20
ANNUAL REPORT
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Andorran Banking
Excellence and trust

Andorran Banking
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>> ANNUAL REPORT 2020

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Note: The legislation in this publication is updated through 31 May 2021.

>>1 Foreword by the Chairman of Andorran Banking

Xavier Cornella Castel
Chairman of Andorran Banking

Last year was possibly the most complicated year most of us have ever had to live through. The COVID-19 health pandemic brought the world to a halt, to the point where the International Monetary Fund has called it the biggest crisis to date after the two great wars of the 20th century. Experts point to a contraction in world GDP of -3.5% in 2020, a situation to which Andorra has not been immune, with a decrease of 12% according to the latest estimates.

The country has seen a general contraction in economic activity overall, mainly linked to the decline in revenue from tourism and imports to meet visitors' demands, which in 2019 exceeded 8 million people. All sectors have suffered greatly, especially trade, catering and the skiing industry, which combined account for about 30% of Andorra's GDP.

The impact on the banking sector has also been significant, with an aggregate drop to €84 million in earnings, having made a provision of €33 million to offset the impact of COVID-19 following the recommendations of the supervisory body and international institutions. However, the results demonstrate the resilience of our banks and their ability to attract business, closing 2020 with €51,735 million in assets under management (4% more than 2019), a record high for the sector.

The strong position of the Andorran banking sector is also bolstered by a 5.46% rate of return on equity compared to 2% for European banks; a CET 1 solvency of 18% compared to 15.5% according to the EBA (European Banking Authority) and a liquidity rate (LCR) of 187% compared to 173% published by the EBA.

Together, these figures confirm the strength of the sector in the face of the crisis and the successful culmination of a highly demanding standardisation process -both at the EU and international level-, of undertaking the necessary technological transformation and withstanding an extended period of time with very low or negative interest rates and the impact this has on results. However, none of these factors has kept the banking sector from emerging as one of the key players in dealing with the consequences of COVID-19 in Andorra within the current context of economic uncertainty and contraction.

This explains how, overall, banks have increased their credit investments by 4.5%. In all €6,368 million in loans for companies, individuals and administrations to carry out their projects, plus €135 million in soft loans backed by the Government for entrepreneurs and the self-employed, in order to guarantee liquidity needed to overcome the effects of the crisis, and the legislative and non-legislative moratoria applied by banks to the repayment of loans totalling and outstanding balance of about €122 million, in parallel with the economic support offered to the State.

In this regard, the five banks agreed to a direct contribution to the Government's Solidarity Fund to deal with the COVID-19 pandemic of €430,000, plus a new €50 million credit facility with an interest rate of 0.50%, in addition to managing and placing a new public debt issue to finance COVID-19 emergency measures in the amount of €125 million, with an interest rate of 0.50%.

Because banking is an essential service, our operations continued, but with the health and safety of customers and employees as a top priority. In this regard, the significant investment in digitalisation in previous years allowed us to effectively and efficiently help our staff to make the transition to teleworking and ensure an uninterrupted service to meet the needs of our customers at such an uncertain and complicated time.

It fills us with satisfaction to know that we have been part of the solution, because we trust in the potential of Andorra, in its business fabric - its entrepreneurial and resilient essence - and in the people who live here. We are aware of the importance of our activity for the Andorran economy as a whole, which represents almost 20% of GDP and nearly 5% of the total workforce in the country and we are convinced that the improvements made over the last decade will enable us to move forward from now on with even more confidence and determination.

We need to learn from the pandemic how to confront the three key challenges of the future: the evidence that we need our own solid and competitive banking sector; the importance of obtaining a lender of last resort such as the European Central Bank and an association agreement with the European Union that maintains the stability of the Andorran banking sector. There is one thing we know for sure: that banks want to continue being the country's social and economic engine, supporting the country and its people.

June 2021

>>2 Organisation chart of Andorran Banking

Members of the General Assembly*

Xavier Cornella
Grup Crèdit Andorrà
Chairman

José Luis Dorado
Vall Banc
Vice-Chairman

Esther Puigcercós
Secretary and General Manager

Commissions

- COVID-19
- Legal
- Compliance
- Regulatory
- Tax
- Credit
- Communication
- Finance
- Insurance
- Portfolio
- IT
- Payment services
- Security
- Human Resources
- Innovation
- Operations
- Currency

Ricard Tubau
Andbank

Lluís Alsina
MoraBanc

Josep Segura
BancSabadell d'Andorra

Member

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

Working groups

More than
10 WORKING GROUPS

* As at 31 December 2020.

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

PS	Payment services
MA	Monetary Agreement
RTG	Rating
REG	Regulation
REG COVID-19	Regulation adopted in the light of the SARS-CoV-2 pandemic
AML/CFT	Prevention of money laundering and terrorist financing
DI	Debt issues
EU-IFRS	International Financial Reporting Standards adopted by the European Union

TR	Transparency
TIEA	Tax Information Exchange Agreement
DTA	Double Taxation Agreement
MCAA	*Multilateral Competent Authority Agreement*
AEOI	Automatic Exchange of Information in tax matters
Multilateral Convention	Convention on Mutual Administrative Assistance in Tax Matters with the OECD
IMF	International Monetary Fund

Andorra has signed 24 TIEA and 8 DTA*

2021

PS	4 May	**The SEPA direct debit scheme comes into force.**
MA	29 April	**Approval of the Law 7/2021 on the recovery and resolution of banks and investment firms (BRRD1).**
DI	28 April	**First international issue of Andorran bonds - green, social and sustainable - for €500 million.**
IMF	9 April	**The IMF publishes its Staff Concluding Statement following the official visit under Article IV of the IMF's Articles of Agreement and takes a positive view of Andorra's management of the pandemic and prospects for economic recovery.**
REG COVID-19	31 March	Approval of Decree 102/2021 amending Regulation CRR. Among other things, it implements different adaptations in the financial sector associated with the COVID-19 pandemic.

* On May 25 2021, Andorra and San Marino sign a double taxation agreement (not yet effective).

REG COVID-19	31 March	Decree 101/2021 approving an extraordinary programme of rental and mortgage support targeted to companies exclusively dedicated to the rental and sale of ski equipment.
REG COVID-19	18 March	Approval of the Law 3/2021 amending Law 16/2020 of 4 December on new exceptional and urgent measures in the light of the health emergency caused by the SARS-CoV-2 pandemic, extending rent reductions through 30-04-2021.
EU-IFRS	24 February	Decree 60/2021 approving new EU-IFRS standards and amending Decree of 22-12-2016.
REG COVID-19	29 January	Approval of Decree 54/2021 amending the Decree of 20-5-2020 which approved a second extraordinary financing programme targeted at companies and businesses, including fuel expenses for transportation and the corporate contributions to job retention schemes. It includes the scope of Decree 25/2021 (leasing) and repeals it.
RTG	29 January	**Fitch Ratings reaffirms Andorra's BBB+ rating with a stable outlook, despite the situation caused by the pandemic.**
REG COVID-19	28 January	Approval of the Law 1/2021 which amends Law 16/2020, of 4 December, on new exceptional and urgent measures in the light of the health emergency caused by the SARS-CoV-2 pandemic.
REG COVID-19	27 January	Decree 25/2021 amending the Decree of 20-5-2020 which approved a second extraordinary financing programme aimed at companies and businesses to include leasing operations (finance leases).
RTG	15 January	**Standard & Poor's maintains Andorra's rating at BBB and a stable outlook.**

2020

COVID-19	14 December	**Banks extend until 31 March 2021 the application deadline for the moratoria.**
REG COVID-19	4 December	**Approval of the Law 16/2020 on new exceptional and urgent measures in the light of the health emergency caused by the SARS-CoV-2 pandemic.**
REG COVID-19	2 December	Approval of a decree approving an extraordinary programme of rental and mortgage support targeted at gaming halls.
REG COVID-19	18 November	Approval of a decree amending the Decree of 20-5-2020 approving a second extraordinary financing programme aimed at companies and businesses in the light of the health emergency caused by the SARS-CoV-2 pandemic: includes the payment of rent an utility bills.
REG COVID-19	21 October	Approval of a decree approving an extraordinary rental and mortgage assistance programme for commercial premises in the light of the health emergency caused by the SARS-CoV-2 pandemic.
IMF	16 October	**Andorra becomes the 190th member of the IMF.**
IMF	5 October	Approval of the Law 10/2020 on the accession of the Principality of Andorra to the IMF.
DI	5 August	**Decree of 29-7-2020 approving a long-term public debt bond issue by the Principality of Andorra in the amount of €20,000,000.**
RTG	31 July	Standard & Poor's maintains Andorra's rating in BBB and stable outlook.
EU-IFRS	29 July	Decree 29-7-2020 approving new EU-IFRS standards and amending the Decree of 22-12-2016.
RTG	17 July	Fitch Ratings affirms Andorra at BBB+ and stable outlook.
COVID-19	11 June	**Banks approve a non-legislative sector wide moratoria to provide repayment relief to households and businesses.**
RTG	24 April	Standard & Poor's affirms Andorra's qualification at BBB/A-2 and revises the outlook to stable due to the impact of SARS-CoV-2.
REG COVID-19	18 April	**Approval of the 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 the Qualified Law 4/2020 on states of alert and emergency.**
REG COVID-19	23 March	Approval of the 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+ and stable outlook.
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, of 22 June, on the prevention and fight against money laundering and terrorism financing.
TR	12 November	Second round of Phase 2 of the Global Forum Peer review: it recognises improvements in transparency and exchange of tax information and raises the country's rating to largely compliant.
MA	23 September	Approval of the amendment of the Annex to the Monetary Agreement.
RTG	2 August	Fitch Ratings affirms Andorra's rating at BBB+ and stable outlook.
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	Regulation of Law 12/2017, of 22 June, 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 (CRR).**
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 decree introducing the international financial reporting standards in force in the EU in accordance with the EU-IFRS accounting framework adapted to Andorra.
PS	5 March	**Andorran banks become part of SEPA.**
PS	1 March	Andorra joins the Single Euro Payments Area (SEPA).
MA	15 February	**Approval of 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 (MiFID).**
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 adhered to the SEPA schemes and includes the Principality of Andorra.
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 (CRD IV) and of Law 36/2018 on financial conglomerates.**
MA	12 December	Decree approving certain EU-IFRS 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	Standard & Poor's 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 supervisory body 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	Standard & Poor's 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	Standard & Poor's 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 by including it on the list of the most transparent countries in the ranking of 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	Standard & Poor's rating publication: BBB-.
TR	13 January	**The Andorran Banking's General Assembly updates its Ethical code.**
TR	1 January	The AEOI agreement between the EU and Andorra takes effect.
TR	1 January	**Law 19/2016 on AEOI 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 (AEOI) is approved.
RTG	3 September	Fitch rating publication: BBB.
TR	28 - 29 July	Signing of the Multilateral Convention.
RTG	29 July	Standard & Poor's 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	Standard & Poor's 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	The second phase of the Peer Review by Global Forum takes place.
N/A	17 September	The INAF is accepted as full member of IOSCO.
TR	1 January	Law 11/2012 on the Indirect General Tax (IGI) 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 of the Peer Review by the Global Forum takes place.
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 (IS), income from business activities (IAE) and non-residents income (IRNR) is approved.

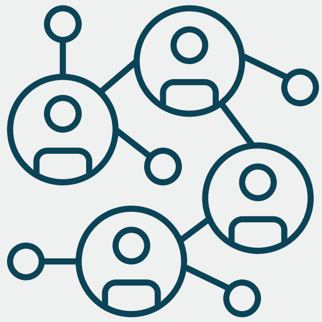
2009

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 we are

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

4 **collaboration agreements**
with the Andorran Red Cross, Unicef, Càritas Andorrana and the Private Guardianship Foundation.

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

49 **meetings as part of the governing bodies**
of the Andorran Business Confederation, the Chamber of Commerce, Industry and Services of Andorra and the Private Guardianship Foundation.

47 **meetings**
held with the Government and banking supervisory bodies.

Around 24
published articles, interviews, statements, press conferences and releases.

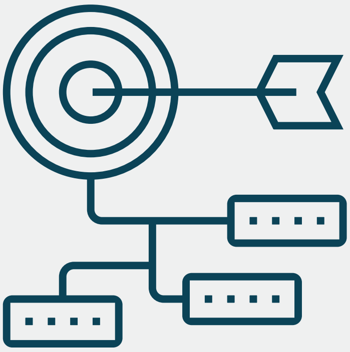
4 **employees**
out of 2,655 bank employees worldwide.

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

Through its
Andorran Banking Observatory platform,
the Association has published two reports entitled “Sustainability has become the Andorran banking industry’s core business” and “The role of Banking in Andorra’s socio-economic growth” .

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 their customers through the professional excellence of their employees, the development of advanced products and a track record of 90 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 90 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 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 in Andorra

90

years of experience in banking with a presence in 11 countries

It contributes to approximately

20%

of Gross Domestic Product (GDP)

In a year marked by the COVID-19 crisis, the sector reported

€84

million in net profit with a ROE of **5,46%**

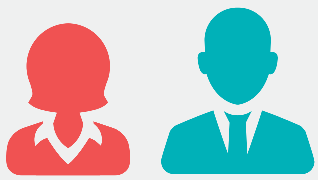
5

banking groups

that offer both retail banking and private banking services

The total number of employees is

2020: 2,655



1,242 **1,413**

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		

>> Key figures

Source: Annual reports from banks

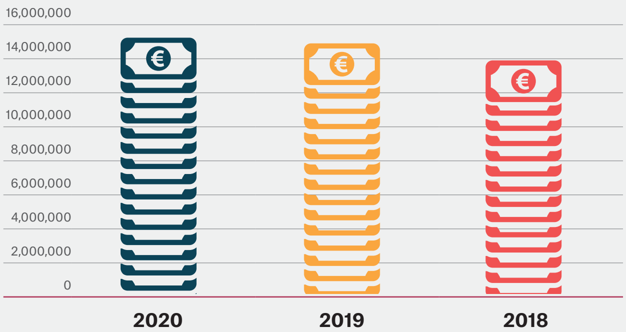
Banking sector data

(Thousand euros)

Total assets

+ 2.22%

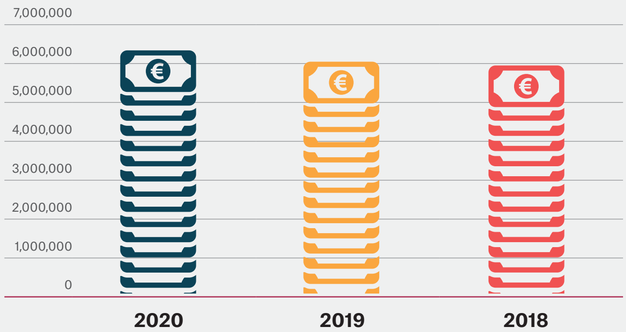
15,169,956 | 14,840,696 | 13,969,852



Gross credit investment

+ 4.48%

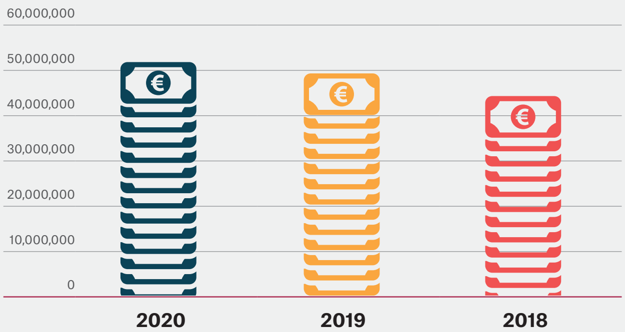
6,367,736 | 6,094,759 | 5,911,097



Assets under management

+ 4.07%

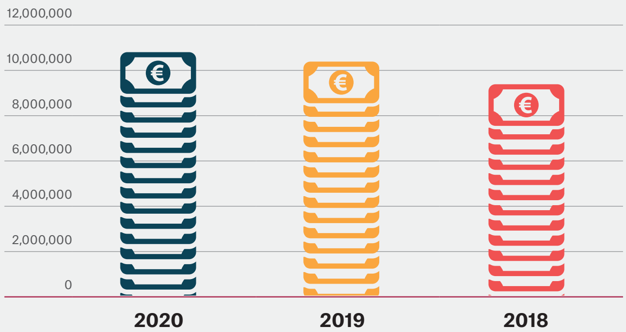
51,735.224 | 49,713.197 | 44,925.146



Customer deposits

+ 4.67%

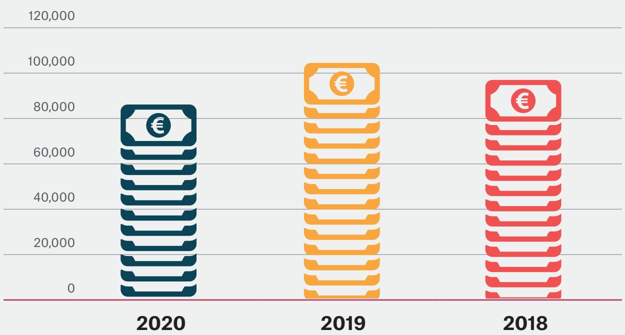
10,685,051 | 10,208,531 | 9.529.714



Net profit

-25.27%

83,609 | 111,883 | 99,559

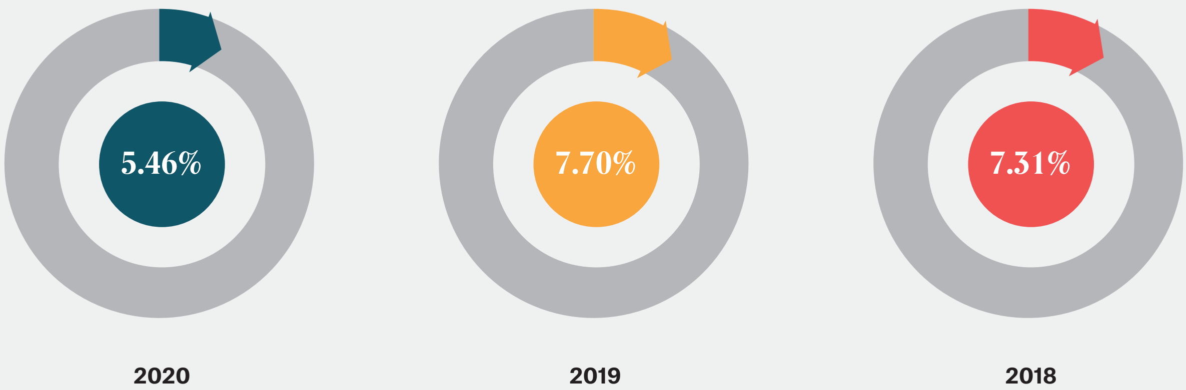


>> Key figures

Source: Annual reports from banks

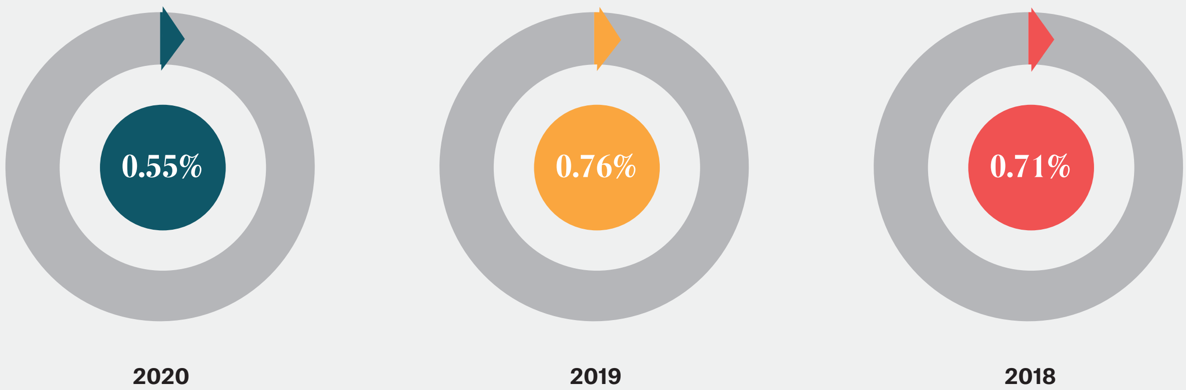
ROE

(return on equity)

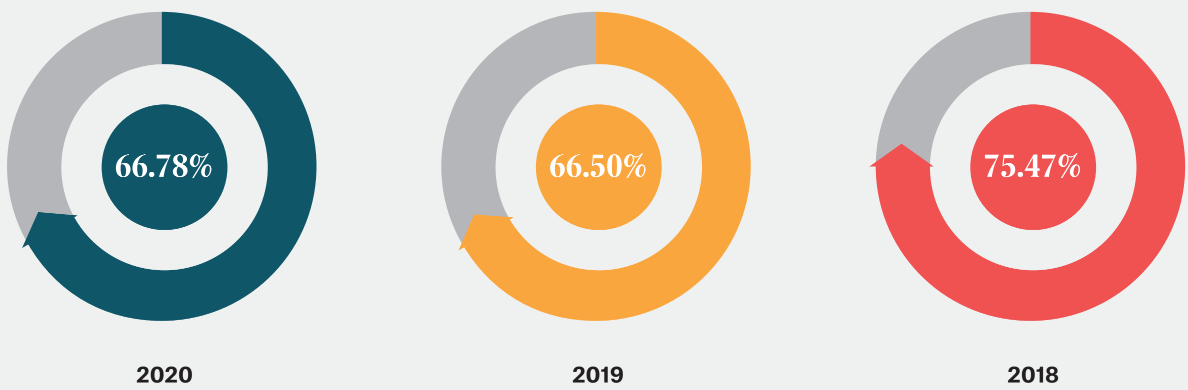


ROA

(return on assets)



