ANNUAL REPORT 2019

Andorran Banking
Excellence and trust

Andorran Banking
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2019 ANNUAL REPORT

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Note: The legislation in this publication is updated through 30 April 2020.

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Foreword by the Chairman of Andorran Banking

Despite an increasingly complex international environment and monetary policies that are generally unfavourable to banks, 2019 has been a year of consolidation for the banking industry, in line with previous years.

Over the past decade, international risk and solvency rating agencies have reaffirmed their positive assessment of the banking industry. This is good news and accords well with a year that has been historic for Andorra, as the country commemorated the 600th anniversary of the General Council of Valls, one of the oldest parliaments in Europe and the world, and hosted the first official visit from co-prince Emmanuel Macron, who was welcomed by large crowds of local residents.

In this report you will find extensive information about the numerous activities carried out during the year and the most important industry figures. But beyond these intense activities it is important to stress that, in addition to its day-to-day business, the Andorran banking system has had to adapt continuously to the changing environment in which we operate and to the increasingly demanding regulatory framework that applies to us.

Increased supervision and regulation are having an impact on banks' profitability in Andorra and the rest of Europe, as is the large technological investment required to engage in banking activities and reach out to all our customers.

The banking industry has to adjust its performance and results to this changing environment year after year. This is an absolute necessity if we want to maintain our international standing and competitiveness.

Our business volume remains at a high level in terms of both assets and resources.

Also, the financial ratios show the sector's strength and the capacity of Andorran banks to adapt to change. These ratios compare favourably with those of other financial institutions in our environment and provide further evidence of the solvency of Andorran banks as well as their ability to live up to the challenges facing the country, including in the worst scenarios.

Banks are an essential element in any economic system and a pillar of a nation's structure and sovereignty as they catalyse its economic development through supporting and promoting business.

Josep Segura Solà
Chairman of Andorran Banking

In 2019 Andorran banks played a vital role by providing significant financing to the domestic economy and by boosting and accompanying economic development. Investment in technology and innovation, which are also essential features, are part of the sector's DNA.

This has been made possible by the large capitalisation and high level of liquidity of our banking system – the result of considerable work over many years.

Over the last decade Andorra has made tremendous efforts to bring industry practices up to international standards and adapt to many technical aspects, but also, more importantly, to ensure maximum transparency.

The banking sector has been a key player in this transformation process and, at the same time, a major driver in the current economic scenario due to the investment it provides, the added value it creates and its commitment to the development of Andorran society and its future.

This is set to continue. In the coming years, the banking industry will pave the way for the digitalisation of our business and the economy at large.

But I cannot finish this brief commentary without making an explicit reference to the health crisis we are experiencing in 2020 and the huge consequences it will have on our economy.

As a bank, we are aware of our mission in this difficult environment, and we are playing an active role in helping economic and social operators to overcome the severe difficulties caused by this crisis in the best possible way. Banks will demonstrate that they are capable of living up to the circumstances and standing shoulder to shoulder with the people and government, showing that our financial strength and solvency are determining factors in being a large part of the solution.

June 2020.

2

Organisation chart of Andorran Banking

Members of the General Assembly

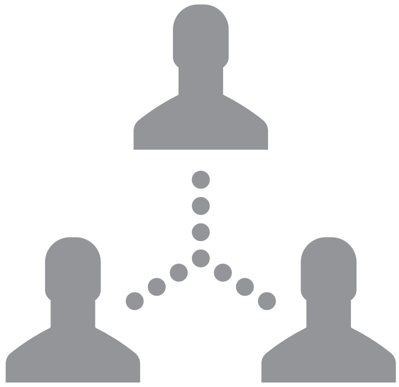
Josep Segura
BancSabadell d'Andorra
Chairman

Xavier Cornella
Grup Crèdit Andorrà
Vice-Chairman

Esther Puigcercós
Secretary and General Manager

Commissions

Legal	Portfolio
Compliance	IT
Regulatory	Payment services
Tax	Security
Credits	Human Resources
Communication	Innovation
Finance	Operations
Insurance	Currency



Ricard Tubau
Andbank

Lluís Alsina
MoraBanc

José Luis Dorado
Vall Banc

Member

- Chamber of Commerce, Industry and Services (CCIS)
- Andorran Business Confederation (CEA)
- European Banking Federation (EBF)
- Private Guardianship Foundation

Working groups

More than
10 working groups

3 Chronology of the events linked to Andorra's transformation process

PS	Payment services	**TR**	Transparency
MA	Monetary Agreement	**TIEA**	Tax Information Exchange Agreement
RTG	Rating	**DTA**	Double Taxation Agreement
REG	Regulation	**MCAA**	Multilateral Competent Authority Agreement
REG COVID-19	Regulation adopted in the light of the SARS-CoV-2 pandemic	**AEOI**	Automatic Exchange of Information in tax matters
AML/CFT	Anti-money laundering and combating the financing of terrorism	**Multilateral Convention**	Convention on Mutual Administrative Assistance in Tax Matters with the OECD

Andorra has signed 24 TIEA and 8 DTA

2020

COVID-19	**11 June**	**Approval of a sector-wide moratoria allowing the postponement of loan repayments to those affected by the SARS-CoV-2 crisis.**
RTG	**24 April**	**Standard & Poor's affirms Andorra at BBB/A-2 and revises the outlook to stable from positive due to the SARS-CoV-2 impact.**
REG COVID-19	**18 April**	**Approval of Law 5/2020 on new exceptional and urgent measures in the light of the health emergency caused by the SARS-CoV-2 pandemic which repeals Law 3/2020.**
REG COVID-19	**24 March and 20 May**	**Approval of two decrees regulating extraordinary financing programmes aimed at companies and businesses in the light of the health emergency caused by the SARS-CoV-2 pandemic.**
REG COVID-19	**23 March**	**Approval of Qualified Law 4/2020 on states of alert and emergency.**
REG COVID-19	**23 March**	**Approval of Law 3/2020 on exceptional and urgent measures in the light of the health emergency caused by the SARS-CoV-2 pandemic.**
RTG	**31 January**	**Fitch Ratings affirms Andorra at BBB+; outlook stable.**
RTG	**17 January**	**Standard & Poor's affirms the qualification of Andorra at BBB/A-2 and positive outlook.**

2019

AML/CFT	5 December	Moneyval adopts the second follow-up report of the 5th round of mutual evaluations of the Principality of Andorra
AML/CFT	28 November	Approval of Law 21/2019 amending Law 14/2017 on the prevention and fight against money laundering and terrorism financing.
TR	12 November	Peer Review Phase 2 (second round): The Global Forum rates Andorra overall Largely Compliant with the international standard of transparency and exchange of information on request.

MA	23 September	Update to the Annex of the Monetary Agreement between the EU and the Principality of Andorra
RTG	**2 August**	**Fitch Ratings affirms Andorra's rating at BBB+; outlook stable.**
RTG	**19 July**	**Standard & Poor's revises the outlook on Andorra from stable to positive and affirms the rating at BBB / A-2.**
REG	14 May	Approval of the Regulation on corporation tax which repeals the 2015 regulation.
REG	8 May	Approval of the Regulation of Law 12/2017 on the organisation and supervision of insurance and reinsurance with respect to simplified supervision of delegations in Andorra.
MA	3 April	Approval of the Regulation for the adoption of EU technical standards applicable to the solvency, liquidity and prudential supervision of credit institutions and investment firms.
MA	3 April	Approval of the Regulation on organisational requirements and operating conditions for institutions operating in the financial sector, investor protection, market abuse and financial collateral agreements.
MA	27 March	Approval of the Regulation on organisational requirements and operating conditions for institutions operating in the financial sector, investor protection, market abuse and financial collateral agreements.
PS	**5 March**	**Andorran banking institutions become part of SEPA.**
PS	1 March	Andorra becomes part of the Single European Payment Area - SEPA.
MA	15 February	Approval of Law 17/2019 amending Law 8/2013, of 9 May, on organisational requirements and operating conditions for institutions operating in the financial sector, investor protection, market abuse and financial collateral agreements.
AML/CFT	11 February	Moneyval publishes the first follow-up report of the 5th round of mutual evaluations of the Principality of Andorra.
PS	11 February	The European Payment Council updates the list of countries adhering to the SEPA schemes in which the Principality of Andorra is included.
RTG	**9 February**	**Fitch Ratings affirms Andorra's rating at BBB+ and stable outlook.**
REG	1 February	Entry into force of Law 31/2018 on labour relations.
TR	23 January	Approval of the decree relating to the technical note on the audit procedure for external auditors on the Common Reporting Standard.
RTG	**19 January**	**Standard & Poor's affirms Andorra's BBB/A-2 rating maintaining the outlook stable.**
REG	1 January	Entry into force of qualified Law 32/2018 on union and employer action and qualified Law 33/2018 on industrial action.

2018

MA	20 December	Approval of Law 35/2018 on the solvency, liquidity and prudential supervision of credit institutions and investment firms and of Law 36/2018 on financial conglomerates.
MA	12 December	Decree approving certain EU-IFRSs amending the EU-IRFS Decree of 18 December 2016.
AML/CFT	6 December	Moneyval adopts the 1st follow-up report of the 5th round of mutual evaluations of the Principality of Andorra.
TR	5 December	The EU considers Andorra to be a fully cooperating country in taxation matters and excludes it from the grey list.

PS	21 November	Approval of the regulation relating to the legal regime of payment services and electronic money and of payment institutions and electronic money institutions (PSD2 regulation repealing PSD1 regulation).
TR	15 November	The OECD endorses the changes implemented by Andorra and acknowledges that it has no potentially harmful tax regimes (Project BEPS Action 5).
PS	25 October	Approval of Law 27/2018 amending Law 8/2018 on payment services and electronic money (PSD2).
TR	19 October	Signature of the OECD multilateral agreement that allows information to be exchanged country by country with all the competent authorities that have signed the agreement.
TR	18 October	Signature of the OECD multilateral agreement within the framework of the BEPS project.
TR	3 October	Approval of the amendment to the Regulation implementing the AEOI Law.
AML/CFT	21 September	Second course on the prevention of money laundering and financing of terrorism, organised by Andorran Banking together with the University of Andorra and UIFAND.
MA	13 September	Approval of Law 20/2018 regulating the Andorran Deposit Guarantee and the Andorran Investment Guarantee Schemes, which enters into force on 4 October.
TR	11 September	Visit by Pascal Saint-Amans, Director of the OECD's Centre for Tax Policy and Administration, to learn about the economic and tax transformations carried out in Andorra. Conference: "Tax cooperation in a post-BEPS and automatic exchange environment".
AML/CFT	5 September	Approval of the Regulation governing the recording of, and access to, information relating to beneficial owners in the records of legal entities, in order to bring them into line with international standards.
RTG	11 August	Fitch rating publication: BBB+.
TR	26 July	Approval of Law 19/2018 amending the law expanding the number of jurisdictions with which Andorra will exchange information from 2020 (to a total of 95 jurisdictions).
RTG	20 July	S&P rating publication: BBB.
TR	3 July	Lunch-talk in Madrid entitled "The Andorran financial sector in Europe", organised by Andorran Banking and the Government of Andorra.
MA	20 June	Approval of the regulation implementing Law 8/2018 on payment services and electronic money and of the regulation on the standards applicable to payment service providers to facilitate the automation of cross-border payments between the Principality of Andorra and the Member States of the European Union (PSD1 regulation and SEPA regulation).
MA	18 June	Approval of the amendment of the Annex to the Monetary Agreement.
REG	31 May	Approval of Law 12/2018 amending INAF Law 10/2013. This amendment transforms INAF into AFA (Andorran Financial Authority) and grants it the powers of an effective supervisor in relation to insurance and reinsurance.
AML/CFT	23 May	Approval of the Regulation of Law 14/2017, of 22 June, on the prevention of the laundering of money or securities and the financing of terrorism.
TR	18 May	Signature of the DTA between the Principality of Andorra and Cyprus.
PS	17 May	Approval of Law 27/2018 on payment services and electronic money (PSD1).
REG	19 April	Approval of Law 6/2018 amending Law 95/2010 on corporation tax.
RTG	17 February	Fitch rating publication: BBB.
RTG	19 January	S&P rating publication: BBB.

2017

TR	5 December	Andorra passes the EU test and is not included on the list of non-cooperative countries.
TR	30 November	Andorra approves two amendments to the AEOI Law 19/2016 expanding the number of jurisdictions with which Andorra will exchange information from 2018 (41) and 2019 (73).
TR	26 - 27 October	The first edition of the Andorran Financial Summit is held.
AML/CFT	28 September	Moneyval adopts the report of the 5th round of mutual evaluation of the principality of Andorra.
RTG	18 August	Fitch rating publication: BBB.
TR	2 August	Regulation of Law 19/2016 on the automatic exchange of tax information is approved.
RTG	28 July	S&P rating publication: BBB.
AML/CFT	13 July	Andorra includes tax offences in the list of predicate offences for money laundering.
TR	28 June	The OECD rewards Andorra's efforts and includes it on the list of the most transparent countries published by the Global Forum on Transparency and Exchange of Tax Information.
AML/CFT	22 June	Andorra passes Law 14/2017 on the prevention and fight against money laundering and the financing of terrorism.
REG	22 June	Approval of Law 12/2017 on the organisation and supervision of insurance and reinsurance.
MA	19 June	Approval of the amendment of the Annex to the Monetary Agreement.
TR	7 June	Andorra signs the OECD's Multilateral Convention on the application of the international base erosion and profit shifting (BEPS) measures.
TR	25 May	Andorra passes Law 10/2017 on the exchange of information upon request and the spontaneous exchange of information on tax matters that modifies Law 3/2009.
AML/CFT	06 - 17 March	Moneyval *on-site* visit as part of the 5th evaluation.
RTG	24 February	Fitch rating publication: BBB.
AML/CFT	10 February	Andorran Banking launches the first course on the prevention of money laundering and terrorist financing in collaboration with the University of Andorra.
RTG	27 January	S&P rating publication: BBB-.
TR	13 January	The Andorran Banking's General Assembly updates its Ethical code.
TR	1 January	The agreement for the automatic exchange of tax information signed with the EU takes effect.
TR	1 January	Law 19/2016 on the automatic exchange of tax information takes effect.
MA	1 January	The Decree of 18 December 2016 approving the new accounting framework (EU-IFRS) comes into force.

2016

TR	30 November	Law 19/2016 on the automatic exchange of tax information is approved
RTG	3 September	Fitch rating publication: BBB.
TR	28 - 29 July	Signing of the Multilateral Convention.
RTG	29 July	S&P rating publication: BBB-.
MA	23 May	Approval of the amendment of the Annex to the Monetary Agreement.
N/A	11 May	Vall Banc starts its operations.
RTG	11 March	Fitch rating publication: BBB.
TR	26 February	The DTA signed between the Principality of Andorra and Spain enters into force.
RTG	12 February	S&P rating publication: BBB-.
TR	12 February	The AEOI agreement between the EU and Andorra is signed.

2015

TR	3 December	Andorra signs the MCAA with the OECD.
TR	4 November	Andorra ratifies the AEOI agreement with the EU.
AML/CFT	14 September	Andorra passes the 4th Moneyval evaluation and moves on to the 5th evaluation.
MA	2 April	Approval of Law 8/2015 on urgent measures to implement restructuring and resolution mechanisms for banking institutions.
AML/CFT		Preparations for the 5th Moneyval evaluation begin, which will take place throughout 2016.

2014

TR	16 June	The OECD declaration on automatic exchange of information is adopted.
TR	June	*Peer Reviews Phases 1 + 2 (Global Forum).*
TR	24 April	Law 5/2014 on the Personal Income Tax (IRPF) is approved.
N/A	April	Negotiations begin for an Association Agreement between the EU and the Principality of Andorra.
MA	19 March	Approval of the amendment of the Annex to the Monetary Agreement.

2013

TR	5 November	Signature of the OECD Multilateral Convention on Mutual Administrative Assistance in Tax Matters.
TR	11 October	Mandate to negotiate a review of the agreement on the taxation of savings income.
MA	10 October	Approval of Law 17/2013 on the introduction of the euro in the framework of the Monetary Agreement signed between the Principality of Andorra and the European Union.
TR	October	2nd phase of the *Peer Review (Global Forum)*.
N/A	17 September	The INAF is accepted as full member of IOSCO.
TR	1 January	Law 11/2012 on the Indirect General Tax comes into force.

2012

REG	21 June	Law 10/2012 on Foreign Investment is approved to fully liberalise foreign investment.
AML/CFT	March	Start of the 4th Moneyval evaluation.

2011

TR	August	Phase 1 *Peer Review (Global Forum)*.
MA	30 June	Andorra signs the Monetary Agreement with the European Union to convert the euro into Andorra's official currency.
N/A	4 April	Memorandum of Understanding signed between INAF and the Bank of Spain setting out a collaboration protocol between the two authorities.

2010

TR	29 December	A tax on corporations, income from business activities and non-residents income is approved.

2009

TR	7 September	Law 3/2009 on the exchange of tax information upon request is approved.
TR	10 March	Andorra signs the Paris Declaration, which sets out a timetable of legislative reforms to facilitate compliance with the OECD transparency requirements.

4

Activities undertaken by Andorran Banking and associations

Who are we

The Andorran Banking Association (ABA)

- **Represents the interests** of Andorran banks.
- **Monitors the reputation, development and competitiveness** of the banking sector both in Andorra and internationally.

What we do

The main tasks performed by Andorran Banking include:

- **Defending the reputation and development** of Andorran banks.
- **Improving the technical standards** of the banking sector.
- **Encouraging sectoral cooperation** and promoting effective competition.
- **Enforcing the ethical rules** inherent in the profession and specific to the Andorran Banking Association.
- Participating in public or private institutions and foundations to **foster economic, cultural and social well-being** in Andorra.

Activities

5 **collaboration agreements**
with the Andorran Red Cross, Unicef, Càritas Andorrana, the Private Guardianship Foundation, the University of Andorra and the Business Students' Forum.

117 **meetings of Andorran Banking Commissions**
with the participation of 84 representatives of the member banks.

68 **meetings of the governing bodies**
of the Andorran Business Confederation and the Chamber of Commerce, Industry and Services of Andorra.

30 **meetings**
held with Government and banking supervisory bodies.

Around 36 published articles, interviews, statements, press conferences and releases.

4 **employees**
out of 2,563 bank employees.

4 **newsletters**
bimonthly newsletters with news of interest to the sector and the country.

Through its platform,
Andorran Banking Observatory,
the Association prepared a report that lists the main indicators on the digital transformation that the Andorran banking sector has embarked upon.

Social media presence

5 Mission, vision, values and road map of Andorran banks

Mission

To provide the best financial services in the area of retail banking, private banking and asset management to customers looking for experience, solvency, return on investment, proximity and security.

Vision

To maintain the trust of our customers through the professional excellence of our employees, the development of advanced products and a track record that spans more than 85 years, with the aim of being recognised as a leading global financial centre for retail banking, private banking and asset management.

Road map

1. Generating security and trust.
2. Meeting the new requirements of clients and regulations.
3. Prioritising technological investment, especially in digital transformation projects.
4. Prioritising a sustainable financing of the economy: the country's economic and social pillar.
5. Creating opportunities by positioning Andorran banks on a European and international scale.

Values

1 Professionalism and quality

With more than 85 years of experience, the banking sector has **highly qualified professionals** who work diligently to provide high quality products and services.

2 Internationalisation, added value services and digital transformation

The development and strength of the Andorran banking sector has been driven by services with **greater added value**, a commitment to **digital transformation** aimed at generating value for the end client, **extensive experience** in wealth and asset management, and **strong internationalisation**, combined with sustainable and profitable growth.

3 Integrity

Andorran banks act with honesty, loyalty and integrity so as **to preserve the trust and reputation** earned by the Andorran financial system vis-a-vis customers, professionals, institutions, markets and society at large.

4 Responsibility and solidarity

The banking sector has devoted years of work to developing **volunteering policies relating to corporate and social responsibility**, based on a responsible growth strategy and marked by a commitment to society.

5 Solvency

The continued **high solvency ratios** of Andorran banks have become one of their main characteristics and testify to a conservative and prudent approach.

6 Optimal tax framework

Andorra has streamlined and consolidated its tax framework to make it comparable to that of other countries. But the standardisation process **has preserved the country's tax competitiveness.**

7 Transparency and standardisation

Andorra has undergone a deep transformation and has worked consistently to adopt **a transparent, modern legal framework** that matches that of other countries and financial centres, fully complying with the highest international standards.

8 Stability

Andorra is characterised by a **stable political and social environment** and enjoys a high level of safety.

9 Competitiveness and innovation

Andorra continues to work towards **bolstering its economic mainstays** and fostering the creation of new economic sectors. **A favourable business environment**, a multilingual educational system, different types of residence and a high standard of living all contribute to making Andorra an attractive destination.

6 Key figures

6.1. Banking sector

The financial system represents

5%

of all employees.

It contributes to approximately

20%

of Gross Domestic Product.

We are

5

Banking groups that offer both retail banking and private banking services.

More than

85

years' experience in banking with a presence in 11 countries.

In an international context of prolonged low interest rates over time combined with the higher costs associated with the new regulatory framework, net profits stood at

112

million euros with a ROE of

7.70%.

The total number of employees is

2019: 2,563

1,216 **1,347**

The international presence of Andorran banks

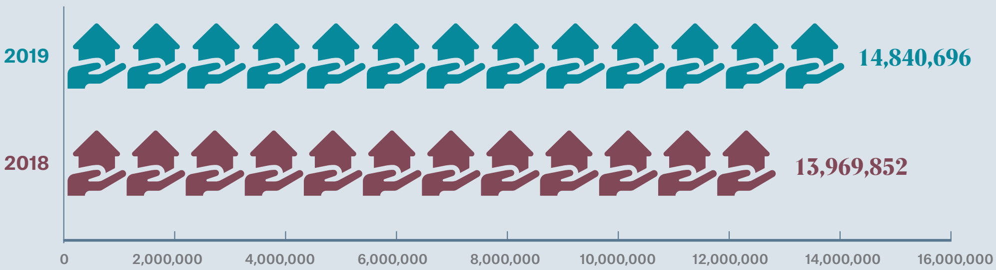
1	Andorra	5	Israel	9	Panama
2	Brazil	6	Luxembourg	10	Switzerland
3	Spain	7	Mexico	11	Uruguay
4	United States	8	Monaco		

6 Key figures

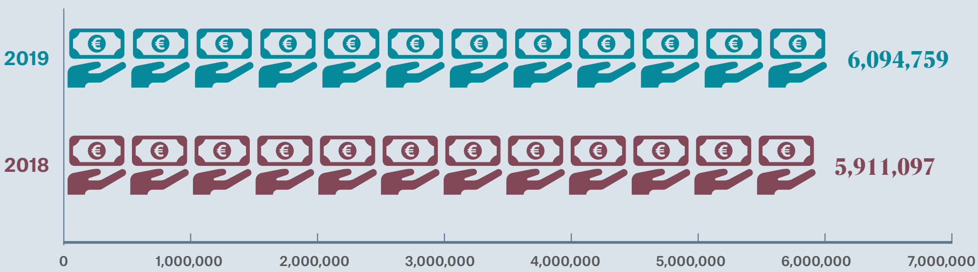
Source: Annual reports from banks.

