

2016 ANNUAL REPORT

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TRANSFORMATION AND FUTURE



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Statement from the Chairmen

We began our time as Chairmen of MoraBanc in 2016, a year that has seen the Bank transform. A year to prepare ourselves for the challenges of the future. As a family bank, we take decisions with a view to the future and focusing on permanence, but also on competitiveness.

Overall 2016 brought both economic and geopolitical shocks; with Brexit and the new President in the White House, for instance. But the world's economy has nevertheless continued to enjoy moderate growth with increasing consumption and falling unemployment. Accommodative monetary policies and measures to boost the equity markets are still in place.

Andorra has also enjoyed economic growth, estimated by Fitch Ratings in its last ratings report for the country at 1% for 2016 and predicting 1.5% growth in 2017 and 2% in 2018. The positive figures posted for Andorra's population, tourism and real estate sectors, vehicle registrations and employment are certainly good news, as a country and also as a solid financial market that is adapting and has good prospects for the future.

Given this environment, more independent members have joined the Board of Directors, in line with corporate governance best practices. We have started MoraBanc's transformation with its highest governing body and are now continuing with the rest of the areas and procedures to ensure the Bank is well adjusted to this new environment and can serve its customers even better.

In fact, our essential purpose is to serve our customers and they are also experiencing changes, both in their consumption in general and banking habits in particular. How they relate to their bank is changing and our aim is to change with them.

The Board of Directors has approved a strategic plan that lays the foundations for this new MoraBanc. Our Bank must be able to meet the more demanding international standards and regulations, especially Basel III, the international accounting standards, MiFID II, as well as adapting to the automatic exchange of information based on the OECD's Common Reporting Standard. We must do so whilst also offering the best services, the best products and the best technological response to become the bank of choice for customers.



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Our strategic plan contains substantial investment in transformation, both in systems and equipment, including tools to serve customers, and concentrates this investment in the first year to ensure we are ready as soon as possible. In fact, it could even be said we have already achieved such readiness, given the Bank's financial results and especially its solidity.

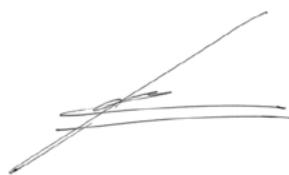
Having a healthy balance sheet is one of our priorities as this helps to reinforce the trust placed in us by our customers, shareholders, employees and other stakeholders. In 2015 we anticipated the assessment of Basel III capital requirements and, in 2016, we already presented our ratios based on these criteria, fully compliant in terms of solvency with a CET1 ratio of 19.04% and also liquidity at 196% (LCR). Our ratios also comply with Andorra's requirements, with solvency at 32.41% and liquidity at 62.81%.

These strategic decisions mean that, in 2016, our profit totalled 23 million euros, a satisfactory figure in line with our forecasts. As from 2017 we expect further growth in profit thanks to the investments made and the ambitious agenda we have set ourselves.

Our assets under management remained stable in 2016 but it should be noted that our foreign subsidiaries, in the United States and Switzerland, have enjoyed considerable growth, confirming the positive trend of the past few years and validating their business model.

The Board of Directors would also like to confirm its commitment to Andorra, not only in terms of our business but also in our actions for society and the community. In spite of our transformation, we have remained faithful to our values of corporate social responsibility and the resources allocated represent 3.6% of the Bank's profits. These actions aim to promote culture, sport, the environment and also to support social projects that help the most disadvantaged in society via the solidarity card, in which the Bank and its customers play an equal part.

Given our changing environment, with a focus on transparency, our aim is to adapt quickly to this new situation, with growth based on the strong foundations of our new approach to banking, to lead the sector and create value for our stakeholders.



Jordi Mora Magriñà
Chairman of Mora Banc Grup, SA



Òscar Aristot Borràs
Chairman of Mora Banc, SAU



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Letter from the CEO

2016 saw the start of the Bank's transformation and also when we started to see the results of the substantial investment made over the past few months, as part of the strategic plan approved at the beginning of the year. The aim of all this is to prepare the Bank for the new challenges ahead, both resulting from the Andorran financial market itself and also international challenges, without losing sight of the increasing regulation in the financial sector and greater pressure on margins.

Firstly, and as I have already mentioned, I would like to stress the substantial investment made to ensure we remain highly competitive in our domestic market. One of the highlights of 2016 has been the introduction of the new online platform, MoraBanc Digital. This offers our customers a more user-friendly and intuitive tool, with a larger number of functions. The website is clearer and even more useful, with more modern online banking tools and an app so that customers can keep track of their finances on their mobile phones. MoraBanc Digital will continue to develop throughout 2017, helping to keep us at the cutting edge of technology and to offer a state of the art service to all our customers, both at home and abroad.

In 2016, the Bank's transformation also included a voluntary early retirement scheme and fundamental changes in the organisation and structure of our workforce in line with the Bank's new requirements. Other significant investments have resulted from the adaptation of the Bank's systems and procedures to international best practices and regulations, such as the IFRS accounting standards, which will make the Bank's work more transparent. The 2017 accounts will be presented in accordance with these standards.

Secondly, and as a differential and part of MoraBanc's DNA, we have allocated part of our profits to reserves to ensure the Bank continues to enjoy the healthiest balance sheet in our market. Our solvency ratio has increased by 4 points to 32.41%, according to Andorran regulations, and to 19.04% according to international standards (Basel III CET1), much higher capital ratios than the minimums required. Our liquidity ratio is 62.81% (Andorran Law) and we have a Basel III liquidity ratio of 196% (LCR), a figure that is far above the minimum standards.

The Bank aims to remain close to its customers by offering them practical tools, such as the new digital banking service. We are a leading bank in Andorra and want to become the local bank that provides its customers with solutions. "You have a



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bank” is the phrase used throughout MoraBanc’s communication. This is how we convey our desire to be close to customers in all circumstances, especially by providing consumer loans and by financing the hopes and dreams of both families and firms in Andorra.

Outside our borders, the business of Mora Wealth Management is enjoying sustained growth. MoraBanc’s subsidiaries, asset management firms, have been set up in solid, highly regulated markets of great renown, such as Switzerland and the United States, proving the success of our business approach by increasing their assets under management by 43.6% in 2016.

2016 has been a very intense year, full of hard work and dedication by the whole organisation, and I would like to thank them all for their dedication. This has resulted in a healthy profit, as forecast in the strategic plan, of 23 million euros, keeping our total assets under management relatively unchanged at year-end at 6,791 million euros (-4.5%). Our solvency has allowed us to speed up the transformation required to adapt and to continue focusing on satisfying the needs of our customers. The aforementioned strategic plan and the budget for 2017 already predict higher profits than in 2016. We are facing the future challenges we have set ourselves with confidence, looking ahead with a firm commitment towards society and our customers.



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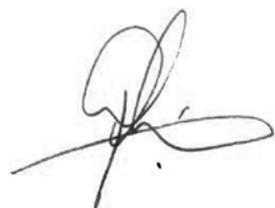
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Pedro González Grau

Chief Executive Office
of the MoraBanc Group

Introduction to the sustainability report

This sustainability report by MoraBanc Grup, S.A. (hereafter, MoraBanc) has been drawn up in order to inform all our stakeholders about the actions carried out by the Bank in 2016. The following pages contain information on MoraBanc's economic, social and environmental performance last year.

In line with our commitment to encourage communication, which forms a fundamental part of the Bank's social responsibility strategy, this is the second year we have produced our annual report according to the requirements of the G4 Global Reporting Initiative (GRI), the leading international benchmark for producing social responsibility reports.

GRI is a pioneering organisation in developing a reference framework to present this kind of report and its main aim is to encourage and standardise reporting on organisations' environmental, social and economic performance.

An essential part of drawing up reports based on the GRI Guide is the identification of key sustainability aspects for organisations; i.e. a materiality analysis. A MoraBanc materiality analysis was carried out in 2015, helping us to review and identify the most relevant aspects regarding our organisation's sustainability and which we report on here.

In this respect we focus on five broad aspects:

- Presenting the organisation, including information on our values and policies, organisational structure and presence around the world.
- MoraBanc's products and services, with details on the mechanisms in place to ensure quality, excellence and client protection, as well as the channels to relate to this group.
- The Bank's economic performance.
- The team, with information on the profile of the workforce, employee management and training policies, corporate benefits for our employees and measures to ensure a work-life balance.
- And, lastly, the most relevant actions and data regarding our contribution to society and the environment.



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KEY FACTS 2016

The MoraBanc Group



Activity

43.6%

NPS satisfaction index

234

complaints and settlements

7,034

followers on social media



The team

358

people

43.6%

female workers

98.0%

employees on a permanent contract

39.1

hours annual training per employee



Environment

-21.8%

paper consumed in-house

-6.8%

energy consumed

884.7T

tonnes CO2 emissions



Society

3.6%

of profit invested in actions to benefit the community

153,826€

collected via solidarity cards



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CONSOLIDATED FIGURES	2016	2015
Business volume (thousand euros)		
Assets under management	6,791,200	7,110,294
Total assets on balance sheet	2,253,943	2,583,865
Financial intermediaries	398,086	681,189
Loan investments	1,030,918	1,055,629
Securities portfolio	662,958	698,298
Customer deposits	1,806,394	2,101,160
Equity	306,034	308,757

	2016	2015
Income statement (thousand euros)		
Financial margin	24,440	23,102
Ordinary margin	103,102	129,522
Net profit from operations	30,350	58,566
Profit from the year	23,006	34,885

	2016	2015
Key ratios (%)		
ROE (profit/average equity)	7.1%	10.8%
ROA (profit/average total assets)	1.0%	1.5%
Efficiency ratio (operating expenses/ordinary margin)	62.5%	46.7%
Solvency ratio (equity/RWA)	32.4%	28.5%

	2016	2015
Other data		
Number of employees	358	399
Number of branches	9	9

FITCH RATING	
Long-term	BBB-
Short-term	F3
Financial strength	bbb-



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The MoraBanc Group

Our underlying priority is to create value. As a banking group, MoraBanc's objective is to satisfy and even exceed our customers' expectations by incorporating quality as a differential for our business.

Founded in 1952, we have essentially remained the same with 100% of the Bank's capital in Andorra and held by the Mora family. Our history is that of a bank committed to Andorra and to the people who live here, promoting the country's development and helping it to advance in economic, social and environmental terms.

We offer products and services related to commercial banking, private banking and wealth management, asset management and investment funds, as well as insurance.

Our view of MoraBanc is an organisation:

With a vision of permanence.

We take decisions based on a long-term view and to maintain the relationships we forge, as part of our ongoing mission to satisfy our customers.

With an international vocation.

As a financial group, we're aware of the opportunities offered by geographical diversification. Since 2008 we've been present beyond the borders of Andorra.

With solidity, trust and closeness.

Our prudent management, the key to the Bank's solvency and solidity, as well as our experience in the sector have positioned us as a trustworthy bank, always striving to serve our customers and committed to quality.

With innovation as the basis for progress.

Thanks to our innovative spirit, our aim is to be a cutting edge bank, adapting to the new habits of our customers to become a leader in client-oriented innovation.

With guaranteed excellence, thanks to our dedication and hard work.

Discretion, transparency, quality and customer orientation ensure excellence in MoraBanc's professional relations. This is reinforced with the dedication and hard work we invest in continually improving our services.

**MoraBanc, more
than 60 years
supporting
the country**



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Mission, vision and values



MISSION

MoraBanc's mission is to meet its customers' needs and satisfy their expectations with an organisation aimed at creating value and championing quality as its competitive edge.



VISION

- To be the best bank for our customers
-
- To be the best company for our employees
-
- To provide the best technological response at the service of people
-
- To be a benchmark bank



PRINCIPLES AND VALUES

Principles

- The customer at the heart of all our actions
-
- Respect for people
-
- PEVO: all our actions must be based on planning, execution, verification and optimisation
-
- Involvement in society

Values

- Respect for legality
-
- Professional ethics
-
- Transparency
-
- Innovation



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Organisational structure

MoraBanc is a family-owned and independent bank, **managed and governed by professionals**. 2016 saw the start of the restructuring of the Board of Directors and its committees. New directors have joined the Board, which is now made up of four committees (supervising business and strategy, risks, appointments and remuneration, auditing and regulatory compliance), mostly presided over by independent directors.

The Board of Directors has been restructured to bring its composition in line with the new European Union regulations related to transparency and ethics, the Basel Committee guidance and other international best practices concerning the good corporate governance of financial institutions which we have joined.

BOARD OF DIRECTORS OF MORA BANC GRUP, SA

Jordi Mora Magriñà	Chairman	Proprietary Director
Pedro González Grau	Chief Executive Officer	Chief Executive Officer
Òscar Aristot Borràs	Director	Proprietary Director
Lluís Àlvarez Mora	Director	Proprietary Director
Francesc Xavier Maymó Gatell	Director	Proprietary Director
Miguel Antonio Pérez Carnicero	Director	Independent Director
Agustín Berasaluce Astarloa	Director	Independent Director
José María Gefaell Chamochín	Director	Independent Director
Marc Vilallonga Puy	General Secretary and Secretary to the Board	Secretary, non-Board Member

The organisational structure in this table corresponds to the structure implemented since February 2017, the time when the relevant restructuring was carried out.

BOARD OF DIRECTORS OF MORA BANC, SAU

Òscar Aristot Borràs	Chairman	Proprietary Director
Pedro González Grau	Chief Executive Officer	Chief Executive Officer
Mora Fills, S.A. (represented by Jordi Mora Magriñà)	Director	Proprietary Director
Lluís Àlvarez Mora	Director	Proprietary Director
Francesc Xavier Maymó Gatell	Director	Proprietary Director
Miguel Antonio Pérez Carnicero	Director	Independent Director
Marc Vilallonga Puy	General Secretary and Secretary to the Board	Secretary, non-Board Member

The organisational structure in this table corresponds to the structure implemented since February 2017, the time when the relevant restructuring was carried out.



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MANAGEMENT TEAM



Pedro González Grau
Chief Executive Officer



Lluís Alsina Alvarez
Managing Director Business
and operations



Fernando López Cereijo
Deputy General Manager Financial
Area and Institutional Relations



Gisela Villagordo Escolà
Deputy General Manager
Commercial Banking Business Unit



Anna Escoriza Martínez
Assistant General Manager
Private Banking Business Unit



Rubén Aísa García
Assistant General Manager
Legal Advice



Sara Álvarez Cazorla
Assistant General Manager
Risk Management



Mike Manfred Saur
Assistant General Manager
Operations



Amparo M. Nieto Linares
Assistant General Manager
Regulatory Compliance



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Corporate governance

Two fundamental pillars underpin all the activities and business of MoraBanc: ethics and integrity, as well as our commitment to legality, transparency and professional ethics towards society, our customers, shareholders and employees. **The Code of Conduct for the Group and the Code of Conduct for the Stock Market**, which contain all MoraBanc's existing ethical rules, are the guides that help us to implement these pillars throughout all levels of our organisation.

The regulatory compliance department is responsible for producing the codes of conduct, which have to be approved by the Group's Board of Directors.

Continuously updated, over the years these codes have been adapted to the different legislation enacted, as well as to the market's best practices. The latest revision was in 2016.

Anti-corruption and money laundering and combating the financing of terrorism are two constant goals throughout the whole MoraBanc Group.

We satisfactorily comply with current legislative requirements by having internal control parameters and complaints mechanisms in place for any suspicious transaction.

**Ethics and
integrity are our
fundamental pillars**



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The collaboration of the Bank's employees is vital to correctly implement these Codes. All workers must therefore comply with them to ensure good corporate governance. From the time they join the organisation, all MoraBanc's collaborators, in any of the countries where the Bank operates, receive training on the Codes of Conduct as well as the internal procedures in place to prevent money laundering and the financing of terrorism.

In 2016 training was also given to all employees on the revised Codes of Conduct.

There are two bodies responsible for managing and controlling these aspects: MoraBanc's Corporate Integrity Management Committee and the Internal Control and Communication Unit:

- One of the **Corporate Integrity Management Committee's** aims is to promote the adoption of the measures required to resolve ethically questionable actions; to resolve situations in which the Group's interests appear to conflict with those of its clients; to produce and circulate interpretive notes; to propose changes to the Code in order to adapt it to the trends in the Group's activities and business, in the environment in which these are carried out and in the best practices of the finance industry, and to communicate with the supervisory authorities.
- The **Internal Control and Communication Unit** has the mission to analyse, control and report to the supervisory authorities any information related to transactions or facts that may be related to money laundering or the financing of terrorism, as well as to establish the policies and procedures required to discover, predict and prevent the occurrence of such actions. This unit is entirely independent in exercising its functions. Its composition is based on the criterion of functional integration and its decisions are binding for the whole MoraBanc Group.

In addition to these two bodies, there are also three control areas to ensure proper compliance of the Bank's corporate governance system:

- **Regulatory Compliance:** a functionally independent area responsible for supervising, monitoring and verifying the constant and effective compliance of legal and regulatory obligations in terms of ethics and conduct, as well as the Bank's internal policies to protect customers, in order to reduce risks.
- **Risks:** the risk management and control model ensures that the risk profile defined remains within tolerated limits. It also contains the policies required to correct or mitigate risk and maintain their levels within the targets set by the Group's strategy.
- **Internal Auditing:** responsible for supervising the appropriateness and effectiveness of the Bank's internal control system, for formulating conclusions and recommendations and verifying their implementation.



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COMPLIANCE OF SECTOR REGULATIONS IN THE AREA OF TRANSPARENCY

As a financial institution committed to responsible management, we comply with the different regulations governing the financial sector. In 2016 this posed a particular challenge as MoraBanc adjusted to the standard of the Organisation for Economic Cooperation and Development (OECD) for reporting and due diligence regarding financial information (Common Reporting Standard), including the Automatic Exchange of Information (AEOI), whose main aim is to prevent tax evasion. The AEOI is governed by Act 19/2016, of 30 November on the automatic exchange of information in tax matters.

The aim of this Act is to regulate the exchange procedure, those bound by it and the information that must be exchanged with correspondent countries.*

We have also joined the International Financial Reporting Standards (IFRS Standards) to reinforce our responsibility in the area of transparency and improve access to information.

Finally, the standards body, AENOR, has highlighted MoraBanc's demanding transformation and the satisfactory manner in which the Bank has anticipated the deadlines to adapt to the new banking environment resulting from new regulations and automatic information exchange agreements.

**Committed to
transparency
and responsible
management,
we comply with the
sector's regulations**

* Currently EU countries + Gibraltar.



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Presence around the world

MoraBanc's head office is located in Andorra la Vella but we also have several branches around Andorra to provide our customers with the best possible service. Since 2008, our internationalisation strategy has also led to us being present in the international market and thereby consolidate the growth in our business. 2008 saw the start of the Mora Wealth Management subsidiaries, two firms operating in Zurich (Switzerland) and Miami (USA) which are still in operation today.

Mora WM Securities was set up in 2012, a broker dealer, also in Miami (USA), that acts as a broker for buying and selling third-party securities. Mora Asset Management Luxembourg also forms part of the Group.

MoraBanc's asset management, through Mora Wealth Management Miami and Zurich, is based on a multi-custody model, with independent advice as a compulsory standard of conduct, a detailed analysis of the cost structure for the customer in relation with bank custody, with the priority aims of optimisation, financial advice tailor-made for the customer as part of a group of first-class professionals, and transparency in the model, in both advice and costs.



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2.B | Escaldes-Engordany

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3 | Ordino

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Edifici Safir (Baixos)
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4 | La Massana

MORA BANC, SAU

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Edifici Claperes
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5 | Sant Julià de Lòria

MORA BANC, SAU

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6 | Encamp

MORA BANC, SAU

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7 | Canillo

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9 | Miami - USA

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MEMBERSHIP OF ANDORRAN ORGANISATIONS

Associació de Bancs Andorrans (Association of Andorran Banks, ABA)

Association founded in 1960 whose corporate purpose is to represent the collective interests of credit institutions, especially regarding public administrations; providing its members and the general public with information; studying any issue of common interest, either through its own initiative or on the request of the Andorran government; drawing up and proposing appropriate recommendations to enhance the banking profession and cooperation between different credit institutions, as well as creating, organising and managing services of common interest. ABA represents the interests of all its members and also guarantees good banking practices and corporate image. MoraBanc has formed part of ABA since it started.

Confederació Empresarial d'Andorra (Confederation of Entrepreneurs of Andorra, CEA)

Created in 2004 and firmly established as an organisation that represents Andorran business associations, it plays an active role as intermediary between Andorra's businesses, its institutions and society at large. Its main aims are the integration, promotion, communication and growth both of its members and individual firms, striving to promote the country both in economic and tourism terms. The CEA is also actively involved in helping to promote new entrepreneurial ideas and young business people, supporting Andorra's future business. MoraBanc forms part of the CEA as a member of the ABA.

Empresa Familiar Andorrana per a la Gestió de Qualitat Total (Andorran Family Company for Total Quality Management, EFA)

The Andorra Family Business Association is a private, non-profit civil association that brings together companies and incorporations whose common denominator is that they belong to a family or a family group. The aim is to promote business culture in general and, in particular, to preserve family firms and, eventually, the integration of their descendents. Another aim is to promote the implementation of total quality management systems based on the European model of business excellence created by the European Foundation for Quality Management. More specifically, it could be said that EFA aims to promote family business initiatives and support entrepreneurs, as well as provide technical support and training for its members, helping them to create a good strategy for planning and to ensure future generations continue the company. MoraBanc has formed part of the EFA since it was set up in 2002.

Cambra de Comerç, Indústria i Serveis d'Andorra (Andorran Chamber of Commerce, Industry and Services, CCIS)

The CCIS is an institution of a public nature but privately based, created by law in 1993 for the economic promotion and defence of the general interests of the Andorran companies that form a part of it. The CCIS works to improve the business of our firms through a range of spheres. On the one hand, by carrying out actions of general interest that help to encourage, defend and support economic and business activity on the whole; on the other, by exercising the public administrative powers granted it by law and, finally, by providing services which companies can use individually. MoraBanc has formed part of the CCIS since it was set up.



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Institut d'Estudis Jurídics Econòmics i Financers d'Andorra (Institute of Legal, Economic and Financial Studies of Andorra, JEF)

Academic institution in the Principality of Andorra established in 2007 to promote knowledge in its specialist areas. The main aims of this non-profit foundation are to organise training, research and awareness-raising activities in the areas of law, economics and finance with particular emphasis on activities related internationally to Europe and the interests of the Principality of Andorra. This is a joint foundation together with the Andorran government; the Chamber of Commerce, Tourism and Services of the Principality of Andorra; the Association of Andorran Banks and the University of Andorra, all members of the Board of trustees. MoraBanc has formed a part of the JEF since it was set up, as a member of the ABA.

Cambra Franco-Espanyola de Comerç i Indústria (French-Spanish Chamber of Commerce, CFECI)

A private institution set up in 1894 with the aim of contributing to the development of commercial relations between France and Spain, providing support both for private and public initiatives and organising a wide range of association activities. It offers activities to help companies develop a network of contacts and provides commercial support for French firms wanting to break into Spain and Spanish firms wanting to do the same in France. MoraBanc has formed part of the CFECI since 2013.

Corporate social responsibility strategy

MoraBanc's vision as a company at the service of Andorra and committed to its inhabitants is reflected in achieving our goal of contributing towards the sustainable development of the country. In striving to become a benchmark for corporate social responsibility within the Andorran banking sector, our aim is to be involved in the economic, cultural and social areas of the country, incorporating sustainability within the core of our business model. Corporate social responsibility policies and practices are therefore integrated within the Bank's main areas: products and services, employment practices, transparency and investing in the community.

The values that define MoraBanc's social responsibility strategy, complementing and furthering its corporate values, are:

- **Ethics**, of the company and its employees.
- **Competitiveness**, with a clear long-term vision.
- **The team**, generating value through a two-way commitment between employees and MoraBanc.
- **Customer service**, with a customer-oriented approach.
- **Reputation**, establishing a clear correlation between what the Bank is and how it's perceived.
- **Innovation**, promoting creative transformation and originality,
- **Commitment to Andorra**, contributing towards the sustainable development of the country.

We have clear goals regarding the aspects on which we aim to have a positive impact, as these form the basis of our strategy:

- **Customers**. The core of our activity. Every day we strive to reaffirm our commitment to their satisfaction.
- **The team**. The key to our success. We want the 358 people who work with us to feel part of the Bank, to be motivated, involved, to constantly receive training and feel their hard work is appreciated.
- **Community**. In the society we form a part of, we carry out actions in favour of the community of Andorra with a variety of activities to raise awareness of science and art, with subsidies for sport and in the humanitarian field, as well as showing our solidarity by collaborating with the country's NGOs, among other actions.
- **Environment**. Given our situation, one of our concerns is to combat climate change and we therefore promote initiatives to raise people's awareness. We have

**We have defined
specific goals
and lines of action
as part of our
corporate social
responsibility
strategy**



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obtained and renewed environmental certificates and carry out actions to reduce our carbon emissions.

The goals contained in our social responsibility actions are as follows:

- Share our actions and projects with society.
- Communicate better what we do, opening up new communication channels that improve the flow of information, both internally and externally.
- Include social and environmental criteria in the design of new products and services.
- Be a benchmark organisation in internal social responsibility policies.
- Invest in Andorra's development, promoting initiatives related to raising awareness among the people of Andorra of culture, sports and knowledge, as well as looking after the country's natural areas and projects of a more social nature.

There are eight broad lines of action that help us to achieve our goals:

- Defining a vision of social responsibility in line with and as part of the business vision.
- Improving the communication of our social responsibility strategy.
- Developing products and services that include aspects of social responsibility.
- Managing the environmental impact of the company's activities.
- Investing in community actions with a focus on social responsibility.
- Introducing policies of social responsibility with suppliers.
- Developing responsible employment policies.
- Signing and implementing international social responsibility initiatives.

Some of these actions have already been successfully carried out. We are still working on the activities defined in the recently drawn up Action Plan, such as the eco-car loan, with a reduced interest rate for buying electric and hybrid cars; educational, cultural and awareness-raising actions; MoraBanc conferences; supporting the country's sports at a grassroots level and employee collaboration in charitable campaigns, among other actions. These help to ensure a balance in the development of the following areas:

- Environment
- Society
- Culture and training
- Sport
- Responsible organisation

As an integral part of our responsibility, we spread MoraBanc's commitment throughout the value chain. We encourage the suppliers we deal with to comply with a number of criteria and practices in line with our corporate responsibility towards the environment.



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Principles and initiatives supported

Aware of the need to strike a balance between competitiveness and sustainability in order to grow the business but at the same time make a positive contribution to and protect the environment, we have signed up to a number of voluntary initiatives that guarantee quality and good business practices. These certificates provide us with a development framework to manage sustainability as part of our corporate responsibility.

- **ISO 9001 Quality Management certificate** for the area of private banking.
- **ISO 14001 Environmental Management certificate** for all MoraBanc's activities, products and services.
- **GIPS (Global Investment Performance Standards)** certification both in investment funds and asset management. These are standards that guarantee the measurement and presentation of comparable, transparent investment returns among all investment managers worldwide.

Value chain

MoraBanc has identified those stakeholders that may be influenced by our activity or exercise some influence over it. We have also reported on the communication channels and dialogue established with each one of them.

We manage the entire value chain based on principles of responsibility and work to ensure that those involved, and especially our suppliers, comply strictly with the social, environmental and quality criteria established by MoraBanc.

The MoraBanc Purchasing Department helps to coordinate and improve the efficiency of procedures with our suppliers



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Customers

Our main aim. Our purpose. The people we work for every day. MoraBanc's major concern is customer satisfaction and being up to our customers' expectations.

We've set up many different channels of communication: direct communication, email, telephone, social media, digital newsletters, blog, online banking, satisfaction surveys, etc. These channels are used to offer products and services, corporate information, information on cultural events, etc.



Cultural, sports and social organisations

The community we work for and the people who form part of our area of influence. Our aim is to contribute to their well-being and development.

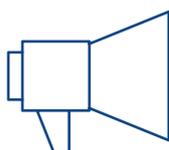
Relations via face-to-face meetings, telephone and email in order to share information on the projects we carry out together.



Employees

Our major asset and value. The key to our success. These are the people who work for MoraBanc and we're committed to ensuring they enjoy the best conditions.