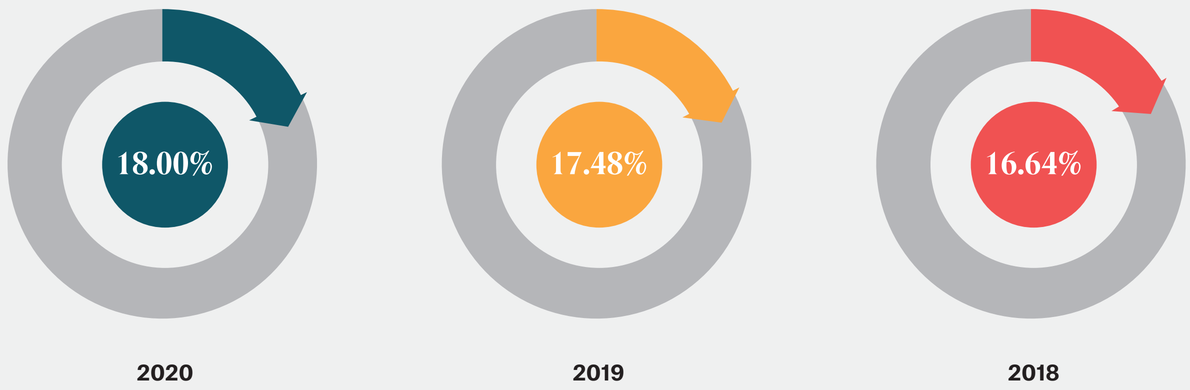
Efficiency ratio



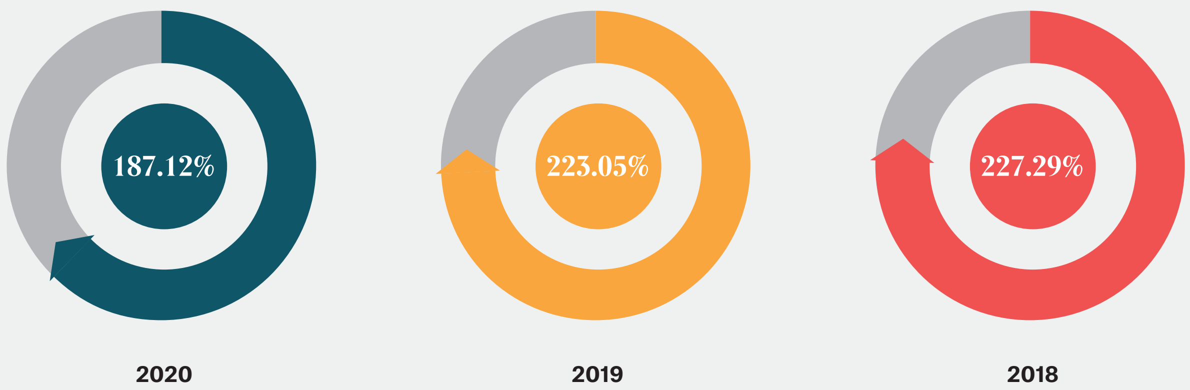
>> Key figures

Source: Annual reports from banks

CET 1 solvency ratio *(phase-in)*

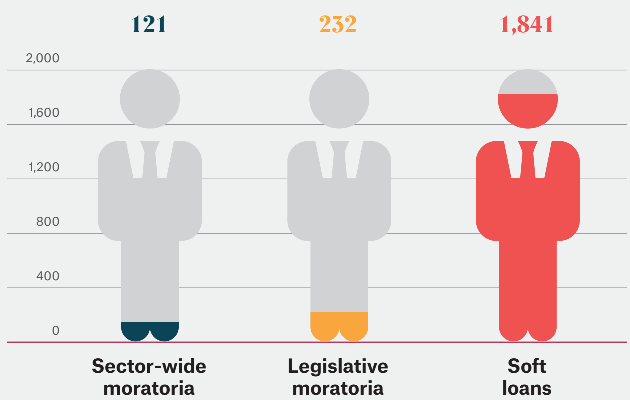


Liquidity ratio *(Liquidity Coverage Ratio)*

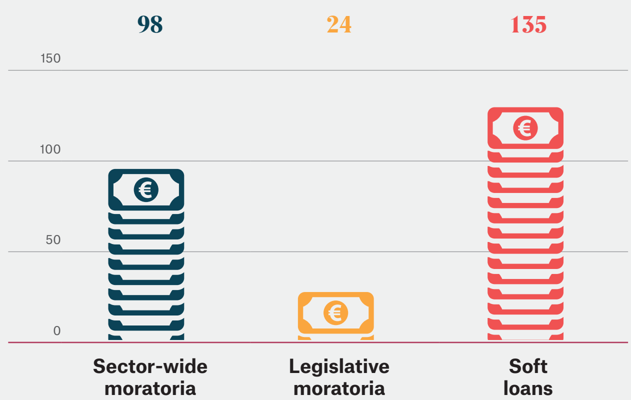


COVID-19 measures

Number of beneficiaries



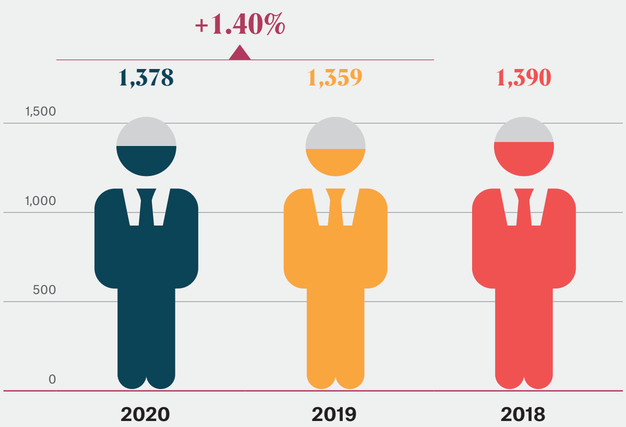
Amount in millions of euros



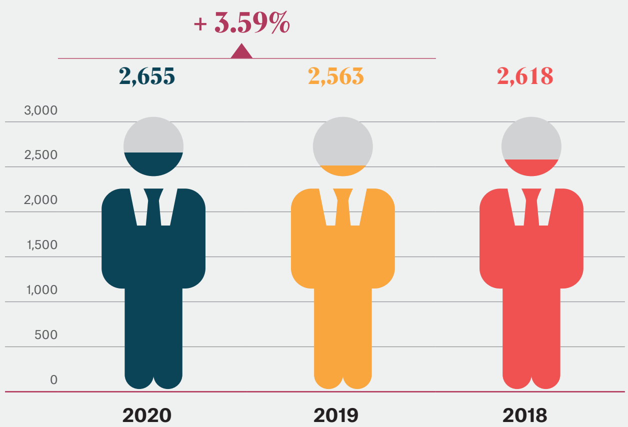
Source: Annual reports from banks

Banking employees

Andorra



Andorra and abroad



Employees in the financial sector represent 4.57% of the total number of employees in Andorra.

(Source: Caixa Andorrana de la Seguretat Social)

Long-term rating by bank

	ANDBANK Private Bankers	MORABANC	Crèdit Andorrà	BancSabadell* d'Andorra	VALLBANC
2020	BBB	BBB-	BBB-	-	-
2019	BBB	BBB-	BBB-	-	-

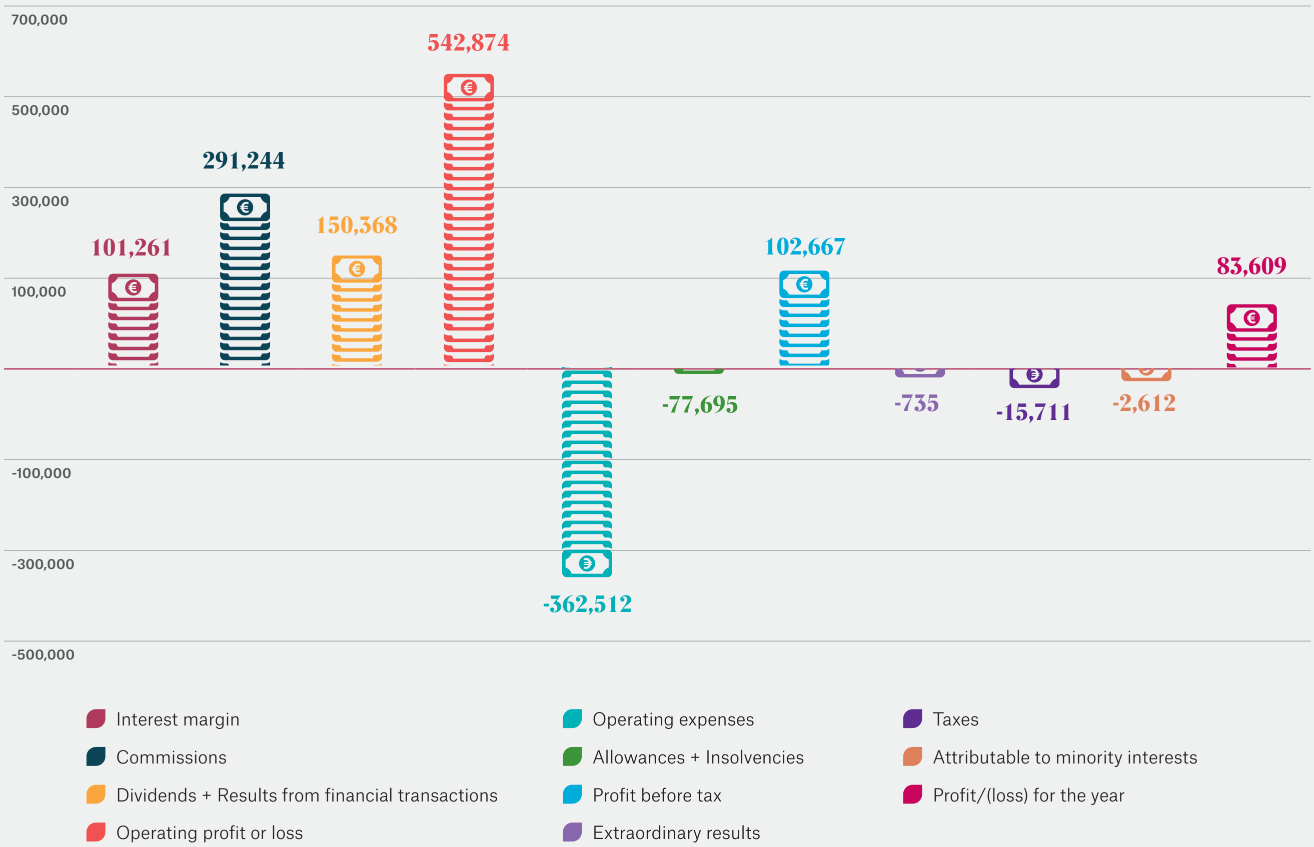
*51% owned by Banc de Sabadell.

>> Key figures

Source: Annual reports from banks

Origin of profits for 2020

(Thousand euros)

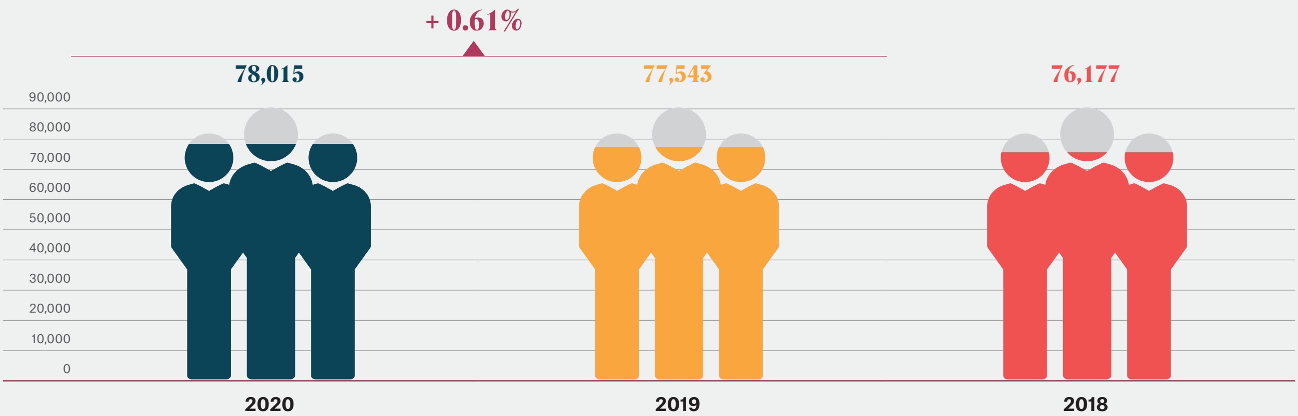


>> Key figures

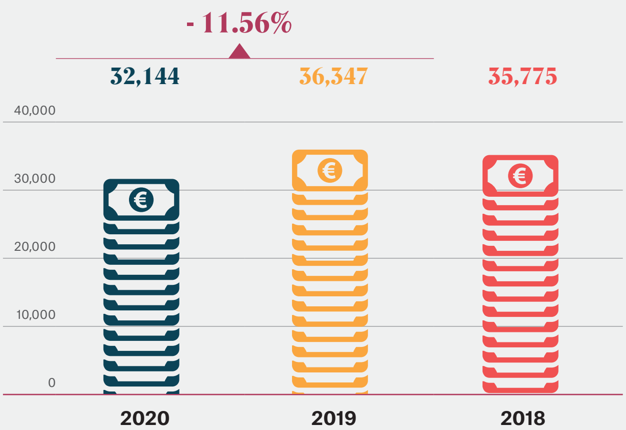
Source: Department of Statistics of the Andorran Government.

6.2. Country

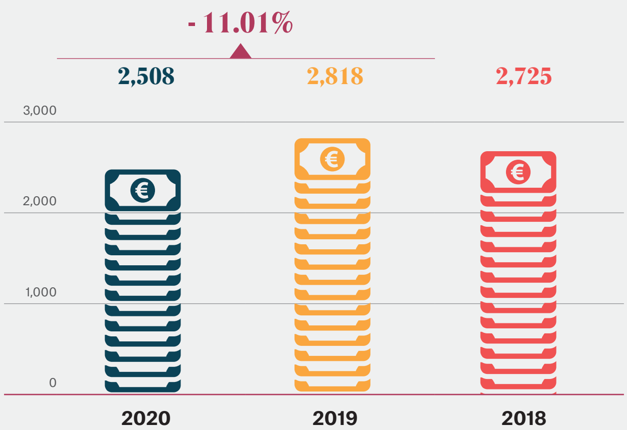
Total population



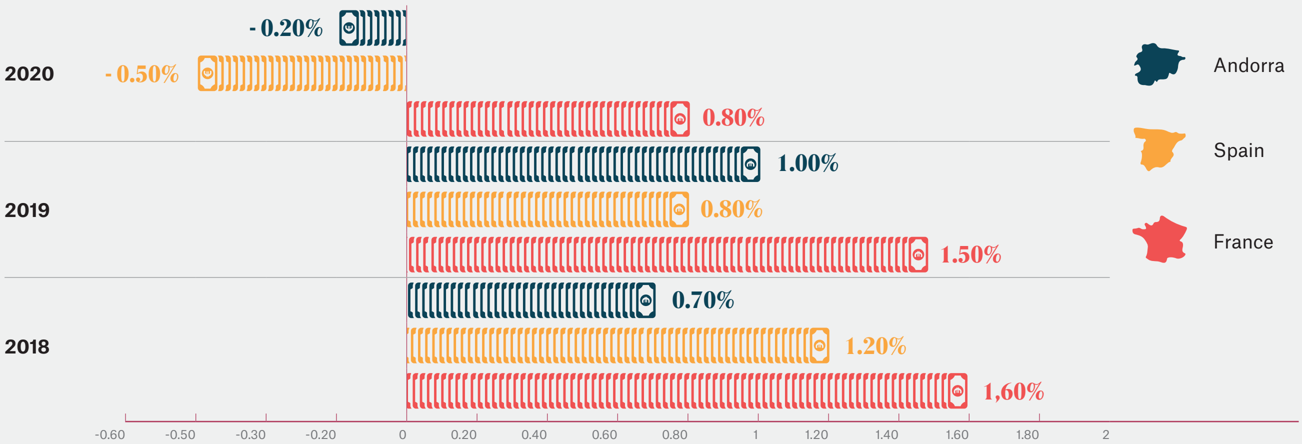
Nominal GDP per capita (Euros)



Nominal GDP (Millions of euros)



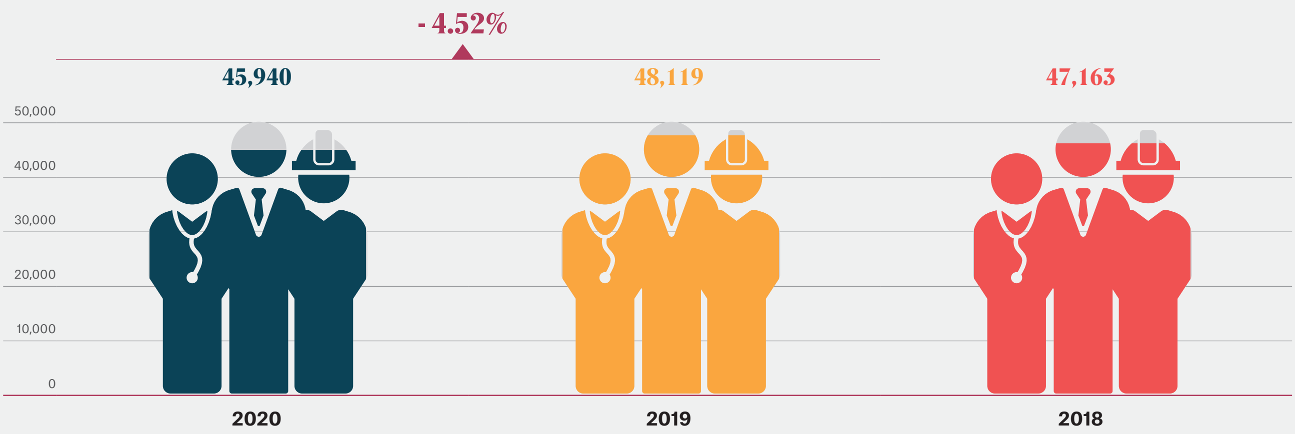
Inflation



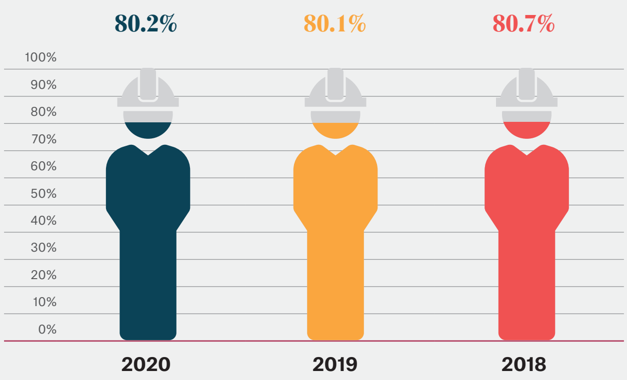
>> Key figures

Source: Department of Statistics of the Andorran Government.

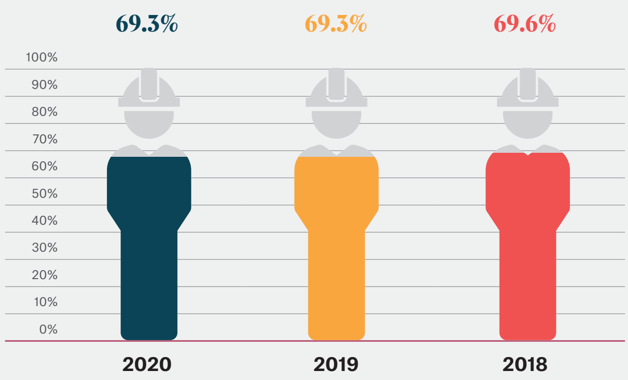
Jobs



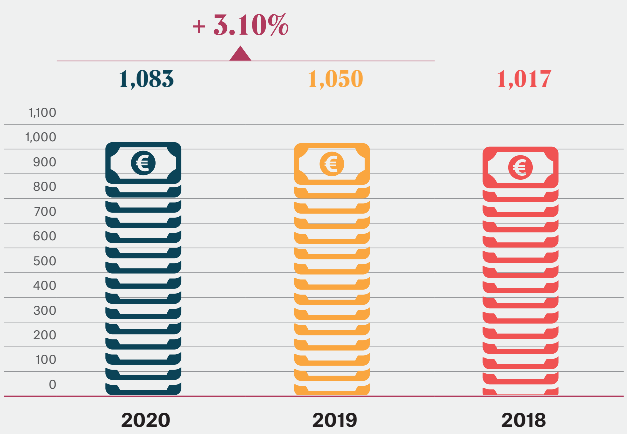
Employment rate Andorra



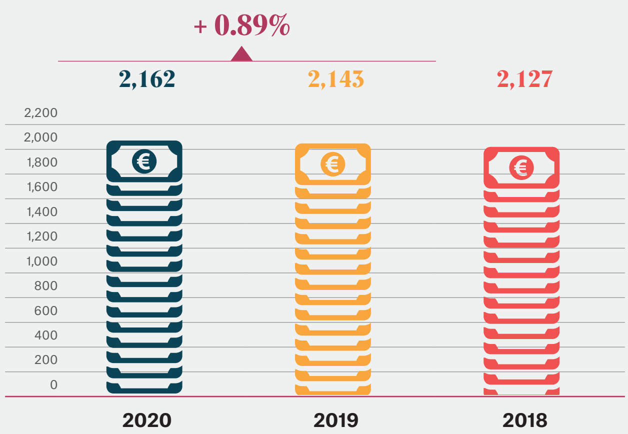
Employment rate EU-28



Minimum wage (Euros)



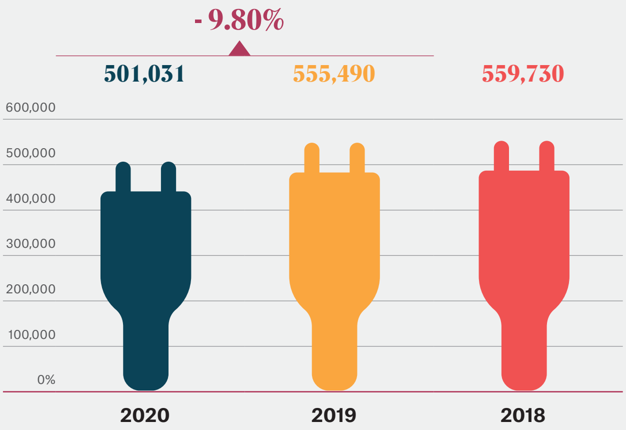
Average wage (Euros)



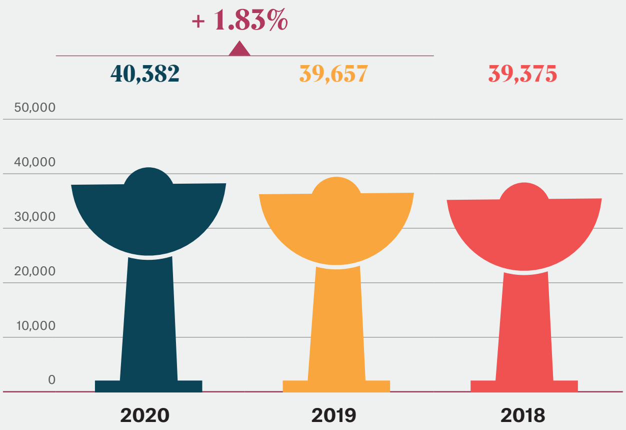
>> Key figures

Source: Department of Statistics of the Andorran Government.

