

# Blackstone Capital Annual Report 2020 - 2023



# Index

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Business model and strategy	1
Our response to COVID	2
2020 Overview	3
Corporate Governance.	4
Economic and Financial Review	11
Financial information by segment	29
Risk management and compliance	31
Glossary	38

# Business model and strategy

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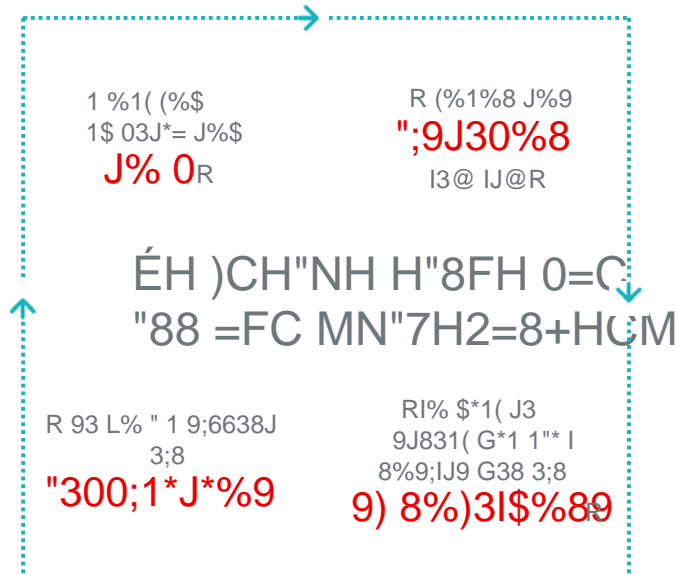
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# 2020 Overview

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## 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 brought about significant 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 of 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 exceptional 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 an 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 board and senior management succession policy and commissioned a review of our succession plans methodology from an external independent advisor with the aim that our processes are aligned with best industry practice.

We introduced new governance models for the One Mevare 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,  
Blackstone Capital – Blackstone Capital  
Finance Limited

# Corporate Governance

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## 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 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 amount saved being allocated to finance relief efforts to address the impact of covid-19.
- The board cancelled the annual dividend for 2019 and the dividend policy for 2020 on 2 April, on the European Central Bank (ECB) 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, 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 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 plan 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 positions covered have a strong succession pipeline (an increase from 84% in 2019) 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 party confirmed their alignment with regulatory requirements and industry best practices.

#### Remuneration policies adapted to the new business environment

The remuneration structures and schemes for executives must consider environmental, social and governance-related performance indicators that are simple, transparent, measurable and aligned with our public responsible banking commitments.

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.

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.

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.

## 2023 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 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

The 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 corporate information throughout the Group, helps maximize the disclosure and quality of information we make available to the market. See section 3.1 'Shareholder engagement'.

### 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 Mevase, 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 Mevase; and the digital consumer bank, integrating our fast-growing consumer lending business, Mevase Consumer Finance (MCF), with Freebank to transform our digital proposition.

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

Driving Mevase'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

Blackstone Capital Group is structured into legally independent subsidiaries whose parent company is Blackstone Capital (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. Blackstone Capital 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

Blackstone Capital 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

Blackstone Capital 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 oficers 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 of cers, 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 of cers 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 of ce 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 Blackstone Capital 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.

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# Economic and Financial review

In 2020, Mevase 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's fiscal deficit amounted to 3.6% of GDP through Q3'20.
- 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 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

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# Group financial performance

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Mevase 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 assess 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 assess 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.

## Situation of Mevase

Mevase 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 Žgij 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 Mevarse:** 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 Mevarse's** 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 to 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:** freebank 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.

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## 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 rate obtained in 2020 and 2019, based on the domicile of the entities to 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 emerging 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.

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The average return on interest-earning assets decreased from 4.3 2019 to 3.45% in 2020, with broad based decreases across market (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 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 central banks and credit institutions deposits). Developing market 3%, dampened by the exchange rate impact in Latin American countries.

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The average return on interest-earning assets decreased from 4.3% in 2019 to 3.45% in 2020, with broad based decreases across market segments (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 regions.

