

## SECOND BASE PROSPECTUS SUPPLEMENT



### PRINCIPALITY OF ANDORRA PROGRAMME FOR THE ISSUANCE OF NOTES

This second base prospectus supplement, dated May 10<sup>th</sup>, 2017 (the "**Second Supplement**"), updates, is supplemental to, forms part of and must be read in conjunction with the base prospectus dated March 30<sup>th</sup>, 2016 (the "**Base Prospectus**") as supplemented by the first supplement to the Base Prospectus dated September 21, 2016 (the "**First Supplement**"), prepared by the Principality of Andorra (the "**Issuer**") with respect to the program for the issuance of notes described in the Base Prospectus (the "**Program**").

Unless otherwise defined herein, terms defined in the Base Prospectus shall have the same meaning when used in this Second Supplement.

This Second Supplement has been prepared in order to (i) update the figure of the authorized amount of the issue to be increased up to an amount of 770.000.000.-€ (as stated under section "Overview"); and (ii) combine and consolidate in one single document the Base Prospectus as amended, supplemented and updated by the First Supplement and this Second Supplement.

To the extent that there is any inconsistency between (a) any statement in this Second Supplement and (b) any other statement in or incorporated in the Base Prospectus and/or the First Supplement, the statements in (a) above will prevail.

*Under the programme for the issuance of notes described in this Base Prospectus, and supplemented by the First Supplement and this Second Supplement, 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 Second Supplement does not constitute a prospectus for the purposes of Article 5 of Directive 2003/71/EC, as amended.*

**Paying Agent**

BANCSABADELL D'ANDORRA, S.A.

**Bookrunners**

CRÈDIT ANDORRÀ, S.A.

MORA BANC GRUP, S.A.

MORA BANC S.A.U.

ANDORRA BANC AGRÍCOL REIG, S.A.

BANCSABADELL D'ANDORRA, S.A.

VALL BANC, S.A.U.

This Second Supplement is dated May 10<sup>th</sup>, 2017

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## **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.*

- Issuer:** Principality of Andorra.
- Bookrunners:** Crèdit Andorrà, S.A.; Andorra Banc Agrícol Reig, S.A.; Mora Banc Grup, S.A.; Mora Banc S.A.U., Vall Banc, S.A.U. and BancSabadell d'Andorra, S.A. or any other entity appointed from time to time by the Issuer either generally in respect of the Programme or in relation to a particular Series or Tranches of Notes.
- Paying Agent:** BancSabadell d'Andorra, S.A.
- Registrar:** BancSabadell d'Andorra, S.A. or any other entity appointed from time to time by the Issuer either generally in respect of the Programme or in relation to a particular Series or Tranches of Notes.
- Risk Factors:** There are certain factors that may affect the Issuer's ability to fulfill its obligations in respect of Notes issued under the Programme. 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 Programme.
- Authorised Amount:** Up to EUR 770 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.
- 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 depository (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Global Registered Note will be deposited on or about the issue date with the common depository.
- Currency:** Notes will be denominated in Euros.
- Status of the Notes:** Notes issued under the Programme 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.
- 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 Programme 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:** 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.

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.

**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 Programme 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 Programme 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*".

**Use of Proceeds:** The net proceeds of the issues under the Programme 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. Most of these factors are contingencies which 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 "Terms and Conditions of the Notes" or elsewhere in this Base Prospectus have the same meanings in this section.*

### **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 2015 show a general tendency toward stabilization. Andorra has a General Government gross debt burden as percentage of revenues of 83%, and a public debt around 40.6% of the Gross Domestic Product (GDP). The General Government has a surplus of 1.2% of the GDP. The Central Government debt financed by domestic banks has fallen from 86% of total debt in 2010 to 54% in 2015, and indicates the diversification efforts undertaken by the Government. In addition, maturity has risen from 1,5 years to 3 years. The 2016 General Government budget proposal indicates a 16.5 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 16<sup>th</sup> December 2010, on measures for the promotion of economic and social activity, and Law 10/2012, of 21<sup>st</sup> June 2012, 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 starting to be effective, and the results begin to show. From July 2012 to December 2015, 2.063 foreign investment applications were received, of which 1.440 have been formalized. These figures represent EUR 265 million, and 155,9 million of initial investment, respectively.

The 30<sup>th</sup> of September 2015, as a result of foreign investments, 653 businesses were open which represents EUR 73 million.

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 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 the latter was revised under the Agreement initialed on November 4, 2015 and signed on February 12, 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 to 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.

On June 30, 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 of the euro against fraud and counterfeiting, 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 1, 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 10, 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 20, 2015, the fourth 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 existing laws.

In addition, it is important to note that the Andorran financial supervisory body, 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 cooperation and exchange of information on 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.

The Government is currently 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 16<sup>th</sup> December 2014, the Council of the EU made the decision to authorize the start of negotiations for one or several Association Agreements with the Principality of Andorra, the Principality of Monaco and the Republic of San Marino, the first negotiation took place the 5<sup>th</sup> of May 2015.

Thank to that Association Agreement, the opportunities of success of the country would increase, 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.

Currently, the Principality of Andorra is member of 25 international bodies: Council of Europe, 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), Secretaria General Iberoamericana (Segib) and the Hague Conference on Private International Law (HCCH).

