

2021

ANNUAL REPORT



Andorran Banking
Excellence and trust

Andorran Banking

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Published by Andorran Banking

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Legal deposit AND.254-2022

ISBN: 978-99920-3-327-2

The Annual Report is an annual publication prepared by Andorran Banking and available in digital format on the website **www.andorranbanking.ad**.

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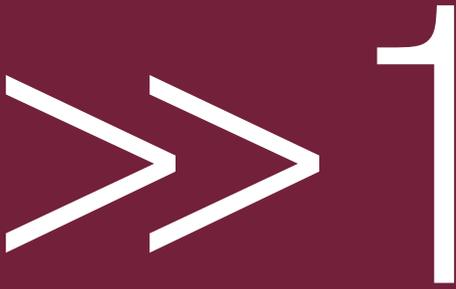
ANNUAL REPORT 2021

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Note: The legislation in this publication is updated through 31 May 2022.



Foreword by the Chairman of Andorran Banking



Carlos Aso Miranda
Chairman of Andorran Banking

2021 has been a difficult year in the social, health and economic spheres. The uncertainty of the Covid variants with the fear of new lockdowns and doubts about the effectiveness of the vaccination programme, in addition to the economic crisis triggered by the pandemic, have had a great impact on public morale as we waited to move towards a new normality.

Despite these difficulties, the Andorran economy has gradually recovered its momentum and two major corporate operations have taken place in the financial sector, namely the acquisition of BancSabadell d'Andorra by Mora Banc and the purchase of Vall Banc by Crèdit Andorrà. The result of these acquisitions, which will be completed in 2022, shows the maturity, commitment and constant search for efficiency of Andorran banks towards their customers and society at large. These corporate operations will result in a stronger, more solid and better prepared sector.

Over the course of this last year, banking institutions have maintained their strength in terms of attracting customer funds and growth. Andorran banks closed the year 2021 with an aggregate result of €97 million, a level similar to before the pandemic. The main financial indicators have shown the robustness of the Andorran banking industry. The ROE, which measures the financial profitability of banks, has increased to 6.04%. Also, the sector's liquidity and solvency ratios have been higher than the average for European banks. The liquidity coverage ratio (LCR) stands at 206% and the default rate dropped to 3.74% in 2021, down from 4.49% in 2020. The CET1 (phase-in) solvency ratio was 17% at 31 December 2021.



The banking sector has also remained committed to serving the country's business community and has been at its side since the beginning of the health crisis, making the soft loan programmes available to local companies and businesses. It should be noted that as of 15 May, 27% of all soft loans granted had been repaid and 55% had been converted into loans.

The economic recovery has been reflected not only in the growth of profits, up 16.52%, but also in the volume of customer assets under management, up 19% to €61.461bn. Credit investment in Andorra has also grown by 10.42% to €7.031bn in 2021.

These figures confirm the industry's resilience and its ability to adapt to adverse circumstances. The pandemic crisis, the disparate situations in financial markets, which have seen rises of nearly 20% in US indices and falls in emerging markets, banks' investments in technological transformation and the continuous process of complying with regulatory standards have clearly demonstrated the strength of Andorra's financial institutions.

Every year we show that we are ready to face future challenges both nationally and internationally.

We are proud to remain an important part of the country's economy and to know that we can give back to society part of what we generate as well as supporting the creation of wealth.

I cannot end this message without mentioning the invasion of Ukraine by Russia at the beginning of the year. In addition to the human tragedy that Ukrainian society is going through, this issue will clearly mark 2022 as a new period of uncertainty begins in the social, political and economic arenas.

The evolution of the conflict, with different scenarios in terms of growth and inflation at a global level, has caused significant volatility in the markets and undermined the reliability of any macroeconomic forecast. But there is no doubt that the scenario that lies ahead will be of less growth and more inflation.

May 2022

>> 2

Organisation chart of Andorran Banking Members of the General Assembly



Carlos Aso
Andbank
Chairman



Lluís Alsina
MoraBanc
Vice-Chairman

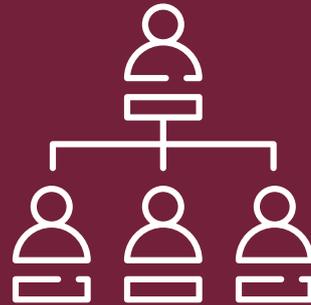


Esther Puigercós
Secretary and General Manager



Commissions

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



Xavier Cornella
Grup Crèdit Andorrà



Josep Segura
BSABANC



Member

European Banking Federation (EBF)

Chamber of Commerce, Industry and Services (CCIS)

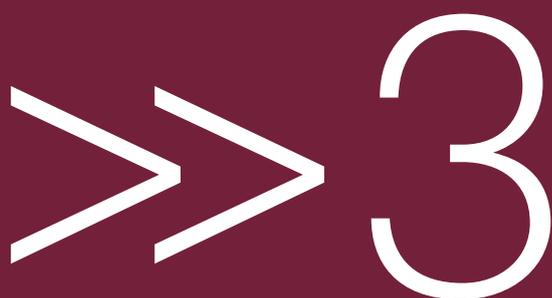
Andorran Business Confederation (CEA)



Working groups

More than

10 WORKING
GROUPS



Chronology of the events linked to Andorra's transformation process

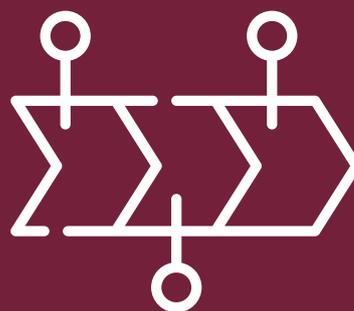
PS	Payment services	TR	Transparency
MA	Monetary Agreement	TIEA	Tax Information Exchange Agreement
RTG	Rating	DTA	Double Taxation Agreement
REG	Regulation	MCAA	Multilateral Competent Authority Agreement
REG COVID-19	Regulation adopted in the light of the SARS-CoV-2 pandemic	AEOI	Automatic Exchange of Information in tax matters
AML/CFT	Anti-money laundering/counter financing of terrorism	Multilateral Convention	Convention on Mutual Administrative Assistance in Tax Matters with the OECD
DI	Debt issues	IMF	International Monetary Fund
EU-IFRS	International Financial Reporting Standards adopted by the European Union	BEPS	Base Erosion and Profit Shifting

Andorra has signed 24 TIEA and 10 DTA*

2022

REG	27 April	Decree 171/2022 on the approval of the Regulations for the creation and management of the international reserves of the Principality of Andorra.
IMF	7 April	The IMF publishes the Staff Concluding Statement of the 2022 Article IV Mission.
REG	3 March	Approval of Law 5/2022 on the application of international sanctions in the context of the war in Ukraine.
AML/CFT	2 March	Approval of the Regulation for the application of the new AML/CFT Law.
DI	16 February	Approval of the issue of public debt "Sustainable notes of the Principality of Andorra in international markets" for an amount of €500m.

* On 8 October 2021, the Principality of Andorra and Hungary signed a double taxation agreement which has yet to come into force.



RTG	4 February	Moody's rates the Principality of Andorra for the first time, allocating it a Baa2 rating and a stable outlook.
Digitalisation	2 February	Arrangement of the €8m loan from the Council of Europe's Development Bank to finance digital transformation.
RTG	14 January	Fitch Ratings reaffirms the Principality's rating at BBB+ and revises Andorra's outlook from stable to positive.
RTG	14 January	Standard & Poor's revises Andorra's outlook from stable to positive and reaffirms its rating at BBB/A-2.
BEPS	1 January	Entry into force of the Multilateral Convention to implement Tax Treaty related measures to prevent BEPS (MLI).

2021

REG COVID-19	22 December	Approval of Decree 424/2021 that increases up to 100% the rental and mortgage support measures for nightlife venues.
AML/CFT	16 December	Approval of the amendment of Law 14/2017, of 22 June, on the prevention of money laundering and the financing of terrorism (implementation of the AML 5th Directive).
EU-IFRS	15 December	Approval of the Decree on international financial reporting standards adopted in the European Union (EU-IFRS), which amends the Decree of 22 December 2016.
AML/CFT	15 November	Start of the III Course on the prevention of money laundering and the financing of terrorism.

>> Chronology

MA	3 November	Approval of the Regulation on the adoption of complementary EU technical standards applicable to the solvency, liquidity and prudential supervision of credit institutions and investment firms.
REG	28 October	Approval of Law 29/2021 on the protection of personal data (GDPR).
REG	14 October	Approval of Law 24/2021 on interchange fees applied to card payment transactions.
DI	6 October	New international debt issue of €175m with a 20-year maturity for the first time.
REG COVID-19	29 September	Decree 323/2021 which regulates the return or conversion into loans of the outstanding debt corresponding to the first and second extraordinary soft loan programmes for companies and businesses following the health emergency situation caused by the COVID-19 pandemic.
Sustainability	22 September	Decree 303/2021 approving the Regulation of the national market for the compensation of greenhouse gas emissions.
MA	10 September	Approval of the amendment of the Annex to the Monetary Agreement.
REG COVID-19	1 September	The government extends the programme of rental and mortgage support measures for nightlife venues and travel agencies.
RTG	23 July	Fitch Ratings reaffirms Andorra's rating at BBB+ with a stable outlook.
RTG	20 July	Standard & Poor's reaffirms Andorra's credit rating at BBB/A-2.
IMF	14 June	The IMF publishes its report setting out its final conclusions on Andorra within the framework of 2021 Article IV Mission
IMF	7 May	Publication of the first balance of payments of Andorra.
PS	4 May	The SEPA direct debit scheme comes into force.

>> Chronology

MA	29 April	Approval of the Law 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 €500m.
IMF	9 April	The IMF publishes its preliminary conclusions on the official visit within the framework of Article IV of the IMF's Articles of Agreement and takes a positive view of Andorra's management of the pandemic and its prospects for economic recovery.
REG COVID-19	31 March	Approval of Decree 102/2021 amending Regulation CRR. Among other things, it implements different adaptations associated with the COVID-19 pandemic in the financial sector.
REG COVID-19	31 March	Decree 101/2021 approving an extraordinary aid programme for rent and mortgage payments for companies in the ski equipment sales and rental business.
REG COVID-19	18 March	Approval of 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 the rent reductions through 30 April 2021.
EU-IFRS	24 February	Decree 60/2021 approving new EU-IFRS standards and amending Decree of 22 December 2016.
REG COVID-19	29 January	Approval of Decree 54/2021 amending the Decree of 20 May 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 the Principality'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 May 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.

>> Chronology

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 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, in the light of the health emergency caused by the SARS-CoV-2 pandemic.
REG COVID-19	18 November	Approval of a decree amending the Decree of 20 May 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 and 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 Law 10/2020 on the accession of the Principality of Andorra to the IMF.
RTG	31 July	Standard & Poor's maintains Andorra's rating at BBB and a stable outlook.
DI	29 July	Decree approving a long-term public debt bond issue by the Principality of Andorra in the amount of €20m.
EU-IFRS	29 July	Decree approving new EU-IFRS standards and amending Decree of 22 December 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.

>> Chronology

N/A	27 May	Andorra becomes the 47th member of the Development Bank of the Council of Europe.
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 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 (soft loan programmes).
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 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.

>> Chronology

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 reaffirms Andorra's rating at BBB+ and stable outlook.
REG	1 February	Entry into force of Law 31/2018 on labour relations.

>> Chronology

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-IFRS 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	4 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.

>> Chronology

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 Regulation governing the recording of, and the 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.

>> Chronology

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.
PS	17 May	Approval of Law 8/2018 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.

>> Chronology

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.

>> Chronology

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.
TR	1 July	The DTA signed between the Principality of Andorra and France enters into force.
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.

>> Chronology

2014

TR	16 June	The OECD declaration on automatic exchange of information is adopted.
TR	June	<i>Peer Reviews Phases 1 + 2 (Global Forum).</i>
TR	24 April	Law 5/2014 on the Personal Income Tax (IRPF) is approved.
AA	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.

>> Chronology

2011

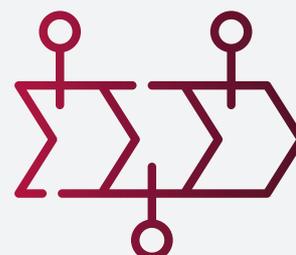
TR	August	Phase 1 of the Peer Review by the Global Forum takes place.
MA	30 June	Andorra signs the Monetary Agreement with the European Union to convert the euro into Andorra's official currency.
N/A	4 April	Memorandum of Understanding signed between INAF and the Bank of Spain setting out a collaboration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



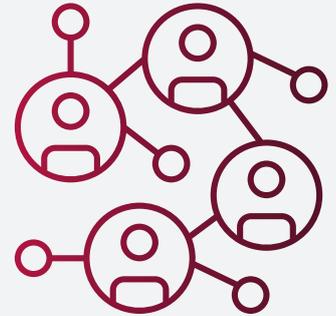
>>> 4

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.



140 meetings of Andorran Banking Commissions

with the participation of 84 representatives of the member banks.



59 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.



55 meetings

held with Government and banking supervisory bodies.



Around 14 published articles, interviews, statements and press releases.



3 newsletters

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



Publication of the Andorran Banking Observatory:

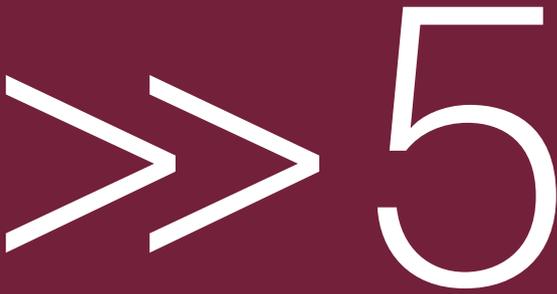
"The role of banks in the socioeconomic growth of Andorra" (See Annex 1).



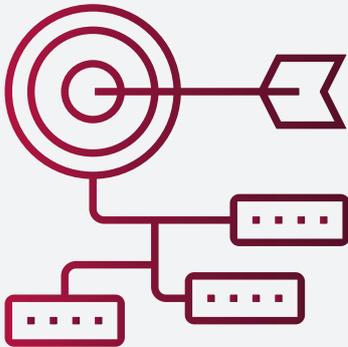
Social media presence



Training



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 and added value services

The development and strength of the Andorran banking sector has been driven by services with **greater added value, extensive experience** in wealth and asset management, and **strong internationalisation**, combined with sustainable and profitable growth.



3. Digital transformation

With its desire to **change**, to seek **solutions** and to keep up to date with the latest **technology**, the Andorran banking industry is committed to achieving digital transformation and generating **value** for the end customer.



4. 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.



5. 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.



6. Solvency

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



7. 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**.



8. 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.



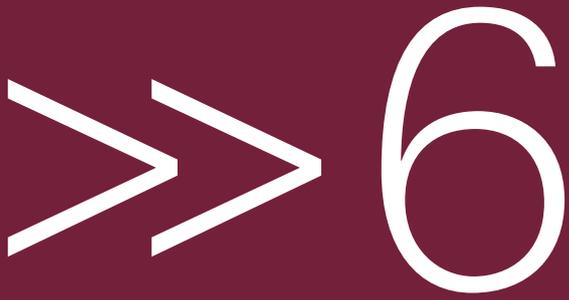
9. Stability

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



10. 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.



Key figures

6.1. Banking sector

The financial sector represents

5%

of all employees

It contributes to approximately

15%

of Gross Domestic Product (GDP)

5

banking groups

Process of consolidation of the industry that will result in 3 large banking groups by the end of 2022.

More than

90

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

In the post-Covid year, the net profit has been of

€97

million with a ROE of 6.04%

The total number of employees (including abroad) is

2021: 2.579



1.175



1.404

The banking industry spends over

10%

of its benefits

on promoting digital transformation

During 2020-2021, digital users have grown by

18%

and mobile application users by

24%



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		



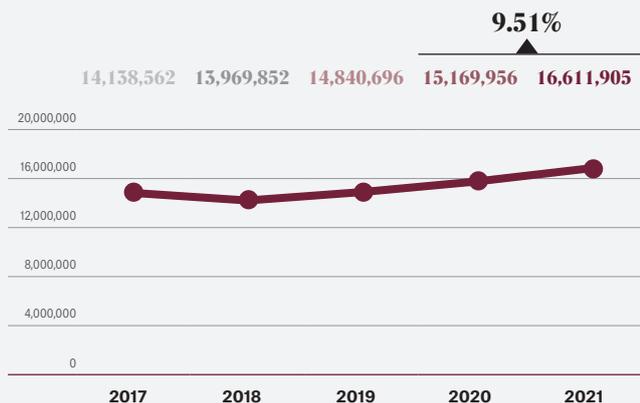
>> Key figures

Source: Annual reports from banks.

