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Letters from the President and the CEO

1.1 Letter from the President

2009 has been a year marked by crisis in the financial sector, which began a year earlier, and by the struggle of finding a way through a major recession. Government bodies have been doing all they can to reverse the inexorable process of economic contraction. For these reasons we can describe 2009 as having been both an unusual and an exceptional year, as it bore witness to an extraordinary confluence of events that could give it an important chapter in economic history.

We began 2009 with renewed fears; fears over the threats to the global economy, which was floundering in the midst of a severe recession as a result of the massive worldwide crisis in the financial sector. At the start of the year, the fact that credit spreads remained at very high levels was a sign that matters still had not normalised since the collapse of Lehman Brothers. The international capital markets wasted no time in reacting to the situation and shrank rapidly, a process which continued throughout the first months of the year. We therefore bore witness to an unprecedented escalation across all risk indicators.

During the first quarter, experts calculated that we could be in for a repeat of the 1929 Great Depression. First quarter was a period in which the world's major economies shed wealth at a rate not seen since the Second World War: Japan experienced a contraction of 12% over the course of the year while the eurozone, with its young currency, had never before experienced falls of 10% in GDP. Months passed in which capacity utilisation fell to levels not seen since 1929, warning of a significant excess in capacity and demonstrating that the growth of previous years was unbalanced.

The moment came for the leading financial authorities to take action in order to prevent the greater crash that many had been expecting. And they did not disappoint: all kinds of extraordinary measures were put in place, rescue programmes and stimulus packages were put together to kindle economic activity. We should not forget that this was also a period in which protectionism increased around the world, making already-complicated international relations even trickier.

However, despite the initial difficulties, a large number of economies showed a clear capacity for reaction. Many Asian countries, such as China and India, quickly showed the first signs of new activity and kick-started a trend that has not slowed to this day, thereby catalysing an impressive process of economic recovery in the region. The positive effects of this Asian expansion were felt in the rest of the world's economies, beginning with Japan and ending with the Latin American countries. Experts have stated that Asia is still providing the main impetus to worldwide recovery.

This new period of economic recovery, which spanned the last three quarters of the year, led to significant growth in the major stock markets. These markets

demonstrated an impressive 64% return over the 10-month period. The perfect 'V' shape formed by the majority of the risk markets were evidence of how thin the line is between panic and optimism. Share prices were on the rise again, buttressed by continued monetary support from governmental institutions.

In May, the finance system in the US was subjected to a viability study to determine how far the crisis had penetrated and evaluate the current state of the system. Although half of the banks analysed were found to be in need of further capital, the sums required to effect recapitalisation were much lower than some experts had predicted. The situation was no longer desperate, and the markets reacted accordingly.

Furthermore, some US banks requested authorisation to return the financial aid they had been given, which was a positive sign for the authorities and for the market. We therefore approached the summer with indications that an economic improvement was imminent and we expected to see the return of inflation, impelled not only by the economic progress observed but also by the vast quantities of new money that had been pumped into the system.

At the same time as these green shoots appeared, so did fresh concerns. The largest of these were over the alarming levels of debt that the major world economies were in; debts that forced governments to begin issuing bonds. The national debt for the USA alone rose from US\$10.7 trillion to US\$12.3 trillion. In response, the Treasury issued US\$140bn in new currency every month, 4.5 times higher than the average monthly rate for the previous 20 years.

However, as fast as the recovery began to pick up speed, the gargantuan efforts expended in achieving it and the subsequent deterioration of public finances gave rise to increasing concern and criticism of the rescue plans. Fearful of this unfamiliar territory, critics lobbied for a withdrawal of the stimulus packages as soon as possible. The two different approaches to the issue clashed head-on, but finally the Anglo-Saxon position prevailed and the provision of financial aid continued.

In this atmosphere of renewed confidence, some international organisations revised their growth forecasts perhaps too optimistically, predicting a total recovery in 2010 and worldwide growth in excess of 3.1%.

2009 was also an intense year for Andorra in the political sphere. The heavy pressure placed on certain financial centres on the 'grey list' forced the country to begin a frenzy of foreign-policy activity. Measures were taken through a series of bilateral agreements on fiscal transparency in accordance with the requirements laid down by the OECD, resulting in the name of the Principality of Andorra being struck off the list of so-called 'tax havens'.

