

Translation of financial statements originally issued in Catalan and prepared in accordance with generally accepted accounting principles in Andorra (see Note 23). In the event of a discrepancy, the Catalan-language version prevails.

ANDORRA BANC AGRÍCOL REIG, S.A. AND SUBSIDIARY COMPANIES
Consolidated balance sheets as of December 31, 2008 and 2007
(in thousands of euros)

Assets	2008	2007(*)
Cash and deposits at Central banks of the OECD	<u>10,559</u>	<u>14,708</u>
INAF (Andorran National Institute of Finances) (note 20)	<u>18,577</u>	<u>18,577</u>
Banks and financial institutions (notes 4 and 5)	<u>913,810</u>	<u>523,723</u>
Banks and financial institutions	915,120	523,630
Other financial intermediaries	-	265
Allowance for losses	(1,310)	(172)
Credit portfolio (notes 4 and 6)	<u>1,558,713</u>	<u>1,513,069</u>
Loans and advances to customers	1,427,220	1,387,989
Customers' overdrafts	134,459	115,586
Customers' bills	14,377	19,424
Allowance for losses	(17,343)	(9,930)
Investment portfolio (notes 4 and 7)	<u>966,498</u>	<u>479,924</u>
Bonds and other fixed income securities	944,385	436,465
Allowance for losses	(4,208)	(1,234)
Securities fluctuation reserves	(1,886)	(1,101)
Equity investments in Group companies	5,791	4,887
Securities fluctuation reserves	(50)	(50)
Other equity investments	4,987	4,987
Shares and other titles of variable income security	558	949
Equity securities	18,235	35,109
Securities fluctuation reserves	(1,314)	(88)
Goodwill (note 8.b)	<u>3,095</u>	-
Goodwill	3,572	-
Amortization fund	(477)	-
Intangible assets and capitalised expenses (note 8.a)	<u>11,812</u>	<u>10,744</u>
Intangible assets and capitalised expenses	32,970	29,418
Amortization fund	(21,158)	(18,674)
Tangible fixed assets (note 8.a)	<u>114,901</u>	<u>50,973</u>
Tangible fixed assets	177,175	109,541
Depreciation	(62,173)	(58,467)
Provision for depreciation of fixed assets	(101)	(101)
Prepayments and accrued income (note 13)	<u>32,692</u>	<u>33,055</u>
Interest accrued and not collected	32,219	32,499
Prepayments	473	556
Other assets (note 13)	<u>27,513</u>	<u>18,808</u>
Current operations	6,999	4,992
Inventories	12	150
Acquired options	243	229
Others	<u>20,259</u>	<u>13,437</u>
TOTAL ASSETS	<u>3,658,170</u>	<u>2,663,581</u>

The attached notes, from 1 to 22, form an integral part of these consolidated financial statements.

(*) Exclusively for comparative use.

ANDORRA BANC AGRÍCOL REIG, S.A. AND SUBSIDIARY COMPANIES
 Consolidated balance sheets as of December 31, 2008 and 2007
 (in thousands of euros)

Liabilities	2008	2007(*)
INAF (Andorran National Institute of Finances) (note 4)	<u>19,426</u>	<u>19,883</u>
Creditors (note 4)	<u>3,300,246</u>	<u>2,196,193</u>
Banks and financial institutions	8,483	145,595
Client deposits	3,291,763	2,050,598
Debts represented by securities	-	-
Provisions for liabilities and charges (note 9)	<u>9,061</u>	<u>26,405</u>
Provisions for pensions and similar obligations	5,593	5,376
Other provisions	3,468	21,029
Subordinated liabilities	-	-
General reserve (note 11)	<u>800</u>	<u>800</u>
Accruals (note 13)	<u>29,487</u>	<u>20,484</u>
Interest accrued not paid	24,176	15,878
Advance collections	5,311	4,606
Other liabilities	<u>25,889</u>	<u>23,450</u>
Current operations	1,420	1,029
Issued options	-	-
Suppliers and other creditors	24,469	22,421
Share capital (note 11)	<u>78,061</u>	<u>68,061</u>
Share capital	78,061	68,061
Reserves (note 11)	<u>180,782</u>	<u>260,714</u>
Legal reserve	13,612	6,806
Guarantee reserves	17,856	17,856
Statutory reserves	-	22,744
Voluntary reserves	8,955	210,308
Consolidation reserves	5,359	3,000
Revaluation reserve	65,000	-
Share premium	69,999	-
Net income (notes 10 and 11)	<u>14,418</u>	<u>47,573</u>
Profit for the year	31,410	85,657
Dividends	(16,993)	(38,084)
Minority Interests	<u>-</u>	<u>18</u>
TOTAL LIABILITIES	<u>3,658,170</u>	<u>2,663,581</u>

The attached notes, from 1 to 22, form an integral part of these consolidated financial statements.

(*) Exclusively for comparative use.

ANDORRA BANC AGRÍCOL REIG, S.A. AND SUBSIDIARY COMPANIES
 Consolidated memorandum of accounts as of December 31, 2008 and 2007
 (in thousands of euros)

Memorandum accounts	2008	2007(*)
Contingent liabilities	<u>113,436</u>	<u>89,121</u>
Sureties and other guarantees	110,707	87,558
Documentary letters of credit issued or received and confirmed to customers	1,947	1,266
Acceptance of trade bills and similar items	782	297
Commitments and contingent risks	<u>361,200</u>	<u>426,491</u>
Commitments and operational risks	354,307	419,308
Commitments and actuarial risks	6,893	7,183
Futures operations (note 14)	<u>1,706,137</u>	<u>2,387,119</u>
Forward currency operations	1,045,636	1,834,467
Forward operations	660,501	552,652
Deposit of securities and other securities under custody (note 18)	<u>4,190,757</u>	<u>5,206,226</u>
Deposit of securities under custody of third-parties	3,091,174	4,775,698
Deposit of securities under own custody	1,099,583	430,528
Other memorandum accounts under administrative control	<u>1,486,931</u>	<u>1,411,056</u>
Guarantees and commitments received	1,304,503	1,222,835
Other memorandum accounts (note 19)	182,428	188,221
TOTAL MEMORANDUM ACCOUNTS	<u>7,858,461</u>	<u>9,520,013</u>

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ANDORRA BANC AGRÍCOL REIG, SA AND SUBSIDIARY COMPANIES
Consolidated income statement for the years ended
December 31, 2008 and 2007
(in thousands of euros)

<u>Income statements</u>	<u>2008</u>	<u>2007(*)</u>
Interest and related income	<u>130,022</u>	<u>107,063</u>
INAF and other financial institutions	35,361	15,075
Loans	81,929	73,425
Bonds and other fixed income securities	12,732	18,563
Interest and related charges	<u>(91,452)</u>	<u>(73,701)</u>
INAF and financial institutions (liabilities-assets)	(7,390)	(18,778)
Customer deposits	(83,836)	(54,738)
Others	(226)	(185)
Income from equity securities	<u>490</u>	<u>318</u>
Equity investments in Group companies	(1)	-
Other investments	296	297
Shares and other equity investments	195	21
Net income from companies consolidated under equity method	-	-
NET INTEREST INCOME	<u>39,060</u>	<u>33,680</u>
Net commissions for services	<u>67,038</u>	<u>102,966</u>
Commissions accrued for services rendered	74,206	108,596
Commissions accrued for services received	(7,168)	(5,630)
Results of financial operations	<u>9,784</u>	<u>13,932</u>
Net allocations of the securities fluctuation reserve (note 7)	(2,011)	(703)
Exchange gains	2,834	3,607
Results from securities trading	7,501	10,079
Results of futures operations	564	(475)
Profit (loss) from companies consolidated under equity method	896	1,424
Other ordinary results	<u>1,459</u>	<u>1,475</u>
GROSS OPERATING INCOME	<u>117,341</u>	<u>152,053</u>
Personnel expenses	<u>(27,068)</u>	<u>(24,617)</u>
Personnel, Board of directors and Indemnities	(21,944)	(19,937)
Social Security	(3,313)	(3,071)
Other personnel costs	(1,811)	(1,609)
General expenses	<u>(31,239)</u>	<u>(30,657)</u>
Materials	(286)	(284)
External services	(17,035)	(14,664)
Taxes (note 20)	(11,209)	(13,270)
Other general expenses	(2,709)	(2,439)
Amortization of assets net of recoveries (note 8)	<u>(7,320)</u>	<u>(6,203)</u>
Allocation to the provision for depreciation and amortization of fixed assets	(7,320)	(6,203)
Provisions for decline in value of assets net of recoveries	<u>-</u>	<u>-</u>
NET OPERATING INCOME	<u>51,713</u>	<u>90,576</u>
Allowance for loan losses net of recoveries	<u>(11,248)</u>	<u>(5,227)</u>
Allocations to allowance for loan losses and insolvencies provision reserve (notes 5, 6 and 7)	(11,248)	(5,227)
Recovery from allowance for loan losses and insolvencies provision reserve	-	-
Provisions for liabilities and charges (note 9)	<u>(3,301)</u>	<u>(166)</u>
Allocations to the general reserve	<u>-</u>	<u>-</u>
PROFIT FOR THE YEAR	<u>37,164</u>	<u>85,183</u>
Extraordinary results (note 13)	<u>(5,753)</u>	<u>254</u>
Consolidated profit for the year	<u>31,410</u>	<u>85,437</u>
Net income attributed to minority interests	<u>-</u>	<u>220</u>
NET INCOME ATTRIBUTED TO THE GROUP	<u>31,410</u>	<u>85,657</u>