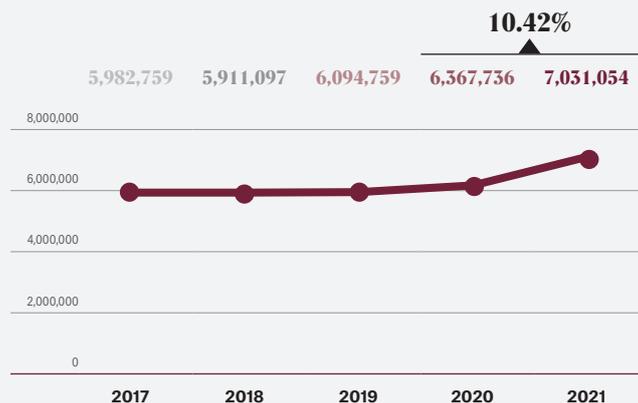
Banking sector data

(Thousand euros)

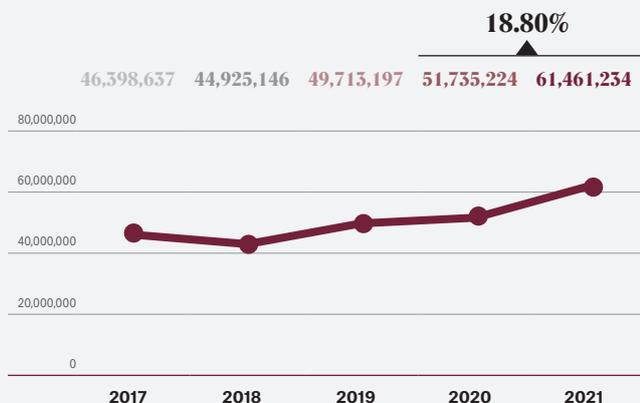
Total assets



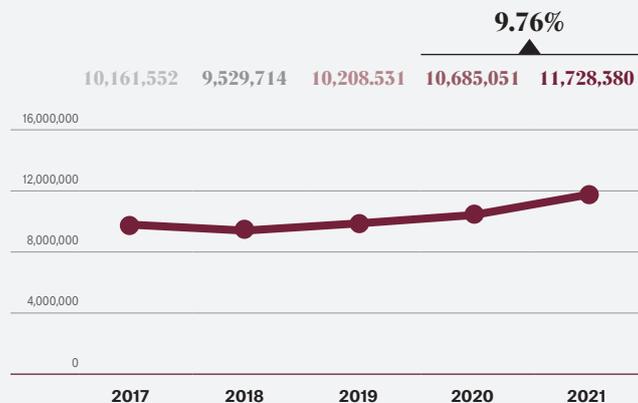
Gross credit investment



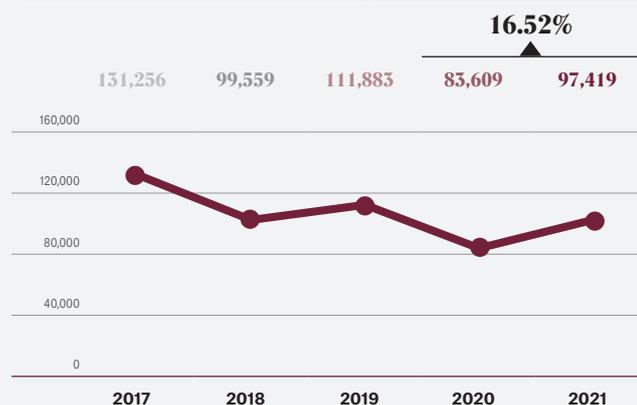
Assets under management



Customer deposits



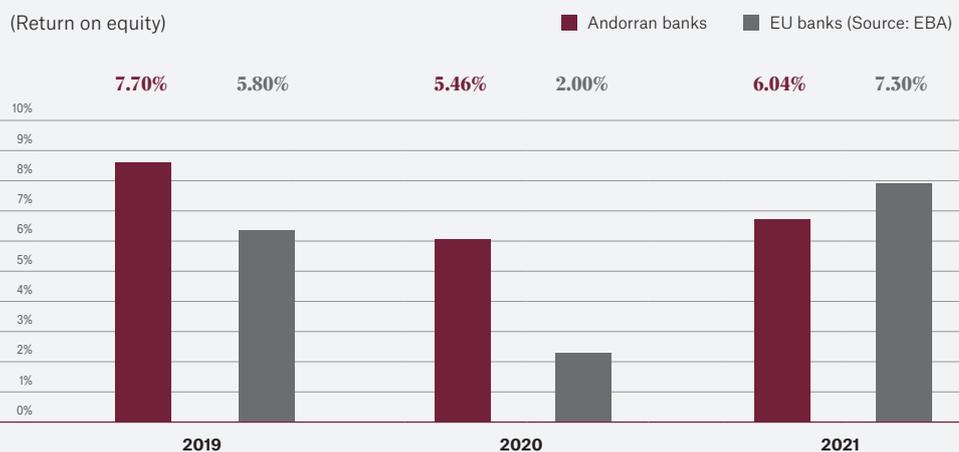
Results



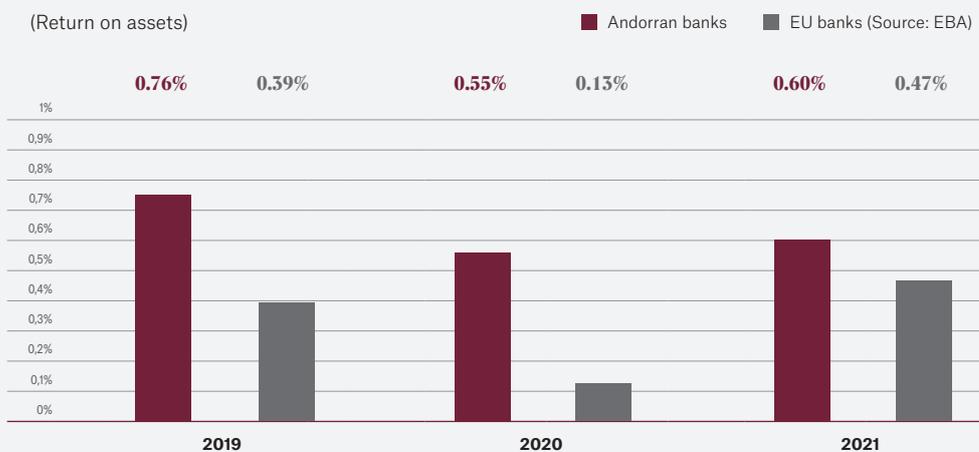
>> Key figures

Source: Annual reports from banks.

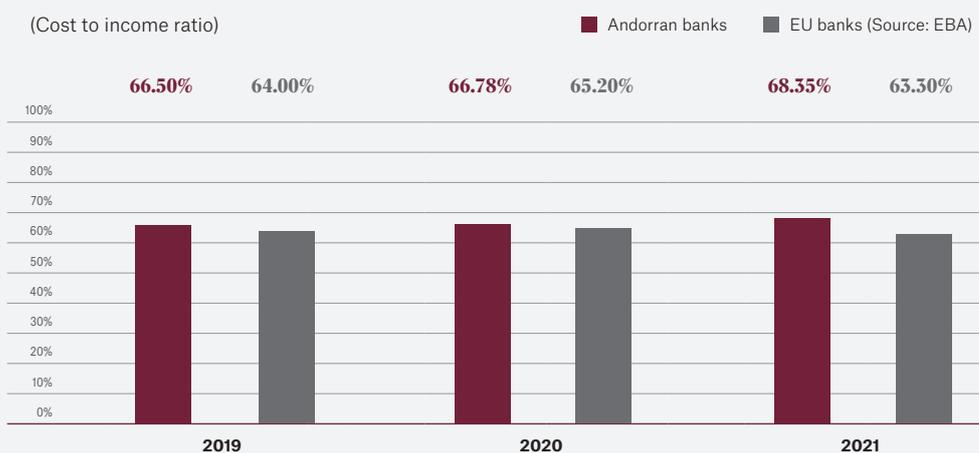
ROE



ROA

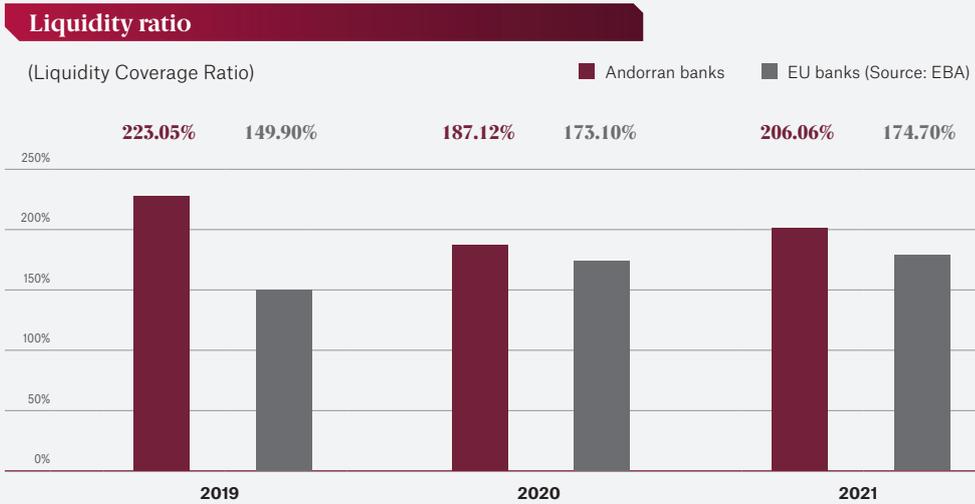
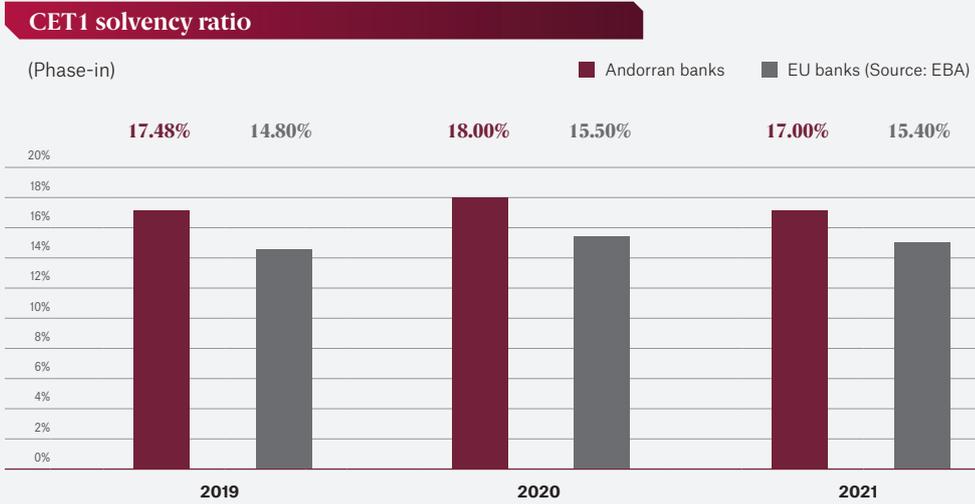


Efficiency ratio

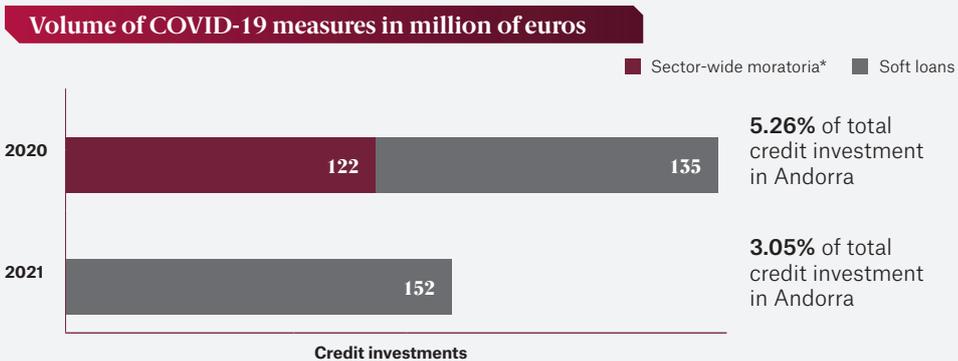


>> Key figures

Source: Annual reports from banks.



COVID-19 measures

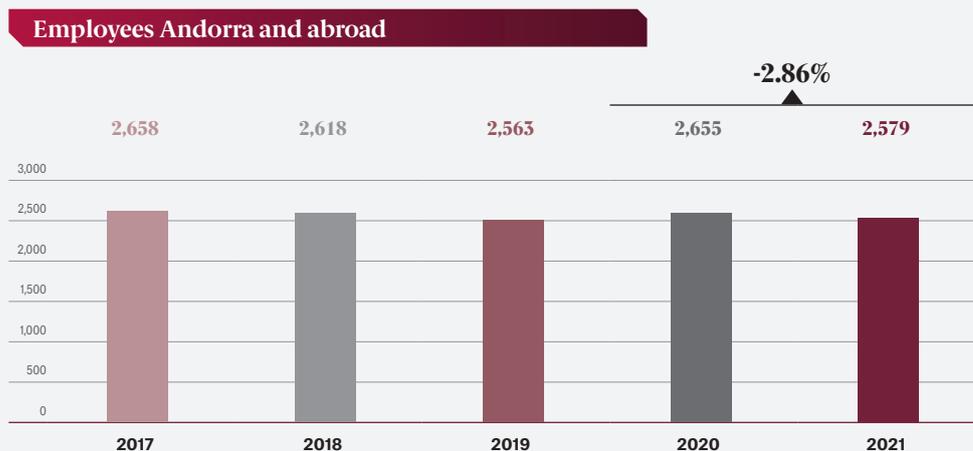
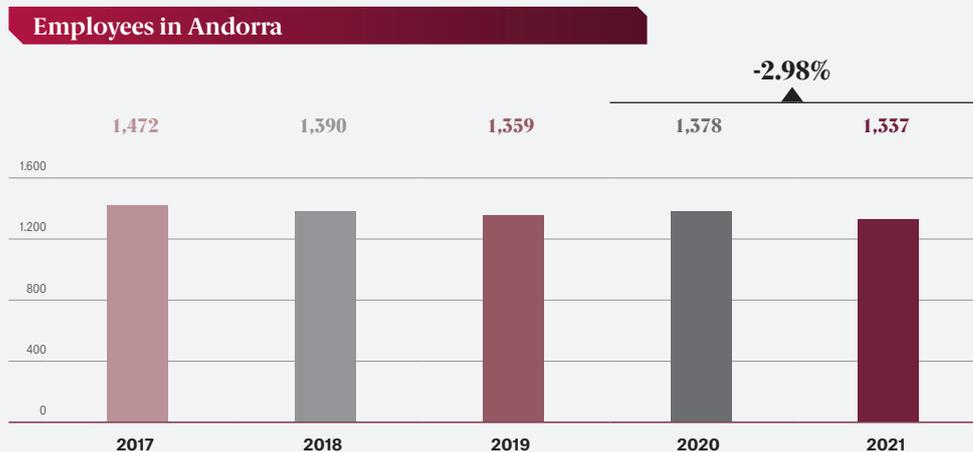


* The legislative and sector-wide moratoria had reached their maturity date as at 31 December 2021.

>> Key figures

Source: Annual reports from banks.

Banking employees



Employees in the financial sector represent 4.7% of the total number of employees in Andorra.

(Source: Caixa Andorrana de la Seguretat Social)

Long-term rating by bank

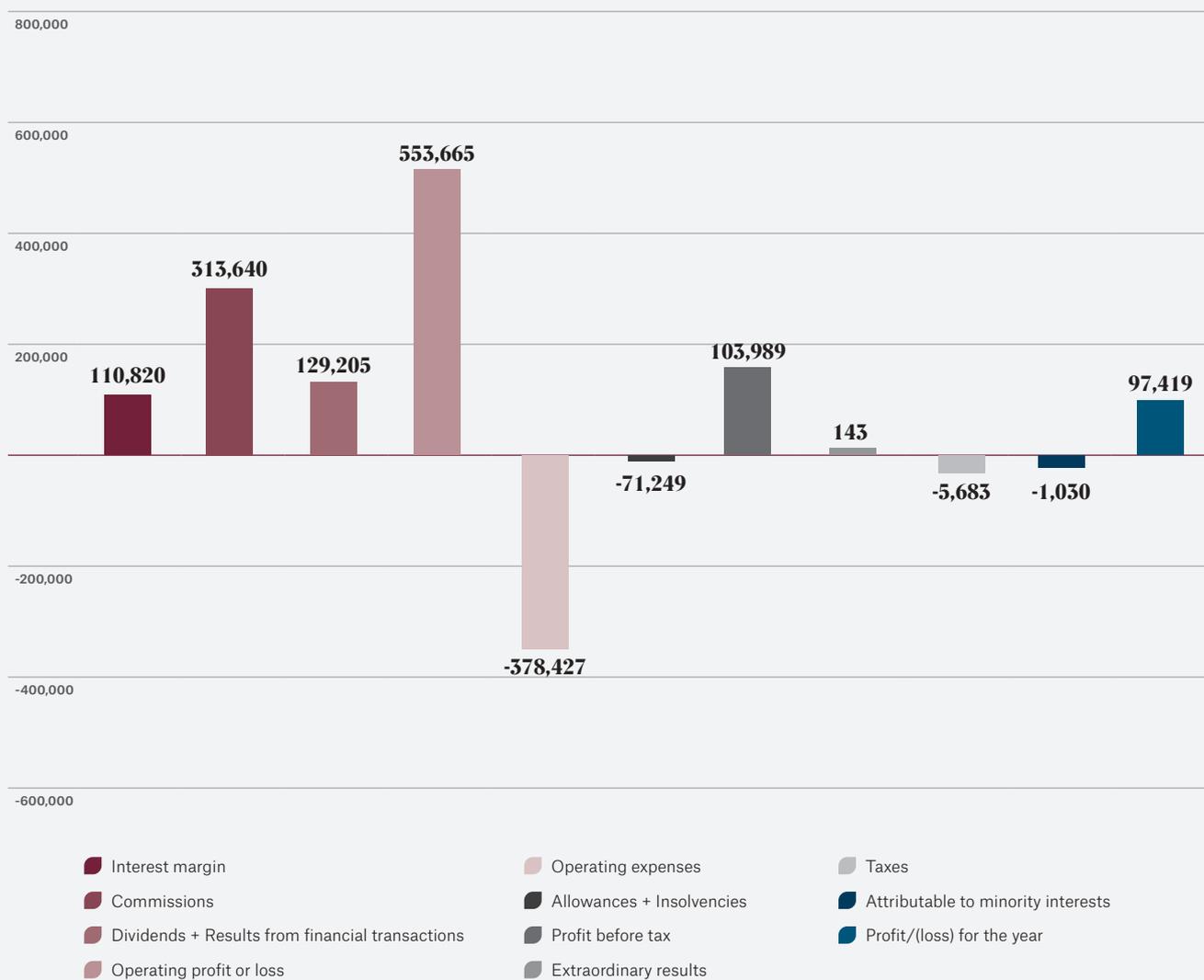


>> Key figures

Source: Annual reports from banks.

