

# ANDORRA

i el seu Sistema Financer  
*and its Financial System*

2007



ASSOCIACIÓ DE BANCs ANDORRANS



**ANDORRA**  
and its Financial System

## PRESENTATION

After several years of rapid growth, the global economy faces significant challenges to be able to continue expanding at the rate achieved in recent years. This situation is especially pronounced in the most developed countries such as the USA or Japan or those in Europe. The world's gross product has grown at a rate of 3.95%, which is lower than in previous years, whilst a rate of 3.7% is forecast for 2008. This slowdown in the global economy is due, inter alia, to the burst of the real estate bubble in the USA, the international financial crisis, the weakening of the US Dollar against major currencies, and high oil and food prices.

Oil prices have risen sharply during 2007, starting the year at a price of US Dollars 60 a barrel, reaching historic highs in June, and closing 2007 at a price of US Dollars 91 a barrel.

During 2007 the growth rate of developing countries has remained stable at 6.9%, while transition economies have achieved growth rates of up to 8% due to rising prices of basic products and high domestic demand. Emerging economies continue to achieve solid growth, especially China and India. Nonetheless, inflation rates in these countries are higher than in advanced economies because of the relative importance of energy and foodstuffs in the basket of products acquired by these emerging countries.

During 2007 the European economy has mainly been affected by turbulence in the international financial markets due to the lack of confidence in these markets resulting from the mortgage crisis in the USA. The European economy has grown at a rate of 2.9%, 0.2 percentage points below the rate reached in 2006. Growth in the Euro Zone has been 2.6%, slightly down on the rate of 2.8% achieved in 2006. The German economy, which accounts for 30% of the GDP of the Euro Zone, has grown at a rate of 2.5%, 0.4 percentage points down on 2006; whilst the United Kingdom has grown at a rate of 3% during 2007, 0.1 percentage points below the figure obtained in the previous year.

The interest rate fixed by the European Central Bank (ECB) has stood at 4% during the second half of the year, with a year-on-year change of 0.50 percentage points. This reflects a certain degree of stability compared to the previous year, during which the rate increased from 2.25% to 3.50% over a twelve-month period. Nonetheless, during 2007 the Euribor has continued to rise at a year-on-year rate of 0.80 percentage points to 4.79% at year end. The outlook is that it will continue to increase in the medium term. The abovementioned stability has continued during the first half of 2008, during which the ECB interest rate has not risen. Despite this, the Euribor has continued to increase to a rate of 5% during the same period.

The year-on-year growth rate of Spanish GDP has been approximately 3.8% in 2007 and although it has been 0.1 percentage points below that recorded in 2006, the Spanish economy has grown at one of the highest rates in Europe, only being surpassed by Greece with a growth rate of 4%, Finland with growth of 4.4%, and Bulgaria which has grown at a rate of 6.2%.

The outlook for 2008 is that the Spanish economy will slow down at a faster rate than in 2007, primarily because of the crisis in the real estate sector and a reduction in consumer and household confidence indicators to 2004 levels.

The French economy has closed the year with a growth rate of 1.9%, 0.3 percentage points below that of the previous year. Consumer spending has risen at a rate of 2.1%, compared to the rate of 2.3% registered in the previous year, contributing 1.2 percentage points to the increase in French GDP. Another significant factor affecting economic growth during 2007 has been the rapid slowdown in exports and imports from 6.3% to 2.7% and 7.1% to 4.1%, respectively, which has led to a 0.4 percentage point drop in the economic growth rate. The French Government has announced that the growth rate of between 2% and 2.5% forecast for 2008 will not be achieved and will stand at between 1.7% and 2%.

The economic situation in the Principality during 2007 has been affected by the poor climatic conditions during the 2006-07 ski season, with a 24% reduction in the number of visitors, while economic indicators such as imports have reflected a certain slowdown in the commercial sector. Nonetheless, the Andorran economy has grown at a rate of 3%, which proves that the tourism available in Andorra is sufficiently diverse enough to replace skiing with other activities such as shopping and other leisure activities such as visiting health and fitness centres.

Standard & Poor's estimates that the Principality's GDP per capita for 2007 is Euros 30,510, exceeding that of countries such as Germany, Spain or France and similar to other comparable nations. The same report also awards the country a rating of A-1+ in the short term and AA in the long term.

Andorra is at a point of inflection where it needs to promote innovative projects that are outward looking and result in sustainable growth in its economy, population and wealth.

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 *2020 Agency* was incorporated to lead, coordinate, plan and manage the development and implementation of the 20 initiatives included in this programme. Furthermore, the *Office for Business Innovation* ("*Oficina per a la Innovació Empresarial (OIE)*") was also incorporated to promote innovation and new economic sectors.

Moreover and in order to modernise the Andorran economic framework still further, a new companies law and an accounting law were approved during 2007. In 2008 a new law on foreign investments has been approved, this will enable 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. This will enable Andorra to begin a new phase of modernisation and diversification of its economy.

In 2007, the International Monetary Fund (IMF) has published a new evaluative report, based upon a visit undertaken in September 2006, stating that it has not identified any macroeconomic risks that could affect the structure and positive performance of the Andorran financial sector. Furthermore, it has emphasised that the limited size of the local economy facilitates evaluating the credit risk associated with the loans portfolio.

The soundness of the financial sector, the rise in demand for other activities within the service sector, and the implementation of the 20 initiatives comprising Andorra 2020 Programme will help to ensure the sustained future growth of the Andorran economy.

# CONTENTS

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

I.1. Introduction to Andorra	Page 11
I.2. History of Andorra	Page 14
I.3. Andorran institutions	Page 15

## **II. Legal framework** **Page 21**

II.1. Legal system	Page 23
II.2. Tax system	Page 25
II.3. Legislative framework of the financial system	Page 30
II.4. Developments in the financial system's regulatory framework	Page 34

## **III. Economic environment** **Page 41**

III.1. Introduction	Page 43
III.2. General information	Page 44
III.3. Main economic variables	Page 50
III.4. Public sector	Page 56
III.5. Economic sectors	Page 60

## **IV. Banking sector** **Page 81**

IV.1. Introduction	Page 83
IV.2. Association of Andorran Banks	Page 84
IV.3. The banking sector	Page 86

## **V. Information of interest** **Page 113**

V.1. Andorran banking groups	Page 115
V.2. Other information of interest	Page 125



# I. THE PRINCIPALITY OF ANDORRA



# I. THE PRINCIPALITY OF ANDORRA

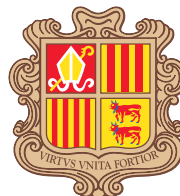
## I.1. INTRODUCTION TO ANDORRA

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

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.

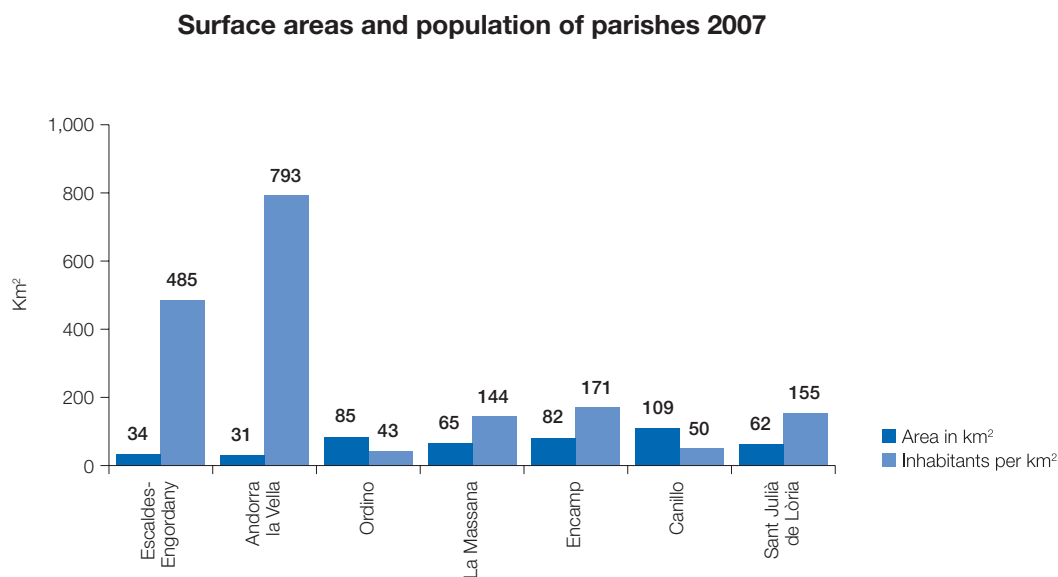
Andorra is a mountainous country. Its lowest point is where the Runer River meets with the Valira River (838 m) and its highest point is the peak of Coma Pedrosa (2,946 m). The climate in Andorra is considered to be dry and Mediterranean. Temperatures vary slightly between the mountain and valley areas, 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 and thermal energy.

In 2007 Andorra had a **population** of 83,137 inhabitants, 37% of them with Andorran nationality, 34% of them with Spanish nationality, 17% with Portuguese nationality and 6% with French nationality.

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 2007 are as follows:



Source: Andorra. Socioeconomic yearbook 2007

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

**From Spain:**

Madrid 600 km  
Barcelona 210 km

**From France:**

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

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

The Andorran Telecommunications Service (*Servei de Telecomunicacions d'Andorra*) (STA) provides other kinds of communication by land line and mobile telephone (GSM), internet (ADSL), telegraph, telex, fax and GPRS.

## I.2. HISTORY OF ANDORRA

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

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

However in the following centuries, the Bishop of Urgell entered into conflict with the Count of Foix who wanted to recover what previously belonged to 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.

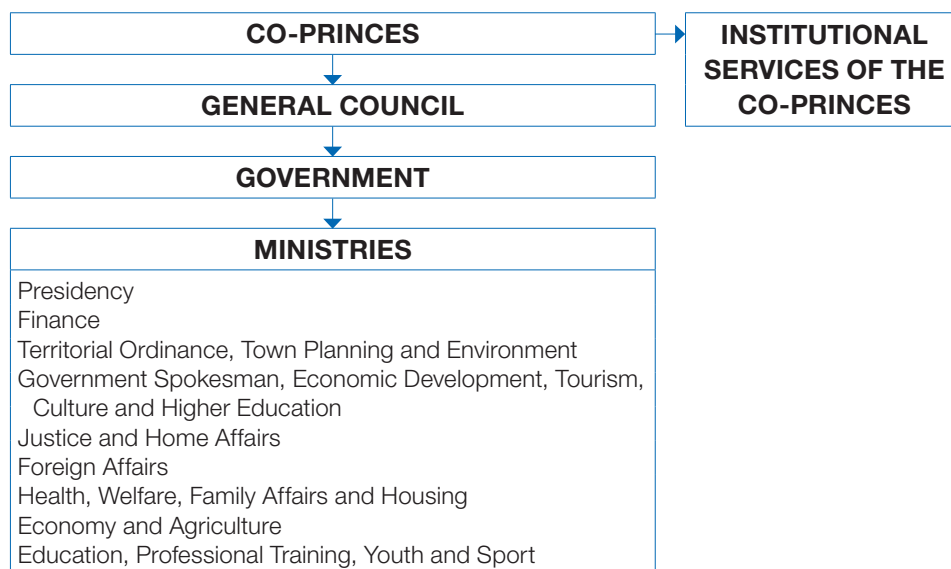
As result, the Andorran citizens assumed sovereignty, but the co-princes, jointly and severally, are still the head of State. This position is occupied exclusively and personally by the Bishop of Urgell (currently his Grace Mr. Enric Vives i Sicília) and the President of the French Republic (currently 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

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.

Andorra has 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 Demòcrata Andorrà* (affiliated to the International Central Democrats), *Segle 21* and *Renovació Democràtica*.

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

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

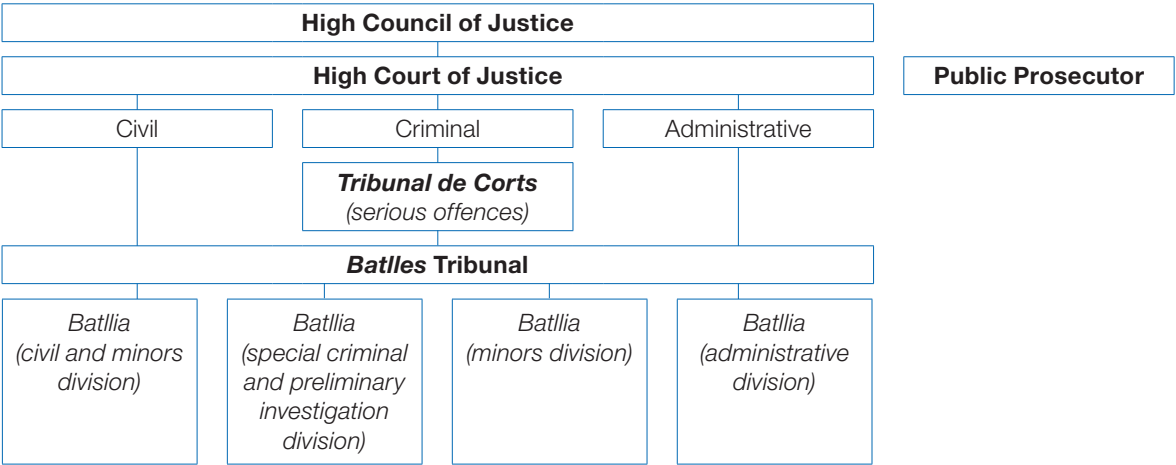
The **Accounts Tribunal** is an independent technical body linked to the General Council which taxes public spending. It is also in charge of verifying the transparency of the public Administration's economic, financial and accounting management.

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

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

The **Tribunal de Corts** is responsible for hearing cases in the first instance regarding serious offences and enforcing sentences and other rulings. This tribunal hears appeals against criminal sentences for minor offences passed by the *Batlles* Tribunal and for breaches of the criminal law passed by the *batlles* (judges specific to Andorra). It performs prison-related duties and enforces sentences and 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 **Money Laundering Prevention Unit** (UPB) 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 UPB started operating in July 2001.

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

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, and the University of Andorra.

The mission of the **Office for Business Innovation** (OIE), which reports directly to the Head of Government, is to diversify and modernise the Andorran economy. Its objectives comprise:

- Encouraging the creation and development of a framework of businesses that contribute to the emergence of new sectors of economic activity with added value; and
- Positioning Andorra internationally as an open, modern and attractive economy.

## II. LEGAL FRAMEWORK



## II. LEGAL FRAMEWORK

### II.1. LEGAL SYSTEM

- 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.

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.

In accordance with prevailing legislation, company capital must be comprised of at least two thirds Andorran capital. Andorran capital is understood to be that of individuals or legal entities with Andorran nationality and foreign individuals with at least twenty years uninterrupted residency in Andorra; nonetheless, this period is reduced to ten years for Spanish and French citizens, as stated in the “Trilateral Agreement”, which establishes the main principles relating to the entry, circulation, residency and establishment of Spanish and French citizens in Andorra, as well as Andorran citizens in Spain and France. This period is also reduced to ten years for Portuguese citizens, as stated in the “Bilateral Agreement”, which establishes the main principles relating to the entry, circulation, residency and establishment of Portuguese citizens in Andorra, as well as Andorran citizens in Portugal.

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.

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.

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 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 will come into force for financial years starting 1 January 2009 and thereafter, Andorran mercantile companies will have to keep accounting records that are ordered and appropriate for the nature and size of their business in accordance with International Financial Reporting Standards, as established in the General Chart of Accounts that the Andorran Government will publish in forthcoming months.

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” French and Spanish citizens only need to have resided in Andorra for ten years.

According to the “*Company Accounting Law*” 30/2007 which will 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 Financial Reporting Standards, as established in the General Chart of Accounts that the Andorran Government will publish in forthcoming months.

- **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.
- A Social Security system was created in Andorra in 1968 and covers illness and old age. Adherence to the ***Caixa Andorrana de Seguretat Social (CASS)*** is obligatory for all wage-earners and optional for non wage-earners resident in Andorra. Social security contributions for wage-earners range between 5% and 9% of the salary and contributions of 13% are made by employers. Contributions for non wage-earners consist of an annually reviewed rate calculated based on the average salary declared in the previous year. Foreign workers must have a work permit granted by the Andorran Ministry of Home Affairs. The granting of permits by the Ministry of Home Affairs is subject to certain quotas approved by the General Council. A bill is currently being debated in the Andorran Parliament to bring about significant improvements to the Andorran social security system.
- Individuals over the age of 18 who wish to reside in Andorra without working must obtain a “**passive residence**” authorisation from the Andorran Ministry of Home Affairs. This kind of authorisation is governed by the Qualified Law for the modification of passive residency dated 28 November 1996.
- Non-resident individuals over the age of 18 and those individuals who have resided in Andorra for less than 20 years require authorisation from the Government to be able to acquire a **dwelling** under the horizontal property regime with the corresponding parking space. In this case plots of land for a chalet or detached house cannot exceed 1,000 m<sup>2</sup>.
- **Andorran nationality** can be acquired by foreigners who marry Andorrans, provided that they can prove uninterrupted residence in Andorra for a prior period of three years. Foreigners who have lived for at least twenty years in Andorra may also apply to the Government for Andorran nationality. The Andorran Constitution does not allow dual nationality.

## II.2. TAX SYSTEM

### Introduction

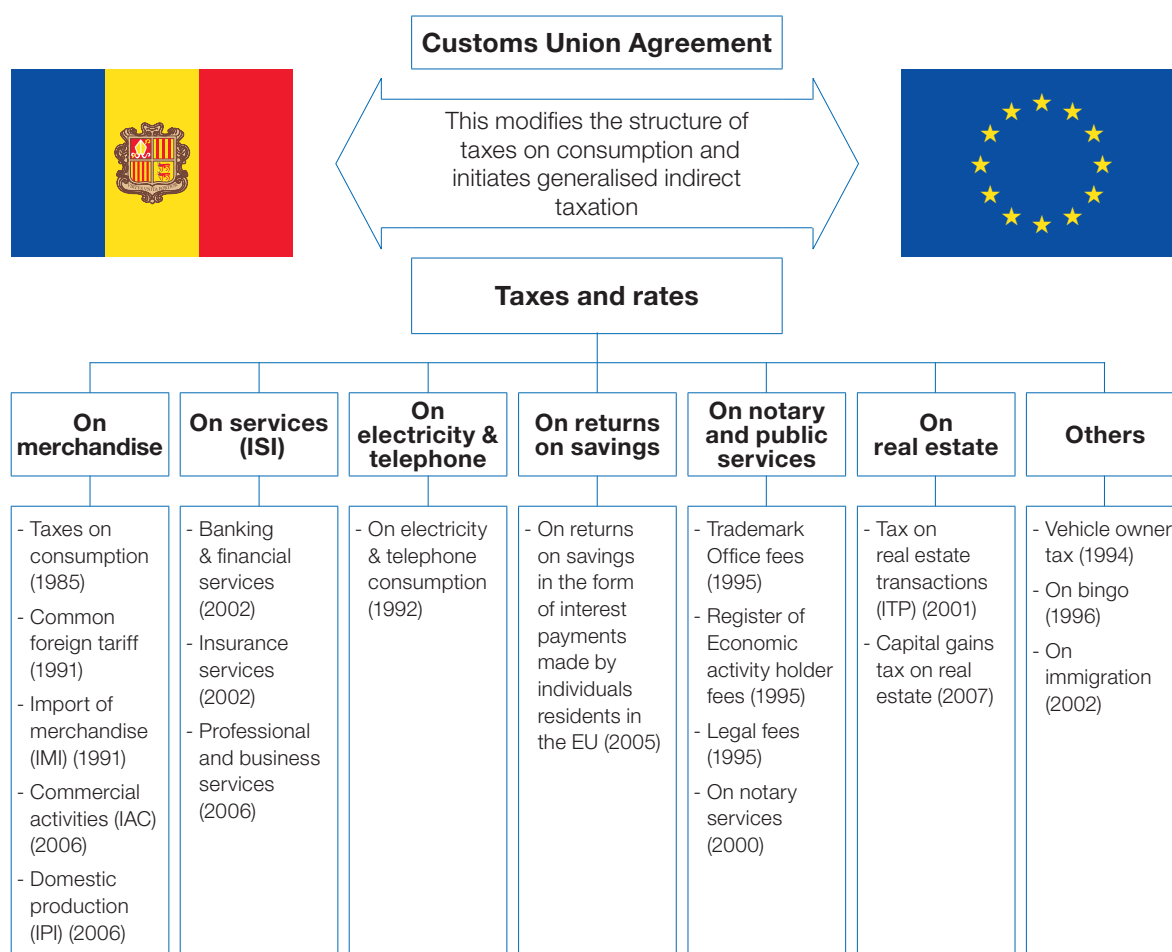
In our recent history, the approval of the Customs Union Agreement between the Principality of Andorra and the European Economic Community (1990) and subsequently the Constitution (1993), provides a new scenario for the developing Andorran tax system.

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 (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)*”)**

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

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

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

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

## **Tax on services**

### **Indirect taxation on services rendered (“*Impost indirecte sobre els serveis (ISI)*”)**

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

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

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

## Taxation on real estate

### **Tax on 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 50% 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%, except for transfers of real estate located in La Massana for which a rate of 3.75% is applicable.

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 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 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.

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 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.

During 2007, as a result of applying this Agreement, banking entities have paid Euros 21,727 thousand, equivalent to the 15% withholding on interest on the savings of individual residents in the EU.

## 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.3. 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 other matters, as described below.

A summary of legislation 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 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 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.
- 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 interest 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 and other conditions applicable to the deposit guarantee reserves set up by banking entities. Three decrees stem from this Law dated 4 July 2001:
  - “Decree relating to the drawing down of deposit guarantee reserves set up by banking entities”, which establishes that the Ministry of Finance may authorise banking entities, which so request, to draw down guarantee reserves.
  - The Decree enacted on 25 April 2007 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 29 December 2006 to 30 April 2007, both inclusive, the deposit guarantee reserves set up in the Andorran National Institute of Finance (INAF) by entities forming part of the financial system bore interest at a rate of 3.63%.
- From 30 April 2007 to 31 December 2007, 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 8-month interbank market rates prevailing for operations with effective date at 30 April 2007. 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 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 **“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 aims to achieve 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 is the independent body for the promotion and coordination of money laundering prevention measures. This legislation implies the following for all financial entities:
  - The defining of strict procedures to identify customers.
  - The establishing of adequate procedures and controls to detect suspicious operations arising from organised crime.
  - The training of personnel in specific money laundering programmes.
  - An external auditor reviewing the level of compliance with the above points.

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

On 31 July 2002 the “Regulation of the Law for international cooperation on criminal matters and the combat against money laundering” was enacted which, inter alia, establishes the organisation and functioning 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.

- 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 and subsequently modified 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 20 June 1998 governs the authorisation of the creation of banking entities and specifically established the possibility of granting two licences in 1999 and 2000.
- The **“Law regulating the minimum share capital of Andorran banking entities”** dated 20 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 quarterly control information to the INAF, complementing the financial statements, in order to detect the aforementioned entities' exposure to market and liquidity risks and the concentration of risks and loan losses and take corrective measures against these risks.

- The “**Law regulating the 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 governing indirect taxation on services rendered**” dated 13 April 2000 establishes the basis for indirect taxation on services rendered in Andorra by business people or professionals, individuals or legal entities, residents and non-residents. It excludes services which are included in the scope of the “Law governing indirect taxation on merchandise”. The tax rates applied to the rendering of services defined by this law are:
  - A reduced rate of 1%.
  - A normal rate of 4%.
  - An increased rate of 7%.
- The “**Law for indirect taxation on banking and financial services rendered**” under the framework of the “Law for indirect taxation on services rendered” establishes the system for calculating the payment basis, at the same time as determining a tax rate of 7% applicable to banking entities, non-banking financial entities in specialised credit, financial investment entities and financial entities offering various services. As from 1 April 2005 the indirect taxation on banking and financial services has been increased from 7% to 12%.
- The “**Law for indirect taxation on insurance services rendered**” 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.
 

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.

## II.4. 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, with interest being shown in developing a new economic framework to comply with international standards, both in the banking sector and the rest of the Andorran economy.

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 published by the Andorran National Institute of Finance (INAF) in 1999. 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 contrast, no such official standards have been established in Andorra for the remaining economic sectors. In accordance with *Company Accounting Law* 30/2007 which will come 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 Financial Reporting Standards (IFRS), as established in the General Chart of Accounts that the Andorran Government will publish in forthcoming months. In principle, the Andorran National Institute of Finance (INAF) intends to convert to IFRS in compliance with the new legislative framework for accounting.

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”).

The Andorran Institute of Legal, Economic and Financial Studies (*“Institut d’Estudis Jurídics, Econòmics i Financers (JEF)”*) also held its first seminar on 26 November 2007 entitled the “New European regulatory framework for financial services”. The purpose of this seminar was to analyse in depth the basic issues regarding the new regulations governing the financial sector, especially those relating to the Financial Services Action Plan (FSAP) which include developments relating to and the plan to implement Directive 2006/49/EC on Basel II.

## 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.

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 11 April 2007 the General Council admitted a bill to amend the Andorran Criminal Code dated 23 March 2005, which includes a series of reforms to bring the 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.