The attached notes, from 1 to 22, form an integral part of these consolidated financial statements.
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ANDORRA BANC AGRÍCOL REIG, SA AND SUBSIDIARY COMPANIES
 Consolidated statement of Sources and Application of funds for the years ended
 December 31, 2008 and 2007
 (in thousands of euros)

SOURCE OF FUNDS	2008	2007(*)
<u>From operations</u>	<u>56,890</u>	<u>98,524</u>
Result for the year	31,410	85,657
Net allocations to allowance for loan losses and insolvencies provision	11,248	5,227
Net allocations to asset depreciation reserve	-	-
Net allocations to securities fluctuation reserve	2,011	703
Allocations to other reserves (pension and other reserves)	4,290	1,006
Depreciation and amortization	7,320	6,203
Losses on sale of fixed assets	288	-
Losses on sale of own shares and equity	-	10
Profit on sale of fixed assets	-	-
Profit on sale of own shares and equity	-	-
Others	323	(282)
<u>Changes in liabilities minus assets</u>	<u>3,367</u>	<u>33,394</u>
INAF and financial institutions (liabilities-assets)	-	532
Banks and financial institutions (liabilities-assets)	-	-
Other financial institutions (liabilities-assets)	265	47
Others (assets-liabilities)	3,102	32,815
<u>Net increase in liabilities</u>	<u>1,241,164</u>	<u>573,345</u>
Creditors: customers	1,241,164	573,345
<u>Net decrease in assets</u>	<u>4,146</u>	<u>254,339</u>
Savings and central OECD banks	4,146	1,874
Investment portfolio minus equity investment	-	252,465
<u>Sales of permanent investments</u>	<u>-</u>	<u>1,244</u>
Sale of equity investments	-	-
Sale of fixed assets	-	1,244
<u>Financing activities</u>	<u>145,000</u>	<u>-</u>
External capital contributions	80,000	-
Others	65,000	-
TOTAL SOURCE OF FUNDS	<u>1,450,567</u>	<u>960,846</u>

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ANDORRA BANC AGRÍCOL REIG, SA AND SUBSIDIARY COMPANIES
 Consolidated statement of Sources and Application of funds for the years ended
 December 31, 2008 and 2007
 (in thousands of euros)

APPLICATION OF FUNDS	2008	2007(*)
<u>Funds applied to operations</u>	<u>(799)</u>	<u>(4,244)</u>
Application of other funds (pension fund, etc.)	(799)	(4,139)
Others	-	(105)
<u>Changes in assets minus liabilities</u>	<u>(529,055)</u>	<u>(700,193)</u>
INAF (assets-liabilities)	(454)	-
Banks and financial institutions (liabilities-assets)	(528,601)	(700,193)
Other financial institutions (assets-liabilities)	-	-
Others (assets-liabilities)	-	-
<u>Net decrease in liabilities</u>	<u>-</u>	<u>-</u>
Creditors: customers	-	-
<u>Net increase in assets</u>	<u>(537,721)</u>	<u>(164,726)</u>
Cash	-	-
Loans : customers	(53,076)	(164,726)
Investment portfolio minus equity investment	(484,645)	-
<u>Permanent investment purchases</u>	<u>(82,613)</u>	<u>(7,748)</u>
Purchases of equity investments	(6,913)	(1,027)
Purchase of fixed assets	(75,700)	(6,721)
<u>Funds applied</u>	<u>(300,379)</u>	<u>(83,935)</u>
Dividends	(16,993)	(38,084)
Supplementary dividends from prior years	(40,745)	(45,546)
Others	<u>(242,641)</u>	<u>(305)</u>
TOTAL APPLICATION OF FUNDS	<u>(1,450,567)</u>	<u>(960,846)</u>

The attached notes, from 1 to 22, form an integral part of these consolidated financial statements.
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ANDORRA BANC AGRÍCOL REIG, SA AND SUBSIDIARY COMPANIES
Notes to the consolidated financial statements for the year ended
December 31, 2008
(in thousands of euros)

1. Activity

Andorra Banc Agrícola Reig, SA, is a Limited Liability Company incorporated in 1930, protected by the law of Andorra, with registered offices in Escaldes-Engordany (Principality of Andorra).

On May 10, 2002, the Extraordinary Meeting of Shareholders adopted a resolution to change its registered name from *Banc Agrícola i Comercial d'Andorra, SA*, to *Andorra Banc Agrícola Reig, SA* (henceforth *Andbanc* or *the Bank*), together with a corresponding modification of article 1 of its articles of incorporation. The Bank's corporate purpose is to carry out banking activities, as defined by the regulations of the Andorran banking system. It can undertake any activity related to its corporate purpose.

As a member of the Andorran financial system, Andbanc is subject to the supervision of the Andorran National Institute of Finances (hereafter "INAF" (in Catalan)), which is the Andorran financial system's authority and which performs its functions independently from the General Administration. The Bank is also subject to compliance with local Andorran legislation (see note 20).

2. Presentation basis and consolidation principles

a) True and Fair View

The accompanying consolidated financial statements comply with the format established by the decree, pursuant to the normalized Accounting Plan to be implemented by all operators in the financial system by January 19, 2000, as published in the Official Gazette of the Principat d'Andorra Number 5, year 12, on January 26, 2000. The consolidated financial statements were prepared on the basis of Andorra Banc Agrícola Reig, SA's accounting records, and those of its subsidiaries (henceforth the *Group*) as at December 31, 2008, so that they present a true and fair view of the Group's wealth, financial situation, and consolidated results.

The financial statements are pending approval by the General Meeting of Shareholders. Management, however, considers that they will be approved without significant changes.

The figures included in the documents that make up these consolidated financial statements are expressed in thousands of euros.

b) Generally accepted accounting principles

The generally accepted accounting principles described in note 3 below have been used in the preparation of these consolidated financial statements. No mandatory accounting principle having a significant effect on these consolidated financial statements has been excluded during their preparation.

c) Basis of consolidation for the financial statements

Translation of financial statements originally issued in Catalan and prepared in accordance with generally accepted accounting principles in Andorra (see Note 23). In the event of a discrepancy, the Catalan-language version prevails.

ANDORRA BANC AGRÍCOL REIG, SA AND SUBSIDIARY COMPANIES
Notes to the consolidated financial statements for the year ended
December 31, 2008
(in thousands of euros)

The consolidated financial statements as at December 31, 2008 correspond to the financial statements of Andorra Banc Agrícol Reig, SA and its subsidiaries (henceforth Group Andbanc or the Group) and have been prepared by the Bank's Management.

The main subsidiaries of Andorra Banc Agrícol Reig, SA as of December 31, 2008, are the following:

<u>Company</u>	<u>Address</u>	<u>Activity</u>	<u>% holding direct</u>	<u>% holding indirect</u>	<u>Interim dividend</u>	<u>Equity</u>	<u>Results</u>
Caronte 2002, SA	Andorra	Services	100%	-	-	37	2
Clau d'Or, S.A.	Andorra	Real State	100%	-	-	8	-
Mon Immobiliari, S.A.	Andorra	Real State	100%	-	-	94	-
Món Gestió, SAU	Andorra	Investment fund management company	100%	-	-	4,807	4,162
Andbanc Bahamas Limited	Bahamas	Bank	100%	-	-	9,002	790
Nobilitas N.V.	Dutch Antilles	Holding company (*)	100%	-	-	1,391	(964)
Seguretat i Serveis, SA	Andorra	Services	28.57%	-	-	767	-
Savand, S.A.	Andorra	Financial services	100%	-	-	2,675	(908)
Andorra Assegurances Agrícol Reig, SA	Andorra	Insurance	100%	-	-	5,638	869
AndPrivate Wealth	Switzerland	Asset Management	-	100%	-	1,729	(694)
Columbus de México, S.A.	Mexico	Asset Management	-	50%	-	708	58

(*) This company holds 100% of the shares of Egregia B.V. and 99% of those of Zumzeiga Cooperatief, which in turn wholly own AndPrivate Wealth, S.A. and 50% of the shares of Columbus de México, S.A. respectively.

The companies Clau d'Or, SA, and Món Immobiliari, SA, are not consolidated as they are immaterial with respect to the Group's aggregate data.

The definition of the Group is in accordance with the decree of January 19, 2000, issued by the Andorran Government.

The consolidation methods used are the following:

- Full consolidation of the following companies: Món Gestió, SAU; Andbanc Bahamas Limited; Nobilitas N.V.; AndPrivate Wealth, SA, Savand S.A. and Caronte 2002, SA.
- Proportionate consolidation of Columbus de México, S.A. which was consolidated into Group Andbanc on April 11, 2008.
- Consolidation by equity method of the following companies: Andorra Assegurances Agrícol Reig, SA, and Seguretat i Serveis, SA.