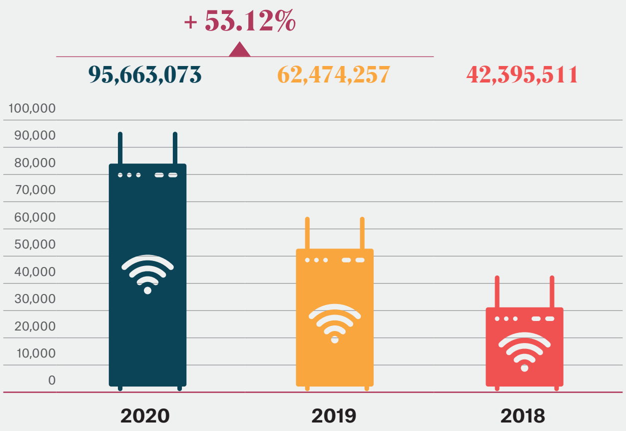
Energy consumption (MW/ hour)



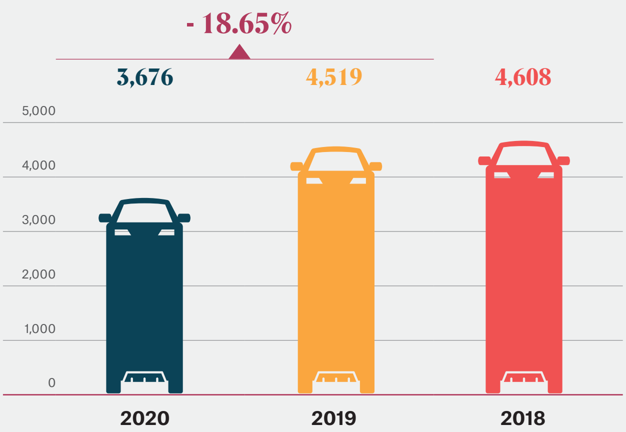
Telecommunications (Line charges)



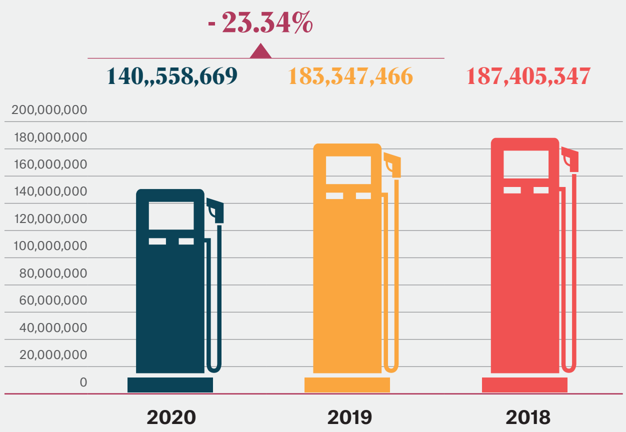
Internet traffic (Gigabytes)



Car registrations



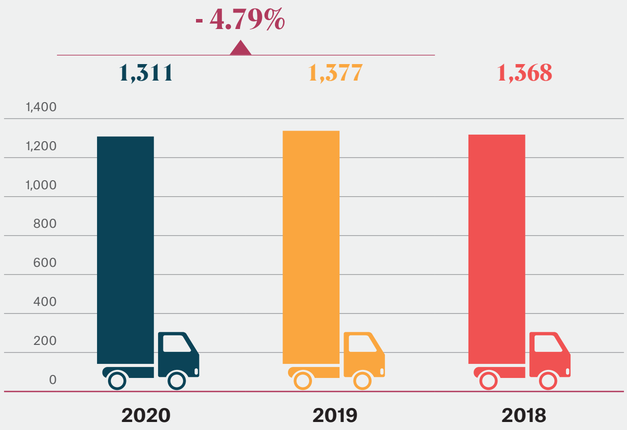
Petrol imports (Litres)



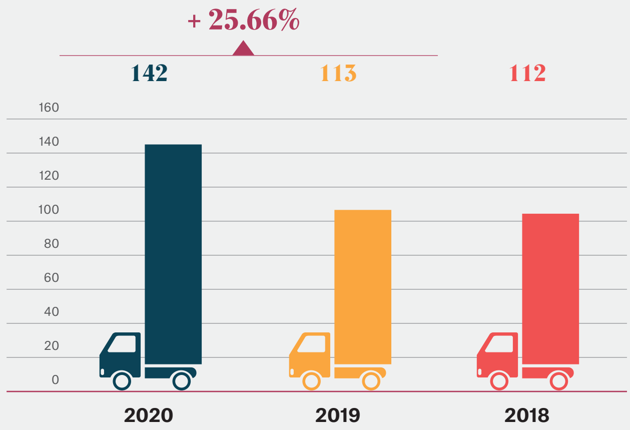
>> Key figures

Source: Department of Statistics of the Andorran Government.

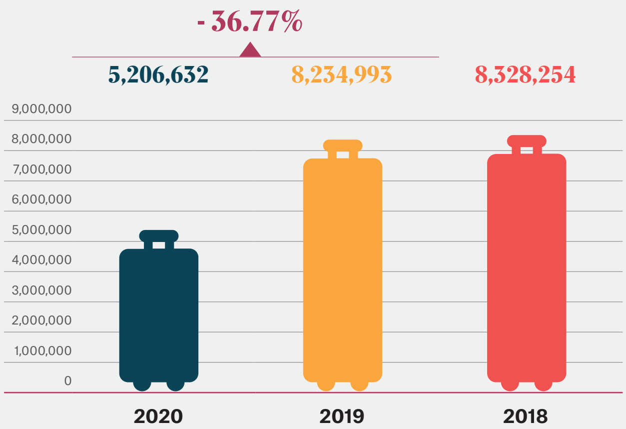
Imports (Millions of euros)



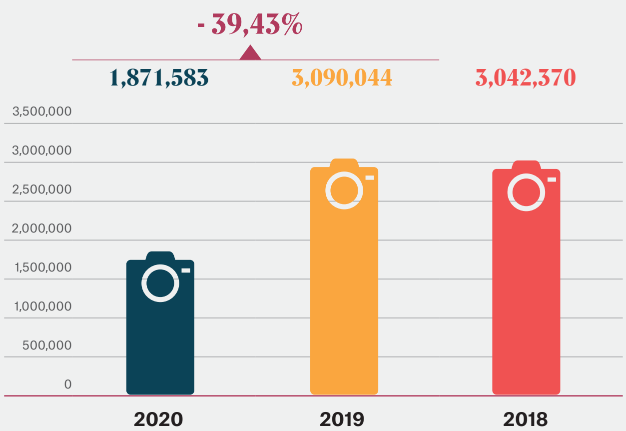
Exports (Millions of euros)



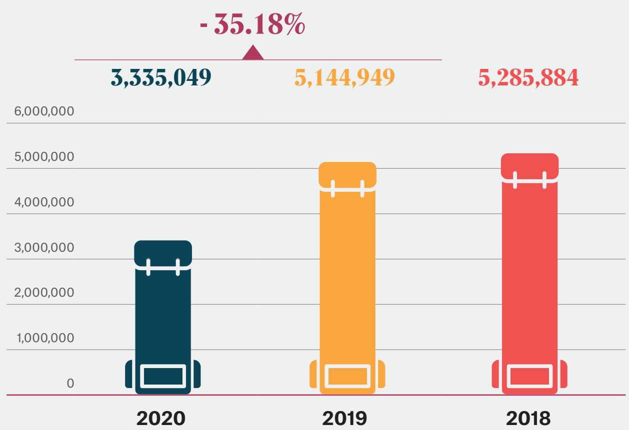
Number of visitors



Tourists



Hikers



Source: Reports published by rating agencies.

Country rating

Standard & Poor's	31/12/2019	31/12/2020	15/01/2021
Long term	BBB	BBB	BBB
Short term	A-2	A-2	A-2
Outlook	Positive	Stable	Stable

Fitch Ratings	31/12/2019	31/12/2020	29/01/2021
Long term	BBB+	BBB+	BBB+
Short term	F2	F2	F2
Outlook	Stable	Stable	Stable

For more information, see Chapter 10.

>>7 Information on relevant topics

Andorra joins the IMF

Continuing on the path taken by the **Principality of Andorra** in recent years, one of transformation and evolution towards transparency and official recognition, with greater involvement in the international arena, in January 2020 the country applied to join the International Monetary Fund (IMF) and in October of the same year became **the 190th member of the international body**, completing the adherence process in record time.

The inclusion of Andorra in the IMF will facilitate the technical assistance provided by this organisation in areas as diverse as macroeconomic statistics and financial supervision.

In March and April 2021, IMF staff conducted the first annual consultations of the country under **Article IV of the IMF's Articles of Agreement**. The evaluators thanked the authorities and other counterparts for sharing granular data and information, participating in constructive policy dialogue, and engaging in a productive and transparent collaboration.

The **preliminary conclusions** regarding the country are very positive. From a macroeconomic point of view they mention the country's political stability, its history of fiscal discipline, the existence of a good gender-balanced workforce and internationally competitive ski resorts. The commitment of the authorities to a green and digitalized economy, the diversification of tourism services and the fact that an Association Agreement is currently being negotiated with the European Union are other aspects that were highlighted.

As part of the Monetary Agreement, the evaluators noted that the country has transposed almost all the financial sector regulations.

From an **economic perspective**, although the pandemic has had a considerable impact on the country, the evaluators highlighted the effective management of the Andorran authorities, whose palliative fiscal measures helped to stabilise real incomes and provide financial support to businesses. Forecasts indicate that, despite the uncertainties, real GDP growth will pick up in 2021 with risks tilted to the downside.

As for **fiscal policy**, the IMF is of the opinion that public debt remains at sustainable levels despite temporarily increasing beyond the limit set by the fiscal rule. The increase in tax revenue during the recovery and the easing of COVID-19 measures will lead to primary surpluses from 2023, with debt declining to the fiscal rule limit of 40% of GDP.

Fiscal policy must be maintained in the near-term, allowing for higher **public investment** in the medium-term. Some of the planned investments in digital technologies and climate change mitigation and adaptation could be brought forward in 2021 to support the recovery. Public sector investments and greater spending on infrastructure would make the tourism sector more competitive.

Likewise, diversifying government funding sources could boost long-term growth and keep debt at manageable levels. Of note is the first-time external private placement of bonds, which was oversubscribed.

The IMF urges the Andorran authorities to build up international reserves to cover their liquidity needs in the event of future strains.

With regard to the **banking sector**, the IMF notes how banks entered the pandemic with solid levels of capital and profits thanks to a successful diversification strategy, among other things, and emphasises the need to reinforce bank health as the backbone of the economic recovery.

As in many other small countries where the banking sector is important, Andorran banks are exposed to risks associated with exposures and related party lending. In the near-term, ensuring banks' sound health should enable them to increase lending as demand from the private sector demand picks up.

Ultimately, the IMF stresses the importance of continuing to improve the **statistical data** that the Andorran authorities have already begun to produce, satisfactorily and in record time.

COVID-19

The emergency health situation caused by the SARS-CoV-2 pandemic 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, which was repealed by **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 approved an array of measures aimed at providing much needed solutions for businesses, employees and self-employed workers, as well as for families, in a very difficult context in which the economy was in full lockdown for a month.

The various packages approved include measures relating to **employment** that had never before existed in the country such as schemes of temporary suspension of contract **(ERTO); tax** and **social security** measures and **rent payment support** for commercial premises and housing; banking credit instruments embodied in a **legislative moratoria** to provide repayment relief on mortgages and personal loans to finance housing or vehicles in the case of individuals and commercial property in the case of businesses, as well as measures of an **administrative and procedural nature**.

In addition to these instruments, two extraordinary financing programmes were approved for companies and businesses worth €230 million to cover operating costs or service existing debts (the so-called **soft loans**).

Since the outbreak of the health crisis, the banking sector has worked with the government to implement these measures to deal with the consequences of the crisis.

In order to extend and supplement the legislative moratoria approved by the Government, the five Andorran banks adopted a **sector-wide moratoria** to allow households and businesses financially affected by COVID-19 to defer the payment of principal on loans or mortgages as well as personal loans taken out to cover the cost of vehicle purchases, education, housing, medical expenses and business needs.

As at 31 December 2020, banks had processed more than 1,800 transactions to issue €134 million in soft loans backed by the Government. About 350 applications for moratoria were processed by the same date for a volume of almost €122 million. Of that amount, 20% were for legislative moratoria while the remaining 80% were for sector-wide moratoria.

>> Information on relevant topics

Banks also issued a new **€50 million credit facility** to the Government and oversaw a new public debt issue to satisfy the immediate needs of the pandemic.

As a result of the digitalisation process that began years ago, banks were able to guarantee continued services through **telework** and to stand by customers in their time of need. Employees have all the resources they need to work remotely, without any negative impact on the banking entities.

Deposit guarantee and investor compensation schemes.

In 2018, the Principality of Andorra transposed Directive 2014/49/EU on deposit guarantee schemes and Directive 97/9/EC on investor-compensation schemes by approving **Law 20/2018 of 13 September, which regulates the Andorran Deposit Guarantee Fund and the Andorran Investment Compensation Scheme**.

This transposition led to the European adaptation of the regime that had already existed in Andorra since 2011 regulated by Law 1/2011 on the creation of a deposit guarantee system for banks and the standardisation whith the European Union of the protection of deposit holders and investors in banks and financial institutions in the Principality of Andorra.

Like the Directive, Andorran law establishes a transitional period during which banks that are members of the Deposit Guarantee Fund (**"Fagadi"**) must make annual contributions to be determined by its Managing Commission. By 30 June 2024 they are required to have ex-ante financial resources in an amount equivalent to 0.8% of the guaranteed deposits.

Banks authorised to operate in the Principality of Andorra are obligated to be members of the Fagadi, and all depositors with balances in Andorran banks who are natural persons or legal entities, regardless of nationality or place of residence, are beneficiaries.

The guaranteed deposit amount is limited to €100,000.

Fagadi's ex-ante resources must reach 0.8% of the guaranteed deposits by 30 June 2024. In addition, starting on this date, banks will continue to make annual contributions to the ex-ante fund in order to raise the financial resources to 1.6% within eight years of 2024. This percentage far exceeds the 0.8% target generally required by the Directive and the 0.5% target allowed for highly concentrated banking systems such as the Andorran one.

The Andorran investment compensation scheme (**"Sagi"**) is an ex-post guarantee system whose members, aside from banks, also include investment firms and management companies of collective investment undertakings.

The coverage limit is €100,000 per investment holder, which is more than the €20,000 established in the Directive.

Bank Recovery and Resolution (BRRD1)

Directive 2014/59/EU regulating the framework for the recovery and resolution of credit institutions and investment firms (**BRRD1**) was partially incorporated into Andorran law in 2015 by means of Law 8/2015 of 2 April on urgent measures to implement mechanisms for the restructuring and resolution of banking institutions.

With this law, Andorra was one of the first countries to transpose the BRRD1. The law has been successfully applied in recent years and was there to respond to the most serious banking crisis the country has ever suffered.

In this regard, the Principality of Andorra has been a pioneer in the application of internal recapitalisation (bail-in), in the use of the bridge entity, the segregation of assets and liabilities, as well as the transfer of the business, the modification of contractual clauses and the suspension of activities for less than four days during the first migration of assets and liabilities that took place in 2016.

The new **Law 7/2021 of 29 April on the recovery and resolution of banks and investment firms** repeals the previous law, supplements the transposition of BRRD1.

The basic objectives are to enable the resolution of any financial institution in an orderly manner, without serious systemic disruption, and to minimise, to the extent possible, the risk to taxpayers by protecting functions that are critical to financial markets and the real economy, ensuring the assumption of losses by the shareholders and creditors of the entity in crisis.

It is important to add that these entities must ensure that, in the event of difficulties, they have a sufficient buffer between capital and the guaranteed deposits that can be used to recapitalize internally, without the taxpayers being affected or depositors being compromised. BRRD1 calls this buffer the *Minimum Requirements for Eligible Liabilities* (MREL) and it is required of all entities.

This parameter is an additional and supplemental layer to the capital, liquidity and leverage requirements in an effort to ensure the feasibility and credibility of the internal recapitalization instrument, the *bail-in*.

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.

For the last several years, 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.

Solvency (CRD IV and CRR)

2018 was an intense year for the Andorran financial sector due to the intensive work involved in transposing the **"CRD IV Package"** which, on the one hand, includes Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (**"CRD IV"**) and EU Regulation no. 575/2013 (**"CRR"**); and on the other hand, decrees transposing the European Commission's acts as well as the technical communications from the Andorran supervisory body, the Andorran Financial Authority.

This transposition exercise complies with Andorra's commitment to implement 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 CRD IV 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.

>> Information on relevant topics

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.

The Principality of Andorra did not remain unscathed by the serious economic turmoil caused by the COVID-19 pandemic. Under these exceptional circumstances, Andorra approved amendments to the CRR Regulation, in line with the **CRR "quick fix"** approved at European level, which implements certain adaptations in response to the COVID-19 pandemic that provide for immediate measures to ensure that banks are able to continue channelling funds to companies and households effectively, and to mitigate the economic impact ("Decree 102/2021 of 31-3-2021 amending of the Regulations for the development of Law 35/2018 of 20 December on the solvency, liquidity and prudential supervision of credit institutions and investment firms").

■ MiFID, market abuse and financial collateral arrangements

The financial sector is one of the main pillars of the Andorran economy and is deeply internationally interconnected through its presence in other markets outside the Principality, as well as the European Union. It is therefore important that the Andorran legal framework meets the 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 into its legal system Directive 2004/39/EC 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, in order to further 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 execution, conflicts of interest, client asset protection, recordkeeping and markets.

■ Automatic Exchange of Information in tax matters

In 2014, and with the aim of fighting tax evasion and promote tax compliance, the OECD approved the *Common Reporting Standard* (CRS), a global standard for the automatic exchange of information in tax matters between jurisdictions (AEOI). This standard lays down how the competent authorities of the countries that have signed up to the CRS automatically exchange information on financial accounts every year.

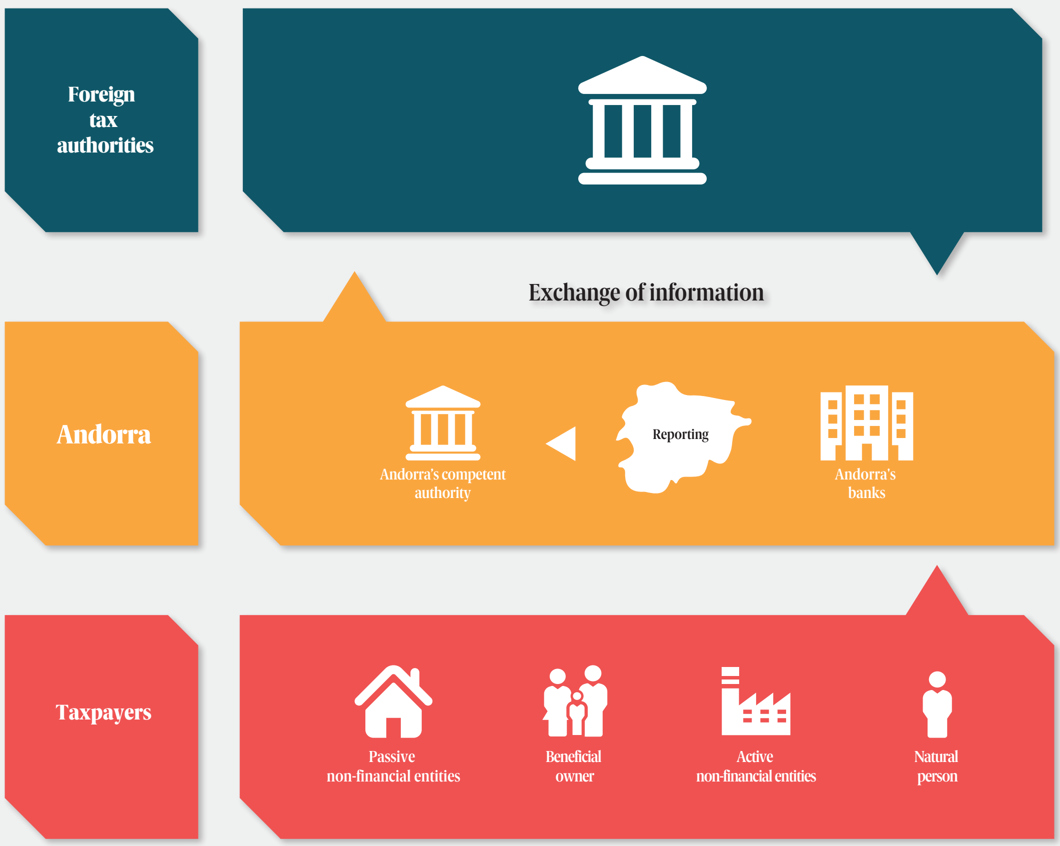
Andorra implemented the CRS in 2014 and in 2016 signed an AEOI agreement with the EU that incorporates the CRS standard.

At a national level, Law 19/2016 was passed to regulate the legal framework required to fulfil the AEOI commitment.

>> Information on relevant topics

In keeping with the timetables set forth in the international standard, Andorra carried out the first exchange of data in September 2018, using data from 2017, which was shared with 41 countries, including EU member states. Since 2017, the number of jurisdictions with which Andorra exchanges tax information has gradually increased, standing at 95 in 2020.

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.



>> Information on relevant topics

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 of the Council of Europe (Moneyval). 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 EU legislation and the implementation of FATF recommendations, both of which are constantly evolving, require a general overhaul of national legislation on the prevention of and fight against money laundering and terrorist financing and the adoption of new principles.

The bill to amend Law 14/2017 in order to implement the **5th Directive** is currently going through parliament.

· Moneyval

Moneyval is the committee of experts of the 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.

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

Many actions have been taken to adapt to international standards in the field of money laundering and terrorist financing, including the development of a national risk assessment in accordance with FATF Recommendation No. 1.

The first report of the 5th evaluation, published in 2017, 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.

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.

· 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 is 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.

· Definition of tax offences

The 2012 FATF recommendations provide for the inclusion of tax offences in the list of predicate offences for money laundering. In keeping with Andorra's desire to adopt international standards and recommendations, on 13 July 2017 the Penal Code was amended by means of Law 15/2017, which amended the previous Law 9/2005 of 21 February, regulating the classification of tax offences.

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.

· 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**.

Payment services (PSD1 and PSD2)

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 (**Law PSD2**).

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.

· 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 payments.

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.

>> Information on relevant topics

From that moment onwards, Andorran banks were able to send and receive transfers under SEPA schemes (*SEPA Credit Transfer* - SCT).

Pursuant to the Andorran legal framework, **Andorran banks adhered to the SEPA direct debit scheme in the second quarter of 2021**, allowing direct debits between Andorran companies or individuals and Andorran or EU banks, and direct debits between EU companies and individuals and Andorran banks.

With the inclusion of Andorra, the geographical scope of SEPA schemes now extends to 36 countries; the 27 EU Member States plus Great Britain, Iceland, Norway, Liechtenstein, Switzerland, Monaco, San Marino, Vatican City and the Principality of Andorra.

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.

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

Andorran regulations

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

TAXES CURRENTLY IN FORCE

Impostos	
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% comunal 1% state

On 20 October 2017 a **law** was passed **on the taxation of business 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.

>> Legislation: Andorra's regulatory framework

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

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.

>> Legislation: Andorra's regulatory framework

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.

A law 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.

(*) On May 25 2021, Andorra and San Marino sign a double taxation agreement (not yet effective).

>> Legislation: Andorra's regulatory framework

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.

PSD2

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

>> Legislation: Andorra's regulatory framework

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.

Decree approving new accounting plan based on IFRS- EU is approved on 1 January 2017.

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

20 December 2018.

Approval of Decree 102/2021, of 31-3-2021, amending the Regulations for the development of Law 35/2018, of 20 December, on the solvency, liquidity and prudential supervision of credit institutions and investment firms (**CRR quick fix**).

Law 7/2021 on the recovery and resolution of banks and investment firms.

29 April 2021.

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.

Consolidated text of Law 8/2018 and 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.

>> Legislation: Andorra's regulatory framework

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

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 (3rd Directive)."

"Directive 2015/849 of 20 May 2015 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing (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.
It was amended by regulation 2015/847 of 20 May 2015."

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

Recommendations of the Financial Action Task Force (FATF).

STANDARDISATION

>> Legislation: Andorra's regulatory framework

Andorran regulations

Consolidated text of qualified Law 9/2005 of 21 February on the Criminal Code. This includes t**ax 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.

The bill of law to amend Law 14/2017 in order to implement the 5th Directive is currently going through parliament.

9 COVID-19 Infographic

ECB
(European Central Bank)

Restrictions on capital distributions:
- Recommendation ECB/2020/19
- Recommendation ECB/2020/35
- Recommendation ECB/2020/62

EBA
(European Banking Authority)

Approval of EBA/GL/2020/02 guidance on legislative and non-legislative moratoria (and subsequent extensions and modifications).

2 April 2020.

AFA
(Andorran Financial Authority)

Recommendation EB01/2020 adapting EBA/GL/2020/02 guidance (and subsequent extensions and modifications).

10 June 2020.

Restrictions on capital distributions:
- Recommendation EB02/2020
- Recommendation EB01/2021

14 August 2020 and 22 January 2021.

GOVERNMENT OF ANDORRA

Economic and social measures

Law 4/2020 on states of alarm and states of emergency.