Banking sector data (Thousand euros)

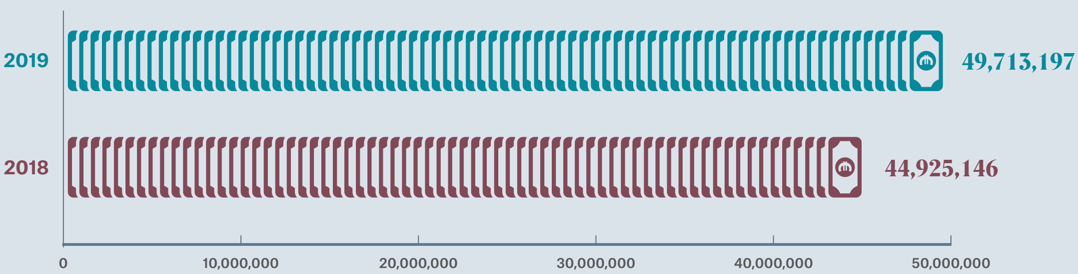
Total assets



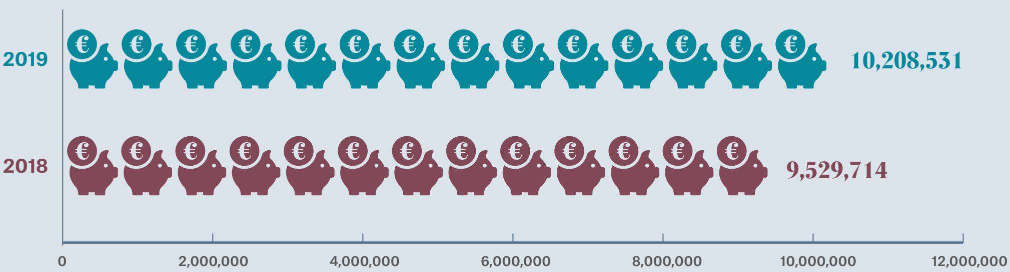
Gross credit investment



Assets under management



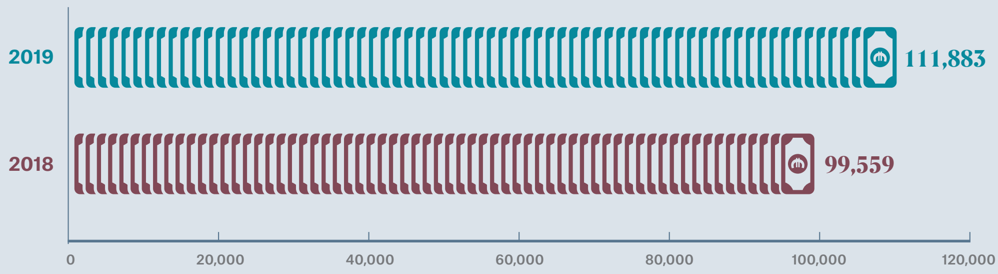
Customer deposits



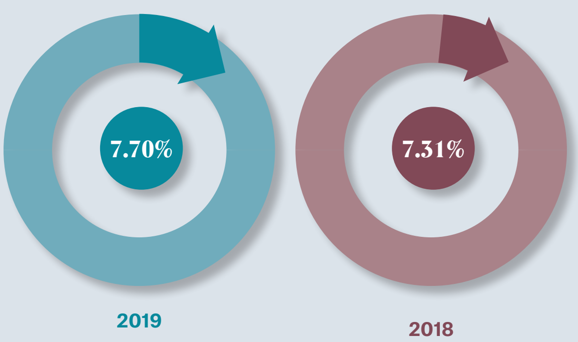
6 Key figures

Source: Annual reports from banks.

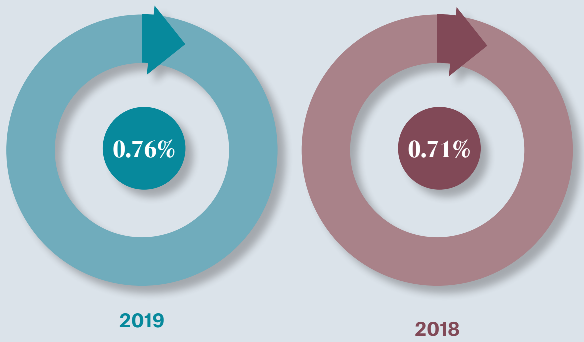
Results



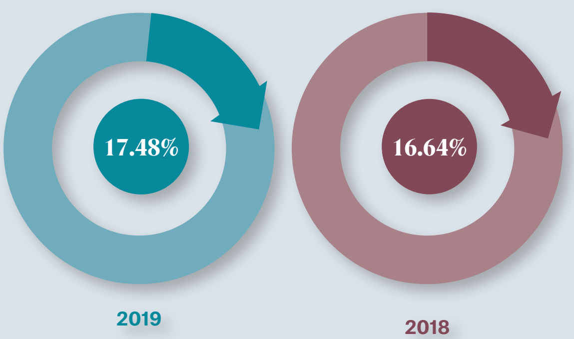
ROE



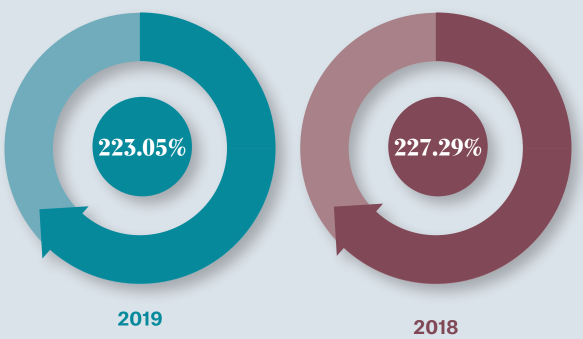
ROA



CET 1 solvency ratio
(phase-in)



Liquidity ratio
(*Liquidity Coverage Ratio*)

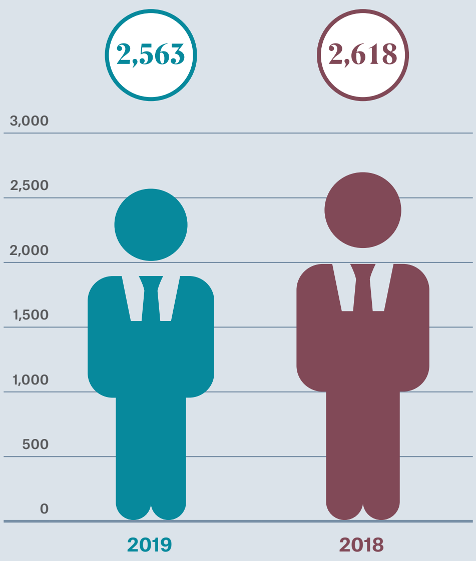


6 Key figures

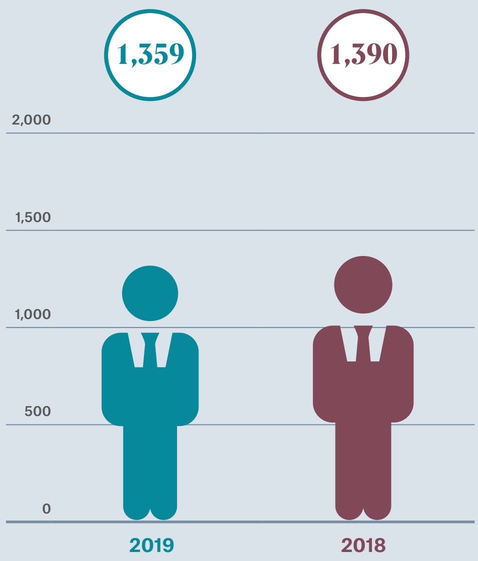
Source: Annual reports from banks.

Banking employees

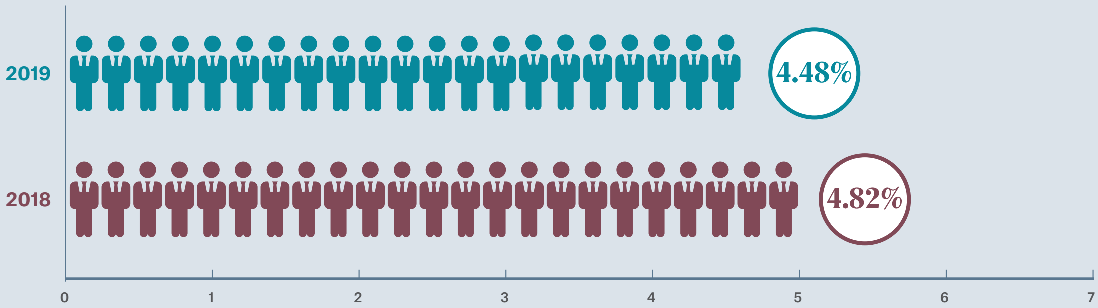
Andorra and abroad



Andorra



% of employees in the financial sector relative to the total % of employees



6 Key figures

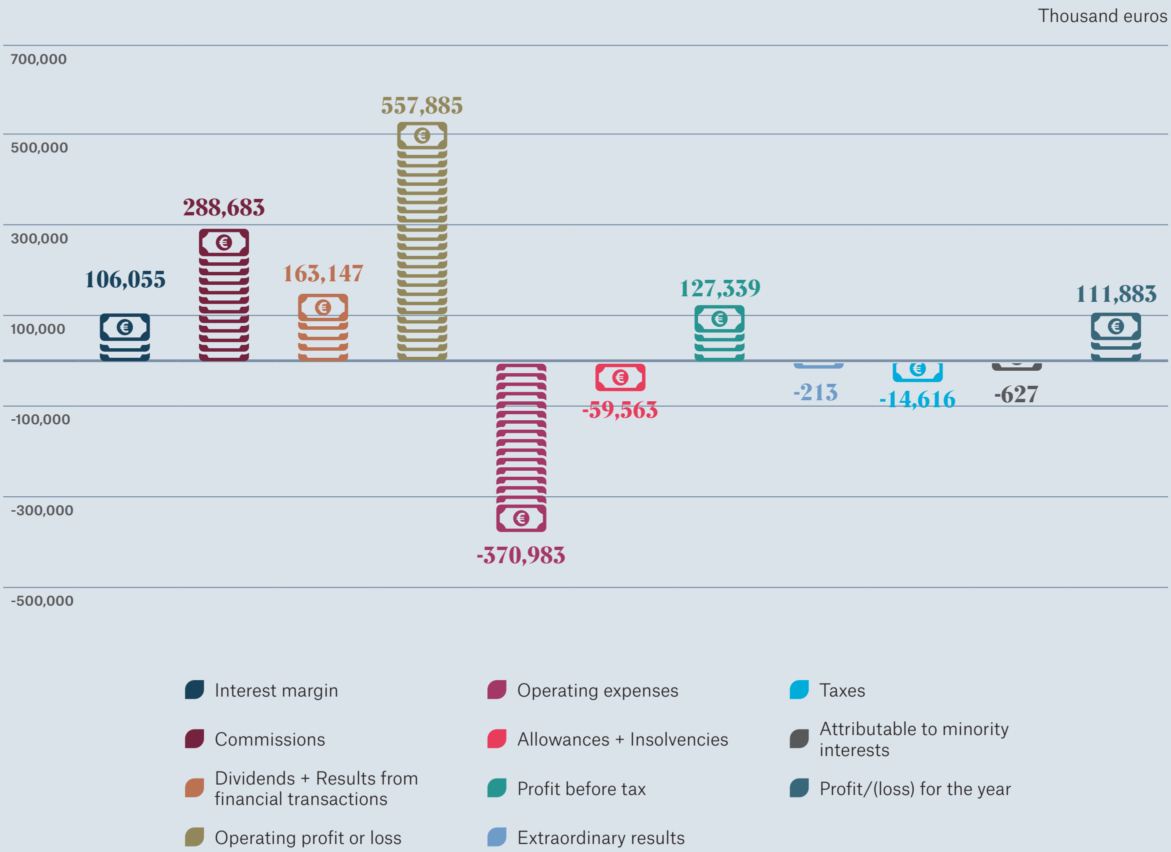
Source: Annual reports from banks.

Long-term rating by bank

	ANDBANK Private Bankers	MORABANC	Crèdit Andorrà	BancSabadell d'Andorra *	VALLBANC
2019	BBB	BBB-	BBB	-	-
2018	BBB	BBB-	BBB	-	-

* 51% owned by Banc de Sabadell.

Origin of profits for 2019



6 Key figures

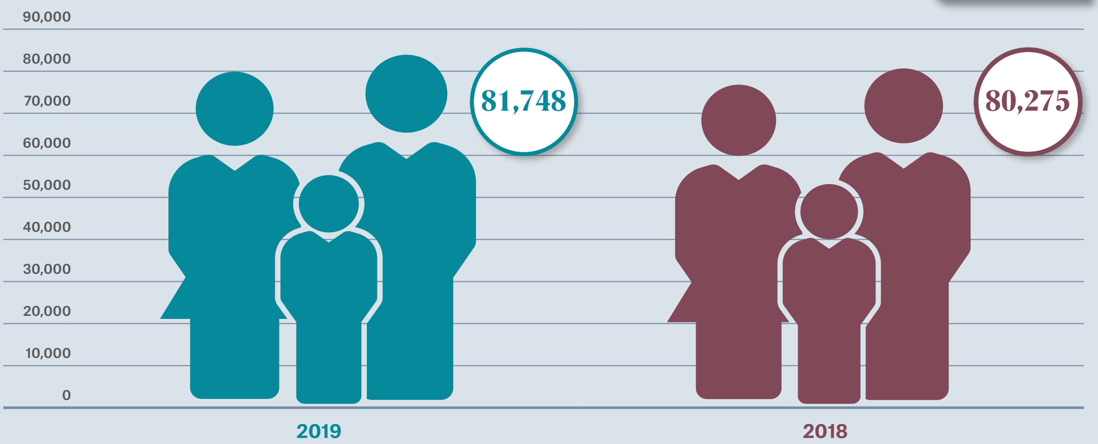
Source: Department of Statistics of the Andorran Government

6.2. Country

Relevant economic data

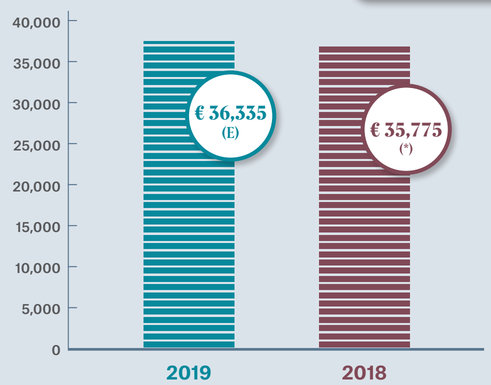
Registered population

1.83%



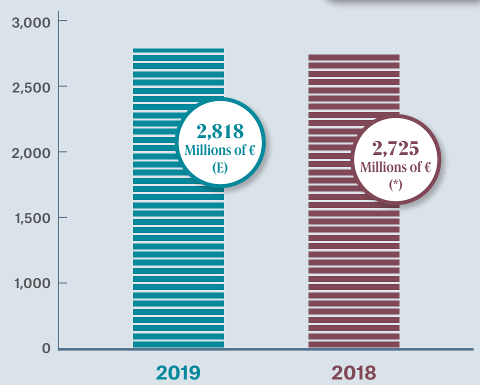
Revenue per capita (nominal)

1.57%



GDP

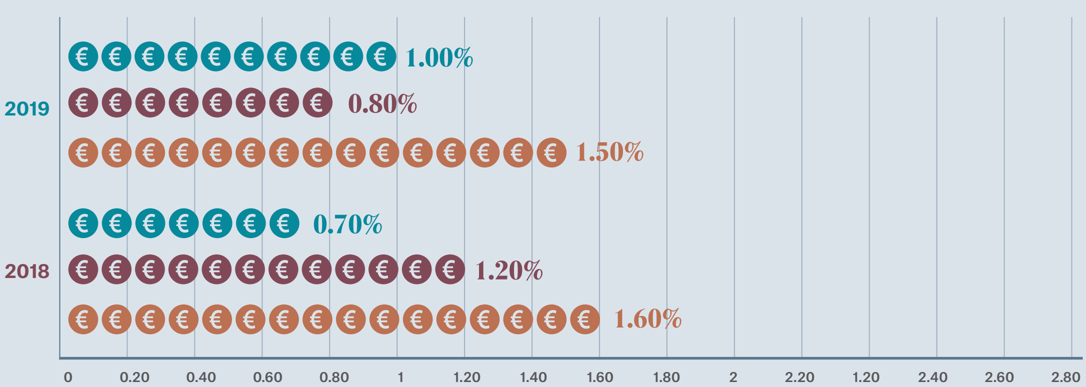
2.77%



(E) Department of Statistics of the Andorran Government.
(*) Updated data according to the Department of Statistics - Government of Andorra.

Inflation

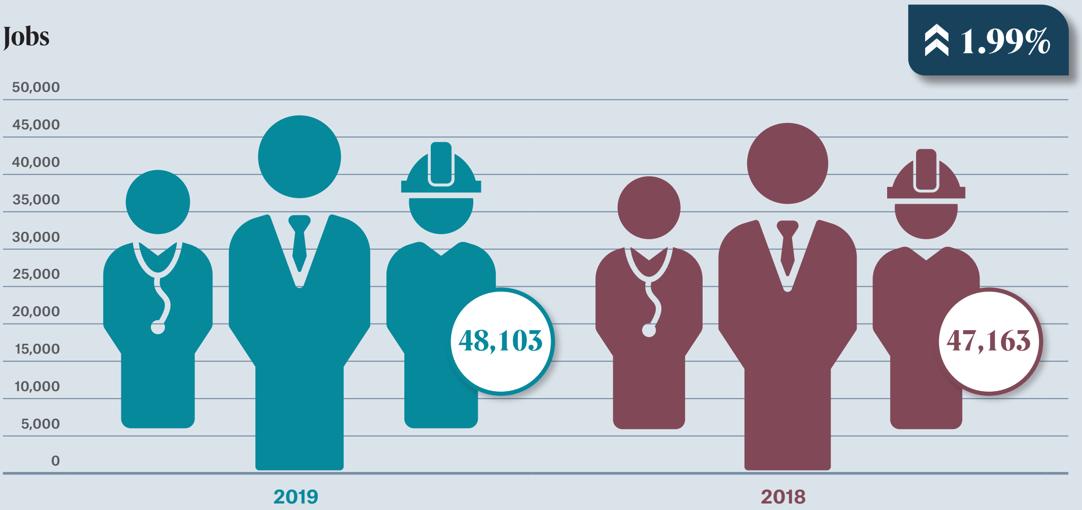
Andorra Spain France



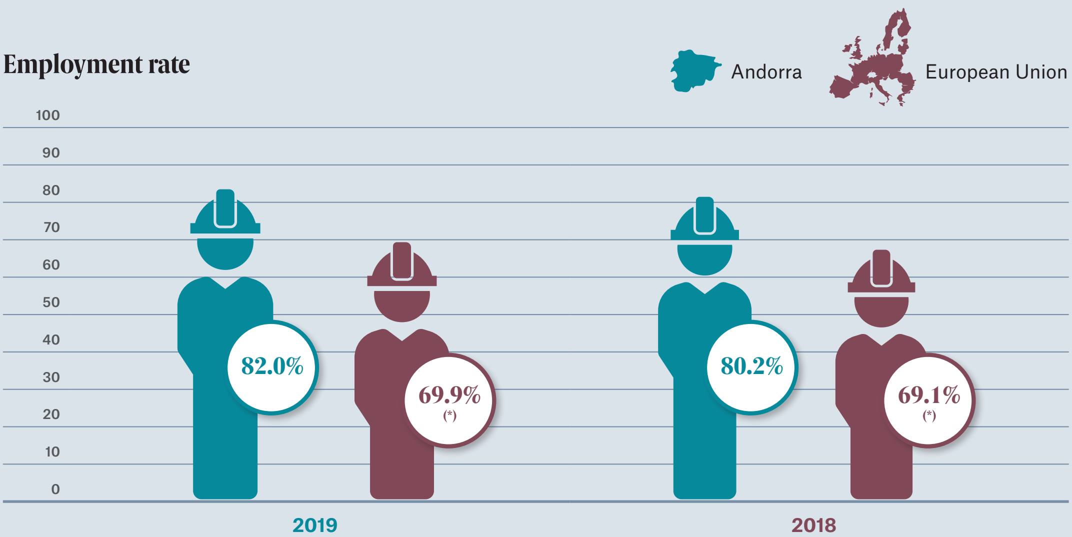
6 Key figures

Source: Department of Statistics of the Andorran Government

Jobs

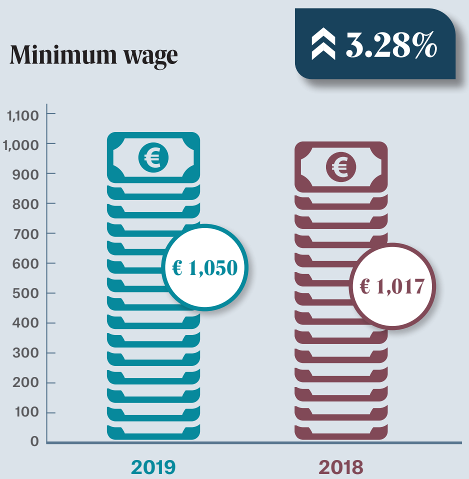


Employment rate

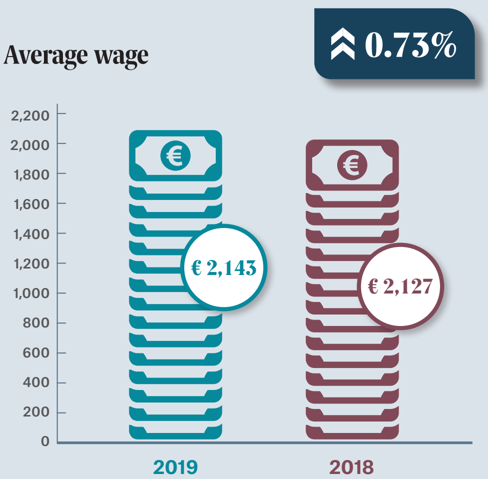


(*) Updated data according to the Department of Statistics - Government of Andorra.

