2018 Pillar 3 Disclosures Report

bankinter.

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Executive summary

Bankinter Group ended 2018 with record results - for the fourth consecutive year - based almost entirely on its business with customers, which outperformed its 2017 results. The Bank continues reporting profits above its competitors, thus confirming its position as the most profitable institution amongst Spanish listed banks. Bankinter continues to capitalise on its successful risk management, with asset quality and a risk profile that are, once again, the best amongst listed banks as shown by its NPL rate and the capital requirements established by the ECB following its exercise of supervisory review and evaluation.

One of the Group's hallmarks is the optimisation of capital, laying the foundation of a sustainable growth and establishing the institution as one of the most solvent in Europe.

Its management policy, its business model and prudent risk profile allow Bankinter to operate with levels of capital that are clearly above and beyond those required by regulators and supervisors. These qualities contribute to shareholders receiving a solid remuneration with continuity over time.

This document includes detailed information on capital and risk management in Bankinter Group as of 31 December 2018. The purpose of this document is to provide useful information about the institution's capital and risk profile in the interests of greater transparency for market agents and to ensure compliance with the disclosure requirements established in Regulation (EU) 575/2013.

The Group publishes additional relevant information in its Annual Report that can be viewed on its corporate website: webcorporativa.bankinter.

Risk profile

One of the Group's primary objectives is to maintain a moderate and prudent risk profile, which will allow it to obtain a balanced and healthy balance sheet and income that is recurring and sustainable over time while maximising long-term value for its shareholders.

The board of directors uses the Risk Appetite Framework as a tool to establish risk levels at which it desires to operate in achieving the Group's strategic objectives and continuously monitor both existing and emerging risks. The Institution's Internal Capital Adequacy Assessment Process allows the board to periodically assess the present and future adequacy of its capital in relation to the Group's risk profile and the suitability of its risk management and control systems. The Risk Appetite Framework and Internal Capital Adequacy Assessment Process are dealt with in further depth in points 1.4.2 and 3.2 hereof, respectively.

The following metrics reflect the Group's risk profile, and at 2018 year-end, they were all within the risk appetite threshold set by the board of directors:

11.75% 2017: 11.5%
Common Equity Tier 1 Fully Loaded – CET1 (%) (See point 2)

€3,853mn 2017: €3,590mn
Common Equity Tier 1 Fully Loaded – CET1 (See point 2)

€32,801mn 2017: €31,316mn
Risk-weighted Assets (See point 3)

€526mn 2017: €495 m
Net income (See the Management Report in the Annual Report)

13.19% 2017: 12.6%
RoE (See the Management Report in the Annual Report)

2.90% 2017: 3.5%
Non-performing loans ratio (See page 182 of the Annual Report)

€29,938mn 2017: €28,627mn
Credit Risk-weighted Assets (See point 3)

€305mn 2017: €260mn
Market Risk-weighted Assets (See point 3)

€2,558mn 2017: €2,428mn
Operational Risk-weighted Assets (See point 3)

144.20% 2017: 141.2%
Liquidity Coverage Ratio - LCR (See point 9)

5.1% 2017: 5.2%
Leverage Ratio (See point 10)

The Pillar 3 Disclosures report provides particulars of the regulatory risk measures reflecting the Group's risk profile and strategy. The variations of these figures throughout 2018 includes an increase in the requirements for credit risk as a consequence of a growth of the credit business, especially with companies; a slight increase in market risk requirements as a result of a much more active management of the trading book; and an increase in the requirements for operational risk, which are closely related to the positive variations of the margins of the income statement, as the Standardised Approach is used for their calculation.

The European Central Bank directly supervises Bankinter Group through the Single Supervisory Mechanism. The conclusion of the Supervisory Review and Evaluation Process (SREP) conducted throughout 2018 that focused, amongst other issues, on the assessment of the allocation and distribution of the internal capital available to cover the company's risks and on the analysis of the robustness of the existing strategies, policies, processes and systems in the institution to identify, measure and monitor the risks inherent to its activity, required Bankinter Group to attain a minimum level of CET1 (including the Capital Conservation Buffer) of 8.2% and 11.7% in terms of Total Capital, the lowest level of all Spanish institutions under supervision.