Origin of profits for 2021

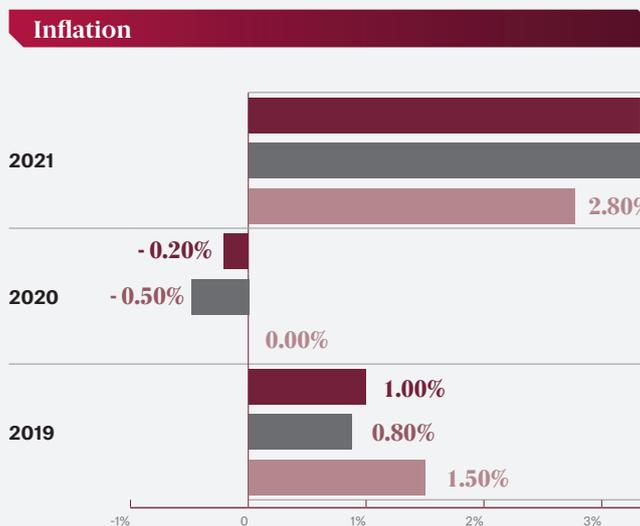
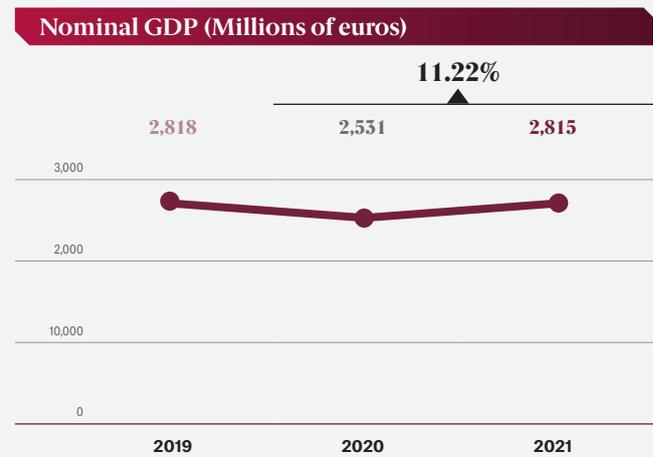
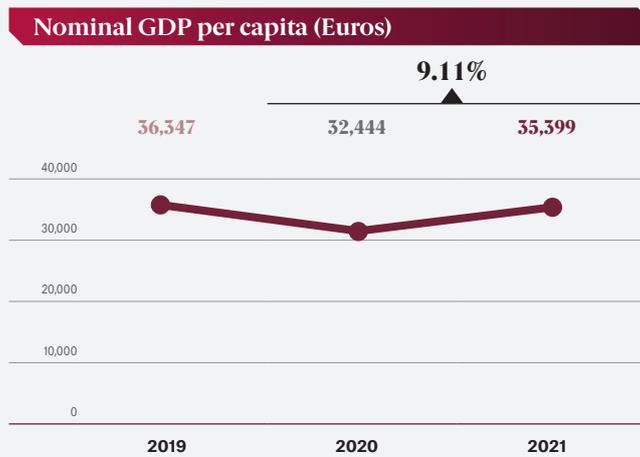
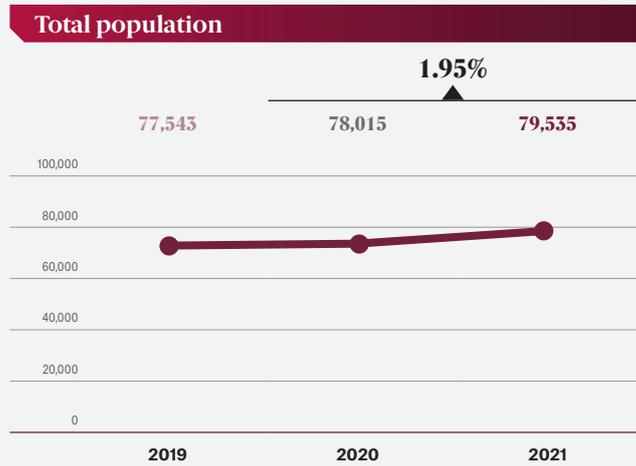
(Thousand euros)



>> Key figures

Source: Department of Statistics of the Andorran Government.

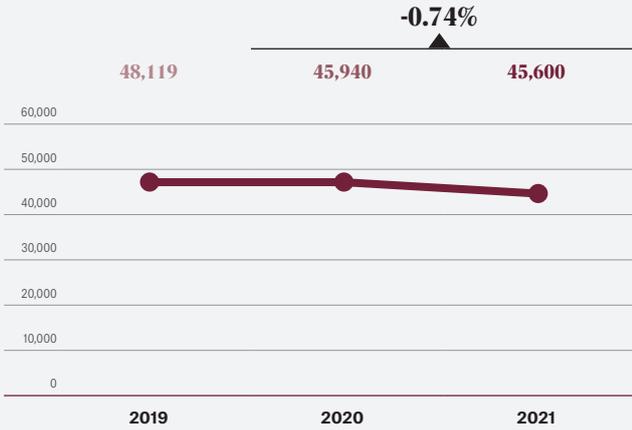
6.2. Country



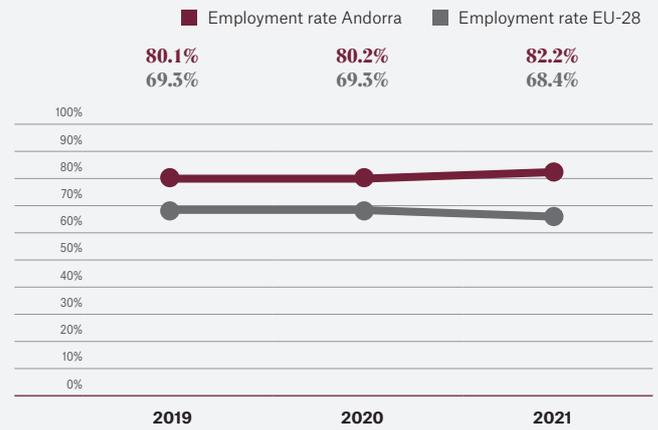
>> Key figures

Source: Department of Statistics of the Andorran Government.

Jobs



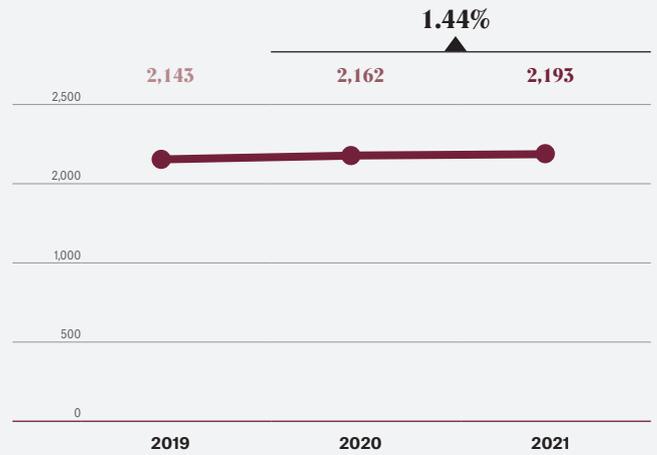
Employment rate Andorra vs. employment rate EU-28 (%)



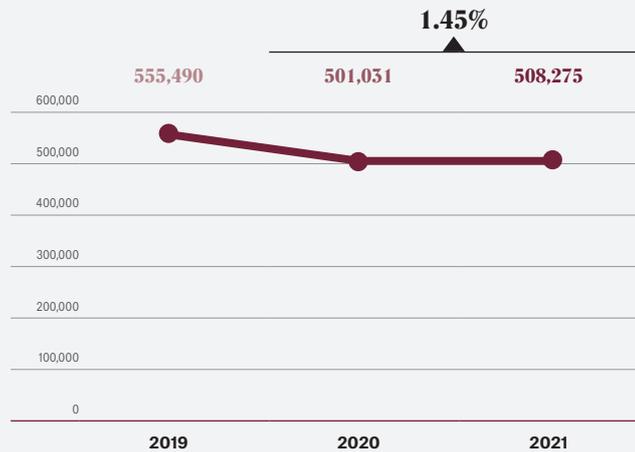
Minimum wage (Euros)



Average wage (Euros)



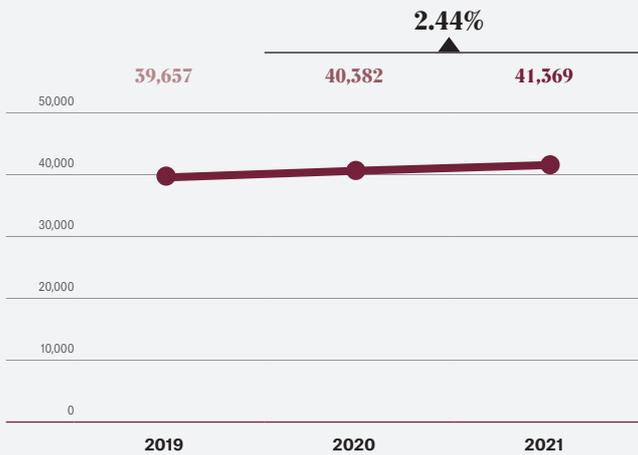
Energy consumption (MW/ hour)



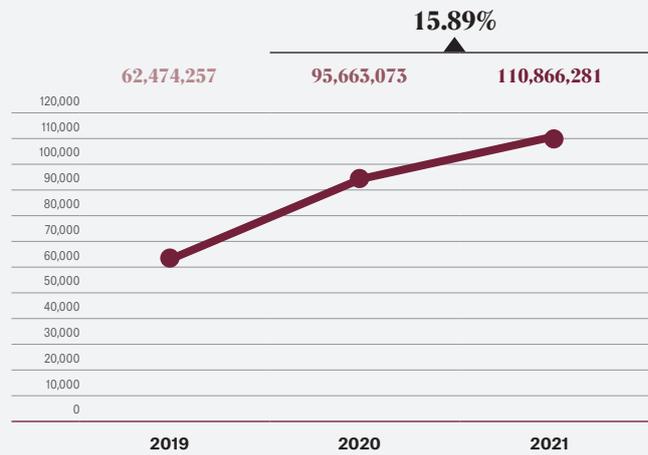
>> Key figures

Source: Department of Statistics of the Andorran Government.

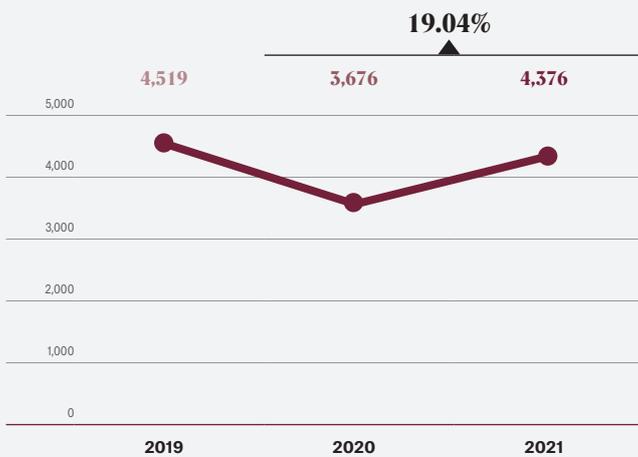
Telecommunications (Line charges)



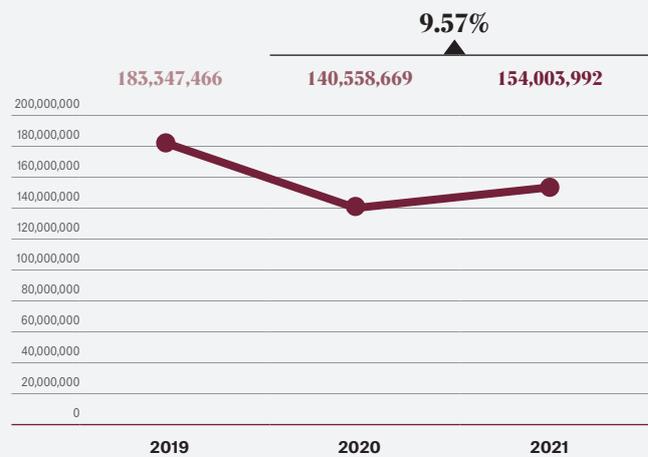
Internet traffic (Gigabytes)



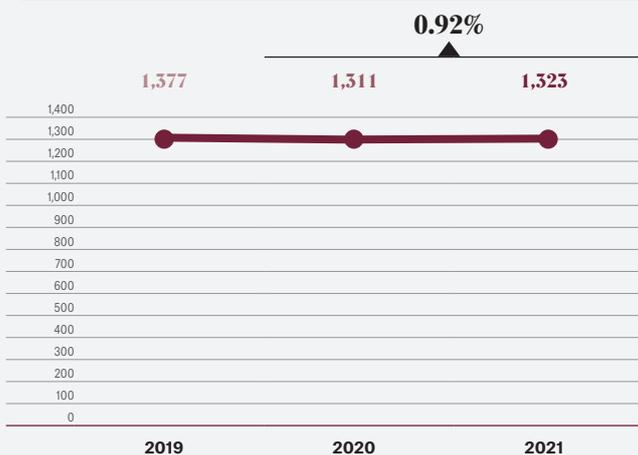
Car registrations



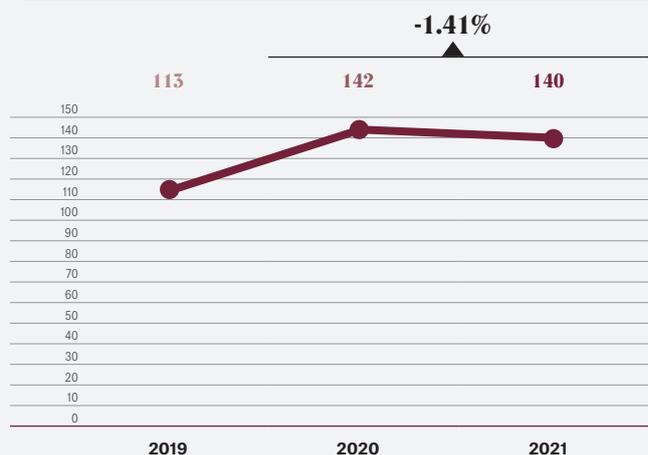
Petrol imports (Litres)



Imports (Millions of euros)

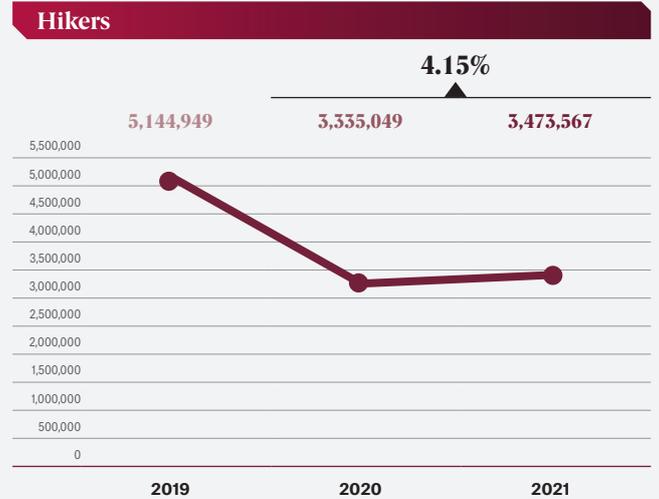
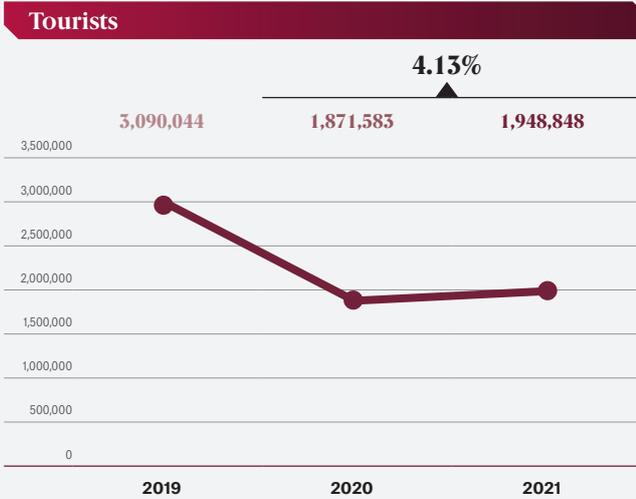
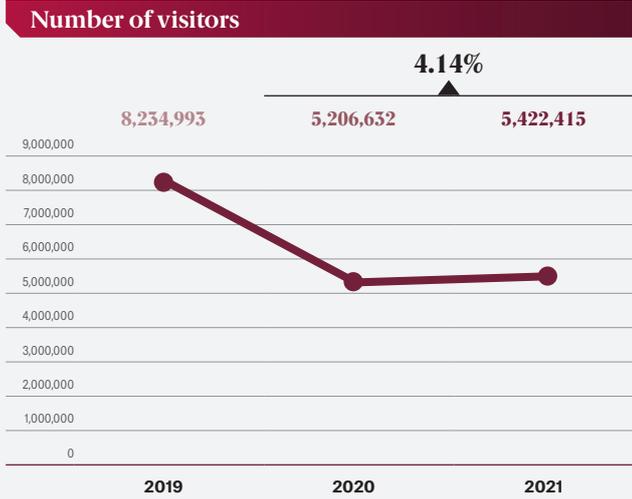


Exports (Millions of euros)



>> Key figures

Source: Department of Statistics of the Andorran Government.



>> Key figures

Source: Reports published by rating agencies.

Country rating

Standard & Poor's	31/12/2020	31/12/2021	14/01/2022
Long term	BBB	BBB	BBB
Short term	A-2	A-2	A-2
Outlook	Stable	Stable	Positive
Fitch Ratings	31/12/2020	31/12/2021	14/01/2022
Long term	BBB+	BBB+	BBB+
Short term	F2	F2	F2
Outlook	Stable	Stable	Positive
Moody's			04/02/2022
Long term			Baa2
Outlook			Stable

For more information, see Chapter 10.



