

BASE PROSPECTUS



PRINCIPALITY OF ANDORRA PROGRAM FOR THE ISSUANCE OF NOTES

*Under the program for the issuance of notes described in this Base Prospectus (the "**Program**"), the Principality of Andorra (the "**Issuer**"), subject to the compliance of all relevant laws and regulations, may from time to time issue notes (the "**Notes**") on the terms and conditions set out herein, as supplemented by the Final Terms.*

This Base Prospectus does not constitute a prospectus for the purposes of Article 5 of Directive 2003/71/EC, as amended.

Paying Agent

MORA BANC GRUP, S.A.

Dealers

MORA BANC GRUP S.A.

BANCSABADELL D'ANDORRA, S.A.

ANDORRA BANC AGRÍCOL REIG, S.A.

CRÈDIT ANDORRÀ, S.A.

MORA BANC, S.A.U.

VALL BANC, S.A.U.

This Base Prospectus is dated May 8th, 2019

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IMPORTANT NOTICES

Any Notes to be issued after the date hereof under the Program are issued subject to the provisions set out herein. This does not affect any Notes issued prior to the date hereof.

The Issuer accepts responsibility for the information contained in this Base Prospectus and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Base Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

The Issuer has confirmed to the Dealers that this Base Prospectus contains all information which is, in the context of the Program, the issue, offering and sale of the Notes, material; that such information is to the best of its knowledge true and accurate in all material respects and is not misleading in any material respect; that any opinions, predictions or intentions expressed herein are honestly held or made and are not misleading in any material respect; that, to the best of its knowledge, this Base Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in the context of the Program, the issue, offering and sale of the Notes) not misleading in any material respect; and that all proper enquiries have been made to verify the foregoing.

Neither the Paying Agent nor the Dealers have independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Paying Agent or the Dealers as to the accuracy or completeness of the information contained in this Base Prospectus or any other information provided by the Issuer or any other person in connection with the Program or the Notes or their distribution.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other document entered into in relation to the Program or any information supplied by the Issuer or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer or any Dealer.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Notes shall in any circumstance imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or the date as of which it is expressed to be given or that any other information supplied

in connection with the Program is correct as of any time subsequent to the date indicated in the document containing the same. Neither the Paying Agent nor the Dealers expressly undertake to review the financial condition or affairs of the Issuer during the life of the Program. Investors should review, inter alia, documents incorporated by reference herein when deciding whether or not to purchase any Notes.

This Base Prospectus may not be used to consummate sales of Notes unless accompanied by a Final Terms. The price and amount of Notes to be issued under the Program will be determined by the Issuer and the Paying Agent at the time of issue in accordance with prevailing market conditions.

The distribution of this Base Prospectus and any Final Terms and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus or any Final Terms comes are required by the Issuer and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Base Prospectus or any Final Terms and other offering material relating to the Notes, see the section "*Subscription and Sale*" below. None of the Paying Agent, the Dealers or the Issuer makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. None of the Issuer, the Paying Agent nor the Dealers represent that this document may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Paying Agent or the Dealers (save for the approval of this document as a Base Prospectus) which would permit a public offering of any Notes or distribution of this document in any jurisdiction where action for that purpose is required. In particular, Notes have not been and will not be registered under the United States Securities Act of 1933 (as amended) (the "**Securities Act**") and are neither subject to U.S. tax law requirements. Notes may not be offered, sold or delivered within the United States or to U.S. persons. This Base Prospectus has been prepared by the Issuer for use in connection with the offer and sale of Notes outside the United States by non-U.S. persons in reliance upon Regulation S under the Securities Act ("**Regulation S**").

Neither this Base Prospectus, any Final Terms nor any other information supplied in connection with the Program or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation or constituting an offer by the Issuer, the Paying Agent or any of the Dealers that any

recipient of this Base Prospectus or any other information supplied in connection with the Program or any Notes should purchase any Notes in any jurisdiction where it is unlawful for such person to make such a recommendation or offer. Neither this Base Prospectus nor any Final Terms constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Issuer, the Dealers or any of them that any recipient of this Base Prospectus or any Final Terms should subscribe for or purchase any Notes. Each recipient of this Base Prospectus or any Final Terms shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer.

In making an investment decision regarding the Notes, prospective investors must rely on their own examination of the Issuer and the terms of the Program, including the merits and risks involved. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period.

In this Base Prospectus, unless otherwise specified, references to a "**Member State**" are references to a Member State of the European Economic Area, references to "**EUR**" or "**euro**" are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended.

OVERVIEW

The following is a brief summary only and should be read in conjunction with the rest of this document and, in relation to any Notes, in conjunction with the relevant Final Terms and, to the extent applicable, the Terms and Conditions of the Notes set out herein.

Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Base Prospectus have the same meanings in this summary.

- Issuer:** Principality of Andorra.
- Dealers:** Mora Banc Grup S.A.; Crèdit Andorrà, S.A.; BancSabadell d'Andorra, S.A.; Mora Banc, S.A.U.; Andorra Banc Agrícola Reig, S.A.; and Vall Banc, S.A.U. or any other entity appointed from time to time by the Issuer either generally in respect of the Program or in relation to a particular Series or Tranches of Notes.
- Paying Agent:** Mora Banc Grup, S.A.
- Registrar:** Mora Banc Grup, S.A. or any other entity appointed from time to time by the Issuer either generally in respect of the Program or in relation to a particular Series or Tranches of Notes.
- Listing and Trading** The Program also allows for the Notes to be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system, or to be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer. Listing of Notes on a stock exchange may require modifications being made to the structure of the Program prior to such Notes being admitted to listing and trading on such stock exchange.

Risk Factors: There are certain factors that may affect the Issuer's ability to fulfill its obligations in respect of Notes issued under the Program. These are set out under "*Risk Factors relating to the Issuer*" and may include, among other risks, certain potential factors which could adversely affect the Issuer's economy in the future. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Program.

Authorised Amount: Up to EUR 368 million in aggregate principal amount of Notes outstanding at any one time, subject to a duly authorized increase.

Issuance in Series: Notes will be issued in series (each, a "**Series**"). Each Series may comprise one or more tranches ("**Tranches**" and each, a "**Tranche**"). The Notes of each Series will all be subject to identical terms, except that the issue date and the amount of the first payment of interest may be different in respect of different Tranches.

Details applicable to the Notes in a particular Series or Tranche will be supplied in a final terms to this Base Prospectus (each, a "**Final Terms**"), which will contain the aggregate principal amount of such Notes, interest (if any) payable in respect of such Notes, the issue price of such Notes and other details applicable to such Series or Tranche.

Form of Notes: Notes will only be issued in the form of a Global Note in registered form, which will be registered in the name of a common depositary (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Registered Global Note will be deposited on or about the issue date with the common depositary.

Currency: Notes will be denominated in Euros.

Status of the Notes:	Notes issued under the Program constitute direct, unconditional, unsecured and general obligations of the Issuer and rank <i>pari passu</i> among themselves and equally with all other loan or bond indebtedness of the Issuer resulting from financial debts, present or future.
Issue Price:	Notes may be issued at any price and either on a fully or partly paid basis, as specified in the relevant Final Terms. The price and amount of Notes to be issued under the Program will be determined by the Issuer at the time of issue in accordance with prevailing market conditions.
Maturities:	Any maturity, as specified in the relevant Final Terms.
Redemption:	Notes shall be redeemed at par on the maturity date specified in the Final Terms.
Early Redemption	Early redemption will not be allowed by the Issuer nor by the Noteholders.
Interest:	<p>Notes will be interest-bearing or non interest-bearing. Interest may accrue at a fixed rate or a floating rate as specified in the Final Terms.</p> <p>Zero Coupon Notes may be offered and sold at a discount to their principal amount and will not bear interest other than in relation to interest due after the maturity date if it is stated in the relevant Final Terms.</p>
Denominations:	Notes will be issued in the denomination specified in the Final Terms.
Taxation:	All payments in respect of the Notes by or on behalf of the Issuer will be made without withholding or deduction for or on account of any Taxes, unless required by law. In that event, the Issuer will pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, subject to certain exceptions as provided in Condition 8 (Taxation) of the Terms and Conditions.

- Governing Law and Jurisdiction:** Notes and any obligations arising out of or in connection with them are governed by Andorran law and the Andorran Courts shall have exclusive jurisdiction.
- Listing:** Each Series may be admitted to listing on a regulated or unregulated market and/or admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system as may be agreed and specified in the relevant Final Terms. The Program also permits Notes to be issued on an unlisted basis.
- Final Terms:** Notes will be the subject to the Final Terms, which supplements the Terms and Conditions of the Notes and this Base Prospectus and must be read in conjunction with this Base Prospectus. The terms and conditions applicable to Notes issued under the Program are the Terms and Conditions of the Notes as supplemented, amended and/or replaced by the relevant Final Terms.
- Clearing Systems:** Euroclear, Clearstream, Luxembourg and/or, in relation to any Notes, any other clearing system as may be specified in the relevant Final Terms.
- Selling Restrictions:** For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of materials in various jurisdictions. See "*Subscription and Sale*".
- Subordination of the Notes** Notes will be issued on an unsubordinated basis.
- Use of Proceeds:** The net proceeds of the issues under the Program will be applied by the Issuer to refinance existing debt and to issue new debt (as authorized from time to time).

RISK FACTORS

Investment in the Notes involves risk. Prospective investors should carefully consider the following risk factors, together with the other information set out in this Base Prospectus, before making a decision to invest in the Notes and should understand that the risks set forth below could, individually or in the aggregate, have a material adverse effect on the Principality of Andorra's capacity to repay principal and make payments of interest on the Notes or otherwise fulfill its obligations under the Notes. The inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons than those described below, and the Issuer does not represent that the statements below regarding the risks of holding any Notes are exhaustive.

The purchase of Notes involves substantial risks and is suitable only for, and should be made only by, investors that are fully familiar with the Issuer in general and that have such other knowledge and experience in financial and business matters as may enable them to evaluate the risks and the merits of an investment in the Notes. Prior to making an investment decision, prospective investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information set forth herein and, in particular, the risk factors set forth below. Prospective purchasers of Notes should make such inquiries as they think appropriate regarding the Notes and the Issuer without relying on the Issuer or the Dealers.

Most of these factors are contingencies that may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. Additional risks and uncertainties not currently known by the Issuer or that the Issuer currently deems to be immaterial may also materially affect the Principality of Andorra's economy and its ability to fulfill its obligations under the Notes. In any such case, investors may lose all or part of their investment in the Notes.

Words and expressions defined in the section "Terms and Conditions of the Notes" or elsewhere in this Base Prospectus have the same meanings in this section. Set forth below are risk factors that the Issuer believes are the principal risks involved in an investment in Notes that will be generally applicable to most Series of Notes. Any risks that are relevant only to a particular Series of Notes will be described in the related Final Terms.

Prospective investors should consider, among other things, the following:

1. Risk Factors related to the Issuer

(i) Effects of the global financial crisis on the Issuer's economy and public finances

The Andorran economy has been affected by the international economic situation, and most especially by the evolution of the neighboring economies.

Historically, Andorra's economic model has been mainly based on the tourism related activities, the financial sector and, to a lesser extent, on construction and real estate sectors.

The current economic situation has made it clear that a new economic model based on human capital, competitiveness and knowledge is required, although this does not mean that the traditional sectors of Andorra's economy have to disappear.

One of the main strategies of the Government of Andorra, in order to revert this process, aims to promote private foreign investment in order to diversify the economy, creating new economic sectors while increasing the competitiveness of the sectors that already exist.

The liberalization of foreign investment, along with the signing of Double Taxation Agreements (DTAs), following the recent application of direct taxation on companies and economic activities, as well as on the income of individuals, should allow Andorra's economy to compete with its neighboring economies, while at the same time improve the finances of the Andorran Government.

Government measures have focused on encouraging the traditional sectors activity, such as the tourist sector (by fostering the celebration of major events), or the construction sector (by amending the Territorial and Urban Planning Law in order to invigorate construction projects), while at the same time, seeking the economic diversification by encouraging the creation of new companies and the consequent hiring of workers.

The key economic figures of the Andorran economy in 2018 show a general tendency toward stabilization. Andorra has a General Government gross debt burden as percentage of revenues of 96.3%, and a public debt around 36.1% of the Gross Domestic Product (GDP). The General Government has a surplus of 2.6% of the GDP. The Central Government debt financed by domestic banks has fallen from 86% of total debt in 2010 to 12% in 2018, and indicates

the diversification efforts undertaken by the Government. In addition, maturity has risen from 1,5 years to 3 years. The 2019 General Government budget proposal reflects a 14.4 million surplus.

The tax reform and the economic opening have contributed to the necessary diversification of the economy and the increase of competition. Nevertheless, the economy of Andorra maintains its vulnerability to the effects of neighbor economies due to the fact that the concentration in the financial services and the tourism maintains its importance.

(ii) Implementation of economic reforms

On the one hand, the coming into force of Law 93/2010, of December 16th, 2010 on measures for the promotion of economic and social activity, and Law 10/2012, of June 21st on Foreign Investment, and on the other hand, the rationalization and optimization of Public Resources introduced measures to encourage the creation of new companies, and to reduce the Government expenditures.

The Foreign Investment Law is now consolidated and the results are apparent. From July 19th, 2012 to December 31st, 2018, 4,317 foreign investment applications were filed, of which 3,318 have been finally formalized. Therefore, and taking into account the information included by investors on their investment applications, the overall 4,317 applications represent an intent of initial investment equal to 768.28 million euro, whilst the 3,318 formalized applications represent an intent of initial investment equal to 512.92 million euros.

As of December 31st, 2017, and as a result of foreign investments, 1,459 new businesses were opened and 365 acquisitions of pre-existing businesses took place.

The political stability of the country and its institutions guarantees the maintenance and the improvement of the economic reforms undertaken.

(iii) Relationship with EU and other international organisms

Having achieved its geographic and political status, the Principality of Andorra aims to maintain close relationships of cooperation with the European Union.

In 1990, the Principality signed a Customs Union Agreement for industrial products with the then European Economic Community. In 1997 it signed the

Complementary Veterinarian Protocol to the Customs Union Agreement, by means of which Andorra joined the EU “veterinarian geographic area”. In 2004, the Cooperation Agreement and the Agreement for establishment of measures equivalent to those laid down in Directive 2003/48/EC of the Council on taxation of savings income in the form of interest payment were signed, and on the other hand, on February 12th, 2016 the Government and the European Union signed the Agreement between the European Union and the Principality of Andorra concerning the automatic exchange of information on financial accounts, in order to improve international tax standards. That agreement renews and amends the agreement signed in 2004 between the EU and Andorra which presented equivalent measures to those included in Directive 2003/48/EC of the Council on taxation of savings income in the form of interest payment to adapt such taxation to the new legislation of the European Union which regulates the taxation of income in the form of interest payments. The new agreement takes into account the progress made within the framework of the EU and the OECD in relation to mutual administrative assistance with regard to taxation.

On June 30th, 2011, the Monetary Agreement was signed with the European Union, allowing Andorra to use the euro as its official currency and to issue Andorran euro coins. That Agreement, however, is more extensive and involves application of European regulations for prevention of money laundering, prevention against fraud and counterfeiting of the euro, rules on euro banknotes and coins, and certain European banking and financial legislation, through direct transposition or equivalent measures, in accordance with a timetable for application.

Since April 1st, 2012, when the Monetary Agreement entered into force, Andorran law has been amended to adapt it to the legal acts and regulatory provisions of the European Union specified in the Annex to the Monetary Agreement.

