

Puerto Rico

The best of both worlds

Exciting changes are happening on the island at the bridge of the Americas



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Amgen, Lilly and Abbott have invested over \$3.5 billion in biotech plants in Puerto Rico.

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There are many other reasons why life sciences companies have major investments on the Island. To learn more about all the benefits Puerto Rico offers, visit our website at www.pridco.com.



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The best of both worlds

Puerto Rico seems to have it all: a strategic location, strong business ethics, U.S. trade laws, a warm climate, natural beauty and a Caribbean welcome.

The Caribbean island of Puerto Rico stands out for many reasons. Claimed by the Spanish in 1493 after Columbus's second voyage to the New World, the island was given to the U.S. 400 years later after the Spanish/American war. Its citizens, currently totaling 3.9 million, have enjoyed U.S. citizenship since 1917. The island's thriving business community can enjoy "the best of both worlds"—that is, an autonomous fiscal regime with the protection of operating under U.S. trade laws.

A former sugar producer, Puerto Rico has made great strides in tending its economic landscape. After ratifying its own constitution in 1952 and becoming the Commonwealth of Puerto Rico, the island has spent most of the last 40 years cultivating a steady manufacturing base, attracting a wealth of investors, particularly in the pharmaceutical and electronics sectors.

Now the country is moving in a different direction, heading toward what some are calling its "second transformation." Under the leadership of Governor Aníbal Acevedo-Vilá, Puerto Rico is looking to reposition itself as a knowledge-based, service economy, exporting not only Puerto Rican goods, but also world-class know-how and expertise.

In the last year, a series of measures have been unveiled in an attempt to boost Puerto Rico's competitiveness, which include new tax incentives, increased hotel accommodation and a state-of-the-art convention center.

Jorge Silva-Puras, Secretary of Trade and Economic Development, has developed a five-year plan, working with the business community and government agencies to

Central America Free Trade Agreement (CAFTA) comes into force. The CAFTA promotes trade liberalization between the U.S. and various Central American countries and is currently in its final stages. Once implemented, the opportunities for Puerto Rico will be immense.



Jorge P. Silva-Puras, Secretary of Trade & Economic Development

"The CAFTA will allow products to come to Puerto Rico tax-free. It turns a one-way treaty into a two-way treaty, so we can now export to Central America and to our neighbor, the Dominican Republic, which, after the U.S., is our biggest trade partner," says Mr Silva-Puras.

In preparation to become Puerto Rico's logistical hub, the Port of The Americas, an expansion of the existing facilities of the Port of Ponce, will see 1,200 ft of newly built quayside, 50 ft deep berths and a free trade zone upon completion. The project, which has \$250 million earmarked from the government, should be operational by the end of this year and fully complete in 2008.

The island is also benefiting from the transfer and redevelopment of military assets. Aguadilla, on the west coast, is a former air force base with the longest airstrip in the Caribbean. Ceiba, in the east, a former navy-owned facility of more than 8,000 acres, will be developed to include an industrial park, the island's third international airport, a marine port and a harbor. There are also plans for hospitals, hotels, schools and governmental facilities. Three

"Our tax incentives are very attractive and will bring companies here, but it is our people that will make them stay," Jorge Silva-Puras

promote investor-friendlier initiatives and increase opportunities. As Executive Director of the Puerto Rico Industrial Development Company (PRIDCO), Mr Silva-Puras is dedicated to moving Puerto Rico forward. He says: "Historically, PRIDCO has focused exclusively on manufacturing, but as the economy has developed, services have become more important.

"We want to provide incentives for services, especially for tourism and international insurance. We are also expanding our sophisticated financial industry into the U.S."

Puerto Rico's exports and imports add up to more than \$90 billion worth of goods every year. Pharmaceutical and medical instruments make up the bulk of the country's exports, with most going to the U.S. "I would like to see the number of exports double in the next eight years," Mr Silva-Puras says, which is looking extremely attainable as the

thousand acres will be given over to the Natural Resources Department as protected land.

Mr Silva-Puras says: "This is a phenomenal project, costing a projected \$1.26 billion. It will take about 20 years to complete. This administration is also investing in the Ciudad Red (Network City) to connect all the subways in the capital, San Juan, in a bid to make people less dependent on cars."

Mr Silva-Puras is decidedly upbeat about Puerto Rico's current investment climate. He says: "Our tax incentives are very attractive and will make companies come to Puerto Rico, but it is the people that will make them stay.

"We have the highest quality labor and a strong, sophisticated bilingual population. We don't just have the best engineers in the world: we have the best bilingual engineers in the world."

Fast track to growth

New tax incentives and a push toward knowledge and service-based industries will propel Puerto Rico onto the global stage.

