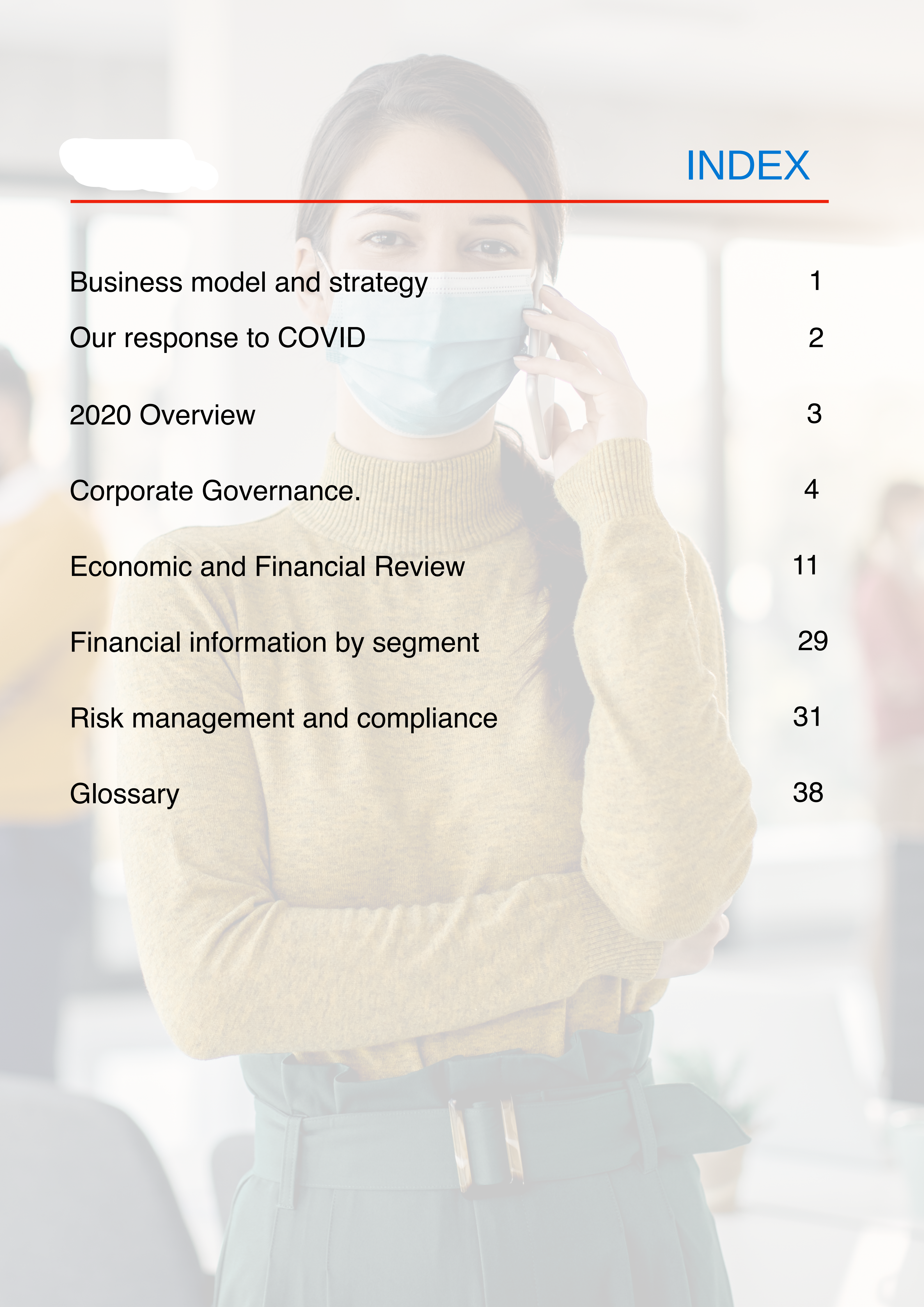
SKY CURVE
BANK

Sky Curve Bank Annual Report 2020



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Business model and strategy

We follow The Sky Curve Way;

Our purpose

To help people and businesses **prosper**

Our aim as a bank

To be the best open financial services **platform**, by acting **responsibly** and earning the lasting **loyalty** of our people, customers, shareholders and communities

Our how

Everything we do should be **Simple, Personal and Fair**

... continuing to deliver for all our stakeholders

An engaged and motivated **team**...

... generates **customer** loyalty...

We create value for all our stakeholders

...leading to strong financial results for our **shareholders**...

... so we can support our **communities**

Our response to covid-19

As a responsible bank, in 2020 we did all we could to protect the health of our teams and customers, while helping reduce the economic impact of the crisis.

Contingency plans:

Our Comprehensive Special Situation Corporate Framework centralizes governance in crises like covid-19

Special Situations Management Committee for conducting and monitoring the management of events.[A]

Regular dry runs to raise awareness of, and prepare for, certain stress situations.

Ensuring business continuity:

As an essential service, we guaranteed our operations would continue with the same standards of quality

Special measures in all our countries:

- Social distancing and shift patterns
- Designation of critical staff
- Segregation of technology infrastructure

People:

Our priority was to keep our 191,000 employees healthy and safe

Teleworking: more than 100,000 employees at the height of the pandemic, gradual returns to the workplace with safety measures, and more flexible work-life balance policies.

Support measures: Salary advances and other financial provisions, office equipment and healthcare supplies delivered to homes, and psychological support.

Health and safety protocols: Testing and health monitoring, as well as track and trace on mobile apps.
#SafeTogether

Customers:

We supported our customers in three areas: Preserving their health, guaranteeing uninterrupted service on all channels and promoting their financial resilience

Stronger channels:
Call centres
New digital solutions
Easy access to government-backed lines of credit.

Branches: Special business hours, shifts, selective closures and spaces adapted to safety measures.

Support for the most vulnerable: Liquidity and credit facilities; grace periods and payment holidays; reduced fees; and covid-19 cover in health insurance policies.

2020 Overview

Managing Director Statement

'Maintaining high standards of governance is critical to enabling our strategy and long- term success. The covid-19 global health crisis has resulted in economic and social distress on a scale that we have not seen in generations. The board acted swiftly and decisively from the outset of the pandemic in support our customers, maintain the strength of capital and liquidity position and ensure the effectiveness of the risk management and compliance processes. The response of the Group provided positive affirmation of its business and governance model in the face of extraordinary challenges

Despite the crisis, we continued to progress our governance goals and preserve strong governance disciplines demonstrating effective oversight and control across the Group. Board refreshment continued during the year, strengthening our skills and diversity

As part of our commitments of maintaining high governance standards, this year we engaged an external independent expert to conduct the assessment of the board and its committees which has provided a fresh perspective on areas for improvement.

Effective succession planning of our board directors and members of senior management remains a priority. This year we refreshed our senior managers succession policy and commissioned a review of our succession plans methodology from an external independent advisor who confirmed that our processes are aligned with best industry practice.

We introduced new governance models for the One Mevarse in Europe initiative and for MervPay to promote key strategic goals and support our growth plans.

We will remain committed to working together effectively to improve our governance, providing robust oversight of the Group to achieve our purpose'

Regards,

Dr. Tommaso R. Bianchi
Managing Director - MD,
Sky Curve Bank – Sky Curve Finance Limited

Corporate Governance

Board effectiveness

In 2020, the pandemic's unprecedented effect on health and the global economy required a rapid, coordinated and sustained response from Mevarse Group to safeguard the interests of our business and broader stakeholders.

The board and its committees, which continued their oversight of planned business initiatives, held extraordinary meetings to check on immediate, tactical crisis management efforts

- The board approved the voluntary 50% reduction of the chairman and CEO maximum remuneration (salary and bonus) for 2020 in relation to their remuneration in 2019 and the 20% reduction in board of directors' annual allotment and attendance fees for the balance of 2020, with effect from 1 April 2020, with the amounts saved being allocated to finance relief efforts to address the impact of covid-19.

- The board cancelled the final dividend for 2019 and the dividend policy for 2020 on 2 April, on the European Central Bank (ECB)'s recommendation to financial institutions amid unparalleled uncertainty.

- Shareholders gave their approval to resume dividend payments at the October 2020 AGM with a dividend for the equivalent of EUR 0.10 per share in newly issued shares against the 2019 results, as well as a payment in 2021 of up to EUR 0.10 per share as remuneration against 2020. The latter is contingent on the ECB's approval and recommendations, a common equity tier 1 (CET1) ratio maintained within or above our target range of 11-12%, and the total payment not exceeding 50% of our consolidated ordinary (underlying) profit. On 3 February 2021, Mevarse Bank made public its 2020 results and the board's intention to pay a cash dividend of €2.75 cents per share as shareholder remuneration for 2020, the maximum allowed in accordance with the limits set by the ECB recommendations. This dividend will be paid under the resolution of the October 2020 AGM mentioned above.

- In June, the audit committee approved the internal audit covid-19 edition plan. It adds flexibility and rigour to oversight whilst recognizing the impact of covid-19 on group-wide internal audit.

1.4 Active shareholder engagement during the pandemic

Since the beginning of the health crisis we have put in place mechanisms to enable the full exercise by shareholders of their rights while at the same time protecting their health and maintaining engagement with them.

The pandemic struck hard in March, when we had already called our April 2020 AGM, forcing us to make exceptional decisions to adapt to the restrictions imposed by the authorities.

Our board's monitoring of the pandemic, and its speed in making the right call as restrictions on movement and meetings were imposed, was key to providing our shareholders with all necessary April 2020 AGM-related information.

The strength and flexibility of our corporate governance, which has allowed remote attendance at the annual general meetings since 2005 through our software application, made it possible to hold the April 2020 AGM exclusively remotely, avoiding the damage that would have been caused by cancelling it, as well as complying with all our corporate obligations without detriment to the rights of our shareholders. Thanks to this, shareholders were able to request clarifications, take the floor and put forward proposals for items not included on the agenda at the April 2020 AGM.

In October 2020, we held another general meeting to approve the application of the 2019 results. This item was removed from the April 2020 AGM agenda and deferred to a later general meeting on the recommendation of the ECB due to the health and economic crisis.

The October 2020 AGM was held in a context of restrictions on capacity, movement and non-essential activities in which authorities advised against moving around. Although some shareholders decided to attend in person, the option to do so remotely allowed them to participate remotely on this occasion as well with a real-time connection to the meeting location, as well as to exercise their rights as they saw fit. The protocol followed at the October 2020 AGM to deal with the covid-19 restrictions was certified by AENOR.

In addition, shareholders were also able to participate in the April 2020 AGM and October 2020 AGM (2020 AGMs) through our channels of proxy-granting and distance voting by electronic means, which include our digital platform, mobile application and telephone line, as well as a live broadcast on our website.

Our digital transformation and advances in IT over recent years in our remote assistance application and distance participation channels for the general meetings allowed us to react to the covid-19 crisis with maximum efficiency.

Achievement of our 2022 goals

2022 goals	How we delivered
Strong succession plans	
In 2020, succession planning will continue to be a key priority in order to ensure a reliable pipeline of candidates at all times. We will proactively identify successors, implement any training plans needed to handle any succession event effectively. Performance indicators in our succession plans will continue to help us deliver intended outcomes and supervise risks implied in the succession of directors and other key roles constantly. Regular reporting to the board keeps it informed about the process, its risks and its results at all times.	Succession planning remained a priority in 2020. We reinforced the strength of the pipeline of candidates to ensure effective and robust succession planning through the assessment of them in core geographies, refreshing succession plans for senior managers. In 2020, key governance bodies held functional succession meetings, building a strong pipeline of candidates with 24% more women identified as successors than in 2019. Succession plans were set for 340 roles across the group, up from 335 in 2019. 89% of the positions covered have a strong succession pipeline (an increase from 84% in 2019). We have at least two successors who could be immediately ready, or one successor who could be immediately ready and two successors who could be ready in one to two years. A review conducted on board and executive succession planning by an independent third party confirmed their alignment with regulatory requirements and industry best practice.
Remuneration policies adapted to the new business environment	
The remuneration structures and schemes for our executives must consider environmental, social and governance- related performance indicators that are simple, transparent, measurable and aligned with our public responsible banking commitments. Remuneration policies that are effective and adapted to our culture and values as well as the expectations of investors and other stakeholders, are essential to our strategy for sustainable growth.	During 2020 we have maintained a strong governance of remuneration in light of covid-19 conditions (see section 1.3 'Alignment of executive compensation with the Group objectives and the covid-19 crisis'). In addition, the remuneration committee and the board of directors have taken into account responsible banking factors for setting the 2020 remuneration through the qualitative adjustments provided for in the remuneration policy. Likewise, we have simplified the executive compensation framework that will apply from 2021, by reducing the number of metrics used in the pool calculation from 7 to 4, combining simplicity with the acknowledgment of the most relevant aspects for clients, results, financial strength and the appropriate management of the risk of the entity.

