Annual Report

Financial Intelligence Unit of Andorra

2015

UIFAND
UNITAT D'INTEL·LIGÈNCIA FINANCERA D'ANDORRA

Content

1. INTRODUCTION

Now, on drawing up a balance of the past business year and therefore of the calendar year 2015, everyone will surely agree that it has been a singular year indeed.

While it is highly significant that in this period we have concluded another round of evaluations, the fourth (March 2011-September 2015), with a very satisfactory result that sets us on the threshold of the fifth round, this appraisal was pushed into the background and tarnished with the appearance and publication of the note verbale of FinCEN of 10 March, according to which the U.S. authorities considered and designated the entity Banca Privada dÕAndorra (BPA) as a foreign financial institution of primary concern, on the basis of the four cases to which they referred.

That communication led, on the part of all the public authorities in this field, to the immediate adoption of measures of action, correction and control, which are still in effect as I write these words and which represent, for now and for ever, a before and an after for the Andorran financial system as a whole.

No one can ignore the fact that, in the last six years, the Principality of Andorra and its political authorities have undertaken a task of drawing closer to Europe and that they have carried out an immense continuous job of improvement and adaptation of our internal rules with the aim to assimilate them to the international standards in the field of money laundering.

Our organization, now called Uifand, has taken an active part in this task as a major stakeholder, with an unprecedented work plan aimed to turn around a situation, especially as from the year 2012, which was insufficient to meet the challenges entrusted to us, a fact which was qualified by the international organizations as highly positive.

Now it is necessary to meet new challenges of no small importance with even greater determination and resolution, following the course that has been set, a course which, as may well be said, is the only one possible.

Carles FIÑANA PIFARRÉ,

Head of the Financial Intelligence Unit.

2. BALANCE

a. General data

In this first section we present in a general way the highlights of the work carried out in the period under consideration.

It may be noted that we will go into greater detail in the following sections, even though, as will be seen, the data differ considerably from those of previous years since the singularity mentioned in the Introduction has necessarily exerted an influence.

The breadth of vision in the task to be carried out and the consequent upward trend of the data, which began towards the end of 2012 and which sharply increased in 2013, with substantial progress in 2014, diminished in 2015 for obvious reasons, inasmuch as it was necessary to face a situation which had never before arisen in our country and, quite particularly, it was necessary to manage as far as possible both the immediate consequences and the future consequences which could be derived from it.

Indeed, the circumstance of urgently having to attend to and find solutions to a situation of great gravity affecting such a strategic field as the banking sector, required us to prioritize our day-to-day activity and to devote all our effort to the goal of promoting the necessary stabilization.

Contributing to this situation, even today, despite the intense searches which have been made, is the fact that we still do not have all the staff which we have requested, since these human means are needed to complete the necessary and sufficient working team of the Financial Intelligence Unit.

We provide details below on the process of completing the fourth evaluation, on the new legislative initiatives which have been presented this year, and on the effective start of the National Risk Assessment, which will allow us to undertake appropriately the fifth evaluation.

The statistics, which are dealt with individually in Section 3, show once again a rise in our figures, a rise which is even substantial in some cases, beginning with the number of suspicious transactions reports received, clearly demonstrating an increased awareness with respect to prevention and to the degree of control which should be exercised by the obliged subjects.

In relation to the training of the members of our Unit, which is considered a key and determining factor for the subsequent performance of our task internally, we have taken part in the following actions:

ÅOne person attended the seminar held by Moneyval in Strasbourg from 9 to 13 March, on the study of the new FATF rules for the advisers in the mutual evaluations.

ÅOne person took part as a speaker in the conference of experts held by Inblac in Madrid on 5 February 2015.

ÅOne person participated in the seminar held in Warsaw on 17 and 18 November under the title of ñCombatting Money Laundering Stemming from Corruption".

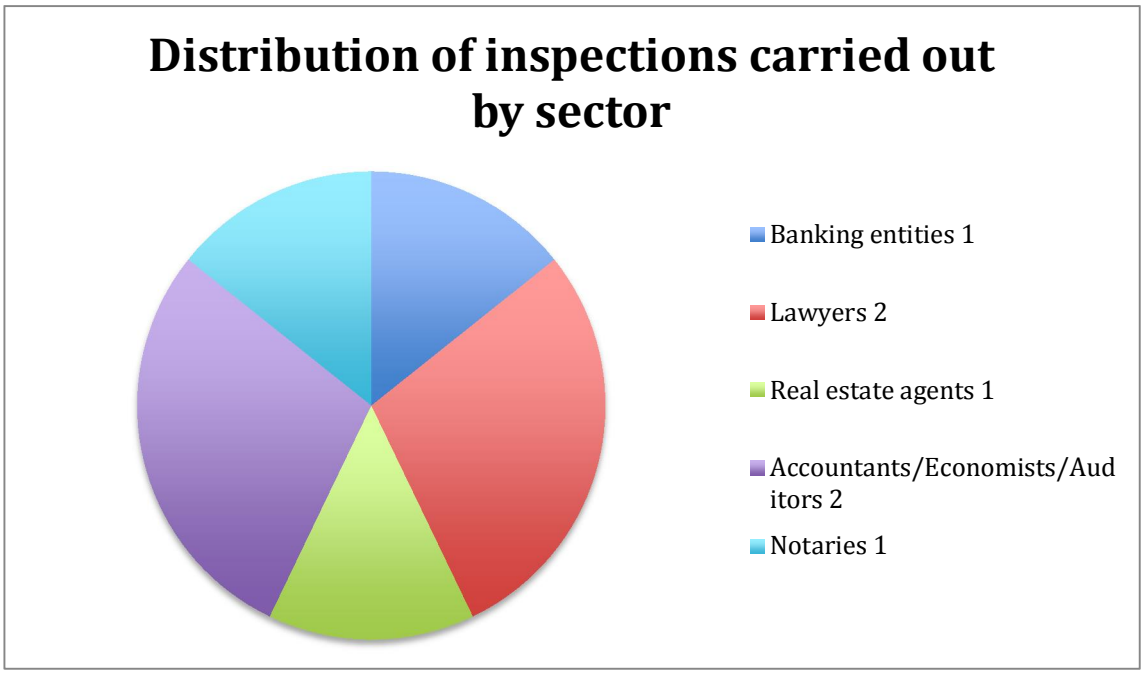
Å Two people participated in the training sessions and the work groups at the Egmont Congress.

With respect to supervision and control, and to on-site inspections, just as has been mentioned on previous occasions, at the beginning of each year the area concerned prepares a complete schedule of the envisaged on-site inspections to be made of obliged subjects during the year.

It should be pointed out, however, that we were only able to carry out our plan in part, carrying out just 20% of the inspections, according to the following table:

Inspections

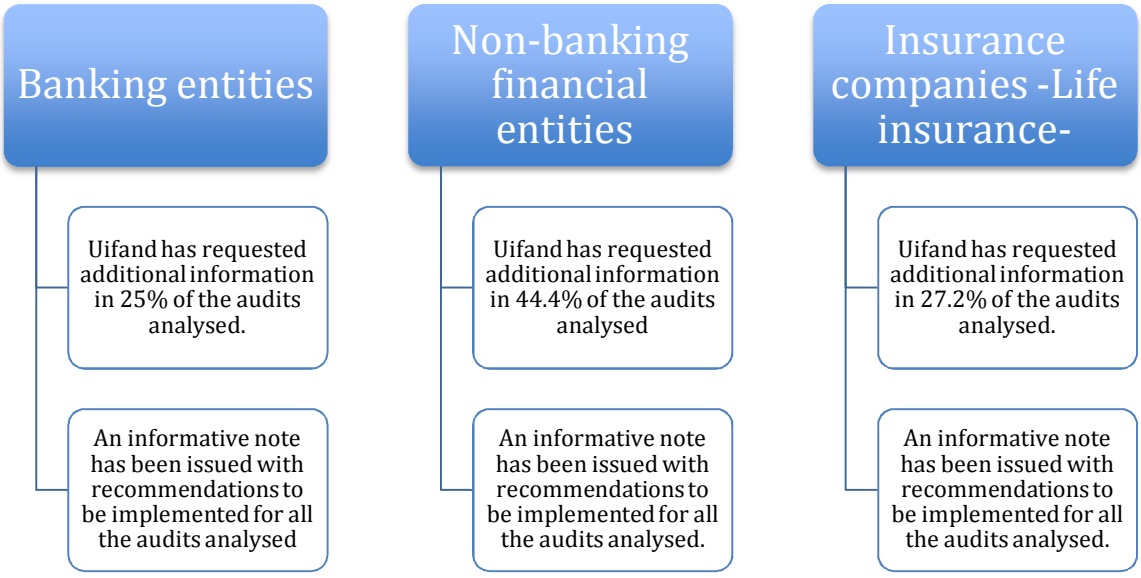
Total number of inspections carried out: 7



With respect to external audits, the financial obliged subjects (banks, financial entities and insurance companies) were requested, as usual through the pertinent technical communiqués, to have themselves audited by an independent external auditor, who should deliver them his audit report.

