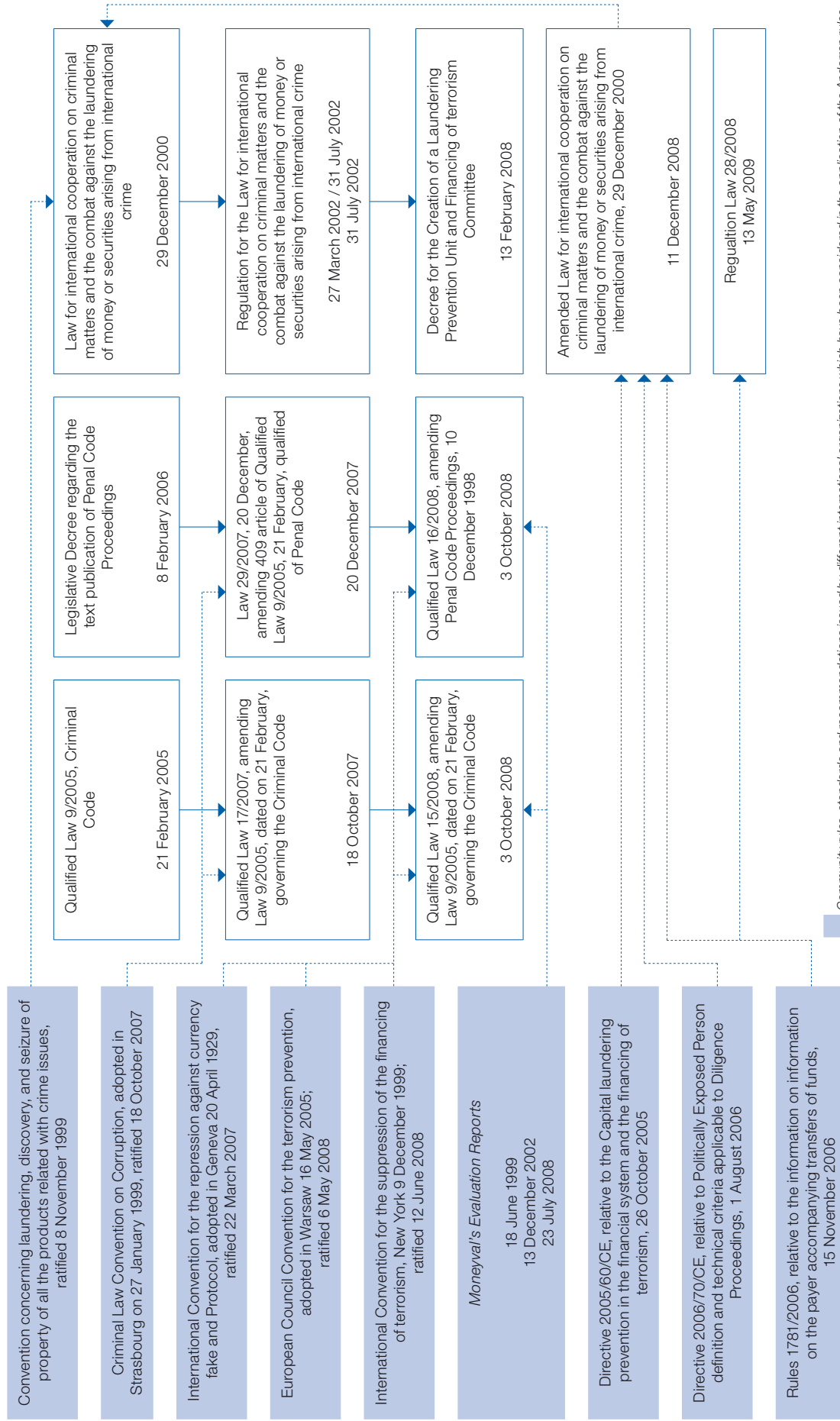
Evolution of Andorran legislation: corporate and accounting



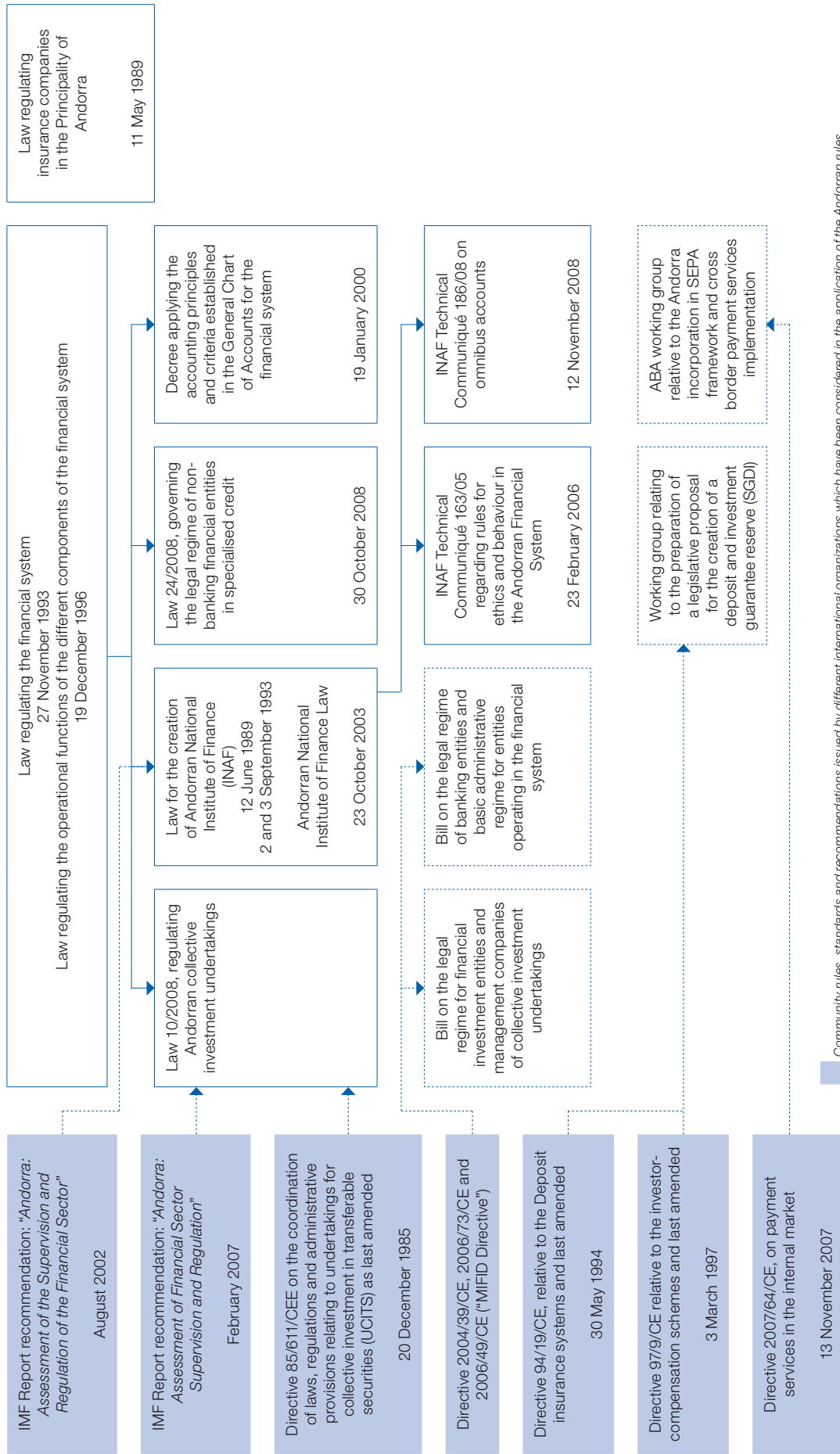
Evolution of Andorran legislation: taxation



Evolution of Andorran legislation: money laundering



Evolution of Andorran legislation: financial regulation



Community rules, standards and recommendations issued by different international organizations which have been considered in the application of the Andorran rules.

III. ECONOMIC ENVIRONMENT



III. ECONOMIC ENVIRONMENT

III.1. INTRODUCTION

Since the emergence of the tourism sector in the 1960s, over the last 50 years Andorra has experienced exceptional growth in its economy, population and income per capita, which has resulted in a modern and prosperous economy. Likewise, the slowdown of the Andorran economy since 2006 has drained the economic model which has permitted sustained growth of the Principality's economy. This economic model has been mainly based on tourism, (skiing and commerce), the financial sector and, to a lesser extent, construction and the real estate sectors in recent years.

During 2008 the economies of developed countries and certain countries under development, have experienced a sharp economic decline originating from the international financial crisis starting in 2008. The Andorran economy has not been exempt from this international crisis, which has generated an economic downturn, especially notable during the second half of 2008 and the first quarter of 2009.

In 2007 Andorra started to renew its economic model, expanding it internationally and creating a capacity to sustain the growth of its economy, population and wealth. Moreover and in order to modernise the Andorran economic framework still further, a new companies law and accounting law have been approved. A new law on foreign investments was approved in 2008. which enables foreign investors to invest in up to 100% of the capital of companies in over 200 activities, including the audiovisual sector, e-commerce, aesthetic medicine and wellness, training, industrial production based on new technologies and research and development.

During 2008, in an environment of globalised economic crisis, Andorra has continued to work on a structural diversification of its economy, although most efforts have been especially focused on improving efficiency and competitiveness in those sectors of the economy which have been key to economic growth in recent years: tourism, hotels, commerce, skiing and the financial sector, by improving the quality of service, placing special emphasis on boosting innovation.

Through Andorra Development and Investment (ADI), the Andorran Government is working at international level to position and promote Andorra as an outward looking, modern and attractive economy in terms of investment and to create new companies in a scenario of opportunities. At national level it gives support to local businesses wanting to expand and internationalise.

As a result, during the second half of 2006 and the start of 2007 the Andorran Government implemented a strategic plan that ended in February 2007 with the presentation of Andorra 2020. This three-pillared plan comprises 20 initiatives. The three main pillars of the plan are as follows:

- Revitalise tourism and commerce;
- Promote new economic sectors; and
- Modernise the Andorran economic framework.

The International Monetary Fund (IMF) estimates that worldwide growth will fall for the first time in 60 years by 1.3% in 2009. It also forecasts that economic recovery could gradually take place in 2010, as a result of applying economic policies, especially in the financial sector.

III.2. GENERAL INFORMATION

Population: Demographic data

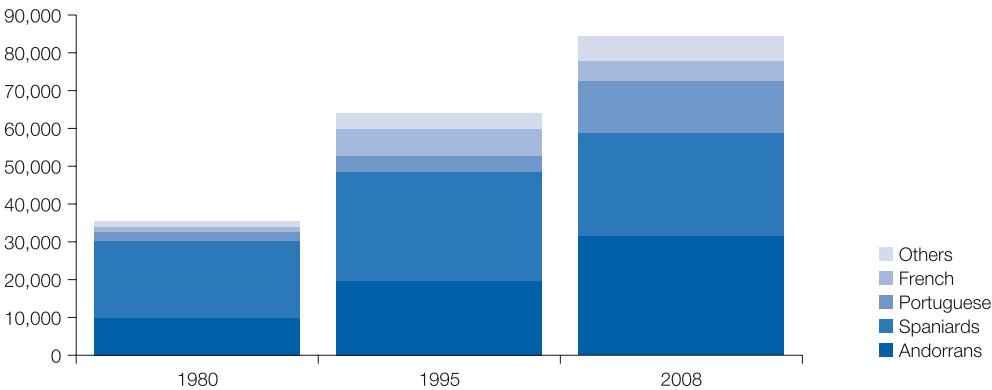
The Andorran population has grown by 1.62% in 2008 compared to the previous year, reaching the figure of 84,484 inhabitants.

Birth rates in Andorra are similar to the European average, whilst death rates are significantly lower. This positions Andorran as one of the countries with the longest life expectancy in the world.

The Andorran population comprises different nationalities, mainly Spanish, French and Portuguese citizens. Historically Spaniards have represented the largest part of the population. However since 2005 this trend has reversed and Andorrans now represent the most significant percentage of the population. This trend has been sustained in recent years, with Andorrans representing 37.12% of the Andorran population in 2008.

One of the differentiating factors of the Andorran demography is the notable diversity of nationalities in the Principality forming part of a relatively small population. The graph below shows a breakdown of the population by nationality in 1980, 1995 and 2008 and illustrates that the proportion of Andorrans has been increasing in recent years. In 2008 this breakdown has been characterised as follows: 37.12% of Andorrans, 32.31% of Spaniards, 16.33% of Portuguese and 6.17% of French residents. Others of 8.07% comprise more than 16 nationalities apart from those stated above. Therefore, foreign residents represent 62.88% of the Andorran population.

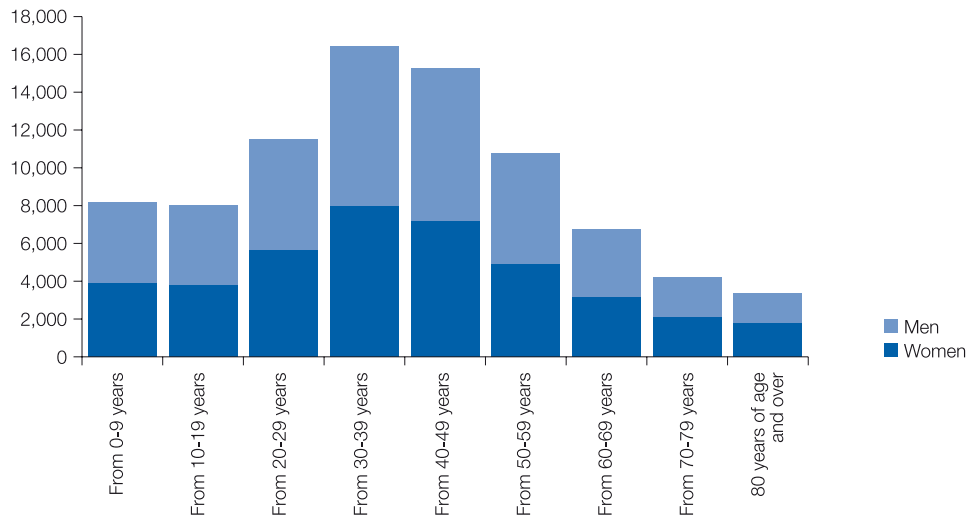
Evolution of population by nationalities



Source: Study Service of the Andorran Government - Ministry of Finance

The structure of the population by age in 2008, presented in the following graph, shows that the majority of the population comprises citizens of between 30 and 39 years of age and 40 to 49 years of age, for males and females. Based on an analysis of prior years' data, this scenario has followed the same trend for various decades, showing that the majority of the population is of working age, generated by the high percentage of workers from abroad who are attracted by the need for labour in the Principality of Andorra and who often do not have their family units firmly established in Andorra, which means that they return to their country of origin on retirement.

Structure of population by age in 2008



Source: Study Service of the Andorran Government - Ministry of Finance

Education

The educational structure in Andorra is multilingual, diversified and mixed and it offers state education in the Andorran, French and Spanish educational systems and private education in a centre under the Spanish educational system. The combination of education systems contributes to enriching the Andorran educational system, especially regarding the learning of languages, as students can study in Catalan, Spanish and French as well as being able to opt for other languages such as English, German or Mandarin Chinese.

Education is compulsory in Andorra for children between the ages of 3 and 16 years old. During 2008 the school population for this age range was 10,850 students, representing 100% of the population in the same age range.

Students who want to continue into higher education are able to choose between professional training or university studies at the *Universitat d'Andorra* or abroad, in Spain or France. The *Universitat d'Andorra* was founded in July 1997 and offers a range of university courses, virtual studies, and continuing education. On site, it is possible to do higher professional education courses (Administration and finance, IT management) or university courses (Educational sciences, Business administration, Nursing and IT). Virtually, the *Universitat d'Andorra* offers the opportunity to do first and second-cycle degree courses. The range of courses on offer is completed with continuing education courses comprising post-graduate courses and refresher courses aimed at professionals from different fields to guarantee continuous training and updating of their knowledge.

As well as the *Universitat d'Andorra*, the three current educational systems in Andorra also offer vocational training at centres such as the *Centre de Formació de Professionals de l'Esport i de la Montanya* (Centre for the Training of Sports and Mountaineering Professionals) or the *Centre de Formació d'Aprenents* (Learner Training Centre), the *Liceu Comte de Foix* Centre offering electro-mechanical, accounting, hotel and catering studies and finally the *Janer School* which offers administrative management studies under the Spanish educational system.

With the entry into force of the law governing foreign investments, "La Salle" educational institution plans to open a university centre in Andorra, from which it will offer on-line and part-time on-site Technology and Social Sciences studies. It is planned that the *Universitat Oberta La Salle-Andorra* will be opened to the public as of 2010-2011.

Employment market

The annual average number of jobs for 2008 is down 1.05% on the previous year, falling to 52,522 jobs. This trend has varied compared to previous years, mainly due to the economic crisis at national and international level since the second half of 2008, which has had a negative effect on the number of jobs on offer in the employment market. This reduction in jobs has had a significant effect on the manufacturing sectors which have shown the most notable decline in activities, as is the case of the construction sector.

Jobs (Annual average)	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Jobs	48,738	50,556	52,385	53,078	52,522
Number of wage earners	41,087	42,417	43,380	43,234	42,222

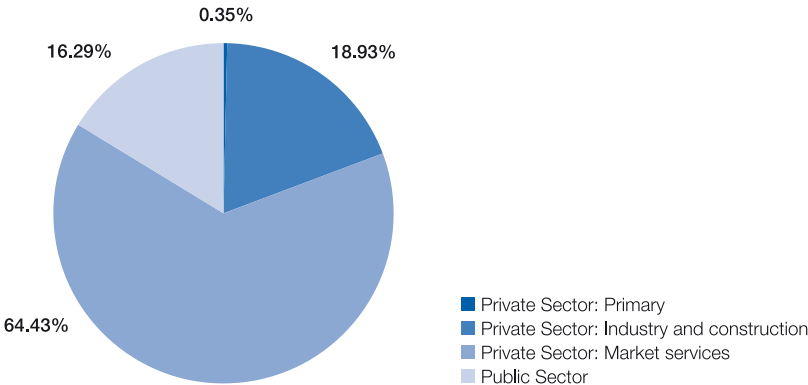
Source: Monthly Gazette of the Andorran Government

In 2007 the growing trend in the number of wage earners started to reverse, reporting a drop of 0.34%. During 2008, this trend was consolidated in an environment of economic change, with a 2.34% reduction in the number of wage earners. In a scenario of international financial crisis and economic recession, the decrease in the number of jobs and wage earners in Andorra has been well below that reported in the majority of neighbouring economies.

In the case of Andorra, one of the main causes for the loss of jobs and wage earners during 2008 has been the plunge in economic activity in the secondary sector, mainly involving construction (employing 76.23% of total wage earners in the secondary sector), followed by the tertiary sector, specifically commerce and the hotel and restaurant trade.

The economic sector experiencing the most significant decline is construction, down 8.79%, whilst the public sector has reported the highest level of growth, with 4.79% more wage earners than in 2007.

Distribution of wage earners by sector in 2008



Source: Caixa Andorrana de Seguretat Social

As shown in the graph illustrating the wage earners registered with the *Caixa Andorrana de Seguritat Social* (social security authorities; hereinafter the CASS) by sector, the tertiary sector's importance to the Andorran economy is highly significant, 64.43% of total wage earners in 2008, followed by the secondary sector (industry and construction) representing 18.93%, the public sector (16.29%) and finally the primary sector (0.35%).

During 2008, 3,264 social security (CASS) registrations were made, 19.84% down on 2007. This figure once again confirms the downward trend in the number of registrations in recent years (2007: -20.47%; 2006: -12.50%; 2005: -0.40%). In a scenario which has shown a decline in both the number of jobs and the average number of wage earners, the decrease in the number of registrations endorses the lower turnover of personnel, which stands at 6.21% in 2008.

The comparison of employment rates shown in the table below illustrates that the employment rate in Andorra continues to be higher than that of the 27 European member states.

Employment rate (Percentage)	ANDORRA		UE- 27	
	2007	2008	2007	2008
	Employment rate (*)	70.82	68.21	65.40

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

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

The fact that unemployment benefit is not available in the Principality of Andorra to those workers who temporarily or definitively lose their jobs could contribute to the fact that the employment rate continues to be higher than in the majority of the European countries in which such benefits exist. The notable presence of tertiary activities in the economy, especially tourism-related activities, implies the existence of flexible contracts and seasonal jobs, which also results in a higher employment rate than that registered in the 27 member states of the European Union.

Nevertheless, the employment rate in Andorra is down 3.69% on 2007, whilst in the 27 European Union member states it has gone up by 0.76%. This is mainly due to the overall rise in the employment rate of Nordic countries, whereas in other countries this rate has dropped considerably.

Growth of salaries

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

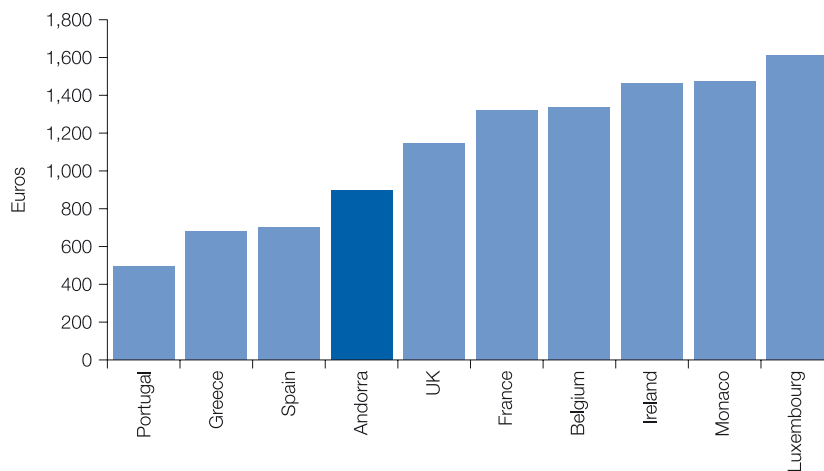
The information presented in the table below shows continuous and sustained growth in both average and minimum salaries in recent years. In 2008, despite the economic slowdown of Andorra and neighbouring countries, the average salary and minimum salary have risen by 3.31% and 3.82%, respectively, both in excess of the consumer price index (CPI).

Growth of average and minimum salaries in Andorra						
(Monthly Euros)						
	1995	2001	2006	2007	2008	Var. (%) 07-08
Average salaries	1,021	1,317	1,702	1,752	1,810	3.31%
Minimum salaries	616	725	838	865	898	3.82%

Source: Monthly Gazette of the Andorran Government

The graph below shows a comparison of minimum salaries between Andorra and other EU countries. It can be observed that the minimum salary in Andorra is between that of Spain and the United Kingdom, but lower than that of Monaco and Luxembourg.

Minimum salaries 2008

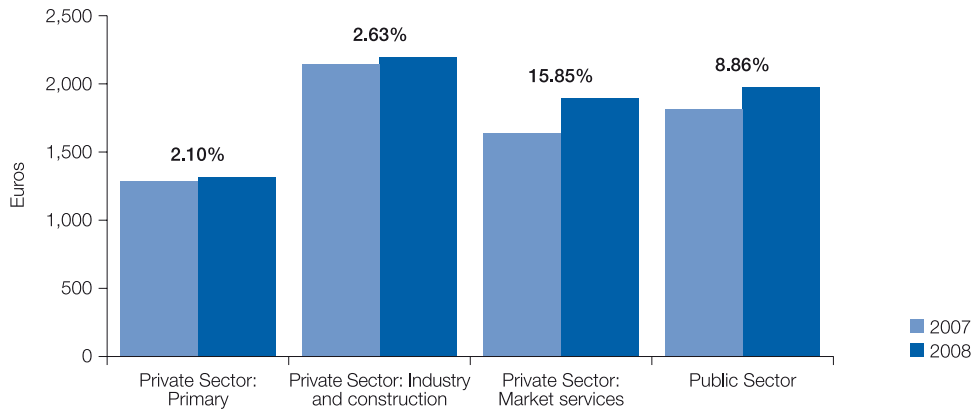


Source: Eurostat and Study Service of the Andorran Government - Ministry of Finance

In 2008, the financial system and the energy production and distribution sector are those sub-sectors paying the by far the highest average salaries, Euros 4,162 and Euros 3,122 respectively.

Average salaries have shown growth in all sectors, especially in the tertiary and public sectors. The sector with the highest average salary is industry and construction, in which salaries relating to the production and distribution of electricity and gas are significantly higher than the sector average.

Evolution of average salaries per sector



Source: Caixa Andorrana de Seguretat Social

III.3. MAIN ECONOMIC VARIABLES

National income and per capita income

Although Andorra does not have an official estimate of national income, certain private entities make yearly estimates of this macroeconomic indicator. The figures estimated by Standard & Poor's rating agency in its most recent study on Andorra, published in July 2009, show that the Andorran national income has remained at the same level as last year with a negative impact on the evolution of its per capita income in 2008.