The required minimum CET1 ratio of 8.2% comprises the Pillar 1 requirement (4.5%), the Pillar 2 requirement (1.2%) and the capital conservation buffer (2.5%).

At 31 December 2018, Bankinter Group had a CET1 ratio of 11.75% and a total capital ratio of 14.29%, far in excess of the requirements of the European institution for 2018 and 2019. This means there are no limitations on how it distributes its earnings for the year.

Introduction

Introduction

Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013, on prudential requirements for banks and investment firms, together with Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of banks and the prudential supervision thereof, constitute the legislation in force on own funds and supervision on a consolidated basis of Spanish banks.

Under part 8 of the first chapter of the Regulation, institutions must publish, at least annually, relevant information for an adequate understanding of the Group's risk profile, its policies and objectives in risk management, and details of its exposure to different risks and the composition of its capital base. This report is a reflection of these requirements for Bankinter Group in 2018.

The purpose of this report is to facilitate market agents' assessment of Bankinter Group's capital adequacy at 31 December 2018. Specifically, it contains information about its own funds, risk exposures and risk assessment processes.

This report was drawn up in observation of article 432.2 of the cited Regulation regarding confidential information. Bankinter Group states that it has omitted no required information for reasons of confidentiality or privacy.

On 21 March 2019, the board of directors approved this document as ratified by the audit and compliance committee, in accordance with the procedure for disclosing reports that the board had approved on 16 February 2016.

Additionally, a set of quarterly reports is published in compliance with the criteria established in the European Banking Authority's Guidelines on Materiality, Proprietary and Confidentiality and on Disclosure Frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) 575/2013.

1. General reporting requirements

1. General reporting requirements

1.1. Company name and differences amongst the consolidated group for the purposes of the Solvency Regulation and the accounting circular

1.1.1. Company name and scope of application

Bankinter, S.A. was incorporated in June 1965 as a bank, and changed its name to the present name in July 1990. The corporate purpose of the Institution is the performance of banking business, and it is subject to the laws and regulations applicable to banks operating in Spain.

The Bank is the parent company of a group of subsidiaries engaged in various activities (mainly asset management, investment services, credit cards and the insurance business) that, with it, constitute Bankinter Group. The particulars of the subsidiaries forming Bankinter Group can be viewed in the Consolidated Financial Statements (webcorporativa.bankinter.com).

1.1.2. Differences amongst the consolidated group for the purposes of capital adequacy and accounting regulations

The data in this report refer to the consolidated Bankinter Group.

The Group has defined these principles in accordance with current accounting legislation. It defines investees as all subsidiaries, multi-group entities and associates. Entities over which the Group can exercise control are its subsidiaries. Jointly controlled entities are investees that are not subsidiaries. They are jointly controlled by the bank and another or other companies not associated with the Group and joint ventures. Finally, associates are entities over which the Group has significant influence.

The list of the companies making up Bankinter Group is provided in Note 13 to the Group's Consolidated Financial Statements.

The public consolidation scope is different from the prudential banking consolidation scope, which is the pertinent scope for the purpose of this report, as the aim of the latter is to integrate only the typical risks of credit, investment and financial institutions, excluding risks arising from the insurance business. This is reflected in Regulation (EU) 575/2013 on prudential requirements for banks and investment firms, when defining the prudential consolidation method.

Therefore, Bankinter Group's prudential consolidation scope is the same as the public scope excluding the following companies related to insurance activity, which constitute the Línea Directa Aseguradora Group:

- Línea Directa Aseguradora, S.A., Compañía de Seguros y Reaseguros.
- Línea Directa Asistencia, S.L.U.
- LDA Activos, S.L.U.
- Moto Club LDA, S.L.U,
- Centro Avanzado de Reparaciones CAR, S.L.U.
- Ambar Medline, S.L.
- LDA Reparaciones, S.R.L

As fully integrated in the Group's financial statements, these companies are integrated using the equity method for the purpose of solvency and this report.

Appendix III provides a list of companies constituting the Group, specifying both the public and prudential scope of consolidation applied in each, and indicating which companies are subject to deduction of own funds pursuant to article 36 of Regulation (EU) 575/2013.

