

# ANDORRA

and its Financial System 2012





# ANDORRA

and its Financial System

Published by the **Association of Andorran Banks (ABA)**

Photographs: Jaume Riba

Legal deposit: AND. 531-2013

ISBN: 978-99920-1-988-7

# CONTENTS

<b>PRESENTATION</b>	<b>Page 4</b>
<b>I. THE PRINCIPALITY OF ANDORRA</b>	<b>Page 7</b>
I.1. Introduction to Andorra	Page 8
I.2. History of Andorra	Page 10
I.3. Andorran Institutions	Page 11
<b>II. ANDORRAN LEGAL FRAMEWORK</b>	<b>Page 15</b>
II.1. Mercantile framework	Page 16
II.2. Labour framework	Page 18
II.3. Tax framework	Page 19
II.4. Legislative framework of the financial system	Page 26
II.5. Developments in the financial system's regulatory framework	Page 33
II.6. Evolution of the legal and regulatory framework of the Andorran financial system in an international context	Page 34
<b>III. ECONOMIC ENVIRONMENT</b>	<b>Page 39</b>
III.1. Introduction	Page 40
III.2. Main economic variables	Page 41
III.3. Public sector	Page 46
III.4. Evolution of the Andorran economy during 2012	Page 48
<b>IV. BANKING SECTOR</b>	<b>Page 61</b>
IV.1. Introduction	Page 62
IV.2. Association of Andorran Banks	Page 64
IV.3. The banking sector	Page 65
<b>V. INFORMATION OF INTEREST</b>	<b>Page 89</b>
V.1. Andorran banking groups	Page 90
V.2. Other information of interest	Page 100

# PRESENTATION

2012 was another adverse year because of the difficult international economic and financial situation, with world production growing by 3.2%. The situation was characterized by an uncertain macroeconomic environment, strongly influenced by persistent instability in the financial markets and a difficult general context, especially due to economic weaknesses and accumulated budgetary imbalances. The problems of the world economy are multiple and intertwined; these include the unemployment crisis and the continuous fall in economic growth, especially in developed countries.

The International Monetary Fund forecasts that world growth in 2013 will be about 3% –the same as 2012– and the weakness of the emerging economies will worsen the perspectives for growth. During the first quarter of 2013, world growth was lower than expected because of disappointing growth in the major economies of the emerging markets, the deterioration of the recession in the euro zone and the unexpected sluggishness of expansion in the USA. In Japan, on the contrary, growth exceeded all expectations.

The US economy continued its recovery during 2012, at a higher rate than in 2011, registering a growth rate of 2.2%, which was mainly due to a recovery of private consumption. As far as the Japanese economy is concerned, despite the March 2011 earthquake and the subsequent nuclear disaster, and although the economy was immersed in a deflationist environment, it registered a growth rate of 1.9% in 2012. The emerging and developing economies suffered a notable deceleration during

2012 as a consequence of the marked contraction in demand from some key advanced economies, the application of more restrictive internal policies and the end of the boom in some of the main economies of the emerging markets.

In Europe, once again the asymmetries between countries were evident, and the region entered technical recession in 2012 with a 0.4% fall in Gross Domestic Product (GDP). The crisis in the euro zone and the interventionism of the central banks, which have applied expansive monetary measures with low interest rates aimed at adjusting the sovereign debt markets, led to talk of a new model based around financial and fiscal integration in Europe.

Against the backdrop of this economic environment, Spain has oscillated between recession and weak growth in recent years. In 2012, Gross Domestic Product fell by 1.4%, the worst register since 2009. This negative evolution is the result of a more negative contribution from internal demand, with the consequent destruction of jobs, and this was only partially offset by the positive contribution of external demand. Most of the countries on the periphery of the euro, particularly Spain, are expected to register significant contractions during 2013.

The French economy didn't grow during 2012, placing it below Germany and the United Kingdom. The perspectives for 2013 are negative due to a combination of fiscal consolidation, weak progress in exports and low levels of confidence among the population.

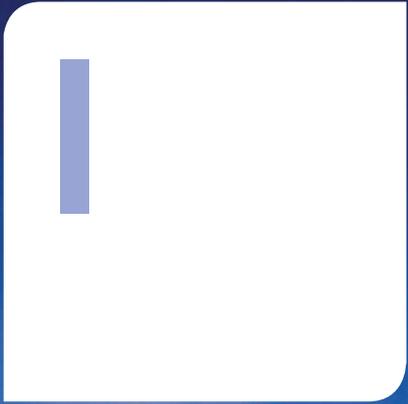
The Andorran economy has been greatly affected by the international economic situation, and most especially by the evolution of the surrounding economies. The main economic indicators of the Principality of Andorra point to a similar situation to that of previous years, and there are no clear symptoms of recuperation in the economy. There are signs of deterioration in our model, based on traditional economic mainstays such as tourism, commerce and the financial sector and with a strong dependence on our two neighbouring countries. The fall in the number of visitors and their reduced acquisitive power has directly affected the income of the tourist and commercial sector. Likewise, the crisis of trust and the economic recession have affected the construction sector, making it the sector registering the greatest drop in activity over the last years. Because of all this, the Government of Andorra is promoting policies to diversify the Andorran economy by opening up the economy and this should help to strengthen the sectors that contribute a high value added to the economy and place the country in a situation that allows it to compete with the neighbouring economies under equal conditions, and at the same time it must make Andorra an attractive destination for new sectors and companies.

In 2012, the Andorran financial system showed again that is possible to successfully meet the challenges that are caused by the uncertain and volatile economic and financial environment using conservative and prudent management. Therefore, in accordance with a financial reputation that has been consolidated thanks to solidity and rigor in

the application of international regulatory standards over the years, during the 2012 financial year, the Andorran banks achieved an ordinary growth margin of 13.47% and profitability rates on both average assets and average equity that were higher than the averages for the European banking sector. The results of the Andorran banks for this financial period were 0.15% higher than those for 2011, despite the increase in transformation expenses as a consequence of the measures adopted by Andorran banks to prepare for future challenges and most especially for their international expansion. The international project is now bearing its fruits with a 13.83% increase in managed resources compared to 2011. Another relevant point is the high level of the solvency and liquidity ratios, at 21.22% and 65.46%, respectively.

There is a desire to situate Andorra in the international context as a country with similar regulations to those of the countries of the European Union and the OECD; following these lines, the Principality of Andorra signed a Monetary Agreement on 30<sup>th</sup> June 2011 with the European Union to make the euro the country's official currency. Likewise, the *Law on general indirect tax* and the *Law on foreign investment in the Principality of Andorra* were passed in mid 2012. It is also necessary to emphasize the fact that bilateral agreements continued to be signed for the exchange of information on fiscal matters with a prior request and a double taxation agreement was signed with the French Republic, and this is now pending parliamentary ratification, while negotiations with Spain to sign a similar agreement are currently in progress.





# THE PRINCIPALITY OF ANDORRA

## I.1. Introduction to Andorra

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

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

The Andorran flag and coat of arms are shown below:



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

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

On 30<sup>th</sup> June 2011, the Principality of Andorra signed a Monetary Agreement with the European Union to make the euro the official currency of the Principality of Andorra. With the ratification of this Agreement, the Principality of Andorra has the right to issue euro coins from 1<sup>st</sup> July 2013, for both circulation and collectors, and it is obliged to accept euro notes and coins issued by the Eurosystem and by the Member States that have adopted the euro as legal tender. The first Andorran euros will be put in circulation on 1<sup>st</sup> January 2014.

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

In 2012 Andorra had a **population** of 76,246 (78,115 in 2011), 45.14% with Andorran nationality (42.86% in 2011), 26.65% with Spanish nationality (28.40% in 2011), 14.73% with Portuguese nationality (14.99% in 2011), 4.98% with French nationality (5.25% in 2011) and 1.26% with British nationality (1.23% in 2011). The remaining 7.24% of the population comprises more than 22 different nationalities, in addition to those stated above.

As can be observed in the graph below, an analysis of the population in 2012 by age group reveals that, for both men and women, the age group 30-49 years represents the highest concentration of population. Data from previous years also shows that the population distribution has followed the same trend for several decades, whereby the highest concentration is found among people of a working age. This concentration reflects the reality of the Andorran labour market since a high percentage of the active population comes from outside Andorra due to the shortage of internal human resources. These workers do not usually form part of a stable family unit resident in the country, and they there-

fore return to their country of origin when they reach retirement age. [graph 1]

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

Foreigners exceeding the age of 18 who wish to reside in Andorra without employment must obtain a **passive residency permit without any lucrative activity** from the Ministry of Home Affairs. This authorisation is governed by *Law 9/2012 of 31<sup>st</sup> May, amending the Qualified law on Immigration* and which also amends *Law 17/2006 of 30<sup>th</sup> November on passive residence*.

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

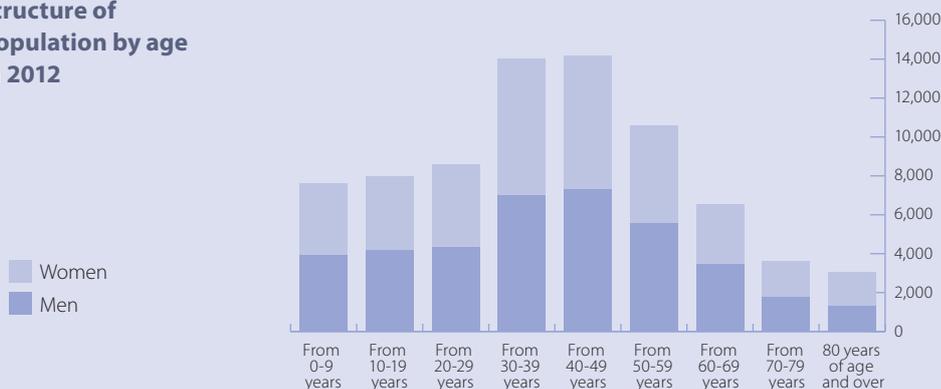
**Andorra’s educational system** is multilingual and based on a plural and mixed structure, as public education is available in three different systems: Andorran (which celebrated 30 years of existence in September 2012), French and Spanish and private education is also available in a school which follows the Spanish system. Students who wish to continue into higher education can choose between remaining in Andorra and following professional training or university studies through the degree courses offered by the University of Andorra or pursuing their higher studies abroad. The majority of Andor-

ran students who choose the latter option move to the neighbouring countries of France and Spain. The University of Andorra, founded in July 1997, offers classroom-based, virtual and post-graduate courses. The educational institution “La Salle” inaugurated on 28<sup>th</sup> June 2012 a new university in Andorra (La Salle-Andorra Open University) which will offer on-line and semi-distance courses in Technology and Social Sciences.



[graph 2]

**Structure of population by age in 2012**



Source: Department of Statistics - Government of Andorra

[graph 1]

### Surface areas and population of parishes 2012

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



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

[graph 3]

Similarly, a Law was passed on 30<sup>th</sup> October 2008, authorizing the creation of the Universitat de les Valls, the first private university in Andorra, which opened the Faculty of Odontological Science as the first centre of the university last September 2012. The Decree of the Government of Andorra of 1<sup>st</sup> February 2012 approved the study plan for its Master in Odontology, thereby giving state status to the diploma, which means that it is recognized in all the Member States of the European Space for Higher Education.

As shown below, Andorra is divided for administrative purposes into seven territories called **parishes** with varying surface areas and populations. Each of these parishes has its own *Comú* (Town council). The seven parishes are Canillo, Encamp, Ordino, La Massana, Andorra la Vella, Sant Julià de Lòria and Escaldes-Engordany. [graph 2]

The surface areas of the seven parishes and their population in 2012 are as follows: [graph 3]

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

#### From Spain:

Madrid 612 km  
Barcelona 198 km

#### From France:

Paris 961 km  
Marseille 534 km  
Toulouse 186 km

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

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

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

#### The **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.

## 1.2. History of Andorra

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

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

However in the following centuries, the Bishop of Urgell entered into conflict with the Count of Foix who wanted to recover what previously belonged to him. This conflict was resolved upon the signing of the first and second *Pariatges* (feudal charters) in 1278 and 1288, between the Bishop of Urgell and the Count of Foix. These arbitrary rulings established an indivisible joint ownership of the valleys, conferring equal seigniorial rights and powers between the Bishop and the Count (who established the taxes to be paid by the Andorrans and

exercised joint justice through the *batlles* –a kind of first instance magistrates court specific to Andorra–, the military obligations of the Andorrans and the appointment of notaries and curates). In short, the *Pariatges*, signed over 700 years ago, represented Andorra’s independence.

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

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

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

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

### 1.3. Andorran Institutions

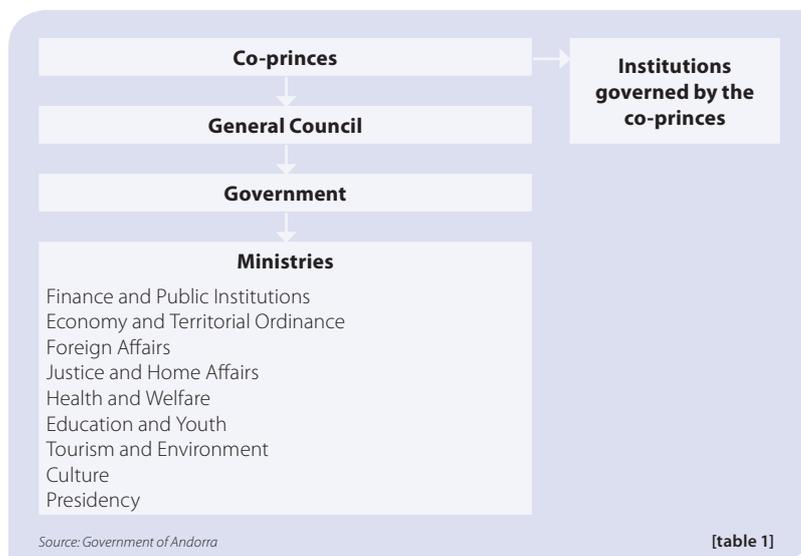
#### Main Institutions and Political Bodies

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 28<sup>th</sup> April 2011 Andorra has had the following **political parties** with parliamentary representation: *Demòcrates per Andorra* and the *Partit Socialdemòcrata* (affiliated to the International Socialists). Since 2013, the opposition parties in the General Council (Parliament) are: the Social Democratic Party and the Mixed Party.

The **Government** is the executive body of the State and is formed of the Head of Government

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

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

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

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

The **Andorran Data Protection Agency**, created by the *Andorran Data Protection Act 15/2003 of 18<sup>th</sup>*

## 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](#)

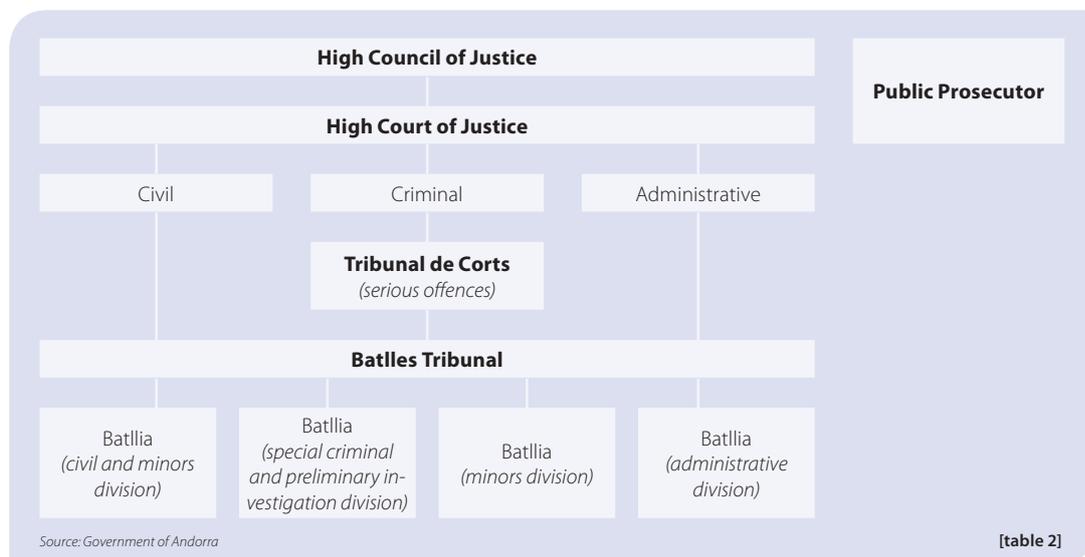
**The Constitutional Tribunal** is the highest Constitutional body and its rulings bind public powers and individuals. It approves its own regulations and it is solely subject to the Constitution and the Qualified Constitutional Tribunal Law when exercising its functions. It consists of four constitutional 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.

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

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

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



[table 2]

the courts to protect the rights of the citizens and to defend general interests. It consists of members appointed by the High Council of Justice at the request of the Government, with renewable mandates of six years.

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

The **Tribunal de Corts** is responsible for hearing cases in the first instance regarding serious offences and enforcing sentences and other rulings. This tribunal hears appeals against criminal sen-

tences for minor criminal offences passed by the *Batlles Tribunal*, and for breaches of the criminal law passed by the *batlles* (judges specific to Andorra). Through its president it performs prison-related duties and enforces sentences. It currently consists of a president, a vice president, a magistrate and two assistant magistrates.

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

## Other Bodies

The **Andorran National Institute of Finance** (INAF) is a public entity with its own legal status and full capacity to operate either publicly or privately, independently from the central government. As an authority of the Andorran financial system, the INAF promotes and endorses the correct functioning and stability of the financial system. The Institute has the power to carry out all the actions that are necessary to ensure the correct development of its supervision and control functions, disciplinary and sanctioning power, treasury and public debt management services, financial agency, international relations, advice and studies.

The **Andorran Financial Intelligence Unit** (UIF) is an independent body created to foster and coordinate measures to prevent money laundering and terrorist funding. This unit was created in 2000 under the Law for international cooperation on criminal matters and the combat against the laundering of money or securities arising from

international crime, following recommendations of the European Council's MONEYVAL Committee and the 40 recommendations from the FATF (Financial Action Task Force). This body became known as the Unit for the Prevention of Money Laundering and it started operations in July 2001.

Subsequently, with the passing of the *Law of 29<sup>th</sup> December 2000 on International Penal Cooperation and the Fight against the Laundering of Money and Securities resulting from International Crime and against the Financing of Terrorism*, amended by *Law 28/2008 of 11<sup>th</sup> December*, the 9 new special recommendations of the FATF were added and the Unit became known as the Financial Intelligence Unit. This was followed by the Regulations of the Law of 13<sup>th</sup> May 2009 which develop the organizational and functional aspects of the Unit.

At the present time, the Permanent Commission for the Prevention of Money Laundering is work-

ing on several legislative amendments, which are intended to bring our procedures further into line with required international standards.

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

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

**Andorra Development and Investment** (ADI) is a public company under private law and its mission is to economically promote and support enterprise in the Principality of Andorra. At domestic level, ADI's objectives are to render support to local entrepreneurs and help Andorran companies wishing to grow and expand internationally improve their competitiveness. In this regard, support is given to projects such as the *Innovadors* programme in collaboration with the HEC Paris and ESADE business schools and they have participated together with the Government, the ABA and the Chamber of

Commerce, Industry and Services of Andorra in the privileged loans programme for enterprising companies and projects. At an international level, the ADI wishes to position Andorra as a business centre, implementing the project to open up and diversify the economy for creating new companies that offer a high level of added value.

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

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

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



## II ANDORRAN LEGAL FRAMEWORK

### II.1. Mercantile framework

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

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

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

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.

On 8<sup>th</sup> April 2008 the General Council approved the *Law 2/2008 on Foreign Investments in the Principality of Andorra* which came into force on 7<sup>th</sup> 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. This notwithstanding, four years after that reform to attract companies involved in activities that are not essentially present in Andorra, it has been seen that the measures being promoted had not been sufficient to enable Andorran economy to compete with the neighbouring economies under equal conditions.

Accordingly, the deregulation of foreign investments, together with the signing of double taxation agreements after the recent application of a direct tax on companies and economic activities, can make a greater contribution to economic development by offering a greater diversification of the economy and contribute a high value added. On 21<sup>st</sup> June 2012 the General Council approved the *Law 10/2012 on Foreign Investments in the Principality of Andorra*.

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

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

*Law 2/2008 of 8<sup>th</sup> April 2008* was amended by *Law 36/2008 of 18<sup>th</sup> December 2008* which clarifies queries arising from the publication of the first law regarding the interpretation of the procedure for the authorisation of direct foreign investments and the degree of liberalisation thereof. *Law 2/2008 of 8<sup>th</sup> April 2008 on Foreign Investments in the Principality of Andorra, Law 36/2008, of 18<sup>th</sup> December, amending Law 2/2008 of 8<sup>th</sup> April 2008 on Foreign Investments in the Principality of Andorra* are repealed by the entry into force of *Law 10/2012, of 21<sup>st</sup> June, on foreign investment in the Principality of Andorra*.

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

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

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

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

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

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

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

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

- It should be taken into consideration that, according to the new *Law on Foreign Investments in the Principality of Andorra*, the liberalization of foreign investments in all sectors of the Andorran economy is also accompanied by a major reform concerning economic rights for physical persons. Accordingly, it is established that the economic rights of physical persons are acquired when they obtain legal residency status in the Principality.
- The objective of the **Law governing foundations** dated 12<sup>th</sup> June 2008 is to respond to social demand for regulating private foundations of public or social interest, taking into consideration the legal tradition and experience of neighbouring countries.

## II.2. Labour framework

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

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

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

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

- *Law 34/2008 governing **health and safety in the workplace** dated 18<sup>th</sup> December 2008* regulates the general principles for protection already established in the majority of European countries.

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

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

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

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

## II.3. Tax framework

### Introduction

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

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

Consequently, in 2010 the *Law on company income tax* and the *Law on taxation of income earned from economic activities* came into force on 1<sup>st</sup> January 2012 and are passed as well as the *Law on the taxation of income earned by non-residents for tax purposes*, which came into force on 1<sup>st</sup> April 2011. In the Principality of Andorra no general direct taxation exists on non-professional income earned by residents.

On 21<sup>st</sup> June 2012, the General Council passed *Law 11/2012 on General Indirect Taxation*, the aim of

which is to regulate and introduce a tax for the first time in the history of the Principality of Andorra aimed at turning the Andorran fiscal system into a modern one comparable to those in our neighbouring countries. The introduction of this law will see a series of taxes that have been the backbone of the taxation system in Andorra up to now being replaced; these are the tax on goods (IMI), the indirect tax on internal production (IPI), the tax on commercial activities (IAC) and the indirect tax on services (ISI). This law came into force on 1<sup>st</sup> January 2013.

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

### Central Government taxes

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

As mentioned above, the Andorran tax system is currently a fiscal reform process started with the introduction of new direct taxes such as corporation tax, a tax on income from economic activities and a tax on the income of fiscal non-residents as well as the introduction of a general indirect tax, which is intended to result in a modern Andorran fiscal system comparable to those of our neighbouring countries, whilst bearing in mind the peculiarities of our country and its economic structure. [table 1]

### Taxes and indirect taxes

#### General Indirect Tax (IGI)

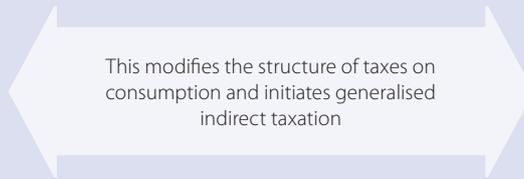
On 21<sup>st</sup> June 2012 *Law 11/2012 for a General Indirect Tax* was passed for the purpose of regulating and introducing this tax concept for the first time in the history of the Principality of Andorra in accordance with the provisions of Directive 2006/112/EC. The creation of this tax represents a very important landmark in the process of fiscal reform that started with the introduction of new indirect taxes, and it should lead to the modernisation of the Andorran fiscal system and make it comparable to those of

our neighbouring countries, whilst bearing in mind the peculiarities of our country and its economic structure.

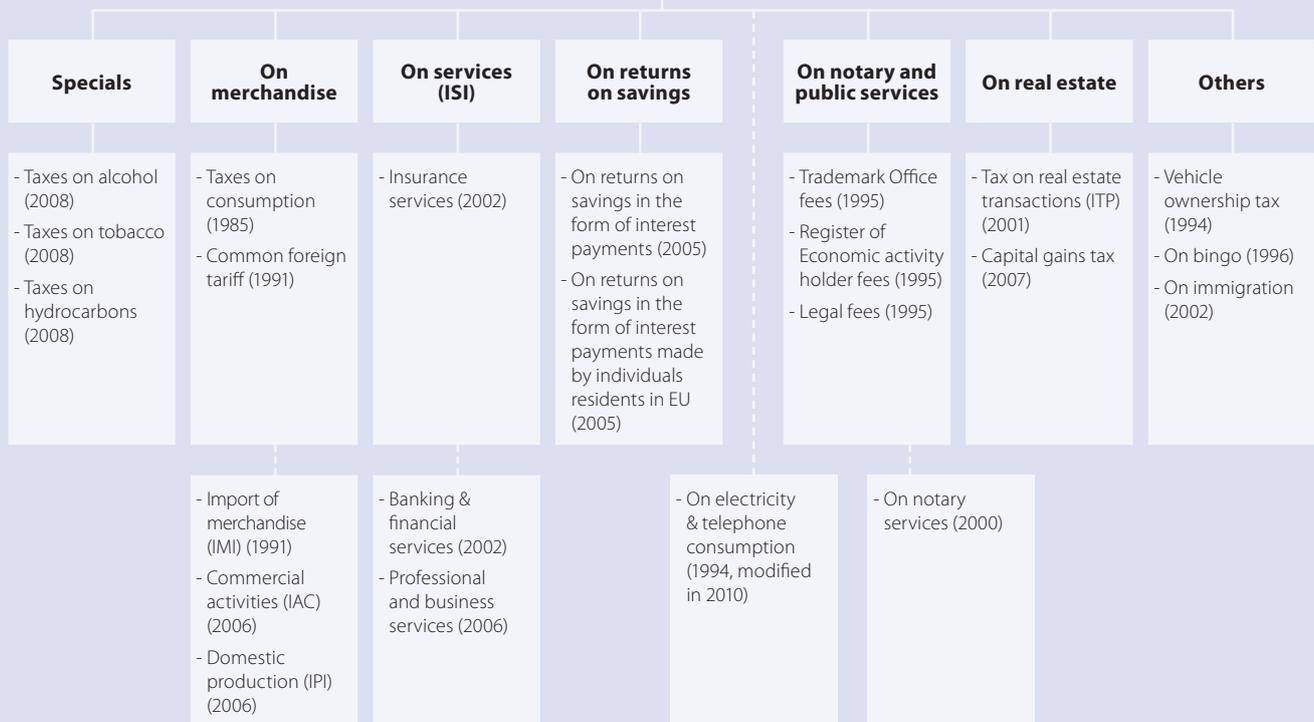
Law 11/2013, of 23<sup>rd</sup> May, amending Law 11/2012, of 21<sup>st</sup> June, on the general indirect tax incorporates a special regime for used goods.

The general indirect tax is levied on any clear economic capacity, provided that the final consumption of a good or service occurs, and accordingly as a general tax on consumption, it becomes a

## Customs Union Agreement 1990



### Rates and Indirect taxes (\*)



## Monetary Agreement 2011

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



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

cornerstone of indirect taxation. Its substitutes most of the indirect taxes that have been applied up to now, which were an imperfect attempt to tax consumption in our territory in recent years. In this way, the framework for direct taxation becomes more neutral and efficient for companies and fairer to citizens.