On October 10th, 2013, Act 17/2013 was passed, on introduction of the euro within the framework of the Monetary Agreement between the Principality of Andorra and the European Union.

On October 12th, 2018, the seventh meeting of the Joint Committee of the European delegation and the Andorran delegation was held to address the pertinent new legal acts and regulations of the EU and the amendments made to existing laws.

In addition, it is important to note that the Andorran financial supervisory body, Andorran Financial Authority (AFA), until 2018 known as the Andorran National Financial Institute (INAF), joined in 2013 the International Organization of Securities Commissions (IOSCO) and signed a Multilateral Memorandum of Understanding (MMoU) concerning the cooperation and exchange of information on the securities markets.

The Principality of Andorra likewise takes into account the recommendations of international organizations such as the International Monetary Fund (IMF), MONEYVAL and the OECD, which have been taken into consideration in the drafting of the main regulatory provisions and initiatives governing financial activity in the Principality of Andorra with the aim of attaining compliance with international best practices and standards. For further information, see the section on International Affairs.

On December 16th, 2014, the Council of the EU made the decision to authorize the beginning of negotiations for one or several Association Agreements with the Principality of Andorra, the Principality of Monaco and the Republic of San Marino, and the first negotiation took place on May 5th, 2015. Since then, the Government is working on the future framework for relationships between Andorra and the EU in order to provide the Principality with gradual and structured access to the EU Internal Market, while taking its specific factors into account. Declaration 3 on article 8 of the TEU provides a legal basis for EU relationships with small-sized countries, in establishing that "The Union will take into account the particular situation of small-sized countries which maintain specific relations of proximity with it".

The logic of the internal reforms, the steps and the strategic projects that the latest Governments of Andorra have carried out, with independence of the leading political party from time to time, indefectibly lead towards the participation in the interior market for the complete achievement of the previously mentioned objectives.

This Association Agreement is meant to provide the country with new opportunities of success, otherwise, Andorra would be headed for a situation of isolation, condemned as such by the evolution of the international context, and would leave behind the opportunity of advancing in the search for a real sustainable economic development and towards a trusting and fruitful cooperation with its most immediate environment, on the grounds of transparency, that is the path that Andorra has chosen to take.

Finally, the Principality of Andorra is currently a member of 27 international bodies: Council of Europe (CoE), Organisation for Security and Co-operation in Europe (OSCE), United Nations Organisation (UNO), United Nations Educational, Science and Cultural Organisation (UNESCO), World Health Organisation (WHO), World Intellectual Property Organisation (WIPO), United Nations Food and Agriculture Organisation (FAO), Comprehensive Nuclear-Test-Ban Treaty Organisation (CTBTO), International Telecommunications Union (ITU), World Tourism Organisation (UNWTO), International Criminal Court (ICC), Organisation for the Prohibition of Chemical Weapons (OPCW), International Civil Aviation Organisation (ICAO), International Centre for the Study of the Preservation and Restoration of Cultural Property (ICCROM), European Telecommunications by Satellite Organisation (Eutelsat), International Criminal Police Organisation (Interpol), World Organisation for Animal Health (OIE), World Customs Organisation (WCO), International Committee of the Red Cross (ICRC), World Trade Organisation (WTO), Organisation Internationale de la Francophonie (OIF), International Exhibitions Bureau (IEB), the Hague Conference on Private International Law (HCCH), the Work Community of the Pyrenees (CTP), the Secretaria General Iberoamericana (Segib), the Justice Ministers of the Iberoamerican Countries Conference (COMJIB), the Organization for Iberoamerican Countries for the Education, Science and Culture (OEI) and the World Climate Organization (WCO).

In addition, Andorra is currently a non-vocal member of three international bodies: World Trade Organization (WTO), the Community of Portuguese Speaking Countries (CPLP) and the South American Administrative Centre for Development (CLAD).

(iv) Resolution process of Banca Privada d'Andorra, SA (BPA)

On March 10th 2015, the United States Department of the Treasury's Financial Crimes Enforcement Network (FinCEN), issued a Notice of Finding (NoF) classifying Banca Privada d'Andorra, SA (BPA) as a "financial institution of primary Money laundering concern" under section 311 of the U.S.A. Patriot Act and published a Notice of Proposed Rulemaking (NPRM) in the case of being approved as a final rule, as a result of this classification, the American authorities proposed measures to limit BPA's operational capacities in the future.

Exercising the powers bestowed upon it by article 8 of the Law regulating the financial system disciplinary scheme of November 27th, 1997 ("LRRD"), later modified by Law 10/2013, of May 23rd, on the AFA ("Law 10/2013"), the

General Director of the AFA initiated disciplinary proceedings against BPA on March 10th, 2015 together in close cooperation with the Financial Intelligence Unit of Andorra (Unitat d'Intel·ligència Financera d'Andorra, UIFAND). As part of this process, the Board of Directors of AFA approved the preventive intervention of BPA as a precautionary measure, in accordance with article 12 of the LRRD, appointing two administrators employed by AFA to jointly carry out the intervention.

It should be stressed that the AFA's actions were not motivated by a lack of liquidity or solvency issues at BPA or in the group it leads. Rather, the intention was to clarify the facts leading to the action by FinCEN.

Following the Notice by FinCEN, BPA's dollar-denominated operations and its financial operations on the European financial markets were immediately affected. A number of correspondent banks, custodian banks and operators of payment systems gave the entity notice of the possibility of advancing the measures proposed by FinCEN in connection with opening or holding accounts with BPA.

On March 11th, 2015 the Board of Directors of the AFA agreed to temporarily suspend the Board of Directors of BPA and three members of its management team, appointing in their place three provisional administrators, who would act jointly beginning that same day, thus voiding the institute's agreed preventive intervention measure.

The risks entailed in that situation and the need to prevent it spreading to other banks in the Principality of Andorra made it necessary to advance transposition of Directive 2014/59/EU of the European Parliament and of the Council, of May 15th, 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms, through approval by the General Council of the Principality of Andorra of *Act 8/2015, of April 2nd, on urgent measures to implement mechanisms for the recovery and resolution of banks* (hereinafter, "Act 8/2015"). That act, which entered into force as of April 15th, 2015, implemented the National Agency for Bank Resolution ("AREB"), which was entrusted from that date onwards with the task, among others, of resolving the affected financial institution in an orderly manner and countering any negative effects that might result from its crisis situation.

On June 11th, 2015, AREB approved the Plan for Resolution of Banca Privada d'Andorra, S.A., the main content of which concerned the separation of the set of assets and liabilities of Banca Privada d'Andorra, S.A. considered to be

legitimate, following a strict process of review of each client performed by independent experts on prevention of money laundering and financing of terrorism. Those suitable assets and liabilities were to be transferred to a bridge entity, a new bank, by virtue of the valuation provided for in Article 5 of Act 8/2015, and the capitalization of such bank was carried out through the use of the instruments provided for in that Act. The ultimate aim of AREB was to sell that new entity in an auction which would guarantee to attract the greatest possible interest and ensure the greatest possible competition, in order to maximize that entity's value.

In accordance with the Plan for Resolution of Banca Privada d'Andorra of June 11th, 2015, AREB made a number of decisions aimed at implementing the measures provided for in the Plan, such as the financial valuation dated May 31st, 2015 of the assets and liabilities of Banca Privada d'Andorra, S.A. based upon the reports drafted by independent experts, the creation of a bridge entity with the status of a bank in accordance with the provisions of Article 17 of Act 8/2015 as an instrument for resolution of Banca Privada d'Andorra, S.A., with the name Vall Banc, SAU, and the initiation of a process for the sale of Vall Banc, S.A.U.

Moreover, it should be noted that on February 19th, 2016, FinCEN released a note in order to announce they would not follow the proposal to apply the fifth special measure to BPA given that *"the adopted measures by the Andorran authorities are sufficiently protective of the US financial System against the risks of money laundering previously associated to BPA"*. FinCEN adopted this decision considering that BPA will not act again as a bank entity, and that BPA, under the control of the Andorran authorities, is no longer a threat to the North American financial System. Therefore, FinCEN supported the customer review process which allowed to isolate Vall Banc from the deficiencies identified in the previous management of BPA, and which among other factors sustained its decision to not apply any of the special measures provided in the 311 Section of the USA PATRIOT Act on the operations of Vall Banc or on the transfer of assets, liabilities and good clients of BPA to Vall Banc.

On April 21st, 2016, AREB chose the investment firm J.C. Flowers & Co. as the final buyer of Vall Banc, S.A.U., taking into consideration that it complied with all the necessary requirements: the optimization of public resources, the guarantee of good perspectives for the continuity of Vall Banc's business, its clients and employees, and in addition, it could guarantee the adoption of the best practices of business and the compliance with all legal requirements, derived from its vast experience in the management of financial entities.

Simultaneously, AREB approved on the same date the Resolution approving the terms and conditions for the transfer of clients, assets and debts from BPA to Vall Banc, which conformed the majority of clients of BPA, the absorption of BPA's losses through the recapitalization instruments established in Law 8/2015, and the increase of share capital of Vall Banc, S.A.U. in 27 million Euro through the issue of new shares, by means of which the share capital of Vall Banc rose to up to 30 million Euro, in accordance with the regulatory demands of minimum capital in relation to financial entities established by Andorran legislation.

Finally, on July 14th, 2016, the purchase agreement of Vall Banc, S.A.U. was formalized by J.C. Flowers & Co. after obtaining all the necessary authorizations from AFA and the Government of Andorra.

Consequently, this situation does not entail any credit risk to the Issuer and thus does not affect the payment obligations with respect to the principal and/or interest of the Registered Global Note issued as part of the Program.

2. Risk Factors relating to the Notes

(i) *The notes may not be a suitable investment for all investors*

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- a) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes or where the currency for principal or interest payments is different from the potential investor's currency;
- d) understand thoroughly the terms of the Notes and be familiar with the behavior of any relevant indices and financial markets, and

- e) be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rates and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

(ii) Risks related to the structure of a particular issue of Notes

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

The Final Terms for a particular Series of Notes may provide that the Issuer has the right to redeem a Series of Notes prior to its Maturity Date at any time or on specified dates. In either event, upon an investor's receipt of the redemption proceeds for his Notes, the investor may not be able to reinvest those proceeds in an investment with a comparable yield to the Notes or in an investment of similar or better credit quality.

(iii) There is no active trading market for the Notes

Notes issued under the Program will be new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are admitted to listing on a regulated or unregulated market, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer.

May the Notes be admitted to listing on a regulated or unregulated market, illiquidity of said market may have an adverse effect on the market value of the Notes. Investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

(iv) Changes in market interest rates may result in reduced market value of an investment in fix rate Notes

If market interest rate increases after an investor has invested in Notes bearing interest at a fixed rate, the market value of those Notes may be adversely affected.

(v) Change of law

The Conditions of the Notes are based on Andorran Law in effect as of the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to Andorran Law or administrative practice after the date of this Base Prospectus.

(vi) Legal investment considerations may restrict investments by some investors

The investment activities of certain investors are subject to legal investment laws and regulations, or to review or approval by governmental authorities. Each potential investor should consult its legal advisors to determine whether and to what extent (a) a particular Series of Notes is a legal investment for it, and (b) any other consequences of a proposed investment in Notes. Institutions that are subject to risk-based capital or similar rules should consult their legal advisors or regulators to determine the treatment of a particular Series of Notes under such rules.

(vii) Because the Global Notes are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer

Notes issued under the Program shall be represented by Global Notes. Such Global Notes will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the relevant Global Note, investors will not be entitled to receive definitive Notes. While the Notes are represented by Global Notes, investors will be able to trade their beneficial interest only through Euroclear and Clearstream, Luxembourg.

While the Notes are represented by Global Notes the Issuer will discharge its payment obligations under the Notes by making payments to the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of beneficial interest in a Global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the relevant Notes. The issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

(viii) Credit Rating

Notes issued under the Program may be rated or unrated. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors and other factors that may affect the value of the Notes. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Any adverse change in an applicable credit rating could adversely affect the market price for the Notes issued under the Program.

(ix) Tax Regime

As defined under Law 11/2005 of June 13th, on the application of the Agreement between the Principality of Andorra and the European Union on the establishment of equivalent measures to those provided by the Directive 2003/48/EC on taxation of savings income in the form of interest payments, residents in a member state of the European Union, that are beneficial owners of interests are subject to a withholding in Andorra. At the date of this Prospectus, only individuals are withheld according to the said Law. Nevertheless, the latter was revised under the Agreement initialed on November 4th, 2015 and signed on February 12th, 2016 between the Government and the EU concerning exchange of information on financial accounts held by their respective residents. That agreement renews and amends the agreement signed in 2004 between the EU and Andorra on taxation of savings to adapt it to the new Community legislation on law governing taxation of savings in the form of interest payment. The new agreement takes into account the advances made within the framework of the EU and the OECD in connection with mutual administrative assistance with regard to taxation.

2017 was the last year in which a withholding was applied to individuals with regards to the profit they could obtain from capital investment in the form of interest during the year 2016.

On January 1st, 2017 the Law 19/2016 of November 30th on the automatic exchange of fiscal information, which helps the Principality of Andorra implement the OECD standard for the rules of communication and due diligence with regards to the information on financial accounts, entered into force with the objective of improve compliance with international taxation on the base of the automatic and reciprocal exchange of information subject to confidentiality and other protections, including the dispositions which limit the use of the exchanged information and the application of the laws and practices related to data protection and the treatment of exchanged personal data.

This law regulates the automatic exchange of information on financial accounts between the Principality of Andorra and other countries in accordance with the dispositions of the accords or international treaties which may be applicable between them. The first exchanges of information took place in 2018 in relation to the information of the year 2017.

Since January 1st, 2015, the Personal Income Tax, which taxes the income made by individuals who are tax residents in Andorra, is applicable in Andorra. Pursuant to Law 5/2014 of April 24th on the personal income tax, as amended by Law 42/2014, of December 11th, revenues from public debt count as capital investment.

Without prejudice to the foregoing, revenues from public debt issued in Andorra are tax exempt, pursuant to article 5.n) of the law. Thus, revenues from public debt are subject to tax, but are tax exempt from January 1st, 2015.

FORM OF THE NOTES

The Notes of each Series will be in registered form, without interest coupons attached. Notes will be issued outside the United States in reliance on the exemption from registration provided by Regulation S.

Registered Global Notes

Each Tranche of Notes issued in registered form will be in the form of a Registered Global Note which will be registered in the name of a common depository (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Registered Global Note will be deposited on or about the issue date with the common depository.

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provision to the contrary, be made to the person shown on the Register as the registered holder of the Registered Global Notes. None of the Issuer, the Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. References in these provisions relating to the Notes in global form to "**holder**" or "**accountholder**" are to those persons shown in the records of the relevant clearing system as a holder of a Note.

Interests in a Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that in the case of Notes registered in the name of a nominee for a common depository for Euroclear and Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available. The Issuer will promptly give notice to Noteholders in accordance with Condition 13 of the Terms and Conditions of the Notes if an Exchange Event occurs.

Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear and/or Clearstream, Luxembourg or any other clearing system as the holder of Notes represented by a Global Note must look solely to Euroclear and/or Clearstream, Luxembourg or such other clearing system (as the case may be) for such person's share of each payment made by the Issuer to the holder of such Global Note, and in relation to all other rights arising under the Global Note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or such clearing system (as the case may be).