1.1.3. Reconciliation of the Public Balance Sheet from the accounting scope to the regulatory scope

In accordance with Appendix I of the Commission Implementing Regulation (EU) 1423/2013, below is a reconciliation between the Public Balance Sheet and the Balance Sheet for purposes of solvency regulations for banks (Prudential Balance Sheet) at 31 December 2018. This seeks to compare the accounting information published in the consolidated annual accounts with the regulatory information contained in this report.

Public Balance Sheet Vs Prudential Balance Sheet Reconciliation

	Public Balance Sheet	Insurers	Adjustments and Eliminations	Prudential Balance Sheet
Cash, balances in cash in central banks and other demand deposits	5,503,428	156,653	(49,642)	5,396,416
Financial assets held for trading	5,162,908	-	-	5,162,908
Financial assets at fair value through profit or loss	-	-	-	-
Financial assets not held for trading and required at fair value through profit or loss	129,178	-	-	129,178
Financial assets at fair value through other comprehensive income	4,839,963	785,701	(13,373)	4,067,635
Financial assets at amortised cost	58,844,761	118,025	(38,955)	58,765,691
Fair value changes of the hedged items in portfolio hedge of interest rate risk	11,010	-	-	11,010
Derivatives – Hedge accounting	170,197	-	-	170,197
Non-current assets held for sale	196,159	1,871	(0)	194,288
Investments in joint ventures and affiliated businesses	110,563	-	(449,457)	560,020
Assets covered by insurance and reinsurance contracts	9,134	9,134	-	-
Tangible assets	473,411	110,844	16,235	346,331
Intangible assets	294,077	7,593	169,234	117,250
Tax assets	547,502	50,869	75	496,558
Other assets	209,248	77,012	(19)	132,255
TOTAL ASSETS	**76,501,539**	**1,317,703**	**(365,901)**	**75,549,738**
Financial liabilities held for trading	3,798,092	-	-	3,798,092
Financial liabilities at fair value through profit or loss	-	-	-	-
Financial liabilities at amortised cost	66,361,761	153,516	(91,786)	66,300,031
Fair value changes of the hedged items in portfolio hedge of interest rate risk	19,748	-	-	19,748
Derivatives – Hedge accounting	86,845	3,385	0	83,460
Liabilities held for sale	-	-	-	-
Liabilities under insurance contracts	749,563	749,563	-	-
Provisions	301,924	2,700	-	299,224
Tax liabilities	425,515	82,273	6,777	336,464
Share capital repayable on demand	-	-	-	-
Other liabilities	272,239	38,017	(19)	234,240
TOTAL LIABILITIES	**72,015,687**	**1,029,455**	**(85,028)**	**71,071,259**
Shareholders' equity	4,344,186	273,679	(266,266)	4,336,772
Accumulated other comprehensive income	141,666	14,568	(14,607)	141,705
Minority interests	-	-	-	-
TOTAL SHAREHOLDERS' EQUITY	**4,485,852**	**288,248**	**(280,873)**	**4,478,478**
TOTAL LIABILITIES AND EQUITY	**76,501,539**	**1,317,703**	**(365,901)**	**75,549,737**

Figures in thousands of euros

Differences between accounting and prudential scopes of consolidation and the mapping of financial statement categories with regulatory risk categories (LI1)

