

Management Report

Year 2002

In 2002 Andbanc obtained a group-attributable result of 59,030 thousand euros, 10.93% down on 2001. In an economic and financial context of deceleration and great uncertainty, this is a very good result if compared internationally, as the main European financial groups (with an average fall of 19.50%) and North American groups have suffered considerable fallbacks in profits.

The ROE lies at 18.05% and the ROA at 2.86%, with a solvency *ratio* of 42.53%, a liquidity of 75.92% and an individual Fitch B *rating*. All of these quality indicators reflect the solidity of Andbanc.

General external framework

The year 2002 was characterised by the negative behaviour of the world economy. Whereas the previous year had closed in a climate of mistrust following the grave events of September 2001 and the fall in expectations that this caused, there was generalised consensus that the slowing of the economy would be very short (the "V recession") and that activity would recover in a few months. It is in this context that we have to place the rapid interventions of the central banks from October 2001 to stay off the risk of a global recession, with substantial decreases in interest rates in Europe and the United States.

Unfortunately, the forecasts were wrong and the hope of recovery faded away in early 2002, while new factors for pessimism appeared.

In this difficult environment, the central banks continued to relax their monetary policy with further interest rate reductions to historical minimums: 2.75% in the euro area and 1.25% in the United States. The main stock exchanges in the world finished 2002 with the largest falls for many years.

Business Volume				
	2002	2001	2000	1999
Total Assets	1,877,387	2,246,169	2,426,651	2,493,624
Credit portfolio	607,509	557,077	514,965	419,051
Total customer funds managed	4,681,169	5,040,478	4,818,931	4,448,971
Total customer funds	6,405,553	6,764,498	5,936,144	5,306,216
Stockholders equity	349,201	346,323	323,835	302,789

in thousands of euros

Income Statements				
	2002	2001	2000	1999
Profit	59,030	66,276	68,131	54,492
Net interest income	34,080	40,546	42,157	42,934
Basic banking revenue	101,020	102,139	100,413	81,188
Cross operating income	103,799	108,865	109,001	92,257
Net operating income	53,370	59,893	67,125	55,180

in thousands of euros

Ratios				
	2002	2001	2000	1999
ROE	18.05%	19.65%	21.75%	18.61%
ROA	2.86%	2.75%	2.77%	2.14%
Cost income ratio	49.73%	44.93%	38.15%	40.19%
%Nonperforming loans ratio	0.37%	0.86%	2.76%	3.48%
Solvency	42.53%	41.41%	38.70%	34.77%
Liquidity	75.92%	81.68%	90.41%	83.09%

in thousands of euros

It is, however, important to highlight the good behaviour and solidity of the Andorran economy, which is currently clearly overcoming the slowing of the world economy.

Andbanc Grup Agricol Reig*Macroeconomic evolution and the results of the group*

The world macroeconomic evolution, the correlation of which is clearly noted with the results of the bank, affected the entity above all in terms of customer activity in the markets: the volume of transactions fell and also proprietary investment income, but it failed to compensate the increased margin caused by the sale of value added products and the recovery of insolvencies.

	1998	1999	2000	2001	2002(E)
Eur GDP	2.90%	2.60%	3.40%	1.60%	0.80%
Spa GDP	4.30%	4.10%	4.30%	2.70%	1.80%
Var Prof. Group	10.59%	25.15%	25.02%	(2.72%)	(10.93%)

Evolution of the balance sheet

Assets	2002	2001	2000	1999	VAR%02-01
Cash and Dep. Centr. Bancs OECD	5,668	14,757	5,487	5,485	(61.59%)
Andorran National Inst. of Finance	54,287	53,492	34,457	33,368	1.49%
Banks and financial institutions	332,159	1,091,688	1,223,981	1,483,594	(69.57%)
Credit portfolio	607,509	557,076	514,965	419,051	9.05%
Investment portfolio	785,536	416,644	529,647	440,003	88.54%
Intang. fixed assets and cap. exp.	6,317	6,526	6,755	5,986	(3.20%)
Tangible fixed assets	52,004	51,385	52,829	55,591	1.20%
Accruals	17,368	38,673	47,165	37,169	(55.09%)
Other assets	16,539	15,927	11,365	13,379	3.84%
Total Assets	1,877,387	2,246,168	2,426,651	2,493,624	(16.42%)