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

## 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 (tax base) 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.

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

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

*This Law was repealed on 1<sup>st</sup> January 2013, the date on which the General Indirect Tax Law came into force.*

### Indirect tax on domestic production ("**Impost indirecte sobre la producció interna (IPI)**")

This tax entered into force on 1<sup>st</sup> 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.

*This Law was repealed on 1<sup>st</sup> January 2013, the date on which the General Indirect Tax Law came into force.*

### Tax on commercial activities ("**Impost sobre les activitats comercials (IAC)**")

The tax on commercial activities entered into force on 3<sup>rd</sup> November 2004 and was amended on 27<sup>th</sup> 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 (IPI) to which the commercialised goods are subject.

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

*This Law was repealed on 1<sup>st</sup> January 2013, the date on which the General Indirect Tax Law came into force.*

### 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<sup>th</sup> 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<sup>rd</sup> November 2004. The three tax rates applied are: a reduced rate of 1%; a normal rate of 4% and an increased rate of 7%.

*This Law was repealed on 1<sup>st</sup> January 2013, the date on which the General Indirect Tax Law came into force.*

As an addition to the abovementioned law, on 14<sup>th</sup> May 2002 the Law governing indirect taxation on banking and financial services, amended by Law 3/2005 dated 21<sup>st</sup> February 2005, and the Law governing indirect taxation on the rendering of insurance services which became applicable as of 13<sup>th</sup> 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

### Special taxes

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

On 22<sup>nd</sup> April 2010 Law 11/2010 was approved amending Law 27/2008 governing special taxes dated 20<sup>th</sup> November 2008. This amendment introduces some slight changes to Law 27/2008 with the aim of improving the management of special taxes, whilst not increasing the tax burden on operators who use hydrocarbons and tackling the issue of illegal

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

[table 2]

which estimates the value of the services rendered based on economic and financial figures. The Law governing indirect taxation on banking and financial services was repealed on 1<sup>st</sup> January 2013, the date on which the General Indirect Tax Law came into force.

In addition, on 1<sup>st</sup> January 2006 the Law 17/2004 dated 3<sup>rd</sup> 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).

*This Law was repealed on 1<sup>st</sup> January 2013, the date on which the General Indirect Tax Law came into force.*

trafficking which may be encouraged by price differences.

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

On 1<sup>st</sup> March 2012 Law 1/2012 has been approved modifying the general consumption tax tariff in order to review and internally adjust the tax rates applied to tobacco and especially revise the tax rates on consumption that are applied to tobacco products.

## Local taxes

On 27<sup>th</sup> June 2003 the General Council approved the *Comuns Finance Law* (“*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<sup>th</sup> December 2000 was modified by *Law 7/2006* dated 21<sup>st</sup> June 2006. This tax is levied directly on onerous or lucrative transactions to transfer real estate between living persons, and from the creation or transfer of rights over these assets. This tax is also levied on the transfer of shares or other equity investments in mercantile companies, and from the creation or transfer of rights over these shares or other equity investments when at least 50% of the company’s assets comprise real estate and when the acquiring party obtains one fifth of the company as a result of the transfer of shares or other equity investments or creation or the transfer of rights over these assets.

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

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

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

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

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

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

## Taxation on savings

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

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

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

*Law 94/2010 of 29<sup>th</sup> December 2010 on the taxation of income earned by non-residents for tax purposes* modified by *Law 18/2011 of 1<sup>st</sup> December 2011* taxes the income earned on economic activities conducted in Andorra by individuals or entities not resident for tax purposes and the income earned on employment by individuals not resident for tax purposes,

provided that these individuals do not adhere to the Principality's social security system or liable to pay company income tax or tax on the economic activities of individuals. This tax is applicable to income generated by individuals or entities not resident for tax purposes as from 1<sup>st</sup> April 2011.

## Company income tax and tax on economic activities

With the entry into force of *Law 95/2010 on company income tax dated 29<sup>th</sup> December 2010* modified by *Law 17/2011 of 1<sup>st</sup> December 2011*, the *Law on the Register of Economic activity holder tax dated 20<sup>th</sup> December 1995* is revoked. This Law unitarily taxes all income earned by entities resident in the Principality of Andorra for tax purposes which conduct an economic activity. A tax rate of 10% is applied to those taxpayers subject to this tax and a rate of 0% is applied to those institutions regulated by *Law 10/2008 regulating collective investment undertakings*. *Law 96/2010 on taxation of income earned from economic activities dated 29<sup>th</sup> December 2010* modified by *Law 19/2011 of 1<sup>st</sup> December 2011* taxes gains obtained by individuals resident in the Principality of Andorra for tax purposes who conduct economic

activities but have not formed a company to perform these activities. A tax rate of 10% is applied to individuals liable to pay this tax.

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

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

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

Following the Paris Declaration of 10<sup>th</sup> March 2009, the Principality implemented a process for adopting OECD international standards, whereby it has signed various agreements for the exchange of tax information upon prior request. The declaration described the Principality of Andorra's intention to

begin a process of legislative reform to modify the bank's code of secrecy regarding the exchange of information in compliance with article 26 of the OECD Convention. A standardisation process was subsequently initiated to bring Andorra into line with other OECD countries.

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

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

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

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

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

Furthermore, exchanges of information on request, in response to justifiable and well-founded requests, will be effective for fiscal years which commence following the date on which each bilateral agreement comes into force, i.e. after the last notification that the agreement has been ratified by the respective Parliaments, plus an additional period, usually of three months, in the cases for which this period has been established. For example, if an agreement is ratified by the respective parliaments of the countries party to the agreement on 2<sup>nd</sup>

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

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

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

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

To date, signed agreements have entered into force with San Marino, Austria, Monaco, France, the Netherlands, Liechtenstein, Spain, Sweden, Finland, Denmark, Portugal, the Faroe Islands, Norway, Iceland and Germany. The entry into force of the tax agreement between Andorra and Spain led to Andorra's removal from Spain's list of tax havens.

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

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

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

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

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

- The **Law regulating insurance companies** in the Principality of Andorra dated 11<sup>th</sup> May 1989 includes the fundamental characteristics to be able to operate in Andorra.
- The **Law on the legal regime of the entities operating within the Andorran financial system and other provisions regulating the exercise of financial activities in the Principality of Andorra** dated 9<sup>th</sup> May 2013, which revokes Law regulating the operational functions of the different components of the financial system dated 19<sup>th</sup> December 1996, as well as Law 24/2008 regulating the legal regime for non-banking financial institutions offering specialized finance sets out the legal regime of the entities operating within the financial system and regulates financial activities in the Principality of Andorra.
- The **Law** of 9<sup>th</sup> May 2013 **on the organizational requirements and the operational conditions of entities operating within the financial system, investor protection, market abuse and the Financial Collateral Arrangements**, which repeals the *Law of 27<sup>th</sup> November 1993 regulating the financial system*, establishes the organizational requirements and operating conditions for the exercise of the activities of the entities operating within the financial system; the minimum requirements to be followed by the entities operating within the financial system to safeguard investor protection; the obligations, prohibitions and the penalties system for market abuse by any physical person or legal entity, understood as operations based on the use of insider information and market manipulation, so as to contribute to the integrity of the financial markets and increase the trust of investors in these markets; and the regulatory framework of the contractual netting agreements and Financial Collateral Arrangements.

As a result of the approval of the aforementioned laws, *Law 13/2010 on the legal regime for financial investment entities and management companies of*

*collective investment undertakings and Law 14/2010 on the legal regime for banking entities and basic administrative regime for entities operating in the financial system were revoked.*

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

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

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

- Long before the promotion of the *Law of 27<sup>th</sup> November 1993 regulating the financial system*, the Andorran financial system, concerned about transmitting seriousness and commitment to third parties, had already promoted its self-regulation, through the Association of Andorran Banks ("*Associació de Bancs Andorrans*" (ABA)).
- The **Law regulating mandatory investment coefficients** dated 30<sup>th</sup> June 1994 sets out a mandatory coefficient, which has to be covered by public funds and which, in accordance with the aforementioned law, is only currently applicable to banking entities. This law was promulgated by the *Decree dated 9<sup>th</sup> December 2009 approving the Decree amending the Decree governing the Law regulating mandatory investment coefficients dated 22<sup>nd</sup> August 1994*, which established the requirement to maintain 2% of the assets of banking entities in public funds. Debt issues are defined as public funds for the purposes of calculating mandatory investment coefficients. The last

public debt issue subscribed by Andorran banking entities on 31<sup>st</sup> December 2009, regulated by the *Decree governing the issue of public debt in the Principality of Andorra dated 23<sup>rd</sup> December 2009* and fully subscribed by the Andorran banking entities is therefore taken into consideration for the purpose of complying with this coefficient.

─ The **Law regulating deposit guarantee reserves and other operational obligations** dated 11<sup>th</sup> May 1995 establishes the minimum reserves of shareholders' equity to guarantee the operational obligations of the entities included in the financial system. All the provisions regulating the regime of deposit guarantee reserves set up by banking entities are revoked by the new legislation governing the deposit guarantee system.

─ **Law for the creation of a deposit guarantee system for banking entities**, dated 2<sup>nd</sup> February 2011. To date, the *Law regulating deposit guarantee reserves and other operational obligations* established mechanisms to guarantee the capital adequacy and stability of the Andorran banking system, but without constituting a direct guarantee to reimburse the deposits made by deposit holders in the event that they became unavailable. The entry into force of this law adapts Andorran legislation to the requirements of the European Union on this matter and establishes a regime that is better designed to protect the robustness and capital adequacy of the Andorran financial system in relation to its deposit holders. The guarantee system is "ex-post" and the maximum amounts covered are Euros 100,000 per depositor and Euros 100,000 per investor for each entity.

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

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

For many years, the combat against the laundering of money obtained through illegal activities has been one of the country's priorities,

especially for the Andorran banking system. In 1990 the Andorran banking system opted for voluntary self-regulation by adopting a code of professional practice and Andorra also modified its Criminal Code by introducing the assumption of the laundering of money obtained through criminal activities.

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

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

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

On 11<sup>th</sup> December 2008, *Law 28/2008* was approved, amending the **Law for international cooperation on criminal matters and the combat against the laundering of money or securities arising from international crime** dated 29<sup>th</sup> December 2000. This law entered into force on 21<sup>st</sup> April 2009 and has served to bring Andorran legislation prevailing to date into line with international legislation and regulations, especially relating to the third European direc-

tive on this matter. As a result of this new law the UPB is now known as the Andorran Financial Intelligence Unit (UIF). The most significant changes introduced as a result of this legislative amendment have been: the extended scope of parties under obligation, the defining of politically exposed individuals, the defining of rightful owners, a greater precision when detailing obligations of the parties under obligation, the introduction of risk criteria, the obligatory nature of the UIF's technical communiqués and the explicit prohibition of "screen banks" and anonymous accounts.

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

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

On 25<sup>th</sup> May 2011 *Law 4/2011* was urgently passed following an extraordinary procedure, and **it amends the Law of 29<sup>th</sup> December 2000 on International Criminal Co-operation and the Fight against the Laundering of Money or Securities resulting from International Crime and against the Financing of Terrorism**. This Law, which came into force on 23<sup>rd</sup> June 2011, consists of seven articles which, for the most part

convert the preventive measures already applied by those subject to the law and which require explicit regulations in accordance with international standards into positive law. Among other questions, the concept of effective beneficiary is broadened, the sum for cash sales of high value articles which generate the obligations that the Law establishes is reduced, the regime of simplified diligence measures is intensified while additional protection measures of tax obligors when they make declarations of suspicion are also introduced.

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

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

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

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

- On 18<sup>th</sup> October 2007 Qualified *Law 17/2007* amending *Law 9/2005* governing the Andorran Criminal Code, was approved, which includes a series of reforms to bring the Andorran Crimi-

nal Code into line with all the provisions of the Criminal Law Convention on Corruption, adopted by the European Council on 27<sup>th</sup> January 1999 and ratified by the Principality of Andorra on 8<sup>th</sup> November 2001;

- On 20<sup>th</sup> December 2007 *Qualified Law 29/2007* was approved, amending article 409 of *Qualified Law 9/2005* of 21<sup>st</sup> February 2005, governing the Andorran Criminal Code on the prevention of money laundering and securities;
- On 3<sup>rd</sup> October 2008 the General Council approved *Qualified Law 15/2008* amending *Qualified Law 9/2005* dated 21<sup>st</sup> February 2005 governing the Andorran Criminal Code. The main reasons for this amendment were the need for certain technical modifications to increase the operative nature of the law and to include the entry into force of certain international treaties signed by Andorra. This recent amendment has led to the inclusion of article 366 bis which deals with the crime of “financing terrorism”. Consequently, on 12<sup>th</sup> June 2008 the *United Nations Convention for the suppression of the financing of terrorism* signed by the Andorran Government on 10<sup>th</sup> November 2001 was ratified.
- On 11<sup>th</sup> October 2012 the General Council approved *Qualified Law 18/2012* amending *Qualified Law 9/2005* dated 21<sup>st</sup> February 2005 governing the Andorran Criminal Code. The main reason for this amendment of certain articles has been to align the criminal law with the international treaties signed or ratified by Andorra as well as the recommendations of the Group of States Against Corruption (GRECO) in order to adapt the aforementioned regulations to the requirements of our State to meet international standards, especially in matters relating to corruption and the financing of terrorism

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

Similarly, it was seen that certain amendments needed to be made to the Code of Criminal Procedure to bring it into line with the aforementioned treaties and recommendations, and this led to the passing of *Qualified Law 19/2012* amending *Qualified Law 16/2008* of 3<sup>rd</sup> October, amending the Code of Criminal Procedure of 10<sup>th</sup> December 1998.

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

A combination of the provisions outlined above and the strict application of these provisions by all the agents involved, especially regarding the efforts made by the financial sector, inter alia, to

adequately train all of its employees, has ensured that reports issued by the various international bodies have been favourable. Consequently, Moneyval adopted the first and second progress reports in the third round of mutual evaluation of the Principality of Andorra on 10<sup>th</sup> December 2008 and 9<sup>th</sup> December 2010, respectively.

During 2011 the Principality carried out the fourth round of mutual evaluations and received an on-site visit from the Moneyval delegation in March 2011, who examined most of the FATF recommendations. On 8<sup>th</sup> March 2012, Moneyval carried out the 4<sup>th</sup> Evaluation of Andorra in Strasbourg. The evaluation team examined the efficiency of the application of all the main and important recommendations as well as other recommendations, independently of the 3<sup>rd</sup> evaluation.

The Principality's banking entities are conscious of the fundamental role they play in efficiently eliminating and combating money laundering and the financing of terrorism and have therefore demonstrated their commitment through the electronic platform set up in mid-2009 by the Association of Andorran Banks. This online training platform on money laundering and combating the financing of terrorism includes up-to-date information and both national and international legislation on this matter and was made available to employees of the Andorran banking sector at the end of 2010.

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

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

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

On 1<sup>st</sup> January 2011, the Law on the “Emergency Economic Stabilization Act of 2008” entered into force incorporating new reporting obligations for brokers essentially requiring them to inform their clients *US Persons* and the IRS of the tax income earned by them on financial instrument operations through presentation of model 1099-B. As from 1<sup>st</sup> January, the tax return is filed on the basis of the earnings generated by variable income operations and shares, irrespective of the origin

of the issuer. As of 2012 and 2013 the reporting and declaration obligation will extend to transactions involving investment fund units and debt instruments, respectively.

In September 2013, banking entities and investment funds will be bound by FATCA regulations. The FATCA (Foreign Account Tax Compliance Act) was passed by Law on 10<sup>th</sup> March 2010 (Hiring Act). The purpose of this Law is to prevent tax evasion by US persons. Foreign Financial Institutions (FFIs) are obliged to sign an agreement with the Internal Revenue Service (IRS), according to which they undertake to communicate certain information concerning their clients to the IRS. If an FFI does not sign the aforementioned agreement, the institution (and its clients) will be subject to retentions of 30% on all interest, dividends and sales proceeding from securities and other income coming from the United States, which is paid to either a US resident or a non-US resident.

■ The **Law regulating the capital adequacy and liquidity criteria of financial institutions**

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

■ The **Law regulating the disciplinary regime of the financial system**

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

■ The **Decree approving the Chart of Accounts for financial entities**

*dated 19<sup>th</sup> January 2000* defines the principles, criteria and basic accounting standards for financial entities in Andorra. This allows the INAF to effectively supervise the financial system. This Chart of Accounts entered into force on 1<sup>st</sup> January 2000 and is applicable to all the operational components of the Andorran financial system.

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

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

- The **Law for indirect taxation on banking and financial services rendered** *dated 14<sup>th</sup> 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<sup>st</sup> April 2005 the indirect tax on banking services rendered has risen from 7% to 12%.

*This Law was repealed on 1<sup>st</sup> January 2013, the date on which the General Indirect Tax Law came into force (see section on the General Indirect Tax).*

■ The **Law for indirect taxation on insurance services rendered**

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

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

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

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

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

- On 4<sup>th</sup> April 2011 a **Memorandum of Understanding (MoU)** was signed between Andorra and Spain constituting an agreement for a consolidated cooperation in supervisory matters between the supervising authority of the Andorran financial system (INAF) and of the Spanish financial system (Bank of Spain). This agreement establishes the terms of the protocol for the relationship and collaboration between these two authorities. It also enables the supervisory

authority of the country of origin to request corporate information and any other information required for the supervision and control of consolidated risks of banking groups from the relevant authority of the country where the entity has subsidiaries.

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

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

■ The **Law on the legal system for entities operating within the Andorran financial system and other provisions regulating the exercise of financial activities in the Principality of Andorra** of 9<sup>th</sup> May 2013. The aim of this Law is to establish the legal system for the entities operating within the financial system as well as various provisions regulating the exercise of financial activities in the Principality of Andorra; such as accessing the activity and how to exercise it.

In addition to the transposition of all the operative articles of *Law 24/2008* of 30<sup>th</sup> October, and *Law 13/2010* of 13<sup>th</sup> May and those of *Law 14/2010* of 13<sup>th</sup> May in order to redraft the regulation of the legal system of the banking entities in a single legislative text, it has been necessary to incorporate a definition of the banking entities that do not appear in the said Law, but rather in article 2 of the *Law* of 19<sup>th</sup> December 1996 *regulating the operational powers of the various components of the financial system*.

Finally, with the aim of allowing the legislation of the Andorran financial system to be structured in a more clear manner, it has been considered appropriate to repeal the *Law* of 19<sup>th</sup> December 1996 *regulating the operational powers of the various components of the financial system*, of which only some articles remained in force, specifically

articles 1, 2, 3.c), 4, 6, 7, 8 and part of 9, which have been transposed to this legislative text without any significant amendments.

The Law brings together the legal systems for all the entities operating within the Andorran financial system into a single regulatory text, concentrating all the regulations that were spread across several laws, without introducing any significant changes to the rules of the legal system of the different typologies of entities operating within the financial system, being therefore, a rewriting and a restructuring of current laws on the material, the purpose being to provide greater legal security to the legislative framework regulating the Andorran financial system.

■ The **Law on the organizational requirements and operational conditions of the entities operating within the financial system, investor protection, market abuse and the Financial Collateral Arrangements**, of 9<sup>th</sup> May 2013. This aim of this law is to establish the organizational requirements and operating conditions for the exercise of the activity of the entities operating within the financial system; the minimum requirements to be followed by the entities operating in the financial system in order to oversee investor protection; the obligations, prohibitions and the system of penalties related to market abuse by any physical person or legal entity, understood as operations based on the use of insider information and manipulation of markets, in order to contribute to the integrity of the financial markets and increase the trust of investors in these markets; and the regulatory framework of the contractual netting agreements and the financial collateral arrangements.

To this purpose, the Law incorporates the basic administrative regime of the entities operating within the financial system, which had been established up to now in *Law 14/2010* of 13<sup>th</sup> May, on the legal system for banking entities and the basic administrative regime of the entities operating within the financial system, which has been subject to various amendments in order to clarify the intention of the legislator and to standardise the administrative regime of the entities operating within the financial system in accordance with international standards in this matter; and the process and official register of administrative acts (former Title IV of *Law 14/2010*) have been added to become an integral part of the basic administrative regime of the entities operating within the financial system. With regard to this new section of the administrative regime, it should be pointed out that it has been subject to some modifications in order to take into consideration the new casuistries linked to the international expansion of the entities operating within the Andorran financial system, counting from the adoption of *Law 14/2010*.

Likewise, the opportunity was taken to incorporate the few provisions of Law of 27<sup>th</sup> November 1993 regulating the Andorran financial system, still in force and not considered in any other legal reference into this legislative text, and consequently once this incorporation had been made, the aforementioned Law had been repealed.

On the other hand, the Law also incorporates the provisions envisaged in chapter two of Title III of Law 14/2010 on investor protection, which have also been subject to certain amendments in order to clarify the interpretation of the regulations in force up to now and to thereby facilitate the correct fulfilment thereof by the entities to which it applies.

As a new key element of the Law, we should point out the incorporation of chapter four on the use of insider information and market manipulation, in other words, market abuse, which falls within the framework of the commitments acquired by Andorra upon signing the Monetary Agreement, which include the signing of the protocol of multilateral understanding of the International Organization of Securities Commissions regarding the consultation, cooperation and

exchange of information between the authorities competent in matters relating to the supervision and inspection of market abuse practices who are signatories of the aforementioned protocol of multilateral understanding, in a maximum period of 18 months from the Monetary Agreement coming into force on 1<sup>st</sup> April 2012.

Finally we should point out the incorporation of the content of the sixth additional provision of Law 14/2010 regarding contractual netting agreements, given its relevance in the articles of this Law as Chapter V, adapted to the provisions established at a European level in Directive 2002/47/EC of 6<sup>th</sup> June 2002 of the European Parliament and of the Council on financial collateral arrangements amended by Directive 2009/44/EC of 6<sup>th</sup> May 2009 of the European Parliament and of the Council, which amends Directive 98/26/EC on settlement finality in payment and securities settlement systems and Directive 2002/47/EC on Financial Collateral Arrangements, with regard to connected systems and credit rights; directives which also form part of the section "Legislation in banking and financial matters" of the annex to the Monetary Agreement.

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

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

Andorran banking is continuously monitoring the most up-to-date issues such as international regulations and legislation, strategic sector risks, supervisory systems, good practice requirements defined by the Basel Committee, the challenges of ensuring financial stability, 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.

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

The Monetary Agreement between the Principality of Andorra and the European Union recognises the Euro as the official legal tender of the Principality and grants the right to coinage (*senyoratge*). The agreement is also more comprehensive and comprises:

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

- the signing of the IOSCO protocol for multilateral agreement on consultations, cooperation and the exchange of information on the securities market.

In broad terms, the Andorran legislation already contemplates certain elements to protect the currency against fraud and falsification, as some aspects were incorporated in the last modification of the Criminal Code, as well as many of the elements regarding the regulation to combat money laundering, the MiFID directive requirements or Deposit guarantee reserves. Nevertheless, the Principality is making a significant effort to bring its legislative framework into line with the Community *acquis*, particularly, in relation to banking and finance legislation. Andorra will therefore have to legislate over the next five years on issues such as capital adequacy to adapt to the requirements of Basel II and III; payment methods, to join SEPA or to adapt the accounting framework of the Andorran financial system to IFRS. The Association of Andorran Banks and operating entities of the financial system have already been working on all these areas, although application of them would require a major overhaul of Andorran legal and financial regulations and an increase in the technical monitoring resources of banking and financial entities on the one hand and the public sector and the INAF on the other.

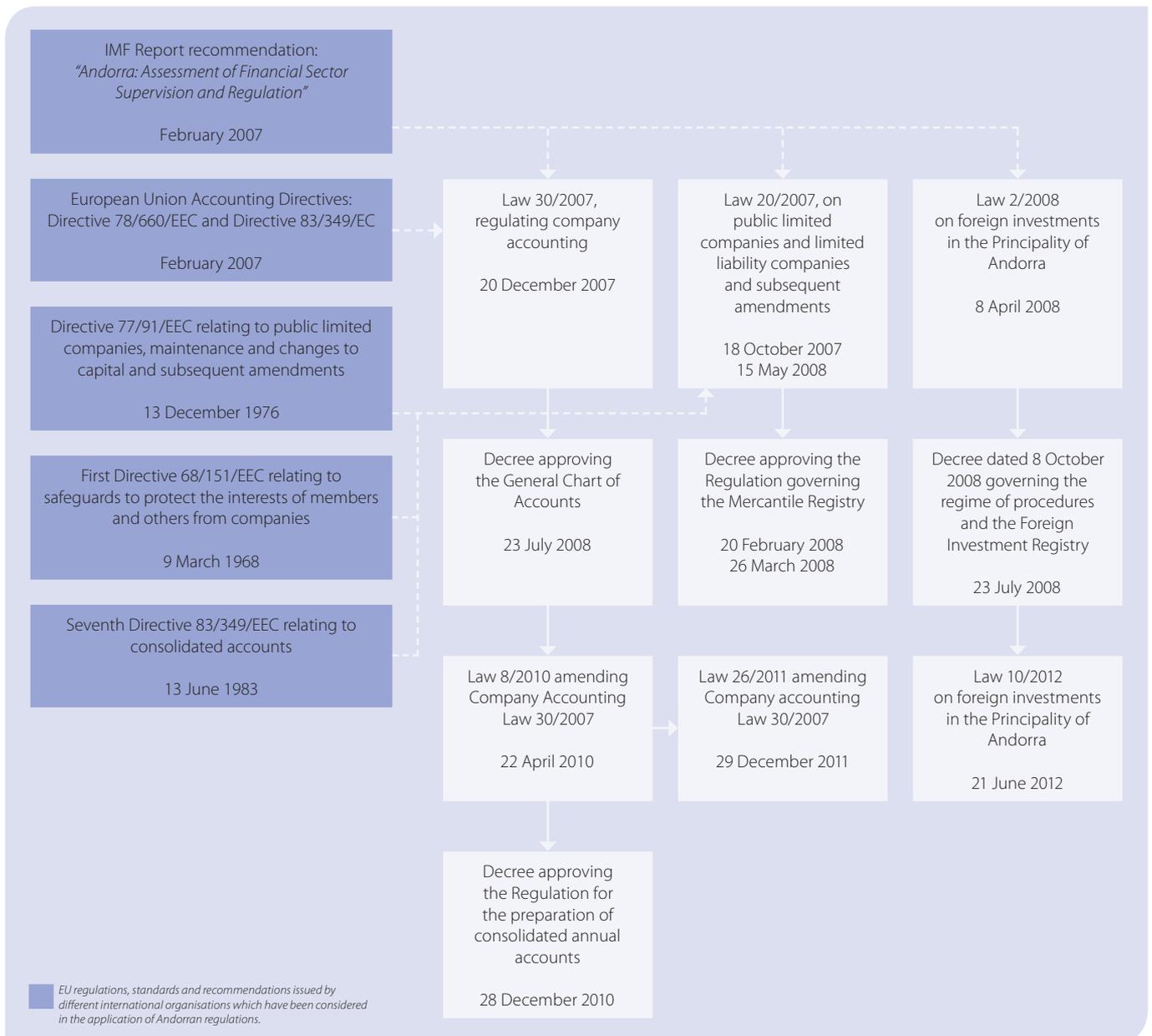
The potential exchange of information between the bodies supervising the financial system will be restricted exclusively for the purpose of supervising the risks of the financial system and the efficient working of capital markets. The current banks' code of secrecy would be regulated by agreements on the exchange of tax information on demand signed by the Government between September 2009 and November 2010, and which enabled Andorra to be removed from the OECD's grey list of tax havens.

