

Chapter 1 – General presentation

Letter from the
Chairman

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2008 will probably go down in history as the start of one of the most serious financial and economic global crises of all time. The impact of the American subprime mortgages began to be felt in 2007, but spread virulently throughout 2008 and, especially after the month of September. The securitization of these mortgages has negatively affected the results of some of the most prestigious banks. This, in turn, has brought about solvency issues in these banks. On the rebound from this, there has been a sharp downturn in confidence which has dried up the interbank market and issuing of debts, thereby creating serious problems in providing finance to banks with big liquidity or financing gaps in the short term. This has affected many of the banks who were considered as benchmarks in their sector and who have had to be rescued by their governments. It is a complicated situation which has exposed the vulnerability of a financial sector which had been living in a boom era for many years.

The epicentre of the crisis was quite possibly the bankruptcy of Lehman Brothers on 15th September, one of the biggest investment banks in the world. This caused panic in the markets. Two days after, the Federal Reserve Bank had to bail out the largest insurance company in the world, AIG. On 25th September, faced with the gravity of the situation, the Treasury Secretary, Henry Paulson, announced a rescue plan for the financial sector of 700 billion Dollars. Some of the most emblematic American financial institutions have had to be bailed out or recapitalized, such as Freddie Mac, Fannie Mae, Citigroup, Wachovia or Washington Mutual. Shortly after this, the governments of the leading countries in the world announced similar measures.

This crisis has also affected Europe profoundly. Some of the main European banks have also had to be bailed out or propped up by their governments: HBOS, Fortis, Royal Bank of Scotland, Commerzbank, ING and all of the Icelandic banks are just some examples of the severe nature of the situation.

The central governments, headed by the United States of America, have acted swiftly and decisively in defence of their banking institutions. It is probably for this reason that the effects of the crisis have not been so deeply felt as The Great Depression of 1929.

This situation has uncovered multi-million dollar frauds, the Madoff scam probably being the one to have had the most impact because of the magnitude of the fraud itself. This scandal, consisting of a fraudulent pyramid scheme, diverted 50,000 million dollars.

In the face of the crisis, the main stock exchanges have suffered sharp drops. The Standard & Poor's indices fell by 39% during that year; the Eurostoxx fell by 44% and the Nikkei by 42%.

The financial crisis has accelerated and deepened the economic crisis which we could see coming at the beginning of the year. The governments have rethought their economic policies by increasing public deficit so as to inject cash into the economy and try to reactivate it.

The main countries have all witnessed their entry into a period of recession with drops in their GNP and increased unemployment. The main world economies all shrunk towards the end of the year: the USA by 0.8%, Europe by 1.4% and Spain by 0.7%.

If we analyse the situation in the USA, then we can see how, at the beginning of the year, their economy began to go into recession. The Federal Reserve Bank, the FED, started a year with a trend in the slashing of interest rates to reactivate the economy, which, in November, were at 1% and in December, were at their lowest of all time, 0-0.25%. This is a figure which had not been recorded since the creation of the United States central bank in 1913. The US economy has been one of the hardest hit economies with a loss of 4 million jobs in 2008.

The governments of the most powerful countries in the world, which form part of the G20, met in Washington during a summit to analyse the situation and find solutions.

The financial crisis has increased international pressure on tax havens. Since the start of the year, the talks held between the Andorran Government and the OECD focused on investigating a new model which might be similar to the Swiss model. Together with Monaco and Liechtenstein, Andorra still remained on a list of non-cooperative countries with the OECD, something which put these economies in the public eye. In June, a delegation of the OECD visited Andorra and congratulated the Government for its work in the fight against money laundering and terrorism, although it warned that in order to be struck from the non-cooperative blacklist, new commitments to information sharing would have to be made. This question was more hotly debated towards the end of the year with the pressure of the governments of the so-called tax havens as regards the major financial crisis following the Washington summit. Andorra will have to redefine how it fits into Europe during 2009.