The careful analysis of the reports and documentation provided by each of these sectors

led to the issue and communication of either a request for supplementary information or an indicative informative note, as is briefly shown in the following graph:



In the international sphere, we were present as a country delegation in all the plenary meetings of Moneyval, namely, the plenary meetings 47 to 49, held respectively in April, September and December; and we also attended the Egmont Congress held in Barbados from 8 to 12 June 2015.

b. Moneyval evaluation process

Year after year, it is indispensable to analyse and to provide details on the course of the evaluations which are carried out on the Principality of Andorra on a permanent basis.

No one who has read attentively our previous Reports can ignore the fact that we have made reference each year, in full detail, to the whole long process of legislative changes which we have implemented in our internal rules in response to international demands, and that the Principality of Andorra undertakes this process with the will to comply fully with the standards.

In this respect, the period under study here is particularly significant since we finished the fourth round of the Moneyval evaluation with a highly satisfactory result in September 2015.

In effect, looking back we should point out the start of this fourth round with the on-site visit of the evaluators to our country in March 2011, and the preparation of the respective report, which showed significant improvements in relation to the numerous shortcomings detected at the end of the third round of evaluations in December of 2010.

From the standpoint of time, this report on the fourth round of evaluations was presented by the delegation of the Principality of Andorra at the plenary meeting 38 in March 2012, and the General Assembly adopted it unanimously inasmuch as it observed significant

progress, although it also pointed out the need to proceed and to continue with the reforms, granting, as is established in the rules of procedure, a time of three years to this end.

Subsequently, we prepared the first follow-up report, which was presented at the plenary meeting 44 in March 2014 and which set out once again a large set of legislative reforms which allowed the annotations to be significantly improved. The text was also adopted by the General Assembly with the personal congratulations of the president, who emphasized the important progress made by the Principality of Andorra. Likewise, it was insisted that there remained some quite important legislative gaps, so it was still too early to envisage the end of the regular follow-up procedure.

Then, on 14 April 2015 at the plenary meeting 47, the aforementioned three-year period having elapsed, we presented the second follow-up report, which covered further implementations and described the significant improvement in the effectiveness of the system.
It was the time for the fourth evaluation round to be finally closed altthough this did not happen since the Moneyval Secretariat emphasized once again an important fact which had been insistently pointed out on other occasions, namely, the lack of incrimination of smuggling as a predicate crime of the main crime of money laundering.

This matter was debated at the plenary meeting and it was concluded that one last opportunity should be given to the Principality of Andorra, until the next plenary meeting in the month of September, to repair this legislative void.

Finally, having changed our legislation in the necessary way, the plenary meeting 48 of the month of September accepted the improvement and closed this long process which had lasted four years.

From the legal standpoint, the work carried out by Uifand in collaboration with the members of the Standing Committee on the Prevention of Money Laundering and of Terrorist Financing entailed the presentation of a constant legislative changes, which may be summarized as follows:

1. Amendment of the Law on international criminal cooperation and on the fight against the laundering of money or assets proceeding from international crime and against terrorist financing, of 29 December 2000 (LCPI):

Å **Law 4/2011, of 25 May**, which extends the concept of effective beneficiary, reduces the amount of cash sales, intensifies the system of simplified diligence measures, and establishes additional measures of protection of obliged subjects when they submit suspicious transactions reports.

Å **Law 20/2013, of 10 October**, which basically implements the European Parliament Directive 2005/60/EC on preventing the use of the financial system for money laundering; the European Parliament Directive 2006/70/EC which establishes a new definition of the PEP and simplified clientele control conditions; the Regulation 2006/1781/EC of the Parliament and the Council on information on the payer accompanying transfers of funds; Regulation 2005/1889/EC of the Parliament and of the Council on controls of cash entering and leaving the Community, and lastly, the decision of the Council of 17 October 2000 concerning arrangements for cooperation between the financial intelligence units.

Å**Law 4/2014, of 27 March**, which establishes measures for preventing, combatting and suppressing terrorism and the disruption of the proliferation of weapons of mass destruction and their financing.

Å **Law 2/2015, of 15 January**, which mainly regulates the functions and competences of Uifand; the system of incompatibilities, appointments and dismissals; and partly modifies Article 47.

Å**Law 11/2015, of 16 July**, on the improvement of the sanctioning system and the suspicious transactions reports.

2. Amendment of the Regulations of the LCPI of 13 May 2009:

Å Decree of amendment of 18 May 2011, which regulates in greater detail the obligations relating to the identification and verification of clients and true right-holders, intensifies the system of simplified diligence measures, and provides possible specific countermeasures relating to high-risk territories at the request of the Financial Intelligence Unit.

Å Decree of amendment of 20 November 2013, which implements the aforementioned European rules.

3. Amendment of the Penal Code (for the effects of money laundering and terrorist financing):

Å Law 18/2012, of 11 October, amending Article 362, which defines terrorism; Article 366 bis, relating to terrorist financing; Article 366 a) and Article 411.1, on the forfeiture of the proceeds of crime.

ÅLaw 18/2013, of 10 October, which proposes a new wording of Article 409, which incriminates money laundering.

Å Law 40/2014, of 11 December, in which reference is made to forfeiture, to extended forfeiture, and to forfeiture without conviction, and the punishment for terrorist financing is also increased.

ÅLaw 10/2015, of 16 July, on a new amendment of Article 409, this time in order to include the predicate crime of smuggling and the characterizations of self-laundering.

4. Amendment of the Code of Criminal Procedure (for the effects of money laundering and terrorist financing):

ÅLaw 19/2012, of 11 October, which improve technical aspects.

ÅLaw 19/2013, of 10 October, which amends Article 116 in relation to seizure, and creates the Assets Recovery Office (ORA, Catalan acronym) and the Assets Management Office (OGA, Catalan acronym).

This immense amount of work has permitted, on the one hand, the avoidance of pitfalls, the improvement of our laws and the increase of our external credibility, raising with a

rating of LC (Large compliance) our level of fulfilment of all the key and principal recommendations ï many of which were rated as insufficient in 2012ï while also increasing our rating with respect to the rest.

But now, since the month of September 2015, as previously mentioned, it is time to enter a new round of evaluations, the fifth, with new FATF recommendations and a different evaluation methodology, with new rules of procedure in relation to the selfsame evaluation carried out by experts designated by Moneyval, and with a main goal which is none other than to demonstrate the effectiveness of the system. Indeed, "*effectiveness*" is now the key word.

It is planned, for the first quarter of 2016, that the Moneyval Secretariat will travel to Andorra to explain to all the obliged subjects and to the public sector all these changes, basically with respect to the intervention of the evaluation experts and to the follow-up of the procedure of the fifth round.

Internally, we establish the starting point on the basis of three fundamental aspects:

1. The conclusions of the fourth round, namely:

Åa new law on insurance,
Åthe regulation of the administrative situation of the postal services: *Correos* and *La Poste*, and
Åthe improvement of the effectiveness of the prevention system.

2. The new FATF recommendations and especially Recommendation 1 on the National Risk Assessment, as we will see further on.

3. The rules resulting from the Monetary Agreement and, accordingly, the transposition of:

Å**Directive 2014/42/EU of the Parliament**, on the freezing, seizing and confiscation of instrumentalities and proceeds of crime with the deadline for transposition of 1 November 2016.

Å **Regulation (EU) 2015/847 of the Parliament**, on information accompanying transfers of funds, with the deadline for transposition of 1 October 2017.

Å**Directive 2015/849/EU of the Parliament**, known as the Fourth Directive, which deals, among other things, with la inclusion of the national PEPs, the criminal responsibility of legal persons, improvements in the measures of due diligence, increased control of identification and verification, new measures to determine the true right-holder, and tax crime as an predicate crime, also with the deadline for transposition of 1 October 2017.

c. The new FATF recommendations and the evaluation methodology

The International Financial Action Task Force Grup (FATF) was created at the 15th G-7 Summit Meeting held at the Grande-Arche in Paris from 14 to 16 July 1989.