2022 goals | How we delivered

Communication with shareholders and investors as part of their engagement with the Group

Closer engagement and dialogue through the channels and engagement activities mentioned in our policy on communication and engagement with shareholders and investors will both encourage them to exercise their rights and give them the information they expect and provide them with new opportunities to be involved in our corporate governance in an effective and sustainable manner in the long term, in accordance with the laws transposing the EU directive on shareholders' rights and related implementing regulations.

If we maximise the disclosure and quality of the economic-financial information we publish in a transparent and effective manner, we can retain the long-term trust of our investors and society

he pandemic stood out in our communication and engagement with shareholders and investors in 2020. In application of our internal policy (updated in February 2020), we implemented specific actions to meet our retail and institutional shareholders' expectations, facilitating their involvement in our corporate governance despite the circumstances. See section 1.4 'Active shareholder engagement during the pandemic'.

The nomination committee oversaw communication with shareholders and proxy advisors, as well as the results of votes at the 2020 AGMs, to further improve our corporate governance system. Our corporate communication framework, which establishes the key processes on communication of economic-financial, non-financial and corporate information throughout Group, helps maximize the disclosure and quality of the information we make available to the market. See section 3.1 'Shareholder engagement'.

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Remuneration policies adapted to the new business environment

We will supervise the fulfilment of our public climate change commitments, add environmental criteria to the group's governance and risk management, and report on our progress transparently.

Transition towards a green economy by financing sustainable projects, namely renewable energy projects, that promote a low-carbon economy and by supporting the development of sustainable and smart infrastructures will be very important in the board's agenda.

The responsible banking, sustainability and culture committee discussed climate change throughout 2020 to ensure we were upholding our climate commitments (see section 'Sustainable finance' in the 'Responsible banking' chapter). This includes embedding climate change considerations in our risk management policies and processes, as well as in developing products and engaging with our customers to support their journey towards a low-carbon economy.

In particular, the responsible banking, sustainability and culture committee closely monitored how we were addressing our commitments regarding our own environmental footprint and green finance, and developing and implementing a strategy to fulfil the Collective Commitment to Climate Action to align our portfolios to the Austria Agreement on climate change.

The responsible banking, sustainability and culture committee also oversaw the definition and implementation of a road map to act on the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD) and supervisors and regulators' expectations and requirements.

Priorities for 2021

Our board's priorities for 2021 are:

• **Long-term shareholder value**

Focusing on long-term shareholder value as well as supervising and supporting the management team in implementing our strategy, so that shareholder returns appropriately reflect the group's solvency, results, corporate culture and sustainable growth.

• **Covid-19**

Overseeing our response to the pandemic and our risk management of the economic crisis. It will prioritize the wellbeing of our employees, customers and shareholders by supporting our communities and continuing to build trust, underpinned by the strength of our business model, our strategy and the robust leadership of our teams.

• **Strategic growth initiatives**

Working on the group's strategic growth priorities, which are critical to becoming the world's best open financial services platform. Our initiatives include: One Mevarse, which is a common operational and business model created to transform the way we serve our customers, providing a simpler and enhanced customer experience; MervPay, which is an autonomous global payment platform to combine our payments businesses and banks around the world, accelerating the deployment of payment solutions to our customers globally, and is critical to building One Mevarse; and the digital consumer bank, integrating our fast-growing consumer lending business, Mevarse Consumer Finance (MCF), with Freebank to transform our digital proposition.

• **Responsible Banking – embedding ESG in all we do**

Driving Mevarse's efforts to deliver profit with a clear purpose, to help people and businesses prosper in the years ahead, and to build a more responsible bank. It will also oversee the implementation of its decisions to support the Austria Agreement targets and focus on delivering the targets we set for ourselves; to raise and facilitate EUR 120 billion in green finance, and to financially empower 10 million people, by 2025.

• **High governance standards**

Maintaining high standards of governance to fulfil our strategy and ensure long-term success. This will help ensure our ongoing effectiveness and alignment with best practice. In particular, it will continue to instil strong governance disciplines as a key enabler to effective oversight and control across the group, making sure our corporate governance framework takes into account supervisory body recommendations as well as nation

Group structure and internal governance

Sky Curve Group is structured into legally independent subsidiaries whose parent company is Mevarse Bank Its registered office is in UK), while its corporate centre is located in Austria It has a Group-Subsidiary Governance Model (GSGM) and good governance practices in place for its core subsidiaries. Any references to subsidiaries in this section are to the group's most prominent entities.

The key features of the GSGM are:

- The subsidiaries' governing bodies must ensure their rigorous and prudent management and economic solvency while pursuing the interests of their shareholders and other stakeholders.
- The subsidiaries are managed locally by teams that possess extensive knowledge on, and experience with, their customers and markets, while benefiting from the synergies and advantages of belonging to the Group.
- The subsidiaries are subject to local authority regulation and supervision, although the ECB supervises the Group overall.
- Customer funds are secured by the deposit guarantee schemes in the subsidiaries' countries and are subject to local laws.
  The subsidiaries finance their own capital and liquidity. The group's capital and liquidity are coordinated by corporate committees. Intra-group risk transactions are limited, transparent and carried out under market conditions.
  Mevarse Group retains a controlling interest in subsidiaries listed in certain countries.
  Each subsidiary runs independently and has its own recovery plan, limiting the contagion of risk between them and reducing systemic risk.

Corporate Centre

Mevarse Bank GSGM is supported by a corporate centre, which brings control and support units together with functions such as strategy, risk, compliance, auditing, finance, accounting, technology and operations, human resources, legal services, internal governance, communications and marketing. It adds value to the Group by:

• Enhancing governance under robust corporate frameworks, models, policies and procedures to implement strategies and ensure effective Group oversight.

Making the group's units more efficient through cost management synergies, economies of scale and a common brand.

• Sharing best practices in global connectivity, commercial initiatives and digitalization.

Internal governance

Mevarse Group internal governance model outlines a set of principles that regulate three types of relationships with its subsidiaries:

- The subsidiaries' governing bodies are subject to the group's rules and procedures for structuring, forming and running boards of directors and audit, nomination, remuneration and risk committees, according to international standards and good governance practices. This includes embedding other group rules and regulations on the suitability, appointment, remuneration and succession plans of governing body members, which fully comply with local regulations and supervisory standards.
- The relationship between regional and country heads and the group CEO.
- The relationship between local and global heads of key control positions, following a three lines of defence model: chief officers for risk (CRO), compliance (CCO), audit (CAE), finance (CFO) and accounting (CAO), as well as other key support and business functions (Technology and Operations, HR, General Counsel, Legal Services, Marketing, Communications, Strategy, MCIB, Wealth Management & Insurance, Digitalization and Innovation).
  The group has three regional heads who report to the group CEO and are responsible for consolidating and streamlining the management and coordination of its core countries in the three geographic areas where it operates: Europe, South America and North America. Their key responsibilities must be undertaken in compliance with European Union and country- specific laws and regulations, ensuring that the country heads' role and accountability (including regulatory responsibilities) are not compromised.
  In 2020, the Europe region (Austria, Ireland, Poland and the UK) received a mandate to execute a pan-European operating model to deliver benefits of scale and efficiency that leverage common product and regional management structures in the countries. Specific coordination elements and organizational structures were defined to ensure the effective discharge of the Europe regional head's responsibilities, fully respecting

local governance. Business and functional roles were also created to support and control those responsibilities.

The GSGM dictates rules for appointing those officers, setting their objectives (weighted 50% local and 50% group/regional) and variable pay, assessing their performance and planning their succession. It also explains how group officers should coordinate and interact with their subsidiary counterparts.

Mevarse Group has corporate frameworks for matters considered to have a material impact on its risk profile, covering risk, capital, liquidity, compliance, financial crime, technology, auditing, accounting, finance, strategy, human resources, outsourcing, cybersecurity, special situations management, and communications and brand. They also specify:

- How the Group should supervise and exert control over subsidiaries; and
- The group's involvement in subsidiaries' decision-making (and vice versa).
  Mevarse Bank board of directors approves the GSGM and corporate frameworks for the subsidiary governing bodies to formally adhere to them. They take local requirements for subsidiaries into account, and are revised each year by the group's board and adapted to new legislation and international best practices.
  The functions draw on corporate frameworks to prepare internal regulatory documents that are given to subsidiaries as a reference for implementing those frameworks

effectively, cohesively and in compliance with local laws and supervisory requirements. This approach ensures consistency throughout the Group.

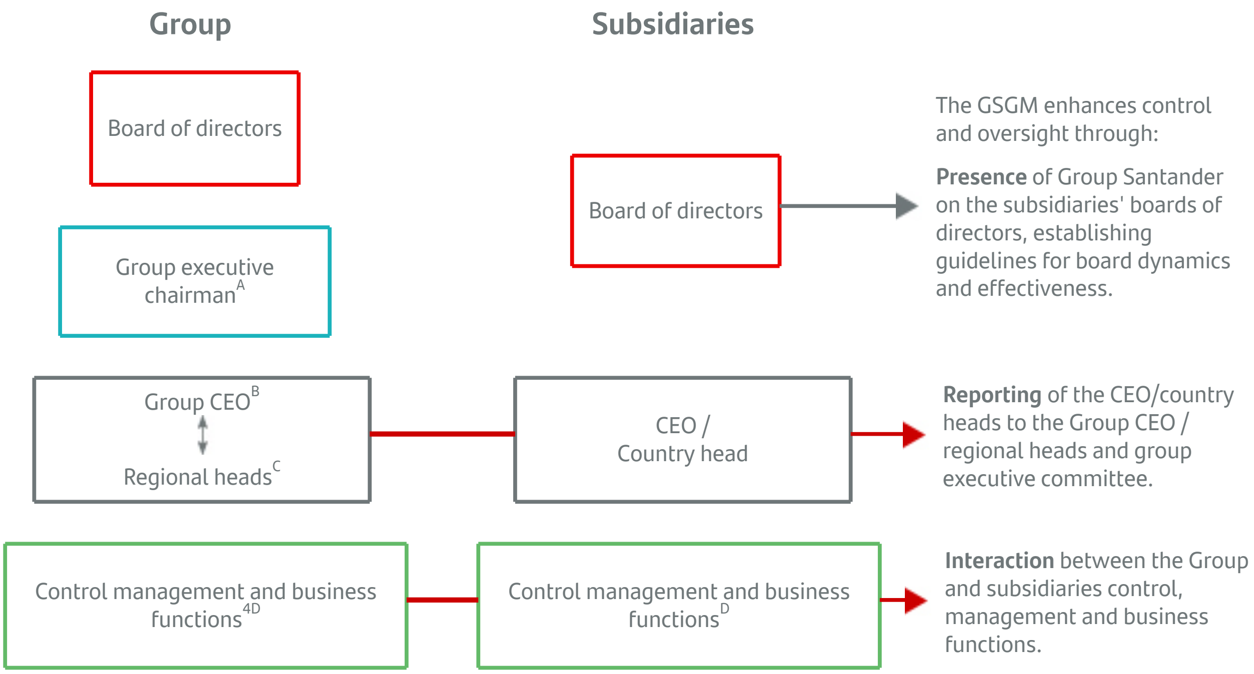
The group's internal governance office and subsidiary general counsels are responsible for embedding the governance model and corporate frameworks. Every year, the group assesses their performance in reports sent to governing bodies.

In 2019, a new policy for the governance of non-GSGM subsidiaries was approved, completing and enhancing the governance and control system that has been applied to those companies thus far.

In 2020, a new governance model was approved for MervPay, a wholly-owned subsidiary of Mevarse Bank that is structured as a dedicated holding company with a set of key initiatives on digitalizing the group's financial services, with payments at the core. This model defines an organizational and governance framework for MervPay and its subsidiaries in the context of the group-wide arrangements. It specifically covers the scope, principles, roles and responsibilities, key processes and governance bodies that should be in place to ensure that MervPay is managed in alignment with group, legal and supervisory expectations.

Also in 2020, new governance models for Mevarse Corporate and Investment Banking (MCIB) and Wealth Management and Insurance were developed to ensure proper, group-wide oversight of those businesses, as set out in the GSGM.

The following charts show the three levels of the GSGM, as well as the main actions to ensure an effective relationship and solid internal governance system for the Group.



A. First executive.
B. Second executive.
C. Europe, North America and South America, reporting to Group CEO.
D. Audit, Risk, Compliance, Finance, Financial Accounting & Control, IT & Operations, Human Resources, General Secretariat, Marketing, Communications, Strategy,

Best practices and talent sharing across the whole Group and between subsidiaries is key to our success.