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be attached to each Global Note (as defined below) issued under the Program which as supplemented, modified or replaced in relation to any Notes by the relevant Final Terms (as defined below) will be applicable to each Global Note issued under the Program. The applicable Final Terms in relation to any Global Note may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. Thus, references herein to these Terms and Conditions are to these Terms and Conditions as supplemented or modified or (to the extent thereof) replaced by the Final Terms.

The Notes are issued by Decree of the Andorran Government (the "**Decree**").

References in these Terms and Conditions to the Final Terms are to the Final Terms prepared in relation to the Notes issued under the Program.

1. Form, Denomination and Currency

Form of the Notes

Notes issued under the Program will only be represented in the form of a Registered Global Note ("**Global Note**"), which will be held on behalf of Euroclear Bank S.A./N.V. ("**Euroclear**") and/or Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"). Global Notes will be deposited and registered with a common depositary for Euroclear and Clearstream, Luxembourg ("**Common Depositary**"), or a nominee of the Common Depositary, as specified in the applicable Final Terms.

Denomination

Notes issued under the Program will be issued in the denomination specified in the Final Terms.

Currency of Notes

Notes issued under the Program will be denominated in Euros.

2. Title and Transfer

Title

Notes will be represented by a Global Note held on behalf of Euroclear and/or Clearstream, Luxembourg.

Each person who is for the time being shown in the records of Euroclear and/or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the holder of the relevant Global Note shall be treated by the Issuer and any Agent as the holder of such nominal amount of such Notes in accordance with Condition 9 (*Payments*) below.

Transfer

So far as the Notes to be issued under this Program will be accepted for clearance through Euroclear and/or Clearstream, Luxembourg, which are the entities in charge of keeping the records, transfer of beneficial interests in Global Notes within the Common Depository, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system.

Transfers of beneficial interests in Global Notes will be effected by the Common Depository, Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of transferors and transferees of such interests.

The customary arrangements for delivery versus payment will apply to such transfers.

Notwithstanding the above, if any Notes issued under the Program are admitted to listing and trading on a regulated or unregulated market, the rules and regulations of such market shall apply.

Transfer free of charge

Registration of transfer will be effected without charge by or on behalf of the Issuer, but upon payment in respect of any stamp duty, tax, fee or other governmental charges that may be imposed in relation to the registration according to the applicable laws.

Closed Periods

No holder of beneficial interests in the Global Notes may require the transfer of said beneficial interests to be registered during the period of 15 days ending on the due date for any payment (of principal and/or interest) in respect to that Note.

3. Status of the Notes

Notes issued under the Program constitute direct, unconditional, unsecured and general obligations of the Issuer and rank *pari passu* among themselves and equally with all other loan or bond indebtedness of the Issuer resulting from financial debts, present or future.

The Issuer pledges its full faith and credit for the due and punctual payment of the principal of, interest on and any payment on the Notes.

4. Interest

Notes issued under the Program will be interest-bearing or non interest-bearing, as specified in the Final Terms. In case of interest-bearing instruments, interest may accrue a fixed rate or a floating rate and may vary during the lifetime of the relevant Series, as specified in the Final Terms.

4.1 Interest-bearing instruments: Fixed interest rate Notes

Fixed rate Notes issued under the Program will pay a nominal annual fixed interest rate, as specified in the Final Terms, for the whole life of the issue.

Notes will bear interests from (and including) the Settlement Date (as defined in the Relevant Final terms) until (and excluding) the maturity date, both dates as specified on the Final Terms.

Interests will be paid on a yearly basis in arrears and according to the calendar of payments specified in the Final Terms for each issuance under the Program.

In each earning period of interest ("**Earning Period of Interest**"), days run from one Interest Payment Date (as specified on the Final Terms), excluded, to the next Interest Payment Date, included. The first Earning Period of Interest shall begin on the First Earning Period of Interest Commencement Date, as specified on the Final Terms, included.

4.2 Interest-bearing instruments: Floating interest rate Notes

Floating rate Notes issued under the Program will pay a nominal annual floating interest rate, by reference to EURIBOR as adjusted for any applicable margin, as the case may be, as specified in the Final Terms.

Each Floating rate Note bears interest from (and including) the Settlement Date until (and excluding) the maturity date, both dates as defined in the Final Terms.

Interests will be paid on a yearly basis in arrears and according to the calendar of payments specified in the Final Terms for each issuance under the Program on the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms. The applicable interest rate or its method of calculation may differ from time to time or be constant for any Series.

Such interest will be payable in respect of each earning period of interest. In each earning period of interest ("**Earning Period of Interest**"), days run from one Interest Payment Date (as specified on the Final Terms), excluded, to the next Interest Payment Date, included. The first Earning Period of Interest shall begin on the First Earning Period of Interest Commencement Date, as specified on the Final Terms, included.

The Rate of Interest payable from time to time in respect of Floating Rate Notes will be determined in the manner specified in the applicable Final Terms.

4.3 Calculation of interest

The Paying Agent will determine the rate of interest for the relevant Earning Period of Interest as soon as practicable each time the rate of interest is to be determined.

The Paying Agent will calculate the amount of interest payable of each Earning Period of Interest by applying the following formula basis as follows:

$$I = \frac{N * i * d}{D * 100}$$

where:

N = Nominal amount of the Notes.

i = Rate of interest as defined in the Final Terms.

d = Days accrued as defined in the Final Terms.

D = Day Count Basis.

“Day Count Basis” means, in respect of the calculation of an amount of interest in accordance with this Condition:

“Actual / Actual (ISDA)”, the actual number of days in the Earning Period of Interest divided by 365 (or, if any portion of the Earning Period of Interest falls in a leap year, the sum of (i) the actual number of days in that portion of the Earning Period of Interest falling in a leap year divided by 366 and (ii) the actual number of days in that portion of the Earning Period of Interest falling in a non-leap year divided by 365).

4.4 Non interest-bearing instruments: Zero Coupon Notes

Zero Coupon Notes shall be issued at a discount as described in the relevant Final Terms. The Final Terms may indicate that any Maturity Redemption Amount, as defined in Condition 5 below, is not paid when due, interest shall accrue in the overdue amount at a rate per annum equal to the Amortisation Yield, defined in or determined in accordance with the provisions of the Final Terms, until the date on which, upon due presentation or surrender of the Note (if required) the relevant payment is made or if earlier, the seventh day after the date on which the Paying Agent has received the required funds to make such payment and notice is given to the holders of the Notes in accordance with Condition 13. The amount of any such interest shall be calculated in accordance with the terms described in Condition 4.

5. Redemption

Notes issued under the Program shall be redeemed free of expenses for the holders of beneficial interests in Global Notes at its maturity redemption amount (the **“Maturity Redemption Amount”**) which shall be the 100% of its principal amount on the maturity date specified in the Final Terms.

Should the maturity date not fall on a Relevant Banking Day, the settlement date for the redemption price will be that of the following Relevant Banking Day and should not entitle to further interest or other payment in respect of such delay.

For the purposes of these Terms and Conditions, "**Relevant Banking Day**" means a day on which the Trans-European Automated Real-time Gross Settlement Express Transfer (TARGET) System, or any successor thereto, is operating credit or transfer instructions in respect of payments in Euro.

Under no event shall the Issuer nor any holder of beneficial interests in Global Notes be entitled to redeem any Notes issued under the Program on an earlier date than the maturity date specified in the Final Terms.

6. Events of Default

Upon happening of either the following events in respect of any Global Notes issued under the Program, holders of beneficial interests in Global Notes directly accept the credit risk of the Issuer and thus accept the loss of the nominal amount of such Note together with accrued and unpaid interests (if any):

(i) *Non-payment*: the Issuer fails to pay any amount of principal and/or interest in respect of the Notes of the relevant issue within 30 days of the due date for payment thereof; or

(ii) *Breach of other obligations*: the Issuer defaults in the performance or observance of any material obligations under or in respect of the Notes of the relevant issue and such default remains unremedied for 60 days after written notice requiring such default to be remedied has been delivered to the Issuer at the specified office of the Paying Agent by the Holder of any such Note; or

(iii) *Bankruptcy or payment suspension of the Issuer*.

7. Exchange of the Notes

Interests in a Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without interest coupons or talons attached only upon the occurrence of an Exchange Event.

For the purposes of these Terms and Conditions, "**Exchange Event**" means that in the case of Notes registered in the name of a common depository (or its nominee) for Euroclear and Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a

continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available. The Issuer will promptly give notice to Noteholders in accordance with Condition 13 if an Exchange Event occurs.

8. Taxation

Noteholders should request appropriate advice with their tax advisors to evaluate their specific circumstances and the tax effects of their investment.

8.1 Taxation on savings

As defined under Law 11/2005 of June 13th, on the application of the Agreement between the Principality of Andorra and the European Union on the establishment of equivalent measures to those provided by the Directive 2003/48/EC on taxation of savings income in the form of interest payments, residents in a member state of the European Union, that are beneficial owners of interests are subject to a withholding in Andorra. This withholding may be exempted if the beneficial owner is a company, or if tax certificate from the country of residence is provided.

At the date of this Base Prospectus, only individuals are withheld according to the said Law. Nevertheless, the latter was revised under the Agreement initialed on November 4th, 2015 and signed on February 12th, 2016 between the Government and the European Union concerning exchange of information on financial accounts held by their respective residents. That agreement renews and amends the agreement signed in 2004 between the EU and Andorra on taxation of savings to adapt it the new Community legislation on taxation of savings in the form of interest payment. The new agreement takes into account the advances made within the framework of the EU and the OECD in connection with mutual administrative assistance with regard to taxation.

2017 was the last year in which a withholding was applied to individuals with regards to the profit they could obtain from capital investment in the form of interest during the year 2016.

On January 1st, 2017 the Law 19/2016 of November 30th on the automatic exchange of fiscal information, which helps the Principality of Andorra implement the OECD standard for the rules of communication and due diligence with regards to the information on financial accounts, entered into force with the objective of improving compliance with international taxation on the base of the automatic and reciprocal exchange of information subject to confidentiality and other protections,

including the dispositions which limit the use of the exchanged information and the application of the laws and practices related to data protection and the treatment of exchanged personal data.

This law regulates the automatic exchange of information on financial accounts between the Principality of Andorra and other countries in accordance with the dispositions of their respective accords or international treaties which may be applicable. The first exchanges of information took place in 2018 in relation to the information of the year 2017.

8.2 Taxation on the income of Non Residents

Income obtained by non-resident individuals and companies in Andorra as interest (as defined by Law 11/2005) that are not subject to the Directive 2003/48/EC, are exempt from taxation under the terms and requirements of the Andorran Law 94/2010, of December 29th, on the tax of income of non-residents.

8.3 Taxation on the income of the companies

Law 95/2010, dated December 29th, of the Corporate Income Tax ("**CIT**") applicable since January 1st, 2012, as modified by Law 17/2011, dated December 1st, establishes in its article 9 the taxable base of CIT includes all income obtained by the company, that is not exempt from taxation. Income obtained from the Notes is not considered exempt from taxation, which implies that income arising from the Notes is taxable at the rate of 10 per cent. Said income can be reduced on the amount of the expenses related to the holding of the Notes.

Noteholders should require legal advice from their tax counsel to evaluate their specific circumstances and the taxation effects of their investments.

8.4 Taxation on the profit of individuals.

Since January 1st, 2015 there is taxation applicable to individuals with tax residency in Andorra.

The April 24th, 2014 the Law 5/2014 on the tax on the income made by individuals who are tax residents in Andorra, establishes that public debt revenues issued in the Principality of Andorra, despite being regarded as capital investments, are exempt from this tax pursuant to article 5 of the Law.

9. Payments

General provisions applicable to payments of principal and interest

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or the Common Depository as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear, Clearstream, Luxembourg or the Common Depository, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

For this purposes, the record date, that is, the date and time at which positions shall be struck to note which parties are entitled to receive payments in respect of the Notes, will be the close of the Relevant Banking Day (in the International Central Securities Depository, or "**ICSD**") prior to the due date for such payment.

Payments of amounts due (whether principal, interest or otherwise) in respect of beneficial interests in Global Notes will be made in Euros by transfer to an account denominated in the relevant currency specified by the payee. Payments will, without prejudice to the provisions of Condition 8, be subject in all cases to any applicable fiscal or other laws and regulations.

The payments of the Global Note will take place in the following moments:

- Subscription of the Notes: Every Dealer will send to Euroclear its subscription order with the number of Notes and total amount of the Notes, to be subscribed on the settlement date ("**Settlement Date**") against payment of the nominal amount indicated. On the Settlement Date every Agent will pay to Euroclear, through its account with such institution, the nominal amount of its subscription against reception of the Notes subscribed.

Once all payments of the different Dealers are received, Euroclear will credit with same value date the total amount on the special account held by the Paying Agent in the books of Euroclear to register all funds transactions concerning the Notes.

Once the account of the Paying Agent has been credited with the total amount of the Notes, this total amount will be credited with the same value date, to the account of Issuer in the books of the Paying Agent.

- Payment of interests: In every payment date of interests the Paying Agent will debit the account of the Issuer in its books for the amount of interests accrued during the period and credit such amount in the account of the Paying Agent with Euroclear.

With the same value date, the Paying Agent will instruct Euroclear to debit his account and credit every Noteholder for the amount of interests accrued by his position of Notes.

- Redemption of the Notes: At the relevant Redemption Date, the Paying Agent will debit the account of the Issuer in his books for the Maturity Redemption Amount and interests accrued during the period and credit such amount in the account of the Paying Agent with Euroclear.

With the same value date, the Paying Agent will instruct Euroclear to debit its account and credit every holder of the Notes for the Maturity Redemption Amount and interests accrued during the period.

- Payment Date: If the date of payment of any amount is not a Relevant Banking Day, the holder shall not be entitled to payment until the next following Relevant Banking Day and should not entitle to further interest or other payment in respect of such delay.

10. Prescription

Claims against the Issuer for payment of principal and interest in respect of beneficial interests in Global Notes will be prescribed in accordance with the applicable Andorran law.

11. The Paying Agent and the Registrar

The Issuer has entered into an Agency Arrangement with Mora Banc Grup, S.A. in relation with the issue of the Notes, to provide the following services:

- Act as Paying Agent in all payments related to the Notes, as specified in Condition 9.
- Hold in his books the special account of the Issuer to materialize all economic transactions related with the Issue.

- Maintain the communication with the Common Depositary, in order to guarantee that all subscription orders, payments of cash and deliveries of Notes are made correctly and in due course.
- Act as Registrar maintaining detailed information of the subscription of the Notes.

12. Meetings of Noteholders and Modifications

(a) Meetings

Meetings of the holders of the Notes may be convened to consider any matter affecting their interests, including the sanctioning by an extraordinary resolution ("**Extraordinary Resolution**") of a modification of the terms and conditions of the Notes and the appointment or dismissal of the common representative (the "**Common Representative**") and are governed by the provisions of the current section of the Program.

Such meetings may be convened by the Issuer (i) at its own initiative, (ii) at the written request of the Common Representative (if any) or, if no Common Representative has been appointed or an appointed Common Representative fails to request a meeting, at the written request of the Paying Agent and (iii) at the written request of the Noteholders holding not less than 20 per cent of the principal amount of the Notes for the time being outstanding. For that purpose, the Issuer will publish a call notice in the Official Gazette of the Principality of Andorra ("*Butlletí Oficial del Principat d'Andorra*") thirty calendar days before the date of the meeting. The call notice will include, at least, the following information: place of the meeting and the date of the first and second call (being understood that between the date of the first and second call it must elapse, at least, a term of fifteen calendar days), the meeting agenda, the means to prove the Noteholders right to attend the meeting as well as the procedure to delegate the vote.