The table below shows a 1.59% reduction in per capita income for 2008 compared to 2007, higher than that recorded by its neighbouring countries, but in line with the economic recession experienced globally during the last six months of 2008. Given the current economic situation in the neighbouring countries, which account for more than 70% of the tourists and visitors to the Principality, and taking into consideration the negative growth in its GDP estimated for 2009 and 2010, Standard & Poor's expect the Andorran economy to maintain this downward trend until 2011, when the Andorran GDP is expected to resume its growth.

National income and per capita income				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
National income (Millions of Euros)	2,300	2,500	2,600	2,600
Per capita income (Euros)	29,281	30,780	31,274	30,775
Variation in per capita income	2.32%	5.12%	1.60%	(1.59%)

Source: Standard & Poor's Report of July 2009

A comparative analysis of the Andorran gross domestic product per capita 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 that of Spain, the USA or Japan and below that of countries such as Luxembourg or Switzerland.

GDP per capita, 2008	
(In Euros)	
<u>Country</u>	<u>Balance</u>
Luxembourg	62,224
Switzerland	39,952
Andorra	30,775
USA	29,788
Japan	27,723
Germany	27,531
France	25,746
Spain	15,823
Portugal	12,402

Source: IMF and Standard & Poor's Report of July 2009

Consumer price index

During 2008 the consumer price index (CPI) has been affected by the downward trend of recent years, falling from 3.87% in 2007 to 1.98% in 2008. This sharp decline has been mainly caused by the drop in housing and petrol prices and in the prices of the majority of staple foodstuffs such as cereals, meat, fish and dairy products.

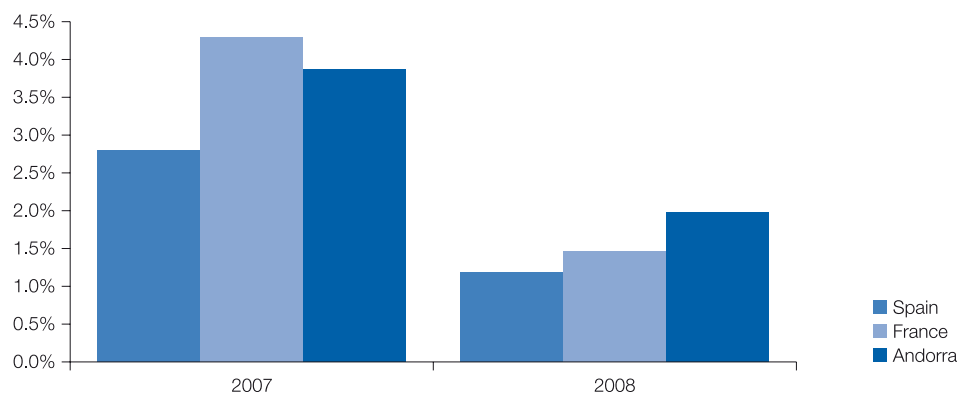
Based on the year-on-year consumer price index shown in the table below and comparing Andorra with other countries, it can be observed that it has registered a higher year-on-year drop in CPI than that of the Euro zone, albeit in line with figures for the majority of neighbouring economies.

Year-on year CPI 2008	
United Kingdom	3.88%
Italy	3.36%
Portugal	2.65%
Andorra	1.98%
Euro Zone	1.60%
Spain	1.46%
Ireland	1.31%
France	1.19%
Switzerland	1.18%
Germany	1.13%
Luxembourg	0.88%
USA	0.77%
Japan	0.40%

Source: IMF and Study Service of the Andorran Government

Details of the growth of the Andorran, French and Spanish consumer price indexes for the last two years are as follows:

Evolution of inflation in Andorra, Spain and France



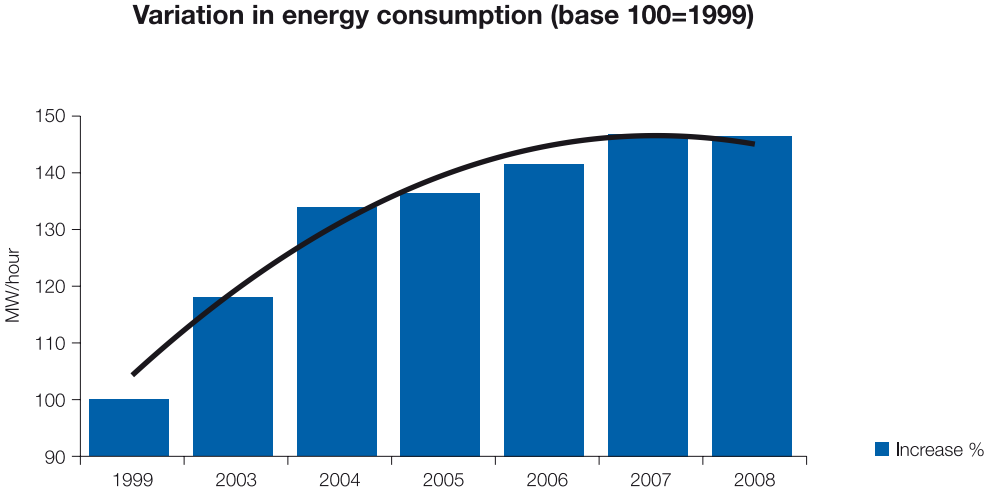
Source: IMF and Study Service of the Andorran Government - Ministry of Finance

The graph above shows an overall drop in the CPI for the three economies. Nevertheless, the Spanish economy has shown the sharpest decline, 65.97% compared to 2007. The decrease has been just as notable in the French and Andorran economies, with the French CPI falling from 2.80% to 1.19% and the Andorran CPI from 3.87% to 1.98%. The significant reduction in the latter CPI reflects the rapid effect of the economic slowdown on prices, which was especially notable in the second half of 2008.

The Andorran CPI fell from 3.87% in 2007 to 1.98% in 2008, mainly due to a 3.16% drop in housing, water, gas, electricity and other fuel prices, together with a 2.79% and 0.21% reduction in food and transport prices, respectively.

Consumption of electrical power

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



Source: Monthly Gazette of the Andorran Government

The graph above shows that energy consumption is down 0.25% on the level reached in 2007.

Construction, ski resorts, hotels and restaurants have been the main activities affected by the sharpest decline in electricity consumption, although the construction sector has experienced the most notable decrease (43.85% vs. 2007). On the other hand, the most significant growth in consumption can mainly be observed in public lighting (up 8.22%) and domestic consumption (up 5.74%), compared to consumption in 2007.

Telecommunications

The telecommunications sector has been characterised by an extremely accelerated rate of growth and innovation in recent years, with products being rapidly replaced by more updated ones. The majority of subscribers are for mobile and land line telephones.

The table below shows the number of subscribers to the different telecommunications services and reflects evolution from 2004 to date. The most significant variation during 2008 has been in ADSL and mobile telephone subscribers, the latter of which have dropped to 2005 levels. This has mainly been due to a sharp reduction in the use of prepayment mobile telephones, substituted in certain cases by mobile telephones with contracts.

Subscriptions to telecommunication services 2004-2008					
(Units)	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Land line telephones	45,348	45,945	47,202	48,079	48,621
Telephone lines	35,040	35,444	36,507	37,153	37,375
XDSI Channels	10,308	10,501	10,695	10,926	11,246
Mobile telephones	58,366	64,560	69,004	68,483	64,202
Mobiland contract	33,733	35,740	37,039	37,988	38,299
Mobiland Clic Prepayment	24,633	28,820	31,965	30,495	25,903
Data lines	679	673	654	615	565
Commuted lines	219	221	230	213	194
Specialised lines	460	452	424	402	371
Total capacity contracted in Kbps	257,266	318,214	338,504	345,801	397,218
ADSL	6,282	10,341	14,616	18,526	20,272

Source: Andorra Telecom

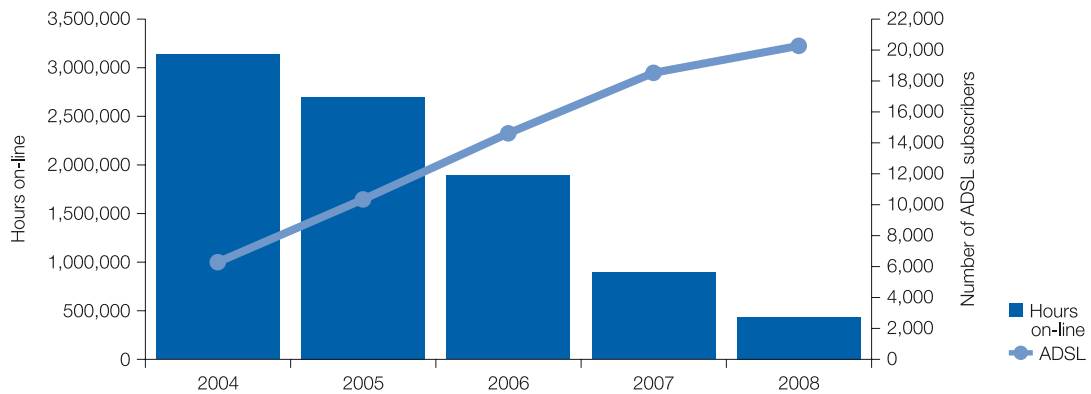
The mobile telephone penetration rate is representative of the consumption rates of modern economies. In 2008 the mobile telephone penetration rate in Andorra has remained stable at approximately 80% in recent years, although it dropped to 76% in 2008. France, on the other hand, has seen its mobile telephone penetration rate rise from 88% in 2007 to 91% in 2008 and the rate for Spain has increased from 107% to 114% for the same dates.

ADSL subscriptions in the Principality have risen by 223% in the last five years and during 2008, continuing with the trend started in 2004, internet connection hours have fallen by 52%. This has been due to the substitution effect which has boosted growth in the number of ADSL subscribers, 9% in 2008, in detriment to analogical connections based on which the aforementioned connection hours are calculated.

According to the 13th report from the European Commission on the telecommunications market, the Nordic economies are characterised by ADSL penetration rates of approximately 30%. In 2008 Andorra reached a penetration rate of 24%, a lower rate than that of leading countries, but very similar to the 25% of the 15 EU member states and higher than the 23% of the OECD and the 20% of Spain.

According to the list published at the annual FTTH Council Europe congress in February 2009, Andorra is ranked eleventh worldwide in fibre to the home penetration. The installation of new optical fibre technology has reached 40% in the homes and offices of the Principality. This will possibly mean that in coming years the number of ADSL subscribers will decrease, once again illustrating the substitution effect.

Evolution of Internet connection hours and ADSL Internet communication



Source: Andorra Telecom

Vehicle Licensing and Fuel

One of the indicators of internal demand in the Andorran economy is the number of licensed vehicles. The current change in the economic cycle and the slowdown of the majority of sectors during 2008 has also been evident in the number of licensed vehicles in the Principality (including mopeds, special vehicles and snowmobiles) with a 25.44% drop (2007: -18.70%).

Middle range vehicles represent approximately 70% of total licensed vehicles, representing 22.53% of the total reduction. Furthermore, other type of vehicles such as mopeds or special vehicles, have been reduced in the number of its licences, even though the amount over the totality of licensed vehicles is smaller than in the case of cars, generating a less significant effect in the variance over the total demand.

Licensed vehicles

	2004	2005	2006	2007	2008	Var. (%) 07-08
Total vehicles	6,431	6,773	5,769	4,690	3,497	(25.44%)

Source: Monthly Gazette of the Andorran Government

In addition to analysing the total number of licensed vehicles, the import and export of vehicles in and out of the Principality should also be taken into consideration. Net imports during 2008 have amounted to Euros 100,288,505, 22.12% lower than those made in 2007.

Another indicator of consumption is based on fuel imports. Despite the 6.24% drop in lead-free petrol imports, increased imports of diesel, domestic fuel and kerosene have kept the volume of fuel imports at the same level than last year.

Fuel Import (Liters)	2004	2005	2006	2007	2008	Var. (%) 07-08
Unleaded gas	42,419,116	40,038,113	36,218,624	33,724,557	31,621,725	(6.24%)
Diesel oil locomotion	102,407,277	105,204,653	106,993,438	103,065,935	104,104,455	1.01%
Domestic fuel	69,351,623	73,243,794	63,589,706	66,396,534	67,454,616	1.59%
Kerosene and kerosene for jet engines	-	10,560	101,093	141,367	144,832	2.45%
TOTAL	214,178,016	218,497,120	206,902,861	203,328,393	203,325,628	-

Source: Study Service of the Andorran Government - Ministry of Finance

III.4. PUBLIC SECTOR

The Andorran public sector is comprised of the Central Government, seven *Comuns* (equivalent to town councils), i.e. one for each of the seven parishes of Andorra, and parapublic entities.

Central Government

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

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

Nevertheless, as a result of the current economic situation, the Andorran economy requires a budget which adapts to this new situation, based on austere and strict cost controlling measures. The 2009 budget amounts to Euros 447,211 thousand, 3.58% up on the previous year. The main budgetary measures are in the field of social politics, and policies to drive competitiveness and improve infrastructures, without implying a rise in tax pressure or unbalancing budgetary stability.

The 2009 budget is based on four mainstays:

- Welfare: with the aim of investing in underprivileged people, in view of the current economic situation and the difficulties of the employment market.
- Education: a mainstay for future development of the economy and the Andorran society.
- Health: to consolidate the quality threshold set by the World Health Organisation.
- Boosting of economic sectors through public works and promoting tourism abroad.

The most significant variations in expense terms compared to 2008 have been in "Investments", "Financial expenses" and "Financial liabilities". The reasons for these variations are as follows:

- **"Investments"**: This caption of the general budget reflects a drop of 60.53%, due to the new methods for contracting public works established in Law 5/2008, which have enabled an additional item of Euros 46 million to be earmarked for infrastructure investments, albeit managed outside the general budget. Taking into consideration this item, the actual variation in the Andorran Government's investments budgeted for 2009 is 24.35% lower than that of the previous year.
- **"Financial expenses"**: This caption is up 26.32%, for the purpose of financing short and long-term financial debt and the forecast cost of the return on the investment made in recent years.
- **"Financial liabilities"**: This caption has increased by Euros 76,896 since the previous year and mainly relates to the forecast budgetary result for the year.

Taking into account the income caption, the budget includes a 43.40% drop in “Direct taxes” as a result of the decline in transactions in the real estate sector.

Central Government budget				
(Thousands of Euros)				
	Budget 2008	% of total 2008	Budget 2009	% of total 2009
Total income	431,749	100.00%	447,211	100.00%
Direct taxes	11,072	2.56%	6,267	1.40%
Indirect taxes	319,836	74.08%	312,367	69.85%
Other income	100,688	23.32%	128,428	28.72%
Changes in net financial assets	127	0.03%	149	0.03%
Changes in net financial liabilities	26	0.01%	-	-
Total expenses and investments	431,749	100.00%	447,211	100.00%
Investments	127,129	29.45%	50,172	11.22%
Transfers	136,772	31.68%	140,101	31.33%
Operating expenses	132,170	30.61%	138,222	30.90%
Financial expenses	23,106	5.35%	29,188	6.53%
Financial assets	105	0.02%	165	0.04%
Financial liabilities	12,467	2.89%	89,363	19.98%

Source: Ministry of Finance - Andorran Government

Parapublic entities

Parapublic entities comprise a group of entities managing public and other services, which are publicly owned and include healthcare and social entities (*Centre Hospitalari Andorrà, Servei Andorrà d'Atenció Sanitària*, retirement homes and *Caixa Andorrana de Seguretat Social*); energy suppliers and telecommunications providers (*Forces Elèctriques d'Andorra* and *Andorra Telecom*); the Andorran National Institute of Finance (*Institut Nacional Andorrà de Finances*), the Andorran National IT Centre (*Centre Nacional d'Informàtica d'Andorra*) and *Radio i Televisió d'Andorra*.

Spending budgets for Andorran parapublic entities			
(Thousands of Euros)			
	2008	2009	Var. (%) 08-09
Forces Elèctriques d'Andorra (FEDA)	74,404	80,297	7.92%
Andorra Telecom	91,653	93,559	2.08%
Servei Andorrà d'Atenció Sanitària (SAAS)	51,389	60,402	17.54%
Caixa Andorrana de Seguretat Social (CASS)	189,611	204,528	7.87%
Andorran National Institute of Finance ("Institut Nacional Andorrà de Finances (INAF)")	3,409	3,484	2.20%
Residència Solà d'Enclar	1,408	1,459	3.62%
Institute of Andorran Studies - ("Institut d'Estudis Andorrans (IEA)")	1,125	1,017	(9.60%)
University of Andorra ("Universitat d'Andorra (UdA)")	2,806	2,991	6.59%
Escola de Formació de Professions Esportives i de Muntanya (EFPEM)	291	291	-
Cattle dealers of Andorra ("Ramaders d'Andorra")	1,594	1,799	12.86%
Radio and Television of Andorra ("Ràdio i Televisió d'Andorra (RTVA)")	5,312	5,301	(0.21%)
Andorra Turisme, SAU	-	8,961	-
Centre de Tractament de Residus (CTRSA)	-	10,723	-
Fòrum Nacional de la Joventut	-	44	-
TOTAL	423,003	474,857	12.26%

Source: Monthly Gazette of the Andorran Government

The total expense budgets for Andorran parapublic entities continue to be destined mainly to *Caixa Andorrana de Seguretat Social*, *Andorra Telecom*, *Forces Elèctriques d'Andorra* and the *Servei Andorrà d'Atenció Sanitària*.

The 17.54% rise in the budget for the Andorran health authority (*Servei Andorrà d'Atenció Sanitària*, (SAAS)) compared to 2008 and the 12.86% increase in the budget for the Andorran Stockbreeders Association (*Associació de Ramaders d'Andorra*) should be highlighted. In the former case, this growth has been driven by the desire to improve infrastructures and expand health and social services, the management of new ambulance companies, the management of air ambulances and the rise in personnel expenses, mainly driven by the establishment of career plans and goal-based human resources management. In the latter case, this increase has been due to the need to implement structure and farming projects.

Likewise, the Social Security (CASS) has experienced 7.87% growth in the budget compared to the previous year, due to the application of urgent measures established by *Law 17/2008* dealing with maternity payments and the payment of reimbursement benefits and salary benefits.

The Andorran Institute of Studies (*Institut d'Estudis Andorrans (IEA)*) is characterised by being one of the only entities showing a decrease compared to the previous year.

The entry of the following three new parapublic entities to the 2009 budget should be highlighted:

- Andorra Turisme, SAU.
- Centre de Tractament de Residus.
- Fòrum Nacional de la Joventut.

Local Government

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

The table below shows details for each of the *Comuns*, illustrating that the most significant source of income collected (64.62%) is included under the “Own collection of funds and others” caption, which comprises taxes and rates of the *Comuns*. The remaining 35.38% mainly relates to transfers received from the Government.

Local government budget for 2009							
(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>
Total income	16,416,145	30,334,671	12,616,739	14,560,915	39,366,457	15,791,038	26,921,765
Transfers	7,039,000	9,720,060	6,200,850	6,935,000	9,832,484	6,722,808	7,908,745
Own collection of funds and others	9,377,145	20,614,479	6,415,889	7,624,715	29,105,841	9,068,230	18,613,435
Financial liabilities	-	48	-	1,200	428,132	-	399,585
Financial assets	-	84	-	-	-	-	-
Total expenses and investments	16,416,145	30,334,671	12,616,739	14,560,915	39,366,457	15,791,038	26,921,765
Investments	6,288,714	3,113,776	1,379,769	1,978,500	4,863,706	2,660,176	3,416,595
Operating expenses	6,476,015	21,269,983	7,900,806	9,641,422	29,769,451	9,314,910	17,893,145
Transfers	820,000	3,448,440	1,086,634	1,074,281	1,222,200	503,629	586,045
Financial expenses	1,052,000	1,504,323	1,408,000	856,512	1,946,000	776,361	2,003,200
Financial assets	-	48	381,530	240,000	-	365,000	-
Financial liabilities	1,779,416	998,101	460,000	770,200	1,565,100	2,170,962	3,022,780
Budget result	0	0	0	0	0	0	0

Source: Monthly Gazette of the Andorran Government

65.55% of *Comuns* expenses relates to “Operating expenses” comprising expenses relating to personnel, goods and services. The remaining 15.9% corresponds to investments and 19.26% to transfers, financial expenses and financial liabilities.

The general budgets of the *Comuns* have decreased overall in comparison with the previous year. Budgets for parishes such as La Massana and Ordino have shown the sharpest reductions: 27.56% and 32.22% respectively, in comparison with 2008.

III.5. ECONOMIC SECTORS

Introduction

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

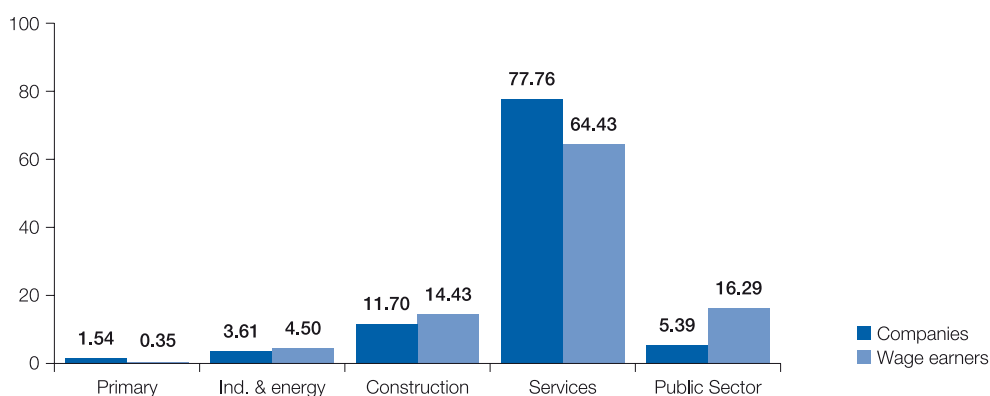
This growth has been reflected in an economy based mainly on the tourism and commercial sectors, which are heavily dependent on the foreign sector and which have expanded thanks to ideal climatic and geographical characteristics, and, in previous decades, leading to growth in the construction sector.

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.

In an environment of global economic deceleration, the number of companies and wage earners in the Andorran economy has decreased by 3.52% and 2.34%, respectively in 2008. At the end of 2008 the Principality of Andorra had 5,395 companies and 42,222 wage earners. The country's business structure is dominated by small-sized companies, representing 71.32% of total companies in Andorra.

The following graph shows that the service sector continues to have significant importance in the Andorran labour market and employs 64.43% of the working population, down 2.68% on 2007. Likewise, the construction sector has suffered an 8.80% decline in the number of wage earners, representing 14.43% of total wage earners adhered to the Social Security (CASS) in 2008. This means that the economic model based on tourism, the financial sector and, in recent years, construction, is much more vulnerable when neighbouring countries experience an economic downturn, due to the low level of diversification in Andorra's economy, which depends to a large extent on tourism.

Distribution of companies and wage earners by sector 2008 (in %)



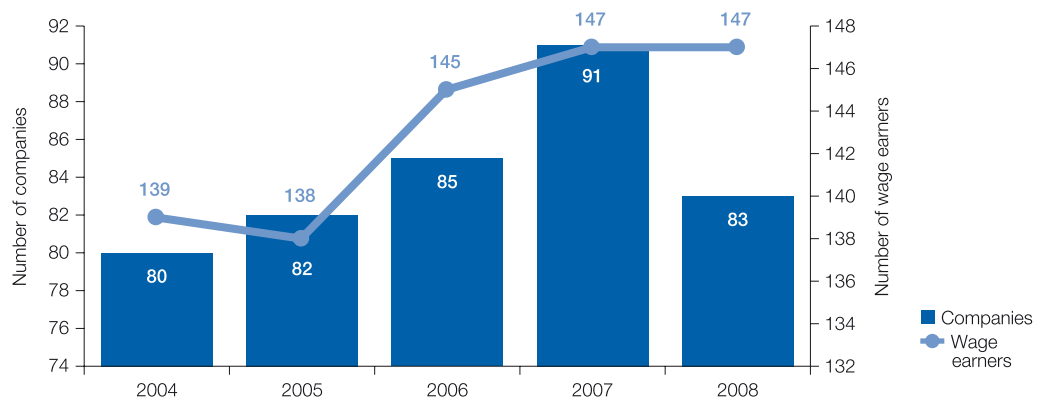
Source: Caixa Andorrana de Seguretat Social and Monthly Gazette of the Andorran Government

Primary sector

From the second half of the 20th century to the 1990s the primary sector has experienced an economic downturn, until reaching the stability of recent years. This sector employs just over 0.35% of the total working population and represents 1.54% of the total number of companies. Likewise, certain sectors of activity, such as the cultivation of tobacco and livestock farming, have had significant influence on the economy until recent years, which the Government is continuing to support through grants.

The graph below shows the growth in average employment and the average number of primary sector companies from 2004 to 2008.

Evolution of the average number of companies and wage earners in the primary sector



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

Although this sector has continued to lose importance during recent decades, it should be emphasised that developed nations are constantly taking measures to maintain and revive the primary sector, since these nations have come to consider this sector as key to environmental conservation and global development. During 2008 the number of companies in this sector has plunged from 91 in 2007 to 83 in 2008, a similar level to 2005, whereas the number of wage earners has remained stable compared to 2007, possibly indicating mergers between companies in the sector to increase competitiveness.