	Public Balance Sheet	Prudential Balance Sheet	Credit risk framework	Counterparty credit risk framework	Securitisation framework	Market risk framework	Not subject to capital charges or subject to deduction from capital
Cash, balances in cash in central banks and other demand deposits	5,503,428	5,396,416	5,396,416	-	-	-	-
Financial assets held for trading	5,162,908	5,162,908	-	432,233	-	4,730,675	-
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-
Financial assets not held for trading and required at fair value through profit or loss	129,178	129,178	129,178	-	-	-	-
Financial assets at fair value through other comprehensive income	4,839,963	4,067,635	4,067,635	-	-	-	-
Financial assets at amortised cost	58,844,761	58,765,691	56,768,343	381,376	1,615,972	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	11,010	11,010	-	-	-	-	11,010
Derivatives – Hedge accounting	170,197	170,197	-	170,197	-	-	-
Non-current assets held for sale	196,159	194,288	194,288	-	-	-	-
Investments in subsidiaries, joint ventures and associated	110,563	560,020	37,755	-	-	-	522,265
Assets covered by insurance and reinsurance contracts	9,134	-	-	-	-	-	-
Tangible assets	473,411	346,331	346,331	-	-	-	-
Intangible assets	294,077	117,250	-	-	-	-	117,250
Tax assets	547,502	496,558	127,735	-	-	-	368,822
Other assets	209,248	132,255	132,255	-	-	-	-
TOTAL ASSETS	**76,501,539**	**75,549,738**	**67,199,936**	**983,806**	**1,615,972**	**4,730,675**	**1,019,347**
Financial liabilities held for trading	3,798,092	3,798,092	-	499,812	-	3,298,279	0
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-
Financial liabilities at amortised cost	66,361,761	66,300,031	-	-	544,916	-	65,755,115
Fair value changes of the hedged items in portfolio hedge of interest rate risk	19,748	19,748	-	-	-	-	19,748
Derivatives – Hedge accounting	86,845	83,460	-	83,460	-	-	-
Liabilities held for sale	-	-	-	-	-	-	-
Liabilities under insurance contracts	749,563	-	-	-	-	-	-
Provisions	301,924	299,224	-	-	-	-	299,224
Tax liabilities	425,515	336,464	-	-	-	-	336,464
Share capital repayable on demand	-	-	-	-	-	-	-
Other liabilities	272,239	234,240	-	-	-	-	234,241
TOTAL LIABILITIES	**72,015,687**	**71,071,259**	**-**	**583,272**	**544,916**	**3,298,279**	**66,644,792**

Figures in thousands of euros

Main sources of differences between regulatory exposure amounts and carrying values in financial statements (LI2)

	Total	Items subject to:			
		Credit risk framework	Counterparty credit risk framework	Securitisation framework	Market risk framework
Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	74,530,390	67,199,937	983,806	1,615,972	4,730,675
Liabilities carrying value amount under scope of regulatory consolidation (as per template LI1)	(4,426,468)	-	(583,272)	(544,916)	(3,298,279)
Amounting corresponding to the investment part in financial institutions	364,995	364,995	-	-	-
Differences due to different netting rules, other than those already included in row 2	(1,432,395)	-	-	-	(1,432,395)
Differences due to consideration of provisions	302,235	302,235	-	-	-
Off-balance-sheet items after applying CCFs	3,701,563	3,701,563	-	-	-
Risk mitigation techniques	(1,941,829)	(1,640,599)	(274,386)	-	-
'Other non-credit obligation assets' exposures	(614,007)	(614,007)	-	-	-
CCP	120,287	-	120,287	-	-
Exposure amounts considered for regulatory purposes	**70,604,770**	**69,314,124**	**246,435**	**1,071,056**	**0**

Figures in thousands of euros

1.1.4. Main changes in the Group's scope in 2018

Note 13 of the Report of the Consolidated Financial Statements of 2018 describes the main changes in the public consolidation scope during the financial year. These do not affect any of the companies constituting the Línea Directa Aseguradora Group.

1.2. Subsidiaries with own funds below the required minimum

None of the subsidiary institutions included in the consolidated group present an amount of own funds below the minimum required by the regulations applicable thereto.

There is no current or foreseeable legal or practical obstacle relevant to the transfer of own funds or repayment of liabilities between the subsidiary institutions and the parent company.

1.3. Exemptions to capital requirements at individual or subconsolidated level

Bankinter Group asked Bank of Spain for a waiver for the application of prudential requirements on an individual basis to Bankinter, S.A. and Bankinter Consumer Finance E.F.C., S.A. for the sake of efficiency and better management and given that the Group's characteristics guarantee the adequate distribution of own funds between the parent company and the subsidiary and the free movement of flows and commitments within the Group. Banco de España authorised both exemptions in a document sent to the company on 8 October 2009.

1.4. Risk management policies and objectives

Quality risk management is essential for the business of any bank, especially for banks such as Bankinter Group who carry out their activity mainly in the retail sector and consider the trust of their customers and shareholders to be a core value.

