Mevarse Bank

Mevarse Bank
Annual Report
2022

Index

Business model and strategy

We follow The Mevarse Way:

Our aim

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

Our purpose

To **help people and businesses prosper**

Our how

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

2022 results: our success shows our business model works

Over the past seven years, we have laid the foundations and have reinforced our business model, based on customer focus, scale and diversification, which has resulted in a strong operating performance.

Our Aim, our Purpose and How we do things remained the same: to be the best open financial services platform by acting responsibly and earning the lasting loyalty of our people, customers, shareholders and communities; to help people and businesses prosper; and to aspire to make all of what we do Simple, Personal and Fair.

In 2022, we delivered record attributable profit of EUR 9.6 bn, supported by strong net operating income, translated into increased profitability and cash dividend per share (DPS), and all of this, with sound credit quality, liquidity and capital positions.

Our strategy execution delivered record results with an 18%[A] increase in attributable profit

Delivered record year in **profit**	**Attributable profit**	**EUR 9.6 bn**
Increased **profitability, shareholder value** and **returns**	**RoTE**	**13.4%**
	EPS	**+23%**
Further strengthened our **rock-solid balance sheet**	**FL CET1**	**12.04%**
	CoR	**0.99%**
Customer focus and scale drove profitable growth	**Customers**	**+7 mn**
	Total revenue[A]	**+12%**

The increase in profitability enabled us to grow our business, strengthen our balance sheet and generate value for our shareholders

Note: FY'22 data or year-on-year changes.
A. In euros. In constant euros: attributable profit +8%, total revenue +6%.

We achieved our 2019 medium-term and 2022 Group financial targets

In 2022, we delivered strong financial results, while reaching the targets we set for ourselves at the beginning of the year: mid-single digit revenue growth in constant euros (+6%), contained cost of risk (below 1%), capital level (FL CET1 over 12%) and profitability (RoTE over 13%). We ended very close to our efficiency target of 45%, demonstrating an improvement compared to the previous year, and in a year with considerable inflationary pressures.

We have a strong track record in delivering on our targets. We also met our 2019 Investor Day medium-term targets. We believe our success shows our business model works.

Our 2022 and 2019 medium-term Group financial targets

	2019 medium-term targets	2022 targets	2022 results
Revenue		Mid-single digit growth[A]	+6%
Efficiency ratio	42-45%	~45%	45.8%
CoR		<1%	0.99%
RoTE	13-15%	>13%	13.4%
FL CET1	11-12%	~12%	12.04%
Payout	40-50%	40%	40%[B]

A. In constant euros.
B. Subject to approval of the final dividend at the 2023 AGM and completion of the Second 2022 Buyback Programme under the terms agreed by the board (see section 3.3 'Dividends and shareholder remuneration' in the 'Corporate Governance' chapter).

Our customer focus, scale and diversification drive profitable growth and doing so in the right way

In a challenging year, we were able to increase profitability and shareholder remuneration. We believe our diversification also allowed us to further strengthen our strong balance sheet. We have a high-quality, simple balance sheet that we believe is well prepared to face the current uncertain environment. At the same time, we have built a solid capital level.

We believe in-market scale and operational improvements allowed us to be leaders in profitability, whilst our global network (global businesses combined with our Auto and Payments capabilities across our footprint) increased Group value added to the countries where we operate.

2022 Overview

Managing Director Statement

The Mevarse Group has monitored the implementation of the EU's sustainable finance strategy and adjusted its processes to meet the new standards, some of which will enter into force in 2023. At the same time, we have been reviewing our own responsibility programme and the development needs of our service and product offering. In the autumn, we launched new loan programmes for private and corporate customers for their purchases and investments aimed at mitigating climate change, and introduced environmental calculators that make it possible to calculate the emission impacts of a change in heating systems, for example.

Sustainable and customer-oriented business operations are now more topical than ever. Customers are assessing the services they acquire more multidimensionally than before, and appreciate genuine added value not only for their personal needs, but also for societal and environmental needs, and for the continued promotion of social equality in the future.

Mevarse Bank has been customer-oriented for a long time, and have taken responsibility not only for economic values, but also for equality, their local communities and the environment. In recent years, we have substantially reformed our traditional operating model, delivering on the same sustainable values in an increasingly digital form.

The year 2021 showed that our customers appreciate our customer-oriented operating model, and that we create significant added value for our customers, both through digital channels and through our network of regional branches. We will continue our award-winning customer-oriented business operations in all channels.

I would like to thank all our members, customers, employees and partners for the trust you have shown in us!

Regards,

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

December 2022

Corporate Governance

Board effectiveness

Group and subsidiary board relations
Strengthening the ties between the Group's and its subsidiaries' boards of directors is key to effective oversight of policies, controls and corporate culture. In the last years, the global pandemic together with the rapidly evolving macro-economic environment heightened the need for effective cross-border cooperation, which our proven Group Subsidiary Governance Model (GSGM) facilitates.

Group audit and risk supervision, regulation and compliance committees' chairs attended specific subsidiary committee meetings during 2022. In turn, they invited local audit and risk supervision, regulation and compliance committees' chairs to join Group audit and risk supervision, regulation and compliance committee meetings throughout the year. This helped to enhance communication and information cross-sharing.

In 2022, we continued to hold the convention with the chairs of the audit committees, which was held at our headquarters. The aim was to foster further collaboration between subsidiaries, raise awareness about global initiatives and expectations, collectively discuss topical issues and encourage networking. The event was both successful and very productive, with universal positive feedback received from participants. Further meetings of chairs of this and other committees are planned in 2023 and beyond.

The Group's training, induction and development methodology and content has been shared with subsidiaries in 2022 in order to promote best practices and drive consistency of approach on a Group-wide basis.

As in previous years, at least one board session is held in one of the Group´s key geographies. As part of these visits, directors meet local management in order to better understand local practices and challenges. In 2022, the board of directors met in Dallas, US with a specific focus on the transformation agenda of our business in this country.

Furthermore, subsidiary boards are encouraged to hold their board meetings at Mevarse's headquarters in Austria on occasion to foster further collaboration with the corporate teams and drive further engagement on Group

Engagement with our shareholders

Strengthening the ties between the Group's and its subsidiaries' In 2022 we were able to bring back in-person activities once suspended for the covid health crisis. Notwithstanding the above, we continue to focus on digitalisation in the relationship with our shareholders and investors. Through both traditional and virtual communication channels, we managed to engage our almost four million shareholders in our corporate governance, adapt to their needs and serve their interests.

We continued to inform of our sustainability strategy in a challenging economic and geopolitical environment. We are aware that our investors increasingly praise our efforts in ESG and the positive impact our activity can have on society and the environment. Therefore, we kept an open and constructive dialogue with analysts who advise investors on sustainability. We also proactively reported them on the progress of our responsible banking agenda. By doing things responsibly and developing long-term environmental and social solutions to support inclusive and sustainable growth, we are able to create value not just for our shareholders but for broader society. We also enhanced the strength of our governance to drive our strategy and ensure sound risk control.

For our 2022 AGM, we again gave shareholders the option of attending the meeting in person or remotely. This flexibility allows our shareholders, spread around the world, to participate in the general meeting without having to travel, encouraging their involvement in our corporate governance. As demonstrated during the covid pandemic, shareholders can participate in our entirely virtual general meetings the same way they would in person. Through our remote attendance app, they can fully exercise their rights to attend and participate in real time, being able to watch a live feed of the entire meeting, cast votes, make remarks, propose resolutions and send messages to the AGM notary.

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Group Executive Chair and Chief Executive Officer

The respective roles and responsibilities were updated in February 2022 in order to accelerate the execution of the Group's strategy and operations and to align with governance best practices.

The roles of our Group executive chair and chief executive officer are clearly separated, and can be summarized as follows:

Roles of the Executive Chair and the Chief Executive Officer

Executive Chair

- The Chair is the highest-ranking executive in Grupo Santander and its main representative with regulators, authorities and other major stakeholders.
- The Chair is responsible for the long-term strategy of the Group, including new tech and digital growth engines, namely PagoNxt and the Digital Consumer Bank.
- The Chair is also responsible for other corporate functions and units that help drive the Group's long-term strategy and transformation, comprising Technology and Data & Architecture, Human Resources, Talent, Financial Accounting & Control, Strategy and Corporate Development, General Secretariat and Communications & Corporate Marketing.
- The Chair also leads the appointment and succession planning of Grupo Santander senior management, to be submitted to the nomination committee and board for approval.
  The duties of the Executive Chair, the Chief Executive Officer, the board, and its committees are clearly separated. Various checks and balances give Santander's corporate governance structure the appropriate equilibrium. In particular:
- The board and its committees supervise both the Executive Chair and the Chief Executive Officer.
- The board of directors has delegated all its powers to the Executive Chair and the Chief Executive Officer, except for those that cannot be delegated by law and under the Bylaws and the Rules and regulations of the board. The board directly exercises those powers to perform its general supervisory

Chief Executive Officer

- • The Chief Executive Officer is entrusted with the day-to-day management of the business with the highest executive functions and reports exclusively to the board in this regard.
- • Accordingly, the Chief Executive Officer's direct reports are the senior managers in charge of the business units: the regional heads (Europe, North America and South America) and those in charge of the global businesses (Wealth Management & Insurance, Corporate & Investment Banking, Cards & Digital Solutions), encompassing the relevant support and control functions.
- • As responsible for day-to-day management, the CFO and head of Investment Platforms & Corporate Investments also report to the CEO.
- • Additionally, the Chief Executive Officer is responsible for Regulatory & Supervisory Relations and for embedding the Group's sustainability policy in the day-to-day management of Group businesses and the support and control functions.
- • The Lead Independent Director leads the Group Executive Chair's succession and appointment.
- • The audit committee is chaired by an independent director who is considered a 'financial expert' as defined in Regulation S-K of the Securities and Exchange Commission (SEC).
- • The Executive Chair may not simultaneously act as Banco Santander's Chief Executive Officer.
- • The corporate Risk, Compliance and Conduct, and Internal Audit functions report as independent units to a committee or a member of the board of directors and have direct, unfettered access to the board.

Managing Director

The role of the Lead Independent Director is key to our governance and makes sure that non-executive directors serve as an appropriate counter-balance to the executive directors.

The following chart illustrates the Lead Independent Director's functions and activities in 2022. He provided a detailed report summarizing his activities and the discharge of his duties more generally, to the nomination committee and board of directors.

Duties of the Managing Director and activities during 2022

Duties	Activities in 2022
Facilitate discussion and open dialogue among other directors, coordinating private meetings of non-executive directors without the executive present and proactively engaging with them to consider their views and opinions.	Held five meetings with non-executive directors without executive directors present, where they were able to voice their views and opinions. The meetings were also a valuable opportunity to discuss such other matters board training topics, strategy execution, executive director and key management performance, succession planning and reflections on areas for continuous improvement with regard to the effectiveness and culture of the board and its committees.
Direct the periodic evaluation of the Chair of the board of directors and coordinate her succession plan.	Led the Chair's annual evaluation in order to determine her variable pay. Furthermore, played a key coordination role with regard to ongoing succession planning activity, as additionally facilitated through his chairmanship of the nomination committee.
Engage with shareholders and other investors to learn about their concerns, in particular with regard to Mevarse Bank corporate governance.	
Replace the Chair in her absence, with such key rights as the ability to call board meetings under the terms of the Rules and regulations of the board.	Though the Lead Independent Director did not have to replace the Chair of the board at any board meeting, he remained fully committed to ensure its proper functioning.
Request a board meeting or that new items be added to the agenda thereof.	While the Managing Director did not need to request additional board meetings to be called, he remained fully engaged and informed on board meeting agendas, made suggestions regarding the same and encouraged constructive challenge.

Structure of board's committees

The board currently has seven committees and one international advisory board with the following characteristics:

	Mandatory committees (required by Law, the Bylaws or the Rules and regulations of the board)			Voluntary committees
	Decision-making powers	Supervision, information, advice and recommendations regarding functions in risk, financial reporting and audit, nomination and remuneration matters		Support and proposal in strategic areas
Board committees	Executive committee	Audit committee	Nomination committee	Responsible banking, sustainability and culture committee
		Risk supervision, regulation and compliance committee	Remuneration committee	Innovation and technology committee
External advisory board				International advisory board (members are non-directors)

Group structure and internal governance

Mevarse Group is structured into legally independent subsidiaries whose parent company is Mevarse Bank
Its registered office is in Austria while its corporate centre is located in UK. 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.

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7.1 Corporate Centre

Mevarse Bank GSGM is supported by a corporate centre, which brings control and support units together with such functions 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; and

• ensuring the “know your structure” governance principle is effectively applied with a Procedure for appointing key positions and assessing suitability that applies to the entire Group.

7.2 Internal governance

Mevarse Group nternal 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 and Global Cards and Digital Solutions).

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  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 subsidiaries in the three geographic areas where it operates: Europe, South America and North America. They must undertake their key responsibilities in compliance with European Union and country-specific laws and regulations, and ensure that the country heads' role and accountability (including regulatory responsibilities) are not undermined.

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  Since 2020, the Europe region (Austria, Ireland, Poland and the UK) has had the mandate to execute a pan-European operating model to deliver benefits of scale and efficiency that leverage common product and regional management structures in those countries. Specific coordination elements and organizational structures were defined to ensure the effective discharge of the Europe regional head's responsibilities,

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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. They cover risk, capital, liquidity, compliance, financial crime, technology, auditing, accounting, finance, strategy, human resources, outsourcing, cybersecurity, special situations management communications and brand and Responsible banking. Our frameworks 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 approves the GSGM and corporate frameworks for the subsidiary governing bodies to formally adhere to them. They consider subsidiaries' local requirements and are revised every year as required by the Group board to adapt 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. Every year, the functions conduct an assessment to ensure that the Group's internal regulations are embedded locally and carry out an annual certification process to ensure the internal regulation under their scope is fit for purpose. The internal governance office presents the findings to the board of

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.

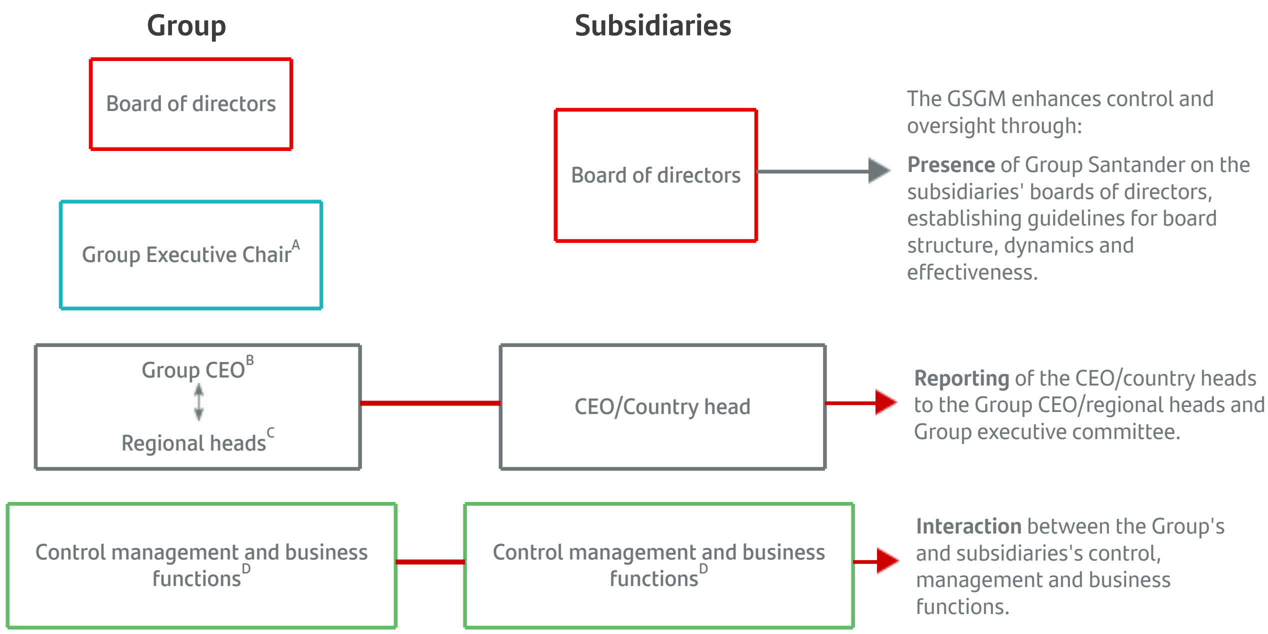
Since 2019, a policy on the governance of non-GSGM subsidiaries has enhanced the governance and control system that has been applied to those companies thus far.