Minimum wage



Average wage

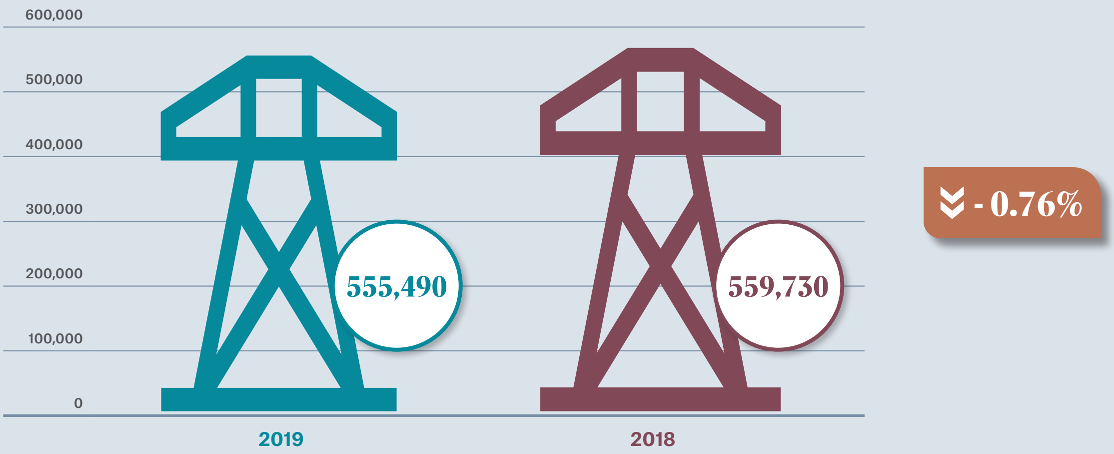


6 Key figures

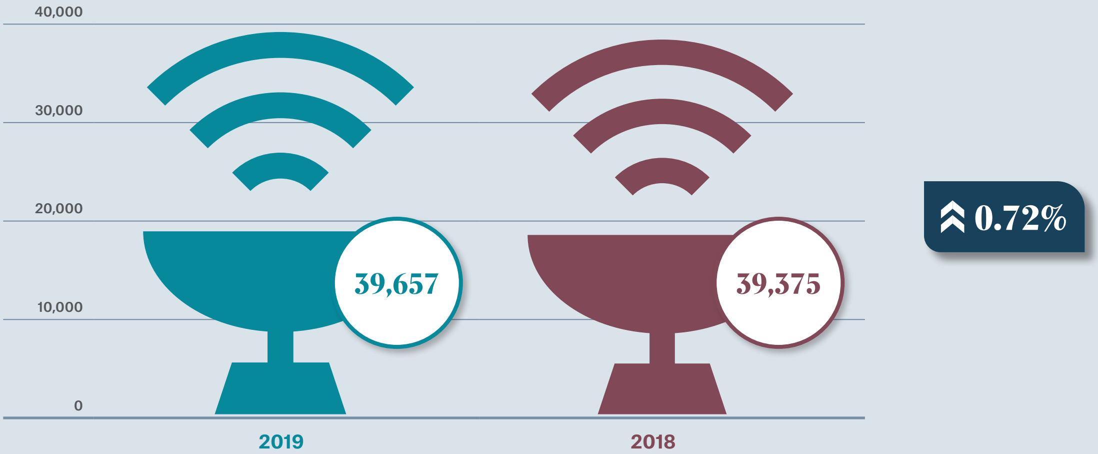
Source: Department of Statistics of the Andorran Government

Relevant economic data

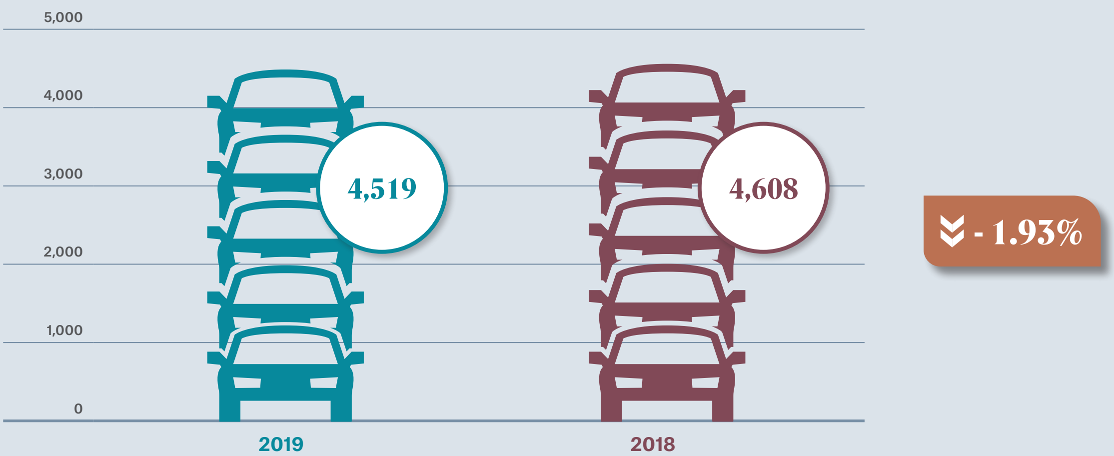
Energy consumption (MW/ hour)



Telecommunications (Line charges)



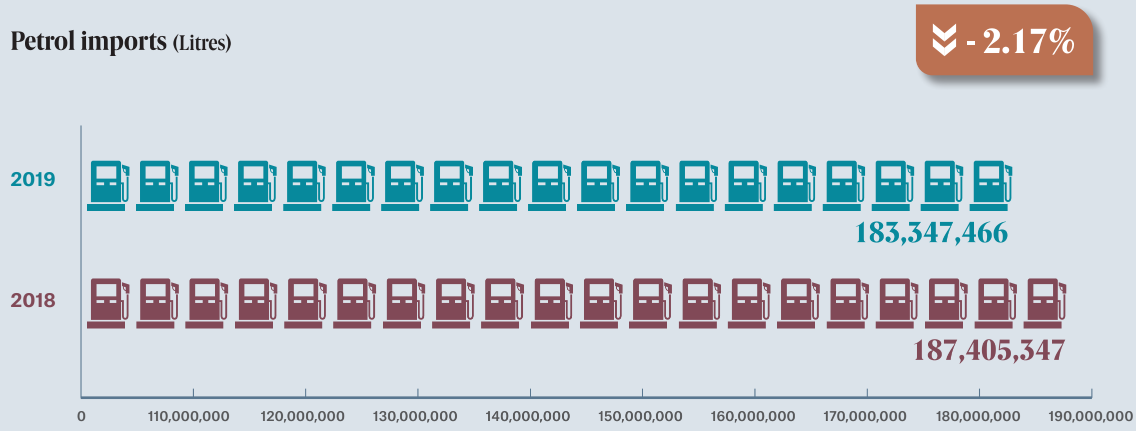
Car registrations



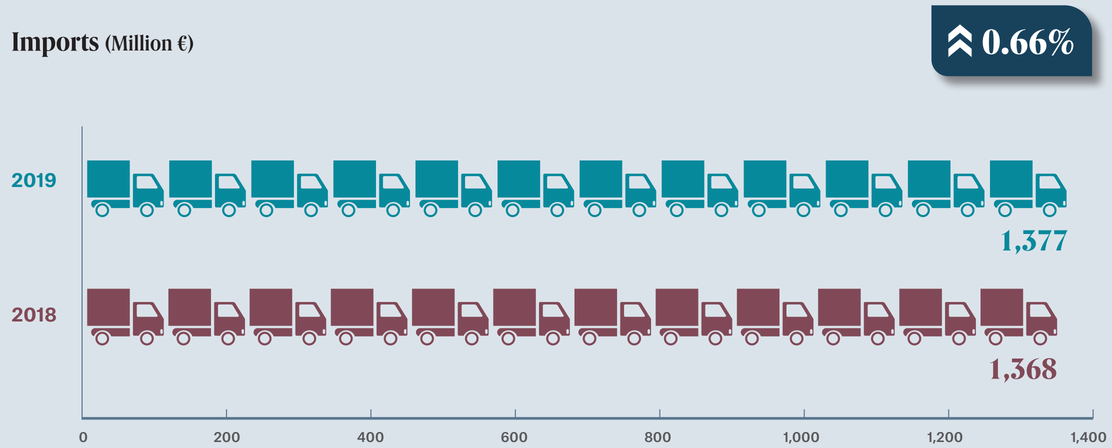
6 Key figures

Source: Department of Statistics of the Andorran Government

Petrol imports (Litres)



Imports (Million €)



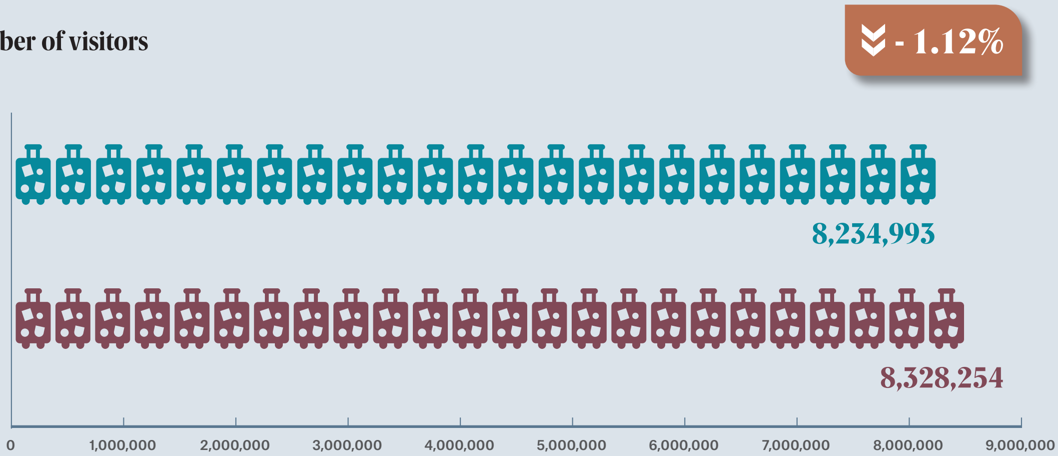
Exports (Million €)

6 Key figures

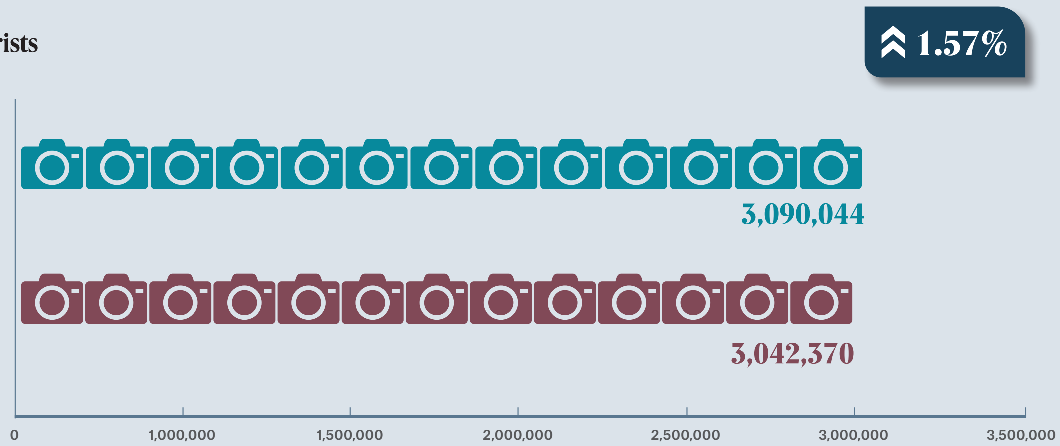
Source: Department of Statistics of the Andorran Government

Relevant economic data

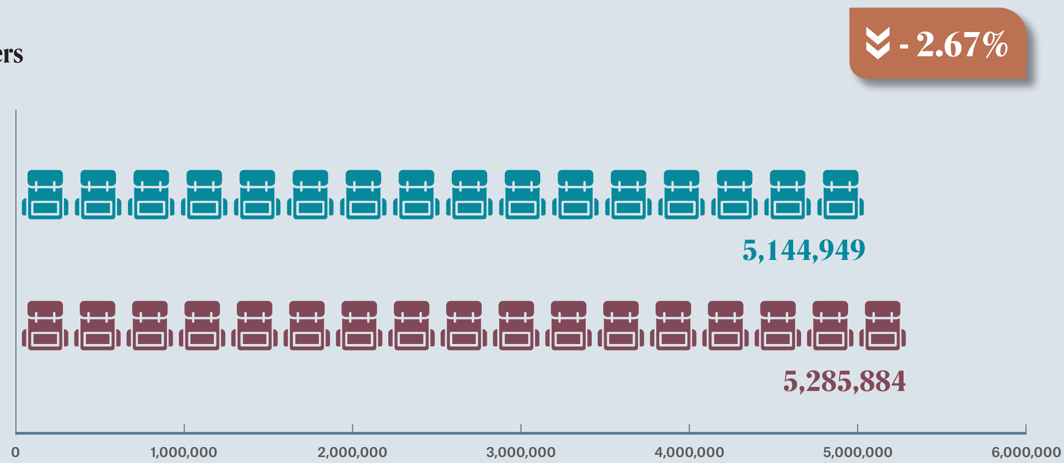
Number of visitors



Tourists



Hikers



Source: Department of Statistics of the Andorran Government

Country rating

	2018	2019	2020
Standard & Poor's			
Long term	BBB	BBB	BBB
Short term	A-2	A-2	A-2
Outlook	Stable	Positive	Stable
Fitch Ratings			
Long term	BBB+	BBB+	BBB+
Short term	F2	F2	F2
Outlook	Stable	Stable	Stable

For more information, see annex 1.

7 Information on relevant topics

7.1. COVID-19

The emergency health situation caused by the SARS-CoV-2 pandemic, also known as COVID-19, has created challenges of unprecedented proportions in Andorra's recent past and required the introduction of a variety of exceptional measures to deal with the crisis.

Through the adoption of Law 3/2020 of 23 March on exceptional and urgent measures relating to the health emergency situation caused by the SARS-CoV-2 pandemic, which was later repealed by the new **Law 5/2020 of 18 April on new exceptional and urgent measures relating to the health emergency situation caused by the SARS-CoV-2 pandemic**, the Andorran government has approved an array of measures aimed at providing essential solutions to businesses, employees and self-employed workers in a very difficult context in which virtually all activities have had to stop.

The various packages approved include measures relating to employment, social security, tax and fiscal matters, rent and bank credit instruments.

Below are some of the measures approved:

- The temporary suspension of employment contracts, the reduction of working hours, compensation for time off work and paid leave to take care of children.
- The suspension or reduction of social security contributions for the self-employed, the financing of contributions for businesses, and benefits for temporary incapacity due to self-isolation or testing positive for SARS-CoV-2.
- The deferral or payment in instalments of tax debts and personal income tax and the proportional withdrawal of private pension plans.
- The reduction in rent on commercial premises and housing for individuals or legal entities affected by the COVID-19 crisis.
- The suspension of payments on mortgages or personal loans to finance the purchase of a main residence or private vehicle for those affected by the COVID-19 crisis.

In order to extend and supplement this legal moratorium of payments, Andorran banks have reached a sector-wide agreement that allows business and families who have been financially affected by the COVID-19 crisis to defer capital payments on mortgages and personal loans for the purchase of vehicles, the financing of studies, home repairs, medical expenses and business needs.

In addition to those economic policy instruments, two extraordinary financial programmes for companies and businesses worth 230 million euros have been approved to finance operational expenses and meet maturing financial obligations.

7.2. Digitalisation

The trend in the Andorran banking industry in the last few years has been to prioritise technological investment, especially in digital transformation projects. The main reasons for embarking on this transformation process have been the willingness of banks to adapt to changes in their customers' habits and to deal with the new challenges and the emergence of new competitors.

The COVID-19 crisis has revealed the benefits of the digitalisation strategy initiated by Andorran banks. Digitalisation has ensured that banking operations could be conducted at full capacity and without any incidents and that services could continue to be provided. Despite the reduction in business opening hours and the lockdown imposed by the Government of Andorra, customers of Andorran banks have been able to continue doing their banking as usual through the online channels available.

Since 2014, **Andorran banks have spent up to 120 million euros in promoting this digital transformation process** mainly with the aim of changing the technological architecture of companies, advancing in the digitalisation of communication channels, developing electronic banking to offer as many online services as possible and improving secure identification methods.

Digital transformation consists in applying digital technology across all areas of a company, from the bank's internal structure to its processes, products and relationships with customers. This process involves both technology and people and requires a change of mindset from employees and customers alike.

This significant investment has been accompanied by an increase in the number of digital users in the country's five financial institutions, which has soared by 45.7% in the last five years. Also noteworthy is the spectacular growth experienced by users of mobile applications, with an increase of 356.8%. Among the banking transactions that can be carried out over the Internet, those that have grown the most over the last few years are money transfers and transactions in securities.

7.3. Law 35/2018 on solvency, liquidity and prudential supervision

2018 was a busy year for the Andorran financial sector due, among other reasons, to the intensive work involved in the transposition of the standards contained in the so-called "CRD IV package", which is made up, firstly, of Directive 2013/36/EU and EU Regulation No. 575/2013 and, secondly, of decrees transposing the delegated and implementing acts of the European Commission and of technical communications from the Andorran supervisor, the Andorran Financial Authority.

This transposition exercise complies with Andorra's commitment to introduce the directives and regulations provided for in the annex to the Monetary Agreement, signed between the Principality of Andorra and the European Union in 2011, into its legal system.

The transposition of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activities of credit institutions and the prudential supervision of credit institutions and investment firms has required substantial changes to the regulations in force in Andorra in this area. These amendments were reflected in the new **Law 35/2018, of 20 December, on the solvency, liquidity and prudential supervision of credit institutions and investment firms,** and the corresponding Regulation relating to the adoption of EU technical standards applicable to the solvency, liquidity and prudential supervision of credit institutions and investment firms.

The aim of this law is to increase the resilience of Andorra's banking and financial sector, so that it is in a better position to deal with economic crises, and also to ensure that credit institutions continue to finance business activity and economic growth with adequate equity. From the point of view of liquidity and financing, the law aims to ensure that institutions have sufficient liquidity cushions to face potential tensions in the markets, as well as a balance sheet structure that does not overly rely on short-term financing.

The law is not limited to the continuous monitoring of the creditworthiness and risk management of institutions, but also regulates supervisory rules, access to the business of credit institutions, suitability requirements for senior management and qualifying shareholders, as well as requirements for increased corporate governance.

7.4. Law 17/2019 amending Law 8/2013 on organisational requirements and operating conditions for institutions operating in the financial sector, investor protection, market abuse and financial collateral agreements.

The financial sector is one of the main pillars of the Andorran economy and is deeply interconnected with the international financial industry through its presence in other markets outside the Principality, as well as in the European Union. It is therefore important that the Andorran legal framework meets the highest international standards in terms of financial regulation.

In this regard, as provided for in the annex to the Monetary Agreement, Andorra has undertaken to introduce a number of EU directives into its legal system, including Directive 2004/39/EC of the European Parliament and of the Council, of 21 April 2004, on the markets in financial instruments and Directive 2006/73/EC implementing Directive 2004/39/EC as regards organisational requirements and operating conditions for investment firms and Commission Regulation 2006/1287 implementing Directive 2004/39/EC as regards recordkeeping obligations for investment firms, transaction reporting, market transparency and admission of financial instruments to trading. All of these regulations are included in the standard regulatory package known as MiFID I.

The former Law 8/2013 had already transposed most of the above-mentioned directives, so that these had already been partially introduced into the Andorran legal system. However, Law 8/2013 should be amended so as to comply with all these directives and their implementing rules.

On 15 February 2019**, the Law which amends Law 8/2013, of 9 May, on organisational requirements and operating conditions for institutions operating in the financial system, investor protection, market abuse and financial collateral agreements was approved**.

The amendments introduced mark a step forward compared to the previous regime and constitute an improvement in the protection of markets and clients of investment services. Also, a number of improvements have been made in relation to the classification of clients, client information requirements, incentives, suitability and appropriateness assessments, order management and execution, conflicts of interest, client asset protection, recordkeeping and markets.

7.5. Automatic exchange of information in tax matters

On 15 July 2014, the Council of the OECD approved the new global standard for the automatic exchange of information in tax matters (AEOI) between jurisdictions. The Common Reporting Standard (CRS) published in February 2015 lays down how the competent authorities of the countries that have signed up to the CRS automatically exchange information on financial accounts every year. The CRS aims to fight tax evasion and promote tax compliance.

On 16 June 2014, Andorra became the 48th country to sign the OECD Declaration on the automatic exchange of information in tax matters, thereby undertaking to implement the new standard and exchange information automatically every year with other jurisdictions.

One year later, on 3 December 2015, Andorra signed the multilateral competent authority agreement for the automatic exchange of information in tax matters (MCAA), a multilateral instrument that regulates the automatic exchange of information with the countries that have signed up to the OECD standard.

On 12 February 2016, Andorra and the European Union (EU) subsequently signed an agreement for the automatic exchange of tax information which came into effect on 1 January 2017 (the EU Agreement).

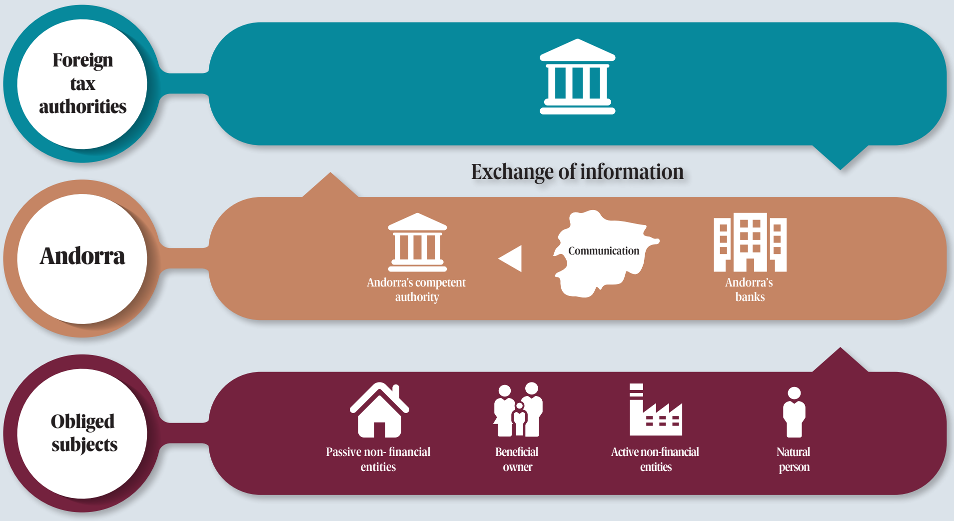
This agreement, which amends the previous agreement entered into between Andorra and the European Community in 2005 with regard to the implementation of measures equivalent to those provided for by Council Directive 2003/48/EC on taxation of savings income in the form of interest payments, introduces the new global standard for the automatic exchange of information approved by the OECD and applied in the European Union through Directive 2014/107/EU. Law 19/2016, approved by the General Council of Andorra on 30 November 2016, sets out the legal framework required to comply with this AEOI commitment.

