

Andorra

The Principality of Andorra is a European micro-State located in the Central Pyrenees between Spain and France with a population of around 85,000 and receives 8 million tourists each year. The Andorran economy is focussed on services, being an important touristic centre for shopping and for winter sports activities.

The positive momentum of the Andorran economy, the recovery of interest rates and sound credit approval and monitoring policies have boosted the financial sector's results. Digitalisation and technological advances have also been essential in making this strong performance possible.

Over the course of 2023, banking institutions have maintained their strength in terms of attracting customer funds and growth. Andorra's banking sector closed the 2023 financial year with an aggregate result of €163 million for the three banking entities, thanks in large part to the boost in income generated by the increase in interest rates and by the adaptation of the business to the new environment and the needs of the clients. The banking industry recorded a 44% growth in profits and a 16% rise in the volume of customer funds under management, reaching €74.187 billion. The main financial indicators have shown the robustness of the Andorran banking industry. The ROE, which measures the financial profitability of banks, has increased to 10,38%, in line with the average return of European banks, and up 281 basis points from 7.57% in 2022. The banking sector's return on assets, as measured by ROA, amounted to 0.89%, an improvement compared to 0.66% in 2022 and above the European average. Also, the sector's liquidity and solvency ratios have been higher than the average for European banks. The liquidity coverage ratio (LCR) stands at 228.33%, also higher than the average for European banks. Despite the increase in the Euribor, the NPL ratio continues its downward trend, to a historical low of 2.1% at the end of 2023 (3.3% in 2022, 3.7% in 2021 and 5.32% in 2019). The good dynamics of the Andorran economy, together with the solid credit granting and credit risk monitoring policies of the banking institutions, have resulted in a reduction of the non-performing loans ratio to historic lows. The CET1 (phase-in) solvency ratio was 17% at 31 December 2023.

The Banking sector is a crucial sector in Andorra's economy, not only because it accounts for 15% of the country's GDP but also because of its role in society as a driver of change. It is characterised by a cautious management approach, solvency levels above the European average due to the specific characteristics of the market and country, and a high degree of expertise and specialisation in both commercial and private banking. The banks offer a full range of banking services including loans and credit, asset management and financial consultancy, operations with liabilities, financial analysis and other services (credit cards, transfers, etc.). They also have specialized subsidiaries of financing, insurance and asset management firms.

The banking sector has also remained committed to serving the country's business community with a local banking model that is closer to its clients. In an environment of high interest rates, the sector has intensified its action to be close to the projects of individuals, companies and institutions. While the total amount of credit investment remained stable at around €5 billion, 664 new mortgages were granted to households for a total amount of €339 million (-14% compared to 2022), which still represents a significant percentage of GDP (10%). New loans to companies and individuals amounted to €707 million, up 5% from 2022, and accounted for 21% of national

GDP. Also, the banking sector drove consumer spending through the various means of payment available, with an 8% increase in the volume of credit and debit transactions at €1,678 million, accounting for 49% of GDP.

The current strength of the Andorran banking system is the result of having overcome many challenges over the years, consistently showing the ability to adapt and find new opportunities. Our capacity to adjust to new financial regulations places us at the same level as other European banks in terms of prudential supervision, regulatory compliance, transparency and cooperation. But it does not end here. Andorra is currently in the final phase of the negotiations for an Association Agreement with the EU that will shape the Andorran economic and social model for the coming decades and will bring about one of the most significant changes the country has seen in years. That it will also bring new opportunities for the banking industry at large.