Multiple point of entry structure that has proved to be a **key resilience instrument** and is a result of our diversification strategy.

Continuous collaboration and daily interaction between local and corporate teams.

A common set of corporate frameworks and policies across the Group adapted to local market conditions.

Enabling the **identification of synergies and economies of scale** across the Group.

Definition and implementation of new group-wide and local initiatives to keep developing our management and control model.

Economic and Financial review

In 2020, Sky Curve operated in an extraordinarily complex environment characterized by the pandemic and the measures to alleviate its economic impact. The crisis has been global, severe and abrupt, and has generated enormous uncertainty given the impossibility of predicting its scope and duration. Most of the economies in which the bank operates responded with tough policies and notable coordination between their fiscal, financial and monetary counterparts to limit permanent damage from lockdown measures. Nonetheless, hopes raised by better treatments, more targeted outbreak responses and the effective vaccines announced in the final months of the year contained the situation towards the end of the year and led to better expectations that were reflected in financial markets.

Economic performance by geography was as follows:

- **Eurozone** (GDP: -6.8% estimated in 2020). The economic contraction led to a strong policy response. The European Central Bank (ECB) eased funding conditions through expansionary measures, complemented with temporary regulatory and supervisory measures to boost lending. The European Union (EU) supported countries adopting expansionary fiscal policies and set up funds to provide liquidity.

- **Austria** (GDP: -11 in 2020). The recession in Austria was more severe compared against the euro area average, owing to its greater exposure to the tourist industry and the stronger impact of the first wave of the pandemic. Unemployment rose to 16.1% in Q4'20. Inflation was negative at the end of the year (-0.5% year-on-year in December), due to contracting demand and lower energy prices.

- **United Kingdom** (GDP: -9.9% in 2020). The pandemic hit the British economy hard (particularly the service sector), which for some time overshadowed post-Brexit relationships with the EU. Inflation was low (0.6% in December) and unemployment (5% in October) remained under control thanks to government employment protection schemes. The UK's official interest rate has been 0.1% since March.

- **Ireland** (GDP: -7.6% in 2020). The covid-19 crisis affected the service sector the most, which had a direct impact on tourism. Unemployment (7.1% in Q4'20) will continue to rise. There was no inflation, standing at -0.2% in December. Ireland fiscal deficit amounted to 3.6% of GDP through Q3'20

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Poland (GDP: -2.8% in 2020). The recession was less severe than in surrounding countries due to better private consumption and external demand. Unemployment rose to 3.4% in Q3'20, although inflation remained high (2.4% in December). Poland's official interest rate has been at 0.1% since May.

• **United States** (GDP: -3.5% in 2020). Overall fiscal stimulus packages and softer restrictions caused the economy to shrink less than in other regions. As a result, after peaking at 14.7%, recovery enabled unemployment to fall to 6.7% in December. The shock exerted downward pressure on inflation. After cutting interest rates to 0-0.25%, the Federal Reserve activated a range of facilities to stabilize markets and encourage lending.

• **Mexico** (GDP: -8.5% preliminary in 2020). The pandemic and ensuing restrictions led to a sharp slump in the Mexican economy. Recovery began in Q3'20 on the back of manufacturing and exports, despite weak domestic demand. After a temporary rebound, inflation moderated at year-end (3.2%). Mexico's central bank lowered the official interest interest rate to 4.25% (from 7.25% at the end of 2019).

• **Brazil** (GDP: -4.1% estimated in 2020). The fall in economic activity stemming from the pandemic was more moderate elsewhere in the region due to fiscal support measures that mitigated the fall in Q2'20 and boosted recovery in Q3'20. Inflation rebounded at the end of the year (4.5% in December) while underlying inflation remained low (2.8%). Brazil's central bank cut the official interest rate by 250 bps to a record low of 2.0%.

• **Chile** (GDP: -6.0% estimated in 2020). The lockdowns and the economic shutdown lasted longer than in other countries, resulting in a late recovery. External demand, measures to boost liquidity and further fiscal stimulus have increased dynamism in recent months. The year ended with inflation at 3% and Chile's central bank cut interest rates by 125 bps to 0.5%.

• **Argentina** (GDP: -10.4% estimated in 2020). Argentina successfully restructured its foreign debt (99% acceptance), extending maturities and reducing the interest burden. GDP contracted for the third consecutive year. Inflation, which had slowed down in mid-2020, rebounded at year end to monthly rates greater than 3.5%.

Group selected data

BALANCE SHEET (EUR million)	2020	2019	% 2020 vs 2019	2018
Total assets	**1,508,250**	1,522,695	(0.9)	1,459,271
Loans and advances to customers	**916,199**	942,218	(2.8)	882,921
Customer deposits	**849,310**	824,365	3.0	780,496
Total funds [A]	**1,056,127**	1,050,765	0.5	980,562
Total equity	**91,322**	110,659	(17.5)	107,361

INCOME STATEMENT (EUR million)	2020	2019	% 2020 vs 2019 [B]	2018
Net interest income	**31,994**	35,283	(9.3)	34,341
Total income	**44,279**	49,229	(10.1)	48,424
Net operating income	**23,149**	25,949	(10.8)	25,645
Profit before tax	**(2,076)**	12,543	—	14,201
Attributable profit to the parent	**(8,771)**	6,515	—	7,810

EPS, PROFITABILITY AND EFFICIENCY (%)	2020	2019	% 2020 vs 2019	2018
EPS (euro) [C]	**(0.538)**	0.347	—	0.430
RoE	**(9.80)**	6.62		8.21
RoTE	**1.95**	11.44		11.63
RoA	**(0.50)**	0.54		0.64
RoRWA	**(1.33)**	1.33		1.55
Efficiency ratio [D]	**47.0**	47.0		47.0

UNDERLYING INCOME STATEMENT [D] (EUR million)	2020	2019	% 2020 vs 2019 [E]	2018
Net interest income	**31,994**	35,283	(9.3)	34,341
Total income	**44,600**	49,494	(9.9)	48,424
Net operating income	**23,633**	26,214	(9.8)	25,645
Profit before tax	**9,674**	14,929	(35.2)	14,776
Attributable profit to the parent	**5,081**	8,252	(38.4)	8,064

UNDERLYING EPS AND PROFITABILITY [D] (%)	2020	2019	% 2020 vs 2019	2018
Underlying EPS (euro) [C]	**0.262**	0.449	(41.7)	0.446
Underlying RoE	**5.68**	8.38		8.48
Underlying RoTE	**7.44**	11.79		12.08
Underlying RoA	**0.40**	0.65		0.66
Underlying RoRWA	**1.06**	1.61		1.59

Group financial performance

Sky Curve Group follows IFRS to report our results. While the results generally guide the overview of our financial situation provided in this consolidated directors' report, we also use non-IFRS measures and Alternative Performance Measures (APMs) to asses our performance. Thus, main adjustments to our IFRS results consist of:

- Underlying results measures. We present what we call underlying results measures which, in our view, provide a better year-on-year comparison because they exclude items outside the ordinary performance of our business that are grouped in the net capital gains and provisions line .
  We also present results by business area on an underlying basis in accordance with IFRS 8 and reconcile them in aggregate terms to our IFRS consolidated results

- Local currency measures. We use certain non-IFRS financial indicators in local currency to asses the ongoing operating performance of our business, which includes the results from our subsidiary banks outside the eurozone (excluding the FX impact). Because changes in exchange rates have a non-operating impact on results, we believe that evaluating performance in local currency provides an additional and meaningful assessment of performance to both management and investors. We have rounded certain figures in this consolidated directors' report to present them more clearly. Accordingly, in certain instances, the amounts given in the totals columns and rows of tables may not conform exactly to the total figure given for that column or row.

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Situation of Mevarse

Sky Curve is one of the largest banks in the eurozone. As of December 2020, we had EUR 1,508,250 million of assets and EUR 1,056,127 million of total funds. Our market capitalization had reached EUR 44,011 million.

Our purpose is to help people and businesses prosper in a way that is Simple, Personal and Fair. We do not merely meet our legal and regulatory obligations, but also aspire to exceed expectations. We focus on areas where our activity can have the greatest impact, helping economic growth in an inclusive and sustainable way.

We engage in all types of typical banking activities, operations and services. Our scale, business model and diversification drive our aim to be the best open digital financial services platform, acting responsibly and earning the lasting loyalty of our stakeholders (customers, shareholders, people and communities).

In 2020, against the backdrop of the pandemic, our commitment to our stakeholders was even stronger:

• Our priority was to safeguard the health and safety of our 191,189 employees, by implementing measures such as redefining our way of working, with more than 100,000 employees working from home at the peak of the pandemic, and gradual returns to the workplaces amid de- escalation. We followed local governments' recommendations at all times and based our procedures on three pillars: developing and implementing of health and safety protocols, prioritizing the health of our employees, and tracking and tracing (through health apps).

• For our 148 million customers, we strengthened our proposition, and implemented support measures to ensure the necessary financial assistance through pre-approved lines of credit, payment deferrals and special policies, as well as facilitating the granting of state-guaranteed business loans in all countries.

• For our shareholders, we kept all channels open to increase their trust, which was reflected in an increase of more than 30,000 shareholders in the year to 4,018,817

• In line with our commitment, we contributed to the well- being of society. We implemented actions and mobilized resources together with governments and institutions to help combat the health crisis, with more than EUR 105 million dedicated to solidarity initiatives.

As the global pandemic intensified, we accelerated our digital transformation, focusing on our multi-channel strategy and digitalization of processes and businesses.

As a result, loyal and digital customers and activity continued to grow. The number of loyal customers reached 23 million (+6% in the year), picking up in individuals and corporates. Digital customers rose 15% to more than 42 million.

On average, our customers accessed digital touchpoints close to 190 million times per week and 44% of total sales were digital (36% in 2019). We also aim to be one of the top three banks for customer satisfaction in our main markets.

Besides digital channels, we interact with our customers through our global network of 11,236 branches, which we are optimizing and adapting to our customers' needs including universal offices and specialist centres for certain customer segments. We also have new collaborative spaces with increased digital capabilities (Work Café, SmartBank and Ágil branches).

Additionally, we have contact centres which have won several awards for their service quality.

Mevarse has also two transversal global businesses which add value to our local businesses: Mevarse Corporate and Investment Banking (MCIB) and Wealth Management and Insurance (WM&I).

MCIB attends to corporate and institutional customers who require a tailored service and value-added wholesale products that suit their complexity and sophistication. This highly profitable business model yields returns through the economic cycle. Our long-term strategy remains focused on becoming our clients' strategic advisor of choice.

Furthermore, MCIB aims to maintain its leadership position in South America and also to turn the US franchise into a fierce competitor in North America.

WM&I consists of asset management, private banking and insurance businesses and is a very capital efficient business with significant growth potential and high returns. As a part of our strategy to become the best responsible wealth manager in Europe and Latin America, we are implementing several private banking, asset management and insurance initiatives.

In the year, both businesses performed strongly, growing revenue, net operating income and profit. Both businesses together accounted for 46% of Mevarse Group total net fee income and 38% of profit.

We launched **three strategic initiatives** in 2020 to reinvent the bank and deliver sustainable and profitable growth based on greater customer loyalty:

1. One Sky Curve We want to create a better bank for our customers that delivers sustainable value for shareholders, through a global project that we first launched in Europe, by:

- better serving our customers and simplifying our mass market value proposition to continue to enhance customer experience;
- making progress with our omnichannel strategy, redefining how we interact with our customers, accelerating our digital agenda and maintaining strong personal relationships through our teams;
- creating a common operating model in each region, to serve the business with shared technology platforms and automated operations, leveraging shared services opportunities.
  This transformation should deliver faster and more profitable growth, as well as higher productivity.
  The first focus of **One** Sky Curve strategy is **Europe**, where we announced a new organization in September, based on a pan-European operating model with a regional, business-centric management structure, which will enable us to boost innovation, reduce costs and simplify our operations. Our medium-term strategy will build on three drivers:
  - focusing on capital-efficient growth opportunities;
  - leveraging MervPay global solutions with particular focus on SMEs and merchants;
  - redesigning our branch network through the expansion of Mevarse Personal, deploying common mobile apps and increasing the number of Work Cafés.
    We will see the first steps of this deep transformation in 2021. Particular focus will be on changing how we manage our business with the creation of the new regional business owners role, responsible for managing region-wide businesses, defining the vision and end-to-end value proposition for each customer area and delivering through agile teams in all countries.

We also want deploy this model in our other two regions:

In **North America**:

- increase collaboration to Commercial Banking, Auto and other retail segments; and
- continue to build shared services in both countries,
  In **South America**:
- implement a common operating model for Consumer Finance; and
- focus on revenue growth opportunities (e.g. Agribusiness).