New modifications to the Criminal Code are also being debated in the Andorran Parliament. These include, inter alia, amendments to provisions relating to money laundering and terrorism finance, modifications to the Criminal Procedure Code, ratification of the 1999 New York Convention on combating terrorism finance, and a bill proposing substantial modifications to the "Law for international cooperation on criminal matters and the combat against the laundering of money or securities arising from international crime". The purpose of these amendments is to adapt Andorra's legislative framework regarding money laundering to the revised recommendations of the Financial Action Task Force (FATF), certain recommendations raised by MONEYVAL (during its last visit in October 2005), and the Third European Directive on these matters.

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.

During the first quarter of 2007 the UPB gave a training course on the prevention and detection of operations susceptible to money laundering. This course was attended by the majority of workers from the Andorran financial system. In May 2008, the UPB gave a new training course to update knowledge and information on money laundering and combating terrorism finance.

## **Corporate Social Responsibility**

As a result of recent accounting scandals in certain countries, ever stricter regulations are being introduced in order to strengthen internal control systems and corporate governance best practices. Nevertheless, a firm commitment to corporate social responsibility goes beyond strict compliance with the established standards and cannot just be seen as a strategy to improve an entity's public image through a corporate social responsibility plan, which must be immersed in the entities' values and philosophy.

The sector is committed to offering a wide range of financial products and services in a transparent and responsible manner; continuously controlling the impacts its activities may have on its clients, the country and the Andorran society as a whole. Furthermore, the growing demands of increasing public awareness mean that the advances made by an entity are not only assessed from a financial perspective, but also from a social responsibility angle: clients, shareholders, employees, suppliers, local community development, society in general and the environment.

Many of the Principality's banks are including in their annual reports details of the initiatives they have been conducting, in some cases for a number of years, in relation to this commitment to social responsibility. Many examples of this span various areas including culture, sport, education or the environment.

There is an increasing trend in other countries to present information in annual reports in a systematic manner to target the different groups with a special interest in the entity's activities: shareholders, employees, customers, suppliers, society, etc. (which are referred to as stakeholders). In order to ensure that investors can also make decisions based on other factors analysts are also demanding that major multinational corporations provide information to the market that is not just limited to traditional financial data. The different initiatives at international level to standardise the presentation of non-financial information have been well received, as they enable entities to also be compared from this new perspective. 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.

## **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. 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 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.

## Financial laws

The Andorran Government's Ministry of Finance and the INAF are currently working on various draft bills to regulate financial entities and investment bodies. Of these draft bills, the following have been admitted to Parliament during the first half of 2008:

### Bill to regulate collective investment undertakings under Andorran law

This bill includes a generic definition of investment funds in the Principality, basically classifying them into two categories: mutual investment funds and pension funds. The bill also intends to define two types of collective investment undertakings (CIUs) depending on the investment possibilities offered: CIUs investing in securities and other CIUs. Finally, the bill also aims to regulate, among others, the mechanisms for incorporating the different types of investment undertakings, the distribution of Andorran CIUs abroad, the distribution of foreign CIUs in Andorra, and investor protection in order to guarantee transparency and the satisfactory performance of the Andorran financial sector.



## **Bill on the legal regime of non-banking specialised credit financial institutions**

The purpose of this bill is to define non-banking specialised credit financial institutions and how they are financed, as well as establish the conditions under which they can start up and perform their activities.

## **Deposit guarantee reserve**

A review of Andorran legislation governing deposit guarantee reserves is currently being studied.

Finally, the Andorran Government's Ministry of Finance is currently working on some other legislative developments that could have an impact on the Andorran financial and banking system. Some of these new developments are the following:

## **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**

The Andorran Government's Finance Ministry is currently working to prepare a bill governing indirect taxation in order to harmonise the various indirect taxes levied in the Principality and therefore, simplify the Andorran indirect tax system. It is expected that this bill will be admitted to Parliament during the fourth quarter of 2008.

Finally, the Andorran Government is working on a bill on company income tax.

## **Andorran General Chart of Accounts**

The Andorran Government's Finance Ministry is currently preparing the Andorran General Chart of Accounts which will be approved by Decree within a month from the date Law 30/2007 comes into force, and at the latest on 31 January 2009.

It can be seen in the above sections that the Andorran economy and more specifically 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.

### **III. ECONOMIC ENVIRONMENT**



## III. ECONOMIC ENVIRONMENT

### III.1. INTRODUCTION

Since the emergence of the tourism sector in the 1960s, during 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, changes in recent years indicate that it is likely that the economic model based on tourism, both skiing and commerce; the financial sector; and, in recent years, construction, needs to be reviewed. Andorra is at a point of inflection where it needs to promote innovative projects that are outward looking and result in sustainable growth in its economy, population and wealth.

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 *2020 Agency* was incorporated to lead, coordinate, plan and manage the development and implementation of the 20 initiatives included in this programme. Furthermore, the *Office for Business Innovation* ("*Oficina per a la Innovació Empresarial* (OIE)") was also incorporated to promote innovation and new economic sectors.

The objective of the OIE is to encourage the creation and development of a business framework that is involved in nurturing new economic sectors, in which high added value services and new technologies play a leading role and position Andorra as an outward looking, modern and attractive economy on the international stage. The OIE has implemented the following initiatives:

- Prize for Innovators;
- Support network for entrepreneurs and companies;
- Programme to finance innovation; and
- Programme to attract companies in sectors with potential.

Moreover and in order to modernise the Andorran economic framework still further, a new companies law and an accounting law were approved during 2007. A new law on foreign investments was approved in 2008, which will enable 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 fitness, training, industrial production based on new technologies and research and development. This will enable Andorra to begin a new phase of modernisation and diversification of its economy.

## III.2. GENERAL INFORMATION

### Population: Demographic data

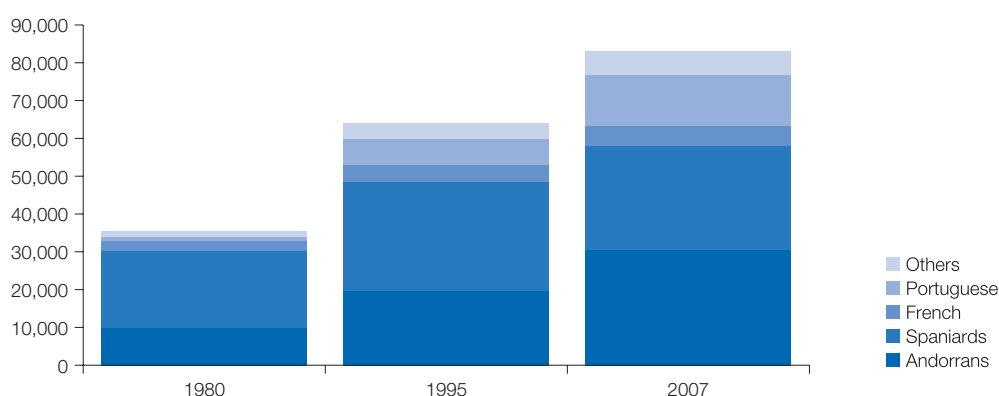
The Andorran population has grown by 2.36% in 2007 compared to the previous year, reaching the figure of 83,137 inhabitants.

Birth rates in the Principality stand at 0.99%, similar to the European average, whilst death rates stand at 0.28%, significantly lower than the European average. 68.88% of the rise in population in 2007 is due to migration and the remaining percentage relates to the natural increase.

The structure of the Andorran population historically comprises different nationalities. Over the last thirty years 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 Principality's population.

One of the differentiating factors of the Andorran demography is the notable diversity of nationalities forming part of a relatively small population. The graph below shows a breakdown of the population in 2007: 37% of Andorrans, 34% of Spaniards, 17% of Portuguese and 6% of French residents. Therefore, foreign residents represent 63% of the Andorran population.

**Evolution of population by nationalities**

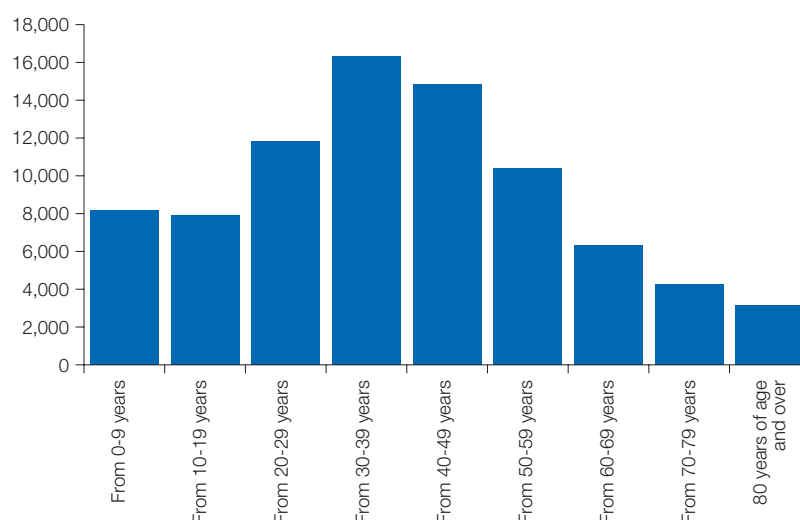


*Source: Study Service of the Andorran Government - Ministry of Finance*

An analysis of the population by age structure, presented in the following graph, shows that the majority of the population comprises citizens of between 25 and 49 years of age. This scenario has followed the same trend for various decades and results from the existence of a 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 they return to their country of origin on retirement.



### Structure of population by age in 2007



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

## Education

100% of children of school age, between 3 and 16 years old, are in school in the Principality, representing 10,804 pupils for the 2006-2007 academic year.

Andorra offers state education from infant to Baccalaureate (*Batxiller*), private education from nursery to Baccalaureate, and vocational training. State education in Andorra is provided under the Andorran, Spanish and French systems. This combination of education systems enables individuals to study in Catalan, Spanish and French, as well as being able to opt for other languages to complete their studies, mainly English, but also others such as German or Chinese.

The population in education is distributed proportionally between three education systems thanks to the progressive consolidation of the Andorran education system created over 25 years ago. Furthermore, the creation and development of the *Universitat d'Andorra* has enabled a wide range of university studies to be offered within the Principality.

Students who want to continue into higher education are able to at the *Universitat d'Andorra* or abroad, mainly in Catalonia (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 more than 20 first and second-cycle science and arts degree courses. The range of courses on offer is completed with continuing education courses comprising post-graduate courses and refresher courses aimed at the country's professionals to update their knowledge and refresh and perfect their professional skills.

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.

## Employment market

The trend in the number of jobs on offer continues to rise, although there are indications of a slowdown, having risen by 1.32% from 2006, whilst the growth rate in 2006 stood at 3.62% compared to 1995.

Jobs (Annual average)	2003	2004	2005	2006	2007
Jobs	46,537	48,738	50,556	52,385	53,078
Number of wage earners	39,373	41,087	42,417	43,380	43,234

Source: Monthly Gazette of the Andorran Government

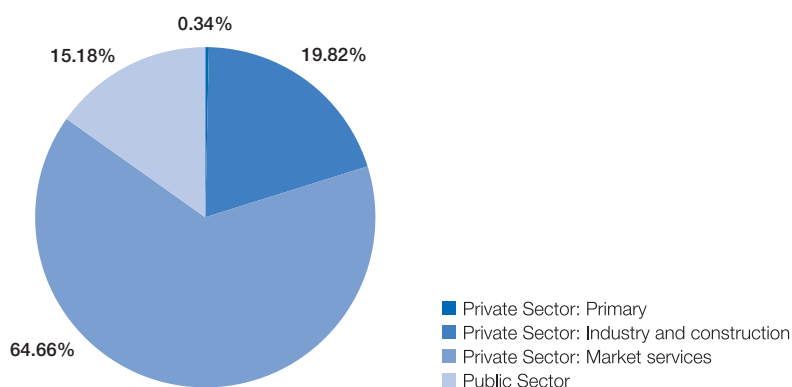
In contrast, the number of wage earners has dropped for the first time in recent decades, with a net decrease of 0.34%, having risen by 2.27% in 2006. This point of inflection in the trend in the number of wage earners is one of the first signs of the slowdown in the Andorran economy which started in the last quarter of 2007 and could potentially continue over the coming months, as in the case of the majority of the economies in Europe and the industrialised world. The cause of this slowdown is two-fold. Firstly, a combination of domestic factors that have characterised our economic model such as our economy's relatively high level of dependence on construction and services such as commerce and tourism, which are highly seasonal and linked to climatic conditions. The second factor has been the economic slowdown in industrialised countries resulting from the crisis in the international financial markets which started in August 2007 due to the subprime mortgage crisis in the US, and the significant increase in prices of raw materials and the bursting of the real estate bubble in certain countries such as the US and Spain.

Based on an analysis of wage earner figures from the *Caixa Andorrana de Seguretat Social* (CASS) (social security authorities), it can be observed that 64.66% of wage earners are employed in commerce, construction, hotels and real estate and rental. Furthermore, 15.18% of wage earners are employed in the public sector which includes the Public Administration and Social Security, health authorities, education and extraterritorial bodies. The financial sector employs 3.72% of wage earners. These data confirm that many of the companies in the Andorran economy are highly concentrated among a small number of sectors.

During 2007, the most significant rise in wage earners has been in the public sector, with the number of wage earners employed in the Andorran Public Administration rising by 3.39%, followed by the primary sector with an increase of 1.38%. Furthermore, there is evidence of a certain degree of stagnation that could indicate the beginning of a slowdown in the industry and construction sector and the commerce and hotel sector, with decreases of 1.54% and 0.60%, respectively.

Details of the distribution of wage earners by economic sectors in 2007 are as follows:

### Distribution of wage earners by sector in 2007



Source: Caixa Andorrana de Seguretat Social

During 2007 the number of new Social Security registrations has dropped significantly from prior years. Specifically, there has been a 20.47% decrease in registrations from 2006. This figure confirms the downward trend in registrations in recent years (2006: -12.5%; 2005: -0.4%; 2004: -0.2% and 2003: -5.6%). In light of the relative stability in the number of jobs and the slight decrease in the average number of wage earners, the drop in the number of registrations indicates a reduction in turnover of personnel.

Despite the clear stagnation and possible slowdown in the Andorran economy, the employment rate in Andorra remains significantly higher than the average of the 27 European Union member states, as shown in the table below:

<b>Employment rate</b> (Percentage)				
	<b>ANDORRA</b>		<b>UE- 27</b>	
	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>
Employment rate (*)	72.79	70.82	64.50	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.

## 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.

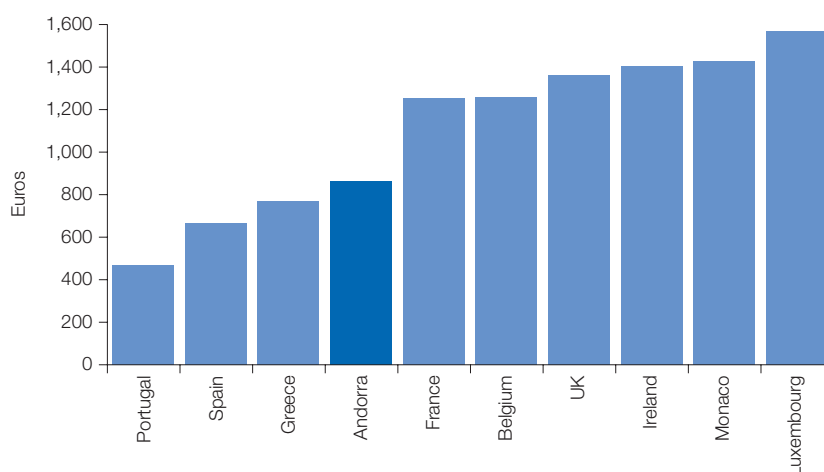
The table below shows the evolution of the minimum and average salaries of the Principality's economy from 1995 to date. It can be observed that the minimum salary has experienced sustained growth in recent years, reaching an average monthly figure of Euros 865 for 2007. This continuous rise in recent years is also reflected in the evolution of the average salary which grew at higher rates in proportion to the minimum salary until 2006. During 2007 average and minimum wages have risen in excess of the increase in the consumer price index.

<b>Growth of average and minimum salaries in Andorra</b> (Monthly Euros)						
	1995	2001	2005	2006	2007	Var. (%) 06-07
Average salaries	1,021	1,317	1,619	1,702	1,752	2.95%
Minimum salaries	616	725	813	838	865	3.22%

*Source: Monthly Gazette of the Andorran Government*

The graph below shows a comparison of minimum salaries in 2007 between Andorra and other countries. It can be observed that although Andorra has a lower minimum salary than countries such as Monaco and Luxembourg, it has a higher minimum salary than Spain and Portugal.

**Minimum salaries 2007**

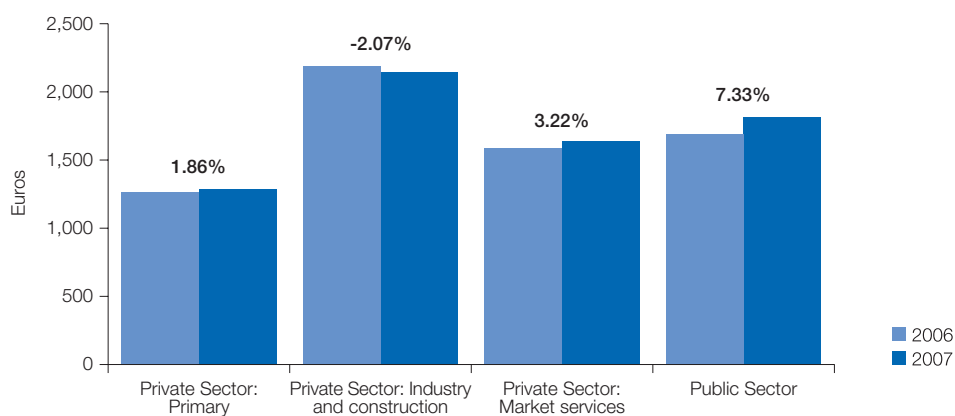


*Source: Eurostat and Study Service of the Andorran Government - Ministry of Finance*

In 2007, the financial system and the electricity, gas and water production and distribution sector are those sub-sectors paying by far the highest average salaries, Euros 3,162 and Euros 2,682, respectively.

The jobs with the highest salary increases from the previous year are those in extraterritorial bodies and activities related with transport, warehousing, communications and hotel and catering.

### Evolution of average salaries per sector



Source: Caixa Andorrana de Seguretat Social



### III.3. MAIN ECONOMIC VARIABLES

#### National income and income per capita

Although Andorra does not have an official estimation of national income, certain private entities make yearly estimates of this macroeconomic indicator. According to the most recent study on Andorra published by the Standard & Poor's rating agency in September 2007, the evolution of national income per capita over the last few years is as follows:

National income and income per capita				
	2004	2005	2006	E2007 (*)
National income (millions of Euros)	2,020	2,208	2,406	2,700
Income per capita (Euros)	26,274	28,106	28,745	30,016
Variation in national income with respect to the previous year	1.88%	6.97%	2.27%	4.42%
(*) E: Estimate. Exchange rate EUR/USD at 31 <sup>st</sup> desember 2007				
Source: Standard & Poor's Report				

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

GDP per capita, 2007 (In Euros)	
Country	Balance
Luxembourg	61,803
Switzerland	39,310
<b>Andorra <sup>(1)</sup></b>	<b>30,016</b>
USA	29,464
Japan	27,902
Germany	27,180
France	25,563
Spain	15,642
Portugal	12,402
(1) Estimate Standard & Poor's	
Source: IMF	

Andorra's GDP per capita is similar to the average of countries with comparable characteristics.

## Consumer price index

During 2007 the consumer price index has been affected by some of the highest price rises since 2000, with the increase in petroleum, food and rental prices explaining the majority of the surge in inflation. The consumer price index for the entire Euro zone has been 3.20%.

The Principality of Andorra closed 2007 with a consumer price index of 3.87%, with food and fuel prices being the main drivers behind this increase.

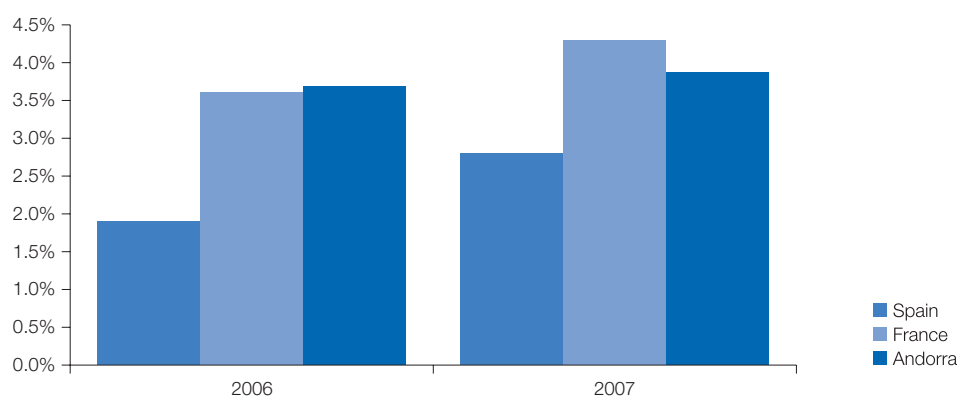
The year-on-year consumer price index in the following table shows that during 2007, the CPI in Andorra has been higher than the Euro zone average but lower than that of Spain which headed the table. It can also be seen that the CPI of the USA has exceeded 4% and is one of the highest among western nations.

Unified year-on year CPI 2007	
Spain	4.29%
<b>Andorra</b>	<b>3.87%</b>
Ireland	3.51%
Luxembourg	3.36%
Germany	3.10%
France	2.80%
Italy	2.58%
Portugal	2.42%
<b>Euro Zone</b>	<b>3.20%</b>
USA	4.12%
Switzerland	2.68%
United Kingdom	2.03%
Japan	0.70%

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

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



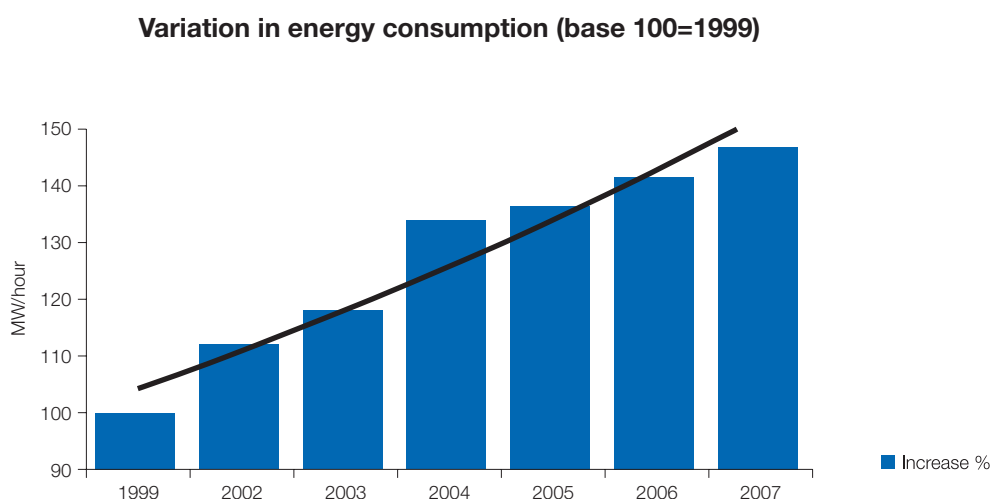
Source: IMF and Study Service of the Andorran Government - Ministry of Finance

The graph above shows how inflation has increased significantly compared to previous years. However, comparatively, Andorra has sustained the upward trend compared to 2006. Both France and especially Spain have seen inflation rates that are far higher than those of 2006.

During 2007, consumer prices in the Principality have risen by 3.87%, very similar to the previous year's rate of 3.69%. During this year, "Housing, water, gas, electricity and other fuel prices" have shown the most growth, with an 8.45% increase, followed by "Transport", up 3.97%. The significant price increases in these two groups are closely related to the rise in petroleum prices over the year and the 5.97% increase in rentals. Finally, the prices of "Foodstuffs, beverages and tobacco" are up 3.11%. In this group, the sharp 13.24% rise in the price of primary products such as milk, eggs and other dairy products has been offset by significant reductions in the prices of other products such as oils and fats, which have dropped by 10.39% or sugars, which are down 2.87%.

## Electricity consumption

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

From the graph above it can be observed that, as a whole, electricity consumption has risen by 3.77% since 2006, practically the same increase as in the previous year.

The most significant portion of total electricity consumption is mainly domestic consumption, accounting for 15.07% of the total; the services sector, including distribution, consumes 13.59%; the hotel and catering business consumes 12.94%; and other services consume 11.75%. This confirms once again that the tertiary sector is one of the mainstays of the country's economy.

During 2007 the most significant growth has been in the "Public administration" sector, with a 16.47% increase compared to 2006, in the "Financial services" sector with a 12.98% rise and in "Ski resorts" with a 12.37% increase. These sectors have also experienced an increment in the number of wage earners during 2007, whereby all indicators suggest that these sectors have experienced growth during 2007.

Nonetheless, it should be noted that although electricity consumption is up 3.77%, total energy consumption in Andorra, expressed in tons of oil equivalent (hereinafter TOEs) has only risen by 0.56%. This reduction in overall energy consumption results from the 6.89% decrease in petroleum consumption, the 3.67% drop in diesel consumed, the 7.99% reduction in butane consumed, and the 52.17% decline in coal consumed. These reductions have been offset by increased consumption of electricity equivalent to 3.77% (which accounts for 41.72% of total energy consumption in TOEs) and a 4.41% rise in domestic fuel consumption, representing 19.09% of total energy consumed.

## Telecommunications

Over the last few years, there has been a rise in the number of telephone subscribers (especially mobile telephone users), which is in line with the growth this sector has experienced in neighbouring countries.

