

ANDORRA

and its Financial System 2009



ASSOCIACIÓ DE BANCs ANDORRANS

ANDORRA

and its Financial System

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PRESENTATION

2009 has been a year marked by the uncertainty and instability generated by the international financial crisis and the general downturn in the worldwide economy and labour market, which began at the end of 2008 and continued into the first few months of 2009. The exceptional economic measures implemented by the different international authorities and bodies of the main developed countries have, however, begun to take effect. Between the second and third quarters of 2009 macroeconomic indicators showed clear signs of recovery in the economies of emerging countries and that the main world economies, specifically the United States, Japan and the European Union, were starting to stabilise. Movements in international financial markets during the last months of 2009, especially with regard to the private fixed income market, point to a gradual recovery, although the volatility of the financial markets, the price of real estate and high unemployment rates should not be dismissed.

The last few months of 2009 have seen a general upturn in the worldwide economy, led by emerging countries, in particular Asia, with China spearheading the way with growth of 8.50%. Growth forecasts for 2010 are positive, with predicted growth in the worldwide economy reaching 2.40%.

In Europe, 2009 has marked the lowest point in the economic cycle of recent times, as its economy shrank by 4.10%. Despite the first signs of recovery towards the end of the year, with France and Ger-

many acting as the region's economic powerhouses, some countries within the Eurozone continue to display symptoms of economic weakness. Nevertheless, according to forecasts, it is likely that 2010 will mark the start of a slight recovery within the European Union, where inflation is expected to rise by 1.20 percentage points and growth in the 27-member EU to fall by just 0.10 percentage points.

It is within this economic context that Spain has experienced a downturn in its economy, registering year-on-year GDP growth of -3.60% compared to the 1.16% and 3.80% growth rates of 2008 and 2007, respectively. Spanish economic trends have been similar to those of other developed countries such as the United States, which has reported year-on-year growth of -2.40%, Luxembourg with -4.20% and Germany with -5%. The IMF predicts that the Spanish economy will contract a further 0.40% in 2010 and considers it important that the restructuring of the financial system and reform of the labour market be sped up.

The French economy contracted by 2.19% in 2009. However, growth was recorded in the last three quarters of the year at rates of 0.30%, 0.20% and 0.60%, respectively. Forecasts for 2010 predict that the French economy will see growth of 1.40%.

During 2009 Andorra has also been affected by the global economic climate and the deceleration in the economies of our neighbouring countries. In addition, the traditional mainstays of our economy

such as tourism, commerce and construction have also experienced a drop in activity. The Principality's main economic indicators have fallen to record lows due to the fall in external demand, mainly as a consequence of the drop in tourism, and reduced demand from within the country. Commerce and tourism, the two sectors which most contribute to the creation of wealth for the country, have experienced a significant downward trend, with a 4.45% decrease in the number of visitors in 2009. It should also be taken into consideration that the factors affecting the results of the tourism and commerce sectors go beyond the economic crisis, since these sectors also depend on the overall competitiveness and maturity of their business model. The Andorran Government, together with the sector's main social and business entities, is therefore working to make the tourism options available in the Principality more attractive by offering higher quality and selling emotions, experiences, products and services that set Andorra apart from other tourist destinations around the globe.

Although an additional effect of the economic crisis has been a slight decrease in the country's population for the first time in 10 years, it should also be pointed out that the average salary of its workers has increased as have the funds managed by Andorra's banks.

In 2009 the Andorran financial system has demonstrated that conservative and prudent management is key to successfully tackling the challenges posed by an uncertain and volatile economic and financial environment. Based on the excellent financial reputation gained over the years for their sound and rigorous application of international regulations, Andorran banks have achieved very satisfactory results and high capital adequacy and liquidity ratios in 2009 of 22.02% and 75.07%, respectively.

For Andorra, 2009 has also been a year marked by the further development of a legal and economic framework designed to respond to the country's desire to evolve towards a sustainable economic situation with a clear outward projection. With this aim in mind, in March 2009 Andorra signed the Paris Declaration and subsequently approved the Qualified Law for the exchange of tax information upon prior request, later signing bilateral exchange of information agreements with 17 countries, including Spain, France and Portugal, as explained in greater detail in Chapter "II. Andorran Legal Framework", of this publication.



I THE PRINCIPALITY OF ANDORRA

I.1. Introduction to Andorra

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

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

The Andorran flag and coat of arms are shown below:



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

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

Andorra is a mountainous country. Its lowest point is where the Riber de la Roca River meets with the Valira River (838 m) and its highest point is the peak of Coma Pedrosa (2,946 m). The climate in Andorra is considered to be dry and Mediterranean. Temperatures vary slightly between the mountain and valley areas, mainly due to significant differences in altitude. The average minimum temperature is -2°C, while the average maximum temperature is 24°C. Snowfall is frequent and rain mainly falls between the months of October and May. Water is one of the most important natural resources, allowing for the exploitation of hydroelectric energy and thermal activities.

In 2009 Andorra had a **population** of 84,082, 38% of them with Andorran nationality, 32% with Spanish nationality, 16% with Portuguese nationality, 6% with French nationality and 1% with British nationality. The remaining 7% of the population comprises more than 16 different nationalities, in addition to those stated above.

As can be observed in the graph below, an analysis of the population in 2009 by age group reveals that the age groups 30-39 years and 40-49 years, for both men and women, represent the highest concentration of population. Data from previous years also shows that the population distribution has followed the same trend for several decades, whereby the highest concentration is found among people of a working age. The reason for this concentration is that a high percentage of the active population comes from outside Andorra as a result of the Principality's dependence on external labour. These workers do not usually form part of a stable family unit resident in the country, and they therefore return to their country of origin when they reach retirement age. [\[graph 1\]](#)

Andorran nationality can be acquired by foreigners who marry Andorrans, provided that they can prove uninterrupted residence in Andorra for a prior period of three years. Foreigners who have lived for at least twenty years in Andorra may also apply to the Government for Andorran nationality. The Andorran Constitution does not allow dual nationality.

Foreign individuals over the age of 18 who wish to reside in Andorra without employment must obtain a "**passive residency**" authorisation from the Andorran Ministry of Home Affairs. This kind of authorisation is governed by the Qualified Law for the modification of passive residency dated 28 November 1996.

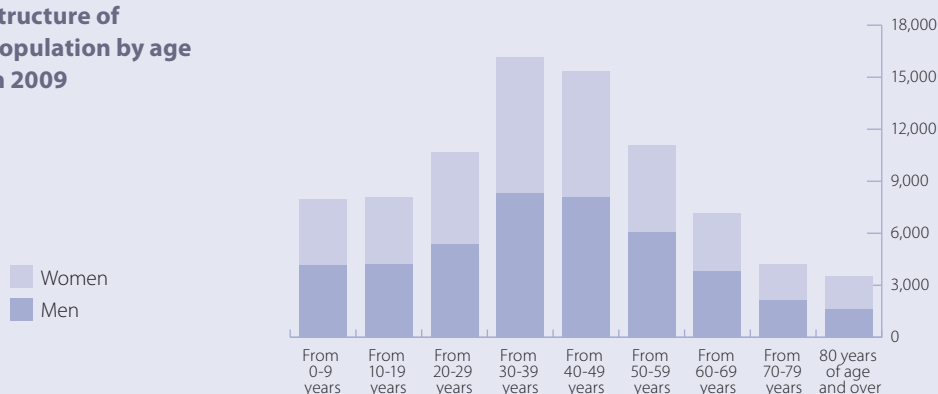
Non-resident individuals over the age of 18 and those individuals who have resided in Andorra for less than 20 years require authorisation from the Government to be able to acquire a **dwelling** under the horizontal property regime with the corresponding parking space. In this case plots of land for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

Andorra’s educational system is multilingual and based on a plural and mixed structure, as public education is available in three different systems: Andorran, French and Spanish and private education is also available in a school which follows the Spanish system. Students who wish to continue into higher education can choose between professional training and university studies at the University of Andorra or abroad in countries such as Spain and France. The University of Andorra, founded in July 1997, offers classroom-based, virtual and post-graduate courses. Also, and as a consequence of the new law on foreign investments, the educational institution “La Salle” plans to open a new university in Andorra (*La Salle-Andorra Open University*) which will offer on-line and semi-distance courses in Technology and Social Sciences.

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.



Structure of population by age in 2009



Source: Statistics Department - Andorran Government

[graph 1]

The surface areas of the seven parishes and their population in 2009 are as follows: [\[graph 2\]](#)

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.

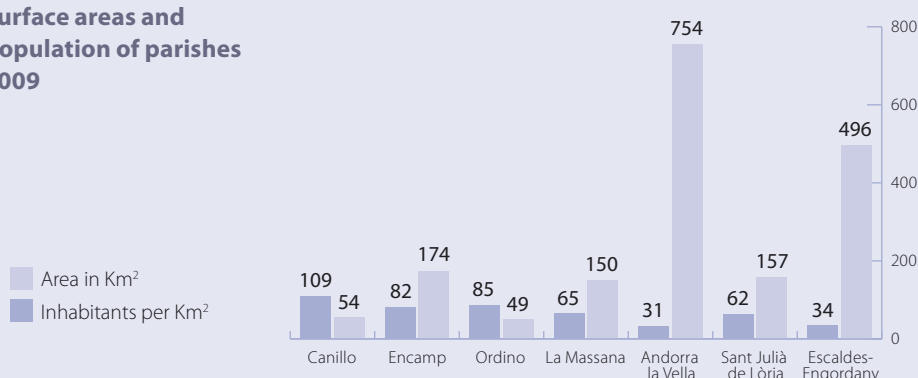
The Principality does not have its own railway network, although it can be reached from Lleida or Puigcerdà in Spain and from Ax-les-Thermes or L'Hospitalet in France in less than an hour by road.

The nearest airports are in Toulouse and Perpignan (France) and Barcelona, Girona and Reus (Spain). Alguairé Airport (Lleida, Spain) has also entered into service during the first quarter of 2010.

The **Andorran Telecommunications Service**

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

Surface areas and population of parishes 2009



(Km²) Source: Statistics Department - Andorran Government

[graph 2]

I.2. History of Andorra

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

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

However in the following centuries, the Bishop of Urgell entered into conflict with the Count of Foix who wanted to recover what previously belonged to him. 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 a result, the Andorran citizens assumed sovereignty, but the co-princes, jointly and severally, are still the head of State. This position is occupied exclusively and personally by the Bishop of Urgell (currently his Grace Mr. Enric Vives i Sicília) and the President of the French Republic (currently his Excellency Mr. 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: [table 1]

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

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

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

Since 19 May 2009 Andorra has had the following **political parties** with parliamentary representation: the *Partit Socialdemòcrata* (affiliated to the International Socialists), the *Coal·lició Reformista*, formed by different parties such as the *Partit Liberal d'Andorra* (affiliated to the International Liberals) and finally *Andorra pel Canvi*, a citizens' platform set up in the last quarter of 2008.



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

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

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.

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

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: [table 2](#)

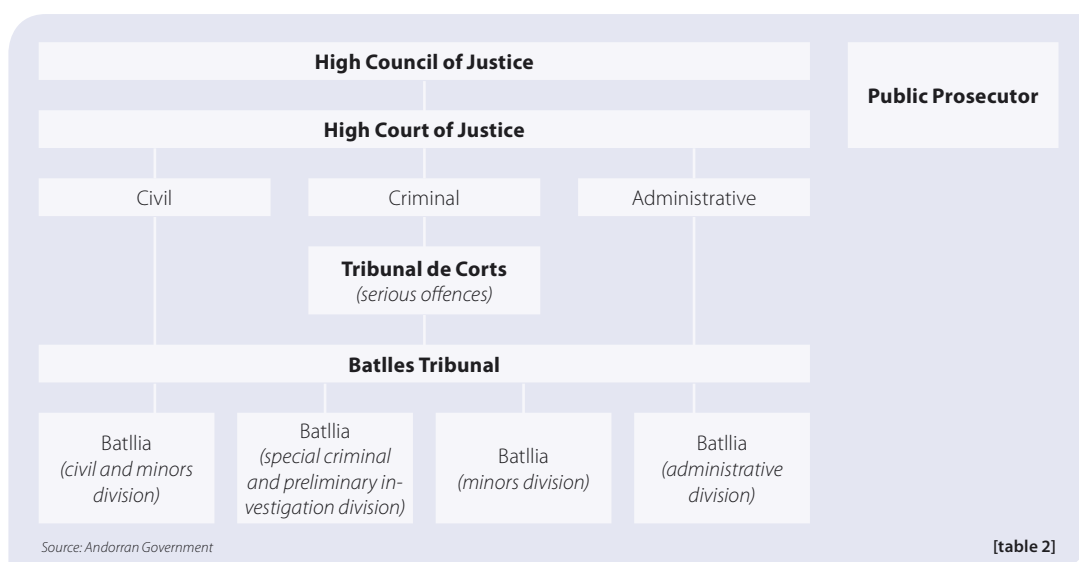
The Constitutional Tribunal is the highest Constitutional body and its rulings bind public powers and individuals. It approves its own regulations and it is solely subject to the Constitution and the Qualified Constitutional Tribunal Law when exercising its functions. It consists of four constitutional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

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

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

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

The **High Court of Justice** has the highest level of authority in the Principality's legal system and con-



[table 2]

sists of a president and eight magistrates appointed by the High Council of Justice. It consists of a civil court, a criminal court, and an administrative appeals and social security court.

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

and enforces sentences. It currently consists of a president, a vice president, a magistrate and two assistant magistrates.

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

Other Bodies

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

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

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

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

Andorra Development and Investment (ADI) is a public company with private rights, which was created in 2009 to give stability to projects supporting entrepreneurs and innovation and to act as the agency in charge of promoting the economy in the Principality. At domestic level, ADI's objective is to render support to local entrepreneurs and companies wanting to expand internationally and help them improve their competitiveness. At an international level, ADI's objectives are to position and promote Andorra as an open, modern and attractive economy for creating new companies that offer a high level of added value.

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

The **Institute of Andorran Studies** (IEA) was inaugurated with its own legal status, and is presided by the Minister for Education. It is a centre of research in all those areas which could be of interest to the Principality such as biology, natural risks, law, anthropology and history. Its scope of activity is defined by its Management Committee within a long-term plan.

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



II ANDORRAN LEGAL FRAMEWORK

II.1. Mercantile framework

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

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

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

A foreign company can relocate its registered offices to Andorra and acquire Andorran nationality provided that it complies with all the legal provisions established by legislation prevailing in Andorra and it is permitted under the legislation

of the country of origin for the purpose of retaining its legal form.

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

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

This legislation is not applicable to Andorran banking entities that are governed by specific legislation regulating the financial sector, especially the *"Law governing the legal regime of banking entities and basic administrative regime for entities operating in the financial system" dated 13 May 2010*.

Law 2/2008 of 8 April 2008 has been amended by *Law 36/2008 of 18 December 2008* which clarifies queries arising from the publication of the first law regarding the interpretation of the procedure for the authorisation of direct foreign investments and the degree of liberalisation thereof. This law entered into force on 22 January 2009.

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

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

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

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

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

The “*Company Accounting Law*” 30/2007 was amended by *Law 8/2010 of 22 April 2010* to establish the disciplinary regime to guarantee compliance with the accounting obligations established in *Law 30/2007* as well as extend the threshold for adopting this simplified accounting regime to

Euros 250,000 of annual turnover, thus allowing a larger number of businesses to adhere to this regime.

- In order to carry out **commercial and industrial activities**, foreign individuals need to have resided in Andorra for over twenty years to be able to own a commercial or industrial establishment. In accordance with the “Trilateral Agreement” and “Bilateral Agreement” French, Spanish and Portuguese citizens, respectively only need to have resided in Andorra for ten years.
- **Liberal professions** are governed by a specific law which requires twenty years of residence for foreigners and that they hold the corresponding university qualification from an Andorran, French or Spanish university or an officially validated qualification from another country. The Government can grant ten-year liberal profession permits at its own discretion, which may be renewed depending on specific Andorran requirements and the specialisation and personal circumstances of the applicant. In its session held on 8 May 2008, the General Council approved a new law governing the activity of liberal professionals.
- The objective of the “**Law governing foundations**” dated 12 June 2008 is to respond to social demand for regulating private foundations of public or social interest, taking into consideration the legal tradition and experience of neighbouring countries. This law entered into force the day after it was published in the Andorran Official Gazette, except for article 1 of chapter II, which did not enter into force until 12 December 2008.

II.2.

Labour framework

- A Social Security system was created in Andorra in 1968 and covers illness and old age and it is administrated by the **Caixa Andorrana de Seguretat Social (CASS)**. On 3 October 2008 the General Council approved the “*Social Security Law*” 17/2008 which entered into force on 1 November 2009. One of the main changes as a result of this new legislation is that adherence to the CASS will not only be obligatory for wage-earners and pensioners, but also self-employed individuals. This new system also includes signifi-

cant improvements to the social benefits system and establishes new parameters for social security contributions. Social security contributions for wage-earners will, therefore, range between 5.5% and 10.5% of their salary and contributions of 14.5% will be made by employers. Self-employed individuals will contribute between 20% and 25% of the average total monthly salary of wage-earners who adhere to the CASS during the immediately preceding calendar year.

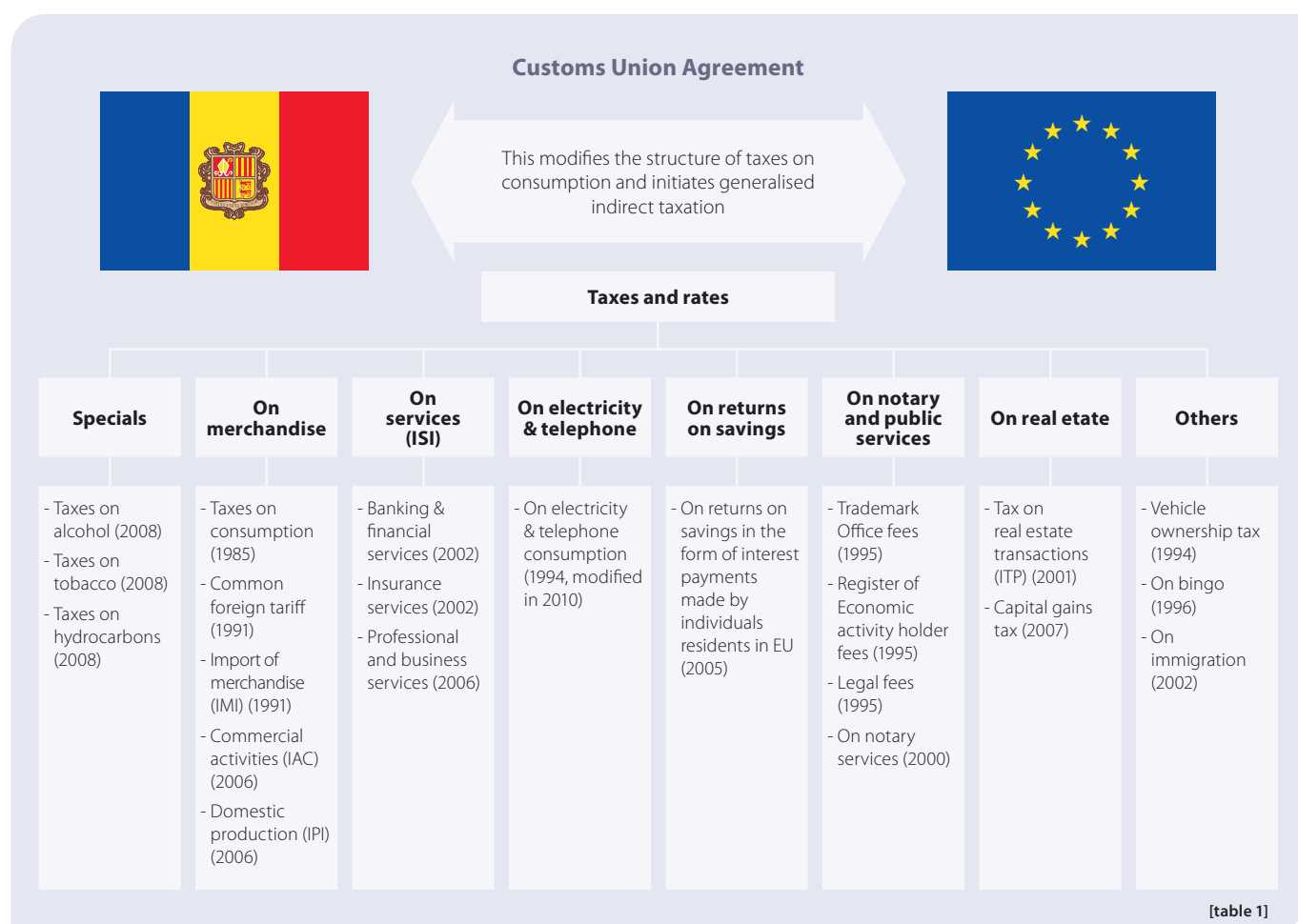
■ **"Law 34/2008 governing health and safety in the workplace"** dated 18 December 2008 regulates the general principles for protection already established in the majority of European countries. The aim of this law is to prevent labour risks and protect the health and safety of workers by eliminating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

■ The objective of the **"Law governing the labour relations code"** dated 18 December 2008 is to aggregate in a single legal text, the issues already regulated in *Law 8/2003 of 12 June 2003 governing employment contracts*, including matters not previously dealt with, such as the regulation of collective representation rights and the entitle-

ment of workers to call meetings and collectively negotiate collective labour agreements. This law entered into force on 18 March 2009.

■ The objective of the **"Qualified trade union Law"** dated 18 December 2008 is to delimit trade union rights and the legal regime of trade union organisations and to establish the requirements for their incorporation, the responsibilities thereof and their representative capacity, including trade union actions. This law entered into force on 18 March 2009.

■ **The Regulation of 23 September 2009 modifying the Regulation of 19 November 2008 governing welfare benefits** establishes a benefit payment for those workers who have become unemployed involuntarily and who undertake to participate in professional training initiatives and accept any appropriate job offers they may receive.



II.3.

Tax 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.

Central Government taxes

The “*Law governing taxation*” of 19 December 1996 sets out the basic reference framework for the pre-eminent application of taxes within the Principality and includes the principles of justice, legality and reserve, generality and fair distribution of the tax burdens established in the Constitution. The aforementioned

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.

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: [\[table 1\]](#)

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)*")

The tax on commercial activities entered into force on 3 November 2004 and was amended on 27 October 2006. This tax is levied at source and in the sole commercialisation phase of goods either imported into or manufactured in the country. For the purpose of this tax, commercialisation is understood to be the retail sale and wholesale to the end consumer.

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

Details of the equivalence charges applied for each tax rate are as follows: [\[table 2\]](#)

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

[table 2]

Tax on services

Indirect taxation on services rendered ("*Impost indirecte sobre els serveis (ISI)*")

The "*Law governing indirect taxation on services rendered*" was approved on 13 April 2000. This established the basis for indirect taxation on services rendered in Andorra by business people and professionals, individuals or legal entities, residents and non-residents, but excludes those services subject to the Law on the IMI. This law was subsequently amended by *Law 16/2004 dated 3 November 2004*. The three tax rates applied are: a reduced rate of 1%; a normal rate of 4% and an increased rate of 7%.

As an addition to the abovementioned law, on 14 May 2002 the "*Law governing indirect taxation on banking and financial services*", amended by *Law 3/2005 dated 21 February 2005*, and the "*Law governing indirect taxation on the rendering of insurance services*" which became applicable as of 13 June 2002, were approved. In accordance with these Laws, the rendering of banking and financial services is taxed

at 12% and the rendering of insurance services at 4%. The tax payable is calculated using a system which estimates the value of the services rendered based on economic and financial figures.

In addition, on 1 January 2006 the "*Law 17/2004 dated 3 November 2004 governing Indirect Taxation on the rendering of Business and Professional Services*" came into force for the purpose of generalising the indirect taxation of all sectors of the Andorran economy. This new tax is levied on services rendered by business people and professionals in the Principality of Andorra. Should services be rendered by a business person or professional established outside Andorra, and the target or beneficiary of the taxed service is a business person or professional established in Andorra, it is the target or beneficiary of the service rendered which is under the obligation to pay tax. The tax is calculated by applying a tax rate on the value of the service rendered (tax base). The percentage defrayed to the customer is 1% (reduced rate) and 4% (normal rate).

Special taxes

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

On 22 April 2010 "*Law 11/2010*" was approved amending "*Law 27/2008 governing special taxes*" dated 20 November 2008. This amendment introduces some slight changes to *Law 27/2008* with the aim of improving the management of special taxes, whilst not increasing the tax burden on operators who use hydrocarbons and tackling the issue of illegal trafficking which may be encouraged by price differences.

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.

Taxation on real estate

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

The "Law governing tax on real estate" dated 29 December 2000 was modified by Law 7/2006 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 one fifth of the company as a result of the transfer of shares or other equity investments or creation or the transfer of rights over these assets.