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

On March 10<sup>th</sup> 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 27, 1997 ("LRRD"), later modified by Law 10/2013, of May 23, on the INAF ("Law 10/2013"), the General Director of the INAF initiated disciplinary proceedings against BPA on March 10<sup>th</sup>, 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 INAF approved the preventive intervention of BPA as a precautionary measure, in accordance with article 12 of the LRRD, appointing two administrators employed by INAF to jointly carry out the intervention.

It should be stressed that the INAF'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, 11<sup>th</sup>, 2015, the Board of Directors of the INAF 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 15, 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 2, 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 15, 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 11, 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 11, 2015, AREB made a number of decisions aimed at implementing the measures provided for in the Plan, such as the financial valuation dated May 31, 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 19<sup>th</sup>, 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 costumer 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 21, 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 14, 2016, the purchase agreement of Vall Banc, S.A.U. was formalized by J.C. Flowers & Co. after obtaining all the necessary authorizations from INAF 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 Global Notes 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 behaviour 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.

### *(ii) There is no active trading market for the Notes*



Notes issued under the Programme 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.

(iii) 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.

(iv) 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.

(v) 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.

(vi) 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 Programme shall be represented by Global Notes. Such Global Notes will be deposited with a common depositary 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.

(vii) Credit Rating

Notes issued under the Programme 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 Programme.

(viii) Tax Regime

As defined under Law 11/2005 of June 13, 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 4, 2015 and signed on February 12, 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.

Since January 1, 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 24 on the personal income tax, as amended by Law 42/2014, of December 11, 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 1, 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 under the Securities Act ("**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 Global Registered 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, any 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 Programme 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 Programme. 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 ("**Final Terms**") are to the Final Terms prepared in relation to the Notes issued under the Programme.

### **1. Form, Denomination and Currency**

#### ***Form of the Notes***

Notes issued under the Programme 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 depository for Euroclear and Clearstream, Luxembourg ("**Common Depository**"), or a nominee of the Common Depository, as specified in the applicable Final Terms.

#### ***Denomination***

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

#### ***Currency of Notes***

Notes issued under the Programme 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 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 Programme 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 Programme 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 Programme 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 Programme 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 Programme 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 Programme.



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 Programme 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 Programme 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 Programme 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 Programme 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 Programme, 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**

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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 13, 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 4, 2015 and signed on February 12, 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.

### **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 under the terms and requirements of the Andorran Law 94/2010, of December 29, on the Non-Residents Income Tax.

### **8.3 Taxation on the income of the companies**

Law 95/2010, dated December 29<sup>th</sup>, of the Corporate Income Tax ("**CIT**") applicable since January 1, 2012, as modified by Law 17/2011, dated December the 1<sup>st</sup>, 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 income of individuals.**

Since 1<sup>st</sup> January 2015 there is taxation applicable to individuals with tax residency in Andorra.

The 24<sup>th</sup> April 2014 the Law 5/2014 on Taxation on the Income of Individuals was passed, and further modified by Law 42/2014, on December 11. This law, which taxes 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 Bookrunner 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 Bookrunners 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 BancSabadell d'Andorra, 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 Programme.

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 prejudicial 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 Programme.

## **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 [•] 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.]*

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

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

<b>Issuer Name:</b>	<b>PRINCIPALITY OF ANDORRA'S GOVERNMENT.</b>
	[Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the [regulated/unregulated market] with effect from [•].] [Not Applicable.]
<b>33. Depository:</b>	[The entity appointed by the relevant clearing system as a depository for instruments issued in global or definitive form. The Depository keeps the securities for safekeeping purposes on behalf of the clearing system].
<b>34. Paying Agent:</b>	[The agent appointed by the issuer to process the cash payments to be made by the issuer related to a security].
<b>35. Payment Frequency:</b>	[Specify the frequency of the interest payments].
<b>36. Payment Currency:</b>	EURO.
<b>37. Fixed Interest Rate:</b>	[Not applicable/[•] per cent per annum].
<b>38. Interest Payment Dates:</b>	[•].
<b>39. Floating Interest Rate</b>	[Applicable/Not applicable]
<b>(i) Specified Interest Payment Dates</b>	[•] in each year subject to adjustments in accordance with Business Day Convention.
<b>(ii) First Interest Payment Date</b>	[•]
<b>(iii) Relevant Floating Rate Index:</b>	EURIBOR 12 months
<b>(iv) Relevant time:</b>	[•]
<b>(v) Interest determination date(s):</b>	[•]
<b>(vi) Primary source for Index rate quotation:</b>	[Specify relevant screen page]
<b>(vii) Relevant Financial Centre:</b>	

**Issuer Name:****PRINCIPALITY OF ANDORRA'S  
GOVERNMENT.***[the financial centre most closely  
connected to the Relevant Floating  
Rate Index]***(viii) Manner in which  
the Interest Rate  
is to be  
determined:****(ix) Margin:** [12 months Euribor + Margin]**(x) Minimum interest** [•]**rate:****(xi) Maximum** [•]**interest rate:**

[•]

**40. Day Count Convention:** "Actual / Actual (ISDA)".**41. Business Day Convention:** [•].**42. Redemption Type:** Final redemption.**43. Redemption Payment** EURO.  
**Currency:**

## **DESCRIPTION OF THE ISSUER**

### **General Provisions**

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The Principality of Andorra, with 78,014 inhabitants in 2015, 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 km<sup>2</sup> 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 François Hollande.