The quorum required for a meeting convened to pass a resolution other than an Extraordinary Resolution will be any person or persons holding or representing Notes then outstanding regardless of the principal amount thereof. The quorum required for a meeting convened to pass an Extraordinary Resolution will be at first call any person or persons holding or representing at least two thirds of the principal amount of the Notes for the time being outstanding or, at second call, any person or persons holding or representing any of the Notes then outstanding, regardless of the principal amount thereof.

The number of votes required to pass a resolution other than an Extraordinary Resolution is the majority of the votes cast at the relevant meeting. The majority

required to pass an Extraordinary Resolution is at first call at least 50 per cent of the principal amount of the Notes then outstanding or, at second call, two-third of the votes cast at the relevant meeting. Any Extraordinary Resolution shall only be approved with the consent of the Issuer.

Resolutions passed at any meeting of the Noteholders will be binding on all the Noteholders, whether or not they are present at the meeting or have voted against the approved resolutions.

(b) Dismissal and substitution of the Common Representative

The Noteholders may dismiss and substitute the Common Representative (if any) by means of an Extraordinary Resolution passed for such purpose.

(c) Notification

Any modification, abrogation, waiver or authorisation in accordance with this Condition 12 shall be binding on the Noteholders and shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 13.

(d) Matters required to be approved by Extraordinary Resolution.

An Extraordinary Resolution will be required to effect any of the following:

- (i) to change any date fixed for payment of principal or interest in respect of the Notes, reduction of the amount of principal or interest due on any date in respect of the Notes or variation of the method for calculating the amount of any payment in respect of the Notes on redemption or maturity;
- (ii) to approve any amendment to the definition of "Extraordinary Resolution"; and
- (iii) to waive or authorise any breach or proposed breach of any of these Conditions.

(e) Discretionary Matters

Except for those matters required to be approved by Extraordinary Resolution, the Paying Agent, the Common Representative (if any) and the Issuer may agree, without the consent of the Noteholders, to:

- (i) any modification of the Notes which is not materially harmful to the interests of the Noteholders; or
- (ii) any modification of the Notes which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of applicable Law (as per Condition 15 below).

The Issuer will publish the details of any modification made pursuant to this Condition within ten Relevant Banking Days of the modification becoming legally effective.

13. Notices

Notices to holders of beneficial interests in Global Notes will be published in the Official Gazette of the Principality of Andorra ("*Butlletí Oficial del Principat d'Andorra*").

So long as the Notes are represented by a Global Certificate held by Common Depository on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system (the "**Alternative Clearing System**"), notices will also be sent to Euroclear, Clearstream, Luxembourg or, as the case may be, the Alternative Clearing System. In this case, any such notices shall be deemed to have been given on the third day after the day on which said notice was given to Euroclear and/or Clearstream, Luxembourg or, as the case may be, the Alternative Clearing System.

With respect to Notes admitted to listing and trading on a regulated or unregulated market, notices must also be published according to the rules and regulations of said market.

14. Further Issues

The Issuer may from time to time, without the consent of the holders of beneficial interests in Global Notes, create and issue further Notes, bonds or debentures having the same terms and conditions as such Notes in all respects (or in all respects except for the first payment of interest, if any, on them and/or the denomination thereof) so as to form a single series with the Notes of any particular issue under the Program.

15. Governing Law and Jurisdiction

Governing Law

The Global Notes and any obligations arising out of or in connection with them are governed by Andorran law.

Jurisdiction

The Andorran Courts shall have exclusive jurisdiction.

FORM OF FINAL TERMS

The Final Terms in respect of each issuance will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue. Text in this section appearing in italics does not form part of the form of the Final Terms but denotes directions for completing the Final Terms.

PRINCIPALITY OF ANDORRA'S GOVERNMENT FINAL TERMS dated [•] Issue of [•]Notes

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Base Prospectus dated 8 May of 2018 (the "**Base Prospectus**") This document constitutes the Final Terms of the Notes described herein and must be read in conjunction with such Base Prospectus.

Full information on the Issuer and the offer of the Notes described herein is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. The Base Prospectus [and the supplemental Base Prospectus] [is] [are] available for viewing in electronic form on the website of the Issuer and [is] [are] available for viewing and obtainable in printed form free of charge during normal business hours at the offices of the Issuer and at the Specified Offices of each of the Paying Agents set out below.

[Include whichever of the following apply or specify as "Not applicable" (N/A). Italics denote guidance for completing the Final Terms.]

Issuer Name:	PRINCIPALITY OF ANDORRA'S GOVERNMENT.
1. Issuer place of incorporation:	Andorra.
2. Issuer address:	[Carrer Prat de la Creu, 62-64, AD500 Andorra la Vella (Principat d'Andorra)].
3. Issue Date:	[•].
4. Subscription Date:	[•].
5. Instrument category:	[•].
6. Primary Place of Deposit:	Euroclear and/or Clearstream.
7. Lead Manager:	[•].
8. Dealers:	[•].

Issuer Name:	PRINCIPALITY OF ANDORRA'S GOVERNMENT.
9. Trading Method:	Units.
10. Legal Form:	Registered.
11. Initial Physical Form:	[Global Permanent].
12. Selling Restrictions:	[U.S. Selling Restrictions: Reg. S. Compliance Category. Additional Selling Restrictions: give details.]
13. Method of Distribution:	[Syndicated/Non-syndicated].
14. Nominal Currency:	EUR.
15. Interest Type:	[FIX] [FLOATING] [Zero Coupon with a depreciation performance of [•]].
16. ISIN:	[•].
17. Common Code:	[•].
18. Series Number:	[•]
19. Aggregate Proceeds Amount:	EUR [•].
20. Aggregate Issue Size:	[•].
21. Face Value for Unit issues:	[•].
22. Minimum tradable size:	[•] units.
23. Issue Price:	EUR [•].
24. Unit Issue Price:	EUR [•].
25. Withholding Tax Regime:	[Indicate the default tax-withholding treatment (the relevant law) along with the applicable gross-up clause].
26. First Earning Period of Interest Commencement Date:	[•].
27. Final Maturity Date:	[•].
28. Governing law:	Andorra.
29. Global Type:	CGN.
30. After exchange physical form:	Exchangeable for Definitive Notes in the limited circumstances specified in the Global Note.
31. Legal restrictions:	[Specify if legal restrictions apply].
32. Place of listing:	[Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the [regulated/unregulated market] with effect from [•].] [Application is expected to be made by the Issuer (or on its behalf) for the

Issuer Name:	PRINCIPALITY OF ANDORRA'S GOVERNMENT.
	Notes to be admitted to trading on the [regulated/unregulated market] with effect from [•].] [Not Applicable.]
33. Paying Agent:	[Mora Banc Grup, S.A.]
34. Paying Agent Address:	[Av. Meritxell 96, AD500 Andorra la Vella (Principat d'Andorra)].
35. Payment Frequency:	[Specify the frequency of the interest payments].
36. Payment Currency:	EURO.
37. Fixed Interest Rate:	[Not applicable/[•] per cent per annum].
38. Interest Payment Dates:	[•].
39. Floating Interest Rate	[Applicable/Not applicable]
(i) Specified Interest Payment Dates	[•] in each year subject to adjustments in accordance with Business Day Convention.
(ii) First Interest Payment Date	[•]
(iii) Relevant Floating Rate Index:	EURIBOR 12 months
(iv) Relevant time:	[•]
(v) Interest determination date(s):	[•]
(vi) Primary source for Index rate quotation:	[Specify relevant screen page]
(vii) Relevant Financial Centre:	[the financial centre most closely connected to the Relevant Floating Rate Index]
(viii) Manner in which the Interest Rate is to be determined:	[12 months Euribor + Margin]
(ix) Margin:	[•]
(x) Minimum interest rate:	[•]

Issuer Name:	PRINCIPALITY OF ANDORRA'S GOVERNMENT.
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(xi) **Maximum interest rate:**

[•]

40. Zero Coupon Provisions:	<ul style="list-style-type: none"> i. Amortisation Yield [•]% per annum. ii. Unit Issue Price [•] € iii. "Actual/Actual (ISDA)"
41. Day Count Convention:	"Actual / Actual (ISDA)".
42. Business Day Convention:	[•].
43. Redemption Type:	Final redemption.
44. Redemption Payment Currency:	EURO.

DESCRIPTION OF THE ISSUER

General Provisions

The Principality of Andorra, with 76,177 inhabitants in 2018, is located on the Mediterranean slopes of the eastern Pyrenees, between Spain and France, bounded, for a length of 63.7 km, with the Autonomous Community of Catalonia (Spain) to the south, and with the region of Foix (France) to the north for a length of 56.6 km. The territory of the Principality has an area of 468 km² and an average altitude of 1,996 m.

The political regime of Andorra is a parliamentary co-principality. Catalan is the official language of the Principality of Andorra. Other languages in use are Spanish, French and Portuguese.

The Constitution defines the figure of the Co-princes as the heads of State of Andorra, jointly and indivisibly. They are, personally and exclusively, the bishop of Urgell and the president of the French Republic. The Co-princes mediate and moderate the functioning of the country's government and institutions. Their duties include, among others, sanctioning and enacting laws, calling general elections, calling referendums at the request of the head of the Government and a majority of the General Council concerning issues of a political nature. At present, the Bishop Co-prince is Joan Enric Vives i Sicília, and the French Co-prince is Emmanuel Macron.

The General Council (Andorran Parliament) holds legislative power in Andorra and is made up of 28 councilors elected by universal suffrage for a term of four years. It traces its origins back to the "Consell de la Terra" created in 1419 and reformed in 1866.

Although it is a unicameral parliament, its make-up provides for both national and regional representation, in accordance with constituencies. Of the twenty-eight councilors, fourteen are elected by the country as a whole, proportionally, and fourteen are elected for the seven parishes, two per parish, by simple majority.

With the rank of law, the Regulation of the General Council governs the organization and procedures of parliamentary activity. The presidency is held by the Speaker and the Deputy Speaker. Other governing bodies include the Executive Council, Presidents' Board, parliamentary groups, the Standing Committee and standing legislative committees.

Under Article 50 of the Constitution, the General Council holds legislative power, approves the national budget and initiates and oversees political action by the Government. The General Council elects a Head of Government at the beginning of the legislature. A debate on policy direction is held once yearly at an ordinary session. The Council may request information and the appearance of political officers before a committee.

The Government holds executive power for the country and comprises the Head of Government and the ministers. The Head of Government is elected by the General Council and directs Andorra's domestic and international policies and national administration and wields regulatory power.

The Andorran territory is divided administratively into seven parishes which, by traditional order of protocol, are: Canillo, Encamp, Ordino, La Massana, Andorra la Vella, Sant Julià de Lòria and Escaldes-Engordany, with Andorra la Vella as the capital and where the Government is based. The organ of representation and administration of the parish is the Commune. The Communes are public corporations with legal personality and with local powers of regulation, subject to law, in the form of bye-laws, regulations and decrees.

The Court of Auditors is an independent technical body linked organically to the General Council that oversees public spending. It is also responsible for checking the transparency of financial and accounting management of the Government.

The Andorran Constitution of 1993 enshrines the principles of jurisdictional unity and exclusivity and so since January 1st, 1994 the judiciary operates as a single organization of courts and judges structured by jurisdictional rank, and it categorically establishes that jurisdictional power is wielded by the courts of first instance, the Magistrates Court, the Criminal Law Court and the High Court of Andorra.

The High Court is the highest instance of the judiciary in the Principality. It has authority to rule on all appeals brought against the judgments handed down at first instance by the Magistrates Court on civil or administrative matters, within the limits determined by law and, on criminal matters, by the Criminal Law Court, as well as criminal proceedings judged at first instance by the Minors Court. It is divided into three chambers for civil, criminal and contentious-administrative and social security matters.

The Criminal Law Court, in addition to its authority to rule collegiately at first instance on proceedings concerning serious offences, also has authority to rule at first instance on proceedings for minor offences and criminal acts, as collegiate

bodies or as individual judges, respectively. It likewise has authority in respect of rulings by investigating magistrates during enforcement of criminal law and to enforce its rulings and other resolutions.

The Public Prosecutor's Office has the mission of ensuring the defense and application of the law as well as the independence of the courts and to seek application of the law before the courts for protection citizens' rights and defense of the general interest. It likewise acts in accordance with the principles of legality, unity and internal hierarchy. In addition to exercising public action, such body takes a direct part in criminal proceedings and petitions for all such actions as it may consider necessary to discover criminal acts and their perpetrators.

The Magistrates Court of Andorra is the court of first instance and investigation for jurisdictional areas. It comprises a body of no fewer than twelve magistrates along with a President.

It is organized into civil, administrative and minors sections and two investigation sections.

Currently, the Principality of Andorra is currently a member of 27 international bodies: Council of Europe (CoE), Organisation for Security and Co-operation in Europe (OSCE), United Nations Organisation (UNO), United Nations Educational, Science and Cultural Organisation (UNESCO), World Health Organisation (WHO), World Intellectual Property Organisation (WIPO), United Nations Food and Agriculture Organisation (FAO), Comprehensive Nuclear-Test-Ban Treaty Organisation (CTBTO), International Telecommunications Union (ITU), World Tourism Organisation (UNWTO), International Criminal Court (ICC), Organisation for the Prohibition of Chemical Weapons (OPCW), International Civil Aviation Organisation (ICAO), International Centre for the Study of the Preservation and Restoration of Cultural Property (ICCROM), European Telecommunications by Satellite Organisation (Eutelsat), International Criminal Police Organisation (Interpol), World Organisation for Animal Health (OIE), World Customs Organisation (WCO), International Committee of the Red Cross (ICRC), World Trade Organisation (WTO), Organisation Internationale de la Francophonie (OIF), International Exhibitions Bureau (IEB), the Hague Conference on Private International Law (HCCH), the Work Community of the Pyrenees (CTP), the Secretaria General Iberoamericana (Segib), the Justice Ministers of the Iberoamerican Countries Conference (COMJIB), the Organization for Iberoamerican Countries for the Education, Science and Culture (OEI) and the World Climate Organization (WCO).

This process of international harmonization is leading the Principality towards a new socio-economic cycle in which foreign investment and the internationalization of business in the country will form new pillars for an economy which in 2018 recorded an estimated GDP of EUR 2,742 million, placing the nominal GDP per inhabitant (EUR 35,996) above the European average.

The treaties to prevent double taxation executed in recent years and Law 10/2012 of June 21st on Foreign Investment in the Principality of Andorra ratify the constant progress of the Principality of Andorra towards the constitution of a broad European area of opportunities for investment and economic expansion.

The Andorran financial system is one of the mainstays of the Andorran economy which contributes approximately 20% to the GDP. The financial system is made up of 5 different banking groups: 7 financial institutions for the management of investment entities (5 of which are participated by financial entities), 8 financial investment entities and 27 insurance companies, of which 15 are Andorran companies and 12 are delegations for foreign insurance companies authorized to operate in Andorra.

The Andorran Financial Authority (AFA) is the supervisory and regulatory body of the Andorran financial system. The Law on the regulation and supervision of insurance and reinsurance companies of the Principality of Andorra, which was approved on June 22nd, 2017 represents the culmination of the process of reinforcement of the framework of the regulation and supervision of the insurance and reinsurance sector in accordance with the international norm. This Law entails a complete reform of the regulation of the sector, in line with the IMF's and Moneyval's recommendations. These regulations adapt the criteria arising from the International Insurance Inspectors Association (AIIA) and the international Solvency II Directive 2009 regime. Title II of such Law establishes the organs for the regulation and supervision of the insurance and reinsurance sector. In the drafting of such law, it was chosen to delegate such tasks on the AFA, which has moved on to supervise both the financial sector and the insurance and reinsurance sector.