The small island of Puerto Rico today is a whirl of activity. Fueled by a young, forward-thinking and dynamic government, new life is being breathed into the economy in an attempt to lift it high into the 21st century. There is a distinct feeling in the air that this Caribbean island is moving on an international scale.

Governor Aníbal Acevedo-Vilá, who came to office as head of the Popular Democratic Party on January 1st, 2005, cites economic development, education and security as his key priorities, under what he terms 'The Triangle of Success'.

Mr Acevedo-Vilá's main economic strategy is to support local entrepreneurs. He says: "Serving as the Resident Commissioner for Puerto Rico in the U.S. Congress for the past four years has shown me that to have a strong economy, you need the right mix of small, medium-sized and large businesses. In the last 30 years or so, we have put our main efforts into attracting outside investment and education. Now it's time to assist the SMEs."

The government has set a target to create a thousand new businesses, under a \$30 million scheme that will incentivize

exports and imports through a tax-free zone. The money, provided by the Economic Development Bank, is proving popular among very young entrepreneurs in the hi-tech, computing and software sectors."

Manufacturing is still the country's most important sector, however. As a thriving base to such high yielding pharmaceutical names as Johnson & Johnson and Pfizer, the sector still has tremendous potential and the Governor has a clear idea on the direction it can



Anibal Acevedo-Vilá, Governor of the Commonwealth of Puerto Rico

best move in. "We have to do two things in manufacturing. First, we have to be able to attract investment in biotechnology. We are already moving fast in this area with Abbott, Eli Lilly and Amgen.

"Secondly, we need more R&D to be carried out here. Merck recently announced its investment in a new chemistry plant and a new production line that they developed right here in Puerto Rico. It was an innovation to reduce production time by 35-50% and will be replicated in Merck plants worldwide.

"In the past 12 months, we have also seen expansion from Microsoft, so there are many companies recognizing the caliber of our people and choosing it as the right place to be. It's important that we develop opportunities here for Puerto Ricans and avoid the brain drain to other parts of the U.S. and abroad."

To curb this, the government is intent on cutting personal income taxes by up to 50% and introducing a sales tax of 7% to give the middle-class a tax boost.

Secretary of the Treasury, Juan Carlos Méndez-Torres says: "We need to change from an income-tax based model to a consumption-based one to close the current gap and give people more spending power."

The tax bill is programmed for the second half of the year. "We have important plans to develop the country over the next 25 years, but we need to invest now. We have a new way of looking at economies and will now have fiscal stability in the government," says Mr Méndez-Torres.

"Puerto Rico really does offer the best of both worlds. Our internal revenue code is modeled on the 1936 U.S. code, but is not nearly as complicated. Non-domestic companies do not pay federal taxes, which is why so many of the pharmaceuticals have been able to restructure and take advantage of the situation."

Puerto Rico has the most sophisticated transport system in the Caribbean, with the highest intensity of highways compared to other states. Mr Gabriel Alcaraz-Emmanuelli,



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Secretary of Transportation and Public Works, plans to invest more than \$1 billion in the highway network within five years, with the aim of improving connectivity.

In addition, his Department is tasked with modernizing the island's transport system, which includes helping along Puerto Rico's plans to become an international export hub. A key priority has been easing congestion in the capital San Juan, which has already met with some success.

Launched last year, the \$2 billion Urban Train project consists of a network of trains which have sleek, air-conditioned carriages and security guards, and stop at arty, well-lit terminals.

"People here love their cars," says Mr Alcaraz-Emmanuelli, "but we are looking at ways to change the car culture." Leading by example, the initiative to relocate all governmental buildings and offices to within the Urban Train network is one that is already paying off.

Secretary of State, Fernando J. Bonilla is tasked with "doing everything possible to foster the economic development of Puerto Rico and the completion of infrastructure projects." As Executive Director of the Ports Authority, Mr Bonilla is committed to strategically positioning Puerto Rico as the manufacturing and transportation hub of the region, if not the hemisphere.

He oversees a number of infrastructural developments, including the \$237 million expansion of the island's main Luís Muñoz Marín International Airport, and the regional airports serving the growing business communities at Ceiba and Aguadilla.

Energizing the power sector

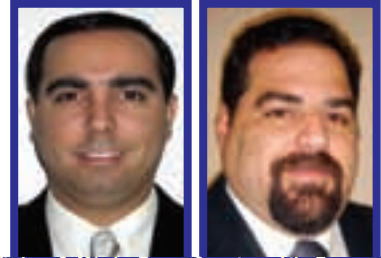
With no natural reserves of its own, Puerto Rico relies on imports to meet all its energy needs. Imported oil from U.S. and Caribbean suppliers makes up 90% of Puerto Rico's power, although the islanders' natural gas consumption has grown in recent years.

