



Letter from the Chairman

- > Last year we announced the birth of a new banking and financial group in the Principality of Andorra, which we named Andbanc. This new group was to represent the spirit of an exciting and ambitious project, backed by two great institutions with long experience and a firm commitment to the nation.

The joint aim of the newly created entity was none other than to merge their strengths, *know-how* and many synergies, with the vision of becoming an exemplary banking and financial group, a leader in Andorra, and an active participant on the international scene; a group that would be capable of finding the best solutions for its clients, managing resources with maximum efficiency and committing a highly professional team to this project.

A regular annual event is the review of the preceding financial year by means of this report and accompanying financial statements, and this year I am especially satisfied and proud to present them, since this is Andbanc's first full financial year.

Undoubtedly, as mentioned in our mission statement, the independence that we enjoy under the Andorran flag gives us a competitive advantage in being able to offer high quality services in Andorra and around the world, based on the soundness of our institution and the confidence of our clients, as evidenced in our presentation of results.

Helping our clients to realize their dreams, hopes and plans is for us the very essence of our work and the services we provide. Once again this year, by listening and understanding, we have made every endeavour to rise to the challenge of being able to offer flexible solutions to meet the needs of an ever more global clientele.

For this very reason, with the slogan "behind every great project there is always a great bank", we wish to publicly express this spirit, this willingness to offer support for the ideas and ambitions of people and companies who, like Andbanc, aspire to attain their objectives. And at Andbanc we feel highly satisfied when we grow with them and improve together.

The value of independence

Andorra, like the United States, Switzerland, Liechtenstein, Monaco, San Marino and the countries associated with the European Union, has already begun negotiations with Brussels with a view to obtaining an agreement on the taxation of savings. The agreement being negotiated by Andorra does not differ much from those that the European Union is discussing with other countries. We can therefore state categorically that banking secrecy in our country remains totally protected and consequently that there will be no change to the kind of relationship that now prevails.

In an international context like this, independence is the cornerstone of an offering of global solutions conforming to the real needs of clients. For this reason I feel particularly satisfied

with the confidence that clients place in us, since this is the driving force that enables us to evolve, progress and constantly strive for excellence, in both our methods and style of banking.

Our commitment, Andorra

The Andorran economy has proved to be in good health this year and has continued to present positive indicators, such as the significant increase in vehicle registrations, the start-up of large-scale urban and commercial projects, and a rise in Social Security enrolment, etc.

And in this context, Andbanc has once again this year been deeply committed to the social, economic and cultural development of our country.

I should like to stress that not only do we feel especially involved with its internal growth, but also that we are associated with the Principality's most ambitious global projects.

And how do we manifest this involvement? By acting as its ambassadors throughout the world.

A role that we play every year by acting as sponsors of any number of prestigious social, cultural and sporting events in our country, but which increasingly help to spread the good name of Andorra beyond our frontiers. Such is the case of the Andbanc International Tennis Open, which brings highly-talented players to the Andorran courts; not to mention the Nike Campus, which attracts some of the greatest international exponents of football and basketball; or the visit of Ruslan Ponomariov, the World Chess Champion in 2002, amongst others.

Andbanc, an international point of reference

As an historic financial marketplace, Andorra has a long tradition of wealth management and enjoys worldwide recognition, thanks to its solvency and the quality of the services it offers. In this regard, the prestigious ratings agency Standard and Poor's has awarded our country a national AA- long-term rating and an A-1+ short-term rating, which bear witness to the strength of our economic structure and put us on a comparable footing with the most developed countries around us.

In addition, our country is one of the first financial centres anywhere in the world to cooperate actively in the fight against money laundering, as has been repeatedly recognized by the leading international authorities on this subject. At the same time, it preserves its guarantee of client confidentiality and banking secrecy.

All these ingredients mean that Andorra, as a financial centre, continues to be greatly admired around the world. This appeal, together with our bank's set of values (which speak of the search for excellence, customer orientation, confidentiality and discretion, development and commitment, team spirit and ethics), not to mention our independence and the strong commitment we have to our clients, has led to us growing on an international scale this year. A growth that has been helped along by formulas adapted not only to the diversification and globalization of our actual clients, but also to the acquisition of a new clientele in very diverse and expanding markets.