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

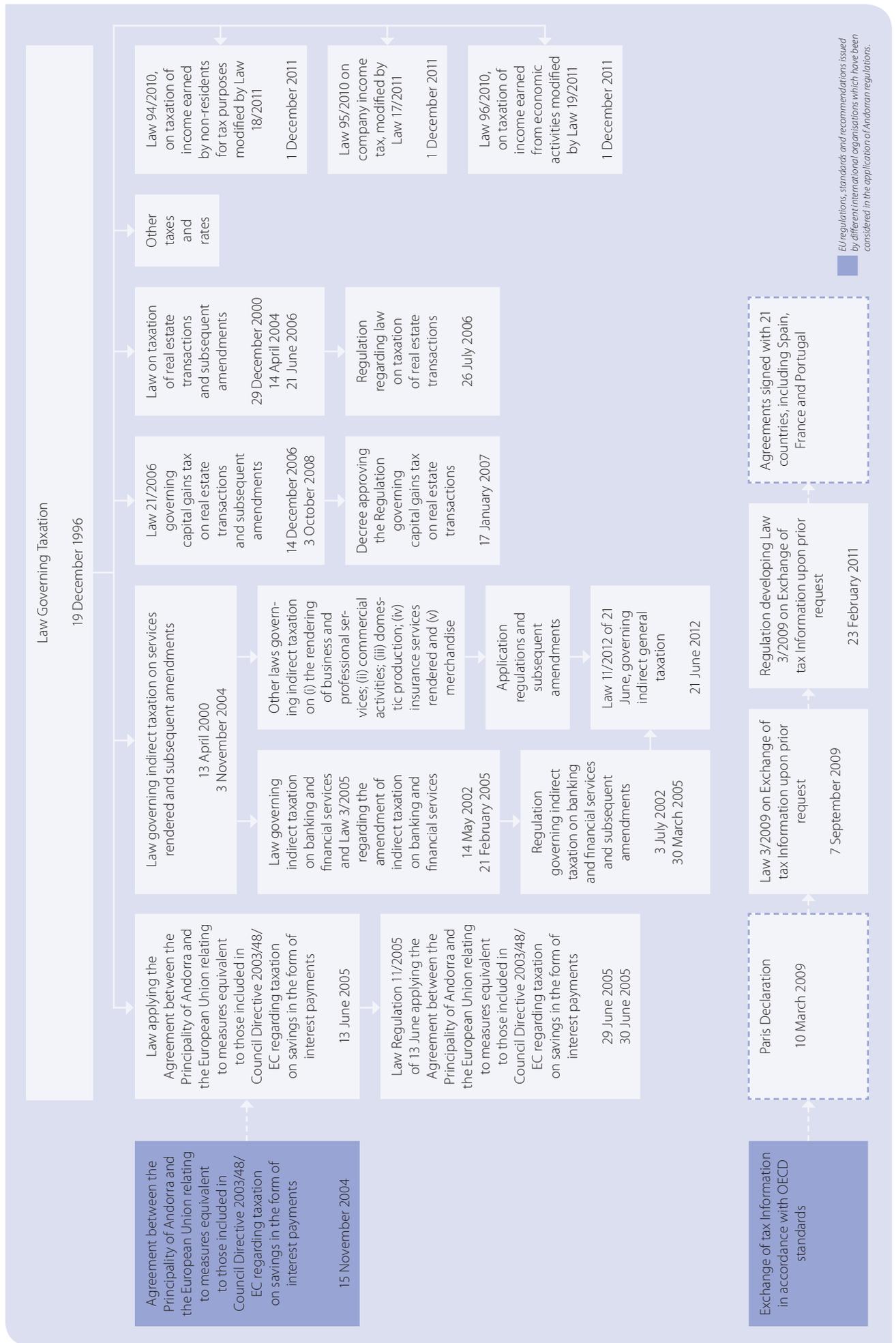
The main regulatory provisions and initiatives governing financial activity in the Principality of Andorra are illustrated below, identifying the regulatory framework and the recommendations of international bodies such as the International Monetary Fund (IMF), MONEYVAL or the OECD, for the purpose of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

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

### Evolution of Andorran legislation: corporate and accounting



## Evolution of Andorran legislation: taxation



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

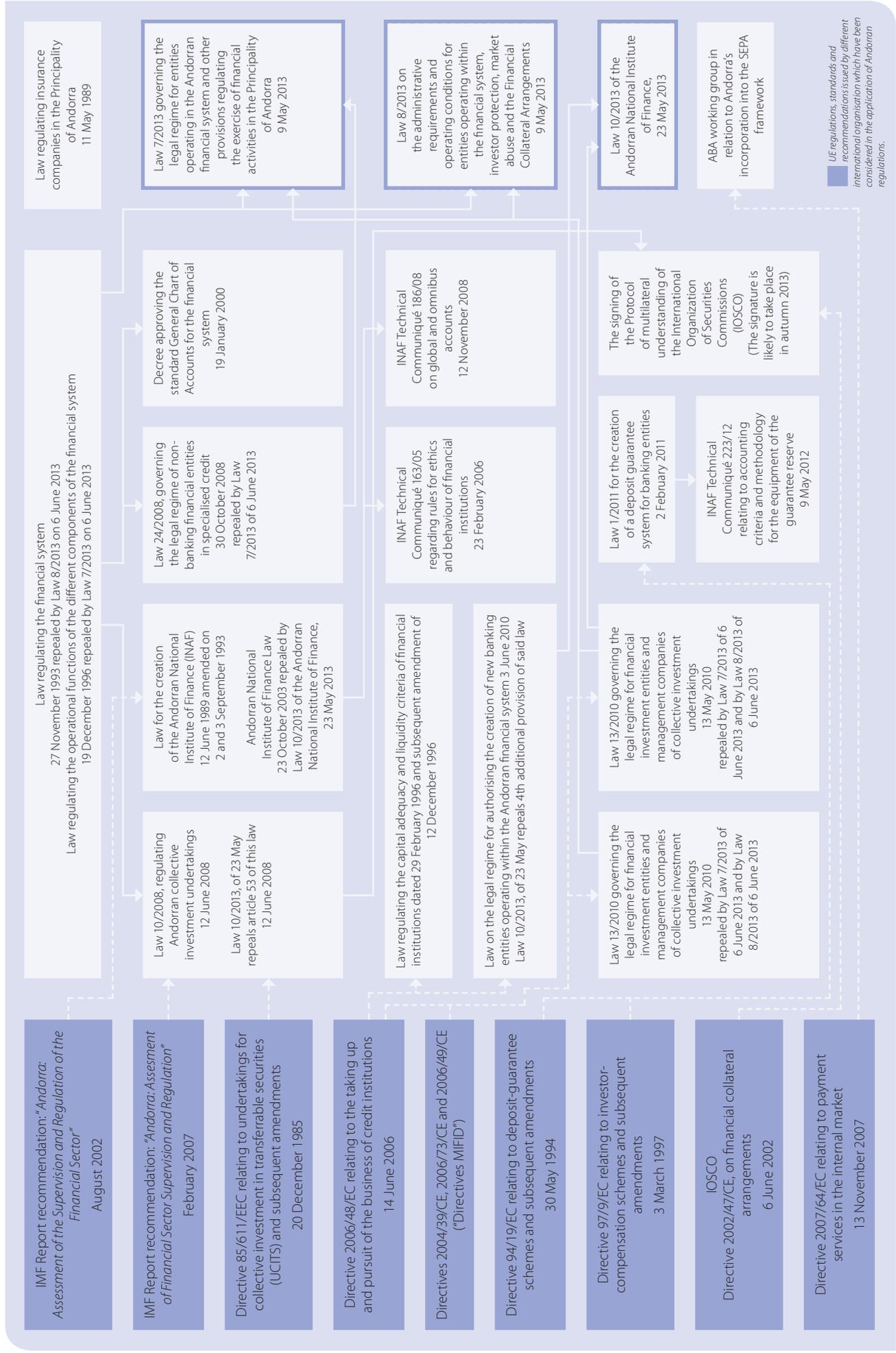
1998		OECD prepares first reports on tax havens.
2000	June	OECD prepares a list of all the non-cooperating countries, comprising 40 jurisdictions, one of which is Andorra.
2000-2003		31 of these countries sign letters of intent to comply with OECD standards and become part of a new "grey list". Andorra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

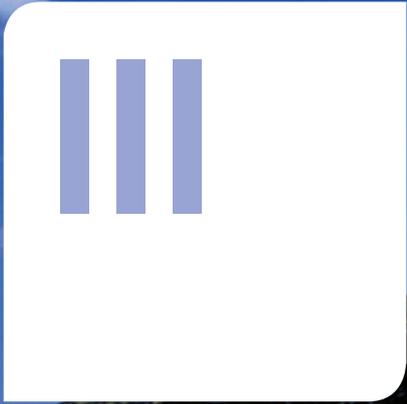
## Evolution of Andorran legislation: money laundering



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

## Evolution of Andorran legislation: financial regulation







### III.1. Introduction

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

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

In Andorra, the main macroeconomic indicators that we will analyze throughout this chapter show a similar situation to that of previous years, without any clear symptoms of a recovery of the economy on a general scale. It is necessary to bear in mind that 2012 has contributed new uncertainties with regard to a recovery of the main Western economies. The debt crisis has thrown up new challenges that need to be overcome and this has resulted in austerity measures being applied. Furthermore, the asymmetric behaviour of certain economies in Europe has hindered the measures that need to be adopted to reactivate the economy: notwithstanding the moderate recovery of countries such as Germany or France, Spain on the other hand remains immersed in a crisis situation and it faces a fight to prevent the loss of further jobs, with the unemployment level at 26.02% of the active population.

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

In March in the same year the *Paris Declaration* was signed and the *Law for the exchange of tax information upon prior request* was approved and Andorra subsequently signed bilateral agreements for the exchange of information with 21 countries, including Spain, France and Portugal, as well as approval of the regulations contained therein, as explained in further detail in chapter "II. Andorran Legal Framework" of this publication.

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

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

To this end, the Government of Andorra has promoted the ACTUA initiative. This is a public/private entity that brings together several ministries, government

agencies, associations and/or entities from the private sector, and its mission is to help open up the economy to foreign companies and facilitate investment and the economic diversification of Andorra.

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

## III.2. Main economic variables

### National income and per capita income

Gross Domestic Product (GDP) is one of the essential macroeconomic aggregate for assessing the production of resident units of all economies. Since 2002 the statistics department of the Government of Andorra has made its estimates using so-called indirect methods, from variables that are co-related to the evolution of the same. This year, however, the methodology applied has been partially adjusted to take account of offer-based calculations.

As we can see in the following table, national income began to fall in 2008 with the start of the economic crisis and it was situated at 2,508 million Euros in 2012. However, this negative trend seems to have eased off in recent years, especially during 2012 and this is because of the collection effect among other reasons. The graph also shows that GNP grew by 61% since 2000. [graph 1]

The table below shows that Andorran income per capita has fallen since 2008, in line with the economic recession, with a slight recovery since 2011. The increase in per capita income in 2012 and 2011 can be explained by the population loss registered in Andorra, which has been higher than the GDP drop during this period. [table 1]

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 2012 stands above that of the USA, Japan and Germany and below that of countries such as Luxembourg or Switzerland. [table 2]

#### National income and per capita income

	2009	2010	2011	2012
National income (Millions of Euros)	2,664	2,572	2,522	2,508
Per capita income (Euros)	31,679	30,252	32,284	32,892
Variation in per capita income	(3.66%)	(4.50%)	6.72%	1.88%

Source: Department of Statistics - Government of Andorra

[table 1]

#### GDP per capita, 2012

Country	Balance
Luxembourg	62,305
Switzerland	41,526
<b>Andorra (*)</b>	<b>32,892</b>
USA	27,712
Japan	26,775
France	25,469
Germany	26,003
Spain	15,115
Portugal	11,678

(\*) Data calculated GDP/Population

(Euros) Source: IMF

[table 2]

#### Evolution of Andorran GDP 2000-2012



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

[graph 1]

### Consumer price index

During 2012 the Andorran consumer price index (CPI) has followed the growth trend which was interrupted in 2008, rising from 0.00% in 2009, 1.60% in 2010 and 2.5% in 2011 to 1.10% in 2012, a figure lower than that registered in the Euro Zone. [table 3]. The areas with the most significant price increases in 2012 were recreation, performances and culture, which increased by 4%, followed by education with a 3.2% increase. On the other hand, it is worth emphasising the fall in prices for the health group (-2.6%), which was favoured by a downward revision of medical treatment fees. Underlying inflation, which excludes energy products (petrol, electricity, etc.) and perishable products, increased by 1.4% in 2012.

Based on the consumer price indexes published by IMF (annual average) for the year 2012 in the table below and comparing Andorra with other countries, it can be observed that the Principality has registered a moderate and lower drop in CPI than that of the Euro zone, due to the consumer price indexes reached in countries such as Italy, Luxembourg, Portugal and Spain, amongst others. [table 3]

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

The graph above shows an overall drop in the year-on-year CPI for the three economies, in line with trends observed in the other zone countries. At 1%, Andorra's rate of inflation is similar to that of France but it is below the 2.9% rate in Spain, where the upward trend in consumer prices has been driven by VAT increases.

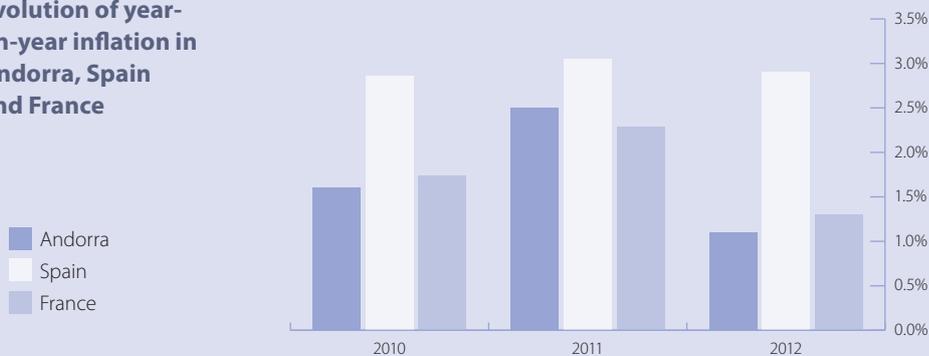
#### Year-on year CPI 2012

Italy	3.30%
Luxembourg	2.89%
Portugal	2.77%
Spain	2.43%
Germany	2.13%
USA	2.07%
France	1.97%
Ireland	1.92%
United Kingdom	1.84%
<b>Euro zone</b>	<b>1.73%</b>
<b>Andorra</b>	<b>1.10%</b>
Japan	(0.03%)
Switzerland	(0.69%)

Source: FMI

[table 3]

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



Source: Department of Statistics - Government of Andorra

[graph 2]

### Employment market

The annual average number of jobs for 2012 decreased 3.36% in comparison with the previous year, falling to 42,915 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 in the number of jobs on offer has been especially relevant in those sectors of the Andorran economy which have experienced the most notable decline in activity, such as construction, industrial and services-related activities.

In 2007 the growing trend in the number of wage earners started to reverse, reporting a 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 in 2008, whilst of 2.84% in 2009, of 2.93% in 2010 and of 3.24% in 2011. This year, the negative trend is maintained with a 3.40% contraction. However, 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 2012 has been, as it was in 2011, the plunge in economic activity in the secondary sector, mainly involving construction (employing 66.71% of total wage earners in the secondary sector), followed by the tertiary sector, specifically commerce and the hotel and restaurant trade (employing 56.22% of total wage earners in the private tertiary sector).

The economic sector experiencing the most significant decline in wage earners is construction, down 15.46% (14.18% in 2011), followed by the commercial sector and motor vehicle repairs, manufacturing industries and the hotel sector, which have lost 339, 108 and 101 jobs respectively since 2011, representing a drop of 3.61%, 6.89% and 2.12% respectively.

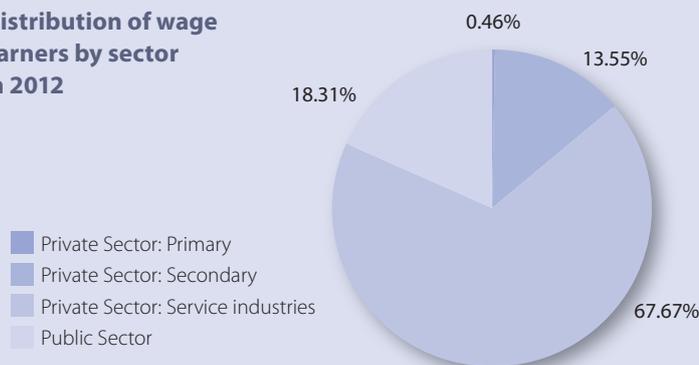
As shown in the graph illustrating the wage earners registered with the *Caixa Andorrana de Seguretat Social* (Social Security System; hereinafter the CASS) by sector, the tertiary sector's importance to the Andorran economy is highly significant, 67.67% of total wage earners in 2012, followed by the public sector (18.31%), the secondary sector -industry and construction- (13.55%) and finally the primary sector (0.46%). [graph 3]

In recent years, in the secondary sector there was a significant 31.35% drop in the number of workers since 2009; from 7,114 workers in 2009 to 4,884 workers during 2012 (a loss of 2,230 workers). With regard to the tertiary sector, the decrease was 5.90% of workers, falling from 25,914 workers in 2009 to 24,385 workers in 2012 (a loss of 1,529 workers). The public sector has seen a slight decrease of 0.24% compared to the previous year.

## 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.

### Distribution of wage earners by sector in 2012



Source: Department of Statistics - Government of Andorra

[graph 3]

### Employment rate

	ANDORRA		UE-27	
	2011	2012	2011	2012
Employment rate (*)	66.42	65.75	64.30	64.20

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

(Percentage) Source: Andorran Social Security System and Eurostat

[table 4]

The comparison of employment rates shown in the table below illustrates that the employment rate in Andorra is slightly higher than that of the 27 European member states. [table 4]

The variation in the employment rate in Andorra compared to 2011 has been negative, with a decrease of 1.01% (in 2011 it grew by 5.90%) since the active population fell by 2.4% while the fall in the salaried population was 3.4%. The 27 member states of the European Union experienced a decrease, albeit to a lesser extent, recording a decrease of 0.16% (0.31% in 2011).

In 2012, the average salary has decreased by 0.59%. [table 5]

### Growth of average and minimum salaries in Andorra

	1995	2009	2010	2011	2012	Var. (%) 11-12
Average salaries	1,021	1,983	1,995	2,015	2,003	(0.59%)
Minimum salaries	616	915	915	929	952	2.43%

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

[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 Greece and the UK, but lower than that of Monaco and Luxembourg. [graph 4]

In 2012, the financial system and the energy production and distribution sector are those sub-sectors registering the highest average salaries, considerably higher than the average salaries declared to

the CASS (Euros 4,568 and Euros 3,104, respectively). It is worth mentioning the fact that that extractive industries increased by 40.66%, while extraterritorial bodies increased by 10.71%.

The evolution of average salaries was positive in the secondary and public sectors at 7.41% and 4.94% respectively, and was negative in the primary and tertiary sectors, where it fell by 3.82% and 0.25% respectively, compared to 2011. [graph 5]

**Minimum salaries 2012**



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

[graph 4]

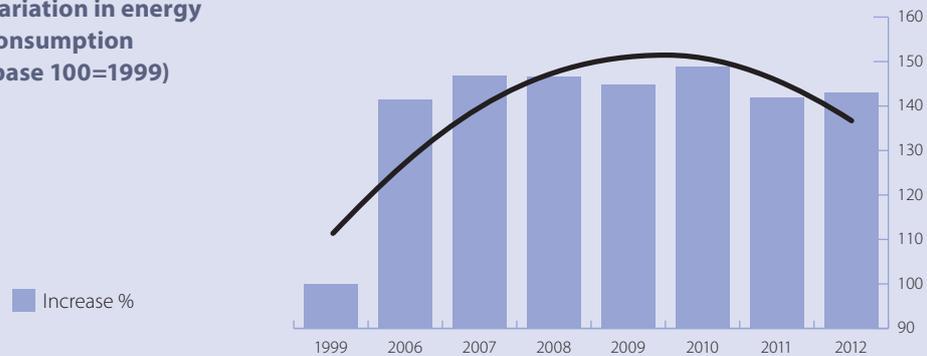
**Evolution of average salaries per sector**



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

[graph 5]

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



(MW/hour) Source: Department of Statistics - Government of Andorra

[graph 6]

## Consumption of electrical power

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

The graph above shows that energy consumption had a 0.77% increase on the level reached in 2011, which was down 4.57% in relation to 2010. [graph 6]

Constructions and ancillary activities was the core area where electrical consumption fell the most, with a drop of 9.60%, while a significant increase in consumption was registered in the area covered by ski resorts and street lighting, which had a positive variation of 14.48% compared to 2011 (2011: -13.87%) and 6.32% (2011: -0.32%).

## Telecommunications

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

The Principality has a high speed fibre optic network with symmetric speeds of 100 Mbps and a mobile network that is constantly evolving, and this means that the professional sectors can develop

their tasks in a better way and it also allows them to gain competitiveness.

Andorra is the European leader in the deployment of fibre optic technology. This has been verified by the FTTH Council Europe, which highlights the total coverage of the Andorran network which is the only European state to reach 100%. Andorra is followed in the list by Lithuania at 97% and Portugal with 43%.

## Vehicle Licensing and Fuel

One of the indicators of internal demand in the Andorran economy is the number of licensed vehicles. The automobile sector is one of the sectors that has been most affected by the crisis and the situation did not improve in 2012, with vehicle registrations falling by 10.53%. In total, the registration of 2,259 vehicles in 2012 is less than half of the registrations ten years ago and this figure was 66.65% lower than that for 2005. [table 6]

Cars represent approximately 70% of total licensed vehicles. This group accounted for 8.89% in 2010, but in 2012 it experiences again a decline, down 16.37% (2011: -11.19%). Furthermore, licensing of other types of vehicles, such as trucks or mopeds, has decreased, even though the importance as a

percentage of total licensed vehicles is significantly lower than in the case of cars, generating a fairly insignificant effect on the variation in total demand for vehicles. Accordingly, after a slight recovery in vehicle imports during 2010, the trend during the two following years was negative and expectations for 2012 were not fulfilled.

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 2012 have amounted to Euros 66,845,011, 16.43% lower than those made in 2011. In 2011 they decreased by 5.18%.

### Licensed vehicles

	2008	2009	2010	2011	2012	Var. (%) 11-12
Total vehicles	3,497	2,788	2,893	2,525	2,259	(10.53%)

Source: Department of Statistics - Government of Andorra

[table 6]

Another indicator of consumption is fuel imports, which in 2012 have kept stable, compared to 2011, up to around 184 million litres, a figure lower than in 1998. This sector is very closely linked to tourist consumption and it is sensitive to the price differential between Andorra and the neighbouring

countries. As far as domestic fuel is concerned, it gains importance, while imports of unleaded petrol and motor diesel have fallen by 3.17% and 0.95% respectively. However, the most significant fall is for imports of kerosene and carbureactors, which fell by 29.10%. [table 7]

### Fuel Import

	2008	2009	2010	2011	2012	Var. (%) 11-12
Unleaded gas	31,621,725	29,960,088	28,563,574	28,080,840	27,191,927	(3.17%)
Diesel oil locomotion	104,104,455	100,287,482	99,399,880	102,216,532	101,249,226	(0.95%)
Domestic fuel	67,454,616	64,467,574	66,778,762	54,298,678	55,834,708	2.83%
Kerosene and kerosene for jet engines	144,832	93,427	127,936	131,958	93,560	(29.10%)
<b>TOTAL</b>	<b>203,325,628</b>	<b>194,808,571</b>	<b>194,870,152</b>	<b>184,728,008</b>	<b>184,369,421</b>	<b>(0.19%)</b>

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

[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 & Television of Andorra (*Ràdio i Televisió d'Andorra (RTVA)*).

### Central Government

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

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

In 2012, the Government deficit was 86.9 million Euros, a figure which has shown a significant growth compared to that for 2011 (50.9 million Euros) with the inclusion of the payments for the Dos Valires and Tàpia tunnels, the total amount of which was paid in the 2012 financial year. Income increased by

19.4%, and this basically corresponds to the collection of direct taxes from the new taxation types and from indirect taxes, resulting in an increase in taxes on consumption as well as a rise in special taxes. Expenditure and investments rose by 22.6%, as a result of the €82 million for the work on Dos Valires tunnel and the Lauredian diversion carried out in previous financial years. Expenditure restraint is evident from the 3% reduction in operational spending. [table 8]

On 24<sup>th</sup> November 2010 the Principality of Andorra offered its first issue of public debt through Treasury Bills, which was open to private investors and regulated by the Decree governing the Issue of Public Debt in the Principality of Andorra through Treasury Bills, dated 10<sup>th</sup> November 2010 and awarded to intermediary entities through public bid approved by the Decree of Approval of the Public Bid of the Issue of Public Debt in the

## Central Government budget and liquidation

	Budget 2012	% of total Budget	Liquidation budget 2012	% of total Liquidation	Var. (%) Liq./Budget
<b>TOTAL INCOME</b>	<b>647,035</b>	<b>100.00%</b>	<b>745,226</b>	<b>100.00%</b>	<b>15.18%</b>
Direct taxes	25,851	4.00%	29,895	4.01%	15.64%
Indirect taxes	276,921	42.80%	301,539	40.46%	8.89%
Other income	31,143	4.81%	36,581	4.91%	17.46%
Changes in net financial assets	60	0.01%	184	0.02%	-
Changes in net financial liabilities	313,060	48.38%	377,027	50.59%	20.43%
<b>TOTAL EXPENSES AND INVESTMENTS</b>	<b>891,045</b>	<b>100.00%</b>	<b>754,154</b>	<b>100.00%</b>	<b>(15.36%)</b>
Investments	168,827	18.95%	135,125	17.92%	(19.96%)
Transfers	188,605	21.17%	154,100	20.43%	(18.29%)
Operating expenses	145,741	16.36%	136,378	18.08%	(6.42%)
Financial expenses	33,948	3.81%	29,320	3.89%	(13.63%)
Financial assets	4,760	0.53%	4,673	0.62%	(1.83%)
Financial liabilities	349,164	39.19%	294,558	39.06%	(15.64%)

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

[table 8]

Principality of Andorra through Treasury Bills, dated 24<sup>th</sup> November 2010. During 2011 and 2012, the Principality of Andorra had four new issues of public debt in the form of Treasury Bills with maturity periods of between 12 and 18 months.

These operations are a response to the desire to diversify borrowing, which to date had been entirely supported by Andorran banks. In 2012, borrowing from Andorran banks as a whole represented 58% (it represented 65% in 2010).

## 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 2012 budget, and illustrates that the most significant source of income collected 57.93% (62.22% in 2011) is included under the "Own collection of funds and others" caption, which comprises taxes and rates of the *Comuns*. 37.81% relates to transfers received from the Government. 67.17% of *Comuns* expenses relates to "Operating expenses", comprising expenses relating to personnel, goods and services. 11.49% corresponds to investments and the remaining 21.33% to transfers, financial expenses and financial liabilities.

All the *Comuns* have experienced a certain degree of variation between the initial budget for 2012 and the revenue and expense clearance budget for the year. An analysis of the 2012 budget clearance for the different *Comuns*, marked by major cutbacks in public spending, following the 2011 trend, shows that although the initial budgets forecast a deficit between revenue and expenses for the *Comuns* of Encamp, Ordino, La Massana, Andorra la Vella and Sant Julià de Lòria, all these *Comuns* have recorded surpluses in their budget clearances, apart from Encamp. The parishes of Canillo and Encamp posted deficits in their liquidations and the parish of Escaldes-Engordany registered surplus in its liquidations.