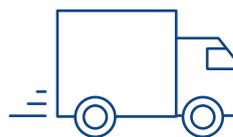
We publish a monthly internal magazine with involvement by our employees, we hold team meetings and carry out internal culture surveys, we have contact directly and also via email, etc. We share information on a wide range of issues, such as information on employment aspects, commercial campaigns, changes in employment legislation or raising environmental awareness, for example.



Media

The means of communication that help us to publicise what we do in society.

Sharing current issues via press releases, press conferences, telephone calls and face-to-face meetings.



Suppliers

They provide us with products or services to carry out our activity. We want to engage them in our values and commitments.

The main communication channels are face-to-face meetings, telephone and email. Fundamentally we share commercial information and on products and services, information security and aspects of sustainability.



Institutions

Representatives for the people living in our area.

Relations via face-to-face meetings.



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Regarding suppliers, we have two clearly differentiated categories: on the one hand, those providing us with financial, auditing and consultancy services and, on the other, providers of materials, maintenance and supplies.

The Purchasing Department for services centralises procurement procedures to achieve synergies between the areas requesting services, the suppliers selected and the services to be provided, thereby optimising our expenditure. In the near future we plan to create a specific IT program to ensure this new department is correctly managed and structured.

SERVICE SUPPLIERS

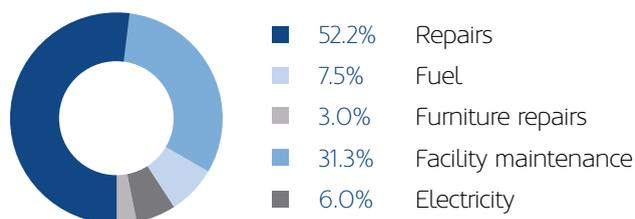
These essentially supply auditing and consultancy services of all kinds depending on the needs of each business unit: regulatory, analysis of the group situation to implement controls or tools (software, IT), training, implementation of people management plans, etc.

When selecting suppliers we prioritise those companies committed to sustainability. That's why our tenders include criteria that rate concepts related to the Bank's values and internal policies.

SUPPLIERS OF MATERIALS, MAINTENANCE AND SUPPLIES

These suppliers help us to maintain the organisation's infrastructures. In the case of our facilities in Andorra, expenditure is distributed among a total of 67 suppliers, mostly local.

SUPPLIER EXPENDITURE BY TYPE



In their selection we also prioritise companies governed by criteria of sustainability. We expect our suppliers to be ISO 14001 certified or to provide written information regarding the environmental practices incorporated within their business, so that they can be validated by MoraBanc. We particularly value the supply of materials based on environmental criteria, as well as the correct management of any waste produced.

In this category, each subsidiary also has its own suppliers which are not centralised. In all cases the Bank encourages the use of local suppliers.



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Products and services

MoraBanc offers services related to commercial banking, private banking and wealth management, asset management and investment funds, as well as insurance. In 2016 our volume of transactions totalled 7,660,042 thousand euros¹.

COMMERCIAL BANKING

Commercial banking specialises in banking for individuals and corporate banking, to provide the most suitable products and services for each type of client. In 2016 MoraBanc focused particularly on local banking. Our aim is to **offer our customers the best local service and be able to respond to their needs** in a changing context.

PRODUCTS



Individual banking

- Accounts and cards
- Savings
- Investment products
- Loans
- Mortgages
- Insurance
- MoraBanc Digital



Corporate banking

- Personalised attention
- International business
- Investment products
- Treasury and investments
- Credit cards
- Services
- MoraBanc Digital

The maxim for our Bank is customer satisfaction and that's why we constantly look for new ways to relate to our customers and offer them products and services tailored to each area. Our philosophy is for MoraBanc to be oriented towards its customers, adapting our value proposition to the different segments in order to offer the most suitable solutions to each one's needs.

MoraBanc's commercial segmentation specialises according to the age, behaviour and needs of each group at any given time. We have personalised relations with each area via different channels of communication (letter, email, text message, etc.). 2016 saw particular commitment to **new technologies aimed at our customers**, helping to create new channels of dialogue with all of them.

At MoraBanc we help the people of Andorra to realise their personal and business projects

¹These data refer to assets under management and loan investments.



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Junior

Designed for people aged 0 to 15 to help them learn the value of saving in any easy, fun way, growing up with the certainty of having a bank that's concerned about them and their future.

Jove

Aimed at people aged from 18 to 30. Offers advantages created especially for their needs.

Nòmina Activa

Offers advantages, products and services which anyone who has their salary paid into MoraBanc can take advantage of.

Funció Pública

For civil servants with benefits that go beyond the strictly financial area, making their lives easier and more secure.

Professionals

A series of preferential services and solutions especially designed for those working in liberal professions so they can concentrate fully on their work without worrying about their finances.

Empreses

A solution adapted to each business with continual monitoring by your personal manager.

Microempreses

Segment for Andorra's small firms where our aim is to secure products and services that meet their particular needs.

Comerç Preferent

Services and solutions designed specifically for trade and business in Andorra.

PRIVATE BANKING AND WEALTH MANAGEMENT

MoraBanc operates its private banking business with personal experts whose aim is to provide their clients with an excellent service.

Private Banking

At MoraBanc private banking is based on relations of mutual trust, on the Bank's ability to offer professional and expert advice and on designing solutions to meet our customers' needs and goals.

Products and services

- Open architecture with a wide range of investment funds, both by MoraBanc and by third parties
- Innovation in structured products
- Asset management
- Health, life and unit-linked insurance
- Credit cards
- Range of loans and mortgages
- Preferential services
- MoraBanc Digital
- Online Broker



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Mora Wealth Management

Mora Wealth Management provides a higher degree of sophistication in managing the wealth of our customers. This is an independent asset management firm whose mission is to offer comprehensive investment solutions to individual clients, family offices and institutions through many different custodian banks and different international jurisdictions.

We have specialised managers and an extensive professional team aimed at providing the necessary support and advice to find the best solution for each client profile in aspects related to managing their wealth.

Products

- Open architecture
- Choice of custodian bank
- Asset structuring
- Order execution
- Asset management
- Monitoring and information

MORABANC ASSET MANAGEMENT

This is the unit responsible for all third-party discretionary management, including tailor-made mandate management for our Private Banking and Wealth Management customers and a varied and competitive range of investment funds.

The principles that underpin our decisions are **prudence, diversification and transparency**. The universe of MoraBanc Asset Management is currently based mainly on government and corporate bonds, as well as equity and foreign exchange within Europe, North America and the emerging countries.

Products

- Investment funds
- Management services & SICAV
- Communication

MORABANC ASSEGURANCES

MoraBanc Assegurances is MoraBanc's insurance company. The aim is to provide all kinds of insurance in the branches of life, accident and health insurance complementary to life assurance. Savings and other schemes are also offered in addition to life assurance, such as pension and retirement plans. It also provides unit-linked products, such as the MoraBanc Unit Linked Fund, MoraBanc Unit Linked Portfolios and MoraBanc Unit Linked Assets, depending on the underlying asset.



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Quality and excellence in banking practice

The whole MoraBanc team is fully committed to meeting the expectations of our customers, aimed at offering high levels of quality when providing a service and striving to ensure the complete satisfaction of our customers. They comprise the essence of MoraBanc.

Quality is our competitive edge at MoraBanc. We have ISO 9001 certification, a tool that helps us to continuously improve our provision of services. This certificate covers the design of structured financial products and the sale of investment funds and structured financial products, as well as the service attending to private banking customers. We first obtained this certificate in 1996, becoming the first bank in Andorra to hold a quality certificate. Since then we've renewed this certificate every year with AENOR, the leading certification organisation in Spain and with international renown.

The participation of the whole professional team is essential in order to achieve our aim of providing a top quality service. We therefore have an **internal reward**

scheme to promote continued improvement by motivating all our employees.

Quality awards are given out every year to the best department from central services and the best branch, as well as four individual awards given by Senior Management to employees.

At MoraBanc we believe our workers' contributions are extremely valuable, ideas that help us to improve our daily work and to progress towards excellence. **Ideas MoraBanc** is a platform through which the whole professional team can individually make suggestions to improve quality in the broadest sense of the term (activities, services, effectiveness, performance, etc.). These contributions are included in the reward scheme to encourage participation. A committee of ideas meets every month to evaluate proposals and respond to them.

In 2016 we made significant progress in **making the administrative process more efficient in the commercial banking area**. The aim of reviewing the whole commercial organisation was to introduce a focus on commercial business of value and develop dynamic teams and their commercial skills to improve customer satisfaction, passing on the Bank's values. We also promoted training for commercial managers, aiming to improve their skills in order to provide a service of superb quality.

A **commercial back office** has also been set up, responsible for centralising branch administrative tasks so that managers can devote their time to attending to customers and ensuring their satisfaction.

We've renewed our
ISO 9001 Quality
certificate

Commercial
managers
have received
training aimed at
improving customer
satisfaction

The new commercial
back office provides
managers with more
time to attend to
customers' needs



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CUSTOMER SATISFACTION

We measure the satisfaction of our customers to ensure we are attending to their needs and preferences. The Net Promoter Score (NPS) methodology enables us to **gauge customer loyalty and satisfaction based on one piece of information.**

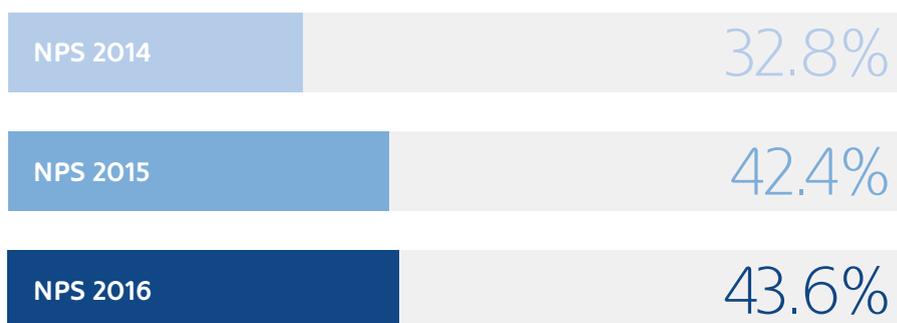
This is a survey with just one question: "To what extent would you recommend MoraBanc to your family, friends and colleagues?". This survey is carried out by telephone and email and also via iPad, and helps us to obtain results almost in real time, both by centre and also by customer segment. New to 2016 was the evaluation of the Telebanc service and we plan to evaluate grievance management in 2017 to continue improving in all areas of our business.

We're interested in finding out more about what our customers think. Consequently, at the time of carrying out the survey we also ask respondents for the main reasons for their satisfaction or dissatisfaction, as well as proposals to improve our service.

MoraBanc's customer satisfaction has gradually increased since the NPS methodology was first introduced in 2014. Our target for 2016 was to maintain the high figure achieved the previous year, namely 42.4%. The NPS results show that we have achieved and even improved on this result in 2016. In 2016 we carried out 4,024 surveys on customers in Andorra, bringing the total since 2013 to 16,921 customer surveys.

The results of the satisfaction survey improve year after year, reaching **43.6% in 2016**

MORABANC (OVERALL)



The Marketing, Communication and Quality department and the Commercial Banking area analyse the results every week, while this is carried out monthly by the management of the Private Banking area, with the aim of adequately handling possibly dissatisfied customers.

Customer grievances and manager settlements



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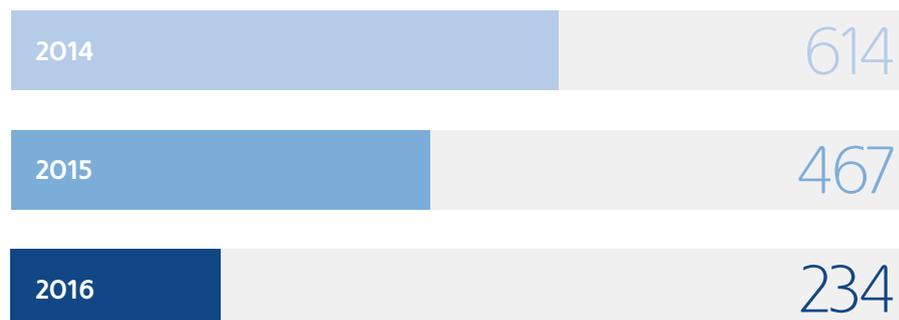
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Our priority in tackling customer grievances is to **ensure these are handled effectively and quickly**. We have a grievances database which all employees can access, as well as internal protocols. Grievances that are not financial are forwarded to the Quality area and this channels and sends them on to the corresponding department. The management for each area monitors grievances regularly, at least once a month.

NUMBER OF COMPLAINTS



The number of grievances has fallen by 49% compared with 2015

The response time we have set ourselves as a target is maximum two days and this has been achieved in all areas.

Year	COMMERCIAL BANKING			CORPORATE BANKING			PRIVATE BANKING AND ASSET MANAGEMENT		
	2014	2015	2016	2014	2015	2016	2014	2015	2016
Average response time	0.9 days	1.1 days	1.5 days	0.7 days	0.6 days	0.6 days	1.2 days	1 days	1.2 days

CONTINGENCY AND BUSINESS CONTINUITY PLAN

Our desire to **guarantee quality** has led us to draw up a contingency and business continuity plan designed as a preventative measure. The aim is to define the protocols to be followed to lessen the effects of any catastrophes, disasters or other crisis situations that may totally or partially interrupt activity.

Depending on these situations and their scope, we have appropriate mechanisms to lessen their effects, developed in line with our priorities:

- Ensure the physical integrity of people, both employees and customers. Mechanisms: Policies to prevent occupational hazards and Manual of Safety and Security in the Workplace.
- Recover the IT systems. Mechanisms: IT system security policy and System Continuity Plan.
- Ensure we can serve customers and carry out operations. Mechanisms: Business Continuity Plan.



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A Business Continuity Committee is responsible for producing, updating, improving and implementing the Contingency and Business Continuity Plan, as well as carrying out practice drills and training and also putting the Plan into action whenever necessary. There are various policies, manuals and protocols associated with this Plan which complement this information.

Customer protection

Within the current legislative framework, and particularly in relation to investor protection, MoraBanc has established **procedures and rules of conduct to ensure it acts impartially, professionally and in the best interests of the client at all times.**

Law 8/2013 on the organisational requirements and operational conditions of institutions operating within the financial system, investor protection, market abuse and financial guarantee agreements, includes the provisions of Law 14/2010 regarding investor protection, following the requirements of the EU's Markets in Financial Instruments Directive (MiFID). The main aim is to increase customers' protection against institutions providing financial services by establishing rules of conduct that must be followed.

Given that not all customers have the same level of training or experience in financial investments, Andorran legislation requires that customers receiving services be classified into previously established categories to adapt the protective measures to each investor according to the category assigned.

We also have policies to ensure compliance of the aforementioned legislation:

- Order execution and management policy. Establishes reasonable measures to obtain the best result possible in the operations we manage on behalf of our customers.
- Asset protection policy. Aims to protect ownership rights regarding the customer's financial instruments should the institution become insolvent and prevents these financial instruments from being used by the institution.
- Asset protection policy. Aims to protect ownership rights regarding the customer's financial instruments should the institution become insolvent and prevents these financial instruments from being used by the institution.

These policies can be consulted on the MoraBanc website, in the legal information section.

In compliance with applicable legislation, we inform our customers of the type and risk of the products offered to them



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Customer relations

A good relationship with our customers forms the basis of the sustainability of our business. The Bank has an obligation to provide its customers with information on its products and services to ensure they can take the best decisions, guaranteeing this information is clear and transparent. **Improving our customers' understanding of financial concepts helps to enhance communication and dialogue in benefit of those who put their trust in us.** Being more transparent and communicating better what we do is one of the key objectives in our social responsibility strategy.

In 2016 we improved communication with our customers, particularly focusing on marketing campaigns and especially those aimed at Commercial Banking customers.

Over the years, our commitment to relations with our customers has led us to set up various communication channels to improve the flow of information:

- Personal attention through the MoraBanc branch network.
- Via telephone through the Telebanc service, email and postal correspondence.
- Website www.morabanc.ad, intuitive and with a lot of information on the Group's products and services.
- MoraBanc's blog, providing information and news. This contains clear, simple articles on issues related to everyday economics and also banking and financial news, as well as other subjects of general interest.
- MoraBanc Online and App.
- Social media.



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In 2016 we extended the scope of our channels, promoting collaborations with different media:

- We have two regular sections in the programme *Ara i Aquí* on Ràdio Nacional d'Andorra (RNA), talking about financial markets and economics in general.
- We have a weekly section on Cadena Ser Andorra, as part of the programme *Ser Empresaris*, also dealing with economic information.

SOCIAL MEDIA

Social media are increasingly used as a means of communication with our customers and our presence has increased accordingly year after year. MoraBanc is very active on social media, consolidating its commitment to informing its stakeholders.

		TOTAL
	Videos uploaded	124
	Subscribers	56
	Viewings	89,526
	Followers	975
	Tweets	4,302
	Followers	673
	Photos	365
	Followers	3,715
	Publications	1,210
	Followers	1,671

FINANCIAL TRAINING

In 2016 we continued with the Àgora cycle of conferences after its success with the public the previous year. With this initiative we **raise awareness of financial concepts** at the same time as stimulating an interest among citizens and contributing to the country's financial education. In 2016 we also introduced a new format with economic chats in small groups, allowing participants to interact more directly with our experts. 2016 also saw sessions for customers in English.

We help citizens become more familiar with financial concepts through the Àgora cycle of talks



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The subjects covered were as follows:

- *Should I Stay Or Should I Go?* MoraBanc AM Global Investment Outlook 2016, held in May and given by Aleksandra Tomala, manager and analyst specialising in equity investments; Enric Galí, manager specialising in bonds and equity, and Tomás V. García-Purriños, manager specialising in Forex and commodities.
- *Is now the time to invest? Macroeconomic situation, bonds, equity and commodities*, held in June with a session in English given by Aleksandra Tomala; Enric Galí; Xavier Torres, expert in equity investments, and David Azcona, expert in the assignment of assets.
- *What will be the next step for markets after the US elections? Looking at 2017*, held in November with experts from the team of Mora Gestió d'Actius, SAU as speakers.
- *Next Step*, a talk held in December and aimed at English-speaking customers. The team from MoraBanc Asset Management discussed their view of current economic issues.

With the same aim, the MoraBanc Asset Management team regularly publishes reports on Markets and Strategies on the Bank's website, with a Research Focus that provides their view of the current economic situation, the behaviour of financial markets and other relevant circumstances with an economic impact.

Innovation

Innovation is one of the fundamental values in MoraBanc's strategy. Resulting from creativity, leadership, flexibility and initiative, we promote innovation as the basis of progress and the generation of positive impact, both for Andorra and for the Bank itself.

Particularly important in this area is **MoraBanc's digital transformation**, focusing on satisfactory customer experience by providing them with information and offering products and services with added value. In 2016 we also implemented a new contactless card service for all our customers, making it easier and quicker to pay by card when making purchases.

The digitalisation process represents a qualitative leap for our customers



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MORABANC DIGITAL

In December 2016 we presented one of the Bank's most important commitments for the future, a new concept in banking: **MoraBanc Digital**. The goal is transformation, adapting to our customers' new habits and aiming to become a benchmark in service-oriented innovation, helping to make consultations and operations much more straightforward, secure and user-friendly.

Specifically, MoraBanc Digital consists of the following:

- A new public website in line with the sector's best practices, offering customers innovative tools and totally compatible with all devices, focused on encouraging customer communication and making it easier to take out new products and services.
- A new mobile app, free of charge, designed to manage and control everyday banking operations with a search facility and personalised settings.
- A new online application, totally responsive, improved and designed to carry out operations directly, such as with stocks and shares, as well as managing the day-to-day operations of any kind of bank account. There are three different views depending on the type of customer and their operations: domestic finance, business, investor, etc.

Our commitment to digitalisation is complemented with other tools, such as:

- Smart semantic search facility and FAQ.
- Advanced search for branches and ATMs.
- OnLine Broker: direct operations with stocks and shares, advanced search of indexes and investment funds, virtual portfolios, etc.
- Asset management and investment funds: advanced search for investment funds.
- Help and product application forms.
- Blog with the latest financial information and news.

In 2016 we presented **MoraBanc Digital**, one of our most important commitments for the future



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Informe d'auditoria

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www.deloitte.com

Translation of a report originally issued in Catalan based on our work performed in accordance with International Standards on Auditing. In the event of a discrepancy, the Catalan-language version prevails.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Mora Banc Grup, SA,

Opinion

We have audited the accompanying consolidated financial statements of Mora Banc Grup, SA (the Parent) and other companies composing the MoraBanc Group (the Group), which comprise the consolidated balance sheet and consolidated memorandum accounts as at 31 December 2016, the consolidated income statement and consolidated statement of source and application of funds for the year then ended, and the notes to the consolidated financial statements, which include a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of the Group as at 31 December 2016, and its consolidated results and the consolidated funds obtained and applied by it in the year then ended in accordance with the regulatory financial reporting framework applicable to the Group (identified in Note 2 to the accompanying consolidated financial statements) and, in particular, with the accounting principles and rules contained therein.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the Group in accordance with the ethical requirements that are applicable to our audit of the consolidated financial statements pursuant to the Code of Ethics for Professional Accountants of the International Ethics Standards Board (IESBA Ethics Code) and have fulfilled our other ethical responsibilities under those requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Directors and of the Audit and Compliance Committee for the Consolidated Financial Statements

The directors of the Parent are responsible for preparing the accompanying consolidated financial statements so that they present fairly the Group's consolidated equity, consolidated financial position and consolidated results in accordance with the regulatory financial reporting framework applicable to the Group in Andorra, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Parent are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Parent either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit and compliance committee is responsible for overseeing the process involved in the preparation and presentation of the consolidated financial statements.

Deloitte Andorra Auditors i Assessors, S.L. inscrita en el Registre de Societats Mercantils d'Andorra. N.ºm. Registre de la Societat 13298, Llibre 5-186, Foli 81-90, N.R.T.: L-708451-A. Domicili Social: Bonaventura Armengol, 10. Edifici Montclar, Bloc 1, Planta Tera, Despatx 4. AD500 Andorra la Vella.



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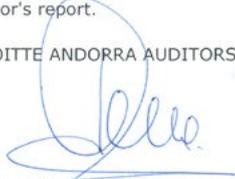
Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is included in Appendix I to this auditor's report. This description forms part of our auditor's report.

DELOITTE ANDORRA AUDITORS I ASSESSORS, S.L.



Francisco García-Valdecasas

30 March 2017



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Appendix I to our auditor's report

Further to the information contained in our auditor's report, in this Appendix we include our responsibilities in relation to the audit of the consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's directors.
- Conclude on the appropriateness of the use by the Parent's directors of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate evidence regarding the information of the entities or business activities within the Group to express an opinion on the Group's consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the audit and compliance committee of the Parent regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit and compliance committee of the Parent with a statement that we have complied with relevant ethical requirements, including those regarding independence, and we have communicated with it to report on all matters that may reasonably be thought to bear on our independence, and where applicable, on the related safeguards.



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GRUP MORABANC CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2016 AND 2015*

Thousands of Euros

ASSETS	2016	2015*
Cash on hand and due from OECD central banks	41,720	25,465
Due from INAF (Note 5)	210	210
Due from financial intermediaries (Note 6)	397,969	681,093
Banks and credit institutions	395,981	678,093
Other financial intermediaries	2,105	3,096
Less (-) allowance for credit losses	(117)	(96)
Lendings (Note 7)	1,004,513	1,021,877
Loans and credits	1,014,978	1,038,887
Customer overdrafts	5,804	8,128
Customer bill portfolio	10,136	8,614
Less (-) allowance for credits losses	(26,405)	(33,752)
Investment securities (Note 8)	662,257	695,703
Debentures and other fixed-income securities	540,287	464,711
Less (-) allowance for credit losses	(701)	(550)
Investments in group companies	11,720	8,087
Other investments	65,204	151,865
Less (-) security price fluctuation allowance	-	(800)
Common stocks and other equity securities	8,304	7,597
Investment funds	37,443	66,038
Less (-) security price fluctuation allowance	-	(1,245)
Consolidated goodwill (Note 9)	3,422	9,179
Intangible assets and diferred charges (Note 10)	13,800	10,204
Goodwill	800	800
Intangible assets and deferred charges	100,628	92,521
Less (-) accumulated amortization	(87,628)	(83,117)
Property and equipment (note 11)	98,323	105,041
Property and equipment	157,253	160,918
Less (-) accumulated depreciation	(46,839)	(44,347)
Less (-) allowance for decline in value of property and equipment	(12,091)	(11,530)
Accrual accounts (note 12)	17,388	16,691
Uncollected accrued interest	11,787	10,991
Prepaid expenses	5,601	5,700
Other assets	14,341	18,402
Current transactions	4,374	13,465
Inventories	131	164
Options purchased	-	12
Other	8,580	3,396
Taxes (note 20)	1,256	1,365
Total assets	2,253,943	2,583,865

* Presented exclusively for comparison purposes.
The accompanying Notes 1 to 33 are an integral part of the consolidated financial statements as of December 31, 2016.



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GRUP MORABANC CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2016 AND 2015*

	Thousands of Euros	
LIABILITIES AND EQUITY	2016	2015*
Due to INAF (Note 13)	19,851	16,394
Deposits	1,821,684	2,145,843
Banks and credit institutions (Note 14)	15,290	44,683
Customer deposits (Note 15)	1,806,394	2,101,160
Debt securities	-	-
Provisions for contingencies and expenses (Note 16)	23,769	12,265
Provisions for pensions and similar obligations	7,030	7,015
Provisions for futures	629	428
Provisions for litigations	1,400	-
Other provisions	14,710	4,822
General risk allowance (Note 17)	-	12,470
Subordinated debt (Note 18)	41,088	52,216
Accrual accounts (Note 19)	18,694	16,634
Unpaid accrued expenses	16,788	15,521
Unearned revenue	1,906	1,113
Other liabilities	22,827	19,290
Current transactions	18,033	13,187
Options issued	26	6
Trade and other accounts payable	104	71
Taxes (Note 20)	4,664	6,026
Minority interests	(4)	(4)
Capital stocke (Note 21)	42,407	42,407
Capital stock	42,407	42,407
Reserves (Note 21)	254,421	256,465
Legal reserve	14,913	14,913
Guarantee reserves (Note 5)	23,254	26,590
Voluntary reserves	108,302	107,227
Consolidation reserves	111,586	111,079
Conversion differences	(3,634)	(3,344)
Profit (Note 21)	9,206	9,885
Profit for the year	23,006	34,885
Less (-) interim dividends	(13,800)	(25,000)
Total liabilities and equity	2,253,943	2,583,865

* Presented exclusively for comparison purposes.
The accompanying Notes 1 to 33 are an integral part of the consolidated financial statements as of December 31, 2016.



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GRUP MORABANC CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015*

	Thousands of Euros	
INCOME STATEMENTS	2016	2015*
Interest income	28,108	31,831
Due from INAF and financial intermediaries	2,742	5,404
Lendings	18,963	20,738
Debentures and other fixed-income securities	6,403	5,689
Interest expense	(5,080)	(9,137)
Due to INAF and financial intermediaries	(1,175)	(1,297)
Customer deposit	(3,053)	(6,717)
Subordinated debit	(702)	(968)
Other	(150)	(155)
Income from equity securities	1,412	408
Common stocks and other equity securities	1,412	342
Investments funds	-	66
Net interest income	24,440	23,102
Net service fees	71,183	76,899
Feed for services provided	78,627	83,788
Less (-) frees for services received	(7,444)	(6,889)
Gains (Losses) on financial transactions	7,322	29,364
Provision to security price fluctuation allowance	2,045	(2,045)
Exchange gains	2,284	2,442
Gains (losses) on securities transactions	2,098	8,829
Gains (losses) on futures transactions	(2,115)	(333)
Share in (loss) profit of companies accounted by the method	3,010	20,471
Other operating income	157	157
Gross operating income	103,102	129,522

* Presented exclusively for comparison purposes.
The accompanying Notes 1 to 33 are an integral part of the consolidated financial statements as of December 31, 2016.