As oil prices rise across the globe, the government has been looking for cheaper and more sustainable alternatives. The Puerto Rico Electric Power Authority (PREPA) accounts for most of the island's electricity generation and is the island's sole provider of electric power. With around 1.4 million customers and a capacity of 5,400 megawatts, PREPA provides almost a third of Puerto Ricans with natural gas and coal and about 72% of fossil fuels.

As one of the biggest public electric power corporations in the U.S., PREPA has an operational budget of almost \$3 billion a year and is dedicated to lowering fuel prices. Executive Director, Edwin Rivera-Serrano says: "My main challenge is to make Puerto Rico and the Electric Power Authority competitive, so we can drop the energy prices by switching to less expensive technologies.

"We used to be 100% dependent on oil. Today, that figure is 72% and by 2007, we hope to bring it down to 62%.

"Our long-term plan is to get a ratio of fuel



Left: Juan C. Méndez-Torres, Secretary of the Treasury

Right: Gabriel Alcaraz-Emmanuelli, Secretary of Transportation & Public Works

use to 33% gas, 33% oil and 33% coal by the year 2012."

The Executive Director is constantly looking at more competitive alternatives for the island's energy needs. He says: "I recently returned from a visit to Colombia, to investigate their coal technology. We discussed the possibility of bringing a cable from South America where they have a lot of hydro resources. If we could access some of that via a submarine cable, we could reduce the 33% oil margin even lower and be more competitive.

Plans are afoot to build a natural gas pipeline around the island, something Mr Rivera-Serrano is keen to see come to fruition. "There are many pharmaceutical businesses here that can use natural gas," he says. PREPA already owns five major stations in San Juan, and, with power consumption increasing at a rate of more than 3% a year, has been investing with independent power producers in new capacity to meet the demand and diversify energy sources.

One such company is EcoEléctrica. With one of the most important plants on the island and the world's first independent, privately-owned Liquid Natural Gas (LNG) terminal/combined cycle natural gas turbine power project, the company is working closely with PREPA, to achieve the 33% ratio in the next 15 years.

Ernesto Córdova, General Manager of EcoEléctrica, says: "Natural gas is important for two reasons: it is the most efficient fuel in the electric system and it is the cleanest. We have one of the highest levels of efficiency in the region, and



Moving at the speed of the 21st century

ATI, Puerto Rico's new public transportation system, connects the busiest business districts to residential areas in San Juan and nearby communities. It is the largest infrastructure project in the island's history, and it will grow accordingly to the demands of the 21st century.





Left: Edwin Rivera-Serrano, Executive Director, PREPA

Right: Ernesto Córdova, General Manager, EcoEléctrica

the cleanliness of our product is not only important for us, but also for the government and PREPA. This is a great responsibility, because the way we operate

now will affect the future of the energy sector.”

Set up six years ago, the company has a capacity of 540 megawatts, equivalent to between 15 and 20% of Puerto Rico’s current demand. The combined power plant cost almost \$700 million and was financed by a consortium of banks and EcoEléctrica’s partners, who include Spain’s Gas Natural (47%), the UK’s International Power (25%) and Japanese conglomerate Mitsui and Co. Ltd. (15%).

Mr Córdova says: “We are happy that after five years of operation, we are one of the most efficient power plants in Puerto Rico and thereby also the cleanest. Our partnership with PREPA should lead to lower costs and a cleaner environment.”

Hi-tech manufacturing

Manufacturing of pharmaceuticals has been the backbone of the Puerto Rican economy for the last 50 years. In the first quarter of last year, sales of 52 pharmaceutical drugs made

in Puerto Rico by 9 major corporations reached \$24.3 billion—some 47.8% of total drug sales. Companies based on the island include the FORTUNE 500 featured Johnson & Johnson, Pfizer, Merck and Eli Lilly.

At the beginning of last year, however, a ten-year phase out of a federal tax incentive for the multinationals, known as Section 936, came to an end, causing some speculators to fear for the multi-billion dollar industry’s future. Currently, 16 of the top 20 pharmaceutical drugs sold in the U.S. are manufactured in Puerto Rico. There are more than 65 plants on the island and exports exceed \$31 billion. On top of this, the industry generates 25% of the total manufacturing workforce and represents over a quarter of the island’s GDP.

Despite strong competition from Ireland and Singapore, Puerto Rico continues to announce impressive investments, however, such as Amgen, which over the last six months has invested \$2.2 billion in its biotech operations on the island. Meanwhile, Abbott has also recently announced a half a billion dollar expansion of its operations.

This proven commitment from the multinationals has not left Puerto Rico resting on its laurels however. In response to the loss of tax incentives, PRIDCO is currently pushing through a bill for the U.S. Congress to offer controlled foreign corporation tax incentives for businesses established in Puerto Rico.