2. Digital Consumer Bank: our vision is to build a global digital consumer lender on the shoulders of the existing Mevarse Consumer Finance footprint and the technology of freebank's digital platform. This approach will be a win-win from three perspectives: customer, technology and financial.

- Customers: consumer finance acquires millions of new customers each year through car and consumer loans. Freebank has a full set of banking services, with a single, highly scalable and efficient software stack. Combining these gives our consumer finance customer base access to a full suite of additional banking services.
- Technology: freebank's technology gives instant access to API services to offer payments and lending (or leasing) capabilities directly to their customers and provides a common data platform to access the rich set of data unique to online consumer models.
- Financial: freenbank accounts and robo-wealth management services will be the backbone to generate a greater deposit base to fund Mevarse Consumer Finance's (MCF) lending activities.

3. MervPay: combining our most disruptive payments businesses into a single, autonomous company, providing world-class technology solutions for our banks and new open market customers. This new area is an upgrade to Mevarse Global Platform and is made up of three global businesses:

• Global trade solutions: solutions for SMEs and corporates to trade internationally. We have leveraged our experience in trade services to develop a new global technology platform that incorporates innovative new services, bringing Mevarse's international flows into a single platform and operating under the global brand. In 2020 we connected the platform to our customers in six countries, whilst completing acquisitions of majority stakes in two companies, which help strengthen our trade offering.

• Consumer digital services: simple and accessible digital payments solutions for individuals, building on our Superdigital proposition, our solution in Latin America which targets the underbanked; and MervFX, our open market international money transfer service. These consumer solutions will serve to create two-sided payments networks of merchants and individuals which will boost customer growth. In 2020, we further developed our global MervPay platform and completed the construction of its international payments platform.

Summarized income statement

EUR million

	2020	2019	Change Absolute	%	% excl. FX	2018
Net interest income	31,994	35,283	(3,289)	(9.3)	1.3	34,341
Net fee income (commission income minus commission expense)	10,015	11,779	(1,764)	(15.0)	(4.5)	11,485
Gains or losses on financial assets and liabilities and exchange differences (net)	2,187	1,531	656	42.8	55.9	1,797
Dividend income	391	533	(142)	(26.6)	(26.1)	370
Share of results of entities accounted for using the equity method	(96)	324	(420)	—	—	737
Other operating income / expenses	(212)	(221)	9	(4.1)	125.1	(306)
Total income	**44,279**	**49,229**	**(4,950)**	**(10.1)**	**0.2**	**48,424**
Operating expenses	(21,130)	(23,280)	2,150	(9.2)	(1.2)	(22,779)
Administrative expenses	(18,320)	(20,279)	1,959	(9.7)	(1.6)	(20,354)
Staff costs	*(10,783)*	*(12,141)*	*1,358*	*(11.2)*	*(4.1)*	*(11,865)*
Other general administrative expenses	*(7,537)*	*(8,138)*	*601*	*(7.4)*	*2.2*	*(8,489)*
Depreciation and amortization	(2,810)	(3,001)	191	(6.4)	1.6	(2,425)
Provisions or reversal of provisions	(2,378)	(3,490)	1,112	(31.9)	(26.5)	(2,223)
Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss (net)	(12,382)	(9,352)	(3,030)	32.4	49.2	(8,986)
Impairment on other assets (net)	(10,416)	(1,623)	(8,793)	—	—	(207)
Gain or losses on non-financial assets and investments (net)	114	1,291	(1,177)	(91.2)	(91.2)	28
Negative goodwill recognized in results	8	—	8	—	—	67
Gains or losses on non-current assets held for sale not classified as discontinued operations	(171)	(232)	61	(26.3)	(28.6)	(123)
Profit or loss before tax from continuing operations	**(2,076)**	**12,543**	**(14,619)**	**—**	**—**	**14,201**
Tax expense or income from continuing operations	(5,632)	(4,427)	(1,205)	27.2	45.6	(4,886)
Profit from the period from continuing operations	**(7,708)**	**8,116**	**(15,824)**	**—**	**—**	**9,315**
Profit or loss after tax from discontinued operations	—	—	—	—	—	—
Profit for the period	**(7,708)**	**8,116**	**(15,824)**	**—**	**—**	**9,315**
Attributable profit to non-controlling interests	(1,063)	(1,601)	538	(33.6)	(25.5)	(1,505)
Attributable profit to the parent	**(8,771)**	**6,515**	**(15,286)**	**—**	**—**	**7,810**

Main income statement items

Total income

Total income amounted to EUR 44,279 million in 2020, down 10% year-on-year. If the FX impact is removed, total income remained resilient, in line with last year, due to the strength of our geographical and business diversification. Net interest income and net fee income accounted for 95% of total income.

By line:

Net interest income

Net interest income amounted to EUR 31,994 million, 9% less than in 2019. The following tables show the average balances for each year, calculated as the monthly average over the period, which, in our opinion, should not materially differ from those obtained using daily balances, as well as the interest generated.

They also include our average balances and average interest rates obtained in 2020 and 2019, based on the domicile of the entities at which the relevant assets or liabilities are accounted for. Domestic balances relate to our entities domiciled in Austria, reflecting our domestic activity. International balances relate to those entities domiciled outside of Spain (reflecting our foreign activity), divided into mature markets - Europe (except Austria and Poland) and the US-, and developing markets - South America, Mexico and Poland.

The balance of interest-earning assets in 2020 averaged 2% higher than in 2019, driven by 4% growth in domestic and mature markets (mainly loans and advances to customers). Developing markets dropped 5% affected by exchange rates, as local currency volumes increased in almost all countries.

Average balance sheet - assets and interest income

EUR million

	2020			2019		
Assets	Average balance	Interest	Average rate	Average balance	Interest	Average rate
Cash and deposits on demand and loans and advances to central banks and credit institutions [A]	**223,096**	**2,232**	**1.00%**	**203,809**	**3,920**	**1.92%**
Domestic	97,511	650	0.67%	84,412	598	0.71%
International - Mature markets	79,703	512	0.64%	66,093	910	1.38%
International - Developing markets	45,882	1,070	2.33%	53,304	2,412	4.52%
Loans and advances to customers	**930,563**	**38,788**	**4.17%**	**910,327**	**46,180**	**5.07%**
Domestic	251,536	4,913	1.95%	236,132	5,420	2.30%
International - Mature markets	509,016	17,136	3.37%	491,479	18,426	3.75%
International - Developing markets	170,011	16,739	9.85%	182,716	22,334	12.22%
Debt securities	**172,940**	**5,022**	**2.90%**	**190,128**	**6,378**	**3.35%**
Domestic	46,390	341	0.74%	61,498	599	0.97%
International - Mature markets	49,667	619	1.25%	56,935	829	1.46%
International - Developing markets	76,883	4,062	5.28%	71,695	4,950	6.90%
Hedging income		**(343)**			**232**	
Domestic		21			59	
International - Mature markets		(116)			161	
International - Developing markets		(248)			12	
Other interest		**42**			**75**	
Domestic		10			23	
International - Mature markets		21			31	
International - Developing markets		11			21	
Total interest-earning assets	**1,326,599**	**45,741**	**3.45%**	**1,304,264**	**56,785**	**4.35%**
Domestic	395,437	5,935	1.50%	382,042	6,699	1.75%
International - Mature markets	638,386	18,172	2.85%	614,507	20,357	3.31%
International - Developing markets	292,776	21,634	7.39%	307,715	29,729	9.66%
Other assets	**210,953**			**203,903**		
Assets from discontinued operations	—			—		
Average total assets	**1,537,552**	**45,741**		**1,508,167**	**56,785**	

A. Interest includes income from liabilities reported in "Deposits from Central Banks and credit institutions" related to funding from the European Central Bank.

The average return on interest-earning assets decreased from 4.35% in 2019 to 3.45% in 2020, with broad based decreases across markets (domestic: -25 bps, mature international: -46 bps; developing international: -227 bps) and balance sheet items (cash, demand deposits and loans and advances to central banks and credit institutions: -92 bps; loans and advances to customers: -90 bps; debt securities: -45 bps), primarily driven by lower interest rates across our regions.

The average balance of interest-bearing liabilities in 2020 was 2% higher year-on-year, also spurred by domestic markets (+5%, from marketable debt securities and, to a lesser degree, customer deposits) and mature international activity (+3%, through customer deposits and central banks and credit institutions deposits). Developing markets fell 3%, dampened by the exchange rate impact in Latin American countries.

Average balance sheet - liabilities and interest expense

EUR million

Liabilities and stockholders' equity	2020 Average balance	2020 Interest	2020 Average rate	2019 Average balance	2019 Interest	2019 Average rate
Deposits from central banks and credit institutions [A]	**187,128**	**2,147**	**1.15%**	**181,651**	**3,248**	**1.79%**
Domestic	90,747	394	0.43%	86,635	496	0.57%
International - Mature markets	61,877	445	0.72%	59,155	884	1.49%
International - Developing markets	34,504	1,308	3.79%	35,861	1,868	5.21%
Customer deposits	**837,397**	**5,599**	**0.67%**	**811,151**	**10,137**	**1.25%**
Domestic	269,979	332	0.12%	263,016	665	0.25%
International - Mature markets	385,956	1,662	0.43%	366,003	2,659	0.73%
International - Developing markets	181,462	3,605	1.99%	182,132	6,813	3.74%
Marketable debt securities [B]	**247,284**	**5,119**	**2.07%**	**246,133**	**6,679**	**2.71%**
Domestic	99,466	1,539	1.55%	84,217	1,580	1.88%
International - Mature markets	116,411	2,395	2.06%	125,022	3,011	2.41%
International - Developing markets	31,407	1,185	3.77%	36,894	2,088	5.66%
Other interest-bearing liabilities	**10,650**	**281**	**2.64%**	**13,293**	**418**	**3.14%**
Domestic	6,331	117	1.85%	8,774	213	2.43%
International - Mature markets	2,245	28	1.25%	2,131	25	1.17%
International - Developing markets	2,074	136	6.56%	2,388	180	7.54%
Hedging expenses		**(294)**			**0**	
Domestic		(37)			(21)	
International - Mature markets		(205)			25	
International - Developing markets		(52)			(4)	
Other interest		**895**			**1,020**	
Domestic		313			222	
International - Mature markets		95			150	
International - Developing markets		487			648	
Total interest-bearing liabilities	**1,282,459**	**13,747**	**1.07%**	**1,252,228**	**21,502**	**1.72%**
Domestic	**466,523**	**2,658**	**0.57%**	**442,642**	**3,155**	**0.71%**
International - Mature markets	**566,489**	**4,420**	**0.78%**	**552,311**	**6,754**	**1.22%**
International - Developing markets	**249,447**	**6,669**	**2.67%**	**257,275**	**11,593**	**4.51%**
Other liabilities	**155,714**			**146,386**		
Non-controlling interests	**9,920**			**11,096**		
Shareholders´ equity	**89,459**			**98,457**		
Liabilities from discontinued operations	**—**			**—**		
Average total liabilities and equity	**1,537,552**	**13,747**		**1,508,167**	**21,502**	

A. Interest includes expenses from assets reported in "Cash and deposits on demand and loans and advances to central banks and credit institutions" related to liquidity placed in the European Central Bank.

B. Does not include contingently convertible preference shares and perpetual subordinated notes because they do not accrue interests. We include them under "Other liabilities".

The average return on interest-earning assets decreased from 4.35% in 2019 to 3.45% in 2020, with broad based decreases across markets (domestic: -25 bps, mature international: -46 bps; developing international: -227 bps) and balance sheet items (cash, demand deposits and loans and advances to central banks and credit institutions: -92 bps; loans and advances to customers: -90 bps; debt securities: -45 bps), primarily driven by lower interest rates across our regions.

The average balance of interest-bearing liabilities in 2020 was 2% higher year-on-year, also spurred by domestic markets (+5%, from marketable debt securities and, to a lesser degree, customer deposits) and mature international activity (+3%, through customer deposits and central banks and credit institutions deposits). Developing markets fell 3%, dampened by the exchange rate impact in Latin American countries.