ANDORRA BANC AGRÍCOL REIG, SA AND SUBSIDIARY COMPANIES

Notes to the consolidated financial statements for the year ended

December 31, 2008

(in thousands of euros)

Full consolidation consists of including in the balance sheet of the parent company all the assets, rights and obligations that make up the net worth of the subsidiaries, and in the income statement all items of income and expenditures which determine the subsidiaries' results. All subsidiaries in which the shareholding of the Group is greater than 50% whose activity is not different to that of the Bank itself are consolidated in this manner and they constitute, with the Bank, one decision-making unit.

Under proportionate consolidation the balance sheet and income statement of the Group include the Group's share of the assets and liabilities, income and expenses of the entity to be consolidated, adjusting where necessary to maintain consistency. In all other respects the process is similar to that of full consolidation. Jointly controlled entities whose activities are similar to the Group's are consolidated by this method.

Consolidation by equity method consists of substituting the book value by which an investment is stated in the balance sheet with an amount relating to the corresponding percentage held by the parent company in the equity of the investee company. The results of the companies consolidated by the equity method have been incorporated into consolidated income. The subsidiaries which have been consolidated are those where the direct and/or indirect holdings of Andorra Banc Agrícola Reig, SA, are equal or greater than 20% without exceeding 50% or, if they exceed 50%, where the activity is different from that of the Bank.

All significant balances and transactions between consolidated companies have been eliminated.

Where necessary, adjustments are made to the individual financial statements of subsidiaries to bring their accounting policies in line with those used by the Group.

3. Accounting principles and policies

The main accounting principles and policies applied are the following:

a) Accrual basis

Income and expenses are recorded on an accrual basis, independently of the monetary or financial flow from which they arise. All interests accrued and expenses incurred are recorded, except for the interests on doubtful and bad debts, which are recorded when they are collected.

b) Recording principles

All of the Group's rights and obligations, including those of a contingent and future nature, are recorded when they arise, either in the accounts or in memorandum accounts.

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Variations or transformations of the value of previous rights and obligations are recorded as soon as they are known.

According to standard banking practice, the transactions are recorded on the day they occur, which can differ from the corresponding value date, which is used as the basis for interest income and expense calculation.

c) Valuation of foreign currency transactions

Assets and liabilities denominated in currencies other than the euro, and spot currency transactions for hedging, have been translated into euros using the average international market exchange rate prevailing on the balance sheet date.

Gains or losses from said translations and the result of operations in foreign currencies realized during the year are recorded under results of financial operations in the consolidated income statement.

Forward contracts in foreign currencies are valued according to the exchange rate on the last business day before the balance sheet date. Exchange gains and losses from forward contracts are recorded in the consolidated income statement.

The other memorandum accounts in foreign currencies are translated into euros using international market exchange rates, according to the rate on the last business day before the balance sheet date.

Income and expenses in foreign currencies are translated into euros at the rates prevailing on the date of the operations.

d) Allowance for loan losses

The allowance for loan losses covers losses that could occur in the recovery of any loan at risk. The allowance covers specific, general and country risks.

The allowance for loan losses, in accordance with the Andorran financial system's accounting plan, is calculated according to the following criteria:

- The specific provision, which covers all types of assets and memorandum accounts, is determined based on individualized analysis of the quality of the risks contracted with the principal debtors and borrowers on the basis, mainly, of guarantees available and the time expired since the maturity date.
- The general allowance is based on 0.5% of the net loans and fixed income securities with banking institutions and 1% of the net loans to customers and fixed income securities, except for the part covered by cash pledged by contract or collateralized quoted securities within the advance value limit of these securities, mortgage-backed loans and loans and credits on income securities issued by the central administrations of the OECD countries or expressly guaranteed by these institutions.

ANDORRA BANC AGRÍCOL REIG, SA AND SUBSIDIARY COMPANIES

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December 31, 2008

(in thousands of euros)

- The country risk allowance is determined by a global analysis of the abovementioned risks with maximum caution to determine the necessary coverage. For the global risk evaluation, the development of the payment balances, the debt level, the charges to cover the debt, the debt rates in secondary international markets, as well as other indicators and circumstances in the country are considered.

e) Investment Portfolio

Investments are stated in accordance with the following classification:

- The **trading portfolio** includes the securities acquired for short-term sale. The securities assigned to this portfolio are stated at their market value as of year end or the last business day prior to this date. The differences arising from the net valuation variations are recorded net (excluding the accrued interest on fixed interest securities), whether they are positive or negative, under Results of financial operations in the consolidated income statement.
- The securities assigned to the **held-to-maturity investment portfolio**, which includes the securities that the Bank has decided to hold to maturity, are shown at their adjusted acquisition price (the difference between the acquisition price and the redemption value is apportioned periodically). The differences are recorded under Interest and related income in the consolidated income statement.

The results of any sales that may arise are recorded in the consolidated income statement as an extraordinary result. In case of gains, they are deferred on a straight-line basis over the residual life of the security sold (see Note 13).

This portfolio requires no fluctuation reserve for variations between the market value and the adjusted acquisition price. However, irreversible losses are recorded in the income statement.

In 2008, the Bank acquired all of the fixed income securities and unquoted funds then in the money market funds managed by Mon Gestió S.A.U. for their book value (see notes 7.a and 9.b).

Extraordinary Authorization having been granted by INAF on January 26, 2009, the difference between the purchase price and the market price of the securities, determined by an independent expert at the time of the acquisition, was taken to Voluntary Reserves (see Note 11). In accordance with the same authorization, these securities have been incorporated into the Bank's held-to-maturity portfolio at the market value determined by the independent expert, given that the Bank is committed to hold them to maturity.

The gains realised on the sale of these securities during 2008 have also been taken, in accordance with the INAF authorization, to Voluntary Reserves (see note 7).

ANDORRA BANC AGRÍCOL REIG, SA AND SUBSIDIARY COMPANIES
Notes to the consolidated financial statements for the year ended
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If further provisions are necessary with regard to these securities, they will have to be recorded in the income statement in the financial period in which they occur or become apparent.

- The **permanent equity investments portfolio** includes investments in equity securities made by subsidiaries and investee group companies consolidated by equity method, as well as the minority interests in companies whose activity is complementary to financial activity and which are used to service the Bank's activities on a permanent basis. The latter companies are stated at their acquisition price. If this value is lower than their book value, a provision is made for the difference and is charged in the consolidated income statement.
- The **ordinary investment portfolio** includes fixed interest or equity securities not included in the portfolios mentioned above. The fixed income securities are stated at their adjusted acquisition price (the difference between the acquisition price and the redemption value is apportioned periodically). Potential net losses due to quotations fluctuations are provided for in the securities fluctuation reserve, (equal to the total of the positive and negative differences, up to the negative limit) charged to the income statement.

The equity securities included in the ordinary investment portfolio are stated in the consolidated balance sheet at the lower of acquisition cost or market value. The market value is determined according to the following criteria:

- Quoted securities: quote from the last trading day of the year.
- Unquoted securities: theoretical book value of the investment obtained from the last available balance sheet.

In order to recognize the corresponding losses, a securities fluctuation reserve has been created which is stated as a negative value in the assets of the consolidated balance sheet.

f) Goodwill

Goodwill is recognised when it arises as a result of acquisitions of subsidiaries and associated companies (see note 8.b).

It is systematically amortized over a maximum period of 5 years (10 years with specific approval from INAF).

g) Tangible and intangible fixed assets

Fixed assets are normally stated at their acquisition value, less the accumulated straight-line amortization and depreciation at rates adequate to carry fixed assets at their residual value at the end of their useful lives.

Amortization and depreciation rates used are:

ANDORRA BANC AGRÍCOL REIG, SA AND SUBSIDIARY COMPANIES
Notes to the consolidated financial statements for the year ended
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(in thousands of euros)

	<u>Annual Percentage</u>
Buildings for own use	3%
Plant and machinery	10%
Office furniture and machinery	20%
Computer equipment	20-33%
Computer software applications	20%
Vehicles	20%

The cost of the multi owner assets classified as intangible fixed assets is amortized on a straight-line basis over a period equal to the residual life of the respective contract.

In case the fixed assets, due to their use or obsolescence are irreversibly depreciated, the loss or decrease in value of the corresponding asset is recorded directly.

The depreciation of capitalised work and installations in relation to leased assets is related to their estimated useful life or until the lease agreement terminates.

As indicated in note 8, buildings used in operations acquired or built prior to November 30, 2008 are recorded in the balance sheet at their estimated market value at that date. Applying the prudence principle this market value is determined with a safety margin based on the valuations of two independent experts, and a revaluation reserve has been created for the difference between this estimated market value and the acquisition cost, net of accumulated depreciation (see notes 8 and 11). When an asset of this type is retired, the corresponding amounts recognised in the revaluation reserve may be transferred, if they arise, directly to voluntary reserves.

h) Non operating tangible fixed assets

Non-operating tangible fixed assets are those not directly related to banking activity and adjudicated assets.