The Ministry of Agriculture (*Ministeri d'Agricultura*) and the Andorran Association of Farmers and Stockbreeders (*Associació de Pagesos i Ramaders*) are therefore working to revitalise the Principality's primary sector as it is considered critical to diversifying the economy as well as being a key factor in protecting the environment and Andorra's natural resources. Stockbreeding is therefore being encouraged through subsidies for the production of Andorran beef with a quality seal, through promotional campaigns.

During the first half of 2008 the Andorran Association of Farmers and Stockbreeders presented two research and innovation plans to identify alternatives to the cultivation of tobacco. One of these plans has involved trials with medicinal and aromatic plants, while the other has focused on identifying the variety of potato that is best adapted to Andorran growing conditions and which is of a certain quality. In relation to the latter plan, the results of the first harvest have already been seen, confirming the favourable performance and adaptation of this particular variety of potato to conditions in Andorra. The aim is to find varieties to offer a quality product adapted to current consumer trends and to be able to commercialise Andorran agricultural produce with seals of quality.

Since 2003 an Andorran entrepreneur has also started producing and commercialising his own wine. This small vineyard is located in the village of Nagol, in the parish of Sant Julià de Lòria, at an altitude of 1,100 metres and has an annual production of approximately 1,000 bottles. The Cim de Cel is a white wine solely produced using the Alsatian grape variety, resistant to the climatic conditions of a high mountain country such as Andorra.

The Andorran Association of Farmers and Stockbreeders is working on boosting and promoting the beekeeping sector to complement agricultural activities, as has been the tradition in the past. Finally, the Ministry of Agriculture is also collaborating with the Ministry of Tourism to convert agriculture and stockbreeding into natural and cultural heritage, therefore making it a new tourist attraction in the Principality.

Secondary sector

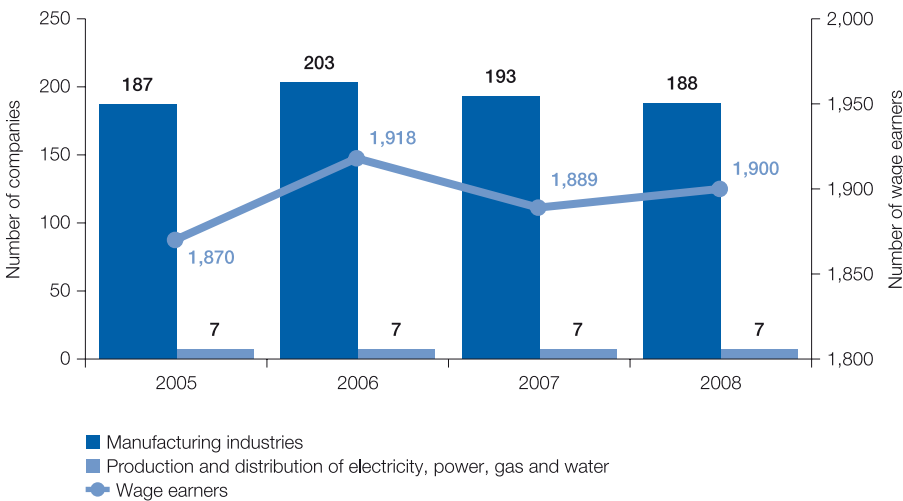
Industry and energy

Industry and energy maintain a low relative importance with regard to the production structure of the country. Social Security (CASS) registered workers in the manufacturing industries and electricity, gas and water production and distribution industries represent on average 4.50% of the total workforce in 2008.

The Andorran energy sector is closely linked to the international scenario and in particular to neighbouring countries, in view of the significant dependence abroad regarding supply sources. Electricity represents more than 40% of the country’s energy consumption and more than 80% is imported from Spain and France. The electricity sector is a deregulated sector in which *Forces Elèctriques d’Andorra* (FEDA) is the sole producer and importer of electricity in Andorra and supplies the other distributors in the country such as *Nord Andorrà, SA*, *Mútua Elèctrica de Sant Julià*, *Societat Explotadora i Repartidora del Comú d’Encamp, S.A* and *Unió Elèctrica d’Encamp*.

The manufacturing sector is characterised by weak internal demand, a lack of specialised workforce and a rise in competition regarding production costs. The graph below illustrates the variation in the average number of companies and workers. It should be highlighted that in 2008 the number of companies is down 2.59% on 2007.

Evolution of the average number of workers by company in the secondary sector: Industry and energy



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

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

The business structure of the sector, taking into consideration the distribution of workers in the companies, is dominated by small companies. 53.85% of these companies employ 1 to 5 workers, 16.92% employ 6 to 10 workers and 20.51% employ 11 to 25 workers. Only 8.72% have a headcount exceeding 25 employees.

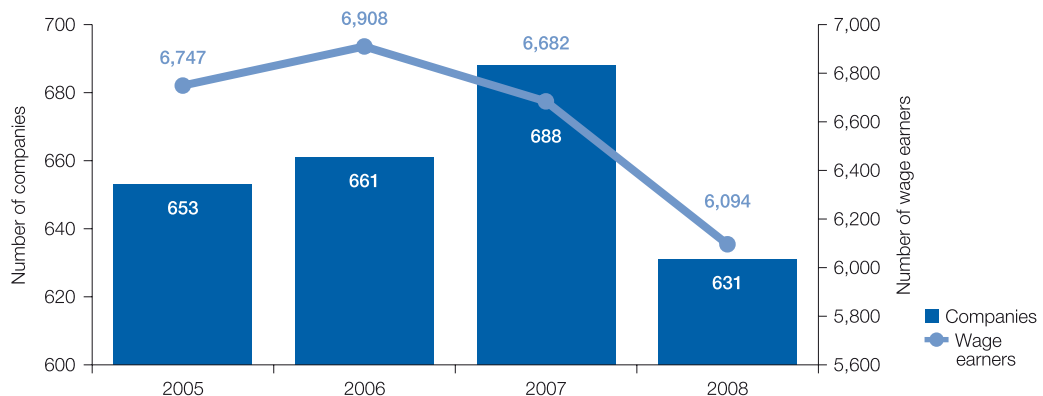
Construction

In recent years the Andorran construction sector has been characterised by the upward trend sustained over the past decade, as is the case of our neighbouring countries. Nevertheless, in 2007 this trend reversed due, inter alia, to the cease of transactions in the real estate market, causing a drop in activity in the construction sector which has continued into 2008. Year in which the sector has experienced an 8.97% fall in the number of wage earners, an 8.28% decrease in the number of companies and the corresponding reduction in its contribution to the GDP.

Despite the substantial decrease in construction activity in the private sector, during 2008 the Andorran Government implemented a policy of budgetary expansion, generating capital investments mostly in the construction of infrastructures which has generated activity in this sector.

Although this activity has slow down during 2008, the number of wage earners in construction represents 14.43% of total wage earners registered with the CASS in 2008 and 11.70% of Andorran companies.

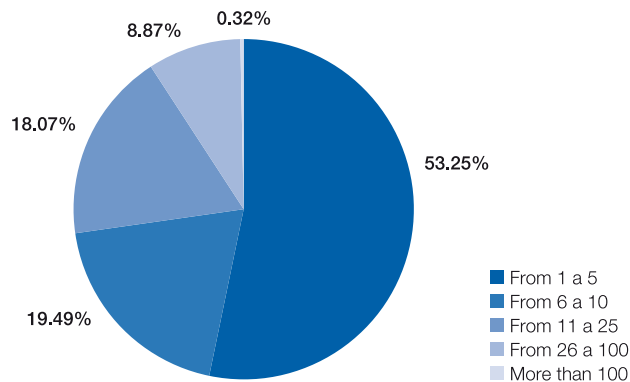
Evolution of the average number of workers by company in the secondary sector: Construction



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

As already mentioned in this chapter, the Andorran business structure is dominated by small companies. The pie chart below shows that 53.25% of companies from the construction sector employ a number of workers equal to or less than 5 and 9.19% of the companies have more than 25 workers.

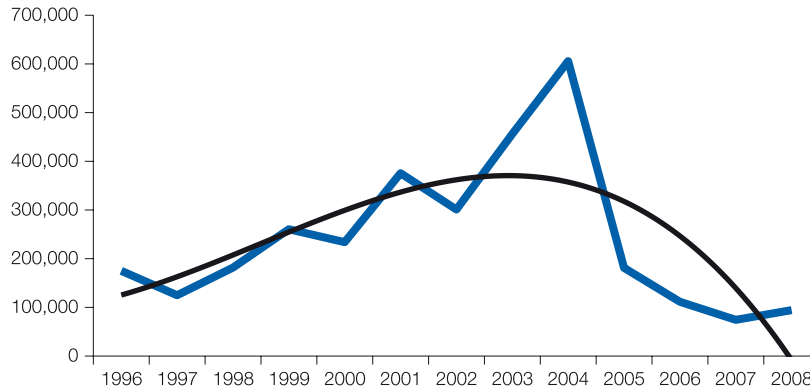
Distribution of construction companies by number of wage earners 2008



Source: Caixa Andorrana de Seguretat Social

The construction boom in recent years has been closely linked to the growth in the areas of land authorised for development. Nonetheless, it should be mentioned that the peak in construction shown in the graph below took place in 2004 due to the May 2003 moratorium and the current outlook is that the real estate bubble of recent years will deflate somewhat and construction activity will slow down.

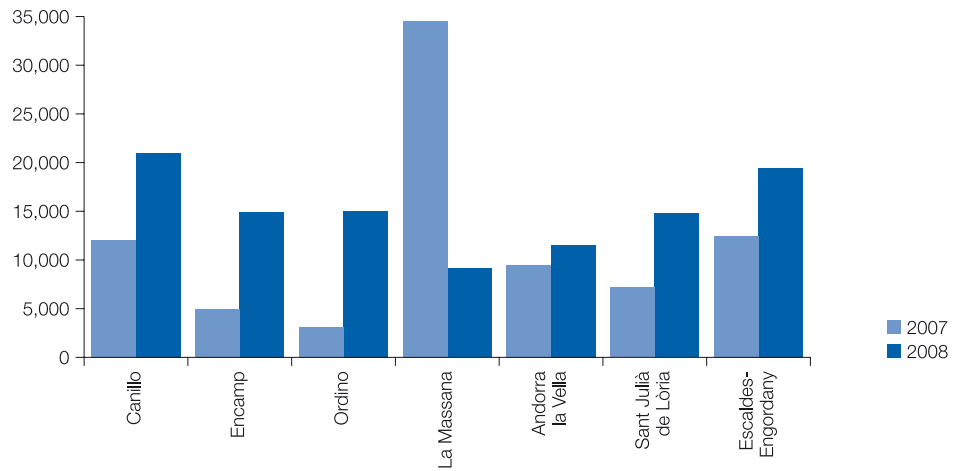
Surface area authorised for development. 1996-2008 (m²)



Source: Monthly Gazette of the Andorran Government

During 2008 there has been an overall rise in square metres of land authorised for development, especially in those parishes in which urbanisation plans were approved during the second half of 2007 or during 2008. Nevertheless, the urbanisation plan for the parish of La Massana was approved at the beginning of 2007 and the square metres of land authorised for development in 2008 dropped sharply compared to 2007.

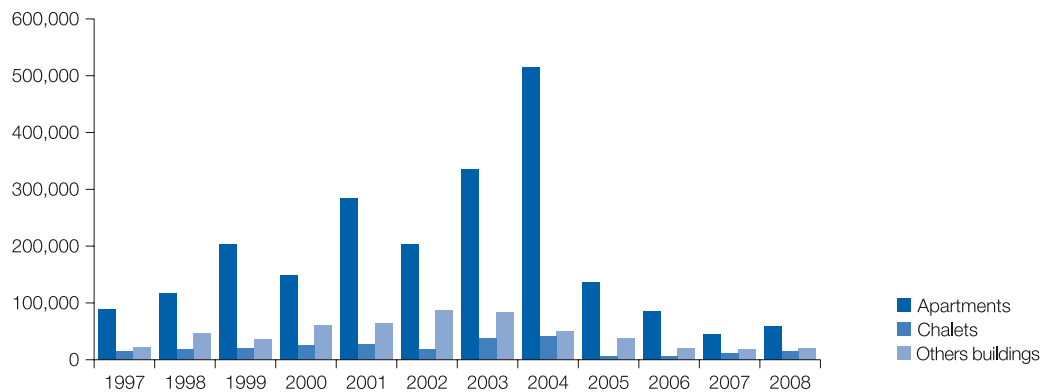
Square meters of land authorised for development 2007 and 2008



Source: Monthly Gazette of the Andorran Government i Comú d'Andorra la Vella

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

Surface area authorised for development, by type of construction. 1997-2008 (m²)



Source: Ministry of Town Planning and Territorial Ordinance

The graph above shows a clear decline in area of land authorised for development during 2005, 2006 and 2007. As outlined above, several factors have contributed to the downturn in construction in Andorra; the May 2003 moratorium that led to a construction boom which has gradually normalised and the slowdown in the Andorran real estate market. This real estate market downturn has been caused as a result of the coinciding international financial crisis and burst of the real estate bubble formed over the last decade.

The graph also illustrates that during 2008 the square metres authorised for the development of apartments have risen slightly, as a result of the approval and/or modification of urbanisation plans in the majority of the parishes.

Tertiary sector: Services

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

The tertiary sector is the leading sector in the Andorran economy. During 2008 it has employed 34,081 individuals, representing approximately 80.72% of the total workforce and a total of 4,486 companies (83.15% of total) have operated in this sector.

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

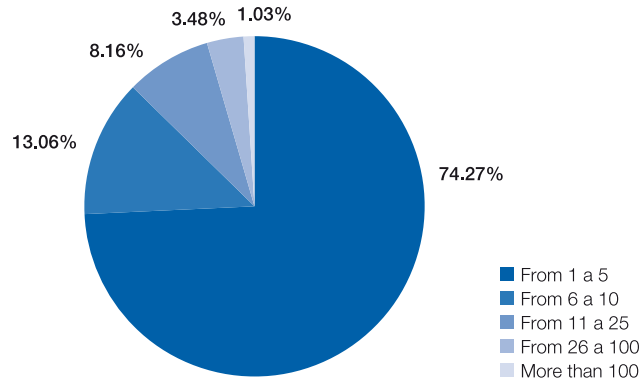
The table below shows the number of companies and wage earners during 2007-2008.

Number of companies and wage earners in the tertiary sector				
	<u>2007</u>	<u>2008</u>	<u>% of total 2008</u>	<u>Var. (%) 07-08</u>
Number of companies	4,613	4,486	100.00%	(2.75%)
Trading and repair of motor vehicles (...)	1,534	1,495	33.33%	(2.54%)
Hotel trade	749	731	16.30%	(2.40%)
Transport, warehousing and communications	169	179	3.99%	-
Financial system	72	71	1.58%	(1.39%)
Real estate and rental activities; corporate services	860	763	17.00%	(11.28%)
Other social activities and community services, personal services	403	379	8.45%	(5.96%)
Domestic services to the community (neighbours' associations)	536	546	12.17%	1.87%
Volunteers without activity	10	31	0.69%	-
Extraterritorial bodies	3	8	0.18%	-
Public administration, obligatory social defence and security	45	49	1.09%	8.89%
Education	45	48	1.07%	6.67%
Health and veterinary activities, social services	187	186	4.15%	(0.53%)
<i>Homes employing domestic service (1)</i>	<i>3,536</i>	<i>3,552</i>		<i>0.45%</i>
<small>(1) These are not considered for the total of the companies</small>				
Number of wage earners	34,517	34,081	100.00%	(1.26%)
Trading and repair of motor vehicles (...)	11,316	10,870	31.89%	(3.94%)
Hotel trade	5,523	5,242	15.38%	(5.09%)
Transport, warehousing and communications	1,300	1,291	3.78%	(0.69%)
Financial system	1,609	1,665	4.89%	3.48%
Real estate and rental activities; corporate services	4,215	4,100	12.02%	(2.73%)
Other social activities and community services, personal services	2,441	2,442	7.16%	0.04%
Homes employing domestic service	1,334	1,382	4.06%	3.60%
Domestic services to the community (neighbours' associations)	201	204	0.60%	1.49%
Volunteers without activity	16	9	0.03%	(43.75%)
Extraterritorial bodies	9	12	0.04%	33.33%
Public administration, obligatory social defence and security	4,452	4,675	13.72%	5.01%
Education	670	684	2.01%	2.09%
Health and veterinary activities, social services	1,431	1,505	4.42%	5.17%

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

The business structure of the sector mainly comprises small companies. Therefore, 74.27% of the companies have 5 or less employees, whilst 3.48% have a headcount exceeding 25 and only 1.03% have more than 100 employees.

Distribution of service companies by number of wage earners 2008



Source: Caixa Andorrana de Seguretat Social

Tourism

As already mentioned, commerce is one of the key activities of the Principality's economy, which complements and is directly related to tourism. Nevertheless, since 2002 there has been a drop in the number of tourists and overnight stays. In light of these circumstances, the Principality is committed to increasing the number of tourists, overnight stays, and expenditure per visitor, while simultaneously gaining the loyalty of customers who have already visited the country to encourage them to return more frequently. The objective of these measures is to maintain Andorra's position as a leading tourist destination in Europe. In order to achieve these aims it is also necessary to revitalise tourism and commerce as one of the three pillars of the Andorra 2020 Programme being promoted by the Andorran Government at the start of 2007.

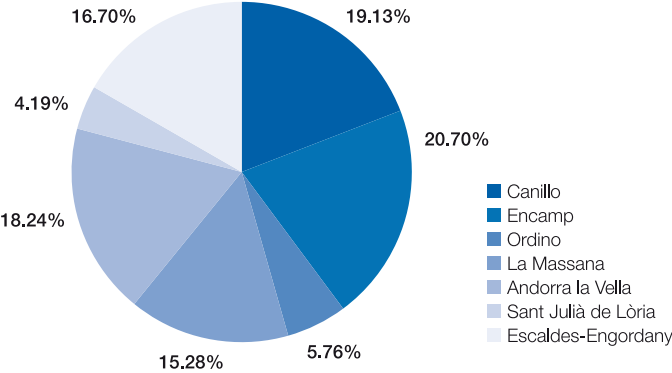
"*Andorra Turisme*" has been created to coordinate and manage the initiatives grouped under this pillar, which is a public entity set up by the Andorran Government in 2007 to improve the promotion and coordination of the management of tourism in Andorra for the purpose of increasing the Principality's excellence as a tourist destination and jointly commercialise Andorra's public and private tourist attractions.

Despite the measures implemented in response to the Andorra 2020 programme and the ongoing efforts to boost tourism, the influx of tourists in Andorra has decreased by 6% in 2008, influenced by the onset of a global economic crisis. However, it should be pointed out that in the current economic crisis these results are favourable.

Hotel accommodation represents approximately 80% of tourist accommodation for 2008, considerably above hostels or residences, boarding houses, aparthotels and holiday apartments. This year Andorra has 270 hotels with a total capacity for 34,514 beds (1,928 more than in 2007).

The distribution of hotel beds by parish in 2008 is shown in the following graph:

Distribution of hotel rooms per parish 2008

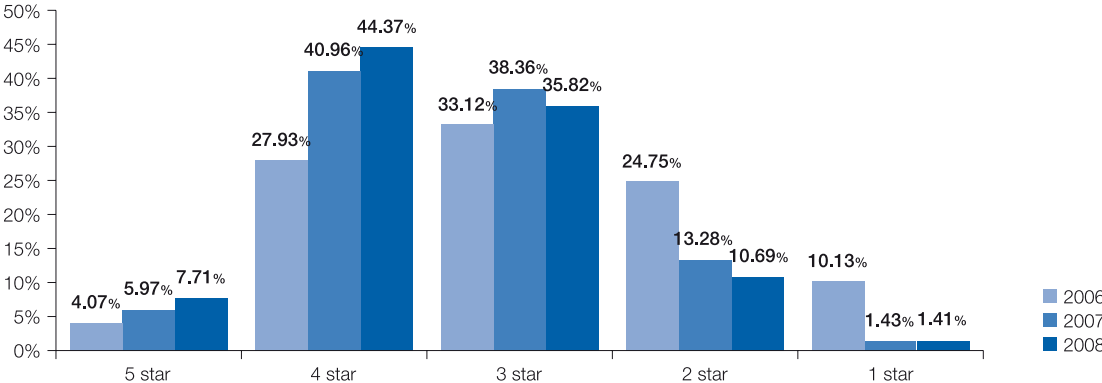


Source: Ministry of Economic Development, Tourism, Culture and Higher Education-Department of Tourism

The distribution of beds by category during 2008 has varied in line with the strategic outlook for innovation and quality improvement implemented by Andorran businesses in 2007.

The restructuring and improvement of hotel infrastructure in the Principality over the past two years has enhanced the hotels on offer in Andorra, with the focus on boosting quality tourism in the Pyrenean country. As in 2007, the amount of accommodation and capacity in lower category tourist establishments has continued to decrease substantially. The graph below shows that 50% of beds available in Andorra in 2008 were in hotels with four and five stars, whilst almost 88% of beds can be found in 3 or more star hotels (2006: 32% and 65%, respectively).

Distribution of hotel beds by category 2006, 2007 and 2008



Source: Ministry of Economic Development, Tourism, Culture and Higher Education-Department of Tourism

In line with the work carried out as part of the Andorra 2020 Programme and for the purpose of boosting the tourist sector and increase what is offered in the country, the Andorran Government continues to work on a number of projects, the most noteworthy of which are as follows:

- The implementation of a tourist accommodation quality plan to adapt the quality standards applied in the Principality to international criteria.
- The creation of a special *business and meetings* seal to promote and guarantee the quality of hotels that want to obtain more added value from their establishments by offering local and foreign businesses the opportunity to hold business meetings on their premises.
- The creation of a special *business conventions* seal given to hotels that fulfil the criteria established for organising business conventions.

As well as the wide range of hotel accommodation on offer, Andorra is also renowned for its restaurants, offering avant-garde cuisine that combines traditional and contemporary dishes. Visitors can discover this cuisine through a choice of gastronomic events and tours such as those organised in *les bordes*, and a total of 335 restaurants. Furthermore, Andorra is the favourite nation of wild mushroom pickers, with a wide variety of wild mushrooms growing throughout the year.

In order to promote this tourist attraction the Andorran Gastronomic Association (*Associació Andorrana de Gastronomia*) was created during 2007 to position Andorra as a country that offers excellent cuisine. The Andorran Government supports this initiative and is collaborating with the *Comuns*, the Andorran Hotel Union (*Unió Hotelera d'Andorra*) and several other associations to promote local and international gastronomic events. During 2008 Andorra organized two relevant and wellknown gastronomic events. The world renowned *IV Quinzena de la Tòfona*, a gastronomic event centred in the black truffle, was held in February and the *XI Mostra Gastronòmica* (XI Gastronomic Week) took place in Ordino with an extensive programme including a series of gastronomical conferences given by experts from Andorra and neighbouring countries.

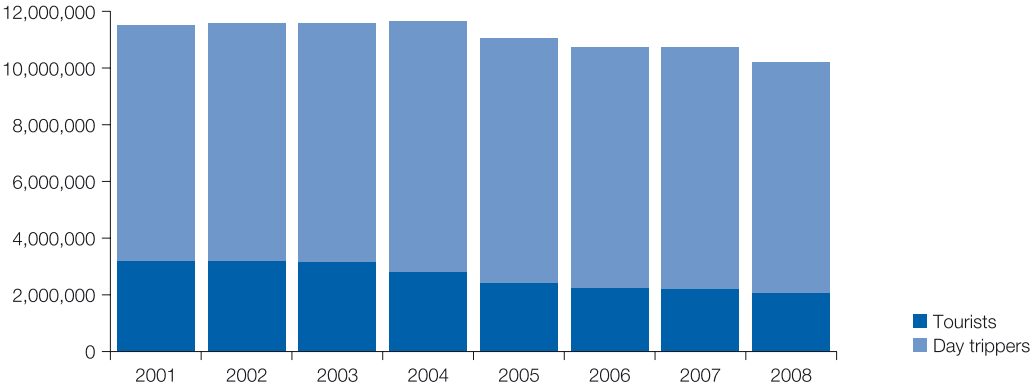
One of the most relevant indicators to evaluate the global dynamics of the tourism industry is the total number of visitors to the country per year. The evolution of this indicator shows a slight recovery in the number of visitors from 2006 to 2007, with a 5.11% drop in 2008. The majority of visitors come from the neighbouring countries of Spain and France.