Edgardo J. Fábregas, Manufacturing Operation Vice President for Johnson & Johnson Latin America, Puerto Rico and Asia Pacific, says: “The issue is not that

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companies are going to leave because of the end of Section 936. There is no jurisdiction any better than we are. Now the playing field is leveled and everyone competes on the same terms. Before, if you had investments here, there was no sense in moving them. What we are fighting for now is new investment.”

Johnson & Johnson has been on the island for more than 40 years and has 8 manufacturing plants, including a biotechnology operation. As the world’s most comprehensive and broadly based healthcare company, the multinational also operates five commercial entities on the island that provide services and products to consumers and healthcare professionals.

Mr Fábregas is supportive of the move by Jorge Silva-Puras, Puerto Rico’s Secretary of Trade and Economic Development to push Puerto Rico toward new and more diversified industries, such as biotechnology. He says: “My perspective is that (the government) is directionally correct. We must absolutely position ourselves towards biotechnology. We need a strategy that both supports new technology, as well as protects the employment we have.

“Every college in Puerto Rico has biotechnology courses and when you look at the industry, the actual level of employment is quite small. You have to create a match with academia to supply what you need. Of the 30,000 students who graduate, 30-40% are science majors, so we have the people and the technology skills. Now we need to make sure we work together.”

Vice President Fábregas is behind the government’s restructuring plans. He advocates the reduction of the number of municipalities on the island from 78 to the more manageable 10-12. “What the government is doing with the airports as well (in making them smaller, more efficient and more flexible) is what we would do in a company. That is the model Jorge Silva-Puras is aiming for, and it will work. There will be fresh blood coming in with a new mentality.

“As an investor, whatever you need to do, we can do it here. We can provide the services, places, activities and technologies that compete on a global level. The emerging markets are a potential growth opportunity—the U.S. still represents a significant portion, and we have a lot of businesses that are quite clearly critical in terms of the regulatory environment and international patent protection laws,” he says.

A financial hub

As a banking and financial center, Puerto Rico is truly a regional leader. Despite its size, the country is Latin America’s third largest financial center, behind Brazil and Mexico, and has a sophisticated market that rivals Miami in terms of the depth and breadth of products offered. Puerto Rican financial institutions together manage some \$201 billion in assets.

Secretary of the Treasury, Juan Carlos Méndez-Torres says: “The banking and finance sector is second only to pharmaceuticals in terms of its importance to the economy.



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We have complete tax exemptions for international banks establishing foreign lending institutions here.

"Local banks and insurance companies are also doing well, both here and abroad, like Westernbank, which has been recognized as the highest-performing financial company in the U.S., in terms of returns on its shareholders over a ten-year period."

Banco Popular is the biggest bank on the island and the biggest Hispanic bank in the U.S. Having existed five years before the island became part of the U.S. in 1893, the bank today has a solid presence, with more than 200 branches on the island.

Richard L. Carrión, who succeeded his father to become Chairman, President and CEO of holding company Popular, Inc. in 1991, has pioneered many technological developments on the island, including the setting up of ATMs and e-banking.

Banco Popular was named as one of the "100 Best Companies To Work For" in 2005 by FORTUNE, and ranks among the top 10 Small Business Administration lenders.

Meanwhile, Popular, Inc. has more than \$44 billion in assets and is

among the U.S.'s 30 largest bank holding companies. It is an excellent example of a local company that has made good on the mainland.

Like Mr Carrión, Miguel A. Ferrer is also something of a local legend. Mr Ferrer is CEO of UBS Financial Services Inc. and is revered for having created Puerto Rico's capital markets in the Seventies, at a time when most of the country's finance took place in New York. Mr Ferrer is now firmly of the view that the country should embrace its potential as a financial hub, and do it sooner rather than later.

He says: "It is time to change our vision of being insular and introspective—we need an economic model based on export."

Meanwhile, the Economic Development Bank (EDB), which celebrated its 20th anniversary last year, plays a crucial role in helping SMEs start up. Its newly-appointed President, Ms Annette M. Montoto-Terrassa says: "The 'Key to your Business' scheme is crucial because the bank requires a business plan or proposal before giving a loan."

EDB offers a range of loans and credit cards to benefit all sectors of



Westernbank Headquarters at the World Plaza building in San Juan's financial district of Hato Rey

the economy at low cost and with flexible interest periods, but is aware that those starting out in business sometimes require a little more.

"We also provide the information an entrepreneur would need to set up or develop a business. We can help with business plans, business permits and finding alternative means of funding, etc.," says Ms Montoto-Terrassa.

A new type of tourism

Tourism features highly on the government's new agenda. The Governor has pledged to oversee the construction of another 5,000 hotel rooms during his term in office, while a strategically important convention center has been built to cater for this small, but growing sector.