The Group's risk culture, based on prudence and risk control, is fully integrated into the management thereof. Fully committed to this culture, the governance bodies have opted for a prudent risk policy to ensure the sustained and profitable growth of its activity and safeguard alignment with the Group's risk profile and risk appetite. Bankinter Group's policy thus aims to maintain a moderate and prudent risk profile in accordance with the strategic objectives of the Group.

The Risk Management system comprises the following elements:

- General risk management principles.
- The Risk Appetite Framework.
- Corporate governance of the risk function.
- The structure and organisation of risk management.
- The internal control model.

- The risk culture

1.4.1. General principles for risk management

Bankinter Group is exposed to various risks inherent to the activities it carries out. To this end, one of the main priorities of the Group's board of directors is to ensure that the relevant risks of all its businesses are appropriately identified, measured, managed and controlled, establishing the basic principles and mechanisms for their appropriate management, with the purpose of achieving the Group's strategic objectives; protecting the Group's reputation and results; defending the interests of shareholders, customers, other stakeholders and society in general; and guaranteeing sustained business stability and financial soundness over time.

In this regard, the basic risk management principles implemented are summarised below:

- Comprehensive consideration of all risks as a target for their suitable management and control. The target risk profile of Bankinter Group is moderate and sound.
- Independence of the risk function from the business, guaranteeing an appropriate level of autonomy to adequately control the risks.
- Direct involvement of the governing bodies in decision-making.
- Centralised control and management of risks through a corporate structure with responsibilities that extend across the organisation.
- Clear definition of responsibilities in each risk acceptance and risk management unit: activities, segments and risks it can take on and the decisions that they can take based on the delegated powers.
- Need for a collective decision-making, ensuring the taking into account of different opinions.
- Adequate compliance with the corporate governance standards established by the Company through its Corporate Governance System, implementing its monitoring and measurement.

These general risk control and management principles of Bankinter Group constitute the foundation and are complemented by the principles set out in the Risk Appetite Framework approved by the board of directors.

1.4.2. Risk Appetite Framework

The Risk Appetite Framework is a comprehensive and forward-looking tool that the board of directors uses to determine risk classifications and thresholds that it is prepared to accept to achieve the Group's strategic objectives and target profitability.

To do so, it defines the level of risk appetite and tolerance that the Group is willing to assume in its business based on the following principles:

- Implementation of management strategies, policies, organisation and systems that are prudent and suitable for the size, scope and complexity of the company's activities based on quality banking practices.
- Adherence and conformance of the Group's activities to the established regulatory requirements, limits and restrictions, ensuring proper compliance with the pertinent legislation in force at all times.
- Maintenance of a low or moderate exposure to credit risk with a non-performing loan ratio in the lowest range of the Spanish financial system.
- Appropriate hedging of problem assets.
- The return on capital investment is proper, with profitability over the risk-free rate being kept to a minimum over the cycle.
- Maintenance of a low level of market risk, so that in stress scenarios the losses generated have a reduced impact on the company's income statement.
- Balance of the loans and receivables portfolio between individuals and legal entities.
- Balanced growth in retail financing resources.
- Sources of wholesale funding are diversified from the viewpoint of both instruments and markets, and maintenance of a balanced maturity profile.
- Optimisation of the cost of retail financing, maintaining a balance between the return on the loan and the rate situation in the market.
- Use of a risk diversification policy to avoid excessive concentration levels that might translate into difficulties for the Institution.
- Limitation of business in sensitive sectors that could entail a risk for the company's sustainability or have a negative impact on the bank's reputation and/or honourability.
- Moderate appetite for interest rate risk.
- Maintain a very small structural position in foreign currencies.
- Reinforced control of the Group's reputational position.
- Cost-to-income Ratio Optimisation.
- Maximisation of the generation of value for shareholders throughout cycles via dividends and good share price performance, all on a strong capital and liquidity base.

- Maintenance of solvency within the fluctuation band set by the Group, above the regulatory minimums.