The constant allusions to the need to put an end to banking secrecy generated a certain amount of uncertainty and consternation among our clients. Andbanc was forced to carry out a major rapprochement and transparency exercise that served to calm our clients' fears, once they were informed that the new information-exchange agreements were a positive development for the sector. The agreements are not restrictive and do not allow information to be requested without sufficient



justification, and safeguard the client's and bank's rights to oppose the request if there are indications that the terms of the agreement have not been respected. Andbanc took the necessary steps and made the required investments to respond to the exigencies of an increasingly more demanding environment.

In short, although 2009 was a complex year, Andbanc successfully managed to keep to the Strategic Plan, which enabled us to obtain good results, achieve our objectives and overcome the challenges that faced us throughout the year.

We have consolidated our position as the second largest bank in Andorra, and despite the severe depression in the financial sector over the past two years we now have more client holdings than ever before. We have grown by 11% in terms of the amount of funds and other investments we manage. Profits have risen by 41%, with an ROE of 14.4%, which meant the solvency rate of our core capital rose to an outstanding 20.2%. Our international operations generated new business and, with the exception of our Swiss operations, we hope to continue along the same path next year and that each and every one of our subsidiaries makes a positive contribution to the bank's profits.

The implementation of our Strategic Plan for 2009-2013 was a decisive factor in the achievement of our good results. The plan's motto, 'Think Big', perfectly encapsulates our vision: a future-facing project that will take the bank to another, larger and more international level, building on the foundation of our current team and making new additions that bring talent to the bank.

With this in mind, our primary objective is to continue our international expansion; identifying opportunities while entering new, high-potential markets, consolidating our business model and managing these new opportunities from our base in Andorra. Opening up new financial markets will allow us to position ourselves as a benchmark for the private banking sector.

Andbanc reached significant milestones in 2009: we obtained a license to operate as a fund and portfolio manager in Luxembourg; we obtained a banking license in Panama (where we are also awaiting a license to operate as a brokerage firm); we opened a representative office in Uruguay; and Quest Capital Advisers, a Uruguayan investment firm, became part of the Andbanc Group.

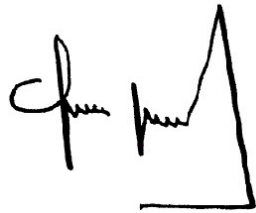
2010 will be a year to continue growing in traditional areas of business and in the area of private banking, while continuing to consolidate our international growth. We will work hard towards meeting the new, group-wide targets we have set ourselves, such as implementing a new client-relations model based on excellence and impeccable service. Progress has already been made in 2010, as Andbanc was granted a banking license in Luxembourg early in the year.

The bank's strong performance during the last period was recognised by the agency Fitch Ratings, who gave Andbanc a long-term rating of A-, a short-term rating of F2 and an individual rating of B/C. These ratings reflect the dynamic management and good levels of profitability that have made it possible for Andbanc to maintain its strong position despite the difficult economic context.

Our shareholders are making long-term commitments to the bank and have enabled us to become a benchmark company in the banking sector, not only in Andorra but internationally and notably in Latin America. We live in a globalised world, and we aspire to become a global bank.

Once again, I would like to take this opportunity to express my appreciation of the trust shown in us by our clients, and to give thanks to the superb team of professionals at Andbanc for their outstanding efforts, day after day, in giving our clients the very best levels of service.

We must continue to persevere, as we still have one or two very difficult years ahead of us, but we are sure that with our ambitious project and the dedication of everyone involved we can fulfil our objectives and continue to be an example of excellence in banking.

A handwritten signature in black ink, consisting of a stylized 'M' followed by a series of loops and a sharp peak, ending in a horizontal line.

Manel Cerqueda Donadeu
President of the Board of Directors

1.2 Letter from the CEO

2009 began in an economic context still characterised by high levels of instability in the financial system. Tension over credit terms and the difficulty of accessing loans squeezed economic activity even further during the first part of the year. Against this backdrop, the authorities in various countries had to apply a series of extraordinary measures to prevent further meltdown. Looking at the most recent data, we can now say that these measures did indeed help to normalise the operation of the financial system and slow down the worsening of the economy, and in doing so helped facilitate the return of global economic growth.