The reasons for which such decision was made were:

- The will to profit from the experience and trajectory of an entity which has faced such important supervision tasks in the past; and
- The need to take care of such new tasks without having to assume new economic expenses superior to what the country is able to assume.

Granting such tasks to AFA required the review, adaptation and previous harmonization of the different organic and procedural dispositions which regulate the AFA. Consequently, on May 31st, 2018, the General Council passed the Law of amendment of Law 10/2013 of the INAF, which transformed such entity into the AFA.

The Financial Intelligence Unit (UIFAND) of Andorra is an independent body, the aim of which is to promote and coordinate measures to prevent money laundering and the financing of terrorism.

The National Agency for Bank Resolution (AREB) is a public law entity created under Act 8/2015, of April 2nd, on urgent measures to implement mechanisms for the recovery and resolution of banks. Its main authority under that act is to manage the processes for resolution of banks.

In order to finance the measures undertaken in application of Act 8/2015, the Andorran Fund for Bank Resolution (FAREB), an entity without legal personality managed by AREB, was created.

In recent years the banking industry has made substantial efforts to adapt its legal framework to Community standards, particularly in respect of banking and financial law, and it will continue to do so over the coming months, evolving progressively towards international standards with the aim of competing on equal terms with all other of the world's financial centers.

This adaptation of the industry to European banking regulations, the development of standards for tax transparency within the framework of the OECD and the consolidation of a new Andorran tax framework have been accompanied by substantial processes for internationalization of most banks in the industry, involving diversification and growth of business activities. At present, three of the country's five bank groups are undertaking processes for international expansion. All Andorran banks are certified as qualified intermediaries by the United States Internal Revenue Service (IRS).

Andorran Law does not allow for the creation of any opaque structures, nor private foundations for particular interests which may promote offshore investment structures, which prevent the identification of the actual beneficiaries. The Andorran bank entities operate in international markets, applying their standards and best practices.

The Andorran financial system has confirmed its strength during the year 2018, continuously giving examples of its solvency in an international context, with a

negative interest rate and a continuous adaptation of the services and processes to the international standards in order to compete in equal conditions with the remaining financial centers worldwide. The consolidation of the internal market and the good behavior of the internationalization process of the Andorran banking institutions is translated in the diversification and growth of its business.

Economic activity in Andorra is oriented mainly towards services, as in the case of all other European economies. Tourism and trade form the basis for the economy of the Principality. Tourism is increasingly diversified based upon seasonal considerations and accounts for some 8 million visitors yearly.

Andorra has three areas dedicated to winter sports: Grandvalira, Vallnord and Naturlàndia, which offer practically all snow sports, with 318 kilometers of ski slopes and a total of 3,075 hectares of skiable areas. The Grandvalira and Vallnord areas have the world's highest concentration of ski lifts per square meter, with capacity to move over 156,000 people hourly.

During the summer, the skiing areas are adapted in order to offer to the visitors a broad range of activities: golf, karting, theme schools, mountain bike circuits, family parks, helicopter flights, etc. In addition, you can enjoy the Madriu-Perafita-Claror valley (which represents close to 10% of the Andorran surface), declared UNESCO World Heritage Landscape in 2004, category to which only 84 landscapes worldwide belong to.

Andorra is a European state characterized by strong social and economic dynamism and by the stability of its political and institutional system. The Andorran economy, modern and in regular development, has been marked in recent years by important agreements of various kinds attained with EU countries and with important international bodies.

Sovereign Rating of the Principality of Andorra

With regards to the sovereign rating of the Principality of Andorra, in the latest evaluation by Standard & Poor on January 18th, 2019, the agency confirmed Andorra's rating at "BBB/A-2" and maintained the stable perspective of Andorra. In this latest evaluation, the evaluators positively pointed out the important progress made by the Government in the alignment of the country with international standards, and in particular, concerning the transposition of the European regulations with respect to money laundering and the financing of terrorism and the financial system. They also highlighted the solid tax framework, the economic development, the elimination of Andorra from the list of non-

cooperative tax jurisdictions, and the ratification by the corresponding bodies confirming that the special Andorran regimes cannot be considered as harmful.

Furthermore, the latest sovereign rating evaluation by the agency Fitch took place on February 8th, 2019, in which the agency reaffirmed Andorra's rating as BBB+ with stable perspective. In this latest evaluation it was also highlighted the acceleration which is being carried out by the Principality of Andorra in the alignment with international standards regarding financial regulations and fiscal transparency, and the removal of Andorra from the European Union's list of non-cooperative tax jurisdictions.

Economic situation

GDP evolution

(million euros)

GDP evolution	2015	2016	2017	2018
Real GDP	1,901.41	1,937.33	1,970.73	2,002.84
Annual Trend (y/y-1)	0.8%	1.9%	1.7%	1.6%

Base 2000

(million euros)

Nominal GDP	2015	2016	2017	2018
Nominal GDP	2,535.12	2,601.09	2,674.08	2,742.04
Annual Trend (y/y-1)	0.4%	2.6%	2.8%	2.5%

Base 2000

The nominal GDP shows a recovering trend since 2018, as it has increased a 2.8% and 2.5% during the last two years.

Gross Domestic Product (Gross Value Added Approach)

Andorra's economic structure is mainly dominated by the services sector (88.6%). The activities which lead such services sector are the following: financial and insurance activities, real estate activities, scientific and technical activities, administrative and support services; wholesale and retail trade and repair of motor vehicles; accommodation and food services, transport and storage, and information and communication.

(million euros)

Nominal Composition by Sector	2015	2016	2017
Agriculture, Forestry and Fishing	11.9	12.8	12.9
Industry and manufacturing (except construction)	115.9	120.2	122.6
Construction	132.2	135.9	143.1
Services	2,028.30	2,060.20	2,120.20
<ul style="list-style-type: none"> Wholesale and Retail Trade. Repair of Motor Vehicles, Accommodation and Food Services, Transport and Storage, and Information and Communication 	694.3	720.7	747
<ul style="list-style-type: none"> Financial and Insurance Activities, Real Estate Activities, Professional, Scientific and Technical Activities; Administrative and Support Service Activities 	883.5	875.5	895.1
<ul style="list-style-type: none"> Public administration, defense, education, human health and social work activities, Arts, entertainment and recreation; other service activities; and activities of household and extra-territorial organizations and bodies 	450.6	464	478.1
Total by Sector	2,288.30	2,329.00	2,398.90
Taxes	246.9	272	274.8
TOTAL GDP	2,535.10	2,601.10	2,673.70

(% total)

Nominal Composition by Sector	2015	2016	2017
Agriculture, Forestry and Fishing	0.5%	0.5%	0.5%
Industry and manufacturing (except construction)	5.1%	5.2%	5.1%
Construction	5.8%	5.8%	6.0%
Services	88.6%	88.5%	88.4%
<ul style="list-style-type: none"> Wholesale and Retail Trade. Repair of Motor Vehicles, Accommodation and Food 	30.3%	30.9%	31.1%

Services, Transport and Storage, and Information and Communication			
<ul style="list-style-type: none"> Financial and Insurance Activities, Real Estate Activities, Professional, Scientific and Technical Activities; Administrative and Support Service Activities 	38.6%	37.6%	37.3%
<ul style="list-style-type: none"> Public administration, defense, education, human health and social work activities, Arts, entertainment and recreation; other service activities; and activities of household and extra-territorial organizations and bodies 	19.7%	19.9%	19.9%
Total	100%	100%	100%

Inflation (including core inflation)

Inflation	2015	2016	2017	2018
CPI. General	-0.9%	0.4%	2.6%	0.7%
Core Inflation	0.6%	0.1%	0.9%	0.4%

In 2018, inflation has been equal to 0.7% while the core inflation has grown 0.4%.

Public Finance Highlights

(million euros)

Expenditure	2016	2017	2018	2017/16	2018/17
Central Government	416.2	414.3	434.5	-0.5%	4.88%
<i>Central Government (SEC'95)</i>	416.2	414.3	434.5	-0.5%	4.88%
Non Market Non Profit Institutions	76.5	77.9	81.0	1.8%	3.98%
Central Government Social Security	283.3	293.4	304.4	3.6%	3.75%
Local Governments	96.7	115.2	135.2	19.2%	17.36%

Total General Government	876.1	900.8	955.1	3.2%	6.03%
% GDP	33,60%	33,70%	34,83%	+0,1%	+1,13%
Revenue	2016	2017	2018	2017/16	2018/17
Central Government	438.8	423.4	432.3	-3.5%	2.10%
Non Market Non Profit Institutions	75.3	77.1	80.9	2.4%	4.93%
Central Government Social Security	332.6	341.9	357.8	2.8%	4.65%
Local Governments	139.5	146.6	157.1	5.1%	7.16%
Total General Government	986.2	989.0	1,028.1	0.3%	3.95%
% GDP	37.90%	37.00%	37.49%	-0.9%	+0.49%
Surplus (or Deficit)	2016	2017	2018	2017/16	2018/17
Central Government	22.6	9.1	-2.2	-59.8%	-124.18%
Central Government (SEC'95)	22.6	9.1	-2.2	-59.8%	-124.18%
Non Market Non Profit Institutions	-1.2	-0.8	-0.1	-34.6%	-87.50%
Central Government Social Security	49.3	48.5	53.4	-1.6%	10.10%
Local Governments	42.8	31.4	21.9	-26.6%	-30.25%
Total General Government	113.5	88.2	73.0	-22.3%	-17.23%
Total General Government (SEC'95)	113.5	88.2	73.0	-22.3%	-17.23%
% GDP	4.4%	3.3%	2.66%	-1.1%	-0.64%
% GDP (SEC'95)	4.4%	3.3%	2.66%	-1.1%	-0.64%
Interest Payments	2016	2017	2018	2017/16	2018/17
Central Government	16.2	13.8	11.9	-15.0%	-13.77%
Non Market Non Profit Institutions	-	-	-	-	-
Local Governments	1.5	1.2	1.1	-18.3%	-8.33%
Public Debt and other Financing Sources	2016	2017	2018	2017/16	2018/17
Central Government	931.5	911.8	904.0	-2.1%	-0.86%
Non Market Non Profit Institutions	-	-	-	-	-
Central Government Social Security	-	-	-	-	-
Local Governments	109.7	92.8	86.5	-15.4%	-6.79%

Total General Government	1,040.8	1,004.6	990.50	-3.5%	-1.40%
% GDP	40.0%	37.6%	36.12%	-2.4%	-1.48%
Total Net Debt General Government	-8.80%				
Public Sector Assets	2016	2017	2018	2017/16	2018/17
Central Government	1,318.0	1,076.5	1,031.3	-18.3%	-4.20%
Non Market Non Profit Institutions	69.0	79.7	80.9	15.5%	1.51%
Central Government Social Security	1,193.0	1,284.6	1,273.77	7.7%	-0.84%
Local Governments	585.6	603.5	648.6	3.1%	7.47%
Total General Government	3,165.7	3,044.3	3,034.57	-3.8%	-0.32%
Public Sector Liquid Assets	2016	2017	2018	2017/16	2018/17
Central Government	91.5	104.2	109.4	13.9%	4.99%
Non Market Non Profit Institutions	10.0	11.9	13.5	19.0%	13.45%
Central Government Social Security	1,161.0	1,244.7	1,236.5	7.2%	-0.66%
Local Governments	91.4	101.7	108.9	11.3%	7.08%
Total General Government	1,353.9	1,462.5	1,468.3	8.0%	0.40%
% GDP	52.1%	54.7%	53.55%	+2.6%	-1.26%

General Government deficit and debt

The General Government's balance is positive at 73 million Euros (2.66% GDP) in 2017.

Deficit				
<i>(million euros)</i>				
Central Government	2015	2016	2017	2018
CG deficit	-13.3	22.6	9.1	-2.2
Annual Trend (y/y-1)	146.3%	-269.9%	-59.7%	-124.18%
CG Deficit (% GDP)	0.5%	0.9%	0.3%	0.08%
CG deficit (SEC95)	-13.3	22.6	9.1	-2.2
CG deficit (% GDP) SEC95	0.5%	0.9%	0.3%	0.08%
Local Government	2015	2016	2017	2018

LG surplus or deficit	22.9	42.8	31.4	21.9
Annual Trend (y/y-1)	-20.8%	86.9%	-26.6%	-30.25%
LG surplus or deficit (% GDP)	0.8%	1.5%	1.2%	0.80%
Related entities (non market non profit institutions)	2015	2016	2017	2018
RE surplus or deficit	-0.4	-1.2	-0.8	-0.1
Annual Trend (y/y-1)	-180.0%	200.0%	-33.3%	-87.50%
Surplus or deficit (% GDP)	0.1%	0.1%	0.0%	0.00%
Related entities (Social Security)	2015	2016	2017	2018
RE SS surplus	40.8	49.3	48.5	53.4
Annual Trend (y/y-1)	37.8%	20.8%	-1.6%	10.10%
Surplus (% GDP)	1.0%	1.9%	1.8%	1.95%
Total GG surplus or deficit	50.0	113.5	88.2	73.0
Annual Trend (y/y-1)	-6.7%	127.0%	-22.3%	-17.23%
GG Deficit or surplus (% GDP)	2.0%	4.4%	3.3%	2.66%
Total GG surplus or deficit (SEC95)	50.0	113.5	88.2	73.0
Annual Trend (y/y-1)	-6.7%	127.0%	-22.3%	2.66%
GG deficit or surplus (% GDP) SEC95	2.0%	4.4%	3.3%	2.66%

Gross General Government debt is 36.1% of GDP in 2018. Net of liquid assets, composed by substantial social security reserves, mostly placed abroad, General Government does not have debt, as it presents a result of 15.5% of GDP in 2018.