To maintain this risk profile, a series of key metrics are defined for the levels of various risks, result quality and recurrence, liquidity and capital adequacy. Objectives and risk tolerance levels the Group is willing to assume are defined for each metric. Long-term objectives are also established for the most relevant metrics. These targets and levels are updated and approved, at least annually, by the risk committee at the proposal of the chief risk officer (CRO).

The first level of responsibility is assumed by the board of directors, which defines and approves the company's risk appetite. The company's risk appetite and strategy are aligned through the principles defined by the board.

The compliance of the Risk Appetite Framework is monitored via Level 1 and Level 2 metrics available for each type of risk to which the company is exposed. They are all subject to tracking by the board through regular reporting to the risk committee. Level 1 metrics are the most relevant and subject to a more detailed monitoring by the board. Level 2 metrics complement the other metrics.

All metrics have a defined objective, tolerance level and limit. The objective in each metric is the value that complies with the established appetite level; the tolerance level sets the threshold from which reinforced management, control and tracking measures are taken to return to the target situation, and, finally, the limit is the threshold that the company does not want to go beyond under any circumstances.

The Risk Appetite Framework is thus a governing tool to ensure that the assumed risk levels are consistent with the Group's strategy and business plans, notwithstanding the limits established on the various risks and tracked regularly though the relevant committees and organisational structures.

1.4.3. Corporate governance of the risk function

Bankinter Group has a corporate governance system in line with the best practices of the sector and adapted to regulatory requirements.

Bankinter's board of directors is the Group's highest decision-making body and, in accordance with the Rules and Regulations of the Board of Directors, responsible for approving the risk control and management framework and periodically tracking risk control and information systems to ensure that all established objectives are met.

To perform these functions, the board of directors is supported by two of its delegated committees: the executive committee and the risk committee.

Executive committee

The board has delegated all of its functions to the executive committee except for functions that cannot be delegated under the law, by-laws or the Rules and Regulations of the Board of Directors.

The executive committee takes decisions on the management and tracking of all risk types. The executive committee has delegated powers from the board that include yet are not limited to the authorisation, formalisation, valuation and sanction or ratification of credit risk operations up to a specific limit, above which the board of directors is the only body with sufficient powers to sanction. It also periodically tracks and adopts decisions related to the management of liquidity, credit, market and operational risks by analysing portfolio performance metrics and indicators, and the institution's level of solvency.

The executive committee in turn delegates to the following high-level Committees:

- Credit risk, in the executive risk committee, which is responsible for setting limits on the delegation of powers to the lower-ranking internal bodies within the limits set by the board of directors. It is responsible for the approval of individual or group risks in accordance with the established delegation structure, and tracks the credit quality of the bank's different businesses, the concentrations of risk and the variations of the most sensitive sectors at any given time.
- Business risk, in the management committee, whose functions include making suggestions to the board and updating the annual business plan, defining strategies to comply with objectives, monitoring them and making decisions on any deviations thereto.
- Structural risks (liquidity, interest rates, currency) and market risks, in the assets and liabilities committee (ALCO), which is directly responsible for managing the overall interest rate, exchange rate and liquidity risks, and the company's financing policies. The assets and liabilities committee is also responsible for regularly supervising and tracking issues related to capital management.

The executive committee met 11 times in 2018 (refer to the 2018 Annual Corporate Governance Report on the corporate website for further details).

Risk committee

The risk committee is an advisory body in charge of the company's risk supervision functions and provides advice on risks to the board of directors. The risk committee is also entrusted with monitoring the Risk Appetite Framework.

The main functions of the risk committee, in accordance with the Law and the company by-laws, are:

- Advising the board of directors on the company's overall current and future risk propensity and on its strategy in this regard, and assisting the board of directors in the effective implementation of that strategy. However, the board of directors shall retain overall responsibility with respect to risks.
- Assessing whether the prices for the assets and liabilities offered to customers fully take into account the company's business model and risk strategy.
- Determining, together with the board of directors, the nature, quantity, format and frequency of the information on risk to be received by the committee itself and the board of directors.
- Jointly establishing rational remuneration policies and practices. To this end, the risk committee will examine whether the incentives established in the remuneration system take into consideration risk, capital, liquidity, and probability and opportunity of benefits, irrespective of the duties of the remuneration committee.
- Approving the appointment or the replacement of the chief risk officer (CRO) at the proposal of the chairman of the board, vice chairman or chief executive officer.
- Overseeing the activities of the Risk Control Unit, which will report to the committee regularly.