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

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

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

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

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

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

Taxation on savings

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

This law establishes the obligation to make a withholding at source on interest payments made by paying agents located in the Principality of Andorra to beneficial owners who are individuals resident in one of the European Union member States. This withholding was equivalent to 15% during the first three years, 20% 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.

Agreements for the exchange of fiscal information upon prior request

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

Qualified Law 3/2009 for the exchange of tax information upon prior request dated 7 September 2009

As announced in the Paris Declaration, on 7 September 2009 the General Council of Andorra approved the Qualified Law 3/2009 for the exchange of tax information upon prior request.

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

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

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

Furthermore, exchanges of information on request, in response to justifiable and well-founded requests, will be effective for fiscal years which commence following the date on which each bilateral agreement comes into force, i.e. after the last notification that the agreement has been ratified by the respective Parliaments, plus an additional period, usually of three months, in the cases for which this period has been established. For example, if an agreement is ratified by the respective parliaments of the countries party to the agreement on 2 June 2010, and there is an additional period of three months, the agreement will come into force on 2 September 2010 and will be effective during the fiscal year 2011, i.e. as from 1 January 2011.

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

Following its ratification of the Law, between September 2009 and April 2010 the Government of Andorra signed bilateral agreements for the exchange of tax information upon prior request with 17 countries: Austria (17/09/09), Liechtenstein (18/09/09), Monaco (18/09/09), San Marino (21/09/09), France (22/09/09), Belgium (23/10/09), Argentina (26/10/09), the Netherlands (6/11/09), Portugal (30/11/09), Spain (14/01/10) and in a second round with Sweden, Finland, Norway, Denmark, Iceland, Greenland and the Faroe Islands (24/02/10).

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

II.4.

Legislative framework of the financial system

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

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

- The **“Law regulating insurance companies”** in the Principality of Andorra dated *11 May 1989* includes the fundamental characteristics to be able to operate in Andorra.
- The **“Law regulating the financial system”** dated *27 November 1993* and the **“Law regulating the operational functions of the different components of the financial system”** dated *19 December 1996* define the legislative framework regulating professional activities in the financial sector and the following operational functions of the different components of the financial system:
 - Operational components.
 - Banking entities.
 - Non-banking financial institutions, in specialised credit.
 - Financial investment entities.
 - Financial entities offering various services.
 - Professional associations in the financial sector.
 - Bodies of technical executive authority.
- Long before the enactment of the *Law of 27 November 1993* regulating the financial system, the Andorran financial system, concerned about

transmitting seriousness and commitment to third parties, had already promoted its self-regulation, through the Association of Andorran Banks (*“Associació de Bancs Andorrans”* (ABA)).

- The **“Law regulating mandatory investment coefficients”** dated *30 June 1994* sets out a mandatory coefficient, which has to be covered by public funds and which, in accordance with the aforementioned law, is only currently applicable to banking entities. This law was promulgated by the *Decree dated 9 December 2009 approving the Decree amending 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. Public debt issues are also regulated in this framework. Public debt was last issued on 31 December 2009 and was regulated by the *Decree governing the issue of public debt in the Principality of Andorra dated 23 December 2009*.

- The **“Law regulating deposit guarantee reserves and other operational obligations”** 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 dated *4 July 2001* establishes the method of applying interest and other conditions applicable to the deposit

guarantee reserves set up by banking entities. As established in the *Decree dated 18 February 2009*, 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. These reserves guaranteeing deposits and other operational obligations bear interest at market rates.

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

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 2005 the first law against international crime was approved and the legislative framework was completed in 2000 with the **"Law for international cooperation on criminal matters and the combat against the laundering of money or securities arising from international crime"** approved by the General Council on 29 December 2000, giving rise to the creation of the Laundering Prevention Unit (UPB). The UPB became known as the Andorran Financial Intelligence Unit (UIF) on 21 April 2009 and is the independent body for the promotion and coordination of money laundering and terrorism financing prevention measures. This legislation implies the following for all financial entities:

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

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 Financing of Terrorism in order to improve coordination

between all the bodies and ministries involved in preventing and combating money laundering and the financing of terrorism, and to develop a multidisciplinary and global approach and be more effective and flexible when adopting measures. This commission is led by the head of the UIF and comprises representatives from the Presidency, Finance, Justice, Home Affairs, Economy, Foreign Affairs ministries and the INAF when dealing with matters affecting the financial system and from the UIF. This commission meets at least once every three months.

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

On 21 September 2009, the **modified text on the "Law for international cooperation on criminal matters and the combat against the laundering of money or securities arising from international crime and against the financing of terrorism"** was published.

As a result of the enactment of *Law 28/2008*, the Regulation governing this legislation has been amended. On 20 May 2009, the Regulation of the Law for international cooperation on criminal matters and the combat against the laundering of money or securities arising from international crime and against the financing of terrorism was published, thereby revoking the Regulation of the Law for international cooperation on criminal matters and the combat against the laundering of money of 31 July 2002. This new regulation describes and develops the prevailing legislation on this matter which comprises organisational and functional aspects of the UIF and defines the way in which parties under obligation must comply with the law and the procedures that they must follow should a transaction potentially relating to the laundering of money gained from criminal activities be detected. The legislation also stipulates the training which those people who form part of the internal control and communication

bodies should have received and refers to the personnel working for these bodies, the duty of professional secrecy, international cooperation, the exchange of information and disciplinary proceedings.

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

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

- On 18 October 2007 *Qualified Law 17/2007* amending *Law 9/2005* governing the Andorran Criminal Code, was approved, which includes a series of reforms to bring the Andorran Criminal Code into line with all the provisions of the Criminal Law Convention on Corruption, adopted by the European Council on 27 January 1999 and ratified by the Principality of Andorra on 8 November 2001;
- On 20 December 2007 *Qualified Law 29/2007* was approved, amending article 409 of *Qualified Law 9/2005* of 21 February 2005, governing the Andorran Criminal Code on the prevention of money laundering and securities;
- On 3 October 2008 the General Council approved *Qualified Law 15/2008* amending *Law 9/2005* dated 21 February 2005 governing the Andorran Criminal Code. The main reasons for this amendment were the need for certain technical modifications to increase the operative nature of the law and the entry into force of certain international treaties signed by Andorra. This recent amendment has led to the inclusion of article 366 bis which deals with the crime of "financing terrorism". Consequently, on 12 June 2008 the *"United Nations Convention for the suppression of the financing of terrorism"* signed by the Andorran Government on 10 November 2001 was ratified.

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

Numbered accounts do not hinder the authorities, as the banks comply with know-your-customer rules. External auditors are requested to be

particularly diligent with these kinds of accounts as well as in other areas exposed to the risk of money laundering.

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

During the second half of 2009, the Association of Andorran Banks has been working on the development of an electronic online training platform related to money laundering and combating the financing of terrorism, which includes up-to-date information and both national and international legislation on this matter. This online training platform will be made available to employees of the Andorran banking sector during 2010.

■ At an international level, it should be noted that as a result of the regulations established in Andorran legislation against money laundering (1 January 2001), 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 renewed their status as *Qualified Intermediary*, which is effective for six years (during which time, the entities will be subject to audits established by the IRS).

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

■ The **"Law regulating the disciplinary regime of the financial system"** dated 27 November 1997 aims to promote correctness and conscientiousness when carrying out professional financial activities and guarantee the stability and solvency of the Andorran financial system.

■ 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 Chart of Accounts for the financial system, so that it does not become out of date.

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

- The "**Law for indirect taxation on banking and financial services rendered**" dated 14 May 2002, under the framework of the "Law for indirect taxation on services rendered" establishes the system for calculating the payment basis, at the same time as determining a tax rate of 7% applicable to banking entities, non-banking financial entities in specialised credit, financial investment entities and financial entities offering various services. Since 1 April 2005 the indirect tax on banking services rendered has risen from 7% to 12%.

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

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

- On 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.

- The "**Law regulating Andorran collective investment undertakings**" dated 12 June 2008 includes a generic definition of what is understood as investment undertakings in the Principality, reg-

ulates its functioning and the distribution of these undertakings abroad, as well as the distribution of foreign investment undertakings in Andorra. This law entered into force on 17 July 2008.

- The "**Law governing the legal regime of non-banking financial entities in specialised credit**" dated 30 October 2008 establishes certain economic requirements for the personal, technical and economic bases on which the activity of these entities in the Andorran financial system guarantees the quality and security of management in this system.

- The "**Law on the legal regime for financial investment entities and management companies of collective investment undertakings**", dated 13 May 2010, defines the purpose of financial investment entities and establishes the type of investment services and auxiliary services they can offer and the type of financial investment entities based on their operating activities. This law also aims to establish the terms to access and exercise this activity and determine the legal regime for management companies of collective investment undertakings.

- The "**Law on the legal regime of banking entities and basic administrative regime for entities operating in the financial system**", dated 13 May 2010. This law revokes the "*Law regulating the basic administrative regime of banking entities*" dated 30 June 1998 and its aim is to modify the legal regime of banking entities to avoid serious comparisons with other entities in the financial system and also to establish a basic administrative regime for the different operating entities forming part of the Andorran financial system. The requirements demanded of the financial investment entities, which also apply to banking entities when they offer investment services, include the principles established in the EU directive known as MiFID. The aim of these principles is to modernise the financial markets by adapting them to new needs, reinforce the measures implemented to protect investor interests and adapt the organisational requisites of the entities to guarantee that their organisational structure is adapted to the services they offer. This law also establishes the basis for cooperation in supervisory matters, equipping the INAF with the necessary instruments to exercise its functions and thus guarantee legal security and structural stability in the cooperation policies it shares with supervising bodies from other countries. The standards to be applied to financial transactions performed within the framework of a contractual compensation agreement ("netting") or in relation to the same agreement are therefore regulated.

■ The “**Law on the legal regime for authorising the creation of new operating entities within the Andorran financial system**”, dated 3 June 2010. This law aims to establish the legal regime for authorising the creation of new operating entities within the Andorran financial system, thereby overcoming the current situation of *status quo* being faced by the system in compliance with the requirements of prevailing Andor-

ran legislation. A special regime of direct foreign investments is contemplated which will consist of allowing foreign interests in operating entities of the Andorran financial system to account for 100% of their share capital or voting rights, thus significantly opening up the Andorran financial system. Actually, this law permits foreign credit institutions to invest in up to 51% of the capital of Andorran banking entities.

II.5.

Developments in the financial system’s regulatory framework

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

Andorran banking is continuously monitoring the most up-to-date issues such as international regula-

tions and legislation, strategic sector risks, supervisory systems, good practice requirements defined by the Basel Committee, the challenges of ensuring financial stability, the banks’ code of secrecy and transparency, new financial and insurance products, as well as ethics, professional practices and corporate governance of the financial system, in addition to other matters of interest to the sector.

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

International Financial Reporting Standards

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, on 22 December 2004 the Bank of Spain approved the new Circular 4/2004 governing the Circular 6/2008 of the Bank of Spain, which has involved significant changes to the accounting principles applied to date.

The entities comprising the Andorran financial system apply the accounting principles and criteria established in the General Chart of Accounts for the financial system approved by the Andorran Government on 19 January 2000. These standards, based on the accounting standards of the Bank of Spain

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

Basel II to Basel III

The objective of the Basel II Capital Framework was 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 and transparency.

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, enabling the minimum level of equity of each entity to be determined, 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 1*.
- *Pillar 3* aims to achieve market discipline characterised by information transparency and comparability.

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

On 17 December 2009 the Basel Committee published a document to present to the market and propose for debate the incorporation of a series of regulatory changes in capital requirements, liquidity and leverage, thus paving the way for Basel III.

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

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, to avoid deficiencies in the Monetary Union, but also to cut costs for users.

Currently only member states of the European Economic Area can become SEPA members. These states must have implemented the appropriate processes to comply with SEPA requirements prior to 31 December 2012. 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 (EEA): 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 a regulatory

and supervisory authority within the system and exercising its functions stipulated by Law 14/2003 of 23 October 2003, has created certain regulations governing ethics and conduct for all entities authorised to operate in the Andorran financial system, thus ensuring its efficient functioning and stability at all times. These regulations, outlined in INAF 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.

These regulations governing ethics and conduct are comparable with the principles and requirements established in the MiFID, with the exception of certain issues regarding reporting to customers.

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

The *“Law governing the legal regime of banking entities and basic administrative regime for entities operating in the financial system”* has been approved on 13 May 2010. This law is going to incorporate the majority of the principles established in the MiFID that are not covered by prevailing regulations into Andorran legislation.

Deposit guarantee reserve

During 2009 the INAF has presented the Andorran Government with its legislative proposal for the creation of a deposit and investment guarantee reserve. The Andorran Government is currently in the process of reviewing and finalising the proposed text to be approved and admitted by parliament. Guarantee reserves currently exist.

Laws reforming the tax system

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

Bill on Andorran company income tax of the Principality of Andorra

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

Bill on taxation of income earned from economic activities

This bill proposes the creation of a tax on income earned by individuals to avoid any discrimination in the tax treatment of earnings made by companies and those of individuals, that may arise from the implementation of company income tax.

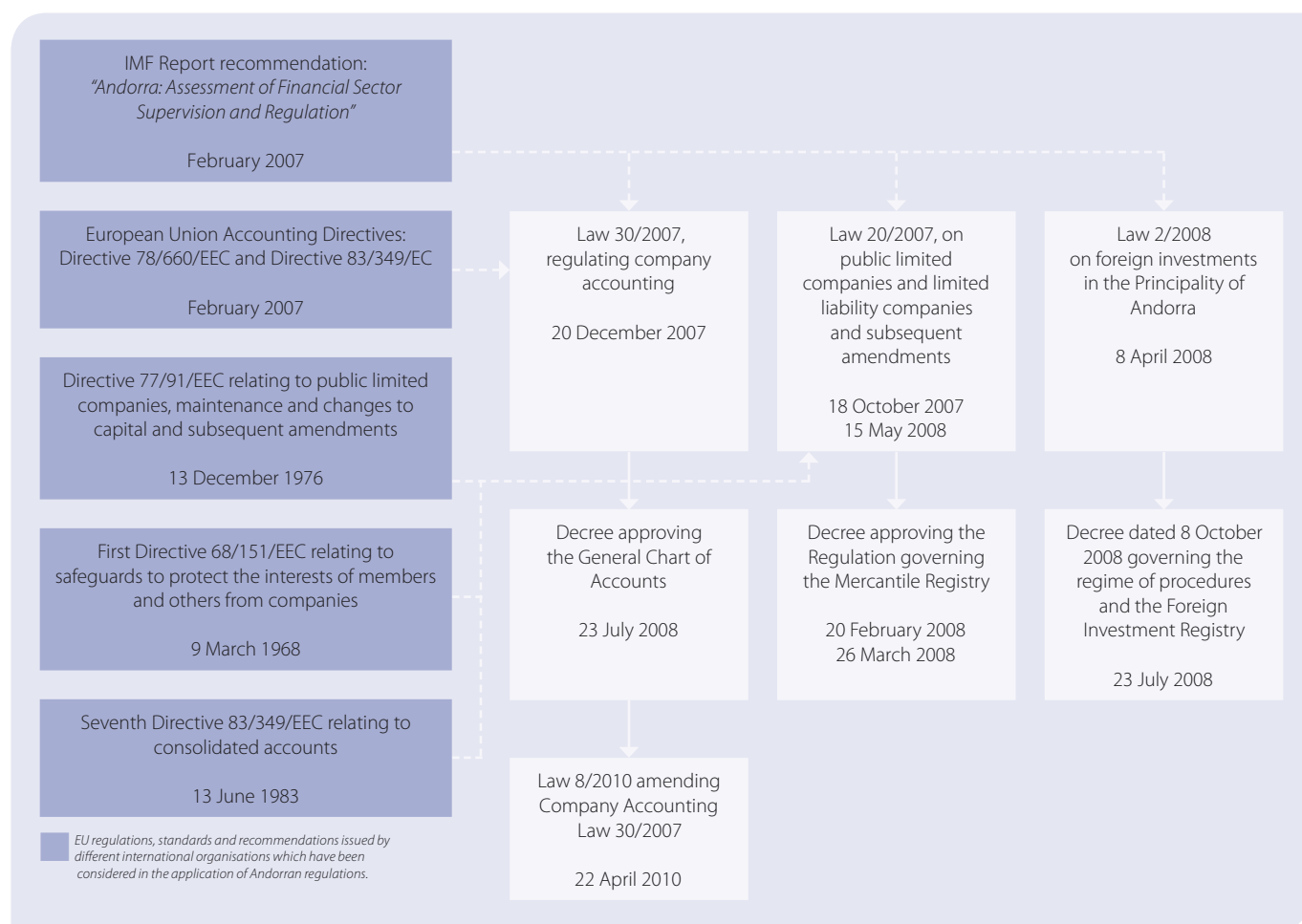
Bill on taxation of income earned by individuals not resident in the Principality of Andorra for tax purposes

With this tax, Andorra aims to establish itself on an international level as a country with a regulatory framework that is in line and comparable with the regulations of its neighbouring countries, the European Union and the OECD. In creating this tax, the Principality follows the example of the world's most advanced countries regarding taxation of non-residents, although without losing sight of its objective to create a competitive environment for attracting investments to the Principality.

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

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

Evolution of Andorran legislation: corporate and accounting



Evolution of Andorran legislation: taxation

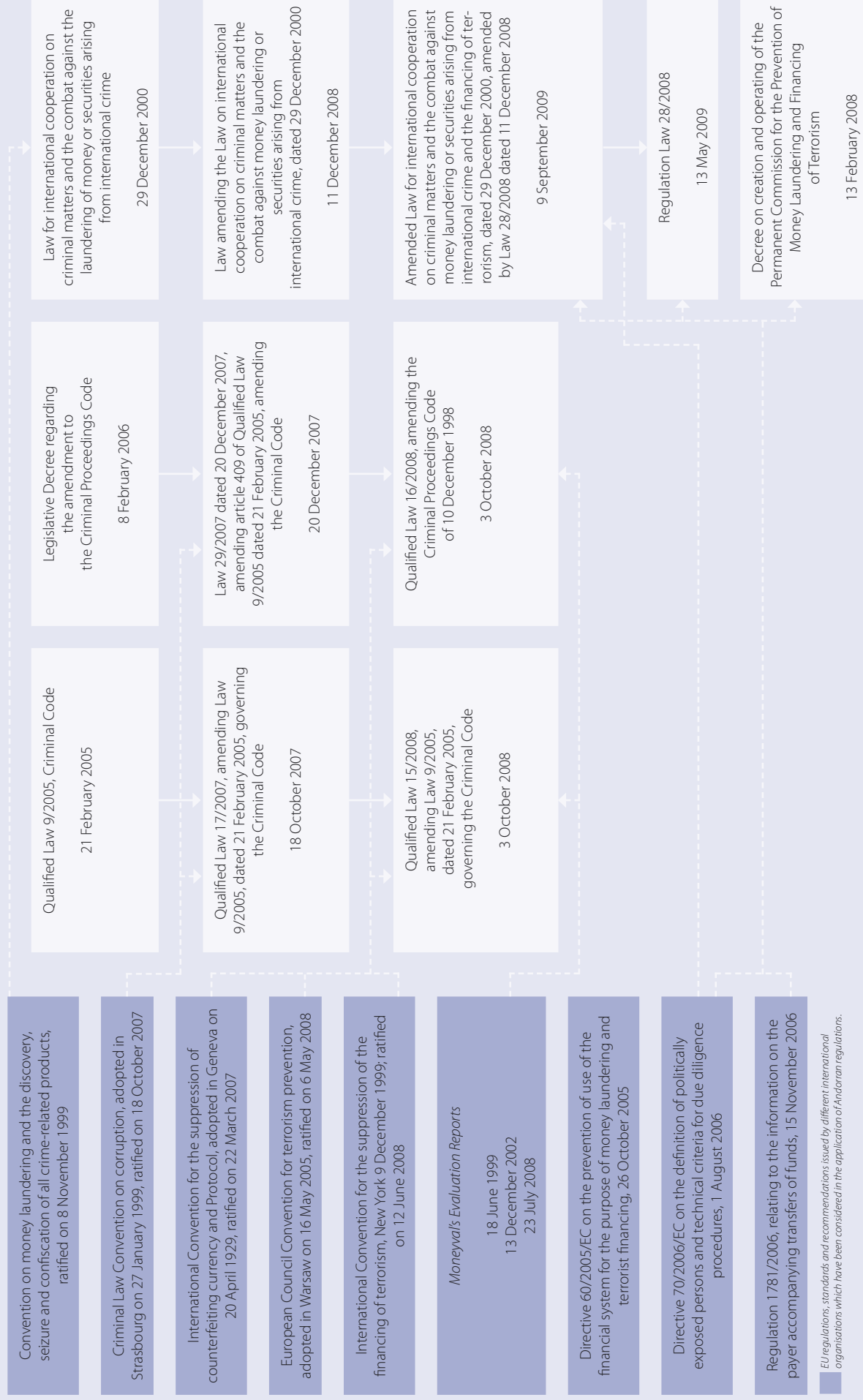


EU regulations, standards and recommendations issued by different international organisations which have been considered in the application of Andorran regulations.

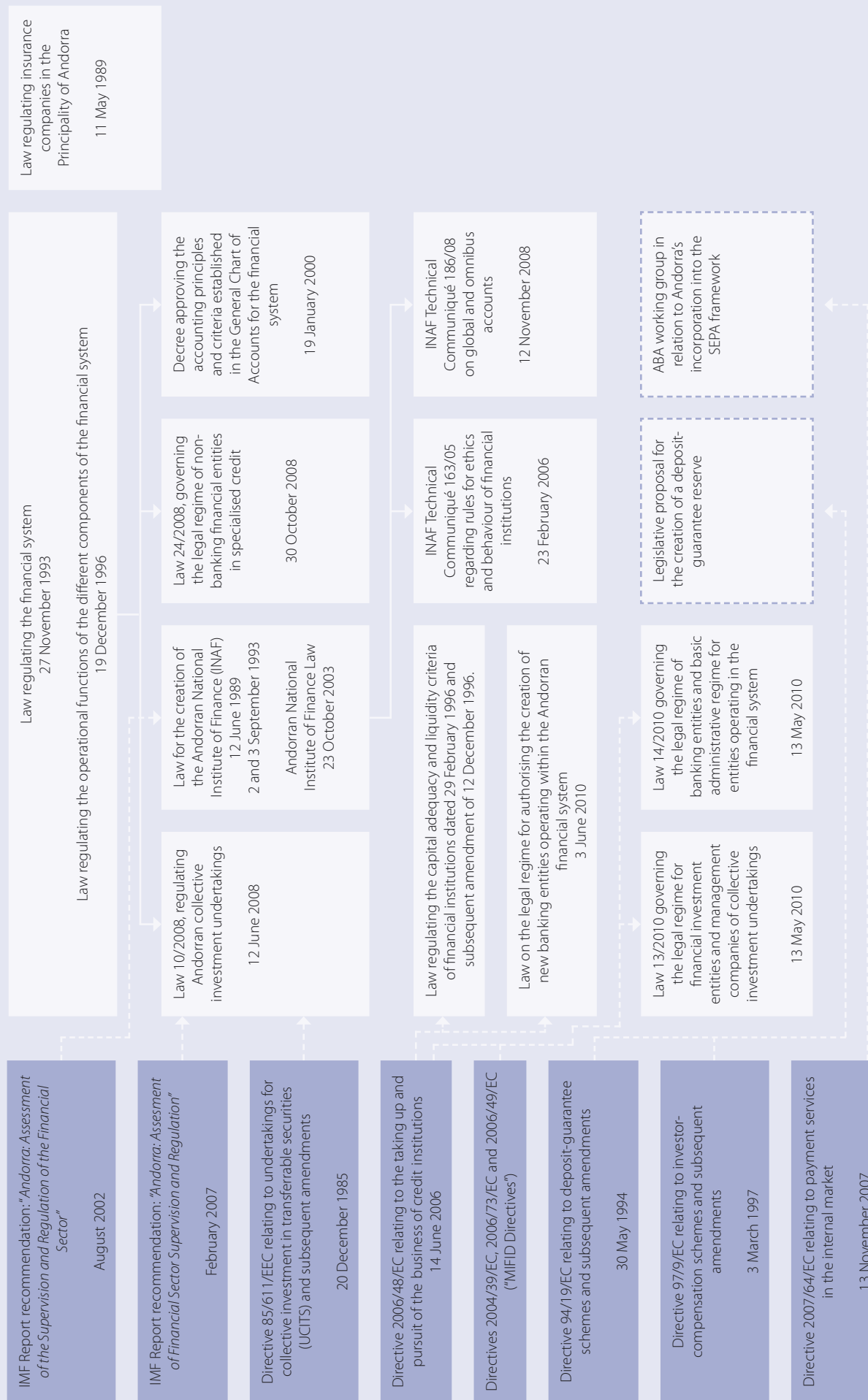
Evolution of Andorran legislation: taxation. Chronology of events

1998		OECD prepares first reports on tax havens.
2000	June	OECD prepares a list of all the non-cooperating countries, comprising 40 jurisdictions, one of which is Andorra.
2000-2003		31 of these countries sign letters of intent to comply with OECD standards and become part of a new "grey list". Andorra remains on the list of non-cooperating countries.
2004		Andorra signs an agreement with the EU on the taxation of returns on savings, an equivalent measure to the exchange of information.
2009	13 February	Visit from Christian Frémont, representative of the French co-prince Nicolas Sarkozy, to request that the Andorran Government adopt measures to facilitate the exchange of tax information.
	10 March	Andorra signs the Paris Declaration, which establishes a schedule of legislative reforms to assist in complying with OECD requirements.
	2 April	The OECD announces that Andorra is now on its "grey list".
	September	Andorra approves the Law on the exchange of tax information upon prior request (07/09/09). Agreements on the exchange of tax information are signed with Austria (17/09/09), Liechtenstein (18/09/09), Monaco (18/09/09), San Marino (21/09/09) and France (22/09/09).
	October	Andorra signs agreements on the exchange of tax information with Belgium (23/10/09), Argentina (26/10/09) and the Netherlands (6/11/09).
	November	Andorra signs an agreement on the exchange of tax information with Portugal (30/11/09).
2010	January	Andorra signs an agreement on the exchange of tax information with Spain (14/01/10).
	February	Andorra signs agreements with Sweden, Finland, Norway, Denmark, Iceland, Greenland and the Faroe Islands (24/02/10) and has now signed a total of 17 agreements.
		The OECD includes Andorra within the group of "jurisdictions which have substantially implemented international tax standards".