These include land, buildings, installations and furniture; which are recorded at the lower of their acquisition cost or market value and depreciated over their estimated useful lives using the same percentages applied to operating fixed assets.

Adjudicated assets include land and buildings valued at the lower of their adjudication cost or market value, after deducting provisions determined by the schedule set down by the current regulation.

i) Futures operations

The Bank has used these instruments in a limited way, both in hedging of its equity positions and in other operations.

Future contracts are included as memorandum accounts as specified by the INAF legislation and are associated with exchange and interest rates, market or credit risk, and specifically:

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- Currency sales or purchases and swaps in foreign currency are recorded as spot or maturity transactions depending on whether they mature in less or more than two business days.
- The forward rate agreements (FRAS), interest swaps, and other future contracts outside organized markets are recorded at the principal amount of the operation.

Operations to eliminate or significantly reduce interest rate, exchange or market risks in equity positions or other operations are considered hedging operations, in which the gains or losses generated have been stated side by side in the income statement with the costs or yields of hedged items.

Non-hedging operations, also called *trading transactions*, which have been undertaken in organised markets, are valued in accordance with their quotations. Gains or losses arising from the changes in quotations are recorded in the income statement on the basis of their daily settlement.

The results of the trading transactions undertaken outside these organised markets are not recognized in the income statement until their actual settlement. However, the positions are valued and provisions made against the results for potential net loss for each kind of risk that may arise from these valuations. The type of risks considered for such purposes include interest rates (by currency), market price (by issuer) and currency exchange rates.

j) General reserve

The reserve covers possible risks inherent to the banking business and other contingencies.

The allocations to the reserve are reflected under the Allocations to the general reserve in the income statement and the recoveries under extraordinary results.

k) Accrual of interest

The Group uses a financial method (i.e. internal rate of return or resulting cost), to calculate the accrual of interest for both assets and liabilities, with maturities of more than 12 months.

For operations under 12 months, the Group can choose between this method and straight-line accruals.

l) Pensions and similar obligations

The Bank has recorded different commitments in relation with personnel: retired employees, early retirees, and an internally defined contribution pension fund for current bank employees.

The personnel from what was previously called *Banc Agrícola i Comercial d'Andorra, SA*, who retired before December 22, 1995 have a retirement pension plan created in 1989 with defined pensions. Employees who joined the company after May 1, 1995,

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except certain groups belonging to a defined contribution scheme, do not belong to the retirement pension plan.

The Bank signed early retirement agreements with a number of employees in prior years. Under the agreements signed by retired personnel, the Bank has to give supplementary remuneration. At December 31, 2008, a fund in the amount of 940 thousand Euros was set up for these obligations. Furthermore, there is an internal fund of 632 thousand Euros at December 31, 2008 for pre-retired personnel, which coincides with the obligations accrued at that date.

The actuarial variables and other hypotheses used in the valuation on December 31, 2008 for retired and pre-retired personnel are the following:

	<u>Retirees</u>	<u>Early retirees</u>
Survival tables	GRMF-95	GRMF-95
Nominal actualisation rate	3.5%	3.5%
Nominal rate of salary growth	-	1.98%
Annual rate of pension growth	1.98%	-
Retirement age:	-	65

The amount of pension fund allocation provision for current personnel in 2008 was set with a revaluation of the pension of 1.98% with respect to 2007, and a 4.68% interest rate for 2008 for employees belonging to the pension fund within the consolidated balance sheet (see note 9).

Current personnel belonging to the defined contribution pension scheme can, upon request, transfer their pensions fund to memorandum accounts in an investment fund managed by the Bank (see note 9). As of December 31, 2008 the managed memorandum accounts reached 1,300 thousand Euros while the internal fund presented under Pension fund amounts to 4,021 thousand Euros.

4. Assets and liabilities maturities

The breakdown by maturities of loans as of December 31, 2008 and 2007 is as follows:

	2008							Total
	Expired	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	No maturity	
Banks and credit institutions and other financial intermediaries	-	506,267	129,637	18,759	-	-	260,457	915,120
Loans to customers	45,801	145,226	98,383	344,104	334,673	459,033	-	1,427,220
Customer overdrafts	31,689	-	-	-	-	-	102,770	134,459
Customers' bills	7	9,506	4,236	500	128	-	-	14,377
	2007							

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	<u>Expired</u>	<u>Up to 1 month</u>	<u>From 1 to 3 months</u>	<u>From 3 months to 1 year</u>	<u>From 1 year to 5 years</u>	<u>More than 5 years</u>	<u>No maturity</u>	<u>Total</u>
Banks and financial institutions and other financial intermediaries	-	126,798	43,860	6,000	-	-	347,237	523,895
Loans and advances to customers	26,704	106,224	99,159	379,173	329,029	447,700	-	1,387,989
Customer overdrafts	10,200	-	-	-	-	-	105,386	115,586
Customers' bills	-	10,513	7,448	1,080	383	-	-	19,424

The breakdown by maturities of Bonds and other fixed interest securities as of December 31, 2008 and 2007 is as follows:

	2008					<u>Total</u>
	<u>Expired</u>	<u>Less than 3 months</u>	<u>From 3 months to 1 year</u>	<u>From 1 year to 5 years</u>	<u>More than 5 years</u>	
Bonds and other fixed income securities	340	212,502	75,632	205,604	450,307	944,385

	2007					<u>Total</u>
	<u>Expired</u>	<u>Less than 3 months</u>	<u>From 3 months to 1 year</u>	<u>From 1 year to 5 years</u>	<u>More than 5 years</u>	
Bonds and other fixed income securities	-	65,399	79,267	199,621	92,178	436,465

The maturities of the INAF deposits and creditors as of December 31, 2008 and 2007 are the following:

	2008							<u>Total</u>
	<u>Expired</u>	<u>Up to 1 month</u>	<u>From 1 to 3 months</u>	<u>From 3 months to 1 year</u>	<u>From 1 year to 5 years</u>	<u>More than 5 years</u>	<u>No maturity</u>	
INAF	-	18,686	-	601	-	-	139	19,426
Banks and financial institutions and other financial intermediaries	-	-	-	-	-	-	8,483	8,483
Customer deposits	-	785,287	656,710	569,630	132,071	-	1,148,065	3,291,763

	2007							<u>Total</u>
	<u>Expired</u>	<u>Up to 1 month</u>	<u>From 1 to 3 months</u>	<u>From 3 months to 1 year</u>	<u>From 1 year to 5 years</u>	<u>More than 5 years</u>	<u>No maturity</u>	
INAF	-	18,699	-	601	-	-	583	19,883
Banks and financial institutions and other financial intermediaries	-	48,904	61,595	13,588	3,000	-	18,508	145,595
Customer deposits	-	815,554	366,375	205,447	132,525	-	530,697	2,050,598

As of December 31, 2008 and 2007, the detail by currency of loans and investment portfolios is as follows:

	2008		<u>Total</u>
	<u>Euros</u>	<u>Other currencies</u>	
Banks and financial institutions and other financial intermediaries	556,250	358,870	915,120
Loans and overdrafts	1,358,179	69,041	1,427,220
Customer overdrafts	131,245	3,214	134,459
Customers' bills	14,007	370	14,377
Investment portfolio	853,992	119,964	973,956

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	2007		<u>Total</u>
	<u>Euros</u>	<u>Other currencies</u>	
Banks and financial institutions and other financial intermediaries	240,095	283,800	523,895
Loans and overdrafts	1,317,150	70,839	1,387,989
Customer overdrafts	75,712	39,874	115,586
Customers' bills	19,421	3	19,424
Investment portfolio	458,805	23,592	482,397

As of December 31, 2008 and 2007, the detail by currency of the INAF deposits and creditors is as follows:

	2008		<u>Total</u>
	<u>Euros</u>	<u>Other currencies</u>	
INAF	19,426	-	19,426
Banks and financial institutions and other financial intermediaries	5,593	2,890	8,483
Client deposits	2,661,196	630,567	3,291,763

	2007		<u>Total</u>
	<u>Euros</u>	<u>Other currencies</u>	
INAF	6,295	13,588	19,883
Banks and financial institutions and other financial intermediaries	140,226	5,369	145,595
Client deposits	1,597,698	452,900	2,050,598

5. Banks and financial institutions

This balance as of December 31, 2008 and 2007 is broken down as follows:

	<u>2008</u>	<u>2007</u>
Current accounts		
Banks and financial institutions	260,456	346,972
Other financial intermediaries	-	<u>265</u>
	260,456	347,237
Time deposits		
Banks and financial institutions	654,664	176,658
Other financial intermediaries	-	-

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	654,664	176,658
Less: allowance	<u>(1,310)</u>	<u>(172)</u>
	<u>913,810</u>	<u>523,723</u>

The movement in the allowance during 2008 is as follows:

	<u>Specific risks</u>	<u>Generic risks</u>	<u>Total</u>
Balance as of December 31, 2007	-	172	172
Charge	<u>-</u>	<u>1,138</u>	<u>1,138</u>
Balance as of December 31, 2008	<u>-</u>	<u>1,310</u>	<u>1,310</u>

As of December 31, 2008, Banks and financial institutions does not include any matured, doubtful loans.