Number of visitors					
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>% of total 2008</u>	<u>Var. (%) 07-08</u>
Total	10,736,722	10,743,201	10,193,749	100.00%	(5.11%)
Tourists ⁽¹⁾	2,226,922	2,189,421	2,059,451	20.20%	(5.94%)
Day trippers ⁽²⁾	8,509,800	8,553,780	8,134,298	79.80%	(4.90%)
Entry border					
Sant Julià de Lòria	6,731,560	6,752,583	6,393,397	62.72%	(5.32%)
Pas de la Casa	4,005,162	3,990,618	3,800,352	37.28%	(4.77%)
Nationalities					
Spanish	6,237,954	6,276,058	5,962,460	58.49%	(5.00%)
French	4,190,719	4,174,649	3,963,389	38.88%	(5.06%)
Other nationalities	308,049	292,494	267,900	2.63%	(8.41%)
(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					

As shown in the graph below, in recent years there has been a drop in the number of tourists and, to a lesser extent, in the number of day trippers, who form a notable part of total visitors. The declining number of visitors who stay the night does not necessarily have to be perceived as negative if it is offset by a rise in the quality of tourism currently on offer.

Furthermore, it should be noted that 2008 has been a year of generalised change in the economic cycle, caused initially by the international financial crisis which has dragged the economies of neighbouring countries into recession and substantially reduced tourist activity, especially in the last half of the year.

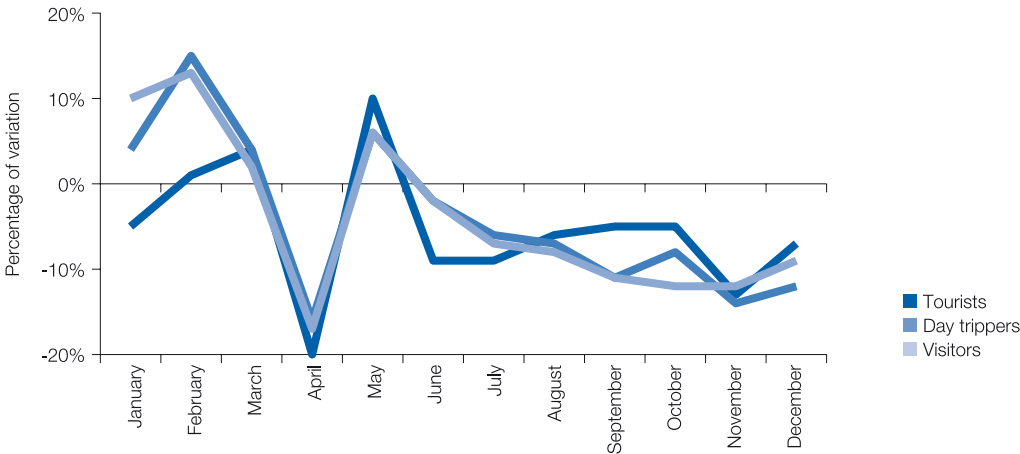
Evolution of the number of visitors 2001-2008



Source: Monthly Gazette of the Andorran Government

The following graph shows the variation in the number of tourists and day trippers per month from 2007 to 2008.

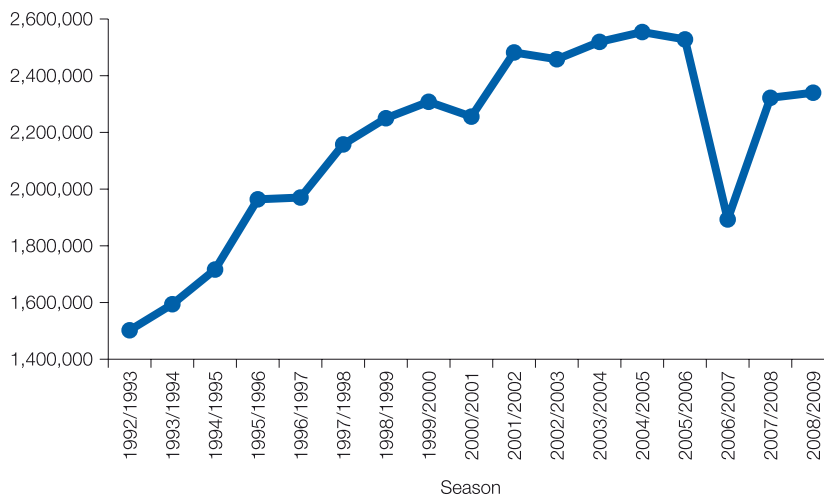
Variation in monthly visitors to Andorra 2008



Source: Monthly Gazette of the Andorran Government

Another of the significant variables for an economic analysis of the Andorran tourism industry is the total number of days of ski sold. This concept makes reference to the number of daily ski passes sold by all the Andorran ski resorts throughout the ski season. The number of visitors during the 2008-09 season, during which weather conditions were excellent for winter sports, especially when compared with the two previous seasons, has risen slightly compared to last season. Specifically, the growth compared to the previous year is approximately 1%. It should also be noted that this season's data are 6.71% below the average for the best seasons in recent years. One of the factors explaining this difference is the decrease in the purchasing power of the majority of skiers due to the international economic situation. This year's winter season has been longer than last year's due to the favourable weather conditions, with the Andorran ski resorts closing their installations at the beginning of May 2009.

Evolution of total days of sky



Source: Ski Andorra

The Principality of Andorra has the largest skiable surface area in the Pyrenees and one of the most extensive in Europe with more than 2,500 hectares of skiable terrain comprising three modern resorts. These resorts are located in the skiable areas known as GRANDVALIRA and VALLNORD. Andorra also has a winter sports camp called La Rabassa- NATURLÀNDIA.

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

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

The three resorts have 185 pistes and several circuits for other snow-related activities and adventure sports.

GRANDVALIRA is formed of 7 sectors: Pas de la Casa, Porte des Neiges, Grau Roig, Soldeu, El Tarter, Canillo and Encamp, covering a total of 1,926 hectares distributed across 110 pistes and with a capacity for 100,700 skiers per hour.

VALLNORD has three skiable sectors, Pal, Arinsal and Arcalis, covering a total of 1,459 hectares, 68 pistes and with a capacity for 55,690 skiers per hour. On 8 February 2009 the Mountain Skiing World Cup was held at this resort.

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

NATURLÀNDIA, which includes the winter sports camp, La Rabassa, is located in the parish of Sant Julià de Lòria and covers more than 330 hectares, at an altitude varying between 1,600 and 2,000 metres which forms a great natural space freely accessible and in constant evolution, where new proposals will be included progressively and gradually.

This winter sports camp has 15 km of circuits for cross-country skiing as well as several other circuits for other activities such as snowshoe itineraries, the Nordic dog village, toboggan park (including three toboggan runs), play park, a mountain-themed restaurant, an archery field and, since the end of 2007, TOBOTRONC, the longest mountain toboggan run in the world, measuring more than 5 km.

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

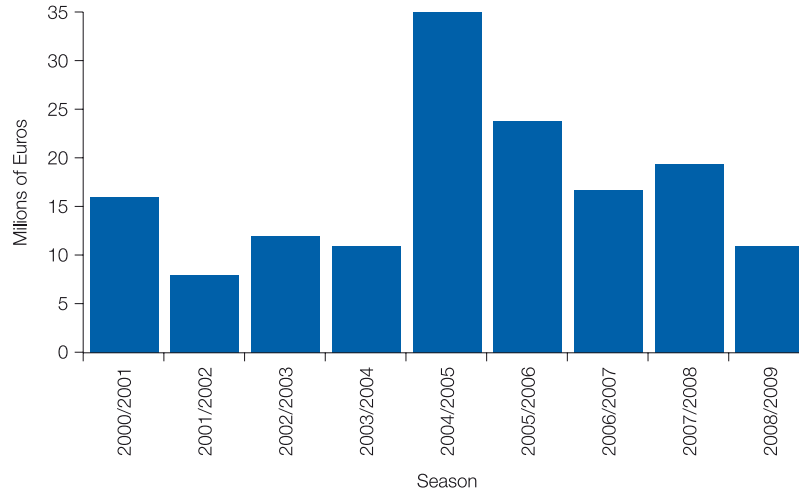
Resort	Km of slopes	Ski runs	Snow machines	% Snowmaking	Ski lifts	Skier capacity / per hour
VALLNORD: Pal - Arinsal	63	42	271	41%	31	39,180
VALLNORD: Ordino - Arcalís	29	26	89	42%	13	16,510
GRANDVALIRA	193	110	1,097	43%	67	100,700
NATURLÀNDIA - La Rabassa*	15	7			2	-
TOTAL	300	185	1,457	41%	113	156,390

* Cross-country skiing and alpine coaster toboggan

Source: Ski Andorra

The Andorran ski resorts have made significant investments which have provided the Principality with unbeatable skiing facilities. Details of investments made in recent years are as follows:

Evolution of ski resort investments



Source: Ski Andorra

One of the other tourist attractions on offer in the Principality is water-based, one of Andorra's natural resources. As well as the rivers and lakes in the country, the sulphur-rich thermal waters in Escaldes-Engordany are recommended for therapeutic and beauty treatments. Several health centres have been opened including the largest thermal baths in Southern Europe: CALDEA.

CALDEA uses all the properties of thermal water and has come to symbolise Andorra. The centre is currently being extended with the creation of a new 12,400 m² wellness area for integral wellbeing, expected to be inaugurated in 2010.

As well as this tourist attraction, Andorra has an increasing number of hotels specialising in total wellbeing, which complement their services with health and beauty treatments.

Commerce

The importance of tourism to the Andorran economy, as outlined below, means that those sectors of activity that are directly related to tourism, such as all commerce-related activities, have the most impact on the Principality's economy.

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

Commerce is one of Andorra's tourist attractions and has been one of the mainstays of the Andorran economy, not only due to the relevance of the total number of businesses and employees, but also because the tax on imports, borne by Andorran commerce and generally passed on to the end consumer, has been one of the Andorran State's principal sources of income to date. Despite the decline in 2008, this sector comprises 33.33% of businesses and employs 31.89% of wage earners from the country's services sector.

Andorra's tradition for commerce has gained international fame due to more than 2,000 modern establishments, the most competitive prices, and flexible opening times. The majority of these establishments are located in the parishes of Andorra la Vella (the capital), Escaldes-Engordany and Pas de la Casa. Nonetheless, the parish of Sant Julià de Lòria also has a number of large shopping centres.

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

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

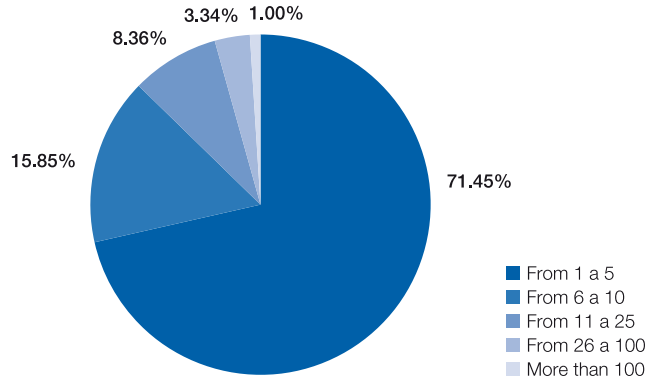
Details of the number of companies and wage earners in Andorra's retail sector during 2007 and 2008, by type of establishment are shown in the following table:

Number of companies and wage earners				
	2007	2008	% of total 2008	Var. (%) 07-08
Number of companies	1,534	1,495	100.00%	(2.54%)
Number of wage earners	11,316	10,870	100.00%	(3.94%)
Sale, trading and repair of motor vehicles (...)	1,389	1,390	12.79%	0.07%
Wholesale trade and intermediaries, except for motor vehicles and motorcycles	2,444	2,342	21.55%	(4.17%)
Retail trade, except for motor vehicle trading (...)	7,483	7,138	65.67%	(4.61%)

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

As is the case in other sectors, the majority of businesses employ 1 to 5 workers, representing 71.45% of total companies in this sector in the case of commerce.

Distribution of commerces by numbers of wage earners 2008



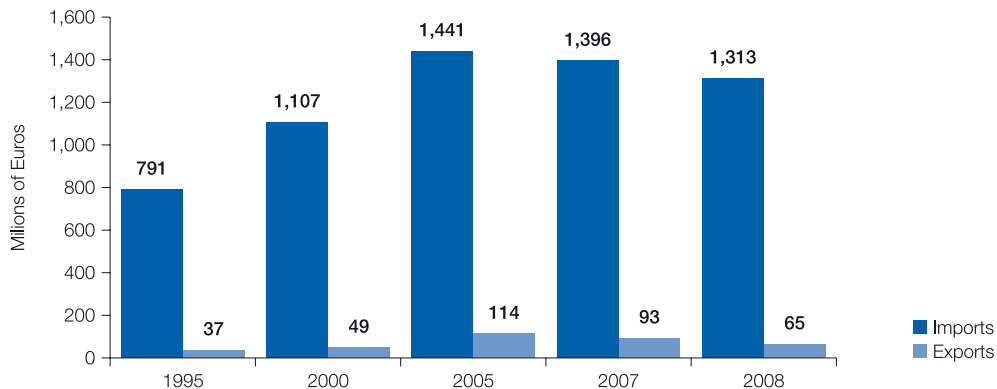
Source: Caixa Andorrana de Seguretat Social

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

However, it should be noted that in 2008 exports have fallen to a greater extent than in 2007, as is the case of imports which are down 5.95%, a figure directly related to the decreasing number of visitors to the Principality. This illustrates the vulnerable nature of Andorran commerce and its high level of dependence on external demand and tourism.

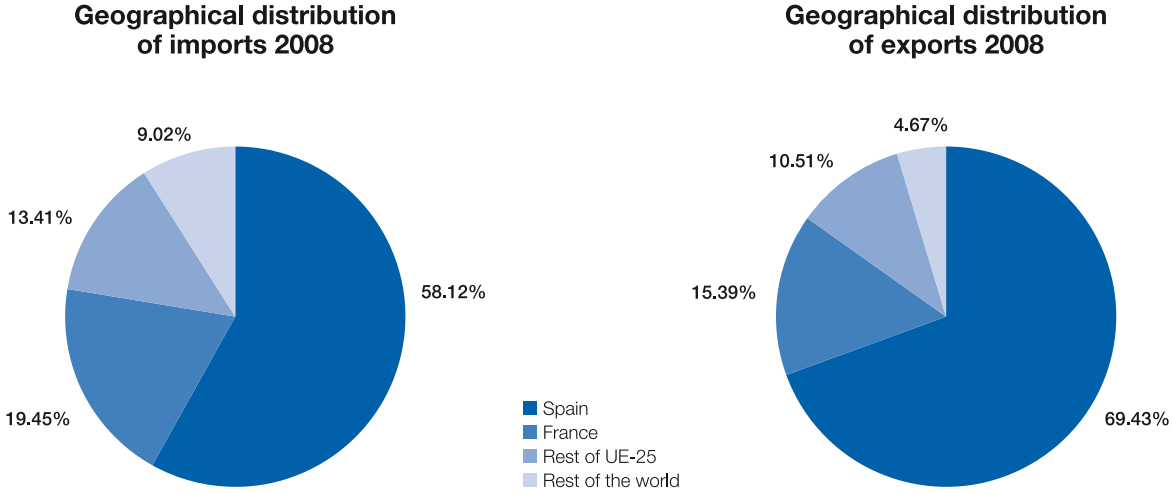
It should be taken into consideration that the export figures are not completely accurate since not all the tourists purchasing products in Andorra declare their exports because Spanish law establishes a limit on the value of each type of product that must be declared on entering Spain, as is the case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

Evolution of imports and exports



Source: Monthly Gazette of the Andorran Government

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



Source: Monthly Gazette of the Andorran Government

The following table shows imports and exports by product during 2007 and 2008 and illustrates that the most important imported goods are electrical appliances, fuel, vehicles, perfumes and clothing, whereas the most important exported goods are electrical appliances and vehicles. These imports and exports represent approximately 40% and 30% of the total.

Imports and exports per product in 2007 and 2008

(Millions of Euros)

	Imports 2007	Imports 2008	% of total 2008	Exports 2007	Exports 2008	% of total 2008
Electrical appliances	168	129	9.82%	23	10	15.38%
Vehicles, cars, tractors, bicycles	129	100	7.62%	17	10	15.38%
Clothes and accessories, not knitting	83	79	6.02%	2	2	3.08%
Perfumes and cosmetics	99	97	7.39%	3	3	4.62%
Boilers, machines, mechanical appliances and machines	75	69	5.26%	12	6	9.23%
Beverages, alcohol and vinegars	58	57	4.34%	-	-	-
Fuels and mineral oils, bituminous material	93	125	9.52%	-	-	-
Optical, photography, cinemato- graphic, measuring equipment, (...)	28	27	2.06%	10	1	1.54%
Tobacco	26	34	2.59%	-	-	-
Furniture and lighting	41	33	2.51%	2	2	3.08%
Toys, sports equipment	38	35	2.67%	-	-	-
Footwear	29	28	2.13%	1	-	-
Milk and lactic products, eggs, honey	27	29	2.21%	-	-	-
Pearls, stones, precious metals, dress jewellery, coins	13	12	0.91%	1	1	1.54%
Meats and small eatable	26	27	2.06%	-	-	-
Sugar and sweetened articles	10	10	0.76%	0	-	-
Clothes and accessories, knitting	37	14	1.07%	1	1	1.54%
Iron, smelting or steel products	27	25	1.90%	5	2	3.08%
Others	389	383	29.16%	16	27	41.53%
TOTAL	1,396	1,313	100.00%	93	65	100.00%

Source: Monthly Gazette of the Andorran Government

Financial sector

The Andorran financial sector is one of the mainstays of activity in the Andorran economy due to its significant contribution to Andorra's GDP (approximately 16%), with its nucleus being the banking system. Insurance companies, other asset management entities, investment undertaking management entities and specialised non-banking credit entities also operate in the Principality.

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

The Andorran Financial Intelligence Unit (UIF) created in 2000 (until 21 April 2009 known as UPB), is an independent body, the mission of which is to boost and coordinate measures to prevent money laundering and the financing of terrorism.

The financial system comprises 5 banking groups, 1 specialised credit entity, 8 investment undertaking management entities, 4 asset management companies and 34 insurance companies, 18 of which are branches of foreign insurance companies authorised to operate in the Principality.

The following table shows the number of wage earners in the financial sector in the last two years.

Number of wage earners				
	2007	2008	% of total 2008	Var. (%) 07-08
Number of wage earners	1,609	1,671	100.00%	3.85%
Banking	1,231	1,334	79.83%	8.37%
Andorra	1,157	1,263	75.58%	9.16%
Foreign countries	74	71	4.25%	(4.05%)
Insurance	262	259	15.50%	(1.15%)
Banking	31	31	1.86%	-
Others	231	228	13.64%	(1.30%)
Other activities from the financial system	109	72	4.31%	(33.94%)
Banking	34	54	3.23%	58.82%
Others	75	18	1.08%	(76.00%)
Others	7	6	0.36%	(14.29%)

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

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

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

Due to their particular nature and being a key part of this publication, the banking sector is dealt with in chapter "IV. Banking sector".

IV. BANKING SECTOR



IV. BANKING SECTOR

IV.1. INTRODUCTION

The Andorran financial system is one of the mainstays of the Andorran economy which contributes 16% to the Gross Domestic Product and is characterised by its solid financial reputation as a result of the strict and rigorous application of the international regulatory standards. Furthermore, the Andorran financial system, which is mainly focused on banking, is characterised by the capital adequacy and liquidity ratios of its banking system compared to other financial markets, (18.3% and 66.25%, respectively) due to its conservative and prudent management.

The Andorran banking sector comprises a total of five banking groups and has more than 75 years experience in this activity. The banking entities in Andorra render banking services (retail and private banking), asset management, brokering and insurance services.

Andorran legislation does not permit opaque structures, such as trusts, or private foundations to promote offshore investment structures, which prevent the identification of beneficiaries. Products such as hedge funds are not developed or exported either.

This sector employs highly qualified personnel and operates within a politically and socially stable environment, in a country with more than 700 years of history, tradition and dynamism and is regulated and supervised by the Andorran National Institute of Finance (INAF) governed by Law 14/2003 dated 23 October 2003. Furthermore, the Financial Intelligence Unit (UIF) created in 2000 (formerly the UPB) is an independent body, the aim of which is to promote and coordinate measures to prevent money laundering and the financing of terrorism.

The strictness of the Andorran banking system in supervising and verifying the origin and destination of funds is guaranteed by expert organisations such as the International Monetary Fund (IMF) and the European Council. The IMF's report on Andorra dated February 2007 indicates that "financial sector supervision is broadly sound with respect to material activities of the financial system, which are centred on the banking sector". The five Andorran banking entities operate in international markets, applying standards and best practices. A good example of this is that all the Andorran banks have been certified as qualified intermediaries by the IRS (Internal Revenue Service) of the United States of America.

2008 has ended with a significant rise in the aggregate balance sheet of Andorran banks to the detriment of the decrease in off-balance sheet funds, a business which is linked to high added value financial products and services and which form a considerable part of results. This reduction has been driven by the international economic scenario, which has caused aggregate profits of Andorran banks to fall by 44.28%, compared to profits generated in 2007. Nevertheless, it should be highlighted that these results have been positive and that capital adequacy and liquidity ratios have been excellent, remaining practically the same as in 2007. Although the efficiency ratio has risen compared to 2007, it is one of the lowest when compared to those of other European countries. This illustrates the favourable performance of current expenses, even taking into consideration the rise in the number of bank employees, the international expansion of Andorran banking entities and their consolidation on the domestic market.

In an environment marked by an international financial crisis and a globalised recession of the real economy, results obtained by the Andorran banks show a downward trend, but are the outcome of prudent and sound management. Now that the uninterrupted period of economic growth has come to an end we are in a more difficult and demanding period during which entities with more solid founda-

tions and better business models and best management teams will stand out. The Andorran banking sector is prepared to calmly and confidently face future challenges.

On 10 March 2009 the Government of the Principality of Andorra signed the Paris Declaration, formally committing to provide determined information on fiscal matters in the future, when the requests are justified and well based and the principles of the OECD are respected. This shall mean giving information in certain situations, although no lists of persons will be provided nor will collective and general requests for information (*fishing expeditions*) be attended to.

As a result, on 3 April 2009 the G-20 eliminated the Principality of Andorra from the OECD's "black list" and placed it in the category of countries which have commitments with the OECD. Andorra is in the same category as other countries such as Luxembourg, Switzerland, Austria, Belgium, Monaco or San Marino, which have also agreed to comply with OECD standards.

In accordance with the "*level playing field*" principle (guarantee of equal conditions for everyone), Andorra will find itself in the same situation as any of the OECD cooperating states, this fact does not change the stability of the Andorran financial system.

IV.2. ASSOCIATION OF ANDORRAN BANKS (“ASSOCIACIÓ DE BANCS ANDORRANS”)

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

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

The main pacts included in this agreement are as follows:

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

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

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

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

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

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

In this area of activity, the ABA currently collaborates with several non-governmental organisations promoting social responsibility such as: UNICEF, the Red Cross, *Mans Unides*, *Càritas* and *Infants del Món*.

In relation to promoting economic and social welfare, the ABA is a member of the Andorran Chamber of Commerce, Industry and Services ("*Cambra de Comerç, Indústria i Serveis d'Andorra (CCIS)*") and the Andorran Business Confederation ("*Confederació Empresarial d'Andorra (CEA)*"), in which it has two vice-presidents. The mission of both these institutions is to represent companies in Andorran society, encourage social dialogue, and develop a favourable environment for conducting economic activity.

In addition, the ABA collaborates with Andorra Development and Investment (ADI), the agency promoting the Andorran economy, as a sponsor of The Future of Europe Summit. The Andorran Summit is an international economic meeting point held every year in Andorra during the month of November.

The yearly objective of the Andorran Summit is to deal with a key issue affecting the future of European economies representing a challenge for recovery. More than 250 businesses, political, academic and social leaders worldwide have participated in each edition, contributing their experience to making new proposals and alternatives to improve competitiveness on the continent.

- Promote the professional training of credit entity personnel, especially adequate training in relation to the prevention of money laundering and financing of terrorism, to ensure each credit entity complies with its obligations to prevent money laundering and safeguard professional secrecy.

In order to promote the professional training of credit entity personnel and contribute to the scientific development of Andorran society, the ABA is a member of the Board of Trustees of the Andorran Institute of Legal, Economic and Financial Studies ("*Institut d'Estudis Jurídics, Econòmics i Financers d'Andorra*") (hereinafter the JEF) incorporated in 2007. The JEF's main objectives are to promote and organise training, research and publication activities relating to legal, economic and financial matters, with special emphasis on international relations with Europe and/or of interest to the Principality of Andorra. During 2008 and 2009 the JEF organised different seminars, as follows:

- The challenges of international economic institutions and Andorra's role (26 and 27 June 2008).
- The First Andorran Banking Day: Andorra and the new panorama of European banking (6 February 2009).
- Andorran taxation in an international context (21 March 2009).

- Develop, organise and manage services which are of common interest to the Association's members.
- Contribute to the cultural and scientific development of Andorran society and publish details of the functions and services rendered by credit entities in relation to the economic development and mercantile activities of Andorran society to ensure they are satisfactorily appreciated.

The ABA's functional structure comprises a number of technical commissions formed of members of the various Andorran banks, who meet regularly at the ABA's premises. These technical commissions analyse and discuss issues related to their area of work in order to guarantee banking best practice, including the following matters relating to the sector: SEPA, MiFID, International Financial Reporting Standards (IFRS), prevention of money laundering and financing of terrorism, strategic projects, indirect tax on services rendered (ISI), the Internal Revenue Service (IRS), compliance, tax on savings, methods of payments, and other areas of interest.