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GRUP MORABANC CONSOLIDATED INCOME STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 AND 2015*

Thousands of Euros

INCOME STATEMENTS	2016	2015*
Gross operating income	103,102	129,522
Personnel expenses	(35,504)	(33,398)
Employees, directors and indemnities	(30,038)	(28,074)
Social security costs	(3,657)	(3,311)
Other personnel expenses	(1,809)	(2,013)
General expenses	(28,820)	(27,159)
Material	(315)	(294)
Other external services	(26,839)	(25,377)
Taxes	(1,666)	(1,488)
Depreciation and amortization expense net of recoveries	(7,867)	(8,452)
Depreciation and amortization expense (Notes 10 and 11)	(7,867)	(8,452)
Provisions for depreciation assets net of recoveries (Note 11)	(561)	(1,947)
Provisions to allowance for depreciation of tangible and intangible assets	(968)	(1,947)
Recoveries from allowance	407	-
Net operating income	30,350	58,566
Impairment of assets	-	-
Negative first consolidation differences	-	-
Provisions for credit losses net of recoveries (Notes 6, 7 and 8)	(5,102)	(6,040)
Provisions to allowance for credit losses	(9,657)	(12,174)
Recoveries from allowance for credit losses	4,555	6,134
Provisions for contingencies and expenses net of recoveries (Note 16)	(12,020)	(527)
Provisions for contingencies and expenses	(12,923)	(656)
Recoveries from allowance for contingencies and expenses	903	129
Provisions to general risk allowance (Note 17)	12,470	(9,489)
Income from ordinary activities	25,698	42,510
Extraordinary loss/income (Note 22)	(761)	(5,071)
Income before taxes	24,937	37,439
Income tax (Note 20)	(1,931)	(2,555)
Foreing income tax	-	-
Consolidated profit for the year	23,006	34,884
Porfit attributable to non-controlling interests	-	(1)
Profit attributable to the group	23,006	34,885

* Presented exclusively for comparison purposes.
The accompanying Notes 1 to 33 are an integral part of the consolidated financial statements as of December 31, 2016.



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GRUP MORABANC CONSOLIDATED MEMORANDUM ACCOUNTS AS OF DECEMBER 31, 2016 AND 2015*

	Thousands of Euros	
MEMORANDUM ACCOUNTS	2016	2015*
Contingent Liabilities	71,496	75,224
Guarantees, bonds and sureties given	69,044	73,737
Documentary credits issued or received and confirmed to customers	402	1,404
Acceptances and similar commitments	2,050	83
Commitments and contingencies	205,820	216,841
Operational commitments and contingencies	198,790	209,821
Actuarial commitments and contingencies	7,030	7,020
Financial derivatives (Note 23)	750,582	1,189,921
Outstanding currency sales and purchases	235,969	707,024
Financial forward transactions	500,871	473,868
Other futures	13,742	9,029
Securities and other assets in custody	4,643,025	5,601,293
Third-party securities and other assets held in custody (Note 24)	4,136,603	5,137,795
Own securities and other assets held in custody	506,422	463,498
Other memorandum accounts held solely for administrative control purposes (Note 26)	1,484,732	1,308,902
Guarantees and commitments received	1,005,237	964,939
Other memorandum accounts	479,495	343,963
Total memorandum accounts	7,155,655	8,392,181

* Presented exclusively for comparison purposes.
The accompanying Notes 1 to 33 are an integral part of the consolidated financial statements as of December 31, 2016.



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GRUP MORABANC CONSOLIDATED STATEMENTS OF SOURCE AND APPLICATION OF FUNDS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015*

Thousands of Euros

	2016	2015*
CASH INFLOW		
Cash-flow from operations	31,944	42,950
Profit for the year	23,006	34,885
Net provisions to allowance for credit losses	5,102	6,040
Net provisions to allowance for decline in value of assets	561	1,947
Net provisions to security price fluctuation allowance	(2,045)	2,045
Net provisions to other allowances (pension allowance, etc.)	(59)	9,725
Depreciation and amortization expense	7,867	8,452
Loss on sale of fixed assets	522	327
Profit from companies accounted for by the equity method	(3,010)	(20,471)
Positive change in liabilities over assets	286,329	-
INAF and financial intermediaries (liabilities-assets)	257,167	-
Other concepts (liabilities-assets)	29,162	-
Net increase in liabilities	-	245,602
Deposits: customer deposits	-	245,602
Net decrease in assets	24,711	22,254
Lendings: customers	24,711	22,254
Investment securities less investments	-	-
Sales of long-term investments	62,180	1,266
Sales of investments in group companies	58,390	-
Sales of fixed assets	3,790	1,266
Total cash inflow	405,164	312,072

Thousands of Euros

	2016	2015*
CASH OUTFLOW		
Positive change in assets over liabilities	-	117,275
INAF and financial intermediaries (assets-liabilities)	-	96,137
Other concepts (assets-liabilities)	-	21,138
Net decrease in liabilities	305,894	4,459
Deposits: customers	294,766	-
Subordinated debt	11,128	4,459
Net increase in assets	63,943	146,368
Cash on hand	16,255	2,061
Lendings: customers	-	-
Investment securities less investments	47,688	144,307
Purchases of long-term investments	9,598	10,759
Purchases of investments in group companies	-	-
Purchases of fixed assets	9,598	10,759
Funds applied for financing activities	25,729	33,211
Dividends	20,800	30,000
Decrease of reserves	4,639	515
Other equity accounting items	290	2,696
Total cash outflow	405,164	312,072

* Presented exclusively for comparison purposes.
The accompanying Notes 1 to 33 are an integral part of the consolidated financial statements as of December 31, 2016.



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Notes to Consolidated Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2016

1. GROUP DESCRIPTION

Mora Banc Grup, SA and Mora Banc, SAU (hereinafter, “the Banks”) are Andorran companies and their sole corporate purpose is to perform all the permitted activities for banking institutions under the rules and regulations in Andorra.

Mora Banc Grup, SA is the parent company of the Group, and together with its subsidiaries, as detailed in Note 2-d, compose the MoraBanc Group (hereinafter, “the Group”).

As member of the Andorran financial system, the Group is subject to regulation issued by Institut Nacional Andorrà de Finances (hereinafter, “INAF”), the Andorran financial system authority, which develops its activity independently of the General Administration, and to the compliance of certain Andorran standards (see Notes 5 and 30).

2. BASES OF PRESENTATION AND CONSOLIDATION PRINCIPLES

a) True and fair view

The accompanying consolidated financial statements, authorized by the board of directors of Mora Banc Grup, SA on March 22, 2017, were obtained from the accounting records of the banks and companies composing the MoraBanc Group and are presented in accordance with the format established in the chart of accounts of the Andorran financial system approved by the Andorran government on January 19, 2000, so that they present fairly the net worth, the financial position of the Group as at December 31, 2016, the consolidated results and the cash flows produced during the year then ended.



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These consolidated financial statements will be submitted to the Shareholders' Meeting for approval and Group Management anticipates that they will be approved without changes. Consolidated financial statements for the year ended December 31, 2015 were approved in the shareholders' meeting dated April 26, 2016.

b) Accounting Policies

The accompanying consolidated financial statements were prepared by applying the generally accepted accounting methods and principles set forth in the chart of accounts of the Andorran financial system (see Note 3). All obligatory accounting principles with a significant effect on these consolidated financial statements were applied in their preparation.

c) Comparison of information

The information included in these 2016 consolidated financial statements regarding 2015 is presented exclusively for comparison purposes.

Measurement bases and generally accepted accounting principles require the information presented to be uniform between periods. In 2016 there were no significant changes to accounting legislation that might have an effect on the comparability of the information.

d) Consolidation principles

All subsidiaries were consolidated by the full integration method and all associated entities by the equity method, with the exception of the investment in the subsidiary Mora Assegurances, SAU which was consolidated by the equity method since its insurance business differs from banking activity, as established in the chart of accounts of the Andorran financial system.

All material intercompany balances and transactions were eliminated for consolidation purposes.

For subsidiaries consolidated by the full integration method and which are not fully owned by the Group, minority interests belonging to other investors are reported on the balance sheet to reflect the claim on net assets from minority shareholders. Additionally, minority interests are recognized in the income statement as a share of the consolidated profit attributable to minority shareholders.



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Details of the business of the consolidated companies as of December 31, 2016 are as follows:

Company	Country	Business activity	Auditors	Percentage of ownership ⁽¹⁾
Consolidated by the full integration method:				
Mora Banc, SAU	Andorra	Banking	Deloitte	100%
Mora Gestió d'Actius, SAU	Andorra	Investment funds management	Deloitte	100%
Mora Wealth Management AG	Switzerland	Wealth management	Deloitte	100%
Mora WM Holdings USA, LLC	USA	Holding	MBAF, LLC	100%
Mora Wealth Management LLC	USA	Wealth management	MBAF, LLC	99.89%
Mora WM Securities, LLC	USA	Broker Dealer	MBAF, LLC	100%
BIBM Preferents Ltd.	Cayman Islands	Finance	Deloitte	100%
Mora Asset Management, SA	Luxembourg	Wealth management	Deloitte	100%
Consolidated by the equity method:				
Mora Assegurances, SAU	Andorra	Insurance	Deloitte	100%
Serveis i Mitjans de Pagament XXI, SA	Andorra	Means of payment	Alfa Capital	20%

(1) Direct and indirect percentage of ownership.

Mora Gestió d'Actius, SAU is an Andorran company incorporated on November 27, 1997 whose corporate purpose consists of those activities included in the law as applicable to investments schemes managers. Additionally, it carries on activities as discretionary and individual asset manager, investment advisor, and custody and management of securities of investment schemes. As per December 31, 2016, the company manages a total of 35 collective investment schemes with a total equity amounting €1,124,007 thousand.

Mora Wealth Management AG is a company located in Switzerland incorporated on September 25, 2008, whose corporate purpose is the management of private wealth and financial advisory.

Mora WM Holdings USA, LLC is a company located in the United States, which has become the parent of the other Nord-American companies: **Mora Wealth Management LLC** was acquired on July 9, 2009 and its corporate purpose is the management of private wealth and finance advisory, and **Mora WM Securities, LLC**, which was incorporated in 2011 as a limited responsibility company and received a license to operate as broker dealer on May 2012.

BIBM Preferents Ltd is a company located in Cayman Islands which was incorporated during 2006, with the sole purpose of issuing preferred shares for the account of the Banks (see Note 18).

Mora Asset Management, SA, is a company located in Luxembourg which was incorporated during 2014 and whose corporate purpose is the management of private wealth.

Mora Assegurances, SAU was incorporated on January 27, 1992. The corporate purpose of the company is to perform all activities related to insurance, re-insurance



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and risk coverage, within the branches of life, accident, disease and liability, with the exception of service delivery.

Serveis i Mitjans de Pagament XXI, SA is a company located in Andorra incorporated on August 17, 2012, and whose corporate purpose is the delivery of services related to credit and debit cards, as well as other means of payment, specially throughout the renting of technical equipment.

The main changes within the consolidation perimeter during 2016 have been the following:

- 1 In accordance with the authorization of INAF dated on September 9, 2016, the entire stake of Mora Wealth Management, SA (Uruguay) has been sold for a dollar. This sale is linked to a contract for services with variable remuneration, through which the sales team will continue in association with the Group. The negative result of the operation has been €610 thousand, recorded under "General expenses - Other External Services" in the attached consolidated income statement.
- 2 Between April 6 and 26, 2016, Amura Capital SICAV (Turquoise compartment) has sold 14,510,766 shares of Inmobiliaria Colonial, S.A., generating a gain of €372 thousand, of which €22 thousand were recorded under "Share in (Loss)/Profit of companies accounted by the equity method" and €350 thousand were recorded under "Gains/(Losses) on financial transactions - Gains/(Losses) on securities transactions" on the attached consolidated income statement. Subsequently, on June 28, 2016, the Turquoise compartment of Amura Capital SICAV was liquidated and 102,242,390 shares of Inmobiliaria Colonial, S.A. were distributed to the Group.
- 3 On July 28 and 29, 2016, the Group sold all of their shares of Inmobiliaria Colonial, S.A. (102,242,390 shares) for a total amount of €67,860 thousand, generating a gain of €3,920 thousand, of which 199 thousand were recorded under "Share in (Loss)/Profit of companies accounted by the equity method" and €3,721 thousand were recorded under "Gains/(Losses) on financial transactions - Gains/(Losses) on securities transactions" in the attached consolidated income statement.

Additionally, the following significant changes in the equity of subsidiaries have occurred:

- 1 On May 6, 2016, in accordance with the authorization of INAF dated on January 25, 2016, the Group has carried out a capital increase in its subsidiary Mora Wealth Management AG, through the conversion of the loan granted by Mora Banc Grup to the abovementioned subsidiary into capital, amounting to 20,851 thousand Swiss francs (€19,407 thousand at 31 December 2016). The purpose of the operation has been to recoup losses from previous years amounting to 17,713 thousand Swiss francs and create a residual equity reserve. Subsequently, on July 27, 2016, in accordance with the authorization of INAF dated on June 3, 2016, the Group has made a direct contribution to the equity of Mora Wealth Management, AG for 2,700 thousand Swiss francs (€2,513 thousand at December 31, 2016) in order to provide it with the sufficient resources so that it can continue to develop its business.



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- 2 On May 31, 2016, in accordance with the authorization of INAF dated on January 25, 2016, the Group has carried out a capital increase in its subsidiary WM Mora Holdings USA, LLC, through the conversion of the loan granted by Mora Banc Grup to the abovementioned subsidiary into capital, amounting 10,928 thousand dollars (€10,343 thousand at December 31, 2016). The purpose of the operation has been to recoup losses from previous years generated by its subsidiaries, Mora Wealth Management LLC and Mora WM Securities, LLC, amounting to 9,429 thousand dollars and create a residual equity reserve.

The detail, in thousands of euros, of the Group companies' and associated entities' equity as of December 31, 2016 is as follows:

Company	Capital	Reserves	Profit for the Year	Interim Dividend	Total Equity
Group companies:					
Mora Banc, SAU	30,060	93,257	11,837	(11,000)	124,154
Mora Gestió d'Actius, SAU	2,101	4,407	355	(350)	6,513
Mora Wealth Management AG ⁽¹⁾ ⁽²⁾	82	2,478	(2,980)	-	550
Mora WM Holdings USA, LLC ⁽¹⁾ ⁽³⁾	13,497	-	-	-	13,622
Mora Wealth Management LLC ⁽¹⁾	6,624	(6,229)	(396)	-	(1)
Mora WM Securities, LLC ⁽¹⁾	2,250	(699)	764	-	2,315
BIBM Preferents Ltd.	1	-	-	-	1
Mora Assegurances, SAU	6,503	1,584	3,633	-	11,720
Mora Asset Management, SA ⁽¹⁾	4,700	(2,722)	(2,008)	-	(30)
Associated entities:					
Serveis i Mitjans de Pagament XXI, SA ⁽¹⁾	60	153	29	-	242

(1) Provisional figures for the year 2016.

(2) Total Equity includes an amount of €970 thousand as a subordinated debt, entirely subscribed by Mora Banc Grup, SA.

(3) Total Equity includes an amount of €125 thousand as a subordinated debt, entirely subscribed by Mora Banc Grup, SA.

3. ACCOUNTING POLICIES AND VALUATION STANDARDS

The following accounting principles and valuation methods were applied in the preparation of the accompanying consolidated financial statements:

a) Accrual basis

Revenues and expenses are recorded on an accrual basis, using the effective interest method for transactions which take more than twelve months to be completed. Nevertheless, in accordance with conservative accounting principles, as required by applicable legislation, the interest earned on loans classified as doubtful or very doubtful is recognized as income upon collection.

b) Recording basis

In accordance with banking practice, transactions are recorded on the date they take place, which may differ from their value dates, which are used in the calculation of interest income and expense.



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c) Foreign currency

Foreign currency assets, liabilities and memorandum accounts were translated to Euros at the last midmarket exchange rates prevailing before the balance sheet date as determined by the Andorran Bankers' Association. Foreign currency revenues and expenses are translated to Euros at the midmarket exchange rates on the date they take place. Exchange gains or losses are recorded in the accompanying consolidated statements of income under "Gains/(Losses) on Financial Transactions – Exchange Gains".

These are the main exchange rates with respect to Euro at the end of 2016:

Currency	Euro
US Dollar	1.0565
Swiss Franc	1.0744
Pound Sterling	0.8541
Japanese Yen	123.3700

d) Doubtful assets

Loans and credits, debentures and other fixed-income securities and other receivables are classified as doubtful assets when the whole repayment is considered problematic because a reduction in the prospects for collection is noted due to the debtors' inability to fulfil their commitments under the contractual terms. The assets – notes, loan, credit or financial lease payments receivable, coupons, fixed-income securities and other debits due and payable – are included in this category according to their default status when the related principal or interest becomes more than three months overdue. In the case of loans with periodic payments, subsequent payments are classified as doubtful on the day they mature.

If a single loan has cumulative past-due uncollected principal, interest and expenses classified as doubtful exceeding 25% of the risk (excluding unaccrued interest) or there is an amount more than one year past due, the Entity classifies all of the past dues as doubtful.

When these assets are considered unrecoverable or their recovery value is deemed to be minimal or unlikely to be realized, they are removed from assets in the balance sheet and recorded in memorandum accounts under the "Other Memorandum Accounts Held Solely for Administrative Control Purposes – Other Memorandum Accounts" caption (see Note 26). In any case, these unpaid assets are transferred to memorandum accounts three years after maturity, or six years for mortgage loans with adequate collateral.

e) Allowance for credit losses

The allowance is recorded in order to cover losses on the recovery of investments with lending, investment securities and other risks. This allowance is increased by the expenses charged against income and reduced by charge-offs of loans considered



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to be uncollectible and recoveries of amounts previously provided.

Allowances for credit losses established under the chart of accounts of the Andorran financial system are as follows:

Specific allowances

The calculation of specific allowance is based on quantitative and qualitative regulated guidelines and on a detailed analysis to credit risk exposure, on individual basis, following prudent criteria, and it is maintained at an adequate level so that all potential losses are covered.

Generic allowances

To cover any losses that may arise in the future on individual risks that have not been identified as problematic at present, general-purpose provisions were recorded in accordance with the chart of accounts of the Andorran financial system. The mentioned provisions are equal to:

- 0.5% of time deposits placed for more than one business day with banking institutions (see Note 6).
- 1% of net lending to clients, with the exception of the exposure collateralized with pledged monetary assets, listed financial investments, contractually pledged, within the limits of the market value of these securities, and real estate assets (see Note 7).
- 0.5% of fixed-income securities issued by banking institutions and 1% of other fixed-income securities accounted under financial investments, with the exception of those issued or guaranteed by central administrations and central banks of OECD countries and Andorra (see Note 8), to which no generic allowance is applied.

Country risk allowances

The calculation of country risk allowance takes into account, among others, the global risk estimation for each country according to balance of payments, indebtedness and debt service fees, quotations of fixed-income securities in international secondary markets, as well as other indicators and circumstances for each market. This estimation follows a most prudent criterion in order to calculate the necessary allowance.

f) Credit facilities

Credit facilities granted to customers are recorded in the balance sheet at the amount used, and the undrawn amounts are recorded in the memorandum accounts under "Commitments and Contingencies – Operational Commitments and Contingencies".



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g) Investment securities

Fixed-income securities

The fixed-interest securities in the Group's portfolio are classified as follows:

- a) Trading securities, which are the securities that the Group expects to sell before maturity with the aim of making a profit in the short term from price fluctuations, are carried at market value. Any gains or losses arising from variations in the value of these securities, excluding accrued coupon payments, are recorded net under "Gains on Financial Transactions – Gains on Securities Transactions" in the accompanying consolidated income statements. Coupon payments accruing after securities have been purchased are recorded under "Interest Income – Debentures and Other Fixed-Income Securities."
- b) The held-to-maturity portfolio is made up of the securities that the Group has decided to hold to maturity, provided they have the financial ability to do so. These securities are stated at adjusted cost price. Cost price is adjusted on a daily basis by accruing the difference between cost and redemption value, over the remaining life of the related security. The results of accruing this difference, together with the coupons that have accrued since the securities were purchased, are recorded under "Interest Income – Debentures and Other Fixed-Income Securities."

In the event of alienations as a result of changes in the intentionality of holding investments until maturity, losses arisen from the disposal of assets are registered in the income statement as extraordinary losses. Gains are accrued on a straight-line basis over the remaining life of the security sold, and are recognized in "Gains on financial transactions– Gains on securities transactions".

- c) Other securities are classified as available-for-sale securities, and are valued and recorded at adjusted cost price. Likewise, differences between market value and adjusted cost price are recognized in the income statement as a provision of fluctuating fund, calculating the total value of negative differences less the positive, until the positive differences equal the negative.

Equity securities

- a) The securities in the trading portfolio are shown at their market value, and any gains or losses arising from variations in the value of these securities are recorded in the accompanying consolidated income statements.
- b) The securities in the available-for-sale portfolio are recorded at the lower of acquisition cost or market value.
- c) Investments accounted for under the equity method (see Note 2-d) are stated at the value of the portion of the investee's net worth they represent.



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Market value was determined as follows:

- Listed securities: price at year-end.
- Unlisted securities: as a general rule, the underlying book value, obtained from the last available balance sheet, will be used as a reference. Nevertheless, in some cases the market value will depend on the value of the underlying asset. In case the asset is a business and there is enough information, the valuation techniques applied could be, for instance, discounted cash flows. In case the underlying is a real estate company the appraised value or the valuation subtracting debt could be considered.

h) Consolidated goodwill

This caption reflects the positive differences that arise from the acquisition of a consolidated company, between the price paid for the shares of the company and its underlying book value.

In this regard, inherent expenses, those strictly linked to the acquisition of the subsidiary and which are indispensable for the purchase, have been considered as an increase in the price of acquisition. The remaining expenses directly linked to the purchase and not considered above, have been recognized as deferred charges (see Note 3-j).

Consolidated goodwill is not amortized. An impairment test must be performed at the end of each year, and if any indication of impairment exists, the corresponding loss is recognized in the consolidated income statement. This loss will be irrecoverable and it will not be possible to record it again even if the asset recovers its value.

Moreover, in the event of an inclusion of a new company in the consolidation perimeter, indirectly or through the integration of a subconsolidation, the entities are required to set aside a non-distributable reserve in the parent's separate financial statements equal to the amount of such positive differences, annually funding at least 10% of such amount through the allocation of the profit for the corresponding year. If no profits are available or profits should prove to be insufficient, freely distributable reserves must be used for this purpose (see Notes 4 and 9).

Negative differences are recognized as income in the income statement, in the year in which they occur.

i) Property and equipment

Property and equipment are stated at cost, except for the Group's building head offices, which was revalued in 1994. The estimated realizable value of these assets at year end is greater than their estimated net value.

The Group depreciates its property and equipment by the straight-line method based on the following years of estimated useful life:



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Years of Estimated Useful Life

Buildings	50
Machinery, furniture and fixtures	3 - 10
Vehicles	5
Hardware	3

Assets acquired as settlement to other assets are recorded at the lowest of the net book value of the recovered asset at the moment of recovery, excluding their allowances, and the estimated price of the acquired asset.

Later, buildings which are not accounted for as property and equipment assigned to operations are impaired according to the following percentages:

Ageing in balance sheet	%
Between 3 and 4 years	25
Between 4 and 5 years	50
More than 5 years	75

Notwithstanding, book value cannot be greater than the estimated market value. For terrains and other foreclosed assets, book value is measured against an updated valuation (at least every two years), performed by a third party. In case of obtaining a valuation lower than the net book value, those differences shall be accounted in the accompanying consolidated income statement.

j) Intangible assets and deferred charges

Intangible assets consist of

- The cost of software, which is depreciated over a maximum of three years.
- Deferred charges, arisen from the constitution and acquisition of subsidiaries, which are depreciated over five years against the income statement. It is the period in which these assets will contribute to generate income (see Note 3-h).
- Goodwill, which is recorded at acquisition cost and is not depreciated. Additionally, an impairment test must be performed at each year end, and if any indication of impairment exists, the corresponding loss is recognized in the consolidated income statement. This loss will be irrecoverable and it will not be possible to record it again even if the asset recovers its value.

k) Provisions for pensions and similar obligations

In 1977 the Group set up a pension fund for all employees, for the purpose of supplementing the pensions paid under the Andorran social security system. In 2007 it was proposed to the employees that this internal fund be changed and replaced by a defined contribution plan, implemented and managed through a group insurance policy taken out by Mora Banc Grup, SA on behalf of the Group with Mora Assegurances, SAU (see Note 2-d) which has been reinsured with AXA Vida, SA.



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Almost all employees accepted this change.

Additionally, an internal pension fund has been maintained for retired employees and serving employees who have not joined the new pension scheme. The main actuarial assumptions used to calculate the corresponding benefit obligations at December 31, 2016, are as follows:

- Nominal discount rate: between 0.50% and 1.50%, depending on the employee group concerned.
- Salary increase rate: 1.00%.
- CPI: 1.00%.
- Mortality tables: PERM/F-2000P.

During 2016, no regular contribution has been made to the internal pension fund (€ 6 thousand during 2015, which were recorded under "Personnel Expenses – Other Personnel Expenses", while the amount related to the capitalization of the internal allowance was done under "Interest Expense – Other" in the consolidated income statements).

On the one hand, as a result of the outsourcing of the pension plan, payments amounting €1,064 thousand were made during 2016 (€1,059 thousand during 2015). The amount of these payments is recorded under "Personnel Expenses – Other Personnel Expenses" in the accompanying 2016 consolidated income statements.

On the other hand, the provisions required to cover all the salary and welfare commitments with a group of eligible employees who joined the preretirement scheme offered by the Group, during 2016, as an incentive program established during the months of April and December of that year, were recorded against income. The related charge was included under "Provisions for Contingencies and Expenses" in the accompanying consolidated income statements (see Note 16) along with the updating of all the labor and social commitments acquired in previous years through similar processes.

l) Provisions for futures

Allowance constituted for the Group arising from losses of valuations of non-hedge futures positions contracted out of regulated markets, held as of December 31, 2016 (see Note 16).

m) Provisions for litigation

Funds allocated by the Group, according to prudence criteria, to cover risks associated to losses that may arise from third party claims which are being processed (see Note 16).



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n) General risk allowance

Allowance that the Group assigns, according to prudence criteria, given the risks inherent to banking and financial activities, to cover the general risks of these activities, without an identified impairment of the assets value (see Note 17).

o) Financial derivatives

The Group uses these instruments basically to hedge equity positions. They are recorded in the memorandum accounts at the face value of the related contracts (see Note 23). In the case of options, the amount of premiums paid is included in "Other Assets – Options purchased" and the amount of premiums received is included in "Other liabilities – Options issued" in the accompanying consolidated balance sheets.

Transactions whose purpose and effect is to eliminate or substantially reduce the currency, interest-rate or market risks associated with equity positions or other transactions are considered as hedges. Gains or losses on hedging transactions are accrued symmetrically to the revenues or expenses relating to the item hedged.

Non-hedging transactions (also called trading transactions) arranged on organized markets are recorded at their market price, and any variations in market price are recorded in full in the accompanying consolidated income statements.

Gains or losses on trading transactions arranged outside organized markets are not recognized in the accompanying consolidated statements of income until they have been realized. However, at each month-end a valuation is made of positions, and, if required, a provision is recorded against income to cover possible net losses for each type of risk detected in the valuation.

p) Taxes

Saving income Tax

As of June 13, 2005, the General Council approved the Law 11/2005, of implementation of the Agreement between the Principality of Andorra and the European Community concerning the establishment of measures equivalent to those provided in Directive 2003/48/EC on taxation of savings income in the form of interest payments.

With the signing of this agreement, the Principality of Andorra becomes obliged to carry out a withholding tax on interest payments made by paying agents established in Andorra to beneficial owners, individuals resident in a Member State of the European Union .

In the concept of "Collection accounts" under the tax liabilities of the consolidated balance sheet are recorded withholdings payable outstanding (see Note 20).

Income tax

In accordance with Law 95/2010 of December 29 on the Income Tax, Law 17/2011 of December 1, modifying Law 95/2010, and the Regulations on the application of Law 95/2010 on the Income Tax, the establishment of an income tax has become official.



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The income tax is a direct tax applicable to income from legal entities. As of May 6, 2015 was published in the BOPA, the Legislative Decree of April 29, 2015 publication of the revised Law 95/2010, of December 29, about income tax.