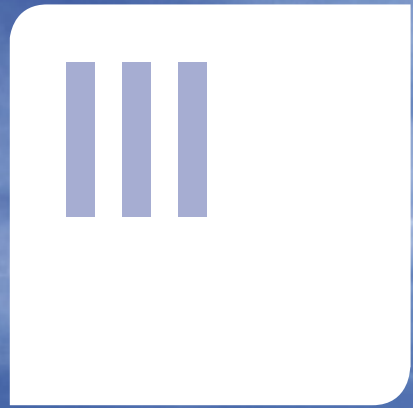
Evolution of Andorran legislation: money laundering



Evolution of Andorran legislation: financial regulation



UE regulations, standards and recommendations issued by different international organisation which have been considered in the application of Andorran regulations.





III.1. Introduction

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

With the aim of modernising the Andorran legal framework and boosting economic activity, the new Companies Act was approved in the Principality in 2007 and the Foreign Investments Law was enacted in 2008, enabling the Andorran economy to gradually open up to foreign capital. In January 2009 the Company Accounting Law came into force which was developed with the approval of the General Chart of Accounts.

In the same year the Paris Declaration was signed and the Qualified Law for the exchange of tax information upon prior request was approved and Andorra subsequently signed bilateral agreements for the exchange of information with 17 countries, including Spain, France and Portugal, as explained in further detail in chapter "II. Andorran Legal Framework" of this publication.

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

During the first half of 2009 the economies of developed countries and certain countries under development, have experienced a sharp economic decline originating from the international financial crisis starting in 2008. However, during the third and fourth quarter of the year general signs of economic recovery have been observed. The Andorran economy has not been exempt from this international crisis, leading to a significant downturn in all of the Principality's economic sectors. This has been especially due to the drop in the number of visitors, mainly from neighbouring countries and specifically Spain and a fall in purchasing power, as well as the general decline in the construction activity, which in recent years had notably contributed to Andorra's GDP.

The main economic indicators presented in this chapter show an intensified reduction in economic activity in the Principality during 2009, in line with the evolution of neighbouring economies. During the first few months of 2010 signs of a moderate decline in activity were observed in the majority of sectors, except for construction which is being most severely hit by the crisis.

Tourism, which is one of Andorra's main sources of income, will have to be one of the main priorities when facing the challenges arising from the current economic situation. Beyond the impact of the international economic crisis, the results of the tourism and commercial sector depend on global competition and the maturity of Andorra's business model. The Andorran Government is therefore working in conjunction with the main social and business players in this sector to ensure the high quality of tourism in the Principality, rendering it attractive and enjoyable, and offering a range of emotions, experiences, products and services which differ from other tourism offered globally.

III.2.

Main economic variables

National income and per capita income

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

The table below shows that Andorran GDP per capita fell by 1.59% during 2008, this decrease is higher than that recorded by its neighbouring countries, but in line with the economic recession experienced globally during the last six months of 2008. Given the current economic situation in the neighbouring countries, which account for more than 70% of the tourists to the Principality, and taking into consideration the drop in its GDP in 2009 and estimates for 2010, Standard & Poor's expects the Andorran economy to maintain this downward trend until 2011, when the Andorran GDP is expected to resume its growth. [table 1]

National income and per capita income

	2006	2007	2008	E2009
National income (Millions of Euros)	2,500	2,600	2,600	2,500
Per capita income (Euros)	30,780	31,274	30,775	29,733
Variation in per capita income	5.12%	1.60%	(1.59%)	(3.39%)

Source: Standard & Poor's Report of July 2009

[table 1]

GDP per capita, 2009

Country	Balance
Luxembourg	59,596
Switzerland	39,371
Andorra (*)	29,733
USA	29,061
Japan	26,282
Germany	26,162
France	25,183
Spain	15,247
Portugal	12,070

(*) Estimated information from Standard & Poor's Report of July 2009

(In Euros) Source: IMF

[table 2]

A comparative analysis of the Andorran gross domestic product per capita with the main European countries and the USA and Japan is shown below. The GDP per capita in the Principality, estimated for 2009 based on Standard & Poor's report of July 2009, stands above that of Spain, the USA or Japan and below that of countries such as Luxembourg or Switzerland. [table 2]

Consumer price index

During 2009 the consumer price index (CPI) has continued with the decline started in 2008 when there was a change in trend of recent years, falling from 1.98% in 2008 to 0.00% in 2009. This decline has been mainly caused by the drop in housing and petrol prices and in the prices of the majority of staple foodstuffs such as cereals, meat, fish and dairy products.

Based on the year-on-year consumer price indexes shown in the table below and comparing Andorra with other countries, it can be observed that it has registered a lower year-on-year drop in CPI than that of the Euro zone, due to the consumer price indexes reached in countries such as Finland, Luxembourg and Slovenia. [table 3]

Year-on year CPI 2009

Luxembourg	2.51%
UK	2.10%
USA	1.97%
Italy	0.95%
Euro Zone	0.90%
Spain	0.87%
Germany	0.84%
France	0.10%
Andorra	0.00%
Switzerland	(0.45%)
Portugal	(0.90%)
Japan	(1.68%)
Ireland	(2.58%)

Source: IMF and Statistics Department - Andorran Government

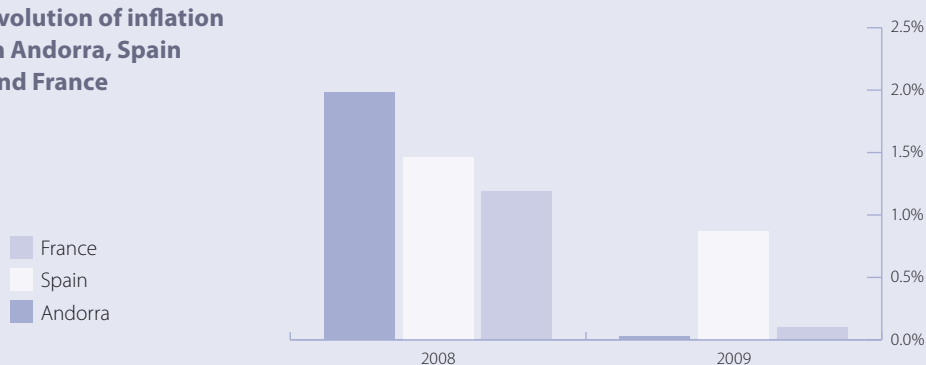
[table 3]

Details of the growth of the Andorran, French and Spanish consumer price indexes for the last two years, are as follows: [graph 1]

The graph above shows an overall reduction in the CPI for the three economies. Nevertheless, the most notable decline has been in the Andorran economy which experienced the lowest drop in 2008. The CPI decrease has also been notable in the French economy, falling from 1.19% to 0.10%.

The decrease in the Andorran CPI from 1.98% in 2008 to 0.00% in 2009 is mainly due to the drop in housing and food, beverage and tobacco prices which are down 0.84% and 0.33%, respectively. Although a reduction has been observed compared to 2008, the decline in these two groups has not been as noticeable as last year (3.16% and 2.79%, respectively).

Evolution of inflation in Andorra, Spain and France



Source: IMF and Statistics Department - Andorran Government

[graph 1]

Employment market

The annual average number of jobs for 2009 decreased 4.05% in comparison with the previous year, falling to 50,393 jobs, mainly due to the national and international economic crisis since the second half of 2008, which has had a negative effect on the number of jobs on offer in the employment market. The reduction of the number of jobs on offer has taken special relevance in those sectors of the Andorran economy that had experienced a higher decrease on their activity, such as construction and services related activities.

In 2007 the growing trend in the number of wage earners started to reverse, reporting a drop of 0.34% in 2008, in an environment of economic change. This trend was consolidated with a 2.34% reduction in the number of wage earners, being 2009 the year with the most significant drop in recent times with a decrease of 2.84% with respect to 2008. In a scenario of international financial crisis and economic recession, the decrease in the number of jobs and wage earners in Andorra has been well below that reported in the majority of neighbouring economies.

In the case of Andorra, one of the main causes for the loss of jobs and wage earners during 2009 has been the plunge in economic activity in the secondary sector, mainly involving construction (employing 73.78% of total wage earners in the secondary sector), followed by the tertiary sector,

specifically commerce and the hotel and restaurant trade.

The economic sector experiencing the most significant decline in wage earners is construction, down 11.22%, whilst the public sector has reported the highest level of growth, with 1.95% more wage earners than in 2008.

As shown in the graph illustrating the wage earners registered with the *Caixa Andorrana de Seguretat Social* (Social Security authorities; hereinafter the CASS) by sector, the tertiary sector's importance to the Andorran economy is highly significant, 64.67% of total wage earners in 2009, followed by the secondary sector (industry and construction) representing 17.88%, the public sector (17.09%) and finally the primary sector (0.36%). In recent years the number of wage earners in the public sector is becoming increasingly similar to that of the secondary sector, mainly due to the cut in jobs in the secondary sector and sustained growth in the public sector, although during 2009 this rise has been lower than that reported in previous years. [graph 2]

During 2009, 2,353 Social Security (CASS) registrations were made, 27.91% down on 2008. This figure once again confirms the downward trend in the number of registrations in recent years (2008: -19.84%; 2007: -20.47%; 2006: -12.50%). In a scenario which has shown a decline in both the number of

jobs and the average number of wage earners, the decrease in the number of registrations endorses the lower turnover of personnel, which stands at 4.67% in 2009.

The comparison of employment rates shown in the table below illustrates that, despite having dropped 1.1 percentage points, the employment rate in Andorra continues to be higher than that of the 27 European member states. [table 4]

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. Nevertheless, it should be taken into consideration that since the last quarter of 2009, unemployed individuals who comply with the requirements established now receive an exceptional unemployment benefit for the first time. The Andorran Government has created this extraordinary benefit within the framework of special measures to deal with the current economic situation. The notable presence of tertiary activities in the economy, especially tourism-related activities, implies the existence of flexible contracts and seasonal jobs, which also results in a higher employment rate than that registered in the 27 member states of the European Union.

Growth of salaries

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

The information presented in the table below shows continuous and sustained growth in both

Distribution of wage earners by sector in 2009



Source: Caixa Andorrana de Seguretat Social

[graph 2]

Employment rate

	ANDORRA		UE-27	
	2008	2009	2008	2009
Employment rate (*)	68.21	67.11	65.90	64.60

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

(Percentage) Source: Caixa Andorrana de Seguretat Social and Eurostat

[table 4]

The employment rate in Andorra dropped 1.61% on 2008, compared to a decline of 1.97% in the 27 member states of the European Union during the same period.

average and minimum salaries in recent years. In 2009, despite the economic slowdown of Andorra and neighbouring countries, the average salary and minimum salary have risen by 2.10% and 1.89%, respectively, both in excess of the consumer price index (CPI) which has stood at 0.00%. [table 5]

Growth of average and minimum salaries in Andorra

	1995	2006	2007	2008	2009	Var. (%) 08-09
Average salaries	1,021	1,702	1,752	1,810	1,848	2.10%
Minimum salaries	616	838	865	898	915	1.89%

(Monthly Euros) Source: Monthly Gazette of the Andorran Government

[table 5]

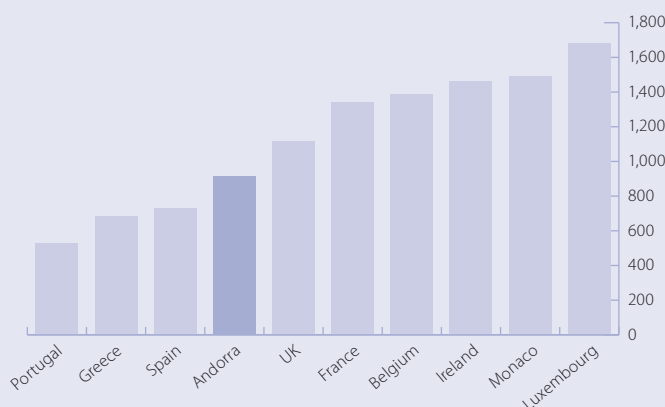
The graph below shows a comparison of minimum salaries between Andorra and other EU countries. It can be observed that the minimum salary in Andorra is between that of Spain and the United Kingdom, but lower than that of Monaco and Luxembourg. [graph 3]

In 2009, the financial system and the energy production and distribution sector are those sub-sectors registering the highest average salaries, consid-

erably higher than the average salaries declared to the CASS (Euros 4,221 and Euros 3,229, respectively).

Average salaries have shown growth in almost all sectors, especially in the primary and public sectors. The tertiary sector which showed the highest growth in 2008, increasing average salaries by 15.85%, has reversed this trend, reporting a drop of 7.14% in 2009. [graph 4]

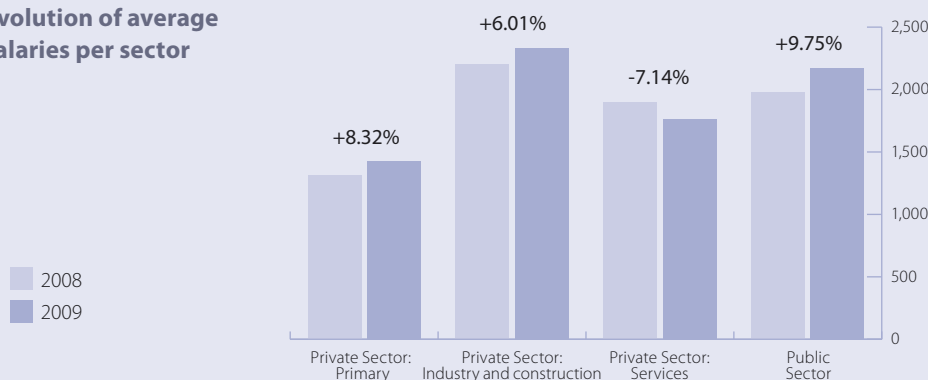
Minimum salaries 2009



(Euros) Source: Eurostat and Statistics Department - Andorran Government

[graph 3]

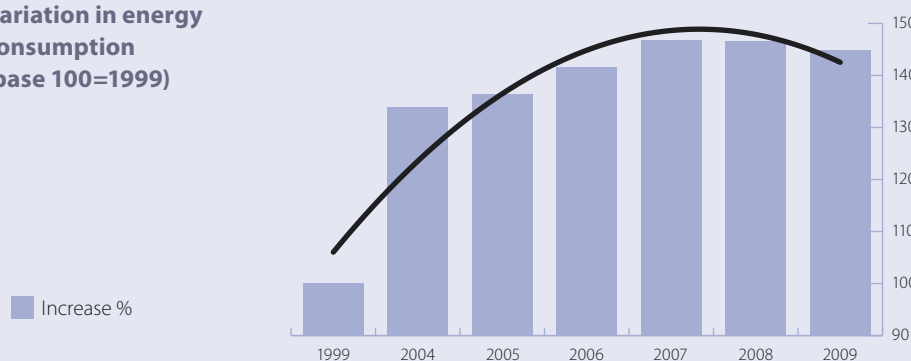
Evolution of average salaries per sector



(Euros) Source: Caixa Andorrana de Seguretat Social

[graph 4]

Variation in energy consumption (base 100=1999)



(MW/hour) Source: Monthly Gazette of the Andorran Government

[graph 5]

Consumption of electrical power

Electricity consumption is a useful indicator for estimating the progress of a country's economic activity. The evolution of electricity consumption over recent years using 1999 as the index year is shown below: [graph 5](#)

The graph above shows that energy consumption is down 1.15% on the level reached in 2008, which had shown a 0.25% drop in relation to 2007.

Telecommunications

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

According to the 13th European Commission report on the telecommunications market, Nordic economies are characterised by having ADSL penetration rates of approximately 30%. In 2009 Andorra has reached a penetration rate of 27%, above the rate

Construction, ski resorts, industry, hotels and restaurants have been the main activities affected by the sharpest decline in electricity consumption, although the construction sector has experienced the most notable decrease, 10.85% vs. 2008 (2008: -43.85%). On the other hand, the most significant growth in consumption can mainly be observed in public lighting, up 3.73% on 2008 (2008: 8.22%).

of 2008 (24%), mainly due to two factors: firstly the 11.56% rise in the number of ADSL subscribers and secondly, the 0.48% drop in total population in the Principality.

Furthermore, Andorra occupies second position, after Lithuania, in the worldwide ranking for household optical fibre penetration, according to the list published in February 2010 at the annual congress of the FTTH Council Europe. Andorran was ranked number eleven in the same list published in February 2009.

Vehicle Licensing and Fuel

One of the indicators of internal demand in the Andorran economy is the number of licensed vehicles. The current change in the economic cycle and the slowdown of the majority of sectors started during 2008 and continuing in 2009 has also been evident in the number of licensed vehicles in the Principality (including mopeds, special vehicles and snowmobiles) with a 20.27% drop (2008: -25.44%).

Middle of the range vehicles represent approximately 70% of total licensed vehicles, accounting for 19.69% of the total reduction. Furthermore, licensing of other types of vehicles, such as mopeds

or special vehicles, has reduced, even though the importance as a percentage of total licensed vehicles is significantly lower in the case of cars, generating a less significant effect in the variation in total demand for vehicles. [table 6](#)

In addition to analysing the total number of licensed vehicles, the import and export of vehicles in and out of the Principality should also be taken into consideration. Net imports during 2009 have amounted to Euros 78,783,040, 21.44% lower than those made in 2008.

Licensed vehicles

	2005	2006	2007	2008	2009	Var. (%) 08-09
Total vehicles	6,773	5,769	4,690	3,497	2,788	(20. 27%)

Source: Monthly Gazette of the Andorran Government

[table 6]

Another indicator of consumption is fuel imports, which have generally fallen in 2009. The most significant decrease has been that of kerosene (35.49%

vs. 2008), followed by unleaded petrol and domestic fuel which are down 5.25% and 4.43%, respectively. [table 7]

Fuel Import

	2005	2006	2007	2008	2009	Var. (%) 08-09
Unleaded gas	40,038,113	36,218,624	33,724,557	31,621,725	29,960,088	(5.25%)
Diesel oil locomotion	105,204,653	106,993,438	103,065,935	104,104,455	100,287,482	(3.67%)
Domestic fuel	73,243,794	63,589,706	66,396,534	67,454,616	64,467,574	(4.43%)
Kerosene and kerosene for jet engines	10,560	101,093	141,367	144,832	93,427	(35.49%)
TOTAL	218,497,120	206,902,861	203,328,393	203,325,628	194,808,571	(4.19%)

(Liters) Source: Statistics Department - Andorran Government

[table 7]

III.3. Public sector

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

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

Central Government

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

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

Nevertheless, as a result of the current economic situation, the Andorran economy requires a budget which adapts to this new situation, based on austere and strict cost controlling measures. The 2009

budget amounts to Euros 447,211 thousand, 3.58% up on the previous year. The main budgetary measures are in the field of social politics, and policies to drive competitiveness and improve infrastructures, without implying a rise in tax pressure or unbalancing budgetary stability.

The table below shows that all revenues have been lower than those budgeted, except in the financial liabilities caption which includes the rescheduling of the public debt for an amount of Euros 260,000 thousand and a Euros 119,268 thousand variation in the credit facility. Expenses have been 97.92% higher than those budgeted under investments, mainly due to projects destined for general use, and 47.71% lower than those budgeted under financial expenses as a result of the cut in interest rates. [table 8]

Central Government budget and liquidation

	Budget 2009	% of total Budget	Liquidation budget 2009	% of total Liquidation	Var. (%) Liq./Budget
TOTAL INCOME	447,211	100.00%	650,669	100.00%	45.49%
Direct taxes	6,267	1.40%	1,737	0.27%	(72.28%)
Indirect taxes	312,367	69.85%	232,109	35.67%	(25.69%)
Other income	128,428	28.72%	37,401	5.75%	(70.88%)
Changes in net financial assets	149	0.03%	134	0.02%	(10.07%)
Changes in net financial liabilities	-	-	379,288	58.29%	-
TOTAL EXPENSES AND INVESTMENTS	447,211	100.00%	648,077	100.00%	44.92%
Investments	50,172	11.22%	99,301	15.32%	97.92%
Transfers	140,101	31.33%	141,082	21.77%	0.70%
Operating expenses	138,222	30.90%	132,162	20.40%	(4.38%)
Financial expenses	29,188	6.53%	15,262	2.35%	(47.71%)
Financial assets	165	0.04%	270	0.04%	63.64%
Financial liabilities	89,363	19.98%	260,000	40.12%	-

(Thousands of Euros) Source: Ministry of Finance - Andorran Government

[table 8]

Local Government

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

The table below shows total revenue and expenses for each of the *Comuns*, according to the 2009 budget, and illustrates that the most significant source of income collected (64.62%) is included under the “Own collection of funds and others” caption, which comprises taxes and rates of the *Comuns*. The remaining 35.38% mainly relates to transfers received from the Government. 65.55% of *Comuns* expenses relates to “Operating expenses”, comprising expenses relating to personnel, goods and services. The remaining 15.19% corresponds to investments and 19.26% to transfers, financial expenses and financial liabilities.

The table below also provides details of the budget clearance for 2009, showing possible deviations:

[table 9]

All the *Comuns* have experienced a certain degree of variation between the initial budget for 2009 and the revenue and expense clearance budget for the year. An analysis of the 2009 budget clearance for the different *Comuns* shows that two parishes, Canillo and Encamp, have recorded a deficit due to the clearance of expenses exceeding revenue by 28.94% and 10.26%, respectively. The other *Comuns*, however, have recorded a budget clearance surplus for the year.

Local government budget and liquidation for 2009

	Budget	Liquidation	Diversion
TOTAL INCOME	156,007,730	181,442,716	16.30%
Canillo	16,416,145	11,303,500	(31.14%)
Encamp	30,334,671	28,021,500	(7.63%)
Ordino	12,616,739	13,098,296	3.82%
La Massana	14,560,915	13,604,444	(6.57%)
Andorra la Vella	39,366,457	41,382,110	5.12%
Sant Julià de Lòria	15,791,038	15,263,546	(3.34%)
Escaldes-Engordany	26,921,765	58,769,320	118.30%
TOTAL EXPENSES	156,007,730	168,439,798	7.97%
Canillo	16,416,145	14,575,022	(11.22%)
Encamp	30,334,671	30,897,389	1.86%
Ordino	12,616,739	10,955,092	(13.17%)
La Massana	14,560,915	10,869,281	(25.35%)
Andorra la Vella	39,366,457	36,011,844	(8.52%)
Sant Julià de Lòria	15,791,038	12,958,236	(17.94%)
Escaldes-Engordany	26,921,765	52,172,934	93.79%
BUDGET / LIQUIDATION RESULT	-	13,002,918	-

(Euros) Source: Monthly Gazette of the Andorran Government and Local Governments of the Andorran Principality.

[table 9]

III.4. Evolution of the Andorran economy in 2009

Introduction

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

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

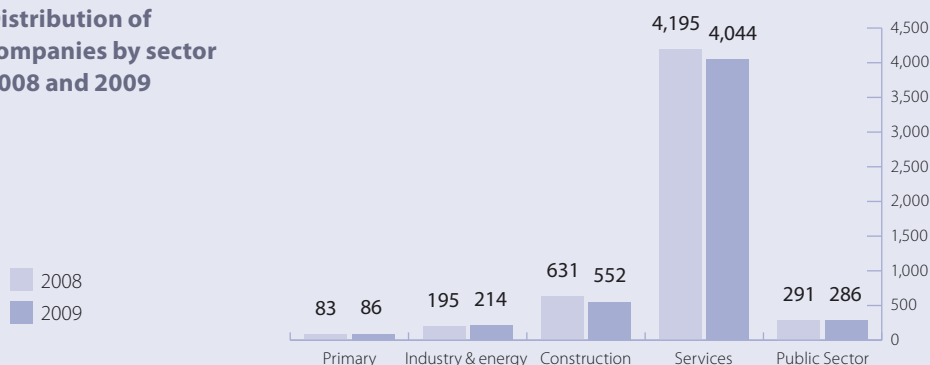
The information available on the Principality does not facilitate an analysis of each sector's contribution we couldn't assume to extract conclusive data to examine each sector's contribution to the gross domestic product (GDP). This entails analysing the production structure by extracting employment data, data that have been previously analysed in the section describing the composition of the working population by sector.