IV.3. THE BANKING SECTOR

The Andorran banking system is based on a universal banking model, including specialised banking services, retail banking and private banking. Andorran banks offer a complete range of banking services, including credit operations, equity management and financial advisory services, liability operations, financial analysis and other services (credit cards, transfers etc.).

Andorran banks have branches specialised in financing, insurance and asset management. Some of these entities have foreign branches located in countries such as Spain, Switzerland, Luxembourg, the Bahamas, Uruguay, Mexico, Brazil and Panama.

The most significant aggregate data for Andorran banking for 2007 and 2008 are as follows:

(Thousands of Euros)	2007	2008
Total assets	12,999,234	15,862,628
Loans	6,475,725	7,023,700
Assets under management	28,938,026	25,367,888
Profit	353,841	197,171
<hr/>		
ROE	30.09%	15.37%
ROA	2.68%	1.26%
Efficiency ratio	26.48%	38.07%
Capital adequacy ratio	19.96%	18.13%
Default ratio	0.67%	1.46%
Liquidity ratio	66.23%	66.25%

Source: Association of Andorran Banks

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

■ **Andorra Banc Agrícola Reig, SA**

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

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

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

■ **Banca Mora, SAU**

Incorporated in 1952.

Banc Internacional d'Andorra, SA and Banca Mora, SAU operate jointly and file consolidated financial statements and other data. These two banks are known as **BIBM** in this publication.

■ **Banca Privada d'Andorra, SA**

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

■ **Crèdit Andorrà Group**

Incorporated in 1949 and on 31 July 2005 it acquired 100% of *CaixaBank SA*. The data is presented under the name of Crèdit Andorrà Group in this publication.

■ **BancSabadell d'Andorra, SA**

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

The above mentioned banking entities operate in all the main urban areas of the country through an extensive network of branches. The branches providing banking services in the Principality, together with the number of cash dispensers and employees in the sector at 31 December 2007 and 2008 are shown below:

	Number of branches		Number of employees		Number of cash dispensers	
	2007	2008	2007	2008	2007	2008
ANDBANC	13	12	307	315	32	31
BIBM	11	11	246	270	32	33
BPA	6	7	208	225	21	24
CRÈDIT ANDORRÀ GROUP	21	21	412	468	43	43
BANCSABADELL D'ANDORRA	6	6	99	113	18	20
TOTAL	57	57	1,272	1,391	146	151

Source: Association of Andorran Banks

There are 57 branches, distributed between the seven parishes of the Principality. In 2008 the number of employees has increased 9.36%, i.e. 119 workers.

Aggregate consolidated balance sheets of Andorran banks

Details of the aggregate consolidated balance sheets of Andorran banking entities for 2007 and 2008 are as follows:

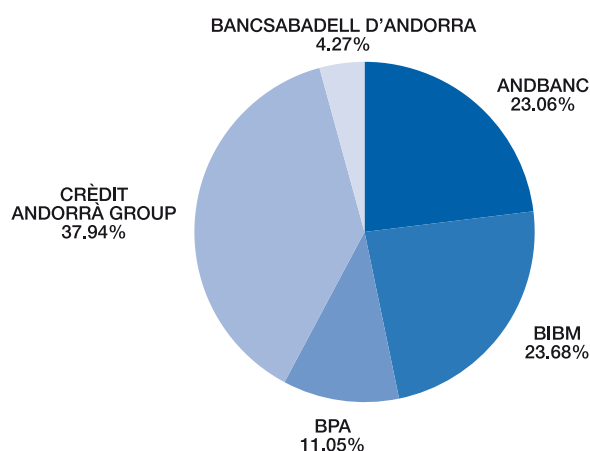
(Thousands of Euros)					
	2007	% of total	2008	% of total	Var. (%) 07-08
ASSETS					
Cash and central banks OECD	61,817	0.48%	81,059	0.51%	31.13%
INAF	108,205	0.83%	108,204	0.68%	-
Financial intermediaries	3,731,428	28.70%	4,510,473	28.43%	20.88%
Loans	7,030,404	54.08%	7,257,110	45.75%	3.22%
Securities portfolio	1,373,834	10.57%	2,930,085	18.47%	-
Gains on consolidation	-	-	4,448	0.04%	-
Intangible assets	176,701	1.37%	164,610	1.04%	(6.84%)
Tangible assets	296,914	2.28%	532,927	3.36%	79.49%
Prepayment and accrued receivables	146,705	1.13%	155,910	0.98%	6.27%
Other assets	73,226	0.56%	117,802	0.74%	60.87%
TOTAL ASSETS	12,999,234	100.00%	15,862,628	100.00%	22.03%
LIABILITIES					
INAF	169,874	1.31%	174,501	1.10%	2.72%
Due to banks and credit entities	470,923	3.62%	135,592	0.85%	(71.21%)
Other financial intermediaries	133	-	26	-	(80.45%)
Customer deposits	10,463,515	80.49%	13,510,146	85.17%	29.12%
Debts represented by securities	27,312	0.21%	100,754	0.64%	-
Provision for liabilities and charges	46,170	0.36%	76,759	0.48%	66.25%
Provision for general risks	66,741	0.51%	55,006	0.35%	(17.58%)
Subordinated liabilities	210,000	1.62%	241,235	1.52%	14.87%
Accruals	99,348	0.77%	132,370	0.83%	33.24%
Other liabilities	88,923	0.68%	101,581	0.64%	14.23%
Share capital	243,536	1.87%	280,536	1.77%	15.19%
Reserves	921,363	7.09%	943,898	5.95%	2.45%
Profit	353,841	2.72%	197,171	1.24%	(44.28%)
Prior years' result	(3)	-	(29)	-	-
Interim dividends	(162,460)	(1.25%)	(87,993)	(0.55%)	(45.84%)
Minority interest	18	-	1,075	0.01%	-
TOTAL LIABILITIES	12,999,234	100.00%	15,862,628	100.00%	22.03%

Source: Annual reports of banking entities

The consolidated balance sheets of each banking group for 2007 and 2008 can be found in chapter "V. Information of Interest".

The distribution of the aggregate balance sheet by banking entity at 31 December 2008 is as follows:

Distribution of aggregate assets and liabilities by banking entity 2008



Source: Annual reports of banking entities

Aggregate assets

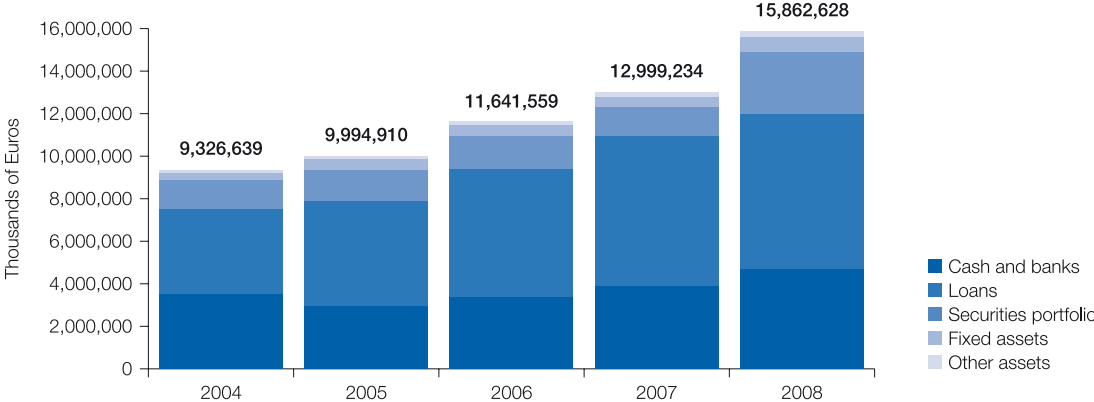
In 2000, the INAF issued a statement giving banks the opportunity of classifying the “Due from banks, term deposits” and “Other financial intermediaries, term deposits” captions as a single caption: “Financial intermediaries - sight and term deposits” in order to comply with international accounting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

As shown in the graph below, during 2008 the aggregate balance sheet of the Andorran banks has varied regarding the composition of aggregate assets, with the “Loans” caption losing relative importance in favour of the banks’ securities portfolio. The collapse of international financial markets and the crash in credit and liquidity markets have led customers to transfer part of their funds, managed until now off the balance sheet, to more conservative and secure positions such as deposits. This has generated a significant rise in balance sheet funds, which have been mainly channelled towards financial intermediaries and own share portfolio positions. Loans which had reported significant growth in previous years have slowed down in line with the current economic situation. Nevertheless, the “Loans” caption still records a rise of 3.22% compared to the previous period (2006 vs. 2007: +15.94%). This variation rises to 8.46% (2006 vs. 2007: +14.30%) irrespective of the balances lent to Banks and Credit entities which certain entities record under the “Loans” caption. Nevertheless, this caption continues to represent 45.75% of total assets.

The most significant rise in aggregate assets in absolute terms, in line with the growth experienced by the relative weight of each captions comprising the aggregate assets of Andorran banking, has been recorded under “Financial intermediaries” (20.88%) and under “Securities portfolio” (113.28%). However, if the same analysis is made after having harmonised the criteria for recording loans to Banks and Credit entities, classifying them under the “Financial intermediaries” caption for all banks, the variation in this caption compared to 2007 stands at 10.68%. This shows a certain loss in relative importance in the composition of aggregate assets, which represent 29.91% of total aggregate assets at the 2008 close, compared to 33.29% at 31 December 2007.

The graph below shows the evolution of aggregate assets over the last five years, a period which has been characterised by sustained growth, with the highest increase in aggregate assets of Andorran banks being reached in 2008 (22.03%). This growth represents a significant recovery in the “Securities portfolio” caption and in “Cash and banks” (which includes Cash and Central Banks OECD, INAF and Financial intermediaries).

Evolution of aggregate assets 2004-2008

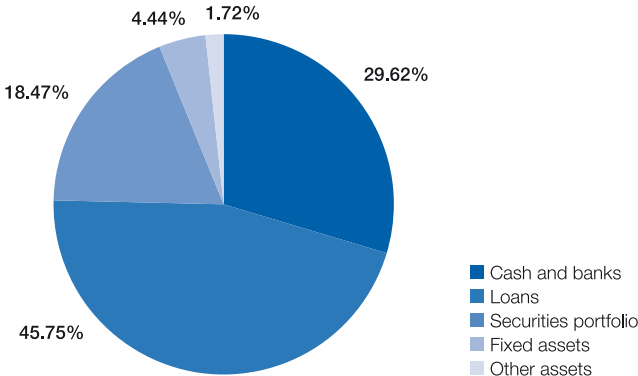


Source: Annual reports of banking entities

The structure of aggregate assets in 2008, prior to the harmonisation of criteria for loans to banks and credit entities, is as follows:

Estructure of aggregate assets 2008

(Thousands of Euros)		2008
Cash and banks	4,699,736	
Loans	7,257,110	
Securities portfolio	2,930,085	
Fixed assets	701,985	
Other assets	273,712	



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 OECD Savings and Central Banks, the INAF and financial intermediaries, which include loans to Banks and Credit Entities for three of the five banking groups forming part of the Andorran banking sector.
- Loans include loans and credits to customers, account overdrafts and notes, as well as loans to Banks and Credit entities for two entities.
- The most important items included under securities portfolio are bonds and other fixed interest securities, investment funds and investments in group companies.
- Fixed assets comprise the tangible and intangible assets and positive consolidation differences.
- Other assets include other assets and prepayments and accrued receivables.

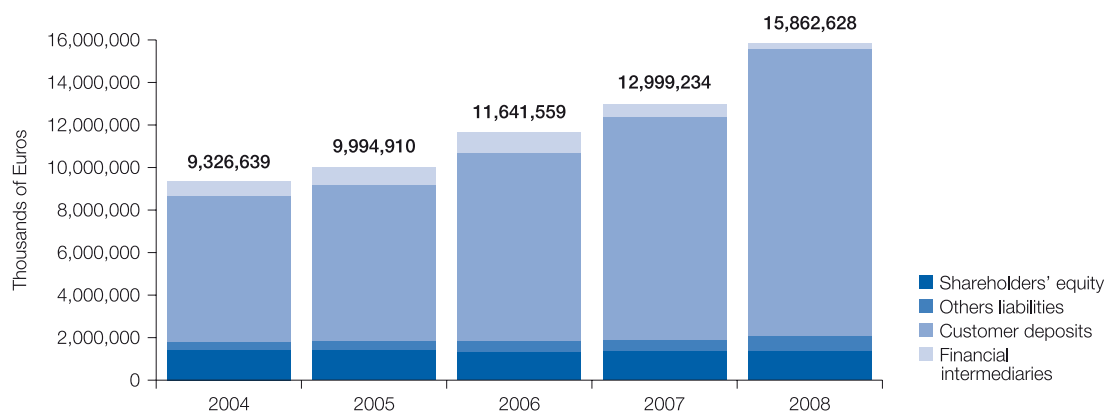
Aggregate liabilities

As can be observed from the graph below, the evolution of aggregate liabilities during the last five years has been characterised by sustained growth in the balance sheets of Andorran banks. Without doubt, the main source of this growth has been the rise in customer deposits, to the detriment of financing in the wholesale banking market. This has enabled Andorran banks to reach a privileged position in a year clearly marked by a liquidity crisis in the international financial market, whereby one of the main difficulties for the majority of international banks has been to avoid liquidity problems when managing balance sheets.

The most significant item under the Andorran banks' aggregate liabilities is the "Deposits from customers" caption, which represents 85.17% of the balance sheet. This caption has reported growth of 29.12%, equivalent to Euros 3,047 million this year, higher than that of 2007 (18.53%). This rise has been detrimental to customer funds managed off the balance sheet, as the crisis has led to large amounts of customers' money being transferred to more secure products, especially deposits.

The consistent rise in customer deposits in previous years has enabled banking entities to significantly reduce their financing to the interbank market, with the "Banks and credit entities" caption falling by 71.21% from 2006 vs. 2007: -40.86%); and its relative importance as a percentage of aggregate liabilities reaching very low levels in 2008 (0.85%), having stood at almost 4% in 2007 and 7% in 2005 and 2006.

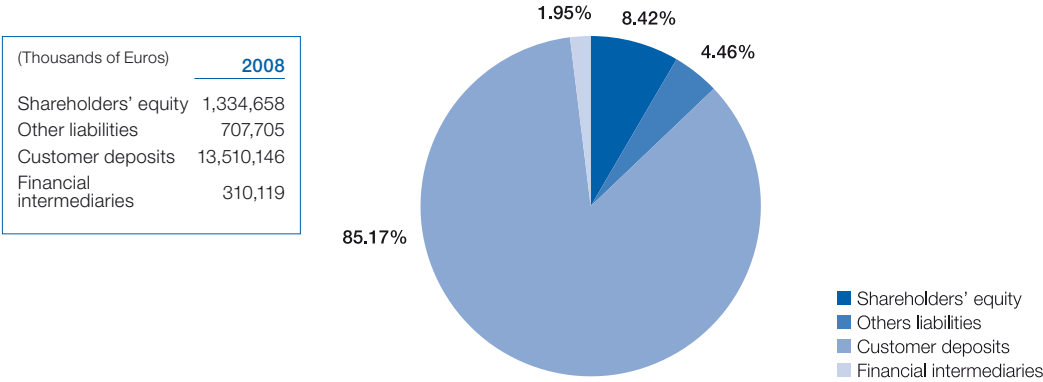
Evolution of aggregate liabilities 2004-2008



Source: Annual reports of banking entities

The pie chart below illustrates that the Andorran banks' aggregate liabilities at the 2008 close are characterised by continuous growth in customer deposits and their relative importance to the financing structure of Andorran banks, representing 85.17% of aggregate liabilities. "Shareholders' equity" makes up 8.41%, whilst the remaining liabilities are formed mainly of "Other liabilities" (4.46%) and "Financial intermediaries" (1.96%).

Structure of aggregate liabilities 2008



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, interim dividends 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 have experienced a decrease in their growth ratio (8.46%) in relation to 2007 (2006 vs. 2007: +14.30%), primarily because of rising interest rates during the first half of the year and the impact of the economic slowdown which started during the second half of 2008 as a result of the lack of confidence in international financial markets.

The following data relates to gross loans, as it does not include the "Provision for loan losses". This data is harmonised in accordance with international standards and therefore does not include loan balances with Banks and Credit Entities.

Evolution of loans

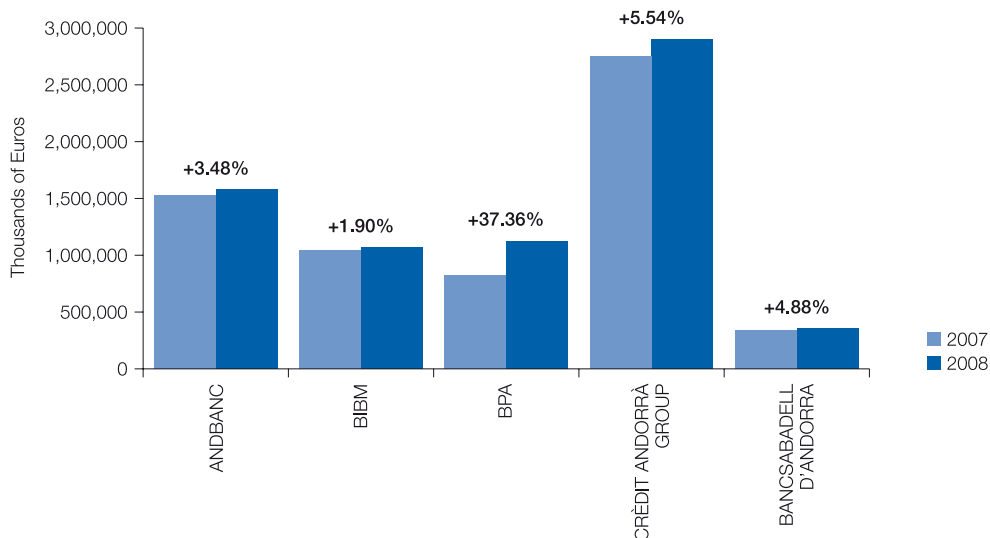
(Thousands of Euros)

	2007	% of total	2008	% of total	Var. (%) 07-08
ANDBANC	1,522,999	23.52%	1,576,056	22.44%	3.48%
BIBM	1,045,968	16.15%	1,065,824	15.18%	1.90%
BPA	819,880	12.66%	1,126,176	16.03%	37.36%
CRÈDIT ANDORRÀ GROUP	2,750,436	42.47%	2,902,788	41.33%	5.54%
BANCSABADELL D'ANDORRA	336,442	5.20%	352,856	5.02%	4.88%
TOTAL	6,475,725	100.00%	7,023,700	100.00%	8.46%

Source: Annual reports of banking entities

The graph below shows the evolution of loans during the last two years. During this period, it can be observed that BPA is the banking entity which has shown most growth in absolute terms (Euros 306,296 thousand), followed by Crèdit Andorrà Group (Euros 152,352 thousand). This situation is the reverse to the previous year, as the entity showing the most growth in absolute terms was Crèdit Andorrà Group, followed by BPA. In line with what has happened in many other countries and in view of the current economic recession, the entities of the Andorran financial system have generally undergone moderate growth (average of 4.27%) in loans to customers. Taking into consideration the growth recorded by BPA, this average figure rises to 8.46%.

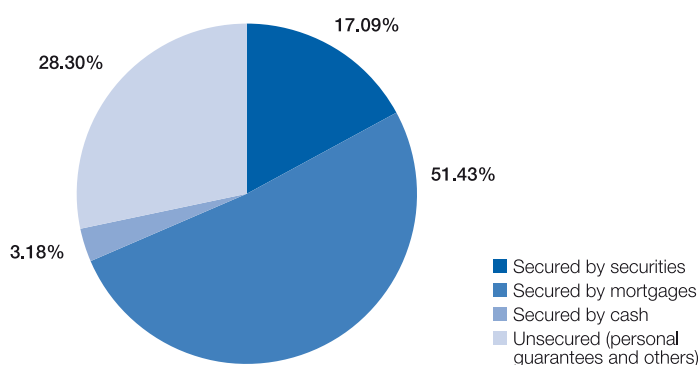
Evolution of loans 2007-2008



Source: Annual reports of banking entities

The “Loans” caption represents 45.75% (prior to harmonisation) and 44.28% (after harmonisation) of total aggregate assets, mainly comprising loans and credits to customers. Total collateralised loans represent 71.70%. As shown in the pie chart below, 17.09% of these loans relate to security guarantees, 51.43% to mortgage security and 3.18% to monetary guarantees. 97.70% of loans have a risk rating of “Normal”, 0.84% are “Past-due” (98.2% and 0.45% in 2007 and 99.36% and 0.26% in 2006, respectively) and 1.46% are classed as “Doubtful” (0.63% in 2007 and 0.38% in 2006). The aggregated default ratio of the Andorran Banks, calculated as doubtful risk over the total loans is 1.46% at 31 December 2008.

Loans guarantees 2008



Source: Annual reports of banking entities

Customer deposits

The uncertainty generated by the international financial crisis has led to a significant amount of customer funds managed off the balance sheet being transferred to more secure products, such as deposits. Customer deposits have risen 29.12% in relation to 2007 (2006 vs. 2007: +18.53%; 2005 vs. 2006: +20.78%). Customer deposits have shown growth since 2004, consolidating the general change in trend in the three-year period 2002-2004, during which certain customer balances were transferred to other intermediated funds (under the “Securities deposited and others” caption of the aggregate memorandum accounts).

Evolution of customer deposits

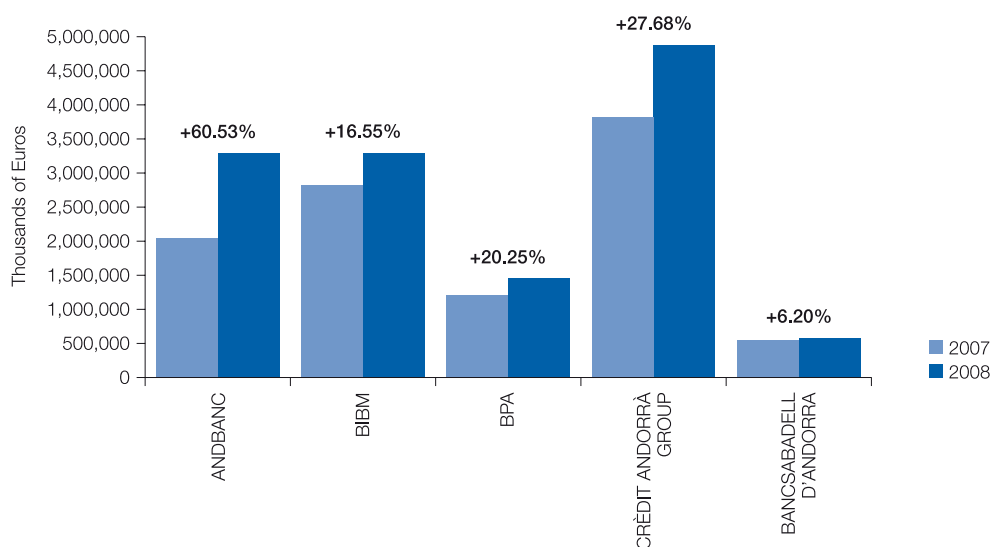
(Thousands of Euros)

	2007	% of total	2008	% of total	Var. (%) 07-08
ANDBANC	2,050,598	19.60%	3,291,763	24.37%	60.53%
BIBM	2,826,350	27.01%	3,294,089	24.38%	16.55%
BPA	1,212,553	11.59%	1,458,127	10.79%	20.25%
CRÈDIT ANDORRÀ GROUP	3,821,540	36.52%	4,879,467	36.12%	27.68%
BANCSABADELL D'ANDORRA	552,474	5.28%	586,700	4.34%	6.20%
TOTAL	10,463,515	100.00%	13,510,146	100.00%	29.12%

Source: Annual reports of banking entities

The graph below shows the evolution of customer deposits over the last two years. It can be observed that Andbanc and the Crèdit Andorrà Group are the banking entities with most growth in absolute terms (Euros 1,241 million and Euros 1,058 million, respectively), followed by BIBM and BPA (Euros 468 million and 246 million, respectively). If growth is analysed in relative terms, it can also be observed that Andbanc underwent the most significant increase during 2008, followed by Crèdit Andorrà Group, BPA, BIBM and BancSabadell d'Andorra.