Income tax expense for the year is calculated as the sum of current tax resulting from applying the corresponding tax rate to taxable profit for the year, minus any applicable rebates and tax credits. The taxable profit is calculated by correcting the accounting profit, determined in accordance with the regulations established in the chart of accounts of the Andorran financial system, through the application of the qualification, measurement and temporary recognition principles and criteria set forth in the precepts of the income tax law that lead to off-balance sheet adjustments. Off-balance sheet adjustments, whether positive or negative, may be permanent or temporary depending on whether they are reversed in future taxable periods or not.

In the chapter "Other assets" of the consolidated balance sheet, a caption called "Taxes" is created, in which withholdings and payments on account of the advance income tax are recognized, as well as tax unrecognized tax loss carryforwards or tax credits that are registered to the extent that it is probable that future taxable profit will be available against which these assets may be utilized.

In the chapter "Other liabilities" of the consolidated balance sheet, a caption called "Taxes" is created, in which the deferred income tax is recognized, as well as payable amounts to tax agency.

In the consolidated income statement, under a chapter called "Income tax", all debits and credits related to the income tax rate are recognized. Additionally, in the chapter "Foreign income tax", all debits and credits related to the income tax corresponding to foreign tax systems are registered. These captions include the amounts corresponding to the financial institution, companies consolidated under the full consolidation method and the proportional consolidation method, and the group companies consolidated under the equity method (see Note 20).

For the purpose of the income tax calculation, MoraBanc Group is a tax group, according to the authorization received on May 25, 2012 from the Andorran government.

General indirect tax

Further to General Indirect Tax Law 11/2012, of June 21, subsequently amended by Law 29/2012 amending the general indirect tax, of October 18, on January 1, 2013 this tax came into force, thereby repealing the previous General Indirect Tax Law on the provision of banking and financial services. As of May 6, 2015 was published in the BOPA, the Legislative Decree of April 29, 2015 publication of the revised Law 95/2010, of December 29, about income tax.



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The general indirect tax is levied on the economic capacity disclosed provided that end consumption of a good or service occurs. The tax rate applied to provisions of banking and financial services is an increased tax rate of 9.5%.

Law 10/2014 of June 3, modifying Law 11/2012 of June 21 on the general indirect tax, amended by Law 29/2012 of October 18 and Law 11/2013 of May 23, introduces a limitation to the right of deducting the supported quotas to financial entities for a maximum annual amount equivalent to the 10% of the transferred quotas at a 9.5% tax rate, with the limitation of the supported tax in its subject activity.

“Withholdings and payments on account” and “Collection Accounts”, in the chapter “Taxes” (assets and liabilities) in the consolidated balance sheet include the prepayments and withholdings payable, respectively (see Note 20).

Non-residents Income tax

In accordance with the Law 94/2010 the non-resident income tax and the implementing regulation of this Act creates a tax direct nature levied on income obtained in the territory of the Principality of Andorra by natural or legal persons not resident in the tax territory. As of 6 May 2015 was published in the BOPA Legislative Decree of 29 April 2015 Publication of the revised Law 94/2010, of December 29, the income tax and non-tax residents .

In the concept of “collection accounts” under the tax liabilities of the consolidated balance sheet are recorded withholdings payable outstanding (see Note 20).

Personal Income tax

In accordance with the Law 5/2014, of April 24, the personal income tax and the implementing regulation of this Act creates a tax direct character and personal nature gravel, according to the principles of generality and equitable distribution of the tax burden, income obtained by individuals based on their amount and their personal and family circumstances. As of 6 May 2015 was published in the BOPA Legislative Decree of 29 April 2015 Publication of the revised Law 5/2014, of April 24, the income tax of individuals .

In the concept of “collection accounts” under the tax liabilities of the consolidated balance sheet are recorded withholdings payable outstanding (see Note 20).



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4. DISTRIBUTION OF PROFIT

The proposal of Mora Banc Grup, SA, parent entity of the Group, for 2016 profit distribution, that the Board of Directors will submit for approval by the Shareholders in general meeting; and the distribution of 2015 profit, are as follows:

	Thousands of Euros	
	2016	2015
Dividends:		
Interim	13,800	25,000
Final	-	7,000
	13,800	32,000
Reserves:		
Guarantee reserve (see Note 30)	529	769
Voluntary non-distributable reserves	342	918
Voluntary reserve	4,707	157
Profit for the year	19,378	33,844

As of December 29, 2016, according to the decision taken by the Board of Directors of Mora Banc Grup, SA dated December 14, 2016 a distribution of an interim dividend of €13,800 thousand was performed (see Note 21).

Additionally, in accordance with current standards, it has been approved to allocate an amount of €342 thousand, equal to 10% of first-time consolidation differences to voluntary non-distributable reserves (see Notes 3-h and 9), together with €529 thousand in unavailable reserves relating to the application of the reserves through the deposit guarantee system for banks (see Note 5).

The income of the remaining Group companies shall be distributed in accordance with the resolutions of their respective Shareholders' Meetings, or single shareholders as required.



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5. MANDATORY BANK RESERVES

Mandatory bank reserves ratios

As of June 30, 1994, the General Council of Andorra passed the Law regulating mandatory bank reserve ratios. Under this law, all banking entities must maintain a ratio of their reserves in Andorran public funds.

Government Debt Securities

In order to meet this ratio as of December 31, 2016 the Group have subscribed to Andorran government debt securities, issued on March 30, 2016, for an amount of €66,566 thousand. These debt securities mature on March 30, 2017, and does not earn any interest rate.

The Government debt securities are recorded in the “Investment Securities – Debentures and Other Fixed- Income Securities” caption in the accompanying consolidated balance sheets. These debt securities are recorded as held-to-maturity securities (see Note 8).

Special financing programs

Loans granted by the Group under a program of national and social interest providing special financing for homebuyers, approved by the Andorran government, can also be classified as public funds. The loans granted by the Group under this program amounted to €835 thousand as of December 31, 2016 (€1,188 thousand as of December 31, 2015), and are recorded under “Lendings – Loans and Credits” in the accompanying consolidated balance sheets.

Guarantee Reserves

Deposit guarantee fund

At its session held on February 2, 2011, the General Council of the Principality of Andorra approved the Law on the establishment of a banking deposit guarantee system, which requires banks that are authorised to operate in the Andorran financial system to keep investments in liquid and secure assets as a counterpart to a non-distributable reserve, subject to meeting the guarantees covered by the guarantee system.

The amount of the guarantee reserves recognised by the Group for this concept at December 31, 2016 was €23,044 thousand. The Group has invested an amount equal to the guarantee reserves in fixed-income securities government debt securities from OECD countries and the Principality of Andorra and other immediately available assets less than a month mature assets, which are liquid assets and the INAF deems appropriate at any time in accordance with the requirements established by the mentioned Law (see Notes 21 and 30).

Andorran Resolution Fund of Banking Entities (FAREB)

Law 8/2015, of April 2, creates and regulates the Resolution Fund Andorran banking entities (hereinafter the FAREB) as a funding mechanism solving processes of Andorran banks. FAREB financial resources, according to the provisions of article 59 of Law 8/2015, shall be provided by the Andorran banks, not later than 31 December 2024



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and should reach an amount equal to that date 1% of the amount of guaranteed deposits.

As stated in the First Additional Provision of Law 8/2015, the Andorran banks must make an extraordinary initial joint contribution to FARB amounting to €30,000 thousand, of which the Group is involved in €5,154 thousand (see Note 21).

During 2016 the Group has coped with the first payment in respect of such extraordinary contribution amounting to €4,639 thousand (€515 thousand during 2015) charged to the guarantee reserve (see Note 21).

Additionally, in accordance with the previous Law, the Group has registered the corresponding expense to the ordinary contributions of the exercise 2016 (ex-ante) under "Extraordinary Results", in the attached consolidated income statement, for an amount of € 571 thousands.

Deposits with INAF

Nonbank entities integrated in the financial system are required to maintain minimum reserves of equity to guarantee their banking liabilities. Therefore, Mora Gestió d'Actius, SAU remains among the resources minimum reserves of equity amounting to €210 thousand at December 31, 2016 and 2015 (see Note 21). The deposits for this purpose are recorded in the "INAF" caption in the asset accompanying consolidated balance sheets and do not earn any interest rate at the moment.

6. DUE FROM FINANCIAL INTERMEDIARIES

The breakdown of the balance of this asset caption in the accompanying consolidated balance sheets, by currency and type of transaction, excluding the allowance for credit losses, is as follows:

	Thousands of Euros	
	2016	2015
By currency:		
In Euros	322,434	477,882
In foreign currency (Note 29)	75,652	203,307
	398,086	681,189
By type		
Demand deposits:		
Correspondent bank accounts	171,706	325,285
Deposits	198,610	133,405
Other accounts	4,311	3,260
	374,627	461,950
Time deposits	23,459	219,239
	398,086	681,189

Time deposits are deposits with an original term of more than one working day.

The breakdown by maturity (from the balance sheet) date of the time deposits re-



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corded in this caption of the accompanying consolidated balance sheets, excluding the allowance for credit losses, is as follows:

	Thousands of Euros	
	2016	2015
Up to 1 month	23,459	219,050
From 3 months to 1 year	-	189
	23,459	219,239

As of December 31, 2016 and 2015, there were no past-due balances or balance with no specified maturity.

The movement of the allowance for credit losses, which corresponds basically to the general provision, for the years 2016 and 2015 was as follows:

	Thousands of Euros	
	2016	2015
Opening balance	96	342
Add:		
Provisions to allowance	115	113
Less:		
Allowance recovered	(94)	(359)
Closing balance	117	96

Under current regulations, this general allowance for credit losses is considered as equity for the purpose of calculating the capital ratio.



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7. LENDINGS

The breakdown of the balance of this asset caption in the accompanying consolidated balance sheets, by currency and sector, excluding the allowance for credit losses, is as follows:

	Thousands of Euros	
	2016	2015
By currency:		
In Euros	974,344	992,030
In foreign currency (Note 29)	56,574	63,599
	1,030,918	1,055,629
By sectors:		
Andorran public sector:		
Central government	61,764	62,549
Local government	25,593	28,578
Other	6,581	7,258
	93,938	98,385
Private sector	936,980	957,244
	1,030,918	1,055,629

The detail of the balance of this caption by type of collateral and degree of risk, excluding the allowance for credit losses, is as follows:

	Thousands of Euros	
	2016	2015
By type of collateral:		
Secured:		
Mortgage	505,973	505,462
Cash	1,441	3,286
Securities	250,238	246,110
	757,652	754,858
Unsecured	273,266	300,771
	1,030,918	1,055,629
By degree of risk:		
Normal	988,613	1,003,961
Past due	1,330	1,863
Doubtful	40,975	49,805
	1,030,918	1,055,629

Among the doubtful assets, a total sum of €37,863 thousand and €49,277 thousand, as of December 31, 2016 and 2015 respectively, were secured.



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The detail by maturity of the balance of this caption of the accompanying consolidated balance sheets, excluding the allowance for credit losses, is as follows:

	Thousands of Euros	
	2016	2015
Past due and doubtful	42,305	51,668
Up to 1 month	53,046	60,336
From 1 month to 3 months	68,605	120,500
From 3 months to 1 year	263,996	240,234
From 1 year to 5 years	317,484	272,760
Over 5 years	258,222	293,271
No specified maturity	27,260	16,860
	1,030,918	1,055,629

The variation of the allowance in 2016 and 2015 were as follows:

	Thousands of Euros	
	2016	2015
Opening balance	33,752	26,957
Add:		
Provisions to allowance	8,648	11,298
Less:		
Allowance application	(12,277)	(389)
Allowance recovered	(3,718)	(4,114)
Closing balance	26,405	33,752

The allowance for credit losses is composed by a specific provision established over an individual basis and by a general provision (see Note 3-e) as follows:

	Thousands of Euros	
	2016	2015
Specific provision	21,766	29,202
General banking provision	4,639	4,550
	26,405	33,752

The balance of "Provisions for credit losses net of recoveries" in the accompanying consolidated income statements relates mainly to changes in the allowance for credit losses, shown in the preceding table, plus net additions to the general allowance for financial intermediaries and investment securities (see Notes 3-e and 3-g).



8. INVESTMENT SECURITIES

The breakdown of the “Investment Securities” asset caption in the accompanying consolidated balance sheets as of December 31, 2016 and 2015, by type of security and listing status, excluding the allowance for credit losses and the security price fluctuation allowance, is as follows:

	Thousands of Euros	
	2016	2015
By type:		
Trading securities:		
Debentures and other fixed-income securities	178,015	88,150
Investment funds	22,298	52,694
Common stocks and other equity securities	4,432	3,035
	204,745	143,879
Available-for-sale securities:		
Debentures and other fixed-income securities	40,858	24,056
Investment funds	15,145	13,344
Common stocks and other equity securities	3,872	4,562
	59,875	41,962
Held-to-maturity securities:		
Debentures and other fixed-income securities	321,414	352,505
Long-term securities:		
Investments in Group companies	11,720	8,087
Other investments	65,204	151,865
	76,924	159,952
	662,958	698,298
By listing status:		
Listed	474,738	510,421
Unlisted	188,220	187,877
	662,958	698,298

The cost value of the trading portfolio was as of December 31, 2016 and 2015, €205,156 and €145,162 thousand respectively.

The market value of the available-for-sale portfolio as of December 31, 2016 and 2015 does not differ significantly from its book value. The market value of the held-to-maturity investment portfolio as of December 31, 2016 and 2015 is €327,684 thousand and €351,647 thousand, respectively.

At December 30, 2013 the Group acquired preferred shares in Estació de Muntanya Arinsal-Pal (EMAP) for €4,487 thousand. The nominal amount of the issue was used to repay a loan granted to EMAP for the same amount. These shares are perpetual, subordinated and convertible from 30 December 2027, at the discretion of EMAP, into newly issued ordinary shares. During 2016, 27,616 preference shares were redeemed for a total amount of €690 thousand. The aforementioned repayment has



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been made at the par value of the preference shares, without having generated any results for the year 2016. These investments are recorded at December 31, 2016 under “Common stocks and other equity securities” on the asset side of the accompanying consolidated balance sheet.

During 2016 and 2015 the Group sold securities initially recorded in held-to-maturity portfolio for a total amount of €11,311 and €166,603 thousand, respectively. The realized gain resulting from this transaction was €38 and €7,630 thousand, respectively. The accumulated amount on the liabilities side of the attached consolidated balance sheets totaled €548 and €477 thousand at December 31, 2016 and 2015, respectively (see Note 19).

The breakdown by maturity from the balance sheet date of the “Debentures and Other Fixed-Income Securities” caption is as follows:

	Thousands of Euros	
	2016	2015
Up to 3 months	134,632	226,890
From 3 months to 1 year	115,647	66,433
From 1 year to 5 year	150,745	89,115
More than 5 years	139,263	82,273
	540,287	464,711

There were no past-due balances as of December 31, 2016 and 2015.

The caption “Debentures and other fixed-income securities” as of December 31, 2016 and 2015 is mainly composed by debt securities issued by public administrations and banking institutions from OECD countries.

The caption “Investment funds” as of December 31, 2016 and 2015 consists of investments in investment funds managed directly or indirectly by the Group.

The “Investments in Group Companies” caption relates to shares in Mora Assegurances, SAU, a company consolidated by the equity method.



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The detail of the balance of "Other Investments" as of December 31, 2016, is as follows:

Thousands of Euros								
Company	Location	Line of Business	Percentage of ownership ⁽¹⁾	Capital Stock	Profit for the year	Reserves	Total Equity	Book Value
SICAV Amura (Onix) (*)	Andorra	Investment Society	100%	20,300	(790)	(102)	19,408	19,314
SICAV Amura (Emerald) (*)	Andorra	Investment Society	100%	10,064	(9)	(20)	10,035	10,003
SICAV Rocanegra (***)	Andorra	Investment Society	100%	1,005	(3,498)	4,060	1,567	994
Serveis i Mitjans de Pagament XXI, SA (**)	Andorra	Means of payment	20%	60	29	153	242	50
Amura Capital Turquoise, SA (*) (****)	Luxembourg	Investment Society	100%	43	-	-	43	29,271
Others	Andorra	Investment Society	Various	10,999	81	830	11,910	5,572
				42,471	(4,187)	4,921	43,205	65,204

(*) Shares for which there exists a marketing plan.

(**) Shares with significant influence and permanence character.

(***) Company in liquidation.

(****) The Book Value includes a credit of 26 million pounds awarded by Mora Banc Grup, SA.

(1) Direct and indirect participation percentage.

The figures relating to the companies that composed that caption as of December 31, 2015, were as follows:

Thousands of Euros								
Company	Location	Line of Business	Percentage of ownership ⁽¹⁾	Capital Stock	Profit for the Year	Reserves	Total equity Value	Book Value (***)
SICAV Amura (Onix) (*)	Andorra	Investment Society	100%	20,100	(55)	(47)	19,998	19,200
SICAV Amura (Emerald) (*)	Andorra	Investment Society	100%	10,064	(10)	(10)	10,044	10,003
SICAV Amura (Aquamarine) (*)	Andorra	Investment Society	100%	700	(43)	40	697	-
SICAV Rocanegra (*)	Andorra	Investment Society	100%	15,005	1,739	2,321	19,065	14,994
Inmobiliaria Colonial, SA (**)	Spain	Real Estate	3.66%	797,214	415,413	624,792	1,837,419	67,258
Serveis i Mitjans de Pagament XXI, SA (**)	Andorra	Means of payment	20%	60	80	62	202	41
Amura Capital Turquoise, SA (*) (****)	Luxembourg	Investment Society	100%	13	-	-	13	33,862
Others	Andorra	Investment Societies	Various	11,114	267	727	12,108	5,707
				854,270	417,391	627,885	1,899,546	151,065

(*) Shares for which there exists a marketing plan.

(**) Shares with significant influence and permanence character.

(***) Net of fund fluctuation.

(****) The Book Value includes a credit of 25 million pounds awarded by Mora Banc Grup, SA.

(1) Direct and indirect participation percentage.



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The Group holds in its portfolio 100% of the shares of certain SICAVs not considering them in the consolidation process, since they are for specific projects which the Group has intention to sell it.

On July 12, 2016, following the sale of the only investment it held, Rocanegra SICAV has made a return of capital to Mora Banc Grup, SA, for a total of €14,000 thousand, paid in full. The aforementioned return of capital caused the decrease in value of the investment kept by Mora Banc Grup, S.A. in the same amount.

During 2016, the Turquoise compartment of Amura SICAV was liquidated and the Group has sold all shares of Inmobiliaria Colonial, S.A. (See Note 2-d).

As of December 31, 2016 and 2015, none of the investments in the trading portfolio represent more than 5% of capital stock (qualified holdings).

The variation of the security price fluctuation allowance in 2016 and 2015 was as follows:

	Thousands of Euros	
	2016	2015
Opening balance	2,045	-
Add:		
Provision to allowance	-	2,045
Less:		
Allowances recovered	(2,045)	-
Closing balance	-	2,045

The variation of the generic provision in 2016 and 2015 was as follows:

	Thousands of Euros	
	2016	2015
Opening balance	550	1,448
Add:		
Provision to allowance	894	763
Less:		
Allowances recovered	(743)	(1,661)
Closing balance	701	550



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9. CONSOLIDATED GOODWILL

At December 31, 2016, the total amount of the caption "Consolidated goodwill" is due to the acquisition of the company Mora Wealth Management LLC (see Notes 2-d and 4).

The variations of consolidated goodwill in 2016 and 2015 are as follows:

2016	Thousands of Euros			
	Opening Balance	Additions	Retirements	Closing Balance
Consolidated goodwill:				
Cost	9,179	-	(5,757)	3,422
Accumulated amortization	-	-	-	-
Closing balance	9,179	-	(5,757)	3,422

2015	Thousands of Euros			
	Opening Balance	Additions	Retirements	Closing Balance
Consolidated goodwill:				
Cost	9,771	-	(592)	9,179
Accumulated amortization	-	-	-	-
Closing balance	9,771	-	(592)	9,179

During the year 2016 due to the sale of all the shares of Inmobiliaria Colonial, S.A. (see Note 2-d) the goodwill arising from the acquisition of the aforementioned shares has been unsubscribed.

The Group estimates that there is no indication of impairment of first-time consolidation differences at December 31, 2016.



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10. INTANGIBLE ASSETS AND DEFERRED CHARGES

The variations in 2016 and 2015 in intangible assets and deferred charges accounts and in the related accumulated amortization were as follows:

	Thousands of Euros					
2016	Opening Balance	Additions	Retirements	Translation differences	Transfers and others	Closing Balance
Software:						
Cost	84,593	8,219	(5)	1	(5)	92,803
Accumulated amortization	(76,525)	(4,095)	5	(1)	-	(80,616)
	8,068	4,124	-	-	(5)	12,187
Goodwill:						
Cost	800	-	-	-	-	800
Accumulated amortization	-	-	-	-	-	-
	800	-	-	-	-	800
Deferral expenses:						
Cost	7,928	1	(104)	-	-	7,825
Accumulated amortization	(6,592)	(432)	12	-	-	(7,012)
	1,336	(431)	(92)	-	-	813
Total	10,204	3,693	(92)	-	(5)	13,800

	Thousands of Euros					
2015	Opening Balance	Additions	Retirements	Translation differences	Transfers and others	Closing Balance
Software:						
Cost	79,129	5,469	(11)	6	-	84,593
Accumulated amortization	(71,659)	(4,864)	3	(5)	-	(76,525)
	7,470	605	(8)	1	-	8,068
Goodwill:						
Cost	800	-	-	-	-	800
Accumulated amortization	-	-	-	-	-	-
	800	-	-	-	-	800
Deferral expenses:						
Cost	6,895	1,094	(42)	-	(19)	7,928
Accumulated amortization	(6,419)	(204)	28	-	3	(6,592)
	476	890	(14)	-	(16)	1,336
Total	8,746	1,495	(22)	1	(16)	10,204

The Group has performed an impairment test of the goodwill and considers that there is no evidence of impairment thereof.



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11. PROPERTY AND EQUIPMENT

The variations in 2016 and 2015 in property and equipment accounts and in the related accumulated amortization were as follows:

Thousands of Euros						
ASSETS ASSIGNED TO OPERATIONS IN 2016	Opening	Additions	Retirements	Translation differences	Transfers	Closing
Land:						
Cost	23,149	-	-	-	-	23,149
Buildings:						
Cost	24,987	-	-	-	-	24,987
Accumulated amortization	(7,450)	(489)	-	-	-	(7,939)
	17,537	(489)	-	-	-	17,048
Furniture:						
Cost	5,123	122	(29)	13	-	5,229
Accumulated amortization	(3,482)	(316)	28	(9)	-	(3,779)
	1,641	(194)	(1)	4	-	1,450
Machinery and fixtures:						
Cost	26,527	412	(1,156)	15	-	25,798
Accumulated amortization	(18,517)	(1,632)	737	(14)	-	(19,426)
	8,010	(1,220)	(419)	1	-	6,372
Hardware:						
Cost	16,001	540	(115)	14	5	16,445
Accumulated amortization	(14,591)	(870)	120	(14)	-	(15,355)
	1,410	(330)	5	-	5	1,090
Vehicles:						
Cost	389	-	-	-	-	389
Accumulated amortization	(307)	(33)	-	-	-	(340)
	82	(33)	-	-	-	49
Construction in progress:						
Cost	-	-	-	-	-	-
Accumulated amortization	-	-	-	-	-	-
	-	-	-	-	-	-
Total	51,829	(2,266)	(415)	5	5	49,158

Thousands of Euros					
ASSETS NOT ASSIGNED TO OPERATIONS IN 2016	Opening Balance	Additions	Retirements	Transfers and other	Closing Balance
Buildings and Land:					
Cost	64,742	304	(3,790)	-	61,256
Allowance for decline in value	(11,530)	(968)	407	-	(12,091)
Total	53,212	(664)	(3,383)	-	49,165



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Thousands of Euros

ASSETS ASSIGNED TO OPERATIONS IN 2015	Opening	Additions	Retirements	Translation differences	Transfers	Closing
Land:						
Cost	23,149	-	-	-	-	23,149
Buildings:						
Cost	24,987	-	-	-	-	24,987
Accumulated amortization	(6,961)	(489)	-	-	-	(7,450)
	18,026	(489)	-	-	-	17,537
Furniture:						
Cost	4,953	201	(110)	57	22	5,123
Accumulated amortization	(3,259)	(297)	101	(27)	-	(3,482)
	1,694	(96)	(9)	30	22	1,641
Machinery and fixtures:						
Cost	25,062	1,155	(225)	78	457	26,527
Accumulated amortization	(16,914)	(1,701)	139	(41)	-	(18,517)
	8,148	(546)	(86)	37	457	8,010
Hardware:						
Cost	15,171	808	(42)	55	9	16,001
Accumulated amortization	(13,725)	(852)	39	(50)	(3)	(14,591)
	1,446	(44)	(3)	5	6	1,410
Vehicles:						
Cost	424	-	(35)	-	-	389
Accumulated amortization	(281)	(45)	19	-	-	(307)
	143	(45)	(16)	-	-	82
Construction in progress:						
Cost	2	467	-	-	(469)	-
Accumulated amortization	-	-	-	-	-	-
	2	467	-	-	(469)	-
Total	52,608	(753)	(114)	72	16	51,829

Thousands of Euros

ASSETS NOT ASSIGNED TO OPERATIONS IN 2015	Opening Balance	Additions	Retirements	Transfers and other	Closing Balance
Buildings and Land:					
Cost	64,443	1,565	(1,266)	-	64,742
Allowance for decline in value	(9,583)	(1,947)	-	-	(11,530)
Total	54,860	(382)	(1,266)	-	53,212

No interest expenses relating to property and equipment were capitalized in 2016 or 2015.

Assets not assigned to operations include foreclosed assets acquired for unpaid loans for an amount of €40,345 and €44,392 thousands as of December 31, 2016 and 2015, respectively.

During 2016 the Group has increased the allowance for decline in value of foreclosed assets in €968 thousand, due to the depreciation originated by updating valuations of the properties and application of the depreciation schedule to the foreclosed assets (see Note 3-i).

During 2016 assets not assigned to operations have been sold, registered at cost of €3,790 thousand, with an associated provision of €407 thousand, which generated losses amounting €522 thousand recorded under “Extraordinary (loss)/income - losses on disposal or retirement of fixed assets” in the consolidated income statement, out of which €98 thousand were already registered in the closing balance of 2015 (see Note 22).

At December 31, 2016, the value of the foreclosed properties at market price exceeded their book value, according to the valuations requested by the Group, with a maximum of 2 years.

12. ACCRUAL ACCOUNTS - ASSETS

The breakdown of the balance of this asset caption in the accompanying consolidated balance sheets, at December 31, 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Uncollected accrued interests		
Interests	11,054	8,439
Commissions	727	2,515
Others	6	37
	11,787	10,991
Prepaid expenses	5,601	5,700
	17,388	16,691

13. DUE TO INAF

The detail of demand and time deposits in this liability caption of the accompanying consolidated balance sheets by currency and type is as follows:

	Thousands of Euros	
	2016	2015
By currency:		
In Euros	6,021	3,033
In foreign currency (Note 29)	13,830	13,361
	19,851	16,394
By type:		
Demand deposits	18,679	15,222
Time deposits	1,172	1,172
	19,851	16,394



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The breakdown by maturity from the balance sheet date of the time deposits recorded in this caption of the accompanying consolidated balance sheets is as follows:

	Thousands of Euros	
	2016	2015
From 3 months to 1 year	1,172	1,172
	1,172	1,172

14. DUE TO FINANCIAL INTERMEDIARIES

The breakdown of the balance of the “Banks and Credit Institutions” liability caption in the accompanying consolidated balance sheets, by currency and type, is as follows:

	Thousands of Euros	
	2016	2015
By currency:		
In Euros	14,793	43,554
In foreign currency (Note 29)	497	1,129
	15,290	44,683
By type:		
Demand deposits:		
Correspondent bank accounts	6,490	36,258
Time deposits	8,800	8,425
	15,290	44,683

The breakdown by maturity from the balance sheet date of the time deposits recorded in this caption of the accompanying consolidated balance sheets is as follows:

	Thousands of Euros	
	2016	2015
Up to 1 month	8,800	8,425
	8,800	8,425



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15. CUSTOMER DEPOSITS

The detail of the balance of this caption of the accompanying consolidated balance sheets, by currency and type, is as follows:

	Thousands of Euros	
	2016	2015
By currency:		
In Euros	1,444,039	1,657,181
In foreign currency (Note 29)	362,355	443,979
	1,806,394	2,101,160
By type:		
Demand deposits:		
Checking accounts	1,254,709	1,373,157
Saving accounts	89,439	84,916
	1,344,148	1,458,073
Time deposits		
Certificates of deposits	461,938	642,778
Other	308	309
	462,246	643,087
	1,806,394	2,101,160

The breakdown by maturity from the balance sheet date of the time deposits recorded in this caption of the accompanying consolidated balance sheets is as follows:

	Thousands of Euros	
	2016	2015
Up to 1 month	39,690	65,284
From 1 month to 3 months	87,041	96,271
From 3 months to 1 year	292,778	465,640
From 1 year to 5 years	42,737	15,892
	462,246	643,087

There were no balance with no specified maturity as of December 31, 2016 and 2015.