In an environment of global economic deceleration, the number of companies and wage earners

in the Andorran economy has decreased by 3.95% and 2.84%, respectively in 2009. At the end of 2009 the Principality of Andorra had 5,182 companies and 41,021 wage earners. The country's business structure is dominated by small-sized companies, representing 72% of total companies in Andorra.

The following graph shows that the service sector continues to have significant importance in the Andorran labour market and employs 64.67% of the working population, down 2.48% on 2008. Likewise, the construction sector has suffered an 11.22% decline in the number of wage earners, representing 13.19% of total wage earners adhered to the Social Security (CASS) in 2009. The sectors which have gained the most importance are the public sector and the industry and energy sector, up 1.95% and 1.21%, respectively. This means that the economic model based on tourism, the financial sector and, in recent years, construction, is much more vulnerable when neighbouring countries experience an economic downturn, due to the low level of diversification in Andorra's economy, which depends to a large extent on tourism. [\[graphs 6 and 7\]](#)

Distribution of companies by sector 2008 and 2009

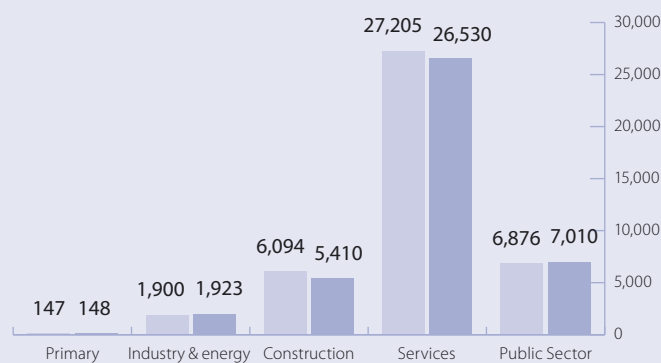


(Number of companies) Source: Caixa Andorrana de Seguretat Social

[graph 6]

Distribution of wage earners by sector 2008 and 2009

■ 2008
■ 2009



(Number of wage earners) Source: Monthly Gazette of the Andorran Government

[graph 7]

Primary sector

From the second half of the 20th century to the 1990s the primary sector has experienced an economic downturn, until reaching the stability of recent years. This sector employs just over 0.36% of the total working population and represents 1.66% 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.

Although this sector has continued to lose importance during recent decades, it should be emphasised that developed nations are constantly taking measures to maintain and revive the primary sector, since these nations have come to consider this sector as key to environmental conservation and global development. During 2008 the number of companies in this sector has dropped significantly from 91 in 2007 to 83 in 2008. However, at the end of 2009, 86 companies were registered in this sector although the number of wage earners is only up by one compared to 2008, indicating possible mergers between companies in the sector.

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 for the production of Andorran beef with a quality seal, through promotional campaigns.

During the first half of 2008 the Andorran Association of Farmers and Stockbreeders presented two

research and innovation plans to identify alternatives to the cultivation of tobacco, which have continued to be implemented during 2009. One of these plans has involved trials with medicinal and aromatic plants, while the other has focused on identifying the variety of potato that is best adapted to Andorran growing conditions and which is of a certain quality. In relation to the latter plan, results of the first harvest have already been seen in 2009, confirming the favourable performance and adaptation of this particular variety of potato to conditions in Andorra. The aim is to find varieties to offer a quality product adapted to current consumer trends and to be able to commercialise Andorran agricultural produce with seals of quality.

Since 2003 an Andorran entrepreneur has also started producing and commercialising his own wine. This small vineyard is located in the village of Nagol, in the parish of Sant Julià de Lòria, at an altitude of 1,100 metres and has an annual production of approximately 1,000 bottles. The *Cim de Cel* is a white wine solely produced using the Alsatian grape variety, resistant to the climatic conditions of a high mountain country such as Andorra. The first grapes were harvested in 2006 and the resulting wine is being commercialised.

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

Secondary sector

Industry and energy

There are two kinds of industry in Andorra: the extractive industry, i.e. extracting raw materials directly from natural resources and the manufacturing industry, which involves the use of machinery and manual labour to produce goods for their subsequent use or sale. Only 0.01% of the country's wage earners are employed in the extractive industry through one sole company whilst 4.30% are employed in the manufacturing industry through a total of 208 different companies. The manufacturing sector is characterised by weak internal demand, a lack of specialised workforce and a rise in competition regarding production costs. Nevertheless, the number of companies has risen 4.13% in relation to 2008 and the number of wage earners is up 1.21%.

The industry and energy sectors maintain a low relative importance with regard to the production structure of the country. Social Security (CASS) workers involved in the production and distribution of electricity, gas and water represent an average of 0.38% of the total workforce in 2009. The Andorran energy sector is closely linked to the international scenario and in particular to neighbouring countries, as it is highly dependent on other countries for its supply sources. Electricity represents approxi-

mately 40% of the country's energy consumption and more than 80% is imported from Spain and France. The electrical sector has not been liberalised and *Forces Elèctriques d'Andorra* (FEDA) is the country's only producer and importer of electricity, supplying the other distributors in the country such as *Nord Andorra, SA*, *Mútua Elèctrica de Sant Julià, Societat Explotadora i Repartidora del Comú d'Encamp, SA* and *Unió Elèctrica d'Encamp*.

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

The business structure of the sector, taking into consideration the distribution of workers in the companies, is dominated by small companies. 60.28% of these companies employ 1 to 5 workers (53.85% in 2008), 16.36% employ 6 to 10 workers (16.92% in 2008) and 14.95% employ 11 to 25 workers (20.51% in 2008). Only 8.41% have a headcount exceeding 25 employees (8.72% in 2008).

Construction

Prior to 2007 the Andorran construction sector was characterised by the upward trend sustained over the past decade, as is the case of Andorra's neighbouring countries. Nevertheless, this trend reversed due, inter alia, to the cease of transactions in the real estate market, causing a drop in activity in the construction sector which has continued into 2009. During this year the sector has experienced an 11.22% fall in the number of wage earners (-8.97% in 2008), a 12.52% decrease in the number of companies (-8.28% in 2008) and the corresponding reduction in its contribution to the GDP.

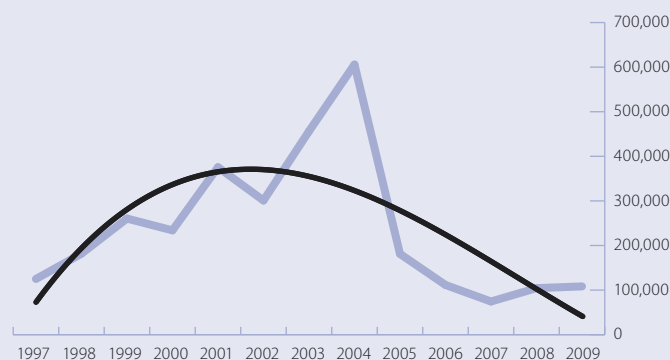
Despite the substantial decrease in construction activity in the private sector, during 2009 the Andorran Government implemented a policy of budgetary expansion, generating capital investments mostly in the construction of infrastructures, which has generated activity in this sector.

Despite this downturn, the number of wage earners in construction represents 13.19% of total wage earners registered with the Social Security (CASS) in 2009 (14.43% in 2008) and 10.65% of Andorran companies (11.70% in 2008).

As already mentioned in this chapter, the Andorran business structure is strongly dominated by small companies; 51.99% of companies from the construction sector employ a number of workers equal to or less than 5, 20.29% employ between 6 and 10 workers, 19.02% employ between 11 and 15 workers and the remaining 8.70% of the companies have more than 25 workers.

The construction boom in recent years has been closely linked to the growth in the areas of land authorised for development. Nonetheless, it should be mentioned that the peak in construction shown

Surface area authorised for development 1997-2009

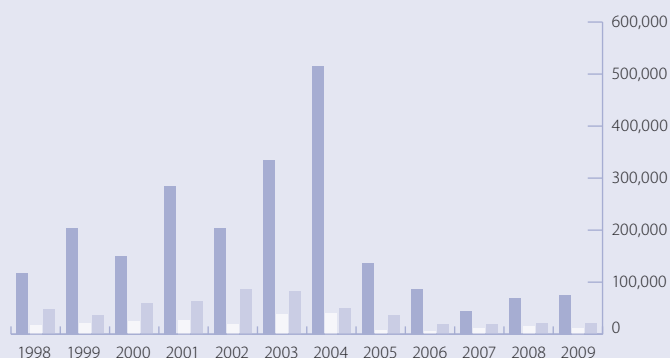


(m²) Source: Monthly Gazette of the Andorran Government

[graph 8]

Surface area authorised for development, by type of construction 1998-2009

■ Apartments
■ Chalets
■ Other buildings



(m²) Source: Ministry of Town Planning and Territorial Ordinance

[graph 9]

in the graph below took place in 2004 due to the May 2003 moratorium. Subsequently, the total area of land authorised for development in Andorra dropped to levels below those of 1997. However, as shown in the graph below, 2008 marked the start of a change in trend, which has continued during 2009 with a 3.67% increase in total square metres authorised. [graph 8]

The table below shows the number of square metres of land authorised for development by type of construction: [graph 9]

The above graph shows a clear decline in area of land authorised for development during 2005, 2006 and 2007. As outlined above, several factors

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

The graph also illustrates that during 2008 the square metres authorised for the development of apartments rose slightly as a result of the approval and/or modification of urbanisation plans in the majority of parishes, a trend that has continued into 2009.

Tertiary sector: Services

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

The tertiary sector is a key sector in the Andorran economy. During 2009 it has employed 33,540 individuals, representing approximately 81.76% of the total workforce and a total of 4,330 companies (83.56% of total) have operated in this sector.

The table below shows that the tertiary sector mainly groups together commerce and tourism-

related activities and services. However it also includes important activities such as public administration, liberal professions and the Andorran financial sector. [graph 10]

The business structure of the sector mainly comprises small companies. Therefore, 74.73% of the companies have 5 or less employees, whilst 20.63% have 6 to 25 workers, 3.44% have a headcount exceeding 25 and only 1.20% have more than 100 employees.

Tourism

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

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

Despite the ongoing efforts to boost tourism, the influx of tourists in Andorra has decreased by almost 4% in 2009. However, it should be pointed out that this decline has not been as marked as in Spain where the influx of tourists has decreased by almost 6% in 2009.

Hotel accommodation represents approximately 70% of tourist accommodation for 2009, considerably above hostels or residences, boarding houses, aparthotels and holiday apartments. This year Andorra has 260 hotels, ten less than in the previous year, with a total capacity for 33,700 beds (814 less than in 2008).

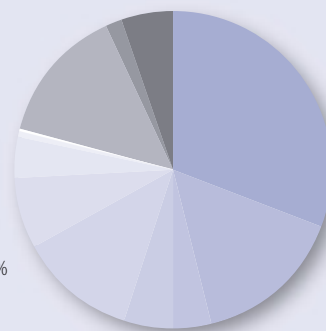
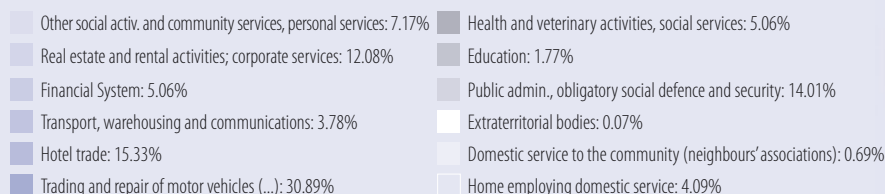
The distribution of beds by category during 2009 has varied in line with the strategic outlook for innovation and quality improvement implemented by most Andorran businesses in 2007.

The restructuring and improvement of hotel infrastructure in the Principality over the past three years has enhanced the hotels on offer in Andorra, with the focus on boosting quality tourism in the Pyrenean country. As in 2007 and 2008, the amount of accommodation and capacity in lower category tourist establishments has continued to decrease substantially. The graph below shows that 54% of beds available in Andorra in 2009 were in hotels with four and five stars, whilst almost 90% of beds can be found in 3 or more star hotels (2006: 32% and 65%, respectively). [graph 11]

In line with the work carried out prior to mid-2009, as part of the Andorra 2020 Programme and for the purpose of boosting the tourist sector and increase what is offered in the country, the Andorran Government continues to work on a number of projects, the most noteworthy of which are as follows:

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

Number of wage earners on Tertiary sector: Services

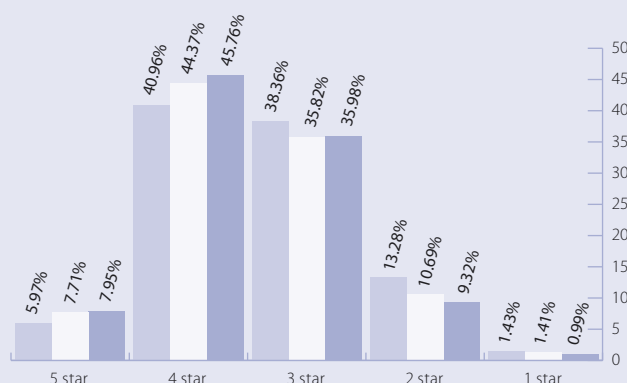


Source: Monthly Gazette of the Andorran Government

[graph 10]

Distribution of beds by category 2007, 2008 and 2009

2007
2008
2009



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

[graph 11]

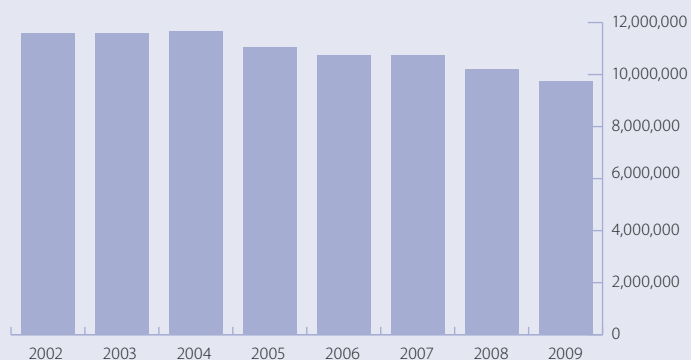
As well as the wide range of hotel accommodation on offer, Andorra is also renowned for its restaurants, offering avant-garde cuisine that combines traditional and contemporary dishes. Visitors can discover this cuisine through a choice of gastronomic events and tours such as those organised in les bordes, and a total of 398 restaurants. Furthermore, Andorra is the favourite nation of wild mushroom pickers, with a wide variety of wild mushrooms growing throughout the year.

In order to promote this tourist attraction the Andorran Gastronomic Association (*Associació Andorрана de Gastronomia*) was created during 2007 to position Andorra as a country offering excellent cuisine. The Andorran Government supports this initiative and is collaborating with the *Comuns*, the Andorran Hotel Union (*Unió Hotelera d'Andorra*) and several other associations to promote local and international gastronomic events. During 2009 Andorra organised two relevant and well-known gastronomic events: the world renowned *V Quinzena de la Tòfona*, a gastronomic event centred around the black truffle, held in February and the *XVIII Mostra Gastronòmica* (XVIII Gastronomic Week), which took place in Ordino with an extensive programme including a series of gastronomic talks given by experts from Andorra and neighbouring countries.

One of the most relevant indicators to evaluate the global dynamics of the tourism industry is the total number of visitors to the country per year. The evolution of this indicator shows a slight recovery in the number of visitors from 2006 to 2007, followed by drops of 5.11% and 4.45% in 2008 and 2009, respectively. The majority of visitors come from the neighbouring countries of Spain and France.

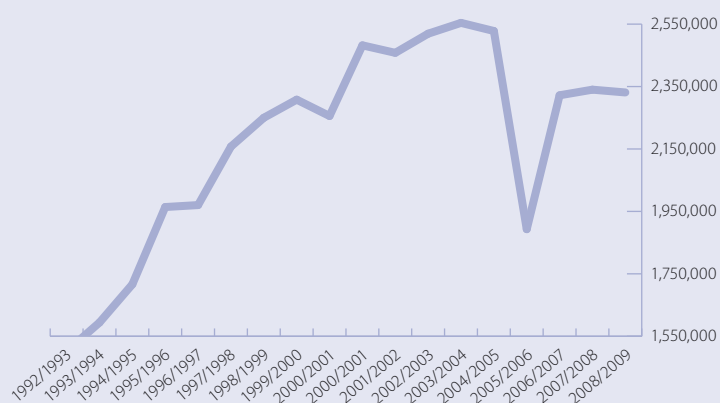
As shown in the graph below, in recent years there has been a drop in the number of tourists and, to a lesser extent, in the number of day trippers, who form a notable part of total visitors. The declining number of visitors who stay the night does not necessarily have to be perceived as negative if it is offset by a rise in the quality of tourism currently on offer. [graph 12]

Furthermore, it should be noted that 2009 has been another year of generalised change in the economic cycle, commenced in 2008 and caused initially by the international financial crisis, which has dragged the economies of neighbouring countries into recession and substantially reduced tourist activity.

Evolution of number of visitors 2002-2009

Source: Monthly Gazette of the Andorran Government

[graph 12]

Evolution of total days of sky

Source: Ski Andorra

[graph 13]

Another of the significant variables for an economic analysis of the Andorran tourism industry is the total number of days of ski sold. This concept refers to the number of daily ski passes sold by all the Andorran ski resorts throughout the ski season. The number of visitors during the 2009-10 season, during which weather conditions were excellent for winter sports, has dropped slightly compared to last season. Specifically, the decrease compared to the previous year is approximately 0.4%. It should also be noted that this season's data are 6.71% below the average for the best seasons in recent years. One of the factors explaining this difference is the decrease in the purchasing power of the majority of skiers due to the international economic situation, especially with regard to the neighbouring countries. This year's ski season has not been as long as last year's season, although the Andorran ski resorts closed their installations in mid April 2009, which was later than most of the other ski resorts in the Pyrenees. [graph 13]

The Principality of Andorra has the largest skiable surface area in the Pyrenees and one of the most extensive in Europe with more than 3,075 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-Arcalís ski resorts have joined for commercial purposes under the name of VALLNORD, enabling clients to use both resorts with a single ski pass.

The two resorts have a total of 177 pistes and several circuits for other snow-related activities and adventure sports.

GRANDVALIRA is formed of 6 sectors: Pas de la Casa, Grau Roig, Soldeu, El Tarter, Canillo and Encamp, covering a total of 1,926 hectares distributed across 110 pistes and with a capacity for 100,700 skiers per hour.

VALLNORD has three skiable sectors, Pal, Arinsal and Arcalis, covering a total of 1,149 hectares, 67 pistes and with a capacity for 55,690 skiers per hour. On 8 February 2009 the Mountain Skiing World Cup was held at this resort.

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

NATURLÀNDIA, which includes the winter sports camp, La Rabassa, is located in the parish of Sant Julià de Lòria and covers more than 330 hectares, at

an altitude varying between 1,600 and 2,000 metres which forms a great natural space freely accessible and in constant evolution, where new proposals will be included progressively and gradually.

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

The table below shows details of the skiing facilities available in the Principality, together with a summary of their main features: [\[table 10\]](#)

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: [\[graph 14\]](#)

Ski resort facilities 2009

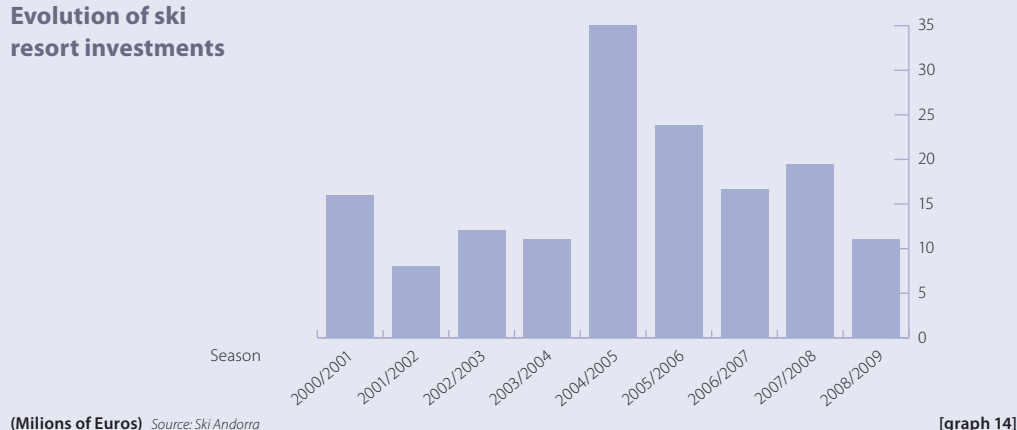
Resort	Km of slopes	Ski runs	Snow machines	% Snowmaking	Ski lifts	Skiers capacity / per hour
VALLNORD: Pal - Arinsal	63	42	296	44%	31	39,180
VALLNORD: Ordino - Arcalís	30	25	89	48%	14	16,510
GRANDVALIRA	193	110	1,097	43%	67	100,700
NATURLÀNDIA - La Rabassa *	15	7			2	-
TOTAL	301	184	1,482	41%	114	156,390

* Cross-country skiing and alpine coaster toboggan

Source: Ski Andorra

[\[table 10\]](#)

Evolution of ski resort investments



[\[graph 14\]](#)

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

CALDEA uses all the properties of thermal water and has come to symbolise Andorra. The centre is currently being extended with the creation of a new wellness area for integral wellbeing. This is

expected to be inaugurated in 2012, with a new surface area of 12,400 m².

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

In the last quarter of 2007, the Andorra la Vella Conference Centre, covering an area of 4,200 m², was inaugurated in the heart of the city, opening up the market to a new tourism sector: conference tourism.

Commerce

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

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

Commerce is one of Andorra's tourist attractions and has been one of the mainstays of the Andorran economy, not only due to the relevance of the total number of businesses and employees, but also because the tax on imports, borne by Andorran commerce and generally passed on to the end consumer, has been one of the Andorran State's principal sources of income to date. Despite the decline in 2008 and continuing in 2009, this sector comprises 34.32% of businesses and employs 38.78% of wage earners from the country's services sector.

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

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

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

Details of the number of companies and wage earners in Andorra's retail sector during 2008 and 2009, by type of establishment are shown in the following table: [table 11](#)

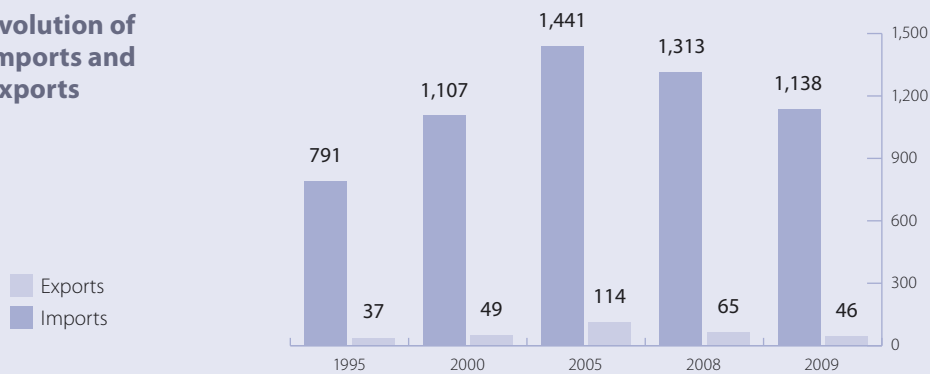
Number of companies and wage earners

	2008	2009	% of total 2009	Var. (%) 08-09
Number of companies	1,495	1,388	100.00%	(7.16%)
Number of wage earners	10,870	10,289	100.00%	(5.34%)
Sale, trading and repair of motor vehicles (...)	1,390	1,234	11.99%	(11.22%)
Wholesale trade and intermediaries, except for motor vehicles and motorcycles	2,342	2,801	27.22%	19.60%
Retail trade, except for motor vehicle trading (...)	7,138	6,254	60.78%	(12.38%)

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

[table 11]

Evolution of imports and exports



(Millions of Euros) Source: Monthly Gazette of the Andorran Government

[graph 15]

As is the case in other sectors, the majority of businesses employ 1 to 5 workers, representing 72.19% of total companies in this sector in the case of commerce, whilst only 4.97% employ more than 25 workers.