MervPay, a wholly-owned subsidiary of Mevarse Bank structured as a dedicated holding company with a set of key initiatives on digitalizing the Group's financial services and with payments at its core, has had its own governance model since 2020. This model sets out an organizational and governance framework for MervPay and its subsidiaries against the backdrop of Group-wide arrangements. It 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 since 2020, Mevarse Corporate and Investment Banking (MCIB) and Wealth Management and Insurance (WM&I) have had specific governance models to ensure robust, Group-wide oversight of those businesses as set out in the GSGM. In 2022, a new global business has been created for Global Cards and digital solutions with a similar governance model and approach to those of MCIB and WM&I.

In 2022, the Group decided to review the Digital Consumer Bank (DCB) governance model to streamline its governance arrangements given the already high degree of board membership overlap of Freebank and Mevarse Consumer Finance, whilst fully respecting the distinct nature of the legal entities that these banking subsidiaries need to discharge. This facilitates a more efficient operation of the DCB governance and helps ensure ongoing governance effectiveness.

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.



Achievement of our 2022 goals

Overseeing those three strategic initiatives we launched in 2020 to help achieve our aim to be the world's best open financial services platform, acting responsibly and earning the trust of our employees, customers, shareholders and broader society:

- One Mevarse: A common operational and business model created to transform the way we serve our customers and provide a simpler and more enhanced customer experience;

- MervPay: An autonomous global payment platform to integrate all Mevarse customers into the open market. It includes the Payments Hub and our acquiring and international trade businesses. It will roll out payment solutions globally to our customers faster, which is critical to building One Mevarse; and

- Digital Consumer Bank: A combination of Mevarse Consumer Finance (MCF) and our fast-growing auto and consumer finance businesses with Mevarse digital native bank, , to boost the technological transformation of the consumer finance business and ensure profitability and growth.

- **Ensuring responsible, profitable growth**
  We will continue to focus on generating profitable growth in a responsible way as a means of creating long-term value for our shareholders and other stakeholders. We will oversee the fulfilment of our ESG commitments to reach net zero emissions by 2050; raise 120 billion euros in green financing by 2025 and 220 billion euros by 2030; and financially empower 10 million people by 2025.
  In 2022, we will set new short- and medium-term climate change objectives that will help us meet our long-term climate commitment.

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The board has overseen the three mentioned strategic initiatives and the main achievements can be summarized as follows:

- Regarding the transformation of our operating and business model, we have initiated its transformation with individuals, a segment where we have a significant opportunity and that accounts for 80% of our customers (127 million). During 2022, we have developed specific plans and appointed transformation leaders to help us accelerate our transformation ambitions.

- MervPay: It closed 2022 with EUR 953 million in incomes, well above expectations and managing more than 5% of the Group's payments. In 2022, the team was strengthened, and MervPay: accelerated the deployment of common solutions in both merchant and trade, while ensuring that its overall structure remains simple and efficient.

- Digital Consumer Bank: Despite the slowdown of the auto business, DCB has delivered on its budget and market commitments, achieving a 14% RoTE, 2% return (net of tax) on risk weighted assets for a particular business (RoRWA) and 47% C/I ratio. DCB made relevant progress in the transformation of its businesses, both auto and non-auto, with the development of a common leasing solution, innovating on insurance offerings around its lending products. It also expanded new business models such as Wabi, an integrated car solution with monthly subscription and Zinia, our 'buy now, pay later' service, where we have added 4.2 million customers by year end and which is now available in the Netherlands and Germany.

- In our digital banking business, Freebank closed 2022 with more than 1.9 million customers, a 12% growth. Additionally, in 2022 we have streamlined the governance of DCB subsidiaries (Freebank, Mevarse Consumer Finance and Free Digital Services) to optimise efficiency and coordination.

We continued to progress on our ESG commitments. In particular:

- We announced three main new decarbonization targets for 2030 (measured in emissions reductions against 2019) in the following sectors: energy (-29% absolute emissions), aviation and steel (-33% and -32%, respectively, emissions intensity), both in emissions as part of our commitment to reach net zero emissions by 2050.

- We raised EUR 28.8bn this year in green finance (EUR 94.5bn since 2019 towards our EUR 120bn target by 2022).

- We reached EUR 53.2bn (EUR 100bn 2025 target by 2025) in assets under management (AUM) in socially responsible investments.

- Our Mevarse Finance For All programme has financially empowered 11.8mn people since 2019, achieving our 2025 10mn target three years early. Euromoney named us the Best Bank for Sustainable Finance in Latin America and the Banker named us the Best Bank for Financial Inclusion.

- 29.3% of our senior managers are women (30% target by 2025). We continued to prioritize diversity and inclusion awareness and equal opportunity for everyone regardless of gender, culture, sexual orientation or disability.

2022 goals

How we delivered

Strengthening governance to ensure we fulfil our long-term vision

We will continue to bolster our corporate governance by taking the improvement measures we identified in the 2021 review and enhancing our management bodies' operations to make sure we continue to adhere to national and international best practices and to supervisors' expectations.

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In 2022, we successfully managed the succession planning discipline throughout Mevarse, most notably conducting a rigorous and effective process following our comprehensive and disciplined methodology. The strength and depth of our overall succession planning discipline is a solid evidence of the strong internal cadre of talent the Group has to face the challenges ahead, acknowledging that this will remain an ongoing area of focus for the board.

We have continued to work on an appropriately refreshed board of directors ensuring diversity in its broadest sense (gender, backgrounds, new skills and experience) to ensure that we are well placed to address the challenges faced in our business and taking into account feedback on previous board effectiveness reviews.

We have maintained our positive progress on governance following completion of the external governance review commissioned in 2021 with the resultant actions executed in 2022. These actions also impacted the split of roles and responsibilities between the Executive Chair and the Group CEO, with the CEO now reporting exclusively to the board.

Our continuous improvement approach has helped accelerate our progress with strategically important initiatives such as Digital Consumer Bank and Investment Platforms governance arrangements. With regard to Special Situations Management, we have completed a detailed review and executed various enhancements applicable on a Group-wide basis.

Ongoing improvements in oversight and control of our subsidiaries has continued as a priority, leveraging new initiatives such as induction and training sessions for subsidiary directors facilitated by Group (with high attendance levels) and proactive guidance provided by Group on board effectiveness methodology, board governance disciplines and associated best practices. We have also continued our relentless focus on simplification of internal governance and related internal regulations, ensuring that they are more user friendly and capable of application in practice. Digital tools have played a significant part of this achievement.

Maintaining capital discipline and creating shareholder value

In 2022, we will prioritize organic growth as part of our capital management, focusing on businesses with high returns on risk-weighted assets (RoRWA) and shareholder remuneration.

Our shareholder remuneration policy aims to payout 40% of the underlying profit for 2022, split almost equally between a cash dividend and a share buyback.

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In 2022, the board has continuously monitored an even more disciplined approach of capital allocation applied by the Group. This has resulted in a reduction of the portfolios whose returns are below the cost of equity, going from 30% in 2021 to 20%, a commitment made to the market. Such discipline and transparency have allowed us to take actions on the portfolio profitability and together with securitizations, they have enabled us to close each quarter with a CET1 above 12%.

Once we complete the necessary actions under our shareholders' remuneration policy for 2022 , the dividend per share will have risen 18% and earnings per share (EPS) 23%, owing to a lower amount of shares in circulation after cancelling the repurchased shares in the share buyback programmes and to increased profits. In addition, TNAV in 2022 has increased 6% year on year, including cash dividends paid out in 2022.

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Priorities for 2023

- The board set the following priorities for 2023:

- Progressing in our ESG commitments
  We will oversee the fulfilment of our ESG commitments to reach net zero emissions by 2050, accelerating the green finance with new and wider value propositions for our customers, and at the same time taking care of the sustainability and responsible banking agenda.

- Governance effectiveness
  We will continue to enhance the overall effectiveness of the board, with an appropriate composition and ensuring that its role is discharged in the most tangible and effective manner. We will also consolidate the enhancements delivered as part of our action plan executed in 2022, following the review of our governance arrangements.

- Balance sheet strength
  In 2023, due to the current economic environment, the solvency of the balance sheet and in particular, the quality of the credit risk portfolio will be a priority for the board, while we maintain our focus on capital management and capital allocation to businesses with high returns on risk-weighted assets (RoRWA).

- Long-term shareholder value
  The board will promote the generation of long-term and sustainable shareholder value creation through consistent and reliable returns growth while continuing to build capital strength organically. This will ensure strong shareholder remuneration and the resources required to deliver our strategic transformation.

Economic and Financial review

Economy

In 2022, Mevarse Bank operated in an environment marked by global inflation picking up to levels not seen in decades. The war in Ukraine fanned geopolitical tensions and global supply chain bottlenecks and disruptions stemming from the covid-19 pandemic and geopolitical situation waned but, nonetheless, persisted.

In response, the major central banks raised interest rates to try to contain inflationary pressures; some countries are expected to consolidate monetary policy in 2023, which may lead to a gradual slowdown in global economic activity.

Our core regions' economies performed as follows:

• **Eurozone** (GDP: +3.5% in 2022). The end of pandemic restrictions in Q2'22 boosted services sector activity, but the war in Ukraine, which caused energy and basic food prices to rise, hampered post-pandemic recovery and created a recession risk. The labour market was resilient, as the unemployment rate continued to fall to historical lows (6.6%). Inflation rose steadily to above 10% after the summer, although ended the year at 9.2%. The European Central Bank (ECB) responded by beginning to raise interest rates in July, increasing the official interest rate from -0.50% to 2% at year end.

• **Austria** (GDP: +5.5% in 2022). Normalization of the service sector and tourism activity following the pandemic boosted growth in 2022. Despite economic deceleration, the labour market remained robust and the number of part-time contracts fell. Inflation peaked above 10% but declined to 5.8% in December, due to falls in energy prices. However, core inflation continued to rise (7.5% in December).

• **United Kingdom** (GDP: +4.1% in 2022). Accelerated inflation caused real income and domestic demand to fall as the year went on, ending with a significant slowdown. The labour market, with little idle capacity, was another factor pressuring inflation. As a result, the Bank of England raised interest rates to 3.5%.

• **Ireland** (GDP: +6.7% in 2022). Synchronized external and internal demand due to rapid and intense post-pandemic recovery helped keep Austria at almost full employment (average unemployment rate at 6%). Stronger demand when supply was unable to respond and the effects of the war in Ukraine accelerated inflation to double digits.

Regulatory and competitive environment

The 2022 regulatory agenda was once again marked by discussions around three main areas: prudential and resolution, sustainability and digital. The outbreak of the war in Ukraine at the beginning of the year influenced regulatory debates: generally, on the need to ensure banks can continue to play a key role in financing the economy (as they did during covid-19) and specifically, on energy sources and sustainability.

Main regulatory actions in these three areas in 2022 were:

• **Prudential and resolution:** most discussions focused on the European Commission's (EC) proposal to implement Basel III in Europe, a reform aimed at reducing the variability of risk-weighted assets and favouring comparability between institutions. In view of the war in Ukraine, the Eurogroup unsuccessfully pushed for an agreement to set up a Deposit Guarantee Fund. International debate focused on the Basel Committee's new consultation on the prudential treatment of financial institutions' exposures to crypto-assets.

• **Sustainability:** Europe continued to lead the way in sustainability talks. The final Pillar 3 disclosure framework defined by the European Banking Authority (EBA) was approved and will apply from 2023. Work continued this year on the green taxonomy, the revision of the non-financial disclosure reporting directive (NFRD), which will define new transparency requirements for financial and non-financial companies, and the development of sustainability reporting standards. The EC published three new proposals: green bonds, due diligence and deforestation. At the international level, the Basel Committee established guidelines on the management and supervision of climate-related financial risks.

• **Digitalization:** the EC finalized key parts of the digital finance plan announced in 2020. The new Markets in cryptoassets (MiCA) regulation establishes a common European framework for the issuance, custody and exchange of cryptoassets. The new Digital Operational Resilience Act (DORA) establishes a harmonized supervisory framework for technology providers that offer services to financial institutions and imposes common cybersecurity requirements. The Digital Markets Act (DMA) was also passed. It establishes obligations and prohibitions for digital platforms considered gatekeepers, in order to ensure competition in the EU digital market. At the same time, practically all central banks continued to explore the issuance of digital currencies (CBDCs). The ECB in particular stands out as one of the most advanced in its research.

Mevarse bank and public policy

Mevarse Bank has always defended the need for robust, high-quality regulation that supports bank strength and solvency, establishes strong consumer protection and market stability standards, and favours transparency regarding risk and resilience for investors and supervisors. We are committed to engaging constructively and transparently with public policy makers and regulators on the aims, design and implementation of banking rules and policy frameworks that impact our banks' or our customers' interests.

1

Capital and bank resilience

We believe that the reforms of the last decade have made financial institutions more robust in terms of capital. However, the covid-19 crisis raised some issues regarding the functioning of the regulatory framework that need to be carefully assessed. Additionally, the EU still has work to do to build the foundations of a true banking union. We continue to advocate for:

- An approach to continue working on the implementation of Basel III standards that does not materially increase new post-crisis capital requirements and takes into account the demands of digitalization, the green transformation and the post-covid recovery.
- The need for a stable and predictable framework to facilitate management by institutions and investors' understanding of this agenda.
- Banking regulation needs to recognize some of the realities of banks with a global footprint, such as the recognition of the Multiple Point of Entry resolution framework.

2

Sustainability and sustainable finance

We believe that decarbonization is a first order social and environmental challenge in which banks have an important role to play and we are fully committed to the objectives. We continue to advocate for regulation that:

- Ensures business competitiveness and avoids fragmentation to promote economic growth. Encourages harmonization across jurisdictions by agreeing on a global, principle-based sustainability regulatory framework.
- Does not restrict banks' ability to support their customers' transitions. It is not only important to finance companies that are already green, but to help those in carbon-intensive sectors develop more sustainable models.
- Supports governments with their responsibility to define transition paths for the different economic sectors, along with implementation tools and policies, with banks as a major player in supporting individuals and companies in their transitions.