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16. PROVISIONS FOR CONTINGENCIES AND EXPENSES

Provisions for pensions and similar obligations

The provisions recorded in this liability caption of the accompanying consolidated balance sheets relate to the pension allowance set up for employees (see Note 3-k).

The variations in 2016 and 2015 in the balance of this caption were as follows:

	Thousands of Euros	
	2016	2015
Opening balance	7,015	7,699
Add:		
Period provision charged against personnel expenses	-	6
Extraordinary provision charged against income (Note 22)	391	-
Return on assets assigned to the allowance (financial cost)	138	146
Less:		
Funds recovery	-	(297)
Allowance application	(514)	(539)
Closing balance	7,030	7,015

Provisions for futures

The variations in 2016 and 2015 in "Provisions for futures" in the liabilities caption in the accompanying consolidated balance sheet were as follows (see Note 3-l).

	Thousands of Euros	
	2016	2015
Opening balance	428	557
Add:		
Provision to allowance	201	-
Less:		
Funds recovery	-	(129)
Closing balance	629	428

Provisions for litigations

The variations in 2016 in "Provisions for litigation" in the liabilities caption of the accompanying consolidated balance sheet were as follows (see Note 3-m):

	Thousands of Euros
	2016
Opening balance	-
Add:	
Provision to allowance	1,400
Closing balance	1,400



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This account mainly includes provisions to cover risks associated to losses that may arise from third party claims which are being processed.

Other provisions

The variations in 2016 and 2015 in “Other Provisions” in the liabilities caption in the accompanying consolidated balance sheet were as follows:

	Thousands of Euros	
	2016	2015
Opening balance	4,822	4,646
Add:		
Provision to allowance	11,345	678
Less:		
Funds recovery	(903)	-
Allowance application	(554)	(502)
Closing balance	14,710	4,822

“Other provisions” includes the provisions needed regarding early retirements commitments (see Note 3-k) as per December 31, 2016 and 2015, which amounted to €11,307 thousand and €1,731 thousand, respectively.

The residual provision covers other risks related to the activity of the Group on financial distribution and intermediation.

17. GENERAL RISK ALLOWANCE

The amount of the provisions recorded in this liability caption of the accompanying consolidated balance sheets relates to the allowance that the Group has set aside, for conservative reasons, by reference to the risks inherent to banking and financial activities (see Nota 3-n).

Under current regulations, this general allowance is considered as equity for the purpose of calculating the capital ratio.

The variations in 2016 and 2015 in the balance of this caption were as follows:

	Thousands of Euros	
	2016	2015
Opening balance	12,470	2,981
Add:		
Provision to allowance	-	9,489
Less:		
Funds recovery	(12,470)	-
Closing balance	-	12,470



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18. SUBORDINATED DEBT

On July 28, 2006, BIBM Preferents Ltd (see Note 2-d) issued non-voting preferred stocks in the amount of €60,000 thousand. These preferred stocks have no specified maturity; however, the issuer is entitled to early terminate them in advance each year, subject to the prior approval of INAF. The preferred stock carries a dividend of 5% per year, which is fixed for the first three years after issue and variable yearly thereafter in line with the 10-year CMS (Constant Maturity Swap) rate plus 30 basis points and with a maximum rate of 8% per year.

Mora Banc Grup, SA owns 100% of the capital stock of BIBM Preferents Ltd. To underwrite the abovementioned issue, Mora Banc Grup, SA has issued an irrevocable subordinated guarantee in favor of and for the benefit of the preferred stock subscribers.

Previously, on May 31, 2006, the Board of Directors of INAF gave authorization for the abovementioned issue of preferred stocks to be considered as equity for the purpose of calculating the Group's consolidated capital ratio.

In 2016 Mora Banc Grup, SA purchased preferred shares of the issue launched by BIBM Preferents Ltd for €23,058 thousand and sold preferred shares totaling €11,930 thousand, thereby resulting in the amount of subordinated debt recognised under "Subordinated debt" in the accompanying consolidated balance sheet being reduced by the same net amount, giving rise to a balance of €41,088 thousand at December 31, 2016.

19. ACCRUAL ACCOUNTS - LIABILITIES

The detail in this liability caption of the accompanying consolidated balance sheets as of December 31, 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Unpaid accrued expenses		
Interests	3,148	3,415
Commissions	13	244
Others	13,627	11,862
	16,788	15,521
Unearned revenue		
Interests	1,348	520
Commissions	10	16
Others	548	577
	1,906	1,113
	18,694	16,634



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20. FISCAL SITUATION

The breakdown of tax assets and liabilities at December 31, 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Assets – Taxes		
Withholdings and payments on account	1,256	1,365
Liabilities – Taxes		
Collection accounts	4,664	6,026

The caption “Withholdings and payments on account” includes payments on account presented in 2016 related to Income tax, taxes paid abroad and Indirect tax, amounting €667 thousand, €30 thousand and €559 thousand, respectively. Additionally, the caption “Collection accounts” includes the accrued expenses corresponding to Income tax amounting €970 thousand. This caption also includes withholdings of savings income tax, general indirect tax, income tax on fiscal nonresidents and the personal income tax amounting €756 thousand, €2,299 thousand, €212 thousand and €427 thousands, respectively.

Given that the company Mora Assegurances, SAU is consolidated through equity method, the asset (payments on account) and liabilities (accrued income tax) amounts, which arise to €217 thousand and €384 thousand respectively, are not recorded in the corresponding captions of the consolidated balance sheet. Likewise, expense of Mora Assegurances, SAU is recorded in income tax expense of the Group.

The Group’s Directors and tax advisors consider that, in the event of a tax inspection, no significant tax contingencies would arise as a result of varying interpretations of the tax legislation applicable to the Group’s transactions.

Income tax calculation

Given the different treatment of tax law provides for certain transactions, the accounting profit differs from the Group’s consolidated tax base.



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The details of the tax under the consolidated income statement is as follows:

	Thousands of Euros	
	2016	2015
Local corporation tax	1,355	1,875
Tax on foreign companies	576	680
Corporation tax	1,931	2,555

Provided below a reconciliation between the results for the year and the tax base of financial years 2016 and 2015:

	Thousands of Euros	
	2016	2015
Profit attributable to the group before taxes (*)	37,000	51,157
Permanent differences	(5,705)	(13,289)
Tax base	31,295	37,868
Tax rate	10%	10%
Income tax fee	3,129	3,787
Deductions and bonuses	(1,775)	(1,912)
Income tax payable	1,354	1,875
Payments on account	(884)	(1,242)
Differential fee	470	633

(*) This amount corresponds to the sum of the individual financial results of the Group companies subject to the Law on Tax of Andorra.

The permanent differences relate to items that have no income tax expense or character. The breakdown as of December 31, 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Elimination of double taxation for profit sharing	(11,350)	(19,050)
Provisions for loan losses of group companies	(6,548)	2,374
Provisions for liabilities and Pension Funds	10,660	1,795
Local tax on income from tenants, establishment of commercial, business and professional activity	776	763
Elimination of double internal and international taxation	673	777
Donations and gifts	84	50
Others	-	2
Total permanent differences	(5,705)	(13,289)



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The detail of deductions and credits that apply to share as of December 31, 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
New investments in fixed assets assigned to operations in Andorra	(324)	(327)
Elimination of double international taxation	(673)	(777)
Local tax on income from tenants, establishment of commercial, business and professional activity	(776)	(763)
Creation of jobs in Andorra	(2)	(45)
Total deductions and credits	(1,775)	(1,912)

At December 31, 2016 the Group had no deferred tax assets or liabilities, nor unused tax loss carry forwards.

21. EQUITY

The breakdown of the accounts making up the Group's equity in 2016 and 2015 and of the variations therein is as follows:

	Capital Stock	Legal Reserve	Guarantee Reserves	Voluntary reserve	Consolidation Reserves and Conversion Differences	Profit for the Year	Interim Dividends	Final Dividends	Total
Balance at December 31, 2014	42,407	14,913	20,817	111,296	102,463	40,187	(25,000)	-	307,083
Distribution of 2014 income	-	-	1,134	1,085	7,968	(40,187)	25,000	5,000	-
Final dividend	-	-	-	-	-	-	-	(5,000)	(5,000)
Interim dividend (Note 4)	-	-	-	-	-	-	(25,000)	-	(25,000)
Translation differences	-	-	-	-	(2,696)	-	-	-	(2,696)
2015 income	-	-	-	-	-	34,885	-	-	34,885
Other (Note 5)	-	-	4,639	(5,154)	-	-	-	-	(515)
Balance at December 31, 2015	42,407	14,913	26,590	107,227	107,735	34,885	(25,000)	-	308,757
Distribution of 2015 income	-	-	1,303	1,075	507	(34,885)	25,000	7,000	-
Final dividend	-	-	-	-	-	-	-	(7,000)	(7,000)
Interim dividend (Note 4)	-	-	-	-	-	-	(13,800)	-	(13,800)
Translation differences	-	-	-	-	(290)	-	-	-	(290)
2016 income	-	-	-	-	-	23,006	-	-	23,006
Other (Note 5)	-	-	(4,639)	-	-	-	-	-	(4,639)
Balance at December 31, 2016	42,407	14,913	23,254	108,302	107,952	23,006	(13,800)	-	306,034

Capital stock

The capital stock shown in these consolidated financial statements relates to Mora Banc Grup, SA, and is composed by 7,056,000 fully subscribed and paid shares with a par value of €6.01 each, owned by an Andorran family group.



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Legal reserves

Under the Companies' Law 20/2007 of October 18, public companies must deduct 10% of profit each year and transfer it to the legal reserve until this reserve reaches 20% of the capital stock. As of December 31, 2016 the legal reserve of the Banks and Mora Gestió d'Actius, SAU, was totally constituted.

Guarantee reserves

On February 2, 2011 the General Council of Andorra approved the law on the establishment of a banking deposit guarantee system for banking institutions, in order to guarantee the return of cash deposits and security deposits in banking institutions which are members of this system. This law derogates all other applicable standards related banking deposits guarantees for banking institutions.

Moreover, established by the First Additional Provision of Law 8/2015, the Andorran banks must make an extraordinary initial contribution to the FAREB amounting €30,000 thousand, of which the Group is involved in €5,154 thousand. As mentioned in INAF's 244/15 statement, the Group set up a restricted reserve for the whole of this extraordinary initial contribution, charged to voluntary reserves. During 2016 the Group has coped with the first payment in respect of such extraordinary contribution amounting to €4,639 thousand charged to guarantee reserves.

In accordance with the law, the amount of the guarantee reserves established by the Group is €23,044 thousand (see Notes 5 and 30).

The guarantee reserves also include €210 thousand from Mora Gestió d'Actius, SAU, in accordance with the obligation to keep a minimum equity reserve to guarantee the operational obligations of non-banking entities included in the financial system (see Note 5).

Legal reserves and guarantee reserves maintained by Mora Banc, SAU and Mora Gestió d'Actius, SAU have been deducted from voluntary reserves and consolidation reserves and are presented under the caption "Legal reserves" and "Guarantee reserves", respectively, so that it can be seen they are non-distributable.

Voluntary reserves

At December 31, 2016, under the caption "Voluntary reserves", the Group has a non-distributable reserve corresponding to the accumulated amortization as of December 31, 2011 of consolidated goodwill, plus the annual allocation for the 10% of its value. Likewise, the non-amortized amount of deferred charges is incorporated. As of December 31, 2016 and 2015, non-distributable reserves amounted to €4,960 thousand and €4,566 thousand, respectively.



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Consolidation reserves

The consolidation reserves, including conversion differences, correspond to the following companies:

	Thousands of Euros	
	2016	2015
Attributable to the parent company:		
Mora Banc Grup, SA	6,744	-
Attributable to other Group companies:		
Mora Banc, SAU	107,058	106,593
Mora Gestió d'Actius, SAU	3,776	3,763
Mora Assegurances, SAU	1,584	5,816
Mora Wealth Management AG	(6,139)	(5,702)
Mora Wealth Management LLC	(3,974)	(2,883)
Mora WM Securities, LLC	(971)	(1,626)
Serveis i Mitjans de Pagament	29	12
SICAV Amura	(124)	2,830
Mora Asset Management, SA	-	(830)
Mora Wealth Management, SA	(56)	(238)
Amura Capital Turquoise, SARL	25	-
	107,952	107,735

22. EXTRAORDINARY RESULT

The breakdown of the balance of this caption of the accompanying consolidated income statements is as follows:

	Thousands of Euros	
	2016	2015
Losses on disposal or retirement of fixed assets (Note 11)	(551)	(551)
Extraordinary provision/recovery to the pension allowance (Note 16)	(391)	297
Other extraordinary income/loss (Net)	181	(4,817)
	(761)	(5,071)



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23. FINANCIAL DERIVATIVES

The detail of outstanding financial derivatives as of December 31, 2016 and 2015, classified according to the purpose of the contracts, is as follows:

	Thousands of Euros					
	2016			2015		
	Hedge	Trading	Total	Hedge	Trading	Total
Firm transactions:						
Currency sales and purchases	235,969	-	235,969	707,024	-	707,024
Interest-rate swaps	279,900	130,790	410,690	258,590	132,453	391,043
Interest-rate futures	-	7,400	7,400	-	2,972	2,972
Futures	-	5,859	5,859	16,827	-	16,827
	515,869	144,049	659,918	982,441	135,425	1,117,866
Option transactions:						
Securities options	74,408	-	74,408	53,288	6,323	59,611
Interest-rate	2,514	-	2,514	2,915	-	2,915
Currency options	-	-	-	500	-	500
	76,922	-	76,922	56,703	6,323	63,026
Other futures	3,742	10,000	13,742	9,029	-	9,029
	596,533	154,049	750,582	1,048,173	141,748	1,189,921

As of December 31, 2016 and 2015 the Group held transactions contracted in organized markets for a total amount of €13,259 thousand and €23,113 thousand, respectively.

The face value of the existing contracts does not reflect the total risk held by the Group, since the net position to the foregoing transactions of these financial instruments is determined by their composition and/or combination. The open positions in relation to the foregoing transactions do not entail a significant interest-rate, currency or market risk.



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The maturity structure from the balance sheet date of financial derivatives contracts held is as follows:

	Thousands of Euros	
	2016	2015
Currency sales and purchases:		
Up to 1 year	235,969	707,024
	235,969	707,024
Interest-rate swaps		
Up to 1 year	34,890	88,509
From 1 year to 5 years	69,285	37,491
Over 5 years	306,515	265,043
	410,690	391,043
Interest-rate futures:		
Up to 1 year	7,400	2,972
	7,400	2,972
Securities Futures:		
Up to 1 year	5,859	16,827
	5,859	16,827
Securities options:		
Up to 1 year	39,381	41,206
From 1 year to 5 years	35,027	18,405
	74,408	59,611
Interest-rate options:		
Over 5 years	2,514	2,915
	2,514	2,915
Currency options:		
Up to 1 year	-	500
	-	500
Other futures:		
Up to 1 year	922	5,850
From 1 year to 5 years	12,820	3,179
	13,742	9,029
	750,582	1,189,921



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24. THIRD-PARTY SECURITIES AND OTHER ASSETS HELD IN CUSTODY

This account reflects the market value of the securities and other assets deposited by customers and held in custody by the Group. The detail, by type of security, of the balance of this caption in the accompanying consolidated memorandum accounts is as follows:

	Thousands of Euros	
	2016	2015
Common stocks and other equity securities	936,564	1,221,725
Debentures and other fixed-income securities	1,164,574	1,421,576
Securities of investment schemes not managed by the Group	834,367	1,041,776
Securities of investment schemes managed by the Group	1,154,327	1,377,561
Other	46,771	75,157
	4,136,603	5,137,795

25. THIRD-PARTY ASSETS MANAGED BY THE GROUP

The breakdown of third-party resources managed by the Group as of December 31, 2016 and 2015 is as follows:

	Thousands of Euros					
	2016			2015		
CLIENT TYPOLOGY	Held in custody by the Company	Held in custody by third parties	Total	Held in custody by the Company	Held in custody by third parties	Total
Investment funds	960,726	44,040	1,004,766	1,233,214	157,611	1,390,825
Clients with assets under management	571,428	1,796,414	2,367,842	745,741	1,172,213	1,917,954
Others clients	3,256,515	-	3,256,515	3,882,439	-	3,882,439
Total	4,788,669	1,840,454	6,629,123	5,861,394	1,329,824	7,191,218



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26. OTHER MEMORANDUM ACCOUNTS HELD SOLELY FOR ADMINISTRATIVE CONTROL PURPOSES

The breakdown of these captions in the accompanying consolidated memorandum accounts as of December 31, 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Guarantees and commitments received		
Guarantees	1,005,237	964,939
Other memorandum accounts		
Very doubtful assets	33,840	21,075
Own unlisted securities and assets	117,722	77,646
Trusts	242,176	152,120
Other	85,757	93,122
	479,495	343,963
	1,484,732	1,308,902

The caption "Own unlisted securities and assets" includes the unlisted securities and assets already recognized in the consolidated balance sheet under investment securities.

The caption "Trusts" includes not listed securities and assets held in custody for third parties by the Group. These assets are booked for its face value.

The "Other" account includes time deposits with Banks and customers' certificates of deposit arranged with a value date after December 31.

27. ASSETS ASSIGNED AS SECURITY

As of December 31, 2016 and 2015, there were assets assigned as security in the amount of €26,754 thousand and €23,208 thousand, respectively. These amounts relate to investment commitments acquired by the Group and the guarantee required for financial derivatives transactions arranged by the Group with other financial institutions.



28. TRANSACTIONS WITH RELATED PARTIES AND GROUP INSTITUTIONS

Details of balances in the accompanying consolidated financial statements as of December 31, 2016 resulting from transactions between the Group and related parties or Group companies that are not consolidated by the full integration method (see Note 2-d) exceeding 5% of profit for the year (in the case of the income statement) or 10% of shareholders' equity (in the case of the balance sheet) are disclosed below:

	Thousands of Euros
	Investees
Assets:	
Lendings	143
Investment securities	11,720
Accrual accounts	197
Other assets	217
	12,277
Liabilities:	
Creditors: customer deposits	138,549
Accrual accounts	559
	139,108
Memorandum accounts	228,801
Income statement:	
Interest income	-
Interest expense	-
Net service fee	4,397
Other	2,968

All of the balances with investees relate entirely to Mora Assegurances, SAU which is consolidated by the equity method (see Note 2-d).

As of December 31, 2016 there are no transactions with shareholders, other subsidiaries, members of Board of Directors or Management, or with other related parties, exceeding 5% of profit for the year (in the case of the income statement) or 10% of shareholders' equity (in the case of the balance sheet).



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29. RISK MANAGEMENT

Risk management affects all levels of the Group. The ultimate responsibility relies on the Board which delegates to the Risk Committee as the highest executive body of risk management of the Company. This committee meets at least once a month and its main functions are:

- Advises the Board of Directors about the global propensity to risk, current and future, of the company and its strategy in this area as well as monitor the implementation of the aforementioned, to all parts of the Group.
- Propose a risk policy to the Board of the Group.
- Regular review of the market exposure of key customers, economic sectors, geographical areas and type of risk.
- Examine the processes of information and control of risks of the whole Group as well as information systems and indicators.
- Authorize and sanction any credit facilities which cannot be approved on lower levels.
- Inform the Board of Directors about the authorized operations.

MoraBanc has a Risk Control and Management Model based on three lines of defense.

The first line of defense consists of the business area, as it is the responsible for taking and generating the risk exposure. This exposure must comply with the limits set by the risk profile approved by the entity's internal Board of Directors.

The second line is formed both by the Risk Area and Compliance. It is in this second line of defense on which the effective risk control falls on guaranteeing that the established limits are met.

Finally, the third line of defense is formed by the internal audit department, in charge of evaluating and assuring the correct implementation of policies and approved limits.

Credit risk

The main risks held by the Group as of December 31, 2016 and 2015, are concentrated in the "Financial Intermediaries", "Lendings" and "Investment Securities" asset captions in the accompanying consolidated balance sheets.

Credit risk is the possibility of loss stemming from the total or partial failure of our customers or counterparties to meet their financial obligations to the Group.



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With the aim of reducing the credit risk associated with transactions with other financial institutions, the Group pursues a conservative policy with regard to the assessment and diversification of counterparties and exposition limits, and requires, among others, a minimum rating from *rating* agencies reports, *Credit Default Swap (CDS)* *senior* levels and risk of the settling country. Risk control is performed using an integrated, real-time system that enables the Bank to know at any time the unused exposure limit with respect to any counterparty, by product and maturity.

All of the derivatives exposure is to financial institutions with which transactions are entered into under *netting* and collateral arrangements.

Regarding the risk arising from customer loans, the Group has a unit dedicated exclusively to the admission and monitoring of credit risk with customers. Throughout the process both the business areas and Senior Management are involved, as well as, the Risk Department and Legal Services. Within this unit we highlight:

- Risk Admission: responsible for analyzing risk operations that exceed the established delegation to the business areas and are responsible for passing on the importance of having well-documented records, that reflect a good knowledge of the customer. They study the operations on the basis of creditworthiness and the ability of the client to return the debt. Once this analysis is done and it is understood that the generation of resources is sufficient enough to cover the obligations towards the Group, the given guarantees are evaluated so that they suit the operational risk.
- Risk Monitoring: responsible for the monitoring of defaults, shortages or excesses and controlling that guarantees, cash and / or securities received from operations are sufficient. One of its main functions, along with the business area, is to anticipate and prevent customers from reaching a situation of irregularity. Once the client is in default or in such situation, appropriate measures will be taken in collaboration with Risk Admission.
- Recovery: responsible for ensuring the recovery of the debt, jointly with the business area and Legal Service for those clients in default.

Default and / or Irregular Investment Committees where Senior Management, the business area and Legal Services meet, take place monthly.

The accounting policy for hedging against credit risk on the loan portfolio is described in Note 3-e.

Country risk

Country-risk is a credit risk component that includes all cross-border credit transactions, whether due to usual trade circumstances or financial investments.



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Country-risk management principles follow the principle of maximum prudence, so exposures that do not fall within Group 0 or 1 in the OECD country-risk classification are not generally authorized.

Market risk

The Group has a Market Risk Management Unit. One of the basic functions of this unit is to measure, control and monitor market risks, and evaluate exposure and compliance with the limits assigned. It also assesses implements and maintains the computer tools used.

These functions are supervised by the Asset and Liability Committee (ALCO), which is made up of members of the Group's general management, among others. The committee meets up at least once a month and its task is to analyze the positions giving rise to market risk, and define the strategies that the Group must follow. The Banks' Boards of Directors are periodically informed of the level of risk held and establish maximum absolute exposure levels for this risk.

Estimating potential losses in adverse market scenarios is the key factor for measuring market risk. Therefore, the historical simulation method for calculating Value at Risk (VaR) is used.

The VaR methodology ("Value at Risk") measures the maximum loss in the value of a portfolio that may occur as a result of changes in the market's general conditions, reflecting changes in these four risk factors: interest rate risk, exchange rate risk, credit risk and price risk in equity securities and commodities. Implicitly, it is also used for calculating correlation and volatility risk.

VaR is the basic methodology to measure and control the market risk of those positions within a portfolio which are subject to mark-to-market.

In Grup MoraBanc's case, the time horizon used to calculate VaR is a day, since trading transactions take place in very liquid markets.

Grup Mora Banc measures market risk through different VaR methodologies (Historical, Parametric and Monte Carlo) for all its trading portfolio. Historical VaR is the one chosen by the Group to establish its controls.

The Value at Risk for Historical simulation presents some advantages within risk measurement as it is based on market movements that have taken place in the past and, therefore, avoids speculating about the behavior of market factors, along with their correlations. Historical VaR is calculated through a time window of 250 days of data, assuming even weights for all historical observations. Currently, this is calculated on a daily basis.

The current model of market risk limits consists of a scheme of VaR limits and sub-limits, as well as the 'stop loss' of some of the trading activities.



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Since Historical VaR simulation presents some limitations - the high sensitivity of the window data used and the inability to capture plausible events that have not taken place within the historical range used - the Group mitigates them through:

1. Stress Test: Estimates of the impact of extreme market movements on the held positions. The purpose of stress testing, which can be considered as a complementary tool for measuring market risk through the VaR in a "normal" situation, is to identify the extent of losses in "irregular" situations or with a very low probability, in order to assess the possible negative impact on the value of the portfolio of the company

2. Tail Risk: In addition to informing the VaR at a 99% within a time horizon of one day, within the Historical VaR methodology the following concepts have been incorporated: *Shortfall VaR* and *Máximum VaR*, which refer to the analysis of the magnitude of the losses in a critical region. In other words, the analysis of the volume of losses within a very low probability (less than a 1% frequency). We can define:

- a. *Shortfall VaR*: represents the expected loss when the loss exceeds the VaR.
- b. *Máximum loss*: VaR represents the maximum, ie, the worst scenario (worst-case), which corresponds to the worst stage of the distribution.

Finally, there is a *Backtesting* of results, which is the key point within the analysis since it allows us to validate all VaR calculations (ex-ante measurements) and to conclude about the over or undervaluation of risk.

The *ex-post* or *Backtesting* validation methodologies are based on the comparison of regular results in a portfolio with risk measures from the established measurement system. A VaR model will be considered valid whenever the results of an empirical reality do not contradict the expected model. Under this premise, the model is recalibrated periodically.

The maximum exposure thresholds established for 2016 and 2015 under the VaR method, and the maximum exposure reached in these years, for each risks factor, are as follows:

	Thousands of Euros				
	Currency	Interest rate	Equity securities	Credit	Total
2016:					
Established threshold					400
Maximum exposure reached	4	26	232	79	318
2015:					
Established threshold					800
Maximum exposure reached	105	145	83	692	689



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Currency risk

According to the valuation standards defined in Note 3-c, the total foreign currency assets and liabilities held by the Group as of December 31, 2016 and 2015, are as follows:

	Thousands of Euros	
	2016	2015
Due from financial intermediaries (Note 6)	75,652	203,307
Lendings (Note 7)	56,574	63,599
Investment securities	235,169	186,652
Other	22,431	37,053
Total assets	389,826	490,611
INAF (Note 13)	13,830	13,361
Deposits: banks and financial intermediaries (Note 14)	497	1,129
Deposits: customer deposits (Note 15)	362,355	443,979
Other	12,390	6,535
Total Liabilities	389,072	465,004

As of December 31, 2016 and 2015, the currency risk associated with most of the balances held in foreign currencies had been hedged with financial derivatives (see Note 23) or equity transactions.

Interest-rate risk

The interest rate risk is defined as the change in the financial margin or the equity value of the Group associated with the fluctuations of the market interest rates. The measurement of this risk includes calculations of net interest income sensitivity one year ahead, and sensitivity measures of economic capital against a parallel movement of +/- 100 basis points of the market curves of the main currencies of the balance sheet.

The Assets and Liabilities Committee (ALCO) is in charge of managing the interest rate risk of the balance structural positions, following the related regulations established by the Board of Directors.

The Risks Department is responsible for calculating, analyzing, simulating and reporting, on a monthly basis, the interest rate risk to ALCO.