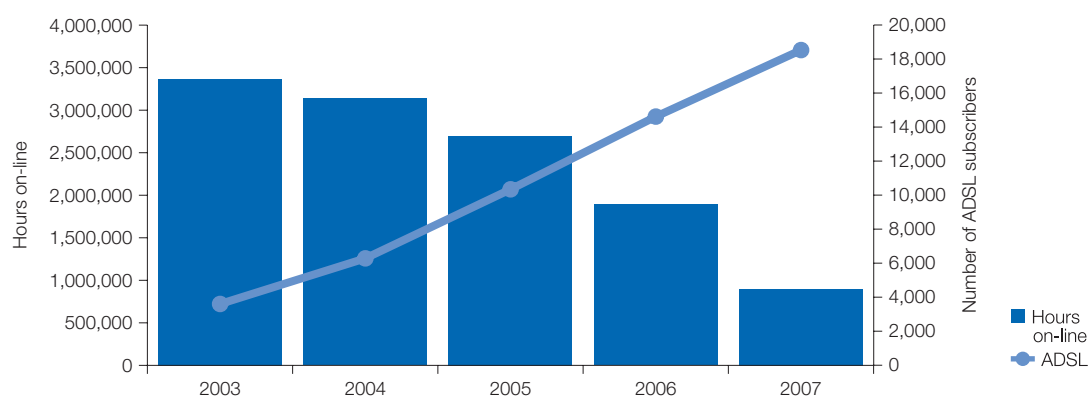
<b>Subscriptions to telecommunication services 2007</b>					
(Units)					
	2003	2004	2005	2006	2007
<b>Land line telephones</b>	<b>45,065</b>	<b>45,348</b>	<b>45,945</b>	<b>47,202</b>	<b>48,079</b>
Telephone lines	35,171	35,040	35,444	36,507	37,153
XDSI Channels	9,894	10,308	10,501	10,695	10,926
<b>Mobile telephones</b>	<b>51,893</b>	<b>58,366</b>	<b>64,560</b>	<b>69,004</b>	<b>68,483</b>
Mobiland contract	33,796	33,733	35,740	37,039	37,988
Mobiland Clic Prepayment	18,097	24,633	28,820	31,965	30,495
<b>Data lines</b>	<b>681</b>	<b>679</b>	<b>673</b>	<b>654</b>	<b>615</b>
Commuted lines	201	219	221	230	213
Specialised lines	480	460	452	424	402
Total capacity contracted in Kbps	199,277	257,266	318,214	338,504	345,801
<b>ADSL</b>	<b>3,601</b>	<b>6,282</b>	<b>10,341</b>	<b>14,616</b>	<b>18,526</b>

Source: Servei de Telecomunicacions d'Andorra

The mobile telephone penetration rate is representative of the consumption rates of modern economies. In 2007 the mobile telephone penetration rate of 82% in Andorra is very similar to that of the previous year. France, on the other hand, has seen its mobile telephone penetration rate rise to 88%, although both Andorra and France have lower penetration rates than Spain, which has a rate of 107%.

The trend in hours on-line started in 2004 has continued throughout 2007, with a decrease of 53% in the last year, resulting in an accumulated reduction of 71% since this downward trend started. This trend is due to the replacement effect resulting from the significant increase in the number of ADSL subscribers in detriment to analogue connections, which are used to calculate the aforementioned data on hours on-line. The ADSL internet penetration rate in Andorra is over 22%, exceeding the rate of 14% in Spain and similar to the rate of 24% in France. During 2008, Andorra will begin to install a new network of fibre optic cables which will probably result in a reduction in ADSL subscribers in forthcoming years.

## Evolution of Internet connection hours and ADSL Internet communication



Source: Servei de Telecomunicacions d'Andorra

## Vehicle Licensing and Fuel

Another of the variables to be taken into consideration is that of vehicle licensing, which is indicative of internal demand in the Andorran economy. Vehicle licensing in Andorra (which includes mopeds, special vehicles and snowmobiles) is down 18.70%, although the decrease in terms of the value of imports has been lower at 9.24% compared to 2006.

This decline has been caused by the drop in average-sized vehicle sales because of the downturn in the Andorran economy towards the end of 2007, whilst sales of top of the range cars have remained the same.

### Licensed vehicles

	2003	2004	2005	2006	2007	Var. (%) 06-07
Total vehicles	5,831	6,431	6,773	5,769	4,690	(18.70%)

Source: Monthly Gazette of the Andorran Government

The sharpest drop in units sold by type of vehicle licensed has been of cars, sales of which have decreased by 649 units. Nonetheless, in relative terms, the decrease in sales of motorcycles and mopeds has been more significant.

Another indicator of consumption is based on fuel imports, which are down 1.73% on the previous year, mainly due to the drop in price differences with neighbouring countries and the fall in domestic fuel consumption.



<b>Fuel Import</b>						
(Liters)						
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>Var. (%) 06-07</b>
Unleaded gas	43,313,085	42,419,116	40,038,113	36,218,624	33,724,557	(6.89%)
Diesel oil locomotion	94,525,542	102,407,277	105,204,653	106,993,438	103,065,935	(3.67%)
Domestic fuel	65,345,942	69,351,623	73,243,794	63,589,706	66,396,534	4.41%
Oils of motor	162,892	-	-	-	-	-
Kerosene and kerosene for jet engines	60,600	-	10,560	101,093	141,367	39.84%
<b>TOTAL</b>	<b>203,408,061</b>	<b>214,178,016</b>	<b>218,497,120</b>	<b>206,902,861</b>	<b>203,328,393</b>	<b>(1.73%)</b>

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

The Andorran Government's budget for 2008 stands at Euros 431,749 thousand, 11.40% up on 2007. This rise is due to the contribution earmarked by the public authorities to stimulate the most significant sectors in the Andorran economy such as construction, tourism and commerce, which have been affected by the impact of the negative international economic outlook for 2008.

This budget is expansionist in terms of investments, whereby public investments will offset the lack of private investments without prejudicing the objectives of budgetary stability and fiscal discipline to avoid increasing the tax burden on citizens and maintain it at below 20% of GDP.

The five main objectives of this budget are as follows:

- Support for the business framework (budgetary policy adapted to the current needs of the Andorran economy, new financing formulae, etc.).
- Considerable drive towards public investments.
- Continued improvement in the welfare of the population (universal access to social services and an increase in public safety and protection).
- Improvement in the quality of the environment (sustainability).
- Budget surplus (balanced public accounts and restricted tax burden).

The most significant increases in income items compared to the previous year have been in "Other income", which has risen by 181%, and "Financial liabilities", which is up 100%. The rise in the first item results from the equity revenue of approximately Euros 60.7 million that the Government will recover during 2008 through administrative concessions. The decrease in "Changes in net financial liabilities" is due to investments and infrastructure improvements and restrictions on public spending.

The most significant increases in expense items have been in "Transfers", "Financial expenses" and "Financial liabilities", the reasons for which are discussed below:

- **"Transfers"**: Comprising current transfers and capital transfers, the first type comprises amounts designated in the budget to the different autonomous bodies. These transfers have increased by 12% from the previous year, primarily because of the amount designated to SAAS, Andorra Turisme (including the budget for the 2008 Zaragoza Expo), and various education centres, among others.  
Capital transfers are up 21% this year and consist of amounts set aside to finance the investment expenditure of the General Council (Euros 8.3 million) and the "*Comuns*" (Euros 52.7 million).
- **"Financial expenses"**: The increase is due to the Government's need to finance short and long-term public debt, as well as the interest expense on the loan obtained to fund the investment in the Andorran Waste Treatment Plant. The forecast increase in interest rates in 2008 has been considered in both cases.
- **"Financial liabilities"**: Euros 12.3 thousand of the total amount of Euros 12,467 thousand will be earmarked for repaying the guarantee deposits received from the Government, while the remaining amount of Euros 12,450 thousand will be generated from the budget surplus and will be used to repay public debt.

### Central Government budget

(Thousands of Euros)

	<u>Budget 2007</u>	<u>% of total</u>	<u>Budget 2008</u>	<u>% of total</u>
<b>Total income</b>	<b>387,555</b>	<b>100.00%</b>	<b>431,749</b>	<b>100.00%</b>
Direct taxes	11,072	2.86%	11,072	2.56%
Indirect taxes	323,818	83.55%	319,836	74.08%
Other income	35,870	9.26%	100,688	23.32%
Changes in net financial assets	121	0.03%	127	0.03%
Changes in net financial liabilities	16,674	4.30%	26	0.01%
<b>Total expenses and investments</b>	<b>387,555</b>	<b>100.00%</b>	<b>431,749</b>	<b>100.00%</b>
Investments	126,421	32.62%	127,129	29.45%
Transfers	117,877	30.42%	136,772	31.68%
Operating expenses	128,726	33.21%	132,170	30.61%
Financial expenses	14,414	3.72%	23,106	5.35%
Financial assets	105	0.03%	105	0.02%
Financial liabilities	12	-	12,467	2.89%

Source: Monthly Gazette of the 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 *Servei de Telecomunicacions d'Andorra*); 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*.

These entities have been accompanied by the dynamic success of other parapublic companies, giving rise to significant economic growth in Andorra in recent years.

A comparison of the budgets of these entities for 2007 and 2008 is as follows:

<b>Spending budgets for Andorran parapublic entities</b>			
(Thousands of Euros)			
	2007	2008	Var. (%) 07-08
Forces Elèctriques d'Andorra (FEDA)	73,338	74,404	1.45%
Servei de Telecomunicacions d'Andorra (STA)	89,002	91,653	2.98%
Servei Andorrà d'Atenció Sanitària (SAAS)	41,408	51,389	24.10%
Caixa Andorrana de Seguretat Social (CASS)	215,004	189,611	(11.81%)
Andorran National Institute of Finance ("Institut Nacional Andorrà de Finances (INAF)")	2,875	3,409	18.59%
Residència Solà d'Enclar	1,318	1,408	6.79%
Institute of Andorran Studies - ("Institut d'Estudis Andorrans (IEA)")	1,169	1,125	(3.73%)
University of Andorra ("Universitat d'Andorra (UdA)")	2,784	2,806	0.81%
Escola de Formació de Professions Esportives i de Muntanya (EFPEM)	444	291	(34.48%)
Cattle dealers of Andorra ("Ramaders d'Andorra")	1,533	1,594	3.98%
Radio and Television of Andorra ("Ràdio i Televisió d'Andorra (RTVA)")	4,838	5,312	9.80%
<b>TOTAL</b>	<b>433,712</b>	<b>423,003</b>	<b>(2.47%)</b>

Source: Monthly Gazette of the Andorran Government

The Andorran Health Service (SAAS) and the INAF have experienced the greatest growth in their budgets compared to the previous year. The most significant increase for SAAS is due to the current transfers from the Government, which have practically doubled. The purpose of this increase in budget is to improve infrastructures and expand health and social services, manage the new health transport companies, manage the air ambulance service, and increase personnel expenses, primarily due to establishing target-based career plans and human resource management programmes. The increase in the budget for the INAF for 2008, which is notably higher than in the previous year, is to finance the functional structure of the body overseeing the financial system, increasing the budget for operating costs by 18.30%.

In contrast, the entities with the most significant decreases in budget are the Andorran Social Security System (CASS) and the Centre for the Training of Sports and Mountaineering Professionals (EFPEM). The budget for the CAAS is down 12%, primarily due to the significant 75% reduction in profit forecast for 2008 compared to 2007, while forecast operating expenses are 12% higher and investment expenses, 30% higher than in the previous year. The decrease in the forecast budgeted result is due to a change in criteria for recognising the financial income of the CASS, which is recognised as net equity by parapublic entities, but not for budget purposes. The expenditure budget of the EFPEM, the objective of which is to protect and promote cultural development and encourage the playing of sports in order to unify society and improve coexistence, is lower for 2008 due to a reduction in the amount of taxes and current transfers it has been allocated.

## Local Government

The Andorran *Comuns* obtain a large part of their annual revenues from transfers received from the Andorran Government, and the remaining amount from funds they collect and other income. Details of the main captions of the 2008 income and expense budgets for the *Comuns* are as follows:

<b>Local government budget for 2008</b>							
(In Euros)							
	<u>Canillo</u>	<u>Encamp</u>	<u>Ordino</u>	<u>La Massana</u>	<u>Andorra la Vella</u>	<u>Sant Julià de Lòria</u>	<u>Escaldes-Engordany</u>
<b>Total income</b>	<b>17,927,897</b>	<b>33,542,240</b>	<b>18,615,620</b>	<b>20,099,909</b>	<b>46,979,821</b>	<b>15,456,618</b>	<b>31,400,450</b>
Transfers	6,911,535	8,807,048	5,956,069	7,097,239	11,468,330	7,066,080	8,625,631
Own collection of funds and others	11,016,362	24,735,060	9,120,915	13,002,670	31,399,767	8,390,538	21,365,316
Financial liabilities	-	48	3,538,636	-	4,111,724	-	1,409,503
Financial assets	-	84	-	-	-	-	-
<b>Total expenses and investments</b>	<b>17,927,897</b>	<b>33,542,240</b>	<b>18,615,620</b>	<b>20,099,909</b>	<b>46,979,821</b>	<b>15,456,618</b>	<b>31,400,450</b>
Investments	8,272,000	6,206,583	1,907,409	4,192,230	13,692,202	2,315,523	8,967,469
Operating expenses	6,332,363	22,552,577	9,106,814	11,235,070	30,017,294	8,868,391	17,482,908
Transfers	712,000	1,879,918	2,825,000	1,116,399	838,325	418,699	619,073
Financial expenses	1,109,534	1,016,904	2,455,000	568,267	1,451,000	674,251	2,060,000
Financial assets	-	48	2,321,397	2,600,000	-	1,697,182	-
Financial liabilities	1,502,000	1,886,210	-	387,943	981,000	1,482,572	2,271,000
<b>Budget result</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Source: Monthly Gazette of the Andorran Government

The own collection of funds and others caption represents 66% of total revenues and is mainly comprised of taxes collected by the *Comuns*. Taxes and other income represent 38% of taxes collected by the *Comuns*, with 17% coming from equity revenue, 8% from indirect taxes on economic activities or real estate and 37% from direct capital transfer tax.

Transfers from Central Government represent 30% of total revenues, whilst *Comuns* investments represent 27% of total expenses and investments budgeted by the *Comuns*. Compared to the previous year, transfers from Central Government are up 1%, investments budgeted by the *Comuns* are down 10%, while operating expenses are 7% higher.



## III.5. ECONOMIC SECTORS

### Introduction

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

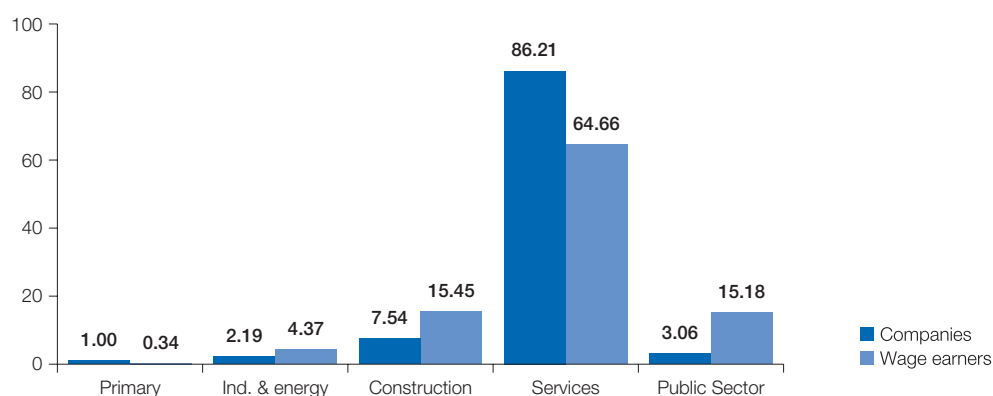
This growth has been reflected in an economy based mainly on the tourism and commercial sectors, which are heavily dependent on the foreign sector and which have expanded thanks to ideal climatic and geographical characteristics, and, in previous decades, leading to growth in the construction sector.

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.

The Principality of Andorra has 9,128 companies employing an average of 43,235 workers during 2007. The country's business structure is becoming increasingly dominated by small-sized companies. Since the previous year, there has been a net increase in companies with between 1 and 25 employees of 466, whilst the number of companies with more than 26 workers has fallen by 37, resulting in a net increase of 429 companies.

The following graph clearly shows that the service sector has significant importance in the Andorran labour market, employing 64.66% of the working population. This rate is also higher than all the other developed European economies. The construction and public sectors employ 15.45% and 15.18% of workers, respectively, while the industry and energy and primary sectors have a lower importance. This structure is due to the idiosyncrasy of the Andorran economic model which has focused on promoting tourism, the financial sector, and, in previous decades, construction.

**Distribution of companies and wage earners by sector 2007 (in %)**



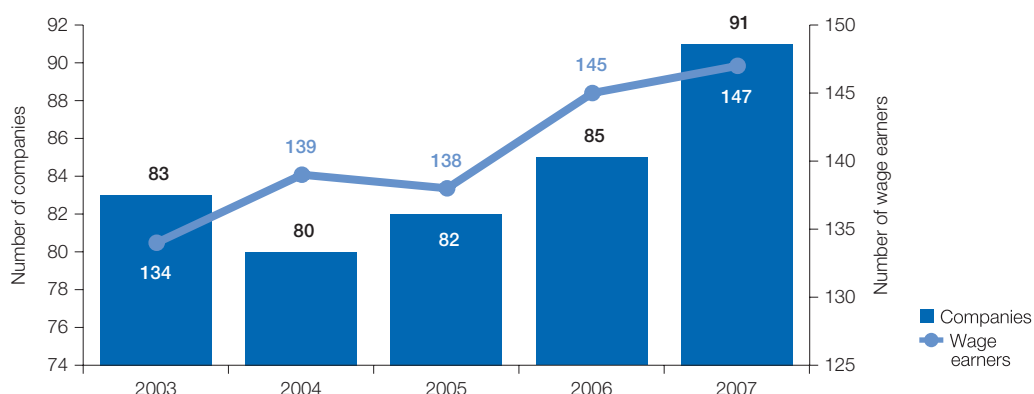
*Source: Caixa Andorrana de Seguretat Social and Monthly Gazette of the Andorran Government*

## Primary sector

From the second half of the 20<sup>th</sup> century to the 1990s the primary sector has experienced an economic downturn, until reaching the stability of recent years. This sector employs just over 0.30% of the total working population and represents 1% 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 2003 to 2007.

### 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 in a period when the demand for basic foodstuffs is rapidly growing as a result of booming economies such as China and India.

The Ministry of Agriculture 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 and has the firm backing of the pilot project for the production of Andorran beef with a quality seal.

During the first half of 2008 the Andorran Association of Farmers and Stockbreeders will present two research and innovation plans to identify alternatives to the cultivation of tobacco, since exports in recent years have dropped to such a level that this ancient practice is on the brink of disappearing.

One of these research and innovation plans will involve trials with medicinal and aromatic plants, while the other will focus on identifying the variety of potato that is best adapted to Andorran growing conditions and which is of a certain quality. The purpose of these plans is to identify the most appropriate products 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.

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.

## Secondary sector

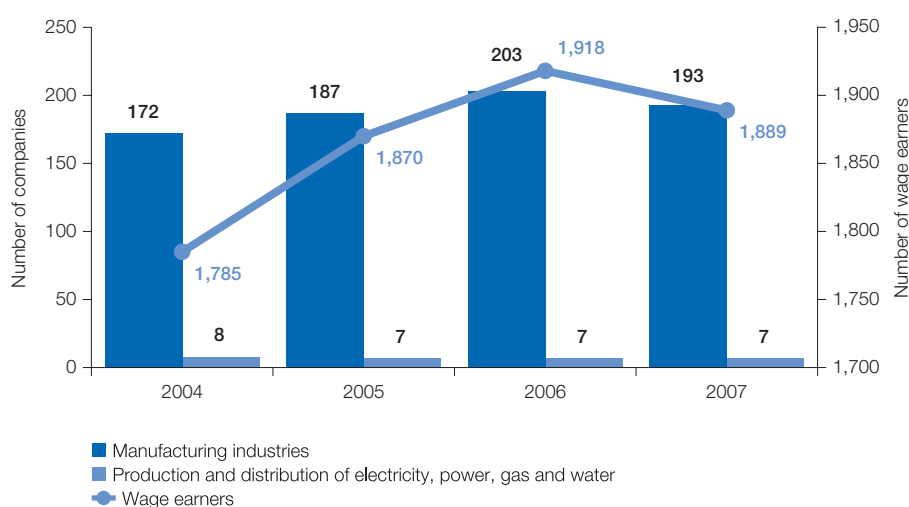
### Industry and energy

Industry and energy maintain a low relative importance with regard to the production structure of the country. Social Security registered workers in the manufacturing industries and electricity, gas and water production and distribution industries represent on average 4.37% of the total workforce in 2007.

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 Exploradora i Repartidora del Comú d'Encamp, SA* 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 slight upward trend in previous years, reaching a maximum in 2006.

**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 foodstuffs and beverages, wood manufacturing, graphic arts and other support media, in addition to those relating to the production and distribution of electricity, gas and water. The number of companies in the sector has remained stable.

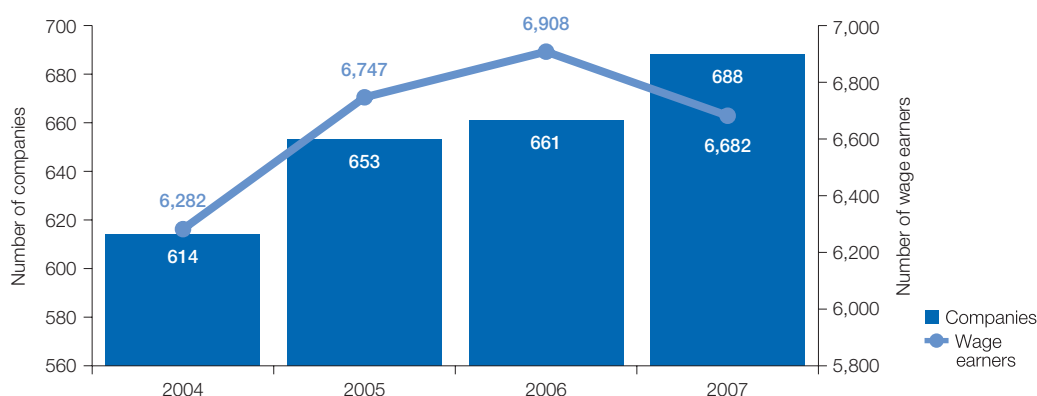
The business structure of the sector is dominated by small companies. Approximately 54% of these companies have 5 or less workers, while industrial companies have a much lower percentage than energy companies. Only 8% have a headcount exceeding 25 employees.

## Construction

The construction sector has undergone a change in trend, implying that although it remains one of the mainstays of the Andorran economy, it is currently slowing down. This is reflected by a decrease in the number of wage earners in the sector, even though the number of companies in the sector has increased during the year. This increase in the number of companies is probably due to the segmentation of the construction sector in the Principality that started in 2007 and has led to a significant rise in the number of companies with less than 10 workers. The number of these companies has increased by 16% since 2006 and there have been significant decreases in companies of between 11 and 100 workers and with over 100 workers of 19% and 25%, respectively during 2007. According to the current economic outlook, it is likely that the reduction in wage earners in this sector will continue in coming months, as will the number of companies, which is already noticeable at the start of 2008.

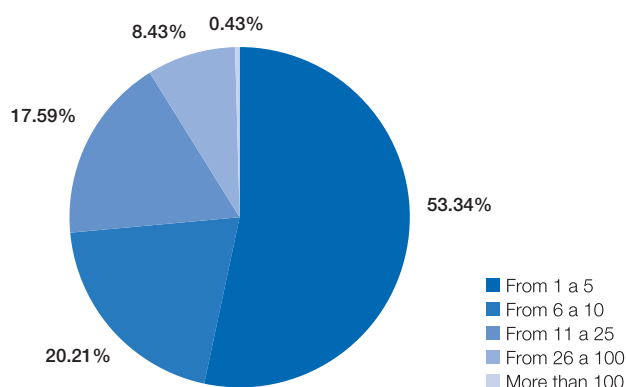
During 2007 the construction sector has employed 16% of the working population and represents 8% of the country's companies.

### 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

### Distribution of construction companies by number of wage earners 2007

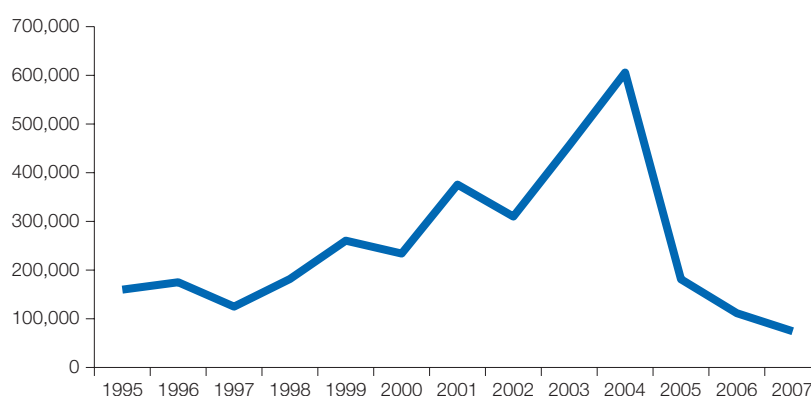


Source: Caixa Andorrana de Seguretat Social

As mentioned above, this graph shows that the sector mainly comprises *micro* companies, with over half the companies having five or less workers, whilst only 8.86% have a headcount of over 25 wage earners.