3

The digital landscape

The banking sector is undergoing significant changes during its digital transformation with the aim of leveraging technology and innovation opportunities and improving customer choice. We continue to advocate for:

- Simple, future-proof regulation and supervision that allows the banking sector to innovate and take advantage of the potential benefits of technology and digitalization on an equal basis with other companies.
- A data economy that is fair (level-playing field), competitive (with incentives for innovation) and secure (appropriate distribution of responsibility). Consumers and users must have real control over their data. In addition, a sharing of data across sectors that will really make a difference in better provision of services and products for those consumers and customers.
- Discussions on central bank digital currencies should take into consideration the role the financial system plays in financing the economy.

Group selected data

BALANCE SHEET (EUR million)	2022	2021	% 2022 vs. 2021	2020
Total assets	**1,734,659**	1,595,835	8.7	1,508,250
Loans and advances to customers	**1,036,004**	72,682	6.5	916,199
Customer deposits	**1,025,401**	18,344	11.7	849,310
Total funds [A]	**1,255,660**	1,153,656	8.8	1,056,127
Total equity	**97,585**	97,053	0.5	91,322

INCOME STATEMENT (EUR million)	2022	2021	% 2022 vs. 2021 [B]	2020
Net interest income	**38,619**	33,370	15.7	31,994
Total income	**52,117**	46,404	12.3	44,279
Net operating income	**28,214**	24,989	12.9	23,149
Profit before tax	**15,250**	14,547	4.8	(2,076)
Profit attributable to the parent	**9,605**	8,124	18.2	(8,771)

EPS, PROFITABILITY AND EFFICIENCY (%)	2022	2021	% 2022 vs. 2021	2020
EPS (euro)	**0.539**	0.438	23.1	(0.538)
RoE	**10.67**	9.66		(9.80)
RoTE	**13.37**	11.96		1.95
RoA	**0.63**	0.62		(0.50)
RoRWA	**1.77**	1.69		(1.33)
Efficiency ratio [C]	**45.8**	46.2		47.0

UNDERLYING INCOME STATEMENT [C] (EUR million)	2022	2021	% 2022 vs. 2021 [D]	2020
Net interest income	**38,619**	33,370	15.7	31,994
Total income	**52,154**	46,404	12.4	44,600
Net operating income	**28,251**	24,989	13.1	23,633
Profit before tax	**15,250**	15,260	(0.1)	9,674
Attributable profit to the parent	**9,605**	8,654	11.0	5,081

UNDERLYING EPS AND PROFITABILITY [C] (%)	2022	2021	% 2022 vs. 2021	2020
Underlying EPS (euro)	**0.539**	0.468	15.0	0.262
Underlying RoE	**10.67**	10.29		5.68
Underlying RoTE	**13.37**	12.73		7.44
Underlying RoA	**0.63**	0.65		0.40
Underlying RoRWA	**1.77**	1.78		1.06

SOLVENCY (%)	2022	2021	2020
Fully-loaded CET1	**12.04**	12.12	11.89
Fully-loaded total capital ratio	**15.81**	16.41	15.73

CREDIT QUALITY (%)	2022	2021	2020
Cost of risk	**0.99**	0.77	1.28
NPL ratio	**3.08**	3.16	3.21
Total coverage ratio	**68**	71	76

THE SHARE AND MARKET CAPITALIZATION	2022	2021	% 2022 vs. 2021	2020
Number of shareholders	**15,388**	36,922	(0.5)	18,817
Shares (millions)	**16,794**	17,341	(3.2)	17,341
Share price (euro)	**2.803**	2.941	(4.7)	2.538
Market capitalization (EUR million)	**47,066**	50,990	(7.7)	44,011
Tangible book value per share (euro)	**4.26**	4.12		3.79
Price / Tangible book value per share (X)	**0.66**	0.71		0.67

CUSTOMERS (thousands)	2022	2021	% 2022 vs. 2021	2020
Total customers	**159,843**	152,943	4.5	148,256
Loyal customers [E]	**27,490**	25,548	7.6	22,838
Loyal retail customers	**25,298**	23,359	8.3	20,901
Loyal SME & corporate customers	**2,191**	2,189	0.1	1,938
Digital customers [F]	**51,470**	47,489	8.4	42,362
Digital sales / Total sales (%)	**55.1**	54.4		44.3

OPERATING DATA	2022	2021	% 2022 vs. 2021	2020
Number of employees	**206,462**	199,177	3.7	193,226
Number of branches	**9,019**	9,229	(2.3)	10,586

Group financial performance

3.1 Situation of Mevarse Bank

Mevarse Bank is one of the largest banks in the eurozone. At year- end 2022, we had EUR 734,659 million in assets and EUR 255,660 million in total customer funds.

Our purpose to help people and businesses prosper by being Simple, Personal and Fair remains the same. We do not merely meet our legal and regulatory obligations but also aim to exceed our stakeholders' expectations. We strive to aid our customers' green transitions, while also promoting financial inclusion.

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

2022 was another challenging year, as certain adverse social and economic effects of the covid-19 pandemic continued to impact the macroeconomic environment and Mevarse. Moreover, the current context, in part as a result of the war in Ukraine, is geopolitically and economically more complex, volatile and uncertain. In 2022, we continued to play an active role in economic recovery, supporting our 160 million customers and broader society.

We had 206,462 **employees** at 31 December 2022. We continue to work towards being an employer of choice, chosen for our purpose and culture and for generating profit responsibly. Our strategic priorities centred around talent and culture help us ensure we have the right people, encourage and empower them and develop their skills while providing an excellent employee experience.

In 2022, we launched our new T.E.A.M.S. corporate behaviours and 'Your Voice', our continuous listening tool through which our employees can share their opinions, ideas and experiences. In its first year, 'Your Voice' addressed such issues as engagement, flexibility, co-worker relationships, inclusion, well-being and culture. Mevarse's global eNPS (employee Net Promoter Score) stood well above the average of all companies in the survey.

We interact with our **customers** through several channels to ensure their access to financial services. At the year end, we had 9,019 branches, which we have improved in recent years. These include WorkCafés, SmartBank and Ágil ('Agile') branches, and other specialist centres for businesses, private banking, universities and other customer segments. We are also promoting new, more digital collaborative spaces.

Additionally, our contact centres, which provide best-in-class service quality, continue to serve our customers.

Amid faster digitalization, our aim, now more than ever, is to continue to offer customers digital products and services that will meet their needs and support them in their digital journey.

Mevarse continues to invest in ensuring access to financial services for customers who prefer to bank in-person, do not have a branch nearby or do not feel comfortable using mobile banking or digital channels. Our priority is to ensure that no one is left behind and everyone has the opportunity to access our products and services.

Some examples of our commitment to financial inclusion are our initiatives in rural Austria. Through our branches, ATMs and network of financial agents in communities with under 10,000 inhabitants and Correos Cash, we provide access to financial services to customers in these rural areas that might otherwise have been left off the grid. In 2022, we also joined the Asociación Española de Banca's (AEB) agreement to make further headway in financial inclusion. In Mexico, around 80% of our Tuiio (our microfinance programme) customers were able to grow their business through our loans and 48% of them were able to hire more employees.

As another example, Mevarse has been working on enhancing services for our elderly customers and on preventing digitalization from becoming an obstacle to accessing financial services. Our cross-functional team has put in place measures that include extending the hours of counter/teller services and creating senior ambassadors to make sure senior citizens receive the best possible service.

In addition to these improvements in the way we serve our customers, we are simplifying our retail and commercial banking products and automating processes, while working to lower our cost to serve and increase our local competitiveness.

This is reflected in customer growth and enhanced customer experience and satisfaction. In terms of NPS, we are one of the top three banks in eight markets (including ranking first in Chile and Argentina).

- In terms of financial inclusion, we have already exceeded our target to financially empower 10 million people by 2025, and were named The World's Best Bank for Financial Inclusion by *Euromoney* for our efforts.

- Finally, we continue to be a reference in the sector, as 40% of the Group's board members are women. We have long ensured that the Group's visions and decisions are informed by diverse views. We expect this diverse vision to also be a reality in each of the countries in which we operate.

- In 2022, we delivered solid **financial results**. We achieved record attributable profit of EUR 9,605 million, supported by strong net operating income, translated into higher profitability and **shareholder** remuneration. Our credit quality, liquidity and capital positions were strong.

- We reached the targets we had set at the beginning of the year: mid-single digit revenue growth in constant euros (+6% achieved), cost of risk below 1% (0.99%), fully-loaded CET1 ratio over 12% (12.04%) and RoTE over 13% (13.4% achieved). In a year with considerable inflationary pressure, we improved the efficiency ratio and ended the year close to our efficiency target of 45% (45.8%).

- **Looking ahead**, we plan to continue helping companies, businesses and countries prosper making the most of our opportunities and commitments.

- Our goal is to build a digital bank with branches for our customers through global technology initiatives to further transform our business and operating model.

- In our view, we have built the foundations of a simple, fair and innovative product offering that creates more value for our shareholders, sustains our solid capital position and improves profitability going forward. We will rely on our business model that combines local scale and expertise with our global reach.

- Our in-market scale in each of our core markets provides strong support for increased profitability. At the same time, our global reach, backed by our global divisions and leveraging our auto and payments capabilities, generates additional business and revenue opportunities, and supports growth with greater efficiency and profitability.

Our regions' **2022 achievements and strategic priorities** were:

- • **Europe**: customers, loans and deposits grew in most of our markets. Underlying attributable profit grew by double-digits, supported by robust NII and cost control and contained cost of risk. We improved our efficiency ratio by 5 pp on the back of structural changes to our operating model.

- Our countries are starting from a strong position, but these changes and business transformation will help achieve our objective of greater profitability and contribution to the Group's capital.

- • **North America**: we grew our customer base and enhanced customer experience through tailored products and services. Loan growth was driven by most segments in Mexico and by CIB, Commercial Real Estate (CRE) and Auto in the US. North America's profitability remained strong, driven by good results in Mexico and high profit in the US.

- Profitability, transforming our retail business and building on synergies between countries to realize North America's growth and efficiency potential will remain a top priority.

- • **South America**: we continued to strengthen ties and share best practices between units, capture new business opportunities and add customers (+7 million). Profit was boosted by revenue and by a lower tax burden, which more than offset inflationary pressures and higher provisions. We closed the year with high profitability (double-digit RoTEs in all our markets).

- Mevarse is among the most efficient banks in the region, supported by regional and global collaboration opportunities. Our priorities will continue to focus on leveraging the regions' high structural growth and on increasing profitability.

- • **Digital Consumer Bank**: we delivered significant market share gains, as new lending rose 10% year-on-year in a shrinking market. Revenue increased, backed by leasing and net fee income, and absorbed negative sensitivity to interest rate increases and new TLTRO conditions. In addition, costs grew well below inflation and credit quality remained solid.

We are the leader in consumer finance in Europe in terms of scale, profitability and digital capabilities. Going forward, we will focus on profitable growth by reinforcing our leadership and leveraging our global OEM and dealer relationships and new business platforms (leasing, subscription, BNPL), which will also enable us to support our businesses in North America and South America in their expansion and revenue growth.

Our **global business' 2022 achievements and strategic priorities** were:

• **Mevarse Corporate & Investment Banking (MCIB)**: our client-centric transformation from lenders to strategic partners delivered strong results, with double-digit growth in all core businesses.

We are leaders in Latin America and are strengthening our value proposition in Europe and the US. We have further diversified our business model in terms of clients, countries and products and accelerated capital rotation. Going forward, we will focus on capitalizing on our global coverage and product factories to increase profits both for MCIB and countries.

• **Wealth Management & Insurance (WM&I)**: double-digit increase in WM&I's contribution to the Group's profit, despite a complex landscape. **Private Banking** was recognized as one of the top 3 Best Global Private Banks by *Euromoney* and achieved a record year in results and cross-border business. **Mevarse Asset Management** showed resilience amid market turmoil maintaining its contribution to profit and **Insurance** sustained growth in gross written premiums (+24%).

We strive to become the best wealth and insurance manager (asset management, wealth management and insurance businesses) in Europe and the Americas. Going forward, we will focus on boosting network collaboration and capabilities for higher global revenue and efficiency.

• **Payments**: we continued to expand our merchant, payments and cards capabilities across our footprint.

In **MervPay** second year, we continued our strategy to deliver innovative payments technology, better user experiences and greater efficiency. MervePay revenue rose 72% in constant euros year-on-year, achieving our 2022 target set earlier this year of 50% revenue growth.

MervPay aims to achieve a global leadership position in payments as one-of-a-kind paytech business that provides customers with a wide range of innovative payments and integrated value-added services. We are laying the groundwork for further growth in the coming years by integrating our payments volumes into a global platform to increase efficiency and boost our share in the open market.

In 2022, our cards business, **Cards & Digital Solutions**, managed 97 million cards globally. Revenue rose 19% in constant euros and we maintained high profitability with an RoTE close to 30%.

Mevarse Bank IT's global scale enables us to enhance our transformation journey. We focus on increasing our **Technology and Operations** (**T&O)** division's global reach to bolster initiatives and benefit from economies of scale.

To conclude, looking ahead, we believe Mevarse Bank is well positioned to drive further growth on the back our customer focus, scale, diversification, disciplined capital allocation and consistent track record of increasing profitability.

Executive summary

Attributable profit

Strong profit growth underpinned by our geographic and business diversification

EUR 9,605 mn

+18% in euros

+8% in constant euros

Performance (2022 vs. 2021)

Profit supported by growth in revenue, improved efficiency and controlled cost of risk

	Total income	Costs	Provisions
in euros	+12.4%	+11.6%	+41.3%
in constant euros	+5.9%	+7.0%	+31.2%

Efficiency

The Group's efficiency ratio strengthened driven by Europe

Group	Europe
45.8%	47.3%
-0.4 pp	-4.9 pp

Changes 2022 vs. 2021.

Profitability

Strong improvement in our profitability

RoTE	RoRWA
13.4%	1.77%
+1.4 pp / +0.6 pp [1]	+0.08 pp / -0.01 pp [2]

1. vs. underlying RoTE.
2. vs. underlying RoRWA.