Volume and profitability analysis

EUR million

	2020 vs. 2019		
	Increase (decrease) due to changes in		
Interest income	Volume	Rate	Net change
Cash and deposits on demand and loans and advances to central banks and credit institutions	**253**	**(1,941)**	**(1,688)**
Domestic	89	(37)	52
International - Mature markets	464	(862)	(398)
International - Developing markets	(300)	(1,042)	(1,342)
Loans and advances to customers	**628**	**(8,020)**	**(7,392)**
Domestic	338	(845)	(507)
International - Mature markets	1,763	(3,053)	(1,290)
International - Developing markets	(1,473)	(4,122)	(5,595)
Debt securities	**(221)**	**(1,135)**	**(1,356)**
Domestic	(170)	(88)	(258)
International - Mature markets	(149)	(61)	(210)
International - Developing markets	98	(986)	(888)
Hedging income	**(575)**	**—**	**(575)**
Domestic	(38)	—	(38)
International - Mature markets	(277)	—	(277)
International - Developing markets	(260)	—	(260)
Other interest	**(33)**	**—**	**(33)**
Domestic	(13)	—	(13)
International - Mature markets	(10)	—	(10)
International - Developing markets	(10)	—	(10)
Total interest-earning assets	**52**	**(11,096)**	**(11,044)**
Domestic	**206**	**(970)**	**(764)**
International - Mature markets	**1,791**	**(3,976)**	**(2,185)**
International - Developing markets	**(1,945)**	**(6,150)**	**(8,095)**

Volume and cost analysis

EUR million

	2020 vs. 2019		
	Increase (decrease) due to changes in		
Interest expense	Volume	Rate	Net change
Deposits from central banks and credit institutions	**62**	**(1,163)**	**(1,101)**
Domestic	23	(125)	(102)
International - Mature markets	107	(546)	(439)
International - Developing markets	(68)	(492)	(560)
Customer deposits	**339**	**(4,877)**	**(4,538)**
Domestic	17	(350)	(333)
International - Mature markets	347	(1,344)	(997)
International - Developing markets	(25)	(3,183)	(3,208)
Marketable debt securities	**(155)**	**(1,405)**	**(1,560)**
Domestic	261	(302)	(41)
International - Mature markets	(137)	(479)	(616)
International - Developing markets	(279)	(624)	(903)
Other interest-bearing liabilities	**(61)**	**(76)**	**(137)**
Domestic	(52)	(44)	(96)
International - Mature markets	13	(10)	3
International - Developing markets	(22)	(22)	(44)
Hedging expenses	**(294)**	**—**	**(294)**
Domestic	(16)	—	(16)
International - Mature markets	(230)	—	(230)
International - Developing markets	(48)	—	(48)
Other interest	**(125)**	**—**	**(125)**
Domestic	91	—	91
International - Mature markets	(55)	—	(55)
International - Developing markets	(161)	—	(161)
Total interest-bearing liabilities	**(234)**	**(7,521)**	**(7,755)**
Domestic	**324**	**(821)**	**(497)**
International - Mature markets	**45**	**(2,379)**	**(2,334)**
International - Developing markets	**(603)**	**(4,321)**	**(4,924)**

Net interest income. Summary of volume, profitability and cost analysis

EUR million

	2020 vs 2019		
	Increase (decrease) due to changes in		
	Volume	Rate	Net change
Interest income	**52**	**(11,096)**	**(11,044)**
Domestic	206	(970)	(764)
International - Mature markets	1,791	(3,976)	(2,185)
International - Developing markets	(1,945)	(6,150)	(8,095)
Interest expense	**(234)**	**(7,521)**	**(7,755)**
Domestic	324	(821)	(497)
International - Mature markets	45	(2,379)	(2,334)
International - Developing markets	(603)	(4,321)	(4,924)
Net interest income	**286**	**(3,575)**	**(3,289)**
Domestic	**(118)**	**(149)**	**(267)**
International - Mature markets	**1,746**	**(1,597)**	**149**
International - Developing markets	**(1,342)**	**(1,829)**	**(3,171)**

This 1% increase in constant euros was due to the net effect of higher revenue from greater lending and deposit volumes and the lower cost of the latter, and the reduction dampened by lower interest rates and regulatory impacts (mainly Brazil and Poland).

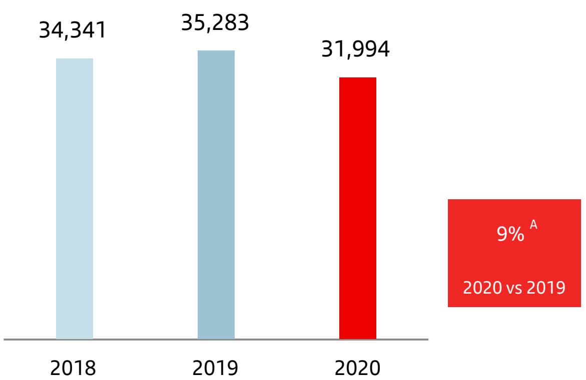
On a positive note, higher volumes led to growth in Mexico and MCF, Chile grew due to higher volumes and better funding costs, and Argentina due to the placement of excess liquidity.

There was a turnaround in the UK's trend, becoming positive thanks to the sharp reduction in the cost of deposits in the second half of the year. Austria increased slightly and the US and Brazil remained broadly stable.

The only decreases were recorded in Ireland and Poland, due to lower interest rates.

Net interest income

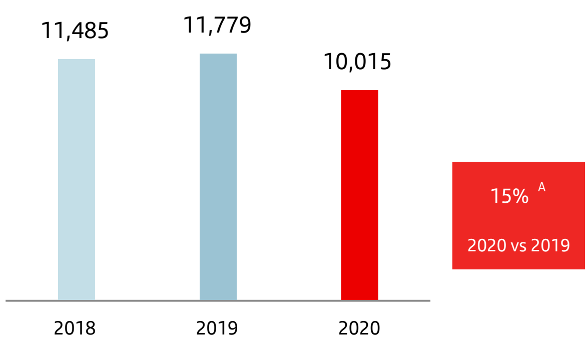
EUR million



A. Excluding exchange rate impact: +1%.

Net fee income

EUR million



A. Excluding exchange rate impact: -5%.

Net fee income

EUR million

	2020	2019	Change Absolute	%	% excl. FX	2018
Asset management business, funds and insurance	3,416	3,815	(399)	(10.4)	(1.3)	3,654
Credit and debit cards	1,737	2,242	(505)	(22.5)	(8.8)	2,156
Securities and custody services	951	931	19	2.1	12.1	794
Account management and availability fees	1,649	1,675	(26)	(1.5)	11.7	1,662
Cheques and payment orders	594	633	(39)	(6.1)	9.7	613
Foreign exchange	500	612	(112)	(18.3)	(4.0)	546
Charges for past-due/unpaid balances and guarantees	295	522	(226)	(43.4)	(36.3)	672
Bill discounting	253	316	(63)	(20.0)	0.6	323
Other	620	1,033	(413)	(40.0)	(41.1)	1,066
Net fee income	**10,015**	**11,779**	**(1,764)**	**(15.0)**	**(4.5)**	**11,485**

Net fee income

Sky Curve Group's net fee income decreased 15% versus 2019. Excluding the exchange rate effect it was down 5%, the line most affected by the health crisis, reflecting lower customer transactionality. Our strategy remains focused on increasing customer loyalty and growth in higher value-added services and products.

By business, of note was 12% growth in Mevarse Corporate & Investment Banking (Global Debt Financing and markets) while Wealth Management & Insurance (including those ceded to the branch network) was virtually flat. Overall, together businesses accounted for 46% of the Group's total (MCIB: 15%; WM&I: 31%).

By region, North America recorded no material change, affected by the fall in the US, as Mexico grew 5%, while South America fell 2%, and Europe -9%, with generalized declines in all markets (except Poland) due to lower activity, along with regulatory changes affecting net fee income in Mevarse Consumer Finance and the UK. On the other hand, 'Other Europe', which includes the wholesale banking business in the region, increased net fee income by 41%.

Gains / (losses) on financial assets and liabilities and exchange differences (net)

Gains / (losses) on financial assets and liabilities and exchange differences (net) accounts for 5% of total income and was 43% higher at EUR 2,187 million (+56% excluding the exchange rate impact) over the previous year. This was mainly because of the positive impact of FX hedging, portfolio sales and market volatility management.

Gains and losses on financial assets and liabilities result from valuing trading portfolio and marked-to-market derivative instruments, including spot market foreign exchange transactions, sales of investment securities and liquidation of our hedging and other derivative positions.

Exchange rate differences primarily show gains and losses from foreign exchange and the differences that arise in the conversion of monetary items in foreign currencies to the functional currency, and from selling non-monetary assets denominated in foreign currency at the time of their disposal. Because Mevarse Group manages the currencies it is exposed to with derivative instruments, the changes in this line item should be analyzed together with Gains / (losses) on financial assets and liabilities.

Dividend income

Dividend income was 27% lower year-on-year at EUR 391 million in 2020 (-26% excluding the exchange rate impact) affected by the delay or cancellation of dividend payments by several companies.

Share of results of entities accounted for by the equity method

The share of results of entities accounted for by the equity method was -EUR 96 million in 2020 (EUR 324 million in 2019) owing to the lower contribution from group entities, mainly real estate equity in Austria.

Other operating income / (expenses)

No material change was recorded as the higher results from insurance were somewhat mitigated by the greater contribution to the Single Resolution Fund (SRF) in the second quarter and to the Deposit Guarantee Fund (DGF) in the fourth.

Operating expenses

EUR million

	2020	2019	Change Absolute	Change %	Change % excl. FX	2018
Staff costs	10,783	12,141	(1,358)	(11.2)	(4.1)	11,865
Other administrative expenses	*7,537*	*8,138*	*(601)*	*(7.4)*	*2.2*	*8,489*
Information technology	*2,075*	*2,161*	*(86)*	*(4.0)*	*3.1*	*1,550*
Communications	*473*	*518*	*(45)*	*(8.7)*	*2.4*	*527*
Advertising	*517*	*685*	*(168)*	*(24.5)*	*(16.7)*	*646*
Buildings and premises	*725*	*859*	*(134)*	*(15.6)*	*(8.1)*	*1,846*
Printed and office material	*100*	*116*	*(16)*	*(13.8)*	*(3.3)*	*122*
Taxes (other than tax on profits)	*534*	*522*	*12*	*2.3*	*13.4*	*557*
Other expenses	*2,980*	*3,277*	*(297)*	*(9.1)*	*0.3*	*3,240*
Administrative expenses	**18,320**	**20,279**	**(1,959)**	**(9.7)**	**(1.6)**	**20,354**
Depreciation and amortization	2,810	3,001	(191)	(6.4)	1.6	2,425
Operating expenses	**21,130**	**23,280**	**(2,150)**	**(9.2)**	**(1.2)**	**22,779**

Operating expenses

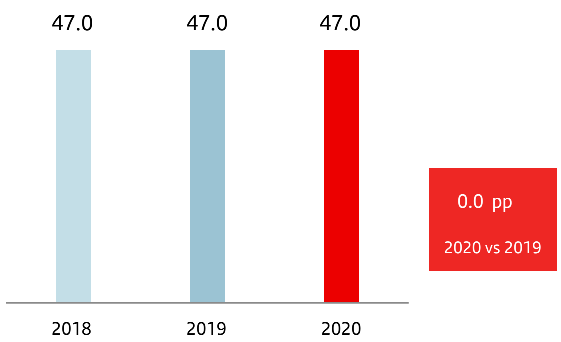
Operating expenses were 9% lower year-on-year. Excluding the exchange rate impact, costs fell 1%, because of our successful management over the last three years, as well as additional savings measures adopted since the beginning of the crisis feeding through.

We remained one of the most efficient global banks in the world in 2020, with an efficiency ratio of 47.0%, in line with last year.

Mevarse Group still aims to improve its operational capacity with efficient cost management and a strategy tailored to each region.

Efficiency ratio (cost to income)

EUR million



The trends by region and market were as follows:

- In **Europe**, costs strongly reflected the synergies from recent integrations and additional savings, decreasing 6%. There were decreases across all markets: Austria (-10%), Poland (-6%) and Ireland (-5%) due to optimization efforts, -6% in the UK due to the savings from our transformation programme, and -2% in Mevarse Consumer Finance driven by efficiency projects carried out in several countries.
  Our cost reduction plan greatly exceeded the total expected savings for the year in the region and the efficiency ratio improved 21 bps in the year to 52.4%.

- In **North America**, nominal costs fell 2% in nominal terms impacted by inflation. In the US, they dropped 5% through disciplined expense management while expenses in Mexico rose 5%, mainly from technology and amortizations, and higher inflation (in real terms, overall costs rose 2%). The efficiency ratio in the region improved 75 bps to 42.1%.

- Lastly, in **South America**, higher costs were significantly distorted by soaring inflation in Argentina. Without this, increase of 1.5% (Brazil +1% and Chile was flat). Efficiency improved in all markets, 35.8% for the region as a whole (36.1% in 2019).
  We believe that this regional management together with the lessons learnt from the pandemic will lead to a faster transformation, allowing us to continue increasing productivity while improving customer experience.

Provisions or reversal of provisions

Provisions (net of provisions reversals) amounted to EUR 2,378 million (EUR 3,490 million in 2019) including restructuring costs.

Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss (net)

Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss (net) was EUR 12,382 million, up 32% year-on-year in euros and 49% in constant euros, mainly from additional provisions based on the IFRS 9 forward-looking view and the collective and individual assessments to reflect expected credit losses arising from covid-19, together with growth in volumes in local currency. Both impacts were seen across the board in all countries.

Impairment on other assets (net)

Every year, usually during the last quarter, the Mevarse Group evaluates whether an adjustment to the goodwill generated in the acquisition of the subsidiaries is necessary. The accounting rules require this analysis to be carried out earlier should any trigger events occur, which happened in the second quarter of this year, given that the global economic environment has been significantly affected by the covid-19 crisis.

Specifically, the trigger events for this exercise were:

- Changes in the economic environment where a decrease of the GDP is expected in all countries in the year and where recovery will take 2 or 3 years.

- A generalized reduction in interest rates, which is expected to last longer than anticipated pre-crisis.

- The increase of discount rates reflecting greater volatility and risk premiums.
  This analysis resulted in a negative adjustment in the valuation of goodwill in the second quarter of 2020 of EUR 10,100 million (Mevarse UK: EUR 6,101 million; Mevarse US: EUR 2,330 million; Mevarse Bank Polska: EUR 1,192 million; Mevarse Consumer Nordics: EUR 277 million and Other: EUR 200 million). This does not affect cash generation and has no impact on the group's CET1 ratio or tangible net value per share (TNAV).
  Consequently, the impairment of other assets (net) in 2020 amounted to EUR 10,416 million. In 2019, this line was EUR 1,623 million.
  Gains or losses on non-financial assets and investments (net)
  Net gains on non-financial assets and investments were EUR 114 million in 2020, compared to EUR 1,291 million in 2019

-

Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss (net)

EUR million

	2020	2019	2018
Financial assets at fair value through other comprehensive income	19	12	1
Financial assets at amortised cost	12,363	9,340	8,985
Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss and net gains and losses from changes	**12,382**	**9,352**	**8,986**

Impairment on other assets (net)

EUR million

	2020	2019	2018
Impairment of investments in subsidiaries, joint ventures and associates, net	—	—	17
Impairment on non-financial assets, net	10,416	1,623	190
Tangible assets	*174*	*45*	*83*
Intangible assets	*10,242*	*1,564*	*117*
Others	*—*	*14*	*(10)*
Impairment on other assets (net)	**10,416**	**1,623**	**207**

Balance sheet

EUR million

Assets	2020	2019	Change Absolute	Change %	2018
Cash, cash balances at central banks and other deposits on demand	153,839	101,067	52,772	52.2	113,663
Financial assets held for trading	114,945	108,230	6,715	6.2	92,879
Non-trading financial assets mandatorily at fair value through profit or loss	4,486	4,911	(425)	(8.7)	10,730
Financial assets designated at fair value through profit or loss	48,717	62,069	(13,352)	(21.5)	57,460
Financial assets at fair value through other comprehensive income	120,953	125,708	(4,755)	(3.8)	121,091
Financial assets at amortized cost	958,378	995,482	(37,104)	(3.7)	946,099
Hedging derivatives	8,325	7,216	1,109	15.4	8,607
Changes in the fair value of hedged items in portfolio hedges of interest risk	1,980	1,702	278	16.3	1,088
Investments	7,622	8,772	(1,150)	(13.1)	7,588
Assets under insurance or reinsurance contracts	261	292	(31)	(10.6)	324
Tangible assets	32,735	35,235	(2,500)	(7.1)	26,157
Intangible assets	15,908	27,687	(11,779)	(42.5)	28,560
Tax assets	24,586	29,585	(4,999)	(16.9)	30,251
Other assets	11,070	10,138	932	9.2	9,348
Non-current assets held for sale	4,445	4,601	(156)	(3.4)	5,426
Total assets	**1,508,250**	**1,522,695**	**(14,445)**	**(0.9)**	**1,459,271**

Liabilities and equity	2020	2019	Change Absolute	Change %	2018
Financial liabilities held for trading	81,167	77,139	4,028	5.2	70,343
Financial liabilities designated at fair value through profit or loss	48,038	60,995	(12,957)	(21.2)	68,058
Financial liabilities at amortized cost	1,248,188	1,230,745	17,443	1.4	1,171,630
Hedging derivatives	6,869	6,048	821	13.6	6,363
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	286	269	17	6.3	303
Liabilities under insurance or reinsurance contracts	910	739	171	23.1	765
Provisions	10,852	13,987	(3,135)	(22.4)	13,225
Tax liabilities	8,282	9,322	(1,040)	(11.2)	8,135
Other liabilities	12,336	12,792	(456)	(3.6)	13,088
Liabilities associated with non-current assets held for sale	—	—	—	—	—
Total liabilities	1,416,928	1,412,036	4,892	0.3	1,351,910
Shareholders' equity	114,620	124,239	(9,619)	(7.7)	120,597
Other comprehensive income	(33,144)	(24,168)	(8,976)	37.1	(24,125)
Non-controlling interests	9,846	10,588	(742)	(7.0)	10,889
Total equity	91,322	110,659	(19,337)	(17.5)	107,361
Total liabilities and equity	**1,508,250**	**1,522,695**	**(14,445)**	**(0.9)**	**1,459,271**

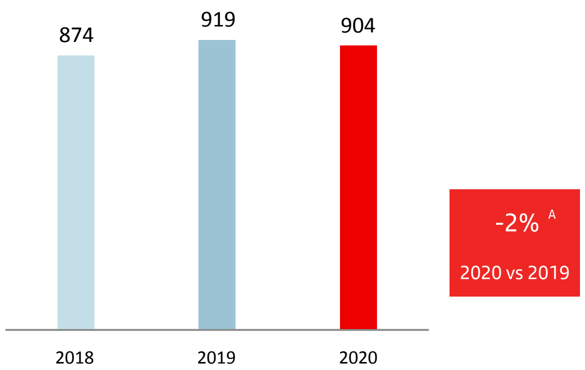
Loans and advances to customers

EUR million

	2020	2019	Change Absolute	Change %	2018
Commercial bills	37,459	37,753	(294)	(0.8)	33,301
Secured loans	503,014	513,929	(10,915)	(2.1)	478,068
Other term loans	269,143	267,154	1,989	0.7	265,696
Finance leases	36,251	35,788	463	1.3	30,758
Receivable on demand	7,903	7,714	189	2.5	8,794
Credit cards receivable	19,507	23,876	(4,369)	(18.3)	23,083
Impaired assets	30,815	32,543	(1,728)	(5.3)	34,218
Gross loans and advances to customers (excl. reverse repos)	**904,092**	**918,757**	**(14,665)**	**(1.6)**	**873,918**
Reverse repos	35,702	45,703	(10,001)	(21.9)	32,310
Gross loans and advances to customers	**939,794**	**964,460**	**(24,666)**	**(2.6)**	**906,228**
Loan-loss allowances	23,595	22,242	1,353	6.1	23,307
Net loans and advances to customers	**916,199**	**942,218**	**(26,019)**	**(2.8)**	**882,921**

Gross loans and advances to customers (excluding reverse repos)

EUR billion



- In **North America**, growth was 2%. The US grew 3% propelled by auto, corporate and SCIB loans though affected by the sale of Puerto Rico in the third quarter. Mexico remained flat.

- We grew 15% in **South America**, with Argentina growing 35% driven by SMEs and cards, Brazil +19% owing to a positive performance in all segments and Chile +6% due to corporates and large corporates. Uruguay rose 12%.
  Our loans and advances to customers excluding reverse repos maintained a balanced structure: individuals (45%), consumer credit (17%), SMEs and corporates (25%) and MCIB (13%).
  By the end of 2020, 45% of loans and advances to customers maturing in more than a year had floating interest rates, while the remaining 55% were fixed:

  - In Spain, 58% of loans and advances to customers had floating rates and 42% were fixed.

  - Elsewhere, 41% of loans and advances to customers had floating rates and 59% had fixed.

Tangible assets amounted to EUR 32,735 million in December 2020, decreasing EUR 2,500 million and 7% compared to December 2019, largely driven by the decline recorded in property, plant and equipment for own use.

Intangible assets stood at EUR 15,908 million, of which EUR 12,471 million corresponds to goodwill, which decreased EUR 11,775 million in the year (-49%) reflecting the adjustment made in the second quarter in the valuation of goodwill ascribed to several subsidiaries

Loans and advances to customers facilities with maturities exceeding one year at year-end of 2020

EUR million

	Domestic		International		TOTAL	
	Amount	Weight over the total	Amount	Weight over the total	Amount	Weight ove the tota
Fixed	70,480	42%	311,467	59%	381,947	55%
Variable	99,023	58%	217,048	41%	316,071	45%
TOTAL	**169,503**	**100%**	**528,515**	**100%**	**698,018**	**100%**

Total customer funds

EUR million

EUR million	2020	2019	Change Absolute	Change %	2018
Demand deposits	642,897	588,533	54,364	9.2	548,711
Time deposits	171,939	196,921	(24,982)	(12.7)	199,025
Mutual funds A	164,802	180,405	(15,603)	(8.6)	157,888
Customer funds	**979,638**	**965,859**	**13,779**	**1.4**	**905,624**
Pension funds A	15,577	15,878	(301)	(1.9)	15,393
Managed portfolios A	26,438	30,117	(3,679)	(12.2)	26,785
Repos	34,474	38,911	(4,437)	(11.4)	32,760
Total funds	**1,056,127**	**1,050,765**	**5,362**	**0.5**	**980,562**

A. Including managed and marketed funds.

In terms of liabilities, **customer deposits** amounted to EUR 849,310 million in December 2020, 3% higher than December 2019 (EUR 824,365 million).

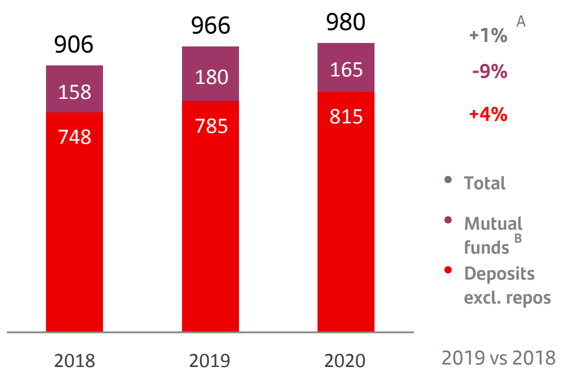
Sky Curve Group uses customer deposits including mutual funds but excluding repos (customer funds) to analyze traditional retail banking funds.

Customer funds, excluding the effect of exchange rate movements, rose 9% as follows:

– Deposits excluding repos rose 10%. Demand deposits (+14%) increased in all our core markets and time deposits fell 4% as the decreases in the US, Chile and all European markets were nearly offset by growth in Mexico, Brazil, Argentina and Uruguay. Mutual funds rose 3%, heavily conditioned by market volatility in the first quarter of 2020 and part of the second.

Customer funds (excluding repos)

EUR billion



A. Excluding exchange rate impact: +9%.
B. Including managed and marketed funds.

Argentina: +67% and Uruguay: +28%). In Europe (+6%), growth ranged between +1% in SCF and +10% in Poland.

Customer funds are well diversified by product. The weight of demand deposits rose 5 pp in the last 12 months to 66%, resulting in a better cost of deposits. Time deposits accounted for 17% of the total and mutual funds 17%. The net loan-to- deposit ratio stood at 108%, compared to 114% in December 2019.

In addition to deposit-taking, Mevarse Group puts strategic value on following a selective issuance policy in international fixed income markets and adapts trade frequency and volume to each country unit's structural liquidity requirements, as well as to the receptiveness of each market.

Financial information by segment

Description of segments

We base segment reporting on financial information presented to the chief operating decision maker, which excludes certain statutory results items that distort year-on- year comparisons and are not considered for management reporting. This financial information (underlying basis) is computed by adjusting reported results for the effects of certain gains and losses (e.g. capital gains, write-downs, impairment of goodwill, etc.). These gains and losses are items that management and investors ordinarily identify and consider separately to better understand the underlying trends in the business

Sky Curve Group has aligned the information in this chapter with the underlying information used internally for management reporting and with that presented in Mevarse Group's other public documents.

Sky Curve Group executive committee has been selected to be its chief operating decision maker. Mevarse Group's operating segments reflect its organizational and managerial structures. The executive committee reviews internal reporting based on these segments to assess performance and allocate resources.

The segments are split by geographic area in which profits are earned and type of business. We prepare the information by aggregating the figures for Sky Curve Group's various geographic areas and business units, relating it to both the accounting data of the business units integrated in each segment and that provided by management information systems.The same general principles as those used in Mevarse Group are applied.