Terestella González-Denton is Executive Director of the Puerto Rico Tourism Company. She says: "This is a very exciting time in tourism and I am pleased the government is so passionate about it."

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With its new, \$415 million, 20,000-capacity Convention Center, Puerto Rico hopes to become the international business center of choice for the Caribbean. The convention business already takes up 27% of the total hotel nights, so the island is already well set up to cater for the conference sector.

Ana María Viscasillas, President and CEO of the Convention Bureau, says: "It is a dream come true after 15 years in the making, and a great boon for the island's economic development. Conventions are big business."

Manuel Sánchez-Biscombe, the Center's Executive Director, echoes Ms Viscasillas' enthusiasm, adding: "Puerto Rico is an excellent place to do business. This is the 'techno-tropics', a place where you have the U.S. dollar, the U.S. passport, Internet, video-conferencing—a place where your Blackberry works!"

As Executive Director and CEO of the Hotel and Tourism Association, Clarisa Jiménez, has more than 500 corporate clients, including hotels, restaurants and tourism services companies. She also shares the dream of an island that is buzzing with conference delegates and other business and leisure tourists.

The Best Western San Juan Airport Hotel, run by Jack Katz, is perfectly situated to accommodate the Convention Center, and offers facilities to the business clients with a range of services for free. Having just completed a major



Ponce, more than you ever expected, "Come and discover us."

refurbishment, the hotel was recently awarded a "Best of the Best Award" by the island's tourism company.

Mr Katz says: "In our business, you do not get a second chance, so we have to be right every time. We therefore develop people to have a passion for what they do."

Half an hour's flight from San Juan, on the beautiful island of Vieques, the Martineau Bay Resort and Spa is also getting a new look. General Manager Rabin Ortiz is overseeing the \$20 million overhaul, which will transform it into an exclusive W Hotel by early next year. Mr Ortiz says: "The investment in this magnificent property shows the new-found confidence of the tourism industry in Puerto Rico."

Ponce, a majestic, historic city in the south, is also undergoing change. The city's Mayor, Dr Francisco Zayas-Seijo is currently presiding over an urban regeneration program to upgrade the city center, and looks forward to the new opportunities. Ponce is set to become an important hub, as the Port of The Americas project, currently under construction within the existing port facilities, develops.

Mayor Zayas-Seijo says: "We enjoy a friendly rivalry with the north and are pleased with the government's efforts to pool more of its resources here and in Aguadilla. Ponce is a complete city. It has tourism and good hotels, and we are also building a smaller scale convention center. We also have two U.S. airlines that fly here: Jet Blue from JFK and Continental from Newark."

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The island bank with global objectives

Why the world is taking notice of Westernbank, Puerto Rico's star financial performer, looking forward to a very bright future.

When the final results were announced for the Wall Street Journal's "Top Guns" for 2004, the list was once again an impressive line-up of the Who's Who of the business world. Up for grabs was the glory of being named amongst the U.S.'s consistently best-performing companies, and there were plenty of familiar faces present, such as DELL and AOL TIME Warner. But in the admirable fourth place was a Puerto Rican company, W Holding Company Inc. (WHI: NYSE), the parent company of Westernbank and the only financial institution to make it into the top twenty.

The inclusion of W Holding sent shockwaves across the banking industry in the U.S. Due to Puerto Rico's status as part of the United States, its banking sector is fully integrated with the U.S. financial system. So while many had been watching this company for years with interest, few realized it was in fact running the best-performing bank in the U.S., and possibly the world.

"We were named the highest performing financial company on total return to shareholders over a ten year period or more in the entire United States, which is the most powerful country in the world today. This statement could mean that we are the highest performing financial company in the world, coming from an island that is 100 miles long by 35 wide!" explains W Holding's Chairman and CEO, Frank Stipes, Esq. referring to the Wall Street Journal list.

The company was founded in 1958, and since it went public 21 years ago, cumulative total return to shareholders has been phenomenal, ringing in at 14,000%. In addition, the visionary and conservative company is the only financial company in Puerto Rico, and one of the few in the entire U.S. - if not the only one - which has been profitable every year since it was founded.

"The incredible part of all this is that our growth has been without mergers, acquisitions or consolidations, which means it has been pure, organic and natural growth," Mr Stipes says.

Many have asked how a modestly-sized bank, with its roots in the small city of Mayagüez in western Puerto Rico, could rise to the top in such a competitive industry? A closer look into the recent history of the bank and its innovative approach to its clients gives something of an explanation.

Born nearly half a century ago, Westernbank established a strong client base in south-western Puerto Rico, where it is still the main player. In the competitive lending market, it controls 61% of all business with its 35 branches. Meanwhile the competition battles for the remaining slice of the pie with over 140 branches.