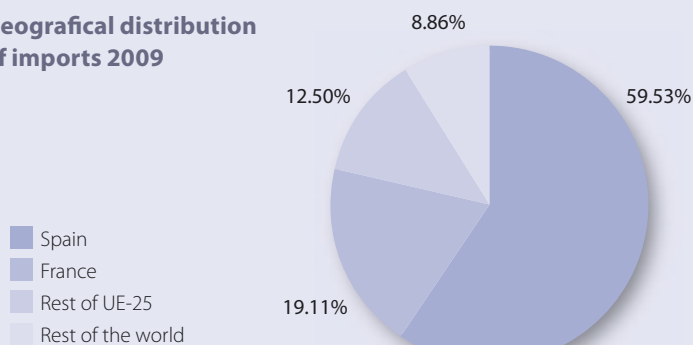
A reliable indicator of the status of Andorran commerce is the evolution of imports and exports in recent years. The trade deficit has been an ongoing structural feature of the Andorran economy.

However, it should be noted that in 2009 exports have fallen 29.23%, a very similar percentage to that of 2008 when exports fell by 30.10%. Imports are also down, dropping 13.33% (-5.95% in 2008), a figure directly related to the decreasing number of visitors to the Principality. This illustrates the vulnerable nature of Andorran commerce and its high level of dependence on external demand and tourism.

It should be taken into consideration that the export figures are not completely accurate since not all the tourists purchasing products in Andorra declare their exports because Spanish law establishes a limit on the value of each type of product that must be declared on entering Spain, as is the case in France. [graph 15]

The pie charts below show the geographical distribution of imports and exports by country of origin or destination. The Principality mainly has trade agreements with Spain and France. [graphs 16 and 17]

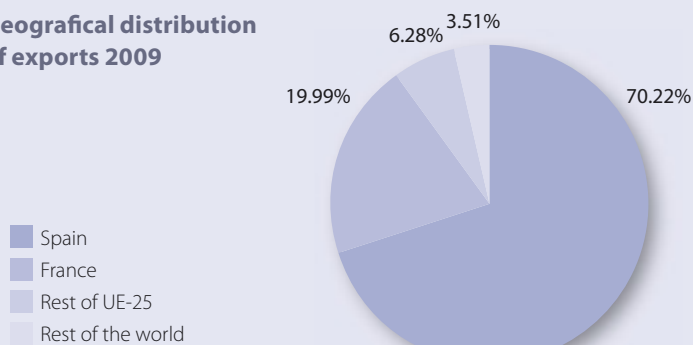
Geographical distribution of imports 2009



Source: Monthly Gazette of the Andorran Government

[graph 16]

Geographical distribution of exports 2009



Source: Monthly Gazette of the Andorran Government

[graph 17]

Financial sector

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

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

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

The financial system comprises 5 banking groups, 1 specialised credit entity, 8 investment undertaking management entities, 4 asset management com-

panies and 34 insurance companies, 18 of which are branches of foreign insurance companies authorised to operate in the Principality. The banking sector employs more than 1,500 individuals, representing approximately 80% of the total number of wage earners in the financial sector.

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

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

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

IV



IV BANKING SECTOR

IV.1. Introduction

The Andorran financial system is one of the mainstays of the Andorran economy which contributes approximately 16% to the Gross Domestic Product and is characterised by its solid financial reputation as a result of the strict and rigorous application of the international regulatory standards. Furthermore, the Andorran financial system, which is mainly focused on banking, is characterised by the capital adequacy and liquidity ratios of its banking system compared to other financial markets, (22.02% and 75.07%, respectively) due to its conservative and prudent management.

The Andorran banking sector comprises a total of five banking groups and has more than 80 years experience in this activity. The banking entities in Andorra render banking services (retail and private banking), asset management, brokering and insurance services.

Andorran legislation does not permit opaque structures, such as trusts, or private foundations to promote offshore investment structures, which prevent the identification of beneficiaries.

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

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

2009 has marked a change in trend within the Andorran banking sector, reversing the situation of recent years, which saw a rise in the aggregate balance sheet of Andorran banks to the detriment of off-balance sheet funds. This change has been brought about by low interest rate levels, growth in the financial markets and increased investor confidence in 2009. This growth, together with an improved financial margin and better results from the own share financial operations of the Andorran banks, has led to the banking sector's aggregate profits being 2.20% up on 2008 profits.

Capital adequacy and liquidity ratios, which are higher than last year, are excellent and the efficiency ratio has improved to the extent that it is now one of the lowest of all the European countries. These indicators illustrate the positive performance of the Andorran financial system, its consolidation in the domestic market and the progress made in the internationalisation process currently underway amongst Andorran banks, which has led to a diversification and growth in business, as well as the expansion of their banking structures and an increase of almost 7% in the aggregate number of employees, without having sacrificed efficiency ratios.

In an environment marked by an international financial crisis and a globalised recession of the real economy, results obtained by the Andorran banks, exceeding those of 2008, show a prudent and sound management. Now that the uninterrupted period of economic growth has come to an end we are in a more difficult and demanding period during which entities with more solid foundations and better business models and best management teams will stand out. The Andorran banking sector is prepared to calmly and confidently face future challenges.

On 10 March 2009 the Government of the Principality of Andorra signed the Paris Declaration,

formally committing to provide certain information on fiscal matters in the future, when the requests are justified and well founded and the principles of the OECD are respected. This shall mean giving information in justified scenarios, although no lists of persons will be provided nor will collective and general requests for information (*fishing expeditions*) be attended to.

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

As announced in the Paris Declaration, on 7 September 2009 the General Council of Andorra approved the Qualified Law 3/2009 for the exchange of tax information upon prior request.

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

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

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

Furthermore, exchanges of information on request, in response to justifiable and well-founded requests, will be effective for fiscal years which commence following the date on which each bilateral agreement comes into force, i.e. after the last notification that the agreement has been ratified by the respective Parliaments, plus an additional period, usually of three months, in the cases for which this period has been established. For example, if an agreement is ratified by the respective parliaments of the countries party to the agreement on 2 June 2010, and there is an additional period of three months, the agreement will come into force on 2 September 2010 and will be effective during the fiscal year 2011, i.e. as from 1 January 2011.

Following its ratification of the Law, between September 2009 and April 2010 the Government of Andorra signed bilateral agreements for the exchange of tax information upon prior request with 17 countries: Austria (17/09/09), Liechtenstein (18/09/09), Monaco (18/09/09), San Marino (21/09/09), France (22/09/09), Belgium (23/10/09), Argentina (26/10/09), the Netherlands (6/11/09), Portugal (30/11/09), Spain (14/01/10) and in a second round with Sweden, Finland, Norway, Denmark, Iceland, Greenland and the Faroe Islands (24/02/10).

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

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

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

The main pacts included in this agreement are as follows:

- Application of the criteria established by the Basel Committee on banking regulations and supervisory practices, known as the Cooke Committee.
- The obligation to submit financial statements for review by independent external auditors and to file these financial statements with the relevant public authority.
- The obligation to ensure that the identities of the clients are accurately verified.
- The maintenance of the banks' code of secrecy, including the obligation of ensuring that the

financial system is not used for laundering capital originating from serious criminal offences under the provisions of Andorran Law.

- The setting up of a commission to supervise the application of the pacts of this agreement.

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

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

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

- Represent and defend the interests at all levels of its members.
- Protect the prestige, professional image and development and competitiveness of Andorran banking both domestically and internationally. According to this aim, during 2007 and 2008, the ABA undertook a study in order to draw up an Institutional Plan that would allow the Andorran financial system to be guaranteed within the institutional environment, both in Andorra and abroad, ensuring that the statutory standards and regulations of the Andorran financial system are in line with international standards.
- Implement initiatives aimed at improving the sector's technical standards in order to avoid illegal conduct of business by unqualified outsiders and any other irregular activities.
- Promote respectful sector cooperation through reciprocal competition and informing its members of issues of common concern.
- Ensure transparency in the application of conditions to clients and aim to complement professional ethics inherent to the profession.
- Collaborate with public entities either voluntarily or at the request of the Government, local corporations, and other public and parapublic entities by preparing reports, studies and recommendations, and economic action, forecast or recovery plans.
- Set up and participate in foundations and private entities, and participate in public entities and

institutions on the condition that their objective is to promote economic, cultural, sporting and social welfare in the Principality and, in general, improve the standard of living of its citizens.

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

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

In addition, the ABA has collaborated with Andorra Development and Investment (ADI), the agency promoting the Andorran economy, as a sponsor on four occasions of The Future of Europe Summit. The Andorran Summit is an international economic meeting point which was held every November in Andorra.

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

During the second half of 2009, the ABA has been working on the development of an electronic online training platform related to money laundering and combating the financing of terrorism, which includes up-to-date information and both national and international legislation on this matter. This online training platform will be made available to employees of the Andorran banking sector during 2010.

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

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

IV.3. The banking sector

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

The most significant aggregate data for Andorran banking for 2008 and 2009 are as follows: [\[table 1\]](#)

	2008	2009
Total assets	15,862,628	13,387,424
Loans	7,023,700	6,897,766
Assets under management	25,367,888	27,082,296
Profit	197,171	201,505
ROE	14.87%	15.43%
ROA	1.38%	1.34%
Efficiency ratio	38.07%	36.80%
Capital adequacy ratio	19.34%	22.02%
Liquidity ratio	69.57%	75.07%
Default ratio	1.46%	2.22%
(Thousands of Euros) Source: Association of Andorran Banks		

[table 1]

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 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, SAU**

Incorporated in 1952.

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

■ **Banca Privada d'Andorra, SA**

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

■ **Crédit Andorrà Group**

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

■ **BancSabadell d'Andorra, SA**

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

The above mentioned banking entities operate in all the main urban areas of the country through an extensive network of branches. There are a total of 55 branches distributed throughout the

seven parishes which comprise the Principality of Andorra. The branches providing banking services in the Principality, together with the number of cash dispensers and Andorran bank employees, including those abroad, at 31 December 2008 and 2009 are shown below: [table 2]

In 2009 the number of employees has increased by 6.81%, i.e. 97 workers, who are mainly located abroad, in line with the process of international expansion implemented by the Andorran banks. At present, four of the five banking groups are in the process of international expansion, as shown below:

■ **Andbanc**

Andbanc was the first of the Andorran banks to embark on an internationalisation process in 2001 through its opening in Bahames of the bank *Andbanc (Bahames) Ltd.* It has subsequently continued to expand internationally by acquiring other wealth management companies, creating representative offices and banking licences, among others, with the aim of positioning itself as one of the leading banks in private banking. It is currently present in Switzerland (*AndPrivateWealth, SA* - wealth management company), Mexico (Representative office and *Columbus* - wealth management company), Luxembourg (*Andbanc Asset Management Luxembourg* - fund management company and *Andbanc Luxembourg* - bank), Uruguay (Representative office and *Quest Capital Advisers* - financial advisors), Panama (*Andbanc (Panamá) S.A.* - bank and *Andbanc (Panamá) S.A.* - securities firm) and *BVI* (fund management company).

■ **Banc Internacional - Banca Mora (BIBM)**

The **Banc Internacional - Banca Mora Group** began its international expansion in 2008 with the opening of an independent wealth management company, *Mora Wealth Management*, in Zurich, Switzerland's most important financial centre. It continued its international expansion in 2009 with the acquisition of a wealth management

	Number of branches		Number of employees		Number of cash dispensers	
	2008	2009	2008	2009	2008	2009
ANDBANC	12	11	344	356	31	31
BIBM	11	11	270	277	33	32
BPA	7	8	225	290	24	26
CRÈDIT ANDORRÀ GROUP	21	19	468	482	43	44
BANCSABADELL D'ANDORRA	6	6	118	117	20	20
TOTAL	57	55	1,425	1,522	151	153

Source: Association of Andorran Banks

[table 2]

company in Miami, USA, which became Mora Wealth Management Miami. This corporate transaction was the first to be conducted in North America and provides an excellent platform for rendering services to the private banking market of Latin America.

■ **Banca Privada d'Andorra (BPA)**

The Banca Privada d'Andorra Group is present in Luxembourg through its subsidiaries BPA Advisory Company, S.A (management company of the security investment company BPA International Selection Fund) and BPA Financing, S.à.r.l. (investment and international financing company); in Spain through its fund management company BPA Global Funds Asset Management SGIIC, SA; in Uruguay through its subsidiary Banca Privada d'Andorra (Uruguay), SA IFE (an Uruguayan financial institution licensed to carry out banking activities); in Mexico through Banca Privada d'Andorra, SA Representative office in Mexico and BPA Investment, SA de CV, Sociedad Operadora de Sociedades de Inversión (which provides asset management and third party portfolio management services, amongst others) and in Panama through Banca Privada d'Andorra (Panama), SA (which has an international banking licence to carry out banking activities for non-resident customers in the country).

■ **Crédit Andorrà Group**

The aim of the Crédit Andorrà Group is to guarantee ongoing and sustainable growth and future competitiveness through a plan of internationalisation and diversification of its business activities, bringing them into line with best practices and international standards. In 2009, it set up the securities firm Crédit Andorrà Panamá Securities, offering brokerage and financial advisory services. This company has consolidated its operational structure in Latin America through the Crédit Andorrà (Panamá) bank and in Uruguay through the Representative office of Uruguay. In Europe it has promoted its asset management services through its collective investment undertakings in Luxembourg (Crediinvest Sicav and Investcredit Sicav), the wealth management company, Private Investment Management, in Switzerland and Valira Capital Asset Management in Spain, which manages traditional funds and security investment companies while providing custody and management services. The Group has expanded its insurance business in Spain through the holding company, ERM, which has branch offices in Barcelona, Girona, Tarragona, Palma (Majorca) and Seville.

■ **BancSabadell d'Andorra**

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

Corporate Social Responsibility

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

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

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

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

CSR in Andbanc

The Corporate Social Responsibility policy of the Andbanc Group is based on its fundamental corporate values of promoting excellence, professionalism and trust. These are the pillars for the company to grow as a financial and social entity that is fully integrated into an environment where sustainability and concern for the environment

prevail. During 2009, Andbanc has continued to consolidate and promote its social projects like economics, education, culture and sports, which reaffirm the entity's commitment to the country. Sport continues to be one of the most important areas to which Andbanc contributes through its long-standing sponsorship of sporting activities in collaboration with the Andorran Olympic Committee (COA) aimed at improving Andorran sport and reinforcing its image outside Andorra. Andbanc also supports base sport through its collaboration with the rally Andorran driver Cyril Després in organising the First Raid for young sporting talent. One of the mainstays of a society is culture and it should be highlighted that Andbanc has collaborated with different entities and embassies to promote the cultures of different countries within Andorra.

CSR in Banc Internacional - Banca Mora (BIBM)

In its notes to the 2009 annual accounts, the BIBM Group presents its Corporate Social Responsibility programme focusing on building a better country. In the opinion of BIBM a company's development is based on sustainability and on the application of strict ethical criteria, so that it may act responsibly in its day-to-day activities. Corporate social responsibility policies are based on quality as a key competitive factor, on the decisive backing of sustainability and on the promotion of social initiatives. These initiatives include the divulging of scientific and medical issues through leading conferences and cultural projects such as the Andorran la Vella Season of Music and Dance, educational projects with the collaboration of professional institutes and sporting projects with the sponsorship of the Andorran Basketball Club, amongst others. As a result, BIBM shows a serious commitment towards society through its CSR programme.

CR in Banca Privada d'Andorra (BPA)

BPA began some time ago to incorporate Corporate Social Responsibility into its philosophy. An internal code of ethics, shared by all the entities comprising the BPA Group, establishes general and professional ethics as the pillars of all the bank's relations with public institutions, regulating and supervisory bodies, customers, personnel and suppliers. The Entity is managed according to economic responsibility criteria, which overall includes integrity, transparency and contribution to the economic development of Andorra. BPA has also made respect for the environment one of the fundamental values of its code of conduct as part of its bid to encourage sustainable growth within Andorra. The Banca Privada d'Andorra Private Foundation, created in 2008, carries out the BPA's welfare and environmental activities, giving priority

to projects and services which improve the quality of life of the country's citizens and promoting its own projects and those of others in collaboration with the Andorran associations and entities with which it forms a network of solidarity. Of particular importance is the agreement with the Xeridell Occupational Workshop, which has been working for the last 25 years to help people with disabilities finding on-job integration.

CSR in the Crèdit Andorrà Group



Sustainability and commitment to the community are key principles in the management model of the Crèdit Andorrà Group, which is based on ethics and corporate, social and environmental responsibility. An example of this approach was the signature of the United Nation's declaration on the environment in 1998. In 2003 it was the first bank to implement a CSR policy, which was published in its annual report complying with the GRI self-declared application level A. The social involvement of the Crèdit Andorrà Group is evident in its welfare initiatives which include a training programme for the elderly and support for the sick; in its cultural initiatives which include the promotion of music and the arts through the National Chamber Orchestra of Andorra (ONCA), the Ordino Festival Association and the National Theatre of Andorra (ENA), in its educational initiatives which include the awarding of grants and an agreement with the University of Andorra; and in its environmental, sporting and financial initiatives through collaboration with different entities, including the Crèdit Andorrà Chair at the IESE business school. These initiatives demonstrate the entity's commitment to progress and the creation of a better society, tasks to which it has assigned 1.97% of its net profits in 2009, much of which through the Crèdit Andorrà Foundation.

CSR in BancSabadell d'Andorra

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

Aggregate consolidated balance sheets of Andorran banks

Details of the aggregate consolidated balance sheets of Andorran banking entities for 2008 and 2009 are as follows: [table 3]

ASSETS	2008	% of total	2009	% of total	Var. (%) 08-09
Cash and central banks OECD	81,059	0.51%	99,700	0.75%	23.00%
INAF	108,204	0.68%	107,693	0.80%	(0.47%)
Financial intermediaries	4,795,410	30.23%	1,737,163	12.98%	(63.77%)
Loans	6,972,173	43.95%	6,820,211	50.94%	(2.18%)
Securities portfolio	2,930,085	18.47%	3,746,489	27.99%	27.86%
Gains on consolidation	4,448	0.04%	12,913	0.10%	-
Intangible assets	164,610	1.04%	59,239	0.44%	(64.01%)
Tangible assets	532,927	3.36%	606,952	4.53%	13.89%
Prepayment and accrued receivables	155,910	0.98%	96,751	0.72%	(37.94%)
Other assets	117,802	0.74%	100,313	0.75%	(14.85%)
TOTAL ASSETS	15,862,628	100.00%	13,387,424	100.00%	(15.60%)
LIABILITIES					
INAF	174,501	1.10%	177,572	1.32%	1.76%
Due to banks and credit entities	135,592	0.85%	147,718	1.10%	8.94%
Other financial intermediaries	26	-	23	-	(11.54%)
Customer deposits	13,510,146	85.17%	10,950,938	81.80%	(18.94%)
Debts represented by securities	100,754	0.64%	257,900	1.92%	-
Provision for liabilities and charges	76,759	0.48%	41,524	0.31%	(45.90%)
Provision for general risks	55,006	0.35%	51,757	0.39%	(5.91%)
Subordinated liabilities	241,235	1.52%	241,008	1.80%	(0.09%)
Accruals	132,370	0.83%	67,749	0.51%	(48.82%)
Other liabilities	101,581	0.64%	91,817	0.69%	(9.61%)
Share capital	280,536	1.77%	280,536	2.10%	-
Reserves	943,898	5.95%	939,701	7.02%	(0.44%)
Profit	197,171	1.24%	201,505	1.51%	2.20%
Prior years' result	(29)	-	(44)	-	-
Interim dividends	(87,993)	(0.55%)	(63,000)	(0.47%)	(28.40%)
Minority interest	1,075	0.01%	720	-	(33.02%)
TOTAL LIABILITIES	15,862,628	100.00%	13,387,424	100.00%	(15.60%)

(Thousands of Euros) Source: Association of Andorran Banks

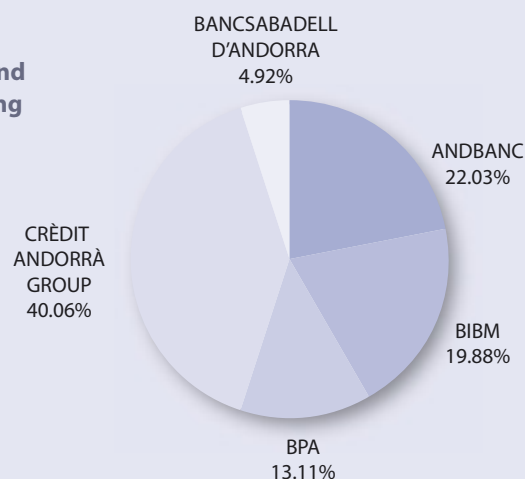
[table 3]

The consolidated balance sheets of each banking group for 2008 and 2009 can be found in chapter "V. Information of Interest".

The distribution of the aggregate balance sheet by banking entity at 31 December 2009 is as follows:

[graph 1]

Distribution of aggregate assets and liabilities by banking entity 2009



Source: Association of Andorran Banks

[graph 1]

Aggregate assets

During 2009 the aggregate balance sheet of the Andorran banks has varied regarding the composition of aggregate assets, with the “Cash and banks” caption losing relative importance, down 60.99% on the previous year, in favour of the “Securities portfolio”, which has increased by 27.86% in absolute terms. The “Securities portfolio” caption includes investments in own shares made by each of the entities in the sector.

Movement in the composition of aggregate assets of Andorran banks in 2009 is mainly due to the positive performance of international capital markets and the extremely low interest rates prevailing in the financial markets throughout the year. Loans which had reported significant growth in previous years have slowed down in line with the current economic situation. The “Loans” caption has recorded a drop of 2.18% in relation to the previous year, representing 50.94% of total assets.