in thousands of euros

Liabilities	2002	2001	2000	1999	VAR%02-01
Andorran National Inst. of Finance	90,093	88,837	69,327	68,724	1.41%
Banks and financial institutions	87,480	89,360	82,100	85,752	(2.10%)
Customer deposits	1,326,931	1,684,430	1,900,276	1,987,801	(21.22%)
Prov. for liabilities and Charges	4,872	2,305	2,435	4,060	111.37%
General reserve	887	6,203	9,284	13,771	(85.70%)
Accruals	9,435	21,347	31,902	25,219	(55.80%)
Other liabilities	8,220	7,097	7,240	5,507	15.82%
Share capital	68,061	68,061	68,061	66,111	0%
Reserves	247,162	233,906	211,623	200,821	5.67%
Profit for the year	59,030	66,276	68,131	54,488	(10.93%)
Dividends	-25,052	-21,920	-23,980	-18,631	14.29%
Minority interest	268	267	252	0	0.56%
Total Liabilities	1,877,387	2,246,169	2,426,651	2,493,624	(16.42%)

in thousands of euros

The group's balance in the four years 1999-2002 was reduced basically due to the effect of the customer creditors who redistributed their position off the balance.

The commercial volumes of assets, credit portfolio, continued to grow significantly, accompanied by an appreciable improvement in the asset quality indicators.

Equally, the stockholders' equity matched the great strength of the balance; the solvency *ratio* improved and the leverage fell still further.

Credit investments

Credit Portfolio	2002	2001	2000	1999	Abs. var. 02-01	Var % 02-01
Loans and advances to cust.	564,306	503,365	449,597	332,346	60,941	12.11%
Customers' overdrafts	26,129	40,740	64,468	88,987	(14,11)	(35.86%)
Customers' bills	21,553	20,317	20,159	17,589	1,236	6.08%
Spec. allow. for loan losses	(2,567)	(5,649)	(17,606)	(18,176)	3,082	(54.56%)
Gen. allow. for loan losses	(1,912)	(1,696)	(1,653)	(1,695)	(216)	12.74%
	607,509	557,077	514,965	419,051	50,432	9.05%
<i>in thousands of euros</i>						
Memorandum Accounts	2002	2001	2000	1999	Var. abs 02-01	Var % 02-01
Sureties and other guarantees	70,926	91,614	110,971	91,278	(20,688)	(22.8%)
Documentary credits	2,117	2,086	3,252	7,414	31	1.49%
<i>in thousands of euros</i>						

Credit portfolio grew by 9.5% in 2002, as compared with 8.18% in 2001. Domestic credit investment stands out with a double figure increase in 2002.

The specific provisions fell by 54.56%, and the overdue asset quality ratios reached historical lows:

	2002	2001	2000	1999
%Nonperforming loans ratio	0.37%	0.86%	2.76%	3.48%

The credit portfolio still has a very good guarantee level, improving year by year:

Type of Guarantee	2002	2001	%TOTAL 02	%TOTAL 01
Mortgage backed	234,829	197,731	38.37%	35.03%
Cash guarantee	60,067	95,232	9.82%	16.87%
Securities	139,194	103,153	22.74%	18.28%
Other guarantees	177,898	168,306	29.07%	29.82%
	611,988	564,422	100.00%	100.00%

in thousands of euros

Security portfolio

Andbanc	2002	2001	2000	1999	Abs. var. 02-01	Var% 02-01
Security portfolio	785,536	416,644	529,647	440,003	368,892	88.54%
+ Quoted stock	752,971	384,251	463,812	370,737	368,720	95.96%
+ Fixed income	753,260	384,285	464,840	367,929	368,975	96.02%
+ Equity	1,837	1,251	881	4,640	586	46.79%
- Allow. for credit losses	(2,126)	(1,118)	(1,738)	0	(1,008)	90.16%
- Fluctuation funds	0	(168)	(171)	(1,832)	168	(100.00%)
+ Non quoted stock	4,942	926	604	482	4,016	433.85%
+ Equity	0	0	122	0	0	—
+ Other equity invest.	4,971	962	603	603	4,009	416.74%
- Fluctuation funds	(29)	(36)	(121)	(121)	7	(20.04%)
+ Group companies	2,625	5,555	6,677	4,707	(2,930)	(52.75%)
+ Fluctuation funds	(12)	(25)	(333)	(648)	13	(52.10%)
+ Investment funds	25,010	25,938	58,888	64,725	(928)	(3.58%)
+ Invest. manag. entities	29,840	29,125	60,761	65,562	715	2.45%
- Fluctuation funds	(4,830)	(3,187)	(1,873)	(837)	(1,643)	51.55%