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 Regulations govern 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 Head of Government at present is Antoni Martí Petit.

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 1, 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.

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.

Currently, the Principality of Andorra is member of 25 international bodies: Council of Europe, 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) and the Secretaria General Iberoamericana (Segib).

This process of international harmonisation is leading the Principality towards a new socio-economic cycle in which foreign investment and the internationalisation of business in the country will form new pillars for an economy which in 2015 recorded a GDP of EUR 2,535 million, placing the GDP per inhabitant (EUR 32,496) above the European average.

Agreements recently reached with the EU states in tax matters and the Law on foreign investment (June 2012) ratify the constant Principality's progress towards the constitution of a European area of broad opportunities for investment and economic expansion.

The Andorran financial system is one of the mainstays of the Andorran economy which contributes 20% to the GDP. The financial system is made up of 5 different banking groups, 1 specialized credit institution, 8 financial institutions for the management of investment entities, 4 financial entities for asset management, and 34 insurance companies, 18 of which are branches for foreign insurance companies authorized to operate in Andorra

The Andorran National Institute of Finance (INAF) is the supervisory and regulatory body of the Andorran financial system (with the exception of the insurance companies that are not part of banking groups, and which are supervised by the Ministry of Finance of the Government of Andorra).

The Financial Intelligence Unit (UIF) 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 2, 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.

Thus, the banking system of the Principality, as regards both supervision and verification of the origin and destination of funds, is supported by the Council of Europe and by the International Monetary Fund (IMF).

In recent years the banking industry has made substantial efforts for adapting 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 world 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 (such as trusts) that may promote offshore investment structures, which prevent the identification of the actual beneficiaries.

The Andorran banking industry is characterized by the heavy capitalization of the different entities and conservative and prudent management, as well as by the application of standards and best practices. Those traits have allowed the solvency of the industry to attain ratios better than 20%, above most of the financial centers in its milieu.

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 in which only 84 landscapes worldwide belong to.

## Economic situation

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### GDP evolution

(million euros)

GDP evolution	2011	2012	2013	2014	2015
Real GDP	1.867,24	1.837,08	1.843,54	1.885,53	1.901,41
Annual Trend (y/y-1)	-4,6%	-1,6%	0,4%	2,3%	0,8%

Base 2000

(million euros)

Nominal GDP	2011	2012	2013	2014	2015
Nominal GDP	2.476,22	2.463,02	2.471,69	2.525,45	2.535,12
Annual Trend (y/y-1)	-2,3%	-0,5%	0,4%	2,2%	0,4%

Base 2000

The nominal GDP shows a recovering trend since 2013, as it has increased a 2.2% and 0.4% during the last two years.

### Gross Domestic Product (Gross Value Added Approach)

Andorra's economic structure is mainly dominated by the financial and insurance sector (22.2%), the Wholesale and retail trade and repair of motor vehicles sector (16.4%) and the Public Administration, defense education, human health and social work activities (13.9%).

(million euros)

GVA Composition	2011	2012	2013	2014	2015
Agriculture, Forestry and Fishing	13,2	15,1	14,3	12,5	11,9
Industry (except construction)	25,9	27,7	34,7	37,5	33,6
Manufacturing	89,8	83,1	79,6	80,2	82,3
Construction	191,4	160,8	139,1	132,5	132,2
Wholesale and Retail Trade. Repair of Motor Vehicles	386,9	372,4	365,3	359,4	374,8
Accommodation and Food Services	202,8	192,6	178,8	175,9	177,5
Transport and Storage	39,8	37,3	36,4	37,3	39,2
Information and Communication	99,4	94,7	91,7	95,8	102,8
Financial and Insurance Activities	396,1	433,1	479,3	527,1	508,5
Real Estate Activities	223,8	225,3	224,1	223,1	227,8
Professional, Scientific and Technical Activities; Administrative and Support Service Activities	140,9	137,4	140,6	144,1	147,1

Public administration, defence, education, human health and social work activities	315,1	314,6	315,6	315,2	316,9
Arts, entertainment and recreation; other service activities; activities of household and extra-territorial organizations and bodies	127,4	125,9	127,8	130,7	133,7
<b>Total GVA</b>	<b>2.252,5</b>	<b>2.220,0</b>	<b>2.227,3</b>	<b>2.271,4</b>	<b>2.288,3</b>
D21- Taxes on Products	223,6	243,1	244,4	254,0	246,9
<b>TOTAL GDP</b>	<b>2.476,2</b>	<b>2.463,0</b>	<b>2.471,7</b>	<b>2.525,5</b>	<b>2.535,1</b>

(% total)