The graph below shows the evolution of aggregate assets over the last five years, a period which has been characterised by sustained growth up until 2008, in which the increase in aggregate assets of Andorran banks stood at 22.03%. In 2009 aggregate assets have decreased by 15.60% in relation to

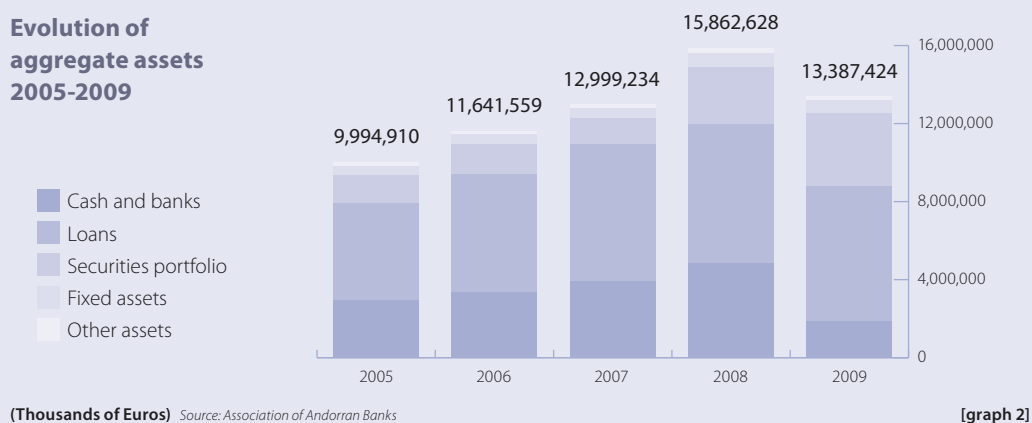
2008, which, as previously explained, is due to the transfer of customer deposits off the balance sheet. [\[graph 2\]](#)

Loans comprise a large part of the structure of total aggregate assets, representing more than 50%. [\[graph 3\]](#)

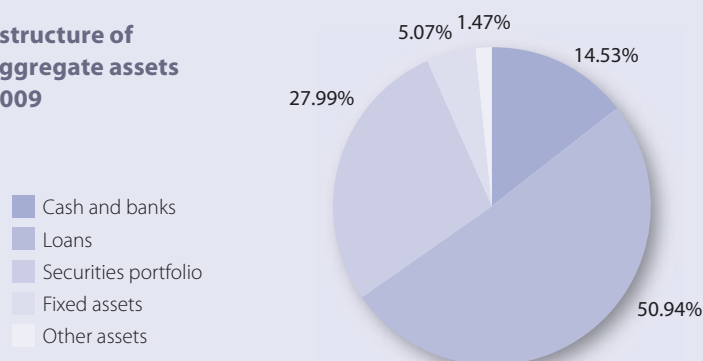
Details of the items forming part of the captions included in the above graphs are as follows:

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

**Evolution of
aggregate assets
2005-2009**



**Estructure of
aggregate assets
2009**



	2009
Cash and banks	1,944,556
Loans	6,820,211
Securities portfolio	3,746,489
Fixed assets	679,104
Other assets	197,064

(Thousands of Euros)

Source: Association of Andorran Banks

[graph 3]

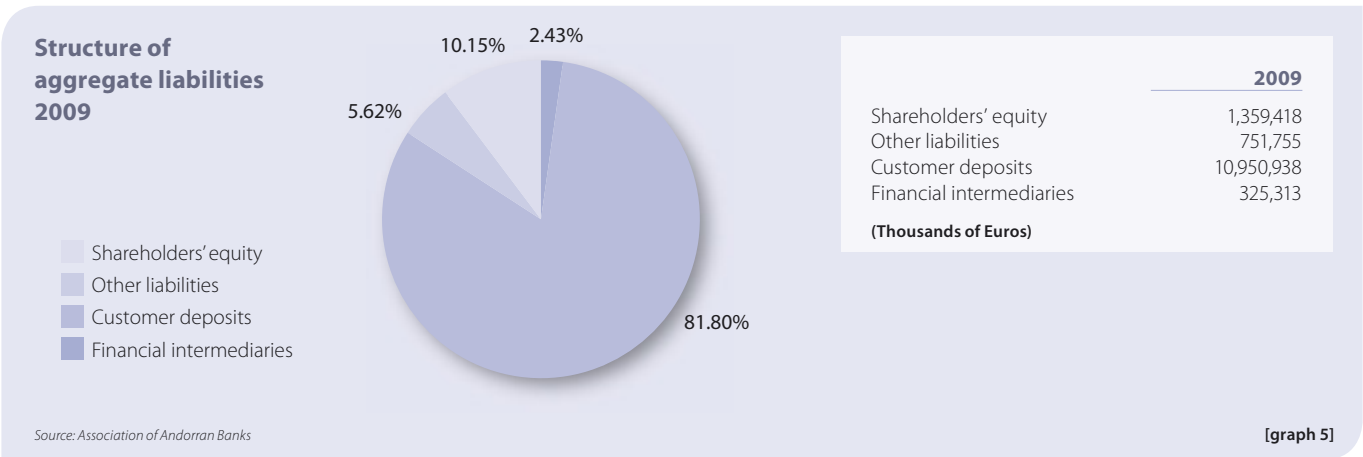
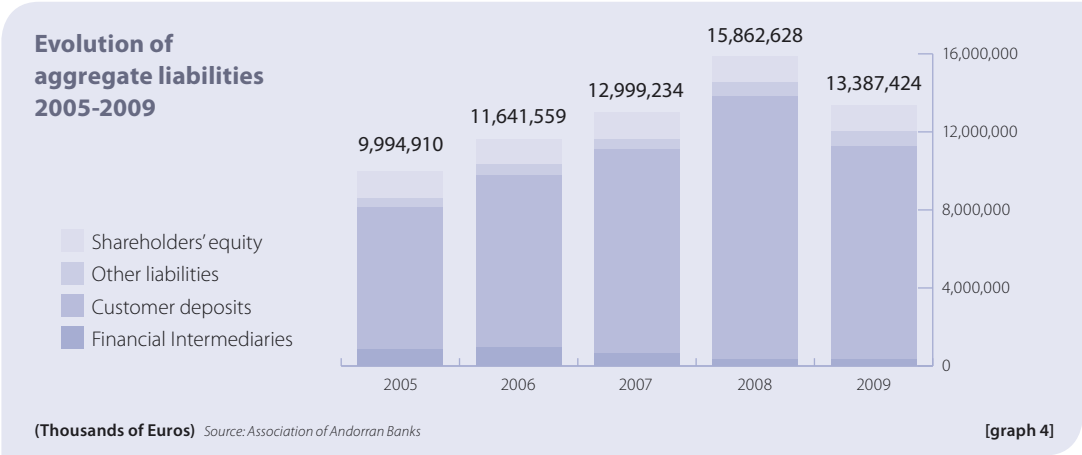
Aggregate liabilities

As can be observed from the graph below, the evolution of aggregate liabilities during the last five years has been characterised by sustained growth in the balance sheets of Andorran banks until 2008. Without doubt, the main source of this growth has been the rise in customer deposits, to the detriment of financing in the wholesale banking market. This situation has changed considerably in 2009 since customer deposits have decreased by 18.94% as a consequence of the transfer of customer funds off the balance sheet, although financing in the wholesale banking market has only risen by around 5% as the balance sheet structure of Andorran banks enables them to have low dependence on interbank financing. [graph 4]

The pie chart below illustrates that the Andorran banks’ aggregate liabilities at the 2009 close are characterised by the relative importance of custom-

er deposits to the financing structure of Andorran banks, representing 81.80% of aggregate liabilities. “Equity” makes up 10.15%, whilst the remaining liabilities are formed mainly of “Other liabilities” (5.62%) and “Financial intermediaries” (2.43%). [graph 5]

- Details of the items forming part of the captions included in the above graphs are as follows:
- Shareholders’ equity: includes share capital, reserves, results, interim dividends and minority interest (where applicable).
 - Other liabilities: include provisions, accruals and debts represented by securities.
 - Customer deposits: is the largest liability caption.
 - Financial intermediaries: include deposits from the INAF, Banks and Credit Entities.



Loans

Loans have experienced a 1.79% decrease in their growth ratio in relation to 2008 (2007 vs. 2008: +8.46%), primarily because of the impact of the economic slowdown and the greater prudence of entities in extending loans during the current economic crisis.

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

The graph below shows the evolution of loans during the last two years. During this period, it can be observed that BancSabadell d'Andorra is the banking entity which has shown most growth in absolute terms (Euros 39,308 thousand), followed by Crèdit Andorrà Group (Euros 127,375 thousand). This situation is the reverse to the previous year, as BPA showed the most growth in 2008 whereas in 2009 it has recorded the biggest drop in customer loans, falling by 27.56%. In line with what has happened in many other neighbouring countries and in view of the current economic recession, the entities of

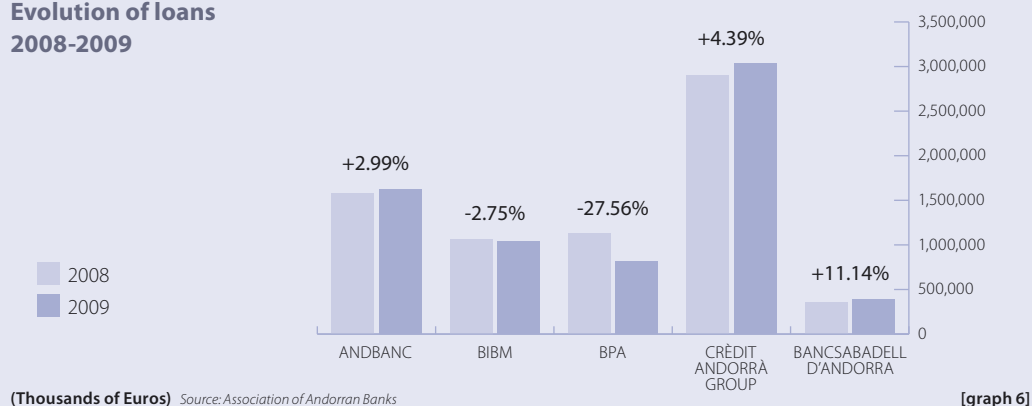
the Andorran financial system have generally undergone moderate or reduced growth in customer loans. [graph 6]

The "Loans" caption represents 50.94% of total aggregate assets, comprising mainly loans and credits to customers. Total collateralised loans represent 72.93%. As shown in the pie chart below, 14.28% of these loans relate to security guarantees, 55.99% to mortgage guarantees and 2.66% to monetary guarantees. 97% of loans have a risk rating of "Normal", 0.79% are "Past-due" (97.70% and 0.84% in 2008 and 98.92% and 0.45% in 2007, respectively) and 2.21% are classed as "Doubtful" (1.46% in 2008 and 0.63% in 2007). [graph 7]

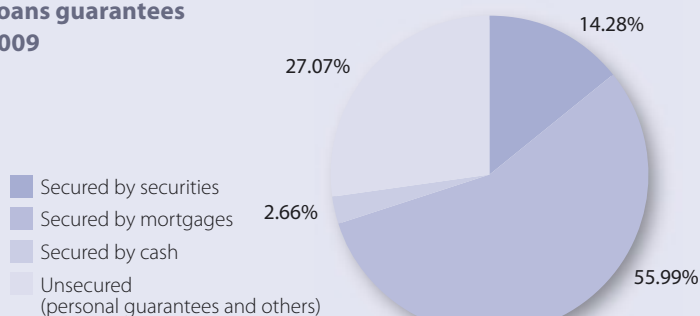
The aggregate default ratio of Andorran banks is 2.22% at 31 December 2009. This ratio has experienced an upward trend in recent years in line with the deterioration of the economic situation, although the default ratio of Andorran banks has remained considerably lower than the ratios recorded by the credit entities of neighbouring countries.

The table below illustrates the default ratio by financial entity for the past two years: [table 5]

Evolution of loans 2008-2009



Loans guarantees 2009



Evolution of loans

	2008	% of total	2009	% of total	Var. (%) 08-09
ANDBANC	1,576,056	22.44%	1,623,189	23.53%	2.99%
BIBM	1,065,824	15.18%	1,036,461	15.02%	(2.75%)
BPA	1,126,176	16.03%	815,789	11.83%	(27.56%)
CRÈDIT ANDORRÀ GROUP	2,902,788	41.33%	3,030,163	43.93%	4.39%
BANCSABADELL D'ANDORRA	352,856	5.02%	392,164	5.69%	11.14%
TOTAL	7,023,700	100.00%	6,897,766	100.00%	(1.79%)

(Thousands of Euros) Source: Association of Andorran Banks

[table 4]

Customer deposits

The uncertainty generated by the international financial crisis has led to a significant amount of customer funds managed off the balance sheet being transferred to more secure products, such as deposits. However, the upward trend of international capital markets in 2009 has generated a fall in customer deposits of 18.24% in relation to 2008 (2007 vs 2008: +29.12%; 2006 vs 2007: +18.53%) as part of the customer funds has been transferred off the balance sheet. Customer deposits showed growth from 2004 to 2008 with a reversal of the trend in 2009 returning to levels that are similar to those of 2007. [table 6]

The graph below shows the evolution of customer deposits over the last two years. It can be observed that BIBM and Andbanc are the banking entities which have fallen most in absolute terms (Euros 1,030 million and Euros 852 million, respectively), followed by Crèdit Andorrà Group, BPA and BancSa-

Default ratio

	2008	2009
ANDBANC	3.00%	4.60%
BIBM	1.05%	1.24%
BPA	0.70%	1.81%
CRÈDIT ANDORRÀ GROUP	1.23%	1.62%
BANCSABADELL D'ANDORRA	0.14%	0.37%
AGREGATED RATIO	1.46%	2.22%

Source: Association of Andorran Banks

[table 5]

badell d'Andorra (decreases of Euros 506 million, Euros 42 million and Euros 34 million, respectively). If the decrease is analysed in relative terms, it can also be observed that BIBM underwent the most significant decrease during 2009, followed by Andbanc, Crèdit Andorrà Group, BancSabadell d'Andorra and BPA. In general, this decrease is closely related to the increase experienced by each entity in customer funds managed off the balance sheet. [graph 8]

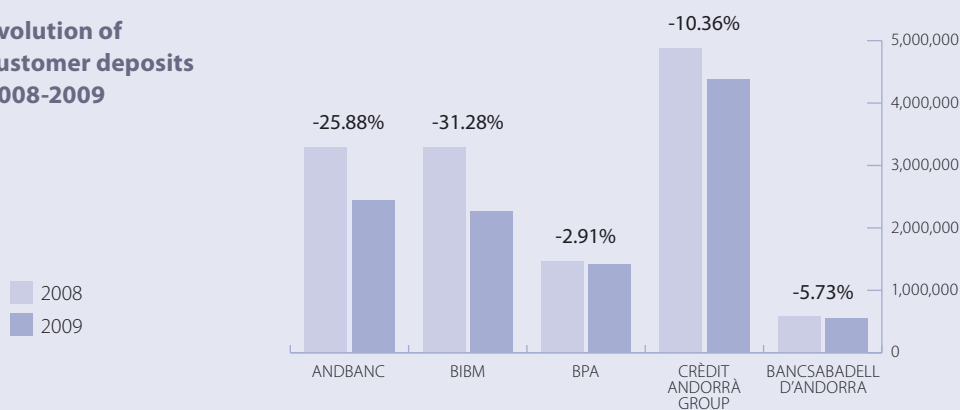
Evolution of customer deposits

	2008	% of total	2009	% of total	Var. (%) 08-09
ANDBANC	3,291,763	24.37%	2,439,699	22.09%	(25.88%)
BIBM	3,294,089	24.38%	2,263,853	20.49%	(31.28%)
BPA	1,458,127	10.79%	1,415,764	12.82%	(2.91%)
CRÈDIT ANDORRÀ GROUP	4,879,467	36.12%	4,373,749	39.60%	(10.36%)
BANCSABADELL D'ANDORRA	586,700	4.34%	553,104	5.01%	(5.73%)
TOTAL	13,510,146	100.00%	11,046,169	100.00%	(18.24%)

(Thousands of Euros) Source: Association of Andorran Banks

[table 6]

Evolution of customer deposits 2008-2009



(Thousands of Euros) Source: Association of Andorran Banks

[graph 8]

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 2008 and 2009: [table 7]

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

The aggregate ratio has risen by 10.45 percentage points, breaking the trend started in 2006, when the ratio fell by 1.55 percentage points. The rise in this ratio during 2009 has been due to

the substantial decrease in customer deposits compared to the level recorded in 2008, dropping from Euros 13,510 million in 2008 to Euros 11,046 million in 2009.

In general, all the banking entities have seen their loans to customer deposits ratio rise, with the exception of BPA, the ratio of which has dropped by 19.61 percentage points from the previous year due to loans decreasing by 27.56% and deposits dropping by only 2.91%. Andbanc has had the highest loans to customer deposits ratio in recent years. However, from 2008 onwards BancSabadell d'Andorra has occupied this position. This variation is the result of the reduced growth of customer deposits experienced at BancSabadell d'Andorra during 2008 and that loans have risen by 11.14% during 2009. [graph 9]

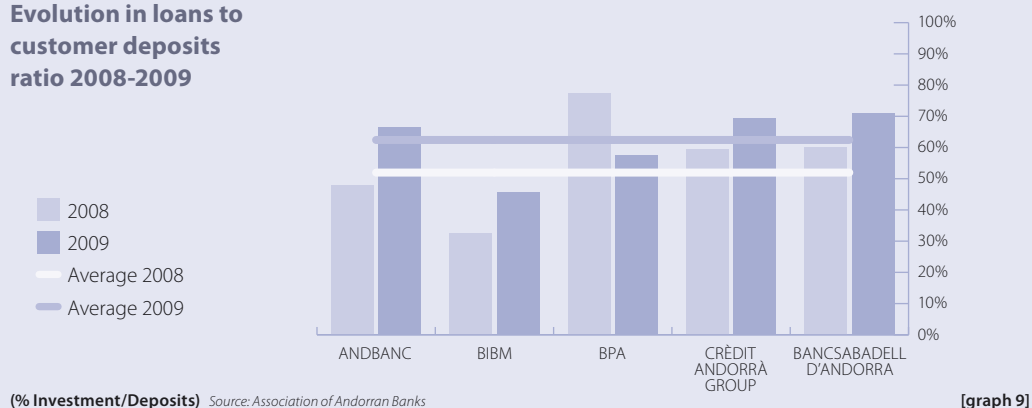
Evolution in loans to customer deposits ratio

	2008	2009
ANDBANC	47.88%	66.53%
BIBM	32.36%	45.78%
BPA	77.23%	57.62%
CRÈDIT ANDORRÀ GROUP	59.49%	69.28%
BANCSABADELL D'ANDORRA	60.14%	70.90%
AGGREGATE RATIO	51.99%	62.44%

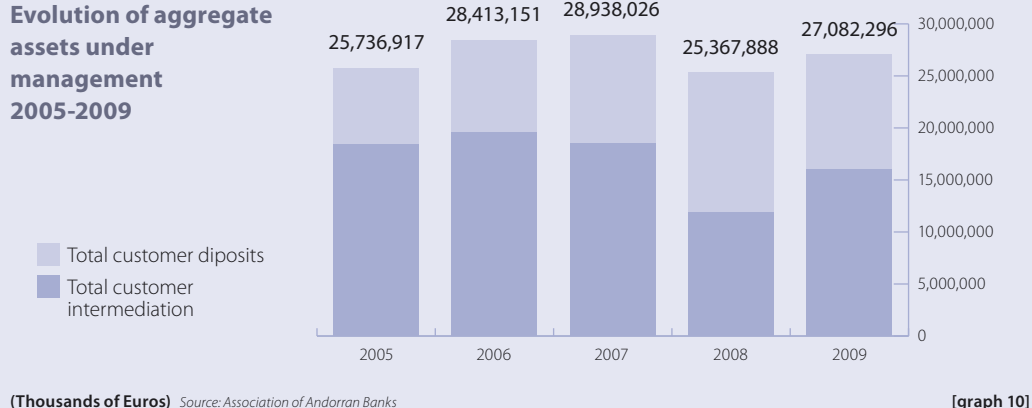
Source: Association of Andorran Banks

[table 7]

Evolution in loans to customer deposits ratio 2008-2009



Evolution of aggregate assets under management 2005-2009



Evolution of off balance assets under management

	2008	% of total	2009	% of total	Var. (%) 08-09
ANDBANC	3,091,174	26.07%	4,651,250	29.00%	50.47%
BIBM	2,872,753	24.23%	4,344,542	27.09%	51.23%
BPA	1,397,405	11.78%	1,475,652	9.20%	5.60%
CRÈDIT ANDORRÀ GROUP	3,933,301	33.17%	4,880,707	30.44%	24.09%
BANCSABADELL D'ANDORRA	563,109	4.75%	683,976	4.27%	21.46%
TOTAL	11,857,742	100.00%	16,036,127	100.00%	35.24%

(Thousands of Euros) Source: Association of Andorran Banks

[table 8]

Aggregate assets under management

Aggregate assets under management by Andorran banking entities (including customer deposits and customer intermediation), which registered accumulated growth of 34.83% during the 2003-2007 period and fell by 12.33% in 2008, have experienced growth of 6.76% during 2009. The drop in customer deposits has been offset by the notable increase in customer intermediation. The positive performance of the financial markets during 2009 has led to the transfer of customer assets managed on the balance sheet to off the balance sheet where the market value has also risen as a consequence of the positive price effect experienced by customer intermediated assets invested in international capital markets, thus generating a significant increase in customer assets managed off the balance sheet.

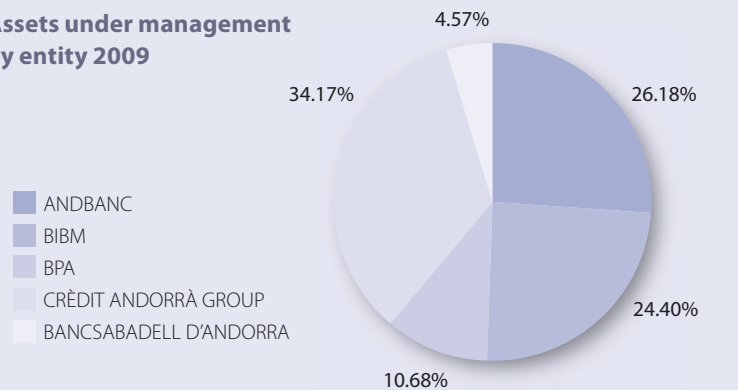
The following graph shows the evolution of assets managed by the banking entities during the last five years, and their distribution between customer deposits and customer intermediation. [graph 10]

As illustrated in the graph above, since 2006 rising interest rates have led to the trend of transferring off-the-balance sheet customer assets to the balance sheets.

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

Interest rates have remained very low in 2009 and the international financial markets have registered

Assets under management by entity 2009



Source: Association of Andorran Banks

[graph 11]

a clear upward trend, thus reversing the trend of recent years with growth of 35.24% in customer assets managed off the balance sheet, to the detriment of customer liabilities, which have dropped by 18.24% during 2009.

It should also be taken into consideration that other assets managed by fund management companies belonging to Andorran banking groups should be added to the assets managed on and off the balance sheet. Consequently, taking into account other customer assets which are not customer deposits or customer intermediation, the evolution of the aggregate volume of the assets managed by the Andorran banks between 2008 and 2009 has been as follows: [table 8]

The distribution of aggregate assets under management by banking entity, including deposits, customer intermediation and other assets managed, at 31 December 2009, is as follows: [graph 11]

Aggregate consolidated memorandum accounts of Andorran banks

Details of the aggregate memorandum accounts of Andorran banks for 2008 and 2009 are as follows: [table 9]

Chapter "V- Information of interest" shows the consolidated memorandum accounts of each banking group. Details of the aggregate consolidated memorandum accounts of each entity for 2008 and 2009 are as follows: [graph 12]

During 2009 the downward trend of aggregate memorandum accounts experienced in 2008 has been reversed with an increase of 8.70% (2007 vs. 2008: -25.65%, 2006 vs. 2007: + 2.96%, reaching Euros 31,142 million.

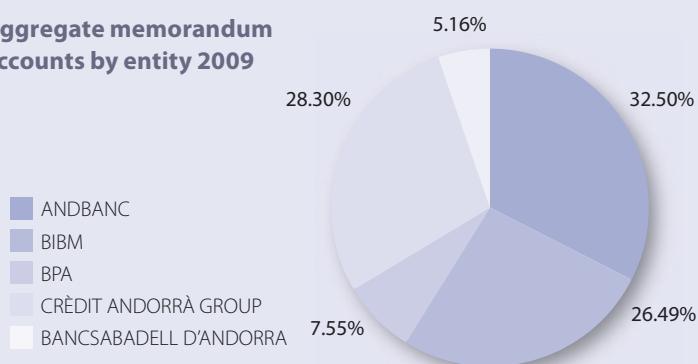
The largest caption, "Securities deposited and others held in custody", representing 62.32% of total memorandum accounts of Andorran banks is up 33.94% on the previous year (2007 vs. 2008: -25.79%), with a rise of almost Euros 5,000 million. However, this rise has been offset by the Euros 2,000 million reduction in the "Futures operations" caption, representing a drop of 23.95%, thus reducing its specific importance to 20.41% of total memorandum accounts. This drop in futures operations results from the reduction in future currency sales and purchases due to the reduced currency risk to which the balance sheets of both Andorran banks and their customers were exposed, and also interest rate futures operations and, to a lesser extent, options over financial instruments.

In line with the decrease in customer loans, "Contingent liabilities" and "Commitments and contingent risks" are down 9.60% on 2008 and, therefore, the off balance sheet trend has been even more prudent and conservative than the policy for extending and renewing asset operations, thus adapting to the current economic situation.

The "Other memorandum accounts for administrative control purposes only" caption, which includes guarantees and commitments received and other memorandum accounts, has dropped slightly by 6.06% compared to the previous year, when it fell by 11.23% from 2007. At 31 December 2009 this caption represents 11.34% of the total aggregate memorandum accounts of Andorran banks, similar to the percentage for 2008 (13.13%).

A breakdown of aggregate memorandum accounts at 31 December 2009 is as follows: [graph 13]

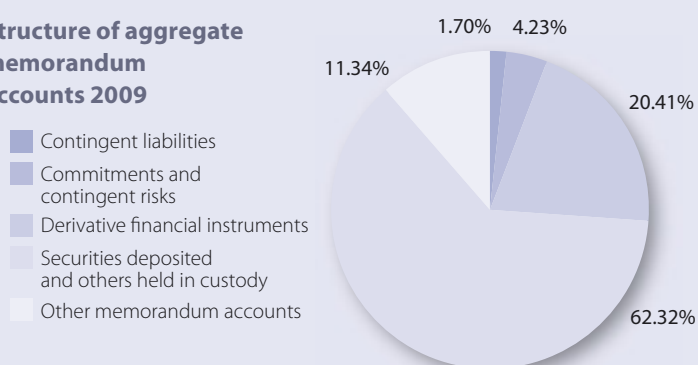
Aggregate memorandum accounts by entity 2009



Source: Association of Andorran Banks

[graph 12]

Structure of aggregate memorandum accounts 2009



Source: Association of Andorran Banks

[graph 13]

Evolution of aggregate memorandum accounts

	2008	% of total	2009	% of total	Var. (%) 08-09
Contingent liabilities	625,658	2.18%	529,092	1.70%	(15.43%)
Commitments and contingent risks	1,416,354	4.94%	1,316,860	4.23%	(7.02%)
Derivative financial instruments	8,357,082	29.17%	6,355,599	20.41%	(23.95%)
Securities deposited and others held in custody	14,489,126	50.58%	19,406,687	62.32%	33.94%
Other memorandum accounts	3,761,462	13.13%	3,533,461	11.34%	(6.06%)
TOTAL	28,649,682	100.00%	31,141,699	100.00%	8.70%

(Thousands of Euros) Source: Association of Andorran Banks

[table 9]

Aggregate consolidated income statements for Andorran banks

Details of the aggregate consolidated income statements of Andorran banks for 2008 and 2009 are as follows: [table 10](#)

Chapter "V. Information of interest" shows the consolidated income statements of each banking group for 2008 and 2009.