Evolution of customer deposits 2007-2008



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 in 2007 and 2008:

Evolution in loans to customer deposits ratio		
	2007	2008
ANDBANC	74.27%	47.88%
BIBM	37.01%	32.36%
BPA	67.62%	77.23%
CRÈDIT ANDORRÀ GROUP	71.97%	59.49%
BANCSABADELL D'ANDORRA	60.90%	60.14%
AVERAGE	61.89%	51.99%

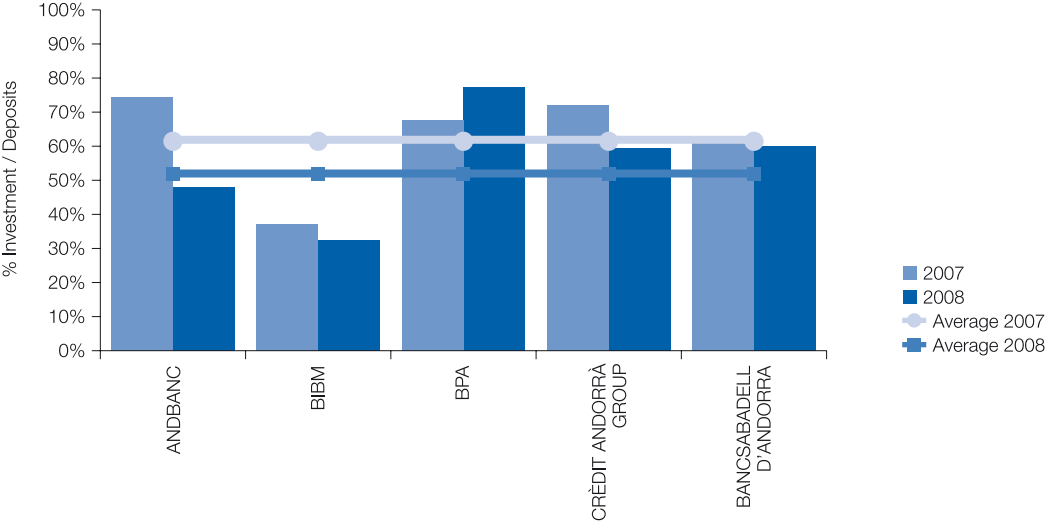
Source: Annual reports of banking entities

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

The aggregate ratio has fallen by 9.90 percentage points, following the trend started in 2006, when the ratio fell by 1.55 percentage points. The drop in this ratio during 2008 has been twofold: due to the substantial increase in customer deposits and a moderate rate of growth in loans, compared to the rise in this caption in 2007. In a scenario of highly volatile international financial markets, many of the banks' customers have chosen to divest funds invested in securities and off-balance sheet products and transfer these funds to term deposits. Consequently, during 2008 customer term deposits have increased by 29.12% to the detriment of customer funds managed off the balance sheet, which have fallen by 36.41%.

In general, all the banking entities have seen their loans to customer deposits ratio fall, with the exception of BPA, the ratio of which has risen by 9.62 percentage points from the previous year due to loans increasing by 37.36%, practically double the growth of customer deposits which have also risen significantly by 20.25%. Andbanc has had the highest loans to customer deposits ratio in recent years. This variation is primarily the result of the moderate increase in Andbanc's loans since the previous year, standing at 3.48% in 2008, whilst customer deposits are up 60.53% in this period. The Crèdit Andorrà Group has substantially reduced its loans to customer deposits ratio by more than 12 percentage points. The loans to customer deposits ratios of BIBM and BancSabadell d'Andorra have both remained stable compared to 2007.

Evolution in loans to customer deposits ratio 2007-2008

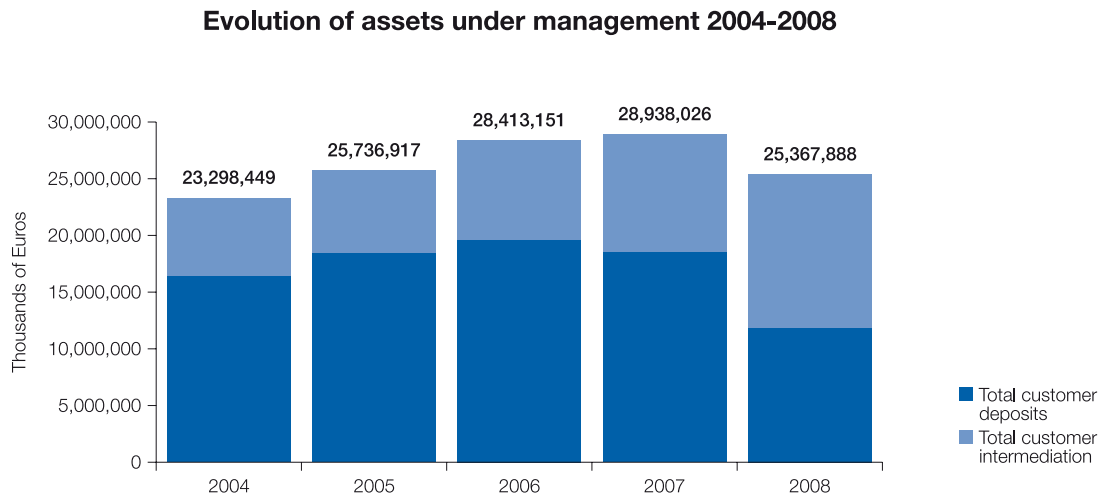


Source: Annual reports of banking entities

Aggregate assets under management

Aggregate assets under management by Andorran banking entities (including customer deposits and customer intermediation) have registered accumulated growth of 34.83% during the 2003-2007 period, falling to 18.19% during the 2003-2008 period. This decline is principally due to the drop in the market value of customers' intermediated funds invested in international capital markets which have plunged during 2008 due to the international crisis.

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



Source: Annual reports of banking entities

The above graph shows that the trend in funds managed by the Andorran financial system has changed over the last five years. Initially, at the start of the period, low interest rates resulted in a significant transfer of funds managed on the balance sheet in the form of customer deposits to off the balance sheet in the form of financial assets, which can generate better returns for investors during periods of low interest rates.

Since 2006, interest rates have continued to rise, reversing the trend of transferring customer funds from the banks' balance sheets to off their balance sheets to then be returned to the balance sheets.

Despite the drop in interest rates, this trend has been noteworthy during the last quarter of 2008, whereby customer deposits are up 29.12% to the detriment of customer intermediation which has fallen by 35.82%. This considerable transfer of off-balance sheet customer funds to deposits has been driven mainly by the uncertainty and volatility of markets, significantly affected by the international financial crisis, which has changed investors' willingness to assume risk, the majority of whom are adverse to risk in times of crisis, such is currently the case.

All these factors have generated a change in the composition and relative importance of customer deposits in funds managed by Andorran banks. Over the last five years these customer deposits have represented approximately 30% compared to 70% of total off-balance sheet funds managed by Andorran banks. At 2008 the customer deposits represent 53% and the assets under management 47%.

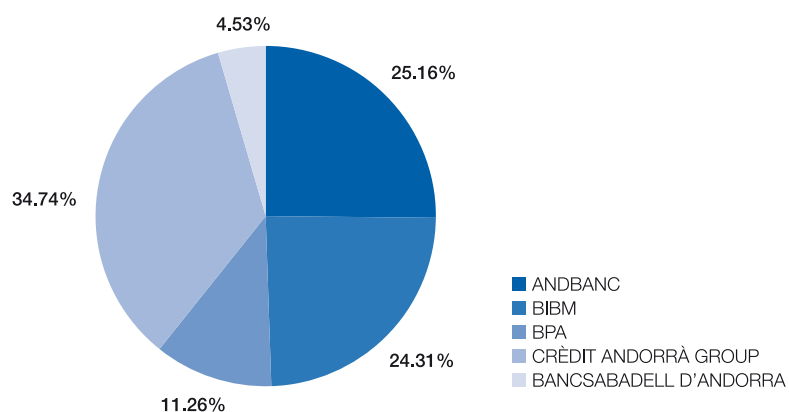
Changes in the volumes of customer intermediation between 2007 and 2008 are as follows:

Evolution of customer intermediation					
(Thousands of Euros)					
	<u>2007</u>	<u>% of total</u>	<u>2008</u>	<u>% of total</u>	<u>Var. (%) 07-08</u>
ANDBANC	4,775,698	25.85%	3,091,174	26.07%	(35.27%)
BIBM	4,702,466	25.45%	2,872,753	24.23%	(38.91%)
BPA	1,796,476	9.72%	1,397,405	11.78%	(22.21%)
CRÈDIT ANDORRÀ GROUP	6,461,448	34.98%	3,933,301	33.17%	(39.13%)
BANCSABADELL D'ANDORRA	738,423	4.00%	563,109	4.75%	(23.74%)
TOTAL	18,474,511	100.00%	11,857,742	100.00%	(35.82%)

Source: Annual reports of banking entities

The distribution of aggregate managed funds by banking entity at 31 December 2008 is as follows:

Assets under management by entity 2008



Aggregate consolidated memorandum accounts of Andorran banks

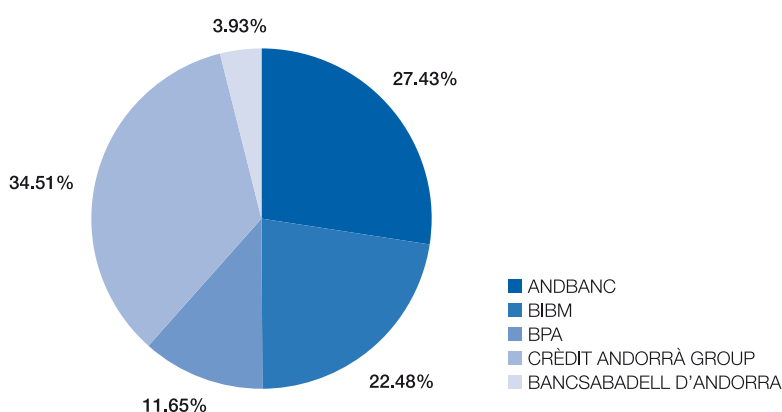
Details of the aggregate memorandum accounts of Andorran banks for 2007 and 2008 are as follows:

Evolution of aggregate memorandum accounts					
(Thousands of Euros)					
	<u>2007</u>	<u>% s/total</u>	<u>2008</u>	<u>% s/total</u>	<u>Var. (%) 07-08</u>
Contingent liabilities	629,371	1.63%	625,658	2.18%	(0.59%)
Commitments and contingent risks	1,621,494	4.21%	1,416,354	4.94%	(12.65%)
Derivative financial instruments	12,520,650	32.49%	8,357,082	29.17%	(33.25%)
Securities deposited and others held in custody	19,524,512	50.67%	14,489,126	50.58%	(25.79%)
Other memorandum accounts	4,237,164	11.00%	3,761,462	13.13%	(11.23%)
TOTAL	38,533,191	100.00%	28.649.682	100.00%	(25.65%)

Source: Annual reports of banking entities

The consolidated memorandum accounts of each banking group can be found in chapter "V. Information of Interest". Details of the aggregate memorandum accounts of each entity at 31 December 2008 are as follows:

Aggregate memorandum accounts by entity 2008



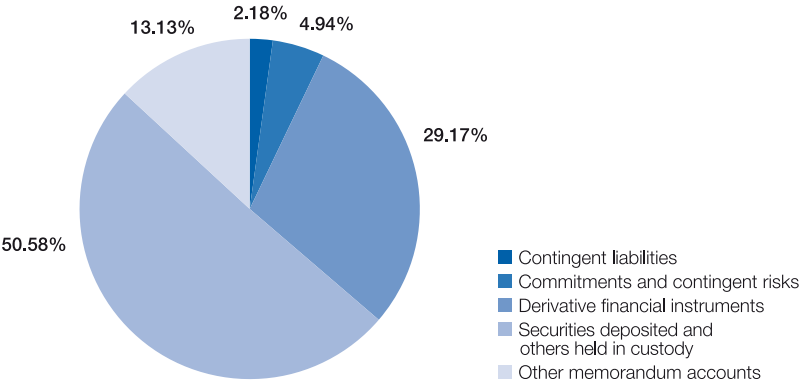
Source: Annual reports of banking entities

During 2008 the aggregate memorandum accounts have fallen by 25.65% (2006 vs. 2007 +2.96%, 2005 vs. 2006: +4.71%) to Euros 28,650 million. The largest caption, "Securities deposited and others held in custody", representing 50.58% of the total is down 25.79% on the previous year (2006 vs. 2007: -5.23%). This variation is mainly due to the decline in securities deposited and others held in custody which are the customer funds managed off the balance sheet analysed in the preceding section. The "Derivative financial instruments" caption which increased by 22.61% from 2006 to 2007, increasing its specific importance to 32.49% of total memorandum accounts, has dropped by 33.25% this year, reducing its specific importance to 29.17%. This drop in futures operations results from the reduction in future currency sale and purchases due to the reduced currency risk to which the balance sheets of both banks and their customers are exposed, and also interest rate futures operations and, to a lesser extent, options over financial instruments.

The “Other memorandum accounts for administrative control purposes only” caption, which includes guarantees and commitments received and other accounts, has dropped slightly by 11.23% compared to the previous year, when it fell by 5.13% from 2006. At 31 December 2008 this caption represents 13.13% of the total aggregate memorandum accounts of Andorran banks, similar to the figure for 2007 that was 11,00%.

A breakdown of aggregate memorandum accounts at 31 December 2008 is as follows:

Structure of aggregate memorandum accounts 2008



Source: Annual reports of banking entities

Aggregate consolidated income statements for Andorran banks

Details of the aggregate consolidated income statements of Andorran banks for 2007 and 2008 are as follows:

(Thousands of Euros)	2007	2008	Var. (%) 07-08
Interest and similar income	526,207	636,526	20.96%
Interest and similar charges	(369,062)	(468,762)	27.01%
Revenue from variable income securities	753	1,055	40.11%
FINANCIAL MARGIN	157,898	168,819	6.92%
Commission	419,395	283,389	(32.43%)
Profits on financial operations	52,330	31,023	(40.72%)
Other profit on ordinary activities	3,479	3,022	(13.14%)
MARGIN ON ORDINARY ACTIVITIES	633,102	486,253	(23.20%)
Personnel expenses	(94,404)	(102,863)	8.96%
General expenses	(122,736)	(119,461)	(2.67%)
Depreciation and provisions	(40,628)	(43,963)	8.21%
Provisions for depreciation of assets, net of recoveries	-	1,950	-
OPERATING MARGIN	375,334	221,916	(40.88%)
Provisions for loan losses, net of recoveries	(19,174)	(22,554)	17.63%
Provisions for liabilities and charges, net of recoveries	(2,129)	(28,739)	-
Allowance to provision for general risks	(4,166)	(23)	(99.45%)
PROFIT ON ORDINARY ACTIVITIES	349,865	170,600	(51.24%)
Net extraordinary income	3,756	26,912	-
Losses attributable to minority interest	220	(341)	-
PROFIT ATTRIBUTABLE TO THE GROUP	353,841	197,171	(44.28%)

Source: Annual reports of banking entities

Chapter "V. Information of interest" shows the consolidated income statements of each banking group.

As a whole the Andorran banking entities have generated profits of Euros 197 million in 2008, 44.28% down on the previous year (2006 vs. 2007: + 4.92%; 2005 vs 2006: +18.28%). This drop in profits for Andorran banks reported during 2008 has been driven mainly by a significant decrease in income from commission as a result of the transfer of customer funds managed off the balance sheet to customer deposits. Due to the prudent management of their portfolios, the Andorran banks have not reported any significant losses from financial transactions and they have been able to avoid considerable losses from toxic assets, which have significantly affected the results of top international banking entities. In a critical year for the international financial system, Andorran Banks have generated an aggregate profit of almost Euros 200 million, whilst maintaining capital adequacy and liquidity ratios of 18.13% and 66.25%, respectively. Both these ratios are far higher than the ratios of many international financial entities.

Financial margin

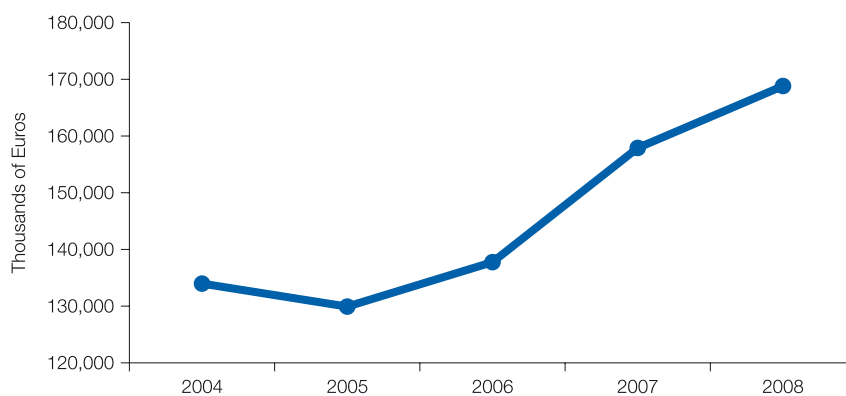
As can be seen from the table below, in 2008 the aggregate financial margin of Andorran banking entities amounted to Euros 168,819 thousand and increased by 6.92% in relation to 2007 (2006 vs. 2007: +14.62%; 2005 vs 2006: +6.03%). Despite the rise in interest rates during the first three quarters of 2008, the growth ratio of this margin has reduced by 7.7 percentage points compared to the growth achieved in 2007, mainly due to the increased interest paid on customer deposits.

Financial margin by banking entity			
(Thousands of Euros)			
	<u>2007</u>	<u>2008</u>	<u>Var. (%) 07-08</u>
ANDBANC	33,680	39,060	15.97%
BIBM	36,725	36,967	0.66%
BPA	12,646	18,409	45.57%
CRÈDIT ANDORRÀ GROUP	67,967	66,317	(2.43%)
BANCSABADELL D'ANDORRA	6,880	8,066	17.24%
TOTAL FINANCIAL MARGIN	157,898	168,819	6.92%

Source: Annual reports of banking entities

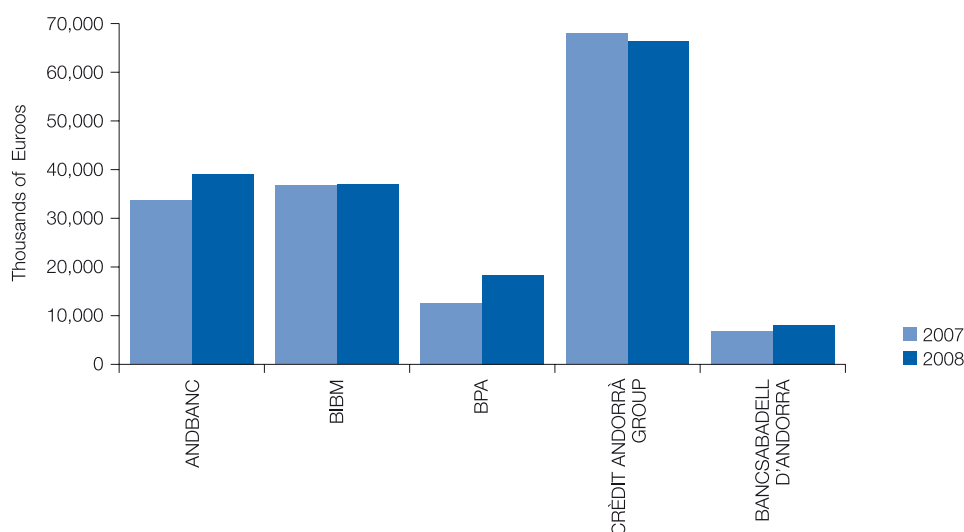
The evolution of the aggregate financial margin for the last five years, together with the financial margin by banking entity for 2007 and 2008 are shown in the graphs below:

Evolution of aggregate financial margin 2004-2008



Source: Annual reports of banking entities

Evolution of aggregate financial margin 2007-2008



Source: Annual reports of banking entities

Margin on ordinary activities

The table below shows that the aggregate margin on ordinary activities for 2008 is down 23.20% to Euros 486,253 thousand (2005 vs. 2007: +7.66%; 2005 vs. 2006: +13.01%). This is mainly due to the 32.43% decrease in net commissions on high added value products and services arising from customer funds managed off the balance sheet. The significant level of divestment in these products to invest them in safer products such as deposits, can explain this drop in net commissions. On the other hand, and to a relatively lower extent, the 40.72% drop (2007: -6.23%) in results from financial operations has also contributed to the reduction in the Andorran banks' margin on ordinary activities at 2008 year end. The volatility in international financial markets, along with the losses recorded on the stock markets and fixed-interest securities markets in 2008 help explain the decrease in results on financial operations.

Margin on ordinary activities by banking entity

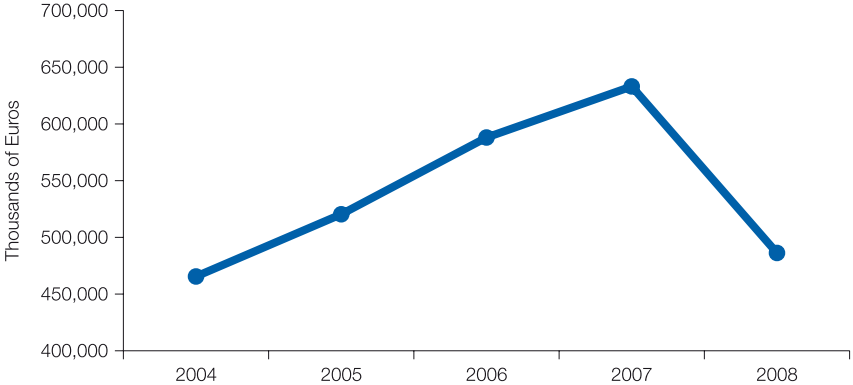
(Thousands of Euros)

	2007	2008	Var. (%) 07-08
ANDBANC	152,053	117,341	(22.83%)
BIBM	142,782	106,721	(25.26%)
BPA	77,646	60,812	(21.68%)
CRÉDIT ANDORRÀ GROUP	240,675	183,280	(23.85%)
BANCSABADELL D'ANDORRA	19,946	18,099	(9.26%)
TOTAL MARGIN ON ORDINARY ACTIVITIES	633,102	486,253	(23.20%)

Source: Annual reports of banking entities

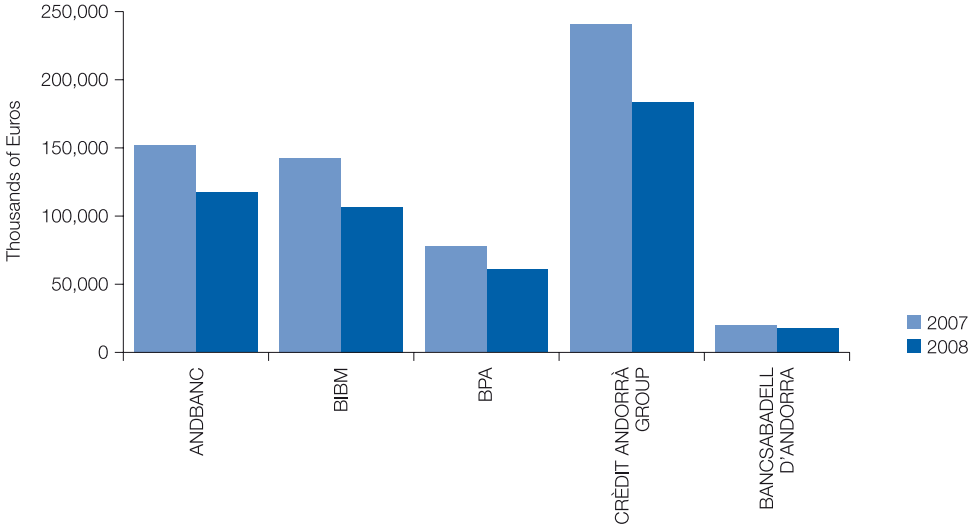
The aggregate margin on ordinary activities for each banking entity over the last five years, together with a graph showing its evolution for 2007 and 2008 is as follows:

Evolution of aggregate margin on ordinary activities 2004-2008



Source: Annual reports of banking entities

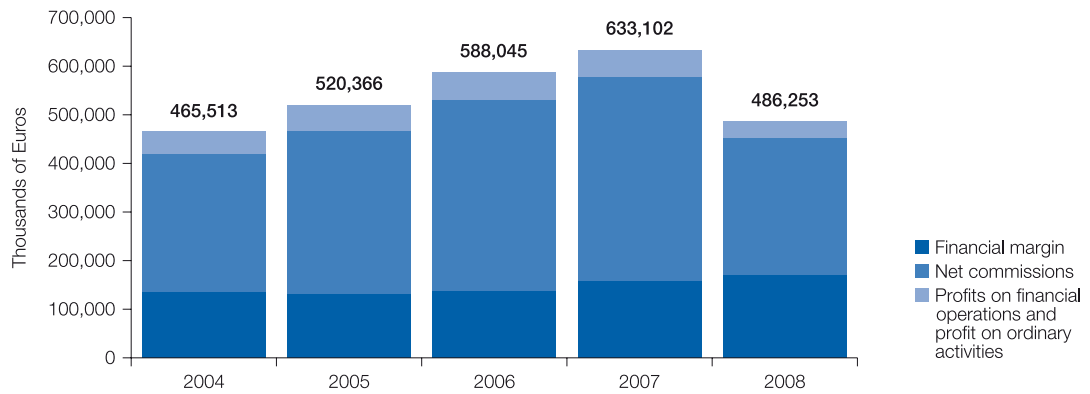
Evolution of ordinary margin 2007-2008



Source: Annual reports of banking entities

The following graph shows that income from commission continues to be the most significant item in terms of its contribution to the margin on ordinary activities, although there has been a slight increase in the contribution of the financial margin to the margin on ordinary activities, having risen by 6.92% during the year. The contribution of results of financial operations to the margin on ordinary activities has also dropped by Euros 21 million in 2008.