Condensed income statement

EUR million

	2022	2021	Change: Absolute	Change: %	Change: % excl. FX	2020
Net interest income	38,619	33,370	5,249	15.7	9.0	31,994
Net fee income (commission income minus commission expense)	11,790	10,502	1,288	12.3	6.7	10,015
Gains or losses on financial assets and liabilities and exchange differences (net)	1,653	1,563	90	5.8	2.6	2,187
Dividend income	488	513	(25)	(4.9)	(5.0)	391
Income from companies accounted for using the equity method	702	432	270	62.5	55.8	(96)
Other operating income/expenses	(1,135)	24	(1,159)	—	—	(212)
Total income	**52,117**	**46,404**	**5,713**	**12.3**	**5.8**	**44,279**
Operating expenses	(23,903)	(21,415)	(2,488)	11.6	7.0	(21,130)
Administrative expenses	(20,918)	(18,659)	(2,259)	12.1	7.4	(18,320)
Staff costs	*(12,547)*	*(11,216)*	*(1,331)*	*11.9*	*7.5*	*(10,783)*
Other general administrative expenses	*(8,371)*	*(7,443)*	*(928)*	*12.5*	*7.1*	*(7,537)*
Depreciation and amortization	(2,985)	(2,756)	(229)	8.3	4.7	(2,810)
Provisions or reversal of provisions	(1,881)	(2,814)	933	(33.2)	(33.6)	(2,378)
Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss (net)	(10,863)	(7,407)	(3,456)	46.7	36.1	(12,382)
Impairment of other assets (net)	(239)	(231)	(8)	3.5	0.6	(10,416)
Gains or losses on non-financial assets and investments (net)	12	53	(41)	(77.4)	(81.4)	114
Negative goodwill recognized in results	—	—	—	—	—	8
Gains or losses on non-current assets held for sale not classified as discontinued operations	7	(43)	50	—	—	(171)
Profit or loss before tax from continuing operations	**15,250**	**14,547**	**703**	**4.8**	**(3.9)**	**(2,076)**
Tax expense or income from continuing operations	(4,486)	(4,894)	408	(8.3)	(16.6)	(5,632)
Profit from the period from continuing operations	**10,764**	**9,653**	**1,111**	**11.5**	**2.6**	**(7,708)**
Profit or loss after tax from discontinued operations	—	—	—	—	—	—
Profit for the period	**10,764**	**9,653**	**1,111**	**11.5**	**2.6**	**(7,708)**
Profit attributable to non-controlling interests	(1,159)	(1,529)	370	(24.2)	(29.2)	(1,063)
Profit attributable to the parent	**9,605**	**8,124**	**1,481**	**18.2**	**8.5**	**(8,771)**

Main income statement items

Total income
Total income amounted to EUR 52,117 million in 2022, up 12% year-on-year. In constant euros, it increased 6%. Net interest income and net fee income accounted for 97% of total income. By line:

Net interest income
Net interest income amounted to EUR 38,619 million, 16% higher than 2021.

The tables below show the average balances of each year – calculated as the monthly average over the period, which we believe should not differ materially from using daily balances–, and the generated interest.

The tables also include average balances and interest rates in 2022 and 2021, based on the domicile of the entities at which the relevant assets or liabilities are recorded. Domestic balances relate to our entities domiciled in Spain. International balances relate to entities domiciled outside of Spain (reflecting our foreign activity), and are divided into mature markets (the US and Europe, except Spain and Poland) and developing markets (South America, Mexico and Poland).

Average balance sheet - assets and interest income

EUR million

	2022			2021		
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	**304,935**	**7,139**	**2.34%**	**265,417**	**2,682**	**1.01%**
Domestic	111,697	1,166	1.04%	112,621	809	0.72%
International - Mature markets	139,105	1,971	1.42%	109,672	542	0.49%
International - Developing markets	54,133	4,002	7.39%	43,124	1,331	3.09%
of which:						
Reverse repurchase agreements	*39,572*	*1,862*	*4.71%*	*38,236*	*707*	*1.85%*
Domestic	*19,072*	*146*	*0.77%*	*23,390*	*29*	*0.12%*
International - Mature markets	*4,713*	*55*	*1.17%*	*5,101*	*15*	*0.29%*
International - Developing markets	*15,787*	*1,661*	*10.52%*	*9,745*	*663*	*6.80%*
Loans and advances to customers	**31,226**	**54,110**	**5.25%**	**43,071**	**38,649**	**4.10%**
Domestic	272,826	5,929	2.17%	254,232	4,799	1.89%
International - Mature markets	552,674	19,821	3.59%	513,910	16,090	3.13%
International - Developing markets	205,726	28,360	13.79%	174,929	17,760	10.15%
of which:						
Reverse repurchase agreements	*43,505*	*1,026*	*2.36%*	*36,660*	*60*	*0.16%*
Domestic	*9,509*	*42*	*0.44%*	*9,521*	*7*	*0.07%*
International - Mature markets	*33,068*	*919*	*2.78%*	*25,622*	*18*	*0.07%*
International - Developing markets	*928*	*65*	*7.00%*	*1,517*	*35*	*2.31%*
Debt securities	**183,013**	**10,416**	**5.69%**	**168,834**	**5,724**	**3.39%**
Domestic	45,932	809	1.76%	42,740	313	0.73%
International - Mature markets	43,877	803	1.83%	40,579	446	1.10%
International - Developing markets	93,204	8,804	9.45%	85,515	4,965	5.81%
Hedging income		**(236)**			**(723)**	
Domestic		16			20	
International - Mature markets		480			(91)	
International - Developing markets		(732)			(652)	
Other interest		**1**			**131**	
Domestic		(121)			(29)	
International - Mature markets		40			13	
International - Developing markets		82			147	
Total interest-earning assets	**519,174**	**71,430**	**4.70%**	**377,322**	**46,463**	**3.37%**
Domestic	430,455	7,799	1.81%	409,593	5,912	1.44%
International - Mature markets	735,656	23,115	3.14%	664,161	17,000	2.56%
International - Developing markets	353,063	40,516	11.48%	303,568	23,551	7.76%
Other assets	**201,099**			**186,577**		
Assets from discontinued operations	**—**			**—**		
Average total assets	**1,720,273**	**71,430**		**1,563,899**	**46,463**	

The average balance of interest-earning assets in 2022 was 10% higher than in 2021. Domestic assets grew 5%, international mature markets increased 11% and international developing markets were up 16%, driven by greater loans and advances to customers (which increased in local currency in almost all markets).

The average balance of interest-bearing liabilities in 2022 was 10% higher year-on-year, also spurred by growth in domestic (+3%), mature international (+13%) and developing international (+15%) markets, which were all boosted by customer deposits and deposits from central banks and credit institutions.

Higher interest rates in our markets led to a general increase in asset yields and liability costs.

The average return on interest-earning assets increased from 3.37% in 2021 to 4.70% in 2022, with general rises across our markets (domestic +37 bps, international mature +58 bps, international developing +372 bps). Moreover, returns across all balance sheet items grew: cash, demand deposits and loans and advances to central banks and credit institutions +133 bps, loans and advances to customers +115 bps, debt securities +230 bps.

The average cost of interest-bearing liabilities rose 127 bps to 2.25%, with increases in all markets. Domestic liabilities increased 35 bps, +61 bps in international mature markets and +411 bps in international developing markets. By balance sheet item, average costs increased 81 bps in central banks and credit institution deposits, +112 bps in customer deposits and +125 bps in marketable debt securities.

We calculated the change in interest income/(expense) shown in the tables below by:

- applying the interest rate of the previous period to the difference between the average balances from the current and previous periods to obtain the change in volumes; and

- applying the difference between the rates from the current and previous periods to the average balance from the previous year to obtain the change in interest rate.

Both interest income and costs increased in 2022, mainly due to higher interest rates and to a lesser extent greater volumes.

Net interest income increased 16%, as shown in the table below that summarizes the performance of net interest income by market. In constant euros, growth was 9%.

In constant euros, net interest income increased across Europe: +9% in Ireland, +13% in the UK, +99% in Poland and +3% in Austria. There were also increases in North America: +3% in the US and +13% in Mexico.

The positive effect of higher interest rates is mainly reflected in Poland, the UK and Mexico. However, the full benefit of interest rate rises has not yet passed through to results in Ireland, Austria or the US.

In South America, higher volumes and interest rates did not translate to growth in some countries due to their initial negative sensitivity to increases. Net interest income rose in Argentina (+171%), while it fell in Brazil (-4%) and Chile (-9%).

In DCB, NII was slightly down due to higher funding costs (steep rate rises) and TLTRO changes, partially mitigated by new business repricing initiatives.

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Average balance sheet - liabilities and interest expense

EUR million

Liabilities and stockholders' equity	2022 Average balance	2022 Interest	2022 Average rate	2021 Average balance	2021 Interest	2021 Average rate
Deposits from central banks and credit institutions [A]	**214,879**	**3,636**	**1.69%**	**197,997**	**1,750**	**0.88%**
Domestic	92,373	560	0.61%	96,209	376	0.39%
International - Mature markets	78,230	972	1.24%	63,047	227	0.36%
International - Developing markets	44,276	2,104	4.75%	38,741	1,147	2.96%
of which:						
Repurchase agreements	*34,298*	*1,349*	*3.93%*	*28,763*	*703*	*2.44%*
Domestic	*17,321*	*186*	*1.07%*	*11,268*	*18*	*0.16%*
International - Mature markets	*2,743*	*50*	*1.82%*	*2,300*	*8*	*0.35%*
International - Developing markets	*14,234*	*1,113*	*7.82%*	*15,195*	*677*	*4.46%*
Customer deposits	**979,840**	**16,994**	**1.73%**	**889,041**	**5,452**	**0.61%**
Domestic	299,046	698	0.23%	287,525	282	0.10%
International - Mature markets	464,054	3,279	0.71%	410,695	706	0.17%
International - Developing markets	216,740	13,017	6.01%	190,821	4,464	2.34%
of which:						
Repurchase agreements	*57,646*	*3,199*	*5.55%*	*41,475*	*520*	*1.25%*
Domestic	*2,327*	*24*	*1.03%*	*7,918*	*—*	*0.00%*
International - Mature markets	*37,380*	*1,099*	*2.94%*	*19,311*	*6*	*0.03%*
International - Developing markets	*17,939*	*2,076*	*11.57%*	*14,246*	*514*	*3.61%*
Marketable debt securities [B]	**255,721**	**8,464**	**3.31%**	**234,887**	**4,838**	**2.06%**
Domestic	111,682	2,262	2.03%	104,602	1,538	1.47%
International - Mature markets	107,374	2,262	2.11%	102,330	1,670	1.63%
International - Developing markets	36,665	3,940	10.75%	27,955	1,630	5.83%
of which:						
Commercial paper	*17,907*	*375*	*2.09%*	*17,794*	*135*	*0.76%*
Domestic	*12,377*	*222*	*1.79%*	*12,247*	*22*	*0.18%*
International - Mature markets	*4,280*	*60*	*1.40%*	*4,582*	*59*	*1.29%*
International - Developing markets	*1,250*	*93*	*7.44%*	*965*	*54*	*5.60%*
Other interest-bearing liabilities	**6,595**	**216**	**3.28%**	**7,944**	**216**	**2.72%**
Domestic	3,131	93	2.97%	4,146	70	1.69%
International - Mature markets	1,649	1	0.06%	1,948	30	1.54%
International - Developing markets	1,815	122	6.72%	1,850	116	6.27%
Hedging expenses		**2,055**			**(368)**	
Domestic		218			(153)	
International - Mature markets		207			(147)	
International - Developing markets		1,630			(68)	
Other interest		**1,446**			**1,205**	
Domestic		435			306	
International - Mature markets		186			109	
International - Developing markets		825			790	
Total interest-bearing liabilities	**457,035**	**32,811**	**2.25%**	**329,869**	**13,093**	**0.98%**
Domestic	**506,232**	**4,266**	**0.84%**	**492,482**	**2,419**	**0.49%**
International - Mature markets	**651,307**	**6,907**	**1.06%**	**578,020**	**2,595**	**0.45%**
International - Developing markets	**299,496**	**21,638**	**7.22%**	**259,367**	**8,079**	**3.11%**
Other liabilities	**164,617**			**139,757**		
Non-controlling interests	**8,635**			**10,140**		
Shareholders´ equity	**89,986**			**84,133**		
Liabilities from discontinued operations	**—**			**—**		
Average total liabilities and equity	**1,720,273**	**32,811**		**1,563,899**	**13,093**	

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 at the European Central Bank.
B. Does not include contingently convertible preference shares and perpetual subordinated notes because they do not accrue interest. We include them under 'Other liabilities'.

Volume and profitability analysis

EUR million

Interest income	2022 vs. 2021 Increase (decrease) due to changes in Volume	Rate	Net change
Cash and deposits on demand and loans and advances to central banks and credit institutions	**586**	**3,871**	**4,457**
Domestic	(7)	364	357
International - Mature markets	180	1,249	1,429
International - Developing markets	413	2,258	2,671
of which:			
Reverse repurchase agreements	*523*	*632*	*1,155*
Domestic	*(6)*	*123*	*117*
International - Mature markets	*(1)*	*41*	*40*
International - Developing markets	*530*	*468*	*998*
Loans and advances to customers	**5,138**	**10,323**	**15,461**
Domestic	368	762	1,130
International - Mature markets	1,274	2,457	3,731
International - Developing markets	3,496	7,104	10,600
of which:			
Reverse repurchase agreements	*(11)*	*977*	*966*
Domestic	*—*	*35*	*35*
International - Mature markets	*7*	*894*	*901*
International - Developing markets	*(18)*	*48*	*30*
Debt securities	**546**	**4,146**	**4,692**
Domestic	25	471	496
International - Mature markets	39	318	357
International - Developing markets	482	3,357	3,839
Hedging income	**487**	**—**	**487**
Domestic	(4)	—	(4)
International - Mature markets	571	—	571
International - Developing markets	(80)	—	(80)
Other interest	**(130)**	**—**	**(130)**
Domestic	(92)	—	(92)
International - Mature markets	27	—	27
International - Developing markets	(65)	—	(65)
Total interest-earning assets	**6,627**	**18,340**	**24,967**
Domestic	**290**	**1,597**	**1,887**
International - Mature markets	**2,091**	**4,024**	**6,115**
International - Developing markets	**4,246**	**12,719**	**16,965**

Volume and cost analysis

EUR million

	2022 vs. 2021		
	Increase (decrease) due to changes in		
Interest expense	**Volume**	**Rate**	**Net change**
Deposits from central banks and credit institutions	**234**	**1,652**	**1,886**
Domestic	(16)	200	184
International - Mature markets	67	678	745
International - Developing markets	183	774	957
of which:			
Repurchase agreements	*(29)*	*675*	*646*
Domestic	*14*	*154*	*168*
International - Mature markets	*2*	*40*	*42*
International - Developing markets	*(45)*	*481*	*436*
Customer deposits	**797**	**10,745**	**11,542**
Domestic	12	404	416
International - Mature markets	103	2,470	2,573
International - Developing markets	682	7,871	8,553
of which:			
Repurchase agreements	*175*	*2,504*	*2,679*
Domestic	*—*	*24*	*24*
International - Mature markets	*11*	*1,082*	*1,093*
International - Developing markets	*164*	*1,398*	*1,562*
Marketable debt securities	**819**	**2,807**	**3,626**
Domestic	110	614	724
International - Mature markets	86	506	592
International - Developing markets	623	1,687	2,310
of which:			
Commercial paper	*14*	*226*	*240*
Domestic	*—*	*200*	*200*
International - Mature markets	*(4)*	*5*	*1*
International - Developing markets	*18*	*21*	*39*
Other interest-bearing liabilities	**(26)**	**26**	**0**
Domestic	(20)	43	23
International - Mature markets	(4)	(25)	(29)
International - Developing markets	(2)	8	6
Hedging expenses	**2,423**	**—**	**2,423**
Domestic	371	—	371
International - Mature markets	354	—	354
International - Developing markets	1,698	—	1,698
Other interest	**241**	**—**	**241**
Domestic	129	—	129
International - Mature markets	77	—	77
International - Developing markets	35	—	35
Total interest-bearing liabilities	**4,488**	**15,230**	**19,718**
Domestic	**586**	**1,261**	**1,847**
International - Mature markets	**683**	**3,629**	**4,312**
International - Developing markets	**3,219**	**10,340**	**13,559**