The table below also provides details of the budget clearance for 2012, showing possible deviations:

[table 9]

## Local government budget and liquidation for 2012

	Budget	Liquidation	Diversion
<b>TOTAL INCOME</b>	<b>126,156,747</b>	<b>119,650,275</b>	<b>(5.16%)</b>
Canillo	13,430,546	10,790,885	(19.65%)
Encamp	25,032,664	21,754,769	(13.09%)
Ordino	10,027,280	10,170,125	1.42%
La Massana	11,102,455	11,108,280	0.05%
Andorra la Vella	34,011,500	35,944,105	5.68%
Sant Julià de Lòria	11,278,319	11,013,868	(2.34%)
Escaldes-Engordany	21,273,983	18,868,243	(11.31%)
<b>TOTAL EXPENSES</b>	<b>134,591,524</b>	<b>113,820,144</b>	<b>(15.43%)</b>
Canillo	13,430,546	11,043,785	(17.77%)
Encamp	26,714,153	23,988,275	(10.20%)
Ordino	10,755,941	8,704,497	(19.07%)
La Massana	11,661,142	10,401,895	(10.80%)
Andorra la Vella	37,861,500	30,210,966	(20.21%)
Sant Julià de Lòria	12,894,259	10,877,969	(15.64%)
Escaldes-Engordany	21,273,983	18,592,757	(12.60%)
<b>BUDGET / LIQUIDATION RESULT</b>	<b>(8,434,777)</b>	<b>5,830,131</b>	<b>-</b>

(Euros) Source: Local Governments of the Principality of Andorra

[table 9]

## III.4. Evolution of the Andorran economy during 2012

### Introduction

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

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

In 2012, in an environment of global economic deceleration, the business structure of the Andorran economy has altered slightly with a 0.42% decrease in companies with more than 100 employees and a 1.86% increase in those with 5 or less, to the detriment of companies with between 6 and 100 employees, which have dropped by 7.11%. Despite this variation, companies with 5 or less employees continue to represent 76.71% of the Principality's business structure. At the end of 2012, the Principality of Andorra has 6,308 companies and 36,033 wage earners.

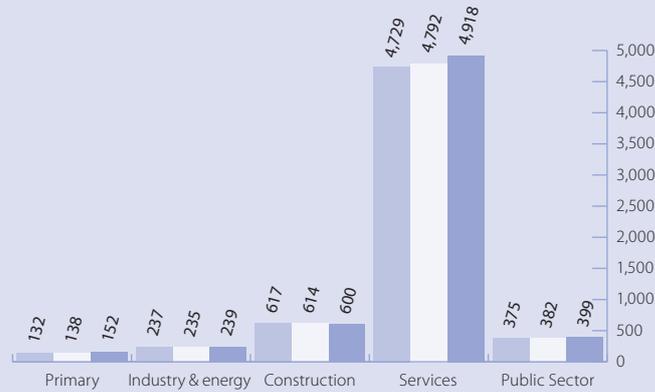
The following graph shows that the services sector continues to have significant importance in the Andorran labour market and employs 66.67% of the population, followed by the construction and public sectors with 18.31% and 9.04%, respectively. During 2012 the number of wage earners has dropped by 3.52%, 18.29% of whom worked in the construction sector, which has lost 596 wage earners, 2.29% of whom worked in the services sector with 559 wage earners and the remaining 6.77% of whom worked in the industrial and energy sector with 110 wage earners. [graphs 7 and 8]

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

Government policy focuses on several objectives, such as encouraging activity in traditional sectors such as tourism with the celebration of major events and construction with direct impact measures such as the amendment of the *Qualified Law on Town Planning and the arrangement of the territo-*

### Distribution of companies by sector from 2010 to 2012

2010  
2011  
2012

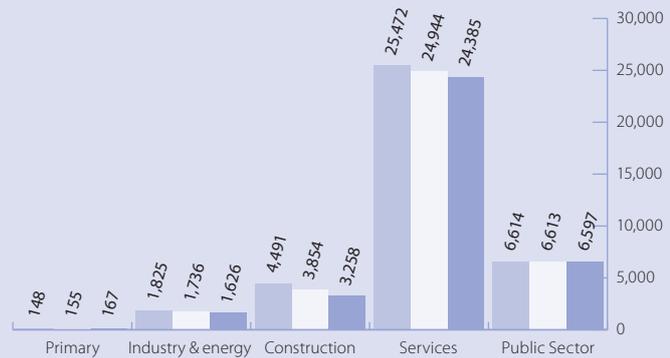


(Number of companies) Source: Andorran Social Security System

[graph 7]

### Distribution of wage earners by sector from 2010 to 2012

2010  
2011  
2012



(Number of wage earners) Source: Andorran Social Security System

[graph 8]

ry to unblock town planning projects. On the other hand, the major objective has been to promote economic diversification through policies designed to attract foreign capital with the implementation of the Actua Initiative. At the same time, the coming into force of the *Law of 16<sup>th</sup> December 2010 on measures for the promotion of economic and social*

*activity, and the rationalization and optimization of Administration resources*, has introduced measures to encourage the creation of new companies and the consequent hiring of workers, in addition to promoting the internationalization of Andorran companies through the organization of commercial visits.

### Primary sector

From the second half of the 20<sup>th</sup> century to the 1990s the primary sector has experienced an economic downturn, until reaching the stability of recent years. This sector represented just over 2.40% of the total number of companies in 2012. It employs 0.46% of the total working population. Notwithstanding, certain sectors of this sector, such as the cultivation of tobacco and livestock farming, have had significant influence on the economy until recent years, which the Government is continuing to support through grants.

Although this sector has continued to lose importance during recent decades, it should be emphasised that developed nations are constantly taking measures to maintain and revive the primary sector,

since these nations have come to consider this sector as key to environmental conservation and global development. 2010 closed with 132 registered companies and 2012 with 152 (2011: 138) and the number of wage earners has increased by 7.19%.

The Ministry of Economy and Territory and the Andorran Association of Farmers and Stockbreeders (*Associació de Pagesos i Ramaders*) are therefore working to revitalise the Principality's primary sector as it is considered critical to diversifying the economy as well as being a key factor in protecting the environment and Andorra's natural resources. For this reason, the *Agriculture and Stockbreeding Law* passed by the General Council in 2000, has promoted a series of direct aid measures such as

the aid to promote traditional mountain stock-breeding practices, the aid program to promote meadow harvests and aid to promote quality control. This aid is received by farm owners who have declared livestock in the Census and who fulfil a series of requirements established under the Regulations. The production of veal from the country with a stamp of quality has also been promoted, through campaigns to promote Andorra programme for quality meat. In 2013, this initiative was recognised by the competent bodies of the EU as a Protected Geographical Indication (Meat of Andorra PGI). In 2012, there were 366 farms registered in the Farm Registry and 125 of these had livestock while 241 did not.

The Andorran Association of Farmers and Stockbreeders has implemented studies on the feasibility of aromatic and medicinal plants growing and subsequent transformation, as well as the research plan of the variety of potato. The aim is to find varieties to offer a quality product adapted to

current consumer trends and to be able to commercialise Andorran agricultural produce with seals of quality.

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

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

## Secondary sector

### Industry and energy

There are two kinds of industry in Andorra: the extractive industry, i.e. extracting raw materials directly from natural resources and the manufacturing industry, which involves the use of machinery and manual labour to produce goods for their subsequent use or sale. Only 0.01% of the country's wage earners are employed in the extractive industry through one sole company whilst 4.05% are employed in the manufacturing industry through a total of 232 different companies. The manufacturing sector is characterised by weak internal demand, a lack of specialised workforce and a rise in competition regarding production costs. During 2012 the number of companies has grown by 1.75% in relation to 2011, and the number of wage earners has dropped by 6.89%.

The industry and energy sectors maintain a low relative importance with regard to the production structure of the country. Social Security (CASS) registered workers employed in the production and distribution of electricity, gas and water represent an average of 0.46% of the total workforce in 2012. The Andorran energy sector is closely linked to the international scenario and in particular to neighbouring countries, as it is highly dependent on other countries for its supply sources. In 2012, the Principality has produced 14.8% of the country's energy consumption and 85.2% has been imported from Spain and France (47.9% and 37.3% respectively). Given this dependence, the FEDA has

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

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

The business structure of the sector, taking into consideration the distribution of workers in the companies, is dominated by small companies. 64.85% of these companies employ 1 to 5 workers (61.28% in 2011), 17.15% employ 6 to 10 workers (18.30% in 2011) and 12.55% employ 11 to 25 workers (13.62% in 2011). Only 5.44% have a headcount exceeding 25 employees (6.80% in 2011).

## 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 2012. The sector has experienced a fall in the number of companies (from 625 companies in 2009 to 600 companies in 2012) which in turn has led to a 37.88% reduction in the number of wage earners (from 5,245 workers in 2009 to 3,258 workers in 2012).

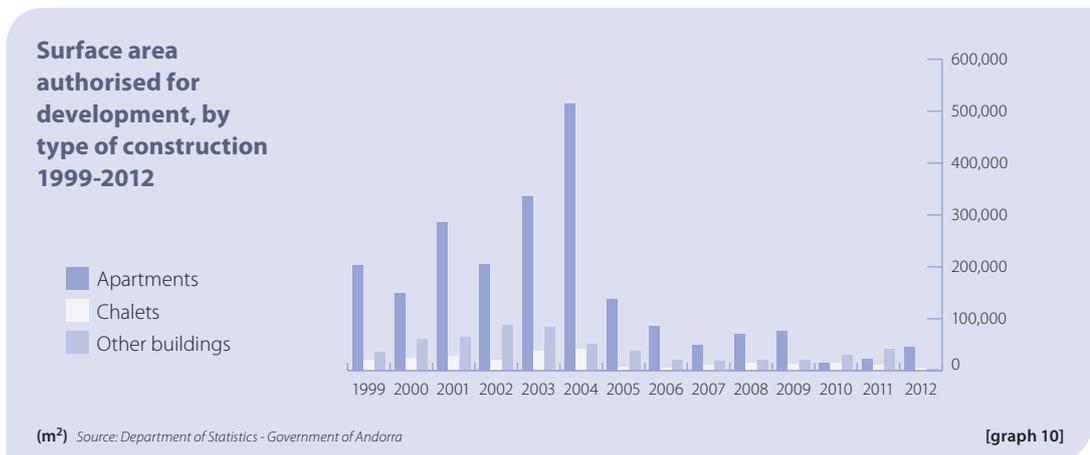
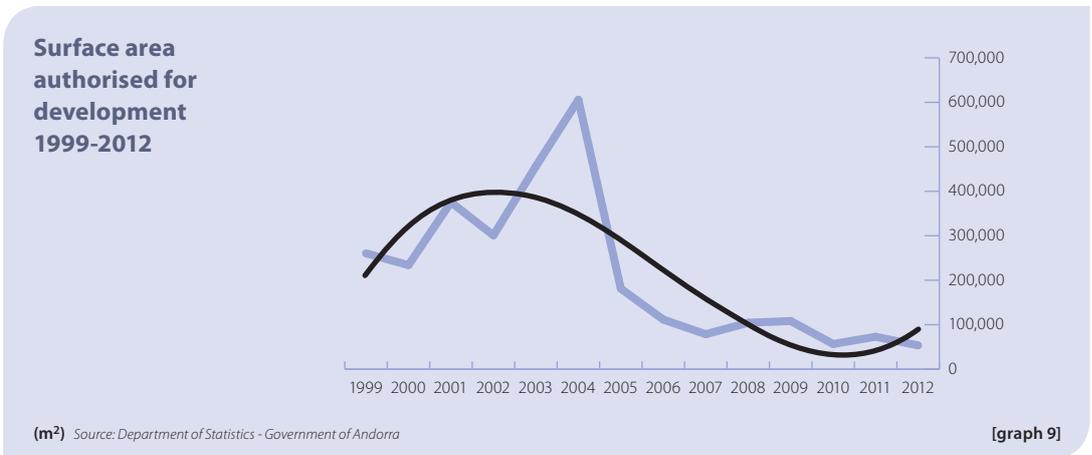
Despite this downturn, the number of wage earners in construction still represents 9.04% of total wage earners registered with the Social Security (CASS) in 2012 (13.21% in 2009) and 9.51% of Andorran companies (9.97% in 2010).

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

As already mentioned in this chapter, the Andorran business structure is strongly dominated by small companies; 65.33% of companies from the construction sector employ a number of workers equal to 1 or less than 5, 18% employ between 6 and 10 workers, 12.50% employ between 11 and 25 workers and the remaining 4.17% of the companies have more than 25 workers.

The construction boom in recent years has been closely linked to the growth in the areas of land authorised for development. Nonetheless, it should be mentioned that the peak in construction shown in the graph below took place in 2004 due to the May 2003 moratorium. Subsequently, the total area of land authorised for development in Andorra dropped to levels below those of 1997. However, as shown in the graph below, 2008 marked the start of a change in trend, which continued during 2009. In 2012 total square metres authorised for development fell by 26.59%. [\[graph 9\]](#)

The table below shows the number of square metres of land authorised for development by type of construction: [\[graph 10\]](#)



The above graph shows a clear decline in area of land authorised for development compared to 2009. As outlined above, several factors have contributed to the downturn in construction in Andorra; the May 2003 moratorium that led to a construction boom which has gradually stabilised and the slow-down in the Andorran real estate market, also experienced in other European countries. This real estate market downturn is the result of the international financial crisis coinciding with the bursting of the real estate bubble formed over the last decade.

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

### Tertiary sector

#### Services

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

related activities and services. However it also includes important activities such as public administration, liberal professions and the Andorran financial sector. [graph 11]

The tertiary sector is a key sector in the Andorran economy. During 2012 it has employed 24,385 individuals, representing 67.67% of the total workforce and a total of 4,918 companies (77.96% of total) have operated in the service sector.

The business structure of the sector mainly comprises small companies. Therefore, 78.03% of the companies have 5 or fewer employees, whilst 18.06% have 6 to 25 employees, 2.99% have a headcount exceeding 25 and only 0.92% have more than 100 employees.

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

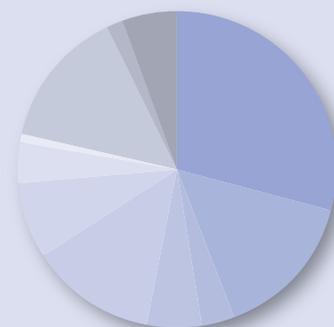
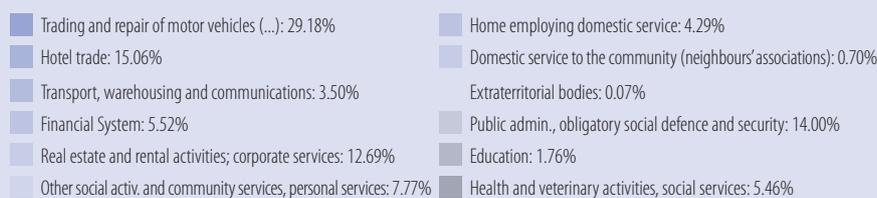
#### Tourism

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 Principal-

#### Number of wage earners on Service industries

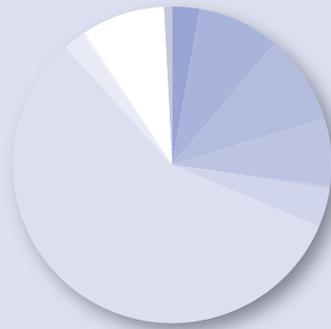


Source: Department of Statistics - Government of Andorra

[graph 11]

### Distribution of tourist accommodation by type

■ Campsites: 2.83%	■ Hotels: 56.92%
■ Tourist apartments: 8.49%	■ Guesthouses: 2.20%
■ Fully furnished apartments: 9.12%	■ Tourist chalets: 0.31%
■ Apartment hotels: 6.92%	■ Mountain refuge: 8.49%
■ Summer camp houses: 0.31%	■ Youth hostels: 0.63%
■ Hostels i Residences: 3.77%	



Source: Ministry of Tourism and Environment - Department of Tourism

[graph 12]

### Distribution of beds by category from 2010 to 2012

■ 2010
■ 2011
■ 2012



Source: Ministry of Tourism and Environment - Department of Tourism

[graph 13]

ity's excellence as a tourist destination and jointly commercialise Andorra's public and private tourist attractions.

During 2013 *Andorra Turisme* has worked on several communication campaigns aimed at visitors, with the objective of increasing overnight stays in Andorra. The campaigns have been presented on the basis of a new creative concept and the same communication message "a story that starts in blank", which was used for the Winter 2012/2013 and Summer 2013 campaigns, while the title of the Spring campaign was "Start your story with a blank cheque".

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

Efforts have been ongoing within the tourist area to revitalise the sector, which has suffered as a result of the global economic crisis. As part of the desire to offer a greater degree of precision, statistics now consider seasons rather than the calendar

year. Consequently, the data presented below have been calculated for the period from the month of December to the following November.

As far as the hotel sector is concerned, Andorra had 318 tourist accommodation establishments in 2012, with a total capacity for 40,139 beds.

Hotel accommodation represents approximately 56.92% of tourist accommodation for 2012, above the other type of accommodation. [graph 12]

The distribution of beds by category during 2012 has varied in line with the strategic outlook for innovation and quality improvement implemented by most Andorran businesses for many years. As the following graph shows, we can highlight that in the case of the hotels in 2012, there are 16,489 beds in the 4- and 5-star category, representing 58.10% of the total number of beds, while 91.52% of the beds on offer were in the 3-star and above category. [graph 13].

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

In line with the work started by the Andorran Government, from the implementation of the commercial and marketing plan for 2012, for the purpose of boosting the tourist sector and increase what is offered in the country, the Andorran Government has worked on a number of projects, the most noteworthy of which are:

- Passing of Law 8/2012 of 17<sup>th</sup> May, amending the general Tourist Accommodation Law of 30<sup>th</sup> June 1998, which defines what ranks as rural accommodation and which also creates a new Register of Occupancy for Tourist Accommodation (ROAT). This law has resulted in the publication of two new regulations which are currently in force.
- Work Plan for the preparation of the new general Tourist Accommodation Law and all the regulations that develop this law in order to improve the wording and introduce new types and modalities.

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 gastro-nomic events and tours such as those organised in “bordes”, typical mountain restaurants, and a total of 635 restaurants. Furthermore, Andorra is an attractive destination for wild mushroom pickers, with a wide variety of wild mushrooms growing throughout the year. Andorran agricultural products are promoted, emphasizing quality meat, the *trumfa* (local potato) as well as aromatic plants, medicinal plants, honey and other products such as pine nectar (*nectum d'avet*) or the country's traditional remedies.

The Andorran Government is collaborating with the *Comuns*, the Andorran Hotel Union (*Unió Hotelera d'Andorra*) and several other associations to promote local and international gastronomic events. Andorra organizes several relevant gastronomic events: *Andorra a taula*, the *Quinzena de la Tòfona*, *La Massana Fogons* and *la Mostra Gastronòmica d'Andorra* (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.

In order to stem the decrease in the number of visitors and increase the number of tourists, the Ministry of Tourism and Environment and through Andorra Turisme have carried out several communication actions, with a constant presence in priority markets. The number of annual campaigns has increased from 2 to 5, and these are segmented and adapted to what Andorra has to offer according to season. A decision was also taken to increase the emphasis on online communication and to invest more in the French market.

Other priority projects for 2012 include the creation of a new web site and a new online tourist strategy

for Andorra Turisme, improving knowledge of the markets from which tourists come, providing a new definition of commercial strategy characterised by a new model involving a presence in the various markets, as well as the creation and production of new merchandising items for Tourist offices within the country. The promotion of internationally renowned sporting and cultural events is another area of work being strengthened by Andorra Turisme as it seeks to increase the awareness of Andorra as a tourist destination and to position Andorra in accordance with its main attractions; the Cirque du Soleil's SCALADA show in July was the main event of 2013.

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

As the following graph shows, the fall in the number of visitors slowed down in 2012 and dropped by 1.2% compared to 2011. It is interesting to note the fall in the number of Spanish day trippers and tourists and we should also emphasise the increase in the number of French tourists as well as the growth in the number of tourists of other nationalities. [graph 14]

As far as the 2012-2013 Winter season is concerned, the 5.1% increase in the total number tourists deserves particular mention. On the other hand, the number of ski days sold increased by 9.40%, rising from 1,994,028 to 2,181,533 ski days sold, thereby breaking through the 2 million barrier. Finally, the 7.8% increase in the number of Spanish tourists and the 21.71% increase in Russian tourists are also worthy of mention. [graph 15]

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

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

### Evolution of number of visitors 2003-2012



Source: Department of Statistics - Government of Andorra

[graph 14]

### Evolution of total days of sky



Source: Ski Andorra

[graph 15]

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

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

GRANDVALIRA is formed by 6 sectors: Pas de la Casa, Grau Roig, Soldeu, El Tarter, Canillo and Encamp, covering a total of 1,926 hectares distributed across 118 slopes and with a capacity for 100,700 skiers per hour. In February 2012, the Avet slope at Grandvalira-Soldeu hosted the Women's World Cup in downhill skiing. The best skiers on the international scene competed in the disciplines of slalom and giant slalom. Furthermore, at the end of February 2012 and in April 2013, Grandvalira-Grau Roig was also the venue for the World Cup in Speed Skiing. The fastest skiers in the world competed on the Antenes slope reaching speeds of up to 155 km/h.

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

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

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

The new Naturlandia animal park completes the offer with its extensive zone situated 2000 metres

above sea level, where visitors can view species such as brown bears, Siberian wolves, fallow deer, red deer. The park also has a farm school where younger children can interact with farm animals that are typical of Andorra. It includes two semi-buried spaces where the animals can be viewed at close range. The park also has different museums and sensorial zones and one audiovisual zone.

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, amounting to 8,300,500 Euros during the 2012/2013 season. Details of investments made in recent years are as follows: [graph 16](#)

Wellness centres are another tourist attraction that the Principality has to offer and their thermal waters provide various options to disconnect from everyday life.

Set in a majestic and privileged location in Escaldes-Engordany, Caldea has spectacular aquatic installations that allow clients to spend time enjoying the massages and the thermal waters and to get away from the routine of everyday life. Hydro massages, waterfalls, gooseneck and steam outlets are some of the services that allow visitors to experience water in all its various states. This is a fun way to enter the world of balneotherapy, which can be enjoyed together with friends and family.

For those clients who wish to spend time experiencing a state of wellbeing, the new INÚU wellness centre offers totally personalised rooms that are adapted to the preferences of each client, the time that they dispose of and the area that they wish to focus on. To obtain the total wellness of the client, INÚU uses the properties of the thermal waters, and for each case it combines the most specialised treatments in the 5 thematic areas of experiences:

water, beauty, nutrition, sensorial and mind and body. The centre, with its unique architecture, offers spacious thermal areas that gleam in natural light as well as treatment cabins, a private wellness area for exclusive use, a spectacular gymnasium and a restaurant that offers a nutrition-based menu. The new INÚU wellness centre adjacent to Caldea opened its doors on 15<sup>th</sup> January 2013.

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

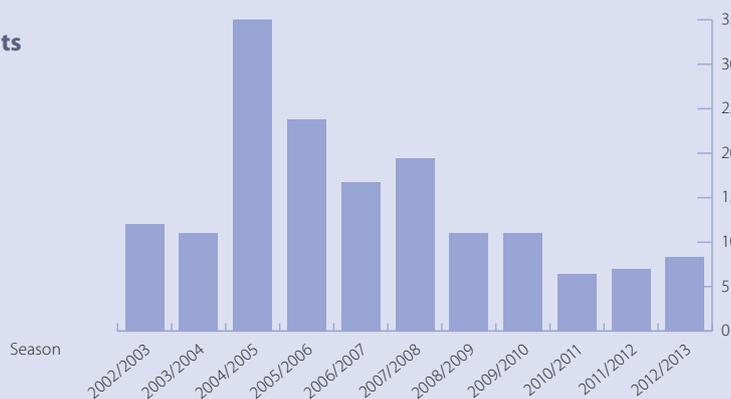
The CIAM presents water and the Madriu Valley in a playful and interactive way using a series of sensorial and informational supports, with multiple projection screens, handling devices, interactive tables and offers surprising experiences such as the chance to walk on the water of the Valira d'Orient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

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

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

In the last quarter of 2007, the Andorra la Vella Conference Centre, covering an area of 4,200 m<sup>2</sup>, was inaugurated in the heart of the city, opening up the market to a new tourism sector: conference tourism.

**Evolution of ski resort investments**



(Millions of Euros) Source: Ski Andorra

[graph 16]

## Andorra ski resort facilities 2012

Ski resort	Km of slopes	Ski runs	Snow machines	% Snowmaking	Ski lifts	Skiers capacity / per hour
VALLNORD: Pal - Arinsal	63	42	296	45%	30	39,180
VALLNORD: Ordino - Arcalís	30	27	89	50%	15	16,510
GRANDVALIRA	210	114	945	60%	65	100,700
<b>TOTAL</b>	<b>303</b>	<b>183</b>	<b>1,330</b>	<b>52%</b>	<b>110</b>	<b>156,390</b>

Source: Ski Andorra

[table 10]

## 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, 2010 and 2011, there has been an increase in 2012 in this sector, which comprises 32.37% of businesses and employs 37.08% of wage earners from the country's services sector.

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

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

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

Details of the number of companies and wage earners in Andorra's retail sector during 2011 and 2012, by type of establishment are shown in the following table: [table 11](#)

## Number of companies and wage earners

	2011	2012	% of total 2012	Var. (%) 11-12
<b>Number of companies</b>	<b>1,567</b>	<b>1,592</b>	<b>100.00%</b>	<b>1.60%</b>
<b>Number of wage earners</b>	<b>9,409</b>	<b>9,078</b>	<b>100.00%</b>	<b>(3.52%)</b>
Sale, trading and repair of motor vehicles (...)	1,138	1,082	11.92%	(4.92%)
Wholesale trade and intermediaries, except for motor vehicles and motorcycles	2,407	2,260	24.90%	(6.11%)
Retail trade, except for motor vehicle trading (...)	5,864	5,736	63.19%	(2.18%)

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

[table 11]

As is the case in other sectors, the majority of businesses employ 1 to 25 workers, representing 96.98% of total companies in this sector in the case of commerce and motor vehicle repairs, whilst only 3.02% employ more than 25 workers.