This is an intergovernmental group for the development and promotion of policies to combat money laundering. It is a mandate, issued by the governments of the member countries, to an ad hoc organization, which sets standards and promotes the effective implementation of legal, regulatory and operative measures to combat money laundering, terrorist financing, and the financing of the proliferation and other threats to the integrity of the international financial system (hereafter called "ML"and "TF").

It is an instance without equivalent, which has become the most important international body in the development of policies against money laundering, and in the mobilization to raise the awareness of the whole world with respect to some complex matters, in order combat this form of sophisticated criminality.

Accordingly, the FATF recommendations are a complete and consistent set of measures which should be implemented by countries in order to combat ML and TF.

Countries have different legal, administrative and operational frameworks, and different financial systems, so not all countries can adopt identical measures against these threats. Consequently, the FATF recommendations set an international standard that countries should implement by means of measures adapted to their particular circumstances.

Essentially, these measures consist in:

- ÅIdentification of risks and development of local policies and coordination;
- ÅFight against ML and TF;
- ÅApplication of preventive measures for the financial sector and other designated sectors;
- ÅEstablishment of authority and responsibilities (for example: authorities in charge of investigation, of public order, and of supervision) and other institutional measures;
- ÅImprovement of the transparency and availability of information on the title of the beneficiary and on legal structures, and
- ÅPromotion of international cooperation.

The 40 original recommendations of FATF, published in 1990, were an initiative aimed to combat the inappropriate uses of the banking systems by criminal persons and organizations who laundered money from drug traffic. These recommendations were revised for the first time in 1996 in order to reflect the growing trends and techniques in ML and to expand the scope beyond drug traffic. Also in the year 2001, FATF expanded its mandate to include the financing of terrorist acts and organizations, and it created the 8 special recommendations ï
which were later increased to 9ï on TF. Subsequently, in 2003, the 40+9 recommendations were revised for the second time, with new proposals backed by over 180 countries, and they were universally recognized as international standards against ML and TF.

After concluding the third round of mutual evaluations of its member countries, FATF once again revised and updated its recommendations in 2012, in conjunction with the cooperating regional bodies (Moneyval) and other observer bodies, including the International Monetary Fund, the World Bank and the United Nations.

This revision envisaged new emerging threats, and clarified and strengthened many of the existing obligations while maintaining the necessary stability and the original rigour of the recommendations.

Now that this brief but necessary introduction has been made, we are now readying ourselves in the Principality of Andorra, as will be seen in a moment, to face up to a new evaluation process, the fifth round, based precisely on the 40 new recommendations of 2012 together with the interpretive notes on each one and the methodology of evaluation of the technical conformity of the recommendations and of the effectiveness of the AML and CTF systems of 2013.

In this respect, the requirements have been strengthened for the situations of greatest risk in order to allow all the countries to focus their efforts on the high-risk areas or on the areas where they can improve the implementation of the recommendations. Thus, the countries should: firstly, identify, evaluate and understand the ML and TF risks which they are facing and secondly, adopt suitable measures to mitigate the risks.

The risk-based approach allows the countries to adopt more flexible measures aimed to orient resources in the most effective way and to apply measures suited to the nature of the risks in order focus their efforts more quickly.

The fight against terrorist financing entails a highly significant challenge at present and for this reason some specific recommendations for TF have been established in Section C of the new recommendations, including:

- Recommendation 5 in relation to the criminalization of TF,
- Recommendation 6, relating to directed financial sanctions relating to terrorism and its financing,
- Recommendation 8, which establishes the measures for preventing the inapproriate use of non-profit organizations and also for preventing the proliferation of weapons of mass destruction,
- Recommendation 7, which seeks to assure the constant effective implementatuion of financial sanctions when they are requested by the United Nations Security Council.

d. The National Risk Assessment of the country (NRA)

The National Risk Assessment of the country has its origin in the new Recommendation 1 of FATF and it is a key element and the starting point of a large part of the rest of the recommendations which are to be implemented in this new period of the fifth evaluation that the Principality of Andorra has been working on, as previously mentioned, since September of 2015.

The title of this important and principal recommendation, "Assessing risks and applying a risk-based approachò, clearly indicates its goals.

The countries are requested to identify, assess and understand their ML and TF risks in order to take suitable measures, which include, among others, the designation of an authority or of a mechanism to coordinate the actions aimed to assess risks, and the application of the necessary resources to assure that the risks are effectively mitigated.

Consequently, once the risk and the faults of the system are known, the measures to be adopted should not only be proportional but also appropriate to the particularities pointed out. If the detected risks are of high significance, it should be assured that the country's own systems for combatting ML and TF deal with these risks sufficiently from the standpoints of prevention and attenuation. In the event in which lower risks are identified, simplified measures may be taken for some of the recommendations under specific conditions.

Along these same lines, the countries should demand that the financial institutions and the designated non-financial businesses and professions (hereafter called ñDNFBPsò) should in turn identify, assess and take the most effective actions to mitigate the risk of ML and TF.

This general principle and the interpretive note which develops it, will be evaluated from two standpoints, using the methodology established for this purpose, namely:

ÅObligations and decisions for the countries:

1. Risk assessment: The countries should take appropriate measures to identify and to assess their risks of ML and TF, continuously and for the purpose of: (i) documenting the potential reforms of the country's national system for AML and CTF, including changes in laws, regulations and other measures; (ii) providing help with the allocation and prioritization of resources devoted to AML and CFT to the competent authorities; (iii) offering the necessary information for the assessment of ML and TF risks carried out by the financial institutions and the DNFBPs.
The countries should keep the assessments updated and they should possess the necessary mechanisms to supply appropriate information on the results to all the relevant competent authorities and to all the self-regulatory organizations, financial institutions and DNFBPs.

2. Higher risk: When the countries identify high risks, they should enssure that their AML and CTF system includes these high risks and, without prejudice to any other measure adopted, they should prescribe intensified measures and oblige the financial institutions and DNFBPs to adopt such intensified measures in order to mitigate their risks, and they should ensure that this information is incorporated into the risk assessments carried out by these obliged subjects.

When the FATF recommendations identify high risk businesses for which intensified and/or specific measures are required, they should apply all these measures, although their scope may vary according to the specific risk level.

3. Lower risk: The countries may decide whether to allow simplified measures for some FATF recommendations and they may demand that the financial and non-financial obliged subjects should adopt certain measures, whenever the detected risk is of low character.
Likewise, they may also allow the aforementioned subjects to apply simplified customer due diligence measures (KYC), as long as compliance is made with the requirements set out below.

4. Exemptions: Under the following circumstances, the countries may make the decision not to apply some of the FATF recommendations which apply to the financial institutions and the DNFBPs, whenever:

a) there exists and it is proven that there exists a low risk of ML and TF under strictly limited and justified circumstances, with respect to certain types of institutions, financial activities or DNFBPs, or

b) a natural or legal person carries out a financial activity (other than the transfer of money or assets) on an occasional or very limited basis (according to quantitative and absolute criteria), so there is a low risk of ML or TF.

Even though the requested information may vary depending on the risk level, the requirements of Recommendation 11 with respect to the keeping of records should be applied regardless of what information is gathered.

5. Supervision and control of risk: The control authorities (and the self-regulatory organizations for the pertinent sectors of the DNFBPs) should assure that the financial and non-financial obliged subjects implement effectively the obligations which are described below.
In the performance of this function, the supervisors, in accordance with the interpretive notes of Recommendations 26 to 28, should review the risk profiles of ML and TF as well as the risk assessment prepared by the financial institutions and the DNFBP, and take into consideration the result of such examination.

ÅObligations and decisions for the financial institutions and DNFBPs:

1. Risk assessment: The financial institutions and the DNFBPs should be required to adopt appropriate measures to identify and assess the risks of ML and TF (risks linked to customers, to countries or geographical areas, to offered products and services, to transactions and distribution channels). They should document their assessments in order to demonstrate the basis for same, keeping them up to date and possessing the necessary mechanisms to provide information on the risk assessment to the competent authorities. The nature and magnitude of these assessments should be in keeping with the nature and dimension of the commercial activity. At the same time, the competent authorities may determine that individual and documented assessments are not required, if the specific risks inherent to the sector are clearly identified and understood.

2. Management and mitigation of the risk: The financial institutions and the DNFBPs should be required to have controls and procedures that enable them to manage and to mitigate effectively the risks that have been detected (either by the country or by the financial institution or DNFBP). They should be required to monitor the implementation of those controls and to intensify them if necessary. The policies, controls and procedures should be approved by the top management, and the measures which are taken should be consistent with the national requirements and with the guidelines of the competent authorities in charge of control and of the self-regulatory mechanisms.