Information on relevant topics

UPDATE

Personal data protection (European GDPR regulation)

On 28 October, the General Council approved **Law 29/2021 on the protection of personal data** with the aim of adopting the new provisions established in this matter by European Regulation 2016/679 (General Data Protection Regulation, “**GDPR**”) and Directive (EU) 2016/680.

In the context of the new challenges posed by unstoppable technological progress and globalisation, the Andorran legislator has updated the country’s data processing regulations, which both individuals and private and government organisations are required to implement when processing data relating to individuals.

This updating exercise has been undertaken with a view to safeguarding the opportunities for opening up the Andorran economy due to its strategic geopolitical position within Europe, in keeping with all the guarantees of protection of the personal data of individuals, without imposing excessive obligations that could prevent or seriously hinder the economic, administrative and management activities of Andorra’s public and private organisations.

One of the main novelties of the new law is the introduction of the role of the Data Protection Officer (DPO) and the mandatory appointment of a DPO by certain data controllers and data processors. The law also includes new rights that can be exercised by the data subject against the data controller, including the right of access, rectification, opposition, deletion (the right to be forgotten), limitation of processing and portability.

The new law came into force on 17 May 2022.

International Monetary Fund

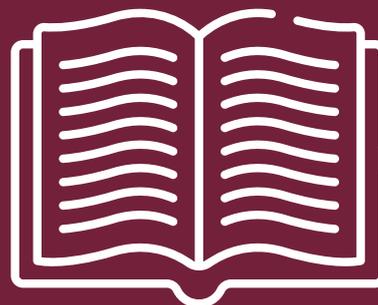
Continuing on the path taken by the **Principality of Andorra** in recent years, one of transformation and evolution towards transparency and official recognition, with greater involvement in the international arena, in January 2020 the country applied to join the International Monetary Fund (IMF) and 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.

During the months of March and April 2022, IMF staff conducted the country’s second annual consultation under **Article IV of the IMF’s Articles of Agreement**, with the first one having taken place in 2021.

From an **economic perspective**, the IMF emphasised that the Andorran economy is recovering significantly from the deep recession caused by the pandemic, highlighting the country’s higher-than-expected growth in the second half of 2021. It also stressed the improvement in labour market conditions, with one of the lowest unemployment rates in Europe. At the same time, the IMF’s document points out that the general inflation caused by high energy prices has been more contained than in neighbouring countries, thanks to the long-term contracts with foreign energy suppliers.

Against this background, the IMF forecasts that the growth momentum will remain strong throughout 2022, even though downside risks will predominate. In the context of the war in Ukraine, the evolution of the pandemic and the increase in the prices of



basic commodities and its repercussions on the European economy, the IMF highlights Andorra's resilience with a significant fiscal cushion, a large current account surplus, the recent accumulation of international reserves, and sound, well-capitalised and liquid banks that will act as positive factors in the current uncertain environment.

In **fiscal matters**, the IMF's experts positively value Andorra's available fiscal capacity and its active debt management strategy, something which will allow the debt ratio to fall to pre-pandemic levels after 2022.

The Andorran Government's decision to adopt financial policies to ensure resilience, including through measures to accumulate international reserves, is also seen as a positive factor.

With regard to **economic diversification**, the IMF acknowledges the importance of the government's Digital Transformation Programme and considers that the negotiations to achieve an Association Agreement with the European Union have the potential to unlock huge benefits for the Andorran economy.

The preliminary report also highlights the great progress made by Andorra since it joined the IMF in October 2020, closing the data gap and improving its fight against money laundering and terrorist financing through better and more regular monitoring of cross-border flows.

• **Balance of payments**

In the context of Andorra's membership of the IMF, the country's balance of payments was published for the first time in 2021. The balance of payments is a statistical tool that systematically records all the economic transactions that take place over a given period of time between a country and the rest of the world.

It is compiled in accordance with the Sixth Balance of Payments Manual of the IMF, which has also assisted in its creation by supervising and validating the information sources, processing operations and results. The Andorran Department of Statistics has also applied other methodological references derived from OECD and EU regulations.

Following this methodology ensures the international comparability of the data produced in Andorra's balance of payments, which is structured into three sections: the current account, the capital account and the financial account.

By analysing in detail the data provided by the various sources of information, including the country's financial institutions, registration offices or government agencies, it is possible to observe characteristics and to assess the state of the Andorran economy, such as the fact that the country is an exporter of services, an importer of goods and that it currently attracts foreign investment.

The result of the balance of payments shows that Andorra had an international financing capacity of €507.86m in 2019, a figure that represents 18% of Andorra's GDP and places the Principality among the countries in the world with the greatest international financing capacity in relation to GDP.

COVID-19

The last two years have been marked by the COVID-19 pandemic and its effects, which have had a major impact globally. Andorra has been no exception and, in the face of the major challenges posed by the crisis, it has had to adopt exceptional measures of various kinds.

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**

>> Information on relevant topics

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 included 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 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 financial programmes were approved for companies and businesses worth €230 million to cover operating costs or service existing debts (**the so-called soft loans**).

On 29 September 2021, the government approved Decree 323/2021, which regulates the return or conversion into loans of outstanding debt under the two extraordinary guarantee programmes ("**loan conversion**").

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.

By 31 December 2021, banks had processed more than 1,800 transactions to make available €152 million in soft loans guaranteed by the government, of which €127 million had been used. At the time of writing this report, the conversion into loans of 30% of all soft loans had been requested. With regard to the moratoria, they had all reached their maturity date by 31 December 2021.

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

Digital transformation

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 were 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 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.

>> Information on relevant topics

At a national level, the Government, led by the Secretary of State for Digital Transformation and Strategic Projects, has drawn up a holistic transformation plan that sets out the most important actions to be carried out over the coming years in terms of digital transformation. This programme is linked to the government's **Strategic Plan H23**, which prioritises the country's economic and social growth.

Sustainability

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, and even more so after experiencing an unprecedented health crisis.

The contribution of the Andorran banking 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, through has become known as Corporate Social Responsibility (**CSR**).

Banks devote up to 6% of their profits to CSR actions. 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, education, and the support given to business fabric.

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. Banks have started to take corporate governance criteria on board as part of their internal processes. 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 on the matter of investor protection with the adoption of MiFID II.

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 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.

The Andorran banking sector has also made great strides on environmental matters. 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. Initiatives have also been set up for calculating the carbon footprint of banks and to offset it by funding international sustainability projects.

Against this background, on 22 September 2021, the government approved **Decree 303/2021 approving the national greenhouse gas emission compensation market (GEH)**, which builds on the legislative texts and international conventions signed by the Government of Andorra in the fight against climate change and which have laid the foundations for a climate policy aimed at achieving carbon neutrality by 2050.

BANKING REGULATIONS

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 with 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 their Managing Commission. By 30 June 2024 they are required to have ex-ante financial

>> Information on relevant topics

resources in an amount equivalent to 0.8% of the guaranteed deposits.

Banks authorised to operate in the Principality of Andorra are obliged 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.

Following what is set at European level, 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% 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.

Banking 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 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 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. The 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.

Solvency (CRD IV and CRR)

2018 was an intense year for the Andorran financial sector due to the 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.

>> Information on relevant topics

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.

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, an amendment of Law 8/2013 is necessary to comply with all of these directives and their implementing regulations.

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.

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.

>> Information on relevant topics

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.

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

>> Information on relevant topics

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 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.

TAX FRAMEWORK

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

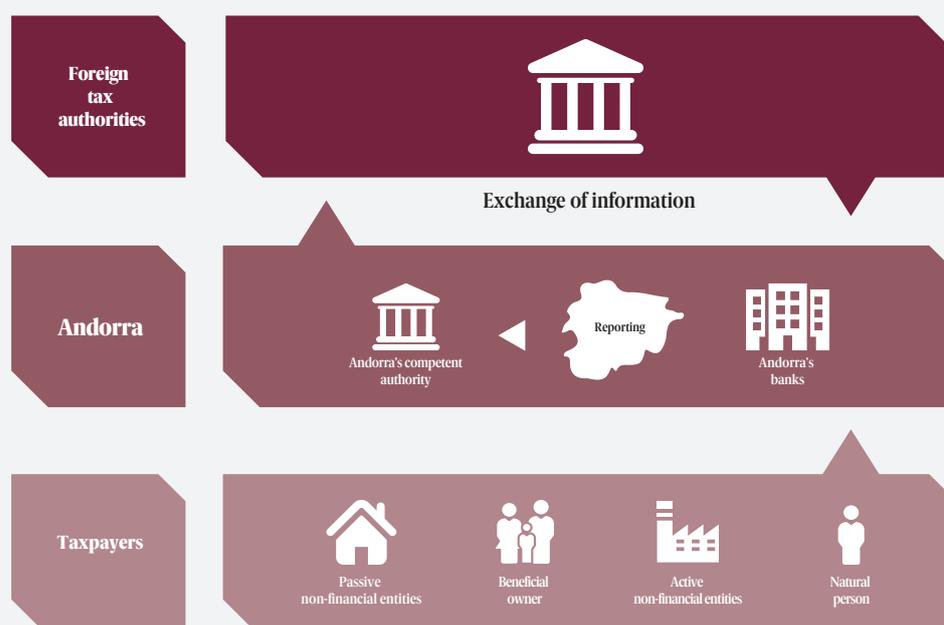
standard lays down how the competent authorities of the countries that have signed up to the CRS automatically exchange information on financial accounts every year.

Andorra implemented CRS in 2014 and in 2016 it 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.

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

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. In the Principality, the MLI came into force on 1 January 2022.

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.

PREVENTION OF MONEY LAUNDERING AND TERRORIST FINANCING

The prevention and fight against money laundering and terrorist financing is a national priority that involves the adoption of legislative initiatives on a regular basis, taking into account the evolution of the standards adopted by international bodies, such as the FATF and Moneyval, and the commitments to transpose European Union regulations derived from the Monetary Agreement between the Principality of Andorra and the European Union.

In compliance with these commitments, Andorra has transposed Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 on the prevention of the use of the financial system for the purpose of money laundering or terrorist financing (5th Directive), as well as the Commission Delegated Regulation (EU) 2019/758 of 31 January 2019 supplementing Directive (EU) 2015/849 as regards the technical regulatory standards on minimum measures and types of additional measures to be adopted by credit and financial institutions to mitigate the risk of money laundering and terrorist financing in certain third countries. The new **Law 37/2021, of 16 December, amending Law 14/2017, of 22 June, on the prevention and fight against money laundering and the financing of terrorism** also includes the recommendations of the FATF and the observations made by Moneyval in its periodic evaluation procedures of the Andorran system for the prevention of money laundering and the financing of terrorism.

This new law amends a number of major aspects such as the incorporation of virtual asset service providers as regulated entities, the regulation of access to information on beneficial owners in the Register of Companies, Associations and Foundations, thus eliminating the need to provide evidence of a legitimate interest to access it, and the creation of the Register of Financial and Similar Accounts.

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

>> Information on relevant topics

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").

5th Moneyval evaluation

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 terrorism 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 three follow-up reports, the last one in November 2021. This report reviews the progress made by the Principality of Andorra and the new measures implemented to comply with the FATF Recommendations since the 2017 mutual evaluation and the two previous progress reports of December 2018 and December 2019, respectively.

On this occasion, Moneyval has raised the rating to Largely Compliant for Recommendation 8, relating to non-profit organisations (NPOs), which means that Andorra now complies (Compliant) or largely complies (Largely Compliant) with 37 of the 40 FATF Recommendations.

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.

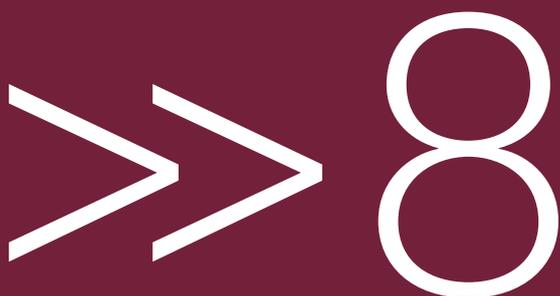
Andorran lawmakers make a distinction between basic and aggravated tax offences, considering only aggravated tax offences as predicate offences for money laundering and considering aggravating circumstances the defrauded amount (€150,000 or more) or the commission of an offence as part of a criminal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





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

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

Consolidated text of the law on the taxation of business reorganisation operations and the amendment of Corporate Income Tax Law 95/2010 of 29 December; Personal Income Tax Law 5/2014 of 24 April; 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

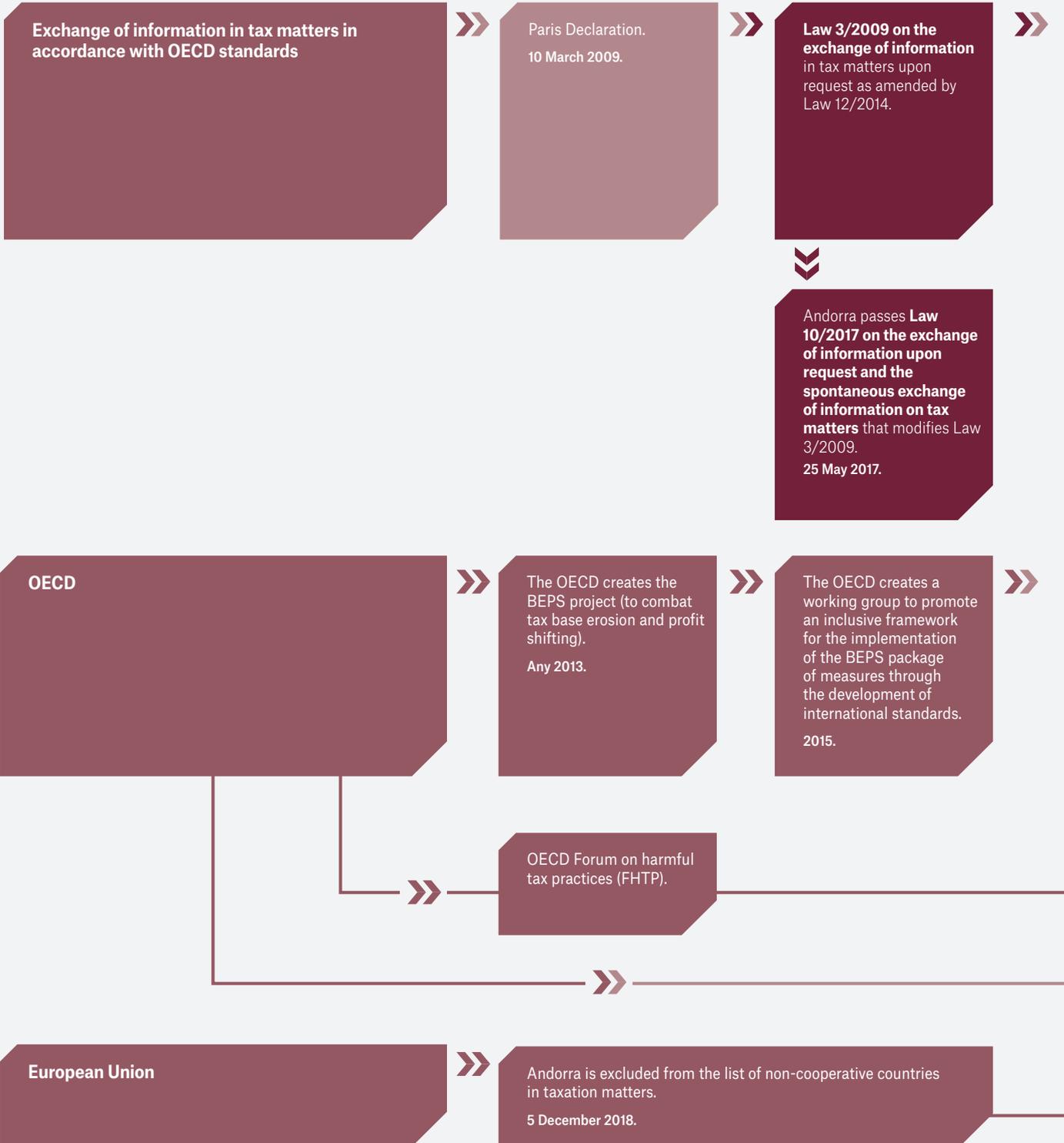
Each municipality has its regulations, subject to the taxation system in place.

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



>> Legislation: Andorra's regulatory framework

2013
Signing of the convention on mutual assistance in tax matters with the OECD on 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 10 countries.

The double taxation agreement between the Principality of Andorra and Hungary has yet to come into force.

Andorra joins the BEPS inclusive framework.
14 October 2016.

Andorra signs the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent tax base erosion and profit shifting (MLI).
Effective from 1 January 2022.

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.