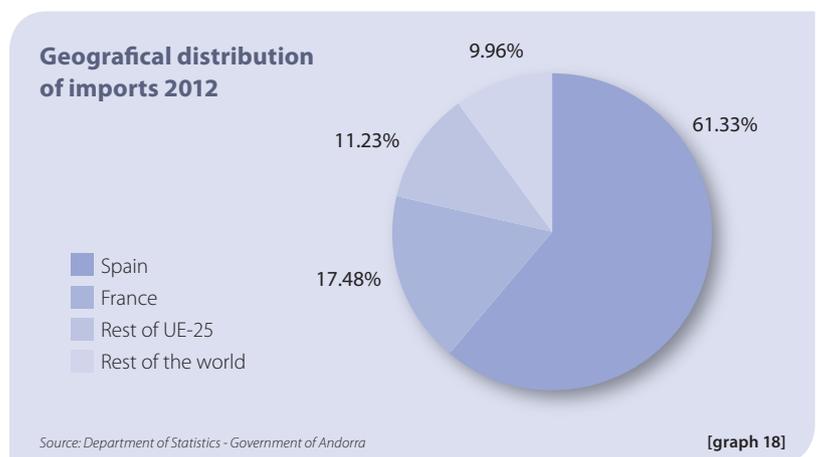
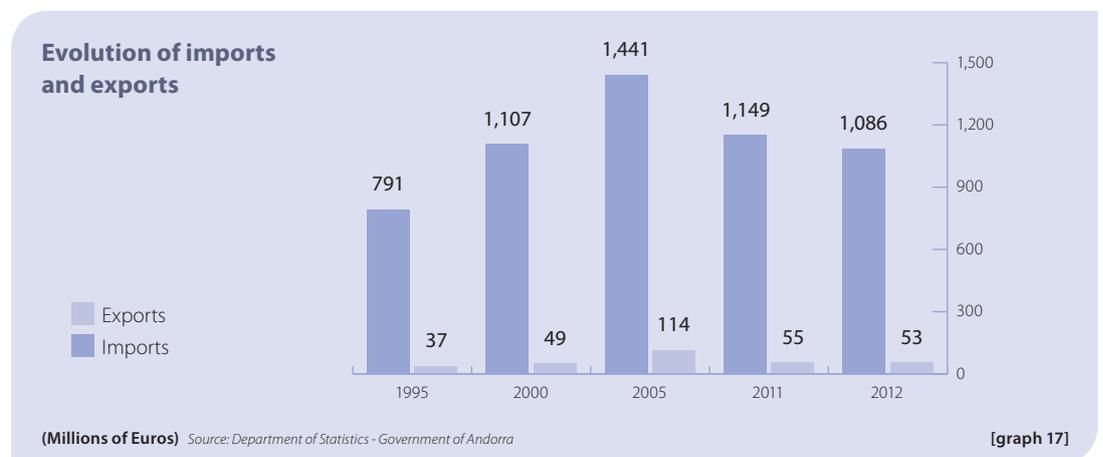
A reliable indicator of the status of Andorran commerce is the evolution of imports and exports in recent years. The trade deficit has been an ongoing structural feature of the Andorran economy.

However, it should be noted that in 2012, exports have dropped by 3.64%, as well as imports, which have fallen by 5.48%. Since 2009, the value of imports has remained stable, with a slight downward change in 2012, although it is increasingly dependent on fuel imports, which have increased by 10.3% compared to 2011, due to the increase in petrol

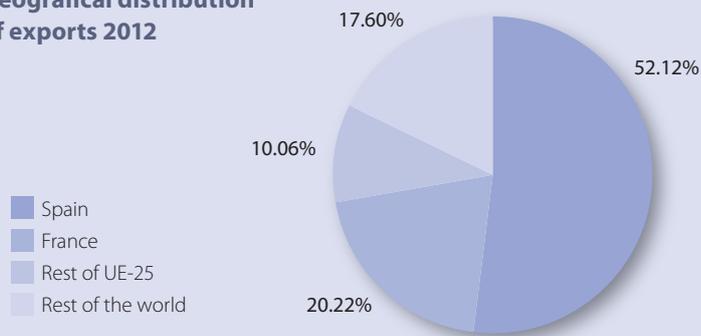
prices. As far as exports are concerned, the downward trend in both the electronics sector (29.7%) and pharmacy-perfumery sector (92%) should be noted.

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 17]

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 18 and 19]



### Geographical distribution of exports 2012



Source: Department of Statistics - Government of Andorra

[graph 19]

## 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 18%), with its nucleus being the banking system. Insurance companies, other asset management entities, investment undertaking management entities and specialised non-banking credit entities also operate in the Principality.

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

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

The financial system comprises 5 banking groups, 1 specialised credit entity, 8 investment undertaking management entities, 4 asset management companies and 34 insurance companies, 18 of which are branches of foreign insurance companies authorised to operate in the Principality. The banking sector employs 1,356 individuals in the Principality of Andorra, representing approximately 80% of the total number of wage earners in the financial sector.

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

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

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



# IV



## IV BANKING SECTOR

### IV.1. Introduction

The financial system is one of the mainstays of the Andorran economy which contributes approximately 18% to the Gross Domestic Product and is characterised by its financial reputation as a result of the strict and rigorous application of the international regulatory standards. Furthermore, the Andorran financial system, which is mainly focused on banking, is characterised by the high capital adequacy and liquidity ratios of its banking system compared to other financial markets (21.22% and 65.46%, respectively) due to its conservative and prudent management.

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

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

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

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

In 2012 the financial sector consolidates its recovery with a 13.83% increase in managed customer funds in spite of the continuing drop in internal demand as a result of the economic recession that the country is going through. Accordingly, 2012 saw an 20.43% increase in funds managed off-balance-sheet as well as an increase of 1.10% in customer deposits. The Andorran banks' aggregate profits have slightly increased by 0.15%. It should be taken into consideration that the Andorran banks' financial margin has reached an all time high with 207,912 thousand Euros and that the gross margin has increased by almost 13.47% during 2012.

The Andorran financial system confirmed its solidity throughout 2012, offering on-going proof of its solvency against the backdrop of a particularly complex international context for the banking sector. Excellent capital adequacy and liquidity ratios are amongst the highest of all European countries. These indicators illustrate the positive performance of the Andorran financial system, its consolidation in the domestic market and the progress made in the internationalisation process currently underway amongst Andorran banks, which has led to a diversification and growth in business, as well as the expansion of their banking structures and an increase of 9.77% in the aggregate number of employees, without having caused significant increases in efficiency ratios. [\[map 1\]](#)

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<sup>th</sup> 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 means giving information in justified scenarios, although no lists of persons are provided nor are collective and general requests for information (fishing expeditions) attended to.

## International expansion of the Andorran banks



[map 1]

As a result, on 3<sup>rd</sup> 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<sup>th</sup> September 2009 the General Council of Andorra approved the *Qualified Law for the exchange of tax information upon prior request*. This legal text establishes a 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 pre-date the date on which each bilateral agreement comes into force.

- Fishing expeditions, i.e. collective and generalised requests for information are prohibited.
- Confidentiality is guaranteed and the level playing field principle (guarantee of equal conditions for everyone) is upheld in relation to other agreements that have been signed previously.

Furthermore, exchanges of information on request, in response to justifiable and well-founded requests, will be effective for fiscal years which commence following the date on which each bilateral agreement comes into force, i.e. after the last notification that the agreement has been ratified by the respective Parliaments, plus an additional period, usually of three months, in the cases for which this period has been established. For example, if an agreement is ratified by the respective parliaments of the countries party to the agreement on 2<sup>nd</sup> June 2012, and there is an additional period of three months, the agreement will come into force on 2<sup>nd</sup> September 2012 and will be effective during the fiscal year 2013, i.e. as from 1<sup>st</sup> January 2013.

Following its ratification of the Law, between September 2009 and November 2010 the Government of Andorra signed bilateral agreements for the exchange of fiscal information upon prior request with 21 countries. Of the 21 bilateral agreements that have been ratified, 17 are already in force and the regulations developing *Law 3/2009 for the exchange of information on fiscal matters following a prior request* were passed on 23<sup>rd</sup> February 2011 (see Chapter II of this publication "the Andorran Legal Framework" for more details).

On 30<sup>th</sup> June 2011 the Principality of Andorra signed a Monetary Agreement with the European Union, making the euro the official currency of the Principality of Andorra. With the signing of the aforementioned agreement, Andorra undertakes to

implement the European directives on financial legislation, the prevention of money laundering, coin minting and statistics and also to sign a multilateral agreement of understanding on consultation, co-operation and exchange of IOSCO information.

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

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

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

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

The main pacts included in this agreement are as follows:

- Application of the criteria established by the Basel Committee on banking regulations and supervisory practices, known as the Cooke Committee.
- The obligation to submit financial statements for review by independent external auditors and to

file these financial statements with the relevant public authority.

- The obligation to ensure that the identities of the clients are accurately verified.
- The maintenance of the banks' code of secrecy, including the obligation of ensuring that the financial system is not used for laundering capital originating from serious criminal offences under the provisions of Andorran Law.
- The setting up of a commission to supervise the application of the pacts of this agreement.

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

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

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

- Promote the professional training of credit entity personnel, especially adequate training in relation to the prevention of money laundering

and financing of terrorism, to ensure each credit entity complies with its obligations to prevent money laundering and safeguard professional secrecy.

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

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

The ABA's functional structure comprises a number of technical commissions formed of members of the various Andorran banks, who meet regularly at the ABA's premises. These technical commissions analyse and discuss issues related to their area of work in order to guarantee banking best practice, including 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, general indirect taxation (IGI), 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 2011 and 2012 are as follows: [table 1](#)

	2011	2012
Total assets	14,102,898	15,234,158
Loans	7,431,342	7,629,465
Assets under management	31,090,137	35,390,075
Profit	196,541	196,838
ROE	12.97%	12.60%
ROA	1.48%	1.32%
Efficiency ratio	44.24%	48.77%
Capital adequacy ratio	20.96%	21.22%
Liquidity ratio	66.58%	65.46%
Default ratio	2.94%	3.33%

(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 Agrícola Reig, SA**

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

▀ **Mora Banc Group, SA**

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

▀ **Mora Banc, SAU**

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

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

▀ **Banca Privada d'Andorra, SA**

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

▀ **Crédit Andorrà Group**

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

▀ **BancSabadell d'Andorra, SA**

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

The above mentioned banking entities operate in all the main urban areas of the country through an extensive network of branches. There are a total of 44 branches distributed throughout the seven parishes which comprise the Principality of Andorra. The branches providing banking services in the Principality, together with the number of cash dispensers and Andorran bank employees, including those abroad, at 31<sup>st</sup> December 2011 and 2012 are shown below: [table 2](#)

In 2012 the number of employees has increased by 9.77%, i.e. 203 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:

▀ **Andbank**

ANDBANK started the internationalization process of Andorran banks when it opened bank Andbank (Bahamas) Ltd in the Bahamas in 2001. Following this inauguration, Andbank continued its international expansion with the acquisition of other wealth management companies, and its activities included the creation of representation offices and banking licences aimed at positioning it as a bank of reference within the field of private banking. It currently has an international presence in Switzerland (AndPrivateWealth, SA - Wealth management company), Miami (Andbank Wealth Management - Financial Services), Mexico (Columbus - Wealth management company), Luxembourg (Andbank Asset Management Luxembourg - Fund manager and Andbank Luxembourg - Bank), Uruguay (Representative Office and Quest Capital Advisers - Securities agency), Panama (Andbank (Panama) S.A. - Bank and Andbank (Panama) S.A. - Brokerage firm), BVI (Fund manager), Monaco (Andbank Monaco SAM - Bank), Brazil (LLA Investimentos - Fund manager), Spain (Medpatrimonia SL., Andbank Wealth Management S.G.I.I.C. and Andbank Luxembourg Spain Branch - Banking branch).

▀ **MoraBanc**

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

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

In 2013, MoraBanc opened its representative office in Dubai in the United Arab Emirates, under the name MoraBanc Middle East.

	Andorra and abroad		Andorra			
	Number of employees		Number of branches		Number of cash dispensers	
	2011	2012	2011	2012	2011	2012
ANDBANK	530	634	10	9	30	29
MORABANC GROUP	309	326	10	9	33	33
BPA	518	547	8	8	27	27
CRÈDIT ANDORRÀ GROUP	609	662	16	12	42	43
BANCSABADELL D'ANDORRA	112	112	6	6	21	21
<b>TOTAL</b>	<b>2,078</b>	<b>2,281</b>	<b>50</b>	<b>44</b>	<b>153</b>	<b>153</b>

Source: Association of Andorran Banks [table 2]

#### ■ Banca Privada d'Andorra (BPA)

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

#### ■ Crèdit Andorrà Group

During 2012, the Crèdit Andorrà Group continued to move forward as it sought to implement its international expansion plan with a greater Group presence overseas. The geographical diversification of the business in private banking, asset management and insurance through internationalization in Europe and America and its strength in Andorra have allowed it to grow in a sustainable manner. The Group currently has companies and subsidiaries in Andorra, Spain, Switzerland, Luxembourg, United States, Mexico, Panama, Paraguay, Peru and Uruguay.

The operations carried out during the course of 2012 have strengthened the position of the Group within the international financial system in the field of Wealth Management. In Europe it consolidated the European project in private banking and asset management (Spain and Luxembourg) during 2012 with two strategic partners entering Banco Alcalá: the financial group, Riva y Garcia with 10% of the capital in the entity and the Ros González family with 5%.

In America, the Group has been the first Andorran financial entity to establish itself in both Peru and Paraguay. These operations have allowed it to continue consolidating its presence in Latin America. In the case of Peru, it acquired 51% of the share capital of KRESE Sociedad Intermediaria de Valores S.A.C. with headquarters in Lima (Peru). CA Perú Sociedad Agente de Bolsa is the brand under which it operates in the Peruvian securities market. In Paraguay, it acquired 70% of the share capital of the Paraguayan company Valores Casa de Bolsa S.A. Through the two companies it provides financial advice services and it deals in securities and it also carries out promotional activities and provides financial services in the respective markets.

As far as the other companies that form part of the Group in Europe and America are concerned, it should be mentioned that in addition to Banco Alcalá, the Group also has in Spain the fund managers Gesalcalá SGIC and Valira Capital Asset Management SGIC, the pensions fund manager Alcalá de Pensiones and the consulting and insurance firm ERM, which has offices in Barcelona, Lleida, Girona, Tarragona, Palma de Mallorca, Madrid and Seville. In Switzerland, the Group owns the wealth management company firm Private Investment Management. As far as America is concerned, it offers services through the broker dealer Beta Capital Management LP, which has its headquarters in Miami. It also operates in Panama through the bank Crèdit Andorrà (Panama) and in Uruguay, through a representative office of Crèdit Andorrà and Banco Crèdit Andorrà (Panama) in Montevideo. In Mexico, it offers services through the investment advisor CA México Asesores Patrimoniales.

#### ■ BancSabadell d'Andorra

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

## Corporate Social Responsibility (CSR)

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

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

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

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

### CSR at Andbank

The Corporate Responsibility policy of the Andbank Group is based on its main corporate values, which promote customer service, meritocracy and professionalism among other aspects. These are the pillars for the development of the company as a financial and social entity that is integrated into its environment, in which sustainability and the environment prevail. During 2011, Andbank continued consolidating and strengthening the social project that reaffirms the compromise that the entity has acquired with the country, in areas such as the economy, education, culture and sport.

The entity continues to maintain close links with the communities with which it operates, generating value not through major corporate campaigns, but through high value added col-

laborations, such as the organization of economic conferences, the promotion of entrepreneurial projects, the creation of new socially-responsible business projects or getting young people used to values such as effort, tenacity and perseverance that are associated with top level sport, and with which Andbank feels fully identified. Some of these collaborations include, for example, the bank's collaboration with the Andorran Olympic Committee (COA) aimed at improving Andorran sport and reinforcing the image of Andorra abroad; the support given to sport and leisure activities for young people at a grassroots level, through the sponsorship programme in collaboration with the Nike Camp, or, with regard to culture, the collaboration with the Spanish Embassys, which provide support for the cultural dissemination in our country.

### CSR at MoraBanc

In accordance with the mission and values of MoraBanc, social responsibility is a structural element of the company's culture, and there is a high degree of involvement with the Andorran community. For this reason, the desire of MoraBanc is to make the entity a reference point in such matters, and its shows a clear commitment to quality, sustainability and respect for the environment, which has received the best possible reward this year for the third year: classification as an entity with neutral carbon emissions. Likewise, it promotes initiatives of a social and informational nature, with the Music and Dance Season, which it has organized since 2011, being the most emblematic example, as well as several initiatives for the dissemination of scientific matters, which have involved groups from the liberal professionals. In sporting matters, in addition to its sponsorship of *Bàsquet Club Andorra*, the entity has also signed an agreement with FC Barcelona, making MoraBanc a Regional Partner of the Club. This agreement offers advantages for customers of the group. All these initiatives have a sole objective, that of reaffirming the compromise and commitment that the banking group has with the whole of Andorran society. In the solidarity section, MoraBanc introduced its solidarity card in December 2010 and within two years 30% of all cards were solidarity cards. The scheme sees acquisitions made by clients rounded upwards to the nearest euro or 10 cents, with the excess amount being given in the proportion decided by the customer to NGOs that have an agreement with the bank. Furthermore, the Group will give 50 cents of each euro provided by the client to the same associations that the card holder has chosen. This initiative raised more than 108,000 Euros in 2012.

In 2012, MoraBanc celebrated its 60<sup>th</sup> anniversary, and this offered an opportunity to pay homage to those employees who have been with the bank the longest. The testimonials of the persons who have

been with the bank for 30, 40 or more years and who maintain the same illusion as they did when they first started, have been recovered. These experiences have been collected in a series of highly emotive video testimonials. On 6<sup>th</sup> June, the same day as the anniversary of MoraBanc, and with the aim of sending a message of illusion and commitment to the new generations, the entity gave a present to all the new-born children at the hospital and to all the boys and girls who were patients in the hospital on that day. The final point of the actions took place in October with a memorable concert by Ainhoa Arteta, accompanied by the Andorran Marc Canturri and the Cadaqués Symphonic Orchestra.

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

Corporate Responsibility is one of the signs of identity of Banca Privada d'Andorra. The Code of Conduct of the BPA Group defines the fundamental elements of our company culture and together with the ethical principles and the rules of behaviour these are the expression of a compromise acquired with the collective. By making these public, BPA wishes to show the interest groups that it works with as well as society in general, how it carries on its business. The Banca Privada d'Andorra Private Foundation promotes the Xeridell Vocational Workshop, which offers its users work, vocational and therapeutic activities as a means of contributing to improvements in their quality of life and their relationship with the environment. It also works on behalf of people who are incapacitated -through the Tutelar del Principat d'Andorra Private Foundation- and with children who are at risk -through an agreement with La Gavernera Children's Residential Centre-. With the programme for paid work experience, BPA allows young people from secondary schools, professional training centres and "Batxillerat" institutes to experience the day to day running of a bank and to acquire work habits and specific training skills linked to the financial world, to help them define their career paths. BPA undertakes the responsibilities of a socially sustainable company, which creates quality jobs under working conditions that incorporate high standards within the field of health and work safety. In 2012 it revaluated its certificate as a Family Responsible Company awarded by the Másfamilia Foundation, with backing from the Spanish Ministry of Health, Social Policy and Equality. This has allowed BPA to renew its compromise and to show its desire to make this a characteristic of its identity as a company.

### **CSR at Crèdit Andorrà Group**

The Crèdit Andorrà Group has assigned an overall investment of 2.16 million Euros (3% of the total net profit) to programmes and actions aimed at improving the present and achieving a better future for Andorra.

The Crèdit Andorrà Group bases its corporate culture on its vocation to serve, which is not only focussed on the client, but on the country as well. Sustainability and a commitment to the community are the key principles of a management model based on ethics as well as business, social and environmental responsibility.

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

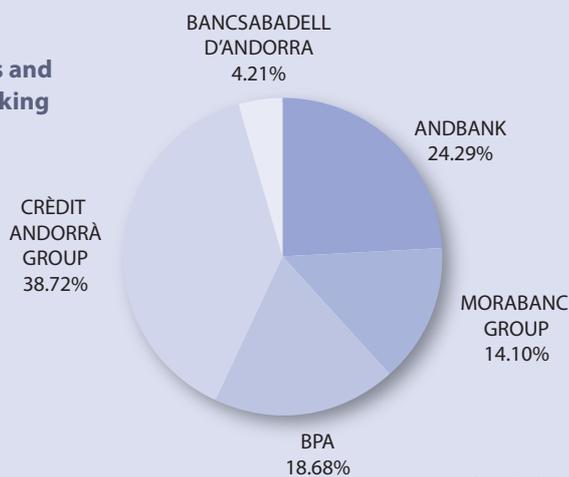
The value of service to the country and to the persons of Crèdit Andorrà has its clearest reflection in the Crèdit Andorrà Foundation, which celebrated its 25<sup>th</sup> anniversary this year. During this quarter of a century, the Foundation has placed itself alongside the normal people, who are the true protagonists of the present and the future of our community.

In 1987, the Board of Directors believed firmly in the need to create an institution through which we could articulate the commitment of Bank to the development of the country, and since then, the Foundation has been the driving force behind the social action of Crèdit Andorrà and its presence in society, promoting initiatives and programmes along three lines of action (educational, social and cultural), all of which have training as their focal point.

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

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

### Distribution of aggregate assets and liabilities by banking entity 2012



Source: Association of Andorran Banks

[graph 1]

### Aggregate consolidated balance sheets of Andorran banks

Details of the aggregate consolidated balance sheets of Andorran banking entities for 2011 and 2012 are as follows: [table 3]

The consolidated balance sheets of each banking group for 2011 and 2012 can be found in chapter "V. Information of interest".

The distribution of the aggregate balance sheet by banking entity at 31<sup>st</sup> December 2012 is as follows: [graph 1]

	2011	% of total	2012	% of total	Var. (%) 11-12
<b>ASSETS</b>					
Cash and central banks OECD	140,235	0.99%	130,124	0.85%	(7.21%)
INAF	1,050	0.01%	1,050	0.01%	-
Financial intermediaries	1,362,333	9.66%	1,524,708	10.01%	11.92%
Loans	7,348,717	52.11%	7,533,576	49.45%	2.52%
Securities portfolio	3,974,124	28.18%	4,557,448	29.92%	14.68%
Gains on consolidation	159,870	1.13%	165,442	1.09%	3.49%
Intangible assets	92,284	0.65%	106,790	0.70%	15.72%
Tangible assets	667,609	4.73%	717,458	4.71%	7.47%
Prepayment and accrued receivables	158,229	1.12%	163,661	1.07%	3.43%
Other assets	198,447	1.41%	333,901	2.19%	68.26%
<b>TOTAL ASSETS</b>	<b>14,102,898</b>	<b>100.00%</b>	<b>15,234,158</b>	<b>100.00%</b>	<b>8.02%</b>
<b>LIABILITIES</b>					
INAF	87,267	0.62%	89,005	0.58%	1.99%
Due to banks and credit entities	737,614	5.23%	1,450,934	9.52%	96.71%
Other financial intermediaries	8,568	0.06%	11,781	0.08%	37.50%
Customer deposits	10,612,121	75.25%	10,728,404	70.42%	1.10%
Debts represented by securities	425,991	3.02%	661,421	4.34%	55.27%
Provision for liabilities and charges	33,797	0.24%	30,048	0.20%	(11.09%)
Provision for general risks	21,721	0.15%	8,237	0.05%	(62.08%)
Subordinated liabilities	273,667	1.94%	273,131	1.79%	(0.20%)
Accruals	103,243	0.73%	114,333	0.75%	10.74%
Other liabilities	270,486	1.92%	286,925	1.88%	6.08%
Share capital	290,536	2.06%	290,536	1.91%	-
Reserves	1,094,126	7.76%	1,152,172	7.56%	5.31%
Profit	196,822	1.40%	196,830	1.29%	-
Prior years' result	(1,431)	(0.01%)	(521)	-	(63.59%)
Interim dividends	(63,000)	(0.45%)	(64,499)	(0.42%)	2.38%
Minority interest	11,370	0.08%	5,421	0.04%	(52.32%)
<b>TOTAL LIABILITIES</b>	<b>14,102,898</b>	<b>100.00%</b>	<b>15,234,158</b>	<b>100.00%</b>	<b>8.02%</b>

(Thousands of Euros) Source: Association of Andorran Banks

[table 3]

### Aggregate assets

The 2012 financial year saw an increase in the aggregate assets of Andorran banks, mainly in the "Securities portfolio" chapter, which registered a rise of 14.68% compared to 2011 (representing 29.92% of total assets) and in the "Loans and receivables" chapter with an increase of 2.52% compared to 2011 (representing 49.45% of total assets).

Notwithstanding the increases in the chapters on "Loans and receivables" and "Securities portfolio",

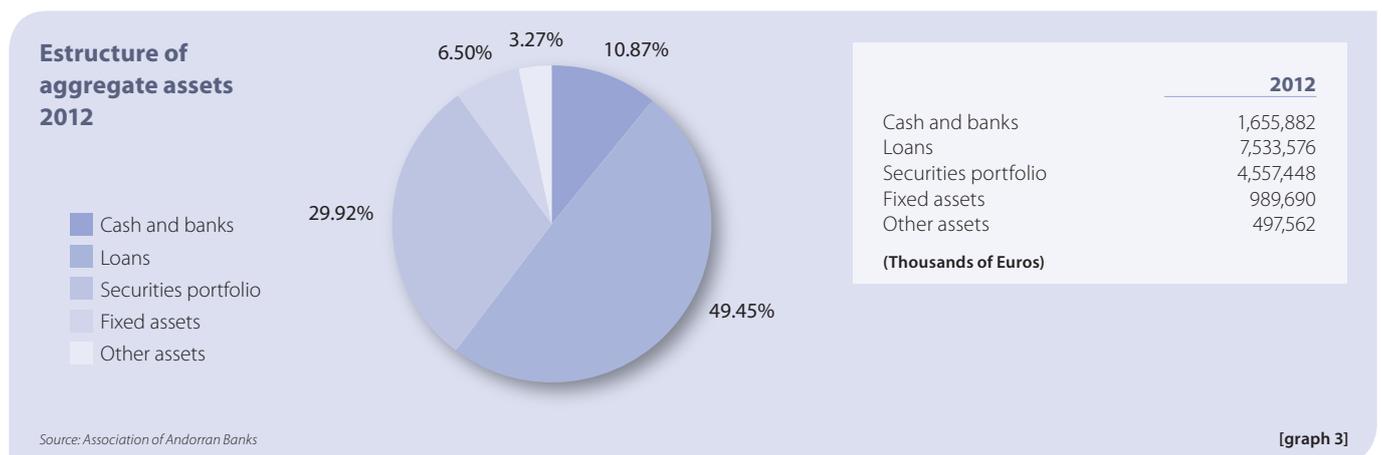
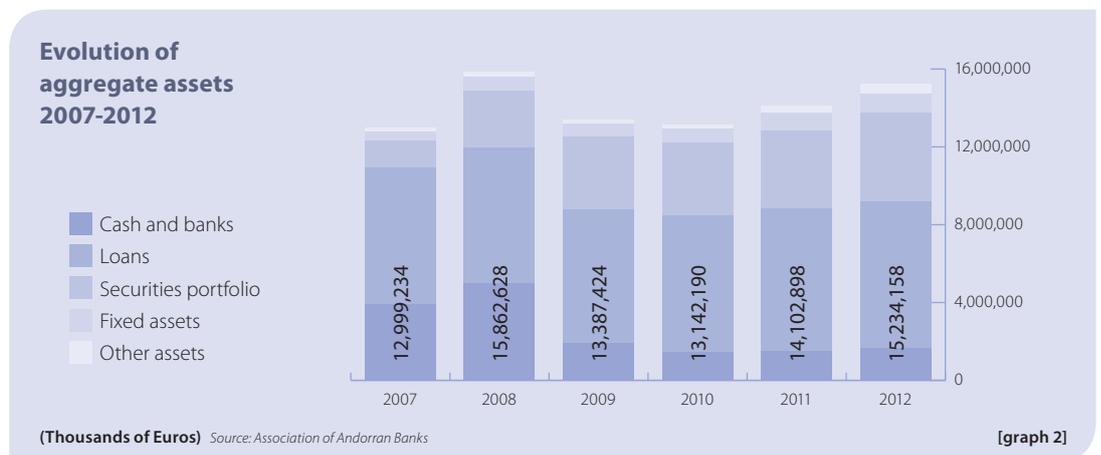
these maintained the same level attained in 2011 with regard to the total of aggregate assets. The 3.49% increase in the chapter on "Positive consolidation differences" is based on the acquisition of foreign companies within the framework of the internationalization process that the banking entities are currently immersed in. On the other hand, the increase in the "Other assets" chapter by 2.19% is mainly due to outstanding payments with the market counterparties.