in thousands of euros

The group varied its exposure both in fixed and variable income and achieved positions in accordance with the optimisation of risks and returns on which the management of our balance is based, seeking the best strategy in the face of

historically low interest rates. The increase in fixed income portfolios occurred in bonds with very high credit ratings.

Customers' assets

Customers' assets managed by the bank fell 7.1% in 2002, whereas they had grown by 4.3% in 2001. The growth rate was affected by the negative fluctuations of the variable income markets and the evolution of the US dollar. Past years presenting two digit annual growth rates, we understand that the fall this year is due to temporary questions that affected private banking around the world.

Andbanc	2002	2001	2000	1999	Var.abs 02-01	Var% 02-01
Funds held	6,405,553	6,764,498	5,936,144	5,306,216	(358,945)	(5.3%)
Stock deposits	5,078,622	5,080,067	4,035,868	3,316,265	(1,445)	(0.00%)
Creditors	1,326,931	1,684,430	1,900,276	1,989,952	(357,499)	(21.2%)
<i>in thousands of euros</i>						
Andbanc	2002	2001	2000	1999	Var.abs 02-01	Var% 02-01
Funds Managed	4,681,169	5,040,478	4,818,931	4,448,971	(359,309)	(7.1%)
Stock deposits	3,354,238	3,356,048	2,918,655	2,553,468	(1,810)	(0.1%)
Creditors	1,326,931	1,684,430	1,900,276	1,895,504	(357,499)	(21.2%)
<i>in thousands of euros</i>						
Andbanc	2002	2001	2000	1999	Var.abs 02-01	Var% 02-01
Investment Funds *	1,724,129	1,724,019	1,117,213	827,401	110	0.00%
<i>* Customers' investment funds managed by the group. in thousands of euros</i>						

Of particular note is that the balance of investment funds remained in the hands of customers managed by the group, which was possible, in the light of the exposed fall in the markets, because we had a net increase in the number of participations. This clearly shows the confidence of customers based on the quality of our management entity Món Gestió, SA, which achieved the ISO 9001: 2000, and the excellent *ratings* of the managed funds.

Stockholders' equity.

Results and profitability: The results of the group in the year 2002 lay at 59,030 thousands of euros, a figure that represents a fall of 10.93% over 2001.

As we have said, this is in line with the evolution of the large European and North American groups, which in many cases suffered falls in double figures.

Andbanc	2002	2001	2000	1999	Abs. var. 02-01	Var% 02-01
Interest and related income	72,679	110,676	119,722	104,041	(37,997)	(34.33%)
Interest and related charges	(38,826)	(70,933)	(78,460)	(61,597)	32,107	(45.26%)
Income from equity securities	227	803	895	490	(576)	(71.73%)
Net Interest Income	34,080	40,546	42,157	42,934	(6,466)	(15.95%)
Net comissions for services	66,940	61,593	58,256	36,254	5,347	8.68%
Basic Banking Revenue	101,020	102,139	100,413	81,188	(1,119)	(1.10%)
Results of financial operations	2,071	6,045	7,921	10,410	(3,974)	(65.74%)
Other ordinary results	708	681	667	660	27	3.92%
Gross Operating Income	103,799	108,865	109,001	92,257	(5,066)	(4.65%)
Personnel expenses	(20,244)	(18,155)	(16,216)	(13,154)	(2,089)	11.51%
General expenses	(24,245)	(24,069)	(19,084)	(17,953)	(176)	0.73%
Amort. of assets net of recoveries	(7,132)	(6,687)	(6,284)	(5,970)	(445)	6.65%
Provisions for depreciation of fixed assets net of recoveries	1,192	(61)	(292)	0	1,253	>
Net Operating Margin	53,370	59,893	67,125	55,180	(6,523)	(10.89%)
Allow. for loan losses net of recov.	1,380	5,572	1,136	(2,493)	(4,192)	(75.23%)
Allocation to the general reserve	(15)	0	(27)	(2,013)	(15)	—
Ordinary Profit	54,735	65,465	68,234	50,674	(10,730)	(16.39%)
Extraordinary results	4,432	961	40	3,818	3,471	361.32%
Net income attrib. to minority interests	(137)	(149)	(143)	0	12	(8.10%)
Net Income Attributed to the Group	59,030	66,276	68,131	54,492	(7,246)	(10.93%)

in thousands of euros

Business margins

The margins related to purely banking business (particularly the basic banking revenue, which was maintained) evolved very satisfactorily given the fall in market activity, the fall in interest rates and the strong price competition in the sector.