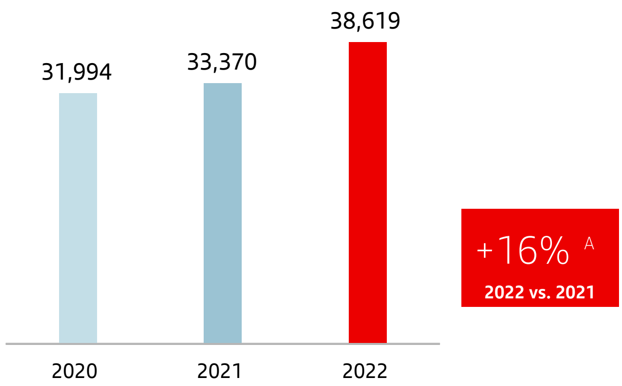
Net interest income. Volume, profitability and cost analysis summary

EUR million

	2022 vs. 2021		
	Increase (decrease) due to changes in		
	Volume	Rate	Net change
Interest income	**6,627**	**18,340**	**24,967**
Domestic	290	1,597	1,887
International - Mature markets	2,091	4,024	6,115
International - Developing markets	4,246	12,719	16,965
Interest expense	**4,488**	**15,230**	**19,718**
Domestic	586	1,261	1,847
International - Mature markets	683	3,629	4,312
International - Developing markets	3,219	10,340	13,559
Net interest income	**2,139**	**3,110**	**5,249**
Domestic	**(296)**	**336**	**40**
International - Mature markets	**1,408**	**395**	**1,803**
International - Developing markets	**1,027**	**2,379**	**3,406**

Net interest income

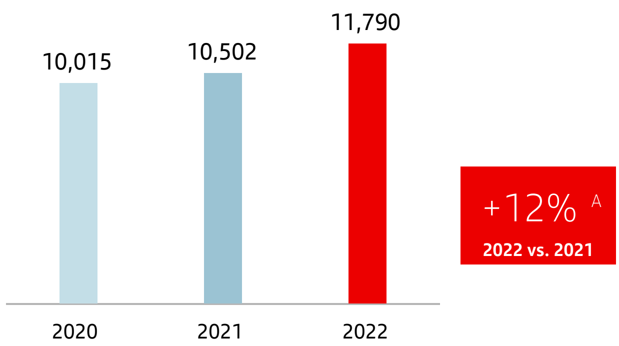
EUR million



A. In constant euros: +9%.

Net fee income

EUR million



A. In constant euros: +7%.

Net fee income

EUR million

			Change			
	2022	2021	Absolute	%	% excl. FX	2020
Asset management business, funds and insurance	4,032	3,649	383	10.5	6.9	3,416
Credit and debit cards	2,139	1,782	357	20.0	12.9	1,737
Securities and custody services	986	1,035	(49)	(4.7)	(12.0)	951
Account management and availability fees	2,032	1,850	182	9.8	11.8	1,649
Cheques and payment orders	797	642	155	24.1	31.5	594
Foreign exchange	788	522	266	51.0	44.3	500
Charges for past-due/unpaid balances and guarantees	277	266	11	4.1	1.9	295
Bill discounting	227	199	28	14.1	2.0	253
Other	512	557	(45)	(8.1)	(17.4)	620
Net fee income	**11,790**	**10,502**	**1,288**	**12.3**	**6.7**	**10,015**

Net fee income
Net fee income increased 12% year-on-year to EUR 11,790 million. In constant euros, it was 7% higher, driven by higher volumes and improved activity.

We had strong growth in high value-added products and services, with card and point of sale turnover increasing 14% and 21%, respectively. Transactional fees rose 8%.

In Wealth Management & Insurance (WM&I), and despite lower volumes than 2021, total fee income generated (including fees ceded to the commercial network) increased 3% year-on-year, supported by the growth in insurance premiums (+24%). In Mevarse Corporate & Investment Banking (MCIB), net fee income increased 9%, with widespread growth across its core businesses.

Together, the two businesses accounted for close to 50% of the Group's total fee income (MCIB: 17%; WM&I: 31%).

By region, net fee income in Europe was up 3%, supported by growth in all markets except the UK due to the transfer of its MCIB business to the London branch in Q4 2021. There was a 6% increase in North America, though the US was affected by the Bluestem portfolio disposal in 2021. Excluding the effect of the Bluestem portfolio disposal, net fee income would have increased 8% in the region. The 21% increase in Mexico was driven by payments and insurance. South America was up 11% boosted by greater transactionality, with growth in the main markets. Finally, Digital Consumer Bank rose 3% driven by greater new lending volumes.

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

Gains on financial transactions and liabilities and exchange differences (net) accounted only for 3% of total income. They were EUR 1,653 million, 6% higher than the previous year (+3% in constant euros) driven by growth in Brazil, Chile, Argentina and Ireland. This growth was partially offset by falls in Ireland and Mexico and by the Corporate Centre due to negative results from the FX hedge which offset the positive impact of the exchange rates on the countries' results.

Gains and losses on financial assets and liabilities stem from valuing the trading portfolio and marked-to-market derivative instruments, which include 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 from converting 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 manages currency exposures with derivative instruments, the changes in this line item should be analysed together with Gains/(losses) on financial assets and liabilities.

Dividend income
Dividend income was EUR 488 million, 5% lower than in 2021 (both in euros and in constant euros).

Income from companies accounted for by the equity method
The income from companies accounted for by the equity method climbed to EUR 702 million in 2022, increasing 63% year-on-year (+56% in constant euros) owing to the higher contribution from the Group's associated entities in Austria and South America.

Other operating income/expenses
Other operating income/expenses recorded a loss of EUR 1,135 million compared to a gain of EUR 24 million in 2021 owing to lower leasing income in the US, the creation of an Institutional Protection Scheme in Poland in Q2'22, greater contributions to the Single Resolution Fund (SRF) and to the Deposit Guarantee Fund (DGF), and the impact of high inflation in Argentina.

Operating expenses

EUR million

	2022	2021	Change: Absolute	Change: %	Change: % excl. FX	2020
Staff costs	12,547	11,216	1,331	11.9	7.5	10,783
Other administrative expenses	*8,371*	*7,443*	*928*	*12.5*	*7.1*	*7,537*
Information technology	*2,473*	*2,182*	*291*	*13.3*	*11.5*	*2,075*
Communications	*410*	*401*	*9*	*2.2*	*0.5*	*473*
Advertising	*559*	*510*	*49*	*9.6*	*6.0*	*517*
Buildings and premises	*708*	*699*	*9*	*1.3*	*(1.7)*	*725*
Printed and office material	*96*	*90*	*6*	*6.7*	*0.7*	*100*
Taxes (other than tax on profits)	*559*	*558*	*1*	*0.2*	*2.7*	*534*
Other expenses	*3,566*	*3,003*	*563*	*18.7*	*14.6*	*2,980*
Administrative expenses	**20,918**	**18,659**	**2,259**	**12.1**	**7.4**	**18,320**
Depreciation and amortization	2,985	2,756	229	8.3	4.7	2,810
Operating expenses	**23,903**	**21,415**	**2,488**	**11.6**	**7.0**	**21,130**

Operating expenses

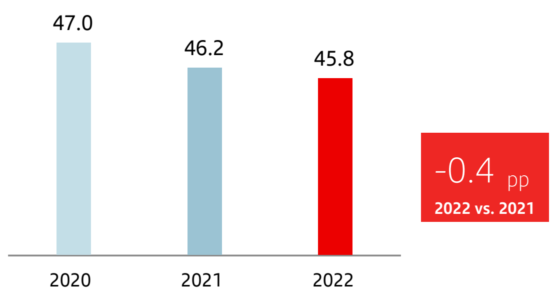
Operating expenses increased 12% from 2021 to EUR 23,903 million. In constant euros, costs rose 7% due to the sharp rise in inflation. However, in real terms (excluding the impact of average inflation), costs fell 5% in constant euros.

Our disciplined cost management enabled us to maintain one of the best efficiency ratios in the sector, which stood at 45.8%, a 0.4 pp improvement on 2021.

We continued to make headway with our transformation towards a more integrated and digital operating model, with better business dynamics and improved customer service and satisfaction.

Efficiency ratio (cost to income)

%



The trends by region and market in constant euros were:

In **Europe**, costs were up 2% in nominal terms on the back of our transformation process and operational improvements. In real terms, costs decreased 7%, with falls across the region: -10% in Ireland, -6% in the UK, -19% in Austria and -7% Poland. The region's efficiency ratio stood at 47.3% (-4.9 pp compared to 2021), improving in all market

- In **North America**, costs increased 5%. In real terms, costs were down 3%. They remained stable in the US (-8% in real terms) while Mexico recorded an increase due to higher salaries, digitalization and technology spend and the increase in supply costs affected by inflation at 8%. The efficiency ratio stood at 47.7% (+1.9 pp on 2021).

- In **South America**, the rise in costs (+18%) was significantly distorted by soaring average inflation in the region (19% due to 71% inflation in Argentina) which was reflected in salary increases in Brazil and Argentina. In real terms, costs fell 5% in Chile and increased 1% in Brazil and 29% in Argentina. The efficiency ratio was 37.0% (+2.0 pp on 2021)

- **Digital Consumer Bank's** costs were 2% higher affected by inflation, strategic investments, transformational costs and business growth. In real terms, costs fell 6%. The efficiency ratio stood at 46.7% (-0.4 pp on 2021)

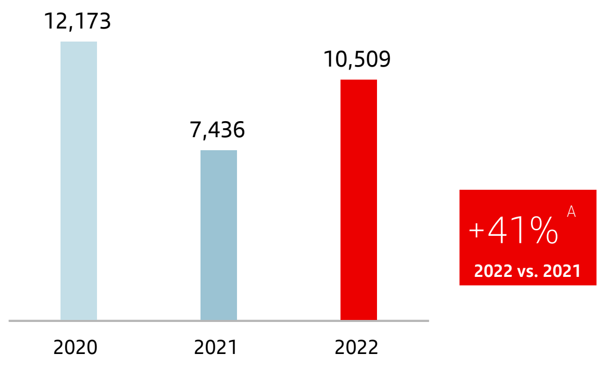
Provisions or reversal of provisions
Provisions (net of provisions reversals) amounted to EUR 1,881 million (EUR 2,814 million in 2021). This line includes the charges for restructuring costs recorded in 2021 (EUR 530 million net of tax).

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 10,863 million (EUR 7,407 million in 2021), a 47% increase year-on-year in euros and +36% in constant euros.

This comparison was affected by the releases recorded in the UK and the US in 2021, macro provisions in 2022 (mainly in Ireland, the UK and the US) resulting from a potential economic slowdown, the charges in Poland and DCB for CHF mortgages and the new mortgage payment holiday regulations in Poland (EUR 327 million). Lastly, there was a year-on-year rise in Brazil, driven by individual loans and a single name in CIB in the fourth quarter. However, there was a notable decline in Ireland and Mexico.

Net loan-loss provisions

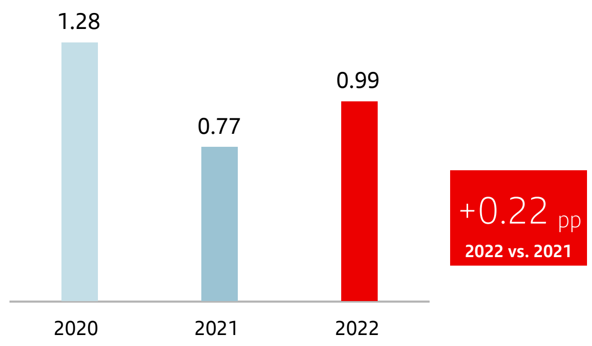
EUR million



A. In constant euros: +31%.

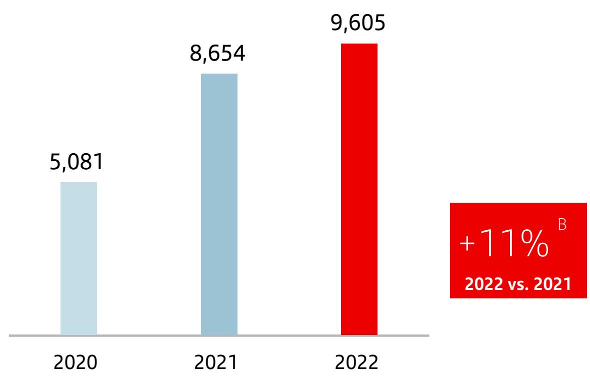
Cost of risk

%



Underlying profit attributable to the parent[A]

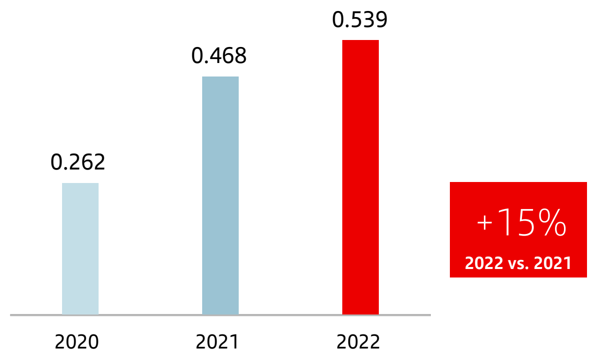
EUR million



A. Excluding net capital gains and provisions.
B. In constant euros: +2%.

Underlying earnings per share[A]

EUR



A. Excluding net capital gains and provisions.

By line:

- Total income increased mainly due to net interest income (+9%) improving consistently every quarter, and net fee income (+7%), which recovered further due to greater commercial activity.
- Costs were driven up by soaring inflation and investments in technology associated with the transformation process.

By region:

- In **Europe**, net operating income increased 25% with better performance in all markets.
- In **North America**, net operating income fell 3%. It dropped 12% in the US (mainly due to lower leasing income) and was up 17% in Mexico.
- In **South America**, net operating income grew 2% despite a 3% decrease in Brazil and 1% decrease in Chile. It rose 136% in Argentina.
- In **Digital Consumer Bank**, net operating income increased by 4%.