3. Higher risk: Where higher risks are identified financial institutions and the DNFBPs should be required to take enhanced measures to manage and mitigate the risks.

4. Lower risk: Where lower risks are identified countries may allow financial institutions and DNFBPs to take simplified measures to manage and mitigate the risks.

When assessing risk, financial institutions and DNFBPs should consider all the significant and pertinent risk factors before determining the overall risk level and the appropriate level of mitigation measures to be adopted.

On these premises and general principles, with a view to drawing up the National Risk Report, just as was pointed out in the preceding Activities Report, we began to make contacts on a preliminary basis around the end of 2013 for the purpose of obtaining technical advice, a process which materialized with the World Bank in mid 2014.

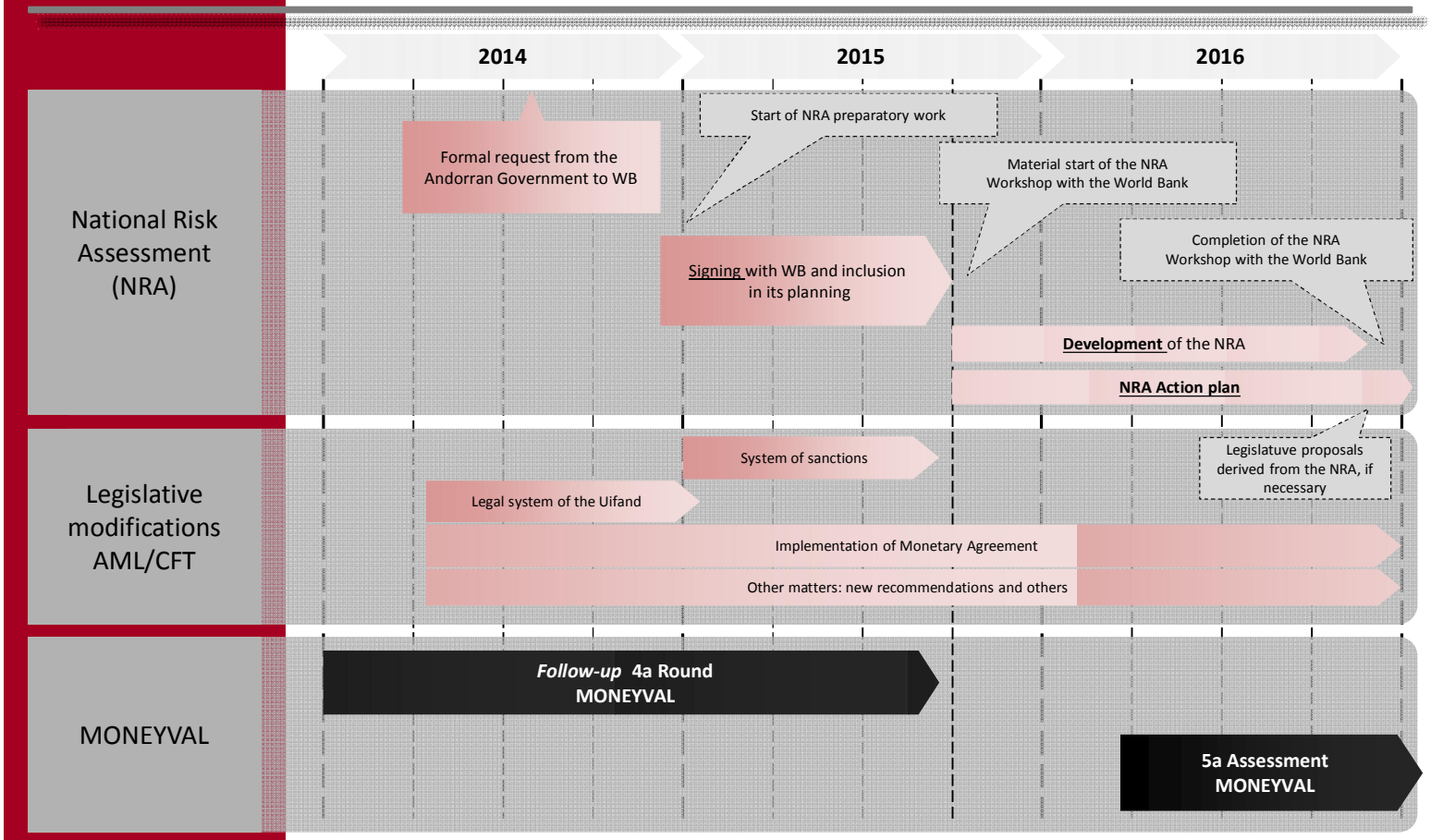
Subsequently, in the beginning of 2015, the work plan was designed and we were provided the documentation to be used to develop the National Risk Report. It was estimated that the preparation of the report would take between 12 and 18 months.

This work plan was presented at a public meeting held on 22 September 2015 in Room 2 of the Administrative Building of the Andorran Government, and, in response to the call which was issued, it was attended on the part of the public sector by managers and directors of all the ministries as well as of various bodies of the Public Administration linked to the matter involved; and on the part of the private sector, by representatives of the financial obliged subjects (banks, financial entities and insurance companies) and non-financial obliged subjects, that is to say, the DNFBPs (professional associations, other associations, guilds...).

In general terms, an explanation was given of what this study, led and coordinated by Uifand, consisted in, stating that it was a strategic project for the country which would entail a substantial work load and that, above all, it would require the maximum participation and commitment of everyone involved.

This study forms part of a plan of action which is scheduled for performance over the course of three years, as may be seen in the following timeline:

TIMELINE 2014-2016



More specifically, a presentation was made of the coordination of the process, subdivided into five main work teams (national vulnerability, threats, banking and financial sector, insurance sector, and designated non-financial businesses and professions), at the head of which there was a person directly in charge. An explanation was also given of the work methodology, based on questionnaires, data research, and periodical meetings in the format of workshops to go about analysing the process as a whole and by individual sectors.

COORDINATOR OF THE NRA PROCESS Carles Fiñana Pifarré (UIFAND)						
Teams		National Vulnerability	Threat assessment	Banking sector / Financial sector	Insurance sector	DNFBPs
Team members	Focal point of the team	UIFAND Tanjit Sandhu	UIFAND Borja Aguado	UIFAND Carles Fiñana Giuseppe Lombardo	Min. Finances Clàudia Cornella Astrid Pallas	UIFAND Jorge Borges
	Other team members	- Ministry of Justice (1) - Ministry of internal affairs (1) - Ministry of international affairs (1) - Anti-corruption Unit ï UPLC- (1) Tax Department (1) Customs Department (1) 6+1	- Ministry of Justice (1) - Ministry of internal affairs (1) - Ministry of international affairs (1) - Anti-corruption Unit ï UPLC- (1) Tax Department (1) Customs Department (1) 6+1	INAF (1-2) ABA Banking association (1-2) / ADEFI Non-banking association (1) Post Office (1-2) (4-6)+1	AAA (insurance association) (1) ASAAR (insurance association) (1) 3+1	Professional associations: - Lawyers (1) - Trust (1) - Notaries (1) - Economist /Account. (1) - Audit. (1) - Jewellers (1) - Real Estate (1) - Gambling (1) Gambling Authority (1) NPO competent authority (1) Companies Register (1) 11+1
Support: Statistic Department (1) TOTAL: 37-39						

Then it was finally notified that the next joint meeting would be held in the form of a seminar with the participation of advisers from the World Bank, from 29 September to 1 October 2015.


Which crimes are the main source of
illicit proceeds from foreign crimes in your country?
List 5 criminal activities – foreign crimes
1. Tax related crimes
2. Foreign corruption
3. Organized crime
VAT, Ponzi schemes
afficking

e. The Banca Privada dÕAndorra affair

Unfortunately, 10 March 2015 will remain forever engraved in our memory as a result of the appearance of a publication issued abroad, which produced internal consequences which were hardly imaginable at first and which will take time to digest. This affair has also produced mistrust on the part of the international financial community with respect to the integrity, viability and trustworthiness of our banking financial system as a whole.

In the note verbale of FinCEN (the Financial Crimes Enforcement Network of the USA), the American authorities considered and designated the entity Banca Privada dÕAndorra (BPA) to be a foreign financial institution of primary concern. On the basis of the four cases to which the statements refer, the issuer of the note sought to protect its internal financial system against third parties and against what it considered to be financial agressions by malpraxis, something which rendered impossible for BPA any type of international transaction with the U.S. dollar -the international currency par excellence-, as well as the use of BPA's U.S.-based correspondent banks and especially the use of its U.S. national correspondent banks.