Under the EU Agreement, and according to the time frames specified in the international standard, **Andorra carried out the first exchange of data in September 2018, using data from 2017**. The first automatic exchange of tax information took place with 41 countries, including EU member states.

This means that the information relating to foreign taxpayers who hold an account in Andorra was automatically disclosed by Andorran banks and certain collective investment undertakings and insurance companies to the tax authority of the relevant country.

The data covered by the exchange obligation include the account number, tax identification

7 Information on relevant topics



number, name, address and date of birth of taxpayers residing abroad who hold an account in Andorra, all forms of income (including interest, dividends and income from insurance contracts), income derived from the sale or transfer of assets, and account balances. The standard applies both to individuals and legal entities (including trusts and foundations).

In accordance with relevant international standards, the beneficial owner of the account, the passive structures and the identity of the persons controlling them must be identified.

Throughout 2017 and 2018, the AEOI Law was amended to expand the jurisdictions with which Andorra was to exchange tax information. In 2019, Andorra exchanged information with 73 jurisdictions and in 2020 will be doing so with 95 jurisdictions.

The Andorran Banking Association has closely monitored the process of adopting the AEOI through an ad-hoc working commission created in 2014. The commission has reviewed all the requirements set out in the CRS in order to exchange the information within the prescribed deadlines and has prepared several Q&As as a guide to explain what the AEOI contains and how it works.

7.6. Prevention of money laundering and terrorist financing

Under the Monetary Agreement, Andorra has transposed Directive (EU) 2015/849 of the European Parliament and of the Council, of 20 May 2015, on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing ("4th Directive") and Regulation (EU) 2015/847 of the European Parliament and of the Council, of 20 May 2015, on information accompanying transfers of funds.

It should also be highlighted that Andorra is the subject of regular evaluations by the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (Moneyval) of the Council of Europe. As part of these evaluations it is essential to ensure adequate and effective implementation of relevant international standards, as materialised through the recommendations of the Financial Action Task Force ("FATF").

Both the transposition of the above-mentioned EU regulation and the implementation of FATF recommendations require a general review of regulations in relation to the prevention of and fight against money laundering and to adopt the new principles developed by the new regulations, including adequate risk management, which call for a new law inspired directly by the principles set out in the 4th Directive 2015/849 and the new FATF recommendations.

Law 14/2017 transposing the 4th Directive was approved by the General Council of Andorra in its session of 22 June 2017 and entered into force on 20 July 2017. This law has been amended by the Law 21/2019 approved on 28 November 2019.

7.7. 5th Moneyval evaluation

Moneyval is the committee of experts of the

7 Information on relevant topics

European Council that is responsible for evaluating the measures taken by jurisdictions against money laundering and the financing of terrorism

The 5th evaluation of Andorra took place in 2017, based on the FATF recommendations revised in 2012 and their effective implementation. As part of the evaluation process, technical compliance with the recommendations is analysed prior to the evaluators' visit. During the visit, evaluators verify the effectiveness of the existing measures in the field of the prevention of money laundering and the financing of terrorism.

Of the 28 jurisdictions assessed by Moneyval, Andorra was the 6th to be subjected to the 5th assessment.

Andorra received a visit from evaluators in March 2017. Many actions have been taken to adapt to international standards in the field of money laundering and terrorism financing, including the development of a national risk assessment in accordance with FATF Recommendation No. 1.

The 5th Andorra evaluation report was published in November 14 by Moneyval. The report highlighted and took a very positive view of the profound legislative changes carried out in the Principality to prevent money laundering and terrorism financing, as well as the inclusion of tax offences in the list of predicate offences for money laundering.

The evaluators emphasised that these changes demonstrate a strong commitment to the prevention of money laundering and terrorism financing not only on the part of the Government and the administrations but also on the part of the obliged subjects. They noted, for example, the strong commitment of financial institutions.

The report also praises Andorra for proactively seeking out and providing legal assistance to other jurisdictions.

Finally, it urged the country to continue working on and supervising the implementation of the national action plan in order to mitigate risk and foster coordination between supervisory authorities.

Since the publication of the first report of the 5th Evaluation, Moneyval has approved two follow-up reports, the first one in December 2018 and the second one in December 2019. The reports highlight the significant progress made by Andorra in addressing the technical issues identified in previous evaluations.

7.8. Regulation on beneficial owners

Law 14/2017, of 22 June, on the prevention and fight against the laundering of money or securities and the financing of terrorism provides for the obligation of companies, associations and foundations, whether incorporated or registered in Andorra, to obtain information on beneficial owners and keep it in an accurate and up-to-date manner. This obligation was further developed by the **regulation governing the recording of, and access to, information relating to beneficial owners in the records of legal entities**, approved on 5 September 2018 by the Government of Andorra.

This regulation sets out the procedures for providing the Registry of Commercial Companies, the Registry of Associations and the Registry of Foundations with information relating to beneficial owners, and provides that this information must be kept up to date in the relevant register. It also details the procedure for granting access to this information to taxpayers and to the individuals and organisations that show a legitimate interest.

In accordance with this regulation, companies, associations and foundations had until 31 December 2018 to disclose information on their beneficial owners. Since then, taxpayers have been obliged to report any change of beneficial owner in order to update their reported information.

7.9. New tax offences

The 2012 FATF recommendations provide for the inclusion of tax offences in the list of predicate offences for money laundering. In line with its commitment to implementing international standards and recommendations, Andorra amended its Criminal Code by introducing a bill amending the Criminal Code Law 9/2005 of 21 February which includes tax offences in the list of predicate offences for money laundering.

Law 5/2017, which amends the Law 9/2005 of 21 February on the Criminal Code, was passed on 13 July 2017.

Andorran lawmakers make a distinction between basic and aggravated tax offences, considering only aggravated tax offences as predicate offences for money laundering and considering aggravating circumstances the defrauded amount (€150,000 or more) or the commission of an offence as part of a criminal organization.

7.10. Ethical code

On 13 January 2017, the General Assembly of the Andorran Banking Association agreed to update its Ethical Code, which dated back to 1990. The Ethical Code sets out a number of professional conduct recommendations that meet the new international standards. It is structured in line with the Andorran legal framework and with relevant international principles on this matter, and also complements anti-money laundering and terrorism financing legislation and the global recommendations issued by the FATF.

The purpose of the Ethical Code, which was approved on a voluntary basis by all member institutions of the Association, is to set out the standards of honesty, integrity, professionalism and confidentiality that apply to Andorran financial institutions in their relationships with customers, third parties, supervisors and regulators within the scope of applicable legislation. The publication of the Code is yet another proof of the capacity of Andorran banks to adapt to a **transparent, modern and standardised framework**.

7.11. Payment services

Under the Monetary Agreement, Andorra undertook to introduce Directive 2007/64/EC of the European Parliament and of the Council on payment services in the internal market into its legal system. The Monetary Agreement also includes Directive 2009/110/EC of the European Parliament and of the Council on the taking up, pursuit and prudential supervision of the business of electronic money institutions.

These directives were transposed through the approval of **Law 8/2018, of 17 May, on payment services and electronic money**, in order to include payment institutions and electronic money institutions as new institutions operating in the Andorran financial system, with their own legal regime, and to regulate the rights and obligations of both providers and users in relation to the provision and use of payment services and the issuance of electronic money.

The technological innovations seen in the last few years, and the need to create a safer and more reliable environment for the development of payment services, have resulted in the emergence of a new European legal framework. The new Directive 2015/2366 of the European Parliament and of the Council, of 25 December 2015, on payment services in the internal market repeals the previous Directive 2007/64/EC and also amends Directive 2009/110/EC.

The main purpose of the changes introduced by the new directive is to facilitate and improve security in the use of payment systems via the Internet and to strengthen the level of protection of users against potential fraud and abuse, as well as to promote innovation in payment services and to implement a regime that better protects users' rights in terms of security and transparency. The directive also covers the provision of two new payment services that were not previously foreseen, i.e. payment initiation services and account information services.

All of these changes have been introduced into Andorra's legal system by means of an amendment to Law 8/2018, of 17 May. The **consolidated text of the Law on payment services and electronic money was published on 13 February 2019**.

The Regulation relating to the legal regime of payment services and electronic money and of payment institutions and electronic money institutions was approved on 21 November 2018.

7.12. SEPA *(Single Euro Payments Area)*

The Single Euro Payments Area (SEPA) was created within the European Community to facilitate payments in euros across a supranational geographical area. It is an area in which citizens, businesses and other economic agents can make and receive payments in euros within Europe, inside and outside national borders, under the same conditions and with the same rights and obligations, regardless of where they are located.

SEPA is the European payment system based on common instruments, standards, procedures and infrastructure. In this harmonised scenario, no technical distinctions are made between domestic and international payments, all of which are processed with the same ease, speed, security and efficiency.

Three instruments fall within its most immediate scope: transfers, Direct Debits and instant transfers.

The European Commission laid the legal foundation through successive directives that were transposed by member states over time.

In 2018 the Government initiated relevant contacts with the European Payment Council (EPC), the decision-making and coordinating body of the European banking industry in connection with payment systems, which promotes integration into European payment systems, mainly SEPA.

At the same time, credit institutions were already preparing the technical implementation of the schemes to apply for SEPA membership once the Principality of Andorra was accepted as a member of the SEPA geographical area.

On 5 March 2019, the five credit institutions of the Principality of Andorra, Andbank, MoraBanc, Crèdit Andorrà, BancSabadell d'Andorra and Vall Banc, adhered to SEPA following accession by Andorra on 1 March 2019.

From that moment onwards, Andorran banks were able to send and receive transfers under SEPA schemes (*SEPA Credit Transfer* - SCT). Andorra's credit institutions will progressively adhere to the remaining SEPA schemes, such as *SEPA Direct Debit* (SDD), and *SEPA Instant Credit Transfer* (SCT Inst).

With the inclusion of Andorra, the geographical scope of SEPA schemes now extends to 36 countries; the 28 member states of the European Union, Iceland, Norway, Liechtenstein, Switzerland, Monaco, San Marino, Vatican City and the Principality of Andorra.

7.13. Insurance

It was years ago that the Principality of Andorra took a very decisive step aimed at achieving full standardisation of its financial system in order to facilitate its consolidation and development in the new European and international environment of the 21st century.

Within this context, the Principality of Andorra passed the **Insurance and Reinsurance Law 12/2017** in June 2017 and in December it passed the regulation to complete the first part of the process of adaptation of Andorran law to the European Union's new insurance regime.

The points of reference for updating the legal framework included the opinions of the International Association of Insurance Inspectors and the new Solvency II regime established by the European Union and regulated by Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009, as well as the extensive developing regulations and the rules issued by the Retirement Insurance and Pensions Authority.

The new legal framework assumes the conditions and the background of the current Andorran model, with the peculiarities derived from the limited size of the sector, and introduces some essential changes to guarantee the transparency and solvency of the sector.

The new legal framework entrusts the regulatory and supervisory function to the Andorran Financial Authority, which took over this task in January 2018.

7.14. BEPS

BEPS (*Base Erosion and Profit Shifting*) is a term that describes the tax planning strategies used by multinational corporations to move their profits to countries with little or no taxation.

The OECD introduced the BEPS project in 2013, an initiative to combat these international tax evasion practices. This initiative is constantly updated through the work group created in 2015 to promote an inclusive framework for the implementation of the BEPS project measures developing international standards.

On 7 June 2017, Andorra signed the Multilateral Convention to implement Tax Treaty related measures to Prevent the Base Erosion and Profit Shifting (MLI), which transposes more than 2,000 tax treaties world- wide into an international regulation. The MLI offers governments specific solutions to fight against harmful tax practices, to prevent the abuse of the agreement and a country-by-country report, among other things.

The OECD advises maintaining certain types of fiscal regimes or modifying them in order to guarantee respect for the substantive requirement and transparency that are the defining elements of the BEPS Project.

Within the context of Andorra's commitment to adopt a set of minimum standards and to apply them consistently, the Corporate Income Tax Law was modified to avoid the use of certain tax regimes that may create a potential risk of erosion of corporate tax bases. **Law 6/2018 amending the Corporate Income Tax Law 95/2010 of 29 December** was passed on 19 April 2018.

On 15 November 2018, the OECD Forum on Harmful Tax Practice (FHTP) approved these changes by reaching favourable conclusions on Andorra's special tax regimes and determining that these are no longer potentially harmful.

The European Union took into account the findings of the FHTP in updating its list of countries considered as non-cooperative in taxation matters. Accordingly, on 5 December 2018, the EU published the exclusion of Andorra from the grey list of non-cooperative countries in taxation matters.

At the same time, on 19 October 2018, Andorra adhered to the OECD multilateral agreement that allows for the exchange of information on a country-by-country basis with all the competent authorities signatory to the agreement (reciprocal jurisdictions). This agreement is part of the commitments made to international standards and to the implementation of OECD-led reforms in relation to BEPS.

8 Legislation Andorra's regulatory framework

Tax framework

International regulations, standards and recommendations · International Agreements · Andorran regulations · Bills debated in Parliament

Consolidated text of 7 February 2018 of the Law 21/2014, of 16 October, governing the taxation system.

TAXES CURRENTLY IN FORCE

Taxes	
Corporate Tax (IS)	General 10%
Personal Income Tax (IRPF)	General 10%
Non-resident Income Tax (IRNR)	General 10%
General Indirect Tax (IGI)	General 4.5%
Indirect tax on the provision of insurance services	General 4%
Tax on capital transfers (ITP)	3% communal 1% state

On 20 October 2017 a law was passed on **on the taxation of business reorganisations** reorganisations and the amendment of the corporate income tax law 95/2010 of 29 December; the personal income tax law 5/2014 of 24 April; the tax code law 21/2014 of 16 October; Law 20/2007 of 18 October on corporations and limited liability companies and Law 21/2006 of 14 December on the taxation of capital gains from real estate transactions.

Taxes
Registration tax for business owners
Consumption tax (customs) General rate 0 - 3% (*)
Vehicle tax
Trade Mark Office tax

(*) Special tax rates, e.g. tax on alcohol and tobacco products.

Local tax system
Each municipality has its own regulations, subject to the taxation system in place.

The tax regime established in this law affects not only the direct taxation of corporate reorganisations, i.e., corporate tax, resident and non-resident personal income tax, but rather encompasses all forms of Andorran taxes that can be levied on these types of transactions.

8 Legislation

Tax framework

International regulations, standards and recommendations | International Agreements | Andorran regulations | Bills debated in Parliament

Agreement for the exchange of information in tax matters in accordance with OECD standards.

Paris Declaration

10 March 2009.

Law 3/2009 on the exchange of information in tax matters upon request as amended by Law 12/2014.

Andorra passes **Law 10/2017 on the exchange of information upon request and the spontaneous exchange of information on tax matters** that modifies Law 3/2009.

25 May 2017.

OECD

The OECD creates the BEPS project (to combat tax base erosion and profit shifting)

2013.

The OECD creates a working group to promote an inclusive framework for the implementation of the BEPS package of measures through the development of international standards.

2015.

OECD Forum on harmful tax practices (FHTP).

European Union.

Andorra is excluded from the list of non-cooperative countries in taxation matters.

5 December 2018.

2013
Signing of the convention on mutual assistance in tax matters with the OECD, 5 November 2013.

It is ratified on 28 July 2016.

2015
Signing of the Multilateral Competent Authority Agreement.

(MCAA).

2016
Agreement between Andorra and the European Union relating to the automatic exchange of information in tax matters.

12 February 2016.

Effective from 1 January 2017.

Law 19/2016, of 30 November, on the automatic exchange of information in tax matters.

Effective from 1 January 2017.

Law amended on 30 November 2017 and on 26 July 2018.

Tax information exchange agreements signed with 24 countries, including: Spain, France and Portugal.

Double taxation agreements signed with 8 countries.

Andorra joins the BEPS inclusive framework.

14 October 2016.

Andorra signs the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS.

7 June 2017.

Law 6/2018 **of 19 April is adopted which modifies the Corporate Income Tax Law 95/2010 in order to adapt the law to the anticipated provisions of the BEPS action plan. These include the revision of special tax regimes to preclude unfair tax competition and systems that allow the erosion of taxable bases and the artificial shifting of profits.**

19 April 2018.

Endorsement of the changes relating to Andorra's tax regimes.

15 November 2018.

Andorra adheres to the OECD multilateral agreement that allows for the exchange of information on a country-by-country basis.

19 October 2018.

8 Legislation

Financial framework

International regulations, standards and recommendations | International Agreements | Andorran regulations | Bills debated in Parliament

IMF Report Recommendations: Andorra: *Assessment of the Supervision and Regulation of the Financial Sector.*
August 2002.

IMF Report Recommendations: Andorra: *Assessment of the Supervision and Regulation of the Financial Sector.*
February 2007.

→ Supervision

IOSCO
Directive 2002/47/CE on financial collateral arrangements.
6 June 2002.

→ Signing of the multilateral memorandum of understanding of the International Organization of Securities Commissions (IOSCO).
17 September 2013.

Directive 2004/39/EC on the markets in financial instruments and Directive 2006/73/EC on organisational requirements and operating conditions for investment firms, and defined terms (MiFID).
21 April 2004 and 10 August 2006.

→ MiFID 1

Directive 2013/36/EU on access to the activities of credit institutions and the prudential supervision of credit institutions and investment firms.
26 June 2013.

→ Solvency

Directive 2014/59/EU establishing the framework for the recovery and resolution of credit institutions and investment firms.
16 May 2014.

→ Resolution

Directive 2014/49/EU on deposit-guarantee schemes.
16 April 2014.

Directive 97/9/EC on investor-compensation schemes and subsequent amendments.
3 March 1997.

→ Deposit and investment guarantee scheme

Directive 2002/87/EU on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate.
26 June 2013.

→ Financial conglomerates

Directive 2007/64/EC on payment services in the internal market of 13 November 2007, repealed by Directive 2015/2366 on payment services in the internal market.
25 December 2015.

→ PSD 2

Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)
26 November 2009.

→ Insurance

Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS)
13 July 2009.

→ Collective Investments

Consolidated text of Law 10/2013, of 23 May 2013, on the Andorran National Institute of Finance.

24 July 2019.

Consolidated text of Law 35/2010, of 3 June, on the authorisation regime for the creation of new institutions operating in the Andorran financial system.

19 February 2020.

Consolidated text of Law 8/2013, of 9 May, on the organisational requirements and operating conditions of entities operating in the financial sector, investor protection, market abuse and financial collateral agreements.

19 February 2020.

Consolidated text of Law 7/2013, of 9 May, on the legal regime of entities operating in the Andorran financial sector and other provisions regulating the pursuit of financial activities in Andorra.

19 February 2020.

A decree approving new accounting plan based on IFRS-EU is approved on 22 December 2016.

Law 35/2018 on the solvency, liquidity and prudential supervision of credit institutions and investment firms.

20 December 2018.

Law 8/2015 on urgent measures for introducing mechanisms for the recovery and resolution of banking institutions.

26 April 2015.

Amendment of the law in parliamentary procedure.

Consolidated text of Law 20/2018 of 13 September regulating Andorra's Deposit guarantee scheme and the Andorran investment guarantee scheme.

4 March 2020.

Law 36/2018 on financial conglomerates.

20 December 2018.

Consolidatd text of Law 8/2018 ad Law 27/2018 on payment services and electronic money.

6 February 2019.

Law 12/2017 on the operation and supervision of insurance and reinsurance activities of the Principality of Andorra.

22 June 2017.

Law 10/2008 on the regulation of collective investment undertakings under Andorran law.

12 June 2008.

8 Legislation

Framework of prevention and combating of money laundering and the financing of terror

International regulations, standards and recommendations | International Agreements | Andorran regulations | Bills debated in Parliament

International regulations, standards and recommendations

Convention on laundering, search, seizure and confiscation of the proceeds from crime, ratified on 8 November 1999.

Criminal convention on corruption adopted in Strasbourg on 27 January 1999 and ratified on 18 October 2007.

International convention for the suppression of counterfeiting currency adopted in Geneva on 20 April 1929 and ratified on 22 March 2007.

Council of Europe Convention on the prevention of terrorism adopted in Warsaw on 16 May 2005 and ratified on 6 May 2008.

International convention for the suppression of the financing of terrorism adopted in New York on 9 December 1999 and ratified on 12 June 2008.

Moneyval's Evaluation Reports
1999-2002
2002-2003
2005-2008
2011-2015
September 2017: approval of the report on the 5th evaluation.
December 2018: 1st follow-up report to the 5th evaluation.
December 2019: 2nd follow-up report to the 5th evaluation.

Directive 2005/60/EC of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing, 26 October 2005
(3th Directive).

Directive 2015/849 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing, 20 May 2015
(4th Directive).

Directive 2006/70/EC of 1 August 2006 on the definition of politically exposed person and the technical criteria for simplified customer due diligence procedures, 1 August 2006.

Regulation 1781/2006 of 15 November 2006 on information on the payer accompanying transfers of funds, 15 November 2006.

Recommendations of the Group of States Against Corruption (GRECO).

Recommendations of the Financial Action Task Force (FATF).

STANDARDISATION

rism

Andorran regulations

Consolidated text of qualified Law 9/2005 of 21 February on the Criminal Code. This includes tax offences as a **predicate offence for money laundering.**

25 October 2017.

Consolidated text of the qualified law amending the Criminal Procedure Code of 10 December 1998.

25 October 2017.

Law 21/2019 amending Law 14/2017 on the prevention and combating of money laundering and the financing of terrorism.

28 November 2019.

Law on international legal cooperation in criminal matters.