Evolution of aggregate margin on ordinary activities 2004-2008



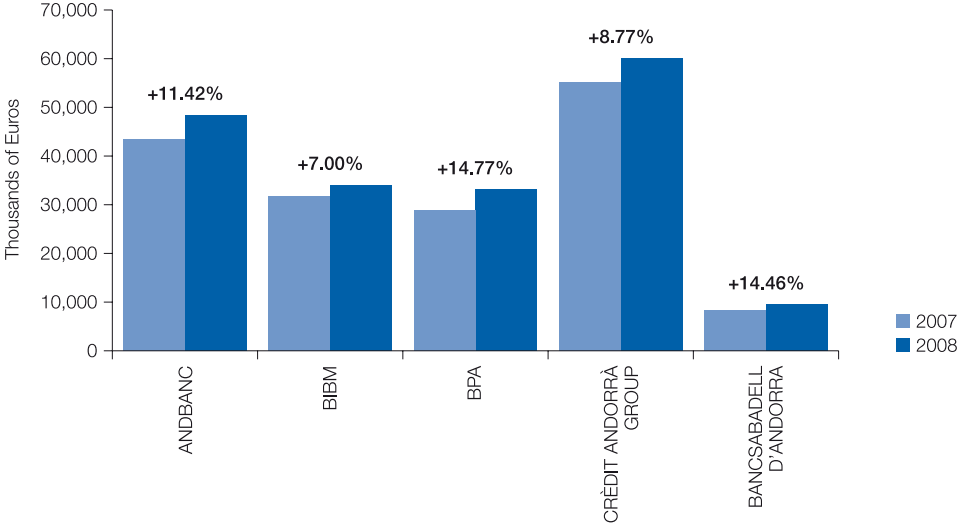
Source: Annual reports of banking entities

Transformation costs

During 2008, aggregate transformation costs of Andorran banking entities, which comprise “Personnel expenses” and “General expenses” (including “Taxes”, to the exception of taxes related to taxation on banking services rendered) have amounted to Euros 185,122 thousand, up 10.44% on 2007. The evolution of the transformation costs in the Andorran banks during 2008 denotes that, despite the current international crisis generated in the financial market, they have increased the number of employees, have continued in their international expansion plan and have consolidated the internal market.

Changes in transformation costs from 2007 to 2008 for each of the banking entities comprising the Andorran banking system are as follows:

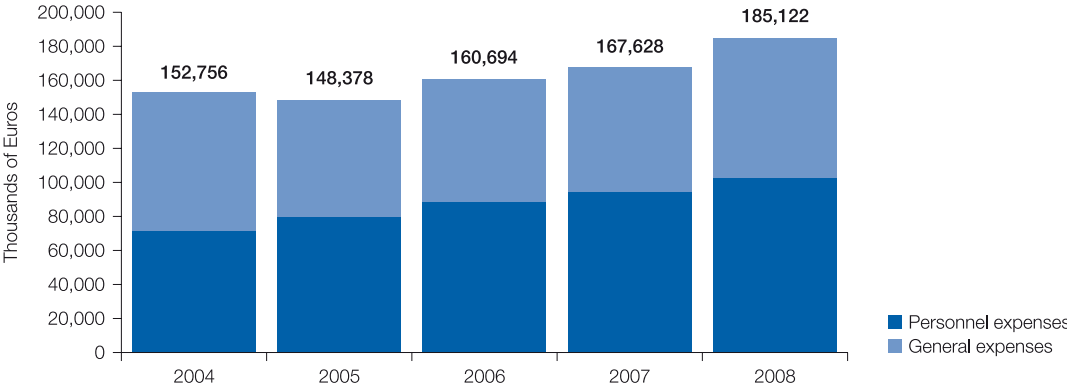
Changes in transformation costs 2007-2008



Source: Annual reports of banking entities

The composition of the Andorran banks' transformation costs has changed in recent years, with personnel expenses increasingly gaining relative importance compared to general expenses. Changes in the composition of transformation costs during the last five years are shown in the following graph:

Changes in the structure of aggregate transformation costs 2004-2008



Source: Annual reports of banking entities

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

The average efficiency ratio of Andorran banking entities for 2008 stands at 38.07%, which is up significantly on the ratio for 2007, which stood at 26.48%. The margin has risen by more than 11 percentage points compared to the previous year because the evolution of transformation costs of the Andorran bank have not been proportional to the drop in the ordinary margin in this exercise. Despite this increase, if the efficiency rate of Andorran banks is compared with that of banking sectors in other European countries it continues to be one of the lowest rates. This confirms that efficiency continues to be a key differentiating factor of the management model of Andorran banks.

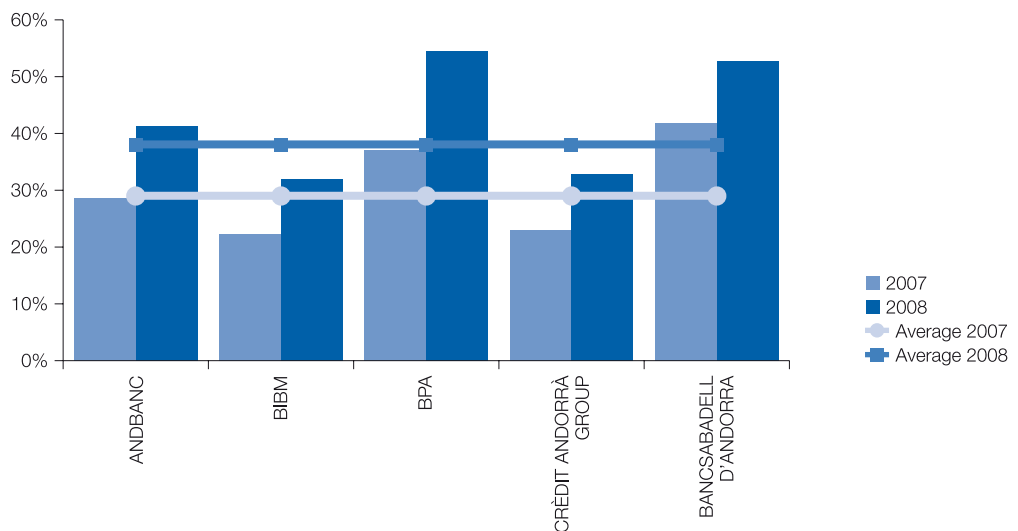
A graph and table showing the efficiency ratios of each entity for 2007 and 2008 are presented below.

Efficiency ratio by banking entity		
	<u>2007</u>	<u>2008</u>
ANDBANC	28.59%	41.28%
BIBM	22.27%	31.88%
BPA	37.14%	54.43%
CRÈDIT ANDORRÀ GROUP	22.93%	32.76%
BANCSABADELL D'ANDORRA	41.75%	52.66%
AVERAGE	26.48%	38.07%

Source: Association of Andorran Banks

Changes in the efficiency ratios of Andorran banking entities between 2007 and 2008 are as follows:

Evolution of efficiency ratios of Andorran banking entities 2007-2008

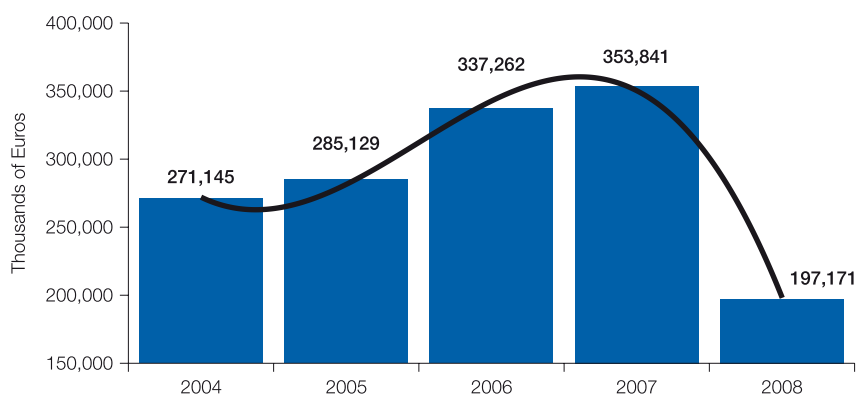


Profit

As a result of the 23.20% drop in margin on ordinary activities and the rise in transformation costs after amortisation, the aggregate operating margin stands at Euros 221,916 thousand, down 40.88% on the same period of the previous year (2006 vs. 2007: +8.87%). This factor, together with a significant rise in provision expenses, especially provisions for liabilities and charges, has caused the aggregate profit of Andorran banking entities to drop by 44.28% compared to 2007, when the aggregate profit of the banks rose by 4.92% (2005 vs. 2006: +18.28%). These profits, amounting to almost Euros 200 million, have been valued positively, taking into consideration the international economic scenario and especially the performance of global financial markets during 2008.

The graph below plots the changes in the aggregate profit of Andorran banking entities from 2004 to 2008 and the table illustrates the profit for each banking entity:

Growth in aggregate profit 2004-2008



Source: Annual reports of banking entities

Profit by banking entity

(Thousands of Euros)

	2007	2008	Var. (%) 07-08
ANDBANC	85,657	31,410	(63.33%)
BIBM	94,393	52,224	(44.67%)
BPA	37,588	23,346	(37.89%)
CRÈDIT ANDORRÀ GROUP	128,001	85,005	(33.59%)
BANCSABADELL D'ANDORRA	8,202	5,186	(36.77%)
TOTAL PROFIT	353,841	197,171	(44.28%)

Source: Annual reports of banking entities

Average return on equity (ROE)

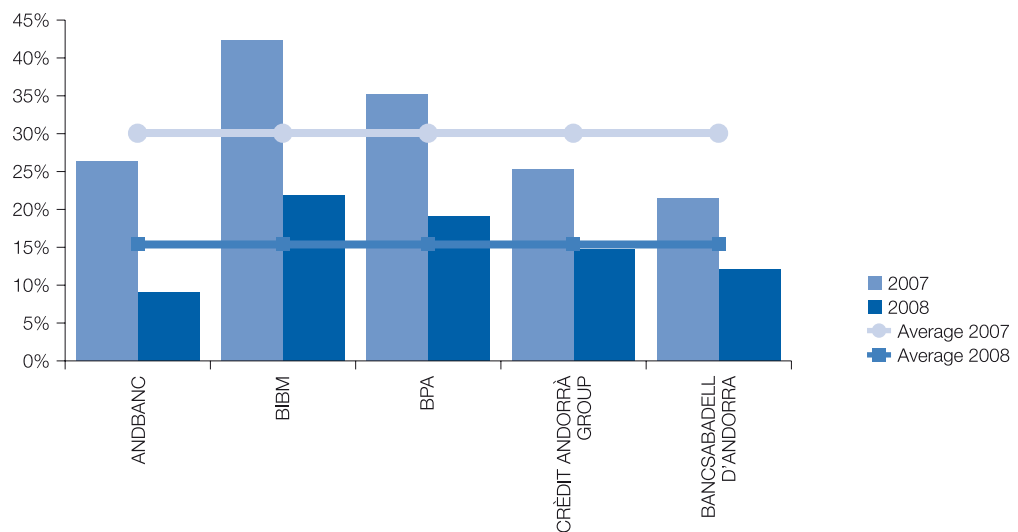
The average return on equity of Andorran banks for the year ended 31 December 2008 was 15.37% (calculating profit/average equity), down 14.72% on 2007. This decrease has mainly been driven by the drop in profits, as average equity has remained at almost the same level as in 2007.

The following table and graph show the average return on equity for each banking entity in 2007 and 2008.

Average return on equity (ROE)		
	2007	2008
ANDBANC	26.29%	9.11%
BIBM	42.27%	21.85%
BPA	35.14%	19.02%
CRÈDIT ANDORRÀ GROUP	25.31%	14.74%
BANCSABADELL D'ANDORRA	21.44%	12.12%
AVERAGE	30.09%	15.37%

Source: Association of Andorran Banks

Average return on equity by banking entity 2007-2008



Source: Association of Andorran Banks

Average return on assets (ROA)

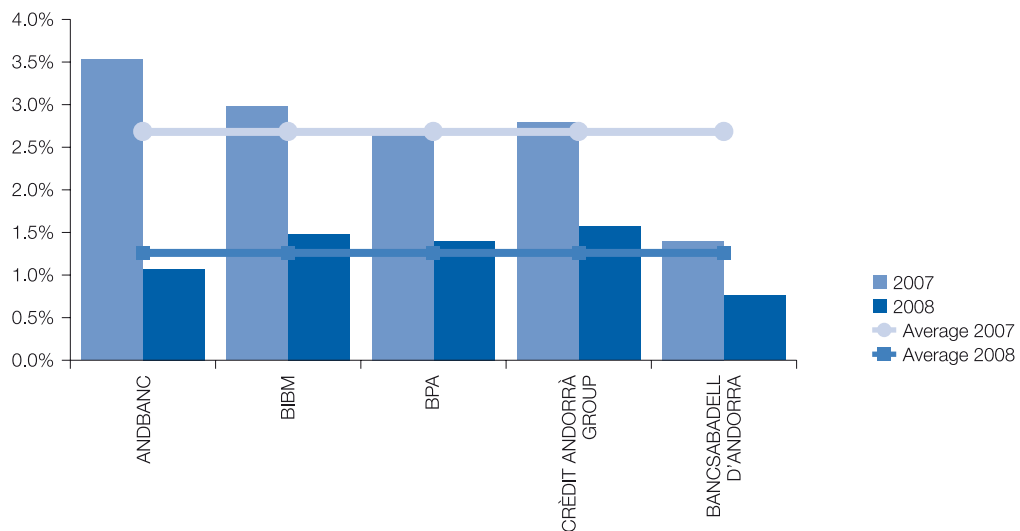
The average return on total assets of Andorran banks for the year ended 31 December 2008 stands at 1.26%, 52.99% down on 2007. This reduction in the average return on total assets of Andorran banks has been caused by two similar factors: on the one hand, the substantial increase in aggregate assets that Andorran banks recorded in 2008 and on the other hand the 44.28% drop in aggregate profits, mainly due to the declining volume of customer funds intermediated in favour of deposits.

The following table and graph show the return on average assets (i.e. profit/average total assets) for each banking entity in 2007 and 2008:

Average return on assets (ROA)		
	2007	2008
ANDBANC	3.53%	1.07%
BIBM	2.98%	1.48%
BPA	2.68%	1.40%
CRÈDIT ANDORRÀ GROUP	2.79%	1.57%
BANCSABADELL D'ANDORRA	1.40%	0.76%
AVERAGE	2.68%	1.26%

Source: Association of Andorran Banks

Average return on assets by banking entity 2007-2008



Source: Association of Andorran Banks

It should be noted that both the return on average assets (ROA) and return on average equity (ROE) are in line and in many cases exceed those of the banking sectors of other European countries such as Spain, the United Kingdom, France and Germany.

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 positive reputation for being solvent 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 2007 and 2008 which, as can be clearly observed, significantly exceed the established minimums:

	Capital adequacy		Liquidity	
	2007	2008	2007	2008
ANDBANC	26.61%	15.92%	60.97%	58.72%
BIBM	22.87%	22.01%	68.65%	82.90%
BPA	17.27%	17.47%	73.66%	60.53%
CRÈDIT ANDORRÀ GROUP	18.84%	20.37%	60.46%	70.08%
BANCSABADELL D'ANDORRA	14.23%	14.88%	67.43%	59.03%
AVERAGE	19.96%	18.13%	66.23%	66.25%

Source: Annual reports of banking entities

The table above shows that the average capital adequacy ratio of Andorran banks at 31 December 2008 stands at almost 18.13%, two percentage points lower than in the previous year, but still higher than that of leading international private, retail or universal banking entities.

The average liquidity ratio of Andorran banks at the same date stands at 66.25%, slightly higher than the figure for 2007. Andorran banking entities have increased their liquidity from previous years, despite the fact that the lack of confidence in international financial markets has restricted somewhat the inter-bank liquidity market, having demonstrated therefore their privileged situations in the current financial market conditions.

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

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 some of the ratings given to some of Andorra's banking entities in 2008.

	Ratings			Agency
	Long term	Short term	Financial strength	
ANDBANC	A-	F2	B/C	Fitch Ratings
BIBM	A2	P-1	C+	Moody's
BPA	BBB	F3	C	Fitch Ratings
CRÈDIT ANDORRÀ GROUP	A	F1	B	Fitch Ratings
BANCSABADELL D'ANDORRA (*)	-	-	-	-

(*) 51% interest held by Banc Sabadell

Source: Rating agencies reports as of May 2009

The latest sovereign rating update for the Principality of Andorra by Standard & Poor's at July 2009 has been A+ for the long term and A-1+ for the short term with stable outlook. These ratings reflect the impact of the international economic and financial situation of neighbouring countries on the growth of the Andorran economy in 2008 and the first quarter of 2009. The stable outlook mainly reflects the continuous efforts made by the Andorran Government to improve the quality of and diversify tourism in the Principality, the competitiveness of the financial system and the country's capacity to face external vulnerability.

V. INFORMATION OF INTEREST



V. INFORMATION OF INTEREST

V.1. ANDORRAN BANKING GROUPS ⁽¹⁾

Andorra Banc 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
www.andbanc.com

Honorary Chairman:	Mr. Òscar Ribas Reig
Chairman:	Mr. Manel Cerqueda Donadeu
Vice Chairman:	Mr. Oriol Ribas Duró
Director - General Manager (*):	Mr. Jordi Comas Planas
Chief Executive Operations:	Mr. José Luis Muñoz Lasuén
Deputy Chief Executive Officer - Business:	Mr. Ricard Tubau Roca

(* Mr. Jaume Sabater Rovira occupied the post of General Manager of Andbanc until 14 May 2008.

Consolidated balance sheets of Andorra Banc Agrícola Reig, SA (Andbanc) at 31 December 2007 and 2008

(Thousands of Euros)	2007	% of total	2008	% of total	Var. (%) 07-08
ASSETS					
Cash and central banks OECD	14,708	0.55%	10,559	0.29%	(28.21%)
INAF	18,577	0.70%	18,577	0.51%	-
Financial intermediaries	523,723	19.66%	913,810	24.98%	-
Loans	1,513,069	56.81%	1,558,713	42.62%	3.02%
Securities portfolio	479,924	18.02%	966,498	26.42%	-
Gains on consolidation	-	-	3,095	0.08%	-
Intangible assets	10,744	0.40%	11,812	0.32%	9.94%
Tangible assets	50,973	1.91%	114,901	3.14%	-
Prepayment and accrued receivables	33,055	1.24%	32,692	0.89%	(1.10%)
Other assets	18,808	0.71%	27,513	0.75%	46.28%
TOTAL ASSETS	2,663,581	100.00%	3,658,170	100.00%	37.34%
LIABILITIES					
INAF	19,883	0.75%	19,426	0.53%	(2.30%)
Due to banks and credit entities	145,595	5.47%	8,483	0.23%	(94.17%)
Other financial intermediaries	-	-	-	-	-
Customer deposits	2,050,598	76.98%	3,291,763	89.98%	60.53%
Debts represented by securities	-	-	-	-	-
Provision for liabilities and charges	26,405	0.99%	9,061	0.25%	-
Provision for general risks	800	0.03%	800	0.02%	-
Subordinated liabilities	-	-	-	-	-
Accruals	20,484	0.77%	29,487	0.81%	43.95%
Other liabilities	23,450	0.88%	25,889	0.71%	10.40%
Share capital	68,061	2.56%	78,061	2.13%	14.69%
Reserves	260,714	9.78%	180,783	4.94%	(30.66%)
Profit	85,657	3.22%	31,410	0.86%	(63.33%)
Prior years' result	-	-	-	-	-
Interim dividends	(38,084)	(1.43%)	(16,993)	(0.46%)	(55.38%)
Minority interest	18	-	-	-	-
TOTAL LIABILITIES	2,663,581	100.00%	3,658,170	100.00%	37.34%

Source: Annual report of banking entity

(1) Information of interest relates to posts occupied by individuals prior to 31 May 2009

Consolidated memorandum accounts of Andorra Banc Agrícola Reig, SA (Andbanc) at 31 December 2007 and 2008

(Thousands of Euros)					
	<u>2007</u>	<u>% of total</u>	<u>2008</u>	<u>% of total</u>	<u>Var. (%) 07-08</u>
Contingent liabilities	89,121	0.94%	113,436	1.44%	27.28%
Commitments and contingent risks	426,491	4.48%	361,200	4.60%	(15.31%)
Derivative financial instruments	2,387,119	25.07%	1,706,137	21.71%	(28.53%)
Securities deposited and others held in custody	5,206,226	54.69%	4,190,757	53.33%	(19.50%)
Other memorandum accounts	1,411,056	14.82%	1,486,931	18.92%	5.38%
TOTAL	9,520,013	100.00%	7,858,461	100.00%	(17.45%)

Source: Annual report of banking entity

Consolidated income statements of Andorra Banc Agrícola Reig, SA (Andbanc) for the years ended 31 December 2007 and 2008

(Thousands of Euros)			
	<u>2007</u>	<u>2008</u>	<u>Var. (%) 07-08</u>
Interest and similar income	107,063	130,022	21.44%
Interest and similar charges	(73,701)	(91,452)	24.09%
Revenue from variable income securities	318	490	54.09%
FINANCIAL MARGIN	33,680	39,060	15.97%
Commission	102,966	67,038	(34.89%)
Profits on financial operations	13,932	9,784	(29.77%)
Other profit on ordinary activities	1,475	1,459	(1.08%)
MARGIN ON ORDINARY ACTIVITIES	152,053	117,341	(22.83%)
Personnel expenses	(24,617)	(27,068)	9.96%
General expenses	(30,657)	(31,239)	1.90%
Depreciation and provisions	(6,203)	(7,321)	18.02%
Provisions for depreciation of assets, net of recoveries	-	-	-
OPERATING MARGIN	90,576	51,713	(42.91%)
Provisions for loan losses, net of recoveries	(5,227)	(11,248)	-
Provisions for liabilities and charges, net of recoveries	(166)	(3,301)	-
Allowance to provision for general risks	-	-	-
PROFIT ON ORDINARY ACTIVITIES	85,183	37,164	(56.37%)
Net extraordinary income	254	(5,754)	-
Losses attributable to minority interest	220	-	-
PROFIT ATTRIBUTABLE TO THE GROUP	85,657	31,410	(63.33%)

Source: Annual report of banking entity

(1) Information of interest relates to posts occupied by individuals prior to 31 May 2009

Banc Internacional d'Andorra, SA

Av. Meritxell, 96 - AD500 Andorra la Vella
(Principality of Andorra) - Tel. +376 884488 - Fax +376 884499
www.bibm.ad

Honorary Chairman:	Mr. Joan Mora Font
Chairman:	Mr. Jordi Aristot Mora
Director - General Manager:	Mr. Joan Quera Font
General Manager:	Mr. Santiago Guillén Sánchez

Banca Mora, SAU

Av. Meritxell, 96 - AD500 Andorra la Vella
(Principality of Andorra) - Tel. +376 884488 - Fax +376 884499
www.bibm.ad

Chairman:	Mr. Francesc Mora Sagués
Director - General Manager:	Mr. Joan Quera Font
General Manager:	Mr. Santiago Guillén Sánchez

Consolidated balance sheets of Banc Internacional d'Andorra, SA, Banca Mora, SAU (BIBM) at 31 December 2007 and 2008

(Thousands of Euros)	2007	% of total	2008	% of total	Var. (%) 07-08
ASSETS					
Cash and central banks OECD	17,518	0.54%	21,735	0.58%	24.07%
INAF	28,642	0.88%	28,641	0.76%	-
Financial intermediaries	1,956,804	60.41%	1,876,284	49.96%	(4.11%)
Loans	1,041,449	32.14%	1,060,642	28.24%	1.84%
Securities portfolio	110,504	3.41%	650,971	17.33%	-
Gains on consolidation	-	-	-	-	-
Intangible assets	6,117	0.19%	6,831	0.18%	11.67%
Tangible assets	54,146	1.67%	68,851	1.83%	27.16%
Prepayment and accrued receivables	20,153	0.62%	36,823	0.98%	82.72%
Other assets	4,696	0.14%	5,434	0.14%	15.72%
TOTAL ASSETS	3,240,029	100.00%	3,756,212	100.00%	15.93%
LIABILITIES					
INAF	36,395	1.12%	41,042	1.09%	12.77%
Due to banks and credit entities	43,186	1.33%	74,117	1.97%	71.62%
Other financial intermediaries	133	-	26	-	(80.45%)
Customer deposits	2,826,350	87.25%	3,294,089	87.70%	16.55%
Debts represented by securities	-	-	-	-	-
Provision for liabilities and charges	16,791	0.52%	18,707	0.50%	11.41%
Provision for general risks	419	0.01%	-	-	-
Subordinated liabilities	60,000	1.85%	60,000	1.60%	-
Accruals	22,211	0.69%	26,647	0.71%	19.97%
Other liabilities	10,148	0.31%	14,964	0.40%	47.46%
Share capital	42,407	1.31%	42,407	1.13%	-
Reserves	150,972	4.66%	162,989	4.34%	7.96%
Profit	94,393	2.91%	52,224	1.39%	(44.67%)
Prior years' result	-	-	-	-	-
Interim dividends	(63,376)	(1.96%)	(31,000)	(0.83%)	(51.09%)
Minority interest	-	-	-	-	-
TOTAL LIABILITIES	3,240,029	100.00%	3,756,212	100.00%	15.93%