Construction has experienced exceptional growth over the last two decades, comprising a major part of the country's secondary sector, and its importance has been related to the growth in the areas of land authorised for development. Nonetheless, it should be mentioned that the peak in construction shown in the following graph 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.

### Surface area authorised for development. 1995-2007 (m²)

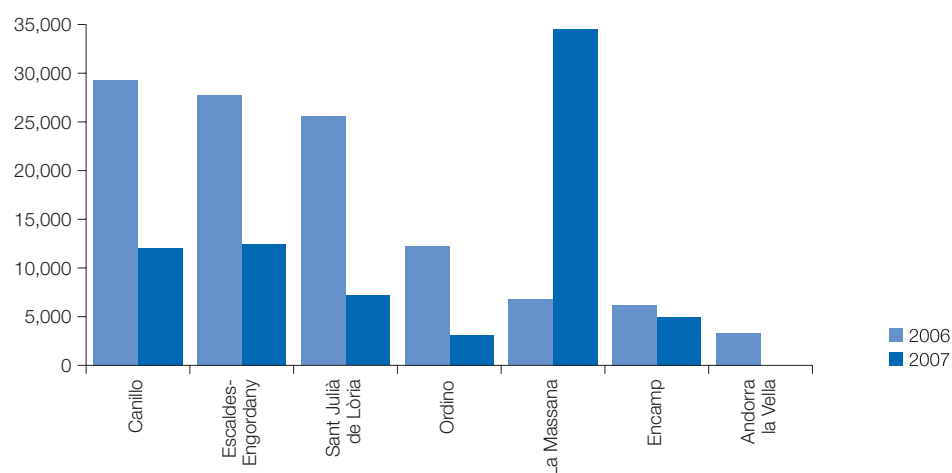


Source: Monthly Gazette of the Andorran Government

The following graph shows the sharp generalised reduction in area of land authorised for development, except in the parish of La Massana resulting from the moratorium in force since 2003.



### Square meters of land authorised for development 2007

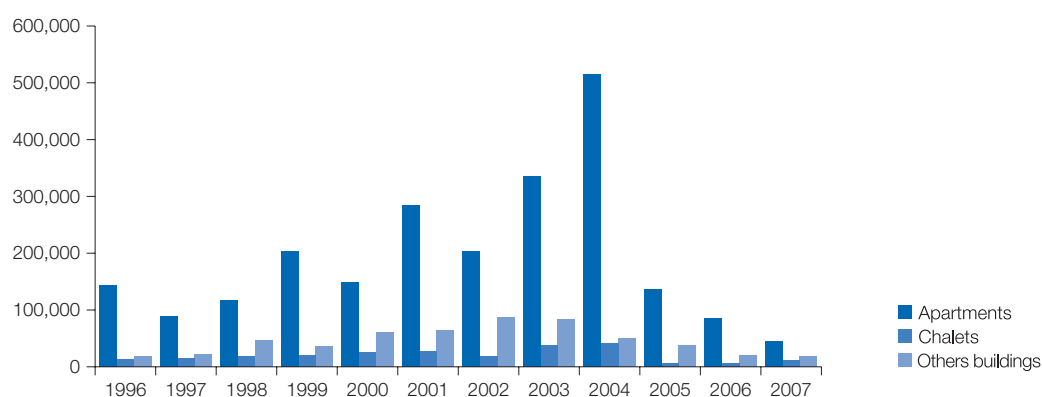


Source: Monthly Gazette of the Andorran Government

The international slowdown in construction has also affected Andorra. In the latter months of 2007, the number of real estate transactions has dropped and it is forecast that this downturn will continue in forthcoming months and will clearly define the future trend in the Andorran construction sector.

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. 1996-2007 (m²)



Source: Ministry of Town Planning and Territorial Ordinance

The graph above clearly shows the decline in area of land authorised for development during the last three years. 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; the impact of higher interest rates in the Euro zone and in the US during the last 18 months; and the international financial crisis starting in August of last year as a result of the subprime mortgage issue, which has led to a drop in

liquidity in international markets due to a lack of confidence, resulting in banking entities tightening their terms of credit.

### Tertiary sector: Services

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

The tertiary sector is the leading sector in the Andorran economy. During 2007 it has employed 34,517 individuals, representing approximately 80% of the total workforce. 8,149 companies operated in this sector during 2007.

As illustrated below, during the 2006-2007 period the number of companies and wage earners in the sector has generally risen slightly.

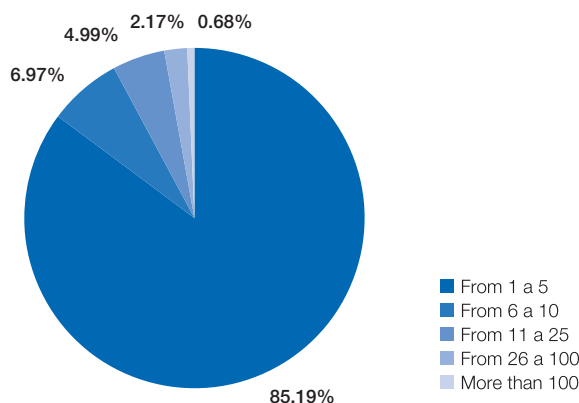
<b>Number of companies and wage earners in the tertiary sector</b>				
	<b>2006</b>	<b>2007</b>	<b>% of total 2007</b>	<b>Var. (%) 06-07</b>
<b>Number of companies</b>	<b>7,699</b>	<b>8,149</b>	<b>100.00%</b>	<b>5.84%</b>
Trading and repair of motor vehicles (...)	1,453	1,534	18.82%	5.57%
Hotel trade	696	749	9.19%	7.61%
Transport, warehousing and communications	190	169	2.07%	-
Financial system	77	72	0.88%	(6.49%)
Real estate and rental activities; corporate services	754	860	10.55%	14.06%
Other social activities and community services, personal services	348	403	4.95%	15.80%
Homes employing domestic service	3,340	3,536	43.39%	5.87%
Domestic services to the community (neighbours' associations)	523	536	6.58%	2.49%
Volunteers without activity	40	10	0.12%	(75.00%)
Extraterritorial bodies	5	3	0.04%	-
Public administration, obligatory social defence and security	44	45	0.55%	2.27%
Education	43	45	0.55%	4.65%
Health and veterinary activities, social services	186	187	2.29%	0.54%
<b>Number of wage earners</b>	<b>34,409</b>	<b>34,517</b>	<b>100.00%</b>	<b>0.31%</b>
Trading and repair of motor vehicles (...)	11,454	11,316	32.78%	(1.20%)
Hotel trade	5,670	5,523	16.00%	(2.59%)
Transport, warehousing and communications	1,295	1,300	3.77%	0.39%
Financial system	1,559	1,609	4.66%	3.21%
Real estate and rental activities; corporate services	4,147	4,215	12.21%	1.64%
Other social activities and community services, personal services	2,450	2,441	7.07%	(0.37%)
Homes employing domestic service	1,262	1,334	3.86%	5.71%
Domestic services to the community (neighbours' associations)	196	201	0.58%	2.55%
Volunteers without activity	29	16	0.05%	(44.83%)
Extraterritorial bodies	9	9	0.03%	-
Public administration, obligatory social defence and security	4,332	4,452	12.90%	2.77%
Education	632	670	1.94%	6.01%
Health and veterinary activities, social services	1,374	1,431	4.15%	4.15%

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

The table above 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 financial sector.

The business structure of the sector mainly comprises small companies. Therefore, 85.19% of the companies have 5 or less employees, whilst 2.17% have a headcount exceeding 25 and only 0.68% have more than 100 employees.

**Distribution of service companies by number of wage earners 2007**



Source: Caixa Andorrana de Seguretat Social

## Tourism

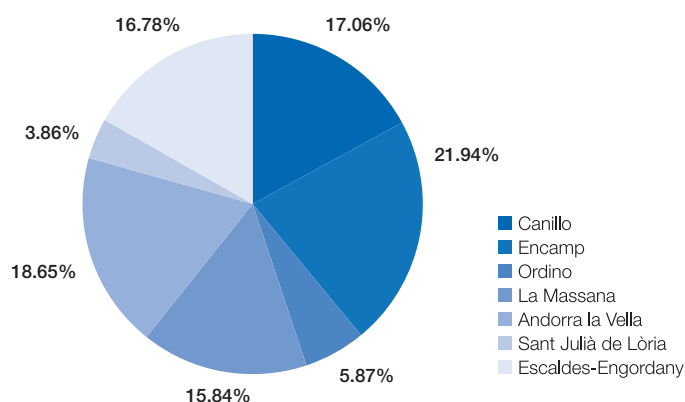
As already mentioned, commerce is one of the key activities of the Principality's economy, which complements and is directly related to tourism. Nevertheless, since 2002 there has been a drop in the number of tourists and overnight stays. In light of these circumstances, the Principality is committed 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 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.

Hotel accommodation represents 80% of tourist accommodation for 2007, considerably above hostels or residences, boarding houses, aparthotels and holiday apartments. Andorra has 267 hotels with a total capacity for 32,586 beds, 27 establishments and 6,371 beds less than in 2006.

Hotel beds by parish in 2007 are shown in the following graph:

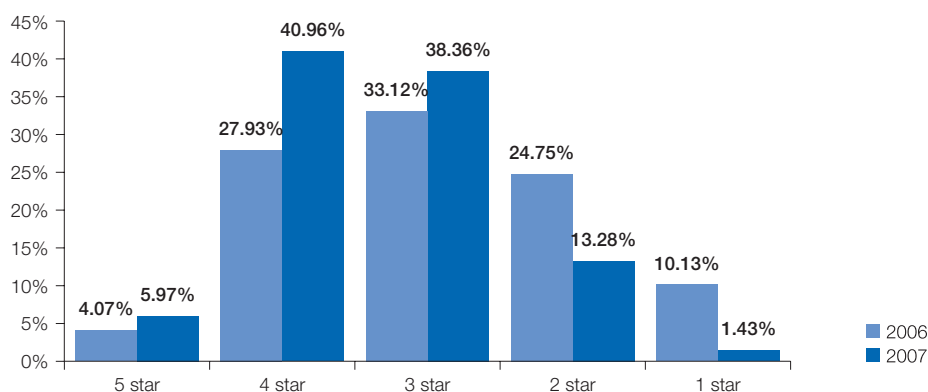
**Distribution of hotel rooms per parish 2007**



Source: Ministry of Tourism and Environment. Department of Tourism

Data for the hotel and tourist accommodation sector for 2007 show that there has been a certain degree of restructuring, with a substantial reduction in accommodation and beds in lower category establishments in favour of new accommodation and hotel beds in establishments with three or more stars. The following graph shows that 85.29% of beds available in Andorra in 2007 were in hotels with three or more stars, while four and five-star hotels accounted for 46.93% of all beds available in the Principality during 2007.

**Distribution of hotel beds by category 2006-2007**



Source: Ministry of Tourism and Environment. Department of Tourism

These data confirm that clear improvements are being made to the hotel and tourist accommodation offered in order to considerably strengthen quality tourism in this Pyrenean country.

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 has initiated 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 350 restaurants, one of which has a Michelin star. 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 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 Hoteleria d'Andorra*), and several associations to promote local and international gastronomic events.

One of the most relevant indicators used to evaluate the global dynamics of the tourism industry is the number of visitors to the country per year. The evolution of this indicator, shown below, clearly shows a drop in the number of visitors between 2005 and 2006 and a slight recovery in 2007. This decline in the number of visitors staying the night does not necessarily have to be construed as negative if it is compensated by an increase in quality. Considering the fact that the number of higher category hotels has risen, it can be concluded that there has indeed been an improvement in quality.

Number of visitors					
	2005	2006	2007	% of total 2007	Var. (%) 06-07
<b>Total</b>	<b>11,049,490</b>	<b>10,736,722</b>	<b>10,743,201</b>	<b>100.00%</b>	<b>0.06%</b>
Tourists <sup>(1)</sup>	2,418,409	2,226,922	2,189,421	20.38%	(1.68%)
Day-trippers <sup>(2)</sup>	8,631,081	8,509,800	8,553,780	79.62%	0.52%
<b>Entry border</b>					
Sant Julià de Lòria	6,831,168	6,731,560	6,752,583	62.85%	0.31%
Pas de la Casa	4,218,322	4,005,162	3,990,618	37.15%	(0.36%)
<b>Nationalities</b>					
Spanish	6,321,568	6,237,954	6,276,058	58.42%	0.61%
French	4,397,195	4,190,719	4,174,649	38.86%	(0.38%)
Other nationalities	330,727	308,049	292,494	2.72%	(5.05%)

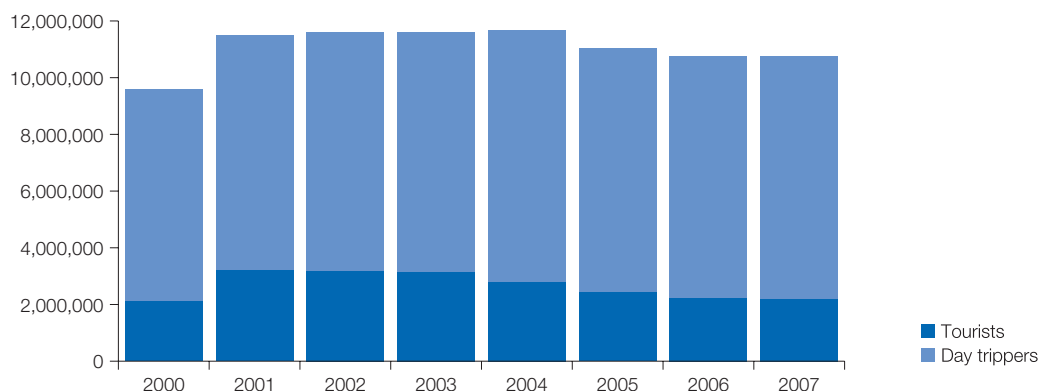
(1) Any visitor spending more than one day in the country    (2) Any visitor spending only one day in the country

Source: Monthly Gazette of the Andorran Government



As shown in the graph below, there has been a drop in the number of visitors in previous years, specifically an 8% decrease since 2004. In addition, it should be mentioned that despite the poor climatic conditions for skiing (unarguably the mainstay of the Principality's winter tourist industry) the number of visitors remained stable between 2006 and 2007. In previous years, there was also a slight imbalance in the proportion of day trippers with respect to tourists who stay the night in the country, with the most notable decline taking place in the tourist segment as opposed to day trippers. Nonetheless, numbers of visitors in both segments have remained stable between 2006 and 2007.

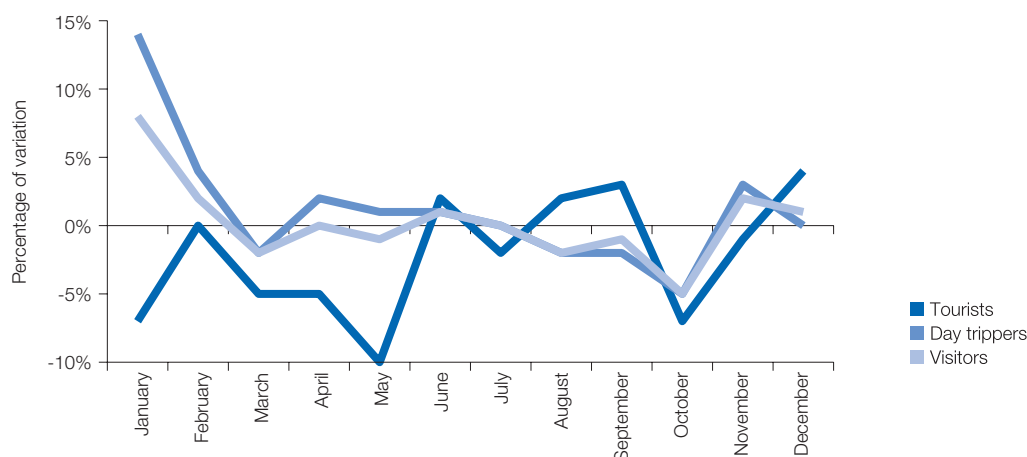
**Evolution of the number of visitors 2000-2007**



Source: Ministry of Tourism and Environment. Department of Tourism

The following graph shows the variation in the number of tourists and day trippers per month from 2006 to 2007.

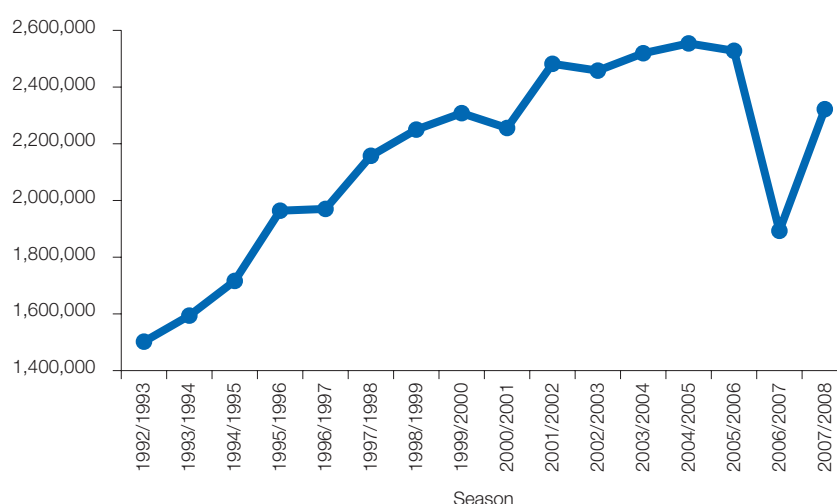
**Variation in monthly visitors to Andorra 2007**



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 in the country's ski resorts. This concept makes reference to the number of days in which it has been possible to ski in each Andorran ski resort throughout the ski season. The number of visitors during the 2007-08 season, during which conditions were more favourable for winter sports than in the previous season (when temperatures remained high and there was a lack of snowfall), the number of visitors rose significantly, with the number of ski days reaching levels obtained in previous years. Specifically, the number of days of ski rose by 21.70% from the previous year which has helped normalise the winter sports sector which is already consolidated in the Principality. This season's data are 7.43% below the average for the best seasons in recent years. One of the factors explaining this difference is the duration of the season. As a result of the winter season experienced in 2006-07, this season a prudent approach was adopted and the Andorran ski resorts closed on 13 April 2008, several weeks before they closed at the end of the best seasons of recent years.

**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 177 pistes and several circuits for other snow-related activities and adventure sports.

GRANDVALIRA comprises 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 two skiable sectors, Pal-Arinsal i Ordino - Arcalís, covering a total of 1,459 hectares over 67 pistes and with a capacity for 53,410 skiers per hour.

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

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), snow bikes and quads, 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:

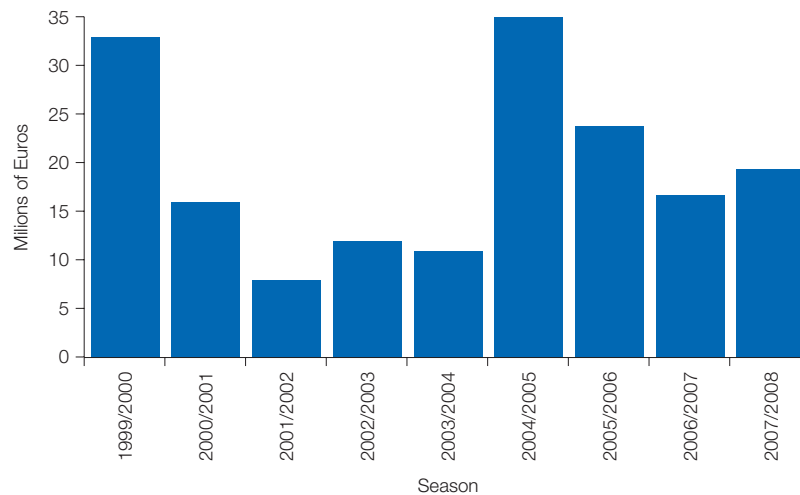
<b>Ski resort facilities 2007</b>						
<b>Resort</b>	<b>Km of slopes</b>	<b>Ski runs</b>	<b>Snow machines</b>	<b>% Snowmaking</b>	<b>Ski lifts</b>	<b>Skier capacity / per hour</b>
VALLNORD: Pal - Arinsal	63	41	240	32%	30	36,900
VALLNORD: Ordino - Arcalís	29	26	80	42%	13	16,510
GRANDVALIRA	193	110	1,065	43%	67	100,700
NATURLÀNDIA - La Rabassa*	15	7	-		2	-
<b>TOTAL</b>	<b>300</b>	<b>184</b>	<b>1,385</b>	<b>41%</b>	<b>112</b>	<b>154,110</b>

\* Cross-country skiing

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. As well as offering thermal water treatments, it also provides fitness facilities. These activities are also complemented by alternative gastronomic activities and a one-Michelin star restaurant.

The centre is currently being extended, with the construction of a new wellness centre aimed at total well-being. It is planned that this new facility will be opened in 2009 and will have a surface area of 12,400 square metres.

As well as this tourist attraction, Andorra has a number of hotels specialising in total well-being, 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. The sector comprises 18.82% of businesses and employs 32.78% of wage earners from the country's services sector. In 2007 the number of businesses rose slightly, although the reduction in the number of wage earners in 2006 has continued.

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 market prices are converging with those in the neighbouring countries, perfume, jewellery and the leading brands of clothing continue to attract tourists to the Principality of Andorra.

Details of the number of companies and wage earners in Andorra's retail sector during 2006 and 2007, by type of establishment are shown in the following table:

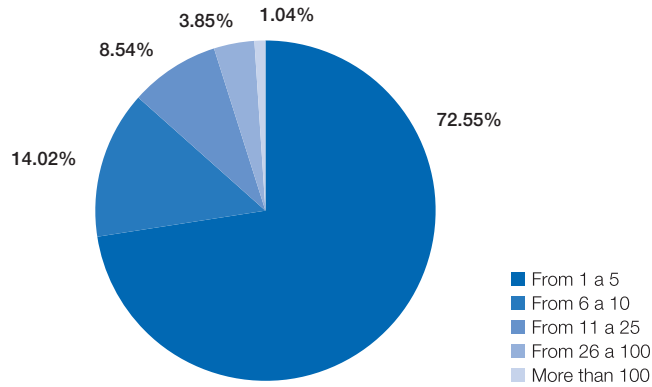
Number of companies and wage earners				
	2006	2007	% of total 2007	Var. (%) 06-07
<b>Number of companies</b>	<b>1,453</b>	<b>1,534</b>	<b>100.00%</b>	<b>5.57%</b>
<b>Number of wage earners</b>	<b>11,455</b>	<b>11,316</b>	<b>100.00%</b>	<b>(1.21%)</b>
Sale, trading and repair of motor vehicles (...)	1,416	1,389	12.27%	(1.91%)
Wholesale trade and intermediaries, except for motor vehicles and motorcycles	2,448	2,444	21.60%	(0.16%)
Retail trade, except for motor vehicle trading (...)	7,591	7,483	66.13%	(1.42%)

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



The distribution of wage earners is concentrated mainly in small businesses. As shown in the following graph, approximately 73% of businesses have a headcount of 5 or less.

#### Distribution of commerces by numbers of wage earners 2007



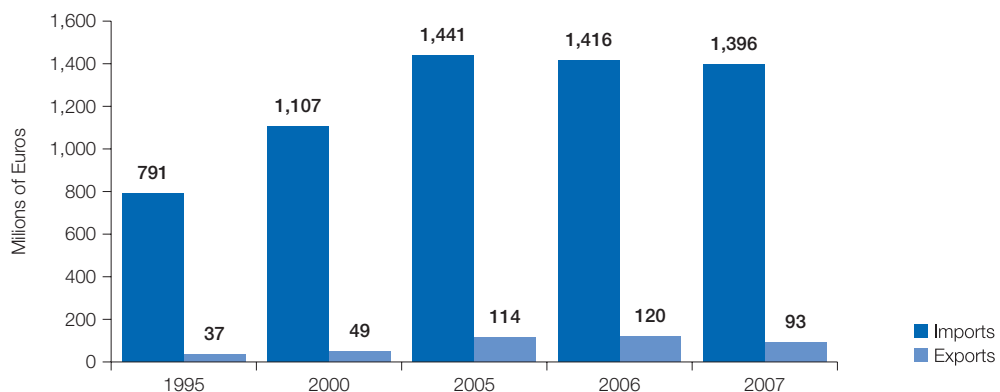
Source: Caixa Andorrana de Seguretat Social

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.

The slowdown in imports has led to an accumulated reduction of 1.5% for 2007, compared to 2006. This drop in imports is closely related to the evolution of the number of visitors to the Principality and therefore confirms the high dependence of Andorran commerce on tourists and demand from abroad.