As a whole the Andorran banking entities have generated profits of Euros 202 million in 2009, 2.20% up on the previous year (2007 vs. 2008: -44.28%; 2006 vs 2007: +4.92%). This drop in profits for Andorran banks reported during 2008 was driven mainly by a significant decrease in income from commission as a result of the transfer of customer funds managed off the balance sheet to customer deposits. However, this situation has been reversed in 2009 and, although the profit level of 2007 has not been reached, the aggregate profits of the Andorran banks have risen during 2009 in relation to the figures for 2008.

During 2007-2009, due to the prudent management of their portfolios, the Andorran banks have not reported any significant losses from financial transactions and they have been able to avoid considerable losses from toxic assets, which have significantly affected the results of top international banking entities. It should be highlighted that, especially during 2009, the financial margin has improved and results from financing operations have risen, enabling the gross margin to improve significantly compared to the previous year, despite the fall of almost 10% in net commission income.

Consequently, in a year which has been critical for the international financial system, the Andorran banks have obtained profits of more than Euros 200 million, improving considerably their aggregate capital adequacy and liquidity ratios, which have been 22.02% and 75.07%, respectively. Both these ratios are far higher than the ratios of many international financial entities.

	2008	2009	Var. (%) 08-09
Interest and similar income	636,526	378,567	(40.53%)
Interest and similar charges	(468,762)	(195,071)	(58.39%)
Revenue from variable income securities	1,055	330	(68.72%)
FINANCIAL MARGIN	168,819	183,826	8.89%
Commission	283,389	255,109	(9.98%)
Profits on financial operations	31,023	81,377	-
Other profit on ordinary activities	3,022	2,650	(12.31%)
GROSS MARGIN	486,253	522,962	7.55%
Personnel expenses	(102,863)	(110,532)	7.46%
General expenses	(119,461)	(125,187)	4.79%
Depreciation and provisions	(43,963)	(51,157)	16.36%
Provisions for depreciation of assets, net of recoveries	1,950	(4,072)	-
OPERATING MARGIN	221,916	232,014	4.55%
Provisions for loan losses, net of recoveries	(22,554)	(21,734)	(3.64%)
Provisions for liabilities and charges, net of recoveries	(28,739)	(3,204)	(88.85%)
Allowance to provision for general risks	(23)	(9,200)	-
PROFIT ON ORDINARY ACTIVITIES	170,600	197,876	15.99%
Net extraordinary income	26,912	3,611	(86.58%)
Losses attributable to minority interest	(341)	18	-
PROFIT ATTRIBUTABLE TO THE GROUP	197,171	201,505	2.20%

(Thousands of Euros) Source: Association of Andorran Banks

[table 10]

Financial margin

As can be seen from the table below, in 2009 the aggregate financial margin of Andorran banking entities amounted to Euros 183,826 thousand and increased by 8.89% in relation to 2008 (2007 vs. 2008: +6.92%; 2006 vs 2007: +14.62%). The growth ratio of this margin has increased by 1.97 percentage points compared to the growth achieved in the

previous year, mainly due to the reduced interest paid on customer deposits. [table 11]

The evolution of the aggregate financial margin for the last five years, together with the financial margin by banking entity for 2008 and 2009 are shown in the graphs below: [graphs 14 and 15]

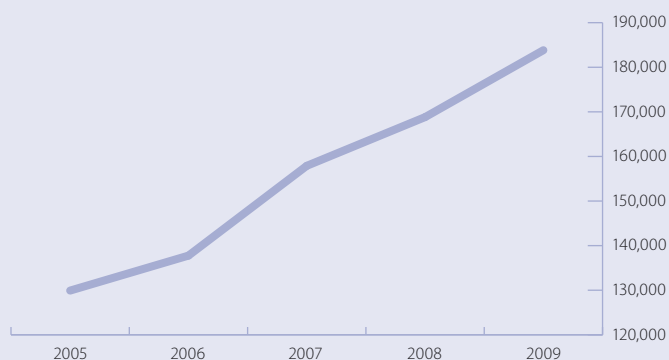
Financial margin by banking entity

	2008	2009	Var. (%) 08-09
ANDBANC	39,060	43,352	10.99%
BIBM	36,967	39,934	8.03%
BPA	18,409	24,271	31.84%
CRÈDIT ANDORRÀ GROUP	66,317	68,523	3.33%
BANCSABADELL D'ANDORRA	8,066	7,746	(3.97%)
TOTAL	168,819	183,826	8.89%

(Thousands of Euros) Source: Association of Andorran Banks

[table 11]

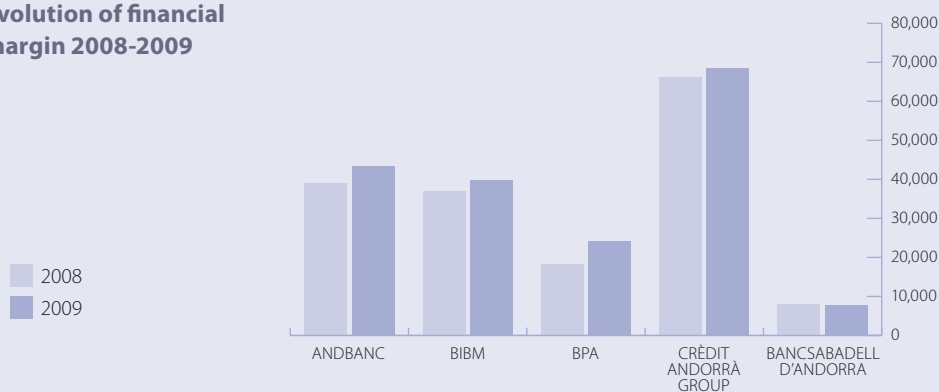
Evolution of aggregate financial margin 2005-2009



(Thousands of Euros) Source: Association of Andorran Banks

[graph 14]

Evolution of financial margin 2008-2009



(Thousands of Euros) Source: Association of Andorran Banks

[graph 15]

Gross margin

The table below shows that the aggregate gross margin has risen by 7.55% in 2009, with an increase of Euros 36,709 thousand (2007 vs. 2008: -23.20%; 2006 vs. 2007: +7.66%). Although net commissions generated by the range of products and services on offer have continued the downward trend of 2008 with a 9.98% decrease (-32.43% in 2008), the gross margin has risen due to the notable increase in "Results from financial operations", which has risen from Euros 31,023 thousand in 2008 to Euros 81,377 thousand in 2009. [table 12]

The aggregate gross margin for each banking entity over the last five years, together with a graph

showing its evolution over the period 2005 to 2009 is as follows: [graphs 16 and 17]

The following graph shows that income from commission continues to be the most significant item in terms of its contribution to the gross margin, although it appears that this trend is reversing year-on-year, with an increase in the contribution to the financial margin in detriment to net commissions. Additionally, we can appreciate an increase of the contribution of the results of financial operations to the gross margin which have incremented in 2009 by Euros 50 million. [graph 18]

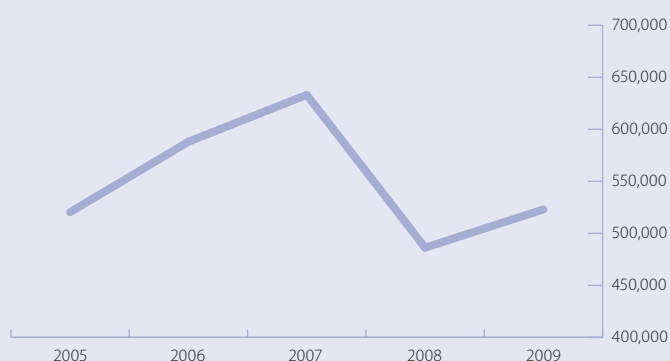
Gross margin by banking entity

	2008	2009	Var. (%) 08-09
ANDBANC	117,341	136,437	16.27%
BIBM	106,721	114,399	7.19%
BPA	60,812	88,498	45.53%
CRÈDIT ANDORRÀ GROUP	183,280	164,449	(10.27%)
BANCSABADELL D'ANDORRA	18,099	19,179	5.97%
TOTAL	486,253	522,962	7.55%

(Thousands of Euros) Source: Association of Andorran Banks

[table 12]

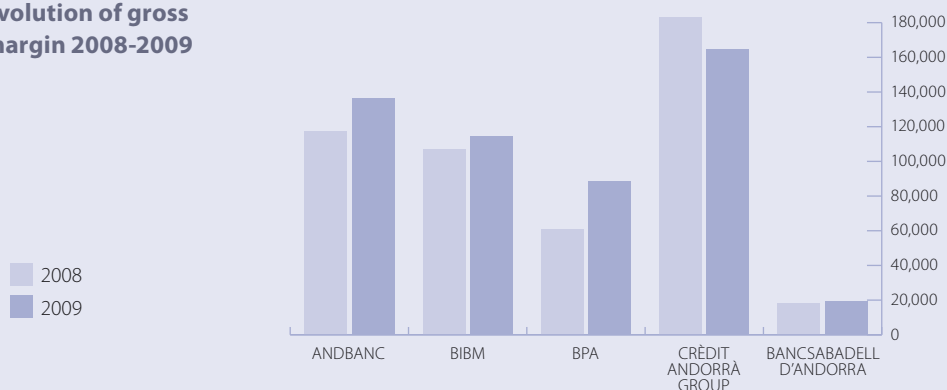
Evolution of aggregate gross margin 2005-2009



(Thousands of Euros) Source: Association of Andorran Banks

[graph 16]

Evolution of gross margin 2008-2009

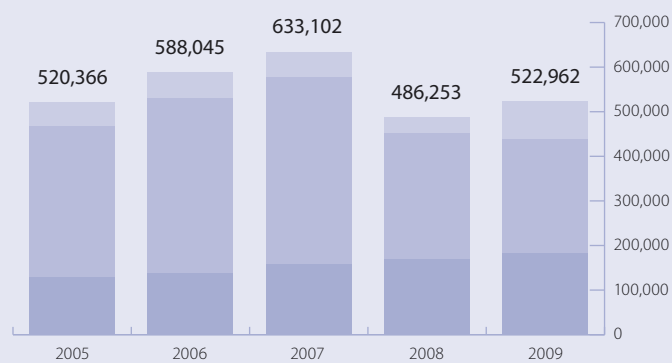


(Thousands of Euros) Source: Association of Andorran Banks

[graph 17]

Evolution of aggregate gross margin 2005-2009

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



(Thousands of Euros) Source: Association of Andorran Banks

[graph 18]

Transformation costs

During 2009, aggregate transformation costs of Andorran banking entities, which comprise "Personnel expenses" and "General expenses" (including "Taxes", with the exception of taxes related to taxation on banking services rendered) have amounted to Euros 192,430 thousand, up 3.95% on 2008. The evolution of the transformation costs in the Andorran banks during 2009 denotes that, despite the current international crisis generated in the financial market, they have increased the number of employees, continued in their international expansion plan and consolidated the domestic market, whilst pursuing a stringent policy of optimising costs.

Changes in transformation costs from 2008 to 2009 for each of the banking entities comprising the Andorran banking system are as follows: [graph 19]

The composition of the Andorran banks' transformation costs has changed in recent years, with personnel expenses increasingly gaining relative importance compared to general expenses. Changes in the composition of transformation costs during the last five years are shown in the following graph: [graph 20]

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

The aggregate efficiency ratio of Andorran banking entities for 2009 stands at 36.80%, which is 1.27 percentage points down on the ratio for 2008. The reason for this drop is that transformation costs have not risen in proportion to the increase in the gross margin. This confirms that efficiency continues to be a key differentiating factor of the management model of Andorran banks and that if the efficiency rate of Andorran banks is compared with that of banking sectors in other European countries it continues to be one of the lowest rates.

A graph and table showing the efficiency ratios of each entity for 2008 and 2009 are presented below. [table 13]

Efficiency ratio by banking entity

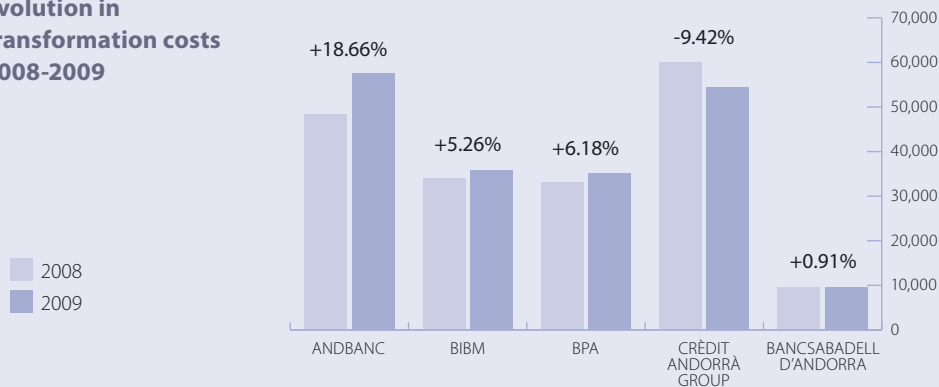
	2008	2009
ANDBANC	41.28%	42.13%
BIBM	31.88%	31.30%
BPA	54.43%	39.71%
CRÈDIT ANDORRÀ GROUP	32.76%	33.07%
BANCSABADELL D'ANDORRA	52.66%	50.15%
AGGREGATE RATIO	38.07%	36.80%

Source: Association of Andorran Banks

[table 13]

Changes in the efficiency ratios of Andorran banking entities between 2008 and 2009 are as follows: [graph 21]

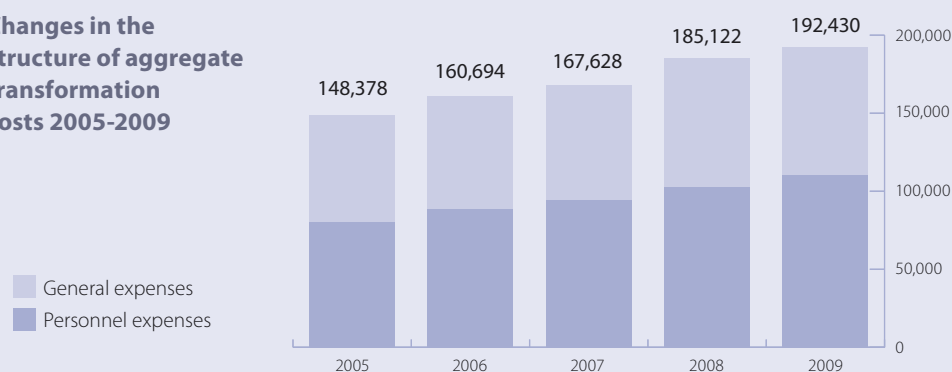
Evolution in transformation costs 2008-2009



(Thousands of Euros) Source: Association of Andorran Banks

[graph 19]

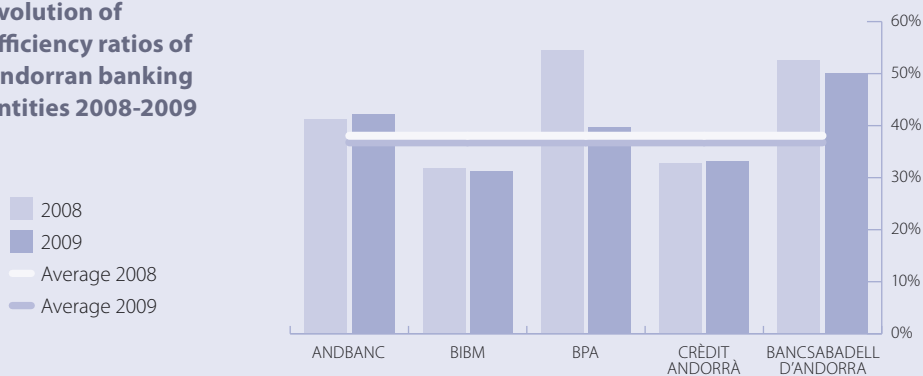
Changes in the structure of aggregate transformation costs 2005-2009



(Thousands of Euros) Source: Association of Andorran Banks

[graph 20]

Evolution of efficiency ratios of Andorran banking entities 2008-2009



Source: Association of Andorran Banks

[graph 21]

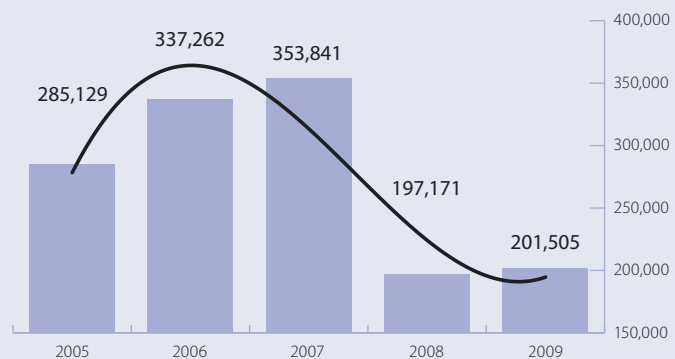
Profit

As a result of the 7.55% rise in gross margin and the very moderate increase in transformation costs after amortisation, the aggregate net operating margin stands at Euros 232,014 thousand, up 4.55% on the same period of the previous year (2007 vs. 2008: -40.88%). This factor, together with a 33.47% drop in provision expenses, especially provisions for liabilities and charges, has caused the aggregate profit of Andorran banking entities to rise by 2.20% compared to 2008, when the profit of the banks fell by 44.28% (2006 vs. 2007: +4.92%). These prof-

its, amounting to almost Euros 202 million, have been valued positively, taking into consideration the international economic scenario and especially the performance of global financial markets during 2009.

The graph below plots the changes in the aggregate profit of Andorran banking entities from 2005 to 2009 and the table illustrates the profit for each banking entity: [\[graph 22 and table 14\]](#)

**Evolution in
aggregate profit
2005-2009**



(Thousands of Euros) Source: Association of Andorran Banks

[graph 22]

Profit by banking entity

	2008	2009	Var. (%) 08-09
ANDBANC	31,410	44,357	41.22%
BIBM	52,224	50,116	(4.04%)
BPA	23,346	25,125	7.62%
CRÉDIT ANDORRÀ GROUP	85,005	76,655	(9.82%)
BANCSABADELL D'ANDORRA	5,186	5,252	1.27%
TOTAL	197,171	201,505	2.20%

(Thousands of Euros) Source: Association of Andorran Banks

[table 14]

Equity

Details of the equity of the Andorran banking groups at 31 December 2009 are as follows: [\[table 15\]](#)

The evolution of the equity of the banking groups in the Andorran financial system during 2008 and 2009 is as follows: [\[graph 23\]](#)

Equity by banking entity

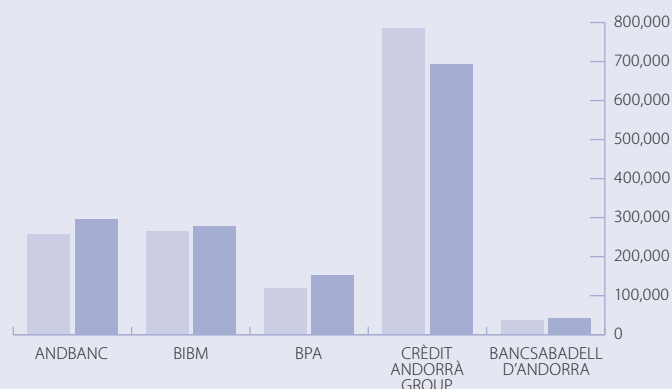
	Share Capital and Reserves	Subordinated Liabilities	Total Equity
ANDBANC	296,384	-	296,384
BIBM	217,619	60,000	277,619
BPA	121,622	31,008	152,630
CRÉDIT ANDORRÀ GROUP	543,255	150,000	693,255
BANCSABADELL D'ANDORRA	41,357	-	41,357
TOTAL	1,220,237	241,008	1,461,245

(Thousands of Euros) Source: Association of Andorran Banks

[table 15]

Evolution of equity 2008-2009

2008
2009



Source: Association of Andorran Banks

[graph 23]

Capital adequacy and liquidity

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

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

The table below shows the changes in the two ratios for each banking entity during 2008 and 2009 which, as can be clearly observed, significantly exceed the established minimums: [table 16](#)

The table above shows that the average capital adequacy ratio of Andorran banks at 31 December 2009 stands at 22.02%, almost three percentage points higher than in the previous year, which is still much higher than that of leading international private, retail or universal banking entities.

The aggregate liquidity ratio of Andorran banks at the same date stands at 75.07%, 5.5 percentage points higher than the figure for 2008. Despite the fact that the lack of confidence in international financial markets has restricted somewhat the interbank liquidity market, Andorran banking shows its privileged position with entities even increasing their liquidity from previous years.

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

	Capital adequacy		Liquidity	
	2008	2009	2008	2009
ANDBANC	15.92%	20.21%	58.72%	50.71%
BIBM	22.01%	21.17%	82.90%	101.62%
BPA	17.47%	21.60%	60.53%	78.53%
CRÉDIT ANDORRÀ GROUP	20.37%	23.45%	70.08%	71.06%
BANCSABADELL D'ANDORRA	14.33%	14.32%	59.03%	76.44%
AGGREGATE RATIO	19.34%	22.02%	69.57%	75.07%

Source: Association of Andorran Banks

[table 16]

Average return on equity (ROE)

The average return on equity of Andorran banks for the year ended 31 December 2009 was 15.43% (calculating profit/average equity), up 0.56 percentage points on 2008.

The following table and graph show the average return on equity for each banking entity in 2008 and 2009. [table 17 and graph 24]

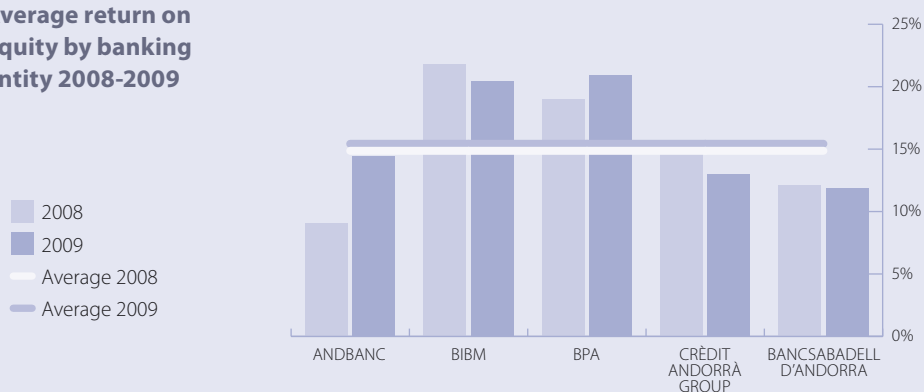
Average return on equity (ROE)

	2008	2009
ANDBANC	9.11%	14.41%
BIBM	21.85%	20.45%
BPA	19.02%	20.95%
CRÉDIT ANDORRÀ GROUP	14.74%	13.01%
BANCSABADELL D'ANDORRA	12.12%	11.87%
AGGREGATE RATIO	14.87%	15.43%

Source: Association of Andorran Banks

[table 17]

Average return on equity by banking entity 2008-2009



Source: Association of Andorran Banks

[graph 24]

Average return on assets (ROA)

The average return on average assets of Andorran banks for the year ended 31 December 2009 stands at 1.34%, 0.04% down on 2008. Following the sharp decline in this indicator in the previous year, the ROA has decreased slightly in 2009 in relation to 2008.

The following table and graph show the return on average assets (i.e. profit/average total assets) for

each banking entity in 2008 and 2009: [table 18 and graph 25]

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

Average return on assets (ROA)

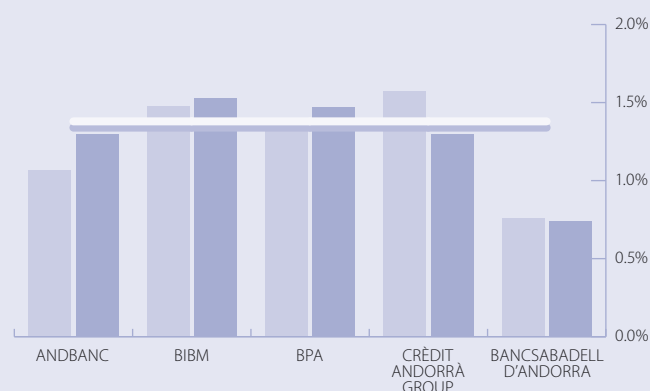
	2008	2009
ANDBANC	1.07%	1.30%
BIBM	1.48%	1.53%
BPA	1.40%	1.47%
CRÉDIT ANDORRÀ GROUP	1.57%	1.30%
BANCSABADELL D'ANDORRA	0.76%	0.74%
AGGREGATE RATIO	1.38%	1.34%

Source: Association of Andorran Banks

[table 18]

Average return on assets by banking entity 2008-2009

■ 2008
 ■ 2009
 — Average 2008
 — Average 2009



Source: Association of Andorran Banks

[graph 25]

Ratings

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

The table below shows some of the ratings given to some of Andorra's banking entities in 2009.

[table 19]

The latest sovereign rating update for the Principality of Andorra by Standard & Poor's at July 2009 has

been A+ for the long term and A-1+ for the short term with stable outlook. These ratings reflect the impact of the international economic and financial situation of neighbouring countries on the growth of the Andorran economy in 2009 and the first quarter of 2010. The stable outlook mainly reflects the continuous efforts made by the Andorran Government to improve the quality of and diversify tourism in the Principality, the competitiveness of the financial system and the country's capacity to face external vulnerability.