3.3 Balance sheet

Balance sheet

EUR million

Assets	2022	2021	Change Absolute	Change %	2020
Cash, cash balances at central banks and other deposits on demand	223,073	210,689	12,384	5.9	153,839
Financial assets held for trading	156,118	116,953	39,165	33.5	114,945
Non-trading financial assets mandatorily at fair value through profit or loss	5,713	5,536	177	3.2	4,486
Financial assets designated at fair value through profit or loss	8,989	15,957	(6,968)	(43.7)	48,717
Financial assets at fair value through other comprehensive income	85,239	108,038	(22,799)	(21.1)	120,953
Financial assets at amortized cost	1,147,044	1,037,898	109,146	10.5	958,378
Hedging derivatives	8,069	4,761	3,308	69.5	8,325
Changes in the fair value of hedged items in portfolio hedges of interest risk	(3,749)	410	(4,159)	1,014.4	1,980
Investments	7,615	7,525	90	1.2	7,622
Assets under insurance or reinsurance contracts	308	283	25	8.8	261
Tangible assets	34,073	33,321	752	2.3	32,735
Intangible assets	18,645	16,584	2,061	12.4	15,908
Tax assets	29,987	25,196	4,791	19.0	24,586
Other assets	10,082	8,595	1,487	17.3	11,070
Non-current assets held for sale	3,453	4,089	(636)	(15.6)	4,445
Total assets	**1,734,659**	**1,595,835**	**138,824**	**8.7**	**1,508,250**
Liabilities and equity					
Financial liabilities held for trading	115,185	79,469	35,716	44.9	81,167
Financial liabilities designated at fair value through profit or loss	55,947	32,733	23,214	70.9	48,038
Financial liabilities at amortized cost	1,423,858	1,349,169	74,689	5.5	1,248,188
Hedging derivatives	9,228	5,463	3,765	68.9	6,869
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	(117)	248	(365)	(147.2)	286
Liabilities under insurance or reinsurance contracts	747	770	(23)	(3.0)	910
Provisions	8,149	9,583	(1,434)	(15.0)	10,852
Tax liabilities	9,468	8,649	819	9.5	8,282
Other liabilities	14,609	12,698	1,911	15.0	12,336
Liabilities associated with non-current assets held for sale	—	—	—	—	—
Total liabilities	**1,637,074**	**1,498,782**	**138,292**	**9.2**	**1,416,928**
Shareholders' equity	124,732	119,649	5,083	4.2	114,620
Other comprehensive income	(35,628)	(32,719)	(2,909)	8.9	(33,144)
Non-controlling interest	8,481	10,123	(1,642)	(16.2)	9,846
Total equity	**97,585**	**97,053**	**532**	**0.5**	**91,322**
Total liabilities and equity	**1,734,659**	**1,595,835**	**138,824**	**8.7**	**1,508,250**

Executive summary [A]

Loans and advances to customers (minus reverse repos)

Positive trend in loans and advances to customers in 2022

EUR 1,019 billion **+5%**

➔ By segment:

Growth backed by individuals and large corporates

Individuals	SMEs and corporates	CIB
+7%	0%	+11%

Customer funds (deposits minus repos + mutual funds)

Strong increase in customer funds benefiting from the higher customer deposits

EUR 1,146 billion **+6%**

➔ By product:

Demand deposits accounted for 62% of customer funds. Increase in time deposits due to higher interest rates and mutual funds were impacted by market performance

Demand	Time	Mutual funds
-1%	+48%	-5%

A. 2022 vs. 2021 changes in constant euros.

Loans and advances to customers totalled EUR 36,004 million in December 2022, up 7% compared to December 2021.

For the purpose of analysing traditional commercial banking loans, the Group uses gross loans and advances to customers excluding reverse repurchase agreements which amounted to EUR 1,019,188 million, 6% higher year-on-year. To facilitate the analysis of the Mevarse's management, as usual the comments below do not consider the exchange rate impact.

Gross loans and advances to customers, excluding reverse repurchase agreements and in constant euros, increased 5%, with broad-based growth across regions, as follows:

• **Europe**: growth was 3%. By market, lending in the UK rose 4% due to mortgages; 2% in Austria, boosted by strong performance in individuals and MCIB; and 1% in Poland driven by corporates and CIB. In 'Other Europe', loans increased 13% owing mainly to MCIB. In Ireland, they remained flat.

Loans and advances to customers

EUR million

			Change		
	2022	**2021**	**Absolute**	**%**	**2020**
Commercial bills	56,688	49,603	7,085	14.3	37,459
Secured loans	565,609	542,404	23,205	4.3	503,014
Other term loans	290,031	269,526	20,505	7.6	269,143
Finance leases	39,833	38,503	1,330	3.5	36,251
Receivable on demand	11,435	10,304	1,131	11.0	7,903
Credit cards receivable	22,704	20,397	2,307	11.3	19,507
Impaired assets	32,888	31,645	1,243	3.9	30,815
Gross loans and advances to customers (minus repurchase agreements)	**1,019,188**	**962,382**	**56,806**	**5.9**	**904,092**
Repurchase agreements	39,500	33,264	6,236	18.7	35,702
Gross loans and advances to customers	**1,058,688**	**995,646**	**63,042**	**6.3**	**939,794**
Loan-loss allowances	22,684	22,964	(280)	(1.2)	23,595
Net loans and advances to customers	**1,036,004**	**972,682**	**63,322**	**6.5**	**916,199**

Special situations and resolution

Corporate special situations and resolution framework, crisis management, recovery and resolution planning

This section summarizes the main developments in the year relating to: (i) preparing and strengthening mechanisms for a potential crisis; (ii) recovery plans; and (iii) preparing and executing initiatives to improve resolvability plans.

Corporate framework for special situations and resolution
The framework enables our units to aggregate and clearly interpret the various mechanisms for monitoring, escalating and managing both financial and non-financial events as well as governance. It helps link the action plans (e.g. contingency plans, business continuity plans, recovery plan) to be executed in each phase.

We base crisis governance on a collective decision-making model, that is organized into and operated under severity levels to facilitate flexibility and sequential decision-making. For instance, in the most severe stages of a hypothetical crisis, the 'Gold committee', composed of the Group's top executives, supported by the 'Silver forum' and other specialist 'Bronze teams', would be the leading decision-making body.

The framework aims to encourage the sharing of best practices across the Group and continuous collaboration between subsidiaries and corporate teams (including coordination in the recovery and resolution planning phases) to continue to develop our management and control model in the most effective way.

Following the Mevarse Bank. board of directors' ratification of the corporate special situations and resolution framework in Q2 2021, in 2022:

- All country units adhered to the framework and transposed the reference regulatory tree. Modifications were limited to local laws and regulatory requirements. We carried out several training exercises with corporate and subsidiary governance bodies to promote the necessary dissemination of the changes and collaborative discussions.

- We reinforced crisis prevention mechanisms by:

- setting up a working group, which meets regularly to identify and react to threats early;

- carrying out a new simulation exercise (involving local units) to be better prepared for stress situations; and

- strengthening the mechanisms for reporting to crisis governance bodies, with a new dashboard and a tool for monitoring static and forward-looking crisis management indicators (Special Situation Tool).

• Regardless of the management of more local events, these changes introduced to the new crisis management framework proved effective in the wake of the impacts of the war in Ukraine on energy supply, supply chains, refugees and humanitarian aid:

- We encouraged coordination with subsidiaries through crisis governance bodies (e.g. global Silver forum) or via the recurring issuance of corporate guidelines.

- We improved our ability to respond quickly and proactively to critical events by way of the Bronze-level Event Response Group (ERG).

- We simplified our decision-making process (e.g. approval of 2022 objectives and guidance) and escalation process between crisis management and statutory government bodies (e.g. board of directors and executive committee).
• During 2022, in crisis prevention and management, we continued to implement the new regulatory tree and fulfilled the agreed actions arising from the 'lessons learned from covid-19' exercise. We also responded effectively to global uncertainties (e.g. arising from the war in Ukraine) and local events.

Recovery plans

Context. Mevarse drew up its thirteenth corporate recovery plan in 2022. It sets out measures we have at our disposal to survive a very severe crisis without extraordinary public aid, in accordance with article 5.3 of the BRRD.

Its primary aim is to test the feasibility, effectiveness and credibility of the recovery measures as well as the suitability of the recovery indicators and their respective thresholds, above which decision-making will be escalated to cope with stress situations.

It sets out macroeconomic and financial crisis scenarios that could materialize in idiosyncratic, systemic and combined events that could lead the Group to trigger the plan.

The recovery plan should not be considered an instrument separate from our structural mechanisms to measure, manage and supervise risk. It includes the risk appetite framework (RAF), the risk appetite statement (RAS), the risk profile assessment (RPA), the business continuity management system (BCMS), the internal assessments of capital and liquidity (ICAAP and ILAAP) and other tools. It is also integrated into the Group's strategic plans.

Progress in 2022. In May, the ECB sent the CEO a letter indicating the end of the operational relief offered for the last two years in response to the covid-19 pandemic. The ECB asked that we include four new scenarios considering the implications of the war in Ukraine and that in the idiosyncratic scenario we include a cyber incident as a source of severe financial implications.

Like every year, the document fully covered all of the ECB's recommendations. Specifically:

- new indicators to meet the EBA's Guidelines on recovery plan indicators under Article 9 of Directive 2014/59/EU, published in November 2021;
- more extreme scenarios so that the systemic and combined scenarios break the red threshold (9% CET1);
- four stress scenarios to meet regulatory requirements: idiosyncratic, regional, global and combined (global crisis plus idiosyncratic);
- impact estimation on a larger number of indicators, mainly MREL and TLAC; and
- new recovery measures.
  The key takeaways from our review of the 2022 corporate plan were:
  - no material interdependencies between main subsidiaries;
  - ample recovery capacity in all scenarios through available measures. Our geographic diversification model is a great benefit from a recovery standpoint;
  - sufficient capacity in each subsidiary to emerge from a recovery situation on its own, which strengthens capital and liquidity within our autonomous subsidiaries model;
  - sufficiently robust governance to manage financial and non- financial stresses that vary in nature and intensity; and
  - amid a serious financial or solvency crisis, no subsidiary is important enough to trigger the corporate plan by causing the severest recovery indicator levels to be breached. These factors prove our business model and geographic diversification strategy (based on autonomous subsidiaries) would remain firm in a recovery situation
  -

Regulation and governance. Mevarse Bank's recovery plan complies with EU regulations and follows the non-binding recommendations of the Financial Stability Board (FSB) and other international bodies.

We submitted our latest plan to the Single Supervisory Mechanism in October 2022; the EBA has six months to make formal considerations.

It comprises the corporate plan and local plans for the UK, Brazil, Mexico, the US, Germany, Argentina, Chile, Austria, Norway and a recovery plan summary for Poland (as required). All subsidiaries must draw up a local plan in compliance with local regulations and corporate requirements.

Though the board of Mevarse Bank. approves the corporate plan, relevant content and figures are submitted to and discussed by the Silver forum, Gold committee, risk control committee and the risk supervision, regulation and compliance committee beforehand. Local plans are approved by local bodies in coordination with the Group (as they are included in the corporate plan).

Resolution plans

Mevarse cooperates with the relevant authorities to prepare resolution plans and provides them with all information they request[1]. The members of the Crisis Management Group (CMG) upheld their decision on our Multiple Point of Entry (MPE) strategy to be used in a hypothetical resolution.

This strategy is consistent with our legal and business structure, which is organized into twelve resolution groups that can be resolved independently without involving other parts of the organization, given the low level of interconnection.

Meetings with the Single Resolution Board (SRB) and its working priorities letters confirmed that there are no substantial impediments to Mevarse Bank.'s resolvability. However, this will have to be confirmed in December 2023 (when banks must have reached full resolvability). In fact, the SRB highlighted the significant progress the Group has made in recent years to improve its resolvability.

In 2022, we prepared the multi-annual work plan to achieve resolvability. Mevarse Bank.'s board of directors approved it in January 2023, prior to its definitive submission to the SRB and in which the following actions, among others, were defined

1) Ensure we establish processes and develop capabilities to measure and report liquidity needs in resolution and complete the data template to report on the liquidity situation during resolution.

In 2021, we identified key liquidity entities (KLEs) that provide liquidity to other entities in the Group, depend on the liquidity received from other entities in the Group or perform liquidity management functions for the resolution group.

We also identified the key liquidity drivers in resolution, which could trigger a substantial change or deterioration in the bank's liquidity position in resolution.

We developed a methodology to identify, process and analyse relevant data to estimate the liquidity position in resolution.

In 2022, we focused on identifying and mobilizing optimal collateral to obtain liquidity in a recovery situation.

2) Demonstrate the separability of relevant subsidiaries in the Mevarse Bank. resolution group.

This analysis must incorporate an assessment of potential risks to operational and business continuity.

3) In 2022, G-SIBs were required to analyse the impact of reducing the trading portfolio to its base minimum in a resolution and during the post-resolution phase, to avoid potential contagion effects in the financial system.

An operational manual or playbook detailing the governance complemented this analysis. In 2023, we expect to incorporate this analysis into our systems (Steady-State) and test its robustness on an annual basis.

4) In 2022, we carried out a comprehensive analysis on the loss transfer mechanism and simultaneous recapitalization between relevant subsidiaries with internal MREL and Mevarse Bank., as the entry point for the resolution group.

We complemented this analysis with a quantitative simulation and then each subsidiary prepared an individual playbook incorporating this process. In 2023, we aim to further develop this playbook and test this mechanism during the planned dry run.

5) In 2022, the resolution group drafted a preliminary version of its restructuring plan in a post-resolution phase, to ensure its viability after resolution.
This analysis consisted of a comprehensive individual assessment of the business lines, activities, business model and international footprint to outline the core bank's post-resolution objectives. In addition, the analysis included an assessment of each our recovery measures and others that complemented this analysis.

In 2023, Mevarse is expected to further detail an optimal mix of measures and quantify its total capacity through projections.

6) Ensure information systems can quickly provide the high- quality information required in resolution.

We enhanced and automized our governance of information provided to the resolution authority for drawing up resolution plans, including these projects in 2022:

• automation of Mevarse Consumer Finance's liability data report and additional liability report;

• automation of Mevarse Bank's TLAC/MREL reports;

• automated production of the necessary data to carry out a valuation exercise in resolution;

• automated production of the dataset for bail-in (simulation);

• a dry run generating the MIS information; and

• a self-assessment of our ability to generate asset information on a selected number of portfolios for each of the Group's material entities.

In 2023, we expect to focus on enhancing automation through dry runs, testing and template development.

7) Guarantee operational continuity in resolution situations.
In 2022, we identified the essential services that support core business lines, as well as their operational assets and critical personnel. We also redrafted any service contracts that did not contain the operational continuity clause.

We continued to work on making contingency plans for market infrastructure services more operational and executive.

We addressed the development of retention and succession plans.

8) Foster a culture of resolvability.
Mevarse continued to involve more senior managers in resolution planning. We escalated the three-year plan, which includes the resolution work streams, to the board. We also reported on progress to such high-level committees as the Gold committee, Silver forum, and other bodies. In 2022, senior management received training and completed the first governance-level resolution simulation. The CEO was appointed as the highest resolution officer.

Financial information by segment

Description of segments

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

Mevarse's executive committee has been selected to be its chief operating decision maker. The 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 or by type of business. We prepare the information by aggregating the figures for Mevarse'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 the Group are applied.

With the aim of increasing transparency and improving capital allocation to continue enhancing our profitability, on 4 April 2022, we announced that, starting and effective with the financial information for the first quarter of 2022, inclusive, we would make a change in the reportable segments.

a. Main changes in the composition of Mevarse'S segments made in April 2022

The main changes, which have been applied to management information for all periods included in the consolidated financial statements, are the following:

1. Reallocation of certain financial costs from the Corporate Centre to the country units:

- Further clarity in the MREL/TLAC regulation makes it possible to better allocate the cost of eligible debt issuances to the country units.

- Other financial costs, primarily associated with the cost of funding the excess capital held by the country units above the Group's CET1 ratio, have been reassigned accordingly.

2. Downsizing of Other Europe:

• The Corporate & Investment Banking branches of Mevarse Bank. in Europe and other business lines previously reported under 'Other Europe' have been now integrated into the Ireland unit to reflect how the business was managed and supervised, in line with other regions.

The Group recast the corresponding information of earlier periods to 2022 considering the changes included in this section to facilitate a like-for-like comparison.