These two pretensions place any banking entity in a very bad position and even more so in the case of a banking entity of insignificant dimensions -considered in the international context, not pejoratively- the parent company of which is found in a country of very little relative importance in this sector.

It should be emphasized that our financial entities, on the one hand, do not belong to international banking groups (that is to say, they are not branches or affiliates of powerful banking groups under worldwide expansion), and on the other hand, Andorra does not have a central bank which protects the system and can come to the rescue in the event of banking crises.

All this weakens us greatly and our radius of international influence is small.

This is why our financial system can only generate trust, a key word in the financial world, under the premises, among others, of professional rigour, of internationalization in jurisdictions which comply with the required standards, and of efficient wealth management, always with a low profile.

If we now return to the FinCEN note, more than one person surely wondered if it was necessary, proportionate or common in the international context or even if it was fair.

I sincerely believe that this is not the question because the body which issued it based itself on its internal legislation while protecting its interests, which do not necessarily concur with those of others.

In my two appearances on 15 July and 25 November 2015, when I was called before the Special Commission on Surveillance and Prevention of Risk for Financial Stability, instituted ad hoc by the Andorran Parliament, it is evident that I always answered with respect for the legally established principles of

confidentiality and the duty of secrecy -a fact that displeased certain persons-. From mid 2010, the Financial Intelligence Unit of Andorra (UIFAND) investigated Banca Privada dõAndorra, initially for the affair known as the "Venezuela case". The investigation lasted over two years, culminating in the judicialisation of the matter in mid 2012, and it forced us to lay bare an extremely complex financial engineering scheme, with different international ramifications involving the participation of two hundred both natural and legal persons.

Subsequently we intervened in two more cases, the ñEmperor caseò, referring to the so-called Gao Ping at the end of 2012 -which was judicialized at the end of 2013-, and the ñClotilde caseò, in relation to the so-called Petrov at the beginning of 2013 -which was judicialized shortly afterwards-, all of them for the pertinent effects.

Likewise, on 14 January 2013 I issued an order in which I instructed that a sanctioning administrative file should be opened against Banca Privada dõAndorra, the investigation of which was about to be concluded, after two years of hard work on the part of the appointed examiner and despite the obstacles posed by the interested parties, with a list of charges which reflected an administrative ï I repeat, administrativeï offence breaching several rules of our Law, which entailed the demand for the imposition of significant sanctions.

Unfortunately, I repeat, the aforesaid note verbale appeared at the same moment in time and caused, as a result of the criminal prejudiciality involved, a new decision to be issued, ordering the provisional suspension of the aforementioned administrative procedure and the conveyance of all the proceedings of the case to the judicial authorities for the pertinent effects.

It should be emphasized, on the one hand, that the representatives of the banks never provided, obviously, any type of data or information ï through documents or the questionings that were carried outï which could incriminate them; and on the other hand, as I mentioned before, that neither did we have available the information which other jurisdictions possessed because they did not share it with us: they dispensed with the fundamental principle of international cooperation.

Consequently, we did not possess the necessary, irrefutable and conclusive indicative evidence which would prove the level of connivance in the relations between the bank and the malefactors which could be gathered from the content of the note verbale.

This having been said, in terms of legitimacy and of analysis of consequences, it is appropriate to affirm that the level of uncertainty, doubts, anguish and debate which the news immediately generated was only natural.

I am also convinced that the time factor plays a very important role in this matter because it will necessarily go about clearing up the doubts in connection with this very complex issue.

To bring this question to a close, I would only like to add that no one should doubt that we at the Financial Intelligence Unit will be redoubling our efforts in our daily work to watch out that everyone carries out the duties specific to him, and we will see to it that our financial system comes to be strengthened by this bad experience.

Our commitment remains unaltered and firm.

3. STATISTICS of the year 2015 and COMPARISON with 2014

This section presents, through the tables included below, the figures on a large part of the work carried out during the year.

In general terms and with respect to the main aspects, these data allow the following conclusions to be drawn:

Å A highly significant increase in the number of suspicious transactions reports (STRs) submitted as well as a diversification with respect to the obliged subjects who have submitted them to the Unit.

Å These two circumstances make it increasingly clearer that there is a growing awareness among the obliged subjects with respect to their task of prevention and assessment of risk, which is very positive.

ÅA greater and better national cooperation, in this case with the Andorran National Institute of Finance (INAF), especially in relation to authorization processes.

Å Along this same line, an increase in the collaboration with the Register of Companies and an increase in foreign investments, which are on the rise, although the percentage is substantially lower than that of the previous year.

ÅWith respect to international cooperation, on the one hand there has been a much higher number of requests from foreign counterparts, and on the other, in relation to these requests, the average reply time was even lower (average of 18.5 days), which highlights our Unit's commitment to cooperation.

ÅThe rest of the data, which are, in my opinion, of relative importance, such as the files conveyed to the Public Prosecutor's Office, the amounts with possibility of judicial seizure, or the number of persons investigated, are fluctuating data which are directly linked to the cases under investigation or the files handled, each of which is marked by its own particular features.

BALANCE OF THE WORK GENERATED AND CARRIED OUT AT UIFAND - YEAR 2014 -			WORK GENERATED AND CARRIED OUT AT THE UIFAND - YEAR 2015 -		Evolution %
Item	Number	Remarks	Number	Remarks	
STRs received	36	-	60	-	66.67%
Files on Uifand initiative	18	-	9	-	-50%
National cooperation	7	6 INAF 1 Register of Companies	30	30 INAF	328.57%
Register of Companies	1022	20 unfavourable 701- Direct investment (Companies) 321- Real estate investment	1140	10 unfavourable 736 Direct investment (Companies) 404 Real estate investment	11.55%
International cooperation (FIUs)	22	Received and answered	41	Received and answered	86,36%
Volume of work generated:	1105	-	1280	-	15.84%
Files forwarded to the Attorney General's Office(*)	25	1 from 2012 2 from 2013 22 from 2014	21	1 from 2013 2 from 2014 18 from 2015	-16.00%
Shelved files dismissed(*)	1078	-	1247	-	15.68%
Volume of work carried out	1103	-	1268	-	14.96%
Files under investigation	22	2 from 2011 3 from 2012 5 from 2013 12 from 2014	20	1 from 2013 35 from 2015	64%
Total Investigated persons (natural and legal)	4372	3205 natural 1167 legal	3961	2646 natural 1315 legal	-9.40%
Freeze of transactions by Uifand	0	- €	0	- €	
Values of files forwarded to the Attorney General's Office with possibility of judicial seizure(*)	18	6,183,860.31€	14	55,203,451.00€	
TOTAL VALUES		6,183,860.31€		55,203,451.00€	-

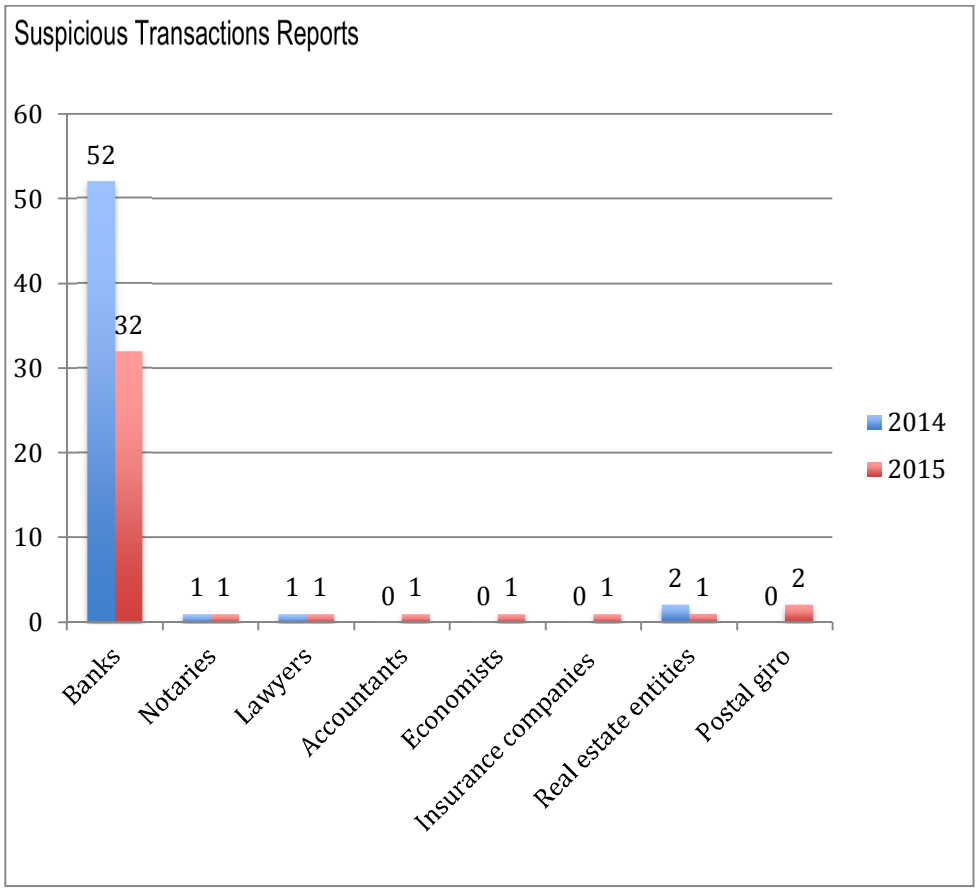
Closed on 01.01.2016

a. Suspicious transactions reports

The figure which should be emphasized the most with respect to the increase of submitted STRs is the one relating to the banking financial sector, which shows a very substantial increase, demonstrating a greater internal control, which likewise concurs with the events that took place as from the month of March.