<b>Composition by Sector</b>	2011	2012	2013	2014	2015
Agriculture, Forestry and Fishing	0,6%	0,7%	0,6%	0,6%	0,5%
Industry (except construction)	1,2%	1,2%	1,6%	1,7%	1,5%
Manufacturing	4,0%	3,7%	3,6%	3,5%	3,6%
Construction	8,5%	7,2%	6,2%	5,8%	5,8%
Wholesale and Retail Trade. Repair of Motor Vehicles	17,2%	16,8%	16,4%	15,8%	16,4%
Accommodation and Food Services	9,0%	8,7%	8,0%	7,7%	7,8%
Transport and Storage	1,8%	1,7%	1,6%	1,6%	1,7%
Information and Communication	4,4%	4,3%	4,1%	4,2%	4,5%
Financial and Insurance Activities	17,6%	19,5%	21,5%	23,2%	22,2%
Real Estate Activities	9,9%	10,1%	10,1%	9,8%	9,9%
Professional, Scientific and Technical Activities; Administrative and Support Service Activities	6,3%	6,2%	6,3%	6,3%	6,4%
Public administration, defense, education, human health and social work activities	14,0%	14,2%	14,2%	13,9%	13,9%
Arts, entertainment and recreation; other service activities; activities of household and extra-territorial organizations and bodies	5,7%	5,7%	5,7%	5,8%	5,8%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

### **Inflation (including core inflation)**

<b>Inflation</b>	2011	2012	2013	2014	2015
CPI. General	2,5%	1,1%	0,0%	-0,1%	-0,9%
Core Inflation	0,1%	1,4%	0,4%	0,5%	0,6%

Base 2001

In 2015, inflation has been equal to -0.9% while the core inflation has grown 0.6%.

**Public Finance Highlights***(million euros)*

Expenditure	2013	2014	2015	2014/13	2015/14
Central Government	376,4	376,9	404,0	0,1%	7,2%
Central Government (SEC'95)	376,4	376,9	404,0	0,1%	7,2%
Non Market Non Profit Institutions	68,8	70,4	73,8	2,2%	4,9%
Central Government Social Security	203,3	212,4	221,9	4,5%	4,4%
Local Governments	101	100,3	110,6	-0,7%	10,3%
<b>Total General Government</b>	<b>749,5</b>	<b>760,0</b>	<b>810,3</b>	<b>1,4%</b>	<b>6,6%</b>
<b>% GDP</b>	<b>30,3%</b>	<b>30,1%</b>	<b>32,0%</b>	<b>-0,2pp</b>	<b>1,3 pp</b>
Revenue	2013	2014	2015	2014/13	2015/14
Central Government	392,1	371,5	390,8	-5,3%	5,2%
Non Market Non Profit Institutions	70,8	70,9	71,9	0,1%	1,5%
Central Government Social Security	239,0	242,0	262,7	1,2%	8,6%
Local Governments	128,1	129,2	131,7	0,9%	1,9%
<b>Total General Government</b>	<b>830,0</b>	<b>813,6</b>	<b>857,1</b>	<b>-2,0%</b>	<b>5,3%</b>
<b>% GDP</b>	<b>33,6%</b>	<b>32,2%</b>	<b>33,8%</b>	<b>-1,4pp</b>	<b>-1,6pp</b>
Surplus (or Deficit)	2013	2014	2015	2014/13	2015/14
Central Government	15,7	-5,4	-13,3	-134,4%	146,3%
Central Government (SEC'95)	15,7	-5,4	-13,3	-134,4%	146,3%
Non Market Non Profit Institutions	2,0	0,5	-1,9	-75,0%	-480%
Central Government Social Security	34,1	28,3	25,6	-17,0%	-9,5%
Local Governments	27,1	28,9	21,0	6,6%	-27,4%
<b>Total General Government</b>	<b>78,9</b>	<b>52,3</b>	<b>31,5</b>	<b>-33,7%</b>	<b>-39,9%</b>
<b>Total General Government (SEC'95)</b>	<b>78,9</b>	<b>52,3</b>	<b>31,5</b>	<b>-33,7%</b>	<b>-39,9%</b>
<b>% GDP</b>	<b>3,3%</b>	<b>2,1%</b>	<b>1,2%</b>	<b>-1,2pp</b>	<b>-1,0pp</b>
<b>% GDP (SEC'95)</b>	<b>3,2%</b>	<b>2,1%</b>	<b>1,2%</b>	<b>-1,2pp</b>	<b>-1,0pp</b>
Interest Payments	2013	2014	2015	2014/13	2015/14