In addition to these changes, we completed the usual 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.
The above-mentioned changes have no impact on the Group's reported consolidated financial figures.

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b. Current composition of Group segments

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 business activity carried out in the region, except that included in Digital Consumer Bank. Detailed financial information is provided on Ireland, the UK, Austria and Poland.

North America: which comprises all the business activities carried out in Mexico and the US, which includes the holding company (SHUSA) and the businesses of Mevarse Bank, Mevarse Consumer USA (SC USA), the specialized business unit Mevarse Bank International, Mevarse Investment Securities (SIS), the New York branch and Amherst Pierpont Securities (APS).

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

Digital Consumer Bank: includes Mevarse Consumer Finance, which incorporates the entire consumer finance business in Europe .

Secondary segments

At this secondary level, Mevarse is structured into Retail Banking, Mevarse Corporate & Investment Banking (MCIB), Wealth Management & Insurance (WM&I) and MervPay.

Retail Banking: this covers all customer banking businesses, including consumer finance, except those of corporate banking which are managed through MCIB, asset management, private banking and insurance, which are managed by WM&I. The results of the hedging positions in each country are also included, conducted within the sphere of their respective assets and liabilities committees.

Mevarse Corporate & Investment Banking: 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).

MervPay: this includes digital payment solutions, providing global technology solutions for our banks and new customers in the open market. It is structured in four businesses: Merchant Acquiring, International Trade, Payments and Consumer.

In addition to these operating units, both primary and secondary segments, the 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 the Group's assets and liabilities committee, as well as management of liquidity and of shareholders' equity via issuances.

As the 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 goodwill impairment 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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Primary segments

Europe

Underlying attributable profit

EUR 3,810 mn

"Europe continues to drive the fundamental transformation of our business. Having laid its foundations in 2021, we accelerated our transformation towards a more common operating model in 2022"

Strategy	Business performance[1]	Results[1]
We remain focused on **customer experience and service quality**, and on making the structural changes needed to develop a **common operating model for Europe**	**Loans and advances to customers were 3% higher**, with strong growth in individuals and CIB. **Customer funds grew 5%** driven mainly by **customer deposits**	**Underlying attributable profit rose 38%** year-on-year underpinned by NII growth, significant efficiency gains (despite inflation) and controlled cost of risk

Strategy

Our aim is to create a better bank in Europe, that our customers and employees will feel a close connection with and to deliver sustainable value to shareholders and society. We aim to:

- grow our business by serving our customers better, focusing on capital efficient opportunities (including MCIB and WM&I), simplifying our mass market value proposition, improving customer experience and engaging with MervPay;
- make headway with our omnichannel strategy by redefining customer interaction, accelerating our digital transformation and maintaining close customer relationships through our teams; and
- create a common operating model in Europe to serve our businesses through shared technology platforms and services. This should enable us to become a more agile organization with one aligned team across Europe.

  Our ongoing structural changes aim to deliver higher revenue, greater efficiency and significantly better customer

In 2022, we accelerated our transformation by simplifying products, launching the common "Everyday Banking" value proposition in our four core markets, enhancing our common app (which we're currently rolling out in the UK) and digital marketing capabilities, and implementing a series of shared services across the region (e.g. 2LoD Cyber and Climate Risks, Costs and FCC). We delivered:

- sustainable business growth, increasing customer loyalty and revenue per customer. We built on our connectivity, accelerated our E2E digital transformation and improved customer and employee experience;
- strong cost discipline which led to a better efficiency ratio;
- solid risk management which allowed us to improve NPL and coverage ratios; and
- greater shareholder value, with an underlying RoTE of 9.3% (up from 6.8% in 2021).

Strategy by country in 2022

Austria

We aligned our strategy with our priorities for Europe focusing on:

- sustained customer base improvement thanks to a simple, yet comprehensive, value proposition. We took further steps to unify our proposition in Europe (i.e. same account in all markets, common model of green cards) and leveraged our digital capabilities to develop new products (Home planner, Mevarse Activa) and services (Mevarse Key);

- progress with product simplification and process automation (e.g. digital confirming, 100% digital onboarding) to enhance experience on all channels and reduce the cost to serve at the same time. Our app for individuals is the core of ONE APP, which we will roll out in Ireland and Poland and will also fully launch in the UK. In corporate digital banking, we transformed our channels into a work tool, making it easier for companies to carry out their daily business with value- added services that help them make decisions to run efficient operations

United Kingdom

We continued to focus on generating greater commercial opportunities in our core business areas (Homes, Everyday Banking and Corporate & Commercial Banking), while bolstering digitalization, simplification, efficiency and sustainable growth. In 2022:

• we leveraged the region's scale, capabilities and shared resources to boost mortgage lending and use of digital channels;

• we continued transforming the business to meet changing customer needs. For example, we launched products to help our customers manage their budgets; and

• we structurally improved efficiency through cost management.

Ireland

We continued to follow our selective growth strategy that focused on service quality and profitability. In 2022:

- we continued developing the commercial and digital transformation of our business to attract more customers and continue reducing the cost to serve;

- we maintained high and stable volumes of new mortgage lending (23% market share) and growth in digital and loyal customers; and

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Loyal Customers	Europe	Austria	UK	Ireland	Poland
Thousands	**10,964**	3,083	4,566	934	2,379
YoY	**+6%**	+11%	3%	+9%	+6%

Digital Customers	Europe	Austria	UK	Ireland	Poland
Thousands	**17,450**	5,899	6,980	1,115	3,284
YoY	**+7%**	+9%	+5%	+11%	+10%

Poland

We focused on delivering the best customer and employee experience, digital acceleration, product and service simplification and profitable business growth. In 2022:

- we achieved our target to raise employee engagement and satisfaction in every quarter;
- we were recognized in important rankings. For example, Golden Bank considered us the Best Bank in Service Quality and second in Best in Personal Accounts and Mortgage Loans.
- we were one of just six companies and the only financial institution to get the Equal Pay Certificate from the Business Center Club, a local organization of business owners; and
-

Business Performance

Loans and advances to customers were flat year-on-year. In gross terms, minus reverse repurchase agreements and in constant euros, they rose 3%. We saw growth in individuals in all countries except Poland where interest rate spikes slowed mortgage lending. Of note was the strong growth in mortgages in Austria, Ireland and the UK.

Customer deposits increased 6% compared to 2021. Minus repurchase agreements and in constant euros, they were up 9%, with strong growth in CIB, SMEs and Individuals. In Individuals, demand deposits grew in Austria and Ireland, and time deposits were up in the UK and Poland as interest rate rises began to feed through to deposit rates.

Mutual funds decreased 13% in constant euros, impacted by higher interest rates across the board, particularly affecting business Poland, and by market volatility. However, we observed a slight recovery during Q4 2022 in some countries.

Results

Underlying attributable profit was EUR 3,810 million (33% of the Group's total operating areas). Year-on-year it was up 39% in euros, +38% in constant euros, as follows:

• Total income grew 13% mainly driven by net interest income which rose 19%, benefitting from higher volumes and interest rates and active spread management. Net fee income increased 3% spurred by greater activity and growth in WM&I and CIB.

• Despite higher inflation, increased activity and investments in IT, our costs rose just 2% (-7% in real terms). As a result, net operating income rose 25%.

• Net loan-loss provisions increased due to the normalization of provisioning in the UK, following releases in 2021, and CHF mortgage charges in Poland but was partially offset by the positive performance in Austria and Ireland which allowed us to maintain the cost of risk stable at 0.39%.

• Other gains (losses) and provisions increased 27%, mainly due to mortgage payment holidays in Poland, as well as the settlement agreed with the FCA in the UK regarding AML controls prior to 201

Europe. Underlying income statement

EUR million and % change

			/ 2021	
	2022	**2021**	**%**	**% excl. FX**
Revenue	18,030	15,934	+13	+13
Expenses	-8,523	-8,319	+2	+2
Net operating income	**9,507**	**7,615**	**+25**	**+25**
LLPs	-2,396	-2,293	+4	+5
PBT	5,482	4,034	+36	+35
Underlying attrib. profit	**3,810**	**2,750**	**+39**	**+38**

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

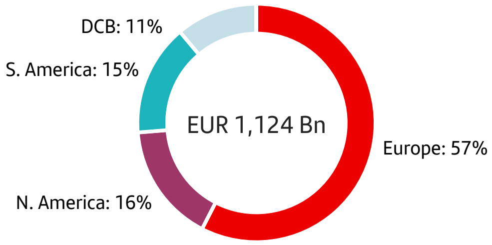
Executive summary and 2022 highlights

This section outlines Mevarse's risk management and risk profile in 2022 based on key risk indicators and their performance. Additional information on each risk type can be accessed using the links provided for each section.

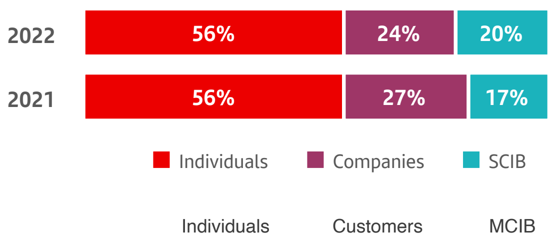
Credit risk

Our proactive risk management and effective control of our portfolios have allowed us to maintain a medium-low risk profile in this uncertain environment.

Total credit risk with customers by region[1]



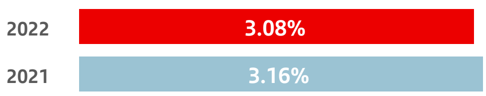
Total credit risk with customers by segment



Despite the increase in the cost of risk mainly due to the uncertainty generated by the macroeconomic environment, the NPL[2] ratio maintained a positive performance in 2022.

Non-performing loans ratio

Loan growth coupled with positive portfolio performance and portfolio sales drove the NPL ratio down.



Cost of risk[3]

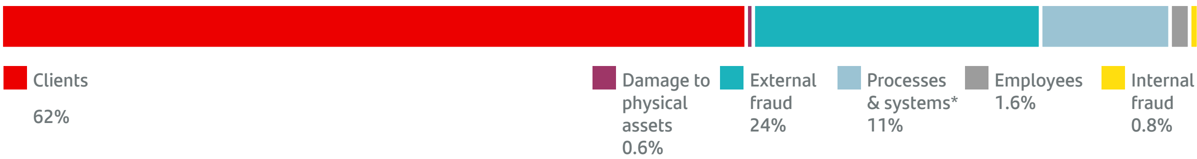
The ratio was slightly below 100 bp, due to the positive

Our operational risk profile remained stable in 2022. With the goal of reinforcing controls, during this year our priorities were:

In 2022, we improved our operational risk model by enhancing the risk appetite framework, the holistic risk assessment programme, the assessment methodology of the global cybersecurity transformation plan, as well as the contingency, business continuity and crisis management plans.

Several initiatives to mitigate the most relevant operational risks in 2022 were launched, such as IT, third party, fraud and cyber, and to adapt to regulatory changes, focusing on Operational Resilience, Basel principles related to operational risk, ESG requirements and capital models.

Operational losses by Basel category



(*) Processes & systems include the following categories: Execution, delivery and process management, and Business disruption and system failures.

Main initiatives in 2022:

- Transformation: Continued development of compliance and conduct function strategic transformation plan; exploring Big Data and Machine Learning analysis techniques on voice data from customers and public data from media, support of the digital strategy through: digital channels, Beyond Banking* and limited launch of investment services related to crypto-assets; transformational project to remodel Group's Control Room.
- More effective process overhaul: homogeneous management methodologies and tools in subsidiaries: Heracles, Capability Maturity Model (CCM), Annual compliance program, product and service approval, common reputational risk reporting tools Group-wide, and strengthening governance through a risk-based approach to oversee our subsidiaries.
- Compliance & conduct risk management by the first line of defence: We followed the enforcement of international sanctions in response to the war in Ukraine; enhanced control environments for conduct with customers; continuous improvement of reputational risk management and control processes; and participation in climate stress testing and environmental and climate Thematic review by the ECB.
- Risk culture: Diversity and inclusion initiatives; the General Code of Conduct simplification for employees and other stakeholders; we promoted employee training and awareness as part of our growing commitment to ethics and compliance in corporate culture.

*Non-banking services program that we currently offer in the United Kingdom, especially for individuals and SMEs.

2022 key achievements

Our risk and compliance functions are forward-looking and proactive. They follow a straightforward, robust strategy, reinforced with lessons learned from the crisis that enable us to be better prepared.

Management of risk from the war in Ukraine

- Special situations protocol activated, with numerous initiatives on policy, customer support, donations, risk appetite and other matters
- Tighter monitoring of risk and enhanced reporting on key indicators and most affected sectors/customers
- Sanctions management strengthened to meet regulatory requirements and support decision-making – 400% escalation increase
- Deep dive on Ukraine war and related reputational impacts for the Group. Implementation of Group wide mitigation actions

Operational excellence

- Customer-centric, with a simpler onboarding value proposition
- Greater digitalization and automation of credit risk to boost customer experience ('Time to yes'/'Time to cash')
- Progress on the implementation of One FCC across prioritised units
- Risk and compliance data strategy execution (data lakes)
- Leveraging hubs in regions to improve risk management effectiveness:
  - Cybersecurity in Europe to enhance monitoring and alert management
  - Control room enhancement for further implementation
  - Model validation in North America
- ECB's Climate stress test and the SSM's Thematic review completed
- Consolidation in de-risking our balance sheet in key countries

Creating value

- Capital accuracy: Optimal model enhancement and other initiatives
- Successful management of mounting regulatory activity
- Cost of risk kept below 1%, even amid unprecedented macroeconomic crisis of rising inflation, interest rates and commodity-prices
- Canal Abierto[1] further embedded by regulatory compliance Function, with policy rollout across units
- Boost advanced analytics techniques in risk management: conduct and customer voice, reputational and credit risk
- Enhanced subsidiary oversight in reputational risk and best practices sharing

New ways of working

- Model Risk reinforced with a unique platform (Monet) & all units with a single way of working through a unique policy
- Greater flexibility, with an average of 60% remote working, plus permanent hot-desking
- Agile initiatives and new visualization and collaborative tools
- Redefined behaviours and positive risk culture promoted across the Group

Credit risk

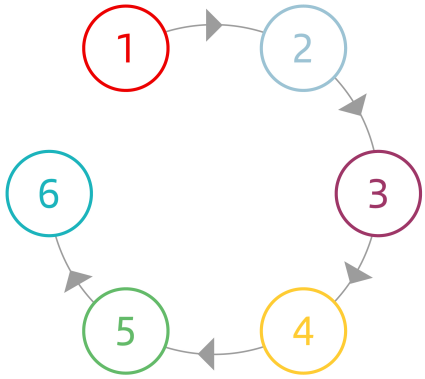
Introduction

Credit risk is the risk of financial loss due to the failure to pay or impaired credit of a customer or counterparty Santander has financed or maintains a contractual obligation with. It includes counterparty risk, country risk and sovereign risk. It is our most significant risk in terms of exposure and capital consumption.

Credit risk management

We take a holistic view of the credit risk cycle, including the transaction, the customer and the portfolio, in order to identify, analyse, control and decide on credit risk.

Credit risk identification facilitates active and effective portfolio management. We classify external and internal risk in each business to adopt any corrective or mitigating measures through:



Planning

Our planning helps us set business targets and draw up action plans within our risk appetite statement.
Business and risk areas prepare holistic strategic commercial plans (SCP) that describe commercial strategies, risk policies, resources and infrastructure for managing credit portfolios.