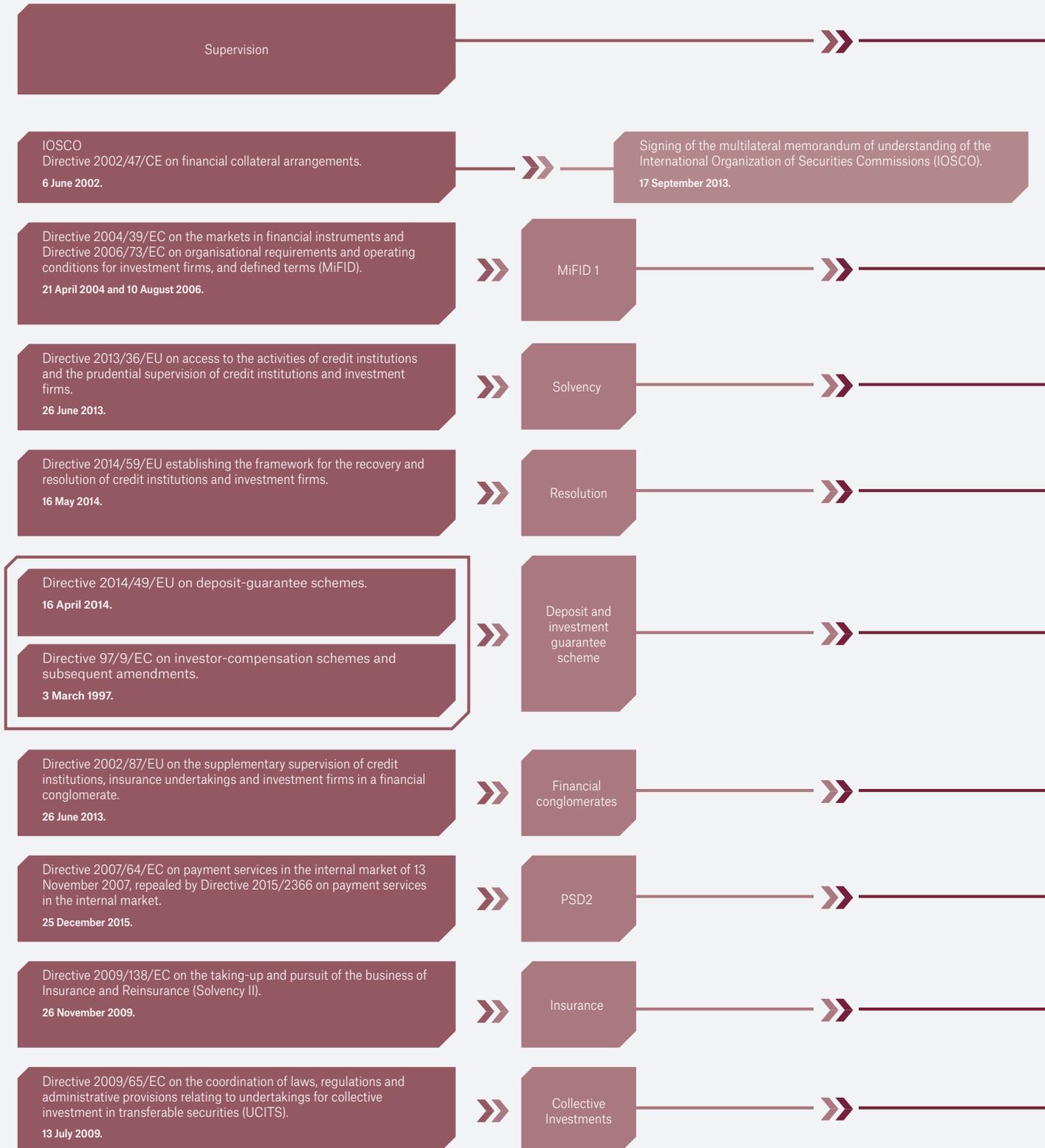
Endorsement of the changes relating to Andorra's tax regimes.
15 November 2018.

Andorra adheres to the OECD multilateral agreement that allows for the exchange of information on a country-by-country basis.
19 October 2018.

>> Legislation: Andorra's regulatory framework

Financial framework

International regulations, standards and recommendations
 International Agreements
 Andorran regulations



>> Legislation: Andorra's regulatory framework



>> 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

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-November 2021: evaluation report on 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 2018/843 amending the 4th Directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing (**5th Directive**).

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

Regulation 1781/2006 of 15 November 2006 on information on the payer accompanying transfers of funds, 15 November 2006.
Regulation amended by Regulation 2015/847 of 20 May 2015.

Commission Delegated Regulation (EU) 2019/758 of 31 January 2019 supplementing Directive (EU) 2015/849 with regard to regulatory technical standards for the minimum action and the type of additional measures credit and financial institutions must take to mitigate money laundering and terrorist financing risk in certain third countries.

Commission Delegated Regulation (EU) 2016/1675 of 14 July 2016 supplementing Directive (EU) 2015/849 by identifying high-risk third countries with strategic deficiencies.

Regulation (EU) 2018/1672 of the European Parliament and of the Council of 23 October 2018 on controls on cash entering or leaving the Union and repealing Regulation (EC) No 1889/2005.

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

Recommendations of the Financial Action Task Force (FATF).



>> Legislation: Andorra's regulatory framework



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

25 October 2017.

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

25 October 2017.

Law 37/2021 amending Law 14/2017, of 22 June, on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing.

16 December 2021.

Decree 76/2022 approving the regulation implementing Law 14/2017, of 22 June, on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing.

2 March 2022.

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.

>> Legislation: Andorra's regulatory framework

Legislation debated in Parliament



Law



Scope

Cybersecurity	<p>Draft law on measures for the security of networks and information systems.</p>	<p>The law provides for the obligation to define, implement and scale up a national cybersecurity strategy, to manage cybersecurity risks, to increase cooperation with other states, and to improve the cyber-resilience of public and private organisations that are "essential" and/or "critical".</p>
Saig (bailiff)	<p>Draft law amending the Saig Law 43/2014 of 18 December.</p>	<p>The aim is to update the law that regulates the saig's (bailiff) office.</p>
Digital economy	<p>Draft law on digital economy, entrepreneurship and innovation.</p>	<p>Regulation aimed at covering a wide range of issues relating to the promotion of the digital economy, support for entrepreneurship and boosting innovation.</p>
Digital assets	<p>Draft law on the digital representation of assets through the use of cryptography and distributed ledger and blockchain technology.</p>	<p>The law aims to facilitate an optimal balance between innovation, markets, society's preferences, technological development and the legal framework, under the premise of being technologically neutral in terms of regulations and competition.</p>
Tax	<p>Draft law on measures for the reform of direct taxation and amendment of other tax and customs regulations.</p>	<p>The draft law responds to a need for an overhaul of the tax system in Andorra, especially as far as direct taxation is concerned. Corporate income tax, personal income tax and non-resident income tax are reformed, and the tax on capital gains on property transfers is repealed and included in other income taxes. The draft law also amends other related laws to ensure the smooth operation of the Andorran tax system.</p>
Finance EMIR/SFTR/BMR	<p>Draft law amending Law 8/2013 on the organisational requirements and operating conditions of entities operating in the financial sector, investor protection, market abuse and financial collateral agreements.</p>	<p>The draft law transposes the EU regulation on over-the-counter derivatives, central counterparties and trade repositories (EMIR), the regulation on transparency of securities financing transactions and reuse (SFTR), and the regulation on benchmarks in financial contracts and financial instruments (BMR).</p>
Finance NPE	<p>Draft law amending Law 17/2013, of 10 October, on the introduction of the euro within the framework of the Monetary Agreement signed between the Principality of Andorra and the European Union.</p>	<p>Among other things, the law introduces the regulatory basis for the minimum loss coverage for non-performing exposures (NPE), the leverage ratio and the stable funding requirements (NSFR).</p>
PBC/FT	<p>Draft law amending Law 17/2013, of 10 October, on the introduction of the euro within the framework of the Monetary Agreement signed between the Principality of Andorra and the European Union.</p>	<p>Among other things, by means of a transitional provision, the draft law introduces amendments to Law 14/2017 on the prevention and fight against money laundering and the financing of terrorism, in order to transpose the provisions of Regulation (EU) 2018/1672 on controls on cash entering or leaving the Union.</p>

>> Legislation: Andorra's regulatory framework



Bylaws



Tentative schedule



The draft law is being reviewed by the competent Legislative Committee.



Second half of 2022*



The draft law is being reviewed by the competent Legislative Committee.



Second half of 2022*



Amendment period.



Second half of 2022



The draft law is being reviewed by the competent Legislative Committee.



Second half of 2022



Amendment period.



Second half of 2022



Amendment period.



Second half of 2022



Amendment period.



Second half of 2022

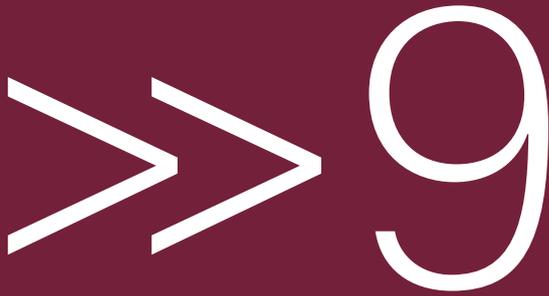


Amendment period.



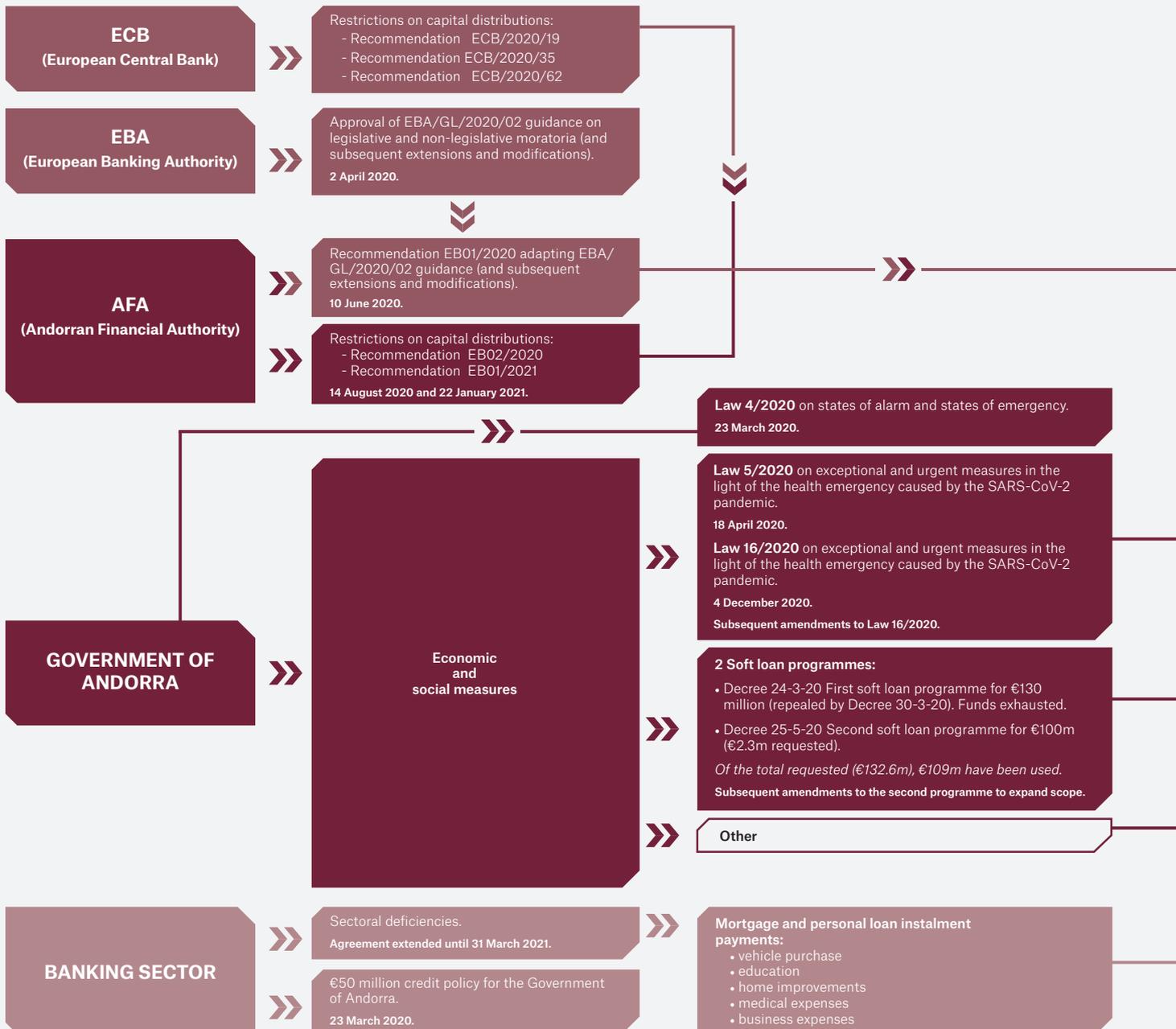
Second half of 2022

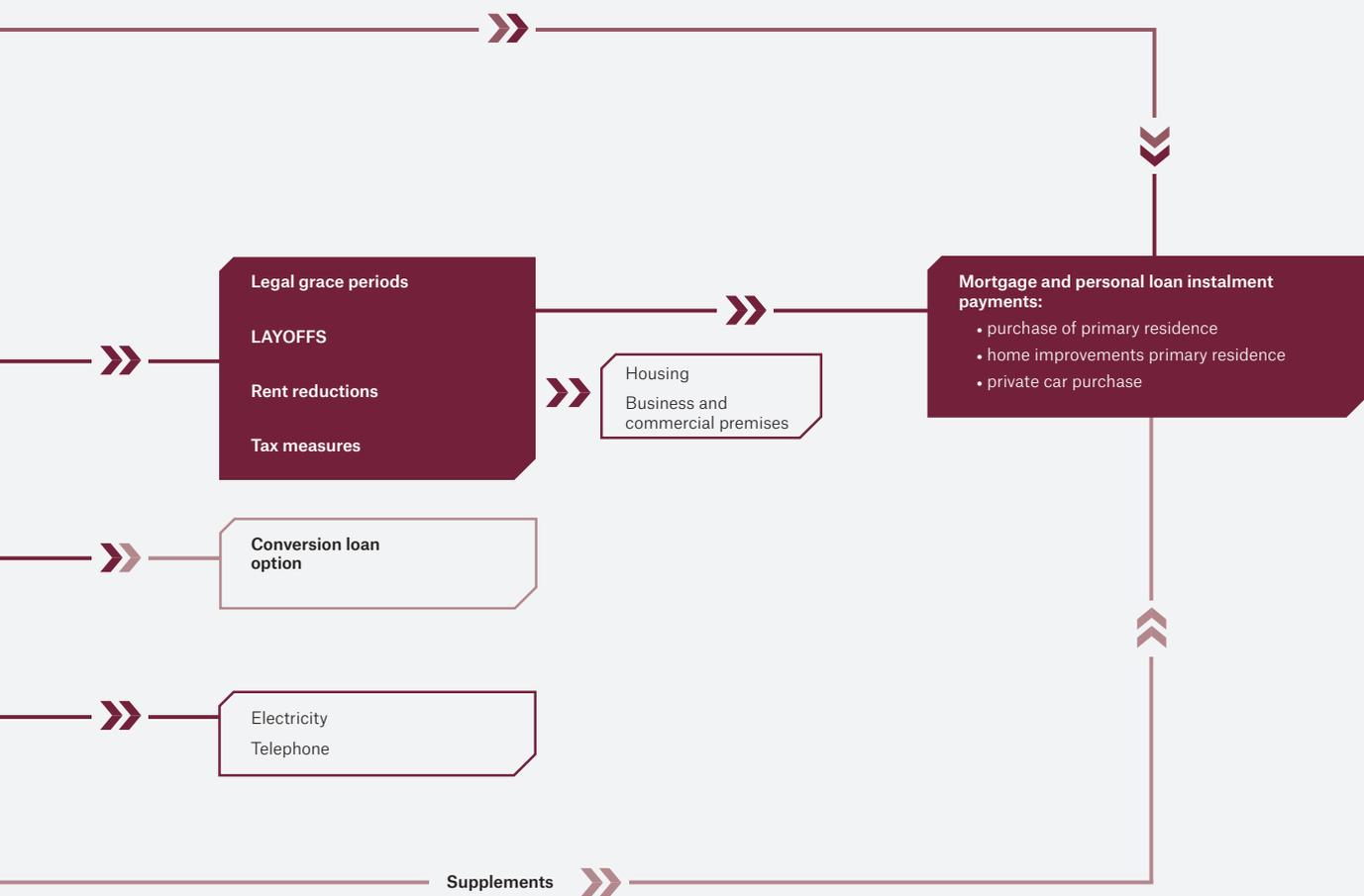
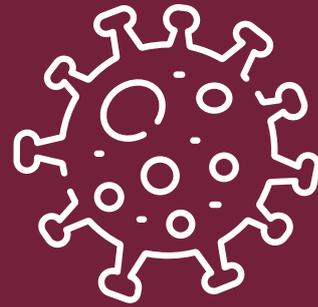
* Laws approved on 9 June 2022 by the Andorran Parliament.

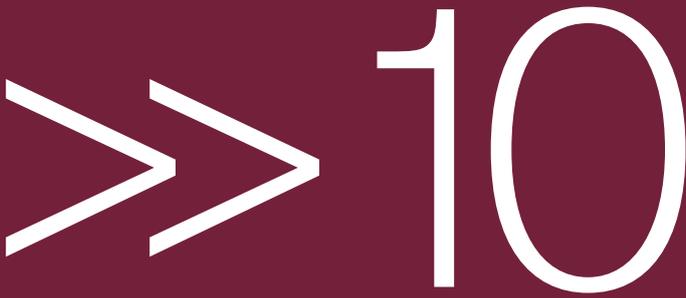


COVID-19 Infographic

International regulations, standards and recommendations Andorran regulations Banking sector







Andorra's Banking Sector

In a second year still marked by the pandemic, the Andorran banking sector has obtained very good results, similar to those before the pandemic started, and has continued in its path of increasing customer assets under management. As a result of the corporate operations carried out in 2022, the acquisition of BancSabadell d'Andorra by Mora Banc and the purchase of Vall Banc by Crèdit Andorrà, the Andorran banking sector has sent an unequivocal signal to the markets and its customers that the industry is ready to address the future challenges facing the financial banking sector worldwide.

By the end of 2022, Andorra's banking industry will have three large banking groups: Andbank, Mora Banc and Crèdit Andorrà, with over 90 years of banking experience. The aim of the recent M&As is to ensure that Andorra's banking institutions and financial system are more consolidated, more efficient and better prepared to meet customers' needs, regulatory requirements and the demands of financial markets, which are becoming increasingly global and subject to a higher level of competitiveness and excellence.

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

The core business areas are private banking and asset management, insurance and retail banking both for individuals and companies. Andorran banks operate in global 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 15% of the country's GDP but also because of its role in society as a driver of change. It is characterised by a cautious management approach, solvency levels

above the European average due to the specific characteristics of the market and country, and a high degree of expertise and specialisation in both commercial and private banking.

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.