Debt				
<i>(million euros)</i>				
General Government	2015	2016	2017	2018
Central Government	904.8	931.1	911.8	904.0
Local Government	124.7	109.7	92.8	86.5
RE (non market non profit institutions)	-	-	-	-

Total gross Debt GG	1,029.5	1,040.8	1,004.6	990.50
Total gross Debt GG (% GDP)	40.6%	40.0%	37.6%	36.1%
Net General Government debt (% GDP)	(4.2)%	(8.7)%	(13.3)%	(15.5)%

General government expenditure and revenue and its breakdown by main categories

Expenditure				
<i>(million euros)</i>				
Central Government	2015	2016	2017	2018
Current Expenditures	300.2	365.9	368.3	389.1
Chap01. Personnel expenses	100.2	105.6	110.8	114.9
Chap02. Goods and service expenses	45.4	44.0	45.0	49.9
Chap03. Financial expenses	17.5	16.2	13.8	13.1
Chap04. Current transfers	137.1	200.1	198.7	211.2
Investment	103.9	50.3	46.0	45.4
Chap06. Real Investment	46.0	44.5	39.9	38.1
Chap07. Transfer of capital	57.9	5.7	6.1	7.3
Total	404.0	416.2	414.3	434.5

Expenditure				
<i>(million euros)</i>				
Local Government	2015	2016	2017	2018
Current Expenditures	89.7	89.1	89.1	94.5
Chap01. Personal expenditure	49.2	48.0	47.5	48.9
Chap02. Goods and service expenditure	32.5	33.0	36.7	38.8
Chap03. Financial expenditure	1.9	1.5	1.2	1.1
Chap04. Current transfers	6.1	6.6	5.7	5.7
Investment	21.0	11.1	24.1	40.7

Chap06. Real Investment	18.5	10.2	23.8	40.5
Chap07. Transfer of capital	2.5	0.9	0.3	0.2
Total	110.6	100.1	115.2	135.2

Expenditure				
<i>(million euros)</i>				
Related entities (Non-Market Non-Profit Institutions)	2015	2016	2017	2018
Current Expenditures	71.2	73.6	75.5	78.7
Chap01. Personnel expenditure	43.9	46.7	47.3	48.2
Chap02. Goods and service expenditure	25.1	24.8	25.8	27.9
Chap03. Financial expenditure	0.0	0.0	0.1	0.1
Chap04. Current transfers	2.1	2.1	2.3	2.5
Investment	2.6	2.9	2.4	2.3
Chap06. Real Investment	2.6	2.9	2.4	2.3
Chap07. Transfer of capital	0.0	0.0	0.0	0
Total	73.8	76.5	77.9	81.0

Expenditure				
<i>(million euros)</i>				
Related entities (Social Security)	2015	2016	2017	2018
Current Expenditures	221.2	233.8	245.5	257.7
Chap01. Personnel expenditure	4.8	4.9	5.1	5.2
Chap02. Goods and service expenditure	2.0	2.3	2.5	2.5
Chap03. Financial expenditure	-	2.9	3.0	2.1
Chap04. Current transfers	214.4	223.7	234.8	247.9
Investment	0.7	49.4	47.9	46.7
Chap06. Real Investment	0.7	0.5	0.7	0.5

Chap07. Transfer of capital	0.0	48.9	47.3	46.2
Total	221.9	283.3	293.4	304.4

Revenue				
<i>(million euros)</i>				
Central Government	2015	2016	2017	2018
A Current Revenue	389.8	438.8	423.2	432.3
B Chap01. Direct Taxes	68.3	82.9	71.3	84.4
C Chap02. Indirect Taxes	269.1	290.7	292.9	288.2
D Chap03. Taxes and other income	28.8	24.7	26.9	25.4
E Chap04. Current transfers	0.1	0.1	0.1	0.1
F Chap05. Estate Income	23.5	40.4	32.0	34.2
G Capital Revenue	1.0	0.0	0.2	0
Total	390.3	438.8	423.4	432.3

Revenue				
<i>(million euros)</i>				
Local Government	2015	2016	2017	2018
A Current Revenue	89.6	100.09	107.7	115.4
B Chap01. Direct Taxes	23.1	24.81	26.5	29.1
C Chap02. Indirect Taxes	4.7	7.2	7.5	7.5
D Chap03. Taxes and other income	33.8	36.67	40.9	43.9
E Chap04. Current transfers	16.8	19.21	19.5	21.9
F Chap05. Estate Income	11.2	12.2	13.3	13
G Capital Revenue	42.1	38.61	38.9	41.7

Total	131.7	138.7	146.6	157.1
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Revenue				
<i>(million euros)</i>				
Related entities (Non-Market Non-Profit Institutions)	2015	2016	2017	2018
A Current Revenue	69.6	72.5	74.8	78.5
B Chap01. Direct Taxes	-	-	-	-
C Chap02. Indirect Taxes	-	-	-	-
D Chap03. Taxes and other income	46.1	46.3	47.2	48.8
E Chap04. Current transfers	23.4	25.6	27.5	29.1
F Chap05. Estate Income	0.1	0.5	0.1	0.6
G Capital Revenue	2.4	2.8	2.4	2.4
Total	71.9	75.3	77.1	80.9

Revenue				
<i>(million euros)</i>				
Related entities (Social Security)	2015	2016	2017	2018
A Current Revenue	262.7	283.7	294.7	311.6
B Chap01. Direct Taxes	209.3	233.4	249.9	263.8
C Chap02. Indirect Taxes	-	-	-	-
D Chap03. Taxes and other income	2.9	2.3	3.7	3
E Chap04. Current transfers	48.2	45.5	38.0	38.7
F Chap05. Estate Income	2.3	2.5	3.2	6.1
G Capital Revenue	-	48.9	47.3	46.2
Total	262.7	332.6	341.9	357.8

Taxation

The taxation system in the Principality of Andorra has been developed in accordance with Andorra's economic structure and activity, and the taxation bases have been extended so as to distribute the tax burden in a more optimal nature, going from an almost exclusively indirect taxation system to the added inclusion of direct taxation that is internationally recognized.

Pursuant to the mandate established in the Constitution, taxation powers are distributed between the commons and the Government.

As regards the commons, the qualified Law for the delimitation of the powers of the commons, of November 4th, 1993, configures and delimits the powers of the commons as part of their self-government. The Law establishes the taxation powers of local authorities as regards the following taxes:

- The traditional "foc and lloc" (fire and place) tax.
- The real estate tax.
- The tax on lease revenues.
- The tax on the location of commercial, business, and professional business.
- The tax on construction.

In 2003, Law 10/2003 of June 27th on common finance unifies the essential elements of common taxes and homogenizes the bases for the various types of tax that these local authorities implement through the respective regulations.

At the State level, the Customs Union Agreement between the Principality of Andorra and the European Economic Community changes the structure of taxes on consumption and establishes the start of general indirect taxation.

During the 1994-1996 period there was significant tax development with the creation of five new taxes:

- Taxes on vehicle ownership (1994).
- Trademark Office taxes (1995).
- Tax on business owner registration (1995).
- Legal taxes (1995).
- Bingo tax (1996) (currently replaced by the Tax over Games of Chance introduced by Law 37/2014 of December 11th, regulating the games of chance).

In 2000, the legislator passed the Law on the provision of services tax (ISI), following the political model for the extension of indirect taxation to all sectors of the economy. This is a framework law that establishes the bases of indirect taxation on services, which, by means of specific laws, was to be developed in all sectors within two years.

In May 2002, the indirect tax on the provision of banking and financial services (now abolished) and the indirect tax on the provision of insurance services were approved. The same year, the notarial tax (now abolished) and the real estate transfer tax were approved as part of the tax co-responsibility between the commons and the Government.

Finally, on November 3rd, 2003, the three specific tax laws extending indirect taxation to all the sectors of the economy were passed:

- Indirect tax on the provision of business and professional services.
- Indirect tax on internal production.
- Indirect tax on commercial activities.

These three new taxes, which came into force on January 1st, 2006, were replaced by the indirect general tax (IGI), which came into force on January 1st, 2013.

Direct State taxation started in 2006, with the tax on capital gains in real estate transfer coming into force. This is a direct tax on the increase in value of real estate properties in *inter vivos*, onerous or lucrative real estate transfer, as well as on the creation or assignment of rights in rem over these assets.

On December 29th, 2010 three laws of great importance in the field of direct taxation were passed. These were:

- Law 94/2010 of December 29th, on the income tax for tax non-residents, and its amendments.
- Law 95/2010 of December 29th on the corporation tax, and its amendments.
- Law 96/2010 of December 29th on the income tax for economic activities (currently replaced by Law 5/2014, of April 24 on the tax over the income of individuals).

The creation of these three taxes is related to and perfectly fits in with the Principality of Andorra's current position as a center of the provision of international services. The outward orientation of Andorra's economy, towards the modernization of the taxation system and a more even distribution of tax burdens, was the main reason for this legislative initiative.

In 2013 the general indirect tax (IGI) came into force. Its introduction made it possible to replace most of the existing indirect taxes on consumption in Andorra. In this way, the framework of indirect taxation has become more neutral and efficient for companies and fairer for citizens.

Finally, on January 1st, 2015, the personal income tax (IRPF) came into force, which completed the configuration of the Andorran taxation system and introduced a tax that is the equivalent to that of neighboring countries, the European Union, and OECD countries. The new tax comprises all the income made by the taxpayer, regardless of its type and source, also including the business income, which, until then, had been subject to tax on the income of economic activities. It is regulated by Law 5/2014 of April 24th on the personal income tax and its amendments.

International relations

In addition to the abovementioned economic opening and the creation of a new fiscal framework that has the solid basis of this new growth model, Andorra has been continuously adapting its legislative framework to achieve international standards and will continue to do so. Thus, Andorra has deepened in the process of standardization and transparency to international bodies, such as the OECD, Moneyval, GRECO and IOSCO.

The Principality of Andorra likewise takes into account the recommendations of international organizations such as the International Monetary Fund (IMF), MONEYVAL and the OECD, which have been taken into consideration in the drafting of the main regulatory provisions and initiatives governing financial activity in the Principality of Andorra with the aim of attaining compliance with international best practices and standards.

The process of adopting the international standards of the OECD, which has led Andorra to sign the various Agreements for Tax Information Exchange originated with the Paris Declaration of March 10th, 2009. That declaration set out Andorra's intention of undertaking a process of legislative reform of banking secrecy for the purposes of tax information exchange upon request, in accordance with Article 26 of the OECD Convention.

On September 7th, 2009, the General Council adopted Law 3/2009 on the Exchange of Tax Information upon prior request. Articles 8 and 10 were later amended by Law 12/2014 of June 26th. That new rule permitted to sign the further agreements on the Exchange of Tax Information upon prior request.

Andorra passed Phase I of Global Forum's Peer Review in August 2011. In August 2014, the Global Forum (OECD) report on the Peer Review Phase 2 of Andorra was published. Andorra was rated as Partially compliant (Overall Rating, that is, Phase 1 + 2). On June 2017, Andorra obtained a provisional grade of Largely Compliant in accordance with the fast-track procedure and with regards to the exchange of information and previous request standard of the OECD (EOIR). During this year 2019 Phase III of Andorra is being evaluated by the Global Forum, and an *in situ* visit took place in February 2019.

Andorra has now signed Tax Information Exchange Agreements (TIEAs) with the following countries: Austria, Liechtenstein, Monaco, San Marino, France, Belgium, Argentina, the Netherlands, Portugal, Spain, Iceland, Finland, Faeroe Islands, Denmark, Norway, Sweden, Greenland, Germany, Australia, Poland, Czech Republic, Switzerland, Korean Republic and Italy.

Furthermore, the new legal and tax framework has allowed Andorra to begin working on ratification of Agreements for Avoidance of Double Taxation (DTAs). It has now signed such Agreements with France, Luxembourg, Spain, United Arab Emirates, Portugal and Liechtenstein, Malta and Cyprus, while working to expand its network further.

Taking into account the importance of the agreements and international treaties subscribed, and taking into account the experience of Andorra in the application of Law 3/2009, it was considered necessary the drafting of a new law which would coherently and clearly include all of the normative changes necessary to be carried out, would update all the regulations in relation to the exchange of information in fiscal matters by means of a previous request, and would introduce for the first time the spontaneous exchange of information. These changes were reflected in Law 10/2017 of May 25th, on exchange of information on a previous request and the spontaneous exchange of information on fiscal matters, which repeals Law 3/2009.

From 2016, a new round of evaluations was programmed for all jurisdictions, with the objective of assuring that all the pertinent amendments had been introduced in the legislation and the administrative practice resulting from the evaluation processes, as well as the new Terms of Reference. Such amendments contain the basic criteria that the Global Forum shall use in future evaluations. These new Terms of Reference include the amendments to the comments of article 26 of the Model of Treaty of the OECD, approved on July 17th, 2012. These modifications were incorporated in Law 10/2017.

Andorra undertook a commitment to the OECD and the EU to introduce the OECD global standard for automatic exchange of tax information beginning in 2018, in relation to data from 2017.

Law 19/2016 of November 30th on the automatic exchange of information of fiscal matters implements in the Principality of Andorra the common standard of the OECD on the regulation for the communication and due diligence relative to the information on financial accounts, with the intention of improve compliance with international taxation on the basis of the reciprocal automatic exchange of information which is subject to confidentiality and other protections. This includes dispositions which may limit the use of exchanged information and the application of data protection laws and practices in the treatment of exchanged personal information.

The General Council in the session of November 30th, 2016 approved Law 19/2016, on the automatic exchange of information on fiscal matters, which was published in the Official Gazette of the Principality of Andorra, number 77, on December 22nd, 2016. This law entered into force on January 1st, 2017.

This Law regulates the automatic exchange of information on financial accounts between the Principality of Andorra and other States in accordance with the agreements or international treating which may be applicable between them.

The first conventional instrument is the Agreement between the European Union and the Principality of Andorra, which treats the automatic exchange of information on financial accounts to improve compliance with international taxation. This implies the automatic exchange of information amongst member States of the European Union and the Principality of Andorra in application of the Common Norm of Declaration of the OECD.

It also treats the automatic exchange of information based on other international treaties or agreements which establish this automatic exchange, but only if the OECD's common standard on communication and due diligence relative to the information on financial accounts is applied.

The Agreement with the European Union takes into consideration the progress made in the framework of the European Union and the OECD with regards to the mutual administrative assistance in fiscal matters. It was signed on February 12th, 2016 and the General Council, on the October 20th, 2016 session approved the Agreement between the Principality of Andorra and the European Union relative to the exchange of information on financial accounts to improve the compliance with

international taxation, which was published in the Official Gazette of the Principality of Andorra, number 67, on November 16th, 2016.

Complementing the publication carried out in the Official Gazette of the Principality of Andorra, number 67, of November 16th, 2016, by means of an edict published in the Official Gazette of the Principality of Andorra, number 1, of January 4th, 2017, it was made public that it had entered into force on January 1st, 2017.

The automatic exchange of information applies reciprocally among all Member States of the European Union. The Protocol of the Agreement transforms, modifying it almost completely, the existing agreement on the taxation of profit arising from the savings of individuals. The revised agreement comprises the following essential elements: the reciprocal and automatic exchange of information in accordance with the common norm of declaration of the OECD, which has been integrated in the agreement without any amendment, and the exchange of fiscal information with previous request, in agreement with the OECD standard established in article 5 of the model agreement on the exchange of information (TIEA Model) and article 26 of the model of fiscal treaty on income and patrimony of the OECD (MC OCDE). The spontaneous exchange of information is not included in this Agreement.

The multilateral Convention on Mutual Administrative Assistance in Tax Matters is the result of the work carried out jointly with the European Council and the OECD (hereinafter, the "**Multilateral OECD Treaty**"). On November 5th, 2013 Andorra signed the Multilateral OECD Treaty, and the General Council in the July 28th, 2016 session approved the Convention on Mutual Administrative Assistance in Tax Matters included in the 2010 Protocol, and was published in the Official Gazette of the Principality of Andorra, number 46, of August 12th, 2016.

Complementing the publication made in the Official Gazette of the Principality of Andorra, number 46, of August 12th, 2016 by means of an edict published in the Official Gazette of the Principality of Andorra, number 56, of October 5th, 2016 it was made public that the Convention on Mutual Administrative Assistance in Tax Matters included in the 2010 Protocol entered into force on December 1st, 2016.

With regards to the exchange of information, the Convention establishes three different methods: through a previous request, automatically and spontaneously, which frequently complement amongst themselves.

On December 2015, the multilateral agreement among competent authorities in relation to the automatic exchange of information related to bank accounts (MCAA), which establishes the principle of the common norm of declaration of the

OECD, was signed. Such regulation determines the method of compilation and the transference of information.

The country members who have signed the exchange agreement with the EU and the multilateral Convention of the European Council and the OECD relative to the administrative mutual assistance in tax matters shall have at their disposal up to three legal bases in order to request information: the EU agreement, the Convention relative to the administrative mutual assistance in tax matters and, if possible, the covenant on administrative assistance of a DTA.