In order to obtain the necessary data, several methodologies are used: the Static Gap, the Dynamic Gap and the different scenarios simulation.

On the one hand, the Static Gap obtains balance masses at a given date (at the end of the month), according to the usual maturity and renewal of the existing flows. In this way, we obtain a clear image of the exposure interest rates within the balance face towards variations.



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On the other, the Dynamical Gap adds divers assumptions to obtain an accurate forecast of how the financial margin and the economic value of the Company will vary. Taking into account the approved budget and the results obtained from the study of client behavior through a historical analysis, data is projected into a probable scenario. The outcome will, given the case, help anticipate possible adverse situations and will yield a guide towards a solution.

A stress simulation is carried out on data obtained from the probable scenario, with a parallel movement of +/- 100 base points. This simulation sticks to the world-wide standard of best practices of interest rate risk monitoring, which is used by a great majority of companies worldwide, according to the recommendations of the BIS (Bank for International Settlements) and of the supervisory bodies.

Sensitivities are obtained through the difference between the given data in the stressed scenario and the probable one. The calculation of both the financial margin forecast and the sensitivity is done within a range of 12 months. With the resulting data one can infer, within a year-wide range, how extreme variations might affect the financial margin.

As for the Economic Value calculation and its sensitivity, a long-term period is most suitable.

As of December 31, 2016, the Economic Value sensitivity is equal to + 2.47% and -2.39%, lower than the current approved limit (+/- 9% of own resources).

Generally, framed in a context of low interest rates, the Entity's positioning has been to maintain the balance with positive sensitivity to increases in interest rates, both in terms of net interest income and economic value.

Nevertheless, the effect of a hypothetical 1% variation in the current market interest rates on the Group's assets, liabilities and memorandum accounts will not imply a significant variation in Group equity.

Price risk: fair value of assets and liabilities

Fair value is the amount for which an asset may be exchanged between an experienced buyer and seller, or a liability settled between an experienced debtor and creditor acting on an arm's-length basis.

Recording transactions at their fair value, taking into account the accounting methods used and their maturity dates, would not have given rise to any material gains or losses in relation to the Group's net worth.

Liquidity risk

The purpose of liquidity and financing risk management is to prevent the entity from having difficulties in meeting its payment commitments or from having to get funds in onerous conditions in order to meet them.



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During the stress period experienced in the last years, the management of the maturity structure of the Group's assets and liabilities has allow it to enjoy a privileged position, which has given it a competitive advantage to carry out its activity in a more demanding environment.

Decisions regarding all structural risks, including liquidity risk, are made by the entity's Assets and Liabilities Committee (ALCO).

The Group, through its balance sheet management unit (Risk Department), manages liquidity and financing according to the policies set by the Board of Directors, at the proposal of the Risk Department, which performs an independent measurement and monitoring of liquidity risk and periodical stress testing.

Apart from the liquidity ratio (with a statutory minimum of 40%), which is calculated according to the legislation, a number of ratios are calculated internally according to criteria of the BIS (*Bank for International Settlements*), but which are currently not required by the supervisor.

To obtain a better monitoring of liquidity, both in the long and the short run, recommendations published by the BIS followed at a worldwide basis are used, and criteria according to BIS III is followed. The LCR (*Liquidity Coverage Ratio*) ratio is calculated to improve short-term liquidity monitoring, which indicates whether there are sufficient liquid assets to cope with major disbursements within 30 days from the date of analysis.

At December 31, 2016, the LCR average was 196%, higher than the minimum required.

Operational risk

The Group defines operational risk as the risk of loss derived from deficiencies in internal processes, human resources or systems, as well as losses caused by external circumstances.

The Group's objective regarding operational risk control and management is based on identifying, measuring and controlling operational risk events regardless of whether they have an impact on the income statement. Thus, the priority is identifying the risks and mitigating them by designing action plans that eliminate or minimize them.

The phases of operational risk management are as follows:

- a) Identification of risks, which is carried out using a mapping of the processes of each area and activity, identifying existing controls.
- b) Objective and continual measurement and assessment of operational risk, which is carried out based on internal standards, and risk tolerance levels are established.



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- c) Monitoring and mitigation, which is carried out through a continual follow-up of operational risk exposures by implementing controls to improve internal knowledge and mitigate potential losses.
- d) Information, which is periodically generated through reports on operational risk exposures and its level of control by the Group's units and senior executives.

Risk Management Compliance

The Board of Directors of Grup MoraBanc defines the level of risk the organization is willing to accept and approves the corresponding risk management policies, regularly supervises compliance and takes the appropriate measures to correct any deficiencies.

The structure of Compliance is one of the foundations on which the company strengthens the Board's commitment to drive all business activities under strict ethical rules, providing a working environment which is consistent with the existing regulatory framework. In line with the established principals, the Compliance Department performs its tasks around the development and implementation of a compliance program that includes: policies and procedures, dissemination and training in compliance matters, and the identification, assessment and mitigation of possible risks. The aforementioned risks are understood to be those relating to the following questions:

- Ethic Codes (both within the Group and in markets)
- Protection for the investor
- Treatment of conflicts of interest and market abuse
- Prevention of money laundering and the financing of terrorism
- Privacy

This compliance structure is an integral part of the *Governance* system, which ensures that Senior Management, of which the Regulatory Compliance Department is part of, and the Board of Directors take knowledge of the results of the application of the monitoring program approved.

Directors from the Compliance Department report the evolution of the annual program and the results of their monitoring procedures to the Audit and Compliance Commission, delegated body of the Board of Directors of the Group.



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30. REGULATIONS COMPLIANCE

Law regulating the capital and liquidity requirements for financial institutions

On February 29, 1996, the General Council of Andorra passed a law regulating the liquidity and capital requirements for financial institutions.

This law specifies that banks must maintain a capital ratio of at least 10%, as recommended by the Basle Committee on Banking Regulation and Supervisory Practices. The law also establishes a mandatory liquidity ratio of at least 40%.

The Group's capital and liquidity ratios, which were determined in accordance with the provisions of this law, stood at 32.41% and 62.81% as of December 31, 2016, and 28.50% and 76.03% as of December 31, 2015.

The law regulating the capital and liquidity requirements for financial institutions also limits the concentration of risks in a single beneficiary to 20% of Group equity. Under this law, the aggregate of risks individually exceeding 5% of equity may not exceed 400% of equity. Likewise, the risk on transactions with members of the Board of Directors may not exceed 15% of equity. These risks are weighted in accordance with the provisions of the above-mentioned law.

In 2016 and 2015, the highest risk exposure reached with the same beneficiary was 19.53% and 19.37% of the Group equity, respectively. Loans and other transactions entailing a risk exceeding 5% of equity with the same beneficiary did not exceed an accumulated total risk of 68.13% and 98.16% during 2016 and 2015, respectively.

Beyond the applicable legislation, the Group has estimated its capital ratio under the requirements set by the Basel Committee on Banking Supervision in 2010 (Basel III), in order to be measured by the best and most demanding international standards. Below we find the Group's capital position (*fully loaded* data), which are also under this regulatory environment, both with respect to minimum values and the levels of performance expected to be required in 2019:

	Grup MoraBanc (<i>fully loaded</i>)	Regulatory Minimum (<i>phase-in</i>)	2019 Minimum
Ordinary Capital Ratio (CET 1)	19.04%	5.125%	7%
Level 1 Capital Ratio (TIER 1)	19.04%	6.625%	8.5%
Capital Ratio	21.76%	8.625%	10.5%

The Group has calculated its leverage under the abovementioned international standards. Results show the Group's leverage ratio to be of 12.81%, above its Ordinary Capital Ratio (CET 1) and the regulatory minimum of 3%.



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Law on international cooperation on penal matters and measures against the laundering of money or securities which are the proceeds of international crime, and against terrorist financing

The General Council at its meeting on 15 January 2015 approved the Law 2/2015 of 15 January, amending the Law on international cooperation on penal matters and measures against the laundering of money or securities which are the proceeds of international crime, and against terrorist financing of 29 December 2000. In this context, it highlights the need to adapt the Law on international cooperation on penal matters and measures against the laundering of money or securities which are the proceeds of international crime, and against terrorist financing, of 29 December 2000 to essential standards set in the former recommendation 26 of the Financial Action Task Force (FATF) –new recommendation 29– and thus establish measures and specific legal provisions regarding the legal structure of UIF (now UIFAND).

The evaluation report of the Principality of Andorra approved by the Moneyval in its plenary session on 8 March 2012 highlights the evolution and permanent intensification of the prevention and repression measures taken. In this sense, Moneyval expressed its reservations about the functional autonomy and independence of the UIFAND and, in particular, the regulatory framework governing the appointment and dismissal of UIFAND staff. In light of these considerations, the Law regulates, mainly, the powers and functions of the UIFAND, its composition and sets specific and particular rules regarding the appointment and dismissal of the head of the UIFAND, regulating as well the regime of incompatibilities.

Later the General Council at its meeting on 16 July 2015 approved the Law 11/2015, of 16 July, amending the Law on international cooperation on penal matters and measures against the laundering of money or securities which are the proceeds of international crime, and against terrorist financing, of 29 December 2000.

In this context, it becomes clear the desirability of adapting the Law on international cooperation on penal matters and measures against the laundering of money or securities which are the proceeds of international crime, and against terrorist financing, of 29 December 2000 to the established international standards in the former recommendation 17 of the Financial Action Task Force (FATF) –new recommendation 35– and increase the deterrent effect and proportionality of the sanctions regime. In light of these considerations, the Law regulates the sanctions applicable in both its substantive scope and in the formal one. It also modifies the regulation regarding the obligation to make declarations of suspicious transactions considering the recommendations of Moneyval.

The Group has established a number of internal control and reporting procedures in order to prevent and impede laundering and terrorist financing. It has also carried out specific training programs for staff.



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Law on organizational requirements and operating conditions for entities operating in the financial system, investor protection, market abuse and financial guarantee agreements

At its session held on May 9, 2013, the General Council of the Principality of Andorra approved the Law 8/2013, of May 9, on organizational requirements and operating conditions for entities operating in the financial system, investor protection, market abuse and financial guarantee agreements, for the purpose of maintaining a functionally and structurally sound financial system.

This Law includes the basic administrative regime for entities operating in the financial system until the date established by Law 14/2010, of May 13, on the legal regime of banking institutions and the basic administrative regime for entities operating in the financial system.

It also contains investor protection requirements, thereby continuing the provisions until the date established by Law 14/2010, which included the principles established in Directive 2004/39 EEC of the European Parliament and of the Council, of 21 April 2004, known as MiFID (Markets in Financial Instruments Directive).

The Group has established a series of control and communication procedures in order to comply with these organizational requirements.

Agreement between 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 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. In addition, on June 13, 2005, the Government passed the Law implementing the above agreement.

On February 12, 2016 the Government of Andorra signed a Protocol to amend the aforementioned Agreement between the European Community and the Principality of Andorra. The amendment entails the automatic exchange of information between the Member States of the European Union and the Principality of Andorra with the application of the Organization for Economic Cooperation and Development's (OECD) common standard and communication and due diligence rules, relating to information about financial accounts (Common Reporting Standard OECD - CRS).

On November 30, 2016, the General Council approved the Law 19/2016, of automatic exchange of information in tax matters, to apply the aforementioned amended Protocol. This Act comes into force on January 1, 2017 and repeals the Law 11/2005, of implementation of the Agreement between the Principality of Andorra and the European Community on the establishment of measures equivalent to those provided in Directive 2003/48 / EC on taxation of income savings in the form of interest payments.



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In 2016, the Group, acting in its capacity as payment agent, complied with the obligations contained in the agreement and its implementing law (being 2016 the last year of application), and settled the amount of the withholding in accordance with the abovementioned legislation. Additionally, it has fulfilled the objectives of establishment and provision of the necessary mechanisms to properly implement, from January 1, 2017, Law 19/2016, concerning the automatic exchange information on tax matters.

Law on the establishment of a banking deposit guarantee system

On February 2, 2011 the General Council of Andorra approved the law on the establishment of a banking deposit guarantee system. The purpose of the guarantee system is to ensure that the beneficiaries will be refunded the amount of their covered cash deposits, with a maximum limit per beneficiary of €100,000, and of the covered securities deposits, also with a maximum limit per beneficiary of €100,000 separated from the first one.

Under this law, the institutions in the Andorran financial system are required to establish and keep investments in liquid and secure assets as a counterpart to a non-distributable reserve subject to meeting the guarantees covered by the guarantee system. The maximum total amount of the guarantee reserves for all the members of the system is €94.1 million at the beginning and an annual contribution plan will be established until reaching 1.5% of the calculation basis set forth in the aforementioned law, which will also be the maximum hedge limit of the guarantee system for all beneficiaries. In any case, guarantee reserves cannot exceed the overall and absolute limit of €200 million.

The amount of the guarantee reserves set up by the Group at 31 December 2016 is €23,254 thousand, from which €23,044 thousand correspond to the Deposit Guarantee Fund (see Note 21). The Group has invested an equivalent amount to guarantee reserves in fixed-income securities - government debt of OECD countries and the Principality of Andorra and other assets available immediately or no later than a month, which are easily payable, and INAF deems appropriate at any time in accordance with the requirements established by the Law.

General Indirect Tax Law

Further to Law 11/2012, of 21 June, subsequently amended by Law 29/2012, of 18 October, on 1 January 2013, the general indirect tax came into force, thereby repealing the previous Indirect General Tax Law relating to the provision of banking and financial services. As of 6 May 2015 it is published in the BOPA the Legislative Decree of 29 April 2015 of Publication of the revised Law 11/2012, of June 21, on the general indirect tax including all changes made.

The general indirect tax is levied on the economic capacity disclosed provided that end consumption of a good or service occurs. The tax rate applied to provisions of banking and financial services is a progressive tax rate of 9.5%.



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Law 10/2014 of June 3, modifying Law 11/2012 of June 21 on the general indirect tax, amended by Law 29/2012 of October 18 and Law 11/2013 of May 23, introduces a limitation to the right of deducting the supported quotas to financial entities for a maximum annual amount equivalent to the 10% of the transferred quotas at a 9.5% tax rate, with the limitation of the supported tax in its subject activity. The limitation came into force on July 1, 2014.

In 2016 the Group has complied with all the obligations arising from the application of the Law practicing the corresponding payments.

Law on income tax

In accordance with Law 95/2010, of December 29, on the corporate income tax, Law 17/2011, of December 1 on the modification of Law 95/2010, and applicable regulations on Law 95/2010 on the corporate income tax, a corporate income tax is officially established. As of 6 May 2015 was published in the BOPA Legislative Decree of 29 April 2015 Publication of the revised Law 95/2010, of December 29, on the income tax including all changes.

In accordance with Law 95/2010, the general tax rate for the obliged taxpayers is 10%.

Article 25 of the Law 95/2010 regulates the special tax consolidation system. In this regard, Mora Banc Grup, SA is the parent company of the consolidation tax group, being the subsidiaries Mora Banc, SAU, Mora Gestió d'Actius, SAU and Mora Assegurances, SAU.

During 2016 the Group has complied with all the tax obligations arising from the Law, liquidating the payment on account of income tax in 2016 and 2015.

Law on the tax on income of fiscal non-residents

The General Council of the Principality of Andorra, at its meeting of 29 December 2010, approved the Law 94/2010 on tax on income of fiscal non-resident, that levies the income obtained in Andorra by persons and entities considered by the Law as non-resident for tax purposes. The Group is obligated to practice and apply retention, generally, the tax rate of 10%. This law is applicable since 1 April 2011. On 1 December 2011, the General Council of Andorra passed Law 18/2011 amending the Law 94/2010, which is applicable from 1 January 2012. As of 6 May 2015, it was published in the BOPA the Legislative Decree of 29 April 2015 of publication of the revised Law 94/2010 of 29 December on tax on income of fiscal non-resident, which includes all amendments made.

During 2016 the Group has complied with its tax obligations, acting as a retainer and paying the tax office income derived by non-resident tax in the Principality of Andorra.



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Law on the personal tax income

According to Law 5/2014, of April 24, the income tax of individuals and the implementing regulation of this Law institutionalizes the creation of a personal tax income. As of 6 May 2015, it is published in the BOPA the Legislative Decree of 29 April 2015 of publication of the revised Law 5/2014, of April 24, on the personal income tax, which includes all amendments made.

The general tax rate of the personal income tax for the taxpayers, specified in the Law is 10%. The Law distinguishes between basic and general savings base, depending on the type of income subject to tax.

Law of the Andorran National Institute of Finance

At its meeting on May 23, 2013, the General Council approved Law 10/2013 of the Andorran National Institute of Finance (INAF), repealing Law 14/2003 of INAF's creation.

The purpose of this law is to provide INAF with the necessary means to achieve their goals, while widening them, given the global scope of INAF in the context of international expansion of the Andorran financial system, the evolution of financial markets worldwide and Andorra's acquired commitments by signing the Monetary Agreement with the European Union.

Law 16/2016 of October 20, amending Law 10/2013 of INAF, has deleted some of the limitations regarding the nationality of members of the Board of Directors and Management of INAF, in order to include people with the professional experience and technical skills to be able to develop such responsibilities.

Law 8/2015, of April 2, on urgent measures to implement restructuring and resolution mechanisms for banks

At its meeting on April 2, 2015, the General Council of Andorra approved Law 8/2015 on urgent measures to implement restructuring and resolution mechanisms for banks.

The drafting and development of this law has been inspired by the principles of the Directive 2014/59 / EU of the European Parliament and of the Council of May 15, 2014, which establishes a framework for the restructuring and resolution of credit institutions and investment service companies.

This law is the response of the Principality of Andorra to certain events which showed that the financial system is closely interconnected, helping the financial crisis to spread quickly to other organizations and the global economy.

Much of the administration of the system designed by the Law is attributable to the State Agency for Solving Banking Entities (AREB) as a competent authority in terms of resolution. Moreover, in order to finance the measures agreed within the Law, the Fund for Resolution Andorran Banking Entities (FAREB) was created. FAREB has no legal entity and is managed by AREB.



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31. COMMUNITY ACTIVITIES AND SIMILAR

The Group has no legal or statutory community obligations. Nevertheless, the Group has always been deeply involved, through the sponsorship and subsidi- zation of a wide range of events, in the development of the society in which it operates in. During 2016, the Group continued this policy. Thus, it has collaborated with public bodies as the Andorran government and different City Councils, as well as social organizations / civil society, in several activities in the field of culture, education and training.

32. SUBSEQUENT EVENTS

Decree approving the accounting framework applicable to en- tities operating in the Andorran financial system and collective investment schemes under Andorran law in accordance with international financial reporting adopted in the European Union (EU-IFRS) once they have been adopted by Andorra (Andorra-IFRS)

Under the monetary agreement of June 30, 2011, signed by the Principality of Andorra and the European Union in compliance with the first final provision of Law 30/2007 of December 20, of company accounting and of article 3 of the decree approving the General Accounting Plan, dated July 23, 2008. As a result of the obligations arising from this agreement, the Andorran Government, following INAF's proposal, has decided to require entities operating in the Andorran financial system and collective investment schemes under Andorran law to draw up their annual financial statements and consolidated financial statements for the years starting from January 1, 2017 in accordance to the EU-IFRS adopted after this De- cree dated December 28, 2016.

This Decree creates a Technical Committee which aims at keeping the accounting framework applicable to entities operating in the Andorran financial system and collective investment schemes under Andorran law. The main function of this Com- mittee is the analysis of EU-IFRS in order to determine the need and desirability of incorporating it, with its required nuances, in the Andorran legal system. In the event these nuances ended up being necessary, they would not contravene the EU-IFRS which are adopted in order to include, in the version adopted by the Go- vernment of Andorra, a manifest of dual compliance with EU-IFRS in the presenta- tion of financial statements of those subjects under obligation.

Furthermore, INAF will help organizations wishing to preserve their financial state- ments in accordance with EU-IFRS to apply the rules applicable to the European Union of which, the Andorran Government, does not approve a Decree amending the accounting framework with sufficient speed to ensure a simultaneous entry into force to that of the European Union and the Principality of Andorra.



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In adapting the aforementioned Decree, the Group carried out a transition plan to the new regulations including, amongst others, the analysis of the differences in accounting principles, selecting accounting principles to be applied in cases in which alternative treatments are allowed and evaluation of changes in procedures and information systems.

In order to comply with the reporting requirements established by comparing International Financial Reporting Standard 1 (IFRS 1), the consolidated financial statements for the year 2017 will include comparative information for the year 2016 in accordance with the EU-IFRS.

On the date of authorization for issue of these consolidated financial statements, the Group is in the process of preparing the information to estimate, with reasonable objectivity, the extent to which the balance sheet and income statement for the year 2016 will differ from those that, in the given day, will be prepared with the application of accounting policies specified by the Decree, in order to include and compare them with year 2017's consolidated financial statements.

33. EXPLANATION ADDED FOR THE TRANSLATION INTO ENGLISH

These consolidated financial statements are presented in accordance with the generally accepted accounting principles and standards established by the chart of accounts of the Andorran financial system. 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.



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Individual bank balance sheets

MORA BANC GRUP, SA BALANCE SHEET AS OF DECEMBER 31, 2016 AND 2015

Thousands of Euros

ASSETS	2016	2015
Cash on hand and due from OECD Central Banks	28,983	22,113
Due from INAF	-	-
Due from financial intermediaries	403,290	689,615
Banks and credit institutions	401,302	686,615
Other financial intermediaries	2,105	3,096
Less (-) allowance for credit losses	(117)	(96)
Lendings	362,918	406,383
Loans and credits	369,396	421,784
Customer overdrafts	2,839	6,716
Customer bill portfolio	666	815
Less (-) allowance for credit losses	(9,983)	(22,932)
Investment securities	611,826	608,173
Debentures and other fixed-income securities	518,749	443,173
Less (-) allowance for credit losses	(701)	(550)
Investments in group companies	77,207	84,820
Less (-) security price fluctuation allowance	(31,988)	(7,886)
Other investments	6,622	20,726
Common stocks and other equity securities	4,494	3,097
Investment funds	37,443	66,038
Less (-) security price fluctuation allowance	-	(1,245)
Intangible assets and deferred charges	13,789	10,029
Goodwill	800	800
Intangible assets and deferred charges	100,224	92,125
Less (-) accumulated amortization	(87,235)	(82,896)
Property and equipment	55,764	57,154
Property and equipment	95,216	94,164
Less (-) accumulated depreciation	(39,100)	(36,819)
Less (-) allowance for decline in value of property and equipment	(352)	(191)
Accrual accounts	13,054	12,965
Uncollected accrued interest	9,016	8,667
Prepaid expenses	4,038	4,298
Other assets	11,750	15,461
Current transactions	3,466	13,354
Inventories	131	164
Options purchased	-	12
Other	7,235	917
Taxes	918	1,014
Total assets	1,501,374	1,821,893



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MORA BANC GRUP, SA BALANCE SHEET AS OF DECEMBER 31, 2016 AND 2015

Thousands of Euros

LIABILITIES AND EQUITY	2016	2015
Due to INAF	18,636	15,146
Deposits	1,205,055	1,531,929
Banks and credit institutions	312,350	295,785
Other financial intermediaries	6,395	6,506
Customer deposits	886,310	1,229,638
Debt securities	-	-
Provisions for contingencies and expenses	23,263	12,265
Provisions for pensions and similar obligations	7,030	7,015
Provisions for futures	629	428
Provisions for litigations	1,400	-
Other provisions	14,204	4,822
General risk allowance	-	-
Subordinated debt	41,088	52,216
Accrual accounts	14,296	13,207
Unpaid accrued expenses	12,420	12,124
Unearned revenue	1,876	1,083
Other liabilities	20,429	12,462
Current transactions	17,087	7,946
Options issued	26	6
Trade and other accounts payable	67	18
Taxes	3,249	4,492
Capital stock	42,407	42,407
Capital stock	42,407	42,407
Reserves	130,622	133,417
Legal reserve	8,481	8,481
Guarantee reserves	13,839	17,709
Voluntary reserves	108,302	107,227
Profit	5,578	8,844
Profit for the year	19,378	33,844
Less (-) interim dividends	(13,800)	(25,000)
Total liabilities and equity	1,501,374	1,821,893



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MORA BANC, SAU BALANCE SHEET AS OF DECEMBER 31, 2016 AND 2015

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ASSETS	2016	2015
Cash on hand and due from OECD Central Bank	12,737	3,351
Due from INAF	-	-
Due from financial intermediaries	298,213	251,155
Banks and credit institutions	298,213	251,155
Lendings	672,794	666,345
Loans and credits	677,092	681,351
Customer overdrafts	2,965	1,412
Customer bill portfolio	9,470	7,800
Less (-) allowance for credit losses	(16,733)	(24,218)
Investment securities	30,230	49,913
Debentures and other fixed-income securities	21,538	21,538
Investments in group companies	5,015	23,875
Less (-) security price fluctuation allowance	(133)	-
Common stocks and other equity securities	3,810	4,500
Intangible assets and deferred charges	3	5
Intangible assets and deferred charges	67	67
Less (-) accumulated amortization	(64)	(62)
Property and equipment	41,882	46,492
Property and equipment	60,139	63,705
Less (-) accumulated depreciation	(6,518)	(5,874)
Less (-) allowance for decline in value of property and equipment	(11,739)	(11,339)
Accrual accounts	2,029	2,344
Uncollected accrued interests	1,980	2,256
Prepaid expenses	49	88
Other assets	1,043	120
Current transactions	888	107
Taxes	155	13
Total assets	1,058,931	1,019,725



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MORA BANC, SAU BALANCE SHEET AS OF DECEMBER 31, 2016 AND 2015

Thousands of Euros

LIABILITIES AND EQUITY	2016	2015
Due to INAF	1,215	1,249
Deposits	930,602	892,476
Banks and credit institutions	10,382	11,297
Customer deposits	920,220	881,179
Debt securities	-	-
Provisions for contingencies and expenses	506	-
General risk allowance	-	-
Subordinated debt	-	-
Accrual accounts	751	923
Unpaid accrued expenses	720	893
Unearned revenue	31	30
Other liabilities	1,836	1,760
Current transactions	505	308
Trade and other accounts payable	37	53
Taxes	1,294	1,399
Capital stock	30,060	30,060
Capital stock	30,060	30,060
Reserves	93,257	92,650
Legal reserve	6,012	6,012
Guarantee reserves	9,204	8,671
Voluntary reserves	78,041	77,967
Profit	704	607
Profit for the year	11,704	11,107
Less (-) Interim dividends	(11,000)	(10,500)
Total liabilities and equity	1,058,931	1,019,725



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People management

At MoraBanc **we want to be the best company for our employees**, who are the key to our success. Our intention is to be a leading organisation in terms of internal social responsibility policies, and to ensure that everyone on the workforce feels committed to our mission and shares MoraBanc's corporate culture and values.

The People Management team strives every day to achieve this goal, developing policies and initiatives focusing on three main areas of action:

- Involvement in decision-making related to people management, in collaboration with the management team and the heads of the areas concerned.
- Providing technical solutions for all the areas related to recruitment, assessment, training, development and guidance for the team.
- Being close to employees to ensure their professional development, recognising their contribution, thanking them for their commitment and working together for their personal well-being.

Our people management policies ensure we have a highly qualified team that's engaged with the Bank and keen to progress. Based on tools such as the competency model, talent map and reward plan, we manage talent and assess the performance of employees and different teams, helping us to adapt to changes in the environment.