THE FINANCIAL SYSTEM AND INSURANCE SYSTEM COMBINED REPRESENT APPROXIMATELY 15% OF GDP

A consolidated business model

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

The Andorran banking sector has 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.

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



**Providing added
value services**



**Strong
internationalisation**



**Sustainability
and profitability**

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 credit 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 BANKING SECTOR ENJOYS EXCELLENT SOLVENCY AND LIQUIDITY RATIOS

The CET 1 (phase-in) solvency ratio is 17% as at 31 December 2021, above the average for European banks which stands at 15.40% according to EBA data at 31 December 2021.

Andorran banking institutions ended 2021 with an aggregate result of €97m, a level similar to before the pandemic. In a year marked by the acquisitions of BancSabadell d'Andorra by MoraBanc and the purchase of Vall Banc by Crèdit Andorrà, the banking industry managed to grow not only in

profits (+17%), but also in the volume of customer assets under management (+19%), at €61.4bn.

The financial profitability of Andorra's banking institutions, as measured by ROE, recovered in 2021 and now boasts a consolidated figure of 6.04% despite the low interest rates, merger operations in the banking industry, continuing adaptation to international banking regulations and technological investments that continue to put pressure on banks' results.

The liquidity ratio (LCR) was 206%, also higher than the average for European banks which was 174% at the end of the 4th quarter of 2021. As expected, the rate of default fell to 3.74% in 2021, down from 4.49% in 2020.

2021 has been a year of recovery and optimism in which we have put the economic consequences of the pandemic behind us. Andorran banks have maintained their strength and attractiveness in terms of securing customer funds and growing profits.

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 business. 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 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.

>> Andorra's banking sector

CONSOLIDATED BALANCE SHEETS OF ANDORRAN BANKS

(Thousand euros)

Assets	2021	% s/ Total	2020*	% s/ Total	Var. (%) 21-20
Cash, cash balances at central banks and other demand deposits	2,214,663	13.33%	2,111,218	13.92%	4.90%
Financial assets held for trading	335,068	2.02%	348,424	2.30%	(3.83%)
Financial assets not held for trading that must be valued at fair value with changes in income	556,096	3.35%	587,582	3.87%	(5.36%)
Financial assets at fair value with changes in the income statement	435,150	2.62%	78,551	0.52%	N/A
Financial assets at fair value with changes in the other comprehensive income	1,683,120	10.13%	1,423,599	9.38%	18.23%
Financial assets at amortised cost	9,908,657	59.65%	9,200,220	60.65%	7.70%
Derivatives - Hedge accounting	5,709	0.03%	4,237	0.03%	34.74%
Changes in the fair value of hedging elements of a portfolio with interest risk hedging	17,728	0.11%	27,962	0.18%	(36.60%)
Investments in jointly-controlled businesses and associates	155,325	0.94%	82,894	0.55%	87.38%
Assets covered under insurance and reinsurance contracts	38,404	0.23%	36,827	0.24%	4.28%
Tangible assets	472,598	2.84%	498,367	3.29%	(5.17%)
Intangible assets	417,172	2.51%	425,468	2.80%	(1.95%)
Tax assets	56,813	0.34%	48,374	0.32%	17.44%
Other assets	154,754	0.93%	147,894	0.97%	4.64%
Disposable non-current assets held for sale	160,648	0.97%	148,339	0.98%	8.30%
TOTAL ASSETS	16,611,905	100.00%	15,169,956	100.00%	9.51%
Liabilities	2021	% s/ Total	2020	% s/ Total	Var. (%) 21-20
Financial liabilities held for trading	121,487	0.73%	157,892	1.04%	(23.06%)
Financial liabilities at fair value with changes in the income statement	490,607	2.95%	449,227	2.96%	9.21%
Financial liabilities at amortised cost	13,682,150	82.36%	12,315,815	81.19%	11.09%
Derivatives - Hedge accounting	23,569	0.14%	40,134	0.26%	(41.27%)
Changes in the fair value of hedging elements of a portfolio with interest risk hedging	171	-	676	-	(74.70%)
Liabilities covered under insurance and reinsurance contracts	339,306	2.04%	339,681	2.24%	(0.11%)
Provisions	70,872	0.43%	65,492	0.43%	8.22%
Tax liabilities	25,130	0.15%	26,467	0.17%	(5.05%)
Other liabilities	188,607	1.14%	188,778	1.24%	(0.09%)
Liabilities in groups of disposable items held for sale	1,508	0.01%	-	-	-
TOTAL LIABILITIES	14,943,408	89.96%	13,584,160	89.55%	10.01%
Net Equity	2021	% s/ Total	2020	% s/ Total	Var. (%) 21-20
Capital	250,069	1.51%	245,470	1.62%	1.87%
Issue premium	172,792	1.04%	142,391	0.94%	21.35%
Issued equity instruments other than capital	34,700	0.21%	34,800	0.23%	(0.29%)
Other cumulative results	(52,082)	(0.31%)	(34,994)	(0.23%)	48.83%
Accumulated profits	835,756	5.03%	819,686	5.40%	1.96%
Revaluation reserves	2,288	0.01%	2,288	0.02%	-
Other reserves	316,548	1.91%	275,893	1.82%	14.74%
Own shares (-)	(3,202)	(0.02%)	(2,767)	(0.02%)	15.72%
Result attributed to majority shareholder	97,419	0.59%	83,609	0.55%	16.52%
Interim dividend (-)	-	-	-	-	-
Shareholders' equity	1,654,288	9.96%	1,566,375	10.33%	5.61%
Minority interests	14,210	0.09%	19,421	0.13%	(26.83%)
TOTAL NET EQUITY	1,668,498	10.04%	1,585,796	10.45%	5.22%
TOTAL LIABILITIES AND NET EQUITY	16,611,905	100.00%	15,169,956	100.00%	9.51%

* The figures for 2020 are given for comparative purposes only.

>> Andorra's banking sector

AGGREGATE ASSETS

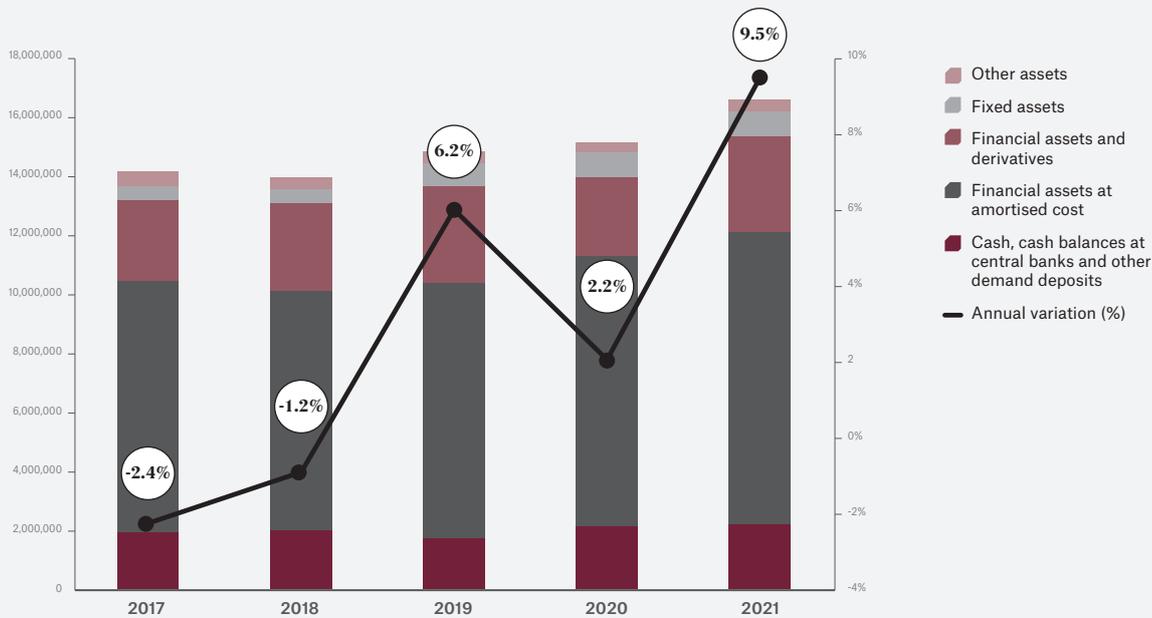
The three major components of the aggregate assets of Andorran banks are "Financial assets at amortised cost", which account for 59.65% of total assets and which include credit investment, among others, and "Financial assets at reasonable value with changes in the other comprehensive income", which account for 19.37% of total assets. The third component is "Cash, cash balances at central banks and other demand deposits" which

accounts for 13.33% of total assets and includes "Cash and central banks, OECD, AFA and Financial Intermediaries".

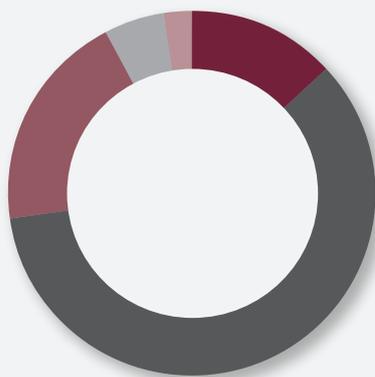
The structure of Andorran banks' balance sheets reflects the type of business pursued, mainly private banking and asset management services. Retail banking activities are carried out in Andorra only.

Evolution of aggregate assets 2017-2021

Thousand euros



Composition of aggregate assets 2021



13.3% | Cash, cash balances at central banks and other demand deposits

59.6% | Financial assets at amortised cost

19.4% | Financial assets and derivatives

5.3% | Fixed assets

2.4% | Other assets

>> Andorra's banking sector

AGGREGATE LIABILITIES

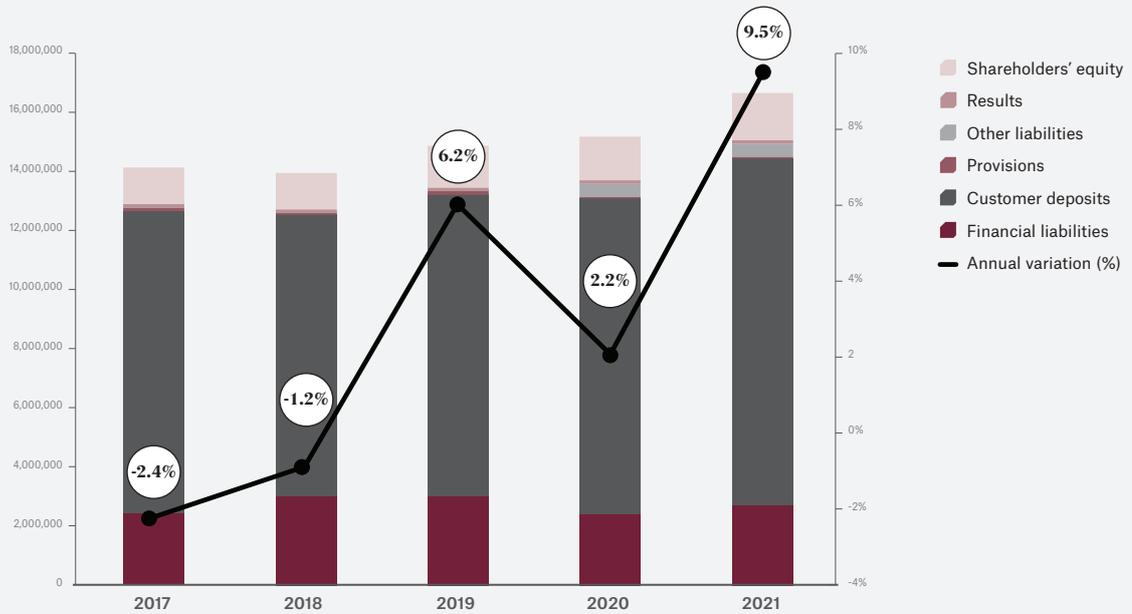
The composition of aggregate liabilities for Andorran banks was characterised by the significant relative weight of "Client deposits", which account for 70.60% of aggregate liabilities as at 31 December 2021. As at 31 December 2021, total "Customer deposits" stood at 11,728 million euros, 9.76% more than the previous financial year, and were classified under the heading "Financial

liabilities at amortised cost". "Shareholders' equity" accounts for 9.53% and "Results" for 0.59%.

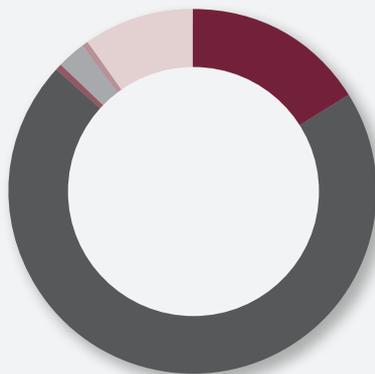
The evolution of client deposits has been marked both by changes in interest rates and, as a result of the developments in global capital markets, by the change of business model and the expansion policy pursued by credit institutions.

Evolution of aggregate liabilities 2017-2021

Thousand euros



Composition of aggregate liabilities 2021

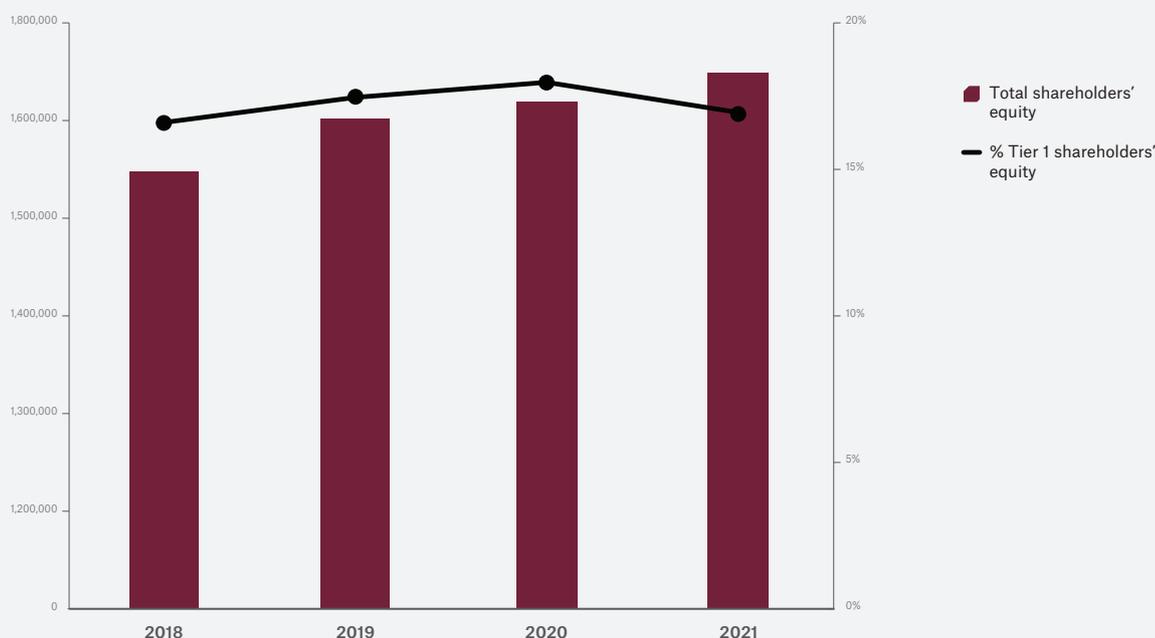


- 16.2%** | Financial liabilities
- 70.6%** | Customer deposits
- 0.5%** | Provisions
- 2.6%** | Other liabilities
- 0.6%** | Results
- 9.5%** | Shareholders' equity

>> Andorra's banking sector

Evolution of Tier1 shareholders' equity and total shareholders' equity 2018-2021

Thousand euros



GROSS CREDIT INVESTMENT

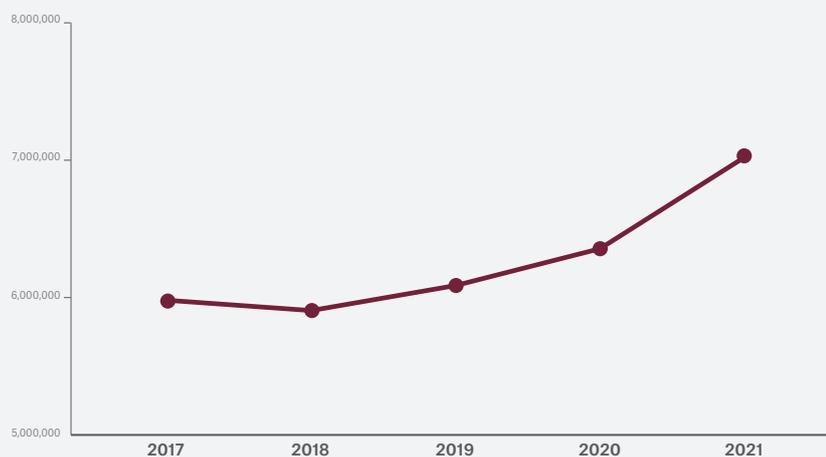
In recent years, the evolution of gross credit investment has been marked mainly by the impact of the economic cycle and by an increased prudence in the granting of credit by financial institutions.

Over the last few years, 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, and the recent COVID pandemic, which has slowed down new business projects. Global credit investment as at 31 December 2021 stood at €7bn, 10.42% more than the previous year, mainly as a result of the Lombard credit granted to private banking customers.

Evolution of aggregate gross credit investment 2017-2021

Thousand euros

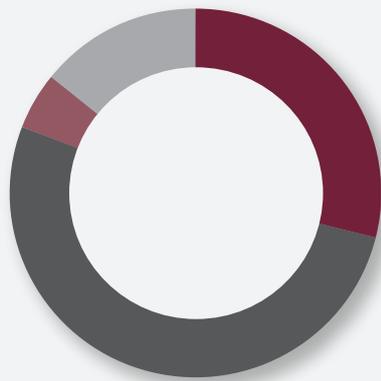


>> Andorra's banking sector

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 85.96%. Of these, 29.01% are securities collateral, 52.06% are mortgage guarantees and 4.89% are cash collateral.