Recently Westernbank set its sights on the lucrative San Juan region, the island's economic heart and home to a \$43 billion potential loans market. With six or seven strategically-located branches throughout the metropolis,



they plan to focus their energies on luring customers away from the other big domestic and international banks. And so far, results are excellent.

An increasing number of leading local companies across all key economic sectors are joining the ranks of Westernbank's clients. And credit transactions have been closed for non-Puerto Rican companies in Great Britain, Mexico, Canada and the continental United States.

One secret weapon in the battle for customers in and outside of Puerto Rico is the combined agility, efficiency and thoroughness with which Westernbank structures its financial services, all while maintaining an excellent credit quality in its loan portfolio.

Another tactic being employed is the introduction of innovative new mega-branches, which Westernbank has been rolling out with frightening efficiency. Clients are greeted at the door by their personal teller who takes them to a "Coffee Cash Bar" where they assist them in conducting their bank business. It is what Mr Stipes has called "the most advanced and intelligent banking concept in the world that will change the world of branch banking from here onward."

"We were named the highest performing financial company on total return to shareholders over a ten year period or more in the entire United States," Frank Stipes, Chairman & CEO of W Holding Co. Inc.

At the same time, Westernbank is busy planning a mainland invasion of the U.S., recognizing that they cannot maintain top line growth of 25-30% if they remain only in Puerto Rico.

"We are in the process of obtaining licenses at present to set up operations on the East Coast, meaning New York, Boston, Atlanta and Central and Southern Florida," explains Westernbank President and CEO, José Manuel Biaggi. "Our growth will not be limited only to the Hispanic community in the States like some of our competitors, but to a much wider segment of the population.



Westernbank's innovative branch has just opened in Condado, San Juan.

"We have been criticized in the past for being different, but for us we see this as an asset," continues Mr Biaggi. "Those that are different make a difference!"

Mr Biaggi is quick to emphasize that the value of the bank lies in its focus on long-term value and solid core growth, rather than tailoring operations to short-term speculation. Added to that is a need to always keep on top of the game.

"We never settle into our comfort zone," says Mr Biaggi. "Agility is the key, but at the same time every decision we take is well-thought out by the company."

And agility comes easily to this bank, headed up by young guns with a passion for what they do, and for their island in the Caribbean.

"We are a young, outward-looking bank, with the youngest President and Chairman of any bank in Puerto Rico," sums up Mr Stipes. "We are the face of what the new Puerto Rico is all about. It's not about what's been done, but what's being done and will be done, as the best is yet to come!"



International insurance

Having enjoyed a stable domestic insurance sector for decades, Puerto Rico is venturing into global territory.

For more than 77 years, the Office of the Commissioner of Insurance (OCI) has been responsible for regulating the insurance industry in Puerto Rico, implementing best business practices and efficiency procedures gleaned from its collaboration with regulators from the United States, Latin America and parts of Europe.

Today, the country has a solid, stable insurance sector and a highly regarded business community of insurance and financial professionals. The insurance market has grown at an average of 10% a year for the past ten years and 2004 saw the volume of premium subscriptions rise to a staggering \$6,158,261,000, representing a 6.1% increase in its overall GDP.

The domestic market comprises 12% of Puerto Rico's GDP, (almost 4% higher than the worldwide average), and it is the health business which provides the mainstay of growth within this sector.



In October last year, the Office of the Commissioner of Insurance of Puerto Rico (OCI) officially launched its International and Offshore Insurance Center in San Juan.

As the woman responsible for this emerging market, Dorelisse Juarbe-Jiménez, Commissioner of Insurance, is

Dorelisse Juarbe-Jiménez, Insurance Commissioner of Puerto Rico

anything but fazed. She says: "We have worked very hard to establish a solid and strong domestic industry, which historically has been a very important part of our economy.

"However, now we believe the time is right for acquiring creative, alternative insurance coverage for the recent catastrophic happenings that have captured world attention. We are keen to get these efforts underway, and, based on the experience the industry has had over the last few years, we are really moving forward.

"Our international center exemplifies our capacity to harmonize the island's regulatory experience in an ever-changing market, to create a business environment capable of enforcing prudent, yet flexible legislation specifically drafted to cover insurance risks inherent to the 21st century," says Ms Juarbe-Jiménez.

Under the new legislation which became effective in March last year, the country has opened up to specialty insurers who can underwrite on offshore risks, reinsurance and Puerto Rico surplus line risks. The laws grant broad tax exemptions and establish a prudent regime, based on flexible regulations.