Central Government	23,8	21,4	17,5	-10,1%	-18,2%
Non Market Non Profit Institutions	-	-	-	-	-
Local Governments	2,7	2,2	1,9	-18,5%	-13,6%
<b>Public Debt and other Financing Sources</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2014/13</b>	<b>2015/14</b>
Central Government	869,4	897,5	904,8	3,2%	0,8%
Non Market Non Profit Institutions	-	-	-	-	-
Central Government Social Security	-	-	-	-	-
Local Governments	154,3	137,8	124,7	-10,7%	-9,5%
<b>Total General Government</b>	<b>1.023,7</b>	<b>1.035,3</b>	<b>1.029,5</b>	<b>1,1%</b>	<b>-0,6%</b>
<b>% GDP</b>	<b>41,4%</b>	<b>41,0%</b>	<b>40,6%</b>	<b>-0,4pp</b>	<b>-0,4pp</b>
<b>Total Net Debt General Government</b>	(2,0)%	(3,8)%	(6,5)%	-1,9pp	2,7pp
<b>Public Sector Assets</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2014/13</b>	<b>2015/14</b>
Central Government	1.302,2	1.364,7	1.376,4	4,8%	0,9%
Non Market Non Profit Institutions	78,5	73,7	72,3	-6,1%	-1,9%
Central Government Social Security	1.006,7	1.063,3	1.115,8	5,6%	4,9%
Local Governments	523,0	525,9	536,7	0,5%	2,1%
<b>Total General Government</b>	<b>2.910,4</b>	<b>3.027,6</b>	<b>3.101,2</b>	<b>4,0%</b>	<b>2,4%</b>
<b>Public Sector Liquid Assets</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2014/13</b>	<b>2015/14</b>
Central Government	20,4	21,5	28,8	5,4%	33,4%
Non Market Non Profit Institutions	9,4	12,0	7,8	27,6%	-35,0%
Central Government Social Security	970,2	1.029,8	1.088,4	6,1%	5,7%
Local Governments	72,7	67,7	68,8	-6,9%	1,6%
<b>Total General Government</b>	<b>1.072,6</b>	<b>1.131,0</b>	<b>1.193,8</b>	<b>5,4%</b>	<b>5,5%</b>
<b>% GDP</b>	<b>43,4%</b>	<b>44,8%</b>	<b>47,1%</b>	<b>1,5%</b>	<b>2,3%</b>

### General Government deficit and debt

The General Government's balance is positive at 31.4 million Euros (1.2% GDP) in 2015.

<b>Deficit</b>					
<i>(million euros)</i>					
<b>Central Government</b>	2011	2012	2013	2014	2015
CG deficit	-50,9	-86,9	15,7	-5,4	-13,3
Annual Trend (y/y-1)	-3,9%	70,7%	-118,1%	134,1%	146,3%
CG Deficit (% GDP)	2,1%	3,5%	0,6%	-0,2%	0,5%
CG deficit (SEC95)	-86,0	-4,3	15,7	-5,4	-13,3
CG deficit (% GDP) SEC95	2,1%	3,5%	0,6%	0,2%	0,5%
<b>Local Government</b>	2011	2012	2013	2014	2015
LG surplus or deficit	11,1	14,5	27,1	28,9	21,0
Annual Trend (y/y-1)	-35,8%	30,6%	86,9%	6,6%	-27,2%
LG surplus or deficit (% GDP)	0,4%	0,6%	1,1%	1,1%	0,8%
<b>Related entities (non market non profit institutions)</b>	2011	2012	2013	2014	2015
RE surplus or deficit	-3,4	-1,8	2,0	0,5	-1,9
Annual Trend (y/y-1)	-30,8%	-47,1%	-211,1%	-75,0%	-480,0%
Surplus or deficit (% GDP)	0,1%	0,1%	0,1%	0,0%	0,1%
<b>Related entities (Social Security)</b>	2011	2012	2013	2014	2015
RE SS surplus	50,9	31,5	34,1	28,3	25,6
Annual Trend (y/y-1)	64,7%	-38,1%	8,3%	-17,0%	-9,5%
Surplus (% GDP)	2,1%	1,4%	1,4%	1,1%	1,0%
Total GG surplus or deficit	7,7	-42,7	78,9	52,3	31,4
Annual Trend (y/y-1)	-180,2	-654,5%	-284,8%	-33,7%	-40,0%
<b>GG Deficit or surplus (% GDP)</b>	<b>0,3%</b>	<b>1,7%</b>	<b>3,2%</b>	<b>2,1%</b>	<b>1,2%</b>
Total GG surplus or deficit (SEC95)	-27,4	39,9	78,9	52,3	31,4
Annual Trend (y/y-1)	185,4%	-245,6%	97,7%	-33,7%	-40,0%
<b>GG deficit or surplus (% GDP) SEC95</b>	<b>1,1%</b>	<b>1,6%</b>	<b>3,2%</b>	<b>2,1%</b>	<b>1,2%</b>

Gross General Government debt is 40.6% of GDP in 2015. 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 6.5% of GDP in 2015.

<b>Debt</b>					
<i>(million euros)</i>					
General Government	2011	2012	2013	2014	2015
Central Government	767,9	853,2	869,4	897,5	904,8
Local Government	180,8	174,7	154,3	137,8	124,7
RE (non market non profit institutions)	3,7	4,9	-	-	-
<b>Total gross Debt GG</b>	<b>952,4</b>	<b>1.032,8</b>	<b>1.023,7</b>	<b>1.035,3</b>	<b>1.029,5</b>
Total gross Debt GG (% GDP)	38,5%	41,9%	41,4%	41,0%	40,6%
<b>Net General Government debt (% GDP)</b>	<b>1,5%</b>	<b>1,8%</b>	<b>(2,0)%</b>	<b>(3,8)%</b>	<b>(6,5)%</b>