23 March 2020.

Law 5/2020 on exceptional and urgent measures in the light of the health emergency caused by the SARS-CoV-2 pandemic.

18 April 2020.

Law 16/2020 on exceptional and urgent measures in the light of the health emergency caused by the SARS-CoV-2 pandemic.

4 December 2020.

Subsequent modifications.

2 Soft loan programmes:
- Decree 24-3-20 First soft loan programme for €130 million (repealed by Decree 30-3-20). Funds exhausted.
- Decree 25-5-20 Second soft loan programme for €100 million (€2.3 M requested)

Of the total requested (€132.6 M), €109 M used.

Subsequent modifications to expand the second programme.

Other

BANKING SECTOR

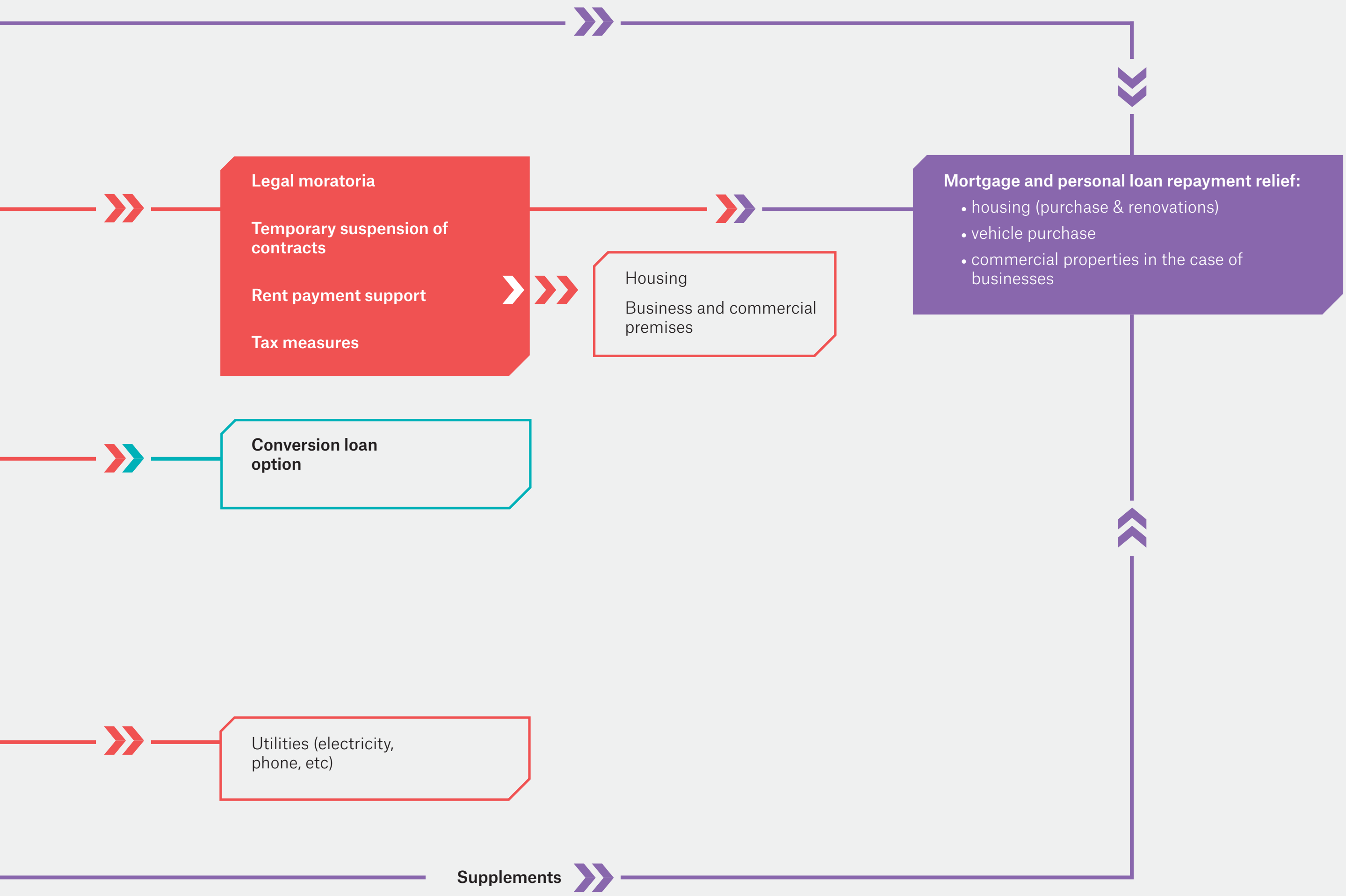
Sector-wide moratoria.

Agreement extended until 31/03/2021.

€50 million credit facility for the Government of Andorra.

27 March 2020.

Mortgage and personal loan repayment relief:
- vehicle purchase
- education
- housing
- medical expenses
- operating costs


Legal moratoria
Temporary suspension of contracts
Rent payment support
Tax measures
Housing
Business and commercial premises
Mortgage and personal loan repayment relief:
• housing (purchase & renovations)
• vehicle purchase
• commercial properties in the case of businesses
Conversion loan option
Utilities (electricity, phone, etc)
Supplements

>>10 Andorra's banking sector

The Andorran banking sector is made up of a total of five banking groups with 90 years of banking experience. The core business areas are private banking and asset management, insurance and retail banking both for individuals and companies. Andorran banks operate in international markets through their subsidiaries located mainly in Europe and America.

It is a crucial sector in Andorra's economy, not only because it accounts for 20% of the country's GDP but also because of its role in society as an agent of change. It is characterised by prudent management, solvency levels above the European average due to the specificity of the business and the country, and its expertise and specialisation in retail and private banking.

THE BANKING SECTOR IS ONE OF THE DRIVERS OF THE ANDORRAN ECONOMY AND HAS BEEN A KEY PLAYER IN GUARANTEEING LIQUIDITY DURING THE COVID-19 CRISIS.

This sector, which has a highly qualified workforce and operates in an environment of political and social stability in a country with more than 700 years of history, tradition and progress, is regulated and supervised by the Andorran Financial Authority (AFA) and the Financial Intelligence Unit (UIFAND), as an independent body that promotes and coordinates measures to combat money laundering and terrorism financing.

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 FINANCIAL SYSTEM AND INSURANCE SYSTEM COMBINED REPRESENT APPROXIMATELY 20% OF GDP

The Andorran banking sector has transformed its business model to adapt to the changes that have taken place in the market and in the environment. The trend within the sector has been to prioritise technological investment, especially in digital transformation projects, to provide better service to its customers, and to adapt equipment and processes in record time in order to deal with the regulatory revolution that European banks have also faced.

The digital transformation is one of the fundamental pillars that has allowed the banking sector to successfully manoeuvre the COVID-19 crisis that has engulfed the entire world.

2019 was the first year in which banks reported 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 (known as CRD IV). This represents a key milestone in culminating the process of full approval of the Andorran financial system.

The CET 1 (*phase-in*) solvency ratio is 18% as at 31 December 2020, above the average for European banks which stands at 15.5% according to EBA data at 31 December 2020.

Confidence in the Andorran banking sector is strengthened by the latest Moneyval reports which highlight the work done by Andorra in the area of money laundering prevention and its consideration as a cooperating country according to ECOFIN.

Providing added value services

Strong internationalisation

Sustainability and profitability

THE BANKING SECTOR ENJOYS EXCELLENT SOLVENCY AND LIQUIDITY RATIOS

The sector closed 2020, a year marked by COVID-19, with an aggregate result of €84 million, after funding an extraordinary provision of €33 million on the recommendation of the supervisory body and international guidelines. Despite the pandemic, the volume of assets under management increased by 4% to €51,735 million, credit investments were up by 4.5%, and the CET1 (phase-in) solvency ratio was 18%.

Low interest rates, ongoing adaptation to international banking regulations and strong technological investments are pushing the results of the sector with a 5.46% return on equity (ROE), well above the average for European banks (2% according to EBA data at 31 December 2020).

2020 has been a difficult year due to the effects of the pandemic, but Andorran entities have remained strong and capable of attracting customers' assets. Provisions for the health crisis have had a material impact on the banks' profit and loss account but has not damaged their strong solvency and liquidity positions.

THE BANKING SECTOR FACES THE CHALLENGES OF THE FUTURE WITH A SOLID POSITION IN TERMS OF SOLVENCY AND LIQUIDITY

MAIN CHARACTERISTICS OF THE ANDORRAN BANKING SECTOR

International banking: the evolution of the banking sector has been driven by the provision of added-value services and international expansion, both of which contribute to sustainable and profitable growth.

Providing added value banking services: the business model of the Andorran banking sector 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 pandemic has shown that the digitalisation transformation undertaken by financial institutions is a strong point in favour of offering products adapted to the digital needs of the customers.

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 growth, Andorran banks have maintained healthy liquidity and solvency ratios, which have been a historical characteristic of Andorra's financial system.

CONSOLIDATED AGGREGATE BALANCE SHEETS OF ANDORRAN BANKS

(Thousand euros)

Assets	2020	% / Total	2019 (*)	% / Total	Var. (%) 20-19
Cash, cash balances at central banks and other demand deposits	2,111,218	13.92%	1,724,498	11.62%	22.43%
Financial assets held for trading	348,424	2.30%	322,915	2.18%	7.90%
Financial assets not held for trading that must be valued at fair value with changes in income	587,582	3.87%	670,540	4.52%	(12.37%)
Financial assets at fair value with changes in the income statement	78,551	0.52%	59,020	0.40%	33.09%
Financial assets at fair value with changes in the other comprehensive income	1,423,599	9.38%	1,845,715	12.44%	(22.87%)
Financial assets at amortised cost	9,200,220	60.65%	8,681,997	58.50%	5.97%
Derivatives - Hedge accounting	4,237	0.03%	937	0.01%	N/A
Changes in the fair value of hedging elements of a portfolio with interest risk hedging	27,962	0.18%	28,743	0.19%	(2.72%)
Investments in jointly-controlled businesses and associates	82,894	0.55%	73,339	0.49%	13.03%
Assets covered under insurance and reinsurance contracts	36,827	0.24%	41,825	0.28%	(11.95%)
Tangible assets	498,367	3.29%	535,461	3.61%	(6.93%)
Intangible assets	425,468	2.80%	453,961	3.06%	(6.28%)
Tax assets	48,374	0.32%	57,794	0.39%	(16.30%)
Other assets	147,894	0.97%	207,005	1.39%	(28.56%)
Disposable non-current assets held for sale	148,339	0.98%	136,946	0.92%	8.32%
TOTAL ASSETS	**15,169,956**	**100.00%**	**14,840,696**	**100.00%**	**2.22%**

Liabilities	2020	% s/ Total	2019 (*)	% s/ Total	Var, (%) 20-19
Financial liabilities held for trading	157,892	1.04%	101,619	0.68%	55.38%
Financial liabilities at fair value with changes in the income statement	449,227	2.96%	454,444	3.06%	(1.15%)
Financial liabilities at amortised cost	12,315,815	81.19%	12,036,738	81.11%	2.32%
Derivatives - Hedge accounting	40,134	0.26%	53,147	0.36%	(24.49%)
Changes in the fair value of hedging elements of a portfolio with interest risk hedging	676	-	794	0.01%	(14.86%)
Liabilities covered under insurance and reinsurance contracts	339,681	2.24%	340,994	2.30%	(0.39%)
Provisions	65,492	0.43%	79,757	0.54%	(17.89%)
Tax liabilities	26,467	0.17%	26,548	0.18%	(0.31%)
Other liabilities	188,778	1.24%	220,222	1.48%	(14.28%)
Liabilities in groups of disposable items held for sale	-	-	-	-	-
TOTAL LIABILITIES	**13,584,160**	**89.55%**	**13,314,263**	**89.71%**	**2.03%**

Net Equity	2020	% s/ Total	2019 (*)	% s/ Total	Var, (%) 20-19
Capital	245,470	1.62%	245,470	1.65%	-
Issue premium	142,391	0.94%	142,391	0.96%	-
Issued equity instruments other than capital	34,800	0.23%	35,000	0.24%	(0.57%)
Other cumulative results	(34,994)	(0.23%)	(2,546)	(0.02%)	N/A
Accumulated profits	819,686	5.40%	697,547	4.70%	17.51%
Revaluation reserves	2,288	0.02%	2,288	0.02%	-
Other reserves	275,893	1.82%	285,709	1.93%	(3.44%)
Own shares (-)	(2,767)	(0.02%)	(2,760)	(0.02%)	0.27%
Result attributed to majority shareholder	83,609	0.55%	111,883	0.75%	(25.27%)
Interim dividend (-)	-	-	-	-	-
Shareholders' equity	**1,566,375**	**10.33%**	**1,514,982**	**10.21%**	**3.39%**
Minority interests	**19,421**	**0.13%**	**11,451**	**0.08%**	**69.60%**
TOTAL NET EQUITY	**1,585,796**	**10.45%**	**1,526,433**	**10.29%**	**3.89%**
TOTAL LIABILITIES AND NET EQUITY	**15,169,956**	**100.00%**	**14,840,696**	**100.00%**	**2.22%**

* The figures for 2019 are given for comparative purposes only.

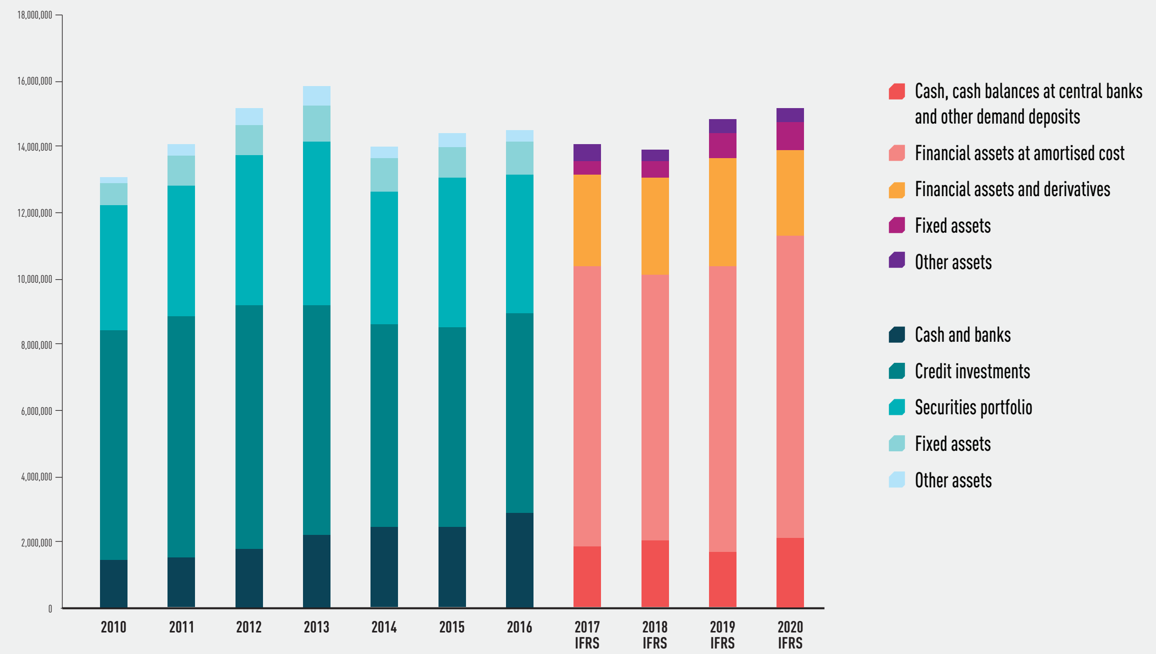
AGGREGATE ASSETS

The three major components of the aggregate assets of Andorran banks are "Financial assets at amortised cost", which account for 60.65% 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 9.38% of total assets. The third component is "Cash, cash balances at central banks and other demand deposits" which accounts for 13.92% of total assets and includes "Cash and central banks, OECD, AFA and Financial Intermediaries".

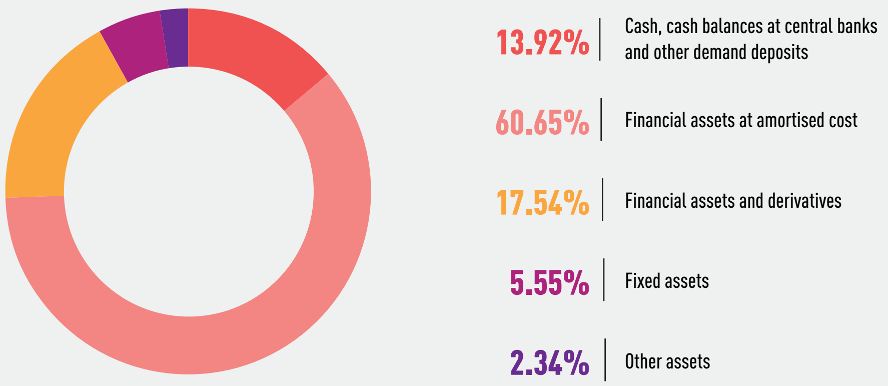
The structure of Andorran banks' balance sheets reflects the type of business pursued, mainly private banking and asset management services. Retail banking activities are carried out in Andorra only.

Evolution of aggregate assets 2010-2020

Thousand euros



Composition of aggregate assets 2020



>> Andorra's banking sector

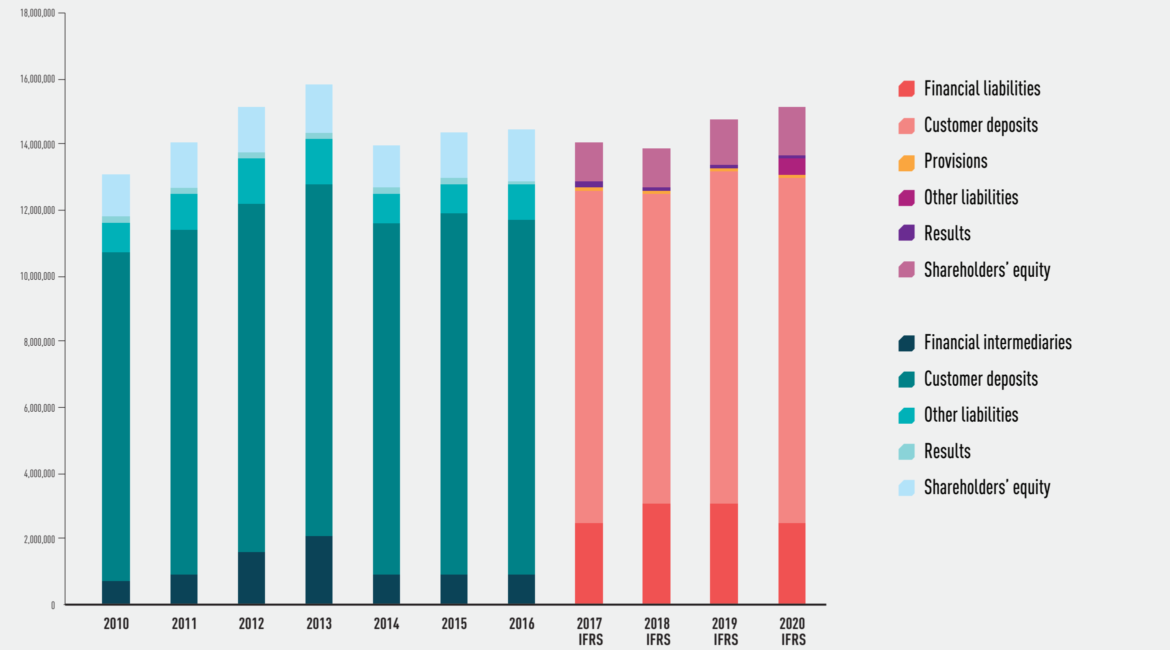
AGGREGATE LIABILITIES

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 as 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.

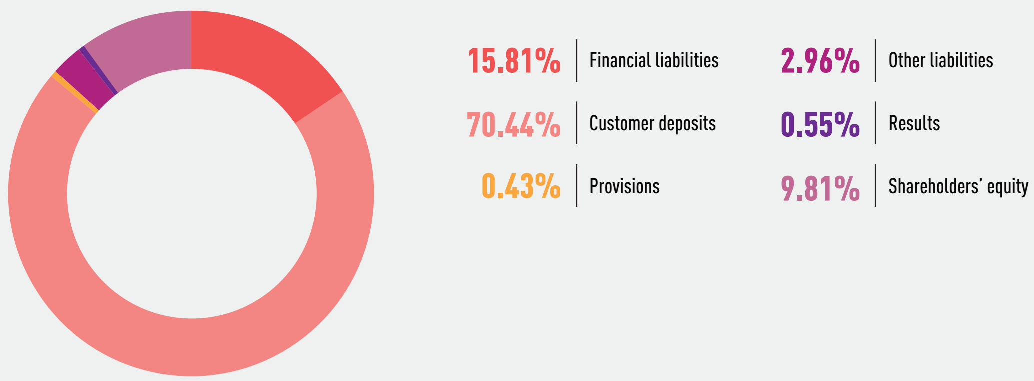
The composition of aggregate liabilities at the end of the financial year 2020 for Andorran banks was characterised by the significant relative weight of "Customer deposits", which account for 70.44% of aggregate liabilities. As at 31 December 2020, total "client deposits" stood at 10,685 million euros, 4.67% more than the previous financial year, and were classified under the heading "Financial liabilities at amortised cost". "Shareholders' equity" accounts for 10.33% and "Results" for 0.55%.

Evolution of aggregate liabilities 2010-2020

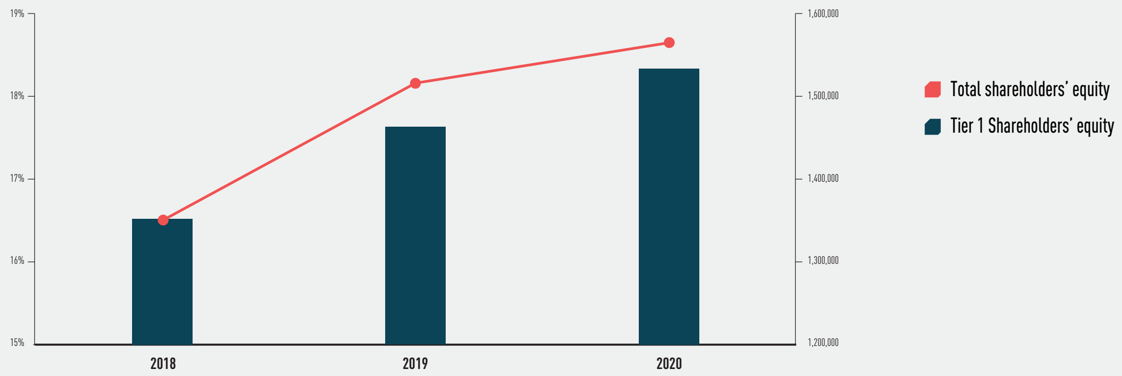
Thousand euros



Composition of aggregate liabilities 2020



Evolution of Tier1 shareholders' equity and total shareholders' equity 2018-2020 — Thousand euros

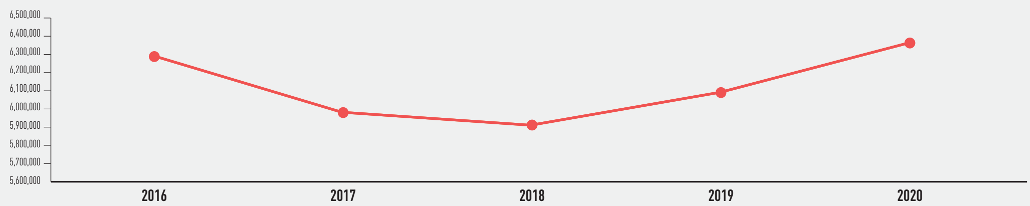


GROSS CREDIT INVESTMENT

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.