Regulation governing the recording of, and access to, information on the beneficial owners of legal entities.

5 September 2018.

Annex 1

Information on the Andorran banking sector

ANDORRA'S BANKING SECTOR

The Andorran banking sector is made up of five banks with more than 85 years' experience in the banking business. The banks' main areas of business are private banking and asset management, insurance, and retail banking for both individuals and companies. Andorra's financial institutions operate in international markets through their subsidiaries in accordance with international regulatory standards and best practices.

Banking is a key sector of the Andorran economy as it accounts for nearly 20% of GDP, but also due to its implications for society as a driver of change. It is characterised by its prudent management approach, high solvency ratios above the European average due to the specificity of the business and the country, high qualification and specialisation in both commercial and private banking, but above all by its role within society.

THE BANKING SECTOR IS ONE OF THE DRIVING FORCES OF THE ANDORRAN ECONOMY AND HAS BEEN A KEY PLAYER IN PROVIDING LIQUIDITY TO THE SYSTEM DURING THE COVID-19 CRISIS

THE FINANCIAL SYSTEM, TOGETHER WITH THE INSURANCE SYSTEM, ACCOUNTS FOR APPROXIMATELY 20%OF GDP

The banking sector, which employs highly qualified people and operates in an environment of political and social stability in a country with more than 700 years of history, tradition and dynamism, is regulated and supervised by the Andorran Financial Authority (AFA) and by the Financial Intelligence Unit (UIFAND), an independent body that promotes and coordinates measures against money laundering and the financing of terrorism.

A consolidated business model

Over the last decade Andorra's financial system has faced constant regulatory changes in international legislation, including the implementation of regulations in matters of tax transparency, measures for international criminal cooperation and the fight against money laundering and the financing of terrorism, as well as banking regulation.

The Andorran banking sector has become a business model adapted to the changes that have occurred in the marketplace and the environment. The trend in the industry has been to prioritise technological investment, especially in digital transformation projects to better serve our clients, and to focus on upgrading the equipment and processes to implement in record time the regulatory revolution that European banks have also faced.

Digital transformation has been one of the fundamental pillars that have enabled banks to successfully deal with the global COVID-19 crisis.

2019 has been the first year in which banks report the solvency ratio according to the European criteria of Basel III following the entry into force, in January 2019, of the Law 35/2018 on solvency, liquidity and prudential supervision of financial institutions and investment firms. This has been a key achievement in completing the process of full standardisation of the Andorran financial system.

The CET 1 (phase-in) solvency ratio was 17.48% as at 31 December 2019, above the average of European banks (which was 14.8% according to ECB data on 31 December 2019).

THE BANKING SECTOR ENJOYS EXCELLENT SOLVENCY AND LIQUIDITY RATIOS

Confidence in the Andorran banking sector has been further strengthened by Moneyval's latest reports, which highlight the efforts made by Andorra in terms of the prevention of money laundering and its recognition as a cooperating country according to ECOFIN.

Annex 1

Providing added value services

Strong internationalisation

Sustainability and profitability

Andorran banks closed the year 2019 with an improvement in the main business indicators, including profits, volume of assets under management, credit investment, profitability and solvency ratio, and with a very positive outlook for 2020. In its latest publication of 20 April, Fitch Ratings pointed out that Andorran banks are now better capitalised than in the 2011 crisis and have more professionalised management and corporate governance policies in place in line with international standards. The new banking model is consolidated.

As at 31 December 2019, Andorran banks Andbank, MoraBanc, Crèdit Andorrà, BancSabadell d'Andorra and Vall Banc together had a total of 49.71 billion euros worth of assets under management, a figure that has increased by 11% compared to 2018 and which has doubled over the last decade.

There has been a significant increase in aggregate profits of 12.5% compared to the previous year, to 112 million euros. Despite the economic environment of low interest rates and the continuous adaptation to international banking regulations, which involves higher provisioning requirements and significant technological investments, banks have managed to transform their business and return to growing profits.

The banking sector in Andorra remains solid and strong with outstanding solvency ratios, a financial return of 7.70% (ROE) above the European average of 5.80%, and a high capacity to provide financing for the community.

Also, the unexpected appearance of the SARS-CoV-2 (COVID-19) health epidemic is sending shock waves through the global economy, and its impact on the Andorran economy has yet to be assessed.

MAIN CHARACTERISTICS OF THE ANDORRAN BANKING SECTOR

Global community banking: the development of the banking sector has been driven by the provision of value-added services and strong internationalisation, based on sustainable and profitable growth.

Providing added value banking services: the business model of Andorran banks is based on providing the best private banking and asset management services to customers and stimulating dynamism in the real economy through commercial banking services aimed at both individuals and businesses. The digitalisation process experienced by financial institutions significantly contributes to providing our customers with products that meet their digital needs.

Strong internationalisation: the ambitious growth and diversification strategy of Andorran banks hinges on a universal banking model with a sharp focus on services and strong internationalisation. The Andorran banking sector is present in Europe, the United States, South America and the Middle East.

Sustainable and profitable growth: the assets managed by Andorran banks have doubled over the past ten years, with a clear acceleration from 2011. Despite this rapid growth, Andorran banks have maintained healthy liquidity and solvency ratios, which have been a historical characteristic of Andorra's financial system.

Annex 1

CONSOLIDATED AGGREGATE BALANCE SHEETS OF ANDORRAN BANKS

(Thousand euros)

Assets	2019	% / Total	2018	% / Total	Var. (%) 19-18
Cash, cash at central banks and other sight deposits	1,724,498	11.62%	2,021,332	14.47%	(14.69%)
Financial assets held for trading	322,915	2.18%	339,723	2.43%	(4.95%)
Financial assets not held for trading that must be valued at fair value with changes in income	670,540	4.52%	633,087	4.53%	5.92%
Financial assets at fair value with changes in the income statement	59,020	0.40%	43,058	0.31%	37.07%
Financial assets at fair value with changes in the other comprehensive income	1,845,715	12.44%	1,565,745	11.21%	17.88%
Financial assets at amortised cost	8,681,997	58.50%	8,101,214	57.99%	7.17%
Derivatives - Hedge accounting	937	0.01%	191	0.00%	N/A
Changes in the fair value of hedging elements of a portfolio with interest risk hedging	28,743	0.19%	26,170	0.19%	9.83%
Investments in jointly-controlled businesses and associates	73,339	0.49%	40,042	0.29%	83.16%
Assets covered under insurance and reinsurance contracts	41,825	0.28%	46,618	0.33%	(10.28%)
Tangible assets	535,461	3.61%	342,123	2.45%	56.51%
Intangible assets	453,961	3.06%	430,083	3.08%	5.55%
Tax assets	57,794	0.39%	69,056	0.49%	(16.31%)
Other assets	207,005	1.39%	155,611	1.11%	33.03%
Disposable non-current assets held for sale	136,946	0.92%	155,801	1.12%	(12.10%)
TOTAL ASSETS	**14,840,696**	**100.00%**	**13,969,852**	**100.00%**	**6.23%**

Liabilities	2019	% / Total	2018	% / Total	Var. (%) 19-18
Financial liabilities held for trading	101,619	0.68%	109,012	0.78%	(6.78%)
Financial liabilities at fair value with changes in the income statement	454,444	3.06%	468,777	3.36%	(3.06%)
Financial liabilities at amortised cost	12,036,738	81.11%	11,335,673	81.14%	6.18%
Derivatives - Hedge accounting	53,147	0.36%	49,300	0.35%	7.80%
Changes in the fair value of hedging elements of a portfolio with interest risk hedging	794	0.01%	782	0.01%	1.53%
Liabilities covered under insurance and reinsurance contracts	340,994	2.30%	358,972	2.57%	(5.01%)
Provisions	79,757	0.54%	76,874	0.55%	3.75%
Tax liabilities	26,548	0.18%	28,501	0.20%	(6.85%)
Other liabilities	220,222	1.48%	180,736	1.29%	21.85%
Liabilities in groups of disposable items held for sale	-	-	352	-	-
TOTAL LIABILITIES	**13,314,263**	**89.71%**	**12,608,980**	**90.26%**	**5.59%**

Net Equity	2019	% / Total	2018	% / Total	Var. (%) 19-18
Capital	245,470	1.65%	244,780	1.75%	0.28%
Issue premium	142,391	0.96%	73,441	0.53%	93.88%
Issued equity Instruments other than capital	35,000	0.24%	35,000	0.25%	-
Other cumulative results	(2,546)	(0.02%)	(9,961)	(0.07%)	(74.44%)
Accumulated profits	697,547	4.70%	566,861	4.06%	23.05%
Revaluation reserves	2,288	0.02%	2,933	0.02%	(21.99%)
Other reserves	285,709	1.93%	339,808	2.43%	(15.92%)
Own shares (-)	(2,760)	(0.02%)	(2,746)	(0.02%)	0.51%
Result attributed to majority shareholder	111,883	0.75%	99,559	0.71%	12.38%
Interim dividend (-)	-	-	-	-	-
Shareholders' equity	**1,514,982**	**10.21%**	**1,349,675**	**9.66%**	**12.25%**
Minority interests	**11,451**	**0.08%**	**11,197**	**0.08%**	**2.27%**
TOTAL NET EQUITY	**1,526,433**	**10.29%**	**1,360,872**	**9.74%**	**12.17%**
TOTAL LIABILITIES AND NET EQUITY	**14,840,696**	**100.00%**	**13,969,852**	**100.00%**	**6.23%**

* The figures for 2018 are given for comparative purposes only.

Annex 1

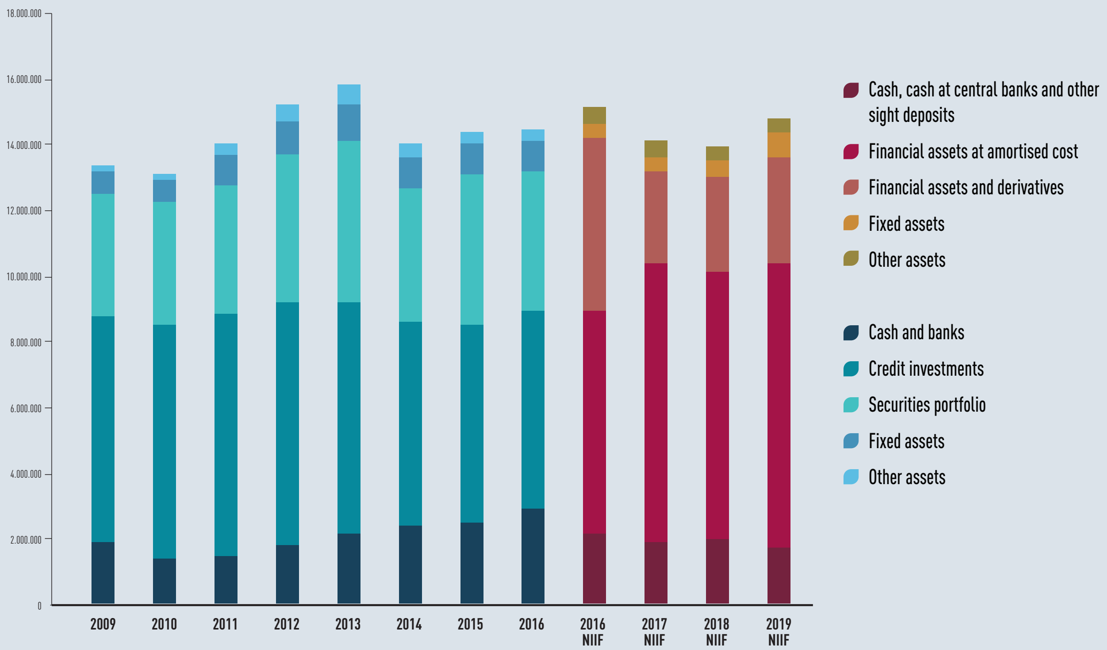
AGGREGATE ASSETS

The three major components of the aggregate assets of Andorran banks are “Financial assets at amortised cost”, which account for 58.50% of total assets and which include credit investment, among others, and “Financial assets at reasonable value with changes in the other comprehensive income”, which account for 12.44% of total assets. The third component is "Cash, Cash at Central Banks and Other Sight Deposits" which accounts for 11.62% of total assets and includes "Cash and central banks, OECD, INAF and Financial Intermediaries".

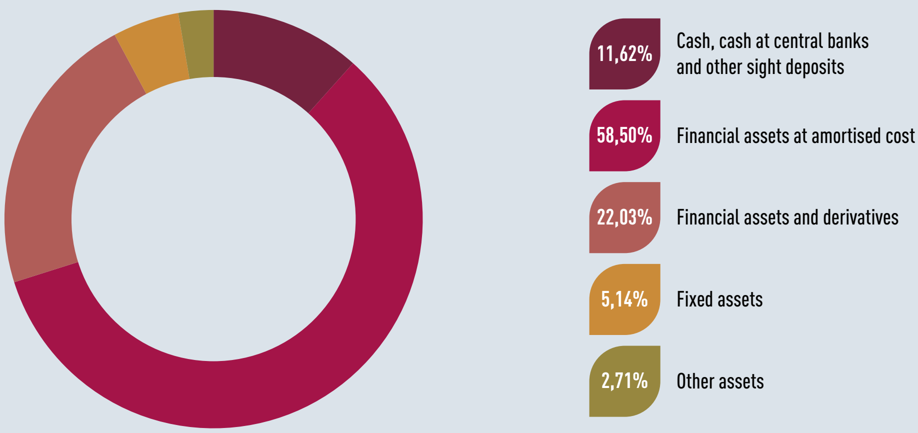
The structure of Andorran banks' balance sheets reflects the type of business pursued, mainly private banking and asset management services. Retail banking activities are carried out in Andorra only.

Changes in aggregate assets 2009-2019

Thousand euros



Composition of aggregate assets 2019



Annex 1

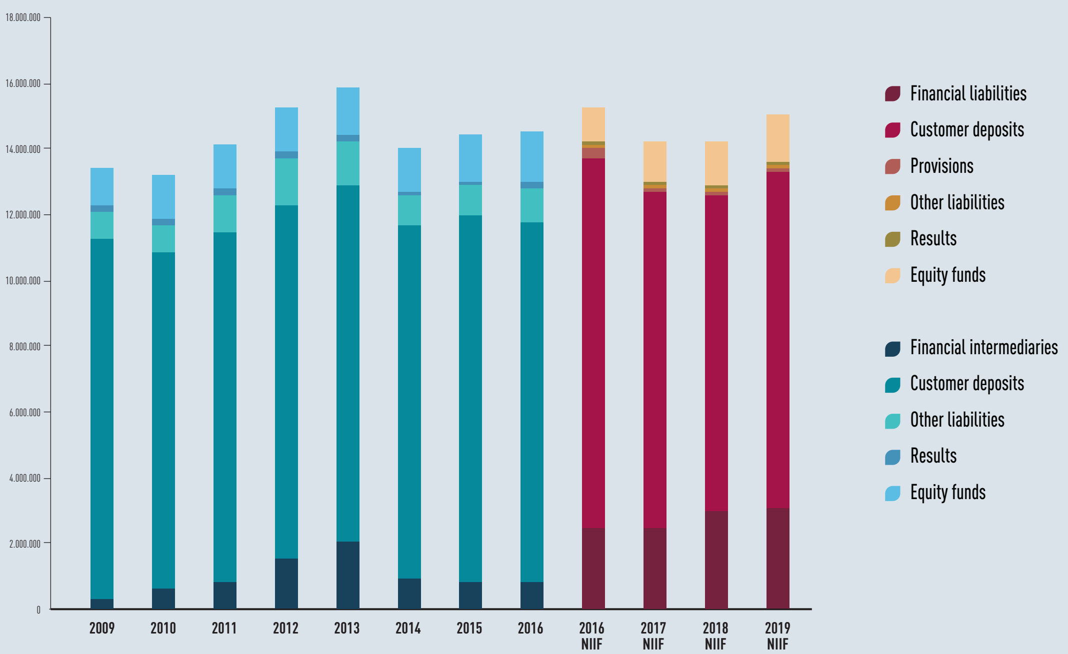
AGGREGATE LIABILITIES

After the global economic crisis that broke out in 2008, the balance sheets of Andorran banks started to increase again in 2010. The decrease in the balance sheets for the financial year 2014 is due to the intervention and subsequent resolution of BPA, SA in 2015, and, therefore, the financial statements of BPA, SA at 31 December 2014 and thereafter are not available. The evolution of client deposits has been marked both by changes in interest rates and, as a result of the developments in global capital markets, by the change of business model and the expansion policy pursued by credit institutions.

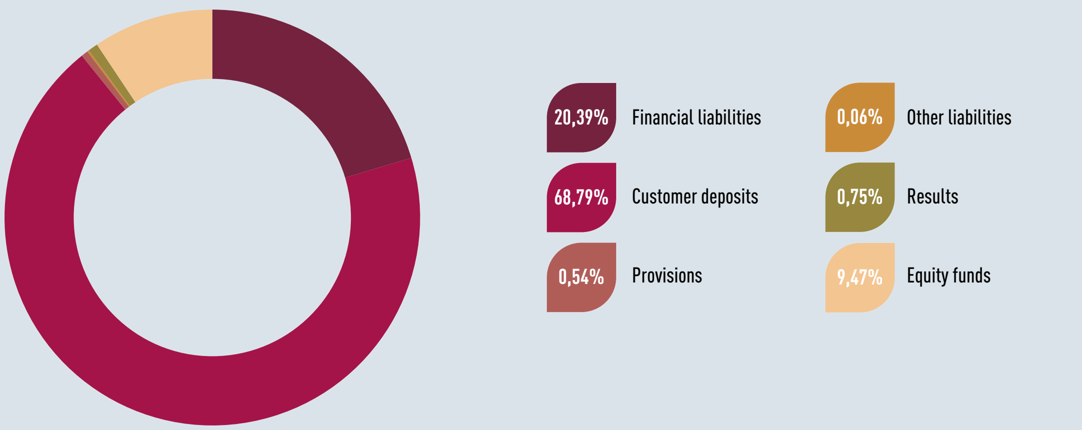
The composition of aggregate liabilities at the end of the financial year 2019 for Andorran banks was characterised by the significant relative weight of "Client deposits", which account for 68.82% of aggregate liabilities. As at 31 December 2019, total "client deposits" stood at 10,208 million euros, 7.12% less than the previous financial year, and were classified under the heading "Financial liabilities at amortised cost". "Shareholders' equity" accounts for 10.21% and "Results" for 0.75%.

Changes in aggregate liabilities 2009-2019

Thousand euros



Composition of aggregate liabilities 2019



Annex 1

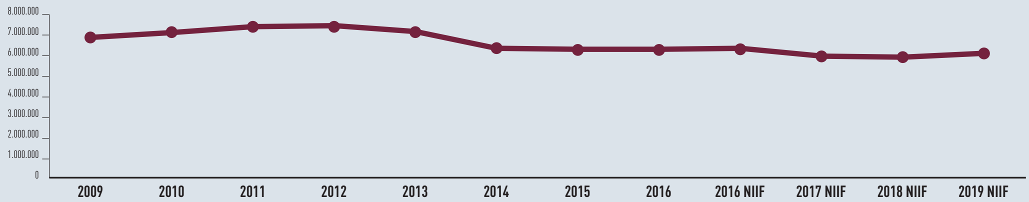
GROSS CREDIT INVESTMENT

In recent years, the evolution of gross credit investment has been marked mainly by the impact of the economic cycle and by an increased prudence in the granting of credit by financial institutions.

Despite this, Andorran banks show signs of a slight economic growth due to increasing demand for credit investment. Global credit investment stood at 6.09 billion euros, 3.11% more than the previous year.

Changes in aggregate gross credit investment 2009-2019

Thousand euros



Risk exposure is managed and monitored closely based on regular checks of borrowers' creditworthiness and their ability to meet their repayment obligations, adjusting the exposure limits set by each counterparty and using the provision of collateral and guarantees in favour of borrowers. As far as guarantees are concerned, the total credit investment granted with real collateral is 82.40%. Of these, 21.89% are securities collateral, 52.36% are mortgage guarantees and 8.15% are cash collateral.

Guarantees for lending investments 2019

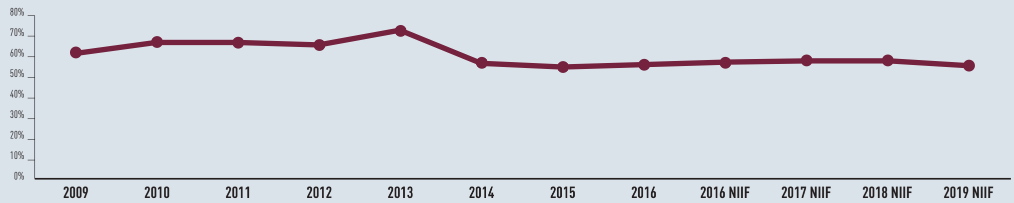
With respect to credit quality, credit exposures are classified according to the credit risk at the following *stages*: Stage 1 is 77.31% for transactions that do not have significant risk increases, Stage 2 is 14.10% for transactions that have significant risk increases, Stage 3 is 8.58% for transactions that raise reasonable doubts as to their repayment in full. The default ratio as at 31 December 2019 was 5.32%, without taking account of Vall Banc's portfolio in run-off.

Gross credit investment ratio to customer liabilities

The aggregate gross credit investment ratio to customer liabilities remains above 50%, a distinguishing feature of private banking. It should be noted that the average rate for European banks is 114.8%, double that of Andorran banks, a sign of the liquidity available to Andorran banks.