One of the measures taken by the authorities to kindle economic activity was a reduction in interest rates. As a result, the Euribor rate fell from 3% at the start of the year to 1.25% at the end of the year. In the United States, which had decided to act earlier, the Treasury kept interest rates close to 0% throughout the whole year.

2009 was also the year in which the world's leading economies further tightened the noose around the neck of banking secrecy, with the threat of action against uncooperative administrations. It was for this reason that Andorra signed a number of agreements to put in place standards of fiscal transparency and exchange of information, which enabled the country to fulfil the requirements of the OECD and see its name taken off the list of tax havens. As a result of these developments we had to assuage the doubts of our clients through a major transparency and information exercise, in which we explained the details of the agreements to them. We feel that these agreements were a positive move, as they provide full guarantees to clients and do not have a retroactive application. Any government that requests information must provide thorough justification for doing so and clear evidence that the individual in question is a client of an Andorran bank. Moreover, the person under investigation and the bank itself have the right to challenge the demand for information in court.

The year was also a complex one in terms of both maintaining the bank's levels of profitability and generating growth for our clients. Low interest rates at a time when many clients wanted products such as deposit accounts, with no market risk, meant that profit margins for clients' holdings were not, in general, as high as those of previous years. Similarly, activity in terms of securities trading was much more moderate, given the high levels of uncertainty and volatility in the markets. The uncertainty generated by the growing pressure on banking secrecy also added to the difficulty of providing growth for clients.

However, despite the difficulties encountered in 2009, the bank obtained good results, showed improvements across all margins and managed to achieve growth for its clients' holdings. The bank also proved able to consolidate its progress in keeping to the Strategic Plan for 2009-2013.

The keys to our good results were dynamic, rigorous management combined with overall prudence. The design of our products and the adaptation of management methods to the demands of a changing environment enabled us to respond to our

clients' needs, trust to their loyalty and, at the same time, create possibilities where others revealed themselves less able to adapt.

In 2009 our client holdings grew by 11% to €7.12bn, a growth rate which puts us at the forefront of the leading European companies in the private banking sector. The holdings we manage for our clients have grown by 3.7% since 2007, the year in which the financial-sector crisis began, and we owe this favourable evolution to a prudent attitude to fund management that always puts preservation of the clients' capital first. We also made a concerted effort in the countries we operate in to attract new clients. In other words, our growth is due to the taking on of new business as well as the growth in value of our clients' investments. Our prudent management and the long-term security of the capital we invest are key factors that set us apart from the majority of other private banks.

In terms of private banking products, Andbanc boasts a comprehensive and sophisticated range. Throughout 2009 we continued to innovate through a range of products that were tailored to the current climate and consistent with our corporate vision, as well as offering our clients increased profitability combined with the assurance that their capital would be secure during times of great uncertainty and volatility. We were able to take advantage of the opening up of credit spreads at the beginning of the year, offering corporate bonds with short-term credit quality and good profitability in addition to structured deposits whose credit risk was linked to players with strong credit ratings, for an additional boost to performance. And being aware that, at present, the profit potential of many stocks is asymmetric (i.e. there is a greater likelihood that their value will go down instead of up), we launched Active Value, an innovative new portfolio-management product. Active Value makes it possible to invest in the majority of stocks in markets where short-term revaluations are anticipated; from money markets, fixed-income and stock markets to less common ones such as the property market and commodities market. Simultaneously, the client's overall risk is managed through the use of a variety of techniques that make it possible to lessen exposure through these stocks when they become too volatile. These portfolios have given optimum performance, capitalising on the revaluation of core stocks and actively managing the client's risk at all times. Active Value is offered in euro and dollar form and has three different risk profiles for each currency.

Elsewhere, our attainment of a fund-managing license in Luxembourg has enabled us to market investment funds and manage portfolios for international clients outside Andorra in accordance with our traditional high standards.

Andbanc has a strong presence in Latin America, an area we have identified as being a strategic priority. In 2009 we made great strides in becoming a benchmark for banking in the region. Few private international banks can boast Andbanc's know-how in the areas of fixed and variable income in Latin America, which are of key interest to our clients in the region.