The graph below shows the evolution of aggregate assets over the last six 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, as a result of the transfer of customer deposits off the balance sheet, aggregate assets decreased by 15.60%. However, in 2010 this downward trend was more moderate with only a 1.83% drop recorded in relation to 2009. A slight change of trend started during these two last periods with an increase of 15.92% compared to 2010. [graph 2]

Loans comprise a large part of the structure of total aggregate assets, representing 49.45%, even though this was reduced in relative terms given the effect of the internationalization process. [graph 3]

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

- Cash and banks include deposits in OECD Savings and Central banks, the INAF and financial intermediaries, which include loans with Banks and Credit Entities for four of the five banking groups forming part of the Andorran banking sector.
- Loans include loans and credits, account overdrafts and notes.
- The most important items included under securities portfolio are bonds and other fixed interest securities, investment funds and investments in group companies.
- Fixed assets comprise tangible and intangible assets, amortizable expenses and positive consolidation differences.
- Other assets include ongoing operations, stocks, options acquired and other taxes.



### Aggregate liabilities

The evolution of aggregate liabilities during the last six years has been characterised by sustained growth in the balance sheets of Andorran banks until 2008. Without doubt, the main source of this growth was the rise in customer deposits, to the detriment of financing in the wholesale banking market. This situation reversed substantially in 2009, with customer deposits decreasing as a consequence of the transfer of customer deposits off the balance sheet. In 2010 this trend reversal which began in 2009 has continued. However, despite the 93.63% rise in financing in the wholesale banking market, this caption only represents 4.79% of total aggregate liabilities. A slight change of trend started during the two last financial years with an increase of 5.47% in deposits and a 146.34% increase in financing in the wholesale banking market, compared to the total aggregate liabilities. [graph 4]

The pie chart below illustrates that the Andorran banks' aggregate liabilities at the 2012 close are characterised by the relative importance of cus-

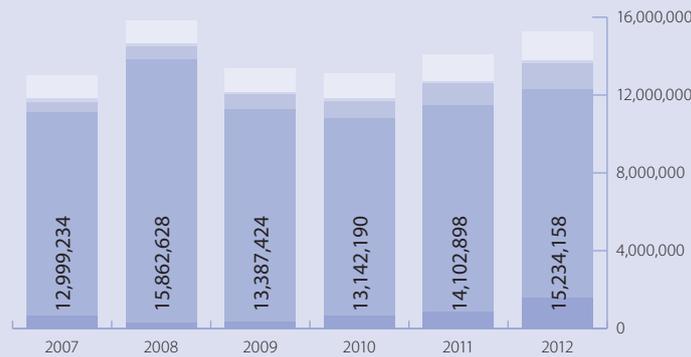
tomers deposits to the financing structure of Andorran banks, representing 70.42% of aggregate liabilities (75.25% in 2011). "Shareholders' equity" makes up 9.51% and "Results" make up 0.87%, whilst the remaining liabilities are formed mainly of "Other liabilities" (9.02%) and "Financial intermediaries" (10.19%). [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 and minority interests (where applicable).
- Results comprise profit for the year less dividends on account, prior years' profit (where applicable).
- Other liabilities: include provisions, accruals and debts represented by securities.
- Customer deposits are the largest liability caption.
- Financial intermediaries: include deposits from the INAF, Banks and Credit Entities.

#### Evolution of aggregate liabilities 2007-2012

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

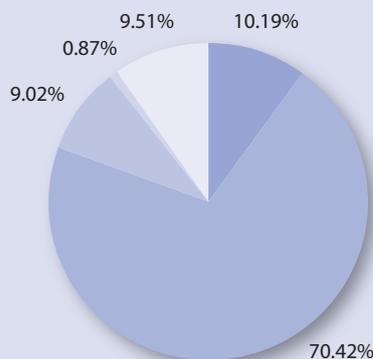


(Thousands of Euros) Source: Association of Andorran Banks

[graph 4]

#### Structure of aggregate liabilities 2012

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



Source: Association of Andorran Banks

[graph 5]

	<b>2012</b>
Financial intermediaries	1,551,720
Customer deposits	10,728,404
Other liabilities	1,374,095
Results	131,810
Shareholders' equity	1,448,129

(Thousands of Euros)

## Gross loans

In 2009 gross loans experienced a decline in growth rate, dropping from 8.46% in 2008 to 1.79% in 2009, primarily because of the impact of the economic slowdown and the greater prudence of entities in extending loans. However, in the past three-year period, a certain level of confidence in the financial markets appears to have been restored with aggregate growth standing at 3.45%, 4.14% and 2.27% for the 2010, 2011 and 2012 periods.

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 gross loans during the past three years. During this pe-

riod, it can be observed that BPA is the banking entity which has shown most growth in absolute terms (Euros 226,044 thousand), followed by Andbank (Euros 187,616 thousand). In line with what has happened in many other neighbouring countries, the entities of the Andorran financial system have resumed growth in customer loans. [graph 6]

The "Loans" caption represents 49.45% of total aggregate assets, comprising mainly loans and credits to customers. Total collateralised loans represent 76.68%. As shown in the pie chart below, 17.83% of these loans relate to security guarantees, 55.03% to mortgage guarantees and 3.83% to monetary guarantees. 95.75% of loans have a risk rating of "Normal", 0.92% are "Past-due", respectively (96.25% and 0.81% in 2011 and 95.88% and 1.19% in 2010) and 3.33% are classed as "Doubtful" (2.94% in 2011 and 2.93% in 2010). [graph 7]

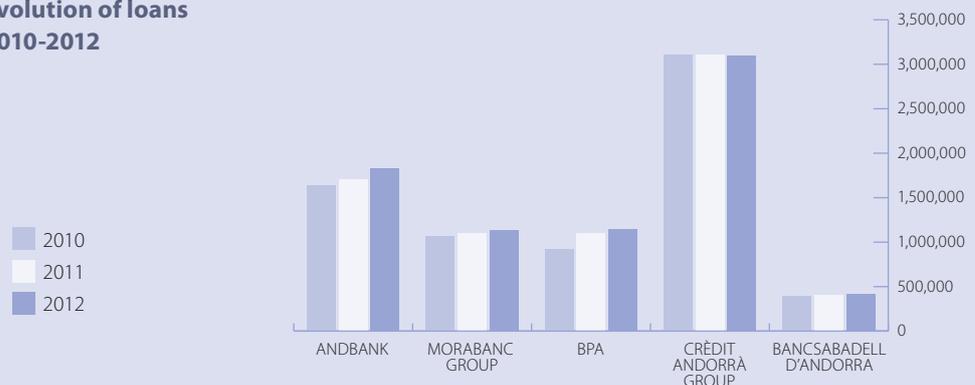
### Evolution of loans

	2011	% of total	2012	% of total	Var. (%) 11-12
ANDBANK	1,711,830	23.04%	1,825,144	23.92%	6.62%
MORABANC GROUP	1,102,357	14.83%	1,134,755	14.87%	2.94%
BPA	1,103,613	14.85%	1,149,767	15.07%	4.18%
CRÉDIT ANDORRÀ GROUP	3,112,228	41.88%	3,101,781	40.66%	(0.34%)
BANCSABADELL D'ANDORRA	401,314	5.40%	418,018	5.48%	4.16%
<b>TOTAL</b>	<b>7,431,342</b>	<b>100.00%</b>	<b>7,629,465</b>	<b>100.00%</b>	<b>2.67%</b>

(Thousands of Euros) Source: Association of Andorran Banks

[table 4]

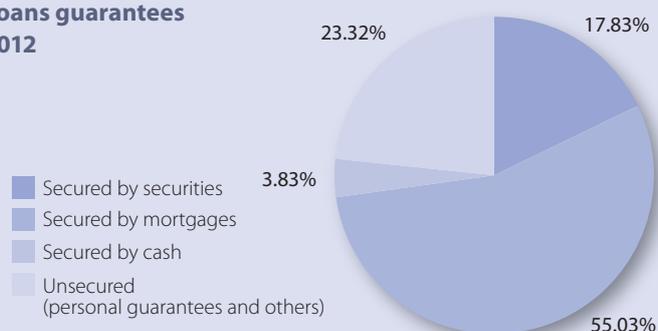
### Evolution of loans 2010-2012



(Thousands of Euros) Source: Association of Andorran Banks

[graph 6]

## Loans guarantees 2012



Source: Association of Andorran Banks

[graph 7]

The aggregate default ratio of the Andorran banks was 3.33% on 31<sup>st</sup> December 2012 (doubtful receivables / loans and discounts to clients). This ratio has experienced an upward trend in recent years in line with the deterioration of the economic situation, although the default ratio of Andorran banks has remained considerably lower than the ratios recorded by the credit entities of neighbouring countries.

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

## Default ratio

	2011	2012
ANDBANK	3.50%	3.69%
MORABANC GROUP	2.05%	3.09%
BPA	3.47%	3.39%
CRÈDIT ANDORRÀ GROUP	3.10%	3.55%
BANCSABADELL D'ANDORRA	0.52%	0.74%
<b>AGGREGATE RATIO</b>	<b>2.94%</b>	<b>3.33%</b>

Source: Association of Andorran Banks

[table 5]

## Customer liabilities

The uncertainty generated by the international financial crisis led to a significant amount of customer funds managed off the balance sheet being transferred to more secure products, such as deposits during 2008. However, the upward trend of international capital markets in 2009 and 2010 has generated a 5.88% fall in customer liabilities (customer deposits managed by banking entities and structured products issued by banks) in relation to 2009 as part of the customer funds has been transferred off the balance sheet. This trend changed during 2011 and 2012, with a slight increase in deposits of 4.33% and 1.10% compared to 2010 and 2011, and an important increase in customer funds managed off-balance-sheet of 16.56% and 20.43% (despite the negative effect in the markets). [table 6]

The figure below shows the evolution of customer deposits over the last three financial years and we can see that MoraBanc and BancSabadell d'Andorra are the banking entities which have fallen in absolute terms with 185 and 36 million Euros respectively. In contrast, Crèdit Andorrà increased its figure for customer deposits by 507 million Euros in the period under consideration, followed by BPA and Andbank, with 423 and 131 million respectively. This slight general recovery in customer deposits is in line with the increase experienced in the customer funds managed off-balance-sheet due to the phase of internationalization that most banking entities are going through. [graph 8]

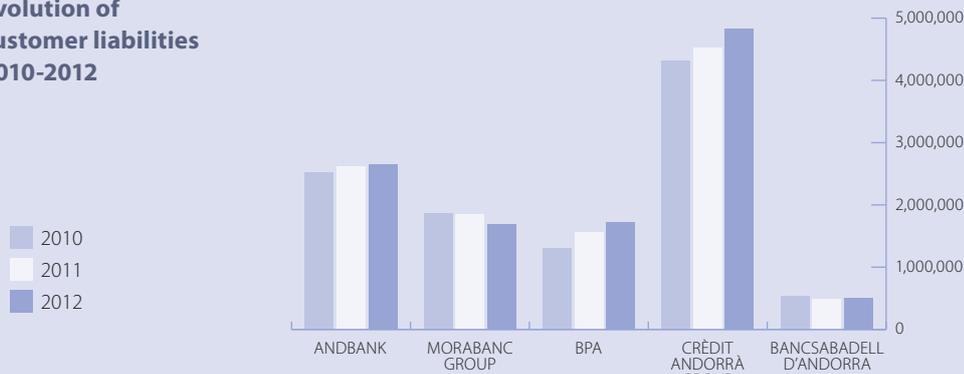
## Evolution of customer liabilities

	2011	% of total	2012	% of total	Var. (%) 11-12
ANDBANK	2,612,182	23.67%	2,648,655	23.25%	1.40%
MORABANC GROUP	1,851,030	16.77%	1,682,732	14.77%	(9.09%)
BPA	1,560,337	14.14%	1,724,112	15.14%	10.50%
CRÈDIT ANDORRÀ GROUP	4,522,216	40.97%	4,825,696	42.37%	6.71%
BANCSABADELL D'ANDORRA	492,347	4.46%	508,630	4.47%	3.31%
<b>TOTAL</b>	<b>11,038,112</b>	<b>100.00%</b>	<b>11,389,825</b>	<b>100.00%</b>	<b>3.19%</b>

(Thousands of Euros) Source: Association of Andorran Banks

[table 6]

### Evolution of customer liabilities 2010-2012



(Thousands of Euros) Source: Association of Andorran Banks

[graph 8]

### Gross loans to customer liabilities ratio

The following chart shows the evolution of the gross loans to customer liabilities ratio for the different Andorran banking entities in 2011 and 2012: [table 7]

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

Aggregate ratio continues the slight fall which began in 2011 due to the fact that customer deposits increase at a higher percentage than loans and receivables, the figures being 3.19% and 2.67%.

In general, all the banking entities have seen their loans to customer deposits ratio rise, with the exception of Crèdit Andorrà and BPA, the ratio of which has dropped by 4.54 and 4.04 percentage points respectively. [graph 9]

### Evolution in gross loans to customer liabilities ratio

	2011	2012
ANDBANK	65.53%	68.91%
MORABANC GROUP	59.55%	67.44%
BPA	70.73%	66.69%
CRÉDIT ANDORRÀ GROUP	68.82%	64.28%
BANCSABADELL D'ANDORRÀ	81.51%	82.19%
<b>AGGREGATE RATIO</b>	<b>67.32%</b>	<b>66.98%</b>

Source: Association of Andorran Banks

[table 7]

### Evolution in gross loans to customer liabilities ratio 2010-2012



(% Investment/Deposits) Source: Association of Andorran Banks

[graph 9]

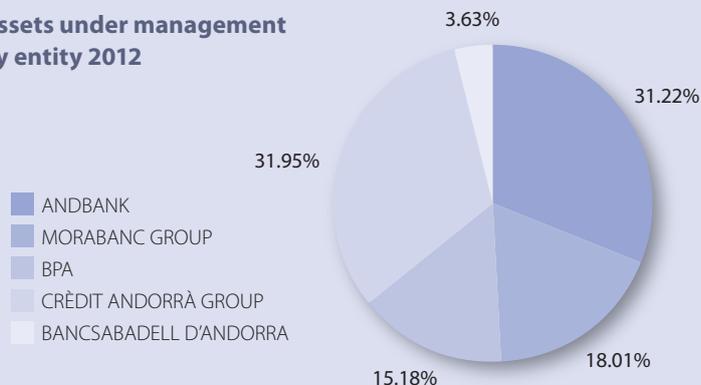
## Aggregate assets under management

The assets under management by the Andorran banking entities including customers deposits and customer intermediations (guarded and non-guarded), saw growth of 13.83% during the 2012 financial year until reaching the sum of 35,390 million Euros, an amount which marks an all time high, and which exceeded the levels attained in 2011. The increase was mainly due to mediation for clients (shares, investment funds, debentures...) which increased by 20.43% and which represents 69.69% of the managed resources. Customer deposits also increased, but to a lesser extent (1.10%). The increase in managed resources was mostly due to mediation for clients, a result of internationalization and the revaluation of the financial markets favoured by the central bank interventions.

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

The distribution of aggregate assets under management by banking entity, including deposits and customer intermeditation, at 31<sup>st</sup> December 2012, is as follows: [graph 10]

### Assets under management by entity 2012



Source: Association of Andorran Banks

[graph 10]

Details of aggregate assets managed off the balance sheet by Andorran banks, taking into consideration assets off the balance sheet and other assets managed by management companies and banking entities forming part of Andorra banking groups for 2011 and 2012 are as follows: [table 8]

The following graph shows the evolution of assets managed by the banking entities during the last six years, and their distribution between customer deposits and customer intermeditation. [graph 11]

Rising interest rates led to the start of a trend in 2006 to transfer 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.

In the past three years, interest rates remained at record lows and the international financial markets have registered a clear upward trend, thus reversing the trend begun in 2006 with growth in customer assets managed off the balance sheet of 40.37%, to the detriment of customer liabilities, which have registered a slight increase of 4.17% during the past three years.

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

### Evolution of off balance assets under management

	2011	% of total	2012	% of total	Var. (%) 11-12
ANDBANK	6,556,546	32.02%	8,467,283	34.33%	29.14%
MORABANC GROUP	4,242,930	20.72%	4,691,453	19.02%	10.57%
BPA	3,057,828	14.93%	3,751,854	15.21%	22.70%
CRÉDIT ANDORRÀ GROUP	5,771,390	28.18%	6,853,839	27.79%	18.76%
BANCSABADELL D'ANDORRA	849,322	4.15%	897,242	3.64%	5.64%
<b>TOTAL</b>	<b>20,478,016</b>	<b>100.00%</b>	<b>24,661,671</b>	<b>100.00%</b>	<b>20.43%</b>

(Thousands of Euros) Source: Association of Andorran Banks

[table 8]

### Evolution of aggregate assets under management 2007-2012



(Thousands of Euros) Source: Association of Andorran Banks

[graph 11]

### Aggregate consolidated memorandum accounts of Andorran banks

Details of the aggregate memorandum accounts of Andorran banks for 2011 and 2012 are as follows: [table 9]

Chapter "V. Information of interest" shows the consolidated memorandum accounts of each banking group. Details of the aggregate memorandum accounts of each entity for 2011 and 2012 are as follows: [graph 12]

In order to facilitate a comparison of the information, the balances for 2011 represented in the off balance sheet items "Securities deposits and other assets held in custody" have been re-expressed to take into consideration what has been established in INAF Communiqué 233/13. This has led to an increase in the aforementioned entry of 2,910,371 thousand Euros, corresponding to the posting of both the value of the shares and participations of the collective investment undertakings that the clients have deposited with the groups and the deposited portfolios of the CIUs themselves in the off balance sheet items.

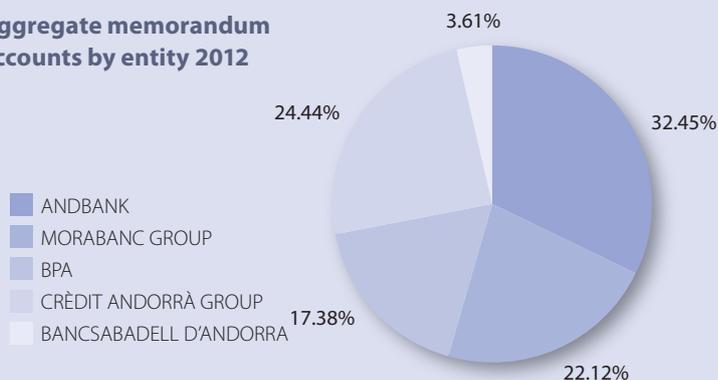
### Evolution of aggregate memorandum accounts

	2011	% of total	2012	% of total	Var. (%) 11-12
Contingent liabilities	536,408	1.49%	388,467	0.84%	(27.58%)
Commitments and contingent risks	1,215,494	3.37%	1,083,394	2.35%	(10.87%)
Derivative financial instruments	7,042,756	19.54%	11,798,249	25.64%	67.52%
Securities deposited and others held in custody	22,623,685	62.76%	27,855,725	60.54%	23.13%
Other memorandum accounts for administrative control purposes only	4,628,170	12.84%	4,884,615	10.62%	5.54%
<b>TOTAL</b>	<b>36,046,513</b>	<b>100.00%</b>	<b>46,010,450</b>	<b>100.00%</b>	<b>27.64%</b>

(Thousands of Euros) Source: Association of Andorran Banks

[table 9]

### Aggregate memorandum accounts by entity 2012



Source: Association of Andorran Banks

[graph 12]

During 2012 aggregate memorandum accounts have continued the upward trend initiated in 2010, amounting to a total of Euros 46,010 million. Notwithstanding the effect in the markets, this upward trend can be explained by the phase of international expansion that most of the banking entities are currently undergoing.

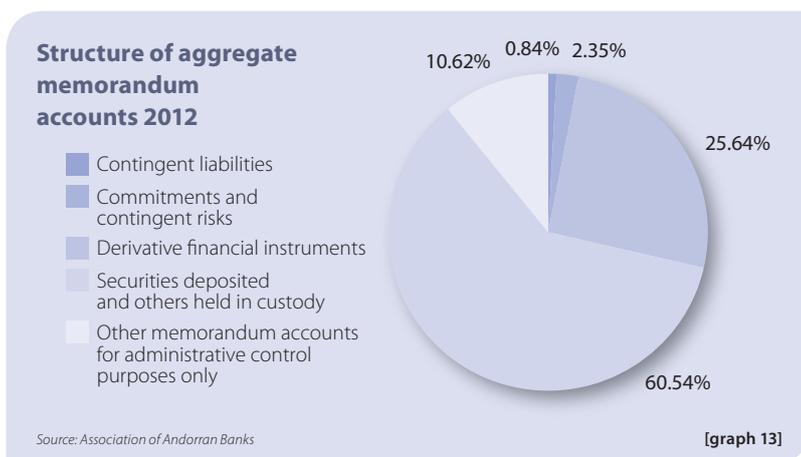
The largest caption, "Securities deposited and others held in custody", representing 60.54% of total aggregate memorandum accounts of Andorran banks is up 23.13% on the previous year. The "Futures operations" caption is also up, with a rise of 67.52%, thereby raising the specific importance

of these operations to 25.64% of total aggregate memorandum accounts. This increase is due to the moderate growth in futures operations generated by the higher number of future currency sales and acquisitions made as a result of the currency risk to which the balance sheets of both Andorran banks and their customers were exposed, and also interest rate futures operations and, to a lesser extent, options on financial instruments.

The customer loans have been slightly higher than "Contingent liabilities" and "Commitments and contingent risks", which have fallen by 15.98% compared to 2011 and, therefore, we can say that the off balance sheet trend has been even more prudent and conservative than the policy for extending and renewing asset operations.

The "Other memorandum accounts for administrative control purposes only" caption, which includes guarantees and commitments received and other memorandum accounts, has increased by 5.54% compared to the previous year. At 31<sup>st</sup> December 2012 this caption represents 10.62% of the total aggregate memorandum accounts of Andorran banks.

A breakdown of aggregate memorandum accounts at 31<sup>st</sup> December 2012 is as follows: [\[graph 13\]](#).



### Aggregate consolidated income statements for Andorran banks

Details of the aggregate consolidated income statements of Andorran banks for 2011 and 2012 are as follows: [\[table 10\]](#)

Chapter "V. Information of interest" shows the consolidated income statements of each banking group for 2011 and 2012.

The consolidated income of the Andorran banks as a whole has remained at about 197 million Euros mark (0.30% higher than the 2011 financial year). The increase in personal expenses and general

expenses, as a result of major international expansion, has been compensated by the increase in the ordinary margin.

Consequently, in a year which has been critical for the international financial system, the Andorran banks have obtained aggregate results of about Euros 200 million, maintaining good aggregate capital adequacy and liquidity ratios, which have stood at 21.22% and 65.46%, respectively, and are much higher than those of many international financial entities.

	2011	2012	Var. (%) 11-12
Interest and similar income	311,388	362,361	16.37%
Interest and similar charges	(145,503)	(155,034)	6.55%
Revenue from variable income securities	382	585	53.14%
<b>FINANCIAL MARGIN</b>	<b>166,267</b>	<b>207,912</b>	<b>25.05%</b>
Commissions	333,687	334,652	0.29%
Profits on financial operations	37,447	68,348	82.52%
Other profit on ordinary activities	3,106	2,379	(23.41%)
<b>GROSS MARGIN</b>	<b>540,507</b>	<b>613,291</b>	<b>13.47%</b>
Personnel expenses	(145,399)	(179,072)	23.16%
General expenses	(142,134)	(162,990)	14.67%
Amortisation and depreciation, net of recoveries	(54,806)	(51,277)	(6.44%)
Provisions for depreciation of assets, net of recoveries	(3,771)	(6,813)	80.67%
<b>OPERATING MARGIN</b>	<b>194,397</b>	<b>213,139</b>	<b>9.64%</b>
Provisions for loan losses, net of recoveries	(19,447)	(32,397)	66.59%
Provisions for liabilities and charges, net of recoveries	(3,765)	3,468	-
Allowance to provision for general risks	(4,265)	(3,150)	(26.14%)
<b>RESULTS ON ORDINARY ACTIVITIES</b>	<b>166,920</b>	<b>181,060</b>	<b>8.47%</b>
Net extraordinary income	12,054	15,296	26.90%
<b>PROFIT BEFORE TAXES</b>	<b>178,974</b>	<b>196,356</b>	<b>9.71%</b>
Corporate income tax	-	(4,882)	-
Foreign corporate income tax	17,567	5,665	-
<b>CONSOLIDATED RESULTS</b>	<b>196,541</b>	<b>197,139</b>	<b>0.30%</b>
Losses attributable to minority interest	-	(301)	-
<b>PROFIT ATTRIBUTABLE TO THE GROUP</b>	<b>196,541</b>	<b>196,838</b>	<b>0.15%</b>

(Thousands of Euros) Source: Association of Andorran Banks

[table 10]

## Financial margin

As can be seen from the table below, in 2012 the aggregate financial margin of Andorran banking entities amounted to Euros 207,912 thousand and increased by 25.05% in relation to 2011, thus representing attainment of an all time high. [table 11]

The evolution of this margin has been positive for all entities owing to the fact that the increase in margins and similar income has been greater than the increase in the interest paid.