I would recall here the capital importance, as I mentioned in the previous year, of continuing and improving these aspects of collaboration and commitment with the regulating organization, in addition to the established legal obligation, which facilitates and enriches the effectiveness and integrity of the system in terms of supervision and control, and leads to the appropriate response.

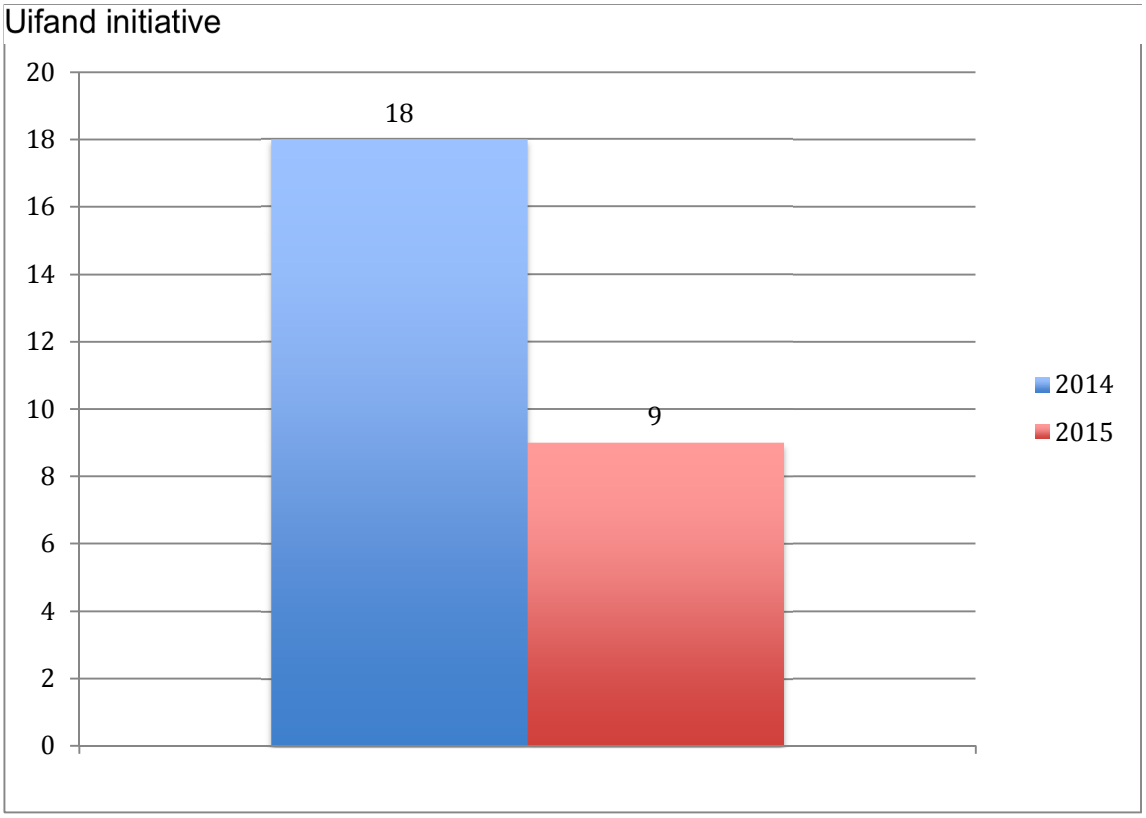
	STRs	
	2014	2015
Banks	32	52
Notaries	1	1
Lawyers	1	1
Accountants	-	1
Economists	-	1
Insurance companies	-	1
Real estate entities	2	1
Money orders	-	2
TOTAL	36	60



b. Intelligence Unit initiative

As may be seen, few figures have decreased with respect to files opened ex parte, even though, as is easy to imagine, this does not affect our interest in acting in this way when the circumstances so require.

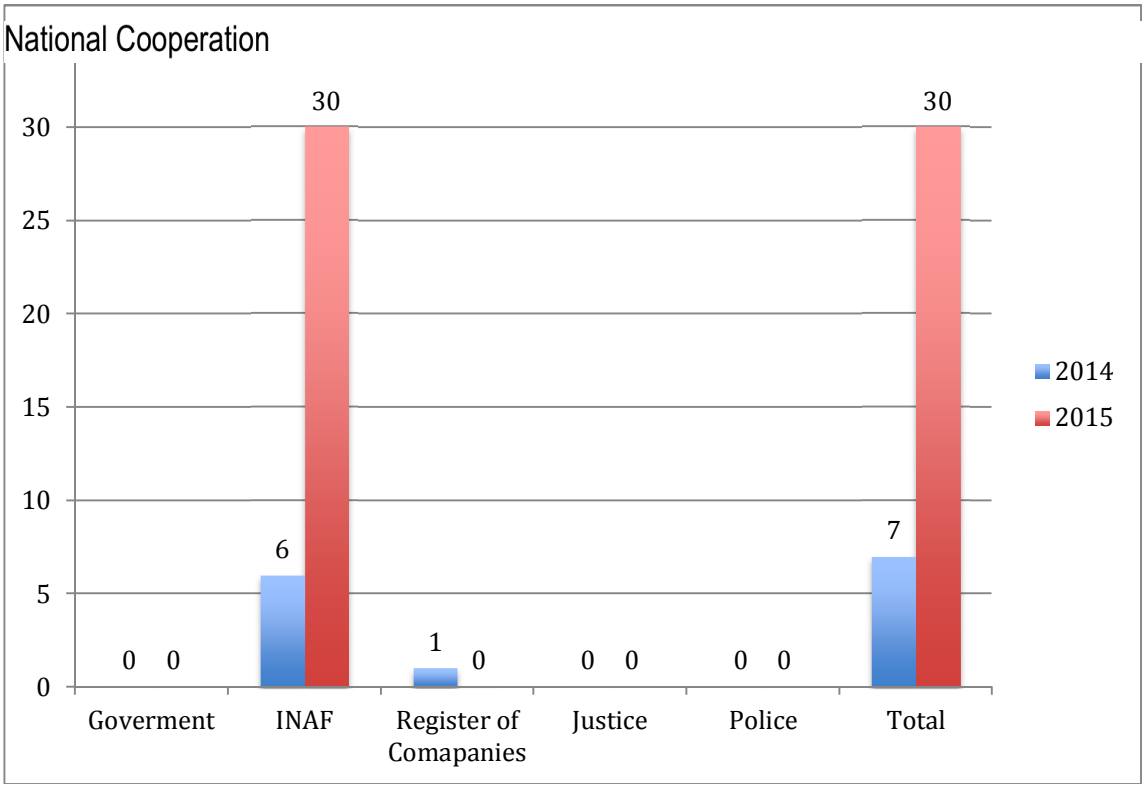
	FIU	
	2014	2015
	18	9
TOTAL	18	9



c. National cooperation

There has been a highly substantial increase in this year, exclusively with INAF, as a result of the greater number of requests for authorization processes.

	NATIONAL COOPERATION	
	2014	2015
Government	-	-
INAF	6	30
Register of Companies	1	-
Justice	-	-
Police	-	-
TOTAL	7	30



d. Register of Companies

In keeping with the trend in recent years, in 2015 we have received more requests for intervention and control in the processes of application for foreign investment, in an always greater number with respect to direct investment (companies) as compared to real estate investment.