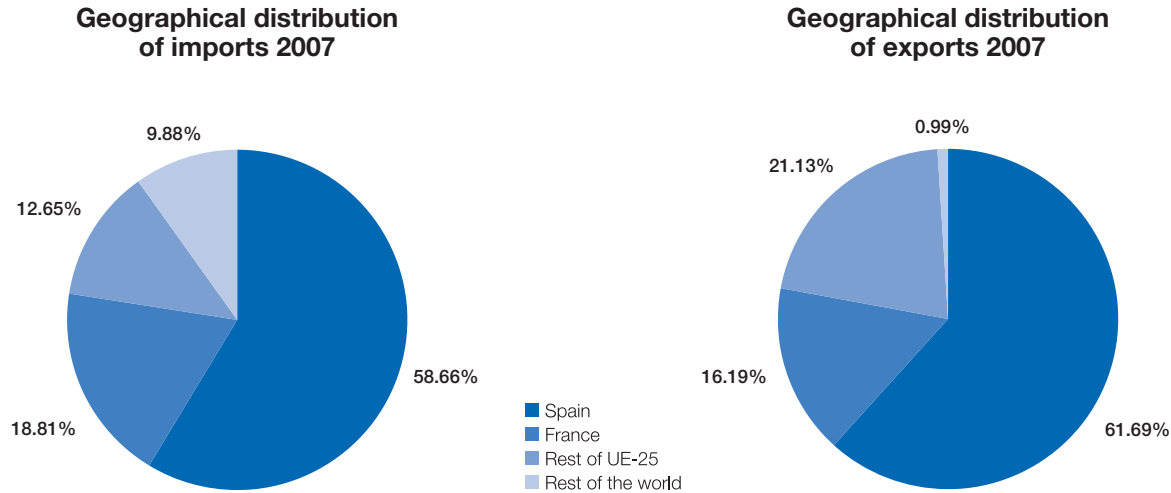
It should be taken into consideration that the export figures are not completely accurate since not all the tourists purchasing products in Andorra declare their exports because Spanish law establishes a limit on the value of each type of product that must be declared on entering Spain, as is the case 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 2006 and 2007 and illustrates that the most significant imported and exported products are electrical appliances and vehicles. Perfume and clothing also make up a significant part of total imports.

### Imports and exports per product in 2007

(Millions of Euros)

	Imports 2006	Imports 2007	% of total 2007	Exports 2006	Exports 2007	% of total 2007
Electrical appliances	165	168	12.03%	15	23	24.73%
Vehicles, cars, tractors, bicycles	146	129	9.24%	18	17	18.28%
Clothes and accessories, not knitting	79	83	5.95%	2	2	2.15%
Perfumes and cosmetics	96	99	7.09%	4	3	3.23%
Boilers, machines, mechanical appliances and machines	84	75	5.37%	7	12	12.90%
Beverages, alcohol and vinegars	58	58	4.15%	-	-	-
Fuels and mineral oils, bituminous material	84	93	6.66%	-	-	-
Optical, photography, cinemato- graphic, measuring equipment, (...)	26	28	2.01%	8	10	10.75%
Tobacco	18	26	1.86%	-	-	-
Furniture and lighting	40	41	2.94%	2	2	2.15%
Toys, sports equipment	33	38	2.72%	-	-	-
Footwear	29	29	2.08%	1	1	1.08%
Milk and lactic products, eggs, honey	26	27	1.93%	-	-	-
Pearls, stones, precious metals, dress jewellery, coins	13	13	0.93%	1	1	1.08%
Meats and small eatable	26	26	1.86%	-	-	-
Sugar and sweetened articles	35	10	0.72%	35	0	-
Clothes and accessories, knitting	37	37	2.65%	1	1	1.08%
Iron, smelting or steel products	31	27	1.93%	2	5	5.38%
Others	390	389	27.87%	24	16	17.20%
<b>TOTAL</b>	<b>1,416</b>	<b>1,396</b>	<b>100.00%</b>	<b>120</b>	<b>93</b>	<b>100.00%</b>

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 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.

As shown in the table below, the number of wage earners in the financial sector has continued to grow during 2007.

<b>Number of wage earners</b>					
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>% of total 2007</b>	<b>Var. (%) 06-07</b>
<b>Number of wage earners</b>	<b>1,510</b>	<b>1,559</b>	<b>1,609</b>	<b>100.00%</b>	<b>3.21%</b>
Financial activities, except for insurance activities	1,256	1,290	1,344	83.53%	4.19%
Insurance activities, except for obligatory Social Security	253	268	262	16.28%	(2.24%)
Auxiliar financial activities	1	1	3	0.19%	-

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

The Andorran banking system is characterised by its high capital adequacy ratio compared to other financial markets, due to a strong policy of capitalisation right from the onset. The Andorran banking system has historically maintained high capital adequacy and liquidity ratios in order to ensure the stability and solvency of the Andorran financial system.

Due to their particular nature these features, which are a key part of this publication, are 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 and is characterised by its solid financial reputation as a result of the strict and rigorous application of the international standards regulating it. Furthermore, the Andorran financial system, which is mainly focused on banking, is characterised by the capital adequacy of its banking system compared to other financial markets, thanks to the strong capitalisation policy implemented since its creation.

The 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.

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 governed by Law 14 of 23 October 2003. In addition, the Money Laundering Prevention Unit (UPB) created in 2000 is an independent body, the aim of which is to promote and coordinate money laundering prevention measures.

The year 2007 has ended with aggregate profit for the Andorran banking sector of approximately Euros 354 million, 4.92% up on profit of 2006, which was an exceptional year during which profits rose by 18.28%.

Against the backdrop of difficulties in the international liquidity and loans markets due to a lack of confidence resulting from the subprime mortgage crisis and the start of an economic slowdown in the US and other industrialised countries, especially in Europe, the results obtained by the Andorran banking sector are the outcome of prudent and sound management. The uninterrupted period of economic growth of recent years has come to an end and we are now in a more difficult and demanding period during which entities with more solid foundations and better business models and best management will stand out.

It should also be highlighted that since 2005 the European Union Agreement regarding the withholding of EU tax on savings of EU nationals who are customers of Andorran banks has meant that, as in the rest of Europe, these clients have been forced to search for alternative products, therefore increasing the importance of the life insurance sector.



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

ABA's organisational structure is formed of a chairman and a vice-chairman, posts which are rotated every year amongst the members of a permanent management body comprising a general manager and 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, the ABA has undertaken 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.
- Incorporate 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*, *Caritas* 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)*"), the mission of which is to represent companies in Andorran society, encourage social dialogue, and develop a favourable environment for conducting economic activity.

- Promote the professional training of credit entity personnel, especially training in relation to money laundering prevention, 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. In November 2007, the JEF held its first seminar entitled the "New European regulatory framework for financial services". The purpose of this seminar was to analyse in depth the basic issues regarding the new regulations governing the financial sector, especially those relating to the Financial Services Action Plan (FSAP) and, in particular, directives entering into force in 2007: MiFID and Basel II.

The JEF is currently organising the first working meetings of the Andorran Institute of Legal and Financial Studies which will be held in the June 2008.

- 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 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), money laundering prevention, strategic projects, indirect tax on services rendered (ISI), the Internal Revenue Service (IRS), compliance and legal issues, 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. 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 Switzerland, Luxembourg, the Bahamas, Uruguay, Mexico and Panama.

The most significant aggregate data for Andorran banking for 2006 and 2007 are as follows:

(Thousands of Euros)	2006	2007
Total assets	11,641,559	12,999,234
Loans	5,665,591	6,475,725
Assets under management	28,413,151	28,938,026
Profit	337,262	353,841
ROE	25.46%	30.09%
ROA	2.85%	2.68%
Efficiency ratio	31.00%	30.81%
Capital adequacy ratio	20.96%	19.96%
Default ratio	0.50%	0.89%
Liquidity ratio	62.57%	66.23%

Source: Annual reports of banking entities

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

#### ■ Andorra Banc Agrícol Reig, SA

The Andorra Banc Agrícol Reig, SA Group was formed as a result of the merger in August 2001 between *Banc Agrícol 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, SA

Incorporated in 1952.

**Banc Internacional d'Andorra, SA and Banca Mora, SA** operate jointly and file consolidated financial statements and other data. On 9 March 2006 the Mora family acquired a 51% interest in the capital of Banc Internacional d'Andorra, SA through the purchase of shares from BBVA. 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, SA

Incorporated in 1949 and on 31 July 2005 it acquired 100% of *CaixaBank SA* (incorporated on 1 August 1997, the statutory activity of which is to continue with the financial activity of the five branches of Caixa d'Estalvis i Pensions de Barcelona ("la Caixa") in the Principality, where it had operated since 1935). The data of these two entities is presented in consolidated format and under the name of Crèdit Andorrà Group in this publication.

On 15 September 2006 "la Caixa" agreed to sell its 46.35% interest in Crèdit Andorrà to other principal shareholders of this Andorran entity.

#### ■ 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 2006 and 2007 are shown below:

	Number of branches		Number of employees		Number of cash dispensers	
	2006	2007	2006	2007	2006	2007
ANDBANC	13	13	305	307	31	32
BIBM	11	11	255	246	33	32
BPA	5	6	188	208	17	21
CRÈDIT ANDORRÀ GROUP	21	21	392	412	42	43
BANCSABADELL D'ANDORRA	5	6	86	99	15	18
<b>TOTAL</b>	<b>55</b>	<b>57</b>	<b>1,226</b>	<b>1,272</b>	<b>138</b>	<b>146</b>

Source: Association of Andorran Banks

There are 57 branches, distributed between the seven parishes of the Principality. In 2007 the number of employees has increased 3.75%, i.e. 46 workers.

## Aggregate consolidated balance sheets of Andorran banks

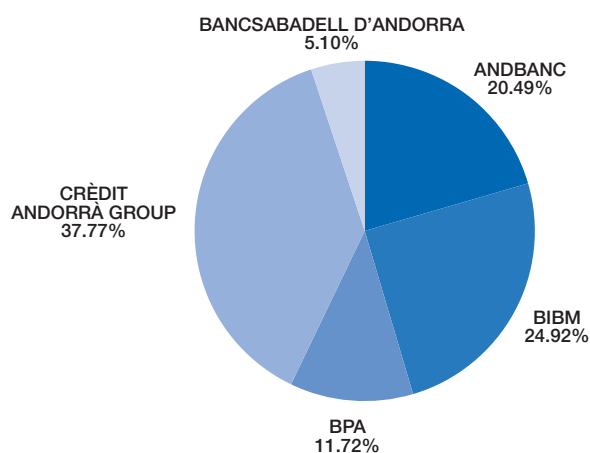
Details of the aggregate consolidated balance sheets of Andorran banking entities for 2006 and 2007 are as follows:

(Thousands of Euros)					
	2006	% of total	2007	% of total	Var. (%) 06-07
<b>ASSETS</b>					
Cash and central banks OECD	81,762	0.70%	61,817	0.48%	(24.39%)
INAF	108,204	0.93%	108,205	0.83%	-
Financial intermediaries	3,162,636	27.17%	3,731,428	28.70%	17.98%
Loans	6,063,784	52.09%	7,030,404	54.08%	15.94%
Securities portfolio	1,531,930	13.16%	1,373,834	10.57%	(10.32%)
Gains on consolidation	156,534	1.34%	136,968	1.06%	(12.50%)
Intangible assets	36,195	0.31%	39,733	0.31%	9.77%
Tangible assets	297,929	2.56%	296,914	2.28%	(0.34%)
Prepayment and accrued receivables	103,931	0.89%	146,705	1.13%	41.16%
Other assets	98,654	0.85%	73,226	0.56%	(25.77%)
<b>TOTAL ASSETS</b>	<b>11,641,559</b>	<b>100.00%</b>	<b>12,999,234</b>	<b>100.00%</b>	<b>11.66%</b>
<b>LIABILITIES</b>					
INAF	164,566	1.42%	169,874	1.31%	3.23%
Due to banks and credit entities	796,223	6.84%	470,923	3.62%	(40.86%)
Other financial intermediaries	387	-	133	-	(65.63%)
Customer deposits	8,827,800	75.83%	10,463,515	80.49%	18.53%
Debts represented by securities	14,318	0.12%	27,312	0.21%	90.75%
Provision for liabilities and charges	78,811	0.68%	46,170	0.36%	(41.42%)
Provision for general risks	73,171	0.63%	66,741	0.51%	(8.79%)
Subordinated liabilities	210,000	1.81%	210,000	1.62%	-
Accruals	89,583	0.77%	99,348	0.77%	10.90%
Other liabilities	84,371	0.72%	88,923	0.68%	5.40%
Share capital	243,536	2.09%	243,536	1.87%	-
Reserves	881,314	7.57%	921,363	7.09%	4.54%
Profit	337,262	2.90%	353,841	2.72%	4.92%
Prior years' result	(903)	-	(3)	-	(99.67%)
Interim dividends	(159,123)	(1.37%)	(162,460)	(1.25%)	2.10%
Minority interest	243	-	18	-	(92.59%)
<b>TOTAL LIABILITIES</b>	<b>11,641,559</b>	<b>100.00%</b>	<b>12,999,234</b>	<b>100.00%</b>	<b>11.66%</b>
Source: Annual reports of banking entities					

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

The distribution of aggregate assets and liabilities by banking entity at 31 December 2007 is as follows:

#### Distribution of aggregate assets and liabilities by banking entity 2007



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 a percentage of the total aggregate assets remain practically unchanged from 2006. The growth in the balance sheet is due to a significant increase in customer deposits through loans and financial intermediaries. The most significant rise in aggregate assets has mainly been in “Financial intermediaries” and “Loans to customers”.

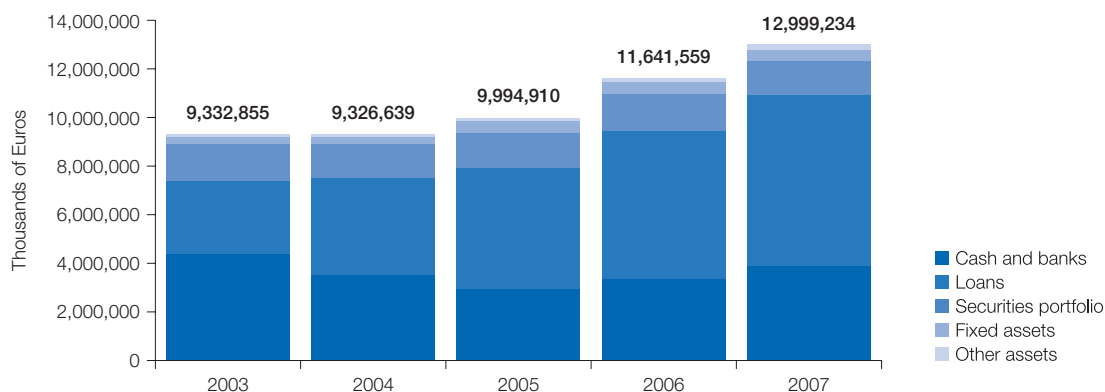
The change in trend in the composition of the aggregate assets of financial entities which began in 2004 has continued throughout 2007. The “Loans” caption has increased by 15.94% (2005 vs. 2006: +21.86%). Nevertheless, after having harmonised the criteria stipulated by the aforementioned international standards, and so that balances can be compared, the “Loans to customers” caption has risen by 14.30%, which is below the increase of 17.93% in 2006. This lower growth rate is mainly due to the rise in interest rates and the impact of the economic slowdown which started during the second half of 2007 and the lack of confidence in financial markets. However, it should be emphasised that despite the sharp rise in this caption in previous years, Andorran banking entities have managed to keep loan losses at significantly low levels, although the default rate has increased from 0.50% at 31 December 2006 to 0.89% at the close of 2007.

On the other hand, the declining trend of recent years in the “Financial intermediaries” caption has reversed, registering a 20.27% rise with regard to 2006 after having unified the loans and financial intermediaries balances in accordance with international standards. This caption has also increased its importance, rising from 30.90% of total aggregate assets in 2006 to 33.29% in 2007. It should be noted that “Gains on consolidation” have arisen as a result of Crèdit Andorrà’s purchase of CaixaBank on 21 July 2005. This caption is included under “Fixed assets” in the comparative charts and graphs.



The graph below shows the evolution of aggregate assets over the last five years. During this period a recovery can be observed in the “Cash in hand and at banks” caption (including the Cash and central banks of the OECD, INAF and Financial intermediaries items). In addition, the decline in total aggregate assets observed in the 2002-2004 period was reversed in 2005 partly due to a recovery in the “Securities Portfolio” caption and the continued growth in “Loans”, while aggregate assets continued to rise by 16.47% in 2006 and by 11.66% in 2007.

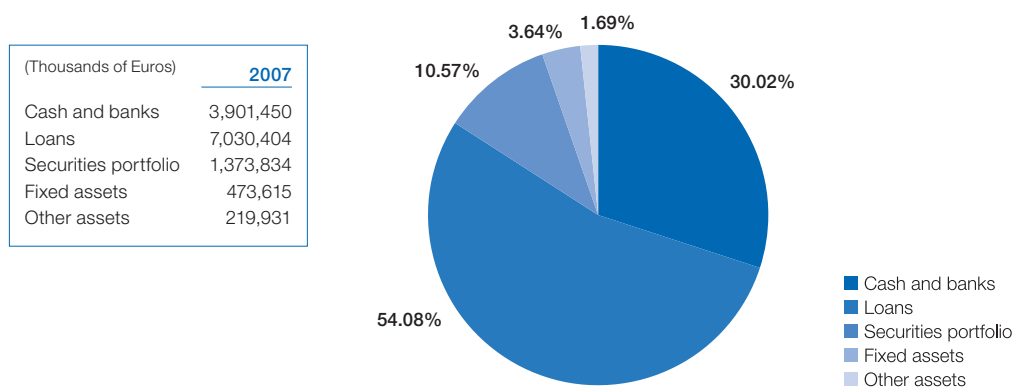
### Evolution of aggregate assets 2003-2007



Source: Annual reports of banking entities

The structure of aggregate assets in 2007, prior to the harmonisation of criteria for loans to banks and credit entities, is shown in the following graph:

### Estructure of aggregate assets 2007



Source: Annual reports of banking entities

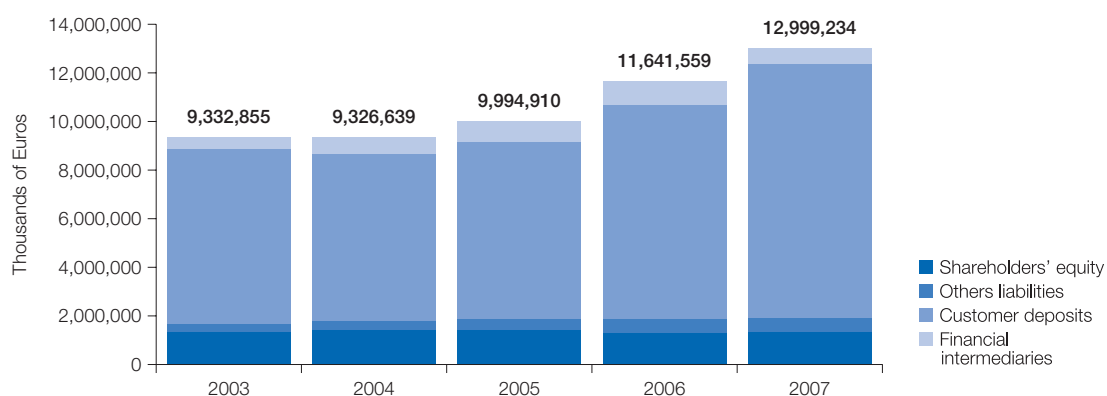
Details of the items forming part of the captions included in the above graphs are as follows:

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

## Aggregate liabilities

The most significant item in aggregate liabilities is “Customer deposits”, which have risen by Euros 1,636 million or 18.53%, slightly below the increase of 20.78% in 2006. 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 40.86% from 2006 (2005 vs. 2006: +18.22%); and its relative importance as a percentage of aggregate liabilities dropping to 3.62%, having stood at approximately 7% in the previous two years.

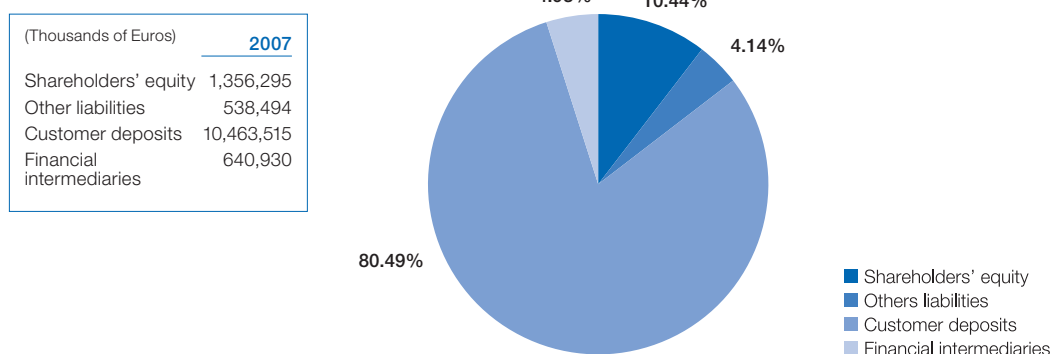
**Evolution of aggregate liabilities 2003-2007**



Source: Annual reports of banking entities

The following pie chart illustrates that “Customer deposits” represent the most significant part (80.49%) of aggregate liabilities. “Shareholders’ equity” makes up 10.44%, whilst the remaining liabilities are formed mainly of “Financial intermediaries” (4.93%) and “Other liabilities” (4.14%).

## Structure of aggregate liabilities 2007



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 increased by 14.30% from 2006 (2005 vs. 2006: +17.93%), primarily because of rising interest rates and the impact of the economic slowdown which started during the second half of 2007 and the lack of confidence in financial markets.

It should be taken into consideration that the following data (which is unified in accordance with international standards) does not include the "Provision for loan losses" (as mentioned previously).

### Evolution of loans

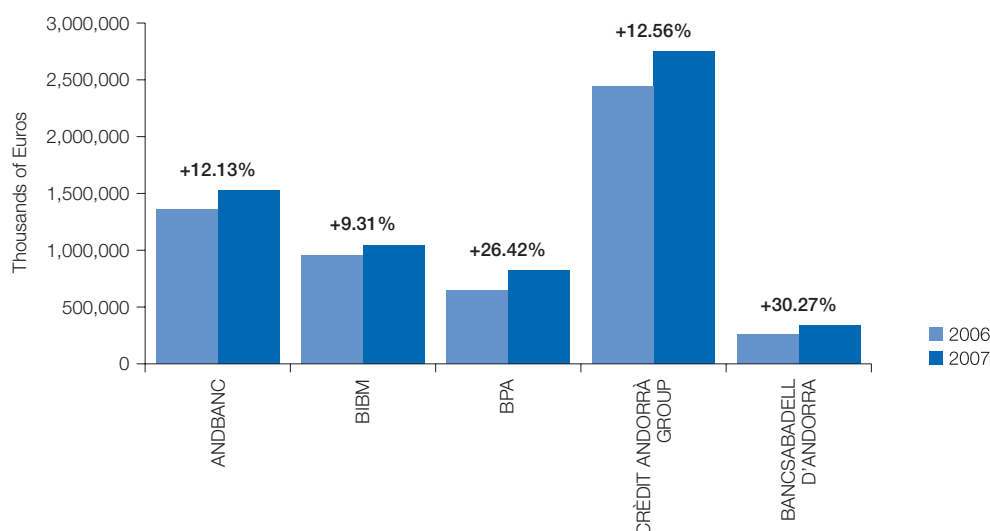
(Thousands of Euros)

	2006	% of total	2007	% of total	Var. (%) 06-07
ANDBANC	1,358,273	23.97%	1,522,999	23.52%	12.13%
BIBM	956,899	16.89%	1,045,968	16.15%	9.31%
BPA	648,550	11.45%	819,880	12.66%	26.42%
CRÈDIT ANDORRÀ GROUP	2,443,606	43.13%	2,750,436	42.47%	12.56%
BANCSABADELL D'ANDORRA	258,263	4.56%	336,442	5.20%	30.27%
<b>TOTAL</b>	<b>5,665,591</b>	<b>100.00%</b>	<b>6,475,725</b>	<b>100.00%</b>	<b>14.30%</b>

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 the Crèdit Andorrà Group is the banking entity which has shown most growth in absolute terms (Euros 306,830 thousand), followed by BPA (Euros 171,330 thousand), representing increases of 12.56% and 26.42% compared to 2006, respectively. In terms of relative growth, BancSabadell d'Andorra has experienced the greatest increase in loans of 30.27%.

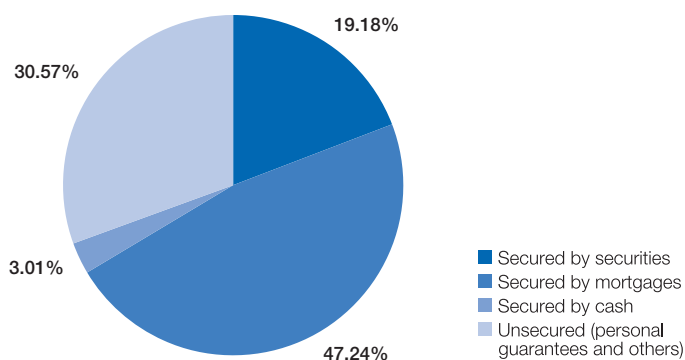
**Evolution of loans 2006-2007**



Source: Annual reports of banking entities

The "Loans" caption represents 54.08% (prior to harmonisation) and 49.49% (after harmonisation) of total aggregate assets, mainly comprising loans and credits to customers. One of the reliable indicators used to measure the quality of these assets are the guarantees obtained on these loans or credits and the risk scenario. Total collateralised loans represent 69.43%. As shown in the pie chart below, 19.18% of these loans relate to security guarantees, 47.24% to mortgage security and 3.01% to monetary guarantees. 98.92% of loans have a risk rating of "Normal", 0.45% are "Past-due" and 0.63% are classed as "Doubtful" (99.36%, 0.26% and 0.38% in the previous year).