With regards to FATCA, for the time being Andorra remains within the general regime.

With the purpose of guaranteeing the fulfillment of the acquired compromises by means of the ratification of the international agreements relative to the automatic exchange of information, the Government of Andorra has finalized a project related to the creation of the necessary IT infrastructure to be able to comply with the necessary requirements for the international exchange of fiscal information (AEOI).

The implementation of the AEOI system by the Andorran Government is based on the transfer of XML documents through a safe transmission channel (sFTP), and which follows the safety requirements suggested by the OECD. In addition, it also contains a functional/structural validation for each of the transferred documents module relative to an individual or entity subject to such tax; management and control of the transfer of files, and the reception and answer based on the standards suggested by OECD; consolidation, preparation, transference and reception of the files with destination/origin to other competent authorities integrated in the CTS platform.

Andorra exchanges information automatically with regards to financial accounts. In 2018 it shared such information with 41 jurisdictions, in 2019 it will share such information with 32 additional jurisdictions and in 2020 with 22 additional jurisdictions.

On September 20th, 2013, the countries of OECD and the G20 began a project for the complete, coherent and coordinated reform of the international tax regulation, taking into consideration that the actual regulations present certain weak links which generate opportunities for the base erosion and for profit shifting, which are used mainly by multinational corporations.

From these actions arose the Base Erosion and profit Shifting (BEPS) Action Plan, of which the objective is the update of the tax norms to guarantee that the business benefits are effectively taxed where such economic activities take place, and where value is created. The BEPS Action Plan materialized with a package of 15 measures which the OECD presented in October 2015 in its final Reports

On February 23rd, 2016, the OECD agreed to implement a new Inclusive Framework for the implementation of the BEPS Action Plan measures. This new framework allows for the possibility to unite all the jurisdictions as Partners in equal conditions with the OECD countries and the G20 at the OECD's Fiscal Matters Committee (CAF). The first Meeting at the BEPS' Inclusive Framework took place in Kyoto in June 2016, to which Andorra assisted as an observer. Afterwards, on October 14th, 2016 Andorra adhered to the BEPS' Inclusive Framework as a Partner Member.

Amongst the assumed undertakings when becoming a member of the BEPS' Inclusive Framework there is the obligation to adopt BEPS' group of measures. The review of the implementation of such measures revolves around four minimum standards:

- Harmful fiscal practices (Action 5);
- Abuse of international treaties on double taxation (Action 6);
- Requests for the automatic exchange of information for transfer pricing country by country (Action 13); and
- Improvement of the resolution of cross-border fiscal controversies (MAP-Mutual Agreement Procedure) (Action 14).

The same BEPS Action Plan contemplated the development of a multilateral instrument (MLI) to implement with celerity the BEPS Action Plan measures which affected the fiscal treaties. This instrument allows for the signatory countries to adopt the measures included in the BEPS Project to their fiscal treaties, without the need to negotiate and renegotiate individually each of their bilateral treaties.

Therefore, on November 5th, 2015, the ad-hoc Inaugural Group Meeting took place with regards to the BEPS Multilateral Instrument, in which Andorra participated as a member of the ad-hoc group. During 2016, the ad-hoc group carried out diverse meetings with Andorra's participation. On November 20th, 2016 the members of the ad-hoc group adopted and authenticated the text of the multilateral Treaty on the application of the measures relative to the fiscal treaties to prevent the erosion of the tax base and the transfer of profits. Therefore, on June 7th, 2017 the signature ceremony of the BEPS Multilateral Instrument took place, with the participation and signature of 67 jurisdictions from around the world, amongst which was Andorra. As of today, this instrument has more than 80 signatory countries.

In relation to Action 5 of the BEPS, it is dedicated in particular to establishing measures to fight those harmful fiscal practices considering the transparency and the economic substance. The Report of Action 5 assigned as a mandate to the OECD's Forum on Harmful Tax Practices the supervision and review of the application of the minimum standard of Action 5 by all of the members of the BEPS' inclusive framework.

The FHTP carries out the review of the special fiscal regimes of the OECD countries. Taking into account that the new members of the BEPS Inclusive Framework also become members of the FHTP, their fiscal regimes must be analyzed on the basis of the criteria included in the report of Action 5 and the criteria of the FHTP since 1998, with the objective of eliminating any characteristic which may be considered as harmful. Since March 2017, Andorra participates in the FHTP's meetings.

Since its accession to the BEPS' Inclusive Framework, Andorra has carried out an exercise of analysis of its own special fiscal regimes in order to accomplish, with the FHTP's and Action 5's criteria, which concluded with the approval, on April 19th, 2018 of the Law of amendment of Law 95/2010 of December 29th on the tax of companies on June 30th, 2017, which entered into force on May 17th, 2018. Such Law repealed two of the four existing special regimes to such date: the special regime regarding management companies and intragroup financial investment activities and that of companies which intervene in international trade, and amends the remaining two.

Thanks to these amendments, in the latest valuation carried out in the month of October of 2018 by the FHTP, the results of which were approved and published by the exclusive framework of November 15th, 2018, it was favorably concluded with regards to the current special Andorra tax regimes and it was determined that these had stopped being potentially harmful.

In such sense, on December 4th, 2018, the ministers of Economy and Finance of the European Union (ECOFIN) agreed to exclude the Principality of Andorra definitively from the list of non-cooperating countries in tax matters. In fact, the conclusions published on December 5th, 2017, the Council of the European Union already excluded Andorra from such list under the condition that the detected deficiencies with regards to its special tax regimes were corrected in the term of a year. Consequently, with the decisions published on March 12th, 2019, Andorra exited such list.

Further to the amendments with regards to special regimes, the mentioned Law also includes in the Andorran legislation the exchange of reports country by country (Country-by-Country Reporting) along the lines proposed by Action 13.

With the included amendments the obligation and conditions for the presentation of such information country by country is regulated in relation to companies which may be considered as tax residents in Andorra which form part of a multinational group which has revenues of at least 750 million Euro.

At a European level, Andorra signed a Monetary Agreement with the European Union on June 30th, 2011 which grants Andorra the right to have the Euro as its official currency and issue Andorran euro coins. Andorra is working on the implementation of the European regulations pertaining to the following areas: a) Euro banknotes and coins; b) banking and financial legislation, particularly as regards the activity and supervision of the institutions involved; c) the prevention of money laundering, fraud, and the counterfeiting of cash and non-cash payment methods, and d) the measures required for use of the Euro as the single currency, in accordance with the established schedule annexed to the Agreement.

Since April 1st, 2012, when the Monetary Agreement entered into force, Andorran law has been amended to adapt it to the legal acts and regulatory provisions of the European Union specified in the appendix to the Agreement.

On October 10th, 2013, Act 17/2013 was passed, on introduction of the euro within the framework of the Monetary Agreement between the Principality of Andorra and the European Union.

On October 12th, 2018, the seventh meeting was held of the Joint Committee of the European delegation and the Andorran delegation to address the pertinent new legal acts and regulations of the EU and the amendments made to the existing law.

Article 2.2b) of the Monetary Agreement also specifies that the AFA (*Autoritat Financera Andorrana*) must sign the IOSCO Multilateral Memorandum of Understanding (MMoU) on cooperation and exchange of information on the securities market. For this reason, in February 2012, the AFA started working towards the fulfillment of this international commitment. Even though it is not one of the requirements of the Monetary Agreement, the AFA also requested to become an ordinary member of IOSCO, in the belief that this would enable Andorra to take direct part in the decision-making process of this organization, pertaining to the international standards as regards the regulation and supervision of securities markets, including, among others, standards regarding investor protection, asset and investment vehicle management, financial reporting, and the regulation and

supervision of reporting institutions, as well as to obtain the necessary tools to improve its work and cooperate with other supervisory authorities with financial responsibilities, thus ensuring adequate investor protection and contributing to the reduction of the systemic risk derived from market instability in which the institutions in the Andorra financial system operate.

As a result of the 2013 modification of the legal and regulatory framework for the Andorran financial system, on September 17th, 2013, the AFA became an ordinary member of IOSCO, and on September 18th, 2013, it signed the MMoU.

The Decree by virtue of which the applicable accounting framework becomes applicable to the operating entities of the Andorran financial sector and the collective investment companies subject to Andorran law in accordance with international regulations on financial information adopted by the European Union (NIIF -UE), which was simultaneously adopted by Andorra (NIIF-Andorra), was approved in accordance with the final first disposition of Law 30/2007 of December 20th, on the accounting of businessmen, and article 3 of the Decree by virtue of which the general accounting plan is approved, dated July 23rd 2008, and which amended the Decree of February 22nd, 2012. Therefore, the operating entities of the Andorran financial system and the organisms of collective investment of Andorran law prepare their annual accounts on an individual and consolidated basis for the fiscal years beginning after January 1st, 2017 in accordance with NIIF-UE.

The Andorran banking entities presented an authorization to the AFA in order to adopt on an anticipated basis from January 1st, 2019 the NIIF 9 on financial instruments, simultaneously to its entry into force in the European Union. The AFA accepted to early adopt both NIIF 9 and NIIF 15, on the income arising from contracts with clients. Managing companies of Andorran investment organisms which were subsidiaries of Andorran banking entities were also authorized to adopt the mentioned NIIF regulations.

The Decree was amended on December 28th, 2016 in order to introduce a Technical Committee which has as an objective the maintenance of an accounting framework applicable to operating entities of the Andorran financial system and the collective investment companies subject to Andorran law.

By means of amending the Decree of March 29th, 2019, the following regulations were approved:

- NIIF 16: Leasings;
- CINIIF 23: Uncertainty;

- Amendments to NIIF 9: Components on anticipated payment with negative compensation;
- Amendments to NIC 28: Long term participations in associated investments and collective businesses;
- Annual improvements of NIIF: Cycle 2015-2017; and
- Amendments to NIC 19: Amendment, reduction or liquidation of the plan.

The General Council approved the Law of payment services and electronic money on May 17th, 2018, which was published with the Official Gazette of the Principality of Andorra of June 13th, 2018 as the Law 8/2018 of May 17th on payment services and electronic payments (hereinafter, the "Law" or "Law 8/2018").

This Law implemented Directive 2007/64/EC of the European Parliament and of the Council, of November 13th, 2007, on payment services in the European market ("PSD"), with the purpose of ensuring to the suppliers of payment services of Andorra that they would be able to operate in equal terms as those of the EU/EEA, as well as reinforce the transparency and create a common system of rights and obligations for suppliers and users.

Law 8/2018 also implemented Directive 2009/110/EC of the European Parliament and of the Council, of September 16th, 2009, with regards to the research and prudential supervision of the business of the electronic money intuitions. With this implementation, Andorra regulated for the first time the issue and the legal framework of electronic money, with a harmonized legal framework which ensures fair competition amongst the operators and an adequate level of prudential supervision. Additionally, this Law also implements PSD with regards to the regulation of suppliers of payment services.

The regulation ("Regulation for the Implementation of PSD"), approved by the Government of Andorra and published with the Official Gazette of the Principality of Andorra on June 27th, 2018 and which develops the Law and contains mainly:

- Rules on the transparency of the conditions and information requirements of the payment services (Title III of PSD); and
- Rules on the rights and obligations in relation to the supply and the use of payment services (Title IV of PSD).

A separate rule ("Regulation on cross-border payments"), approved by the Andorran Government on June 20th, 2018 and published with the Official Gazette of the Principality of Andorra on June 27th, 2018, implements:

- Regulation (CE) number 924/2009 of the European Parliament and the Council, of September 16th, 2009, on cross-border payments to the European Union; and
- Regulation (UE) number 260/2012 of the European Parliament and the Council of March 14th, 2012, by means of which the technical requirements and business for the transfer of credits and debits directly into euros are established, and a system in Andorra for cross-border payments to other countries of the Single Euro Payments Area (SEPA) is established.

Law 8/2018 was amended to reflect the new European disposition with regards to service payments and suppliers of service payments arising from Directive 2015/2366 of the European Parliament and the Council of November 25th ("PSD2"). Such Law of amendment was approved by the General Council on October 25th, 2018 and published with the Official Gazette of the Principality of Andorra on November 23rd, 2018 as Law 27/2018.

This Law not only amends Law 8/2018, but also other laws in force in Andorra which provide a regulation of global reach for Andorra's banking and financial entities, including for suppliers of payment services. The new regulation (the "Regulation for the implementation of PSD2"), was published by the Official Gazette of the Principality of Andorra on November 28th, 2018 as a PSD2 packet, and substitutes the Regulation for the Implementation of PSD, in order to develop Law 8/2018 amended by Law 27/2018. The Regulation for the implementation of PSD2 mainly contains developments with regards to:

- Norms on transparency of the conditions and information requirements for payment services (Title III of PSD2); and
- Norms on rights and obligations in relation to the supply and use of payment services (Title IV of PSD2).

Additionally, the Regulation for the implementation of PSD2 and Law 8/2018, amended by Law 27/2018, implements PSD2 with regards to the regulation of suppliers of payment services. By means of the amendment Law, other laws in force in Andorra which provide a regulation of general reach for the banking and financial entities of Andorra were modified too.

As a result, Law 27/2018 of October 25, of the amendment of Law 8/2018 jointly with the Regulation of implementation of PSD2 and certain dispositions of other existing laws, shall be equivalent to PSD2.

With the mentioned regulation, Andorra has adopted all the necessary measures to join the Single Euro Payments Area (SEPA), an European unique area for payment systems in Euros, which harmonizes the payment methods, mainly with regards to three types of payments and financial instruments: wire transfers, payment cards and domiciled payments. Andorra will join such geographical area of the schemes of the sole payment zone in euros, SEPA, from March 1st, 2019 and the Andorran banks from March 5th, 2019.

The regulation which implements Directive 2014/49/EU of the European Parliament and the European Council of April 16th, 2014 on the regime of guaranteeing deposits by means of Law 20/2018 of September 13th, which regulates the Andorran Fund of Guarantee of Deposits and the Andorran System of guaranteeing investments, was approved by the General Council on September 13th, 2018 and published with the Official Gazette of the Principality of Andorra on October 3rd, 2018, and entered into force on October 4th, 2018.

This Law contains the legal dispositions to transpose Directive 2014/49, but also the legal dispositions on investment compensation systems already existing in the Andorran legal framework (Law 1/2011 which was repealed by the new Law).

Directive 2002/87/UE of the European Parliament and the Council, of December 16th, 2002, on the complementary supervision of credit entities, insurance companies and investment companies in a financial conglomerate and its amendments, as well as the delegated Regulation of the Commission (UE) 2015/2303 of July 28th, 2015 which completes Directive 2002/87/CE of the European Parliament and the Council on technical regulatory norms which specifies the definitions and the coordination of the complementary supervision of the risk concentration and the intragroup transactions, which have been included in the Andorran legal framework through the project of law on supervision of financial conglomerates and a regulation (*Reglament*).

This project of law was approved by the Government of Andorra on June 20th, 2018 and the General Council on December 20th, 2018. The regulation which develops the Law on financial conglomerates was published with the Official Gazette of the Principality of Andorra on March 13th, 2019.