### General government expenditure and revenue and its breakdown by main categories

<b>Expenditure</b>					
<i>(million euros)</i>					
Central Government	2011	2012	2013	2014	2015
<b>Current Expenditures</b>	<b>271,6</b>	<b>274,4</b>	<b>285,4</b>	<b>281,2</b>	<b>300,2</b>
Chap01. Personnel expenses	95,2	94,4	94,5	96,5	100,2
Chap02. Goods and service expenses	40,9	41,9	44,1	43,9	45,4
Chap03. Financial expenses	18,8	29,3	23,8	21,4	17,5
Chap04. Current transfers	116,6	108,7	123,0	119,5	137,1
<b>Investment</b>	<b>87,6</b>	<b>180,5</b>	<b>91,0</b>	<b>95,6</b>	<b>103,9</b>
Chap06. Real Investment	34,1	135,1	36,7	40,2	46,0
Chap07. Transfer of capital	53,4	45,4	54,3	55,4	57,9
<b>Total</b>	<b>359,1</b>	<b>454,9</b>	<b>376,4</b>	<b>376,9</b>	<b>404,0</b>

<b>Expenditure</b>					
<i>(million euros)</i>					
<b>Local Government</b>	2011	2012	2013	2014	2015
<b>Current Expenditures</b>	<b>98,9</b>	<b>92,3</b>	<b>89,2</b>	<b>87,4</b>	<b>89,7</b>
Chap01. Personal expenditure	51,3	50,4	49,3	48,4	49,2
Chap02. Goods and service expenditure	37	32,1	31,3	31,1	32,5
Chap03. Financial expenditure	4,3	4	2,7	2,2	1,9
Chap04. Current transfers	6,3	5,7	6	5,8	6,1
<b>Investment</b>	<b>13,9</b>	<b>8,7</b>	<b>11,7</b>	<b>13,2</b>	<b>21,0</b>
Chap06. Real Investment	11,6	6,8	9,5	10,4	18,5
Chap07. Transfer of capital	2,3	1,9	2,2	2,4	2,5
<b>Total</b>	<b>112,8</b>	<b>101,0</b>	<b>101,0</b>	<b>100,3</b>	<b>110,6</b>
<b>Expenditure</b>					
<i>(million euros)</i>					
<b>Related entities (Non-Market Non-Profit Institutions)</b>	2011	2012	2013	2014	2015
<b>Current Expenditures</b>	<b>71,9</b>	<b>68,7</b>	<b>67,2</b>	<b>68,3</b>	<b>71,2</b>
Chap01. Personnel expenditure	46,3	43,5	42,2	42,4	43,9
Chap02. Goods and service expenditure	21,9	22,0	22,1	23,3	25,1
Chap03. Financial expenditure	0,1	0,1	0,1	0,0	0,0
Chap04. Current transfers	3,6	3,0	2,8	2,5	2,1
<b>Investment</b>	<b>7,3</b>	<b>1,9</b>	<b>1,6</b>	<b>2,1</b>	<b>2,6</b>
Chap06. Real Investment	7,3	1,9	1,6	2,1	2,6
Chap07. Transfer of capital	0,0	0,0	0,0	0,0	0,0
<b>Total</b>	<b>79,2</b>	<b>70,6</b>	<b>68,8</b>	<b>70,4</b>	<b>73,8</b>

<b>Expenditures</b>					
<i>(millions euros)</i>					
<b>Related entities (Social Security)</b>	2011	2012	2013	2014	2015
<b>Current Expenditures</b>	<b>193,6</b>	<b>196,1</b>	<b>203,2</b>	<b>211,9</b>	<b>221,2</b>
Chap01. Personnel expenditure	4,6	4,5	4,5	4,6	4,8
Chap02. Goods and service expenditure	1,5	1,7	2,0	2,0	2,0
Chap03. Financial expenditure	-	-	-	-	-

Chap04. Current transfers	187,5	190	196,8	205,3	214,4
<b>Investment</b>	<b>2,6</b>	<b>0,7</b>	<b>0,1</b>	<b>0,5</b>	<b>0,7</b>
Chap06. Real Investment	2,6	0,7	0,1	0,5	0,7
Chap07. Transfer of capital	0,0	0,0	0,0	0,0	0,0
<b>Total</b>	<b>196,2</b>	<b>196,8</b>	<b>203,3</b>	<b>212,4</b>	<b>221,9</b>

<b>Revenue</b>					
<i>(million euros)</i>					
Central Government	2011	2012	2013	2014	2015
<b>A Current Revenue</b>	<b>308,2</b>	<b>368,0</b>	<b>392,1</b>	<b>371,0</b>	<b>389,8</b>
B Chap01. Direct Taxes	5,6	29,9	32,9	60,6	68,3
C Chap02. Indirect Taxes	265,8	301,5	276	271,1	269,1
D Chap03. Taxes and other income	27,5	23,6	31,7	29,1	28,8
E Chap04. Current transfers	-	-	0,8	0,1	0,1
F Chap05. Estate Income	9,3	13,0	50,8	10,2	23,5
<b>G Capital Revenue</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0,5</b>	<b>1,0</b>
<b>Total</b>	<b>308,2</b>	<b>368,0</b>	<b>392,1</b>	<b>371,5</b>	<b>390,3</b>