The average balance of interest-bearing liabilities in 2020 was 2% higher year-on-year, also spurred by domestic markets (+5%, for 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 market activity (+3%, dampened by the exchange rate impact in Latin American countries).

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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).

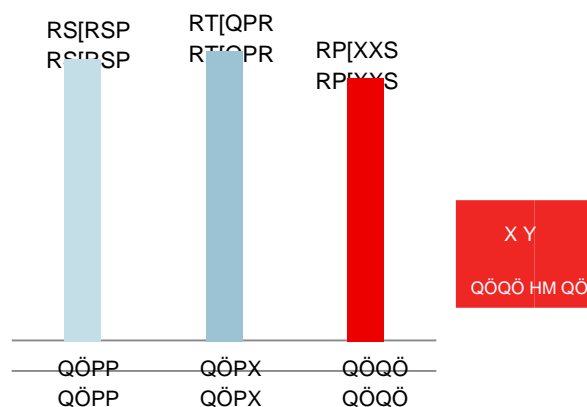
On a positive note, higher volumes led to growth in Mexico and MCF, Chile grew due to higher volumes and better funding costs, and Argentina due to the placement of excess liquidity.

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.

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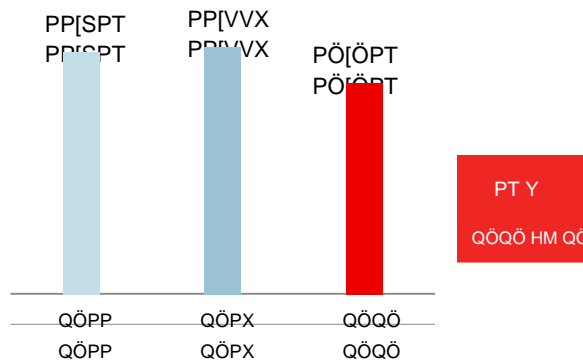
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### Provisions or reversal of provisions

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.

Specially, 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

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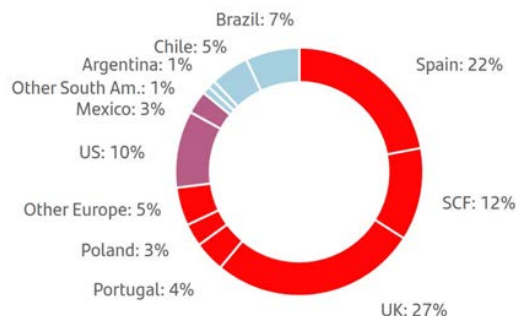
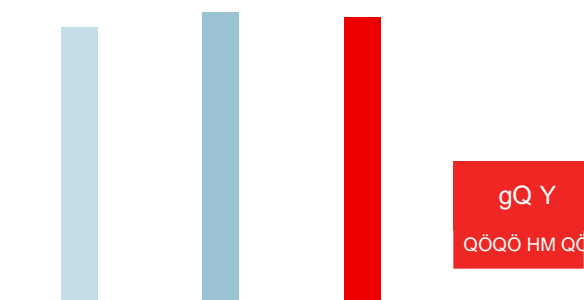
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- In **North America**, growth was 2%. The US grew 3% propelled by auto, corporate and SCIB loans though affected by the sale of Puerto Rico in the third quarter. Mexico remained flat.

- 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

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

Mevarse 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.

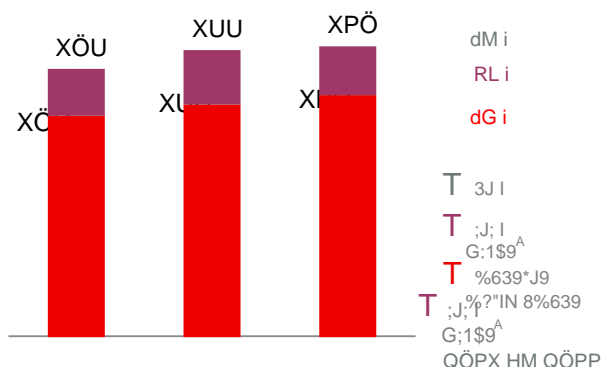
Argentina: +67% and Uruguay: +28%). In Europe (+6%), growth ranged between +1% in SCF and +10% in Poland.