During the recently completed financial year, the bases of our ambitious internationalization project, which we started a few years ago with the opening of subsidiaries in the Bahamas and Switzerland, have been consolidated. This year Andbanc opened a representative office in Panama.

In the case of Luxemburg, the group has had a management company there for collective investment schemes (funds, SIMCAV) since 1995, and it has started proceedings to change over to capital management, under the name of Andbanc Global Management.

During 2003 we have continued to examine the best proposals for carrying out this international expansion plan to consolidate Andbanc's offering, since it is our intention to be a first-rate banking and financial group, capable of providing our top-quality services to all our clients around the world.

A historic year for the euro & a brilliant one for the markets

2003 will be remembered by the markets as the turning point in one of the longest and harshest stock market crises in living memory. After three years of losses, lack of confidence and a profound aversion to risk on the part of many investors, markets have succeeded in taking off, ending the first year with gains since the bubble of the technology boom burst in 2000.

The rhythm of growth in the Euro zone, the revival of the labour market in the United States and the evolution of the US deficit are the factors, which, amongst others, will determine the performance of the principal markets. Now that the most significant corporate restructurings have been completed, stock markets are waiting to see what company profits performance will be like.

Another decisive element during the course of 2004 will be possible changes in the interest rate cycle and how equities will react.

But it was the currency markets that we all paid closest attention to, due to the extreme weakness of the dollar and the all-time highs reached by the euro. The European currency, which started to climb at the beginning of 2002, went on to increase at a much faster rate in 2003.

In this environment characterized by market sophistication, more global competition, the complexity of investment alternatives and the resulting necessity for diversification of investment portfolios on international markets, Andbanc was again appreciated for the advantages it offers in the creation and management of the most competitive range of investment solutions in Andorra, which include the following benefits:

- Sensitivity to the expectations and real needs of each client through disciplined, coherent and clearly defined investment strategies
- A commission structure related to the strategic value of products
- Active, systematic and basic portfolio management
- Access to the best selection of third-party products
- Efficient and competitive products in terms of cost effectiveness

I should not like to miss this opportunity of giving recognition to the invaluable work carried out during 2003 by our staff team, who have accomplished the strategic targets defined in the 2003–2006 plan, with the aim of bringing greater added value to our clients.

Andbanc in numbers

Favourable developments in the markets and the financial environment have provided the most important tonic for the whole of 2003. Within this favourable context, Net Income for last year presents a picture of considerable improvement compared to 2002.

Andbanc achieved Net Income amounting to 62,565,000 euros, equivalent to an increase of 6% over the previous year.

One of the indicators showing a highly positive trend was Gross Operating Income, which increased by 7.8% compared to the previous year. The financial statements for 2003 also show favourable results in terms of Expenses, which fell by 9.2% compared to 2002.

As far as the principal ratios are concerned, I would like to emphasize that, as regards the trend that has characterized our performance in recent years, we have witnessed a further improvement in a whole series of indexes that are a clear reflection of our management direction. For instance, the default rate is stable and stands at an all-time low.

Furthermore, ROE reached 18.11%, up from 17.29% last year, and net income as a percentage of average assets increased from 2.72% to 3.70%.

Similarly, net income as a percentage of commercial volumes, which measures the bank's efficiency in managing the business, increased to 1.15% from 1.08% in 2002.

And in similar vein, we could go on pointing to a whole series of indicators that confirm the satisfaction with which we view this financial year. We can also say that Andbanc has come to the end of a year distinguished by the tremendous effort that it has made to reach an extraordinarily competitive position that will smooth our path into the future. A future that is certain to be presided over by the optimization of the efficiency of our banking model.

However, before closing, I would like to share with you my satisfaction and that of the Board of Directors, because it is our belief that the foundations of our search for excellence have been well laid.

I've no doubt that in 2004 and over the next few years, with our customers' trust and the daily effort of the whole Andbanc team, we will face all our challenges with success and enthusiasm.

Thanks very much to everyone for making us improve and build an exciting and promising future.