Changes in gross credit investment ratio to aggregate customer liabilities 2009-2019

Thousand euros



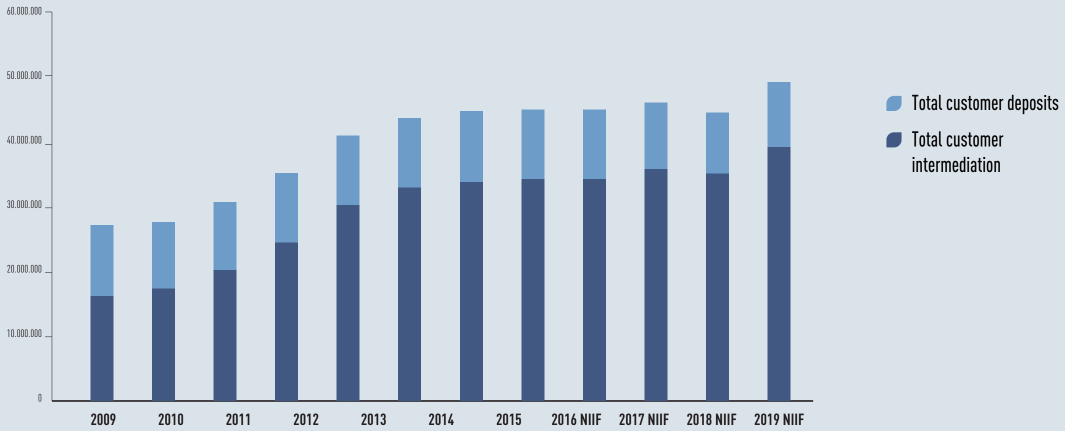
Annex 1

AGGREGATE ASSETS UNDER MANAGEMENT

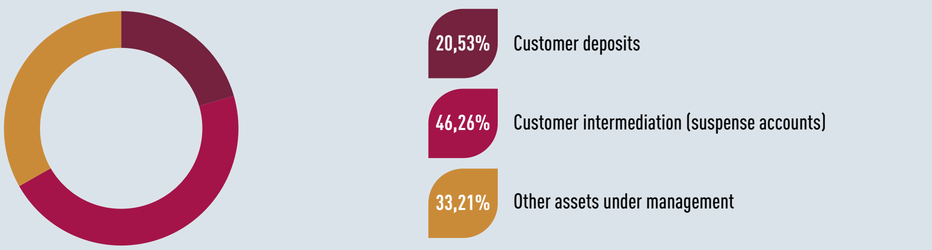
The total assets managed by Andorran banks are made up of customer deposits (on-balance-sheet) and intermediation services for custodies and non-custodied customers (off-balance-sheet). As at 31 December 2019, assets under management totalled 44.71 billion euros, 11% more than in 2018. Client deposits amounted to 10.2 billion euros as at 31 December 2018, 7.12% more than the previous year, and off-balance sheet resources increased by 11.61%, which shows that 2019 has been an outstanding year in terms of the performance of stock market indices and fixed income securities.

Changes in aggregate assets under management 2009-2019

Thousand euros

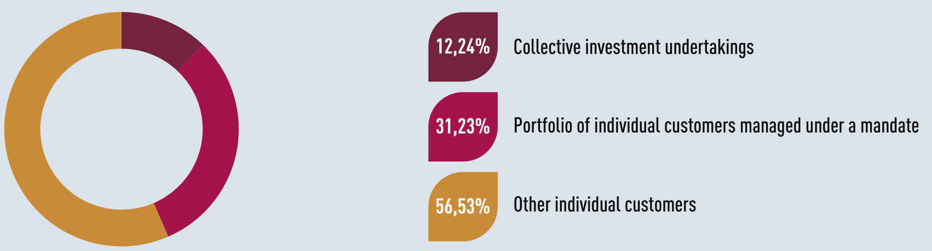


On- and off-balance-sheet assets under management 2019



Assets under management deposited by the institution or by third parties 2019

Assets under management by customer type 2019



Annex 1

CONSOLIDATED AGGREGATE PROFIT AND LOSS ACCOUNTS OF ANDORRAN BANKS

(Thousand euros)	2019	2018	Var. (%) 19-18
Interest income	174,738	179,175	(2.48%)
Interest expenses	(70,766)	(69,484)	1.85%
Dividend income	2,083	2,128	(2.11%)
Interest margin	**106,055**	**111,819**	**(5.15%)**
Commissions earned	388,142	383,136	1.31%
Commissions paid	(99,459)	(90,072)	10.42%
Base margin	**394,738**	**404,883**	**(2.51%)**
Gains or losses when writing off financial assets and liabilities not valued at fair value with changes in income (net)	29,161	14,885	95.91%
Results of enterprises carried using the equity method	209	(30)	N/A
Results from financial transactions	110,680	64,697	71.07%
Results on assets and liabilities covered under insurance and reinsurance contracts	-	-	-
Other operating income	28,371	22,610	25.48%
Other operating expenses	(9,183)	(8,954)	2.56%
Other income and expenses from assets and liabilities used for insurance or reinsurance contracts	3,909	3,706	5.48%
Operating profit or loss	**557,885**	**501,796**	**11.18%**
Administrative expenses	(370,983)	(378,720)	(2.04%)
Staff costs	(224,618)	(219,563)	2.30%
Other general administrative expenses	(146,365)	(159,157)	(8.04%)
Amortisation	(58,002)	(35,247)	64.56%
Provisions funded (net)	(6,102)	(1,717)	N/A
Net impairment of financial assets not recognised at fair value with changes in profit and loss	1,857	17,670	(89.49%)
Net impairment of investments in jointly-controlled companies or associates	(300)	-	-
Net impairment of non-financial assets	(2,237)	(589)	N/A
Negative goodwill recognised in income	-	2,651	-
Participation in gains or losses from investments in subsidiaries, joint ventures and associates	2,602	4,448	(41.50%)
Gains or losses from non-current assets and disposal groups classified as held for sale not admissible as discontinued operations	2,619	2,727	(3.96%)
Profit before tax	**127,339**	**113,019**	**12.67%**
Corporation tax	(14,616)	(13,144)	11.20%
Results for the year from continuing operations	**112,723**	**99,875**	**12.86%**
Results from discontinued operations (net)	(213)	320	N/A
PROFIT/(LOSS) FOR THE YEAR	**112,510**	**100,195**	**12.29%**
Attributed to majority shareholder	**111,883**	**99,559**	**12.38%**
Attributed to minority shareholders	**627**	**636**	**(1.42%)**

* The data for 2018 are given for comparative purposes only.

Annex 1

As far as results are concerned, Andorran banks closed the year with an attributed net profit of 112 million euros, which represents an increase of 12.38% over the previous year. These positive results have been achieved despite the economic environment of low interest rates that has put downward pressure on the financial margin, the continuous adaptation to international banking regulations, increasing the costs of complying with the new European banking sector regulations (see the graph below which shows the development of the transformation process over the last 10 years), and the significant technological investments which have enabled financial institutions to be closer to their customers in these difficult times of the COVID-19 crisis.

Andorran banks closed the previous year with an ROE (the return earned by the shareholders of the funds invested in the company) of 7.70%, which is above the ROE of the average for European banks, at 5.8% according to the EBA (*European Banking Association*).

The graph showing the changes in aggregate own funds highlights the impact of the first application of International Financial Reporting Standards ("IFRS") as at 1 January 2017, and the subsequent recovery to levels prior to the first application of IFRSs.

The aggregate result for the sector amounts to

112

million euros

Andorran banks ended the year 2019 with a

7.70%

above the European banks' average of 5.8% according to data from the EBA (*European Banking Association*)

EVOLUTION OF THE ANDORRAN BANKING SECTOR'S INCOME STATEMENT

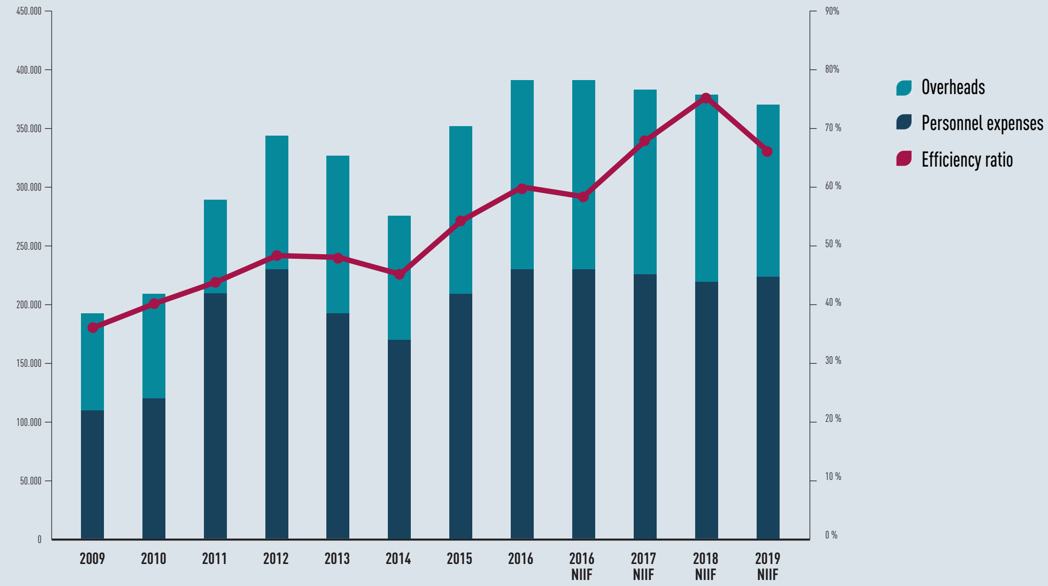
Changes in aggregate operating profit or loss and composition 2009-2019

Thousand euros

Annex 1

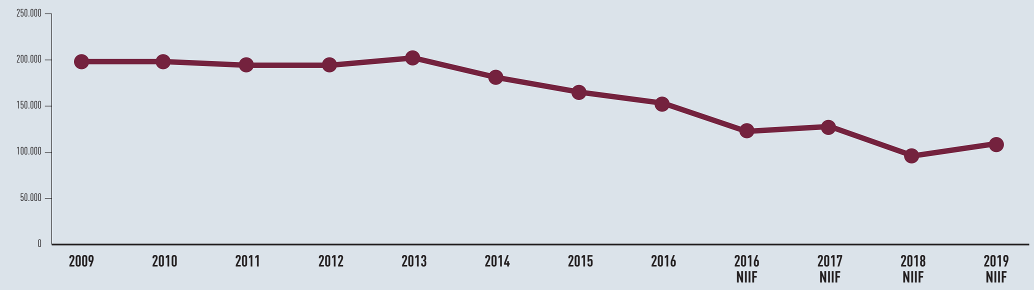
Changes in the composition of transformation expenses and efficiency ratio 2009-2019

Thousand euros



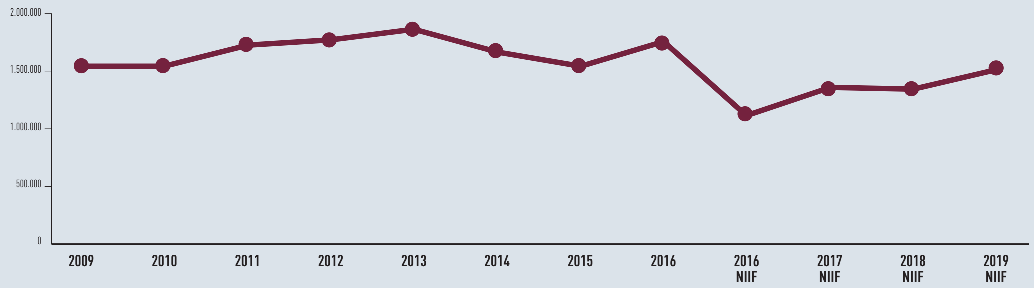
Changes in aggregate result 2009-2019

Thousand euros



Changes in aggregate equity funds 2009-2019

Thousand euros



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SOLVENCY AND LIQUIDITY

On 20 December 2018, the General Council approved Law 35/2018 on the solvency, liquidity and prudential supervision of credit institutions and investment firms, which transposes European Directive 2013/36/EU (known as CRDIV) into Andorra's legal system. This involves a significant step forward in the prudential banking framework compared to the legislation in force until now, i.e. the law of 29 February 1996 laying down the solvency and liquidity criteria for financial institutions.

Among the most significant changes introduced, it is worth highlighting the distinction made between the various capital elements according to their capacity to absorb losses; the introduction of more demanding requirements when it comes to considering capital instruments as own equity elements; capital cushion rules; the self-assessment of risk for each institution in collaboration with the AFA (Andorran Financial Authority); the need to raise additional capital to cover risks that are not captured in the total amount of exposure to the risks identified in the supervisory review and evaluation processes; market transparency regarding the fulfilment of solvency and liquidity requirements by credit institutions; and, lastly, the mandatory information to be disclosed by the AFA in relation to financial regulation and supervision. These requirements will be progressively introduced through various transitional provisions which, in some cases, will extend until 2023.

The CET 1 (*phase-in*) solvency ratio was 17.48% as at 31 December 2019, i.e. above the average for European banks (14.8%). 2019 has been the first year in which banks report the solvency ratio according to the European criteria of Basel III following the entry into force, in 24 January 2019, of the Law 35/2018 on the solvency, liquidity and prudential supervision of financial institutions and investment firms.

At the end of 2019, the aggregate solvency ratio CET 1 (*phase-in*) was

17.48%

above the European banks' average (14.8%).

At the end of 2019, the aggregate liquidity ratio stood at

223.05%

above the European banks' average (149.9%).

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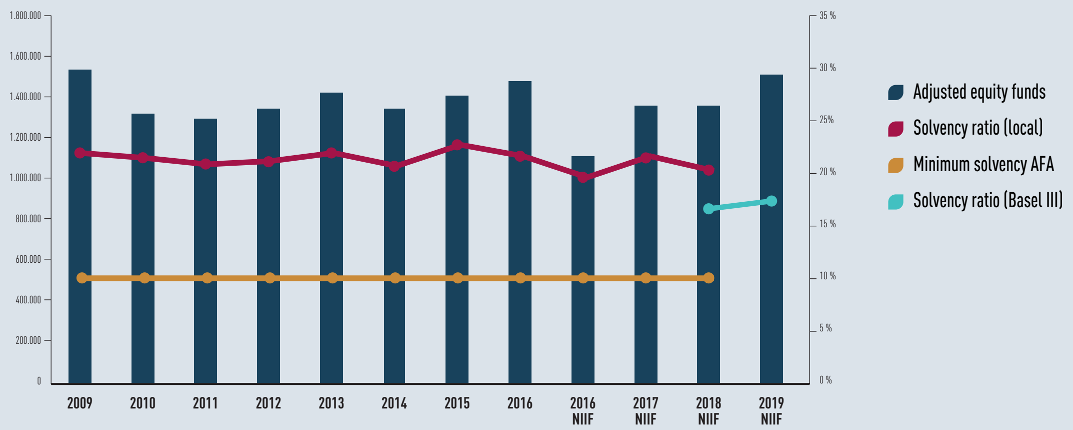
Solvency - Liquidity ratios according to Basel III

	Solvency	Liquidity
	2019	2019
ANDBANK	13.61%	267.33%
GRUP MORABANC	26.03%	369.23%
GRUP CRÈDIT ANDORRÀ	15.13%	147.04%
BANCSABADELL D'ANDORRA	21.71%	406.90%
VALL BANC	21.10%	420.68%
AGGREGATE RATIO	**17.48%**	**223.05%**

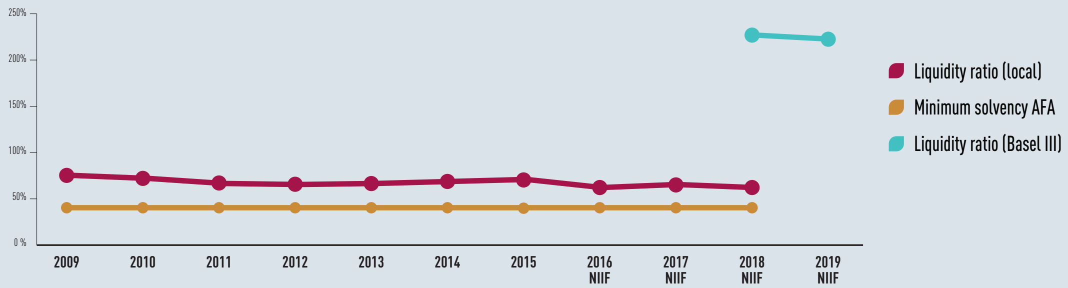
Changes in solvency ratio and adjusted equity funds 2009-2019

Thousand euros



Changes in aggregate liquidity ratio 2009-2019

Thousand euros



The Andorran Deposit Guarantee Scheme and the Andorran Investment Guarantee Scheme are governed by Law 20/2018, of 13 September, relating to the Andorran Deposit Guarantee Fund and the Andorran Investment Guarantee System, which transposes Directive 2014/49/EU on deposit guarantee schemes and Directive 97/9/EC on investor-compensation schemes, and which allows compliance with EU legislation as regards the protection of deposit holders with credit institutions in the Principality of Andorra and of investment holders with credit institutions and investment firms in the Principality of Andorra.

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AVERAGE RETURN ON EQUITY (ROE)

	2018	2019
ANDBANK	5.38%	5.36%
GRUP MORABANC	8.60%	8.45%
GRUP CRÈDIT ANDORRÀ	8.43%	10.62%
BANCSABADELL D'ANDORRA	12.94%	11.38%
VALL BANC	3.83%	1.98%
AGGREGATE RATIO	**7.31%**	**7.70%**

AVERAGE RETURN ON ASSETS (ROA)

	2018	2019
ANDBANK	0.61%	0.61%
GRUP MORABANC	0.88%	0.83%
GRUP CRÈDIT ANDORRÀ	0.67%	0.85%
BANCSABADELL D'ANDORRA	1.32%	1.20%
VALL BANC	0.27%	0.24%
AGGREGATE RATIO	**0.71%**	**0.76%**

RATINGS

Another indicator of banks' solvency are the ratings published by specialist agencies such as Fitch Ratings, Moody's or Standard & Poor's.

As far as Andorra's sovereign rating is concerned, in its review of 17 January 2020 Standard & Poor's reaffirmed Andorra's long- and short-term rating of BBB/A-2 and maintained its positive outlook from July 2019.

On 24 April 2020 the agency confirmed Andorra's "BBB/A-2" rating and downgraded the outlook from positive to stable due to the COVID-19 crisis.

Due to the pandemic and in line with its neighbouring countries, the agency expects a strong impact on the Andorran economy and on government debt as a result of the adjustments imposed by the executive.

However, it should be pointed out that the sound budgetary and fiscal policy pursued by the Principality of Andorra over the last few years means that the country is well-positioned to address these new challenges. The negative effect of the crisis should be limited to 2020 only as the following years should see a return to sustained growth.

The agency also positively values the procedure of accession to the International Monetary Fund, as well as its willingness to sign an Association Agreement with the European Union to gain access to the internal market. It also stresses that the reform of the tax system and financial sector remains a priority for Andorra as the country strives to come into line with international standards.

In its latest assessment of 31 January 2020, Fitch Ratings reaffirmed Andorra's BBB+

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rating with a stable outlook. The rating agency further highlights the progress made by the Principality in negotiating an Association Agreement with the European Union and in fulfilling its international commitments in terms of transparency and tax cooperation, as reflected in Moneyval's latest evaluation.

In its evaluation of 20 April, Fitch rated Andbank at BBB and MoraBanc Group and Crèdit Andorrà Group at BBB-. The agency pointed out that Andorran banks are better capitalised than in the 2011 crisis and have more professionalised management and corporate governance policies in place in line with international regulations.

	Ratings		Agency
	Long term	**Short term**	
ANDBANK	BBB	F3	Fitch Ratings
GRUP MORABANC	BBB-	F3	Fitch Ratings
GRUP CRÈDIT ANDORRÀ	BBB-	F3	Fitch Ratings
BANCSABADELL D'ANDORRA (*)	-	-	-
VALL BANC	-	-	-

(*) 51% owned by Banc de Sabadell.

Fitch Ratings report as at 20 April 2020.

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Information on the Andorran banking sector
Andorran banking groups

ANDBANK
Private Bankers

ANDORRA BANC AGRÍCOL REIG, SA

Ed. Centre de Negoci
C/ Manuel Cerqueda i Escaler, 4-6
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(Principat d'Andorra)

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Honorary chairman	Mr Òscar Ribas Reig
Chairman	Mr Manel Cerqueda Donadeu
Vice-Chairman	Mr Oriol Ribas Duró
General Manager	Mr Ricard Tubau Roca
Deputy Director-General for Treasury and Capital Markets	Mr Santiago Mora Torres
Deputy Director-General for Intervention and Control	Mr Josep X. Casanovas Arasa

As at 31 December 2019.

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Source: Bank's annual report

ANDBANK Private Bankers

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2018 AND 2019

(Thousand euros)

Assets	2019	% / Total	2018	% / Total	Var. (%) 19-18
Cash, cash at central banks and other sight deposits	1,058,885	23.15%	1,433,393	32.26%	(26.13%)
Financial assets held for trading	174,198	3.81%	201,326	4.53%	(13.47%)
Financial assets not held for trading that must be valued at fair value with changes in income	10,073	0.22%	56,655	1.28%	(82.22%)
Financial assets at fair value with changes in the income statement	-	-	-	-	-
Financial assets at fair value with changes in the other comprehensive income	514,318	11.24%	418,702	9.42%	22.84%
Financial assets at amortised cost	2,185,554	47.78%	1,880,725	42.33%	16.21%
Derivatives - Hedge accounting	822	0.02%	-	-	-
Changes in the fair value of hedging elements of a portfolio with interest risk hedging	4,609	0.10%	3,809	0.09%	21.00%
Investments in jointly-controlled businesses and associates	2,862	0.06%	2,978	0.07%	(3.90%)
Assets covered under insurance and reinsurance contracts	4,520	0.10%	6,863	0.15%	(34.14%)
Tangible assets	146,987	3.21%	30,989	0.70%	N/A
Intangible assets	293,510	6.42%	268,171	6.04%	9.45%
Tax assets	27,499	0.60%	31,764	0.71%	(13.43%)
Other assets	126,002	2.75%	74,316	1.67%	69.55%
Disposable non-current assets held for sale	24,674	0.54%	33,295	0.75%	(25.89%)
TOTAL ASSETS	**4,574,513**	**100.00%**	**4,442,986**	**100.00%**	**2.96%**

* The figures for 2018 are given for comparative purposes only.