	REGISTER OF COMPANIES	
	2014	2015
	1022	1140
TOTAL	1022	1140

e. International cooperation

These data are important inasmuch as they define the cooperation between units, which is one of every financial intelligence unit's main roles.

This year almost twice the number of requests were received from abroad, and they were handled appropriately in accordance with the content of each one, the analysis and research of the data obtained, and the subsequent response, all this with an extremely short reply time as previously mentioned.

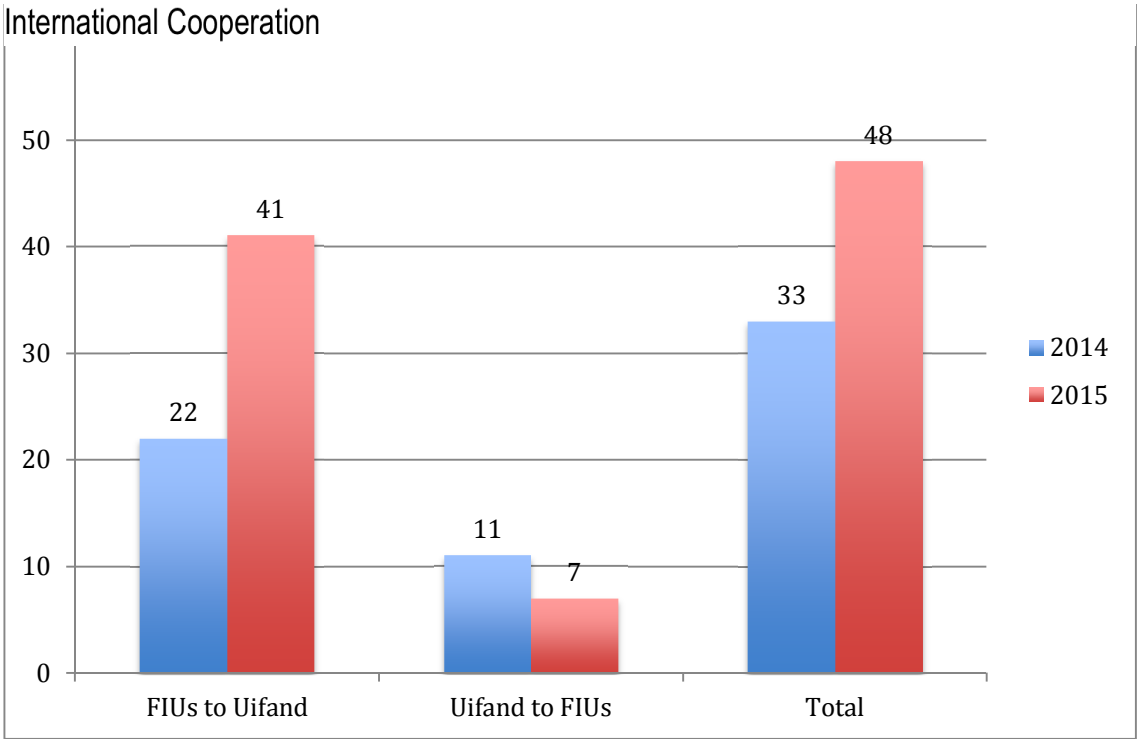
It suffices to consider that, in two years, our reply time has been reduced by almost one half, since in 2013 the average was 33.75 days and today it is 18.5 days.

This diligent spirit is especially appreciated in the international context.

Nevertheless, there has been a notably lower number of active requests (requests addressed by Uifand to other external units).

It may be pointed out that, in the latter-mentioned cases, the response time has not been the same and that we sometimes obtained replies only after insisting with reminders.

	International cooperation	
	2014	2014
FIUs to Uifand	22	41
Uifand to FIUs	11	7
TOTAL	33	48



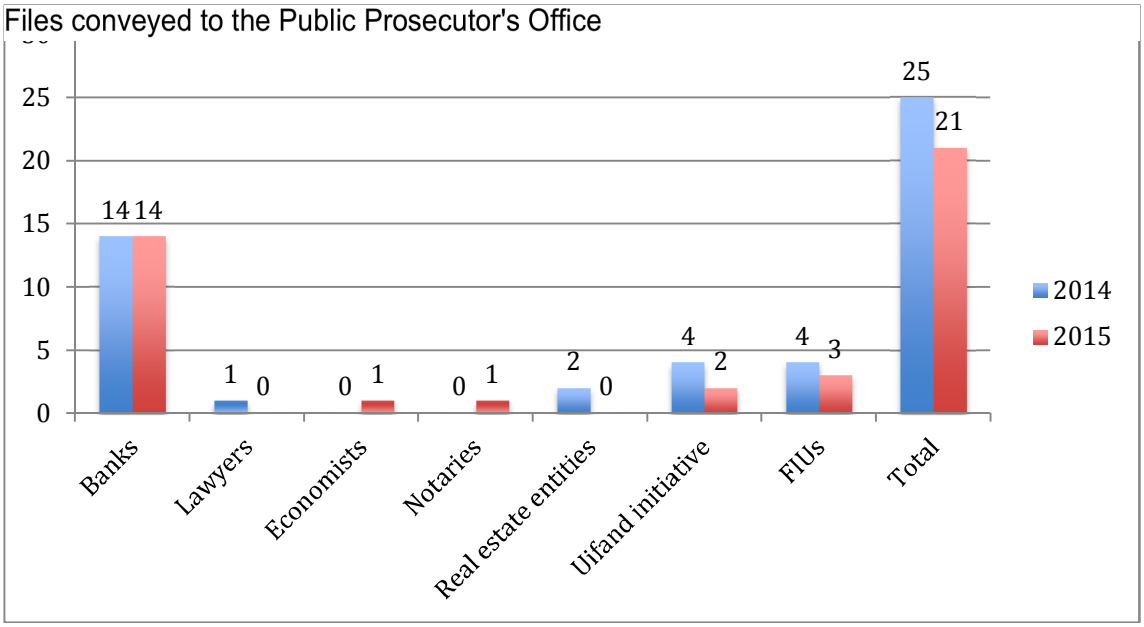
International cooperation by countries ï Year 2015						
Requesting countries (FIUs to Ufiand)	Number of requests	Response time (days)				
Spain	5	8	90	16	7	26
U.S.A.	2	26	35			
Germany	1	62				
Philippines	1	16				
Belgium	3	16	5	9		
Guatemala	1	17				
Netherlands	3	2	6	1		
Jersey	1	3				
Luxembourg	1	3				
Russia	1	7				
France	4	5	61	10	18	
Liechtenstein	2	6	13			
Isle of Man	1	25				
Cayman Islands	1	11				
Czech Republic	1	65				
N Zealand	1	18				
United Kingdom	2	19	34			
Switzerland	4	17	7	22	4	
Turkey	1	1				
Ukraine	1	14				
Uruguay	1	9				
Hungary	1	22				
Taiwan	1	1				
Slovakia	1	22				
Total	41	Average: 18.5 days				

INTERNATIONAL COOPERATION BY COUNTRIES - Year 2015-	
Requested countries (Uifand to FIUs)	Number of requests
Spain	2
Brazil	1
Kazakhstan	1
Switzerland	2
Mexico	1
Total:	7

f. Files conveyed to the Public Prosecutor's Office

This is the second non-substantial figure which has decreased, although quite little.

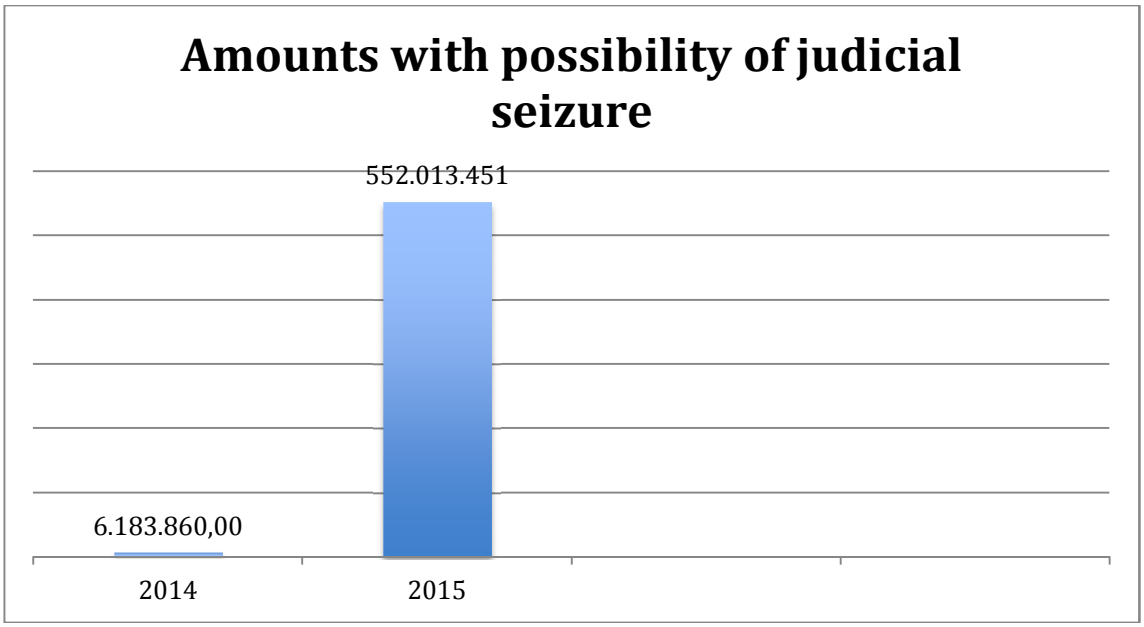
Files forwarded to the Attorney General's Office - Number of files by origin -		
	2014	2015
Banks	14	14
Lawyers	1	-
Economists	-	1
Notaries	-	1
Real estate entities	2	-
Uifand initiative	4	2
FIUs	4	3
Total	25	21