Image: Transportation & Public Works



Puerto Rico is bridging the insurance gap

Ms Juarbe-Jiménez says: "The new tax regime means international insurers and their shareholders will be exempt from all Puerto Rico taxation, including income tax from their shareholdings."

Puerto Rico's status as a U.S. jurisdiction with its own tax laws makes it attractive for companies domiciled on the island. The OCI is currently pushing to become accredited to the U.S.'s National Association of Insurance Commissioners (NAIC).

"This will not only underscore the regulatory experience brought by Puerto Rico in terms of financial and accounting standards in the insurance business, but will represent a myriad of opportunities for companies previously categorized as foreign or alien before U.S. law," says Ms Juarbe-Jiménez.

In the Commissioner's eyes, the International Center fits in perfectly with the government's vision to create wealth and skills development. She says: "Analysts have predicted that the center will create 300 direct jobs during its first year, growing to 1,200 direct jobs in the fifth year. In total, over the first five years then, we should be looking at 3,600 direct jobs and 10,000 indirect ones."

To help the expansion along, the government has commissioned more specialized training and continuing education will be high on the agenda for Puerto Rico's financial sector. Ms Juarbe-Jiménez predicts accounting, investment and actuarial sciences will soon be the professions of choice.

She says: "Now is the time for the Hispanic demographic across Central and South America to explode in a way that hasn't been seen before. Our position as bilingual Spanish and English speakers, with a very successful domestic insurance industry, means we are well-positioned to become the international insurance hub for the region."

Puerto Rico's banking dream team

When he speaks, others listen. That's the first thing you'll notice about charismatic Puerto Rican businessman, Frank Stipes, Esq.

It has been almost two decades since he burst onto the banking scene, taking control of Westernbank, the bank his grandfather founded in 1958, and he has shaken up the Puerto Rican financial services sector with his high-energy, unconventional approach to business.

Together with his latest star recruit, José Manuel Biaggi Esq., Westernbank's President and CEO, they are putting what some call "The Wow Factor" into banking, and it is working. Westernbank, under its parent company W Holding Company Inc., is consistently cited as one of the most profitable, well-managed, efficient, visionary and market-leading financial institutions in Puerto Rico, and even throughout the U.S.

And if Mr Biaggi has anything to do with it, it will continue to go from strength to strength. He was brought in last July to focus on the day to day operations of Westernbank while Mr Stipes focuses on the bigger picture. Together, they are making sure Westernbank continues to soar.

"The concept of innovation is really what drives this company," explains Mr Stipes. "We are driven on trends, not on fashions."

Adds Mr Biaggi, "Fashions come and go but trends change the world. And in a fast-moving world, the only thing which never changes is change itself."

It is for this mix of hard-headed business know-how with motivational philosophy that the Westernbank leadership is

"If you look at any economic sector, we are there. Whether it's supermarkets, health, energy, media, coffee, milk, or tourism, we are there. We finance Puerto Rico!" José Manuel Biaggi, President & CEO of Westernbank

known. But in addition, what really drives this dynamic duo of banking is a deep, unadulterated love for their birth country, Puerto Rico.

"What a privilege it is to live, work and be in and from Puerto Rico!" says Mr Stipes. "Puerto Rico has great potential for growth and the talent and the companies to make it happen."

Mr Biaggi agrees, saying Puerto Rico is perfectly positioned geographically, culturally and socio-economically, to become the business hub linking North and South America. It offers the "Best of Both Worlds" to investors and companies in that it is both within the U.S. legal jurisdiction, but outside the tax code system. In line with Westernbank's strong beliefs about giving back to the island which has supported them, both Messrs Stipes and Biaggi add that Westernbank is committed to building a bigger and better Puerto Rico. Through the financing of nearly every economic sector on the island, Mr Biaggi explains how Westernbank is committed to finding credit solutions for businesses of all types.



Dynamic Duo: Westernbank's José Manuel Biaggi and Frank Stipes

"We work extremely hard and we are very passionate about what we do. We are very focused on the development and economic growth of Puerto Rico," says Mr Biaggi.

And the results speak for themselves. Forty one per cent of the commercial real estate industry, 65% of the bread industry, 40% of the poultry industry as well as important segments of the energy and construction sectors are financed by Westernbank.

"If you look at any economic sector, we are there," Mr Biaggi explains. "Whether it's supermarkets, health, energy, media, coffee, milk, or tourism, we are there. We finance Puerto Rico!"