**Loans guarantees 2007**



Source: Annual reports of banking entities

## Customer deposits

The continuing rise in interest rates since the previous year has boosted growth in customer deposits, which are up 18.53% on 2006 (2005 vs. 2006: 20.78%; 2004 vs. 2005: +5.81%). Accumulated growth since 2003 stands approximately at 39%, consolidating the general change in trend between 2002 and 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

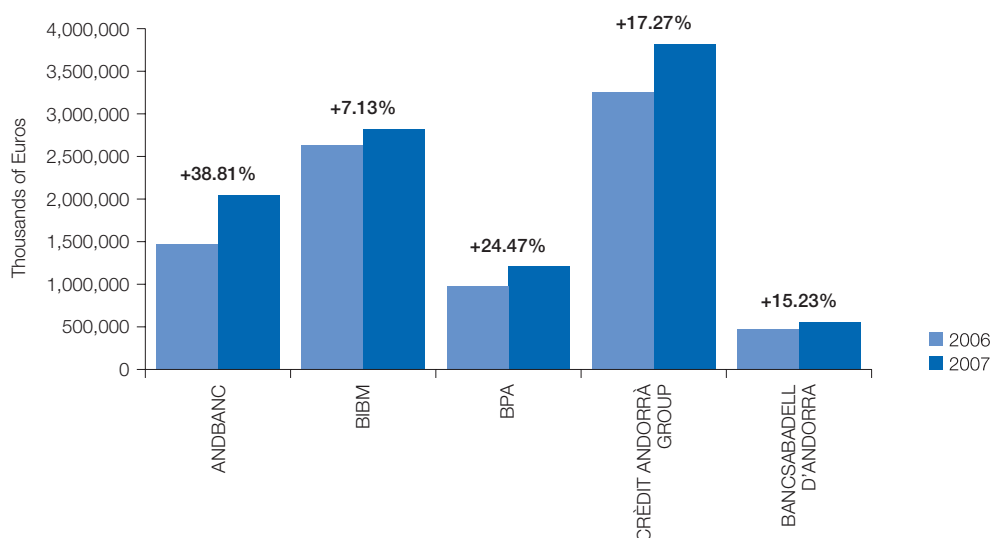
(Thousands of Euros)

	2006	% of total	2007	% of total	Var. (%) 06-07
ANDBANC	1,477,253	16.73%	2,050,598	19.60%	38.81%
BIBM	2,638,223	29.89%	2,826,350	27.01%	7.13%
BPA	974,173	11.04%	1,212,553	11.59%	24.47%
CRÈDIT ANDORRÀ GROUP	3,258,707	36.91%	3,821,540	36.52%	17.27%
BANCSABADELL D'ANDORRA	479,444	5.43%	552,474	5.28%	15.23%
<b>TOTAL</b>	<b>8,827,800</b>	<b>100.00%</b>	<b>10,463,515</b>	<b>100.00%</b>	<b>18.53%</b>

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 573,345 thousand and Euros 562,833 thousand, respectively), followed by BancSabadell d'Andorra and BPA (Euros 240,591 thousand and Euros 238,380 thousand, respectively). BIBM underwent the most growth in customer deposits in 2006, with an increase of Euros 612,764 thousand (+30.25%), while growth has been more moderate in 2007, although it has still amounted to 7.13%.

### Evolution of customer deposits 2006-2007



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 2006 and 2007:

<b>Evolution in loans to customer deposits ratio</b>		
	<b>2006</b>	<b>2007</b>
ANDBANC	91.95%	74.27%
BIBM	36.27%	37.01%
BPA	66.57%	67.62%
CRÈDIT ANDORRÀ GROUP	74.99%	71.97%
BANCSABADELL D'ANDORRA	53.87%	60.90%
<b>AVERAGE</b>	<b>64.18%</b>	<b>61.89%</b>

*Source: Annual reports of banking entities*

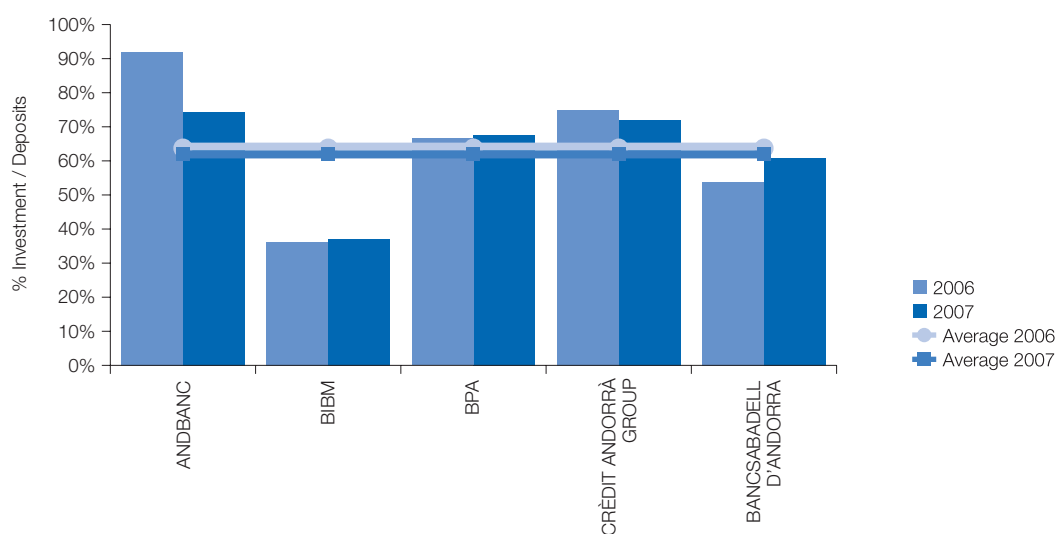
This ratio has been calculated after harmonising international standards to ensure the comparability of balances.

The aggregate ratio has fallen by 2.29 percentage points, following the trend started in 2006, when the ratio fell by 1.55 percentage points. The drop in this ratio during 2007 has been the result of a substantial increase in customer deposits and not because of a lower rate of growth in loans, as was the case in 2006. As a result of continuing interest rate rises and highly volatile international financial markets, many of the banks' clients have chosen to divest funds invested in securities and off-balance sheet products and transfer these funds to term deposits. Consequently, during 2007 customer term deposits have increased by 18.53% to the detriment of customer funds managed off the balance sheet, which have fallen by 5.67%.

In general, all the banking entities have seen their loans to customer deposits ratio fall or remain stable, with the exception of BancSabadell d'Andorra, the ratio of which has risen by 7.03 percentage points from the previous year due to loans increasing by 30.27%, practically double the growth of customer deposits which have also risen significantly by 15.23%. Andbanc continues to have the highest loans to customer deposits ratio among Andorran banks, although the difference between its ratio and that of the other entities has fallen substantially compared to prior years. This variation in Andbanc's loans to customer deposits ratio is primarily a result of the moderate increase in Andbanc's loans, (12.13%) compared to the 38.81% increase in its customer deposits during 2007. The loans to customer deposits ratios of Crèdit Andorrà Group, BIBM and BPA have all remained stable from 2006.



### Evolution in loans to customer deposits ratio 2006-2007



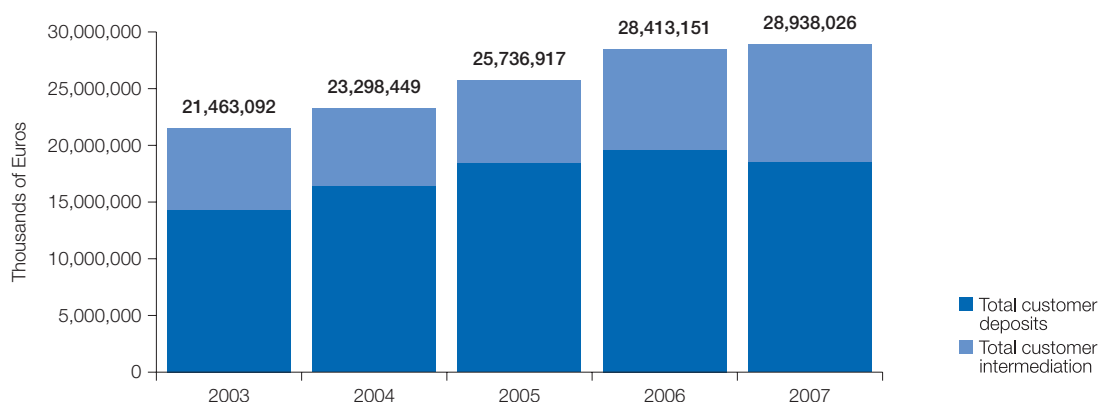
Source: Annual reports of banking entities

### 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% over the last five years. This increase has involved a 46.13% rise in customer deposits over the last five years and a 29.17% increase in customer intermediation.

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.

### Evolution of assets under management 2003-2007



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 under analysis (five years ago), 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.

Subsequently, since 2005 the Agreement signed by Andorra and the European Union regarding the taxation of interest income from savings (income from monetary assets and fixed-income securities) obtained by residents of EU member states who are clients of Andorran banks has led to these clients, as in the rest of Europe, looking for alternative products, therefore promoting the life insurance sector.

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. This reversal has been especially noteworthy during the latter quarter of 2007 because of the highly volatile nature of international financial markets, leading to a substantial increase in customer deposits of 18.53% in 2007 to the detriment of customer intermediation, which has fallen by 5.67% this year.

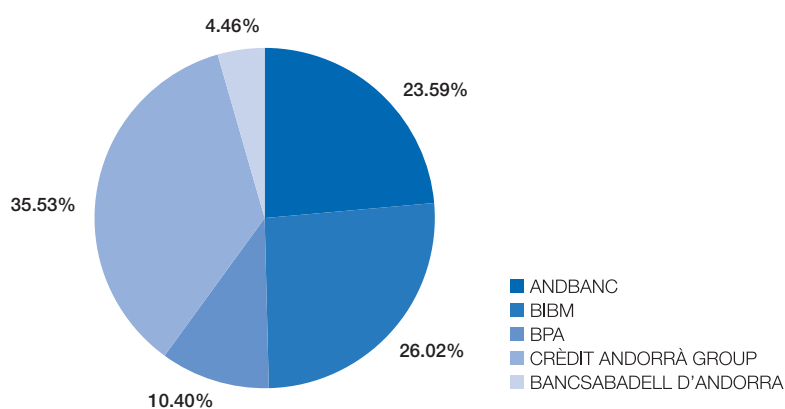
Changes in volumes of customer intermediation between 2006 and 2007 are as follows:

<b>Evolution of customer intermediation</b> (Thousands of Euros)					
	<u>2006</u>	<u>% of total</u>	<u>2007</u>	<u>% of total</u>	<u>Var. (%) 06-07</u>
ANDBANC	5,181,035	26.45%	4,775,698	25.85%	(7.82%)
BIBM	4,921,416	25.13%	4,702,466	25.45%	(4.45%)
BPA	1,760,376	8.99%	1,796,476	9.72%	2.05%
CRÉDIT ANDORRÀ GROUP	7,003,841	35.76%	6,461,448	34.98%	(7.74%)
BANCSABADELL D'ANDORRA	718,683	3.67%	738,423	4.00%	2.75%
<b>TOTAL</b>	<b>19,585,351</b>	<b>100.00%</b>	<b>18,474,511</b>	<b>100.00%</b>	<b>(5.67%)</b>

*Source: Annual reports of banking entities*

The distribution of aggregate assets under management by banking entity at 31 December 2007 is as follows:

**Assets under management by entity 2007**



*Source: Annual reports of banking entities*

## Aggregate consolidated memorandum accounts of Andorran banks

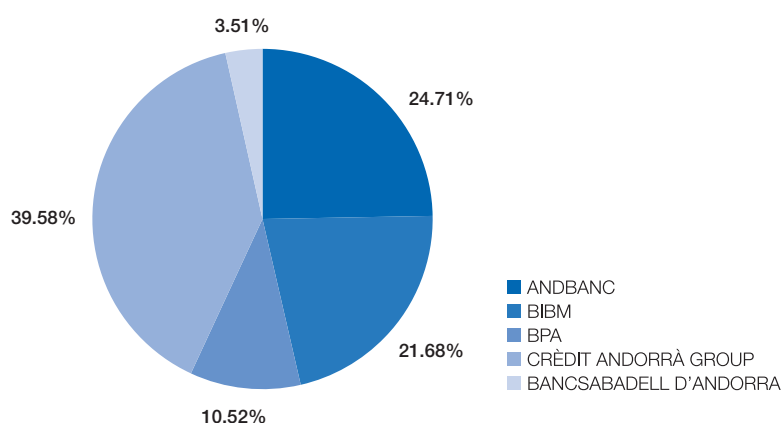
Details of the aggregate memorandum accounts of Andorran banks for 2006 and 2007 are as follows:

<b>Evolution of aggregate memorandum accounts</b> (Thousands of Euros)					
	<b>2006</b>	<b>% of total</b>	<b>2007</b>	<b>% of total</b>	<b>Var. (%) 06-07</b>
Contingent liabilities	587,591	1.57%	629,371	1.63%	7.11%
Commitments and contingent risks	1,556,272	4.16%	1,621,494	4.21%	4.19%
Derivative financial instruments	10,211,644	27.29%	12,520,650	32.49%	22.61%
Securities deposited and others held in custody	20,602,339	55.05%	19,524,512	50.67%	(5.23%)
Other memorandum accounts	4,466,158	11.93%	4,237,164	11.00%	(5.13%)
<b>TOTAL</b>	<b>37,424,004</b>	<b>100.00%</b>	<b>38,533,191</b>	<b>100.00%</b>	<b>2.96%</b>

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 2007 are as follows:

### Aggregate memorandum accounts by entity 2007



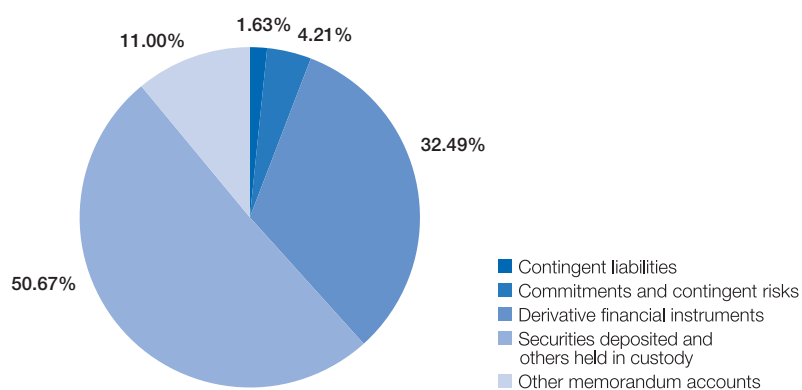
Source: Annual reports of banking entities

During 2007, the aggregate memorandum accounts have risen by 2.96% (2005 vs. 2006: +4.71%, 2004 vs. 2005: +27.10%) to Euros 38,533 million. The largest caption, “Securities deposited and others held in custody”, representing 50.67% of the total is down 5.23% on the previous year (2005 vs. 2006: +5.29%). This variation has already been analysed in the previous section on “Aggregate assets under management”. The “Derivative financial instruments” caption, which fell by 5.32% from 2005 to 2006, has risen by 22.61%, and now accounts for 32.49% of the total memorandum accounts (2006: 27.29%). This considerable rise in futures operations results from the increased use of future currency sale and purchases to hedge the currency risk to which the balance sheets of both banks and their clients are exposed, and also interest rate futures operations and, to a lesser extent, options over financial instruments.

It should also be mentioned that the “Other memorandum accounts for administrative control purposes only” caption, which includes guarantees and commitments received and other accounts, has remained practically unchanged from the previous year, during which it rose by 32% from 2005. At 31 December 2007 this caption represents 11.00% of the total memorandum accounts of Andorran banks.

A breakdown of aggregate memorandum accounts at 31 December 2007 is as follows:

**Structure of aggregate memorandum accounts 2007**



*Source: Annual reports of banking entities*

## Aggregate consolidated income statements for Andorran banks

Details of the aggregate consolidated income statements of Andorran banks for 2006 and 2007 are as follows:

(Thousands of Euros)			
	2006	2007	Var. (%) 06-07
Interest and similar income	365,283	526,207	44.05%
Interest and similar charges	(229,349)	(369,062)	60.92%
Revenue from variable income securities	1,825	753	(58.74%)
<b>FINANCIAL MARGIN</b>	<b>137,759</b>	<b>157,898</b>	<b>14.62%</b>
Commission	391,487	419,395	7.13%
Profits on financial operations	55,806	52,330	(6.23%)
Other profit on ordinary activities	2,993	3,479	16.24%
<b>MARGIN ON ORDINARY ACTIVITIES</b>	<b>588,045</b>	<b>633,102</b>	<b>7.66%</b>
Personnel expenses	(88,701)	(94,404)	6.43%
General expenses	(115,319)	(122,736)	6.43%
Depreciation and provisions	(40,516)	(40,628)	0.28%
Provisions for depreciation of assets, net of recoveries	1,247	-	-
<b>OPERATING MARGIN</b>	<b>344,756</b>	<b>375,334</b>	<b>8.87%</b>
Provisions for loan losses, net of recoveries	(3,792)	(19,174)	-
Provisions for liabilities and charges, net of recoveries	2,880	(2,129)	-
Allowance to provision for general risks	(10,897)	(4,166)	(61.77%)
<b>PROFIT ON ORDINARY ACTIVITIES</b>	<b>332,947</b>	<b>349,865</b>	<b>5.08%</b>
Net extraordinary income	4,346	3,756	(13.58%)
Losses attributable to minority interest	(31)	220	-
<b>PROFIT ATTRIBUTABLE TO THE GROUP</b>	<b>337,262</b>	<b>353,841</b>	<b>4.92%</b>

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 354 million in 2006, 4.92% up on the previous year (2005 vs. 2006: +18.28%; 2004 vs. 2005: +5.16%).

## Financial margin

As can be seen from the table below, in 2007 the aggregate financial margin of Andorran banking entities amounted to Euros 157,898 thousand and increased by 14.62% in relation to 2006 (2005 vs. 2006: +6.03%; 2004 vs. 2005: -3.03%), caused, among other factors, by the rising interest rates in the Euro Zone.

### Financial margin by banking entity

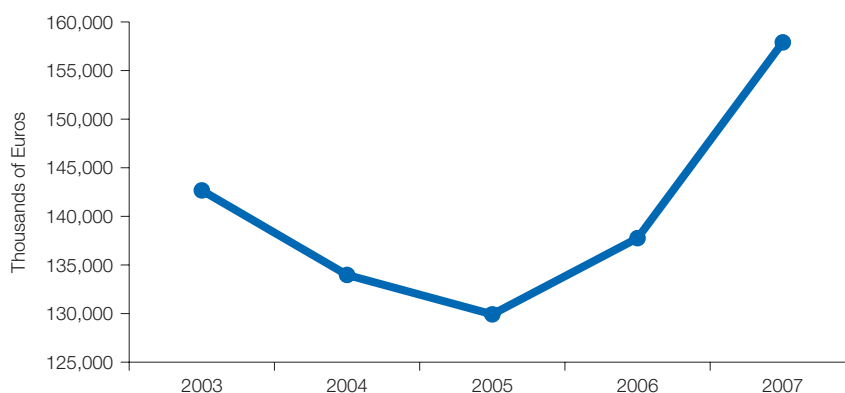
(Thousands of Euros)

	2006	2007	Var. (%) 06-07
ANDBANC	30,789	33,680	9.39%
BIBM	35,081	36,725	4.69%
BPA	8,859	12,646	42.75%
CRÉDIT ANDORRÀ GROUP	57,164	67,967	18.90%
BANCSABADELL D'ANDORRA	5,866	6,880	17.29%
<b>TOTAL FINANCIAL MARGIN</b>	<b>137,759</b>	<b>157,898</b>	<b>14.62%</b>

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 2006 and 2007 are shown in the graphs below:

### Evolution of aggregate financial margin 2003-2007

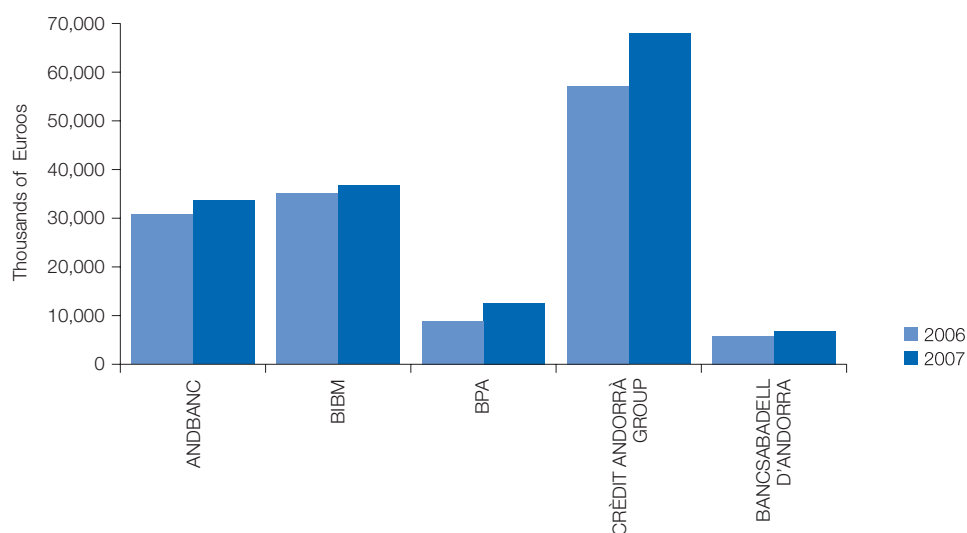


Source: Annual reports of banking entities



This graph shows that increasing interest rates favour the growth of the financial margin, not only because of the price factor resulting from higher interest rates but also due to the transfer of customer funds managed off-balance sheet onto the banks' balance sheets. Consequently, this improvement in the financial margin tends to negatively affect the margin on ordinary activities.

### Evolution of aggregate financial margin 2006-2007



Source: Annual reports of banking entities

### Margin on ordinary activities

The table below shows that the aggregate margin on ordinary activities for the year is up 7.66% to Euros 633,102 thousand (2005 vs. 2006: +13.01%; 2004 vs. 2005: +11.78%). This is mainly due to the 7.13% rise in commissions on high added value products and services. The volatility in international financial markets, along with the losses registered on the stock markets and loans and fixed-interest securities markets in the last quarter of the year help explain the decrease of 6.23% in results on financial operations.

#### Margin on ordinary activities by banking entity

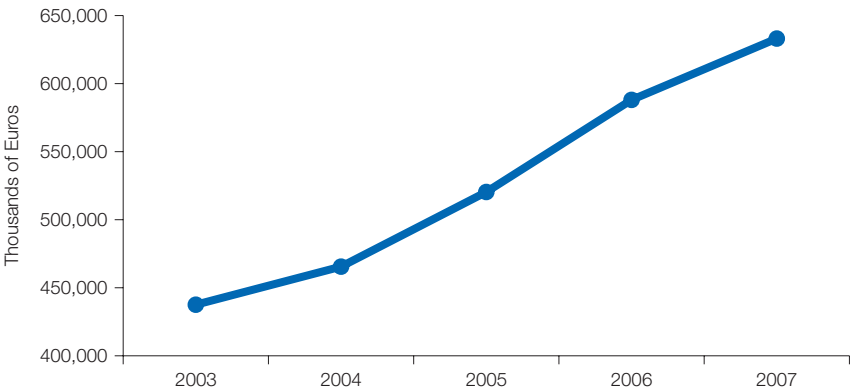
(Thousands of Euros)

	2006	2007	Var. (%) 06-07
ANDBANC	148,735	152,053	2.23%
BIBM	138,472	142,782	3.11%
BPA	61,179	77,646	26.92%
CRÈDIT ANDORRÀ GROUP	223,814	240,675	7.53%
BANCSABADELL D'ANDORRA	15,845	19,946	25.88%
<b>TOTAL MARGIN ON ORDINARY ACTIVITIES</b>	<b>588,045</b>	<b>633,102</b>	<b>7.66%</b>

Source: Annual reports of banking entities

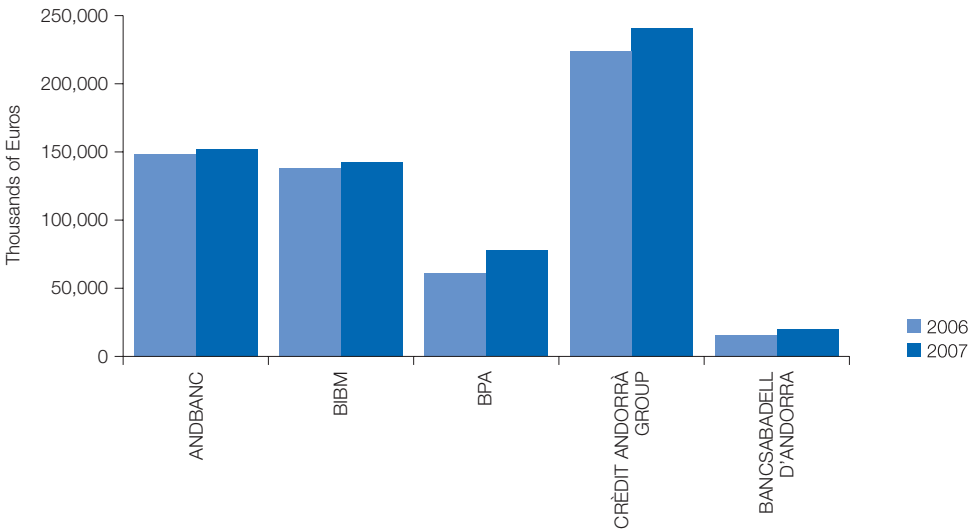
The aggregate margin on ordinary activities for each banking entity over the last five years, together with a graph showing its evolution for 2006 and 2007 is as follows:

**Evolution of aggregate margin on ordinary activities 2003-2007**



Source: Annual reports of banking entities

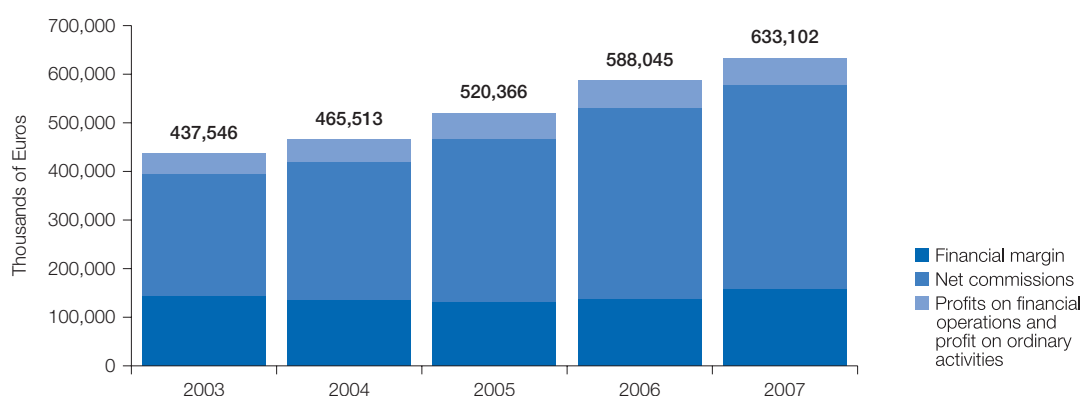
**Evolution of ordinary margin 2006-2007**



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 14.62% during the year. The contribution of financial operations to the margin on ordinary activities has also dropped slightly, as mentioned above, by 6.23% in 2007.