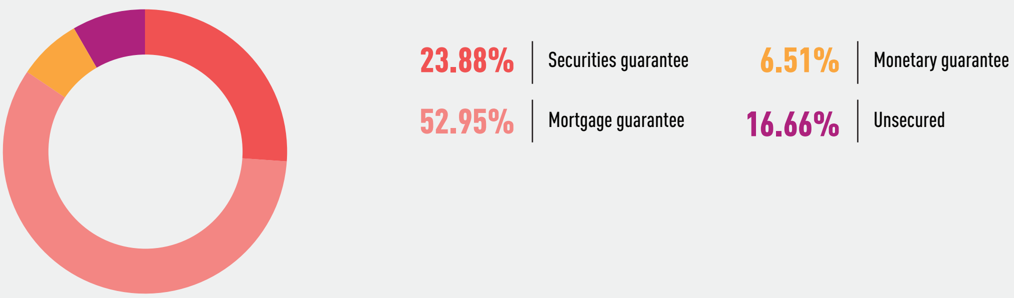
In recent years and following the financial crisis of 2008-2012, the demand for credit investment has experienced limited growth for several reasons; the deleveraging process experienced by Andorran companies and the professionalization of the sector, which has resulted in companies using their own funds to finance new projects. Global credit investment as at 31 December 2020 stood at €6,368 million, 4.48% more than the previous year.

Evolution of aggregate gross credit investment 2016-2020 — 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 83.34%. Of these, 23.88% are securities collateral, 52.95% are mortgage guarantees and 6.51% are cash collateral.

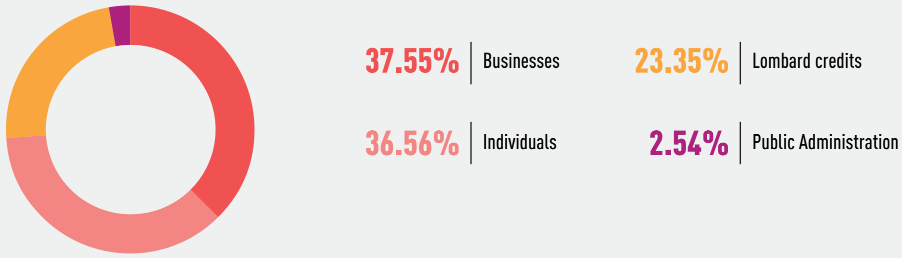
Credit investment guarantees 2020



>> Andorra's banking sector

The breakdown of the loan portfolio is very similar to what it has been in recent years. 37.55% of borrowers are companies, 36.56% are households, 23.35% are private banking customers with security-backed guarantees and 2.54% is with the public administration.

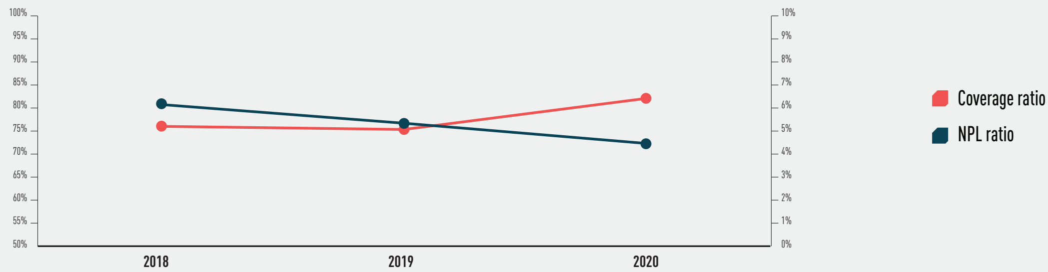
Aggregate gross credit investment - Consolidated bank 2020



With regard to credit quality, credit exposures are classified according to the credit risk at the following stages: Stage 1 is 79.46% for transactions that do not have significant risk increases, Stage 2 is 13.21% for transactions that have significant risk increases, Stage 3 is 7.33% for transactions that raise reasonable doubts as to their repayment in full. Without taking into account Vall Banc's run-off portfolio, the NPL ratio as at 31 December 2020, would be 4.49%.

Whilst the NPL ratio has been reduced to 4.49%, the sector has made strides in funding provisions in recent years, thanks to which the coverage ratio has increased to 82.14% of all doubtful assets.

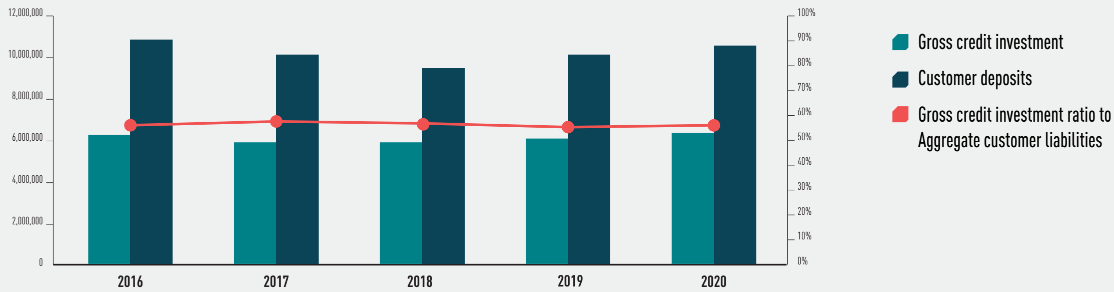
Evolution of the NPL ratio and the coverage ratio 2018-2020



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 113.6%, double that of Andorran banks, a sign of the liquidity available to Andorran banks.

Evolution of the gross credit investment ratio to aggregate customer liabilities 2016-2020



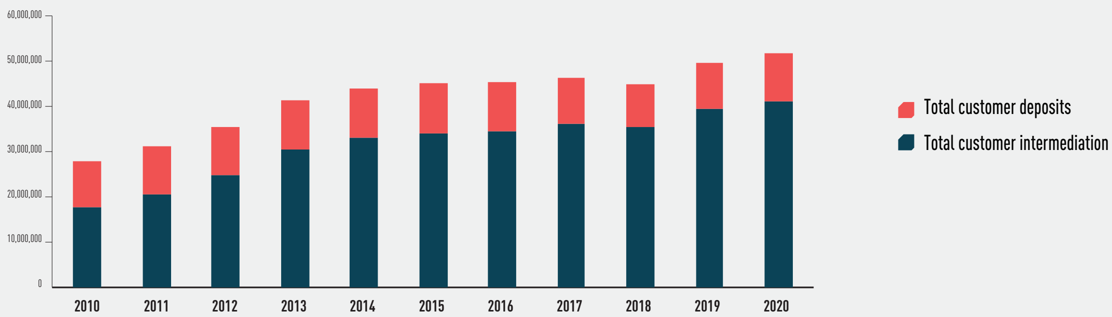
AGGREGATE ASSETS UNDER MANAGEMENT

The business lines of Andorran banks, beyond their own retail business, include private banking and wealth management.

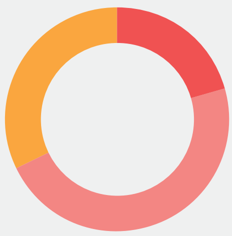
The total assets managed by Andorran banks are made up of customer deposits (on-balance sheet) which represent 20.65% of the total, and the mediation of both custodial and non-custodial customers (off-balance sheet) which represent the remaining 79.35%. As at 31 December 2020, assets under management totalled €51,735 million, 4.07% more than in 2019. Customer deposits amounted to €10,685 million as at 31 December 2020, 4.67% more than the previous year, and off-balance sheet resources increased by 3.91%, which clearly demonstrates the sector's growth.

Evolution of assets under management 2010-2020

Thousand euros



On- and off-balance-sheet assets under management 2020



20.65% | Customer deposits

47.36% | Customer intermediation (Suspense accounts)

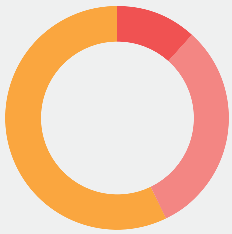
31.99% | Other assets under management

Assets under management deposited by banks or third parties 2020

35.80% | Assets under custody / deposited by third parties

64.20% | Assets under custody / deposited by the institution

Assets under management by type of customer 2020



11.71% | Collective investment undertakings

31.28% | Portfolio of individual customers managed under a mandate

57.01% | Other individual customers

CONSOLIDATED AGGREGATE PROFIT AND LOSS ACCOUNTS OF ANDORRAN BANKS

(Thousand euros)

	2020	2019 (*)	Var. (%) 20-19
Interest income	149,776	174,738	(14.29%)
Interest expenses	(48,851)	(70,766)	(30.97%)
Dividend income	455	2,083	(78.17%)
Interest margin	**101,379**	**106,055**	**(4.41%)**
Commissions earned	400,447	388,142	3.17%
Commissions paid	(109,203)	(99,459)	9.80%
Base margin	**392,623**	**394,738**	**(0.54%)**
Gains or losses when writing off financial assets and liabilities not valued at fair value with changes in income (net)	49,924	29,161	71.20%
Results of enterprises carried using the equity method	486	209	N/A
Results from financial transactions	81,447	110,680	(26.41%)
Results on assets and liabilities covered under insurance and reinsurance contracts	-	-	-
Other operating income	27,432	28,371	(3.31%)
Other operating expenses	(9,935)	(9,183)	8.19%
Other income and expenses from assets and liabilities used for insurance or reinsurance contracts	899	3,909	(77.00%)
Operating profit or loss (net)	**542,874**	**557,885**	**(2.69%)**
Administrative expenses	(362,512)	(370,983)	(2.28%)
Staff costs	(221,283)	(224,618)	(1.48%)
Other general administrative expenses	(141,230)	(146,365)	(3.51%)
Amortisation	(63,963)	(58,002)	10.28%
Provisions funded (net)	2,606	(6,102)	N/A
Net impairment of financial assets not recognised at fair value with changes in profit and loss	(1,390)	1,857	N/A
Net impairment of investments in jointly-controlled companies or associates	140	(300)	N/A
Net impairment of non-financial assets	(20,854)	(2,237)	N/A
Negative goodwill recognised in income	-	-	-
Participation in gains or losses from investments in subsidiaries, joint ventures and associates	3,220	2,602	23.74%
Gains or losses from non-current assets and disposal groups classified as held for sale not admissible as discontinued operations	2,546	2,619	(2.79%)
Profit before tax	**102,667**	**127,339**	**(19.37%)**
Corporation tax	(15,711)	(14,616)	7.49%
Results for the year from continuing operations	**86,956**	**112,723**	**(22.86%)**
Results from discontinued operations (net)	(735)	(213)	N/A
PROFIT/(LOSS) FOR THE YEAR	**86,221**	**112,510**	**(23.37%)**
Attributed to majority shareholders	**83,609**	**111,883**	**(25.27%)**
Attributed to minority shareholders	**2,612**	**627**	**N/A**

* The figures for 2019 are given for comparative purposes only.

>> Andorra's banking sector

The Andorran banking sector's results have been conditioned by the slowdown in financial activity as a result of the COVID-19 pandemic and by the economic and social measures adopted, both domestically and internationally. The sector has reported an aggregate profit of €84 million, following the one-off extraordinary provisions of €33 million made in line with recommendations issued by the supervisory body and with international guidelines.

Low interest rates, continuous adaptation to international banking regulations (see the graph below which shows the evolution of the transformation costs over the last 10 years and the efficiency ratio), and the significant technological investments which have enabled financial institutions to be closer to their customers in these difficult times, such as the recent COVID-19 crisis, put pressure on the sector's results, which reported a 5.46% return on equity (ROE), well above the average for European banks (2% according to EBA data as at 31 December 2020).

Despite the pandemic and the efforts made by banks to clean up their balance sheets and make provisions for insolvencies in anticipation of a possible rise in non-performing loans in the future, banks continue to maintain high solvency ratios and capitalisation rates. Liquidity rates remain high to enable banks to continue supporting the Andorran economy and its companies, businesses and households. Andorran banks are facing the future from a strong position, with good solvency and liquidity ratios following the provisions made.

The chart on the evolution of shareholders' equity and aggregate equity shows the impact of the first application of the International Financial Reporting Standards (hereinafter IFRS) on 1 January 2017, and their subsequent recovery to pre-IFRS levels.

The aggregate result for the sector amounts to

84

million euros in 2020

Andorran banks ended the year 2020 with a

5.46%

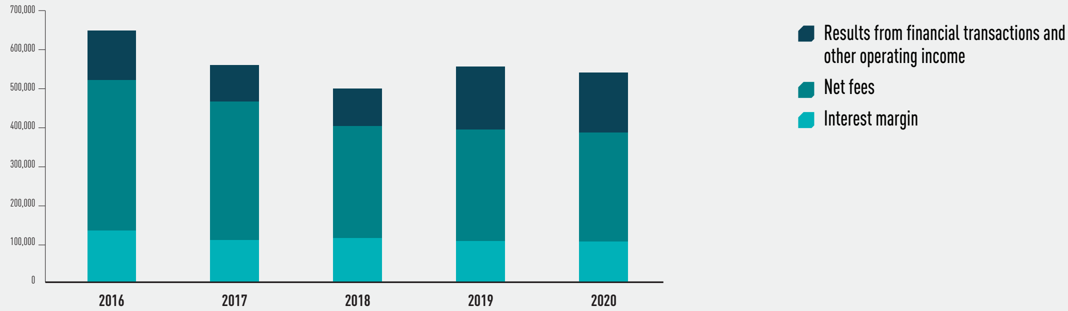
return on equity (ROE), which is higher than the European average of 2% according to EBA data (*European Banking Authority*)

>> Andorra’s banking sector

EVOLUTION OF THE ANDORRAN BANKING SECTOR’S INCOME STATEMENT

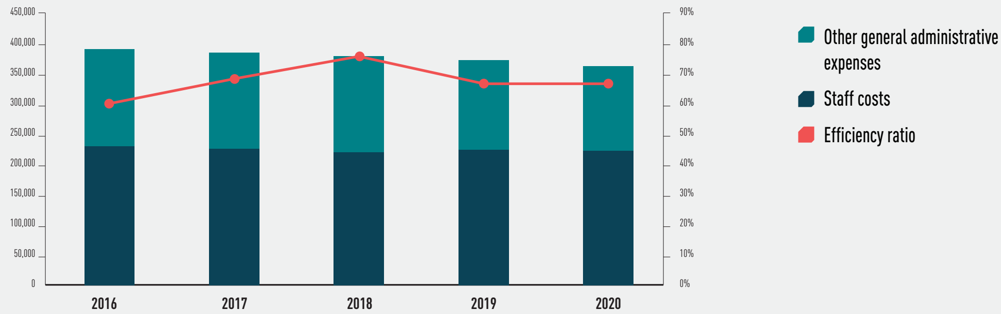
Evolution of aggregate operating results and composition 2016-2020

Thousand euros



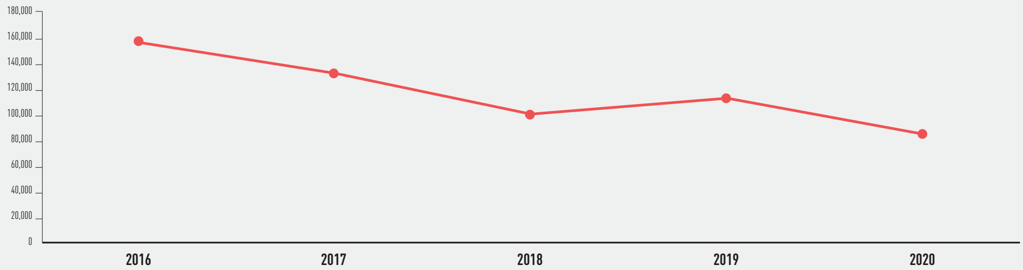
Evolution of composition of transformation costs and efficiency ratio 2016-2020

Thousand euros



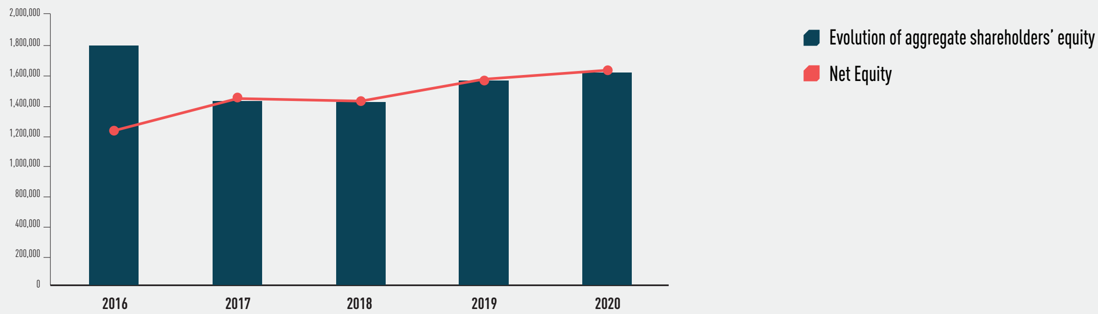
Evolution of aggregate result 2016-2020

Thousand euros



Evolution of equity and aggregate shareholders’ equity 2016-2020

Thousand euros



SOLVENCY AND LIQUIDITY

On 20 December 2018, the Andorran 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 (CRDIV). This involves a significant step forward in the prudential banking framework compared to the legislation in force until then through 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 banks' 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 CET1 (phase-in) solvency ratio stood at 18.00% as at 31 December 2020, slightly above the previous year with 17.48%, and above the average for European banks, at 15.5% according to EBA data for the fourth quarter of 2020. The liquidity ratio (LCR) was 187.12%, also higher than the average for European banks which was 173.1% at the end of the 4th quarter of 2020.

At the end of 2020, the aggregate CET 1 (*phase-in*) solvency ratio was

18.00%

above the European banks' average (15.5%)

At the end of 2020, the aggregate liquidity ratio stood at

187.12%

above the European banks' average (173.1%)

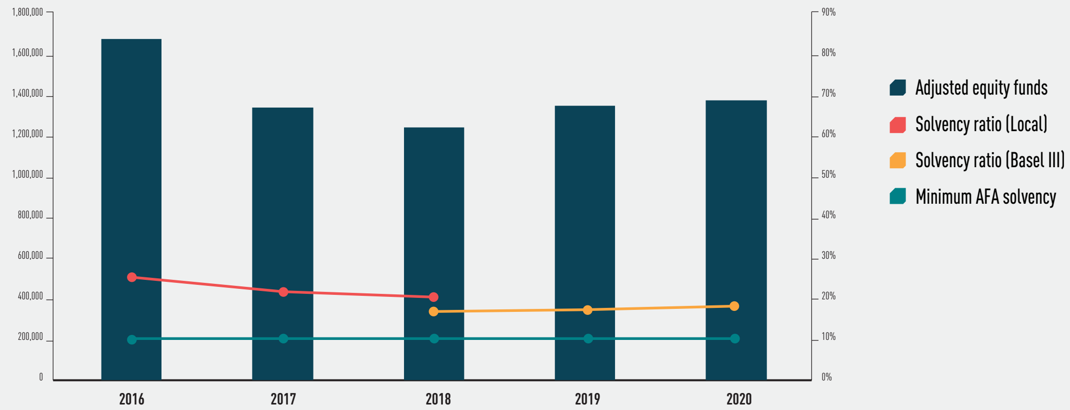
Solvency - Liquidity according to Basel III

	CET Solvency 1 *(phase-in)*		Liquidity *(Coverage ratio)*	
	2019	**2020**	**2019**	**2020**
ANDBANK	13.61%	13.56%	267.33%	190.26%
GRUP MORABANC	26.03%	27.31%	369.23%	280.14%
GRUP CRÈDIT ANDORRÀ	15.13%	15.91%	147.04%	141.66%
BANCSABADELL D'ANDORRA	21.71%	20.40%	406.90%	375.11%
VALL BANC	21.10%	22.13%	420.68%	360.25%
AGGREGATE RATIO	**17.48%**	**18.00%**	**223.05%**	**187.12%**

>> Andorra's banking sector

Evolution of solvency ratio and adjusted equity 2016-2020

Thousand euros



The Andorran Deposit Guarantee Fund and the Andorran Investment Compensation Scheme are governed by Law 20/2018, of 13 September, relating to the Andorran Deposit Guarantee Fund and the Andorran Investment Compensation Scheme, 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.

Return on equity (ROE)

	2019	2020
ANDBANK	5.36%	5.64%
GRUP MORABANC	8.45%	9.47%
GRUP CRÈDIT ANDORRÀ	10.62%	6.34%
BANCSABADELL D'ANDORRA	11.38%	10.50%
VALL BANC	1.98%	(15.25%)
AGGREGATE RATIO	**7.70%**	**5.46%**

Return on assets (ROA)

	2019	2020
ANDBANK	0.61%	0.59%
GRUP MORABANC	0.83%	0.96%
GRUP CRÈDIT ANDORRÀ	0.85%	0.62%
BANCSABADELL D'ANDORRA	1.20%	1.02%
VALL BANC	0.24%	(1.68%)
AGGREGATE RATIO	**0.76%**	**0.55%**

Ratings

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

As far as Andorra's sovereign rating is concerned, in its review of 15 January 2021 Standard & Poor's reaffirmed Andorra's long- and short-term rating of BBB/A-2 and maintained the stable outlook for the country dating back to July 2020.

The agency stressed that the Principality has enough fiscal headroom to manage the economic consequences of the pandemic and to take supportive measures in response to the crisis. It is worth noting that despite the rise in deficits in 2020 and 2021, Andorra has managed to secure and diversify its sources of funding.

S&P also highlighted the country's IMF membership. Not only will this reinforce its resilience to possible financial crises and reduce reputational risks, but it will also enhance the quality, transparency and standardisation of statistical data.

At the same time, the agency welcomes the Principality's desire to reach an association agreement with the European Union, as well as the efforts made in recent years to adapt to international financial supervision standards.

In its latest assessment of 29 January 2021, Fitch Ratings reaffirmed Andorra's BBB+ rating with a stable outlook. The evaluators were also pleased with the Principality's inclusion in the International Monetary Fund, emphasising that it is a safety net for the country.

As for the economic impact of the pandemic, the agency notes that the rise in unemployment has been modest despite the deep economic contraction. It also notes that spending has increased slightly, despite the significant aid packages provided by the Government.

The rating agency also praises the efforts to diversify Andorran debt and supports the international expansion policies, which will allow the average debt maturities to be extended.

The agency believes that Andorra has the capacity to absorb the effects of this crisis, which is affecting the vast majority of countries, without any harm to its long-term macroeconomic indicators.

In its latest evaluation of 9 April, Fitch maintained Andbank's BBB rating and BBB- for MoraBanc Group and the Crèdit Andorrà Group. The agency had already 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

	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 2021.

Information on the Andorran banking sector

Andorran banking groups

>> Information on the Andorran banking sector

ANDBANK
Private Bankers

ANDORRA BANC AGRÍCOL REIG, SA

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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 2020.