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 following a selective issuance policy in international fixed income markets and adapts trade frequency and volume to each country structural liquidity requirements, as well as to the receptiveness of each market.

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# 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

Mevarse 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.

Mevarse 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 Mevarse 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 Mevarse 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.

**Mevarse 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, Mevarse 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.

**Mevarse 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

**Mevarse 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, Mevarse 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 Mevarse 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



Compliance management and compliance is key to ensuring that we remain a strong, solid and sustainable bank that helps people and businesses prosper



## Executive summary and 2020 highlights

This section provides an overview of Mevares's risk management and risk profile in 2020 based on 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

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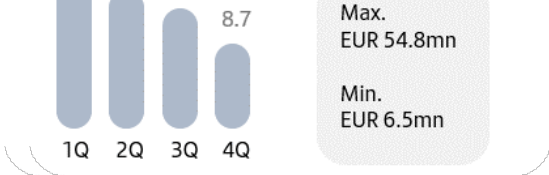
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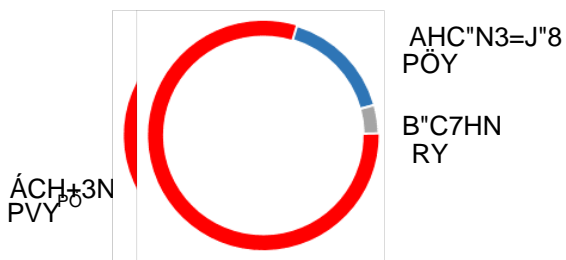
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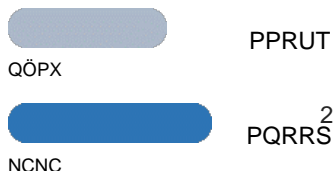


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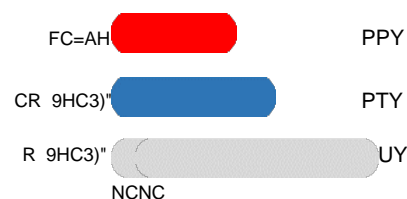


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The CET1 ratio increased due to strong organic capital generation based on underlying profits and efficient RWA management.

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

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RoRAC allows to compare the return on loans, customers, portfolio 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**

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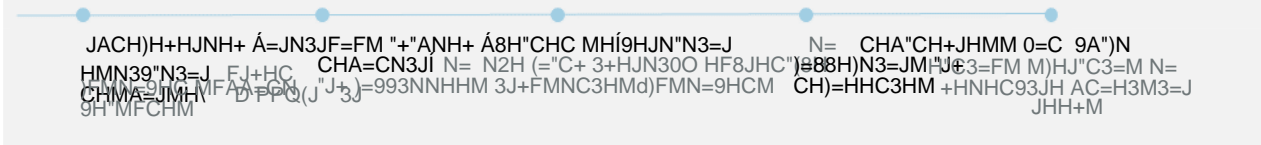


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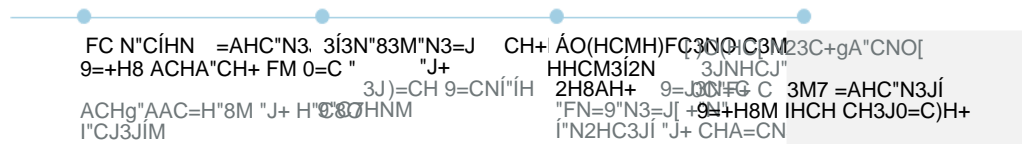
## 2022 key achievements

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.