Source: Annual report of banking entity

(1) Information of interest relates to posts occupied by individuals prior to 31 May 2009

Consolidated memorandum accounts of Banc Internacional d'Andorra, SA, Banca Mora, SAU (BIBM) at 31 December 2007 and 2008

(Thousands of Euros)	<u>2007</u>	<u>% of total</u>	<u>2008</u>	<u>% of total</u>	<u>Var. (%) 07-08</u>
Contingent liabilities	114,034	1.36%	120,437	1.87%	5.61%
Commitments and contingent risks	333,030	3.99%	336,880	5.23%	1.16%
Derivative financial instruments	1,665,430	19.93%	1,354,666	21.03%	(18.66%)
Securities deposited and others held in custody	4,729,870	56.61%	3,456,523	53.65%	(26.92%)
Other memorandum accounts	1,513,099	18.11%	1,173,484	18.22%	(22.44%)
TOTAL	8,355,463	100.00%	6,441,990	100.00%	(22.90%)

Source: Annual report of banking entity

Consolidated income statements of Banc Internacional d'Andorra, SA, Banca Mora, SAU (BIBM) for the years ended 31 December 2007 and 2008

(Thousands of Euros)	<u>2007</u>	<u>2008</u>	<u>Var. (%) 07-08</u>
Interest and similar income	136,523	154,820	13.40%
Interest and similar charges	(99,800)	(117,856)	18.09%
Revenue from variable income securities	2	3	50.00%
FINANCIAL MARGIN	36,725	36,967	0.66%
Commission	99,858	65,913	(33.99%)
Profits on financial operations	5,975	3,640	(39.08%)
Other profit on ordinary activities	224	201	(10.27%)
MARGIN ON ORDINARY ACTIVITIES	142,782	106,721	(25.26%)
Personnel expenses	(18,000)	(17,364)	(3.53%)
General expenses	(25,157)	(24,841)	(1.26%)
Depreciation and provisions	(7,108)	(7,177)	0.97%
Provisions for depreciation of assets, net of recoveries	-	-	-
OPERATING MARGIN	92,517	57,339	(38.02%)
Provisions for loan losses, net of recoveries	2,824	(3,385)	-
Provisions for liabilities and charges, net of recoveries	(1,010)	(3,365)	-
Allowance to provision for general risks	-	-	-
PROFIT ON ORDINARY ACTIVITIES	94,331	50,589	(46.37%)
Net extraordinary income	62	1,635	-
Losses attributable to minority interest	-	-	-
PROFIT ATTRIBUTABLE TO THE GROUP	94,393	52,224	(44.67%)

Source: Annual report of banking entity

(1) Information of interest relates to posts occupied by individuals prior to 31 May 2009

Banca Privada d'Andorra, SA

Av. Carlemany, 119 - AD700 Escaldes-Engordany
(Principality of Andorra) - Tel. +376 873500 - Fax +376 873519
www.bpa.ad

Chairman:	Mr. Higini Cierco Noguer
Chairman:	Mr. Ramon Cierco Noguer
Director - General Manager:	Mr. Joan Pau Miquel Prats
Assistant General Manager:	Mr. Xavier Mayol González

Consolidated balance sheets of Banca Privada d'Andorra (BPA) at 31 December 2007 and 2008

(Thousands of Euros)	2007	% of total	2008	% of total	Var. (%) 07-08
ASSETS					
Cash and central banks OECD	6,655	0.44%	11,172	0.64%	67.87%
INAF	8,521	0.56%	8,521	0.49%	-
Financial intermediaries	30,545	2.00%	35,588	2.03%	16.51%
Loans	1,225,486	80.41%	1,246,417	71.11%	1.71%
Securities portfolio	164,695	10.81%	310,308	17.70%	88.41%
Gains on consolidation	-	-	1,353	0.08%	-
Intangible assets	7,899	0.52%	9,367	0.53%	18.58%
Tangible assets	62,198	4.08%	81,010	4.62%	30.25%
Prepayment and accrued receivables	7,376	0.48%	11,358	0.65%	53.99%
Other assets	10,671	0.70%	37,688	2.15%	-
TOTAL ASSETS	1,524,046	100.00%	1,752,782	100.00%	15.01%
LIABILITIES					
INAF	32,593	2.14%	34,173	1.95%	4.85%
Due to banks and credit entities	128,744	8.45%	45,765	2.61%	(64.45%)
Other financial intermediaries	-	-	-	-	-
Customer deposits	1,212,553	79.55%	1,458,127	83.20%	20.25%
Debts represented by securities	-	-	-	-	-
Provision for liabilities and charges	-	-	46,175	2.63%	-
Provision for general risks	902	0.06%	902	0.05%	-
Subordinated liabilities	-	-	31,235	1.78%	-
Accruals	15,283	1.00%	19,060	1.09%	24.71%
Other liabilities	14,608	0.96%	11,621	0.66%	(20.45%)
Share capital	33,000	2.17%	60,000	3.42%	81.82%
Reserves	57,778	3.79%	27,133	1.55%	(53.04%)
Profit	37,588	2.47%	23,346	1.33%	(37.89%)
Prior years' result	(3)	-	(29)	-	-
Interim dividends	(9,000)	(0.59%)	(5,000)	(0.29%)	(44.44%)
Minority interest	-	-	274	0.02%	-
TOTAL LIABILITIES	1,524,046	100.00%	1,752,782	100.00%	15.01%

Source: Annual report of banking entity

(1) Information of interest relates to posts occupied by individuals prior to 31 May 2009

Consolidated memorandum accounts of Banca Privada d'Andorra (BPA) at 31 December 2007 and 2008

(Thousands of Euros)	2007	% of total	2008	% of total	Var. (%) 07-08
Contingent liabilities	133,522	3.29%	97,352	2.92%	(27.09%)
Commitments and contingent risks	147,802	3.65%	130,502	3.91%	(11.70%)
Derivative financial instruments	1,649,130	40.68%	1,212,678	36.34%	-
Securities deposited and others held in custody	1,940,172	47.86%	1,683,767	50.44%	(13.22%)
Other memorandum accounts	183,281	4.52%	213,116	6.39%	16.28%
TOTAL	4,053,907	100.00%	3,337,415	100.00%	(17.67%)

Source: Annual report of banking entity

Consolidated income statements of Banca Privada d'Andorra (BPA) for the years ended 31 December 2007 and 2008

(Thousands of Euros)	2007	2008	Var. (%) 07-08
Interest and similar income	56,514	71,574	26.65%
Interest and similar charges	(43,888)	(53,185)	21.18%
Revenue from variable income securities	20	20	-
FINANCIAL MARGIN	12,646	18,409	45.57%
Commission	56,327	45,465	(19.28%)
Profits on financial operations	7,411	(3,976)	-
Other profit on ordinary activities	1,262	914	(27.58%)
MARGIN ON ORDINARY ACTIVITIES	77,646	60,812	(21.68%)
Personnel expenses	(15,011)	(16,842)	12.20%
General expenses	(20,412)	(21,456)	5.11%
Depreciation and provisions	(4,595)	(5,103)	11.06%
Provisions for depreciation of assets, net of recoveries	-	-	-
OPERATING MARGIN	37,628	17,411	(53.73%)
Provisions for loan losses, net of recoveries	(3,484)	1,648	-
Provisions for liabilities and charges, net of recoveries	-	(21,700)	-
Allowance to provision for general risks	-	-	-
PROFIT ON ORDINARY ACTIVITIES	34,144	(2,641)	-
Net extraordinary income	3,444	25,987	-
Losses attributable to minority interest	-	-	-
PROFIT ATTRIBUTABLE TO THE GROUP	37,588	23,346	(37.89%)

Source: Annual report of banking entity

(1) Information of interest relates to posts occupied by individuals prior to 31 May 2009

Crèdit Andorrà Group

Av. Meritxell, 80 - AD500 Andorra la Vella
(Principality of Andorra) - Tel. +376 888000 - Fax +376 888021
www.creditandorra.ad

Chairman:	Mr. Antoni Pintat Santolària
Vice Chairman:	Mr. Jaume Casal Mor
Managing Director - General Manager:	Mr. Josep Peralba Duró
Corporate Assistant General Manager:	Mr. Xavier Cornella Grau
Business Assistant General Manager:	Mr. Xavier Cornella Castel

Consolidated balance sheets of Crèdit Andorrà Group at 31 December 2007 and 2008

(Thousands of Euros)	2007	% of total	2008	% of total	Var. (%) 07-08
ASSETS					
Cash and central banks OECD	19,349	0.39%	31,496	0.52%	62.78%
INAF	46,245	0.94%	46,245	0.77%	-
Financial intermediaries	1,210,077	24.64%	1,677,766	27.88%	38.65%
Loans	2,732,012	55.65%	2,882,289	47.90%	5.50%
Securities portfolio	528,632	10.77%	888,364	14.76%	68.05%
Gains on consolidation	-	-	-	-	-
Intangible assets	149,678	3.05%	133,679	2.22%	(10.69%)
Tangible assets	111,545	2.27%	247,229	4.11%	-
Prepayment and accrued receivables	80,277	1.63%	69,389	1.15%	(13.56%)
Other assets	32,313	0.66%	41,523	0.69%	28.50%
TOTAL ASSETS	4,910,128	100.00%	6,017,980	100.00%	22.56%
LIABILITIES					
INAF	63,217	1.29%	61,020	1.01%	(3.48%)
Due to banks and credit entities	122,173	2.49%	5,633	0.09%	(95.39%)
Other financial intermediaries	-	-	-	-	-
Customer deposits	3,821,540	77.82%	4,879,467	81.08%	27.68%
Debts represented by securities	16,312	0.33%	83,504	1.39%	-
Provision for liabilities and charges	2,918	0.06%	2,742	0.05%	(6.03%)
Provision for general risks	64,620	1.32%	53,281	0.89%	(17.55%)
Subordinated liabilities	150,000	3.05%	150,000	2.49%	-
Accruals	37,656	0.77%	52,268	0.87%	38.80%
Other liabilities	37,458	0.76%	43,869	0.73%	17.12%
Share capital	70,000	1.43%	70,000	1.16%	-
Reserves	448,233	9.13%	565,390	9.40%	26.14%
Profit	128,001	2.61%	85,005	1.41%	(33.59%)
Prior years' result	-	-	-	-	-
Interim dividends	(52,000)	(1.06%)	(35,000)	(0.58%)	(32.69%)
Minority interest	-	-	801	0.01%	-
TOTAL LIABILITIES	4,910,128	100.00%	6,017,980	100.00%	22.56%

Source: Annual report of banking entity

(1) Information of interest relates to posts occupied by individuals prior to 31 May 2009

Consolidated memorandum accounts of Crèdit Andorrà Group at 31 December 2007 and 2008

(Thousands of Euros)	<u>2007</u>	<u>% of total</u>	<u>2008</u>	<u>% of total</u>	<u>Var. (%) 07-08</u>
Contingent liabilities	264,555	1.73%	256,549	2.59%	(3.03%)
Commitments and contingent risks	621,825	4.08%	488,298	4.94%	(21.47%)
Derivative financial instruments	6,420,742	42.10%	3,749,051	37.92%	(41.61%)
Securities deposited and others held in custody	6,833,293	44.81%	4,618,022	46.71%	(32.42%)
Other memorandum accounts	1,109,961	7.28%	775,296	7.84%	(30.15%)
TOTAL	15,250,376	100.00%	9,887,216	100.00%	(35.17%)

Source: Annual report of banking entity

Consolidated income statements of Crèdit Andorrà Group for the years ended 31 December 2007 and 2008

(Thousands of Euros)	<u>2007</u>	<u>2008</u>	<u>Var. (%) 07-08</u>
Interest and similar income	200,362	247,784	23.67%
Interest and similar charges	(132,804)	(182,004)	37.05%
Revenue from variable income securities	409	537	31.30%
FINANCIAL MARGIN	67,967	66,317	(2.43%)
Commission	149,529	98,153	(34.36%)
Profits on financial operations	22,741	18,450	(18.87%)
Other profit on ordinary activities	438	360	(17.81%)
MARGIN ON ORDINARY ACTIVITIES	240,675	183,280	(23.85%)
Personnel expenses	(31,945)	(35,805)	12.08%
General expenses	(41,875)	(37,062)	(11.49%)
Depreciation and provisions	(21,032)	(22,319)	6.12%
Provisions for depreciation of assets, net of recoveries	-	1,950	-
OPERATING MARGIN	145,823	90,044	(38.25%)
Provisions for loan losses, net of recoveries	(12,677)	(9,258)	-
Provisions for liabilities and charges, net of recoveries	(953)	(373)	-
Allowance to provision for general risks	(4,166)	-	-
PROFIT ON ORDINARY ACTIVITIES	128,027	80,413	(37.19%)
Net extraordinary income	(26)	4,933	-
Losses attributable to minority interest	-	(341)	-
PROFIT ATTRIBUTABLE TO THE GROUP	128,001	85,005	(33.59%)

Source: Annual report of banking entity

(1) Information of interest relates to posts occupied by individuals prior to 31 May 2009

BancSabadell d'Andorra, SA

Av. del Fener, 7 - AD500 Andorra la Vella
(Principality of Andorra) - Tel. +376 735600 - Fax +376 735601
www.bsa.ad

Chairman: Mr. Robert Cassany Vila
Director - General Manager: Mr. Miquel Alabern Comas
Assistant General Manager: Mr. Josep Segura Solà

Consolidated balance sheets of BancSabadell d'Andorra, SA at 31 December 2007 and 2008

(Thousands of Euros)					
	2007	% of total	2008	% of total	Var. (%) 07-08
ASSETS					
Cash and central banks OECD	3,587	0.54%	6,097	0.90%	69.97%
INAF	6,220	0.94%	6,220	0.92%	-
Financial intermediaries	10,279	1.55%	7,025	1.04%	(31.66%)
Loans	518,388	78.38%	509,049	75.14%	(1.80%)
Securities portfolio	90,079	13.62%	113,944	16.82%	26.49%
Gains on consolidation	-	-	-	-	-
Intangible assets	2,263	0.34%	2,921	0.43%	29.08%
Tangible assets	18,052	2.73%	20,936	3.09%	15.98%
Prepayment and accrued receivables	5,844	0.88%	5,648	0.83%	(3.35%)
Other assets	6,738	1.02%	5,644	0.83%	(16.24%)
TOTAL ASSETS	661,450	100.00%	677,484	100.00%	2.42%
LIABILITIES					
INAF	17,786	2.69%	18,840	2.78%	5.93%
Due to banks and credit entities	31,225	4.72%	1,594	0.24%	-
Other financial intermediaries	-	-	-	-	-
Customer deposits	552,474	83.53%	586,700	86.60%	6.20%
Debts represented by securities	11,000	1.66%	17,250	2.55%	56.82%
Provision for liabilities and charges	56	0.01%	74	0.01%	32.14%
Provision for general risks	-	-	23	-	-
Subordinated liabilities	-	-	-	-	-
Accruals	3,714	0.56%	4,908	0.72%	32.15%
Other liabilities	3,259	0.49%	5,238	0.77%	60.72%
Share capital	30,068	4.55%	30,068	4.44%	-
Reserves	3,666	0.55%	7,603	1.12%	-
Profit	8,202	1.24%	5,186	0.77%	(36.77%)
Prior years' result	-	-	-	-	-
Interim dividends	-	-	-	-	-
Minority interest	-	-	-	-	-
TOTAL LIABILITIES	661,450	100.00%	677,484	100.00%	2.42%

Source: Annual report of banking entity

(1) Information of interest relates to posts occupied by individuals prior to 31 May 2009

Consolidated memorandum accounts of BancSabadell d'Andorra, SA at 31 December 2007 and 2008

(Thousands of Euros)					
	<u>2007</u>	<u>% of total</u>	<u>2008</u>	<u>% of total</u>	<u>Var. (%) 07-08</u>
Contingent liabilities	28,139	2.08%	37,884	3.37%	34.63%
Commitments and contingent risks	92,346	6.82%	99,474	8.85%	7.72%
Derivative financial instruments	398,229	29.42%	334,550	29.75%	-
Securities deposited and others held in custody	814,951	60.22%	540,057	48.01%	(33.73%)
Other memorandum accounts	19,767	1.46%	112,635	10.02%	-
TOTAL	1,353,432	100.00%	1,124,600	100.00%	(16.91%)

Source: Annual report of banking entity

Consolidated income statements of BancSabadell d'Andorra, SA for the years ended 31 December 2007 and 2008

(Thousands of Euros)			
	<u>2007</u>	<u>2008</u>	<u>Var. (%) 07-08</u>
Interest and similar income	25,745	32,326	25.56%
Interest and similar charges	(18,869)	(24,265)	28.60%
Revenue from variable income securities	4	5	25.00%
FINANCIAL MARGIN	6,880	8,066	17.24%
Commission	10,715	6,820	(36.35%)
Profits on financial operations	2,271	3,125	37.60%
Other profit on ordinary activities	80	88	10.00%
MARGIN ON ORDINARY ACTIVITIES	19,946	18,099	(9.26%)
Personnel expenses	(4,831)	(5,784)	19.73%
General expenses	(4,635)	(4,863)	4.92%
Depreciation and provisions	(1,690)	(2,043)	20.89%
Provisions for depreciation of assets, net of recoveries	-	-	-
OPERATING MARGIN	8,790	5,409	(38.46%)
Provisions for loan losses, net of recoveries	(610)	(311)	-
Provisions for liabilities and charges, net of recoveries	-	-	-
Allowance to provision for general risks	-	(23)	-
PROFIT ON ORDINARY ACTIVITIES	8,180	5,075	(37.96%)
Net extraordinary income	22	111	-
Losses attributable to minority interest	-	-	-
PROFIT ATTRIBUTABLE TO THE GROUP	8,202	5,186	(36.77%)

Source: Annual report of banking entity

(1) Information of interest relates to posts occupied by individuals prior to 31 May 2009

V.2. OTHER INFORMATION OF INTEREST

Government of Andorra

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

At 1 January 2008:

Head of Government:	The Hon. Mr. Albert Pintat Santolària
Minister of Presidency and Finance:	The Hon. Mr. Ferran Mirapeix Lucas
Minister of Territorial Ordenance, Town Planning and Environment:	The Hon. Mr. Xavier Jordana Rossell
Government Spokesman and Minister of Economic Development, Tourism, Culture and Higher Education:	The Hon. Mr. Juli Minoves Triquell
Minister of Justice and Home Affairs:	The Hon. Mr. Antoni Riberaigua Sasplugas
Minister of Foreign Affairs:	The Hon. Ms. Meritxell Mateu Pi
Minister of Health, Welfare and Family Affairs, and Housing:	The Hon. Ms. Montserrat Gil Torné
Minister of the Economy and Agriculture:	The Hon. Mr. Joel Font Coma
Minister of Education, Professional Training, Youth and Sport:	The Hon. Ms. Roser Bastida Areny
Secretary General:	Mr. Esteve Vidal Ferrer
Head of the Government Cabinet:	Ms. Anna Zamora Puigcercós
Head of Protocol:	Ms. Roser Suñé Pascuet

Changes made to the ministerial structure of the Andorran Government as of May 2008:

Minister of Presidency:	The Hon. Ms. Concepció Marsol Riart
Minister of Finance:	The Hon. Mr. Ferran Mirapeix Lucas
Minister of Economic Development, Tourism, Culture and Higher Education:	The Hon. Mr. Juli Minoves Triquell

On 8 June 2009 the new Andorran Government was formed based on the results of the general elections held on 26 April 2009.

The new Andorran Government is as follows:

Head of Government:	The Hon. Mr. Jaume Bartumeu Cassany
Minister of Presidency and Finance:	The Hon. Mr. Pere López Agràs
Minister of Foreign Affairs and Institutional Relationships:	The Hon. Mr. Xavier Espot Miró
Minister of Territorial Ordenance, Environment and Agriculture:	The Hon. Mr. Vicenç Alay Ferrer
Minister of Education, Culture and Youth:	The Hon. Ms. Susanna Vela Palomares
Minister of Health, Welfare and Employment:	The Hon. Ms. Cristina Rodríguez Galan
Minister of Home Affairs:	The Hon. Mr. Víctor Naudi Zamora
Secretary General:	Mr. Alexandre Cucurella Rossell
Head of the Government Cabinet:	Ms. Marian Sanchiz Rego

Andorran National Institute of Finance
(“Institut Nacional Andorrà de Finances (INAF)”) ⁽²⁾

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

Chairman: Mr. Manel Torrentallé Cairó
General Manager: Mr. Carles Salvadó Miras

Association of Andorran Banks
(“Associació de Bancs Andorrans (ABA)”) ⁽²⁾

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

Chairman: Mr. Josep Peralba Duró
Vice Chairman: Mr. Joan Quera Font
General Manager: Mr. Antoni Armengol Aleix
Deputy Manager: Ms. Clàudia Cornella Durany

Andorran Financial Intelligence Unit
(“Unitat d'Intel·ligència Financera d'Andorra (UIF)”) ⁽²⁾

C/ Prat de la Creu, 8 - AD500 Andorra la Vella
(Principality of Andorra) - Tel. +376 806730 - Fax: +376 828842
www.upb.ad

Director: Mr. Josep M^a Francino Batlle

Corruption Prevention Unit
(“Unitat de Prevenció i Lluita contra la Corrupció”) ⁽²⁾

Ed. Administratiu de Govern - C/ Prat de la Creu, 62-64 - AD500 Andorra la Vella
(Principality of Andorra) - Tel. + 376 875700 - Fax: + 376 829218
www.finances.ad

Head of Unit: Ms. Maribel Lafoz Jódar

Andorran Development and Investment
(“Andorra Desenvolupament i Inversió (ADI)”) ⁽²⁾

C/ Prat de la Creu, 59-65, esc. A, 1r pis - AD500 Andorra la Vella
(Principality of Andorra) - Tel. + 376 812020 - Fax: +376 812021
www.adi.ad

Director: Mr. Pierre-Olivier Davasse

(2) The information of interest relates to posts occupied by individuals prior to 31 May 2009

**Andorran Chamber of Commerce, Industry and Services
("Cambra de Comerç, Indústria i Serveis d'Andorra (CCIS)")** ⁽²⁾

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

Chairman: Mr. Francesc Pallàs Viladomat ⁽¹⁾
Director: Ms. Pilar Escaler Penella

⁽¹⁾ From May 2009 this post is occupied by Mr. Marc Pantebre Palmitjavila.

**Association of Consumers and Users
("Associació de Consumidors i Usuaris (ACU)")** ⁽²⁾

Placeta Monjó 2, baixos - AD500 Andorra la Vella
(Principality of Andorra) - Tel. +376 867456 - Fax: +376 861466
www.acu.ad

Chairperson: Ms. Angelina Mas Joaniquet

**Andorran Association of Micro, Small and Medium Sized Companies
("Associació de la Micro, Petita i Mitjana Empresa d'Andorra (PIME)")** ⁽²⁾

Av. Doctor Mitjavila, 36, 1r pis - AD500 Andorra la Vella
(Principality of Andorra) - Tel. +376 824344 - Fax: +376 810050
www.pime.ad

Chairman: Mr. Marc Aleix Tugàs
Secretary: Mr. Didier Aleix Tugàs

**Andorran Business Confederation
("Confederació Empresarial Andorrana (CEA)")** ⁽²⁾

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

Chairman: Mr. Xavier Altimir Planes
Director: Ms. Mònica Codina Tort

**Andorran Institute of Economists
("Col·legi d'Economistes d'Andorra (COEA)")** ⁽²⁾

C/ Bonaventura Armengol, 15 - AD500 Andorra la Vella
(Principality of Andorra) - Tel. +376 807807 - Fax: +376 807817
www.coea.ad

Dean: Mr. Sergi Tejero Cano
Secretary: Mr. Xavier Prats Martínez

(2) The information of interest relates to posts occupied by individuals prior to 31 May 2009

University of Andorra
(“Universitat d’Andorra (UdA)”) ⁽²⁾

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

Vice-Chancellor:

The Hon. Mr. Daniel Bastida Obiols

Andorran Institute of Legal, Economic and Financial Studies
(“Institut d’Estudis Jurídics, Econòmics i Financers d’Andorra (JEF)”) ⁽²⁾

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

Honorary Chairman:

The Hon. Mr. Albert Pintat Santolària

Executive Chairman:

The Hon. Mr. Juli Minoves Triquell

Chairman to the Advisory Board:

Mr. Carles Gasòliba Böhn

Director:

Mr. Jaume Saura Estapà

(2) The information of interest relates to posts occupied by individuals prior to 31 May 2009