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

(*) 51% interest held by Banc Sabadell

Source: Rating agencies reports as of May 2010

[table 19]

V





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Chairman:

Mr. Manel Cerqueda Donadeu

Vice Chairman:

Mr. Oriol Ribas Duró

Director - General Manager:

Mr. Jordi Comas Planas

Corporate Assistant General Manager:

Mr. José Luis Muñoz Lasuén

Business Assistant General Manager:

Mr. Ricard Tubau Roca

V.1. Andorran banking groups

Consolidated balance sheets of Andorra Banc Agrícola Reig, SA (Andbanc) at 31 December 2008 and 2009

ASSETS	2008	% of total	2009	% of total	Var. (%) 08-09
Cash and central banks OECD	10,559	0.29%	12,987	0.44%	22.99%
INAF	18,577	0.51%	18,066	0.61%	(2.75%)
Financial intermediaries	913,810	24.98%	328,526	11.14%	(64.05%)
Loans	1,558,713	42.62%	1,594,259	54.07%	2.28%
Securities portfolio	966,498	26.42%	801,088	27.17%	(17.11%)
Gains on consolidation	3,095	0.08%	8,533	0.29%	-
Intangible assets	11,812	0.32%	12,444	0.42%	5.35%
Tangible assets	114,901	3.14%	114,499	3.88%	(0.35%)
Prepayment and accrued receivables	32,692	0.89%	29,585	1.00%	(9.50%)
Other assets	27,513	0.75%	28,801	0.98%	4.68%
TOTAL ASSETS	3,658,170	100.00%	2,948,788	100.00%	(19.39%)
LIABILITIES					
INAF	19,426	0.53%	19,149	0.65%	(1.43%)
Due to banks and credit entities	8,483	0.23%	92,147	3.13%	-
Other financial intermediaries	-	-	-	-	-
Customer deposits	3,291,763	89.98%	2,439,699	82.74%	(25.88%)
Debts represented by securities	-	-	-	-	-
Provision for liabilities and charges	9,061	0.25%	6,766	0.23%	-
Provision for general risks	800	0.02%	2,800	0.09%	-
Subordinated liabilities	-	-	-	-	-
Accruals	29,487	0.81%	21,552	0.73%	(26.91%)
Other liabilities	25,889	0.71%	25,934	0.88%	0.17%
Share capital	78,061	2.13%	78,061	2.65%	-
Reserves	180,783	4.94%	218,323	7.40%	20.77%
Profit	31,410	0.86%	44,357	1.50%	41.22%
Prior years' result	-	-	-	-	-
Interim dividends	(16,993)	(0.46%)	-	-	-
Minority interest	-	-	-	-	-
TOTAL LIABILITIES	3,658,170	100.00%	2,948,788	100.00%	(19.39%)

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

(1) Information of interest relates to posts occupied by individuals prior to 31 May 2010

**Consolidated memorandum accounts of Andorra Banc Agrícola Reig, SA (Andbanc)
at 31 December 2008 and 2009**

	2008	% of total	2009	% of total	Var. (%) 08-09
Contingent liabilities	113,436	1.44%	81,376	0.80%	(28.26%)
Commitments and contingent risks	361,200	4.60%	330,444	3.27%	(8.51%)
Derivative financial instruments	1,706,137	21.71%	2,654,302	26.23%	55.57%
Securities deposited and others held in custody	4,190,757	53.33%	5,568,058	55.02%	32.87%
Other memorandum accounts	1,486,931	18.92%	1,485,570	14.68%	(0.09%)
TOTAL	7,858,461	100.00%	10,119,750	100.00%	28.78%

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

**Consolidated income statements of Andorra Banc Agrícola Reig, SA (Andbanc)
for the years ended 31 December 2008 and 2009**

	2008	2009	Var. (%) 08-09
Interest and similar income	130,022	83,825	(35.53%)
Interest and similar charges	(91,452)	(40,482)	(55.73%)
Revenue from variable income securities	490	9	(98.16%)
FINANCIAL MARGIN	39,060	43,352	10.99%
Comission	67,038	64,402	(3.93%)
Profits on financial operations	9,784	27,223	-
Other profit on ordinary activities	1,459	1,460	0.07%
MARGIN ON ORDINARY ACTIVITIES	117,341	136,437	16.27%
Personnel expenses	(27,068)	(36,771)	35.85%
General expenses	(31,239)	(32,414)	3.76%
Depreciation and provisions	(7,321)	(9,035)	23.41%
Provisions for depreciation of assets, net of recoveries	-	(327)	-
OPERATING MARGIN	51,713	57,890	11.94%
Provisions for loan losses, net of recoveries	(11,248)	(9,992)	(11.17%)
Provisions for liabilities and charges, net of recoveries	(3,301)	2,299	-
Allowance to provision for general risks	-	(2,000)	-
PROFIT ON ORDINARY ACTIVITIES	37,164	48,197	29.69%
Net extraordinary income	(5,754)	(3,840)	(33.26%)
Losses attributable to minority interest	-	-	-
PROFIT ATTRIBUTABLE TO THE GROUP	31,410	44,357	41.22%

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

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Mr. Joan Mora Font

Chairman of the Board:

Mr. Francesc Mora Sagués

Director - General Manager:

Mr. Joan Quera Font

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Chairman of the Board:

Mr. Jordi Mora Magriñà

Director - General Manager

Mr. Joan Quera Font

**Consolidated balance sheets of Banc Internacional d'Andorra, SA, Banca Mora, SAU (BIBM)
at 31 December 2008 and 2009**

ASSETS	2008	% of total	2009	% of total	Var. (%) 08-09
Cash and central banks OECD	21,735	0.58%	37,870	1.42%	74.24%
INAF	28,641	0.76%	28,641	1.08%	-
Financial intermediaries	1,876,284	49.95%	260,739	9.80%	(86.10%)
Loans	1,060,642	28.24%	1,030,807	38.73%	(2.81%)
Securities portfolio	650,971	17.33%	1,162,380	43.67%	78.56%
Gains on consolidation	-	-	3,206	0.12%	-
Intangible assets	6,831	0.18%	12,988	0.49%	90.13%
Tangible assets	68,851	1.83%	95,782	3.60%	39.11%
Prepayment and accrued receivables	36,823	0.98%	23,726	0.89%	(35.57%)
Other assets	5,434	0.15%	5,362	0.20%	(1.32%)
TOTAL ASSETS	3,756,212	100.00%	2,661,501	100.00%	(29.14%)
LIABILITIES					
INAF	41,042	1.09%	40,607	1.53%	(1.06%)
Due to banks and credit entities	74,117	1.97%	7,454	0.28%	(89.94%)
Other financial intermediaries	26	-	23	-	(11.54%)
Customer deposits	3,294,089	87.70%	2,263,853	85.06%	(31.28%)
Debts represented by securities	-	-	-	-	-
Provision for liabilities and charges	18,707	0.50%	18,262	0.69%	(2.38%)
Provision for general risks	-	-	6,900	0.26%	-
Subordinated liabilities	60,000	1.60%	60,000	2.26%	-
Accruals	26,647	0.71%	12,884	0.48%	(51.65%)
Other liabilities	14,964	0.40%	11,768	0.44%	(21.36%)
Share capital	42,407	1.13%	42,407	1.59%	-
Reserves	162,989	4.34%	175,212	6.58%	7.50%
Profit	52,224	1.39%	50,116	1.88%	(4.04%)
Prior years' result	-	-	-	-	-
Interim dividends	(31,000)	(0.83%)	(28,000)	(1.05%)	(9.68%)
Minority interest	-	-	15	-	-
TOTAL LIABILITIES	3,756,212	100.00%	2,661,501	100.00%	(29.14%)

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

**Consolidated memorandum accounts of Banc Internacional d'Andorra, SA, Banca Mora, SAU (BIBM)
at 31 December 2008 and 2009**

	2008	% of total	2009	% of total	Var. (%) 08-09
Contingent liabilities	120,437	1.87%	121,384	1.47%	0.79%
Commitments and contingent risks	336,880	5.23%	314,603	3.81%	(6.61%)
Derivative financial instruments	1,354,666	21.03%	1,487,472	18.03%	9.80%
Securities deposited and others held in custody	3,456,523	53.65%	5,324,896	64.55%	54.05%
Other memorandum accounts	1,173,484	18.22%	1,001,743	12.14%	(14.64%)
TOTAL	6,441,990	100.00%	8,250,098	100.00%	28.07%

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

**Consolidated income statements of Banc Internacional d'Andorra, SA, Banca Mora, SAU (BIBM)
for the years ended 31 December 2008 and 2009**

	2008	2009	Var. (%) 08-09
Interest and similar income	154,820	77,624	(49.86%)
Interest and similar charges	(117,856)	(37,697)	(68.01%)
Revenue from variable income securities	3	7	-
FINANCIAL MARGIN	36,967	39,934	8.03%
Comission	65,913	58,612	(11.08%)
Profits on financial operations	3,640	15,692	-
Other profit on ordinary activities	201	161	(19.90%)
MARGIN ON ORDINARY ACTIVITIES	106,721	114,399	7.19%
Personnel expenses	(17,364)	(19,722)	13.58%
General expenses	(24,841)	(25,644)	3.23%
Depreciation and provisions	(7,177)	(8,327)	16.02%
Provisions for depreciation of assets, net of recoveries	-	(3,460)	-
OPERATING MARGIN	57,339	57,246	(0.16%)
Provisions for loan losses, net of recoveries	(3,385)	2,166	-
Provisions for liabilities and charges, net of recoveries	(3,365)	(558)	(83.42%)
Allowance to provision for general risks	-	(6,900)	-
PROFIT ON ORDINARY ACTIVITIES	50,589	51,954	2.70%
Net extraordinary income	1,635	(1,835)	-
Losses attributable to minority interest	-	(3)	-
PROFIT ATTRIBUTABLE TO THE GROUP	52,224	50,116	(4.04%)

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

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Assistant General Manager:

Mr. Joan Cejudo Peña

Assistant General Manager:

Mr. Santi de Rosselló Piera

**Consolidated balance sheets of Banca Privada d'Andorra, SA (BPA)
at 31 December 2008 and 2009**

ASSETS	2008	% of total	2009	% of total	Var. (%) 08-09
Cash and central banks OECD	11,172	0.64%	11,995	0.68%	7.37%
INAF	8,521	0.49%	8,521	0.49%	-
Financial intermediaries	162,549	9.27%	449,115	25.59%	-
Loans	1,119,456	63.87%	802,447	45.72%	(28.32%)
Securities portfolio	310,308	17.70%	337,706	19.24%	8.83%
Gains on consolidation	1,353	0.08%	1,174	0.07%	(13.23%)
Intangible assets	9,367	0.53%	8,993	0.51%	(3.99%)
Tangible assets	81,010	4.62%	97,977	5.58%	20.94%
Prepayment and accrued receivables	11,358	0.65%	10,787	0.61%	(5.03%)
Other assets	37,688	2.15%	26,530	1.51%	(29.61%)
TOTAL ASSETS	1,752,782	100.00%	1,755,245	100.00%	0.14%
LIABILITIES					
INAF	34,173	1.95%	35,821	2.04%	4.82%
Due to banks and credit entities	45,765	2.61%	2,425	0.14%	(94.70%)
Other financial intermediaries	-	-	-	-	-
Customer deposits	1,458,127	83.20%	1,415,764	80.66%	(2.91%)
Debts represented by securities	-	-	68,375	3.89%	-
Provision for liabilities and charges	46,175	2.63%	13,700	0.78%	(70.33%)
Provision for general risks	902	0.05%	902	0.05%	-
Subordinated liabilities	31,235	1.78%	31,008	1.77%	(0.73%)
Accruals	19,060	1.09%	15,577	0.89%	(18.27%)
Other liabilities	11,621	0.66%	24,970	1.42%	-
Share capital	60,000	3.42%	60,000	3.42%	-
Reserves	27,133	1.55%	61,622	3.51%	127.11%
Profit	23,346	1.33%	25,125	1.43%	7.62%
Prior years' result	(29)	-	(44)	-	-
Interim dividends	(5,000)	(0.29%)	-	-	-
Minority interest	274	0.02%	-	-	-
TOTAL LIABILITIES	1,752,782	100.00%	1,755,245	100.00%	0.14%

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

**Consolidated memorandum accounts of Banca Privada d'Andorra, SA (BPA)
at 31 December 2008 and 2009**

	2008	% of total	2009	% of total	Var. (%) 08-09
Contingent liabilities	97,352	2.91%	48,591	2.06%	(50.09%)
Commitments and contingent risks	130,502	3.91%	121,610	5.17%	(6.81%)
Derivative financial instruments	1,212,678	36.34%	236,269	10.05%	(80.52%)
Securities deposited and others held in custody	1,683,767	50.45%	1,763,592	74.98%	4.74%
Other memorandum accounts	213,116	6.39%	181,963	7.74%	(14.62%)
TOTAL	3,337,415	100.00%	2,352,025	100.00%	(29.53%)

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

**Consolidated income statements of Banca Privada d'Andorra, SA (BPA)
for the years ended 31 December 2008 and 2009**

	2008	2009	Var. (%) 08-09
Interest and similar income	71,574	44,995	(37.13%)
Interest and similar charges	(53,185)	(20,724)	(61.03%)
Revenue from variable income securities	20	-	-
FINANCIAL MARGIN	18,409	24,271	31.84%
Comission	45,465	43,457	(4.42%)
Profits on financial operations	(3,976)	20,270	-
Other profit on ordinary activities	914	500	(45.30%)
MARGIN ON ORDINARY ACTIVITIES	60,812	88,498	45.53%
Personnel expenses	(16,842)	(16,862)	0.12%
General expenses	(21,456)	(26,125)	21.76%
Depreciation and provisions	(5,103)	(7,147)	40.05%
Provisions for depreciation of assets, net of recoveries	-	-	-
OPERATING MARGIN	17,411	38,364	120.34%
Provisions for loan losses, net of recoveries	1,648	(8,896)	-
Provisions for liabilities and charges, net of recoveries	(21,700)	(4,321)	(80.09%)
Allowance to provision for general risks	-	-	-
PROFIT ON ORDINARY ACTIVITIES	(2,641)	25,147	-
Net extraordinary income	25,987	(22)	-
Losses attributable to minority interest	-	-	-
PROFIT ATTRIBUTABLE TO THE GROUP	23,346	25,125	7.62%

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

Crèdit Andorrà Group

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Mr. Antoni Pintat Santolària

Vice-chairman of the Board of Directors:

Mr. Jaume Casal Mor

Chief Executive Officer and General Manager:

Mr. Josep Peralba Duró

Corporate Deputy General Manager:

Mr. Xavier Cornella Grau

Business Deputy General Manager:

Mr. Xavier Cornella Castel

**Consolidated balance sheets of Crèdit Andorrà Group
at 31 December 2008 and 2009**

	2008	% of total	2009	% of total	Var. (%) 08-09
ASSETS					
Cash and central banks OECD	31,496	0.52%	29,925	0.56%	(4.99%)
INAF	46,245	0.77%	46,245	0.86%	-
Financial intermediaries	1,677,766	27.88%	589,974	11.00%	(64.84%)
Loans	2,882,289	47.90%	3,002,649	55.99%	4.18%
Securities portfolio	888,364	14.76%	1,330,832	24.81%	49.81%
Gains on consolidation	-	-	-	-	-
Intangible assets	133,679	2.22%	21,582	0.40%	(83.86%)
Tangible assets	247,229	4.11%	278,773	5.20%	12.76%
Prepayment and accrued receivables	69,389	1.15%	29,487	0.55%	(57.50%)
Other assets	41,523	0.69%	33,613	0.63%	(19.05%)
TOTAL ASSETS	6,017,980	100.00%	5,363,080	100.00%	(10.88%)
LIABILITIES					
INAF	61,020	1.01%	58,614	1.09%	(3.94%)
Due to banks and credit entities	5,633	0.09%	38,158	0.71%	-
Other financial intermediaries	-	-	-	-	-
Customer deposits	4,879,467	81.08%	4,373,749	81.55%	(10.36%)
Debts represented by securities	83,504	1.39%	72,206	1.35%	(13.53%)
Provision for liabilities and charges	2,742	0.05%	2,707	0.05%	(1.28%)
Provision for general risks	53,281	0.89%	40,855	0.76%	(23.32%)
Subordinated liabilities	150,000	2.49%	150,000	2.80%	-
Accruals	52,268	0.87%	15,582	0.29%	(70.19%)
Other liabilities	43,869	0.73%	25,594	0.48%	(41.66%)
Share capital	70,000	1.16%	70,000	1.31%	-
Reserves	565,390	9.40%	473,255	8.82%	(16.30%)
Profit	85,005	1.41%	76,655	1.43%	(9.82%)
Prior years' result	-	-	-	-	-
Interim dividends	(35,000)	(0.58%)	(35,000)	(0.65%)	-
Minority interest	801	0.01%	705	0.01%	(11.99%)
TOTAL LIABILITIES	6,017,980	100.00%	5,363,080	100.00%	(10.88%)

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

**Consolidated memorandum accounts of Crèdit Andorrà Group
at 31 December 2008 and 2009**

	2008	% of total	2009	% of total	Var. (%) 08-09
Contingent liabilities	256,549	2.59%	242,293	2.75%	(5.56%)
Commitments and contingent risks	488,298	4.94%	453,535	5.15%	(7.12%)
Derivative financial instruments	3,749,051	37.92%	1,379,585	15.65%	(63.20%)
Securities deposited and others held in custody	4,618,022	46.71%	6,003,081	68.12%	29.99%
Other memorandum accounts	775,296	7.84%	734,548	8.33%	(5.26%)
TOTAL	9,887,216	100.00%	8,813,042	100.00%	(10.86%)

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

**Consolidated income statements of Crèdit Andorrà Group
for the years ended 31 December 2008 and 2009**

	2008	2009	Var. (%) 08-09
Interest and similar income	247,784	153,855	(37.91%)
Interest and similar charges	(182,004)	(85,646)	(52.94%)
Revenue from variable income securities	537	314	(41.53%)
FINANCIAL MARGIN	66,317	68,523	3.33%
Comission	98,153	81,466	(17.00%)
Profits on financial operations	18,450	14,025	(23.98%)
Other profit on ordinary activities	360	435	20.83%
MARGIN ON ORDINARY ACTIVITIES	183,280	164,449	(10.27%)
Personnel expenses	(35,805)	(31,415)	(12.26%)
General expenses	(37,062)	(35,712)	(3.64%)
Depreciation and provisions	(22,319)	(24,359)	9.14%
Provisions for depreciation of assets, net of recoveries	1,950	(285)	-
OPERATING MARGIN	90,044	72,678	(19.29%)
Provisions for loan losses, net of recoveries	(9,258)	(4,616)	(50.14%)
Provisions for liabilities and charges, net of recoveries	(373)	(624)	67.29%
Allowance to provision for general risks	-	-	-
PROFIT ON ORDINARY ACTIVITIES	80,413	67,438	(16.14%)
Net extraordinary income	4,933	9,196	86.42%
Losses attributable to minority interest	(341)	21	-
PROFIT ATTRIBUTABLE TO THE GROUP	85,005	76,655	(9.82%)

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

BancSabadell d'Andorra, SA

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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 2008 and 2009**

	2008	% of total	2009	% of total	Var. (%) 08-09
ASSETS					
Cash and central banks OECD	6,097	0.90%	6,923	1.06%	13.55%
INAF	6,220	0.92%	6,220	0.94%	-
Financial intermediaries	165,001	24.36%	108,809	16.51%	(34.06%)
Loans	351,073	51.82%	390,049	59.21%	11.10%
Securities portfolio	113,944	16.82%	114,483	17.38%	0.47%
Gains on consolidation	-	-	-	-	-
Intangible assets	2,921	0.43%	3,232	0.49%	10.65%
Tangible assets	20,936	3.09%	19,921	3.02%	(4.85%)
Prepayment and accrued receivables	5,648	0.83%	3,166	0.48%	(43.94%)
Other assets	5,644	0.83%	6,007	0.91%	6.43%
TOTAL ASSETS	677,484	100.00%	658,810	100.00%	(2.76%)
LIABILITIES					
INAF	18,840	2.78%	23,381	3.55%	24.10%
Due to banks and credit entities	1,594	0.24%	7,534	1.14%	-
Other financial intermediaries	-	-	-	-	-
Customer deposits	586,700	86.60%	457,873	69.50%	(21.96%)
Debts represented by securities	17,250	2.55%	117,319	17.81%	-
Provision for liabilities and charges	74	0.01%	89	0.01%	20.27%
Provision for general risks	23	-	300	0.05%	-
Subordinated liabilities	-	-	-	-	-
Accruals	4,908	0.72%	2,154	0.33%	(56.11%)
Other liabilities	5,238	0.77%	3,551	0.54%	(32.21%)
Share capital	30,068	4.44%	30,068	4.56%	-
Reserves	7,603	1.12%	11,289	1.71%	48.48%
Profit	5,186	0.77%	5,252	0.80%	1.27%
Prior years' result	-	-	-	-	-
Interim dividends	-	-	-	-	-
Minority interest	-	-	-	-	-
TOTAL LIABILITIES	677,484	100.00%	658,810	100.00%	(2.76%)

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

**Consolidated memorandum accounts of BancSabadell d'Andorra, SA
at 31 December 2008 and 2009**

	2008	% of total	2009	% of total	Var. (%) 08-09
Contingent liabilities	37,884	3.37%	35,448	2.21%	(6.43%)
Commitments and contingent risks	99,474	8.85%	96,668	6.02%	(2.82%)
Derivative financial instruments	334,550	29.75%	597,971	37.22%	78.74%
Securities deposited and others held in custody	540,057	48.01%	747,060	46.49%	38.33%
Other memorandum accounts	112,635	10.02%	129,637	8.06%	15.09%
TOTAL	1,124,600	100.00%	1,606,784	100.00%	42.88%

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

**Consolidated income statements of BancSabadell d'Andorra, SA
for the years ended 31 December 2008 and 2009**

	2008	2009	Var. (%) 08-09
Interest and similar income	32,326	18,268	(43.49%)
Interest and similar charges	(24,265)	(10,522)	(56.64%)
Revenue from variable income securities	5	-	-
FINANCIAL MARGIN	8,066	7,746	(3.97%)
Comission	6,820	7,172	5.16%
Profits on financial operations	3,125	4,167	33.34%
Other profit on ordinary activities	88	94	6.82%
MARGIN ON ORDINARY ACTIVITIES	18,099	19,179	5.97%
Personnel expenses	(5,784)	(5,762)	(0.38%)
General expenses	(4,863)	(5,292)	8.82%
Depreciation and provisions	(2,043)	(2,289)	12.04%
Provisions for depreciation of assets, net of recoveries	-	-	-
OPERATING MARGIN	5,409	5,836	7.89%
Provisions for loan losses, net of recoveries	(311)	(396)	27.33%
Provisions for liabilities and charges, net of recoveries	-	-	-
Allowance to provision for general risks	(23)	(300)	-
PROFIT ON ORDINARY ACTIVITIES	5,075	5,140	1.28%
Net extraordinary income	111	112	0.90%
Losses attributable to minority interest	-	-	-
PROFIT ATTRIBUTABLE TO THE GROUP	5,186	5,252	1.27%

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

V.2. Other information of interest

Government of Andorra

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The Hon. Mr. Xavier Espot Miró

Minister of Environment, Agriculture and Natural Heritage:

The Hon. Mr. Vicenç Alay Ferrer

Minister of Education and Culture:

The Hon. Ms. Susanna Vela Palomares

Minister of Territorial Ordenance:

The Hon. Mr. Gerard Barcia Duedra

Minister of Health, Welfare and Employment:

The Hon. Ms. Cristina Rodríguez Galan

Minister of Home Affairs:

The Hon. Mr. Víctor Naudi Zamora

Minister of Tourism, Commerce and Industry:

The Hon. Mr. Claudi Benet Mas

Secretary General:

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Head of the Government Cabinet:

Ms. Marian Sanchiz Rego

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General Manager:

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Chairman:

Mr. Joan Quera Font

Vice Chairman:

Mr. Jordi Comas Planas

General Manager:

Mr. Antoni Armengol Aleix

Deputy Manager:

Ms. Clàudia Cornella Durany

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

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**Andorran Development and Investment
("Andorra Desenvolupament i Inversió
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**Andorran Chamber of Commerce,
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Director:

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**Association of Consumers and Users
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Chairman:

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**Andorran Association of Micro, Small and
Medium Sized Companies
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Secretary:

Mr. Didier Aleix Tugàs

**Andorran Business Confederation
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Director:

Ms. Mònica Codina Tort

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Dean:

Mr. Sergi Tejero Cano

Secretary:

Mr. Xavier Prats Martínez

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Vice-Chancellor:

The Hon. Mr. Daniel Bastida Obiols

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

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Director:

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Director:

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