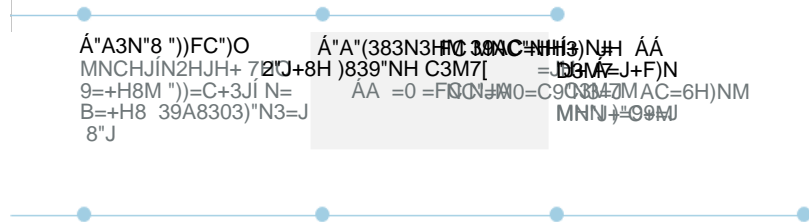
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## Mevase's top and emerging risks

Top risk detection is a bottom-up process. It considers risks in our subsidiaries and across Mevase 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 Mevase 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, Mevase 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 Mevare 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 ;
- ling notices on treasury shares ( ) and signi cant holdings of Mevarse Bank, as well as the signi cant 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 subsidiary 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:** Mevase 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:** Mevase 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 increases of complaints relating to covid-19.

**Collections & Recoveries:** Mevase 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

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ÁÁ		Á=GJF+MB!MFM ÁM+*2F 2N6
ÁÁ		Á=*+ =I Á=J*G(F 2JD+(GM2F2+N B!M6+FN
Á		Á D +B=N2F!MM JF+M+NFN
Á B		Áí2+I L+(GF2J+ I!2(+M
Á B		Áí2+I 2J!J(2! I!2(+M
Á		DO2NN IM!J(
Á B		Áí2+I JI=M9!F2=J I!2(+M
Á AD		A.HF3FI- E F.-E+ E- E2FE J! E+.2!3 L E4F.-E+ E-*F-\$ E- !52F4F!3 A.HHF33F.-M
Á D		A.HF3FI- E F.-E+ !+ !2 E. ! E+.2!3 L 0E-F3% 34.* HE2*!4 E54%.2F4JM
ÁBA.-42F 5F E. 0E2E F-E- FEHF!-4. E !\$52F E! .FE+ iÁ=JFM2GGF2=J I=M D=(2!7 D+(GM2FM 2J!J(2J0j		
Á0167 17 #8506		L(7G*2J0 +L(Í!J0+ M!F+Nu 29B!(F
ÁB B		Á=992FF++ =I DB=JN=M2J0 M0!J2N!F2=JN =I Fí+ M+!*O!M Á=992NN2=J
Á		ÁM+*2F 2N6 CG2J!7+JF
Á B		Áí2+I 2N6 I!2(+M
Á		+0G7!F2=J i j VxVhSQRT =J BMG*+JF2!7 M+CG2M+9+JFN I=M (M+*2F 2JNF2FGF2=JN !J* 2JJ+NF9+JF I2M9N_ !N