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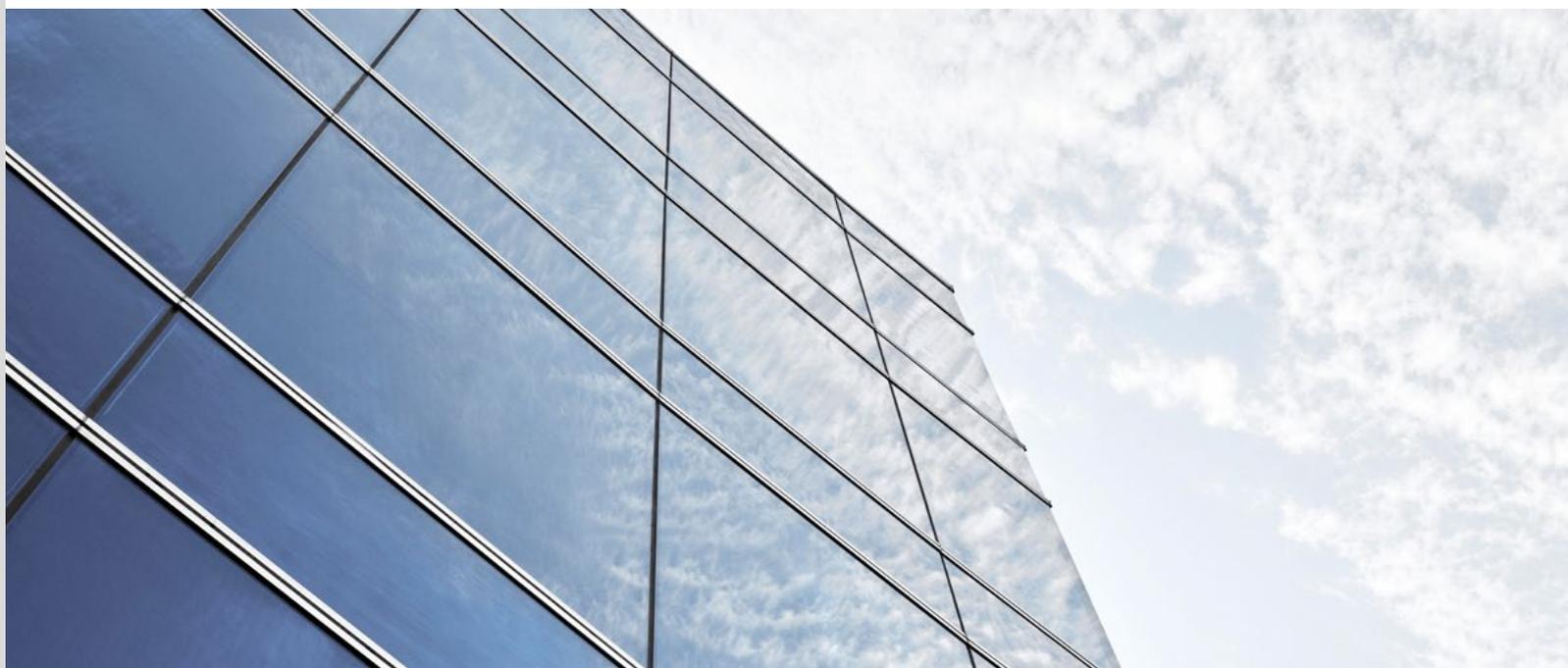
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At MoraBanc we believe that giving our professionals a voice is fundamental to improving our people management and strengthening relations between workers and the organisation. The People Management department is available for employees and encourages an open-door culture as well as providing an informal, permanent channel of communication so that workers can express their doubts, comments, suggestions or requests at any time. Several initiatives are carried out in this area:

- **Monitoring new recruits:** Within sixty to ninety days of joining the company, each new employee has an interview with the People Management department to jointly evaluate how they are adapting to their job.
- **Performance assessment based on the Management by Objective performance appraisal system (MBO):** This takes the form of a yearly interview between each employee and their direct supervisor to discuss their current performance, the objectives achieved, individual targets for the coming year, their future within the company, professional development and training. An open, honest dialogue is encouraged between both parties in this interview.
- **Potential interviews:** The aim of these interviews, held with each employee, is to gauge the suitability of the present job and the possibilities for promotion and/or change. The interviews are held by the People Management department at least once every two years with each employee, covering issues such as expectations, teamwork, changes, training, leadership, etc.
- **Management Audit:** Programme started in 2014 and is repeated every three years, giving all employees the chance to assess their direct supervisors in five essential areas. This ongoing assessment system also helps to evaluate the training programmes in leadership, skills and coaching.

Profile of the workforce and employment practices

The People Management area strives to place the most appropriate person in each job within a framework of equal opportunity.

When there's a vacant position, or when a new job or position is created, we prioritise filling this vacancy internally, either directly or through internal selection procedures which all our professionals can apply for.



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Committed to internal promotion

To incentivise and motivate the development of Commercial Banking teams, which make up 20% of the workforce, there's a policy in place to prioritise the employment of internal staff as legal representatives and branch managers, which are the two highest positions in the branch structure. Any vacancies are covered via internal promotions and, in this case, external recruitments are to cover the position of commercial manager.

TREND IN THE WORKFORCE



MoraBanc's workforce decreased by 10.3% in 2016. These changes in its team are the result of the new situation in the market. Part of this adaptation is due to the beginning of the voluntary early retirement scheme which, in 2016, led to the early retirement of almost 40 people. The Commercial Banking team has been restructured and is now made up of a wide range of dynamic financial professionals with outstanding commercial and change management skills. Our aim is to adapt our workforce to the requirements of each position.

We have a dynamic team, suitably qualified and with outstanding commercial and change management skills

NEW EMPLOYEES		TURNOVER	
	2016		2016
By age		By age	
Under 30	7	Under 30	2.1%
Between 30 and 50	16	Between 30 and 50	6.5%
Over 50	3	Over 50	14.1%
By gender		By gender	
Men	14	Men	4.1%
Women	12	Women	5.9%
By region		By region	
Andorra	20	Andorra	8.9%
Miami	4	Miami	7.0%
Switzerland	2	Switzerland	9.0%



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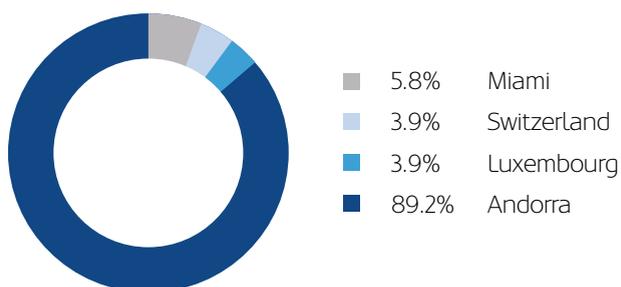
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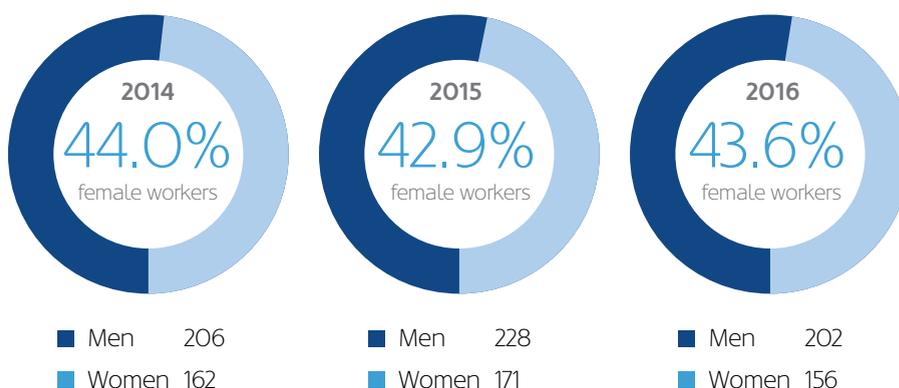
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BREAKDOWN OF THE WORKFORCE BY COUNTRY



BREAKDOWN OF THE WORKFORCE BY GENDER



BREAKDOWN OF THE WORKFORCE BY AGE

2016

	Number of people	Percentage
Under 30	35	9.8%
Between 30 and 50	232	64.8%
Over 50	91	25.4%

BREAKDOWN OF THE WORKFORCE BY EMPLOYEE CATEGORY AND GENDER (2016)

Number of people
Percentage of women by category

Employee Category	Number of people	Percentage of women by category
Administrative positions	141	63.1%
Technical positions	106	36.8%
Supervisors	88	23.8%
Directors / Senior Management	23	30.4%

BREAKDOWN OF THE WORKFORCE BY CONTRACT TYPE AND GENDER

2014 2015 2016

Contract Type	2014	2015	2016
Temporary	17	6	7
Men	6	2	2
Women	11	4	5
Permanent	351	393	351
Men	200	226	200
Women	151	167	151

98% of our employees have a permanent contract



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Most of MoraBanc’s employees have a permanent contract (97% of the women and 99% of the men). 100% of the employees work full-time.

For more than 13 years we have also **given students the opportunity** to carry out internships at our Bank in the summer. As a result of this relationship, in the last six years, six students have gone on to join our permanent workforce and are still developing their careers with us. Thanks to this initiative, on the one hand we help to enrich students’ professional experience and give them the chance to consolidate what they have learned and, on the other hand, we detect and retain talent in the different generations of students. All interested students are interviewed by the People Management area and placed in the most suitable jobs for their profile to develop and complete their skills.

EQUAL REMUNERATION

At MoraBanc **we’re committed to achieving equal remuneration**. Since 2015, we have carried out an analysis of our internal equality, by professional group, and external equality compared with the Andorran and Spanish banking sector. Based on this we have developed a new policy to define and classify jobs, which will be published in 2017. We also plan to define a new remuneration policy, with a dual aim: to position our wage policy in a percentile compared with the industry average that helps us to be competitive in the market, and to carry out a wage adjustment plan to ensure internal equality by professional group.

EQUAL REMUNERATION (BASIC WAGE FOR MEN COMPARED WITH WOMEN, BY EMPLOYEE CATEGORY)

2016

Executive Committee	1.2
Management	1.0
Specialists	1.0
Office staff	0.9
OVERALL MORABANC	1.0



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Occupational health and safety

MoraBanc's commitment to its employees intrinsically guarantees safety at work. We comply with Law 34/2008, of 18 December, on occupational health and safety, which establishes the obligations and criteria that must be implemented by the company and workers regarding this area.

We have an external health and safety service under contract that analyses the conditions of each job and identifies and **assesses its risks**. As a result of this work, we have a catalogue of each job with its description, the number of workers, risks detected, estimated causes, corrective measures and preventative measures for each risk, as well as a **Health and Safety Manual**, both of which are available to the workforce. We also provide information and give specific training to the whole workforce. Employees are also offered the chance to have a medical check-up if they wish, a measure that's widely accepted by the workforce.

In 2016 **there was no occupational injury, accident, victim or illness** involving any MoraBanc employee. In this respect, the rate of days lost is 0%.

ABSENTEEISM RATE*	2014	2015	2016
Men	6.9%	7.2%	7.9%
Women	8.4%	8.6%	9.1%

* The data refer only to Andorra.



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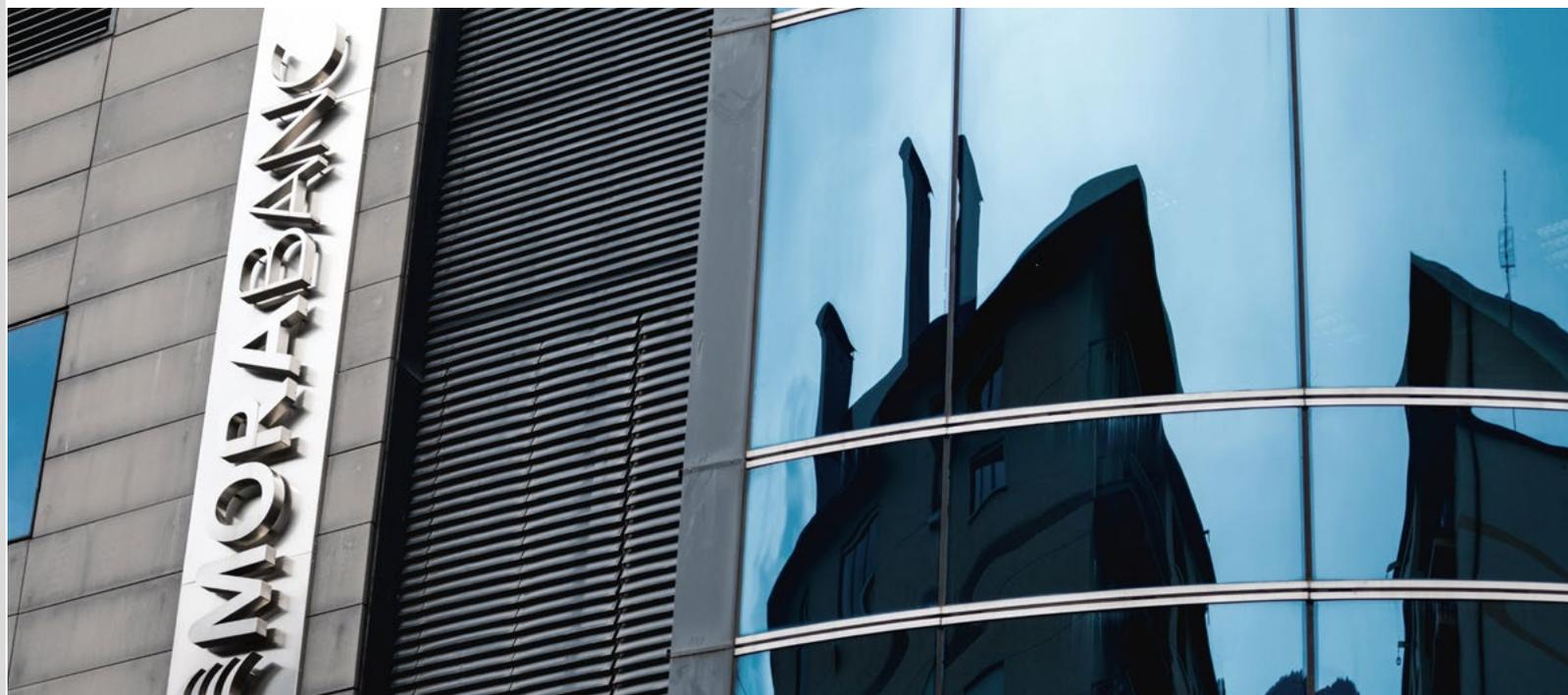
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Training and education

At MoraBanc we particularly prioritise training programmes that contribute to the continued improvement of the capacities, skills and abilities of our employees.

We're committed to the professional and personal growth of everyone working with us.

With the aim of boosting dynamism and adaptability to the changing situation, every year we draw up a training plan that takes different areas into account:

- Skills training
- Languages
- IT/management systems
- Financial training
- Management skills
- Internal processes
- Efficiency

Financial training makes up most of MoraBanc's training plan:

- Official training (degrees, doctorates, masters and postgraduate courses):
 - Together with the Pompeu Fabra University and Barcelona School of Management, we organise a university programme that provides an official Diploma in Banking Business. More than 95 employees have completed this diploma.
 - We provide workers with grants who are taking university studies related to their work, paying 100% of enrolment costs and reference books.
 - We offer grants of €2,000 to our professionals who want to take a doctorate.
 - In the case of a masters, we offer discretionary grants depending on the qualification and relevance for the job, currently having supported more than 27 masters.
 - We pay 100% of the cost of postgraduate courses organised and given by the University of Andorra together with the Pompeu Fabra University. At present 25 people have studied Banking Management, 4 have studied Andorran Taxation and 3 Andorran Law.

**We're committed
to the professional
and personal
growth of everyone
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- Financial qualifications:

These certify specialist knowledge, its practical application and how it's made available both to internal and external customers. At MoraBanc we help our workers to obtain financial qualifications (EFA, CEFA, CAIA and CFA) and up to 93 employees, 26% of the workforce, currently have one of these financial qualifications.

In parallel to the Training Plan, MoraBanc has also defined five training itineraries to accompany employees as part of their professional development.

These itineraries focus on two broad areas:

Itineraries aimed at employees in the business areas

These focus on enhancing specific skills and knowledge for the organisation's business areas:

- Commercial banking. In 2016 the training in this area focused on improving customer satisfaction and loyalty as well as on commercial techniques.
- Private banking. Training has continued on financial certification.
- Asset management. We have encouraged attendance of Asset Management debates and forums as well as new trends in investment management.

Itineraries aimed at employees in general

Our aim is to develop our employees' overall skills.

- MoraBanc Leadership model
- Professional skills and abilities

The series of training actions in these areas work in parallel on the knowledge and skills that help employees to progress in their area or speciality, as well as carrying out their work properly.

AVERAGE HOURS OF TRAINING* (HOURS/PERSON)	2014	2015	2016
Men	39.6	48.4	39.1
Women	37.6	48.8	39.1

* The data refer only to Andorra.

The effectiveness of the training carried out is rated taking into account the student's opinion and also as part of the performance interviews based on the Management by Objective performance appraisal system. This helps to determine the performance, fulfilment of objectives and expectations and whether the training needs have been met.

Corporate benefits for employees

The remuneration package received by MoraBanc employees is made up of their salary (fixed and variable wage), the reward scheme, investment in training and corporate benefits.

MoraBanc's corporate benefit plan has a wide variety of economic advantages and services available to our employees in order to help them save on costs and services with added value.

The corporate benefits can be divided into five groups:

- Advantages in bank products: savings plans, access to corporate loans, etc.
- Direct financial subsidies: school grants, wedding bonus, family bonus, etc.
- Discounts, services and commercial advantages: sales portal, purchases portal.
- Grants for training: university studies, languages, doctorates, etc.
- Subsidies for health and well-being: discounts on products and services for health and subsidies for sports.

Some of the most significant benefits we offer our employees are as follows:

- "Kings" Christmas Party for employees' children, with entertainers and presents.
- Rewards and gifts for long service, as a sign of our gratitude and recognition for their dedication and hard work.
- Training grants (covered in more detail in the section on training).
- Scholarships for children's training.
- Programme of purchases, establishing agreements with Andorran companies.

- Subsidies for employees' sports activities, both financial contributions and also in material and time for training.
- Leave to devote time to community work and social assistance in the personal sphere.
- Free tickets for events organised or sponsored by MoraBanc.
- A free afternoon on the employee's birthday, personalised gift and congratulations.

Some of the benefits we offer are aimed at **improving employees' work-life balance**:

- Agreements with companies to offer services that make employees' lives easier. For example, service to receive medical prescriptions at home, helping employees by taking into account their work timetable and commercial opening times.
- Flexi-time (start, lunch and end time).
- Flexible working day after maternity leave: during the first week, mothers are allowed to come back to work gradually, extending their working day from 4 to 7 hours. If they've decided not to take breastfeeding leave, this flexibility is extended for the corresponding months. If they've decided to take this leave, it totals 22 working days in addition to the maternity leave.



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SOCIETY AND ENVIRONMENT



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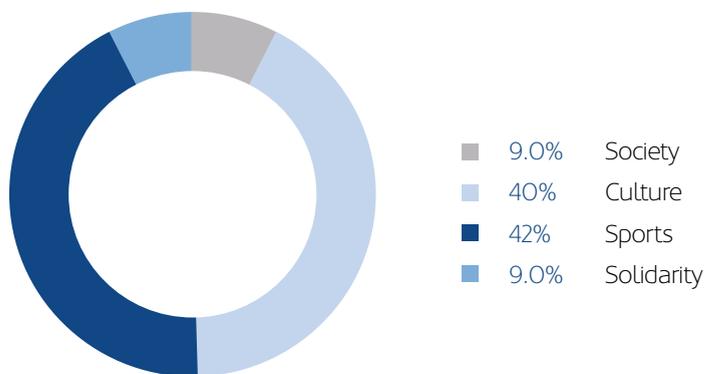
Actions to benefit the community

MoraBanc is deeply involved in improving and contributing to the progress of the community of Andorra and this commitment is one of the areas governed by our corporate strategy. Through various initiatives of a social nature, **we strengthen our ties with the region and with the people who live here.**

The actions we carry out to further the community are divided into four key areas: **society, culture, sports and solidarity.** In 2016 we allocated 3.6% of the Bank's profits to these actions, 1.3% more than the previous year. We strive to ensure that all the projects we're involved in are of benefit to the country and prioritise proposals with a social component.

In 2017 we plan to continue the initiatives we have promoted to date.

BREAKDOWN OF ACTIONS TO BENEFIT THE COMMUNITY



SOCIETY

In the area of society we organise **free conferences** on different subjects aimed at society at large, whether they are customers of the Bank or not.

Particularly of note was the talk we organised together with company Advance Medical entitled *Immunotherapy. The new horizon in cancer treatment*, given by Doctor Joaquim Bellmunt, a top class international medical researcher, attended by 500 people. Bellmunt is one of the most renowned cancer specialists in the world thanks to his contributions to treating cancer of the bladder. Bellmunt took over from other renowned speakers that have taken part in the past few years.



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In 2016 we organised a talk on taxation, specifically on income tax, which was attended by over 100 people, being sold out days in advance. This talk, promoted by the international resident department of MoraBanc, was given by the partner from the legal office Garrigues Albert Collado, the Secretary to the Board of Directors of MoraBanc, Marc Vilallonga, and also Julio García, an expert in international taxation and member of MoraBanc's legal office.

We also continued supporting the **retail industry** with special programmes and actions aimed at retail establishments on their busiest days. MoraBanc has also joined the Association of Retailers of Avinguda Carlemany and Travesseres in order to continue carrying out actions to promote the commercial activity of Vivand and the sector in general.

Throughout the year MoraBanc also **supported different organisations and companies in Andorra** by offering the Bank's conference room as a venue and publicising the different initiatives held there.

For the second consecutive year, MoraBanc supported **projects from the B-Ready programme to speed up start-ups with a social impact**, by the Ship2B Foundation. In line with our commitment to the sustainable development of Andorra, we have ensured that, in addition to being innovative, these projects also have a social value and benefit the country.

In 2016 the B-Ready programme received over 300 applications from which two were selected to take part in the programme:

- **Parfumsnet:** project to create high quality personalised perfumes using a test of olfactory preferences and online AI tools.
- **Solosol:** proposal to supply solar energy to homes in developing countries by giving microcredits managed via mobile phone.

B-Ready includes training and mentoring with top class experts to define each growth strategy, with particular emphasis on commercial and financial plans. In 2016, in addition to supporting the projects, MoraBanc also collaborated by offering the Bank's Business Director as a programme mentor, sharing his experience and views with the programme's entrepreneurs. Ship2B also has strategic alliances to encourage projects to grow and expand, as well as access to different sources of funding.

We were the main sponsor for the Scalada shows by **Cirque du Soleil** in Andorra in the month of July. We support this project promoted by Andorra Turisme which is important for the country and has become one of the main attractions for visitors in the summer season.

We support the retail industry and tourism, the country's economic engines.

In order to promote social entrepreneurship in Andorra, we support two projects from the B-Ready programme by Ship2B



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CULTURE

The organisation and sponsorship of the **MoraBanc Music and Dance of Andorra la Vella Season** is undoubtedly the Bank's most important contribution to culture. For more than 20 years we've been supporting this event which is renowned for the quality of its music and dance.

The poster in 2016 firmly established the event as Andorra's most important cultural cycle, with five top class performances. The programme included concerts by Earth, Wind & Fire, the Antonio Gades Company and the Orchestra of Cadaqués. 3,281 people attended events during the 2016 season.

We also took part in the Literary Evening organised by the Circle of Arts and Letters of Andorra, providing two prizes and publishing the winning books. The MoraBanc Sant Carles Borromeu Award for Tales and Stories went to the work entitled "Honor de poble a poble" (Honour from town to town) by the writer Jordi Romeu Carol, and the award for Popularising Science was given to the work "Andorra davant del canvi climàtic: perspectiva història i reptes" (Andorra and climate change: historical perspective and challenges) by the author Alan Ward.

We provide our online ticket sale system free of charge for Andorran cultural organisations and associations that produce and organise cultural events.

Once again we organised and sponsored the country's leading cultural event: the **MoraBanc Music and Dance of Andorra la Vella Season**

We're committed to preserving universal cultural heritage with the project to recondition and restore **Casa Vicens, in Barcelona**



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In 2016 MoraBanc carried out the **project to recondition and restore Casa Vicens**, classified as a World Heritage Site by Unesco and the first house to be designed by Antoni Gaudí, which MoraBanc has bought with the aim of opening it to the public as a museum in 2017. This project is an example of MoraBanc's commitment to preserve universal cultural heritage and invest in a leading city such as Barcelona, with the appreciation required by such a commitment for culture and the restoration of world heritage.

SPORTS

Committed to snow. MoraBanc contributes to one of Andorra's main economic and social engines. We currently support the Ski Club Pas de la Casa Grau Roig, the Andorran snowboard team of the Andorran Ski Federation and the Andorran Mountain Sport Federation, and in 2016 we also renewed our alliance with Grandvalira for another four seasons.

We've continued our commitment to our basketball team, **MoraBanc Andorra**, which has been playing in the ACB league for the last three years. We also support grassroots sport by sponsoring the Junior MoraBanc Andorra team. We also have a card for our customers, Visa MoraBanc Bàsquet, that offers advantages and exclusive services for the team's fans.

Once again we supported the **Race for Women** in Andorra, collaborating with the Association of Women of Andorra and helping to further their cause: to combat breast cancer. Nearly 1,000 took part in 2016.

MoraBanc's sponsorship demonstrates its passion for the mountains and talent of Andorra.



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SOLIDARITY

In 2010 we created the MoraBanc **solidarity cards** as an initiative that would contribute to social justice, aiming to foster customer solidarity. We promoted our solidarity cards once again in 2016 and the number of customers taking part has continued to grow, supporting humanitarian organisations with their contributions.

Any customer can participate by changing their card into a solidarity card. Each time a payment is made with the card, a donation or contribution is made by rounding up the amount of the purchase to the nearest euro or ten cents. MoraBanc then contributes the same amount, doubling the contributions and rounded up payments. In total, the Bank contributed 76,913 euros to the project in 2016.

Those receiving the donations are organisations from Andorra working for humanitarian issues, development aid or social action, both in the country and also abroad. The Solidarity Card started out with five NGOs, this figure reaching 13 in 2016:

- Unicef
- Càritas
- Aina
- Intermón-Oxfam
- Infants del Món
- Escola Especialitzada Nostra Senyora de Meritxell
- CAI – La Gavenera
- IBO Àfrica
- Mans Unides
- Fundació Privada Clara Rabassa
- Bomosa
- Cooperand amb Llatinoamèrica
- Carisma

Thanks to this initiative, a pioneering project in the country, €153,826 was collected in 2016, being given to the 13 NGOs. This is the largest amount in the six years the project has been in existence, throughout this time collecting a total of over €700,000.

SOLIDARITY CARDS



MoraBanc has collaborated with the Fundació Privada Clara Rabassa in providing a new minibus to improve the mobility of its residents, offering a faster and safer service.

In 2016 we continued the solidarity initiative of collecting foods and bags of clothes, proposed by the Bank's own employees.

We have also supported the campaign to collect toys for Càritas promoted by Ràdio i Televisió de Andorra, with the aim that no child is without a toy at Christmas.

Through our solidarity cards we collected €153,826 in 2016, shared between 13 of the country's NGOs.



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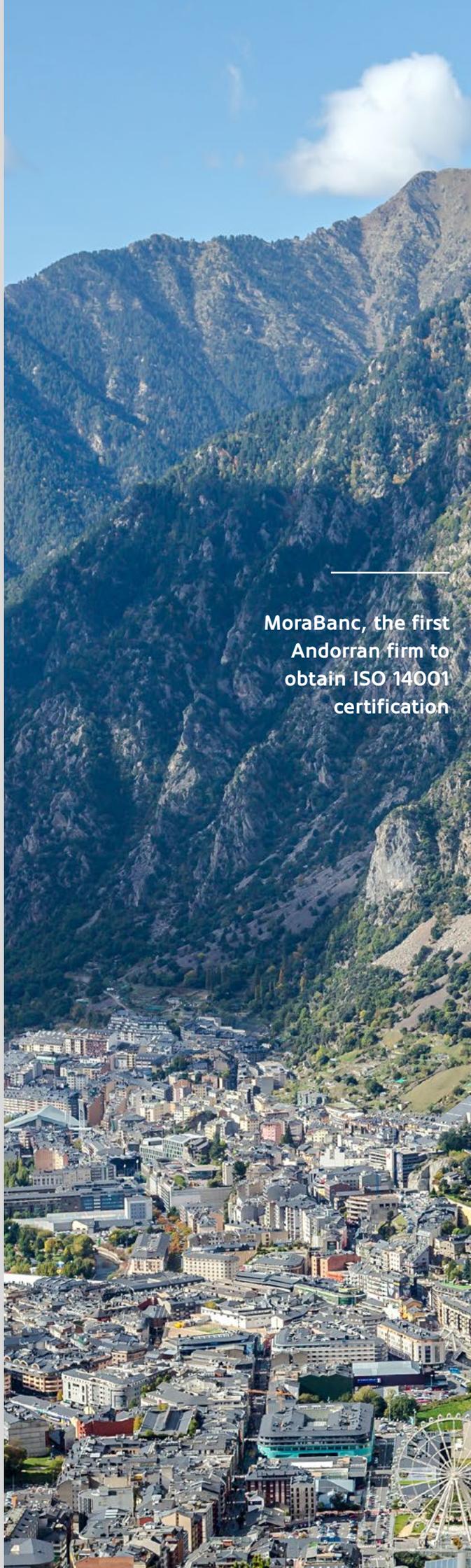
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MoraBanc, the first
Andorran firm to
obtain ISO 14001
certification

Environment

Preserving the environment and countryside, of undeniable value for Andorra, is an issue that has formed **part of our corporate culture** since the very beginning. At MoraBanc we are particularly concerned about this area and, through our environmental policy, we have taken on the following commitments:

- Comply strictly with current environmental legislation.
- Prevent pollution resulting from our activity, defining targets that ensure continued improvement and sustainable development both in terms of our consumption of natural resources and also in the waste and emissions produced.
- Collaboration with public administrations and opinion leaders to raise awareness of these principles among Andorran society as a whole.
- Maintain an open culture regarding the environment and communicate the policy to employees, customers and any other interested party.