With regards to the transposition and implementation of Directive 2013/36/UE of the European Parliament and the Council, on June 26, 2013 on the access to the activity of credit institutions and the prudential supervision of the credit entities and investment companies (hereinafter, CRD IV) and the Regulation (UE) number 575/2013 of the European Parliament and the Council of June 26, 2013, certain prudential requirements for the credit entities and investment companies

(hereinafter, CRR), since the celebration of the Mixt Committee on 2017, Andorra has intensely worked in the development of the project of law on solvency, liquidity and prudential supervision (hereinafter, the Law on Solvency) for banking entities and investment companies and the Regulation which develops this Law.

The Government of Andorra approved the project of Law of Solvency on June 20th, 2018 and the General Council on December 20, 2018. Law 35/2018 of December 20th, on solvency, liquidity and prudential supervision of banking entities and investment companies was published on the Official Gazette of the Principality of Andorra on January 23rd, 2019 and entered into force on January 24th, 2019.

The regulation developing Law 35/2018 of December 20th, on solvency, liquidity and prudential supervision of banking entities and investment companies was published on the Official Gazette of the Principality of Andorra
On March 13th, 2019.

It must be highlighted that after the implementation of the NIIF by the financial entities supervised, the AFA has planned the partial transposition of the execution Regulation (UE) number 620/2014 of the Commission through the issuance of the technical communication number 247/17 of the AFA, which establishes new requirements for financial information and capital requirements which the banking entities must report to the AFA. In addition, the banking entities already send other relevant forms which already existed in the information requirements of Andorra even before the issue of the technical communication 247/17, which can be considered equivalent to certain of the FINREP forms which have not yet been completely transposed.

Finally, even though not all the forms of the customary reports have been incorporated (COREP) in the Andorran legal and regulatory framework, with the publication of the technical communication 247/17, since the 2017 framework, the banking entities are obliged to inform the AFA every month of the calculations and capital requirements in accordance with CRD IV and CRR, both individually and in a consolidated fashion.

On another note, and as previously indicated in accordance with article 2 of the Monetary Agreement, the AFA joined in 2013 the International Organization of Securities Commissions (IOSCO) and signed its multilateral Agreement (MMoU), formalizing the reciprocal cooperation and the exchange of information with regards to the supervision of securities' markets.

In September 2013 the AFA became an ordinary member of IOSCO and a signatory of MMoU of the IOSCO. In accordance with the requirements of IOSCO, the

protection of investors of Directive 2004/39/CE of the European Parliament and the Council, of April 21st, 2004, on the market of financial instruments, as well as certain parts of the Directive of implementation 2006/73/CE on the organization requirements and the functioning conditions of the investment companies and the defined terms to the effect of Directive 2004/39/CE, as well as the main obligations arising from Directive 2003/6/CE on the abuse of the market, which was already transposed and implemented in Andorra through:

- Law 8/2013 of May 9th, on the organization requirements and the functioning conditions of the entities which operate in the financial system, the protection of the investor, the abuse of the market and the agreements of financial guarantees;
- Four technical communications issued by AFA in relation to the minimum content relative to maintaining a registry of orders and maintaining a registry of transactions, precisely one for each type of financial entity (banking entity, investment managers, asset management company); and
- The clarification of the penal code in order to typify as a crime any behavior regarding privileged information and abuse of the market.

In accordance with the compromises included in the schedule of the Monetary Agreement, Andorra has worked in the transposition of (i) Directive 2004/39/CE of the European Parliament and the Council, from April 21st, 2004, on the market of financial instruments, (ii) some parts of the execution Directive 2006/73/CE on the organization requirements and working conditions for investment companies and defined terms to the effects of Directive 2004/39/CE, (iii) the execution Regulation (CE) 1287/2006 on the obligations of maintaining a registry for investment companies, transaction reports, admission to trade of financial instruments and defined terms to the effect of Directive 2004/39/CE, (iv) as well as Directive 2014/57/UE of the European Parliament and the Council, of April 16th, 2014 on penal sanctions for the abuse of the market and the Regulation (UE) number 596/2014 of April 16th, 2014, on the abuse of the market, through:

- Law 17/2019 of February 15th, on the amendment of Law 8/2013 of May 9th on the organization requirements and the functioning conditions for the entities which operate in the financial system, the protection of the investor, the abuse of the market and the agreements of the financial guarantees;
- This Law, which amends Law 8/2013 also includes a final disposition which amends Law 9/2005 of February 21st, qualified by the Penal Code; and

- A regulation which develops Law 8/2013 and which also includes the dispositions referred to the obligations to maintain the registries included in the technical communications of the AFA. These requirements shall be consolidated in accordance with the regulation and the technical communications shall be repealed. This regulation was approved on April 11th, 2019.

This Law was approved by the General Council on February 16th 2019 and was published with the Official Gazette of the Principality of Andorra of March 20th, 2019 and entered into force on March 21st, 2019.

On 2013, Law 14/2010 was repealed, the legislation on financial guarantees agreements was incorporated in the body of Law 8/2013, May 9th on the organization requirements and conditions for the functioning of the entities which operate in the financial system, the protection of the investor, the abuse of the market and the agreements of financial guarantees, as a fifth chapter, which adopts the dispositions of Directive 2002/47/CE of the European Parliament and the Council of June 6th, 2002 on the agreements of financial guarantees, and which was amended by the Directive 2009/44/CE of the European Parliament and the Council, dated 6th May 2009.

The amendment of Law 8/2013 shall include minor amendments regarding certain aspects of the agreements of financial guarantees and the contractual compensation included in Directive 2002/47/CE when it was amended by Directive 2014/59/UE of the European Parliament.

The 40 recommendations of GAFI were reviewed in February 2012, and its methodology of application was revised in February 2013. This regulation of international reach to fight money laundering and the financing of terrorism is to be implemented in the internal legislation of the Principality of Andorra. The Financial Intelligence Unity of Andorra (UIFAND), as a body of prevention and control of this matter, translates these recommendations to Andorran Law.

Once finalized the fourth round of evaluation of Moneyval in the month of September of 2015, the fifth round began, which entailed the visit *in situ* of the evaluators during the month of March 2017, in accordance with the norms of procedure. After such visit, the corresponding report was drafted and presented to the Plenary of Moneyval on the month of December 2017, and was posteriously adopted and approved by the Plenary. Subsequently to this, the first follow-up Report was presented in the month of December 2018, which was equally approved, and the Government of Andorra was instructed to file the second follow-up Report in the Plenary of the month of December 2019.

It must be highlighted that, thanks to the effort of improvement of the Andorran norm, at present the Principality of Andorra, with regards to the technical conformity and with regards to the 40 Recommendations of GAFI, has designated 34 of such recommendations as completed and 6 as partially completed.

In addition, and with regards to the effectiveness of the system, of the 11 Intermediate Results analyzed 7 of them obtained a moderate result and 4 of them a substantial result.

Alternatively, and as a consequence of the Monetary Agreement, the Principality of Andorra has been working in the transposition of Directive (UE) 2015/849 of the European Parliament and the European Council of May 20th, 2015 regarding the prevention of the use of the financial system for money laundering and the financing of terrorism (hereinafter, the "**4th Directive AML**"), as well as the Rule (UE) 2015/847 of the European Parliament and the European Council of May 20th, 2015 relative to the information which accompanies the transfer of funds, through the approval of Law 14/2017 of June 22 on the prevention and the fight against money laundering or financial instruments and the financing of terrorism.

Equally, other fundamental texts have been approved, such as: (i) Law 15/2017 of July 13th, qualified for the amendment of Law 9/2005 of February 21st, qualified for the Penal Code, by virtue of which certain subjacent crimes are incorporated and typified, and among others, the fiscal evasion crime, (ii) the Regulation which applies to Law 14/2017 of May 23rd, 2018, and (iii) the Regulation of the registry and access to the information relative to the effective beneficiaries in the judicial entity registries, of September 5th, 2018.

All of this as a consequence of the Principality of Andorra being periodically subject to the evaluation by the Council of Europe undertaken by the Special Experts Committee on the Evaluation of the Measures against Money Laundering and the Financing of Terrorism (Moneyval), evaluations for which it is fundamental an adequate and effective implementation of the international standards on such question, materialized with regards to the referred recommendations of GAFI.

Even though there are many countries which have still not typified such fiscal evasion crime, Andorra has considered its inclusion in the Penal Code on the basis of determined existing compared referents. In this sense, it has differentiated such crime between a basic crime (art. 248) establishing, mainly, the defrauded amount at a limit of 75,000 euros, and an aggravated case (art. 248bis) which occurs when the amount surpasses 150,000 euros or when an individual belongs to a criminal organization.

On another note, the Principality of Andorra has carried out the National Risk Studies (NRA) which ended in the month of September 2016, which was partially published in the month of July 2017, and which used the application methodology established by the World Bank. A review and update of the NRA is expected during the year 2020.

Finally, it must be highlighted that Andorra is actively working with regards to the transparency of effective beneficiaries. In accordance with the amendments of the Law on companies, associations and foundations introduced for the final disposition second, third and fourth, respectively, of Law 14/2017, which establishes that the entities (corporate entities, branches, associations- both Andorran associations and foreign associations which operate in Andorra and the foundations) have to maintain a registry of effective beneficiaries in which the information relative to effective beneficiaries must be kept updated.

Furthermore, article 19 of Law 14/2017 establishes a new requirement for companies, associations and foundations of Andorra, as these must provide the information regarding the effective beneficiaries to the public records.

The procedures to provide and access the effective beneficiaries information of the registries has been developed by Decree of November 5th, 2018, by means of which the Regulation regulating the registration and access to the information of the effective beneficiaries previously mentioned was approved. For each of the existing registries (companies, associations and foundations) a specific section has been created for the information relative to the effective beneficiaries.

Furthermore, Andorra advances in approaching the EU to have a progressive access to its Internal Market. Since 2010, the European Commission, under successive presidencies, have published several reports on Andorra's, Monaco's, and San Marino's approach to the Internal Market. These reports acknowledge the need for the gradual integration of these three countries in the Internal Market, while further exploring a possible institutional framework for relations. In the framework of the negotiation of the Association Agreement, Andorra will negotiate with the EU the general dispositions relative to the free circulation of capital and the adoption by Andorra of the regulation of the UE relative to financial services.

Andorra is fully committed to the international standards of transparency and exchange of information and the Andorran Government's will is to continue to improve the legal framework in accordance with the international standards while ensuring the level playing field.

As previously described, the Law on the regulation and supervision of insurances and reinsurances of the Principality of Andorra, which was approved on June 22nd, 2017 represents the culmination of the process of reinforcing the regulation and supervision structure for the insurance and reinsurance sector in accordance with international standards and regulations. It was published in the Official Gazette of the Principality of Andorra, number 48 of July 19th, 2017. Such law means a total reform of the regulation of the sector, in line with FMI's and Moneyval's recommendations. Such regulations adapt the criteria issued by the International Insurance Inspectors Association (AIIA) and the European regime of Solvency II.

Title II of such Law established the regulatory and supervisory bodies of the sector of insurance and reinsurance. In its drafting, it was opted to delegate such tasks to AFA, which includes supervision of both the financial sector and the insurance and reinsurance sector. The reasons for which such decision was taken were:

- The will to profit from the experience and trajectory of an entity which has faced such important supervision tasks in the past; and
- The need to take care of such new tasks without having to assume new economic expenses superior to what the country may assume.

The granting to the AFA of these functions required a review, adaptation and harmonization previous or simultaneous of the different organic and procedural dispositions which regulate the AFA. Consequently on March 31, 2018 the General Council approved the Law amending Law 10/2013 of the INAF, which transformed such entity into the AFA.

Legal and Arbitration Proceedings

The Principality of Andorra has not been presented with any claim, nor any claim has been filed, in the past 12 months, regarding any legal or arbitration proceedings (including any such proceedings which are pending or threatened) to which the Issuer is a party or of which the Issuer has been notified or is aware, and which are material in the context of the Program or the issue of Notes thereunder.

TAXATION

The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of Notes should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the Principality of Andorra acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.

1. Taxation on the income of Non Residents.

Income obtained by non-resident individuals and companies in Andorra as interest are exempt under the terms and requirements of Law 94/2010, of December 29th on the tax of income of non-residents.

2. Taxation on the income of the companies.

Pursuant to article 9 of the Law 95/2010 of December 29th, on corporate tax ("CIT"), the taxable base of CIT includes all income obtained by a company that is not exempt from taxation. Income obtained from the Notes is not considered exempt from taxation, which implies that income arising from the Notes is taxable at the rate of 10 per cent. Said income can be reduced on the amount of the expenses related to the holding of the Notes.

3. Taxation on the income of individuals.

On April 24th, 2014 the Law 5/2014 on Taxation on the Income of Individuals was passed. This law taxes the income obtained by individuals who receive the consideration of tax residents in the territory of Andorra and establishes that the revenues derived from public debt issued by the Principality of Andorra, even if considered as capital investment, remain exempt from this tax according to article 5 of this Law.

USE OF PROCEEDS

The net proceeds of the issues under the Program will be applied by the Issuer to refinance existing debt and to issue new debt (as authorized from time to time). If, in respect of any particular issue of Notes, there is a particular identified use of proceeds other than the previously stated, this will be reflected in the applicable Final Terms. The Issuer expects to incur additional indebtedness in the future.

SUBSCRIPTION AND SALE

Notes issued under the Program may be offered by the Issuer to or through any one or more of Mora Banc Grup, S.A.; Crèdit Andorrà, S.A.; Andorra Banc Agrícola Reig, S.A.; Mora Banc, S.A.U.; Vall Banc, S.A.U. and BancSabadell d'Andorra, S.A. (the "**Dealers**") or any other entity appointed from time to time by the Issuer either generally in respect of the Program or in relation to a particular Series or Tranches of Notes.

The arrangements under which Notes may from time to time be agreed to be issued by the Issuer to or through the Dealers are set out in arrangement dated May 8th, 2019 as amended and restated from time to time and made between the Issuer and the Dealers.

Bonds issued under the Program can be awarded by auction through the Dealers in one or more tranches, in accordance with the applicable Andorran law.

Selling Restrictions

The Notes have not been and will not be registered under the laws of any jurisdiction, nor has any other action been taken, nor will any action be taken, by the Issuer, the Dealers or any other person that would permit a public offering of the Notes or the possession, circulation or distribution of this Base Prospectus or any supplement hereto or thereto, or any other offering material relating to the Issuer or the Notes, in any country or jurisdiction where action for any such purpose may be required. The offer and sale of Notes, and the delivery of this Base Prospectus, are restricted by law in certain jurisdictions and Notes may not be offered or sold, and this Base Prospectus may not be distributed, in any jurisdiction under circumstances where such offer, sale or distribution would be prohibited or restricted by law.

Without limiting the foregoing, prospective purchasers of Notes should be aware of the following restrictions:

United States of America

The Notes have not been and will not be registered under the Securities Act Notes and may not be offered, sold or delivered within the United States, or to or for the account or benefit of, U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of any offering, an offer or sale of Notes from that Program within the United States by any dealer (whether or not participating in the offer or sale) may violate the registration requirements of the Securities Act.

General

No action has been or will be taken in any jurisdiction by the Issuer or the Dealers that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Base Prospectus or any other material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Base Prospectus comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Base Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

None of the Issuer and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification will be set out in the relevant Final Terms or (in any other case) in a supplement to this Base Prospectus.

FURTHER INFORMATION

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LEGAL ADVISORS:

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Spain

Name: Internal Legal Services of the Andorran Government
Address: Carrer Prat de la Creu, 62-64
AD500 Andorra la Vella
Principat d'Andorra

CLEARING OF THE NOTES

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common code and the International Securities Identification Number in relation to the Notes of each Tranche will be specified in the relevant Final Terms. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.