Credit investment guarantees 2021

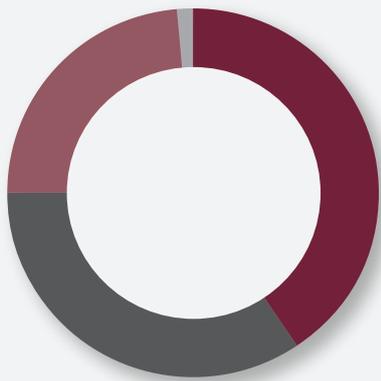


29.0%		Securities guarantee
52.1%		Mortgage guarantee
4.9%		Monetary guarantee
14.0%		Unsecured

The breakdown of the loan portfolio is very similar to what it has been in recent years. Credit is distributed as follows: 40.57% for companies,

34.42% for households, 23.73% for private banking customers with security-backed guarantees, and 1.28% for public administrations.

Aggregate gross credit investment - Consolidated bank 2021



40.6%		Businesses
34.4%		Individuals
23.7%		Lombard credits
1.3%		Public Administration

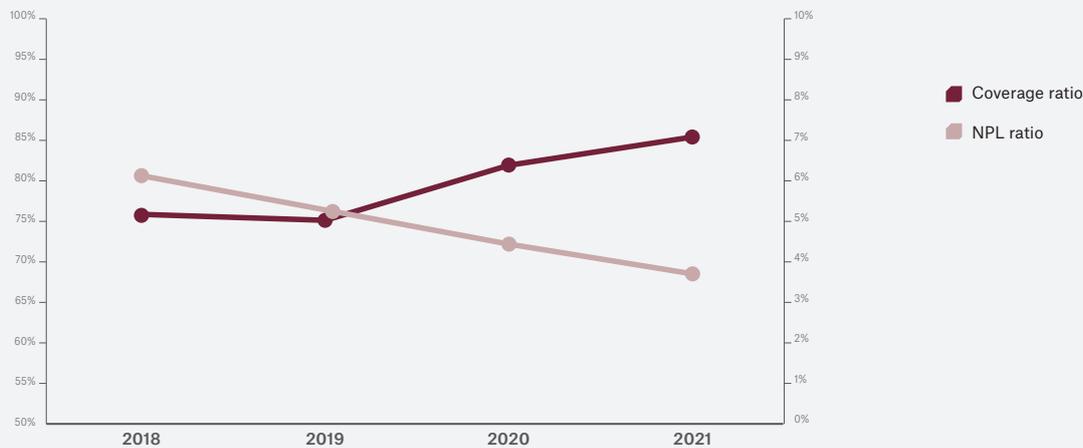
With regard to credit quality, credit exposures are classified according to the credit risk at the following stages: Stage 1 is 83.64% for transactions that do not have significant risk increases, Stage 2 is 10.94% for transactions that have significant risk increases, Stage 3 is 5.42% for transactions 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 2021, would be 3.74%.

Whilst the NPL ratio has been reduced to 3.74%, the sector has made strides in funding provisions in recent years, thanks to which the coverage ratio has increased to represent 85.73% of all doubtful assets.

>> Andorra's banking sector

Evolution of the NPL ratio and the coverage ratio 2018-2021



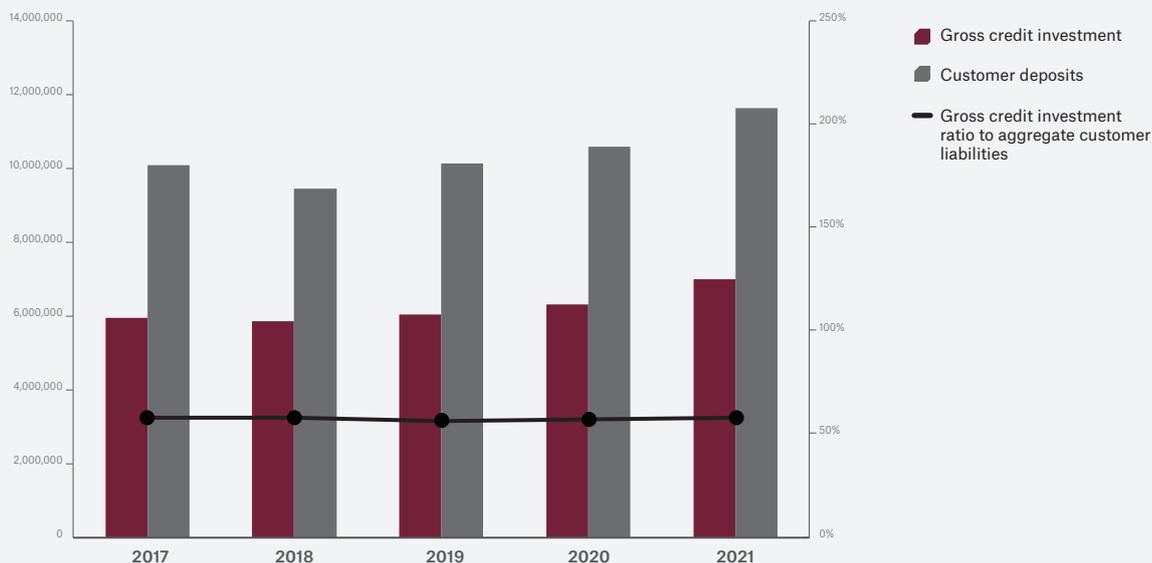
Gross credit investment ratio to customer liabilities

The aggregate gross credit investment ratio to loans to deposit remains above 50%, a distinguishing feature of private banking. It should

be noted that the average rate for European banks is 108.6%, 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 2017-2021

Thousand euros



AGGREGATE ASSETS UNDER MANAGEMENT

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

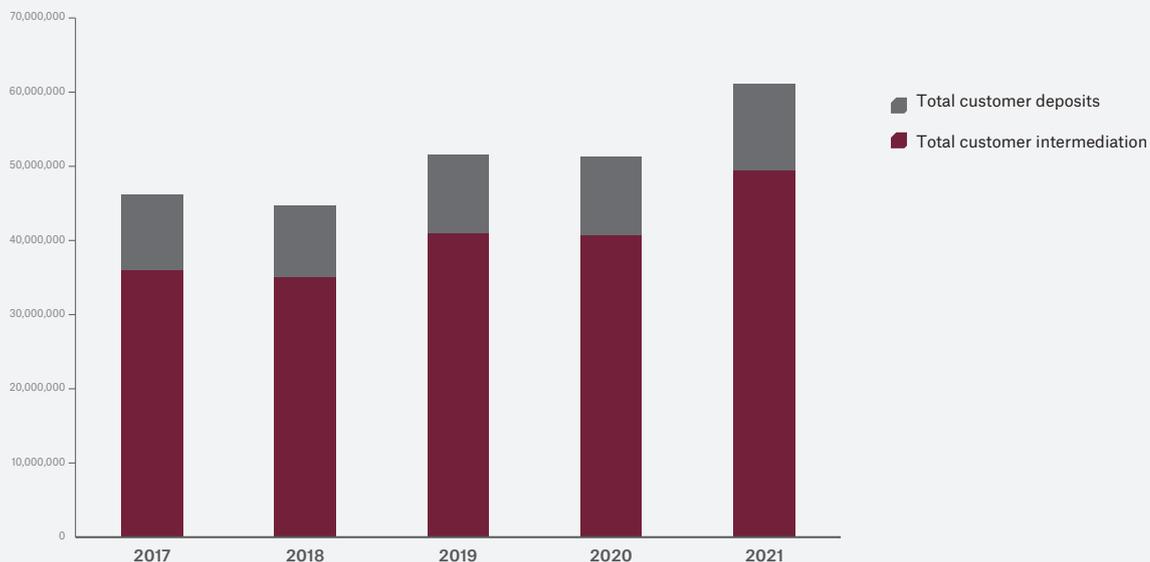
The total assets managed by Andorran banks are made up of customer deposits (on-balance sheet) which represent 19.08% of the total, and the mediation of both custodial and non-custodial customers (off-balance sheet), which represent

the remaining 80.92%. As at 31 December 2021, assets under management totalled €61,461 billion euros, 18.8% more than in 2020. Customer deposits amounted to €11,728 billion euros as at 31 December 2021, 9.76% more than the previous year, and off-balance sheet resources increased by 21.15%, which clearly demonstrates the sector's growth.

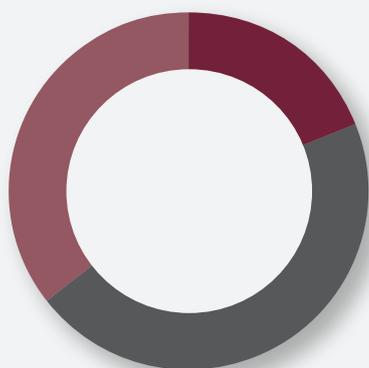
>> Andorra's banking sector

Evolution of assets under management 2017-2021

Thousand euros

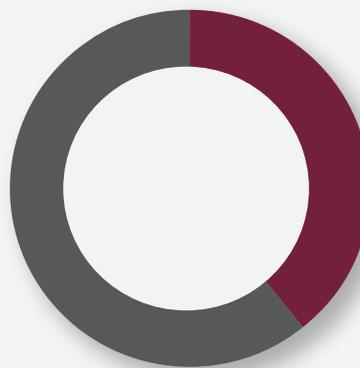


On- and off-balance-sheet assets under management 2021



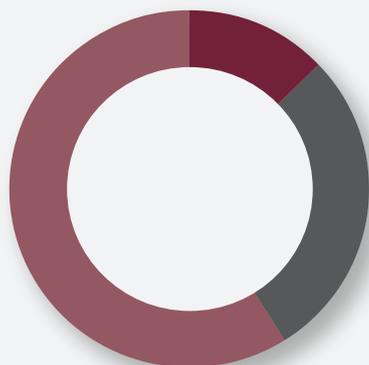
19.1% | Customer deposits
45.4% | Customer intermediation (suspense accounts)
35.5% | Other assets under management

Assets under management deposited by banks or third parties 2021



39.3% | Assets under custody / deposited by third parties
60.7% | Assets under custody / deposited by the institution

Assets under management by type of customer 2021



12.8% | Collective investment undertakings
28.4% | Portfolio of individual customers managed under a mandate
58.8% | Other individual customers

>> Andorra's banking sector

CONSOLIDATED AGGREGATE PROFIT AND LOSS ACCOUNTS OF ANDORRAN BANKS

	(Thousand euros)		
	2021	2020*	Var. (%) 21-20
Interest income	145,400	149,776	(2.92%)
Interest expenses	(38,116)	(48,851)	(21.98%)
Dividend income	3,727	455	N/A
Interest margin	111,012	101,379	9.50%
Commissions earned	439,576	400,447	9.77%
Commissions paid	(125,935)	(109,203)	15.32%
Base margin	424,652	392,623	8.16%
Gains or losses when writing off financial assets and liabilities not valued at fair value with changes in income (net)	10,482	49,924	(79.00%)
Results of enterprises carried using the equity method	-	486	-
Results from financial transactions	104,168	81,447	27.90%
Results on assets and liabilities covered under insurance and reinsurance contracts	-	-	-
Other operating income	29,378	27,432	7.10%
Other operating expenses	(15,997)	(9,935)	61.01%
Other income and expenses from assets and liabilities used for insurance or reinsurance contracts	982	899	9.23%
Operating profit or loss (net)	553,665	542,874	1.99%
Administrative expenses	(378,427)	(362,512)	4.39%
Staff costs	(233,507)	(221,283)	5.52%
Other general administrative expenses	(144,920)	(141,230)	2.61%
Amortisation	(65,686)	(63,963)	2.69%
Provisions funded (net)	(24,729)	2,606	N/A
Net impairment of financial assets not recognised at fair value with changes in profit and loss	11,438	(1,390)	N/A
Net impairment of investments in jointly-controlled companies or associates	(47)	140	N/A
Net impairment of non-financial assets	(9,551)	(20,854)	(54.20%)
Negative goodwill recognised in income	11,794	-	-
Participation in gains or losses from investments in subsidiaries, joint ventures and associates	4,743	3,220	47.32%
Gains or losses from non-current assets and disposal groups classified as held for sale not admissible as discontinued operations	788	2,546	(69.03%)
Profit before tax	103,989	102,667	1.29%
Corporation tax	(5,683)	(15,711)	(63.83%)
Results for the year from continuing operations	98,306	86,956	13.05%
Results from discontinued operations (net)	143	(735)	N/A
PROFIT/(LOSS) FOR THE YEAR	98,449	86,221	14.18%
Attributed to majority shareholders	97,419	83,609	16.52%
Attributed to minority shareholders	1,030	2,612	(60.57%)

* The figures for 2020 are given for comparative purposes only.

>> Andorra's banking sector

Andorran banks secured a profit of €97 million in 2021, 16% higher than the previous year, which was affected by the impact of the economic and social measures adopted both nationally and internationally in the wake of the COVID-19 crisis.

The increase in profit can be explained by the improvement of 9.5% in the interest margin and 8.16% in the basic margin of the income statement,

coupled with the lower need for one-off provisions made the previous year.

The volume of one-off provisions made in 2020, together with the reduction in credit default and the positive economic performance over the course of 2021, made it possible to reduce the amount of allocations and provisions.

The aggregate result for the sector amounts to

97
million euros

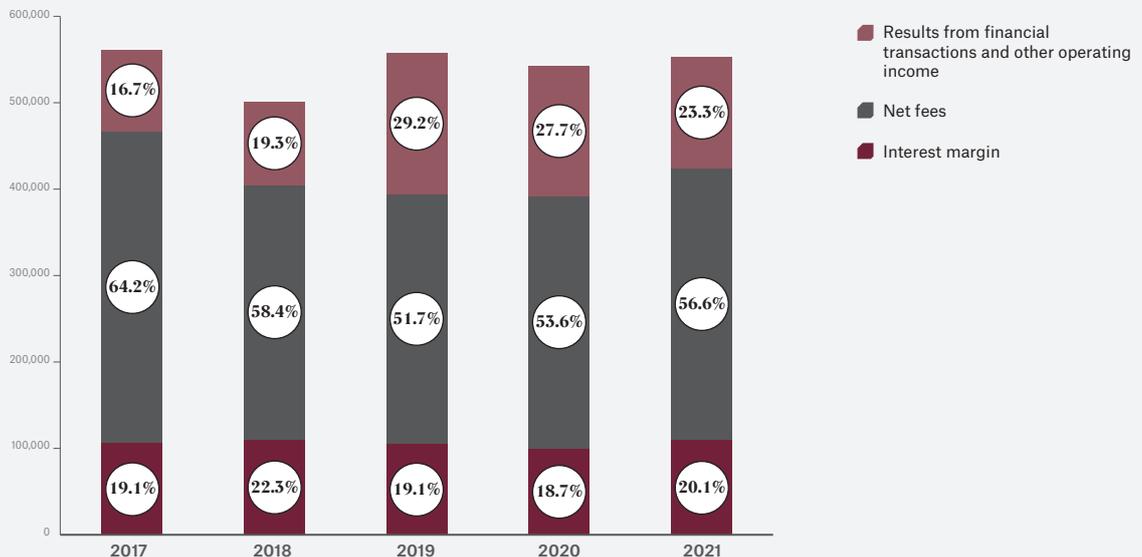
Andorran banks ended the year 2021 with a

6,04%
return on equity (ROE)

EVOLUTION OF THE ANDORRAN BANKING SECTOR'S INCOME STATEMENT

Evolution of aggregate operating results and composition 2017-2021

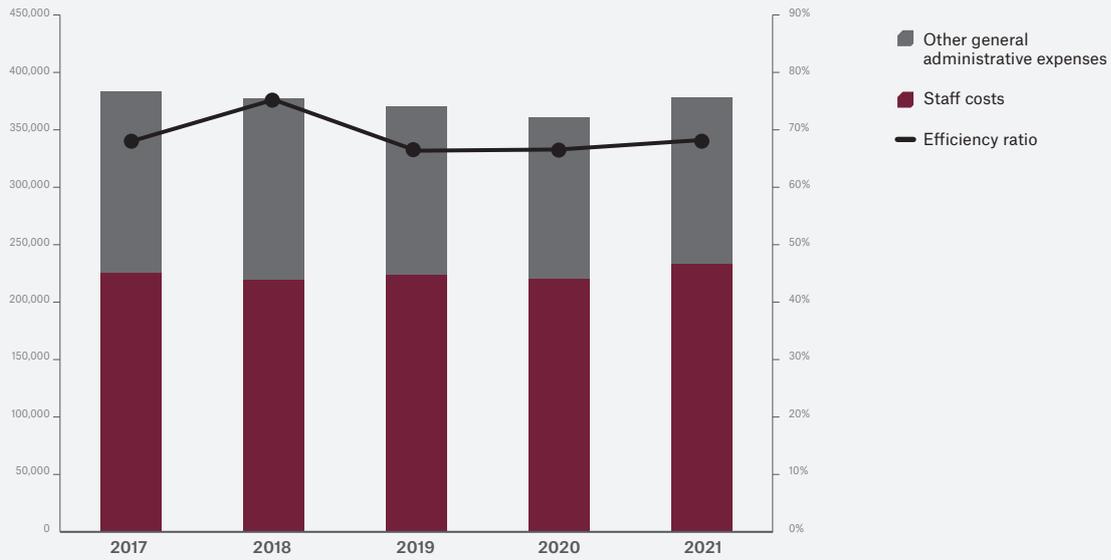
Thousand euros



>> Andorra's banking sector

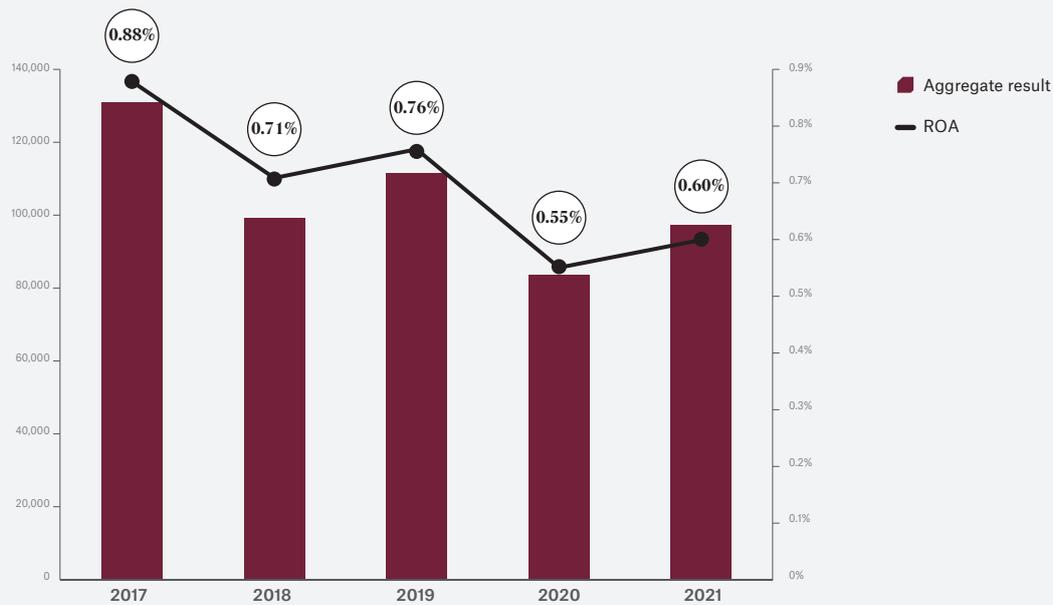
Evolution of composition of transformation costs and efficiency ratio 2017-2021