In 2018, the risk committee met 6 times (refer to the 2018 Annual Corporate Governance Report on the corporate website for further details).

Audit and regulatory compliance committee

The audit and regulatory compliance committee directs internal audit activities. This committee's annual plan includes a sharp focus on work related to risk measurement, tracking and management. Specifically, it evaluates and reviews compliance of polices approved by the board, risk management procedures and systems and the internal control function, as well as effective implementation and the effectiveness of risk control and mitigation procedures.

Reports are drawn up regularly for the performance of these functions by the board of directors and different committees to which these powers are delegated. Some of these reports are:

- Solvency Report
- Credit Risk Report
- ICAAP
- ILAAP
- Liquidity Report
- Concentration Report
- ALCO Report
- Operational Risk Report

In addition, Bankinter Group's intranet contains a management information system providing governance bodies and all employees with access to an extensive catalogue of reports for understanding and evaluating the variations and management of risks through diverse dimensions and levels of aggregation for the different business units.

1.4.4. Risk control and management function structure and organisation

'Three lines of defence' model

Bankinter Group's organisational structure follows a principle of independence and separation of functions between the various units that assume and manage risks and units that monitor and control risks, in accordance with its 'three lines of defence' model.

The first line of defence, the centralised Risk Management function, hedges credit, counterparty, market, liquidity and funding, structural interest rate and exchange rate, and operational risks. The first line's corporate responsibilities extend to all areas and provide support to the Group's governance bodies. It is responsible for putting in place methodologies, developing adequate procedures and performing the first line controls for these risks. Furthermore, it is focused on carrying out the risks function and integrating it into management within the various businesses of the group.

The following management and control functions are performed by the first line of defence reporting to the Risk Division, but not reporting hierarchically to the Chief Risk Officer (CRO):

- Operational risks with specific management (technological, compliance/conduct and outsourcing risk);
- Reputational risk, which is measured and controlled by the Corporate Reputation unit in the first line;
- Strategic or business risk, which is managed by the business units and controlled by the Finance area in the first line.

The credit risk management function is completed by a decentralised structure that reports functionally to the CRO. This function has specific teams for sanctions, incidents and recovery in regional organisations, to ensure proximity to, and knowledge of, the customer, which are essential in the financial business. Powers of attorney are delegated as necessary for this. These regional teams are also responsible for risk control activities in the first line of defence.

The second line consists of specialist control and oversight units, located in the Risk Control and Validation unit, the Regulatory Compliance unit and the Financial Control and Analysis unit. The Risk Control and Validation unit has global and corporate support responsibilities for the Group's governing bodies, including providing a second line of control for all material risks, apart from legal, and compliance and conduct risk, which are the responsibility of the Regulatory Compliance unit.

This management model is completed by a third line of defence performed by the Internal Audit unit, which is responsible for independent review of the risk management and control model.

The organisational structure of the risk function in Bankinter

The parties responsible for performing the risk management and control function, and their main duties, are set out below.

The board of directors of Bankinter is ultimately responsible for managing and controlling risks.

The managing director of risk holds the role of CRO ('chief risk officer') in accordance with current regulations. The board's risk committee is authorised to appoint and replace the chief risk officer on the recommendation of the bank's chairman, vice-chairman (if an executive) or the chief risk officer.

In reporting hierarchically to the chief risk officer, this post has assigned two differentiated and separate functions:

- Risk management.
- Risk control and internal validation.

Below is how these two functions are organised.

Risk management function

Risk management groups major risks (credit and counterparty, market, liquidity, structural, operational and model risks). It has corporate responsibilities extending to all areas and provides support to the governance bodies of Bankinter Group. It is charged with defining the methods for risk control and implementing them as the first line of defence. Furthermore, it is focused on performing the risks function and integrating it into management within the several businesses of Bankinter and its group. It is charged with defining the methods for risk control and implementing them as the first line of defence. Furthermore, it is focused on performing the risks function and integrating it into management within the several businesses of Bankinter and its group.