The evolution of the aggregate financial margin for the last six years, together with the financial margin by banking entity for 2010, 2011 and 2012 financial years are shown in the graphs below: [graphs 14 and 15]

### Financial margin by banking entity

	2011	2012	Var. (%) 11-12
ANDBANK	51,005	56,013	9.82%
MORABANC GROUP	27,844	28,887	3.75%
BPA	12,237	38,665	-
CRÈDIT ANDORRÀ GROUP	67,471	76,459	13.32%
BANCSABADELL D'ANDORRA	7,710	7,888	2.31%
<b>TOTAL</b>	<b>166,267</b>	<b>207,912</b>	<b>25.05%</b>

(Thousands of Euros) Source: Association of Andorran Banks

[table 11]

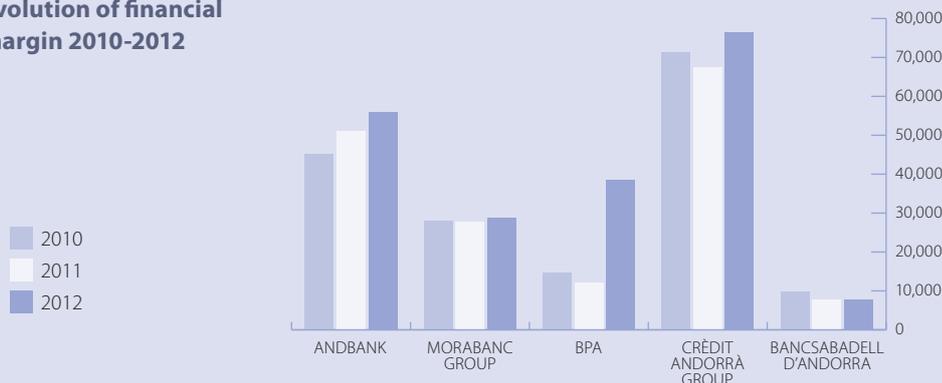
**Evolution of aggregate financial margin 2007-2012**



(Thousands of Euros) Source: Association of Andorran Banks

[graph 14]

**Evolution of financial margin 2010-2012**



(Thousands of Euros) Source: Association of Andorran Banks

[graph 15]

**Gross margin**

The table below shows that the aggregate gross margin has risen by 13.47% in 2012, with an increase of Euros 72,784 thousand. The slight increase of 0.29% in net commissions generated by the offer of products and services during 2012 was offset by the positive evolution in the financial margin, as well as by good results in financial operations, 74.41% higher than in 2011. [table 12]

The aggregate gross margin for each banking entity over the last six years, together with a graph showing its evolution over the years 2010, 2011 and 2012 is as follows: [graphs 16 and 17]

The graph below shows how income from commissions remains the most significant element because of its contribution to gross margin, and the desire is for the growth in managed funds to continue as one of the driving forces so that it can continue contributing to improving the gross margin. On the other hand, we can also see an increase in the contribution that profits from financial operations have made to gross margin during the last year; in 2012 these accounted for 11.53% of the gross margin (in 2011 and 2010 they represented 7.50% and 9.16%, respectively). [graph 18]

**Gross margin by banking entity**

	2011	2012	Var. (%) 11-12
ANDBANK	170,535	189,692	11.23%
MORABANC GROUP	106,436	110,282	3.61%
BPA	63,825	99,919	56.55%
CRÉDIT ANDORRÀ GROUP	174,462	195,642	12.14%
BANCSABADELL D'ANDORRA	25,249	17,756	(29.68%)
<b>TOTAL</b>	<b>540,507</b>	<b>613,291</b>	<b>13.47%</b>

(Thousands of Euros) Source: Association of Andorran Banks

[table 12]

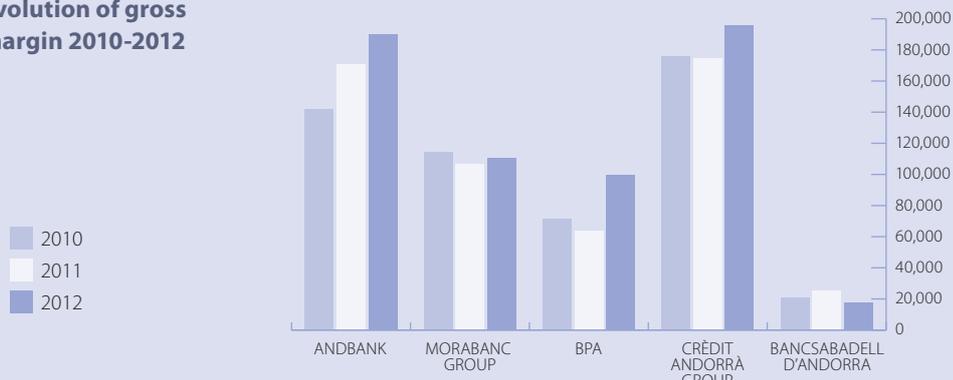
### Evolution of aggregate gross margin 2007-2012



(Thousands of Euros) Source: Association of Andorran Banks

[graph 16]

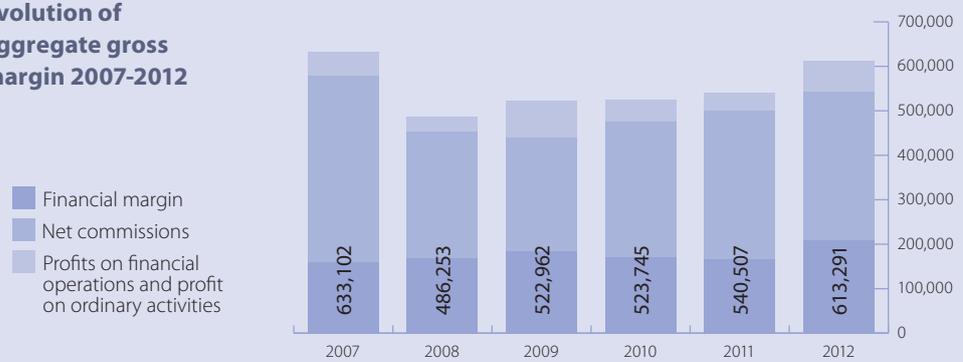
### Evolution of gross margin 2010-2012



(Thousands of Euros) Source: Association of Andorran Banks

[graph 17]

### Evolution of aggregate gross margin 2007-2012



(Thousands of Euros) Source: Association of Andorran Banks

[graph 18]

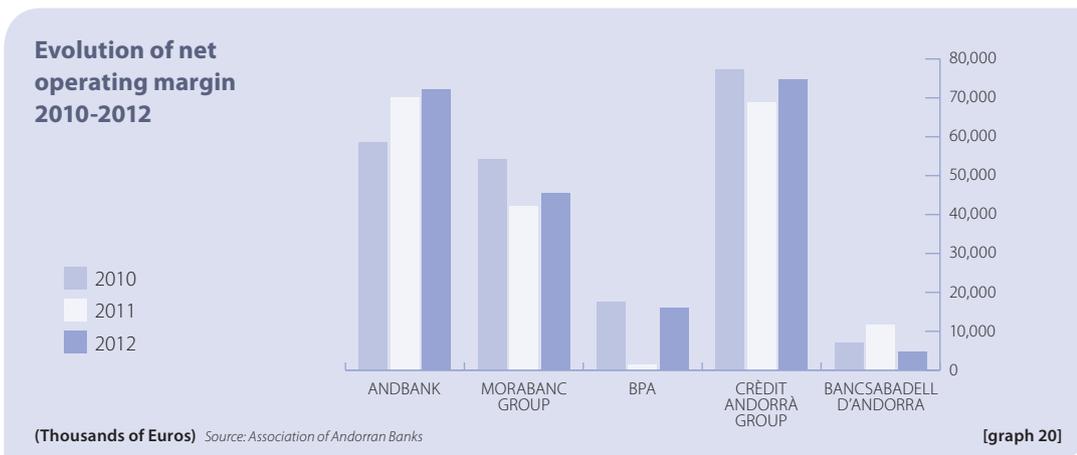
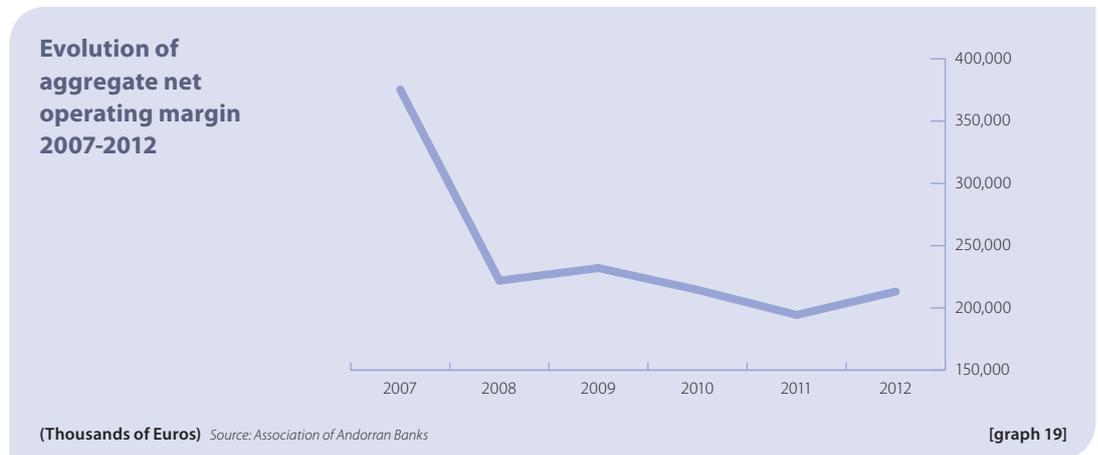
### Net operating margin

As shown in the table below, the net operating margin is 9.64% up compared to 2011 (-9.38% in 2011). The increase in personnel and general expenses, which are up 23.16% and 14.67%, respectively, have been offset by the good performance of the financial margin during the 2012 financial year. [table 13]

The aggregate net operating margin for each banking entity over the last six years, together with a graph showing its evolution over the years 2010, 2011 and 2012 is as follows: [graphs 19 and 20]

Net operating margin by banking entity			
	2011	2012	Var. (%) 11-12
ANDBANK	70,051	72,216	3.09%
MORABANC GROUP	42,281	45,422	7.43%
BPA	1,459	16,042	-
CRÈDIT ANDORRÀ GROUP	68,828	74,610	8.40%
BANCSABADELL D'ANDORRA	11,778	4,849	(58.83%)
<b>TOTAL</b>	<b>194,397</b>	<b>213,139</b>	<b>9.64%</b>

(Thousands of Euros) Source: Association of Andorran Banks [table 13]



## Transformation costs

During 2012, 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 299,114 thousand, up 25.08% on 2011. The evolution of the transformation costs in the Andorran banks during 2012 denotes that, despite the current international crisis generated in the financial market, they have increased the number of employees, continued in their international expansion plan and consolidated the domestic market, whilst pursuing a stringent policy of optimising costs.

Changes in transformation costs for the 2010, 2011 and 2012 financial years for each of the banking entities comprising the Andorran banking system are as follows: [\[graph 21\]](#)

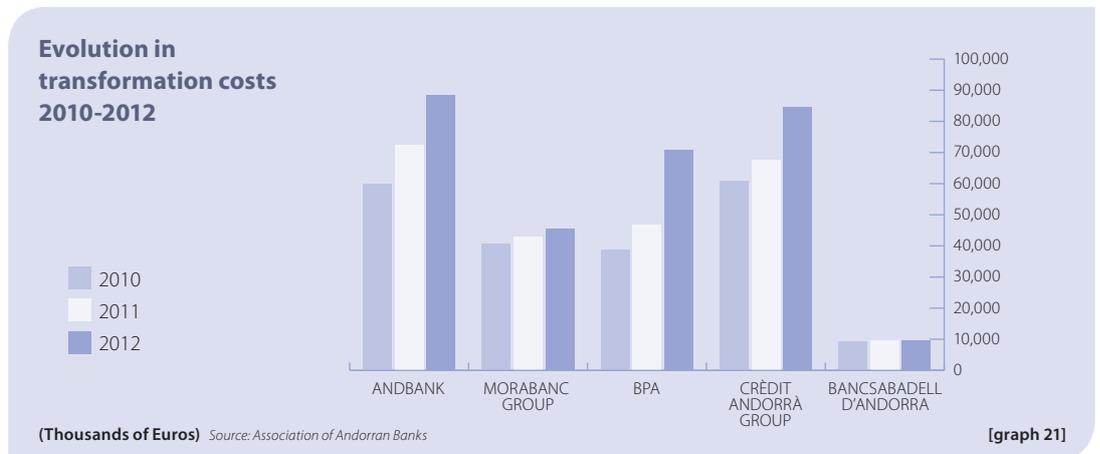
The composition of the Andorran banks' transformation costs has changed in recent years, with personnel expenses increasingly gaining relative importance compared to general expenses. Changes in the composition of transformation costs during the last six years are shown in the following graph: [\[graph 22\]](#)

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 2012 stands at 48.77%, which is 4.53 percentage points up on the ratio for 2011. The reason for this increase is that transformation costs have raised in greater proportion than the increase in the gross margin. Despite this slight increase, efficiency continues to be a key differentiating factor of the management model of Andorran banks and if the efficiency rate of Andorran banks is compared with that of banking sectors in other European countries it continues to be one of the lowest rates.

A graph and table showing the efficiency ratios of each entity for 2011 and 2012 are presented below: [\[table 14\]](#)

Changes in the efficiency ratios of Andorran banking entities over the 2010, 2011 and 2012 financial years are as follows: [\[graph 23\]](#)



Efficiency ratio by banking entity

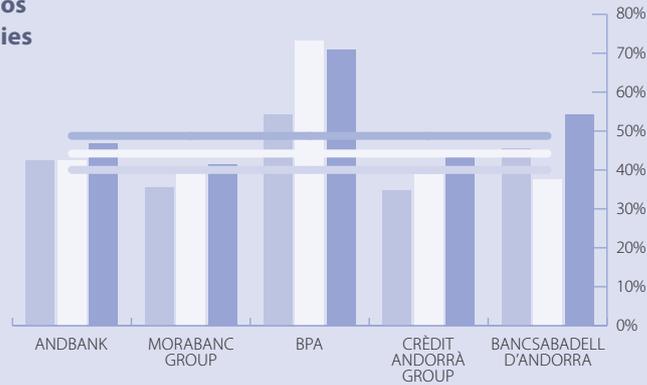
	2011	2012
ANDBANK	42.49%	46.69%
MORABANC GROUP	40.29%	41.30%
BPA	73.10%	70.83%
CRÈDIT ANDORRÀ GROUP	38.78%	43.24%
BANCSABADELL D'ANDORRA	37.51%	54.21%
<b>AGGREGATE RATIO</b>	<b>44.24%</b>	<b>48.77%</b>

Source: Association of Andorran Banks

[table 14]

Evolution of efficiency ratios of Andorran banking entities 2010-2012

- 2010
- 2011
- 2012
- Average 2010
- Average 2011
- Average 2012



Source: Association of Andorran Banks

[graph 23]

Result

As a result of the 13.47% rise in gross margin and the 15.61% increase in transformation costs after amortisation, the aggregate net operating margin stands at Euros 213,139 thousand, up 9.64% on the same period of the previous year. This factor, together with a 16.75% increase in provision expenses, has caused the aggregate result of Andorran banking entities to increase slightly by 0.15% compared to 2011, when the result of the banks also fell by 1.98%. These results, amounting to Euros

197 million and in line with those of the previous year, have been very positively valued, taking into consideration the international economic scenario and especially the performance of global financial markets during 2012.

The graph below plots the changes in the aggregate profit of Andorran banking entities from 2007 to 2012 and the table illustrates the result for each banking entity: [graph 24 and table 15]

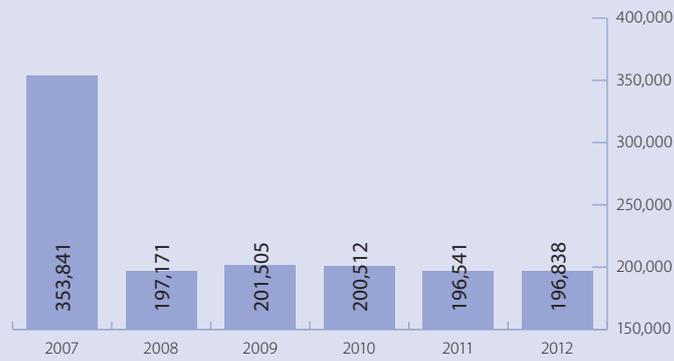
Profit by banking entity

	2011	2012	Var. (%) 11-12
ANDBANK	54,246	56,581	4.30%
MORABANC GROUP	46,687	45,175	(3.24%)
BPA	18,528	17,596	(5.03%)
CRÈDIT ANDORRÀ GROUP	70,628	70,862	0.33%
BANCSABADELL D'ANDORRA	6,452	6,624	2.67%
<b>TOTAL</b>	<b>196,541</b>	<b>196,838</b>	<b>0.15%</b>

(Thousands of Euros) Source: Association of Andorran Banks

[table 15]

### Evolution in aggregate profit 2007-2012



(Thousands of Euros) Source: Association of Andorran Banks

[graph 24]

### Equity

Details of the equity of the Andorran banking groups at 31<sup>st</sup> December 2012 are as follows: [table 16]

The evolution of the equity of the banking groups in the Andorran financial system from 2010 to 2012 is as follows [graph 25]

### Equity by banking entity (\*)

	Total Equity
ANDBANK	427,578
MORABANC GROUP	340,201
BPA	299,910
CRÉDIT ANDORRÀ GROUP	676,078
BANCSABADELL D'ANDORRA	57,940
<b>TOTAL</b>	<b>1,801,707</b>

(\*) This includes subordinated liabilities

(Thousands of Euros) Source: Association of Andorran Banks

[table 16]

### Evolution of equity by banking entity 2010-2012



(Thousands of Euros) Source: Association of Andorran Banks

[graph 25]

## Capital adequacy and liquidity

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

In order for the Andorran financial system to gain a positive reputation for being solvent at an 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 2011 and 2012 which, as can be clearly observed, significantly exceed the established minimums: [\[table 17\]](#)

The table above shows that the average capital adequacy ratio of Andorran banks at 31<sup>st</sup> December 2012 stands at 21.22%, 0.26 percentage points lower 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 65.46%, 1.12 percentage points lower than the figure for 2011. Despite the fact that the lack of confidence in international financial markets has restricted somewhat the interbank liquidity market, Andorran banking entities have demonstrated their privileged position, even managing to maintain their liquidity ratios at a rather similar level to previous years.

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

Furthermore, on 2<sup>nd</sup> February 2011, the General Council of the Principality of Andorra passed *Law 1/2011 creating a deposit guarantee system* for banking entities with the aim of guaranteeing the return of deposited cash and securities funds to the depositors. Under the aforementioned Law, in order for the guarantee system to fulfil the obligations attributed to it therein, all banking entities authorized to operate in Andorra must create and maintain a restricted reserve to fulfil the guarantees covered, and an amount equivalent to this reserve must be invested in secure and liquid assets that fulfil a series of requirements established by the Law for this purpose.

	Capital adequacy		Liquidity	
	2011	2012	2011	2012
ANDBANK	22.56%	21.39%	68.41%	65.99%
MORABANC GROUP	29.68%	31.97%	90.97%	76.00%
BPA	21.20%	19.04%	80.33%	64.27%
CRÉDIT ANDORRÀ GROUP	17.39%	17.80%	51.81%	59.35%
BANCSABADELL D'ANDORRA	20.22%	19.46%	85.97%	74.42%
<b>AGGREGATE RATIO</b>	<b>20.96%</b>	<b>21.22%</b>	<b>66.58%</b>	<b>65.46%</b>

Source: Association of Andorran Banks [table 17]

## Average return on equity (ROE)

The average return on equity of Andorran banks for the year ended 31<sup>st</sup> December 2012 was 12.60% (calculating profit/average equity), down 0.37 percentage points on 2011.

The following table and graph show the average return on equity for each banking entity in 2011 and 2012. [\[table 18 and graph 26\]](#)

### Average return on equity (ROE)

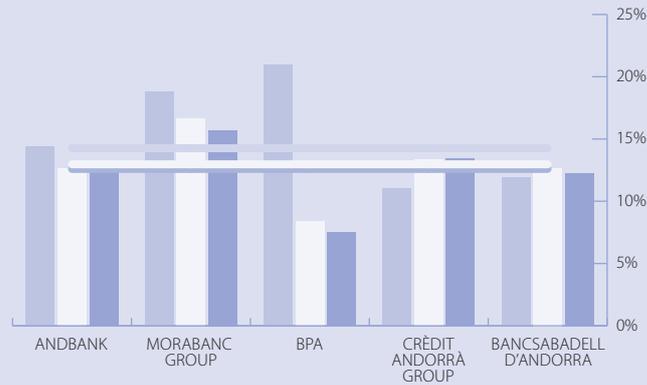
	2011	2012
ANDBANK	12.61%	12.53%
MORABANC GROUP	16.60%	15.70%
BPA	8.37%	7.46%
CRÈDIT ANDORRÀ GROUP	13.32%	13.39%
BANCSABADELL D'ANDORRA	12.25%	11.53%
<b>AGGREGATE RATIO</b>	<b>12.97%</b>	<b>12.60%</b>

Source: Association of Andorran Banks

[table 18]

### Average return on equity by banking entity 2010-2012

■ 2010  
 ■ 2011  
 ■ 2012  
 — Average 2010  
 — Average 2011  
 — Average 2012



Source: Association of Andorran Banks

[graph 26]

### Return on average assets (ROA)

The return on average assets of Andorran banks for the year ended 31<sup>st</sup> December 2012 stands at 1.32%, 0.16 percentage points down on 2011, but higher than in 2010, which stood at 1.50%.

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

The following table and graph show the return on average assets (i.e. profit/average total assets) for each banking entity in 2011 and 2012:

[table 19 and graph 27]

### Average return on assets (ROA)

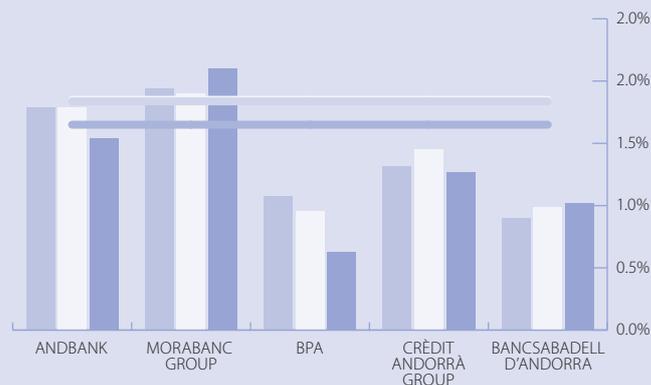
	2011	2012
ANDBANK	1.79%	1.54%
MORABANC GROUP	1.90%	2.10%
BPA	0.96%	0.63%
CRÈDIT ANDORRÀ GROUP	1.36%	1.27%
BANCSABADELL D'ANDORRA	0.99%	1.02%
<b>AGGREGATE RATIO</b>	<b>1.48%</b>	<b>1.32%</b>

Source: Association of Andorran Banks

[table 19]

### Average return on assets by banking entity 2010-2012

■ 2010  
 ■ 2011  
 ■ 2012  
 — Average 2010  
 — Average 2011  
 — Average 2012



Source: Association of Andorran Banks

[graph 27]

## Ratings

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

The table below shows the ratings given to the Andorran banking entities in 2012, with the exception of the Moody's agency, which had still not issued its report on the date of this publication. [table 20]

The latest sovereign rating update for the Principality of Andorra by Standard & Poor's at December 2012 has been A-1 for the long term and A-2 for the short term with a negative outlook, downgrading the rating of the previous evaluation carried out in February 2012. These ratings reflect the impact of the international economic and financial situation

of neighbouring countries on the growth of the Andorran economy in 2012 and the outlook for 2013.

A negative outlook has been forecast mainly because of the fall in internal demand as well as the risk of external growth owing to the weak economic environment that has resulted from the international crisis. Nevertheless, the Andorran Government is making continuous efforts, through new legislation such as the new law to open up the economy, in order to improve the quality and diversification of the tourist offer in the Principality, the process of fiscal consolidation, the competitiveness of the financial system and the country's capacity to adapt in order to face up to external weaknesses.

	Ratings		Agency
	Long term	Short term	
ANDBANK	A-	F2	Fitch Ratings
MORABANC GROUP	A3	P-2	Moody's
BPA	BB+	B	Fitch Ratings
CRÉDIT ANDORRÀ GROUP	A-	F2	Fitch Ratings
BANCSABADELL D'ANDORRA (*)	-	-	-

(\*) With 51% ownership of Banc Sabadell

Source: Fitch Ratings rating reports as of June 2013. Moody's report for the year 2012 has still not been issued on the date of this publication.

[table 20]



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

## Andorra Banc Agrícola Reig, SA

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

### Honorary Chairman:

Mr. Òscar Ribas Reig

### Chairman:

Mr. Manel Cerqueda Donadeu

### Vice Chairman:

Mr. Oriol Ribas Duró

### Chief Executive Officer and Director:

Mr. Jordi Comas Planas

### Deputy CEO:

Mr. Ricard Tubau Roca

### Deputy CEO Corporate Services:

Mr. José Luis Muñoz Lasuén

## V.1. Andorran banking groups

### Consolidated balance sheets of Andorra Banc Agrícola Reig, SA (Andbank) at 31<sup>st</sup> December 2011 and 2012

	2011	% of total	2012	% of total	Var. (%) 11-12
<b>ASSETS</b>					
Cash and central banks OECD	39,892	1.18%	42,197	1.14%	5.78%
INAF	210	0.01%	210	0.01%	(0.17%)
Financial intermediaries	411,816	12.23%	537,038	14.51%	30.41%
Loans	1,684,136	50.01%	1,792,920	48.44%	6.46%
Securities portfolio	940,059	27.91%	993,937	26.86%	5.73%
Gains on consolidation	33,951	1.01%	33,664	0.91%	(0.84%)
Intangible assets and amortisable costs	13,053	0.39%	14,161	0.38%	8.49%
Tangible assets	128,522	3.82%	133,681	3.61%	4.01%
Prepayment and accrued receivables	46,669	1.39%	56,764	1.53%	21.63%
Other assets	69,349	2.06%	96,449	2.61%	39.08%
<b>TOTAL ASSETS</b>	<b>3,367,657</b>	<b>100.00%</b>	<b>3,701,021</b>	<b>100.00%</b>	<b>9.90%</b>
<b>LIABILITIES</b>					
INAF	1,034	0.03%	1,278	0.03%	23.60%
Due to banks and credit entities	157,653	4.68%	447,949	12.10%	-
Other financial intermediaries	-	-	1,102	0.03%	-
Customer deposits	2,603,367	77.30%	2,580,506	69.72%	(0.88%)
Debts represented by securities	8,815	0.26%	68,149	1.84%	-
Provision for liabilities and charges	13,581	0.40%	9,885	0.27%	(27.21%)
Provision for general risks	2,300	0.07%	4,193	0.11%	82.30%
Subordinated liabilities	-	-	-	-	-
Accruals	22,993	0.68%	23,595	0.64%	2.62%
Other liabilities	114,765	3.41%	118,095	3.19%	2.90%
Share capital	78,061	2.32%	78,061	2.11%	-
Reserves	310,842	9.23%	330,126	8.92%	6.20%
Profit	54,246	1.61%	56,581	1.53%	4.30%
Prior years' result	-	-	-	-	-
Interim dividends	-	-	(18,499)	(0.50%)	-
Minority interest	-	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>3,367,657</b>	<b>100.00%</b>	<b>3,701,021</b>	<b>100.00%</b>	<b>9.90%</b>

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

(1) Information of interest relates to posts occupied by individuals prior to 30<sup>th</sup> June 2013

**Consolidated memorandum accounts of Andorra Banc Agrícola Reig, SA (Andbank)  
at 31<sup>st</sup> December 2011 and 2012**

	2011	% of total	2012	% of total	Var. (%) 11-12
Contingent liabilities	94,796	0.96%	67,700	0.45%	(28.58%)
Commitments and contingent risks	253,344	2.57%	277,216	1.86%	9.42%
Derivative financial instruments	2,805,847	28.42%	5,782,708	38.73%	-
Securities deposited and others held in custody	5,160,975	52.28%	7,306,208	48.93%	41.57%
Other memorandum accounts for administrative control purposes only	1,556,619	15.77%	1,498,314	10.03%	(3.75%)
<b>TOTAL</b>	<b>9,871,581</b>	<b>100.00%</b>	<b>14,932,146</b>	<b>100.00%</b>	<b>51.26%</b>

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

**Consolidated income statements of Andorra Banc Agrícola Reig, SA (Andbank)  
for the years ended 31<sup>st</sup> December 2011 and 2012**