>> Information on the Andorran banking sector

ANDBANK Private Bankers

Source: Bank's annual report

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2019 AND 2020

(Thousand euros)

Assets	2020	% s/ Total	2019	% s/ Total	Var. (%) 20-19
Cash, cash balances at central banks and other demand deposits	1,302,133	24.91%	1,058,885	23.15%	22.97%
Financial assets held for trading	189,958	3.63%	174,198	3.81%	9.05%
Financial assets not held for trading that must be valued at fair value with changes in income	8,990	0.17%	10,073	0.22%	(10.75%)
Financial assets at fair value with changes in the income statement	13,619	0.26%	-	-	-
Financial assets at fair value with changes in the other comprehensive income	318,276	6.09%	514,318	11.24%	(38.12%)
Financial assets at amortised cost	2,834,770	54.23%	2,185,554	47.78%	29.70%
Derivatives - Hedge accounting	4,089	0.08%	822	0.02%	N/A
Changes in the fair value of hedging elements of a portfolio with interest risk hedging	5,976	0.11%	4,609	0.10%	29.66%
Investments in jointly-controlled businesses and associates	3,243	0.06%	2,862	0.06%	13.31%
Assets covered under insurance and reinsurance contracts	3,052	0.06%	4,520	0.10%	(32.48%)
Tangible assets	131,567	2.52%	146,987	3.21%	(10.49%)
Intangible assets	288,876	5.53%	293,510	6.42%	(1.58%)
Tax assets	25,281	0.48%	27,499	0.60%	(8.07%)
Other assets	77,211	1.48%	126,002	2.75%	(38.72%)
Disposable non-current assets held for sale	20,015	0.38%	24,674	0.54%	(18.88%)
TOTAL ASSETS	**5,227,056**	**100.00%**	**4,574,513**	**100.00%**	**14.26%**

(*) The figures for 2019 are given for comparative purposes only.

>> Information on the Andorran banking sector

ANDBANK
Private Bankers

Source: Bank's annual report

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2019 AND 2020

(Thousand euros)

Liabilities	2020	% s/ Total	2019	% s/ Total	Var. (%) 20-19
Financial liabilities held for trading	74,299	1.42%	53,663	1.17%	38.45%
Financial liabilities at fair value with changes in the income statement	-	-	-	-	-
Financial liabilities at amortised cost	4,488,959	85.88%	3,858,847	84.36%	16.33%
Derivatives - Hedge accounting	6,268	0.12%	5,224	0.11%	19.98%
Changes in the fair value of hedging elements of a portfolio with interest risk hedging	-	-	-	-	-
Liabilities covered under insurance and reinsurance contracts	3,052	0.06%	4,520	0.10%	(32.48%)
Provisions	18,997	0.36%	22,740	0.50%	(16.46%)
Tax liabilities	13,247	0.25%	14,632	0.32%	(9.47%)
Other liabilities	84,657	1.62%	77,728	1.70%	8.91%
Liabilities in groups of disposable items held for sale	-	-	-	-	-
TOTAL LIABILITIES	**4,689,479**	**89.72%**	**4,037,354**	**88.26%**	**16.15%**

(Thousand euros)

Net Equity	2020	% s/ Total	2019	% s/ Total	Var. (%) 20-19
Capital	78,842	1.51%	78,842	1.72%	-
Issue premium	73,441	1.41%	73,441	1.61%	-
Issued equity instruments other than capital	34,800	0.67%	35,000	0.77%	(0.57%)
Other cumulative results	(34,511)	(0.66%)	(2,713)	(0.06%)	N/A
Accumulated profits	455,963	8.72%	427,156	9.34%	6.74%
Revaluation reserves	-	-	-	-	-
Other reserves	(103,855)	(1.99%)	(101,496)	(2.22%)	2.32%
Own shares (-)	(1,927)	(0.04%)	(1,927)	(0.04%)	-
Result attributed to majority shareholder	29,470	0.56%	28,040	0.61%	5.10%
Interim dividend (-)	-	-	-	-	-
Shareholders' equity	**532,223**	**10.18%**	**536,343**	**11.72%**	**(0.77%)**
Minority interests	**5,354**	**0.10%**	**816**	**0.02%**	**N/A**
TOTAL NET EQUITY	**537,577**	**10.28%**	**537,159**	**11.74%**	**0.08%**
TOTAL LIABILITIES AND NET EQUITY	**5,227,056**	**100.00%**	**4,574,513**	**100.00%**	**14.26%**

(*) The figures for 2019 are given for comparative purposes only.

>> Information on the Andorran banking sector

ANDBANK Private Bankers

Source: Bank's annual report

CONSOLIDATED INCOME STATEMENT AS AT 31 DECEMBER 2019 AND 2020

(Thousand euros)

	2020	2019	Var. (%) 20-19
Interest income	41,866	49,278	(15.04%)
Interest expenses	(20,582)	(31,477)	(34.61%)
Dividend income	118	169	(30.18%)
Interest margin	**21,402**	**17,970**	**19.10%**
Commissions earned	182,046	175,100	3.97%
Commissions paid	(57,758)	(47,691)	21.11%
Base margin	**145,690**	**145,379**	**0.21%**
Gains or losses when writing off financial assets and liabilities not valued at fair value with changes in income (net)	6,926	17,161	(59.64%)
Results of enterprises carried using the equity method	-	-	-
Results from financial transactions	60,140	44,789	34.27%
Results on assets and liabilities covered under insurance and reinsurance contracts	-	-	-
Other operating income	8,726	5,776	51.07%
Other operating expenses	(6,278)	(5,207)	20.57%
Other income and expenses from assets and liabilities used for insurance or reinsurance contracts	-	-	-
Operating profit or loss (net)	**215,204**	**207,898**	**3.51%**
Administrative expenses	(151,852)	(150,445)	0.94%
Staff costs	(99,272)	(102,973)	(3.59%)
Other general administrative expenses	(52,580)	(47,472)	10.76%
Amortisation	(28,482)	(23,748)	19.93%
Provisions funded (net)	(873)	(3,479)	(74.91%)
Net impairment of financial assets not recognised at fair value with changes in profit and loss	682	1,441	(52.67%)
Net impairment of investments in jointly-controlled companies or associates	140	(300)	N/A
Net impairment of non-financial assets	(516)	(73)	N/A
Negative goodwill recognised in income	-	-	-
Participation in gains or losses from investments in subsidiaries, joint ventures and associates	378	292	29.45%
Gains or losses from non-current assets and disposal groups classified as held for sale not admissible as discontinued operations	1,490	1,595	(6.58%)
Profit before tax	**36,171**	**33,181**	**9.01%**
Corporation tax	(5,912)	(5,143)	14.95%
Results for the year from continuing operations	**30,259**	**28,038**	**7.92%**
Results from discontinued operations (net)	-	-	-
PROFIT/(LOSS) FOR THE YEAR	**30,259**	**28,038**	**7.92%**
Attributed to majority shareholders	**29,470**	**28,040**	**5.10%**
Attributed to minority shareholders	**789**	**(2)**	**N/A**

(*) The figures for 2019 are given for comparative purposes only.

>> Information on the Andorran banking sector

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Chairman	Mr Pedro González Grau
General Manager	Mr Lluís Alsina Álvarez

As at 31 December 2020.

>> Information on the Andorran banking sector

MORABANC

Source: Bank's annual report

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2019 AND 2020

(Thousand euros)

Assets	2020	% s/ Total	2019	% s/ Total	Var. (%) 20-19
Cash, cash balances at central banks and other demand deposits	193,159	6.25%	17,763	0.58%	N/A
Financial assets held for trading	102,841	3.33%	93,195	3.05%	10.35%
Financial assets not held for trading that must be valued at fair value with changes in income	328,930	10.63%	379,393	12.40%	(13.30%)
Financial assets at fair value with changes in the income statement	-	-	-	-	-
Financial assets at fair value with changes in the other comprehensive income	725,603	23.46%	651,443	21.29%	11.38%
Financial assets at amortised cost	1,580,621	51.10%	1,746,815	57.09%	(9.51%)
Derivatives - Hedge accounting	66	-	2	-	-
Changes in the fair value of hedging elements of a portfolio with interest risk hedging	2,998	0.10%	2,168	0.07%	38.28%
Investments in jointly-controlled businesses and associates	5,004	0.16%	4,720	0.15%	6.02%
Assets covered under insurance and reinsurance contracts	33,775	1.09%	37,304	1.22%	(9.46%)
Tangible assets	97,571	3.15%	102,899	3.36%	(5.18%)
Intangible assets	13,413	0.43%	13,505	0.44%	(0.68%)
Tax assets	3,286	0.11%	4,466	0.15%	(26.42%)
Other assets	4,538	0.15%	4,925	0.16%	(7.86%)
Disposable non-current assets held for sale	1,142	0.04%	1,146	0.04%	(0.35%)
TOTAL ASSETS	**3,092,947**	**100.00%**	**3,059,744**	**100.00%**	**1.09%**

(*) The figures for 2019 are given for comparative purposes only.

>> Information on the Andorran banking sector

MORABANC

Source: Bank's annual report

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2019 AND 2020

(Thousand euros)

Liabilities	2020	% s/ Total	2019	% s/ Total	Var. (%) 20-19
Financial liabilities held for trading	57,317	1.85%	30,708	1.00%	86.65%
Financial liabilities at fair value with changes in the income statement	324,601	10.49%	360,603	11.79%	(9.98%)
Financial liabilities at amortised cost	2,233,301	72.21%	2,220,271	72.56%	0.59%
Derivatives - Hedge accounting	15,543	0.50%	10,661	0.35%	45.79%
Changes in the fair value of hedging elements of a portfolio with interest risk hedging	676	0.02%	794	0.03%	(14.86%)
Liabilities covered under insurance and reinsurance contracts	78,507	2.54%	84,659	2.77%	(7.27%)
Provisions	22,189	0.72%	24,208	0.79%	(8.34%)
Tax liabilities	4,628	0.15%	3,864	0.13%	19.77%
Other liabilities	18,933	0.61%	17,112	0.56%	10.64%
Liabilities in groups of disposable items held for sale	-	-	-	-	-
TOTAL LIABILITIES	**2,755,695**	**89.10%**	**2,752,880**	**89.97%**	**0.10%**

(Thousand euros)

Net Equity	2020	% s/ Total	2019	% s/ Total	Var. (%) 20-19
Capital	42,407	1.37%	42,407	1.39%	-
Issue premium	-	-	-	-	-
Issued equity instruments other than capital	-	-	-	-	-
Other cumulative results	(1,088)	(0.04%)	(1,016)	(0.03%)	7.09%
Accumulated profits	289,863	9.37%	268,217	8.77%	8.07%
Revaluation reserves	-	-	-	-	-
Other reserves	(24,024)	(0.78%)	(27,876)	(0.91%)	(13.82%)
Own shares (-)	-	-	-	-	-
Result attributed to majority shareholder	30,098	0.97%	25,136	0.82%	19.74%
Interim dividend (-)	-	-	-	-	-
Shareholders' equity	**337,256**	**10.90%**	**306,868**	**10.03%**	**9.90%**
Minority interests	**(4)**	**-**	**(4)**	**-**	**-**
TOTAL NET EQUITY	**337,252**	**10.90%**	**306,864**	**10.03%**	**9.90%**
TOTAL LIABILITIES AND NET EQUITY	**3,092,947**	**100.00%**	**3,059,744**	**100.00%**	**1.09%**

(*) The figures for 2019 are given for comparative purposes only.

>> Information on the Andorran banking sector

MORABANC

Source: Bank's annual report

CONSOLIDATED INCOME STATEMENT AS AT 31 DECEMBER 2019 AND 2020

(Thousand euros)

	2020	2019	Var. (%) 20-19
Interest income	33,705	34,865	(3.33%)
Interest expenses	(4,977)	(7,957)	(37.45%)
Dividend income	119	1,460	(91.85%)
Interest margin	**28,847**	**28,368**	**1.69%**
Commissions earned	71,254	64,653	10.21%
Commissions paid	(15,853)	(13,570)	16.82%
Base margin	**84,248**	**79,451**	**6.04%**
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	486	209	N/A
Results from financial transactions	10,486	7,352	42.63%
Results on assets and liabilities covered under insurance and reinsurance contracts	-	-	-
Other operating income	4,106	5,504	(25.40%)
Other operating expenses	(551)	(622)	(11.41%)
Other income and expenses from assets and liabilities used for insurance or reinsurance contracts	-	-	-
Operating profit or loss (net)	**98,775**	**91,894**	**7.49%**
Administrative expenses	(53,466)	(55,136)	(3.03%)
Staff costs	(31,110)	(30,208)	2.99%
Other general administrative expenses	(22,356)	(24,928)	(10.32%)
Amortisation	(6,330)	(5,842)	8.35%
Provisions funded (net)	(2,191)	(2,539)	(13.71%)
Net impairment of financial assets not recognised at fair value with changes in profit and loss	(989)	(506)	95.45%
Net impairment of investments in jointly-controlled companies or associates	-	-	-
Net impairment of non-financial assets	(3,486)	-	-
Negative goodwill recognised in income	-	-	-
Participation in gains or losses from investments in subsidiaries, joint ventures and associates	-	-	-
Gains or losses from non-current assets and disposal groups classified as held for sale not admissible as discontinued operations	148	(896)	N/A
Profit before tax	**32,461**	**26,975**	**20.34%**
Corporation tax	(2,363)	(1,839)	28.49%
Results for the year from continuing operations	**30,098**	**25,136**	**19.74%**
Results from discontinued operations (net)	-	-	-
PROFIT/(LOSS) FOR THE YEAR	**30,098**	**25,136**	**19.74%**
Attributed to majority shareholders	**30,098**	**25,136**	**19.74%**
Attributed to minority shareholders	**-**	**-**	**-**

(*) The figures for 2019 are given for comparative purposes only.

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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 2020.

>> Information on the Andorran banking sector

Crèdit Andorrà

Source: Bank's annual report

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2019 AND 2020

(Thousand euros)

Assets	2020	% s/ Total	2019	% s/ Total	Var. (%) 20-19
Cash, cash balances at central banks and other demand deposits	399,792	7.92%	303,009	5.77%	31.94%
Financial assets held for trading	27,699	0.55%	30,047	0.57%	(7.81%)
Financial assets not held for trading that must be valued at fair value with changes in income	178,167	3.53%	188,299	3.58%	(5.38%)
Financial assets at fair value with changes in the income statement	17,644	0.35%	-	-	-
Financial assets at fair value with changes in the other comprehensive income	89,635	1.78%	330,785	6.29%	(72.90%)
Financial assets at amortised cost	3,791,512	75.15%	3,832,281	72.93%	(1.06%)
Derivatives - Hedge accounting	-	-	-	-	-
Changes in the fair value of hedging elements of a portfolio with interest risk hedging	18,910	0.37%	21,890	0.42%	(13.61%)
Investments in jointly-controlled businesses and associates	74,350	1.47%	65,703	1.25%	13.16%
Assets covered under insurance and reinsurance contracts	-	-	1	-	-
Tangible assets	172,619	3.42%	183,686	3.50%	(6.02%)
Intangible assets	113,594	2.25%	122,624	2.33%	(7.36%)
Tax assets	18,395	0.36%	24,929	0.47%	(26.21%)
Other assets	44,145	0.87%	45,628	0.87%	(3.25%)
Disposable non-current assets held for sale	98,896	1.96%	106,151	2.02%	(6.83%)
TOTAL ASSETS	**5,045,358**	**100.00%**	**5,255,033**	**100.00%**	**(3.99%)**

(*) The figures for 2019 are given for comparative purposes only.

>> Information on the Andorran banking sector

Crèdit Andorrà

Source: Bank's annual report

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2019 AND 2020

(Thousand euros)

Liabilities	2020	% s/ Total	2019	% s/ Total	Var. (%) 20-19
Financial liabilities held for trading	25,107	0.50%	16,107	0.31%	55.88%
Financial liabilities at fair value with changes in the income statement	78,338	1.55%	49,331	0.94%	58.80%
Financial liabilities at amortised cost	4,073,151	80.73%	4,307,293	81.97%	(5.44%)
Derivatives - Hedge accounting	18,318	0.36%	37,190	0.71%	(50.74%)
Changes in the fair value of hedging elements of a portfolio with interest risk hedging	-	-	-	-	-
Liabilities covered under insurance and reinsurance contracts	258,122	5.12%	251,815	4.79%	2.50%
Provisions	19,694	0.39%	28,563	0.54%	(31.05%)
Tax liabilities	5,467	0.11%	5,355	0.10%	2.09%
Other liabilities	63,267	1.25%	89,714	1.71%	(29.48%)
Liabilities in groups of disposable items held for sale	-	-	-	-	-
TOTAL LIABILITIES	**4,541,464**	**90.01%**	**4,785,368**	**91.06%**	**(5.10%)**

(Thousand euros)

Net Equity	2020	% s/ Total	2019	% s/ Total	Var. (%) 20-19
Capital	63,102	1.25%	63,102	1.20%	-
Issue premium	-	-	-	-	-
Issued equity instruments other than capital	-	-	-	-	-
Other cumulative results	2,721	0.05%	2,678	0.05%	1.61%
Accumulated profits	-	-	-	-	-
Revaluation reserves	-	-	-	-	-
Other reserves	393,960	7.81%	347,002	6.60%	13.53%
Own shares (-)	-	-	-	-	-
Result attributed to majority shareholder	30,040	0.60%	46,244	0.88%	(35.04%)
Interim dividend (-)	-	-	-	-	-
Shareholders' equity	**489,823**	**9.71%**	**459,026**	**8.73%**	**6.71%**
Minority interests	**14,071**	**0.28%**	**10,639**	**0.20%**	**32.26%**
TOTAL NET EQUITY	**503,894**	**9.99%**	**469,665**	**8.94%**	**7.29%**
TOTAL LIABILITIES AND NET EQUITY	**5,045,358**	**100.00%**	**5,255,033**	**100.00%**	**(3.99%)**

(*) The figures for 2019 are given for comparative purposes only.

>> Information on the Andorran banking sector

Crèdit Andorrà

Source: Bank's annual report

CONSOLIDATED INCOME STATEMENT AS AT 31 DECEMBER 2019 AND 2020

(Thousand euros)

	2020	2019	Var. (%) 20-19
Interest income	53,611	70,082	(23.50%)
Interest expenses	(20,620)	(26,854)	(23.21%)
Dividend income	157	302	(48.01%)
Interest margin	**33,148**	**43,530**	**(23.85%)**
Commissions earned	111,905	112,671	(0.68%)
Commissions paid	(28,378)	(32,849)	(13.61%)
Base margin	**116,675**	**123,352**	**(5.41%)**
Gains or losses when writing off financial assets and liabilities not valued at fair value with changes in income (net)	38,764	11,040	N/A
Results of enterprises carried using the equity method	-	-	-
Results from financial transactions	7,592	49,684	(84.72%)
Results on assets and liabilities covered under insurance and reinsurance contracts	-	-	-
Other operating income	13,535	15,622	(13.36%)
Other operating expenses	(2,333)	(2,648)	(11.90%)
Other income and expenses from assets and liabilities used for insurance or reinsurance contracts	899	3,909	(77.00%)
Operating profit or loss (net)	**175,132**	**200,959**	**(12.85%)**
Administrative expenses	(115,714)	(124,941)	(7.39%)
Staff costs	(71,008)	(70,952)	0.08%
Other general administrative expenses	(44,706)	(53,989)	(17.19%)
Amortisation	(22,369)	(22,222)	0.66%
Provisions funded (net)	6,170	430	N/A
Net impairment of financial assets not recognised at fair value with changes in profit and loss	(7,350)	(1,082)	N/A
Net impairment of investments in jointly-controlled companies or associates	-	-	-
Net impairment of non-financial assets	88	(2,164)	N/A
Negative goodwill recognised in income	-	-	-
Participation in gains or losses from investments in subsidiaries, joint ventures and associates	2,814	2,297	22.51%
Gains or losses from non-current assets and disposal groups classified as held for sale not admissible as discontinued operations	661	655	0.92%
Profit before tax	**39,432**	**53,932**	**(26.89%)**
Corporation tax	(6,834)	(6,846)	(0.18%)
Results for the year from continuing operations	**32,598**	**47,086**	**(30.77%)**
Results from discontinued operations (net)	(735)	(213)	N/A
PROFIT/(LOSS) FOR THE YEAR	**31,863**	**46,873**	**(32.02%)**
Attributed to majority shareholders	**30,040**	**46,244**	**(35.04%)**
Attributed to minority shareholders	**1,823**	**629**	**N/A**

(*) The figures for 2019 are given for comparative purposes only.

>> Information on the Andorran banking sector

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

As at 31 December 2020.

>> Information on the Andorran banking sector

BancSabadell d'Andorra

Source: Bank's annual report

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2019 AND 2020

(Thousand euros)

Assets	2020	% s/ Total	2019	% s/ Total	Var. (%) 20-19
Cash, cash balances at central banks and other demand deposits	89,226	8.60%	64,658	7.12%	38.00%
Financial assets held for trading	27,926	2.69%	25,475	2.80%	9.62%
Financial assets not held for trading that must be valued at fair value with changes in income	42,368	4.08%	49,173	5.41%	(13.84%)
Financial assets at fair value with changes in the income statement	46,273	4.46%	44,496	4.90%	3.99%
Financial assets at fair value with changes in the other comprehensive income	106,432	10.26%	81,718	9.00%	30.24%
Financial assets at amortised cost	690,804	66.58%	594,314	65.43%	16.24%
Derivatives - Hedge accounting	82	0.01%	113	0.01%	(27.78%)
Changes in the fair value of hedging elements of a portfolio with interest risk hedging	78	0.01%	76	0.01%	2.69%
Investments in jointly-controlled businesses and associates	265	0.03%	37	-	N/A
Assets covered under insurance and reinsurance contracts	-	-	-	-	-
Tangible assets	23,941	2.31%	26,374	2.90%	(9.23%)
Intangible assets	401	0.04%	406	0.04%	(1.33%)
Tax assets	462	0.04%	279	0.03%	65.57%
Other assets	7,359	0.71%	16,998	1.87%	(56.71%)
Disposable non-current assets held for sale	1,916	0.18%	4,194	0.46%	(54.31%)
TOTAL ASSETS	**1,037,533**	**100.00%**	**908,311**	**100.00%**	**14.23%**

(*) The figures for 2019 are given for comparative purposes only.

>> Information on the Andorran banking sector

BancSabadell d'Andorra

Source: Bank's annual report

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2019 AND 2020

(Thousand euros)

Liabilities	2020	% s/ Total	2019	% s/ Total	Var. (%) 20-19
Financial liabilities held for trading	1,107	0.11%	988	0.11%	11.99%
Financial liabilities at fair value with changes in the income statement	46,288	4.46%	44,510	4.90%	3.99%
Financial liabilities at amortised cost	876,583	84.49%	755,674	83.20%	16.00%
Derivatives - Hedge accounting	5	-	72	0.01%	(93.75%)
Changes in the fair value of hedging elements of a portfolio with interest risk hedging	-	-	-	-	-
Liabilities covered under insurance and reinsurance contracts	-	-	-	-	-
Provisions	1,425	0.14%	1,634	0.18%	(12.79%)
Tax liabilities	1,604	0.15%	991	0.11%	61.81%
Other liabilities	7,895	0.76%	13,281	1.46%	(40.56%)
Liabilities in groups of disposable items held for sale	-	-	-	-	-
TOTAL LIABILITIES	**934,905**	**90.11%**	**817,150**	**89.96%**	**14.41%**

(Thousand euros)

Net Equity	2020	% s/ Total	2019	% s/ Total	Var. (%) 20-19
Capital	30,069	2.90%	30,069	3.31%	-
Issue premium	-	-	-	-	-
Issued equity instruments other than capital	-	-	-	-	-
Other cumulative results	1,168	0.11%	669	0.07%	74.89%
Accumulated profits	69,598	6.71%	-	-	-
Revaluation reserves	2,288	0.22%	2,288	0.25%	-
Other reserves	(9,673)	(0.93%)	48,594	5.35%	N/A
Own shares (-)	(840)	(0.08%)	(833)	(0.09%)	0.88%
Result attributed to majority shareholder	10,019	0.97%	10,375	1.14%	(3.43%)
Interim dividend (-)	-	-	-	-	-
Shareholders' equity	**102,628**	**9.89%**	**91,161**	**10.04%**	**12.58%**
Minority interests	**-**	**-**	**-**	**-**	**-**
TOTAL NET EQUITY	**102,628**	**9.89%**	**91,161**	**10.04%**	**12.58%**
TOTAL LIABILITIES AND NET EQUITY	**1,037,533**	**100.00%**	**908,311**	**100.00%**	**14.23%**

(*) The figures for 2019 are given for comparative purposes only.