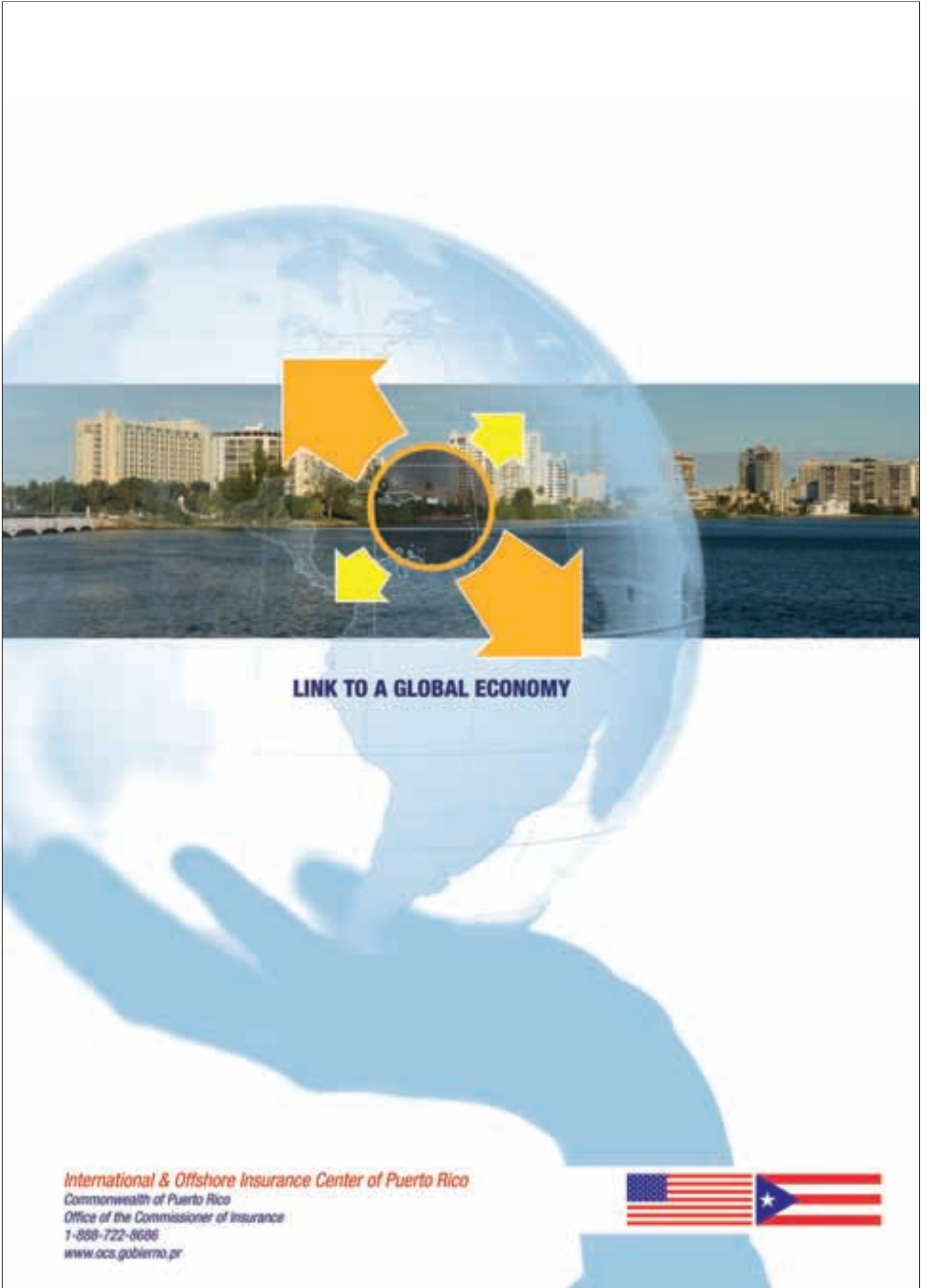
In terms of the priorities for Puerto Rico to continue to grow as a country, Messrs Stipes and Biaggi agree that broad and radical tax reform is crucial. In addition there must be further development of the air and sea ports, to effectively make Puerto Rico the region's most important Trans American shipment point. Mr Stipes is also passionate about the conservation of Puerto Rico's 500-year-old history and its jewel in the crown, the

fortified city borough of Old San Juan, which he describes as "one of the most beautiful attractions in the world" and one of the three safest urban neighborhoods in the U.S.

"There is no reason under the sun why Puerto Rico does not become the most attractive alternative for business and the prime tourism hub and destination based on its privileged global location," explains Mr Stipes. "We need to position ourselves as the most important link between Latin America and North America, converting Puerto Rico into a liaison for Latin Americans and Anglo-Americans."

Lastly, both Mr Stipes and Mr Biaggi urge Puerto Rican entrepreneurs to look beyond the shores of the island, in the same way Westernbank has, expanding their markets beyond Puerto Rico, but maintaining their headquarters and operational centers on the island.

"Now is the moment for us to go abroad and sell this island as the best place to do business in the region," he adds. "Here in Puerto Rico, excellence is in a class of its own."



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