	2011	2012	Var. (%) 11-12
Interest and similar income	79,028	96,577	22.21%
Interest and similar charges	(28,097)	(40,681)	44.79%
Revenue from variable income securities	74	117	58.11%
<b>FINANCIAL MARGIN</b>	<b>51,005</b>	<b>56,013</b>	<b>9.82%</b>
Commissions	108,687	105,082	(3.32%)
Profits on financial operations	9,476	27,490	-
Other profit on ordinary activities	1,367	1,107	(19.02%)
<b>MARGIN ON ORDINARY ACTIVITIES</b>	<b>170,535</b>	<b>189,692</b>	<b>11.23%</b>
Personnel expenses	(51,021)	(60,103)	17.80%
General expenses	(37,134)	(43,871)	18.14%
Amortisation and depreciation, net of recoveries	(11,341)	(8,902)	(21.51%)
Provisions for depreciation of assets, net of recoveries	(988)	(4,600)	-
<b>OPERATING MARGIN</b>	<b>70,051</b>	<b>72,216</b>	<b>3.09%</b>
Provisions for loan losses, net of recoveries	(8,771)	(14,630)	66.80%
Provisions for liabilities and charges, net of recoveries	(5,320)	5,175	-
Allowance to provision for general risks	-	(2,000)	-
<b>RESULTS ON ORDINARY ACTIVITIES</b>	<b>55,960</b>	<b>60,761</b>	<b>8.58%</b>
Net extraordinary income	(1,714)	(1,436)	(16.22%)
<b>PROFIT BEFORE TAXES</b>	<b>54,246</b>	<b>59,325</b>	<b>9.36%</b>
Corporate income tax	-	(2,620)	-
Foreign corporate income tax	-	(124)	-
<b>CONSOLIDATED RESULTS</b>	<b>54,246</b>	<b>56,581</b>	<b>4.30%</b>
Results attributable to minority interest	-	-	-
<b>RESULTS ATTRIBUTABLE TO THE GROUP</b>	<b>54,246</b>	<b>56,581</b>	<b>4.30%</b>

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

**Mora Banc Group, SA**

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

**Honorary Chairman:**

Mr. Joan Mora Font

**Chairman:**

Mr. Francesc Mora Sagués

**Chief Executive Officer:**

Mr. Gilles Serra

**Mora Banc, SAU**

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

**Chairman:**

Mr. Jordi Mora Magriñà

**Chief Executive Officer:**

Mr. Gilles Serra

**Consolidated balance sheets of Banc Internacional d'Andorra, SA, Banca Mora, SAU (MoraBanc Group)  
at 31<sup>st</sup> December 2011 and 2012**

	2011	% of total	2012	% of total	Var. (%) 11-12
<b>ASSETS</b>					
Cash and central banks OECD	23,692	1.00%	24,577	1.14%	3.74%
INAF	210	0.01%	210	0.01%	-
Financial intermediaries	217,485	9.18%	264,948	12.34%	21.82%
Loans	1,096,393	46.29%	1,127,334	52.50%	2.82%
Securities portfolio	889,675	37.56%	577,201	26.88%	(35.12%)
Gains on consolidation	2,104	0.09%	3,422	0.16%	62.64%
Intangible assets and amortisable costs	16,075	0.68%	14,127	0.66%	(12.12%)
Tangible assets	96,172	4.06%	97,621	4.55%	1.51%
Prepayment and accrued receivables	18,049	0.76%	16,260	0.76%	(9.91%)
Other assets	8,644	0.36%	21,770	1.01%	-
<b>TOTAL ASSETS</b>	<b>2,368,499</b>	<b>100.00%</b>	<b>2,147,470</b>	<b>100.00%</b>	<b>(9.33%)</b>
<b>LIABILITIES</b>					
INAF	39,881	1.68%	35,221	1.64%	(11.68%)
Due to banks and credit entities	84,100	3.55%	17,599	0.82%	(79.07%)
Other financial intermediaries	-	-	-	-	-
Customer deposits	1,851,030	78.15%	1,682,732	78.36%	(9.09%)
Debts represented by securities	-	-	-	-	-
Provision for liabilities and charges	13,729	0.58%	13,082	0.61%	(4.71%)
Provision for general risks	5,600	0.24%	-	-	-
Subordinated liabilities	60,000	2.53%	60,000	2.79%	-
Accruals	17,923	0.76%	27,041	1.26%	50.87%
Other liabilities	26,326	1.11%	26,594	1.24%	1.02%
Share capital	42,407	1.79%	42,407	1.97%	-
Reserves	205,833	8.69%	222,619	10.37%	8.16%
Profit	46,687	1.97%	45,175	2.10%	(3.24%)
Prior years' result	-	-	-	-	-
Interim dividends	(25,000)	(1.06%)	(25,000)	(1.16%)	-
Minority interest	(17)	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>2,368,499</b>	<b>100.00%</b>	<b>2,147,470</b>	<b>100.00%</b>	<b>(9.33%)</b>

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

(1) Information of interest relates to posts occupied by individuals prior to 30<sup>th</sup> June 2013

**Consolidated memorandum accounts of Banc Internacional d'Andorra, SA, Banca Mora, SAU (MoraBanc Group)  
at 31<sup>st</sup> December 2011 and 2012**

	2011	% of total	2012	% of total	Var. (%) 11-12
Contingent liabilities	133,236	1.37%	82,131	0.81%	(38.36%)
Commitments and contingent risks	276,871	2.86%	189,919	1.87%	(31.41%)
Derivative financial instruments	1,734,095	17.88%	2,029,266	19.94%	17.02%
Securities deposited and others held in custody	6,247,970	64.44%	6,558,367	64.45%	4.97%
Other memorandum accounts for administrative control purposes only	1,304,149	13.45%	1,315,535	12.93%	0.87%
<b>TOTAL</b>	<b>9,696,321</b>	<b>100.00%</b>	<b>10,175,218</b>	<b>100.00%</b>	<b>4.94%</b>

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

**Consolidated income statements of Banc Internacional d'Andorra, SA, Banca Mora, SAU (MoraBanc Group)  
for the years ended 31<sup>st</sup> December 2011 and 2012**

	2011	2012	Var. (%) 11-12
Interest and similar income	51,555	45,542	(11.66%)
Interest and similar charges	(23,739)	(16,677)	(29.75%)
Revenue from variable income securities	28	22	(21.43%)
<b>FINANCIAL MARGIN</b>	<b>27,844</b>	<b>28,887</b>	<b>3.75%</b>
Commissions	72,027	70,451	(2.19%)
Profits on financial operations	6,403	10,778	68.33%
Other profit on ordinary activities	162	166	2.47%
<b>MARGIN ON ORDINARY ACTIVITIES</b>	<b>106,436</b>	<b>110,282</b>	<b>3.61%</b>
Personnel expenses	(24,046)	(27,148)	12.90%
General expenses	(27,478)	(25,844)	(5.95%)
Amortisation and depreciation, net of recoveries	(10,555)	(10,490)	(0.62%)
Provisions for depreciation of assets, net of recoveries	(2,076)	(1,378)	(33.62%)
<b>OPERATING MARGIN</b>	<b>42,281</b>	<b>45,422</b>	<b>7.43%</b>
Provisions for loan losses, net of recoveries	(1,072)	(1,792)	67.16%
Provisions for liabilities and charges, net of recoveries	(185)	(236)	27.57%
Allowance to provision for general risks	-	-	-
<b>RESULTS ON ORDINARY ACTIVITIES</b>	<b>41,024</b>	<b>43,394</b>	<b>5.78%</b>
Net extraordinary income	5,637	3,235	(42.61%)
<b>PROFIT BEFORE TAXES</b>	<b>46,661</b>	<b>46,629</b>	<b>(0.07%)</b>
Corporate income tax	-	(1,458)	-
Foreign corporate income tax	-	-	-
<b>CONSOLIDATED RESULTS</b>	<b>46,661</b>	<b>45,171</b>	<b>(3.19%)</b>
Results attributable to minority interest	26	4	-
<b>RESULTS ATTRIBUTABLE TO THE GROUP</b>	<b>46,687</b>	<b>45,175</b>	<b>(3.24%)</b>

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

## Banca Privada d'Andorra, SA

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

**Chairman:**  
Mr. Ramon Cierco Noguer

**Chairman:**  
Mr. Higiní Cierco Noguer

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

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

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

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

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

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

### Consolidated balance sheets of Banca Privada d'Andorra, SA (BPA) at 31<sup>st</sup> December 2011 and 2012

	2011	% of total	2012	% of total	Var. (%) 11-12
<b>ASSETS</b>					
Cash and central banks OECD	37,754	1.62%	16,386	0.58%	(56.60%)
INAF	210	0.01%	210	0.01%	-
Financial intermediaries	283,605	12.14%	304,832	10.71%	7.48%
Loans	1,077,964	46.16%	1,124,663	39.52%	4.33%
Securities portfolio	596,708	25.55%	1,005,315	35.33%	68.48%
Gains on consolidation	83,239	3.56%	87,275	3.07%	4.85%
Intangible assets and amortisable costs	13,979	0.60%	19,266	0.68%	37.82%
Tangible assets	143,153	6.13%	141,305	4.97%	(1.29%)
Prepayment and accrued receivables	29,872	1.28%	29,467	1.04%	(1.36%)
Other assets	68,954	2.95%	116,744	4.10%	69.31%
<b>TOTAL ASSETS</b>	<b>2,335,438</b>	<b>100.00%</b>	<b>2,845,463</b>	<b>100.00%</b>	<b>21.84%</b>
<b>LIABILITIES</b>					
INAF	429	0.02%	557	0.02%	29.84%
Due to banks and credit entities	362,349	15.52%	691,174	24.29%	90.75%
Other financial intermediaries	-	-	228	0.01%	-
Customer deposits	1,484,676	63.57%	1,621,477	56.98%	9.21%
Debts represented by securities	75,661	3.24%	102,635	3.61%	35.65%
Provision for liabilities and charges	3,815	0.16%	4,064	0.14%	6.53%
Provision for general risks	2,000	0.09%	2,000	0.07%	-
Subordinated liabilities	63,667	2.73%	63,131	2.22%	(0.84%)
Accruals	14,746	0.63%	23,524	0.83%	59.53%
Other liabilities	89,050	3.81%	99,853	3.51%	12.13%
Share capital	70,000	3.00%	70,000	2.46%	-
Reserves	147,743	6.33%	150,712	5.30%	2.01%
Profit	18,809	0.81%	17,588	0.62%	(6.49%)
Prior years' result	(1,431)	(0.06%)	(521)	(0.02%)	(63.59%)
Interim dividends	(3,000)	(0.13%)	(1,000)	(0.04%)	(66.67%)
Minority interest	6,924	0.30%	41	-	(99.41%)
<b>TOTAL LIABILITIES</b>	<b>2,335,438</b>	<b>100.00%</b>	<b>2,845,463</b>	<b>100.00%</b>	<b>21.84%</b>

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

(1) Information of interest relates to posts occupied by individuals prior to 30<sup>th</sup> June 2013

**Consolidated memorandum accounts of Banca Privada d'Andorra, SA (BPA)  
at 31<sup>st</sup> December 2011 and 2012**

	2011	% of total	2012	% of total	Var. (%) 11-12
Contingent liabilities	82,959	1.42%	69,565	0.87%	(16.15%)
Commitments and contingent risks	189,493	3.25%	154,553	1.93%	(18.44%)
Derivative financial instruments	798,283	13.68%	1,568,824	19.62%	96.52%
Securities deposited and others held in custody	4,448,337	76.22%	5,752,631	71.95%	29.32%
Other memorandum accounts for administrative control purposes only	317,432	5.44%	450,166	5.63%	41.81%
<b>TOTAL</b>	<b>5,836,504</b>	<b>100.00%</b>	<b>7,995,739</b>	<b>100.00%</b>	<b>37.00%</b>

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

**Consolidated income statements of Banca Privada d'Andorra, SA (BPA)  
for the years ended 31<sup>st</sup> December 2011 and 2012**

	2011	2012	Var. (%) 11-12
Interest and similar income	45,653	72,829	59.53%
Interest and similar charges	(33,254)	(34,126)	2.62%
Revenue from variable income securities	(162)	(38)	(76.54%)
<b>FINANCIAL MARGIN</b>	<b>12,237</b>	<b>38,665</b>	-
Commissions	46,701	48,466	3.78%
Profits on financial operations	4,076	12,540	-
Other profit on ordinary activities	811	248	(69.42%)
<b>MARGIN ON ORDINARY ACTIVITIES</b>	<b>63,825</b>	<b>99,919</b>	<b>56.55%</b>
Personnel expenses	(24,662)	(37,171)	50.72%
General expenses	(27,280)	(38,062)	39.52%
Amortisation and depreciation, net of recoveries	(10,424)	(8,639)	(17.12%)
Provisions for depreciation of assets, net of recoveries	-	(5)	-
<b>OPERATING MARGIN</b>	<b>1,459</b>	<b>16,042</b>	-
Provisions for loan losses, net of recoveries	(1,250)	(6,535)	-
Provisions for liabilities and charges, net of recoveries	1,410	(735)	-
Allowance to provision for general risks	(1,098)	-	-
<b>RESULTS ON ORDINARY ACTIVITIES</b>	<b>521</b>	<b>8,772</b>	-
Net extraordinary income	721	2,040	-
<b>PROFIT BEFORE TAXES</b>	<b>1,242</b>	<b>10,812</b>	-
Corporate income tax	-	852	-
Foreign corporate income tax	17,567	5,924	(66.28%)
<b>CONSOLIDATED RESULTS</b>	<b>18,809</b>	<b>17,588</b>	<b>(6.49%)</b>
Results attributable to minority interest	(281)	8	-
<b>RESULTS ATTRIBUTABLE TO THE GROUP</b>	<b>18,528</b>	<b>17,596</b>	<b>(5.03%)</b>

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

## Crèdit Andorrà Group

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

## Chairman:

Mr. Antoni Pintat Santolària

## Vice Chairman:

Mr. Jaume Casal Mor

Chief Executive Officer and  
General Manager:

Mr. Josep Peralba Duró

## Business General Manager:

Mr. Xavier Cornella Castel

### Consolidated balance sheets of Crèdit Andorrà Group at 31<sup>st</sup> December 2011 and 2012

	2011	% of total	2012	% of total	Var. (%) 11-12
<b>ASSETS</b>					
Cash and central banks OECD	33,602	0.62%	40,061	0.68%	19.22%
INAF	210	-	210	-	-
Financial intermediaries	395,847	7.31%	369,156	6.26%	(6.74%)
Loans	3,090,775	57.05%	3,071,818	52.08%	(0.61%)
Securities portfolio	1,426,527	26.33%	1,851,627	31.39%	29.80%
Gains on consolidation	40,576	0.75%	41,081	0.70%	1.24%
Intangible assets and amortisable costs	46,053	0.85%	56,234	0.95%	22.11%
Tangible assets	281,523	5.20%	321,346	5.45%	14.15%
Prepayment and accrued receivables	55,840	1.03%	55,063	0.93%	(1.39%)
Other assets	47,142	0.87%	91,933	1.56%	95.01%
<b>TOTAL ASSETS</b>	<b>5,418,095</b>	<b>100.00%</b>	<b>5,898,529</b>	<b>100.00%</b>	<b>8.87%</b>
<b>LIABILITIES</b>					
INAF	6,651	0.12%	6,799	0.12%	2.23%
Due to banks and credit entities	128,900	2.38%	286,202	4.85%	-
Other financial intermediaries	7,172	0.13%	10,193	0.17%	42.12%
Customer deposits	4,315,606	79.65%	4,454,875	75.53%	3.23%
Debts represented by securities	206,610	3.81%	370,821	6.29%	79.48%
Provision for liabilities and charges	2,541	0.05%	2,359	0.04%	(7.16%)
Provision for general risks	8,154	0.15%	-	-	-
Subordinated liabilities	150,000	2.77%	150,000	2.54%	-
Accruals	42,082	0.78%	35,705	0.61%	(15.15%)
Other liabilities	29,753	0.55%	30,117	0.51%	1.22%
Share capital	70,000	1.29%	70,000	1.19%	-
Reserves	410,535	7.58%	425,216	7.21%	3.58%
Profit	70,628	1.30%	70,862	1.20%	0.33%
Prior years' result	-	-	-	-	-
Interim dividends	(35,000)	(0.65%)	(20,000)	(0.34%)	(42.86%)
Minority interest	4,463	0.08%	5,380	0.09%	20.55%
<b>TOTAL LIABILITIES</b>	<b>5,418,095</b>	<b>100.00%</b>	<b>5,898,529</b>	<b>100.00%</b>	<b>8.87%</b>

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

(1) Information of interest relates to posts occupied by individuals prior to 30<sup>th</sup> June 2013

## Consolidated memorandum accounts of Crèdit Andorrà Group at 31<sup>st</sup> December 2011 and 2012

	2011	% of total	2012	% of total	Var. (%) 11-12
Contingent liabilities	198,958	2.15%	147,697	1.31%	(25.76%)
Commitments and contingent risks	418,688	4.52%	420,099	3.74%	0.34%
Derivative financial instruments	1,397,793	15.07%	2,145,966	19.08%	53.53%
Securities deposited and others held in custody	5,976,252	64.45%	7,080,540	62.95%	18.48%
Other memorandum accounts for administrative control purposes only	1,280,845	13.81%	1,452,876	12.92%	13.43%
<b>TOTAL</b>	<b>9,272,536</b>	<b>100.00%</b>	<b>11,247,178</b>	<b>100.00%</b>	<b>21.30%</b>

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

## Consolidated income statements of Crèdit Andorrà Group for the years ended 31<sup>st</sup> December 2011 and 2012

	2011	2012	Var. (%) 11-12
Interest and similar income	114,777	127,427	11.02%
Interest and similar charges	(47,748)	(51,452)	7.76%
Revenue from variable income securities	442	484	9.50%
<b>FINANCIAL MARGIN</b>	<b>67,471</b>	<b>76,459</b>	<b>13.32%</b>
Commissions	93,468	100,488	7.51%
Profits on financial operations	12,759	17,903	40.32%
Other profit on ordinary activities	764	792	3.66%
<b>MARGIN ON ORDINARY ACTIVITIES</b>	<b>174,462</b>	<b>195,642</b>	<b>12.14%</b>
Personnel expenses	(39,938)	(48,856)	22.33%
General expenses	(44,780)	(50,464)	12.69%
Amortisation and depreciation, net of recoveries	(20,209)	(21,003)	3.93%
Provisions for depreciation of assets, net of recoveries	(707)	(709)	0.28%
<b>OPERATING MARGIN</b>	<b>68,828</b>	<b>74,610</b>	<b>8.40%</b>
Provisions for loan losses, net of recoveries	(8,429)	(9,692)	14.98%
Provisions for liabilities and charges, net of recoveries	330	(254)	-
Allowance to provision for general risks	-	-	-
<b>RESULTS ON ORDINARY ACTIVITIES</b>	<b>60,729</b>	<b>64,664</b>	<b>6.48%</b>
Net extraordinary income	9,644	8,196	(15.01%)
<b>PROFIT BEFORE TAXES</b>	<b>70,373</b>	<b>72,860</b>	<b>3.53%</b>
Corporate income tax	-	(1,550)	-
Foreign corporate income tax	-	(135)	-
<b>CONSOLIDATED RESULTS</b>	<b>70,373</b>	<b>71,175</b>	<b>1.14%</b>
Results attributable to minority interest	255	(313)	-
<b>RESULTS ATTRIBUTABLE TO THE GROUP</b>	<b>70,628</b>	<b>70,862</b>	<b>0.33%</b>

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

**BancSabadell d'Andorra, SA**

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

**Chairman:**

Mr. Robert Cassany Vila

**Chief Executive Officer - General Manager:**

Mr. Miquel Alabern Comas

**Deputy General Manager:**

Mr. Josep Segura Solà

**Consolidated balance sheets of BancSabadell d'Andorra, SA  
at 31<sup>st</sup> December 2011 and 2012**

	2011	% of total	2012	% of total	Var. (%) 11-12
<b>ASSETS</b>					
Cash and central banks OECD	5,295	0.86%	6,903	1.08%	30.37%
INAF	210	0.03%	210	0.03%	-
Financial intermediaries	53,580	8.74%	48,734	7.59%	(9.04%)
Loans	399,449	65.14%	416,841	64.96%	4.35%
Securities portfolio	121,155	19.76%	129,368	20.16%	6.78%
Gains on consolidation	-	-	-	-	-
Intangible assets and amortisable costs	3,124	0.51%	3,002	0.47%	(3.91%)
Tangible assets	18,239	2.97%	23,505	3.66%	28.87%
Prepayment and accrued receivables	7,799	1.27%	6,107	0.95%	(21.70%)
Other assets	4,358	0.71%	7,005	1.09%	60.74%
<b>TOTAL ASSETS</b>	<b>613,209</b>	<b>100.00%</b>	<b>641,675</b>	<b>100.00%</b>	<b>4.64%</b>
<b>LIABILITIES</b>					
INAF	39,272	6.40%	45,150	7.04%	14.97%
Due to banks and credit entities	4,612	0.75%	8,010	1.25%	73.68%
Other financial intermediaries	1,396	0.23%	258	0.04%	(81.52%)
Customer deposits	357,442	58.29%	388,814	60.59%	8.78%
Debts represented by securities	134,905	22.00%	119,816	18.67%	(11.18%)
Provision for liabilities and charges	131	0.02%	658	0.10%	-
Provision for general risks	3,667	0.60%	2,044	0.32%	(44.26%)
Subordinated liabilities	-	-	-	-	-
Accruals	5,499	0.90%	4,468	0.70%	(18.75%)
Other liabilities	10,592	1.73%	12,266	1.91%	15.80%
Share capital	30,068	4.90%	30,068	4.69%	-
Reserves	19,173	3.13%	23,499	3.66%	22.56%
Profit	6,452	1.05%	6,624	1.03%	2.67%
Prior years' result	-	-	-	-	-
Interim dividends	-	-	-	-	-
Minority interest	-	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>613,209</b>	<b>100.00%</b>	<b>641,675</b>	<b>100.00%</b>	<b>4.64%</b>

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

(1) Information of interest relates to posts occupied by individuals prior to 30<sup>th</sup> June 2013

**Consolidated memorandum accounts of BancSabadell d'Andorra, SA  
at 31<sup>st</sup> December 2011 and 2012**

	2011	% of total	2012	% of total	Var. (%) 11-12
Contingent liabilities	26,459	1.93%	21,374	1.29%	(19.22%)
Commitments and contingent risks	77,098	5.63%	41,607	2.51%	(46.03%)
Derivative financial instruments	306,738	22.40%	271,485	16.35%	(11.49%)
Securities deposited and others held in custody	790,151	57.69%	1,158,579	69.76%	46.63%
Other memorandum accounts for administrative control purposes only	169,125	12.35%	167,724	10.10%	(0.83%)
<b>TOTAL</b>	<b>1,369,571</b>	<b>100.00%</b>	<b>1,660,769</b>	<b>100.00%</b>	<b>21.26%</b>

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

**Consolidated income statements of BancSabadell d'Andorra, SA  
for the years ended 31<sup>st</sup> December 2011 and 2012**

	2011	2012	Var. (%) 11-12
Interest and similar income	20,375	19,986	(1.91%)
Interest and similar charges	(12,665)	(12,098)	(4.48%)
Revenue from variable income securities	-	-	-
<b>FINANCIAL MARGIN</b>	<b>7,710</b>	<b>7,888</b>	<b>2.31%</b>
Commissions	12,804	10,165	(20.61%)
Profits on financial operations	4,733	(363)	-
Other profit on ordinary activities	2	66	-
<b>MARGIN ON ORDINARY ACTIVITIES</b>	<b>25,249</b>	<b>17,756</b>	<b>(29.68%)</b>
Personnel expenses	(5,732)	(5,794)	1.08%
General expenses	(5,462)	(4,749)	(13.05%)
Amortisation and depreciation, net of recoveries	(2,277)	(2,243)	(1.49%)
Provisions for depreciation of assets, net of recoveries	-	(121)	-
<b>OPERATING MARGIN</b>	<b>11,778</b>	<b>4,849</b>	<b>(58.83%)</b>
Provisions for loan losses, net of recoveries	75	252	-
Provisions for liabilities and charges, net of recoveries	-	(482)	-
Allowance to provision for general risks	(3,167)	(1,150)	(63.69%)
<b>RESULTS ON ORDINARY ACTIVITIES</b>	<b>8,686</b>	<b>3,469</b>	<b>(60.06%)</b>
Net extraordinary income	(2,234)	3,261	-
<b>PROFIT BEFORE TAXES</b>	<b>6,452</b>	<b>6,730</b>	<b>4.31%</b>
Corporate income tax	-	(106)	-
Foreign corporate income tax	-	-	-
<b>CONSOLIDATED RESULTS</b>	<b>6,452</b>	<b>6,624</b>	<b>2.67%</b>
Results attributable to minority interest	-	-	-
<b>RESULTS ATTRIBUTABLE TO THE GROUP</b>	<b>6,452</b>	<b>6,624</b>	<b>2.67%</b>

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

## V.2. Other information of interest

### Government of Andorra

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

### The Andorran Government is formed as follows:

#### Head of Government:

The Hon. Mr. Antoni Martí Petit

#### Minister of Finance and Public Function:

The Hon. Mr. Jordi Cinca Mateos

#### Minister of Economy and Territory:

The Hon. Mr. Jordi Alcobé Font

#### Minister of Foreign Affairs:

The Hon. Mr. Gilbert Saboya Sunyé

#### Minister of Justice and Home Affairs:

The Hon. Mr. Xavier Espot Zamora

#### Minister of Health and Welfare:

The Hon. Ms. Cristina Rodríguez Galan

#### Minister of Education and Youth:

The Hon. Ms. Roser Suñé Pascuet

#### Minister of Tourism and Environment:

The Hon. Mr. Francesc Camp Torres

#### Minister of Culture:

The Hon. Mr. Albert Esteve Garcia

#### Minister of Presidency:

The Hon. Mr. Antoni Riberaygua Sasplugas

#### Secretary General:

Mr. Jordi Casadevall Touseil

#### Head of the Government Cabinet:

Mr. Esteve Vidal Ferrer

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

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

#### Chairman:

Mr. Raül González Fernández

#### General Manager:

Ms. Maria Cosan Canut

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

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

#### Chairman:

Mr. Gilles Serra

#### Vice Chairman:

Mr. Miquel Alabern Comas

#### General Manager:

Mr. Antoni Armengol Aleix

#### Deputy Manager:

Ms. Esther Puigcercós Font

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

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

#### Director:

Mr. Carles Fiñana Pifarré

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

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

**Head of Unit:**

Ms. Clàudia Cornella Durany

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

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

**Director:**

Mr. Carles Aleix Martínez

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

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

**Director:**

Mr. Albert Hinojosa Besolí

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

C/ Prat de la Creu, 8, Despatx 204-207  
AD500 Andorra la Vella  
(Principality of Andorra)  
Tel. +376 809292 - Fax +376 809293  
www.ccis.ad

**Chairman:**

Mr. Marc Pantebre Palmitjavila

**Director:**

Ms. Pilar Escaler Penella

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

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

**Chairman:**

Mr. Xavier Altimir Planes

**Director:**

Ms. Sílvia Gabarre Iglesias

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

C/ Bonaventura Armengol, 15, 6e pis  
AD500 Andorra la Vella  
(Principality of Andorra)  
Tel. +376 868678 - Fax: +376 807817  
www.coea.net

**Dean:**

Mr. Xavier Prats Martínez

**Secretary:**

Mr. Vladimir Fernández Armengol

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

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

**Vice-Chancellor:**

The Hon. Mr. Daniel Bastida Obiols

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

C/ Dr. Vilanova, 15-17 (planta -5)  
AD500 Andorra la Vella  
(Principality of Andorra)  
Tel. +376 808115 - Fax: +376 808118  
www.apda.ad

**Head:**

Mr. Joan Crespo Piedra

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

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

**Chairman:**

The Hon. Ms. Roser Suñé Pascuet

**Director:**

Mr. Jordi Guillamet Anton

**Andorra Turisme**

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

**Chairman:**

The Hon. Mr. Francesc Camp Torres

**Director:**

Mr. Betim Budzaku





ASSOCIACIÓ DE BANCS ANDORRANS