#### Evolution of aggregate margin on ordinary activities 2003-2007



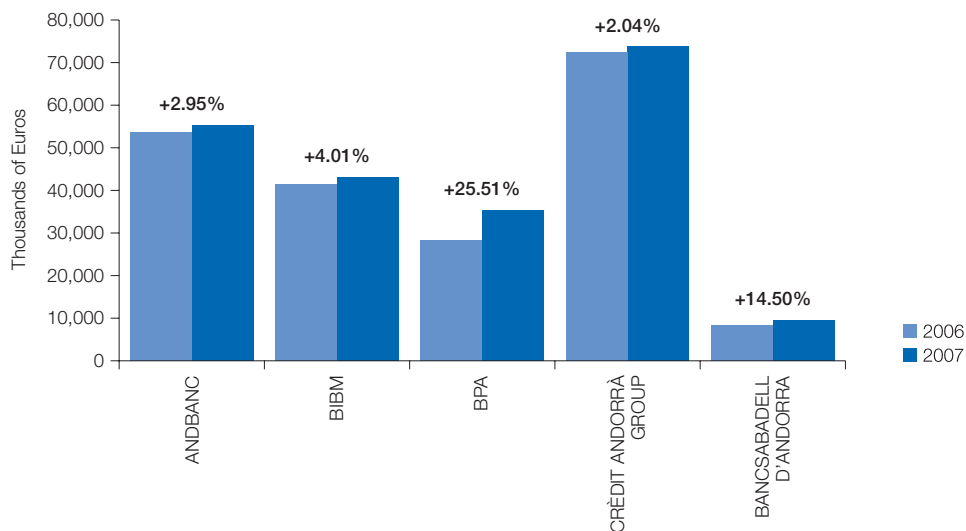
Source: Annual reports of banking entities

#### Transformation costs

During 2007, aggregate transformation costs of Andorran banking entities, which comprise “Personnel expenses” and “General expenses” (including “Taxes”) have amounted to Euros 217,140 thousand, up 6.43% on 2006. The growth in transformation costs during the year has been significantly lower than in 2006, when they rose by 10.36% from 2005. This reduction in the growth rate of transformation costs is the result of certain cost cutting compared to the previous year and therefore, more efficient growth of Andorran banking.

Changes in transformation costs from 2006 to 2007 for each of the banking entities comprising the Andorran banking system are as follows:

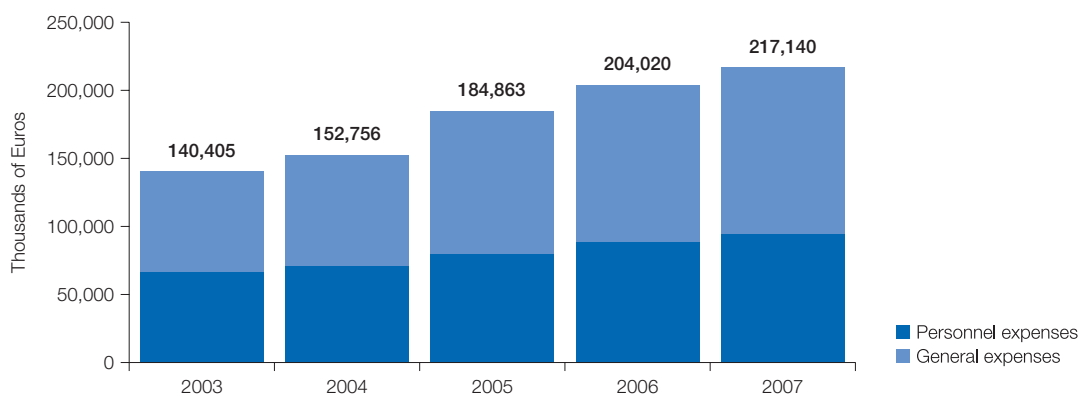
#### Changes in transformation costs 2006-2007



Source: Annual reports of banking entities

The composition of the Andorran banks' transformation costs has changed in recent years, with general expenses gaining relative importance compared to personnel 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 2003-2007



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 2007 stands at 30.81%, which is down slightly on the ratio for 2006, which stood at 31.00%. This ratio clearly shows that efficiency is a key differential of the management model of Andorran banks, since it is below the efficiency ratios of the banking sectors in many of the neighbouring countries.

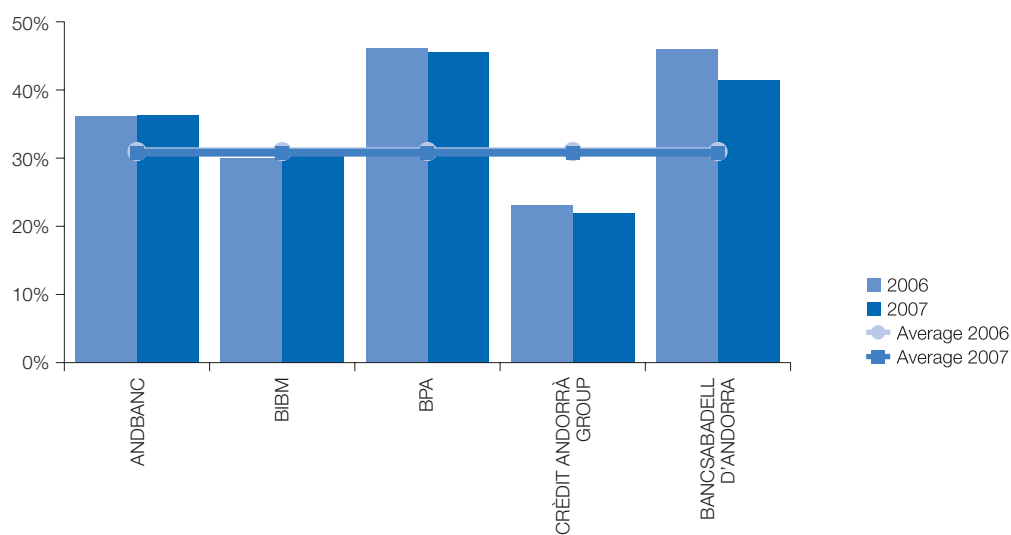
A graph and table showing the efficiency ratios of each entity for 2006 and 2007 are presented below.

<b>Efficiency ratio by banking entity</b>		
	<b>2006</b>	<b>2007</b>
ANDBANC	36.10%	36.35%
BIBM	29.97%	30.23%
BPA	46.13%	45.62%
CRÈDIT ANDORRÀ GROUP	23.05%	22.00%
BANCSABADELL D'ANDORRA	46.00%	41.40%
<b>AVERAGE</b>	<b>31.00%</b>	<b>30.81%</b>

*Source: Association of Andorran Banks*

Changes in the efficiency ratios of Andorran banking entities between 2006 and 2007 are as follows:

#### Evolution of efficiency ratios of Andorran banking entities 2006-2007



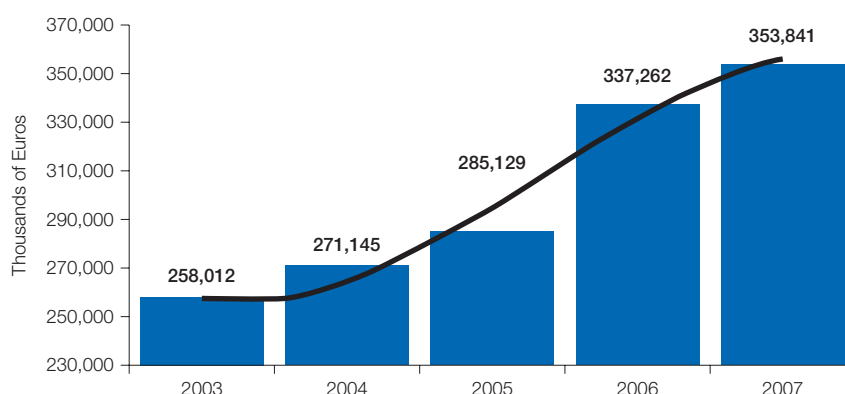
*Source: Association of Andorran Banks*

## Profit

As a result of the growth in the aggregate financial margin and aggregate margin on ordinary activities and despite the aforementioned rise in transformation costs, the aggregate operating margin stands at Euros 375,334 thousand, up 8.87% on the same period of the previous year (2005 vs. 2006: +16.46%). Aggregate profit of Andorran banking entities has increased by 4.92% from the exceptional results obtained in 2006, when aggregate profit of the banks rose by 18.28% (2004 vs. 2005: +5.16%).

The graph below plots the changes in the aggregate profit of Andorran banking entities from 2003 to 2007 and the table illustrates the profit for each banking entity:

**Growth in aggregate profit 2003-2007**



Source: Annual reports of banking entities

### Profit by banking entity

(Thousands of Euros)

	2006	2007	Var. (%) 06-07
ANDBANC	87,302	85,657	(1.88%)
BIBM	94,237	94,393	0.17%
BPA	28,244	37,588	33.08%
CRÈDIT ANDORRÀ GROUP	121,371	128,001	5.46%
BANCSABADELL D'ANDORRA	6,108	8,202	34.28%
<b>TOTAL PROFIT</b>	<b>337,262</b>	<b>353,841</b>	<b>4.92%</b>

Source: Annual reports of banking entities

## Average return on equity (ROE)

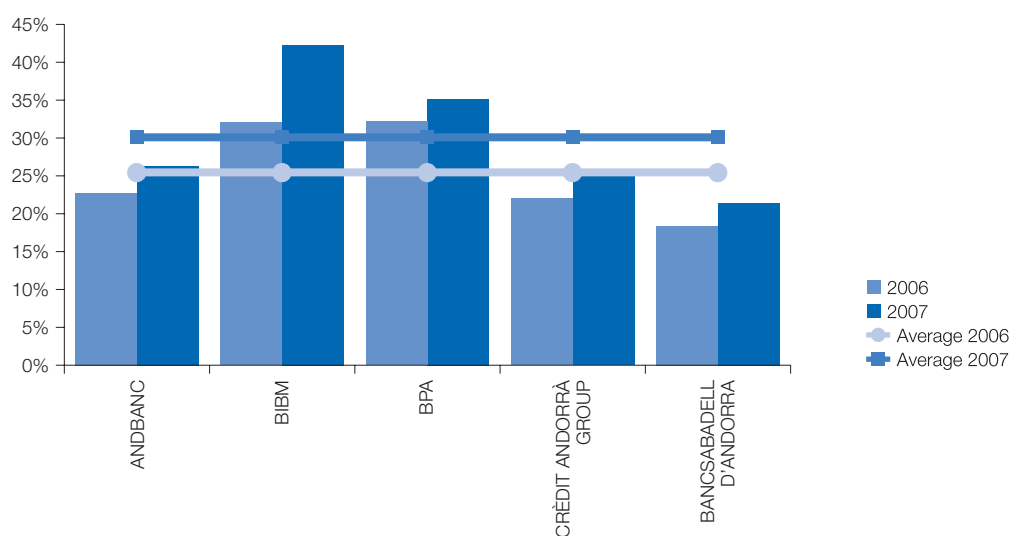
The average return on equity of Andorran banks for the year ended 31 December 2007 was 30.09% (calculating average profit/equity), having risen by 4.63% from 2006.

The following table and graph show the average return on equity for each banking entity in 2006 and 2007.

Average return on equity (ROE)		
	2006	2007
ANDBANC	22.72%	26.29%
BIBM	32.01%	42.27%
BPA	32.18%	35.14%
CRÈDIT ANDORRÀ GROUP	22.00%	25.31%
BANCSABADELL D'ANDORRA	18.39%	21.44%
<b>AVERAGE</b>	<b>25.46%</b>	<b>30.09%</b>

Source: Association of Andorran Banks

Average return on equity by banking entity 2006-2007



Source: Association of Andorran Banks



## Average return on assets (ROA)

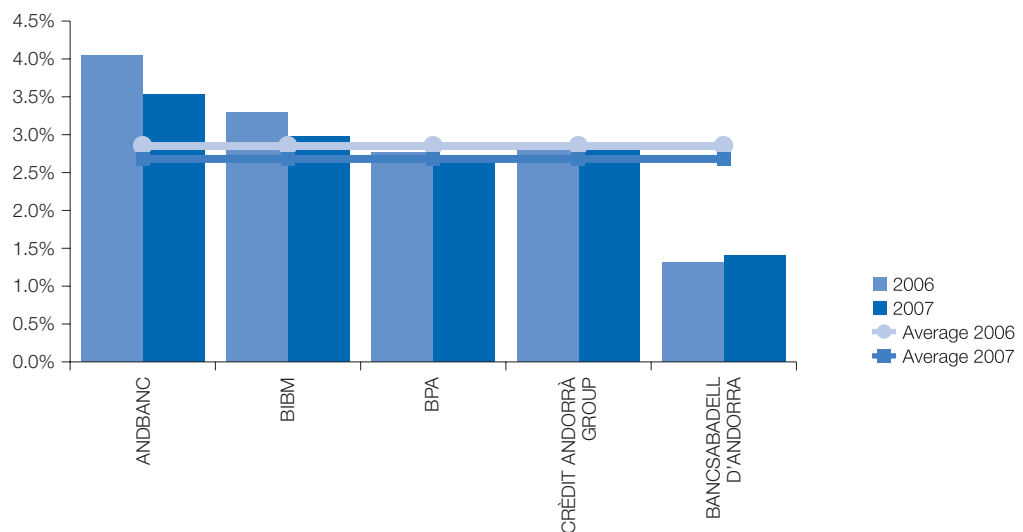
The average return on total assets of Andorran banking entities for the year ended 31 December 2007 stands at 2.68%, 0.17% down on 2006. This reduction is due to assets increasing by 11.66%, whilst profit has only risen by 4.92%.

The following table and graph show the return on average assets (i.e. profit/average of total assets) for each banking entity in 2006 and 2007:

Average return on assets (ROA)		
	2006	2007
ANDBANC	4.05%	3.53%
BIBM	3.30%	2.98%
BPA	2.77%	2.68%
CRÈDIT ANDORRÀ GROUP	2.83%	2.79%
BANCSABADELL D'ANDORRA	1.31%	1.40%
<b>AVERAGE</b>	<b>2.85%</b>	<b>2.68%</b>

Source: Association of Andorran Banks

Average return on assets by banking entity 2006-2007



Source: Association of Andorran Banks

## Capital adequacy and liquidity

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

In order for the Andorran financial system to gain a favourable reputation at an international level, capital adequacy and liquidity ratios of 10% and 40% respectively, were introduced, which are more stringent than those prevailing in the majority of countries already using these ratios.

The table below shows the changes in the two ratios for each banking entity during 2005 and 2006 which, as can be clearly observed, significantly exceed the established minimums:

	Capital adequacy		Liquidity	
	2006	2007	2006	2007
ANDBANC	29.80%	26.61%	54.56%	60.97%
BIBM	23.14%	22.87%	75.28%	68.65%
BPA	16.49%	17.27%	61.07%	73.66%
CRÈDIT ANDORRÀ GROUP	20.94%	18.84%	57.22%	60.46%
BANCSABADELL D'ANDORRA	14.44%	14.23%	64.70%	67.43%
<b>AVERAGE</b>	<b>20.96%</b>	<b>19.96%</b>	<b>62.57%</b>	<b>66.23%</b>

*Source: Annual reports of banking entities*

The table above shows that the average capital adequacy ratio of Andorran banks at 31 December 2007 stands at 19.96%, 1 percentage point lower than in the previous year, but still higher than that of leading international banking entities.

The average liquidity ratio of Andorran banks at the same date stands at 66.23%, 3.66% up on the figure for 2006. 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 interbank liquidity market.

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 2007.

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

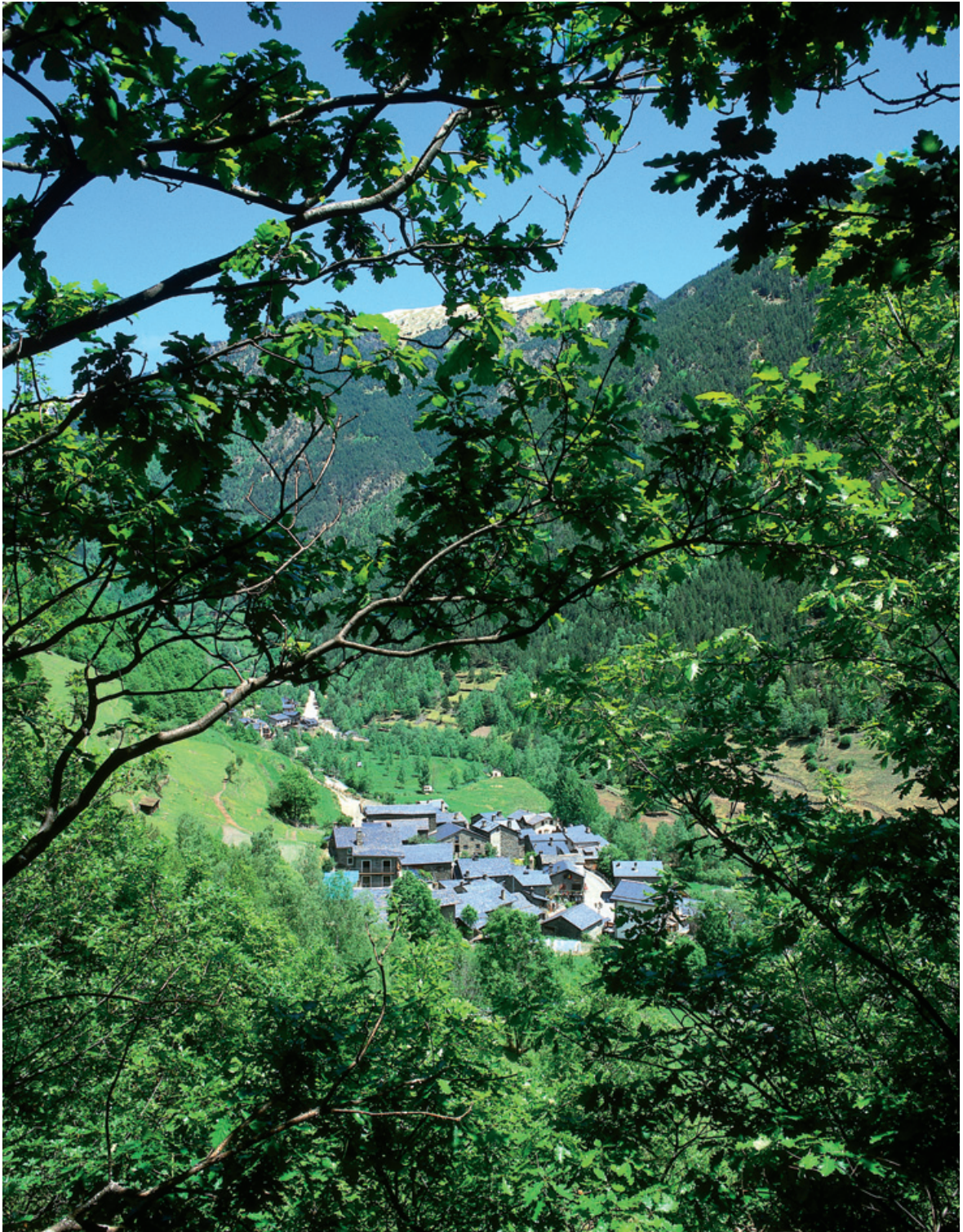
(\*) 51% interest held by Banc Sabadell

*Source: Reports from rating agencies as of May 2008*

The latest sovereign rating update for the Principality of Andorra by Standard & Poor's at September 2007 has been AA for the long term and A-1+ for the short term with negative outlook. These ratings reflect the Principality's growth prospects and generally prudent policy approach, which have assisted the development of a modern and prosperous economy. The negative outlook mainly relate to the lack of diversification in the Andorran economy, which is also potentially highly sensitive to changes in the economic cycle of neighbouring countries and new regulations that could affect the volume of assets under management in the Andorran financial system.



## V. INFORMATION OF INTEREST



## V. INFORMATION OF INTEREST (\*)

### V.1. ANDORRAN BANKING GROUPS

#### 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

Honorary Chairman:	Mr. Òscar Ribas Reig
Chairman:	Mr. Manel Cerqueda Donadeu
Vice Chairman:	Mr. Oriol Ribas Duró
Director - General Manager (*):	Mr. Jaume Sabater Rovira
Assistant General Manager:	Mr. José Luis Muñoz Lasuén

(\*) Mr. Jordi Comas Planas was appointed as General Manager of Andbanc on 14 May 2008.