6. Loans and receivables

The detail as of December 31, 2008 and 2007, by status of loans and guarantee type, is the following:

<u>Credit situation</u>	2008			<u>Total</u>
	<u>Normal</u>	<u>Expired</u>	<u>Doubtful</u>	
Loans and advances to customers	1,381,419	28,507	17,294	1,427,220
Customer overdrafts	102,770	1,700	29,989	134,459
Customers' bills	14,370	-	7	14,377

<u>Credit situation</u>	2007			<u>Total</u>
	<u>Normal</u>	<u>Expired</u>	<u>Doubtful</u>	
Loans and advances to customers	1,361,285	17,565	9,139	1,387,989
Customer overdrafts	105,386	1,530	8,670	115,586
Customers' bills	19,424	-	-	19,424

<u>Guarantee type</u>	2008				<u>Total</u>
	<u>Mortgage</u>	<u>Monetary</u>	<u>Securities</u>	<u>Personal-secured and others</u>	
Loans and advances to customers	820,219	23,599	245,773	337,629	1,427,220
Customer overdrafts	17,696	1	94,570	22,193	134,459
Customers' bills	-	76	-	14,301	14,377

<u>Guarantee type</u>	2007				<u>Total</u>
	<u>Mortgage</u>	<u>Monetary</u>	<u>Securities</u>	<u>Personal-secured and others</u>	
Loans and advances to customers	767,664	28,024	321,907	270,394	1,387,989
Customer overdrafts	2,652	12	94,067	18,855	115,586
Customers' bills	-	-	-	19,424	19,424

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Loans and advances to customers at December 31, 2008, include loans for which legal action has been initiated, for an amount of 25,123 thousand Euros.

The movement during 2008 in the allowance for loan losses is as follows:

	<u>Specific risks</u>	<u>Generic risks</u>	<u>Total</u>
Balance as of December 31, 2007	<u>6,630</u>	<u>3,300</u>	<u>9,930</u>
Charge net of recoveries	6,732	303	7,035
Transfer to bad debts	(18)	-	(18)
Others	<u>396</u>	<u>-</u>	<u>396</u>
Balance as of December 31, 2008	<u>13,740</u>	<u>3,603</u>	<u>17,343</u>

The details of loans to public institutions for 2008 and 2007, which represent loans and overdrafts, are as follows:

	<u>2008</u>	<u>2007</u>
Central administrations	59,061	26,923
Local administrations	42,130	40,092
Semi-public entities	<u>-</u>	<u>-</u>
	<u>101,191</u>	<u>67,015</u>

7. Investment Portfolios

a) Bonds and other fixed income securities

The breakdown as of December 31, 2008 and 2007 is the following:

	<u>2008</u>	<u>2007</u>
Principality of Andorra's public debt (see note 20)	55,766	55,766
OECD countries' public debt	266,852	229,692
Other bonds and negotiable fixed-income securities	<u>621,767</u>	<u>151,007</u>
	<u>944,385</u>	<u>436,465</u>

In 2008 Andorra Banc Agrícola Reig, S.A. acquired the unquoted fixed income securities held in the money market funds managed by Mon Gestió S.A.U., for 819,932 thousand Euros (see note 3.e). At December 31, 2008, the balance on

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“Other bonds and fixed income securities” included 516,631 thousand Euros corresponding to the unquoted fixed income securities acquired from the money market funds managed by the Group (see note 3.e), of which 326,712 thousand Euros corresponded to interest rate structured notes and the remainder to credit structured notes.

The process of restructuring money market fund assets completed on December 31, 2008 included the sale of part of the securities acquired, generating losses of 66,819 thousand Euros which, with the authorization of the INAF, were taken to Voluntary Reserves (see note 11).

b) Equity investments in Group Companies

The breakdown as of December 31, 2008 and 2007 is as follows:

	2008						
	<u>Address</u>	<u>% Direct holdings</u>	<u>Capital</u>	<u>Results from the fiscal year</u>	<u>Fiscal year dividend</u>	<u>Total Equity</u>	<u>Share of net assets</u>
Clau d'Or, SA (real estate)	Andorra	100%	30	-	-	8	30
Mon Immobiliari, SA (real estate)	Andorra	100%	30	-	-	94	8
Equity investments in Group companies consolidated with the equity method (see note 2)					-		5,638
Other equity investments					-		<u>115</u>
							<u>5,791</u>

	2007						
	<u>Address</u>	<u>% Direct holdings</u>	<u>Capital</u>	<u>Results from the fiscal year</u>	<u>Fiscal year dividend</u>	<u>Total Equity</u>	<u>Share of net assets</u>
Clau d'Or, SA (real estate)	Andorra	100%	30	-	-	16	30
Mon Immobiliari, SA (real estate)	Andorra	25%	30	-	-	125	8
Equity investments in Group companies consolidated with the equity method							4,766
Other equity investments							<u>83</u>
							<u>4,887</u>

The breakdown of investments in Group companies consolidated with the equity method as of December 31, 2008 is as follows:

<u>% Direct holdings</u>	<u>Capital</u>	<u>Share of net assets</u>	<u>Total Equity</u>	<u>Dividends in 2008</u>
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Andorra Assegurances Agrícol Reig, SA, (insurance company)	100%	2,404	5,638	5,638	-
			<u>5,638</u>	<u>5,638</u>	=

c) Other equity investments

Other equity investments include investments in other companies where the Group does not hold a majority of the shares or have decision-making power.

These investments, as of December 31, 2008, are the following:

2008							
<u>Company name and activity</u>	<u>Address</u>	<u>% direct holding</u>	<u>Subscribed Capital</u>	<u>Total Equity</u>	<u>Results from fiscal year</u>	<u>Dividends from the fiscal year</u>	<u>Share of net assets</u>
Túnel d'Envalira, SA (infrastructures)	Andorra	10%	8,400	20,655	(1,128)	-	840
Semtee, SA (leisure and health)	Andorra	15%	25,242	35,601	2,532	297	3,929
Seguretat i Serveis, SA (security)	Andorra	28.6%	32	767	96	-	218
							<u>4,987</u>

2007							
<u>Company name and activity</u>	<u>Address</u>	<u>% direct holding</u>	<u>Subscribed Capital</u>	<u>Total Equity</u>	<u>Results from fiscal year</u>	<u>Dividends from the fiscal year</u>	<u>Share of net assets</u>
Túnel d'Envalira, SA (infrastructures)	Andorra	10%	8,400	18,182	2,473	-	840
Semtee, SA (leisure and health)	Andorra	15%	25,242	32,465	3,137	297	3,929
Seguretat i Serveis, SA (security)	Andorra	28.6%	32	760	99	-	218
							<u>4,987</u>

d) Shares and other equity securities

Shares and other variable income equity securities include all listed or unlisted shares and securities in the Bank's available for sale securities portfolio, which represents shareholdings in the capital of other companies with which there is no long-term relationship and where the purpose of such shareholdings is not to contribute to the Bank's activity.

e) Investment funds

The detail by management entity as of December 31, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Managed by:		
Entities related to the Group	8,601	35,060
Entities not related to the Group	<u>9,633</u>	<u>49</u>
	<u>18,234</u>	<u>35,109</u>

The following investment funds managed by the Group are included as of December 31, 2008: Alternatiu Creixement FIM and Private Equity Fund.

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f) Portfolio valuation

The securities as of December 31, 2008 and 2007 classified by valuation categories described in note 3(e) are listed below:

	<u>2008</u>	<u>2007</u>
Trading portfolio	36,564	63,380
Fixed term investment portfolio	634,202	195,433
Permanent equity investments portfolio	10,778	9,874
Ordinary investment portfolio:		
Fixed Income	288,111	207,369
Equity securities	<u>4,300</u>	<u>6,341</u>
	<u>973,955</u>	<u>482,397</u>

The acquisition cost of the securities in the trading portfolio as of December 31, 2008 is 37,190 thousand Euros (65,419 thousand Euros on December 31, 2007). The market value of the ordinary investment portfolio and the investment portfolio is 289,210 thousand Euros and 634,170, respectively, as of December 31, 2008 (213,122 thousand Euros and 187,444, respectively, as of December 31, 2007). The unrecorded gain for all categories is 269 thousand Euros as of December 31, 2008 (109 thousand Euros as of December 31, 2007).

The value of the portfolio of unquoted held to maturity investments is based on the valuations made by an independent expert (see Note 3.e.).

g) Securities fluctuation reserves

The movement of the securities fluctuation reserve for 2008 is as follows:

Balance as of December 31, 2007	1,239
Provisions	2,220
Recoveries	(209)
Others	—
Balance as of December 31, 2008	<u>3,250</u>

h) Allowance for losses

Balance as of December 31, 2007	1,234
Net allocations to the reserve	<u>2,974</u>
Balance as of December 31, 2008	<u>4,208</u>

As of December 31, 2008 the Allowance for losses relates only to the general provision on the investment portfolio.