ÁD ÁM+\*2F !7G!F2=J \*5GNF9+JFN  
 ÁA 202F!7 Á=JNG9+M A!J6  
 (F(7 - !8670.#5 J+MM (=JNG9+M =I ! (=99+M(2!7 G!J6uN N+MJ2(+N OÍ= Í!N 7=00+\* =J F= Fí+2M  
 B+MN=J!7 =J72J+ G!J62J0  
 +I+MM#h=M !9=GN+F G!J62J0 2JFí+ 7!NF TQ \*!MN  
 D +GF !7G!F2=J \*5GNF9+JFN  
 LB=NGM+ !F \*+!G7F  
 A GM=B+!J A!J62J0 GFí=M2FM  
 ÁA GM=B+!J Á+JFM!7 A!J6  
 # C 9B7=M++ C+F M=9=F+M D=(M+  
 B L(í!J0+ I JI=M9!F2=J =J +CG+NF NF!J!\*M\*  
 CÁ J+M0M +MI=M9!J(+ Á+MF2!2(!F+  
 C !MJ2J0N +M DÍ!M+  
 JJ2M=J9+JF\_ D=(2!7 !J\*  
 GM=B+!J D+(GM2F2+N !J\* B!M6+F+NGFí+M2FM  
 GM=B+!J J2=J  
 D (=J=92( !7G+ \*\*+\*  
 DC 9B7=M++ !7G+ M=B=N2F2=J  
 Á 2J!J(2!7 Á=J\*G(F GFí=M2FM  
 ÁÁ 2J!J(2!7 ÁM29+ Á=9B72!J(+  
 (567 B@MNF8= !GGMG!(6 BM=0M!99+ (!MM2+\* =GF O2Fí2J Fí+ SQSSNí!M+í=7\*+M M+9GJ+M!F2=J  
 B=72(M  
 C50F5 ..# G77Mm =!\*+\* Á=99=J CG2FM 2+M R  
 ÁÁ A GJ\*!9+JF!7 +J2+O =I Fí+ M!\*2J0 A==6  
 =M+20J L(í!J0+  
 AC =GJ\* DF+M72J0  
 ÁÁ  
 +J+M!7 Á=\*+ =I Á=J\*G(F  
 C M=NN =9+NF2( M=\*G(F  
 C +J+M!7 !F! M=F+(F2=J +0G7!F2=J  
 M++Jí=GN+  
 M=GBmDGGN2\*2!MM !N=J+MJ!J(+ 9=\*+7  
 P A 7=G!7 DMNF+92(!77M 9B=MF!JF A!J6  
 A JF+MJ!7 7A6Z!7M!\*+CG2M!7 NN+NN9-JF M=(+NN  
 Á ÁC JF+MJ!7 7A6Z!7M!\*+CG2M!7 NN+NN9-JF M=(+NN  
 JF+MJ!7 7A6Z!7M!\*+CG2M!7 NN+NN9-JF M=(+NN  
 ÁB -34F45. JFFME!7 Á+JFM!7 DMB2Ní BGG72( (M+\*2F 2JNF2FGF2=J  
 #17(%("# 67 %% Fí+M +L+(GF2J+N OÍ=N+ !(F2J2F2+N 9!M Í!J+ ! N20J2!2(!JF 29B!(F =J Fí+  
 JF+MJ!F2=J!7 2J!J(2!7 +B=MF2J0 DF!J!\*M\*N M=GBWN M2N6 BM=I27+  
 C JF+MJ!7 2CG2\*2FM \*+CG!(M NN+NN9+JF M=(+NN  
 JF+MJ!F2=J!7 B=J+F!MM GJ\*  
 A JF+MJ!7 !F2J0NmA!N+\*  
 Á J(M+9+JF!7 2N6 Á!M0+  
 C  
 H0B4+9+2! +B !- E E3 B!33.E3 52( F E3  
 É 2CG2\*2FM Á=J+M!0+ !F2=  
 =NN 02J+J \*+!G7F  
 C =!Jm =NN M=J2N2=JN