Thousand euros



Evolution of aggregate result and ROA 2017-2021

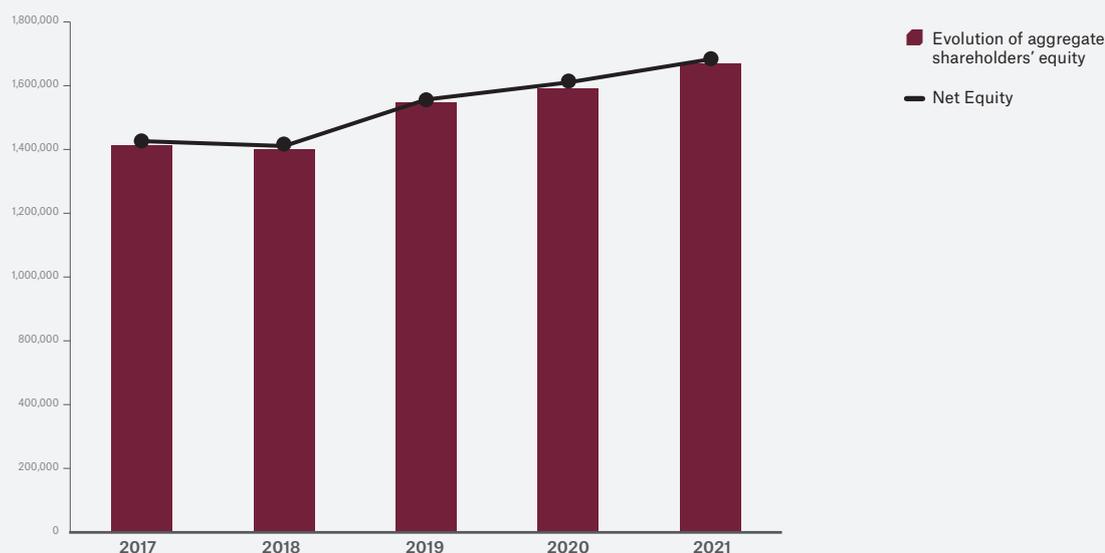
Thousand euros



>> Andorra's banking sector

Evolution of equity and aggregate shareholders' equity 2017-2021

Thousand euros



SOLVENCY AND LIQUIDITY

On 20 December 2018, the Andorran Parliament approved Law 35/2018 on the solvency, liquidity and prudential supervision of credit institutions and investment firms, which transposes European Directive 2013/36/EU (CRD IV). 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 financial 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 17% as at 31 December 2021, slightly under the previous year with 18%, and above the average for European banks, at 15.4% according the EBA data for the fourth quarter of 2021. This ratio was affected by the corporate mergers and acquisitions. MoraBanc acquired 50.97% of BancSabadell d'Andorra, now BSABanc, from BancSabadell for €68 million and made an offer to buy the shares of minority shareholders in 2022 with a view to completing the merger by the end of 2022. For its part, Crèdit Andorrà formalized the acquisition of 100% of Vall Banc on 11 February 2022. The concentration in the Andorran banking industry shall lead to a more efficient, more robust and more responsive system for customers.

The liquidity ratio (LCR) was 206.06%, also higher than the average for European banks which was 174.7% at the end of the 4th quarter of 2021.

>> Andorra's banking sector

At the end of 2021, the aggregate CET1 (phase-in) solvency ratio was

17%

above the European banks' average (15.4%)

At the end of 2021, the aggregate liquidity ratio stood at

206%

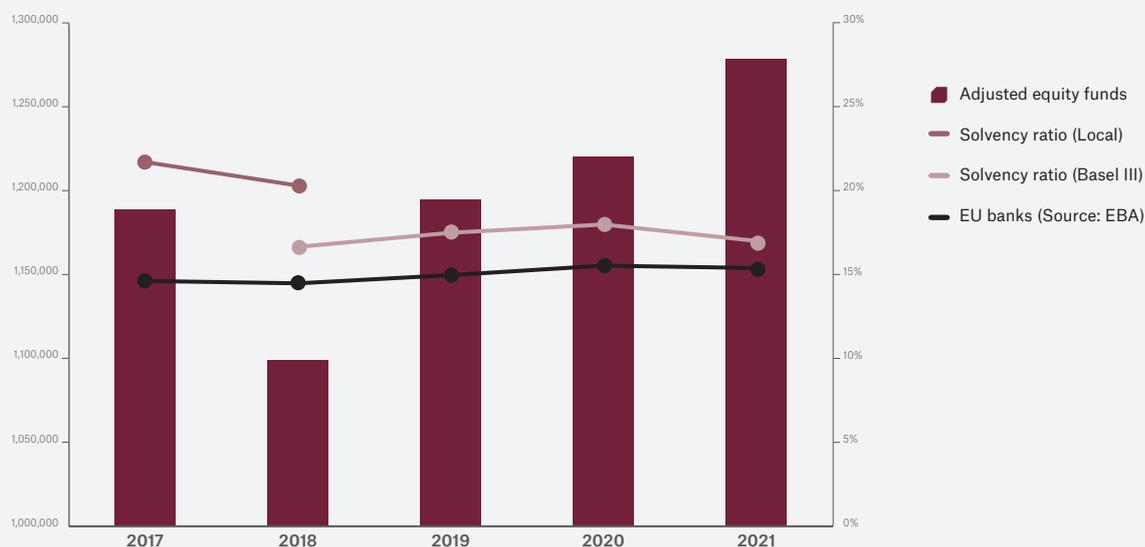
above the European banks' average (174.7%)

Solvency - Liquidity according to Basel III

	CET Solvency 1 (<i>phase-in</i>)		Liquidity (<i>Coverage ratio</i>)	
	2020	2021	2020	2021
ANDBANK	13.56%	14.88%	190.26%	189.50%
GRUP MORABANC	27.31%	18.74%	280.14%	307.17%
GRUP CRÈDIT ANDORRÀ	15.91%	16.36%	141.66%	141.96%
BSABANC	20.40%	20.59%	375.11%	418.70%
VALL BANC	22.13%	20.00%	360.25%	604.47%
AGGREGATE RATIO	18.00%	17.00%	187.12%	206.06%

Evolution of solvency ratio and adjusted equity 2017-2021

Thousand euros



>> Andorra's banking sector

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)

	2020	2021
ANDBANK	5.64%	4.71%
GRUP MORABANC	9.47%	10.09%
GRUP CRÈDIT ANDORRÀ	6.34%	6.51%
BSABANC	10.50%	10.57%
VALL BANC	(15.25%)	(7.31%)
AGGREGATE RATIO	5.46%	6.04%

Return on assets (ROA)

	2020	2021
ANDBANK	0.59%	0.49%
GRUP MORABANC	0.96%	0.95%
GRUP CRÈDIT ANDORRÀ	0.62%	0.63%
BSABANC	1.02%	1.01%
VALL BANC	(1.68%)	(0.87%)
AGGREGATE RATIO	0.55%	0.60%

Ratings

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

In its assessment of 14 January 2022, **Standard & Poor's** revised Andorra's outlook from stable to positive and reaffirmed the Principality's long- and short-term rating at BBB/A-2.

Despite the impact of the pandemic, the agency expects Andorra to experience a quick economic recovery and a decline in public debt relative to GDP between 2021 and 2022.

At the same time, S&P highlighted Andorra's budgetary resilience and the contribution of IMF membership to the country's economic resilience. It also stressed the growth of the construction, financial services, services and trade sectors, as well as the recovery of tourism.

It welcomed the first issue of international bonds in April 2021 and the one in October, underlining the importance of reaching an association agreement with the European Union.

>> Andorra's banking sector

As far as **Fitch Ratings** is concerned, in its latest assessment of 14 January 2022, it reaffirmed Andorra's rating at BBB+ and upgraded the outlook from stable to positive.

It forecasts a strong recovery in the growth of Andorra's GDP despite the sharp fall suffered in 2020 as a result of the pandemic and a reduction in the percentage of debt in relation to GDP from a peak of 50.4% in 2021 to 41.2% in 2023.

Fitch Ratings also believes that the advances in the Andorran Government's financial diversification strategy have succeeded in broadening the sources of financing, highlighting the efforts made by Andorra since its accession to the IMF in obtaining missing statistical data and in publishing the balance of payments, something which reinforces the agency's confidence in the soundness of Andorra's external position.

The agency also stressed that the Andorran banking industry has sufficient margin to withstand the consequences of the pandemic.

Moody's rated the Principality of Andorra for the first time with a Baa2 rating and a stable outlook, highlighting the country's institutional soundness and governance, supported by its international openness and the expectation that public finances

will gradually recover from the impact of the crisis.

With regard to institutional robustness, Moody's highlighted Andorra's high score on the indicators considered by the rating agency for the quality of legislative and executive institutions, such as the World Bank's Worldwide Governance Indicators (WGI) relating to the effectiveness of government, the strength of civil society and the judiciary. The rating agency highlighted the soundness of the fiscal framework and the comprehensive strategy implemented by Andorra to adopt the common standards of the European Union.

It also emphasised the importance of Andorra's removal from the EU list of non-cooperative tax jurisdictions in 2018, the adoption of various OECD regulations and the country's membership of the IMF in October 2020, which improves Andorra's resilience.

Moody's stressed the negotiation of the Association Agreement with the EU for its potential to expand Andorra's access to the single market and foster new trade and business opportunities.

Lastly, the rating agency underlined the fact that the Principality has a mature economy with structurally low unemployment and pointed to the gradual recovery of the tourism industry.

Ratings

	Rating		Agency
	Long-term	Short-term	
ANDBANK	BBB	F3	Fitch Ratings
GRUP MORABANC	BBB-	F3	Fitch Ratings
GRUP CRÈDIT ANDORRÀ	BBB-	F3	Fitch Ratings

Fitch Ratings report as at October 2021.



Annex 1

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



Andorran Banking
Observatory
3rd report · February 2021

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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

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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.

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



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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.

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.

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

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.

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.

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

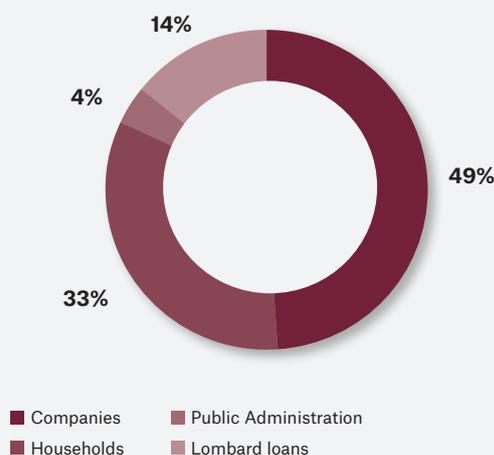
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their purchases and undertake new projects and investments, while at the same time boosting the real estate sector through mortgage loans. Furthermore, until 2010 banks were the exclusive sources of financing for the Public Administration, having contributed in this way to the country's major investments.

The 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.

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

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

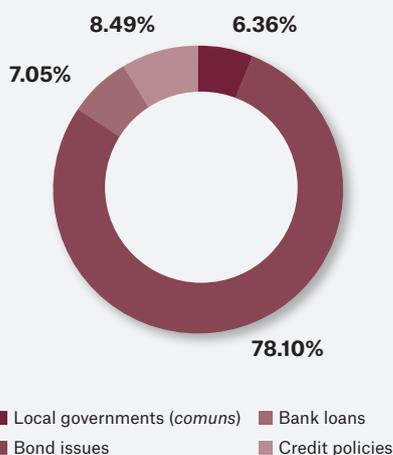
Until ten years ago, the public administration was financed exclusively by the country's banks. In 2010, following the recommendations of the rating agencies that assess the financial health of states, the government began to diversify its public debt, first with issues of government bonds open to the 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 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

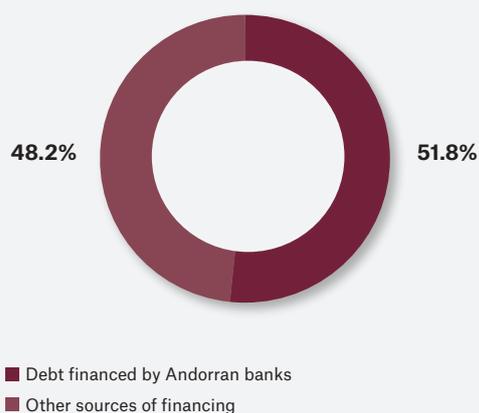
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result of this diversification of the debt, the country's banks currently finance **51.8% of Andorra's debt**, including loans, credit facilities and bond issues in the Principality's own portfolio. It should also be highlighted that September saw 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.

First of all, the banks have worked with the government on the process of implementing measures to tackle the consequences of the

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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.

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

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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.

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

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 **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.

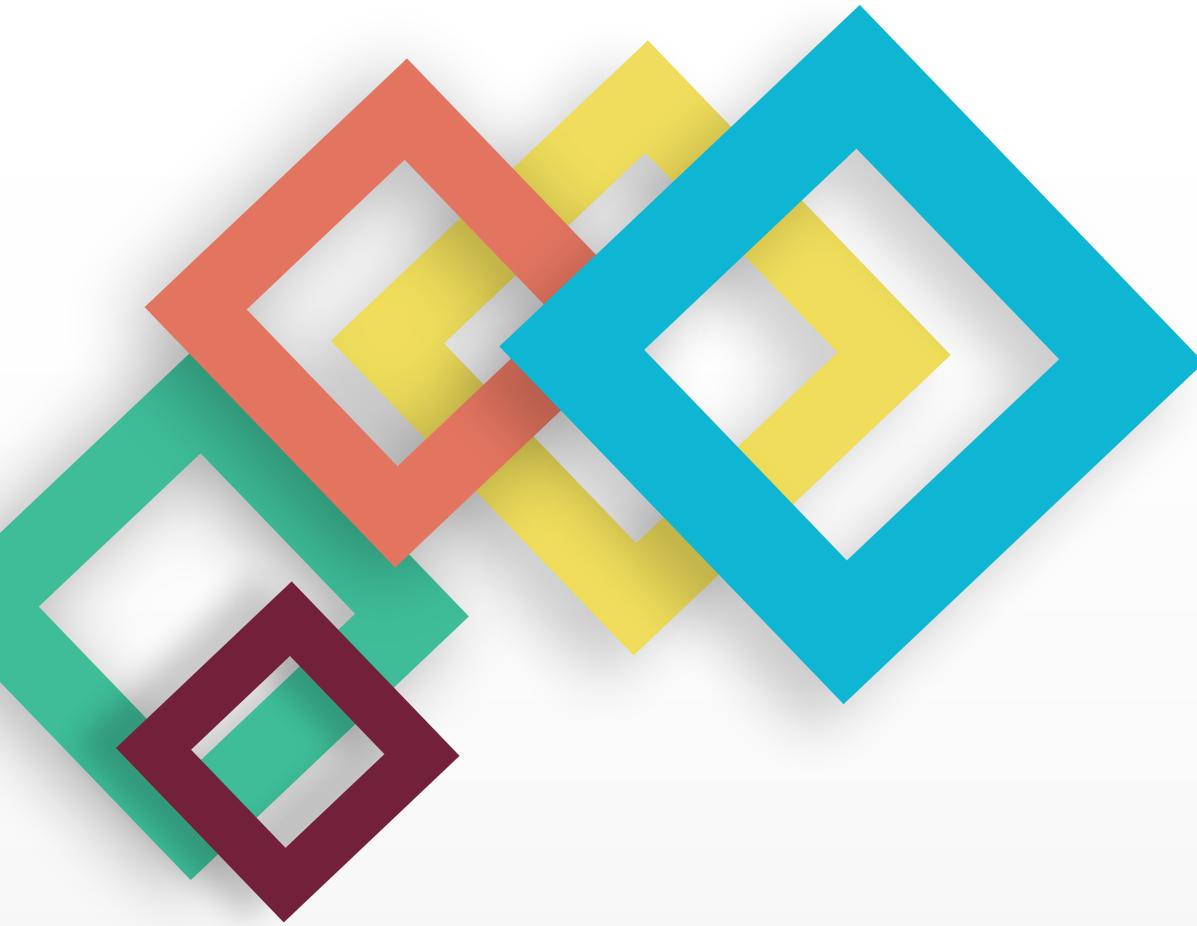
In order to maintain the stability and competitiveness of the banking sector, and thus continue to make a positive contribution to the Andorran economy, the sector needs to **gain access to the European Central Bank's liquidity provision** so that it can act as the system's lender of last resort. This, 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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