#### Consolidated balance sheets of Andorra Banc Agrícola Reig, SA (Andbanc) at 31 December 2006 and 2007

(Thousands of Euros)					
	2006	% of total	2007	% of total	Var. (%) 06-07
<b>ASSETS</b>					
Cash and central banks OECD	16,582	0.69%	14,708	0.55%	(11.30%)
INAF	18,577	0.78%	18,577	0.70%	-
Financial intermediaries	124,028	5.19%	523,723	19.66%	-
Loans	1,349,666	56.49%	1,513,069	56.81%	12.11%
Securities portfolio	732,292	30.65%	479,924	18.02%	(34.46%)
Gains on consolidation	-	-	-	-	-
Intangible assets	9,960	0.42%	10,744	0.40%	7.87%
Tangible assets	52,068	2.18%	50,973	1.91%	(2.10%)
Prepayment and accrued receivables	36,044	1.50%	33,055	1.24%	(8.29%)
Other assets	50,091	2.10%	18,808	0.71%	(62.45%)
<b>TOTAL ASSETS</b>	<b>2,389,308</b>	<b>100.00%</b>	<b>2,663,581</b>	<b>100.00%</b>	<b>11.48%</b>
<b>LIABILITIES</b>					
INAF	19,351	0.81%	19,883	0.75%	2.75%
Due to banks and credit entities	445,893	18.66%	145,595	5.47%	(67.35%)
Other financial intermediaries	-	-	-	-	-
Customer deposits	1,477,253	61.83%	2,050,598	76.99%	38.81%
Debts represented by securities	-	-	-	-	-
Provision for liabilities and charges	5,109	0.21%	26,405	0.99%	-
Provision for general risks	800	0.03%	800	0.03%	-
Subordinated liabilities	-	-	-	-	-
Accruals	20,712	0.87%	20,484	0.77%	(1.10%)
Other liabilities	24,679	1.03%	23,450	0.88%	(4.98%)
Share capital	68,061	2.85%	68,061	2.56%	-
Reserves	273,628	11.45%	260,714	9.79%	(4.72%)
Profit	87,302	3.65%	85,657	3.21%	(1.88%)
Prior years' result	-	-	-	-	-
Interim dividends	(33,723)	(1.41%)	(38,084)	(1.44%)	12.93%
Minority interest	243	0.02%	18	-	(92.59%)
<b>TOTAL LIABILITIES</b>	<b>2,389,308</b>	<b>100.00%</b>	<b>2,663,581</b>	<b>100.00%</b>	<b>11.48%</b>

Source: Annual report of banking entity

(\*) Information of interest relates to post occupied by individuals prior to 31 May 2008



**Consolidated memorandum accounts of Andorra Banc Agrícola Reig, SA (Andbanc) at 31 December 2006 and 2007**

(Thousands of Euros)					
	2006	% of total	2007	% of total	Var. (%) 06-07
Contingent liabilities	93,525	0.93%	89,121	0.94%	(4.71%)
Commitments and contingent risks	402,976	4.03%	426,491	4.48%	5.84%
Derivative financial instruments	2,342,356	23.41%	2,387,119	25.07%	1.91%
Securities deposited and others held in custody	5,800,093	57.96%	5,206,226	54.69%	(10.24%)
Other memorandum accounts	1,368,866	13.68%	1,411,056	14.82%	3.08%
<b>TOTAL</b>	<b>10,007,816</b>	<b>100.00%</b>	<b>9,520,013</b>	<b>100.00%</b>	<b>(4.87%)</b>

Source: Annual report of banking entity

**Consolidated income statements of Andorra Banc Agrícola Reig, SA (Andbanc) for the years ended 31 December 2006 and 2007**

(Thousands of Euros)			
	2006	2007	Var. (%) 06-07
Interest and similar income	74,545	107,063	43.62%
Interest and similar charges	(44,224)	(73,701)	66.65%
Revenue from variable income securities	468	318	(32.05%)
<b>FINANCIAL MARGIN</b>	<b>30,789</b>	<b>33,680</b>	<b>9.39%</b>
Commission	94,997	102,966	8.39%
Profits on financial operations	21,822	13,932	(36.16%)
Other profit on ordinary activities	1,127	1,475	30.88%
<b>MARGIN ON ORDINARY ACTIVITIES</b>	<b>148,735</b>	<b>152,053</b>	<b>2.23%</b>
Personnel expenses	(24,939)	(24,617)	(1.29%)
General expenses	(28,751)	(30,657)	6.63%
Depreciation and provisions	(6,763)	(6,203)	(8.28%)
Provisions for depreciation of assets, net of recoveries	-	-	-
<b>OPERATING MARGIN</b>	<b>88,282</b>	<b>90,576</b>	<b>2.60%</b>
Provisions for loan losses, net of recoveries	(1,710)	(5,227)	-
Provisions for liabilities and charges, net of recoveries	-	(166)	-
Allowance to provision for general risks	-	-	-
<b>PROFIT ON ORDINARY ACTIVITIES</b>	<b>86,572</b>	<b>85,183</b>	<b>(1.60%)</b>
Net extraordinary income	761	254	(66.62%)
Losses attributable to minority interest	(31)	220	-
<b>PROFIT ATTRIBUTABLE TO THE GROUP</b>	<b>87,302</b>	<b>85,657</b>	<b>(1.88%)</b>

Source: Annual report of banking entity

(\*) Information of interest relates to post occupied by individuals prior to 31 May 2008

## Banc Internacional d'Andorra, SA

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

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

## Banca Mora, SA

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

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

## Consolidated balance sheets of Banc Internacional d'Andorra, SA, Banca Mora, SA (BIBM) at 31 December 2006 and 2007

(Thousands of Euros)					
	2006	% of total	2007	% of total	Var. (%) 06-07
<b>ASSETS</b>					
Cash and central banks OECD	22,633	0.73%	17,518	0.54%	(22.60%)
INAF	28,641	0.93%	28,642	0.88%	-
Financial intermediaries	1,896,894	61.37%	1,956,804	60.39%	3.16%
Loans	947,599	30.66%	1,041,449	32.14%	9.90%
Securities portfolio	108,919	3.52%	110,504	3.41%	1.46%
Gains on consolidation	-	-	-	-	-
Intangible assets	5,127	0.17%	6,117	0.19%	19.31%
Tangible assets	55,518	1.80%	54,146	1.67%	(2.47%)
Prepayment and accrued receivables	16,663	0.53%	20,153	0.63%	20.94%
Other assets	8,714	0.29%	4,696	0.15%	(46.11%)
<b>TOTAL ASSETS</b>	<b>3,090,708</b>	<b>100.00%</b>	<b>3,240,029</b>	<b>100.00%</b>	<b>4.83%</b>
<b>LIABILITIES</b>					
INAF	36,227	1.17%	36,395	1.12%	0.46%
Due to banks and credit entities	66,136	2.14%	43,186	1.33%	(34.70%)
Other financial intermediaries	387	0.01%	133	-	(65.63%)
Customer deposits	2,638,223	85.36%	2,826,350	87.23%	7.13%
Debts represented by securities	-	-	-	-	-
Provision for liabilities and charges	45,852	1.48%	16,791	0.52%	(63.38%)
Provision for general risks	2,850	0.09%	419	0.01%	(85.30%)
Subordinated liabilities	60,000	1.94%	60,000	1.85%	-
Accruals	17,915	0.58%	22,211	0.69%	23.98%
Other liabilities	14,145	0.46%	10,148	0.31%	(28.26%)
Share capital	42,407	1.37%	42,407	1.31%	-
Reserves	140,729	4.55%	150,972	4.66%	7.28%
Profit	94,237	3.05%	94,393	2.92%	0.17%
Prior years' result	-	-	-	-	-
Interim dividends	(68,400)	(2.20%)	(63,376)	(1.95%)	(7.35%)
Minority interest	-	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>3,090,708</b>	<b>100.00%</b>	<b>3,240,029</b>	<b>100.00%</b>	<b>4.83%</b>

Source: Annual report of banking entity

(\*) Information of interest relates to post occupied by individuals prior to 31 May 2008



**Consolidated memorandum accounts of Banc Internacional d'Andorra, SA, Banca Mora, SA (BIBM) at 31 December 2006 and 2007**

(Thousands of Euros)					
	2006	% of total	2007	% of total	Var. (%) 06-07
Contingent liabilities	122,793	1.40%	114,034	1.36%	(7.13%)
Commitments and contingent risks	326,494	3.71%	333,030	3.99%	2.00%
Derivative financial instruments	1,569,755	17.84%	1,665,430	19.93%	6.09%
Securities deposited and others held in custody	4,939,849	56.15%	4,729,870	56.61%	(4.25%)
Other memorandum accounts	1,838,542	20.90%	1,513,099	18.11%	(17.70%)
<b>TOTAL</b>	<b>8,797,433</b>	<b>100.00%</b>	<b>8,355,463</b>	<b>100.00%</b>	<b>(5.02%)</b>

Source: Annual report of banking entity

**Consolidated income statements of Banc Internacional d'Andorra, SA, Banca Mora, SA (BIBM) for the years ended 31 December 2006 and 2007**

(Thousands of Euros)			
	2006	2007	Var. (%) 06-07
Interest and similar income	96,466	136,523	41.52%
Interest and similar charges	(62,325)	(99,800)	60.13%
Revenue from variable income securities	940	2	(99.79%)
<b>FINANCIAL MARGIN</b>	<b>35,081</b>	<b>36,725</b>	<b>4.69%</b>
Commission	95,541	99,858	4.52%
Profits on financial operations	7,628	5,975	(21.67%)
Other profit on ordinary activities	222	224	0.90%
<b>MARGIN ON ORDINARY ACTIVITIES</b>	<b>138,472</b>	<b>142,782</b>	<b>3.11%</b>
Personnel expenses	(17,206)	(18,000)	4.61%
General expenses	(24,288)	(25,157)	3.58%
Depreciation and provisions	(6,819)	(7,108)	4.24%
Provisions for depreciation of assets, net of recoveries	1,167	-	-
<b>OPERATING MARGIN</b>	<b>91,326</b>	<b>92,517</b>	<b>1.30%</b>
Provisions for loan losses, net of recoveries	(2,202)	2,824	-
Provisions for liabilities and charges, net of recoveries	614	(1,010)	-
Allowance to provision for general risks	-	-	-
<b>PROFIT ON ORDINARY ACTIVITIES</b>	<b>89,738</b>	<b>94,331</b>	<b>5.12%</b>
Net extraordinary income	4,499	62	(98.62%)
Losses attributable to minority interest	-	-	-
<b>PROFIT ATTRIBUTABLE TO THE GROUP</b>	<b>94,237</b>	<b>94,393</b>	<b>0.17%</b>

Source: Annual report of banking entity

(\*) Information of interest relates to post occupied by individuals prior to 31 May 2008

## Banca Privada d'Andorra, SA

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

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

### Consolidated balance sheets of Banca Privada d'Andorra (BPA) at 31 December 2006 and 2007

(Thousands of Euros)					
	2006	% of total	2007	% of total	Var. (%) 06-07
<b>ASSETS</b>					
Cash and central banks OECD	5,715	0.45%	6,655	0.44%	16.45%
INAF	8,521	0.67%	8,521	0.56%	-
Financial intermediaries	38,348	3.04%	30,545	2.00%	(20.35%)
Loans	951,990	75.38%	1,225,486	80.41%	28.73%
Securities portfolio	171,305	13.56%	164,695	10.81%	(3.86%)
Gains on consolidation	-	-	-	-	-
Intangible assets	6,896	0.55%	7,899	0.52%	14.54%
Tangible assets	61,610	4.88%	62,198	4.08%	0.95%
Prepayment and accrued receivables	6,036	0.48%	7,376	0.48%	22.20%
Other assets	12,495	0.99%	10,671	0.70%	(14.60%)
<b>TOTAL ASSETS</b>	<b>1,262,916</b>	<b>100.00%</b>	<b>1,524,046</b>	<b>100.00%</b>	<b>20.68%</b>
<b>LIABILITIES</b>					
INAF	40,565	3.21%	32,593	2.14%	(19.65%)
Due to banks and credit entities	127,835	10.12%	128,744	8.45%	0.71%
Other financial intermediaries	-	-	-	-	-
Customer deposits	974,173	77.14%	1,212,553	79.56%	24.47%
Debts represented by securities	-	-	-	-	-
Provision for liabilities and charges	-	-	-	-	-
Provision for general risks	902	0.07%	902	0.06%	-
Subordinated liabilities	-	-	-	-	-
Accruals	11,007	0.87%	15,283	1.00%	38.85%
Other liabilities	10,155	0.80%	14,608	0.96%	43.85%
Share capital	33,000	2.61%	33,000	2.17%	-
Reserves	44,035	3.49%	57,778	3.79%	31.21%
Profit	28,244	2.24%	37,588	2.47%	33.08%
Prior years' result	-	-	(3)	-	-
Interim dividends	(7,000)	(0.55%)	(9,000)	(0.60%)	28.57%
Minority interest	-	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>1,262,916</b>	<b>100.00%</b>	<b>1,524,046</b>	<b>100.00%</b>	<b>20.68%</b>

Source: Annual report of banking entity

(\*) Information of interest relates to post occupied by individuals prior to 31 May 2008

## Consolidated memorandum accounts of Banca Privada d'Andorra (BPA) at 31 December 2006 and 2007

(Thousands of Euros)					
	2006	% of total	2007	% of total	Var. (%) 06-07
Contingent liabilities	88,446	3.25%	133,522	3.29%	50.96%
Commitments and contingent risks	153,067	5.63%	147,802	3.65%	(3.44%)
Derivative financial instruments	540,326	19.87%	1,649,130	40.68%	-
Securities deposited and others held in custody	1,785,130	65.64%	1,940,172	47.86%	8.69%
Other memorandum accounts	152,656	5.61%	183,281	4.52%	20.06%
<b>TOTAL</b>	<b>2,719,625</b>	<b>100.00%</b>	<b>4,053,907</b>	<b>100.00%</b>	<b>49.06%</b>

Source: Annual report of banking entity

## Consolidated income statements of Banca Privada d'Andorra (BPA) for the years ended 31 December 2006 and 2007

(Thousands of Euros)			
	2006	2007	Var. (%) 06-07
Interest and similar income	32,163	56,514	75.71%
Interest and similar charges	(23,336)	(43,888)	88.07%
Revenue from variable income securities	32	20	(37.50%)
<b>FINANCIAL MARGIN</b>	<b>8,859</b>	<b>12,646</b>	<b>42.75%</b>
Commission	43,134	56,327	30.59%
Profits on financial operations	7,990	7,411	(7.25%)
Other profit on ordinary activities	1,196	1,262	5.52%
<b>MARGIN ON ORDINARY ACTIVITIES</b>	<b>61,179</b>	<b>77,646</b>	<b>26.92%</b>
Personnel expenses	(12,000)	(15,011)	25.09%
General expenses	(16,223)	(20,412)	25.82%
Depreciation and provisions	(4,434)	(4,595)	3.63%
Provisions for depreciation of assets, net of recoveries	-	-	-
<b>OPERATING MARGIN</b>	<b>28,522</b>	<b>37,628</b>	<b>31.93%</b>
Provisions for loan losses, net of recoveries	(2,105)	(3,484)	65.51%
Provisions for liabilities and charges, net of recoveries	-	-	-
Allowance to provision for general risks	-	-	-
<b>PROFIT ON ORDINARY ACTIVITIES</b>	<b>26,417</b>	<b>34,144</b>	<b>29.25%</b>
Net extraordinary income	1,827	3,444	88.51%
Losses attributable to minority interest	-	-	-
<b>PROFIT ATTRIBUTABLE TO THE GROUP</b>	<b>28,244</b>	<b>37,588</b>	<b>33.08%</b>

Source: Annual report of banking entity

(\*) Information of interest relates to post occupied by individuals prior to 31 May 2008

## Crèdit Andorrà Group, SA

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

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

### Consolidated balance sheets of Crèdit Andorrà Group, SA at 31 December 2006 and 2007

(Thousands of Euros)					
	2006	% of total	2007	% of total	Var. (%) 06-07
<b>ASSETS</b>					
Cash and central banks OECD	32,266	0.74%	19,349	0.39%	(40.03%)
INAF	46,245	1.06%	46,245	0.94%	-
Financial intermediaries	1,075,878	24.64%	1,210,077	24.64%	12.47%
Loans	2,429,826	55.65%	2,732,012	55.64%	12.44%
Securities portfolio	438,185	10.04%	528,632	10.77%	20.64%
Gains on consolidation	156,534	3.59%	136,968	2.79%	(12.50%)
Intangible assets	12,335	0.28%	12,710	0.26%	3.04%
Tangible assets	111,955	2.56%	111,545	2.27%	(0.37%)
Prepayment and accrued receivables	41,429	0.95%	80,277	1.63%	93.77%
Other assets	21,487	0.49%	32,313	0.67%	50.38%
<b>TOTAL ASSETS</b>	<b>4,366,140</b>	<b>100.00%</b>	<b>4,910,128</b>	<b>100.00%</b>	<b>12.46%</b>
<b>LIABILITIES</b>					
INAF	62,085	1.42%	63,217	1.29%	1.82%
Due to banks and credit entities	155,069	3.55%	122,173	2.49%	(21.21%)
Other financial intermediaries	-	-	-	-	-
Customer deposits	3,258,707	74.64%	3,821,540	77.83%	17.27%
Debts represented by securities	12,318	0.28%	16,312	0.33%	32.42%
Provision for liabilities and charges	27,825	0.64%	2,918	0.06%	(89.51%)
Provision for general risks	68,619	1.57%	64,620	1.32%	(5.83%)
Subordinated liabilities	150,000	3.44%	150,000	3.05%	-
Accruals	37,930	0.87%	37,656	0.77%	(0.72%)
Other liabilities	30,257	0.69%	37,458	0.76%	23.80%
Share capital	70,000	1.60%	70,000	1.43%	-
Reserves	421,959	9.66%	448,233	9.13%	6.23%
Profit	121,371	2.78%	128,001	2.61%	5.46%
Prior years' result	-	-	-	-	-
Interim dividends	(50,000)	(1.14%)	(52,000)	(1.07%)	4.00%
Minority interest	-	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>4,366,140</b>	<b>100.00%</b>	<b>4,910,128</b>	<b>100.00%</b>	<b>12.46%</b>

Source: Annual report of banking entity

(\*) Information of interest relates to post occupied by individuals prior to 31 May 2008

## Consolidated memorandum accounts of Crèdit Andorrà Group, SA at 31 December 2006 and 2007

(Thousands of Euros)					
	2006	% of total	2007	% of total	Var. (%) 06-07
Contingent liabilities	256,403	1.73%	264,555	1.73%	3.18%
Commitments and contingent risks	581,664	3.92%	621,825	4.08%	6.90%
Derivative financial instruments	5,606,325	37.83%	6,420,742	42.10%	14.53%
Securities deposited and others held in custody	7,289,278	49.18%	6,833,293	44.81%	(6.26%)
Other memorandum accounts	1,086,573	7.33%	1,109,961	7.28%	2.15%
<b>TOTAL</b>	<b>14,820,243</b>	<b>100.00%</b>	<b>15,250,376</b>	<b>100.00%</b>	<b>2.90%</b>

Source: Annual report of banking entity

## Consolidated income statements of Crèdit Andorrà Group, SA for the years ended 31 December 2006 and 2007

(Thousands of Euros)			
	2006	2007	Var. (%) 06-07
Interest and similar income	144,657	200,362	38.51%
Interest and similar charges	(87,850)	(132,804)	51.17%
Revenue from variable income securities	357	409	14.57%
<b>FINANCIAL MARGIN</b>	<b>57,164</b>	<b>67,967</b>	<b>18.90%</b>
Commission	149,646	149,529	(0.08%)
Profits on financial operations	16,634	22,741	36.71%
Other profit on ordinary activities	370	438	18.38%
<b>MARGIN ON ORDINARY ACTIVITIES</b>	<b>223,814</b>	<b>240,675</b>	<b>7.53%</b>
Personnel expenses	(30,441)	(31,945)	4.94%
General expenses	(41,905)	(41,875)	(0.07%)
Depreciation and provisions	(21,151)	(21,032)	(0.56%)
Provisions for depreciation of assets, net of recoveries	80	-	-
<b>OPERATING MARGIN</b>	<b>130,397</b>	<b>145,823</b>	<b>11.83%</b>
Provisions for loan losses, net of recoveries	2,363	(12,677)	-
Provisions for liabilities and charges, net of recoveries	2,266	(953)	-
Allowance to provision for general risks	(10,897)	(4,166)	(61.77%)
<b>PROFIT ON ORDINARY ACTIVITIES</b>	<b>124,129</b>	<b>128,027</b>	<b>3.14%</b>
Net extraordinary income	(2,758)	(26)	(99.06%)
Losses attributable to minority interest	-	-	-
<b>PROFIT ATTRIBUTABLE TO THE GROUP</b>	<b>121,371</b>	<b>128,001</b>	<b>5.46%</b>

Source: Annual report of banking entity

(\*) Information of interest relates to post occupied by individuals prior to 31 May 2008

## BancSabadell d'Andorra, SA

Av. del Fener, 7 - AD500 Andorra la Vella

(Principality of Andorra) - Tel. +376 735600 - Fax: +376 735601

Chairman:

Mr. Robert Cassany Vila

Director - General Manager:

Mr. Miquel Alabern Comas

Assistant General Manager:

Mr. Josep Segura Solà

### Consolidated balance sheets of BancSabadell d'Andorra, SA at 31 December 2006 and 2007

(Thousands of Euros)					
	2006	% of total	2007	% of total	Var. (%) 06-07
<b>ASSETS</b>					
Cash and central banks OECD	4,566	0.86%	3,587	0.54%	(21.44%)
INAF	6,220	1.17%	6,220	0.94%	-
Financial intermediaries	27,488	5.16%	10,279	1.55%	(62.61%)
Loans	384,703	72.25%	518,388	78.37%	34.75%
Securities portfolio	81,229	15.25%	90,079	13.62%	10.90%
Gains on consolidation	-	-	-	-	-
Intangible assets	1,877	0.35%	2,263	0.34%	20.56%
Tangible assets	16,778	3.15%	18,052	2.73%	7.59%
Prepayment and accrued receivables	3,759	0.71%	5,844	0.88%	55.47%
Other assets	5,867	1.10%	6,738	1.03%	14.85%
<b>TOTAL ASSETS</b>	<b>532,487</b>	<b>100.00%</b>	<b>661,450</b>	<b>100.00%</b>	<b>24.22%</b>
<b>LIABILITIES</b>					
INAF	6,338	1.19%	17,786	2.69%	-
Due to banks and credit entities	1,290	0.24%	31,225	4.72%	-
Other financial intermediaries	-	-	-	-	-
Customer deposits	479,444	90.04%	552,474	83.52%	15.23%
Debts represented by securities	2,000	0.38%	11,000	1.66%	-
Provision for liabilities and charges	25	-	56	0.01%	-
Provision for general risks	-	-	-	-	-
Subordinated liabilities	-	-	-	-	-
Accruals	2,019	0.38%	3,714	0.56%	83.95%
Other liabilities	5,135	0.96%	3,259	0.50%	(36.53%)
Share capital	30,068	5.65%	30,068	4.55%	-
Reserves	963	0.18%	3,666	0.55%	-
Profit	6,108	1.15%	8,202	1.24%	34.28%
Prior years' result	(903)	(0.17%)	-	-	-
Interim dividends	-	-	-	-	-
Minority interest	-	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>532,487</b>	<b>100.00%</b>	<b>661,450</b>	<b>100.00%</b>	<b>24.22%</b>

Source: Annual report of banking entity

(\*) Information of interest relates to post occupied by individuals prior to 31 May 2008

## Consolidated memorandum accounts of BancSabadell d'Andorra, SA at 31 December 2006 and 2007

(Thousands of Euros)					
	2006	% of total	2007	% of total	Var. (%) 06-07
Contingent liabilities	26,424	2.45%	28,139	2.08%	6.49%
Commitments and contingent risks	92,071	8.53%	92,346	6.82%	0.30%
Derivative financial instruments	152,882	14.17%	398,229	29.42%	-
Securities deposited and others held in custody	787,989	73.04%	814,951	60.21%	3.42%
Other memorandum accounts	19,521	1.81%	19,767	1.46%	1.26%
<b>TOTAL</b>	<b>1,078,887</b>	<b>100.00%</b>	<b>1,353,432</b>	<b>100.00%</b>	<b>25.45%</b>

Source: Annual report of banking entity

## Consolidated income statements of BancSabadell d'Andorra, SA for the years ended 31 December 2006 and 2007

(Thousands of Euros)			
	2006	2007	Var. (%) 06-07
Interest and similar income	17,452	25,745	47.52%
Interest and similar charges	(11,614)	(18,869)	62.47%
Revenue from variable income securities	28	4	(85.71%)
<b>FINANCIAL MARGIN</b>	<b>5,866</b>	<b>6,880</b>	<b>17.29%</b>
Commission	8,169	10,715	31.17%
Profits on financial operations	1,732	2,271	31.12%
Other profit on ordinary activities	78	80	2.56%
<b>MARGIN ON ORDINARY ACTIVITIES</b>	<b>15,845</b>	<b>19,946</b>	<b>25.88%</b>
Personnel expenses	(4,115)	(4,831)	17.40%
General expenses	(4,152)	(4,635)	11.63%
Depreciation and provisions	(1,349)	(1,690)	25.28%
Provisions for depreciation of assets, net of recoveries	-	-	-
<b>OPERATING MARGIN</b>	<b>6,229</b>	<b>8,790</b>	<b>41.11%</b>
Provisions for loan losses, net of recoveries	(138)	(610)	-
Provisions for liabilities and charges, net of recoveries	-	-	-
Allowance to provision for general risks	-	-	-
<b>PROFIT ON ORDINARY ACTIVITIES</b>	<b>6,091</b>	<b>8,180</b>	<b>34.30%</b>
Net extraordinary income	17	22	29.41%
Losses attributable to minority interest	-	-	-
<b>PROFIT ATTRIBUTABLE TO THE GROUP</b>	<b>6,108</b>	<b>8,202</b>	<b>34.28%</b>

Source: Annual report of banking entity

(\*) Information of interest relates to post occupied by individuals prior to 31 May 2008



## 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

#### At 31 December 2007:

Head of Government:	The Hon. Mr. Albert Pintat Santolària
Minister of Presidency and Finance:	The Hon. Mr. Ferran Mirapeix Lucas
Minister of Territorial Ordinance, 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 Riberaygua 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

#### As from May 2008:

Head of Government:	The Hon. Mr. Albert Pintat Santolària
Minister of Presidency:	The Hon. Ms. Concepció Marsol Riart
Minister of Finance:	The Hon. Mr. Ferran Mirapeix Lucas
Minister of Territorial Ordinance, 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 Riberaygua 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

(\*) Information of interest relates to post occupied by individuals prior to 31 May 2008

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

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

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

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

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

Chairman:	Mr. Miquel Alabern Comas
Vice Chairman:	Mr. Josep Peralba Duró
General Manager:	Mr. Antoni Armengol Aleix
Deputy Manager:	Ms. Clàudia Cornella Durany

**Money Laundering Prevention Unit**  
**(“Unitat de Prevenció del Blanqueig (UPB)”)**

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

Director:	Mr. Josep M <sup>a</sup> Francino Batlle
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**Corruption Prevention Unit**  
**(“Unitat de Prevenció i Lluita contra la Corrupció”)**

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

Head of Unit:	Ms. Maribel Lafoz Jódar
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**Office for Business Innovation**  
**(“Oficina Innovació Empresarial (OIE)”)**

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

Director:	Mr. Jordi Robert Vives
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**Andorran Chamber of Commerce, Industry and Services**  
**(“Cambra de Comerç, Indústria i Serveis d'Andorra (CCIS)”)**

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

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

(\*) Information of interest relates to post occupied by individuals prior to 31 May 2008

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

C/ Doctor Vilanova, 9, baixos - AD500 Andorra la Vella  
(Principality of Andorra) - Tel. +376 867456 - Fax: +376 861466

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)”)**

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

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

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

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

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

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

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

Dean: Mr. Roland Destrée Grimaldi  
Secretary: Mr. Xavier Prats Martínez

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

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

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)”)**

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

Chairman: The Hon. Mr. Albert Pintat Santolària  
Executive Chairman: The Hon. Mr. Juli Minoves Triquell  
Chairman to the Advisory Board: Mr. Carles Gasòliba Böhm  
Director: Mr. Jaume Saura Estapà

(\*) Information of interest relates to post occupied by individuals prior to 31 May 2008