Annex 1

Source: Bank's annual report

ANDBANK
Private Bankers

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2018 AND 2019

(Thousand euros)

Liabilities	2019	% / Total	2018	% / Total	Var. (%) 19-18
Financial liabilities held for trading	53,663	1.17%	66,227	1.49%	(18.97%)
Financial liabilities at fair value with changes in the income statement	-	-	-	-	-
Financial liabilities at amortised cost	3,858,847	84.36%	3,727,811	83.90%	3.52%
Derivatives - Hedge accounting	5,224	0.11%	7,322	0.16%	(28.65%)
Changes in the fair value of hedging elements of a portfolio with interest risk hedging	-	-	-	-	-
Liabilities covered under insurance and reinsurance contracts	4,520	0.10%	6,863	0.15%	(34.14%)
Provisions	22,740	0.50%	17,479	0.39%	30.10%
Tax liabilities	14,632	0.32%	18,485	0.42%	(20.84%)
Other liabilities	77,728	1.70%	82,155	1.85%	(5.39%)
Liabilities in groups of disposable items held for sale	-	-	-	-	-
TOTAL LIABILITIES	**4,037,354**	**88.26%**	**3,926,342**	**88.37%**	**2.83%**

(Thousand euros)

Net Equity	2019	% / Total	2018	% / Total	Var. (%) 19-18
Capital	78,842	1.72%	78,842	1.77%	-
Issue premium	73,441	1.61%	73,441	1.65%	-
Issued equity Instruments other than capital	35,000	0.77%	35,000	0.79%	-
Other cumulative results	(2,713)	(0.06%)	(8,334)	(0.19%)	(67.45%)
Accumulated profits	427,156	9.34%	411,782	9.27%	3.73%
Revaluation reserves	-	-	645	0.01%	-
Other reserves	(101,496)	(2.22%)	(100,982)	(2.27%)	0.51%
Own shares (-)	(1,927)	(0.04%)	(1,927)	(0.04%)	-
Result attributed to majority shareholder	28,040	0.61%	27,078	0.61%	3.55%
Interim dividend (-)	-	-	-	-	-
Shareholders' equity	**536,343**	**11.72%**	**515,545**	**11.60%**	**4.03%**
Minority interests	**816**	**0.02%**	**1,099**	**0.02%**	**(25.75%)**
TOTAL NET EQUITY	**537,159**	**11.74%**	**516,644**	**11.63%**	**3.97%**
TOTAL LIABILITIES AND NET EQUITY	**4,574,513**	**100.00%**	**4,442,986**	**100.00%**	**2.96%**

* The figures for 2018 are given for comparative purposes only.

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Source: Bank's annual report

ANDBANK / Private Bankers

CONSOLIDATED INCOME STATEMENT AS AT 31 DECEMBER 2018 AND 2019

(Thousand euros)

	2019	2018	Var. (%) 19-18
Interest income	49,278	50,711	(2.83%)
Interest expenses	(31,477)	(27,248)	15.52%
Dividend income	169	592	(71.45%)
Interest margin	**17,970**	**24,055**	**(25.30%)**
Commissions earned	175,100	162,847	7.52%
Commissions paid	(47,691)	(43,469)	9.71%
Base margin	**145,379**	**143,433**	**1.36%**
Gains or losses when writing off financial assets and liabilities not valued at fair value with changes in income (net)	17,161	(26)	N/A
Results of enterprises carried using the equity method	-	-	-
Results from financial transactions	44,789	43,330	3.37%
Results on assets and liabilities covered under insurance and reinsurance contracts	-	-	-
Other operating income	5,776	6,066	(4.78%)
Other operating expenses	(5,207)	(3,854)	35.11%
Other income and expenses from assets and liabilities used for insurance or reinsurance contracts	-	-	-
Operating profit or loss (net)	**207,898**	**188,949**	**10.03%**
Administrative expenses	(150,445)	(154,776)	(2.80%)
Staff costs	(102,973)	(96,661)	6.53%
Other general administrative expenses	(47,472)	(58,115)	(18.31%)
Amortisation	(23,748)	(9,960)	N/A
Provisions funded (net)	(3,479)	1,610	N/A
Net impairment of financial assets not recognised at fair value with changes in profit and loss	1,441	5,931	(75.70%)
Net impairment of investments in jointly-controlled companies or associates	(300)	-	-
Net impairment of non-financial assets	(73)	(311)	(76.53%)
Negative goodwill recognised in income	-	19	-
Participation in gains or losses from investments in subsidiaries, joint ventures and associates	292	223	30.94%
Gains or losses from non-current assets and disposal groups classified as held for sale not admissible as discontinued operations	1,595	2,354	(32.24%)
Profit before tax	**33,181**	**34,039**	**(2.52%)**
Corporation tax	(5,143)	(6,678)	(22.99%)
Results for the year from continuing operations	**28,038**	**27,361**	**2.47%**
Results from discontinued operations (net)	-	-	-
PROFIT/(LOSS) FOR THE YEAR	**28,038**	**27,361**	**2.47%**
Attributed to majority shareholder	**28,040**	**27,078**	**3.55%**
Attributed to minority shareholders	**(2)**	**283**	**N/A**

* The figures for 2018 are given for comparative purposes only.

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Information on the Andorran banking sector
Andorran banking groups

MORABANC

MORA BANC GRUP, SA

Av. Meritxell, 96
AD500 Andorra la Vella
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+376 884488

comunicacio@morabanc.ad

www.morabanc.ad

Chairman	Mr Pedro González Grau
General Manager	Mr Lluís Alsina Álvarez

MORA BANC, SAU

Plaça Coprínceps, 2
AD700 Escaldes-Engordany
(Principat d'Andorra)

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www.morabanc.ad

Chairman	Mr Pedro González Grau
General Manager	Mr Lluís Alsina Álvarez

As at 31 December 2019.

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Source: Bank's annual report

MORABANC

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2018 AND 2019

(Thousand euros)

Assets	2019	% / Total	2018	% / Total	Var. (%) 19-18
Cash, cash at central banks and other sight deposits	17,763	0.58%	17,648	0.63%	0.65%
Financial assets held for trading	93,195	3.05%	63,512	2.28%	46.74%
Financial assets not held for trading that must be valued at fair value with changes in income	379,393	12.40%	357,988	12.84%	5.98%
Financial assets at fair value with changes in the income statement	-	-	-	-	-
Financial assets at fair value with changes in the other comprehensive income	651,443	21.29%	622,398	22.32%	4.67%
Financial assets at amortised cost	1,746,815	57.09%	1,559,166	55.92%	12.04%
Derivatives - Hedge accounting	2	-	191	0.01%	(98.95%)
Changes in the fair value of hedging elements of a portfolio with interest risk hedging	2,168	0.07%	559	0.02%	N/A
Investments in jointly-controlled businesses and associates	4,720	0.15%	1	-	N/A
Assets covered under insurance and reinsurance contracts	37,304	1.22%	36,324	1.30%	2.70%
Tangible assets	102,899	3.36%	103,240	3.70%	(0.33%)
Intangible assets	13,505	0.44%	13,173	0.47%	2.52%
Tax assets	4,466	0.15%	7,667	0.28%	(41.75%)
Other assets	4,925	0.16%	4,541	0.16%	8.46%
Disposable non-current assets held for sale	1,146	0.04%	1,562	0.06%	(26.63%)
TOTAL ASSETS	**3,059,744**	**100.00%**	**2,787,970**	**100.00%**	**9.75%**

* The figures for 2018 are given for comparative purposes only.

Annex 1

Source: Bank's annual report

MORABANC

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2018 AND 2019

(Thousand euros)

Liabilities	2019	% / Total	2018	% / Total	Var. (%) 19-18
Financial liabilities held for trading	30,708	1.00%	31,282	1.12%	(1.83%)
Financial liabilities at fair value with changes in the income statement	360,603	11.79%	358,891	12.87%	0.48%
Financial liabilities at amortised cost	2,220,271	72.56%	1,972,271	70.74%	12.57%
Derivatives - Hedge accounting	10,661	0.35%	6,699	0.24%	59.14%
Changes in the fair value of hedging elements of a portfolio with interest risk hedging	794	0.03%	782	0.03%	1.53%
Liabilities covered under insurance and reinsurance contracts	84,659	2.77%	86,459	3.10%	(2.08%)
Provisions	24,208	0.79%	25,185	0.90%	(3.88%)
Tax liabilities	3,864	0.13%	3,571	0.13%	8.20%
Other liabilities	17,112	0.56%	16,243	0.58%	5.35%
Liabilities in groups of disposable items held for sale	-	-	-	-	-
TOTAL LIABILITIES	**2,752,880**	**89.97%**	**2,501,383**	**89.72%**	**10.05%**

(Thousand euros)

Net Equity	2019	% / Total	2018	% / Total	Var. (%) 19-18
Capital	42,407	1.39%	42,407	1.52%	-
Issue premium	-	-	-	-	-
Issued equity Instruments other than capital	-	-	-	-	-
Other cumulative results	(1,016)	(0.03%)	(3,227)	(0.12%)	(68.52%)
Accumulated profits	268,217	8.77%	155,079	5.56%	72.96%
Revaluation reserves	-	-	-	-	-
Other reserves	(27,876)	(0.91%)	68,275	2.45%	N/A
Own shares (-)	-	-	-	-	-
Result attributed to majority shareholder	25,136	0.82%	24,057	0.86%	4.49%
Interim dividend (-)	-	-	-	-	-
Shareholders' equity	**306,868**	**10.03%**	**286,591**	**10.28%**	**7.08%**
Minority interests	**(4)**	**-**	**(4)**	**-**	**-**
TOTAL NET EQUITY	**306,864**	**10.03%**	**286,587**	**10.28%**	**7.08%**
TOTAL LIABILITIES AND NET EQUITY	**3,059,744**	**100.00%**	**2,787,970**	**100.00%**	**9.75%**

* The figures for 2018 are given for comparative purposes only.

Annex 1

Source: Bank's annual report

MORABANC

CONSOLIDATED INCOME STATEMENT AS AT 31 DECEMBER 2018 AND 2019

(Thousand euros)

	2019	2018	Var. (%) 19-18
Interest income	34,865	35,711	(2.37%)
Interest expenses	(7,957)	(10,356)	(23.17%)
Dividend income	1,460	623	N/A
Interest margin	**28,368**	**25,978**	**9.20%**
Commissions earned	64,653	61,658	4.86%
Commissions paid	(13,570)	(11,389)	19.15%
Base margin	**79,451**	**76,247**	**4.20%**
Gains or losses when writing off financial assets and liabilities not valued at fair value with changes in income (net)	-	-	-
Results of enterprises carried using the equity method	209	(30)	N/A
Results from financial transactions	7,352	7,883	(6.74%)
Results on assets and liabilities covered under insurance and reinsurance contracts	-	-	-
Other operating income	5,504	5,182	6.21%
Other operating expenses	(622)	(366)	69.95%
Other income and expenses from assets and liabilities used for insurance or reinsurance contracts	-	-	-
Operating profit or loss (net)	**91,894**	**88,916**	**3.35%**
Administrative expenses	(55,136)	(55,903)	(1.37%)
Staff costs	(30,208)	(32,256)	(6.35%)
Other general administrative expenses	(24,928)	(23,647)	5.42%
Amortisation	(5,842)	(5,638)	3.62%
Provisions funded (net)	(2,539)	(1,868)	35.92%
Net impairment of financial assets not recognised at fair value with changes in profit and loss	(506)	238	N/A
Net impairment of investments in jointly-controlled companies or associates	-	-	-
Net impairment of non-financial assets	-	(117)	-
Negative goodwill recognised in income	-	-	-
Participation in gains or losses from investments in subsidiaries, joint ventures and associates	-	142	-
Gains or losses from non-current assets and disposal groups classified as held for sale not admissible as discontinued operations	(896)	60	N/A
Profit before tax	**26,975**	**25,830**	**4.43%**
Corporation tax	(1,839)	(1,773)	3.72%
Results for the year from continuing operations	**25,136**	**24,057**	**4.49%**
Results from discontinued operations (net)	-	-	-
PROFIT/(LOSS) FOR THE YEAR	**25,136**	**24,057**	**4.49%**
Attributed to majority shareholder	**25,136**	**24,057**	**4.49%**
Attributed to minority shareholders	**-**	**-**	**-**

* The figures for 2018 are given for comparative purposes only.

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Information on the Andorran banking sector
Andorran banking groups

Crèdit Andorrà

GRUP CRÈDIT ANDORRÀ

Av. Meritxell, 80
AD500 Andorra la Vella
(Principat d'Andorra)

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www.creditandorragroup.com

Chairman	Mr Antoni Pintat Mas
Vice-Chairman	Mr Jaume Casal Mor
Chief Executive Officer and General Manager	Mr Xavier Cornella Castel

As at 31 December 2019.

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Source: Bank's annual report

Crèdit Andorrà

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2018 AND 2019

(Thousand euros)

Assets	2019	% / Total	2018	% / Total	Var. (%) 19-18
Cash, cash at central banks and other sight deposits	303,009	5.77%	343,553	6.63%	(11.80%)
Financial assets held for trading	30,047	0.57%	12,560	0.24%	N/A
Financial assets not held for trading that must be valued at fair value with changes in income	188,299	3.58%	185,903	3.59%	1.29%
Financial assets at fair value with changes in the income statement	-	-	1,865	0.04%	-
Financial assets at fair value with changes in the other comprehensive income	330,785	6.29%	365,996	7.06%	(9.62%)
Financial assets at amortised cost	3,832,281	72.93%	3,764,342	72.64%	1.80%
Derivatives - Hedge accounting	-	-	-	-	-
Changes in the fair value of hedging elements of a portfolio with interest risk hedging	21,890	0.42%	21,711	0.42%	0.82%
Investments in jointly-controlled businesses and associates	65,703	1.25%	37,046	0.71%	77.36%
Assets covered under insurance and reinsurance contracts	1	-	3,431	0.07%	(99.97%)
Tangible assets	183,686	3.50%	122,832	2.37%	49.54%
Intangible assets	122,624	2.33%	129,837	2.51%	(5.56%)
Tax assets	24,929	0.47%	28,219	0.54%	(11.66%)
Other assets	45,628	0.87%	52,908	1.02%	(13.76%)
Disposable non-current assets held for sale	106,151	2.02%	112,028	2.16%	(5.25%)
TOTAL ASSETS	**5,255,033**	**100.00%**	**5,182,231**	**100.00%**	**1.40%**

* The figures for 2018 are given for comparative purposes only.

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Source: Bank's annual report

Crèdit Andorrà

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2018 AND 2019

(Thousand euros)

Liabilities	2019	% / Total	2018	% / Total	Var. (%) 19-18
Financial liabilities held for trading	16,107	0.31%	10,405	0.20%	54.80%
Financial liabilities at fair value with changes in the income statement	49,331	0.94%	71,411	1.38%	(30.92%)
Financial liabilities at amortised cost	4,307,293	81.97%	4,282,232	82.63%	0.59%
Derivatives - Hedge accounting	37,190	0.71%	35,194	0.68%	5.67%
Changes in the fair value of hedging elements of a portfolio with interest risk hedging	-	-	-	-	-
Liabilities covered under insurance and reinsurance contracts	251,815	4.79%	265,650	5.13%	(5.21%)
Provisions	28,563	0.54%	31,299	0.60%	(8.74%)
Tax liabilities	5,355	0.10%	3,085	0.06%	73.58%
Other liabilities	89,714	1.71%	57,587	1.11%	55.79%
Liabilities in groups of disposable items held for sale	-	-	-	-	-
TOTAL LIABILITIES	**4,785,368**	**91.06%**	**4,756,863**	**91.79%**	**0.60%**

(Thousand euros)

Net Equity	2019	% / Total	2018	% / Total	Var. (%) 19-18
Capital	63,102	1.20%	63,462	1.22%	(0.57%)
Issue premium	-	-	-	-	-
Issued equity Instruments other than capital	-	-	-	-	-
Other cumulative results	2,678	0.05%	4,222	0.08%	(36.57%)
Accumulated profits	-	-	-	-	-
Revaluation reserves	-	-	-	-	-
Other reserves	347,002	6.60%	311,581	6.01%	11.37%
Own shares (-)	-	-	-	-	-
Result attributed to majority shareholder	46,244	0.88%	36,001	0.69%	28.45%
Interim dividend (-)	-	-	-	-	-
Shareholders' equity	**459,026**	**8.73%**	**415,266**	**8.01%**	**10.54%**
Minority interests	**10,639**	**0.20%**	**10,102**	**0.19%**	**5.32%**
TOTAL NET EQUITY	**469,665**	**8.94%**	**425,368**	**8.21%**	**10.41%**
TOTAL LIABILITIES AND NET EQUITY	**5,255,033**	**100.00%**	**5,182,231**	**100.00%**	**1.40%**

* The figures for 2018 are given for comparative purposes only.

Annex 1

Source: Bank's annual report

Crèdit Andorrà

CONSOLIDATED INCOME STATEMENT AS AT 31 DECEMBER 2018 AND 2019

(Thousand euros)

	2019	2018	Var. (%) 19-18
Interest income	70,082	72,932	(3.91%)
Interest expenses	(26,854)	(26,447)	1.54%
Dividend income	302	704	(57.10%)
Interest margin	**43,530**	**47,189**	**(7.75%)**
Commissions earned	112,671	124,376	(9.41%)
Commissions paid	(32,849)	(31,081)	5.69%
Base margin	**123,352**	**140,484**	**(12.19%)**
Gains or losses when writing off financial assets and liabilities not valued at fair value with changes in income (net)	11,040	14,046	(21.40%)
Results of enterprises carried using the equity method	-	-	-
Results from financial transactions	49,684	8,288	N/A
Results on assets and liabilities covered under insurance and reinsurance contracts	-	-	-
Other operating income	15,622	9,638	62.09%
Other operating expenses	(2,648)	(3,611)	(26.67%)
Other income and expenses from assets and liabilities used for insurance or reinsurance contracts	3,909	3,706	5.48%
Operating profit or loss (net)	**200,959**	**172,551**	**16.46%**
Administrative expenses	(124,941)	(123,583)	1.10%
Staff costs	(70,952)	(69,351)	2.31%
Other general administrative expenses	(53,989)	(54,232)	(0.45%)
Amortisation	(22,222)	(15,323)	45.02%
Provisions funded (net)	430	(2,760)	N/A
Net impairment of financial assets not recognised at fair value with changes in profit and loss	(1,082)	1,724	N/A
Net impairment of investments in jointly-controlled companies or associates	-	-	-
Net impairment of non-financial assets	(2,164)	(161)	N/A
Negative goodwill recognised in income	-	2,632	-
Participation in gains or losses from investments in subsidiaries, joint ventures and associates	2,297	4,098	(43.95%)
Gains or losses from non-current assets and disposal groups classified as held for sale not admissible as discontinued operations	655	(126)	N/A
Profit before tax	**53,932**	**39,052**	**38.10%**
Corporation tax	(6,846)	(2,698)	N/A
Results for the year from continuing operations	**47,086**	**36,354**	**29.52%**
Results from discontinued operations (net)	(213)	-	-
PROFIT/(LOSS) FOR THE YEAR	**46,873**	**36,354**	**28.93%**
Attributed to majority shareholder	**46,244**	**36,001**	**28.45%**
Attributed to minority shareholders	**629**	**353**	**78.19%**

* The figures for 2018 are given for comparative purposes only.

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Information on the Andorran banking sector
Andorran banking groups

BancSabadell
d'Andorra

BANCSABADELL D'ANDORRA, SA

Av. del Fener, 7
AD500 Andorra la Vella
(Principat d'Andorra)

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bsa@bsa.ad

www.bsa.ad

Chairman	Mr Miquel Alabern Comas
Director - General Manager	Mr Josep Segura Solà

As at 31 December 2019.

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Source: Bank's annual report

BancSabadell d'Andorra

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2018 AND 2019

(Thousand euros)

Assets	2019	% / Total	2018	% / Total	Var. (%) 19-18
Cash, cash at central banks and other sight deposits	64,658	7.12%	63,939	8.06%	1.12%
Financial assets held for trading	25,475	2.80%	62,325	7.85%	(59.13%)
Financial assets not held for trading that must be valued at fair value with changes in income	49,173	5.41%	4,423	0.56%	N/A
Financial assets at fair value with changes in the income statement	44,496	4.90%	38,469	4.85%	15.67%
Financial assets at fair value with changes in the other comprehensive income	81,718	9.00%	70,587	8.89%	15.77%
Financial assets at amortised cost	594,314	65.43%	506,939	63.88%	17.24%
Derivatives - Hedge accounting	113	0.01%	-	-	-
Changes in the fair value of hedging elements of a portfolio with interest risk hedging	76	0.01%	91	0.01%	(16.48%)
Investments in jointly-controlled businesses and associates	37	-	-	-	-
Assets covered under insurance and reinsurance contracts	-	-	-	-	-
Tangible assets	26,374	2.90%	25,438	3.21%	3.68%
Intangible assets	406	0.04%	221	0.03%	83.71%
Tax assets	279	0.03%	510	0.06%	(45.29%)
Other assets	16,998	1.87%	11,800	1.49%	44.05%
Disposable non-current assets held for sale	4,194	0.46%	8,824	1.11%	(52.47%)
TOTAL ASSETS	**908,311**	**100.00%**	**793,564**	**100.00%**	**14.46%**

* The figures for 2018 are given for comparative purposes only.

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Source: Bank's annual report

BancSabadell d'Andorra

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2018 AND 2019

(Thousand euros)

Liabilities	2019	% / Total	2018	% / Total	Var. (%) 19-18
Financial liabilities held for trading	988	0.11%	1,098	0.14%	(10.02%)
Financial liabilities at fair value with changes in the income statement	44,510	4.90%	38,475	4.85%	15.69%
Financial liabilities at amortised cost	755,674	83.20%	660,067	83.18%	14.48%
Derivatives - Hedge accounting	72	0.01%	85	0.01%	(15.29%)
Changes in the fair value of hedging elements of a portfolio with interest risk hedging	-	-	-	-	-
Liabilities covered under insurance and reinsurance contracts	-	-	-	-	-
Provisions	1,634	0.18%	1,171	0.15%	39.54%
Tax liabilities	991	0.11%	820	0.10%	20.85%
Other liabilities	13,281	1.46%	9,100	1.15%	45.95%
Liabilities in groups of disposable items held for sale	-	-	-	-	-
TOTAL LIABILITIES	**817,150**	**89.96%**	**710,817**	**89.57%**	**14.96%**

(Thousand euros)

Net Equity	2019	% / Total	2018	% / Total	Var. (%) 19-18
Capital	30,069	3.31%	30,069	3.79%	-
Issue premium	-	-	-	-	-
Issued equity Instruments other than capital	-	-	-	-	-
Other cumulative results	668	0.07%	(489)	(0.06%)	N/A
Accumulated profits	-	-	-	-	-
Revaluation reserves	2,288	0.25%	2,288	0.29%	-
Other reserves	48,594	5.35%	41,449	5.22%	17.24%
Own shares (-)	(833)	(0.09%)	(819)	(0.10%)	1.71%
Result attributed to majority shareholder	10,375	1.14%	10,249	1.29%	1.23%
Interim dividend (-)	-	-	-	-	-
Shareholders' equity	**91,161**	**10.04%**	**82,747**	**10.43%**	**10.17%**
Minority interests	**-**	**-**	**-**	**-**	**-**
TOTAL NET EQUITY	**91,161**	**10.04%**	**82,747**	**10.43%**	**10.17%**
TOTAL LIABILITIES AND NET EQUITY	**908,311**	**100.00%**	**793,564**	**100.00%**	**14.46%**

* The figures for 2018 are given for comparative purposes only.