In a situation such as this, Andbanc has designed a new Strategic Plan 2009-2013, focused on the internationalisation of the bank and the strengthening of its management team, by incorporating a new Senior Management Team headed by Jordi Comas and Ricard Tubau –Managing Director and Deputy Managing Director, respectively. Jordi Comas holds a Degree from the UAB (Autonomous University of Barcelona) and an MBA from the Wharton School of the University of Pennsylvania. He had previously been a Senior Partner in The Boston Consulting Group and Managing Director in the banking areas of Spain and Portugal. Ricard Tubau holds a Degree from Esade and an MBA from Harvard Business School. Ricard Tubau was also a partner and Managing Director of The Boston Consulting Group. The bank has made a decisive commitment to bringing talent to the company in these times of change.

The first challenge facing the management team is to implement the bank's new strategic plan. The main objectives of this plan are the ambitious growth of the bank in Switzerland, Luxembourg and Latin America, the optimisation of the financial statements and increasing efficiency. Indeed, international expansion is one of the bases of our future. Andbanc has a wide network of areas which will enable it to engage in product diversification and attract new customers. Our pledge is to continue pushing profitable growth.

Despite the grave nature of the aforementioned financial crisis, we can state that Andbanc has come off well from this crisis and this is reflected in the financial statements of the year ending. We are an institution which has a high level of liquidity and solvency, and that has protected us from the crunch. We have, however, been extremely cautious in the management of our customer's patrimony. During the year 2008:

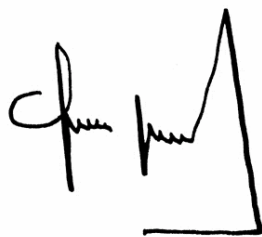
- We gained market share by becoming the second largest bank in Andorra.
- We obtained a positive profitability rate for 40% of our customers.
- Our vision of the markets was the right one.
- We were not exposed to the massive failing of the subprime securitizations, nor were we affected by the financial scandals of Lehman and Madoff.

The good work which we carried out has once more earned the recognition of the agency, Fitch Ratings, which has classified our bank with a long-term rating of A-, a short-term rating of F2, an individual rating of B/C, with a stable outlook. The agency classified the legal support rating at 4, and the grassroots support rating at B. Despite the economic slowdown, the classifications of Fitch Ratings reflect the solid position of the bank in the national domestic market, along a sustained line of growth, and dynamic management and satisfactory levels of profitability based on the Financial Statements, and a permanent control of the reputational and operational risks linked to private banking.

At our company, we are aware that it is not all down to economic results, and that the environment is increasingly important. For this reason, we approved an environmental policy which culminated in the awarding of the SO 14001 Certificate by the independent auditing firm DKV. Within the bank, we have introduced an environmental policy which has meant a reduction in the consumption of paper, raising employee awareness on recycling via the implementation of a selective collection scheme, we have improved the energy efficiency of our buildings to be more sustainable and we have requested that our providers follow our regulations. The objectives achieved by the Organisation for the fiscal year of 2008 focused on corporate and social awareness (employees, providers and clients), a reduction in the consumption of raw materials, and recycling.

Another of the projects which we have continued to strengthen is socialandbanc. We believe that we have to support culture, sport, young people and Andorran society as a whole. We reiterate our commitment to Andorran society and the institutions which work tirelessly for the country, as a pledge to give something back to society in return for the trust that it has placed in us. Our efforts continue to focus on environmental principles, as well as patronage linked to the different institutions of this country in order to promote culture and support NGO's.

Once again, I would like to take advantage to pay special due to the trust which our customers have placed in us during a fiscal year which has been especially complex. The hard work, dedication and good service provided by our exceptional team of people has been essential. We will continue along this line of development to the best of our ability to continue improving and growing. The shareholders of Andbanc are committed to an ambitious project and we are sure that this will make us into a leading international institution in the world of private banking.

A handwritten signature in black ink, consisting of a stylized first name followed by a surname, written in a cursive style.

Manel Cerqueda Donadeu
Chairman of Board of Directors