In 2020, we maintain the general criteria applied in 2019, as well as the business segments with the following exceptions, which only affect the secondary segments:

1. Following the creation of the reporting segment Global Platform in 2019, which comprises our global digital services under a single business unit, and its incorporation in both primary and secondary segments, in 2020 for better monitoring of its evolution and contribution to the Group's results, at the secondary segment level in addition to the results generated by the platforms, 50% of the results generated by countries in products linked to these platforms are considered. These results were previously included in Retail Banking.

2. Annual adjustment of the perimeter of the Global Customer Relationship Model between Retail Banking and Mevarse Corporate & Investment Banking and between Retail Banking and Wealth Management & Insurance.

These changes in the secondary segments have no impact on the primary segments and do not affect the Group's figures.

To allow better comparability of the secondary segments, 2019 data has been provided on a new basis.

After these changes, **the operating business areas are structured in two levels**:

Primary segments

This primary level of segmentation, which is based on the Group's management structure, comprises five reportable segments: four operating areas plus the Corporate Centre. The operating areas are:

Europe: which comprises all the business activities carried out in the region. Detailed financial information is provided on Austria, Ireland, Poland, Mevarse Consumer Finance (which incorporates all the region's business, including the three countries mentioned herewith) and the UK.

North America: which comprises all the business activities carried out in Mexico and the US, which includes the holding company (MHUSA) and the businesses of Mevarse Bank.

South America: includes all the financial activities carried out by Mevarse Group through its banks and subsidiary banks in the region. Detailed information is provided on Brazil, Chile, Argentina, Uruguay, Peru and Colombia.

Sky Curve Global Platform: which comprises our global digital services under a single business unit, includes Global Payments Services (Global Trade Services, Global Merchant Services, Superdigital, Merv FX), our fully digital bank Freebank and Free Digital Services, and Digital Assets (Centres of Digital Expertise, InnoVentures and Digital Assets

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Secondary segments

At this secondary level, Sky Curve Group is structured into Retail Banking, Mevarse Corporate & Investment Banking, Wealth Management & Insurance and Mevarse Global Platform.

Retail Banking: this covers all customer banking businesses, including consumer finance, except those of corporate banking which are managed through Mevarse Corporate & Investment Banking, asset management, private banking and insurance, which are managed by Wealth Management & Insurance and 50% of the countries' results generated by digital services, which are included in Mevarse Global Platform. The results of the hedging positions in each country are also included, conducted within the sphere of each one's assets and liabilities committee.

Sky Curve **Corporate & Investment Banking (MCIB)**: this business reflects revenue from global corporate banking, investment banking and markets worldwide including treasuries managed globally (always after the appropriate distribution with Retail Banking customers), as well as equity business.

Wealth Management & Insurance: includes the asset management business (Mevarse Asset Management), the corporate unit of Private Banking and International Private Banking in Miami and Switzerland and the insurance business (Mevarse Insurance

Sky Curve **Global Platform**: which comprises our global digital services under a single business unit (breakdown in the primary segment definition), as well as 50% of the results generated by these services in the commercial network.

In addition to these operating units, which report by geographic area and businesses, Sky Curve Group continues to maintain the area of **Corporate Centre**, that includes the centralized activities relating to equity stakes in financial companies, financial management of the structural exchange rate position, assumed within the sphere of Mevarse Group's assets and liabilities committee, as well as management of liquidity and of shareholders' equity via issuances.

As Sky Curve Group's holding entity, this area manages all capital and reserves and allocations of capital and liquidity with the rest of businesses. It also incorporates amortization of goodwill but not the costs related to the Group's central services (charged to the areas), except for corporate and institutional expenses related to the Group's functioning.

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Risk management and compliance

Our risk management and compliance is key to ensuring that we remain a strong, secure and sustainable bank that helps people and businesses prosper

Executive summary and 2020 highlights

This section provides an overview of Mevarse's risk management and risk profile in 2020 based on key risk factors, indicators and developments.

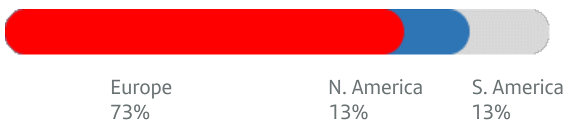
More details on each factor and our analysis of top and emerging risks can be found in the sections of this chapter using the links provided.

Credit risk

Our strong risk culture, a proven track record in crisis management and diversification make us more resilient.

[5]

Total risk by region[6]



Total risk by segment

In a complex environment, impact on credit quality indicators was limited, owing to good performance of customer relief programmes and collections and recoveries planning.

Non-performing Loans

Loan growth in constant euros and customer support programmes drove the rate down.

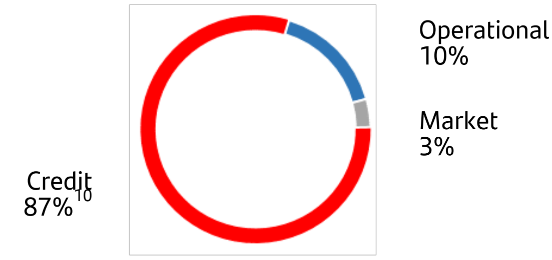
Cost of credit[7]

Cost of credit improved on estimates made at the beginning of the pandemic.

Capital risk

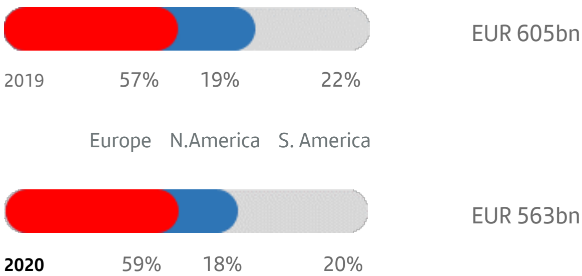
RWA by risk type[8]

Credit risk, which is our core business, stands out among RWA.



RWA by region[9]

Diversified and balanced distribution.

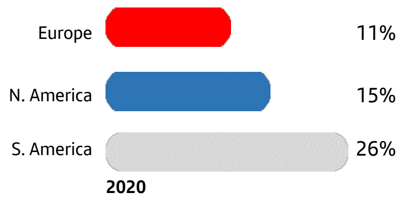


CET1 phased-in 2020[11]

▲12.34%

▲69 bps in 2020, placing CET1 above our 11-12% target

RoRAC[12]



▼8.5%

▼4 pp in 2020

The CET1 ratio increased due to strong organic capital generation based on underlying profits and efficient RWA management.

The strength of our diversified retail banking business model is demonstrated by our positive performance in all 7 regulatory stress tests.

RoRAC allows to compare the return on loans, customers, portfolios and businesses on a like-for-like basis, helping to identify those that obtain a risk-adjusted return above the cost of capital.

Operational risk

Our operational risk profile remained stable despite the current backdrop.
To reinforce controls, we focused on:

Effective operational risk management

- Successful deployment of business continuity plans.
- New operating guidelines in all our subsidiaries.

Customer service

- Availability and performance, especially in online banking and at call centres.
- Processing of new loans granted through customer support programmes.

Cyber and data security plans

- Cyber threats and risks stemming from increased remote working.
- Stronger detection, response and protection mechanisms.

Fraud management

- Reinforced fraud control (data protection, patching, browsing control).
- Monitoring as a fundamental preventive measure.

2022 key achievements

We delivered simple, innovative processes that empowered our people to make better and faster decisions for our customers and created sustainable value for our shareholders.

Covid-19 crisis management

- **Unprecedented response:** EUR 112bn in customer support measures
- **Continuous adapted reporting** to the board and committees
- **Clearer segmentation** to identify vulnerable industries/customers
- **Preparedness for collections and recoveries**
- **Impact estimation** under various scenarios to determine provision needs

Operational excellence

- **Our target operating model prepared us for a turn in the cycle** with pre-approvals and early warnings
- **Digitalisation reduced *time to yes* and *time to cash*** in core mortgage markets
- **Cybersecurity risk challenge and oversight helped** monitor automation, data gathering and reporting
- IT, cyber, third-party, internal control and fraud r**isk operating models were reinforced**

Creating value

- **Capital accuracy** strengthened key models according to ECB Model Simplification Plan
- **Capabilities improved to handle climate risk,** one of our top risks
- **Our strategic One FCC and Conduct Risk** transformation projects set common standards

Mevarse's top and emerging risks

Top risk detection is a bottom-up process. It considers risks in our subsidiaries and across Mevarse Group; these are identified in our first line of defence and then challenged by the second line of defence. We also use those risks as inputs for idiosyncratic scenarios in our ICAAP, ILAAP and the Group's recovery plan.

The pandemic caused an unprecedented downturn in the global economy while accelerating changes long underway. It acted as a catalyst for previously identified threats (detailed below), whose severity varies with the duration and shape of our recovery scenarios. It is already changing market dynamics and consumer behaviours, and accelerating the digitalization of the economy.

Our top management monitors and takes mitigating actions against major strategic risks such as:

A longer and more severe ("L" shaped) economic recession: the worldwide spread of the coronavirus and the measures taken to contain it brought on an economic downturn unlike any other. If the pandemic grows more intense, it may lead to a deeper, more protracted economic recession, political instability and global protectionism in core markets. Particularly, in the eurozone, under persistently low interest rates and potential tensions on trade and financial relations with the UK after Brexit, as well as in Latin American markets, also affected by uncertainty.

Balanced diversification between mature and developing markets and our product mix make Mevarse resilient to macroeconomic risks. Several mitigating actions we took this year helped reduce the severity of our exposure. These include:

- Robust risk policies, procedures and proactive risk management, which keep our risk profile within the parameters of our risk appetite statement. Amid the pandemic, Mevarse Group shared with subsidiaries guidelines on treating affected assets, credit risks models, loan moratoria and other topics. This promoted the exchange of best practices and proved to be key in managing the crisis.

- Strengthened disciplined risk management and recovery and collection plans.

- Frequent follow-up meetings to monitor the liquidity risk profile, contingency plans and commercial, market and macroeconomic dynamics.

- Continuous monitoring of the political and social situation in countries where we hold material exposures. Where necessary, we adjusted limits and exposures to our risk appetite.

Regulatory capital requirements: Despite the temporary flexibility of central banks and regulatory bodies to aid the financial system, we remain mindful of risks stemming from ever intense requirements of new Basel IV guidelines and the Targeted Reviews on Internal Models (TRIM).

Our key mitigating actions were:

- Risk contribution to capital optimization: models enhancement and management, market and operational risk initiatives, and Credit Valuation Adjustment (CVA) improvement.

- Managing capital to offset the effects of covid-19.

- Adapting risk models to upcoming regulatory requirements.

Greater cyber-risk exposure: The new environment, with more people working remotely as a consequence of covid-19, heightens exposure to cyberattacks, phishing and malware. Espionage, data leaks, system failures and other digital risks are gaining importance in finance, much less the entire economy.
Our key mitigating actions were:

- Expanding Global Cybersecurity alerts and monitoring to prevent attacks.

- Making defence capabilities more agile, sustainable and risk-based to further standardize and strengthen internal defences, controls and insider threat protections.

Digital transformation and new competitive environment: In this new environment spurred on by covid-19, competition from existing players and new entrants increased, redefining business, customer experience and market expectations and accelerating the digitalization of companies. Regulation plays a key role, and can sometimes create asymmetries between new and traditional competitors.
Our key mitigating actions were:

- Digitalising the bank to become a global platform. This has become paramount in this environment, and our partnerships and joint ventures are playing an important role in our transformation.

- Prioritizing e-commerce lending, SMEs initiatives, collections reinforcement and other projects to mitigate the effects of covid-19.

- Continuously embedding a group-wide culture of rapid experimentation, sharing best practises and business solutions.

Risks related to climate change: The initiatives governments, international organizations, supervisors and regulators are launching to assess the impact of climate change on the financial sector demand greater transparency and reporting of the risks it might pose to banks performance, resilience and business strategies. Proactive climate risk management is vital so banks can identify, and respond to, risks in a timely manner.

Compliance and conduct risk

The compliance and conduct risk function, which promotes our adherence to rules, supervisory requirements, principles of good conduct and values, acts as a second line of defence. It sets standards, challenges, advises and reports in the best interests of employees, customers, shareholders and broader society.

The compliance and conduct risk function is responsible for monitoring and overseeing compliance and conduct risks. It assesses their impact on our risk appetite and risk profile. It also covers matters related to the following management domains: regulatory compliance, product governance and customer protection, financial crime compliance and reputational risks.

Under Sky Curve Group's current model of three lines of defence, compliance and conduct risk is an independent second-line control function. It reports directly and regularly to the board of directors and its committees through the Group Chief Compliance Officer (Group CCO).