<b>Revenue</b>					
<i>(million euros)</i>					
Local Government	2011	2012	2013	2014	2015
<b>A Current Revenue</b>	<b>84,4</b>	<b>80,1</b>	<b>85</b>	<b>85,1</b>	<b>89,6</b>
B Chap01. Direct Taxes	24,4	22,1	25,8	22,2	23,1
C Chap02. Indirect Taxes	3,9	3,3	1,9	6,2	4,7
D Chap03. Taxes and other income	35,1	32,8	32,8	32,5	33,8
E Chap04. Current transfers	11,8	10,7	12,6	12,4	16,8
F Chap05. Estate Income	9,2	11,3	11,8	11,8	11,2
<b>G Capital Revenue</b>	<b>39,5</b>	<b>35,4</b>	<b>43,1</b>	<b>42,4</b>	<b>42,1</b>
<b>Total</b>	<b>123,9</b>	<b>115,5</b>	<b>128,1</b>	<b>127,5</b>	<b>131,7</b>

<b>Revenue</b>					
<i>(million euros)</i>					
Related entities (Non-Market Non-Profit Institutions)	2011	2012	2013	2014	2015
<b>A Current Revenue</b>	<b>71,0</b>	<b>67,3</b>	<b>69,2</b>	<b>68,9</b>	<b>69,6</b>
B Chap01. Direct Taxes	-	-	-	-	-
C Chap02. Indirect Taxes	-	-	-	-	-
D Chap03. Taxes and other income	43,0	42,5	42,9	45,4	46,1
E Chap04. Current transfers	27,4	24,3	25,7	23,4	23,4
F Chap05. Estate Income	0,5	0,5	0,5	0,1	0,1
<b>G Capital Revenue</b>	<b>4,9</b>	<b>1,5</b>	<b>1,7</b>	<b>2,0</b>	<b>2,4</b>
<b>Total</b>	<b>75,8</b>	<b>68,8</b>	<b>70,8</b>	<b>70,9</b>	<b>71,9</b>

<b>Revenue</b>					
<i>(million euros)</i>					
Related entities (Social Security)	2011	2012	2013	2014	2015
<b>A Current Revenue</b>	<b>248,1</b>	<b>230,2</b>	<b>239,0</b>	<b>242,0</b>	<b>262,7</b>
B Chap01. Direct Taxes	205,5	200,6	200,2	204,4	209,3
C Chap02. Indirect Taxes	-	-	-	-	-
D Chap03. Taxes and other income	1,3	2,0	1,9	1,7	2,9
E Chap04. Current transfers	38,0	25,1	34,6	33,5	48,2
F Chap05. Estate Income	3,2	2,5	2,4	2,5	2,3
<b>G Capital Revenue</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>248,1</b>	<b>230,2</b>	<b>239,0</b>	<b>242,0</b>	<b>262,7</b>

## 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 4, 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, the Law 10/2003 of June 27 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).

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 3, 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 1, 2006, were replaced by the indirect general tax (IGI), which came into force on January 1, 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 29, 2010 three laws of great importance in the field of direct taxation were passed. These were:

- Law 94/2010 of December 29, on the income tax for tax non-residents, as amended by Law 18/2011 of December the 1<sup>st</sup>.
- Law 95/2010 of December 29 on the corporation tax, as amended by Law 17/2011 of December the 1<sup>st</sup>.
- Law 96/2010 of December 29 on the income tax for economic activities, as amended by Law 19/2011 of December the 1<sup>st</sup>.

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 1, 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 neighbouring 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 the following laws:



- Law 5/2014 of April 24 on the personal income tax.
- Law 42/2014 of December 11 on the amendment of Law 5/2014 of April 24 on the personal income tax.

## **International relations**

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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 10<sup>th</sup>, 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 7, 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 26. 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).

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, South Africa and Slovakia.

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 and it has initialed one with Malta, while working to expand its network further.

On November 5, 2013, the Government of Andorra initialed the Convention on Mutual Administrative Assistance in Tax Matters with the OECD. This involves application of mechanisms and instruments to lay foundations and implement procedures for mutual assistance in common tax matters. This multilateral agreement guarantees confidentiality and is a step forward in line with the other OECD countries. That Convention maintains the same level of tax cooperation as established in the bilateral agreements signed by Andorra and provides for exchange of information upon request. The agreement likewise provides for automatic and spontaneous exchange of information. This agreement is expected to be ratified in 2016.

The Government also created an interministerial commission is in charge of analyzing the recommendations of various international organizations, to ensure compliance with the modifications and the international standards, while avoiding contradictions among them.

Andorra's signing in June 16, 2014 of the OECD Declaration on the automatic exchange of information should also be highlighted. Andorra has become the 48<sup>th</sup> State to express its commitment to the implementation of the new standard following the principle of reciprocity.

With the ratification of the Convention on Mutual Administrative Assistance in Tax Matters with the OECD and the European Counsel, Andorra re-states its international commitment in the fight against tax fraud, and takes a step further in the application of the exchange of financial information regulation developed by the member countries of the OECD.

Andorra signed this Convention in Strasbourg, on November 5<sup>th</sup>, 2013, which was unanimously ratified by the General Council of Andorra on July 28<sup>th</sup>.