8. Fixed assets

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a) Intangible assets, capitalized expenses and tangible assets

The movement in intangible assets and capitalized expenses during 2008 and their amortization is as follows:

<u>Cost</u>	<u>31.12.07</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>31.12.08</u>
Multi owner assets	536	-	-	-	536
Software applications	23,236	649	(1)	1,495	25,379
Others	<u>5,646</u>	<u>3,126</u>	<u>(222)</u>	<u>(1,495)</u>	<u>7,055</u>
Total	<u>29,418</u>	<u>3,775</u>	<u>(223)</u>	<u>-</u>	<u>32,970</u>
<u>Amortization:</u>					
Multi owner assets	(76)	(11)	-	-	(87)
Software applications	(16,431)	(2,233)	1	-	(18,663)
Others	<u>(2,167)</u>	<u>(241)</u>	<u>-</u>	<u>-</u>	<u>(2,408)</u>
Total Accumulated Amortization	<u>(18,673)</u>	<u>(2,485)</u>	<u>1</u>	<u>-</u>	<u>(21,158)</u>
Total NET	<u>10,744</u>	<u>1,290</u>	<u>(222)</u>	<u>-</u>	<u>11,812</u>

The Bank reached an agreement with Pyrénées, SA, effective as from January 1, 2003, where both parties contribute certain financial operations and financial services arising from their activity to a joint account, the results of which are equal. On the basis of the valuation price of the contributions there was a difference of 3,063 thousand Euros, which the Bank has paid and recorded under Others as capitalised expenses.

The period of amortization for the capitalised expenses, according to the financial system accounting plan, is five years. Given that the agreement is indefinite, and to align the projected generation of income with the depreciation, the Bank requested the authorization of the INAF, which was granted on January 19, 2004, to allocate the difference mentioned above to the income statement over a 10 year period.

The movement in tangible assets during 2008 and their depreciation is the following:

<u>Cost</u>	<u>31/12/2007</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Revaluation</u>	<u>31/12/2008</u>
<u>OPERATING:</u>						
Land	3,723	-	-	-	42,909	46,632
Buildings	26,374	-	-	1,005	22,091	49,470
Furniture	4,740	135	(10)	-	-	4,865
Works of art	-	-	-	-	-	-
Installations	31,356	105	(410)	1,028	-	32,079
Data processing equipment	17,744	1,309	(4)	16	-	19,065
Vehicles	1,215	245	(69)	-	-	1,391
Fixed assets in progress	<u>2,142</u>	<u>870</u>	<u>-</u>	<u>(2,049)</u>	<u>-</u>	<u>963</u>
Sub total	<u>87,294</u>	<u>2,664</u>	<u>(493)</u>	<u>-</u>	<u>65,000</u>	<u>154,465</u>
<u>NON-OPERATING:</u>						
Buildings	7,739	-	-	-	-	7,739
Land	10,169	463	-	-	-	10,632
Installations	4,212	-	-	-	-	4,212
Data processing equipment	92	-	-	-	-	92
Furniture	33	-	-	-	-	33

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Vehicles	<u>2</u>	<u>-</u>	:	<u>-</u>	:	<u>2</u>
Sub total	<u>22,247</u>	<u>463</u>	:	<u>-</u>	:	<u>22,710</u>
Total TANGIBLE FIXED ASSETS	<u>109,541</u>	<u>3,127</u>	<u>(493)</u>	<u>-</u>	<u>65,000</u>	<u>177,175</u>

Depreciation:

OPERATING:

Buildings	(7,974)	(869)	-	-	(72)	(8,915)
Furniture	(4,376)	(164)	5	-	-	(4,535)
Installations	(23,334)	(1,145)	126	-	-	(24,353)
Data processing equipment	(15,164)	(1,325)	3	-	-	(16,486)
Vehicles	<u>(209)</u>	<u>(38)</u>	<u>54</u>	<u>-</u>	<u>-</u>	<u>(193)</u>
Sub total	<u>(51,057)</u>	<u>(3,541)</u>	<u>188</u>	<u>-</u>	<u>(72)</u>	<u>(54,482)</u>

Depreciation:

NON-OPERATING:

Buildings	(3,211)	(239)	-	-	-	(3,450)
Installations	(4,076)	(42)	-	-	-	(4,118)
Data processing equipment	(92)	-	-	-	-	(92)
Furniture	<u>(31)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(31)</u>
Sub total	(7,410)	(281)	-	-	-	(7,691)

Total DEPRECIATION:	<u>(58,467)</u>	<u>(3,822)</u>	<u>188</u>	<u>-</u>	<u>(72)</u>	<u>(62,173)</u>
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Provision depreciation of fixed assets:

Building debtors	<u>(101)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(101)</u>
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Total NET TANGIBLE ASSETS	<u>50,973</u>	<u>(695)</u>	<u>(305)</u>	<u>-</u>	<u>64,928</u>	<u>114,901</u>
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In 2008 no interest or exchange differences relating to fixed assets have been capitalised.

With express authorization granted by INAF on December 9, 2008, the Bank updated the book value of the buildings housing its Headquarters and branches with effective date November 30, 2008. This revaluation resulted in an increase in the Group's fixed assets of 65,000 thousand Euros (see notes 3f and 11).

b) Goodwill

Balance as of December 31, 2007	-
Acquisitions	3,572
Amortizations	<u>(477)</u>
Balance as of December 31, 2008	<u>3,095</u>

The acquisition of Columbus de México, S.A. on April 11, 2008 produced a goodwill of Euro 3,572 thousand Euros (see Note 2).

9. Provisions for liabilities and charges

a) Pensions and similar obligations

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A detail of movements in the fund for pensions and similar obligations for 2008 is as follows:

	<u>Retirements</u>	<u>Early retirements</u>	<u>Pension funds</u>	<u>Total</u>
Balance as of December 31, 2007	<u>1,127</u>	<u>925</u>	<u>3,324</u>	<u>5,376</u>
Allocation for the year charged against the income statement	44	36	909	989
Payments made to pensioners and repurchases for the year	(82)	(237)	(869)	(1,188)
Other movements	<u>(149)</u>	<u>(92)</u>	<u>657</u>	<u>416</u>
Balance as of December 31, 2008	<u>940</u>	<u>632</u>	<u>4,021</u>	<u>5,593</u>

The allocation to the pension fund is recorded in other expenditures in the income statement. This allocation includes, in 2008, 226 thousand Euros (186 thousand Euros in 2007) as financial charges.

The payments made to pensioners and early retirees during 2008 are recorded against the pensions.

The investment portfolio assigned to the retirement and early retirement fund as of December 31, 2008 corresponds to part of the fixed income securities maturing on September 28, 2010 that forms part of the investment portfolio held to maturity.

The balance of the fund assigned to pensions for current personnel, is covered by deposits with banks and financial institutions.

b) Other Provisions

The investment funds managed by the Group include five money market investment funds (Money Market Fund Dinamic EUR; Money Market Fund High Yield EUR; Money Market Fund USD; Money Market Fund High Yield USD, and Money Market Fund Premium), whose investment portfolios included unquoted securities. The Bank had formally committed to take necessary actions to avoid sales of those securities resulting in losses. As a result of this commitment, a provision of 20,863 thousand Euros was recorded in voluntary reserves at December 31, 2007 with extraordinary authorization from INAF, granted on April 3, 2008. This commitment expired on the Bank's acquisition of said unquoted fixed income securities (see notes 3.e. and 7) and the provision in voluntary reserves has therefore been reversed (see note 11).

Other provisions also include, as of December 31, 2008, a provision of 3,468 thousand Euros for the potential loss on trading portfolio operations contracted by the Bank, recorded under Provision for liabilities and charges in the consolidated income statement.

10. Allocation of net income

Translation of financial statements originally issued in Catalan and prepared in accordance with generally accepted accounting principles in Andorra (see Note 23). In the event of a discrepancy, the Catalan-language version prevails.

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The proposed allocation by the Board of directors of the 2008 net income to be presented for approval by the General Meeting is the following:

Legal reserve	2,000
Voluntary reserve	7,408
Dividends	16,993
	26,401

During 2008, interim dividends have been distributed to the Bank's shareholders for 16,993 thousand Euros (see note 11).

11. Movement in shareholders' equity and general reserve

The movement in reserves during 2008 is as follows:

	<u>Share capital</u>	<u>Legal reserve</u>	<u>Guarantee reserves</u>	<u>Share premium</u>	<u>Revaluation reserve</u>	<u>Statutory Reserves</u>	<u>Voluntary Reserves</u>	<u>Consolidation reserves</u>	<u>Dividends</u>	<u>Results</u>
Balance as of December 31, 2007	68,061	6,806	17,856	-	-	22,744	210,308	3,000	-	85,657
Distribution of result for year 2007	-	6,806	-	-	-	-	-	-	78,828	(85,635)
Consolidation adjustments	-	-	-	-	-	-	(2,350)	2,359	-	(22)
Capital increase with share premium	10,000	-	-	69,999	-	-	-	-	-	-
Revaluation of assets (Note 8)	-	-	-	-	65,000	-	-	-	-	-
Reversal of guarantee provision (Note 9)	-	-	-	-	-	-	20,863	-	-	-
Sale of unquoted fixed income securities (Notes 3e and 7)	-	-	-	-	-	-	(242,610)	-	-	-
Movement in reserves	-	-	-	-	-	(22,744)	22,744	-	-	-
Result for year 2008	=	=	=	=	=	=	=	=	=	31,410
Balance as of December 31, 2008	<u>78,061</u>	<u>13,612</u>	<u>17,856</u>	<u>69,999</u>	<u>65,000</u>	<u>=</u>	<u>8,955</u>	<u>5,359</u>	<u>78,828</u>	<u>31,410</u>

a) Share capital

On December 17, 2008 the bank carried out a capital increase with a share premium of 10,000 thousand Euros and 69,999, respectively, which was fully subscribed and paid-up. As a result of this increase, the nominal value of the shares raised form Euro 38.85 to Euros 44.56.