The gross operating income fell due to the impact of the fall in financial operations, affected by the low activity of customers in the markets and the own portfolios. Despite everything, the fall of 4.65% shows the strength of the results account in an adverse environment for developing the core business of the group.

Expenses

Personnel expenses increased by over 11%, whereas the general expenses only rose by 0.75%.

We consider this particularly noteworthy because this year presented a difference with respect to others. We refer to integration.

The expenses linked to integration amounted to 5.3 million euros, of which 1.4 million were included in general expenses, 3 million in personnel expenses and 1 million in extraordinary results, also related to personnel.

All of these expenses, which the bank wished to recognise directly and which are imputable to the physical, technological and operative integration, suppose improvements in all cases as regards the increase in income and the future reduction of expenses.

If we do not consider the exceptional increase of 3 million euros in personnel expenses, which allowed the bank to achieve an optimal level of organisation, we see that this capital would have fallen by 5%. In the aside on general expenses, deducting the mentioned 1.4 million increase, there would also have been a fall of 5% as, together with the greater effort dedicated to international expansion, this reveals the enormous synergies (noted this year and which will consolidate and increase in the future) linked to the integration of Banc Agrícola and Banca Reig to create Andbanc.

Extraordinary results

The group decided to compensate the expenses attributable to the integration of 5.3 million euros (4.3 included in expenses and 1 in extraordinary expenses) with the use of the general risk reserve.

Cost / Income

One of the indicators we follow most closely is the cost / income *ratio*, and particularly the basic cost / income, which measures the evolution of the expenses in relation to the business income. This *ratio*, if we discount the expenses of integration, as is shown by the corrected basic cost income, evolved positively.

	2002	2001	2000	1999
Basic cost / income	51.10%	47.89%	41.41%	45.67%
Corrected basic c/i of integ.	46.84%			

** (expenditure + amortizations) / gross operating income*

Indicators of profitability and capital base

The ROE is located at 18.05%, which, bearing in mind the smaller contribution of the financial leverage factor, supposes an excellent return, better than that of 1999. Another factor to highlight is the achievement of these indicators with very solid risk *ratios*.

Andbanc	2002	2001	2000	1999
ROA	2.86%	2.75%	2.77%	2.14%
F.P.	6.31	7.15	7.85	8.70
ROE	18.05%	19.65%	21.75%	18.61%

Risk management

The group continued with its cautious risk policy. In this sense, the investments concerning market risks were actively managed, as we mentioned in relation to the investment portfolio. The risk of change is still firmly under control. With respect to the Gap, accumulated Gap interest risk indicators and durations, it must be said that they were kept within the parameters of low risk and little exposure in the face of the low rate scenario.

Credit risk

The credit risk indicators evolved positively:

	2002	2001	2000	1999
%Nonperforming loans ratio	0.37%	0.86%	2.76%	3.48%
Solvency	42.53%	41.41%	38.70%	34.77%

The % nonperforming loans element in 2002 reached 0.37%, highly comparable to other countries with low % nonperforming loans rates. The good state of the Andorran economy and the good risk management were decisive factors in achieving this good indicator.

Solvency reached 42.53% as a result of the fall in the volumes managed in the balance and the cautious capital management policy.

Liquidity Risk

The liquidity risk remains very low, far above the necessary legal minimum.

	2002	2001	2000	1999
Liquidity	75.92%	81.68%	90.41%	83.09%

Risk profile

From the analysis of the profitability and risk indicators and with a surplus in stockholders' equity of 245,605 thousand euros, we can continue to affirm, even more emphatically, that Andbanc maintains a very low risk profile with an extraordinary capitalisation level. The individual Fitch B *rating* confirms us as a solid, solvent, profitable entity.