>> Information on the Andorran banking sector

BancSabadell d'Andorra

Source: Bank's annual report

CONSOLIDATED INCOME STATEMENT AS AT 31 DECEMBER 2019 AND 2020

(Thousand euros)

	2020	2019	Var. (%) 20-19
Interest income	11,911	12,491	(4.64%)
Interest expenses	(1,181)	(1,548)	(23.68%)
Dividend income	34	36	(6.21%)
Interest margin	**10,763**	**10,979**	**(1.97%)**
Commissions earned	12,155	12,433	(2.24%)
Commissions paid	(2,812)	(2,674)	5.15%
Base margin	**20,106**	**20,738**	**(3.05%)**
Gains or losses when writing off financial assets and liabilities not valued at fair value with changes in income (net)	1,051	342	N/A
Results of enterprises carried using the equity method	-	-	-
Results from financial transactions	1,821	2,942	(38.11%)
Results on assets and liabilities covered under insurance and reinsurance contracts	-	-	-
Other operating income	360	557	(35.45%)
Other operating expenses	(683)	(684)	(0.09%)
Other income and expenses from assets and liabilities used for insurance or reinsurance contracts	-	-	-
Operating profit or loss (net)	**22,653**	**23,895**	**(5.20%)**
Administrative expenses	(13,685)	(12,936)	5.79%
Staff costs	(7,327)	(7,107)	3.09%
Other general administrative expenses	(6,359)	(5,829)	9.09%
Amortisation	(1,239)	(1,220)	1.56%
Provisions funded (net)	330	(561)	N/A
Net impairment of financial assets not recognised at fair value with changes in profit and loss	1,177	601	95.88%
Net impairment of investments in jointly-controlled companies or associates	-	-	-
Net impairment of non-financial assets	1,110	-	-
Negative goodwill recognised in income	-	-	-
Participation in gains or losses from investments in subsidiaries, joint ventures and associates	28	13	N/A
Gains or losses from non-current assets and disposal groups classified as held for sale not admissible as discontinued operations	247	1,265	(80.48%)
Profit before tax	**10,621**	**11,057**	**(3.94%)**
Corporation tax	(602)	(682)	(11.71%)
Results for the year from continuing operations	**10,019**	**10,375**	**(3.43%)**
Results from discontinued operations (net)	-	-	-
PROFIT/(LOSS) FOR THE YEAR	**10,019**	**10,375**	**(3.43%)**
Attributed to majority shareholders	**10,019**	**10,375**	**(3.43%)**
Attributed to minority shareholders	**-**	**-**	**-**

(*) The figures for 2019 are given for comparative purposes only.

>> Information on the Andorran banking sector

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Chairman	Mr Richard Carrión
Chief Executive Officer and General Manager	Mr José Luis Dorado Ocaña
Business General Manager	Mr Sergi Martín Amorós

As at 31 December 2020.

>> Information on the Andorran banking sector

VALLBANC

Source: Bank's annual report

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2019 AND 2020

(Thousand euros)

Assets	2020	% s/ Total	2019	% s/ Total	Var. (%) 20-19
Cash, cash balances at central banks and other demand deposits	126,908	16.54%	280,183	26.86%	(54.71%)
Financial assets held for trading	-	-	-	-	-
Financial assets not held for trading that must be valued at fair value with changes in income	29,127	3.80%	43,602	4.18%	(33.20%)
Financial assets at fair value with changes in the income statement	1,015	0.13%	14,524	1.39%	(93.01%)
Financial assets at fair value with changes in the other comprehensive income	183,653	23.94%	267,451	25.64%	(31.33%)
Financial assets at amortised cost	302,513	39.44%	323,033	30.97%	(6.35%)
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	32	-	17	-	88.24%
Assets covered under insurance and reinsurance contracts	-	-	-	-	-
Tangible assets	72,669	9.47%	75,515	7.24%	(3.77%)
Intangible assets	9,184	1.20%	23,916	2.29%	(61.60%)
Tax assets	950	0.12%	621	0.06%	52.98%
Other assets	14,641	1.91%	13,452	1.29%	8.84%
Disposable non-current assets held for sale	26,370	3.44%	781	0.07%	N/A
TOTAL ASSETS	**767,062**	**100.00%**	**1,043,095**	**100.00%**	**(26.46%)**

(*) The figures for 2019 are given for comparative purposes only.

>> Information on the Andorran banking sector

VALLBANC

Source: Bank's annual report

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2019 AND 2020

(Thousand euros)

Liabilities	2020	% s/ Total	2019	% s/ Total	Var. (%) 20-19
Financial liabilities held for trading	62	0.01%	153	0.01%	(59.48%)
Financial liabilities at fair value with changes in the income statement	-	-	-	-	-
Financial liabilities at amortised cost	643,821	83.93%	894,653	85.77%	(28.04%)
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	3,187	0.42%	2,612	0.25%	22.01%
Tax liabilities	1,521	0.20%	1,706	0.16%	(10.84%)
Other liabilities	14,026	1.83%	22,387	2.15%	(37.35%)
Liabilities in groups of disposable items held for sale	-	-	-	-	-
TOTAL LIABILITIES	**662,617**	**86.38%**	**921,511**	**88.34%**	**(28.09%)**

(Thousand euros)

Net Equity	2020	% s/ Total	2019	% s/ Total	Var. (%) 20-19
Capital	31,050	4.05%	31,050	2.98%	-
Issue premium	68,950	8.99%	68,950	6.61%	-
Issued equity instruments other than capital	-	-	-	-	-
Other cumulative results	(3,284)	(0.43%)	(2,163)	(0.21%)	51.83%
Accumulated profits	4,262	0.56%	2,174	0.21%	96.04%
Revaluation reserves	-	-	-	-	-
Other reserves	19,485	2.54%	19,485	1.87%	-
Own shares (-)	-	-	-	-	-
Result attributed to majority shareholder	(16,018)	(2.09%)	2,088	0.20%	N/A
Interim dividend (-)	-	-	-	-	-
Shareholders' equity	**104,445**	**13.62%**	**121,584**	**11.66%**	**(14.10%)**
Minority interests	**-**	**-**	**-**	**-**	**-**
TOTAL NET EQUITY	**104,445**	**13.62%**	**121,584**	**11.66%**	**(14.10%)**
TOTAL LIABILITIES AND NET EQUITY	**767,062**	**100.00%**	**1,043,095**	**100.00%**	**(26.46%)**

(*) The figures for 2019 are given for comparative purposes only.

>> Information on the Andorran banking sector

Source: Bank's annual report

CONSOLIDATED INCOME STATEMENT AS AT 31 DECEMBER 2019 AND 2020

(Thousand euros)

	2020	2019	Var. (%) 20-19
Interest income	8,683	8,022	8.24%
Interest expenses	(1,491)	(2,930)	(49.11%)
Dividend income	27	116	(76.72%)
Interest margin	**7,219**	**5,208**	**38.61%**
Commissions earned	23,087	23,285	(0.85%)
Commissions paid	(4,402)	(2,675)	64.56%
Base margin	**25,904**	**25,818**	**0.33%**
Gains or losses when writing off financial assets and liabilities not valued at fair value with changes in income (net)	3,183	618	N/A
Results of enterprises carried using the equity method	-	-	-
Results from financial transactions	1,408	5,913	(76.19%)
Results on assets and liabilities covered under insurance and reinsurance contracts	-	-	-
Other operating income	705	912	(22.70%)
Other operating expenses	(90)	(22)	N/A
Other income and expenses from assets and liabilities used for insurance or reinsurance contracts	-	-	-
Operating profit or loss (net)	**31,110**	**33,239**	**(6.41%)**
Administrative expenses	(27,795)	(27,525)	0.98%
Staff costs	(12,566)	(13,378)	(6.07%)
Other general administrative expenses	(15,229)	(14,147)	7.65%
Amortisation	(5,543)	(4,970)	11.53%
Provisions funded (net)	(830)	47	N/A
Net impairment of financial assets not recognised at fair value with changes in profit and loss	5,090	1,403	N/A
Net impairment of investments in jointly-controlled companies or associates	-	-	-
Net impairment of non-financial assets	(18,050)	-	-
Negative goodwill recognised in income	-	-	-
Participation in gains or losses from investments in subsidiaries, joint ventures and associates	-	-	-
Gains or losses from non-current assets and disposal groups classified as held for sale not admissible as discontinued operations	-	-	-
Profit before tax	**(16,018)**	**2,194**	**N/A**
Corporation tax	-	(106)	-
Results for the year from continuing operations	**(16,018)**	**2,088**	**N/A**
Results from discontinued operations (net)	-	-	-
PROFIT/(LOSS) FOR THE YEAR	**(16,018)**	**2,088**	**N/A**
Attributed to majority shareholders	**(16,018)**	**2,088**	**N/A**
Attributed to minority shareholders	**-**	**-**	**-**

(*) The figures for 2019 are given for comparative purposes only.

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Sustainability has become the andorran banking industry's core business

Andorran Banking Observatory
2nd report · July 2020

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Sustainability has become a sign of our times. The conservation of the environment, the fight against climate change and the ambition of attaining fairer and more rational social development have become a widespread concern. Now, more than ever before, this concern for sustainability is seen as an unstoppable trend, and even more so after experiencing an unprecedented health crisis, which has reinforced the need to commit to sustainable development in order to face the future with confidence. Just as in all other areas of society, the Andorran banking sector has placed the concept of sustainability, understood not just as a concept related to the conservation of the environment but also as the need for businesses to act responsibly in all fields of action, amongst its strategic lines.

The contribution of the Andorran banking sector to the more sustainable and fairer development of the world is not new. In fact, it has a long history of returning part of its profits to society by way of social support, a mission that has been ever-present since the birth of banks and that around 20 years ago started to be channelled through what has become known as Corporate Social Responsibility (CSR). CSR is understood to be the voluntary integration in the management of an organisation of social, labour and environmental concerns, and respect for the human rights that affect all of its stakeholders. It is the strategy through which businesses take responsibility for the impact their activities have. In Andorra, one of the pioneering sectors in this management model was in fact the banking sector, due to its large size and international outreach.

In recent years, a more advanced corporate social responsibility model has been developed based on Environmental, Social and Governance (ESG) policies. This new approach arose to facilitate sustainable investment decisions in the financial sector, which has a greater impact on the smooth running of businesses and their sustainable development. Thus, in addition to the range of actions that have been promoted since the outset on social issues, subsequently followed by environmental ones, banks have started to take **corporate governance** criteria on board as part of their internal processes, which involve the implementation of codes of ethics and good conduct, the independence and transparency of governing bodies, compliance with gender equality on organisational charts, equal pay, etc. To this regard, great progress has been made recently in adapting banking regulations to European standards in the fight against money laundering, transparency and good governance, and a new step forward is about to be made on the matter of investor protection with the adoption of MiFID II.

Investments in CRS around 6% of profits

In 2019, the Principality's five banks earmarked more than 5 million euros for CSR, a figure that accounts for around 6% of profits. Out of all of the actions, the most visible and most long-standing are **social**, through the contributions made in areas such as culture, sport, health and education, and the support given to business fabric. Indeed, it is thanks to banking that a number of major events have been able to be run that have taken the name of Andorra

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beyond our borders, in addition to the fact that banks pursue initiatives that promote healthy lifestyles, the fight against illnesses such as cancer, sport as a starting point to assist the most disadvantaged groups in society, amongst many other forms of sponsorship. Altogether, this contributes to the social well-being of the community, whilst providing the sector with indirect benefits as a result of strengthening its ties with the country. Furthermore, Andorran banks have historically been behind the creation of various foundations and not-for-profit organisations such as UNICEF Andorra and the charity Patronat de Dames de Meritxell.

THE AREA IN WHICH THE SECTOR CAN MOST CONTRIBUTE IS IN SOCIALLY RESPONSIBLE INVESTMENTS

The Andorran banking sector has also made great strides on **environmental** matters, despite being a sector that has a relatively low impact in comparison with other more contaminating industries. Year after year, banks have introduced measures for keeping their consumption of power, water, plastic and paper as low as possible in order to reduce CO2 emissions, and some banks even have their own environmental management system. Initiatives have also been set up for calculating the carbon footprint of banks and to offset it by funding international sustainability projects.

Alongside the internal management actions put in place to address environmental matters, Andorran banks also support projects related to sustainable mobility and energy efficiency, although few sustainability plans have been rolled out in the country to date. However, it is expected that this situation will soon change thanks to the change in society's way of thinking that has been felt on a global scale, as well as to the strategies that the Government of Andorra and the energy supplier Forces Elèctriques d'Andorra (FEDA) wish to introduce on energy diversification and renewable energy.

For some years now, many banks in the country have disclosed all of their corporate social responsibility affairs in what is known as a non-financial report. Unlike what has become standard on the level of the European Union, although these reports are not yet compulsory in Andorra nor must they be audited, some banks have pre-empted the regulation and publicly report their financial, environmental and social impacts, in line with the international standards set in the Global Reporting Initiative (GRI), an independent organisation that works in coordination with the United Nations. In addition, some banks have taken one step further in the direction of transparency by starting to draw up integrated reports, which show a full picture of their business context, the management of ESG risks and the strategies that enable them to deliver added value. Integrated reports must follow the guidelines of the International Integrated Reporting Committee (IIRC).

Channelling customers' capital into sustainable projects

Following international trends and demands for an increasingly environmentally friendly society, the boards of directors of the banks in the Principality have started to consider the need to go beyond their sustainability strategies and to tackle this issue on a global scale. Thus, the ultimate goal is to safeguard sustainability, not only through CSR and each bank's internal processes, but also **through their core business**, that is, managing savings and investments.

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The first initiatives to tie in the concept of sustainability with the banking business entailed the creation of products such as senior loans for purchasing electric vehicles or refurbishing buildings, although their impact is still somewhat limited. There is also still a long way to go in the area of sustainable investments. Leading figures in the sector say that the best way for banks to contribute to tracing out a more sustainable world is **"by channelling our customers' capital into sustainable projects that are up and running in the global economy"**. They talk about the global economy, rather than the local one, based on the country's size, which makes it difficult for Andorra to have listed companies. They see great potential in it, as if awareness could be raised among Andorran investors to this regard, a "great business and social transformation" could be attained.

Andorran banks began to tread the path of socially responsible investing (SRI) ten years ago. This approach to investing takes environmental, social and corporate governance factors (the ESG criteria mentioned above) into account for making investment decisions in order to generate sustainable long-term returns. They have done so by either managing customised portfolios under these criteria, through the creation of structured products linked to sustainable investment funds handled by the international managers with which they work, or through fully sustainable investment funds created in Andorra – most of which have appeared over the past three years.

Initially, these types of investments were managed under exclusive criteria, that is, excluding companies with bad environmental, social, ethical or forced labour practices, such as the arms sector. The system has moved forward and is currently based on ESG criteria, which are more global and more open, because they can take in businesses from specific sectors able to accredit good environmental, social and good governance practices and, therefore, that deliver a great deal of added value. Thus, investors who choose this type of company no longer have to sacrifice their returns, on the contrary: it has been proven that sustainable funds1 are comparable to conventional funds [1], and that they even mitigate risk as their internal processes are thoroughly examined.

The last major step taken that has brought about a major improvement in Andorran banks was the launch of **in-house investment funds managed exclusively using these criteria**. There are two reasons for the selection of this type of products: to respond to the growing concerns observed in customers, among the youngest above all, and to fulfil the desire of banks to strengthen their sustainability strategies, which in this case favours companies that have made a firm commitment to them. Furthermore, investment funds make SRI accessible to as many customers as possible, as options are available that do not require a minimum investment so there is now room for small investors rather than only having products exclusively designed for large investments as was the case before. Through these funds, investments may be made in companies all over the world accredited as being socially responsible, whether through equity instruments or products such as green bonds – which are enjoying great success in Europe as they diversify the portfolios of large investment and pension funds – in what is called impact investment, that is, investments that seek social and environmental returns, or microfinance schemes in emerging markets. Some of these funds have a twofold impact: they enable customers to earn money through sustainable investments, as well as donating part of the management fees to charity projects or charity organisations in Andorra.

1. International Monetary Fund (IMF) (October de 2020) *Sustainable Finance: looking farther.* Chapter 6 of the Global Financial Stability Report (GFSR). Retrieved from https://www.imf.org/en/Publications/GFSR/Issues/2019/10/01/global-financial-stability-report-october-2019#Chapter6.

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An unstoppable trend

Although there is still not very much demand by private customers for socially responsible investing in Andorra due to a matter of economy of scale, what is clear is that this is an unstoppable trend on an international level. According to the last Global Sustainable Investment Review[2], sustainable investing in the world's five biggest markets had grown by 34% in 2018 over a period of two years, specifically, in the amount of 30.7 billion dollars. This means that 26% of assets managed worldwide are subject to sustainable investing criteria, a proportion that in the case of Europe is now as high as 50%.

Moreover, some of the world's most reputable fund managers have announced a switch of all of their products to more sustainable investing, whereby they have side-lined companies that use fossil fuels or that pose a high risk to the climate. The United Nations is also promoting the adoption of Principles for Responsible Investment (PRI)[3], a global project intended for the financial system to pay greater heed to ESG criteria in its processes and investment decisions. As one would expect, Andorran banks also follow sustainable investing criteria that set these principles and fund managers in some of these banks have already taken them on board. Signing up to these PRI entails basing all investment decisions on criteria of social responsibility and putting exhaustive control procedures in place to ensure compliance with them.

Along the same lines, the European Commission approved an action plan in 2018 on sustainable investing for a greener, cleaner economy[4]. The ultimate goal of this document is for the financial sector to place greater emphasis on sustainability in its investments and that more funding is earmarked for environmental projects. Amongst the measures it covers is greater transparency in corporate reports to upgrade the information that reaches investors and to establish a **standard classification system for sustainable investing**. This latter aspect is important because it would put an end to one of the problems investment managers encounter: the need for common methodologies in order to decide whether an investment fulfils ESG criteria. To mitigate this shortfall, the Andorran banking sector has the support of databases, and the risk control and investment management tools used by the international managers with which it works, in addition to the sustainability indices drawn up by some stock markets and credit rating agencies. The country's banks are mindful that every endeavour must be made to be able to distinguish between companies and investments that are really sustainable and others that undergo greenwashing, which is used to create the impression that an organisation's products and policies are environmentally friendly with the aim of making more money.

BANKS DEVOTE UP TO 6% OF THEIR PROFITS TO CORPORATE SOCIAL RESPONSIBILITY ACTIONS

The trend is unstoppable because sustainability is not a fashion, it's a necessity. It is clear that more policies are required both in the public and private sectors in order to conserve the environment and stop climate change. From a social point of view, good practices in the sphere of human resources will obviously have an impact on a business' productivity, and that supporting the community helps create a better image of a company. Insofar as governance is concerned, investors evidently prefer boards of directors that are transparent and socially responsible.

In Andorra, one type of customer that is showing a marked preference for management more focused on sustainability criteria is the institutional investor, which has pushed investment managers at Andorran banks to increase their range of sustainable funds. Therefore, the current challenge is to increase both offer and demand. In turn, this is increasingly attracting private customers, to whom it has been demonstrated that choosing sustainable investing does not mean relinquishing financial returns.

2. Global Sustainable Investment Alliance (2019), 2018 Global Sustainable Investment Review [PDF file] Retrieved from http://www.gsi-alliance.org/wp-content/uploads/2019/06/GSIR_Review2018F.pdf.
3. PRI Association (2019). *Principles for Responsible Investment.* [PDF] Retrieved from https://www.unpri.org/download?ac=9764.
4. European Commission (8 March 2018), *Sustainable finance: Commission's Action Plan for a greener and cleaner economy* Retrieved from https://ec.europa.eu/commission/presscorner/detail/es/IP_18_1404.

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However, the position on return on equity is not unanimous. While some investment managers insist that sustainable investing is yielding higher returns that conventional investing, others believe that this may be the result of the fact that this is a new trend, but that its long-term performance must be analysed because, ultimately, this may entail constraints on the investments chosen. Furthermore, it must also be taken into account that in addition to cash returns there is the more intangible satisfaction of having invested in concerns that benefit the common good. What is clear is that in the long-term **corporate governance criteria must be borne in mind whenever deciding whether investing in a company is a good idea** as this enables risk to be reduced, as demonstrated by many instances worldwide caused by irresponsible ways of conducting business, as was the case of the bankruptcy of Lehman Brothers in 2008.

Taken as a whole, this means that we are faced with a scenario in which, for the first time, non-financial information is starting to influence markets, which are reacting to the consequences a business may suffer because it is not sustainable or socially responsible. This has meant that the financial sector has had to take an approach of **integrating sustainability in its risk management practices**. Up until now, only the financial statements and the performance of a product were analysed to calculate equity returns and, in the case of extending loans, only economic risks were taken into account. However, from now on it will also be necessary to assess social, reputational and environmental risks, such as those arising from climate change or from the fact that a business deals in a prohibited source of energy, for instance. These are still questions to which banks are giving relative importance as there is still a certain degree of uncertainty around them, but in the mid-term consideration is being given to the analysis of these risks that will gradually become more relevant.

Aligned with the Sustainable Development Goals

In order to tackle the matter of sustainability from a more global point of view, Andorran banks have also made a commitment to contributing to the attainment of the Sustainable Development Goals (SDGs) set by the United Nations in its 2030 Agenda. To this regard, the banking sector is **aligned with and enforces SDG strategies and initiatives on Corporate Social Responsibility on the basis of these worldwide goals**, so that it is able to follow the same path traced out on an international level, and to reaffirm its global commitment to society. Indeed, the banking sector is aware, as noted by the United Nations, that in order to attain a more sustainable world, government- and institution-driven actions are not enough, but rather requires the engagement of the private sector. In view of the above, Andorran banks have undertaken to continue to commit to and promote initiatives and positive impacts that help attain the milestones set out in the SDGs and the 2015 Paris Climate Agreement.

In addition to signing up to the SDGs, some banks are now also signatories of the United Nations Global Compact, which promotes 10 principles based on human rights, labour matters, the environment and the fight against corruption. They have also adhered to the United Nations Environment Programme Finance Initiative (UNEP FI), which is responsible for promoting sustainable investing. In fact, last September UNEP FI conducted an extensive review following which it passed the Principles for Responsible Banking[5]. The aim of these principles is to determine the role and responsibilities of the banking industry in the development of a sustainable future, and that are in fact aligned with the SDGs approved by the UN.

5. UNEP Finance Initiative (2019) Principles for Responsible Banking. Retrieved from https://www.unepfi.org/banking/bankingprinciples/.