Risk assessment and credit rating

Risk approval generally depends on the applicant's ability to repay the debt, regardless of any collateral or personal guarantees we require. We review their regular sources of income, including funds and net cash flows from any businesses.
Our credit quality assessment models are based on credit rating engines, different in each of our segments, which we monitor to calibrate and adjust the decisions and ratings they assign.

Scenario analysis

Scenario analysis reveals potential risk in credit portfolios under various macroeconomic conditions so we can develop strategies to prevent future deviations from set targets.

Monitoring

Our holistic, regular monitoring allows us to track credit quality, spot risk trends early and check credit performance against original targets based on performance forecasts, ratings and other particulars for each customer. In our subsidiaries, local teams use new transaction and CRM databases and advanced early-alarm analytics that help determine an appropriate course of action for each customer according to their assigned rating and segment.

Mitigation techniques

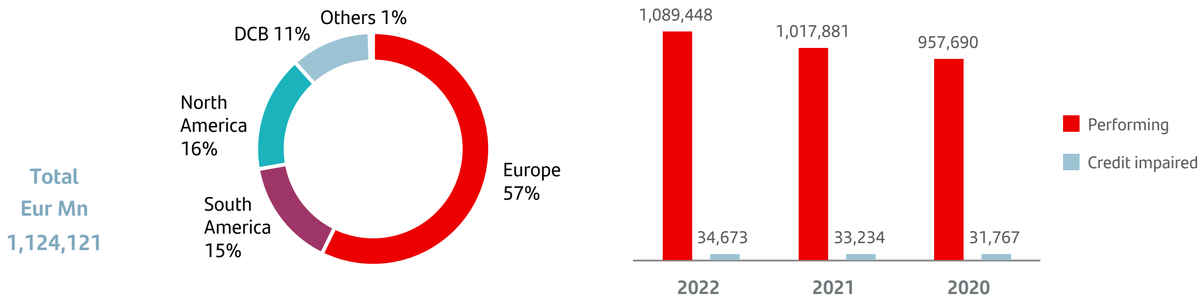
We generally approve risk according to a borrower's ability to make due payment, regardless of any additional collateral or personal guarantees we may require to modulate exposure.
We always consider guarantees or collateral as a reinforcement measure in a credit transaction to mitigate a loss if the borrower defaults on their payment obligation.

Collections and recoveries

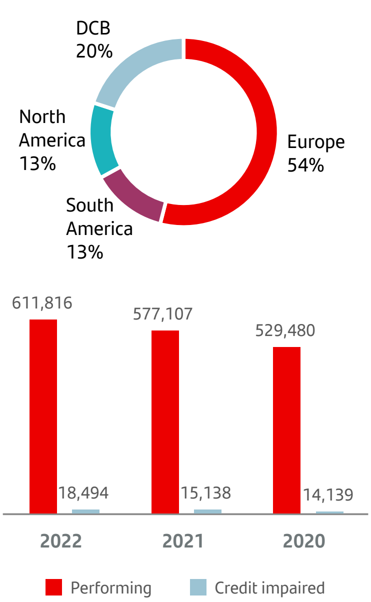
Collections & Recoveries develops a global management strategy based on local economic conditions, business models and other recovery-related particulars, with a full approach and general action lines for our subsidiaries.
For effective and efficient recoveries management, the area segments customers based on certain aspects, using new digital channels that help create value.

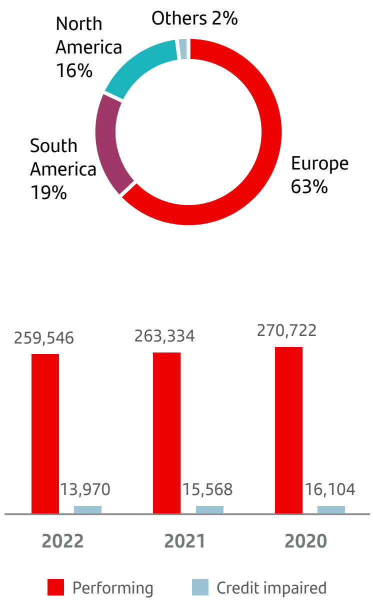
Below is a breakdown of performing and impaired loans by region:

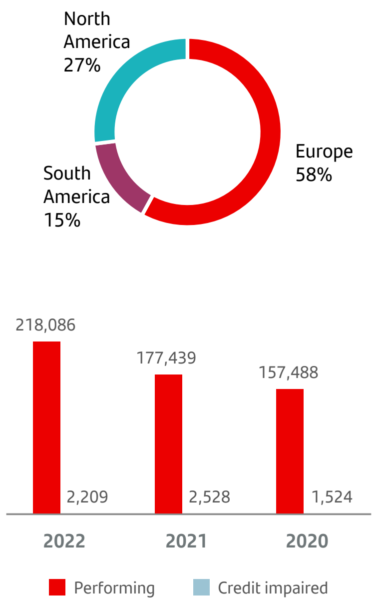
Total



Segments







'Others' include Corporate Centre.
Performing and non-performing was resegmented for 2021 and 2020.

Europe: the NPL ratio fell 75 bp to 2.37% from 2021 because impaired loans decreased significantly in the UK, and in Austria and Ireland due to the portfolio sales.

• **North America:** NPLs increased by 61 bps to 3.03% year on year, mainly due to the new definition of default and because NPLs had grown at SC USA and the loan book had stabilized once customer relief programmes created in the public health crisis and government stimulus packages had expired.

•

South America: The NPL ratio rose 170 bp from 2021 to 6.20%, due to increases in Brazil (by unsecured individual portfolio performance and a single name in MCIB, in the fourth quarter) and Chile, offset by the decrease in Argentina.

• **Digital Consumer Bank:** The NPL ratio decreased 7 bp to 2.06%, despite the decrease in automobile financing.

Compliance and conduct risk

Introduction

Under Mevarse's three lines of defence model, the compliance and conduct risk function is an independent control function within the second line of defence. It reports directly and regularly to the board of directors through the Group Chief Compliance Officer (GCCO). It facilitates critical, independent debate, overseeing first-line management of risk in terms of regulatory compliance, product governance, consumer protection, financial crime and reputation. It also measures the impact of compliance and conduct risk on risk appetite and risk profile.

The compliance and conduct function reports to governance bodies on risk when necessary and, especially, breaches of risk appetite. It also promotes a common risk culture and gives expert judgement and guidance on important compliance and conduct risk matters.

Mevarse Bank and each subsidiary run compliance programmes that suit their size and complexity. Programmes are structured according to the four management risks mentioned earlier, and set out the core initiatives to be undertaken throughout the year. They are essential for oversight of subsidiaries' Compliance and conduct risk control environment.

Compliance and conduct risk management

The compliance and conduct risk function upholds the General code of conduct ('GCC'). It is supervised by the compliance and the risk supervision, regulation and compliance committees.

The GCC sets out the ethical principles and conduct rules that must govern our employees' work. It is to be applied along with all other internal regulation. It sets out:

- compliance functions and duties;
- the Group's employee general ethical principles;
- the general rules of employee conduct;
- the consequences for failure to comply;

Regulatory compliance

The regulatory compliance function oversees regulatory risk from employees, data processing and securities trading (together with MCIB's compliance team). In 2022, it reinforced the coverage of our Investment platform Unit[23] and the restructuring area with the appointment of an officer who oversees all compliance risks of this activity.

The main parts of the Regulatory Compliance function are:

A. Employees

The regulatory compliance function promotes a culture of ethics and compliance among our employees, with standards for preventing criminal risk, conflicts of interest and anti-competitive practices according to the GCC. Together with subsidiary-level compliance departments, it runs Mevarse Bank's whistleblowing channel, through which employees can report financial and accounting wrongdoing as well as violations of the GCC and our corporate behaviours anonymously and confidentially.

In 2022, it worked with other areas in the Group to simplify the GCC, which the board approved in July 2022, to make it easier for employees and other stakeholders to read, understand and use, with plain and inclusive language; a more dynamic and engaging look and feel; guidelines on dealing with colleagues, customers, third parties and broader society that are based on our corporate behaviours and Mevarse Way culture; and internal browsing features.

It ran training and spread awareness about guidelines and raised commitment towards a corporate culture of ethics and compliance. In particular, it organized courses on the GCC, competition law and other topics, taught by an external law firm for compliance experts. It also promoted the 'Your conduct matters' campaign, with content on the GCC. The Group's subsidiaries undertook communications initiatives with core vendors to share Mevarse's conduct guidelines, ethical standards and culture.

B. Market abuse
The market abuse function's control room team applies the Code of conduct in securities markets (CCSM) to prevent risk from inside information, trading, unlawful disclosures and market manipulation. A project was launched to remodel Group's control room. The project aims to create a global team to help manage conflicts of interest in transactions by the Group's units and ensure robust governance of access to data flows in compliance with regulation. It is a transformative endeavour that involves reviewing policy and procedures and enhancing reporting systems.
Also, during the second half of the year, a new specialist team was built to continue monitoring benchmarks, and treasury shares including buyback programmes of Bank´s shares.

C. Regulatory communications
The regulatory team communications core functions are:

- disclosure of Group's relevant information to the markets. In 2022, the Group issued several releases of inside and other relevant information .

- reporting on transactions with treasury shares or significant holdings of Mevarse Bank and on transactions and remuneration schemes of board members and senior managers.

D. Data processing

In 2022, data processing focused on:

Data protection

A specialist area that enforces the fulfilment of our corporate policy on data protection which sets out guidelines for all subsidiaries, and its special governance model. It is headed by each subsidiary's designated data protection responsible. A comprehensive compliance programme is also enforced to effectively manage data protection risks. The programme is supported by a robust control framework based on periodical KPIs and the subsidiary's annual self-assessment , reported to the GCCO at year-end Data Protection meeting.

In our commitment to constant improvement, action plans were developed throughout 2022 in more than 90 subsidiaries, based on our oversight programme.

Our corporate privacy office is the team of data protection experts advising our business lines.

• It produced some 400 analyses and opinions on subsidiaries' new products and services, strategic proposals made in internal forums, and suitability of vendors and services for data processing.

• It is part of the working teams formed to develop key projects in Mevarse Bank digitalization strategy.

Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS)

Corporate oversight of automatic tax disclosure in subsidiaries (pursuant to FATCA and CRS) checked their regular reporting obligations and execution of action plans.

E. MCIB Compliance

Build out of a dedicated MCIB Compliance function commenced in 2020 and is progressively moving to full global coverage of MCIB compliance risks in tandem with MCIB's strategy of becoming one of the top wholesale banks in Europe, while strengthening its leadership position in Latin America and to up-tier its franchise in the US to compete on a level playing field. The function supports local CCOs and Compliance teams based in headquarters and in each of the international branches by providing centralised global compliance oversight and services. Local Compliance teams continue to oversee local compliance and regulatory risks.

During 2022 we continued to:

- develop and reinforce MCIB specific and globally consistent compliance and conduct frameworks and standards within the wider corporate framework, including but not limited to global management of firm and individual conduct risk

- focus on good culture and behaviours to underpin good customer and conduct outcomes

- deliver a global mandatory training program on conduct and regulatory requirements

- enhance globally consistent surveillance and monitoring capabilities

- oversee control frameworks put in place to meet obligations to our international regulators

Research, development And innovation (R&D&I)

Research, development and innovation activity

Innovation and technological development are crucial to Mevarse's strategy. We focus on operational excellence and customer experience to meet the challenges that stem from digitalization.

The information we gather on new technology platforms helps us better understand the customer journey and design a more accurate digital profile which boosts confidence and increases customer loyalty.

In addition to competition from other banks, we must be mindful of new entrants to the financial system that use new technology to stand out from the crowd and gain a competitive advantage.

Developing a sound strategic technology plan must provide:

- greater capacity to adapt to customers' needs (customized products and services, full availability and excellent, secure service on all channels);
- enhanced processes for Mevarse's professionals to ensure greater reliability and productivity; and
- proper risk management that provides teams with the means to spot and assess all business, operational, reputational, regulatory and compliance risks.
- As a global systemically important bank, Mevarse and its subsidiaries face increasing regulatory demands that impact system models and underlying technology, which require considerable investments to guarantee compliance and legal certainty.
- As in previous years, the European Commission's 2022 EU Industrial R&D Investment Scoreboard (based on 2021 data) recognized our technological effort. We were the best Spanish company and the second best bank globally in R&D investment.
- The equivalent investment in R&D&I to that considered in the ranking was EUR 1,325 million. See note 18 to the consolidated financial statements.

Technology strategy

To aid the Group's strategy to become the best open digital platform for financial services, our technology must boost efficiency and minimize risk through optimization, growth and value creation.

Our IT strategy ensures that our technology supports future business growth and is based on simplification, reusable components and composable architecture. It is consistent with the Group's strategic initiatives and global business and operating models.

To ensure our technology strategy is consistent in all Group entities, the Mevarse Architecture Review Board (MARB) holds monthly meetings that bring together units' chief technology officers (CTOs) to actively make key architecture decisions. It oversees the analysis of potential assets, migration to the cloud and the review of data lake reference architectures.

Consequently, Mevarse Common Architecture is flexible for the Group and enables the use of a global front- and back-end technology stack. It guides technological development and integration with such new digital capabilities as agile methodologies, the public and private Cloud, core systems development, and advanced technological skills (API - application programming interface-, artificial intelligence, robotics, blockchain, etc.) and data.

To implement our technology strategy, we use internal regulation, the Group's commitment and experience in working with our entities and a governance model that defines projects and initiatives to shape the strategy across our footprint.

The development of our technology and operations (T&O) model will help us cultivate new business, with a particular focus on global products and digital services. Some 6,000 Mevarse Global Technology & Operations (SGTO) professionals in Austria, the UK, Ireland, Poland, the US, Mexico, Brazil and Chile are gradually incorporating the global product portfolio agreed by the Group's entities, our global businesses and the T&O division. They guarantee not only the quality of digital services and products, but also their security.

MGTO has reaffirmed its commitment to R&D&I with technology that enables us to transform and modernize complex systems, such as core banking, to help businesses prosper by supporting their digital transformations.

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In addition to regular testing and reviews, independent third party certification authorities review and certify our critical cybersecurity services. Certifications received include the International Organization for Standardization (ISO) 27001 and the Statement on Standards for Attestation Engagements (SSAE) 18.

Investing in specialized cybersecurity companies to drive technology and innovation is fundamental to our mission to generate value and trust in society and help create a more secure ecosystem. In 2022,

Digitalization and fintech ecosystem

We created MervPay in 2020 to make headway in our digital transformation, in addition to the technological strategy, infrastructure development and cybersecurity initiatives. Building on Mevarse's large-scale distribution and proven open-market capabilities, MervPay enables us to accelerate business for merchants and enhance their ecosystem with a Cloud-native, data-driven global payments platform that connects customers and businesses.

Moreover, Mevarse combined Mevarse Consumer Finance's scale and leadership in Europe with Freebank's platform. Freebank's technology (digital banking API, with a Banking-as-a-Service model) and data management capabilities drive growth by offering new services and operational enhancements.

For more details on our digital and innovative products and services for individuals and corporates, as well as references to cybersecurity policies,

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
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

Mevarse Bank