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As of December 31, 2008 the Bank's share capital is made up of 1,751,825 shares with a nominal value of Euros 44.56 per share. At this date, there are no shares with specific characteristics or transmission restrictions.

b) Legal, statutory and voluntary reserves

In accordance with Andorran commercial law, banks must allocate 10% of the year's profit to the legal reserve until it reaches 20% of the share capital.

According to the Bank's articles of incorporation, no contribution to the statutory reserves is required. The Bank's Board of Directors agreed on December 29, 2008 to transfer the total of statutory reserves to voluntary reserves, the amount being 22,744 thousand Euros.

64.6% of the Voluntary Reserves and the Bank's Share Premium are not available for distribution at December 31, 2008.

The INAF authorization detailed in note 3.e. established certain requisites for the distribution of dividends by the Bank.

c) Guarantee reserves

This section includes the guarantee reserves in deposits and other operating obligations which have to be deposited with the INAF.

d) Revaluation reserve

The balance on the "Revaluation Reserve" account corresponds to the updating of the book value of certain buildings to reflect their market value (see notes 3f and 8).

The Revaluation Reserve is not available for distribution unless the assets are disposed of and/or the INAF authorizes their distribution.

e) Consolidation reserves

The consolidation reserves correspond to the following companies:

	<u>2008</u>	<u>2007</u>
Andorra Banc Agrícola Reig, S.A	5,695	4,316
Mongestió, S.A.	444	199
Andorra Assegurances Agrícola Reig, S.A.	2,223	823
Grupo Nobilitas N.V.	(4,148)	(3,538)
Andbanc Bahamas Ltd	1,187	546
Savand	(41)	657
Others	(1)	(3)
Total	<u>5,359</u>	<u>3,000</u>

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The movement in the consolidation reserves during 2008 is as follows:

	<u>Consolidated reserves</u>
Balance as of December 31, 2007	3,000
Allocation of 2007 results to reserves	11,603
Interim dividends 2007	(10,624)
Supplementary dividend 2006	(1)
Other consolidation adjustments	<u>1,381</u>
Balance as of December 31, 2008	<u>5,359</u>

f) Results attributed to the Group

The detail of results attributed to the Group as of December 31, 2008 is the following:

	2008	2007
Andorra Banc Agrícola Reig, S.A.	26,401	85,635
Fully consolidated companies:	<u>3,079</u>	<u>10,180</u>
Mongestió, S.A.	4,162	10,846
Andbanc Bahamas Limited	790	641
Grupo Nobilitas N.V.	(964)	(610)
Savand	(908)	(844)
Others	(1)	147
Companies consolidated with the equity method	<u>869</u>	<u>1,399</u>
Andorra Assegurances Agrícola Reig, S.A.	<u>869</u>	<u>1,399</u>
Consolidation adjustments	1,061	(11,557)
	<u>31,410</u>	<u>85,657</u>

g) Interim dividend

On September 3, 2008, when the distribution of the interim dividend was agreed, the financial statements presented a profit with sufficient liquidity for distribution of said dividend.

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h) General reserve

During the year, there has been no movement in this reserve.

12. Assets and liabilities in euros and other currencies

The breakdown of the assets and liabilities in the balance sheets between euros and other currencies is as follows:

	2008		2007	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Euros	3,015,568	3,017,637	2,230,483	2,188,360
Other currencies	<u>642,602</u>	<u>640,533</u>	<u>433,098</u>	<u>475,221</u>
	<u>3,658,170</u>	<u>3,658,170</u>	<u>2,663,581</u>	<u>2,663,581</u>

13. Other balance sheet and income statement headings

In addition, at December 31, 2008 the movements on the following headings of the balance sheet and income statement were considered significant:

a) Prepayments and accrued income

	2008	2007
Interest accrued	21,041	18,836
Commissions	8,800	13,288
Others	<u>2,851</u>	<u>930</u>
	<u>32,692</u>	<u>33,054</u>

b) Other assets

	2008	2007
Ongoing operations	6,999	4,992
Stocks	12	150
Acquired options	243	229
Taxes withheld	11,911	12,021
Others	<u>8,348</u>	<u>1,416</u>
	<u>27,513</u>	<u>18,808</u>

c) Other ordinary results

	2008	2007
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Gains on tangible fixed assets	1,032	939
Others	<u>427</u>	<u>536</u>
	<u>1,459</u>	<u>1,475</u>

d) Extraordinary results

In 2008 losses on securities in the held to maturity portfolio totalled 4,853 thousand Euros. Additionally, extraordinary losses of 745 thousand Euros were brought forward from prior financial years.

14. Financial derivatives

Transactions in futures and financial derivatives are detailed below at their notional value by type of product as of December 31, 2008. A distinction is made between trading and hedging operations by market:

	2008			
	<u>Market</u>	<u>Hedge</u>	<u>Trading</u>	<u>Total</u>
Forward currency purchases	Not regulated	1,045,636	-	1,045,636
Options	Not regulated	64,830	17,284	82,114
Swaps	Not regulated	315,253	36,584	351,837
Other agreements	Not regulated	139,630	86,920	226,550
		<u>1,565,349</u>	<u>140,788</u>	<u>1,706,137</u>
	2007			
	<u>Market</u>	<u>Hedge</u>	<u>Trading</u>	<u>Total</u>
Forward currency purchases	Not regulated	1,834,467	-	1,834,467
Options	Not regulated	168,036	16,741	184,777
Swaps	Not regulated	272,461	26,157	298,618
Other agreements	Not regulated	18,866	50,391	69,257
		<u>2,293,830</u>	<u>93,289</u>	<u>2,387,119</u>

The forward currency operations are considered as hedges; in view of the fact that the overall position in terms of currency and maturities is practically closed. There are certain operations involving insignificant amounts that hedge to maturity the risks recorded on the balance sheet. The overall net spot position and net forward position in currency operations is monitored on a daily basis.

The swaps and options are contracted in order to cover the interest rate risk of operations with customers. The bank regularly monitors the difference between the nominal amount contracted and the amount of the deposits to be hedged.

The other agreements correspond to hedge operations executed with customers and other trading operations on securities positions.

The maturities of futures operations and financial derivatives as of December 31, 2008 are as follows:

	From 1 year			<u>Total</u>
	<u>Up to 1 year</u>	<u>to 5 years</u>	<u>More than 5 years</u>	
Forward currency purchases	1,035,372	10,264	-	1,045,636

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Options	3,430	55,816	22,868	82,114
Swaps	37,797	235,998	78,042	351,837
Other agreements	138,000	81,550	7,000	226,550
	<u>1,214,599</u>	<u>383,628</u>	<u>107,910</u>	<u>1,706,137</u>

15. Guarantees

As of December 31, 2008, the Bank has not given any guarantees on its commitments or third-party commitments.

16. Operations with associated entities and persons

The details of balances with associated entities and persons holding 10% of the equity or more as of December 31, 2008 are the following:

	Shareholders	Companies with participating interest	Board members (not shareholders)	Members of the Senior Management (not shareholders)	Other associated parties
Banks and credit institutions					
Assets	-	-	-	-	-
Liabilities	-	-	-	-	-
Loans and receivables	50,008	-	-	-	65,931
Memorandum accounts	163,570	-	-	-	7,889
Client deposits	45,723	-	-	-	224

The Group's balances maintained with shareholders correspond to five shareholders, three of which are companies and two are individuals. Three are members of the Board of Directors (11,672 thousand Euros in loans and receivables, 105,904 thousand Euros in memorandum accounts, and 17,588 thousand Euros in customer deposits) but none are members of the Senior Management.

Balances maintained with a company where associated persons have significant influence are included under other associated parties. This company does not provide services to clients of the Bank.

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No company with participating interest, no member of the Board of directors or of the Senior Management who are not shareholders, holds positions representing more than 10% of equity as of December 31, 2008.

During 2008, there were no transactions representing more than 5% of the 2008 result neither with shareholders, subsidiary companies nor with members of the Board of directors or of the Senior Management who are not shareholders.

All operations with associated entities and persons were carried out at market prices.

17. Market risks

Market risks include all risks arising from fluctuations of interest rates or exchange rates in relation to the assets and liabilities on the balance sheet, as well as fluctuations in liquidity levels and the quotation of the group's own financial assets and liabilities in fixed income or equity securities.