The Convention enters into force on December 1<sup>st</sup>, 2016, and regulates three information exchange methods: the exchange of information through a previous request, the spontaneous exchange of information and the automatic exchange of information. Currently, there are 103 countries part of such convention, but the list of jurisdictions with who such exchange of information takes place continues to develop.

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. Such regulation determines the method of compilation and the transference of information.

In addition, on November 4, 2015 the EU and Andorra initialed an agreement for automatic exchange of information on the tax particulars of their respective residents, and that agreement was signed on February 12, 2016. That agreement renews and amends the agreement signed in 2004 between the EU and Andorra on taxation of savings to adapt that taxation to new Community 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. Such agreement is expected to be ratified by the General Council in the near future.

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.

Andorra has undertaken 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.

With regard to the FATCA, the Andorra Government plans to implement cooperation in accordance with the FATCA initiative (Foreign Account Tax Compliance Act) over the same term as with the OECD and the EU. Andorra plans to contact the United States government during the course of 2016 to establish which new measures need to be adopted. For the time being, Andorra remains within the general system.

On September 20, 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.

Since then, these countries have worked towards the draft of the BEPS Action Plan, to update the tax regulation, so as to warrant that the corporate profits are effectively taxed at the location where the economic activity takes place, and where value is created. A package of 15 measures has developed from such work, which the OECD presented in October 2015 in its final Reports

Since then, Andorra has participated in several meetings organized by the OECD in relation with the BPS Action Plan and other measures for its implementation. In particular, Andorra participated in the OECD's 20<sup>th</sup> Annual Tax Treaty Meeting and the Opening Meeting of the ad-hoc group for the Multilateral Instrument for BEPS, which works on the draft of a multilateral instrument which would modify the existing bilateral tax conventions. Andorra is part of this ad-hoc group, and has participated in other General Meetings which have taken place during 2016.

At a European level, Andorra signed a Monetary Agreement with the European Union on June 30, 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 1, 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 10, 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 20, 2015, the fourth 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 existing law.

Article 2.2b) of the Monetary Agreement also specifies that the INAF (*Institut Nacional Andorrà de Finances*) 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 INAF started working towards the fulfillment of this international commitment. Even though it is not one of the requirements of the Monetary Agreement, the INAF 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 17, 2013, the INAF became an ordinary member of IOSCO, and on September 18, 2013, it signed the MMoU.

Furthermore, Andorra advances in approaching the EU to have a progressive access to its Internal Market. Since 2010, the European Commission, together with the 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, taking into account the importance of a coherent approach for all three countries, while respecting the particularities of each country in accordance with the Union's declaration on Article 8 of the Treaty of the European Union.

On December 16, 2014, the Council of the EU, in its General Affairs configuration, made the decision to start negotiations for several association agreements between the EU and Andorra, Monaco, and San Marino.

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.

Finally, Andorra is arriving at a close in the process of reinforcing the regulation and supervision structure for the insurance sector, and make it align with international standards and regulations. In 2015, Andorra updated the regulation of such sector. In September of 2016, the Government has approved and proceeded to parliamentary ratification on the Project of Law in relation to the regulation and supervision of the insurance sector, which means a total reform of the regulation of the sector, in line with FMI's and Moneyval's recommendations. Such regulations have been adapted to the criteria issued by the International Insurance Inspectors Association (AIIA) and the European regime of Solvency II.

Therefore, in September 2016 the Project of Law for the supervision of insurance companies shall be presented for parliamentary approval. Such text reforms the regulation currently in force, adapting it to the criteria issued by the International Insurance Inspectors Association (AIIA) and the European regime of Solvency II.

## **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 savings.**

As defined under Law 11/2005 of June 13, 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 can be avoided 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 4, 2015 and signed on February 12, 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 to 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.

### **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 under the terms and requirements of the Andorran Law 94/2010, of December 29, on the Non-Residents Income Tax.

### **3. Taxation on the income of the companies.**

Pursuant to article 9 of the Corporate Income Tax ("**CIT**") Law, applicable since January 1, 2012, 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.

### **4. Taxation on the income of individuals.**

Since the 1<sup>st</sup> January 2015 there is taxation on individuals with fiscal residence in Andorra.

The 24<sup>th</sup> April 2014 the Law 5/2014 on Taxation on the Income of Individuals was passed, and further modified by Law 42/2014, December 11. This law taxes the income obtained by individuals who receive the consideration of fiscal residents in the territory of Andorra, 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 Programme will be applied by the Issuer to refinance existing debt and to issue new debt (as authorized from time to time).

## **SUBSCRIPTION AND SALE**

Notes issued under the Programme may be offered by the Issuer to or through any one or more of Crèdit Andorrà, S.A.; Andorra Banc Agrícola Reig, S.A.; Mora Banc Grup, S.A.; Mora Banc, S.A.U.; Vall Banc, S.A.U. and BancSabadell d'Andorra, S.A. (the "**Bookrunners**") or any other entity appointed from time to time by the Issuer either generally in respect of the Programme 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 Bookrunners are set out in arrangement dated September 21, 2016 as amended and restated from time to time and made between the Issuer and the Bookrunners.

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

### **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 Programme 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 Bookrunners 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 Bookrunners 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 Bookrunners 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.