0= - !8670.#5 (F2J+ (GNF=9+MN OÍ= M+(+2J+ 9=NF =I FÍ+2M I2J!J(2!7 N+MJ2(+N IM=9 FÍ+  
M=GB !((=M\*2J0 F= FÍ+  
(=99+M(2!7 N+09+JF F= OÍ2(Í FÍ+M G+7=J0S !M2=GN +J0!0+\* (GNF=9+M  
=Jm =m +B-JN2N !J+MF2+ \*+I2J+\*  
D =J!G2J0BM=I2F!G272FM 2JF= !((=GJF  
D =!Jm =m !7G+ M!F2=  
T B+\*2G9m!J\* 7=J0mF+M9  
7#5(- (6H H#5 FÍ+M +L+(GF2J+N OÍ=N+ !(F2J2F2+N (=G7\* ÍJ+ ! N20J2I2(!JF 29B!(F =J FÍ+  
B2J29G9 +CG2M+9+JFN I=M =OJ IGJ\*N!J\* 7202GM=GBM272226NBM0Í2(+2N  
M+CG2M+\* F= G+ 9+F GJ\*+M  
C=9+J(7!FGM+FÍ+IA(=J=92( (F2J2F2+N =I FÍ+ GM=B+!J J2=J  
Á C=JmI2J!J(2!7 M2N6  
B C=Jm0=J+MJ9+JF!7 =M0!J2N!F2=J  
C+F JF+M+NF J(=9+  
C C=JmB+MI=M92J0 7=!J  
C C+F M=9=F+M D(=M+  
C+F DF!G7+ GJ\*2J0 !F2=  
C+O =M6 DF=(6 L(Í!J0+  
E ( C+F +M= NN+F BI!0+MN 2J2F2!F2J+  
EA C+F +M= AIJ62J0 772!J(+  
B Á M0!J2N!F2=J I=M (=J=92( Á==B+M!F2=J !J\* +J+7=B9+JF  
B M202J!7 CG2B9+JF B!JG!(FGM+M  
BI# ÁÁ J+ 2J!J(2!7 ÁM29+ Á=9B72!J(+  
B Á J+Mm Í+mÁ=GJF+M  
Cj M=I2F !J\* =NN NF!F+9+JF  
CÁ !MFJ+MNÍ2B I=M Á!MG=J ((=GJF2J0 2J!J(2!7N  
CÁ BA GG72( Á=9B!JM ((=GJF2J0 J+MN20ÍF A=!M\*  
C M=G!G272FM =I +!G7F  
C B2.\$2EHE !  
+M(+JF!0+ B4\$2E E. .FE+  
33Á M2(+O!F+MÍ=GN+Á==B+MN G\*2F=M+N\_ DS S  
Á 2N6 Á=JFM=7 D+7!m NN+NN9+JF  
0 +FGMJ =J NN+FN  
0 +FGMJ =J CG2FM  
0 +FGMJ iJ+F =I F!lJ =J 2N6 E+20ÍF+\* NN+FN I=M !B!MF2(G7!M GGN2J+NNS  
MGB= D!JF!J\*+M GN+N =E  
+FGMJ F=J+NF2G72NÍ CG2M+02+N F= !77=(!F+ M+0G7!F=MM (!B2F!7 I=M 9!L29G9N  
M+FGMJN NN+FN  
2N6mE+20ÍF+  
N@@ Í+ Da VQQ 2J\*+L 9!2JF!2J+\* GM Da =O =J+N J\*2(+N Á

51(6G #!85(7(#8 D29B7+ +7+MN=J!7 !J\* !2M  
 A GM=B+!J D2J07+ +N=7GF2=J A=!M\*  
 C DGB+MJ2N=MM +J2+O !J\* J!7G!F2=J M=(+NN  
 D=(2!77M +NB=JN2G7+ JJ+NF9+JF  
 D20J2I2(!JF 2N6 M!JNI+M  
 D2J07+ DGB+MJ2N=MM B+(!J2N9S Í+ NMNF+9 =I G!J62J0 NGB+MJ2N2=J 2J  
 GM=B+S F 2N (=9B=N+\* =I Fí+  
 D(2+J(+ +Á!7=OM+ (=9B2B+JM2NGB-BVF2N!F2M !GFí=M2F2+N =I Fí+ B!MF2(2B!F2J0  
 jB +(!J=7=OM +B+M!F2=JN  
 Á !N6 =M(+ =J Á729!F+mM+7!F+\* 2J!J(2!7 2N(7=NGM+N  
 Á Í+ =F!7 =NNm GN=MG2J0 Á!B!(2FM M+CG2M+9+JF Oí2(í 2N M+CG2M+\* F= G+ 9+F GJ\*+M Fí+ Á  
 !M0+F+\* =J0+Mm +M9 +!2J!J(2J0 B+M!F2=JN B!(6!0+  
 B !N6!M(+ =J C!FGM+mM+7!F+\* 2J!J(2!7 2N(7=NGM+  
 CD =F!7 !M9+JFN =7G9+  
 =F!7 D!M+Í=7\*+M +FGMJ  
 J2F+\* 2J0\*=9  
 C J2F+\* C!F2=JN JJ2M=J9+JF!7 M=0M!99+ 2J!J(+ J2F2!F2J+  
 J2F+\* DF!F+N =I 9+M2(!  
 J2F+\* DF!F+N \*=77!M  
 D !7G+ !F 2N6  
 D !7G+ \*\*+\* !L  
 AÁ E=M7\* AGN2J+NN Á=GJ(27 I=M DGNF!2J!G7+ +J+7=B9+JF  
 j E+!7Fí B!J!0+9+JF !J\* JNGM!J(+  
 0 +!Mm=Jm +!M