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Support to local sustainability projects

With a view to the future, Andorran banks anticipate that they will be able to build on this strategic change that entails engagement with a more sustainable financial system. This does not just mean improving their internal processes and encouraging socially responsible investing, which is undergoing exponential growth, according to insiders in the sector, but also to help finance more sustainable initiatives in the country. To date, demand had been low but assessments of the financing of these types of projects now enjoy special worth in the credit ratings of some banks, and they all hold any type of financing in this field in high esteem. Moreover, it has been forecast that the demand for this type of investment will start to rise, whether due to the policies it is expected that will be introduced by FEDA and the government in relation to the implementation of the Energy Transition Act, in order to raise greater social awareness, or because technological developments lead to sectors such as electric vehicles and, therefore, the demand for loans to acquire them will grow. In fact, across Europe sectors with a high sustainability rating such as recycling, energy efficiency, logistics and mobility are experiencing significant growth.

THE COVID-19 CRISIS HAS BROUGHT TO LIGHT THE MORE SOCIAL FACET OF BANKING AND ITS GOODWILL IN GIVING SUPPORT TO THE COUNTRY IN THESE CRUCIAL TIMES

Despite the fact that because the country is small there are projects and products that will never be significant for the Principality, the Andorran banking sector is working with its eyes on international trends on sustainability, such as investments in circular economy initiatives, the issue of green bonds, mixed financing mechanisms to help emerging countries to fulfil the SDGs, and investments to mitigate and adapt to climate change. Other areas to be explored in the future are educational programmes devoted to sustainable financing, in order to raise awareness amongst the population about this imperative trend. “This is the way the world is going and we are already focused on this”, say those from the sector.

The role of banking in these crucial times

The banking sector’s engagement with sustainability has inevitably been affected by the COVID-19 health crisis. Following the sudden fall of markets, investment funds subject to ESG criteria best bore the brunt[6-7], due to the type of companies in which they invest, but also because most investments are made in the long-term.

In addition, banks have also pointed out that businesses, especially big ones, from the financial and other sectors, must adopt very different social measures to those in place to date, and banks must now adapt to the new demands and needs of society. As a result of the crisis, in terms of sustainability attention has now turned from environmental issues to focus on more social concerns, such as the approach businesses must take in the management of their human capital.

However, what has really come to light in this health crisis is the role banks play in giving support to the country in difficult times. Indeed, the concept of sustainability is also understood as “sustaining” the society to which they belong so that it works in the best way possible, not just out of altruism, but also to ensure a prosperous environment in which business can survive. The sector is convinced that crises such as this one show “who is by society’s side and who is not”, and highlight the **joint commitment banks have to cover the financing of financial aid**. Thus, at times like these it has come to light that more than ever the banking sector must continue to engage in sustainable and socially responsible practices, whose maximum exponent is the voluntary act of returning to society a part of what it has given in the form of social support.

6. Moshinsky, Benjamin; Tan, Jenn-Hui (16April 2020), *Outrunning a crisis: Sustainability and market **outperformance.*** Fidelity International. Retrieved from https://www.fidelityinternational.com/editorial/article/outrunning-a-crisis-sustainability-and-market-outperformance-2ce135-en5/.

7. *Funds Society* (16 April 2020) Impacto del COVID-19 en la gestión de carteras: inversión sostenible y control de riesgos (Impact of COVID-19 on portfolio management: sustainable investing and risk control). Retrieved from https://www.fundssociety.com/es/noticias/negocio/impacto-del-covid-19-en-la-gestion-de-carteras-inversion-sostenible-y-control-de-riesgos.

Annex 2
The role of banking in Andorra's socio-economic growth

Andorran Banking Observatory
3rd report · February 2021

>> Annex 2

Having its own financial system is essential for the development of a country's economy

Banks are institutions which, in a free market economy, help to connect savings and investment and therefore play a crucial role in a country's economic development. On the one hand, they have the ability to stimulate and hold a society's wealth, and on the other hand, distribute it among the individuals and enterprises that need it for their **spending and investment** activities. They also play a role in providing public administrations with the financing they need to implement the development plans for their **territories**. In addition to its financing activities, the banking sector is also responsible for providing the secure payment systems that people use in their daily lives, starting with credit cards. Although these services are often undervalued by users, they require constant investments in technology and resources to keep up with their rapid evolution towards sophistication, digitalisation and efficiency. An agile payment system is also essential to allow money to move rapidly. This means that transactions can be settled faster, which frees up money more quickly for reinvestment in new projects.

Banking is to the economy what the bloodstream is to the human body: banks help money flow through the market, they help to **channel this money efficiently**, and to find productive projects with economic and social potential. One of the causes of the economic difficulties experienced by developing countries is precisely the lack of banking pervasiveness and the difficulty their citizens have in accessing banking services, which results in many delays in starting businesses and undertaking projects.

The role played by Andorran banks in the country's economy is even more paradigmatic. The importance of the private banking sector, which attracts a great deal of funds from foreign customers, is such that when compared with any other territory of a similar size, has a much greater **liquidity surplus**, which has clearly helped and continues to aid in the development of the country's economic and social fabric. Also worth noting is just how important it is for a country to have its own financial system: if the decision-making centres of the banks that operate in a country are located far away, it is very difficult for them to understand the idiosyncrasies of a society and its financing needs. As a result, the local economy loses momentum.

This support for a country's prosperity becomes even more evident in situations of crisis like the one we are currently experiencing. Faced with the public health crisis caused by COVID-19, the five Andorran banks, under the umbrella of the Andorran Banking Association, have worked in collaboration with the government to implement measures to **minimise the effects** of the pandemic on the country's economy.

A banking sector that has grown stronger in the face of current challenges

Before discussing the details of how Andorran banks contribute to the country's socio-economic development, let's analyse the current banking sector in Andorra and the challenges it faces. Obviously, the sweeping changes that the Principality's banks have undergone mean that the way banking is done today is completely different to the way it was done just ten years ago.

On the one hand, the international regulatory context that followed the 2008 financial crisis led to the disappearance of a part of the historical private banking business, which was very profitable, and has forced banks to **change their business model** in order to implement all the regulations and adopt the same standards as other European banks in terms of regulation, supervision and transparency. The process was completed faster by Andorran banks than by other European banks, despite the fact that they are much smaller institutions, and has resulted in a situation where banks now must have many more resources at their disposal that are not dedicated to customer services but rather to internal controls. Tighter regulation means that more capital is needed to perform the same activity so banks -not only in Andorra but throughout Europe- are now less profitable from the shareholder's point of view. However, there are positive aspects to the new regulatory requirements: banks are stronger, with the ability to absorb losses and to prevent a problem at one bank from having a negative impact on other economic sectors.

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Another factor that has influenced the change in the business model is the reduction in margins in private banking but, above all, in commercial banking, due to low interest rates and heavy competition, both locally and internationally.

Negative interest rates, a situation that has persisted since 2016, are a clear cause of lower yields for banks. This is a monetary policy of the European Central Bank which aims to reduce the cost of credit to stimulate the economy but is particularly detrimental to banks. On the one hand, not only because deposits no longer provide a return, but also because banks now have to pay to deposit their customers' money on the international interbank market. On the other hand, negative interest rates reduce the margins on bank loans. This situation, which the banks believe will continue for several years to come, affects commercial banking more directly than private banking. This is because in private banking capital is not raised to lend it but to manage and invest it, in exchange for fees that are not linked to current interest rates. Therefore, as long as the bank is able to secure favourable conditions in the financial asset market, it can continue to operate without being affected by lax monetary policies.

But the challenges faced by the banking sector in the 21st century do not end there. The banking sector must adapt to **new customer demands** and the emergence of new technological companies offering digital financial services. Users of banking services are now much more digitally savvy, more demanding and less patient, and this is pushing banks to develop technologies to meet these demands for immediacy, agility and personalised service at any time of the day. Twenty years ago, private banking customers had total confidence in the bank because their investment knowledge was generally limited, but now they are much more demanding in terms of products, returns and the type of service they want to receive.

In a society where the digital maturity of the population is on the rise and where cash is used less and less, customers, whether private individuals, enterprises or wealth management firms, need increasingly sophisticated digital tools: electronic banking, mobile banking, payment gateways, online sales solutions, increasingly innovative payment systems, digital wallet management applications, etc. All of this is accelerating the technological transformation of banks, which is in turn helping to move society towards digitalisation, and making it necessary to have more open core banking architectures that can accommodate the integration of new applications.

DESPITE THE CHANGE IN THEIR BUSINESS MODEL, THE ASSETS MANAGED BY ANDORRAN BANKS HAVE GROWN BY 80% SINCE 2010

Some of these new applications are coming from new technological competitors who are specialising in business segments that until recently had been controlled by banks, especially those related to payment services, and traditional institutions must find a **way to intelligently co-exist** with them. The Andorran financial market believes it is a mistake to pretend they do not exist, but also that it is wrong to fight against them, because banks will always provide a more personalised service with more added value than the so-called *fintechs*. Banks need to cooperate with these new companies, either by investing in technology in order to offer the same service or by forming partnerships to provide these services through them, viewing it as an opportunity to gain efficiency and agility. One example of this are the payment applications offered by the major mobile device brands (Apple Pay, Google Pay, etc.), which require banks to make significant investments in order to partner with these operators and be able to integrate their services. What is clear is that these new competitors are also changing the business model, which is moving from a traditionally well-integrated banking sector to a much more decentralised service scenario.

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All of these changes in recent years have caused Andorran banks to lose customers, but also to seek new ones, thanks in large part to the **international expansion** that many institutions have undertaken. For these banks, the business focus is not limited to Andorra; it is global. In fact, despite the unfavourable environment, in the last ten years assets under management have increased from approximately €27.5 billion in 2010 to €50 billion in 2020.

Over the same period of time, however, earnings have been reduced by almost half (from €200 million in 2010 to €112 million in 2019). This loss of profitability has been offset by refining internal management, with major investments in the digitalisation of processes to reduce service costs, the restructuring of non-performing businesses and **charging fees for certain services that had previously been complimentary**. On this last point, there is a trend in this direction among European banks which is necessary in order to stay profitable, despite the difficulties involved in making customers see that these services provide added value. With the change of their business model, banks operating in the market have become more highly specialised, each one focusing on the areas where it has the most experience, and this has had a positive impact on effectiveness and quality.

Above all, though, the reason why the Andorran banking sector of today is still going strong, with the same number of banks, and that none of them has had to merge with others in order to survive is largely due to its ability to offer a **differentiating service with added value** for each consumer segment. The sector is well aware that a company that merely seeks to survive through cost savings has no future. The key is to give customers what they need, make them feel special, provide them with quality services and offer them cutting-edge tools.

RESILIENCE, PERSONALISED SERVICES AND HIGH LIQUIDITY AND SOLVENCY RATIOS ARE THE KEYS TO ADAPTING TO THE NEW SCENARIO

In fact, one of the strengths of the Andorran banking sector is its **resilience and ability to overcome difficulties**, in line with the rest of the country's economic sectors. With more than 85 years of experience, the banking sector's knowledge of the business and the valuable service it provides have allowed it to maintain its share of the private banking business and to expand in international markets where it has positioned itself for future growth. In commercial banking, Andorran banks are on a par with other European banks, as they provide the same services at similar or lower prices, with substantially better customer service.

Finally, another differentiating factor of the Andorran banking sector is that it is made up of small, efficiently managed institutions, with **solvency and liquidity figures that are higher** than those of the banking systems in neighbouring countries.

The high level of solvency maintained by Andorran banks is largely explained by the need to compensate for the absence of a **lender of last resort**, i.e. the fact that they do not have access to the European Central Bank funding.

Essential role in stimulating the economy

Throughout its history, the Andorran banking sector has played an essential role in driving and accompanying the country's economic development. Andorra's historical development would certainly not have been the same without the banks' financing capabilities, which have been enhanced precisely because they have not limited themselves to remaining local entities serving local customers but have developed a private segment that has attracted a large number of international customers.

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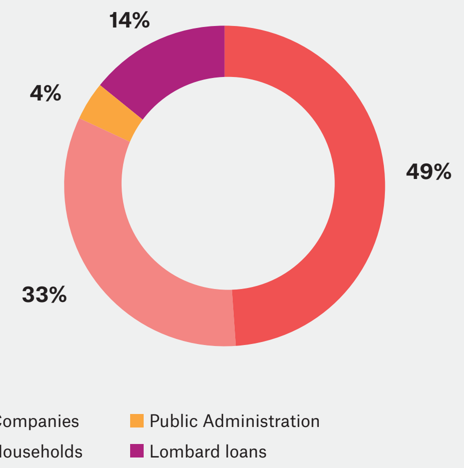
Banking contributes to economic development on three levels: **by financing the real economy, by creating skilled jobs, and through the taxation of the sector**. The sector contributes to the domestic economy through the loans granted to individuals and enterprises to fund their purchases and undertake new projects and investments, while at the same time boosting the real estate sector through mortgage loans. Furthermore, until 2010 banks were the exclusive sources of financing for the Public Administration, having contributed in this way to the country's major investments.

THE DIVERSIFICATION OF ANDORRA'S INDEBTEDNESS HAS REDUCED THE LOAN UNDERWRITTEN BY THE COUNTRY'S BANKS TO 51.8%

The banks' investment loan volume is **€6 billion**, approximately twelve times the government's budget, which were injected into the country's economy to create jobs, projects and prosperity. It is worth noting that credit investment is still a line of business for banks, who are well aware that the demand for financing of interesting and viable projects is in their best interest. The reason that the numbers are not higher for this line of business is not because of a liquidity shortage but because the market is very small compared to the assets they manage, and loans are granted based on strict risk assessments to ensure that they can be repaid, since the resources are not owned by the bank. In addition, the new regulatory framework has led to stricter lending regulations. The distinguishing feature is that since it is a very small market the banks know their customers well and this allows them to gain a thorough understanding of their customers' businesses and financing needs.

Of the €6 billion in credit investment, **49% are business** loans, 33% are household loans and 4% are loans to the Public Administration. The remaining 14% are Lombard loans, a type of loan granted by private banks to invest in securities. In the last four years, the total number of mortgages issued by the country's five banks has grown by 34%, totalling 711 in 2019. The pandemic caused a 10% drop in the total number of mortgages, compared to a 2% increase in volume in 2019. By the end of 2020, 640 mortgages had been granted, for an amount of €286 million, the vast majority of which (85%) were residential mortgages.

Credit investment



Until ten years ago, the public administration was financed exclusively by the country's banks. In 2010, following the recommendations of the rating agencies that assess the financial health of states, the government began to diversify its public debt, first with issues of government bonds open to the private sector, which are also channelled through domestic banks and, more recently -in mid-2020- with its first bond issues on the international market and loan agreements with foreign institutions. The Andorran banking sector views this as a positive measure, not because it does not have sufficient liquidity and solvency to assume all the debt, but because it is healthy for a country to have more financing options, especially in the current crisis situation brought about by COVID-19. The banks take a positive view of this management of public finances and the fact that low debt levels are being maintained, which represents a guarantee for the banks and the country's solvency.

As a result, despite the pandemic Andorra's debt is still at a very reasonable level: at the end of 2019 it represented 35.4% of Gross Domestic Product (GDP), and the forecast for the 2020 year-end is to reach 43.76%. €75 million of the €1,178 million in total debt refers to the local governments (comuns) which are financed entirely by Andorran banks, and the

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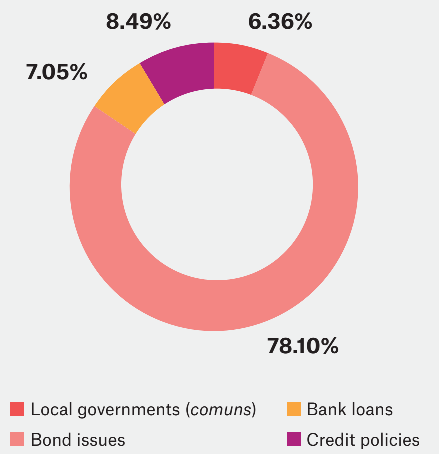
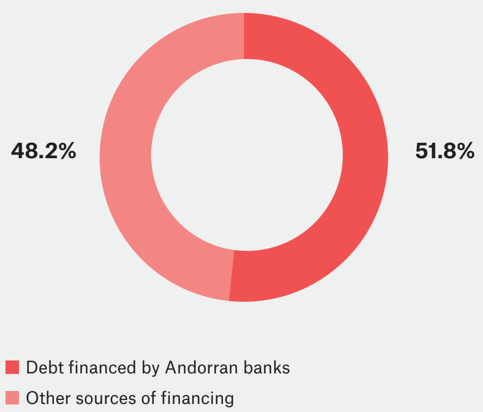
rest is government debt, mostly in the form of bond issues by the Principality (€920 million), although there are also €83 million in bank loans and €100 million in lines of credit. As a result of this diversification of the debt, the country's banks currently finance **51.8% of Andorra's debt**, including loans, credit facilities and bond issues in the Principality's own portfolio. It should also be highlighted that September saw the first issue of Andorran bonds, worth a total of €180 million, earmarked for the international market that were very well received by international investors.

Public debt



Public debt financed by Andorran banks



Aside from the direct contributions to the country's economic system, the impact of the Andorran financial sector on society goes much further. The sector represents almost **20% of the GDP and provides direct, qualified and permanent employment to 5% of the country's total salaried workers**, with above-average salaries and a skilled and qualified workforce. Moreover, despite the change in the business model in recent years, not only has the number of professionals working in the financial sector not declined; it is 7% higher than in 2010 and if we count both Andorran and foreign professionals, the number jumps to 50%. Both the purchasing power of the workforce and the so-called "financial tourism" that Andorran banking has historically generated have had a positive impact on the rest of the country's economic sectors.

THE FINANCIAL SECTOR REPRESENTS ALMOST 20% OF GDP AND PROVIDES DIRECT EMPLOYMENT TO 5% OF THE COUNTRY'S WORKFORCE

The banking sector also contributes to societal improvements by reinvesting part of its profits in the form of social support. As a profitable sector with the means to dedicate resources to the social welfare of the community and to ensure a prosperous and sustainable environment, it is something that has always been part of its DNA. In addition to contributing to the projects and causes that are important to Andorran society and ensuring that there are opportunities for everyone, the sector also strives to minimise the environmental impact of its business, to ensure that it operates in a socially responsible manner, and to channel its customers' capital towards sustainable projects, in order to hand down a society that is at least a little better than it was before.

Banking as part of the solution to the public health crisis

Since the outbreak of the public health crisis brought on by COVID-19, the Andorran banking sector has acted as a facilitator to ensure Andorra's stability. When the public health crisis broke out, the Andorran banking sector was in the process of transforming and bolstering its solvency. That allowed the banks to support their customers as they confronted the difficulties of the pandemic, guaranteeing a prosperous environment and a better society.

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First of all, the banks have worked with the government on the process of implementing measures to tackle the consequences of the crisis, processing soft **loans and a moratoria on capital and interest payments**, which made it possible to freeze customers' loan repayments for up to 12 months. Compared to other countries, these measures were implemented expeditiously to ensure that the aid reached the beneficiaries quickly. And all five banks, on their own initiative, supplemented these measures with sectoral moratoriums with a slightly wider scope to reach more struggling families and businesses. The government-backed guarantee of soft loans was critical in avoiding any impact on the regulations and provisioning system of the financial sector. The Executive's effort to help the real economy of the Principality by extending the different measures will be an essential element of the post-pandemic recovery.

By 30 November 2020, the banks had arranged more than 1,800 **soft loans for a total of €134 million**, all guaranteed by the Government. Regarding the moratorium on monthly loan and mortgage payments, as of that date some **350 requests had** been processed for loans totalling an outstanding balance of nearly €122 million. Of that amount, 20% are legislative moratoria, i.e., the ones approved under the government's law, while the remaining 80% are sectoral moratoriums offered by the banks as a supplemental measure.

The banks have made themselves available to the authorities since the beginning of the crisis. Considering their knowledge of international markets and the regulations governing them, they -along with other institutions- helped to implement new measures that had previously not existed in the country, such as temporary workforce adjustment plans. They also granted a new €50 million credit facility to the Government and coordinated a new public debt offering to meet the immediate needs of the pandemic. In addition, the banks made a **direct contribution of €430,000** through the solidarity accounts that were opened to channel donations from the public and took other specific actions to provide resources for infrastructures such as stop-labs (Covid testing), all of which contributed to stabilising the crisis.

Internally, Andorran banks have not made use of the temporary workforce adjustment plans or

laid off any employees and most of them have not requested the rent reductions decreed by the government. Thus, whilst the environment is complex, an attempt has been made to avoid taking measures that could be detrimental to workers in the sector or to the country's public resources.

BANKS HAVE APPLIED A MORATORIA TO THE REPAYMENT OF LOANS TOTALLING AN OUTSTANDING BALANCE OF €122 MILLION

As soon as the pandemic was declared, banks were quick to take the necessary actions to preserve the health and safety of both staff and customers. Thanks to the digitalisation process that began years ago and which brought about a profound internal transformation, it has been possible **to continue working remotely** to serve the customer and satisfy its needs. Once the period of total confinement was over, employees were offered maximum flexibility and the possibility of continuing to work from home. Today, a high percentage of employees continue to work remotely, having all the necessary resources to do so at their disposal, and banking operations have not suffered as a result. However, what the pandemic has shown is that just a few years ago it would not have been possible to keep the business running remotely and that the digitalisation process must be accelerated, not only in the banking sector but in all sectors of the economy.

What is clear from the sector's involvement in alleviating some of the burden which the State has had to bear in order to minimise the economic consequences of the pandemic is that

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banking has been and is part of the solution to this crisis, unlike other global economic crises where the financial sector was actually part of the problem. The sector is demonstrating that it can work with one voice and in collaboration with the government to mitigate the impact of the pandemic and contribute to the country's recovery process. The sector views this facilitating role as completely logical and necessary, because if the country has a problem, so does the financial sector. When faced with a crisis such as this one, the banking sector could not conceive of a more appropriate response than understanding and generosity.

The future challenges Andorran banks are facing

The economic crisis caused by the pandemic has highlighted the importance of having our own banking sector which is on the side of the country and its people, to provide liquidity and facilitate solutions. The stability of the Andorran financial sector is therefore of paramount importance, not only for economic growth and development but also to guarantee the sustainability and sovereignty of Andorra.

In order to maintain the stability and competitiveness of the banking sector, and thus continue to make a positive contribution to the Andorran economy, the sector needs to **gain access to the European Central Bank's liquidity provision** so that it can act as the system's lender of last resort. This, in addition to facilitating access to financing, would improve the international perception of the Andorran market and allow it to compete at arm's length with the rest of Europe's banks.

The need to compete on an equal footing in the European environment takes on even greater importance in the context of the Association's Agreement with the European Union. In this scenario, and even if extended transitional periods were established to moderate the initial impact of this integration, European institutions could start operating in Andorra immediately, since the "freedom to provide services" would allow them to offer and provide financial services without having an establishment.

Access to the European Central Bank's liquidity provision is a necessity, but it is not enough. In the negotiation of the Association's Agreement, it must be ensured that the Andorran financial system has the requisite mechanisms to continue to be competitive in the new environment. One of the elements needed to preserve the stability of the sector is the **exclusion of banking activity from the EU passporting system** as long as it is not possible to guarantee adequate competitive capacity vis-à-vis the large European banking institutions.

The Andorran banking sector has been able to anticipate and adapt to changes throughout its more than ninety-year history. It is a sector that is prepared and qualified to turn challenges into opportunities, even in the worst scenarios. **The sustainability and diversity of the Andorran financial system** is not only a sine qua non for the economic prosperity of Andorra, but also an essential condition for social stability and for the economic and political sovereignty of our country. This is an area where the **Andorran Banking Association** is working to help make the Andorran banking system more competitive, with the aim of ensuring that it can continue to be an economic and social driving force in our country.

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