In terms of credit-based investments, which grew by 3%, our results reflect great prudence in the awarding of credit and loans. However, owing to the unfavourable economic climate, defaulting also rose, by 4.6%. The amount of credit we have granted represents less than a quarter of the holdings we manage, and more than



75% of that credit has mortgage-secured guarantees, so the amount we expect to lose through defaulting is very small.

The rate at which we have implemented and followed our Strategic Plan has allowed us to achieve our objectives of increasing our critical mass, which has in turn led us towards stable growth that generates value for shareholders. We remain on track with our goal of increasing our levels of client holdings, with a target of €11bn by 2013, of which 50% should be from outside Andorra.

For a number of years now Andbanc has had a clear vision of the direction we wish to move in, and that is to consolidate our international expansion. Our adherence to this strategy means that we are among the leading banks in this respect. We were the first to recognise the need to move beyond borders and find new regions to expand our business model in, and most importantly we were the first to act on it.

At present, Andbanc has a large network of representative offices and subsidiary companies set up in strategic markets that have a strong potential for growth. Our vision for the future is to make this network even larger and open up markets in priority areas (Switzerland, Luxembourg and Latin America) while continuing to increase our share of the markets we are already present in.

Looking at Andbanc's management in 2009, we successfully improved all our margins in comparison to the previous year. Our ordinary margin increased by €134m, representing a 16.3% improvement over 2008 and reflecting the optimum management of prices and the maintenance of a pricing structure tailored to our clients' profiles. It also reflects the sound portfolio management that enabled us to maintain the same volume of activity and thereby the same level of income from management commissions.

Costs, however, also rose by 19%, due to our outside investments and the costs involved in the restructuring undertaken to make us more efficient in the future. The costs involved in carrying out streamlining operations have risen to approximately €5m, although costs incurred in Andorra have fallen in comparison to 2008 figures. The streamlining operations, which will continue in 2010, will enable us to continue investing and growing abroad without a significant cost increase.

Nonetheless, despite the increase in costs our operating margin increased by 11.9% in 2009, thanks to the efforts expended in increasing the ordinary margin.

Throughout the year Andbanc granted loans totalling approximately €10m, and continued applying a conservative credit policy in order to maintain a healthy bottom line in the face of a difficult economic climate that could possibly continue for several more years.

Thanks to the efforts made to improve its margins, Andbanc posted a profit of €44.4m, representing an increase of 41.2% over the previous year. The Return on Equity (ROE) was 14.4%, a good return given the difficulties faced in 2009.

The solvency rate of our core capital was 20.2%, another substantial increase over 2008 and a figure that places us well ahead of our competitors in the international

private banking sector. We also continue to be a bank with a high level of liquidity; in excess of €2bn, to be precise. This figure represents a third of our client holdings and includes our products in the money markets, minus credit investments. Our high liquidity means we are very well positioned at a time when liquidity is a key factor, while our efficiency rate of 50.7% is very good despite the various cost increases mentioned above that we experienced throughout 2009.

Once the markets normalise, the good performance demonstrated in our margins throughout the year and the growth in the holdings we manage allow us to be very optimistic about the future progress of our income statement. However, Andbanc's vision is long term and if we have to continue sacrificing profits in order to keep providing sound advice to our clients during periods of difficulty and assure the preservation of their capital, we will do so.

Andbanc's excellent position in terms of solvency and liquidity allow us to continue investing in sustainable, profitable growth. This growth has been largely organic, although we have also made acquisitions that have strengthened our business model and attracted valuable talent to our group in regions with great potential. Today we are well-positioned to become a benchmark company for the international private banking sector.

I am very confident about Andbanc's prospects for the future: we have an excellent team of professionals (and continue to attract more), ambitious goals and the financial resources and determination to achieve them. We will maintain our commitment to rigour, prudence and best practice in order to provide those clients who trust us with their assets the very best levels of service, just as we have done in the past. We are keen to keep improving, and we would like to thank the Board of Directors for their confidence in our project and in our team.

A handwritten signature in black ink, consisting of a large, stylized letter 'J' followed by the initials 'CP'.

Jordi Comas Planas
CEO