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Source: Bank's annual report

BancSabadell d'Andorra

CONSOLIDATED INCOME STATEMENT AS AT 31 DECEMBER 2018 AND 2019

(Thousand euros)

	2019	2018	Var. (%) 19-18
Interest income	12,491	12,477	0.11%
Interest expenses	(1,548)	(1,663)	(6.92%)
Dividend income	36	31	16.13%
Interest margin	**10,979**	**10,845**	**1.24%**
Commissions earned	12,433	11,975	3.82%
Commissions paid	(2,674)	(2,309)	15.81%
Base margin	**20,738**	**20,511**	**1.11%**
Gains or losses when writing off financial assets and liabilities not valued at fair value with changes in income (net)	342	689	(50.36%)
Results of enterprises carried using the equity method	-	-	-
Results from financial transactions	2,942	1,385	N/A
Results on assets and liabilities covered under insurance and reinsurance contracts	-	-	-
Other operating income	557	614	(9.28%)
Other operating expenses	(684)	(516)	32.56%
Other income and expenses from assets and liabilities used for insurance or reinsurance contracts	-	-	-
Operating profit or loss (net)	**23,895**	**22,682**	**5.35%**
Administrative expenses	(12,936)	(12,717)	1.72%
Staff costs	(7,107)	(7,473)	(4.90%)
Other general administrative expenses	(5,829)	(5,244)	11.16%
Amortisation	(1,220)	(1,013)	20.43%
Provisions funded (net)	(561)	22	N/A
Net impairment of financial assets not recognised at fair value with changes in profit and loss	601	1,466	(59.00%)
Net impairment of investments in jointly-controlled companies or associates	-	-	-
Net impairment of non-financial assets	-	-	-
Negative goodwill recognised in income	-	-	-
Participation in gains or losses from investments in subsidiaries, joint ventures and associates	13	-	-
Gains or losses from non-current assets and disposal groups classified as held for sale not admissible as discontinued operations	1,265	429	N/A
Profit before tax	**11,057**	**10,869**	**1.73%**
Corporation tax	(682)	(620)	10.00%
Results for the year from continuing operations	**10,375**	**10,249**	**1.23%**
Results from discontinued operations (net)	-	-	-
PROFIT/(LOSS) FOR THE YEAR	**10,375**	**10,249**	**1.23%**
Attributed to majority shareholder	**10,375**	**10,249**	**1.23%**
Attributed to minority shareholders	**-**	**-**	**-**

* The figures for 2018 are given for comparative purposes only.

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Information on the Andorran banking sector
Andorran banking groups

VALLBANC

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Chairman	Mr Richard Carrión
Chief Executive Officer and General Manager	Mr José Luis Dorado
Business General Manager	Mr Gerard Albà

As at 31 December 2019.

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Source: Bank's annual report

VALLBANC

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2018 AND 2019

(Thousand euros)

Assets	2019	% / Total	2018	% / Total	Var. (%) 19-18
Cash, cash at central banks and other sight deposits	280,183	26.86%	162,799	21.33%	72.10%
Financial assets held for trading	-	-	-	-	-
Financial assets not held for trading that must be valued at fair value with changes in income	43,602	4.18%	28,118	3.68%	55.07%
Financial assets at fair value with changes in the income statement	14,524	1.39%	2,724	0.36%	N/A
Financial assets at fair value with changes in the other comprehensive income	267,451	25.64%	88,062	11.54%	N/A
Financial assets at amortised cost	323,033	30.97%	390,042	51.11%	(17.18%)
Derivatives - Hedge accounting	-	-	-	-	-
Changes in the fair value of hedging elements of a portfolio with interest risk hedging	-	-	-	-	-
Investments in jointly-controlled businesses and associates	17	-	17	-	-
Assets covered under insurance and reinsurance contracts	-	-	-	-	-
Tangible assets	75,515	7.24%	59,624	7.81%	26.65%
Intangible assets	23,916	2.29%	18,681	2.45%	28.02%
Tax assets	621	0.06%	896	0.12%	(30.69%)
Other assets	13,452	1.29%	12,046	1.58%	11.67%
Disposable non-current assets held for sale	781	0.07%	92	0.01%	N/A
TOTAL ASSETS	**1,043,095**	**100.00%**	**763,101**	**100.00%**	**36.69%**

* The figures for 2018 are given for comparative purposes only.

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Source: Bank's annual report

VALLBANC

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2018 AND 2019

(Thousand euros)

Liabilities	2019	% / Total	2018	% / Total	Var. (%) 19-18
Financial liabilities held for trading	153	0.01%	-	-	-
Financial liabilities at fair value with changes in the income statement	-	-	-	-	-
Financial liabilities at amortised cost	894,653	85.77%	693,292	90.85%	29.04%
Derivatives - Hedge accounting	-	-	-	-	-
Changes in the fair value of hedging elements of a portfolio with interest risk hedging	-	-	-	-	-
Liabilities covered under insurance and reinsurance contracts	-	-	-	-	-
Provisions	2,612	0.25%	1,740	0.23%	50.11%
Tax liabilities	1,706	0.16%	2,540	0.33%	(32.83%)
Other liabilities	22,387	2.15%	15,651	2.05%	43.04%
Liabilities in groups of disposable items held for sale	-	-	352	0.05%	-
TOTAL LIABILITIES	**921,511**	**88.34%**	**713,575**	**93.51%**	**29.14%**

(Thousand euros)

Net Equity	2019	% / Total	2018	% / Total	Var. (%) 19-18
Capital	31,050	2.98%	30,000	3.93%	3.50%
Issue premium	68,950	6.61%	-	-	-
Issued equity Instruments other than capital	-	-	-	-	-
Other cumulative results	(2,163)	(0.21%)	(2,133)	(0.28%)	1.41%
Accumulated profits	2,174	0.21%	-	-	-
Revaluation reserves	-	-	-	-	-
Other reserves	19,485	1.87%	19,485	2.55%	-
Own shares (-)	-	-	-	-	-
Result attributed to majority shareholder	2,088	0.20%	2,174	0.28%	(3.96%)
Interim dividend (-)	-	-	-	-	-
Shareholders' equity	**121,584**	**11.66%**	**49,526**	**6.49%**	**N/A**
Minority interests	**-**	**-**	**-**	**-**	**-**
TOTAL NET EQUITY	**121,584**	**11.66%**	**49,526**	**6.49%**	**N/A**
TOTAL LIABILITIES AND NET EQUITY	**1,043,095**	**100.00%**	**763,101**	**100.00%**	**36.69%**

* The figures for 2018 are given for comparative purposes only.

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Source: Bank's annual report

VALLBANC

CONSOLIDATED INCOME STATEMENT AS AT 31 DECEMBER 2018 AND 2019

(Thousand euros)

	2019	2018	Var. (%) 19-18
Interest income	8,022	7,344	9.23%
Interest expenses	(2,930)	(3,770)	(22.28%)
Dividend income	116	178	(34.83%)
Interest margin	**5,208**	**3,752**	**38.81%**
Commissions earned	23,285	22,280	4.51%
Commissions paid	(2,675)	(1,824)	46.66%
Base margin	**25,818**	**24,208**	**6.65%**
Gains or losses when writing off financial assets and liabilities not valued at fair value with changes in income (net)	618	176	N/A
Results of enterprises carried using the equity method	-	-	-
Results from financial transactions	5,913	3,811	55.16%
Results on assets and liabilities covered under insurance and reinsurance contracts	-	-	-
Other operating income	912	1,110	(17.84%)
Other operating expenses	(22)	(607)	(96.38%)
Other income and expenses from assets and liabilities used for insurance or reinsurance contracts	-	-	-
Operating profit or loss (net)	**33,239**	**28,698**	**15.82%**
Administrative expenses	(27,525)	(31,741)	(13.28%)
Staff costs	(13,378)	(13,822)	(3.21%)
Other general administrative expenses	(14,147)	(17,919)	(21.05%)
Amortisation	(4,970)	(3,313)	50.02%
Provisions funded (net)	47	1,279	(96.33%)
Net impairment of financial assets not recognised at fair value with changes in profit and loss	1,403	8,311	(83.12%)
Net impairment of investments in jointly-controlled companies or associates	-	-	-
Net impairment of non-financial assets	-	-	-
Negative goodwill recognised in income	-	-	-
Participation in gains or losses from investments in subsidiaries, joint ventures and associates	-	(15)	-
Gains or losses from non-current assets and disposal groups classified as held for sale not admissible as discontinued operations	-	10	-
Profit before tax	**2,194**	**3,229**	**(32.05%)**
Corporation tax	(106)	(1,375)	(92.29%)
Results for the year from continuing operations	**2,088**	**1,854**	**12.62%**
Results from discontinued operations (net)	-	320	-
PROFIT/(LOSS) FOR THE YEAR	**2,088**	**2,174**	**(3.96%)**
Attributed to majority shareholder	**2,088**	**2,174**	**(3.96%)**
Attributed to minority shareholders	**-**	**-**	**-**

* The figures for 2018 are given for comparative purposes only.

Annex 2

The digital transformation of Andorran banks

Andorran Banking Observatory

1st report· December 2019

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The banking sector spends more than 120 million euros on developing digital transformation

In five years, digital users have grown by 46% and mobile application users by 357%

Across the world, the banking industry has embarked on a process of digital transformation, and the Andorran marketplace is no exception to this. Digital transformation is a challenging process that will lead the banking sector into the era of digital banking, but which many see as a disruption to banks' business model. **It consists in applying digital technology across all areas of the bank, from its internal structure through to its processes, products and relationships with customers.**

For many years now, banks have identified the need to undertake this transformation, and the reasons that have set them on this path are diverse. While there is no single trigger behind digital transformation, one of the key factors of this process is the **change in consumer habits**.

This change in behaviour has been driven by the appearance of smartphones, which allow users to access and send information immediately and from anywhere, thus creating new ways to obtain information, interact with other people and buy goods. Thus, digital transformation is not only a banking or business process, but it is also a social one. Banks have been digital for many years. In fact, they can be considered as one of the first digital businesses in the classical sense as they initially created, stored and transmitted information in bits. But digital transformation has more to do with the need to meet the demand of customers who want immediacy, mobility and access 24 hours a day, 7 days a week. Therefore, people are one of the key aspects of this transformation process. **The process is not only about technology, it is also about people. Indeed, it is the people who are transformed and the banks who are digitalised.**

In fact, the digital transformation process necessarily involves a change in mentality and culture among employees and customers alike. As in any sector of the economy, this change is difficult to implement internally, but employees' digital skills and the increasingly digital profiles of Andorra's banks are making it much easier. Employees are actually the first to push for improving banks in the digital environment. This is because they are also citizens, and they are the first to understand the changing habits of customers and the need to innovate and be at the cutting edge of digital.

New industry competitors

In addition to the need to adapt to customers, the move to digitalisation is vital to compete in the new environment that is emerging in the financial industry. On the one hand, there is the appearance of technology companies that offer digital financial services, the so-called *fintech* companies, which already provide innovative services and solutions in relation to account management, currency trading, loans, and payment methods. *Fintechs* can be considered as the main driver for change in the banking industry, as they are very good at identifying customers' needs and making products or platforms that meet demand in the quickest and cheapest way.

On the other hand, the banking industry is having to rethink itself in view of the threat posed by tech giants in the United States (the so-called GAFA, an acronym for Google, Amazon, Facebook and Apple) and emerging Asian companies. These organisations, which have very dynamic and flexible structures, rely on platforms to exploit massive amounts of data and are partnering up with *fintechs* to provide financial services and take a larger share of the pie from traditional banks. In addition to this are the new types of virtual banks, including *neobanks*, 100% digital platforms developed by conventional banks, and *challenger banks*, which operate with their own licences without any ties to any traditional bank.

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The emergence of these new players has been supported by the payment services directives of the European Union, and more specifically by the second payment services directive (PSD2), which aims to bring more transparency and competitiveness and break up the monopoly of financial institutions. This is driving the *open banking* model, in which banks are required to provide data to other service providers and new payment organisations. This new scenario, which will change the rules of the game and the ways in which business is conducted, is expected to become a reality in Andorra by 2020.

The challenges Andorran banks are facing

Digital users have grown by 46% in five years

Discussion around digital transformation in Andorra started at least five years ago, but the dynamics to adapt to consumer changes, **process automation and the progressive digitalisation of business channels has been a permanent feature of the Andorran banking sector throughout its history**. Indeed the appearance of ATMs and credit cards —a process that continued with the first bank websites and electronic banking solutions, which have evolved into today's mobile device applications— can already be described as digitalisation. But the new scenario that the banking industry is facing today has led to a point where we should talk about digital transformation rather than digitalisation —a process that involves a far-reaching change across all the business models of organisations and at a pace that is accelerating exponentially.

This means changing the technological architecture of banks, transforming their processes and ways of working, building new platforms to support the various channels available to customers, and developing electronic banking —both web and mobile—

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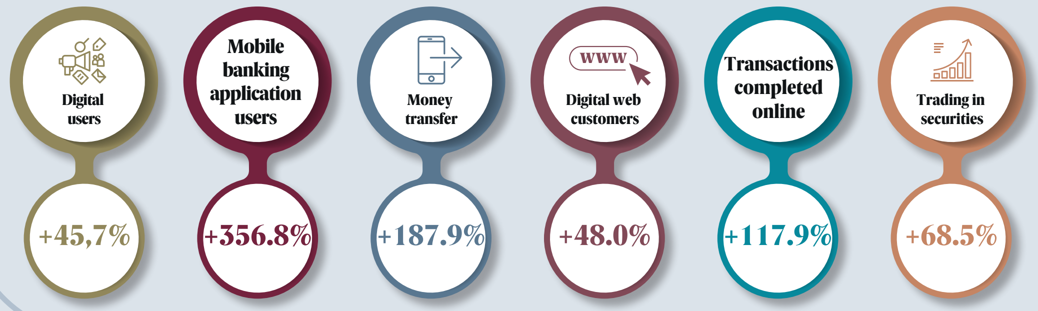
to ensure that it can offer the same services and products as high-street branches at any time and from anywhere and to the highest security standards. In addition, solutions based on artificial intelligence also come into play to improve the collection of information, ensure customer traceability and offer new formulas for secure identification, among other things.

Development of digital banking in Andorra: 2014-2018



According to figures collected by Andorran Banking, the association that groups together the five banks operating in Andorra, since 2014 Andorran banks have invested more than 121.3 million euros in digital projects and, during that same period, the number of digital users has increased by 45.7%. This process of digitalisation of customers, which can be observed mainly in commercial banking, is beneficial for both parties. For banks, which gain in efficiency and can overhaul their conventional branch model, and for consumers, who increasingly expect to be served online, and especially through mobile devices. This development is confirmed by figures showing that over the last five years, the biggest increase in users has been in mobile applications, with a staggering surge of 356.8%. There has also been an increase in the number of customers using digital banking via the Internet, albeit to a lesser extent (48%). Thus, according to the data collected by Andorran Banking, between 2014 and 2018 transactions completed online increased by 177.9%. Among these, those that grew the most were money remittances (+187.9%) and trades in securities (+68.5%).

But Andorran banks have also shown their unique ability to combine technological transformation with the maintenance of a network of branches distributed across the country and with extended opening times. This is a result of the needs of a business fabric that is very much centred on trade and tourism, combined with Andorra's commitment to investing in an inclusive digital transformation that ensures customers with fewer digital skills are not left behind. But the coexistence of the digital and physical worlds has also been made possible by the specialisation of some Andorran banks in the field of private banking. With this type of banking, customers expect to have access to the same digital services as in commercial banking, but prefer to deal face to face with the people in charge of managing their assets. **The distinctive feature of banks is that they still control "the last mile" of personal contact with customers**. In this regard, in a small country like Andorra, commercial branch offices are not expected to close gradually as in other countries, as banks still need some degree of personal interaction with their customers. The trend for Andorran banks will therefore be to **gradually reposition their branches with a view to leaving the old model of transactional management behind, focusing on personalised advice and customer service.** In short, it is not a matter of digital channels replacing the face-to-face channel, but rather complementing it.

But at the same time, a series of intermediate scenarios are being developed with the launch of digital applications to manage investment funds, robotic financial advisors, and apps dedicated to trading in stocks. In the longer term, the banking sector anticipates that the next step in this digital transformation process could be digital branches in which customers will sit in front of a screen and have the feeling that they are sitting next to a personal account manager. Given the speed at which artificial intelligence is evolving, there could come a time when people will no longer know whether the personal account manager they are speaking to is an actual person or a robot.

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Dealing with new players

The big question is how banks, in this case Andorran banks, can face the new reality that is emerging in the industry. The first thing we need to understand is that **borders no longer exist as we now live in a global world.** Nowadays, the rival of bank A is not necessarily bank B. It could very well be a *fintech* that comes from Lithuania and is licensed to operate in Andorra. We need to be aware that the model will change as some of the services that are currently only offered by banks will also be provided by third-party, technological financial companies with a more agile structure. The main difficulty for a bank is to have enough flexibility to keep the business going while at the same time being innovative. Moreover, in the field of commercial banking, competition will be increasingly intense and digital and less face-to-face.

Therefore, the solution to these challenges is to accelerate digital transformation, which will help banks to be as efficient as possible, to make their processes more flexible, in order to adapt more quickly to change, and to focus on what they do better. In addition, given that the number of *fintechs* operating in Andorra is still relatively small, it is the banks themselves who will become tech companies, if they are not already. Thus, in addition to offering financial services, banks should also act as technology companies and, when it comes to selling products for which they are not particularly competitive, they should enter into agreements with companies both within (banks) and outside the sector (fintechs). These partnerships should be sought in particular for common user services (commodities), which still have to be provided by banks but are no longer perceived by customers as an added value (transfers, payment services, etc.).

Security is one of the main challenges associated with digital transformation. Banks now have new channels, much more information and far more capacity to conduct transactions, which means that they have a duty to ensure that all deals can be carried out securely from any location and that they are in a position to certify the identity of their customers. But this also depends on how well customers guard and protect their own devices, so banks must be able to train their consumers in financial and digital matters.

Digital transformation involves a change both in the way banks contact customers and in the way customers' information is transmitted to banks. This is no longer done through commercial networks but through corporate websites, social networks and mobile applications. This means that the information is sent directly to the bank and, therefore, the relationship between the user and the bank is more direct. This new way of collecting information is positive both from a regulatory point of view, as it brings more transparency and traceability to transactions, and from a business point of view. This allows banks to collect much more information from their customers in order to plan for sales, understand how to orient their products and what areas to innovate in, as well as offering customers just what they need when they need it.

Digital transformation in Andorra

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Despite being a small country, Andorra offers a wealth of opportunities

Being the bank of a country with such a small size raises challenges but also opportunities. In fact, if digital transformation is of interest to anyone, it is to a bank in a small country such as Andorra, since the Internet opens a window on the rest of the world. Certainly, in the digital era, the forces between large and small companies become more equal as the cost of a website is the same for any bank in the world, whereas, previously, banks had to invest large sums of money in physical branches to reach out to customers.

Despite this, being a small financial marketplace also involves limitations when it comes to investing. Because of the country's size, it is hard for Andorran banks to remain as innovative as large organisations. This is because it is difficult for them to commit funds to disruptive projects that offer no guarantee of success, while at the same time striving to do what they already do as best as they can. For this reason, banks often choose to **implement solutions that have been tested and proven elsewhere**, in order to go faster and invest more safely. However, with the changes that lie ahead, Andorran banks will have to try and innovate to offer added value and compete not with leading banks, but with local Spanish suppliers and small banks from Switzerland, Luxembourg or even Liechtenstein. Another strength of the Andorran banking sector is that, although it has put banking secrecy behind it, the vision of Andorra as a "safe deposit" still plays an important role and brings added value thanks to the **economic stability and security provided by the country**.

Moreover, operating in a small country and, hence, in a well-known environment offers the opportunity to **test projects** which would be more difficult to implement in a larger and more open environment. As a country, we need to find value propositions to give investment platforms the opportunity to launch their products in Andorra, which boasts outstanding communications, mobile coverage and wifi connections as few countries in the world.

The small size of Andorra's financial marketplace also means that, in certain matters of less added value, all five banks need to work together and enter into **collaboration agreements**. This has already occurred in the past with the implementation of payment terminals and the distribution of banking correspondence, and the experience is being repeated with the renovation of the network of ATMs, with the aim of joining forces to optimise the service. In the future, Andorran banks do not rule out reaching **new collaborative competition agreements**, whether it be for authorisation control systems, new payment systems, AI-based customer service solutions, or the creation of a common framework for secure customer identification. Attempts can also be made to enter into country-wide partnerships to explore technologies such as blockchain, or financial products for the property market or land registries. Another potential project that could be undertaken jointly, as Spanish banks have done, is the creation of a **payment platform between individuals** using mobile phones, despite the difficulties it poses in terms of profitability.

Opportunities

- Taking advantage of the experience of major operators
- Andorra's economic stability and security
- A market for testing projects
- Collaborative competition agreement
- Platforms for payments between individuals

"We will succeed if we change"

The challenges Andorra's banking system is facing are exciting. The banking sector claims that "We will succeed if we change", but this will require changing not only the way we do things, but also possibly the products themselves. Moreover, we must be aware that banks will not only be financial services companies, they will also be tech companies; and they will also collaborate with the so-called *fintechs*.

Specialisation, and particularly specialisation in private banking, appears to be one of the main axes of development, as well as an option that will allow Andorran banks to remain

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competitive internationally, whether on their own or with the help of other tech companies. In fact, specialist banks are in a much better position than others as specialisation is the driver of the future, allowing them to change more easily, be faster and remain competitive in the market. Each bank has to focus on creating its own added value for the various customer segments it is targeting.

There will undoubtedly be more competitors in the future, especially in commercial banking, where it is very difficult for Andorran banks to compete globally. The new banking players are governed by different regulations than traditional banks, but what could be seen as a grievance could actually be an opportunity for banks to uphold their good work and the confidence they provide. And as much as Google may seem more likeable than a bank, the reality is that it is the banks who give customers the security they need.

In short, to face the future, Andorran banks need to make the most of the experience acquired across all areas of the business and their knowledge of customers, something which sets them apart from the new players emerging in the sector. Andorran banks need to leverage the potential offered by digital environments to transform their value proposition in accordance with the needs and requirements of customers; to seek alliances; and to use technology to improve their efficiency, simplify processes, attract new customers and find new opportunities for digital business.

This article has been prepared on the basis of interviews with the technology and innovation departments of Andorran banks.

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