The Bank has established the Assets, Liabilities and Risks Committee (COAP in Catalan), to set up and monitor overall risks. COAP evaluates the sensitivity of the balance sheet to fluctuations in interest and exchange rates and defines short and medium term strategies to manage the source and application of the funds. It also analyses the liquidity levels and establishes contingency plans in the case of deviations from its policy arising from internal or market related causes.

The tools used by COAP include, among others, the simulation of balances and net interest income for different scenarios of shareholders' equity levels and maturities, the analysis of the terms of sensitive assets and liabilities and the evaluation of the liquidity *gap*.

To manage interest rate risks, COAP meets monthly to evaluate the short term *gaps* analysis of the different figures in the balance sheet. The temporary structure of the assets and liabilities is analyzed in order to determine, based on expectations of movements in the interest rate curve, the suitability of adopting hedging measures to protect the financial margin.

The limit established as the maximum loss for a parallel movement in the interest rate curve of 100 basic points is 4% of the equity. During 2008 this risk parameter has not exceeded the established limit.

Together with the interest rate risk management, there is a monthly follow up of the market risk of the bank's different portfolios. The value at risk method (VAR) is used to measure the market risk by statistical and stochastic techniques. This method allows the Bank to obtain a result that can be interpreted using the maximum expected loss over a defined period of time and a specific interval of confidence.

During 2008, the monthly average VAR, calculated using a 99% confidence level with a time horizon of ten days, totals Euros 3,01 million, with a maximum and a minimum of Euros 7,07 million and Euros 2,31 million respectively. During 2008 the Bank's net average portfolio equity was Euros 331,84 million; giving an average VAR of 0.91% of the average amount invested.

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COAP delegates the monitoring and control to the *middle office department*, which periodically monitors all market risks incurred in relation to exchange rates, interest rates, securities market, and credit risk.

It also evaluates and fixes the limits of the market risks that the Bank takes.

The maximum exposure limits per risk generating factor, are the following (in thousands of euros):

	<u>Limits</u>
FIXED INCOME - trading positions	15,000
EXCHANGE - overall forward/spot position	6,000
INTEREST - Loss in net worth due to a 1% increase in interest rates (*)	4%
EQUITY SECURITIES - trading position	6,000

(*) Limits on shareholders' equity

18. Deposits of securities and other securities under custody

As of December 31, 2008, the details of the consolidated memorandum accounts are as follows (by security type):

	<u>2008</u>	<u>2007</u>
Shares and other equity securities	704,542	1,278,562
Bonds and other fixed income securities	2,822,741	2,926,849
Holdings in investment institutions not managed by the Group	556,643	939,931
Others	106,831	60,884
	<u>4,190,757</u>	<u>5,206,226</u>

These deposits of securities include, as of December 31, 2008, 361,261 thousand Euros as guarantee for various assets and risks of non-payment operations.

As of December 31, 2008, the wealth of individual customers managed is classified under deposit of securities under custody of third parties in the memorandum accounts and under liabilities in the attached consolidated balance sheet. The income recorded for management commissions is recorded under Commissions for services in the attached consolidated income statement.

19. Other memorandum account

The breakdown of this account as of December 31, 2008 and 2007 is the following:

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	<u>2008</u>	<u>2007</u>
Very doubtful debts	21,958	22,013
Others	160,470	166,208
Assets Held in Trust	85,913	88,610
M.I.Govern debt	55,766	55,766
Others	<u>18,791</u>	<u>21,832</u>
	<u>182,428</u>	<u>188,221</u>

The line item Assets Held in Trust includes unlisted equity securities held by the entity on behalf of third parties. These securities are carried at the most accurate market value available and, in the absence thereof, at par value.

20. Compliance with local regulations

Regulatory legislation on obligatory investment ratios

The Principality of Andorra's Council General, in a session held on June 30, 1994, passed a Law regulating the obligatory investment fund ratios. The Regulations pursuant to this law exclusively concern banking institutions and oblige them to maintain a certain investment ratio of assets in Andorran public funds.

On December 31, 2005, the Government decreed a public debt issue to which the Bank subscribed in an amount of 55,766 thousand Euros (see note 7), with maturity on December 31, 2009 and remunerated by the official one-year interest rate of the European Central Bank.

Loans granted by the banks within a program classified as being of national and social interest, which is aimed specifically at financing of housing, are now also considered to be public funds, as per the decision of the Council General of the Andorran Government of April 26, 1995. As of December 31, 2008, the loans granted by the Bank in this respect amounted to 566 thousand Euros (742 thousand Euros on December 31, 2007). They are recorded under the Loans / Loans and advances to customers in the attached consolidated balance sheet. These loans accrued an annual fixed interest rate of 6%.

The Principality of Andorra's Council General, in a session held on May 11, 1995, passed a Law Regulating Deposit Guarantee Reserves and Other Operational Obligations, which are to be maintained and deposited by entities operating in the financial system. This law obliges the banks forming part of the Andorran financial system to maintain in their shareholders' equity various minimum reserves of shareholders' equity as a guarantee of their operational obligations up to a limit of 4%, which for 2008 amounts to 1.25% of the Bank's total investments, after deducting investments made using shareholders' equity and funds of financial institutions. As of December 31, 2007 and 2007, the deposit made by the Bank and its subsidiaries in this respect was 18,577 thousand Euros and is recorded under INAF in the assets of the attached consolidated balance sheet.

Legal solvency and liquidity regulations of financial institutions.

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The Principality of Andorra's Council General, in a session held on February 29, 1996, passed the Law regulating the solvency and liquidity criteria for financial institutions.

This law obliges banks to maintain a minimum capital ratio of 10%, based on the recommendation of the Basel Committee on Banking Regulations and Supervisory Practices, calculated on the basis of a ratio that relates the qualifying equity to the weighted risk assets as per the degree of risk of such assets. Thus, banks are also obliged to maintain a liquidity ratio of a least 40%.

The capital and liquidity ratios of the consolidated financial statements, determined in accordance with this law, were 15.92% and 58.72%, respectively as of December 31, 2008 (26.61% and 60.97% as of December 31, 2007).

The law regulating the solvency and liquidity criteria of financial institutions also restricts the concentration of risks in a single beneficiary up to a maximum of 20% of the shareholders' equity of the bank. The law also stipulates that the accumulation of risks that by themselves exceed 5% of the equity cannot exceed the limit of 400% of the abovementioned equity. The risk maintained with the members of the Board of directors cannot exceed 15% of the equity. The abovementioned risks are considered according to the said law.

During the year the Group has complied with the requirements of this law. The maximum risk concentration of risk in favour of a single beneficiary was 19.47% of shareholders' equity (18.61% in 2007). Loans or other operations involving risk in a single beneficiary that exceed 5% of shareholders' equity have not exceeded an accumulation of risks of 176.26% in the aggregate (137.24% in 2007).

International Anti-Criminal Cooperation and Fight against Money or Securities Laundering by International Criminals Act.

In the session held on December 29, 2000, the Council General of the Principality of Andorra adopted a law on international anti-criminal cooperation and the fight against money or securities laundering by international criminals.

In accordance with this law, the Bank has set up proper and sufficient control and internal communications procedures to protect banking secrecy and prevent and impede operations related to money laundering and securities generated by criminal activities. Specific personnel training programs have been carried out to this effect.

Indirect tax law on the Banking and Financial Services Act

The Principality of Andorra's Council General, in a meeting held on May 14, 2002, adopted the Indirect Tax Law on Banking and Financial Services Act. The purpose of this act is to tax the services provided by financial entities to their customers.

The calculation of the tax payable is made objectively, in accordance with the provisions of the Indirect Tax on Banking and Financial Services Act and on the basis of the returns filed in respect of such taxes.

The amount recorded as of December 31, 2008 for the indirect tax on Banking and Financial Services Act is 9,870 thousand Euros (11,801 thousand Euros in 2007). This is recorded in

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the tax account under General expenses in the consolidated income statement.

Agreement between the Principality of Andorra and the European Community in relation to the establishment of measures equivalent to those provided in Council Directive 2003/48/EC on taxation of savings income in the form of interest payments.

On February 21, 2005 the Andorran government ratified the agreement between the Principality of Andorra and the European Community in relation to the establishment of measures equivalent to those provided in Council Directive 2003/48/EC on taxation of savings income in the form of interest payments. Subsequently, on June 13, 2005, the government passed a law implementing the above agreement.

In 2007, the Group, acting in its capacity as a payment agent, complied with the obligations contained in the agreement and its implementing law and settled the amount of the withholding.

21. Corporate citizenship, or similar activities, interventions

The Group does not have any legal or statutory obligations relating to corporate citizenship. The Group, however, has always been characterized by a strong social commitment and a strong desire to work towards the general interest to improve the country's economic and social progress.

22. Subsequent events

No significant post-balance sheet events have occurred which could have an impact on the 2008 annual accounts.

23. Explanation added for translation to English

These financial statements are presented on the basis of accounting principles generally accepted in Andorra. Certain accounting practices applied by the Group that conform with generally accepted accounting principles in Andorra may not conform with generally accepted accounting principles in other countries.