More important, in this case, is the connected figure which, for judicial effects, may entail that the pecuniary amounts which result from the conveyed files may be affected from the start, because the examining judges of the respective cases order provisional measures of guarantee, such as the seizure of such assets.

With respect to the amounts involved, the year concluded with a figure of over 55 million euros.

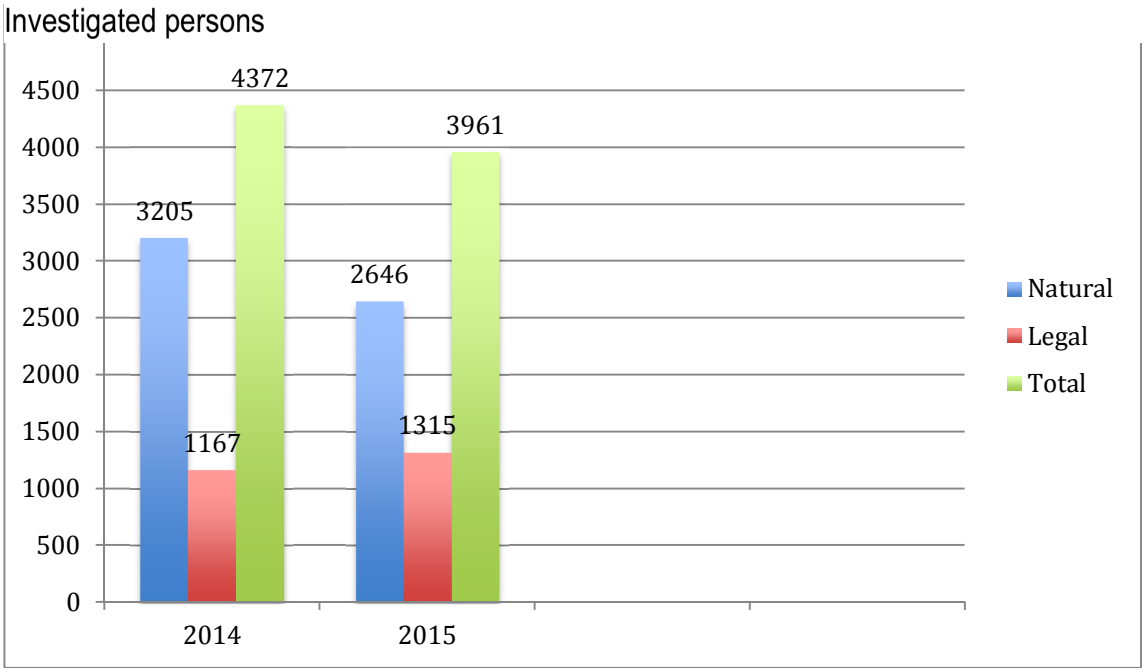
	Possibility of seizure	
	2014	2015
Possibility of judicial seizure	6,183,860	55,203,451



g. Investigated persons

Despite its being the one which most strikes the attention, this is doubtless the figure of least significance.

	Persons investigated	
	2014	2015
Natural	3205	2646
Legal	1167	1315
Total	4372	3961


Investigated persons
4500
4000
3500
3000
2500
2000
1500
1000
500
0
4372
3961
3205
2646
1315
1167
2014
2015
Natural
Legal
Total

4. TYPOLOGIES

Case no. 1: A banking obliged subject submits a suspicious transactions report to the Unit in relation to cash movements generated by a duly authorized shop in Andorra which is devoted to the sale of tobacco.

The analysis carried out by the Unit's operational area with respect to the banking transactions of said shop shows a substantial volume of annual revenues with an unusual distribution of such revenues according to the collection methods involved.

The study determined that, in the last two years, 95% of the revenues were obtained in cash, while credit card income entailed only 5% of the total.

With respect to the distribution in time of the cash revenues, the study concluded that there was no logical pattern and that there was an acyclic correlation with the dates and periods of greatest tourist influx. The shop shows coherent commercial margins and the payments to suppliers are practically all to tobacco suppliers. The annual turnover is approximately three million euros.

Consequently, there is reasonable indicative evidence to believe that part of the tobacco which is sold is for illegal export.

The file is conveyed to the Public Prosecutor's Office of Andorra.

Indicative evidence of risk:

Åthe type of commercial premises and their location make it hard to justify the volume of revenues,

Åthe handling of large amounts of cash for the declared business activity in relation to collections made by credit card,

Åthe pattern of the distribution over the course of time of the shop's revenue is not logical.

Case no. 2: Suspicious transactions report submitted by a banking entity on detecting movements in an inactive account.

Around the middle of the year 2000, (A) opens a numbered account in a banking entity of Andorra and her daughter (C) is the attorney-in-fact of the account. Over the course of two years, substantial cash deposits are made in the account, which are justified to the banking entity as being income from the business run by the married couple (A) and (B). In the last 10 years, neither (A) nor (C) have returned to the banking entity and the account has remained inactive with a substantial balance of money. In 2015 the married couple (A) and (B) come to the entity for the purpose of accessing their safe deposit boxes.

On making the pertinent verifications, the bank detects that (B) was involved in a fraud and embezzlement affair in his country. Uifand, in turn, confirms this by the information means at its disposal.

The analysis which is carried out allows it to be determined that shortly before the arrest of (B) in his country of origin for the aforementioned facts, his wife (A) deposited in the banking entity a large amount of cash and rented four safe deposit boxes. At the same

time their daughter (C) also opened a bank account and rented a safe deposit box in another banking entity.

It appears that once (B) had served the sentence imposed on him, they contacted the entity again in order to access the safe deposit boxes.

This summary of facts leads unavoidably to the conclusion that the funds deposited in Andorra could presumably proceed from the criminal activities for which (B) was convicted, and for this reason the file is conveyed to the Public Prosecutor's Office of Andorra.

Indicative evidence of risk:

Åhandling of cash alone and in considerable amounts,

Ålack of interest on behalf of the client to obtain profitability from his assets,

Åinactivity of the account for years,

Åuse of a substantial number of safe deposit boxes,

Åthe available information of judicial origin.

Case no. 3: A financial obliged subject submits a suspicious transactions report to Uifand because a client has carried out some suspicious transactions linked to a foreign company which, according to open sources of information, has been investigated in its country of origin (A) for presumed fraud.

The financial analysis allows it to be concluded that this client's account was opened in the name of a foreign front company which, moreover, has never had any real commercial operation.

The client also receives two transfers from the company investigated in his country of origin (A) and subsequently he orders two transfers in favour of some companies in another country (B), making use of this country only as a "bridge" to channel a large amount of money which, according to news reports appearing in the press and the circumstances of the facts, could be of illegal origin.

The file is transferred to the Public Prosecutor's Office of Andorra.

Indicative evidence of risk:

Ånews reports appearing in open sources of information,

Åopening of an account in the name of a foreign front company,

Ålack of any real commercial activity in this account,

Åfinancial movements between businesses without there being any apparent commercial relationship between them,

Åaccount used only as a "bridge" to avoid a direct transaction between two countries.

UIFAND

UNITAT D'INTEL·LIGÈNCIA FINANCERA D'ANDORRA

Carrer Dr. Vilanova, 17, Planta -4 - AD500 - Andorra la Vella - Principat d'Andorra
Tel.: (+376) 806 730 - Fax: (+376) 828 848 - upb@govern.ad