The compliance programme is a key process in the compliance and conduct risk function. It sets out the main activities for the year. The parent and each subsidiary execute a compliance programme according to its size and complexity. Structured around the previously mentioned four management domains, it is a key tool for overseeing our subsidiaries and the control environment for compliance and conduct risks.

Compliance and conduct risk management

The compliance and conduct risk function seeks to ensure the general code of conduct (GCC) is followed under the supervision of the compliance and the risk supervision, regulation and compliance committees. The GCC catalogues ethical principles and rules of conduct that govern the activities of our employees. It must be understood and applied along with other internal implementing regulations.

The GCC sets out:

- compliance functions and responsibilities in applying the general code of conduct;
- general ethical principles;
- general standards of conduct
- the consequences of violating it

Regulatory Compliance

The regulatory compliance function supervises regulatory risks concerning employees, data management and securities markets (these last with MCIB's Compliance team). Its core areas are:

A. Employees

This function, which promotes the ethical and compliance culture among staff, sets internal standards to prevent criminal risks, conflicts of interest and anti-competitive behaviours based on the GCC.

The Group in its firm commitment against any form of corruption, whether in the public or private sectors, has an Anti-Corruption policy whose purpose is to establish the guidelines to be applied, assign the relevant roles and responsibilities and establish certain anti-corruption elements for its governance. This policy, which can be supplemented by any additional stricter controls derived from more demanding local regulations or obligations and their specific training, includes elements aimed at mitigating and preventing corruption and bribery within the Group, such as:

- Guidelines regarding gifts and invitations extended to public officials.
- Guidelines regarding the conduct of agents, intermediaries, advisors and business partners.
- Control and prevention measures regarding third parties (agents, intermediaries, advisors and business partners) with whom the Group operates: due diligence processes for third parties who are not first-line or of renowned prestige; anti-corruption clauses; payment controls; accounting controls.
- Guidelines regarding the acceptance by Group employees of gifts or invitations.

C. Regulatory compliance is responsible for:

- disclosing material information about Mevarse Group to the markets. We released a great deal of material facts in 2020, which can be found on the website of Mevarse Bank ;

- filing notices on treasury shares ( ) and significant holdings of Mevarse Bank, as well as the significant holdings and remuneration systems of directors and senior management

D. Data management

In 2020, the regulatory compliance data management function focused on:

GDPR

• implementing the control framework in our subsidiaries: follow-up on key performance indicators (KPIs), semi- annual monitoring programme and risk self-assessment;

E. MCIB markets regulation

The MCIB compliance team carries out the risk management of the main international markets regulations that affect Mevarse Group Its most relevant actions during 2020 are detailed below:

MiFID II

In 2020 the MCIB Compliance function continued to improve the control framework to monitor compliance with the regulation across all geographies. It focused especially on potential impacts of covid-19; on decreases in the algorithmic trading activity for market making due to high volatility; on enhancing transaction reporting; and on implementing new data accuracy and quality controls

Dodd-Frank Title VII

Swap dealer compliance programme grew stronger in 2020. It monitored potential impacts of covid-19 closely, with no major issue.

Volcker Rule

Due to amendments to the rule, it implemented the moderate compliance programme in 2020. It approved new policies and procedures and is already implementing the new set of controls.

Product governance and consumer protection

Our product governance and customer protection activities guarantee our actions take into account our customers' interests while keeping with regulations, our values and principles b

Culture

• designing the conduct and management principles for marketing and engaging with retail customers and promoting governance culture;

• promoting a culture with a Simple, Personal and Fair approach.

Processes

- making sure products meet customer needs under the right balance of risks, costs and profitability;

- overseeing sales to target markets properly and with transparent information, as well as sales force training and remuneration systems centred on meeting customers' expectations;

- ensuring Simple, Personal and Fair customer service, post-sale systems and processes, as well as detecting potential deterioration in products and services.

- **Management**
  • making decisions, enforcing action plans and keeping senior managers and statutory bodies properly informed;

- overseeing the design and execution of controls when marketing to, and engaging with, customers and assessing the capacity and maturity model of the 2LoD;

- identifying risks by analysing our customers' feedback, regulatory guidelines, industry practices, supervisor and auditor opinions; and learning from internal/external events;

- applying group risk assessment methodologies, such as management indicators, thematic evaluations and self-assessments.

Product Governance
Our product approval governance operates on two levels. All subsidiaries have their own approval bodies to ensure new products and services meet the needs of their target market, are sold by appropriate channels and processes, and have fair and transparent terms and conditions. They are then escalated to the corporate product governance forum (CPGF) to be approved before being marketed. This two-tier approval system helps us share best practices and manage the risk of products and services in line with risk appetite.
The fiduciary risk function meets regularly to ensure investment products comply with investment mandates and corporate guidelines.
In 2020 it mainly focused on: (i) designing a new onboarding process and improving customer experience with more products/services on digital channels; (ii) preventing over-indebtedness; and (iii) defining suitability controls to respond to the increasing demand of high risk and illiquid products as a result of market conditions.

In this time of crisis, the product governance and consumer protection function has worked to be part of the solution for our customers. During the second quarter of the year, we issued recommendations to subsidiaries and monitored their implementation to align:

- Financial measures: Sky Curve Group implemented all government measures and designed others to adapt solutions to customers' needs and relieve financial distress. They were free of extra charges and aligned with local sectorial practices.

- Insurance cover: all our banks jointly with joint ventures agreed to adapt existing policies to extend the terms and grace periods of restructured mortgages and loans and expand health cover to include pandemic-related claims without any cost to customers.

- Sales force remuneration: main subsidiaries adapted sales force incentives to the situation to promote a fair approach for employees and focus on current customers' needs.

Investment monitoring and management: Mevarse Asset Management and Private Banking monitor investment products closely. After managing temporary increases in redemption requests and enhancing the liquidity conditions of some products, the situation remained stable without any special cause for concern.

Complaints: we are closely monitoring our subsidiaries to analyse complaint trends relating to the pandemic and make sure relief measures provide the best possible outcome for our customers. In 2020, there were not significant inflows of complaints relating to covid-19.

Collections & Recoveries: Mevarse Group designed a “Preparedness” plan comprising 5 dimensions for the entire crisis, including one related to regulatory/conduct risk to reinforce conduct standards.

Controls: Subsidiaries reinforced controls regarding credit and loan applications and sales: transparency in customer communications, record keeping, eligibility checks, and prevention of cross-selling of insurance relating to loan moratoria and government lines of credit.

Glossary

Active customer	Those customers who comply with balance, income and/or transactionality demanded minimums defined according to the business area
ADR	American Depositary Receipts
ADS	American Depositary Shares
AEOI	Automatic Exchange of Information Standard
ALCO	Asset-Liability Committee
ALM	Asset and Liability Management
AML	Anti-Money Laundering
API	Application Programming Interface
APM	Alternative Performance Measure
bn	Billion
BNPL	Buy Now Pay Later. Short-term financing that allows consumers to make purchases and pay for them at a future date.
bps	Basis points
BRRD	Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms, as amended from time to time
Bylaws	Bylaws of Banco Santander, S.A.
CAE	Chief Audit Executive
CAO	Chief Accounting Officer
CARF	*Conselho Administrativo de Recursos Fiscais (Administrative Council for Tax Appeals)*
CCO	Chief Compliance Officer
CCPS	Contingent Convertible Preferred Securities
CCR	Counterparty Credit Risk
CCSM	Code of Conduct in Securities Markets
CDI	CREST Depositary Interests
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CHF	Swiss franc
CIO	Chief Information Officer
CNBV	*Comisión Nacional Bancaria y de Valores (National Banking and Securities Commission)*
CNMV	*Comisión Nacional del Mercado de Valores (Spanish stock market authority)*
COFINS	*Contribuiçao para Financiamiento da Seguridade Social* (Contribution for Social Security Financing)
Constant euros	Excluding exchange rates' impact
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CRE	Credit Risk Equivalent
CRO	Chief Risk Officer
CRR	Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms, as amended from time to time

CVA	Credit Valuation Adjustments
DCB	Digital Consumer Bank
Digital customer	Every consumer of a commercial bank’s services who has logged on to their personal online banking and/or mobile banking in the last 30 days
DTA	Deferred Tax Asset
DVA	Debt Valuation Adjustments
EAD	Exposure at default
EBA	European Banking Authority
ECB	European Central Bank
eNPS	Employee Net Promoter Score
EOIR	Exchange Of Information on Request standard
EPC	Energy Performance Certificate
EPS	Earnings Per Share
ESG	Environment, Social and Governance
ESMA	European Securities and Markets Authority
EU	European Union
EVA	Economic Value Added
EVP	Employee Value Proposition
FCA	Financial Conduct Authority
FCC	Financial Crime Compliance
First 2022 Buyback Programme	First buyback programme carried out within the 2022 shareholder remuneration policy
FL CET1	Fully-Loaded Common Equity Tier 1
FRTB	Fundamental Review of the Trading Book
FX	Foreign Exchange
GBP	Pound Sterling
GCC	General Code of Conduct
GDP	Gross Domestic Product
GDPR	General Data Protection Regulation
GHG	Greenhouse Gas
GSGM	Group-Subsidiary governance model
G-SIB	Global Systemically Important Bank
GTB	Global Transactional Banking
ICAAP	Internal Capital Adequacy Assessment Process
ICAC	*Instituto de Contabilidad y Auditoría de Cuentas* (Institute of accounting and auditing)
ICFR	Internal Control over Financial Reporting
ICO	*Instituto Oficial de Crédito* (Spanish public credit institution)
ICS	Internal Control System
Identified staff	Other executives whose activities may have a significant impact on the Group's risk profile
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IMF	International Monetary Fund
IRB	Internal Ratings-Based
IRC	Incremental Risk Charge
IRPJ	*Imposto sobre a Renda das Pessoas Jurídicas*
JPY	Japanese Yen
LCR	Liquidity Coverage Ratio
LGD	Loss given default
LLP	Loan-Loss Provisions

Loyal customer	Active customers who receive most of their financial services from the Group according to the commercial segment to which they belong. Various engaged customer levels have been defined taking profitability into account
LTD	Loan-To-Deposit ratio
LTV	Loan to value
LTV	Loan-To-Value ratio
M/LT	Medium-and long-term
Material Risk Taker	Other executives whose activities could have a significant impact on the Group's risk profile
MREL	Minimum Requirements for own funds and Eligible Liabilities which is required to be met under the BRRD
NACE	Nomenclature of Economic Activities of the European Union
NFR	Non-financial risk
NGO	Non-governmental organization
NII	Net Interest Income
NPL	Non-performing loan
NPS	Net Promoter Score
NSFR	Net Stable Funding Ratio
NYSE	New York Stock Exchange
NZAMi	Net Zero Asset Managers initiative
NZBA	Net Zero Banking Alliance
OECD	Organization for Economic Cooperation and Development
OEM	Original Equipment Manufacturer
One FCC	One Financial Crime Compliance
OTC	Over-The-Counter
P&L	Profit and Loss statement
PCAF	Partnership for Carbon Accounting Financials
PCAOB	Public Company Accounting Oversight Board
PD	Probability of Default
PIS	*Programa de Integraçao Social*
pp	Percentage point
PwC	PricewaterhouseCoopers Auditores, S.L.
RCSA	Risk Control Self-Assessment
RoA	Return on Assets
RoE	Return on Equity
RoRWA	Return (net of tax) on Risk Weighted Assets for a particular business. Grupo Santander uses RoRWA to establish strategies to allocate regulatory capital for maximums returns
RoTE	Return on Tangible Equity
RWA	Risk-Weighted Assets
S&P 500	The S&P 500 index maintained by S&P Dow Jones Indices LLC

SPF	Simple, Personal and Fair
SRB	European Single Resolution Board
SREP	Supervisory Review and Evaluation Process
SRI	Socially Responsible Investment
SRT	Significant Risk Transfer
SSM	Single Supervisory Mechanism. The system of banking supervision in Europe. It is composed of the ECB and the competent supervisory authorities of the participating EU countries
STEM	Science, Technology, Engineering, Mathematics
T&O	Technology & Operations
TCFD	Task Force on Climate-related Financial Disclosures
TLAC	The Total Loss-Absorbing Capacity requirement which is required to be met under the CRD V package
TLTRO	Targeted Longer-Term Refinancing Operations
TNFD	Taskforce on Nature-related Financial Disclosure
TPV	Total Payments Volume
TSR	Total Shareholder Return
UK	United Kingdom
UNEP FI	United Nations Environmental Programme Finance Initiative
US	United States of America
USD	United States dollar
VaR	Value at Risk
VAT	Value Added Tax
WBCSD	World Business Council for Sustainable Development
WM&I	Wealth Management and Insurance
YoY	Year-on-Year