In order to ensure compliance of the commitments contained in the environmental policy, in 2000 we implemented an environmental management system certified by the ISO 14001 standard. We were the first institution in Andorra and the second in Europe to obtain this certificate, which we have renewed regularly since then. This environmental system covers all MoraBanc's activities, products and services that interact or may interact with the environment at any of our facilities.

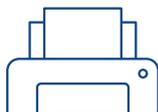
At MoraBanc we fully intend to continue the initiatives we've been carrying out for the last few years in the environmental area. We have set ourselves the following targets for 2017:

- Reduce our consumption of paper and electricity by raising the awareness of employees.
- Increase the percentage of suppliers incorporating environmental practices.
- Involve customers via awareness-raising actions related to accounts with postal services.

The environmental data published in the report refers to the facilities in Andorra and, in some cases, includes data from Switzerland and Miami.

MATERIALS

The main materials we use to carry out our business are paper, toner and plastic for bank cards. 100% of the paper used in the branches and different departments has previously been recycled.



MATERIALS	CONSUMPTION			UNIT	
	2014	2015	2016		
Paper consumption	Internal	22,813	19,388	17,370	kg
	Advertising	8,059	11,107	6,483	kg
Toner consumption		713	1,113	886	units
Plastic consumption for bank cards		7,654	15,586	8,346	units

We've continued to promote the initiative to reduce the grammage of our internal paper and, in 2016, we carried out a large number of digital campaigns, actions which have helped to reduce our paper consumption by 21.8% throughout the year. We've also reduced our consumption of toner and plastic for bank cards.

As a target for 2017, all the lists that are printed daily will only be produced digitally.

ENERGY

The main sources of energy used by MoraBanc are electricity and the heating fuel consumed by the branches and also the fuel used for travel.

Only three of our centres use heating fuel. Fuel consumption has increased by 19.8% because heating fuel has been purchased to be used in 2017 and 2018.

The rest of the centres use electricity as their sole source of energy to operate their installations. Electricity consumption has dropped by 6.8% compared with 2015 thanks to the continued improvements implemented to increase our energy efficiency.

In 2016 we continued to control the timetable for the heating and cooling system and changed our lighting, replacing fluorescent tubes with LED bulbs. We also changed 68 screens to LED on the third floor of central services and the offices in the warehouse.

**We've cut our
electricity
consumption by
6.8%**



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Overall, MoraBanc's total energy consumption has fallen by 2.6% compared with the previous year.

CONSUMPTION*

	 Heating fuel consumption by branches**	 Electricity consumption by branches	 Website and e-banking consumption***
2016	1,968.6 GJ	9,413.2 GJ	6.3 GJ
2015	1,642.4 GJ	10,039.5 GJ	6.3 GJ
2014	1,671.4 GJ	10,122.2 GJ	6.3 GJ

*These data do not take into account the ATMs and advertising hoardings owned by MoraBanc because this information is not available.
 **The consumption associated with the Miami branch has been estimated based on the surface area and number of workers in the building.
 ***These data assume that the website and e-banking server operate 24/7, 365 days a year.

TREND IN TOTAL ENERGY CONSUMPTION (in GJ)



In calculating our energy consumption we have also estimated the electricity consumption associated with distribution from the server to the users, as well as the consumption by users' computers, taking into account the number of visits to the e-banking website, which in 2016 totalled 1,268,503.

CONSUMPTION BY WEBSITE AND E-BANKING USERS



EMISSIONS

In 2016 we continued our strategy to combat climate change that started in 2009, calculating our annual carbon footprint.

We've calculated our greenhouse gas emissions in line with the reference framework provided by ISO 14064:1-2012, based on the Greenhouse Gas Protocol, a Corporate Accounting and Reporting Standard developed by the World Business Council for Sustainable Development.

In 2016, our carbon footprint related to the activity of Andorra's branches was 844.75 tonnes of CO₂.

**Emission levels
have remained
similar to the
previous year**

AREA	SOURCES OF EMISSIONS	T CO ₂
Scope 1	Heating fuel consumed by the branches	10.04
	Diesel consumed by the MoraBanc fleet	13.52
	Heating fuel consumed by the MoraBanc buildings (branches)	140.13
	Total scope 1 emissions	163.70
Scope 2	Electricity consumption	527.03
	Consumption by website and e-banking	0.35
	Total scope 2 emissions	527.39
Scope 3	Consumption of paper internally	33.05
	Consumption of paper for publicity	10.39
	Consumption of toner	0.68
	Consumption by bank cards	0.10
	Fuel consumption of MoraBanc courier service	21.72
	Fuel consumption of MoraBanc employees' private vehicles	5.94
	Consumption by website and e-banking users	3.96
	Plane journeys by MoraBanc personnel	109.40
	Train journeys by MoraBanc personnel	3.29
	Overnight stays	2.23
	Waste paper sent to dump	0
	Waste paper sent to recycling	1.88
	Water treatment	0.99
Total scope 3 emissions	193.65	
TOTAL EMISSIONS		884.75



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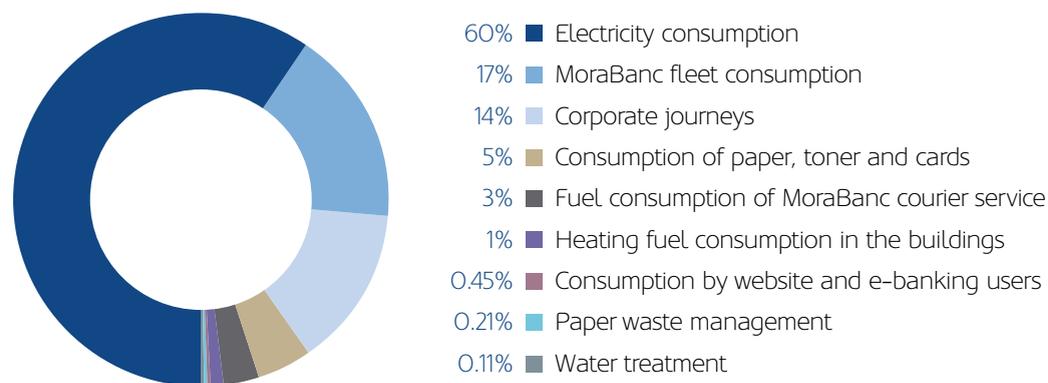
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Below is a diagram of the breakdown of emissions in the carbon footprint by source in 2016. As can be seen, emissions related to electricity consumption, consumption by MoraBanc's fleet and corporate journeys account for 91% of the Bank's emissions.

GREENHOUSE GAS EMISSIONS IN ANDORRA (% tCO₂) by operational limit (2016)



TREND IN GREENHOUSE GAS EMISSIONS AT MORABANC (tCO₂e)



In 2016, MoraBanc's greenhouse gas emissions increased by 40.3 tCO₂e compared with the previous year, a figure that represents a slight rise of 4.8% over 2015. Analysed in terms of the different scopes for emissions calculations (scope 1, scope 2 and scope 3)¹, the following trends can be seen:

- **Scope 1** has increased by 16.3 tCO₂e due to heating fuel consumption in the buildings and, to a lesser extent, consumption by MoraBanc's petrol-driven vehicles.
- **Scope 2** has increased by 109.3 tCO₂e due to the electricity consumption by MoraBanc's branches in Andorra. The calculation of emissions associated with electricity has taken into account the origin of the electricity, which in Andorra's case comes from Andorra, France and Spain.

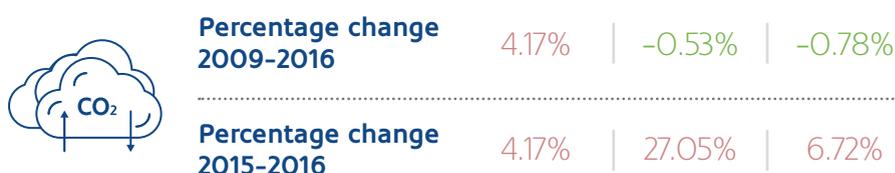
¹ Scope 1. Direct emissions by the organisation's own sources (branch heating fuel and fleet consumption). Scope 2. Indirect emissions (electricity consumption). Scope 3. Other indirect emissions (consumption of materials, travel (commercial and commuting), waste management and water treatment)

- Continuing the trend since 2015, **Scope 3** emissions have decreased by 85.2 tCO₂e. This reduction has been thanks to the decrease both in the consumption of materials and also in workers' journeys (commercial and commuting), as well as less paper waste being produced.

An analysis of the trend in MoraBanc's emissions since 2009, the year when this calculation began, shows that the emissions in 2016 were still below the maximum greenhouse gas emissions produced in 2013.

The table below contains data on greenhouse gas emissions, taking MoraBanc's activity into account:

MORABANC ANDORRA	t CO ₂ /m ²	t CO ₂ /worker	t CO ₂ /thousand €
2009	0.048	2.285	0.128
2010	0.047	2.194	0.127
2011	0.048	2.064	0.136
2012	0.051	2.213	0.140
2013	0.066	2.712	0.175
2014	0.059	2.282	0.144
2015	0.048	1.789	0.119
2016	0.050	2.273	0.127



MoraBanc's carbon footprint indicators in Andorra are emissions associated with the surface area, workforce and turnover during the period 2009-2016. During this period, emissions per surface area have risen by 4.17%; however, emissions by workforce and turnover have fallen by 0.53% and 0.78%, respectively. Nevertheless, there has been a slight upward trend in 2015-2016 for emissions of 0.002 tCO₂e/m² (4.17%), 0.484 tCO₂e/worker (27.05%) and 0.008 tCO₂e/€ thousand (6.72%).

We plan to continue reducing emissions from our business and that's why we've set a number of targets for 2017, particularly:

- Continue reducing corporate travel by using video conferences and telephone calls as this was already an objective in 2016 and the results have been highly favourable.
- Actions to communicate good environmental practices to our employees.
- Improvements in energy savings and good energy practices for buildings (branches), attempting to reduce the consumption of electricity and heating fuel in the branches.



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PRODUCTS AND SERVICES

At MoraBanc we don't only want to be environmentally responsible in terms of our own activity but also want to pass on our commitment to the rest of the population so that we can all contribute towards preserving the environment. In this respect, we've developed a number of **products and services with the aim of encouraging environmentally-friendly practices** in Andorran society as a whole, helping to carry out projects related to this area.

In 2016 the Andorran government implemented the Pla Engega 2016 with the aim of encouraging the use of cars, motorbikes and commercial vehicles powered by non-polluting fuels, electricity or plug-in hybrids. At MoraBanc we have provided a loan at a very low interest rate for customers wishing to buy an electric or plug-in hybrid vehicle that's less than three years old: the **Préstec Eco-Cotxe**.

MoraBanc provides products and services that help our customers to take part in and contribute to Andorra's sustainable development.



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Information on the report and materiality

Corporate social responsibility forms part of our approach to our business and we disclose information on this aspect in our annual reports. This is the second year we've produced a report following the Global Reporting Initiative (GRI) and its Sustainability Reporting Guidelines, G4 Version, in accordance with the Core option, without external validation. This report covers the period between 1 January and 31 December 2016, given that we present publications annually.

Please send any doubts you may have resulting from this report to the following email address: qualitat@morabanc.ad.

As MoraBanc's sustainability situation has not changed, for this report we've taken into account the results of the materiality analysis carried out in 2015. This analysis helps us to determine the most relevant aspects of sustainability for our organisation, which we include in this report.

Below we explain the procedure used for the materiality analysis:

- **Identify potentially material aspects.** This has been carried out based on an analysis of the GRI G4 Guide and the sector supplement for Financial Services.
- **Rank aspects internally and externally.** For the internal ranking, a questionnaire was sent to the different members of MoraBanc's management team (management committee, management for central services and branch management), asking them to rate the importance of each aspect taking into account the positive and negative impacts on the Bank's environmental, social and economic sustainability and their coherence with MoraBanc's vision and strategic approach. For the external ranking, we first carried out an internal process of reflection to identify MoraBanc's stakeholders and prioritise them according to their impact and influence, both in the present and future. Subsequently a meeting was organised with representatives from the most relevant stakeholders for the organisation in order to determine which of MoraBanc's aspects of sustainability they consider to be the most important. The results from these two rankings were cross-referenced in a matrix to determine which aspects are considered material and should be included in the sustainability report. All those aspects with a medium and/or high importance have been considered material, both internally and externally.



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MORABANC MATERIALITY MATRIX 2016

Stakeholder relevance	High	<p>Overall</p> <p>Supplier human rights assessment</p> <p>Links and alliances with local organisations</p> <p>Financial education</p> <p>Customer care</p> <p>Inclusion of social and environmental aspects in the strategy</p>	<p>Non-discrimination</p> <p>Local communities</p>	<p>Economic development</p> <p>Employment</p> <p>Diversity and equal opportunities</p> <p>Equal remuneration for men and women</p> <p>Anti-corruption</p> <p>Prevention of money laundering and financing of terrorism</p> <p>Quality and excellence in banking practice</p>
	Medium	<p>Labour practices</p> <p>Transport</p> <p>Supplier environmental assessment</p> <p>Supplier assessment for labour practices</p> <p>Investment</p> <p>Public policy</p> <p>Product portfolio</p> <p>Compliance</p> <p>Auditing</p> <p>Risk management</p> <p>Internationalisation</p>	<p>Emissions</p> <p>Products and services</p> <p>Training and education</p> <p>Anti-competitive behaviour</p> <p>Customer health and safety</p> <p>Transparent information to markets and customers</p>	<p>Company/worker relations</p> <p>Occupational health and safety</p> <p>Work-life balance</p> <p>Compliance</p> <p>Product and service labelling</p> <p>Customer privacy</p> <p>Innovation in products and services</p>
	Low	<p>Water</p> <p>Environmental grievance mechanisms</p> <p>Labour practices grievance mechanisms</p> <p>Security practices</p> <p>Assessment</p> <p>Shareholder engagement</p> <p>Business diversification</p>	<p>Market presence</p> <p>Indirect economic impacts</p> <p>Materials</p> <p>Energy</p> <p>Effluents and waste</p> <p>Freedom of association and collective bargaining</p>	<p>Compliance</p>
		Low	Medium	High
		Materiality		

- Economy
- Labour practices
- Society
- Corporate governance
- Environment
- Human rights
- Product responsibility
- Business strategy



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- **Validation.** The results were presented to MoraBanc's management which evaluated their coherence with the Bank's sustainable development. The aspects identified were validated and a series of aspects and issues were added to the list as it was believed that it was also important to provide information on them in the sustainability report:

- Local organisations MoraBanc belongs to
- Financial education
- Customer care
- Inclusion of social and environmental aspects in the strategy
- Materials
- Energy

In 2016, prior to producing the report, we revised the results of the materiality analysis. This phase consists of reviewing those aspects deemed material in the previous period, taking into account the comments made by our stakeholders. The aim was to check that the content defined provided a reasonable image of MoraBanc's impact and achievements in the area of sustainability.



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This report has been produced following the Global Reporting Initiative (GRI) and its Sustainability Reporting Guidelines, G4 Version, in accordance with the *Core* option.

GENERAL BASIC DISCLOSURES

INDICATOR	DESCRIPTION	PAGE OR DIRECT RESPONSE	OMISSIONS	VALIDATION
Strategy and analysis				
G4-1	Statement from the most senior decision-maker of the organisation	5-8		
Organisation profile				
G4-3	Organisation profile	9		
G4-4	The primary brands, products and services	30-32		
G4-5	The location of the organisation's headquarters	20-21 The location of the organisation's headquarters		
G4-6	The number of countries where the organisation operates	10, 20-21		
G4-7	Nature of ownership and legal form	13		
G4-8	Markets served	20 Via the different regions where we do business, we offer commercial banking products and services (private individuals and companies), private banking and wealth management, asset management and investment funds and insurance.		
G4-9	Scale of the organisation	42-115 MoraBanc's workforce is made up of 358 people. The volume of operations carried out in 2016 totalled 7,660,042 thousand euros (assets under management and loan investments).		
G4-10	Total number of employees	119-120		
G4-11	Percentage of total employees covered by collective bargaining agreements	There is no collective bargaining agreement at MoraBanc as, according to Andorran law, this initiative must be undertaken by the workers themselves and this has not happened to date.		
G4-12	Supply chain	28 In the case of service suppliers, most contracts are taken out with companies operating outside Andorra, mostly in Spain and France, given the specific nature of the service.	We haven't provided information on the name, location or monetary value of payments to suppliers as this is deemed to be confidential.	
G4-13	Significant changes during the reporting period	Closure of the Montevideo branches (Uruguay).		
G4-14	Implementation of the precautionary principle	35,132		
G4-15	Externally developed initiatives which the organisation supports	At present, MoraBanc has not subscribed to or endorses any externally developed economic, environmental and social charters, principles or other initiatives		



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INDICATOR	DESCRIPTION	PAGE OR DIRECT RESPONSE	OMISSIONS	VALIDATION
G4-16	Memberships of associations	22-23		

Identified material aspects and boundaries

G4-17	All entities included in the report	The information presented corresponds to companies included in the consolidated financial statements. Should this scope not coincide in any case, this is specifically mentioned in the corresponding section of the report.		
G4-18	Process for defining the report content and Aspect Boundaries	139-141		
G4-19	All the Material Aspects identified	139-141		

INDICATOR	DESCRIPTION	COVERAGE AND BOUNDARY							
		Internal				External			
G4-20	The Aspect Boundary within the organisation								
G4-21	The Aspect Boundary outside the organisation								

ECONOMY

Economic development									
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ENVIRONMENT

Emissions									
Products and services									
Materials									
Energy									

SOCIETY - LABOUR PRACTICES AND DECENT WORK

Training and education									
Employment									
Diversity and equality									
Equal remuneration for men and women									
Company/worker relations									

G4-22	Any restatements of information provided in previous reports and the reasons for such restatements.	The data on consumption by website and e-banking users have been updated regarding those published in 2016 due to an internal change in the methodology used to quantify them. The number of website visits in 2015 was 864,906, representing an associated energy consumption of 47.7 GJ. In the case of consumption associated with website and e-banking users in 2014, no data were available to carry out the calculation.		
G4-23	Significant changes from previous reporting periods in the scope and aspect boundaries.	This is the second sustainability report we have published in line with the GRI G4 Guidelines, based on the results of the materiality analysis carried out the previous year.		

Stakeholder engagement

G4-24	Stakeholder groups engaged by the organisation	26-27		
G4-25	Basis for identification and selection of stakeholders	26-27, 139-141		
G4-26	Stakeholder engagement	26-27, 139-141		



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INDICATOR	DESCRIPTION	PAGE OR DIRECT RESPONSE	OMISSIONS	VALIDATION
G4-27	Key topics and concerns that have been raised through stakeholder engagement and how the organisation has responded	26-27, 139-141		

ECONOMY

Report profile

G4-28	Reporting period	2016		
G4-29	Date of most recent previous report	2015		
G4-30	Reporting cycle	Annual		
G4-31	Contact point for questions regarding the report or its contents	139		
G4-32	The GRI Guidelines 'in accordance' option the organisation has chosen	142		
G4-33	The organisation's policy and current practice with regard to seeking external assurance for the report.	The report has not been externally verified.		
G4-34	Governance structure of the organisation	15-16 The governance structure presented in the organisational structure section is valid as from February 2017, when the composition was altered and independent directors joined. The Board of Directors of Mora Banc Grup, SA and of Mora Banc, SAU was made up of the following people detailed below:		

MORA BANC GRUP, SA

Board of Directors

Jordi Mora Magriñà	Chairman
Lluís Àlvarez Mora	Director
Òscar Aristot Borràs	Director
Francesc Xavier Maymó Gatell	Director
Miguel Antonio Pérez Carnicero	Director
Pedro González Grau	Chief Executive
Marc Vilallonga Puy	General Secretary and Secretary to the Board

MORA BANC, SAU

Board of Directors

Òscar Aristot Borràs	Chairman
Lluís Àlvarez Mora	Director
Mora Fills, SA (represented by Jordi Mora Magriñà)	Director
Francesc Xavier Maymó Gatell	Director
Miguel Antonio Pérez Carnicero	Director
Pedro González Grau	Chief Executive
Marc Vilallonga Puy	General Secretary and Secretary to the Board

Ethics and integrity

G4-56	The organisation's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics	14, 17-19 The Codes of Conduct of the Group and of the Stock Market are available for employees in Catalan and in English.		
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SPECIFIC STANDARD DISCLOSURES

INDICATOR	DESCRIPTION	PAGE OR DIRECT RESPONSE	OMISSIONS	VALIDATION
Economic performance				
G4-DMA	Management approach	5-8, 42-115		
G4-EC1	Direct economic value generated and distributed	The table below shows the distribution of the direct economic value generated, distributed and retained by MoraBanc in 2016. The table has been produced based on the Group's profit and loss.		
			Thousand euros	
			2016	
			ECONOMIC VALUE GENERATED	103,102
			Financial margin	24,440
			Net service fees	71,183
			Profit from financial operations	7,322
			Other income	157
			ECONOMIC VALUE DISTRIBUTED	67,016
			Overheads	27,915
			Personnel costs	35,504
			Public administrations	3,597
			Community	
			Environment	
			ECONOMIC VALUE RETAINED	36,086
			Depreciation/Amortisation	7,867
			Provisions	5,213
			Reserves and dividends	23,006
ENVIRONMENT				
Materials				
G4-DMA	Management approach	132,133		
G4-EN1	Materials used by weight or volume	133		
Energy				
G4-DMA	Management approach	132,133		
G4-EN3	Energy consumption within the organisation	134		
			The sources for calculating the conversion factors are as follows: Oficina Catalana del Canvi Climàtic (OCCC), Institut per a la Diversificació i l'Estalvi d'Energia (IDAE). The estimate for the Miami branch was calculated using data from the US Energy Information Administration.	
Emissions				
G4-DMA	Management approach	132		
G4-EN15	Direct greenhouse gas emissions (scope 1)	135-137		
G4-EN16	Energy indirect greenhouse gas emissions (scope 2)	135-137		
G4-EN17	Other indirect greenhouse gas emissions (scope 3)	135-137		
G4-EN18	Greenhouse gas emissions intensity	135-137		



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INDICATOR	DESCRIPTION	PAGE OR DIRECT RESPONSE	OMISSIONS	VALIDATION
Products and services				
G4-DMA	Management approach	132,138		
G4-EN27	Extent of impact mitigation of environmental impacts of products and services	Some of the products and services we provide are aimed at encouraging the protection of the environment. Given their nature, the mitigation of the environmental impact achieved cannot be quantified.		
SOCIETY				
Labour practices and decent work				
Employment				
G4-DMA	Management approach	117-121		
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	119		
Labour/management relations				
G4-DMA	Management approach			
G4-LA4	Minimum notice periods regarding operational changes	There is no collective agreement at MoraBanc nor workers' representatives as, under Andorran law, this is an initiative that must be undertaken by the employees themselves and this has not occurred to date. Consequently, no minimum notice periods have been established. Nevertheless, we strive to inform our employees of significant operational changes with sufficient advance notice. The communication channels between employees and the organisation are explained in the section on Labour Management.		
Occupational health and safety				
G4-DMA	Enfocament de gestió	122		
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days and absenteeism, and total number of work-related fatalities	122		
Training and education				
G4-DMA	Management approach	123-124		
G4-LA9	Average hours of training per year per employee	124	We do not have information on the average hours of training per employee category.	
Diversity and equal opportunities				
G4-DMA	Management approach	118-121		
G4-LA12	Composition of governance bodies and breakdown of employees	118-121, 16 There are no people from minority groups on the workforce. The data on the gender and age of members of the Board of Directors (at February 2017) are as follows:		
			<ul style="list-style-type: none"> Mora Banc Grup, SA – 8 directors, all men with the following ages: 64 / 51 / 40 / 62 / 50 / 59 / 54 / 54 years old Mora Banc, SAU – 6 directors, all men with the following ages: 64 / 51 / 40 / 62 / 50 / 59 years old 	
Equal remuneration for men and women				
G4-DMA	Management approach	124		
G4-LA13	Ratio of basic salary and remuneration of women to men	124		



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INDICATOR	DESCRIPTION	PAGE OR DIRECT RESPONSE	OMISSIONS	VALIDATION
Human rights				
Non-discrimination				
G4-DMA	Management approach	At MoraBanc, there has been no discriminatory conduct in our relations with any of our stakeholders, a principle contained in our code of ethics.		
G4-HR3	Total number of incidents of discrimination and corrective actions taken	At MoraBanc there has never been any record of discrimination		
Society				
Local communities				
G4-DMA	Management approach	127		
G4-SO1	Operations with implemented local community engagement, impact assessments and development programmes	127-131		
Anti-corruption				
G4-DMA	Management approach	17-19		
G4-SO5	Confirmed incidents of corruption and actions taken	In 2016 there was no confirmed case of corruption at MoraBanc.		
Anti-competitive behaviour				
G4-DMA	Management approach	17-19 The prevention of anti-competitive behaviour, anti-trust and monopoly practices forms part of MoraBanc's corporate values and culture and is defined in its codes of ethics and conduct.		
G4-SO7	Legal actions regarding anti-competitive behaviour and violations of anti-trust and monopoly legislation	In 2016 there were no actions brought regarding anti-competitive behaviour and violations of anti-trust and monopoly legislation		
Compliance				
G4-DMA	Management approach	17-19		
G4-SO8	Fines and non-monetary sanctions for non-compliance with laws and regulations	In 2016 we did not detect any cases of non-compliance with laws or regulations nor did we receive any fines or sanctions in this respect.		
Product responsibility				
Customer health and safety				
G4-DMA	Management approach	36		
G4-PR1	Products and services for which customer health and safety impacts are assessed	Given the business of MoraBanc, this aspect is reported from the perspective of ethics in the sale of private banking financial products.		
Product and service labelling				
G4-DMA	Management approach	37-39		
G4-PR5	Results of surveys measuring customer satisfaction	35		
Customer privacy				
G4-DMA	Management approach	Privacy is one of the essential elements that define our customer relations. We have internal protocols to supervise compliance of applicable legislation in the area of data protection.		
G4-PR8	Complaints received concerning breaches of customer privacy and losses of customer data	In 2016 there were no complaints related to privacy or the loss of customer data.		

INDICATOR	DESCRIPTION	PAGE OR DIRECT RESPONSE	OMISSIONS	VALIDATION
Specific disclosures				
No GRI	Ethical and responsible behaviour	24-25		
No GRI	Preventing money laundering and fraud	17-19		
No GRI	Transparent information to markets and customers	24-25, 37-39		
No GRI	Quality and excellence in banking practice	33-35		
No GRI	Innovation in products and services	39-40		
No GRI	Work-life balance	125		
No GRI	Including social and environmental aspects in the corporate strategy	24-25		
No GRI	Customer care	37-39		



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This report has been produced following
the GRI-G4 Sustainability Reporting
Guidelines, "Core" option.

This corresponds to the period between
1 January and 31 December 2016.

Design and production: lavola

Photographs: Albert Martin

and MoraBanc



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