Credit risk

Credit risk aims to define the risk policies associated with each of the segments. It is delegated powers that allow it to authorise customer transactions. It is responsible for the full risk process, from approving risks (which requires IT support capable of achieving the highest level of efficiency); to monitoring and recovering risk positions.

Global risk management

It is responsible for developing, improving, controlling, implementing and regularly monitoring statistical and risk parameter models for the various credit portfolios, and also enhancing the integration of such models into management. The internal models perform a key role in the approval process, in the calculation of regulatory and internal capital, in the calculation of collective provisions, in recovery processes and in the establishment of risk-adjusted return measures (RARORAC). Furthermore, its responsibilities include supervisor relations, official announcements and regulatory reporting in regard to models, as well as monitoring the plan for sequentially implementing IRB models in the bank.

Global Risk

Global Risk coordinates the various risk areas in activities and projects relating to methodologies, policies, procedures and regulations, seeking to adopt industry best practices in the measurement and management of risks and, in particular, management of the Group's global risk profile.

Market Risk and Institutional Control

This area reports to the managing director of risk/chief risk officer and aims to control and monitor structural risks (liquidity, interest rate and foreign currency risks) and market risks stemming from the bank's institutional and trading operations.

As discussed further on, the Balance Sheet Management Area and the Trading Department, reporting to the General Capital Markets Division, are responsible, respectively, for managing liquidity, interest and foreign currency risks (structural risks) and for managing market risk. Market risk has the independent duty of measuring, monitoring and controlling changes in interest rate, liquidity, foreign currency, market and counterparty risks in 'institutional' positions (ie, those taken by the assets and liabilities committee (ALCO) and by the Trading Department for trading purposes).

Operational Risk

Operational Risk is responsible for promoting and coordinating the procedures and tools for identifying, measuring, implementing first-line controls over, and reporting operational risks. It provides the organisation with a uniform vision of operational risk. Operational risk management is delegated to the various subsidiaries, support areas and business units within the group. This is occasionally managed by specialised or centralised departments when necessary given the circumstances (complexity, size, cross-sector corporate processes, etc.).

Non-performing Loans and Delinquent Debt

This area is responsible for running and managing the process for recovering outstanding loans in early stages of default, by implementing and promoting internal and external tools and formalities for this purpose, in order to minimise new non-performing loans. It is also responsible for running and managing the control, monitoring and non-amicable recovery of loans in accordance with current legislation, by creating and promoting automatic systems that make management more efficient; and implementing more efficient and effective mechanisms and processes to improve outstanding debt collection. It is also responsible for all matters related to policies for, and the analysis, authorisation and monitoring of, refinancing operations.

Property Assets

This area sets and updates the price of foreclosed assets and allocates them for a specific purpose. Its duties include technically and legally aligning assets and monitoring them in order to prevent their impairment. Its purpose and main responsibility is the proactively seek out buyers by publicising and managing assets under principles of transparency, sufficient publicity, competition and effectiveness in order to obtain the highest price possible. It prioritises quick selling.

Risk control and internal validation

The risk control unit, as a second line of defence, has corporate responsibilities extending to all areas and provides support to Bankinter Group's governance bodies . It is organised into the following units with the following responsibilities:

Risk Control Unit

The purpose of this area is to oversee the quality of Bankinter Group's risk management. More specifically, it seeks to guarantee that the systems for managing and controlling the various risks involved in its activity meet the most demanding criteria and the best practices seen in the banking sector and/or required by regulators. Accordingly, it verifies that the actual risk profile that is undertaken is in line with the stipulations of senior officers.

Internal Validation Unit

This unit's function is to validate advanced risk models and their results. To this end, it conducts analyses and issues reports with opinions and recommendations on their validity and their use in risk management.

Other risks managed indirectly by the Chief Risk Officer (CRO)

Structural risks

The board of directors sets the strategy and policy for structural risks (interest rate, liquidity and foreign currency risks) and market risks and designates various bodies to manage, monitor and control them. It also sets the risks profile to be assumed by the bank by setting maximum limits that it delegates to such bodies, as defined in the Risk Control and Management Framework.

The board of directors delegates to the assets and liabilities committee (ALCO) the constant monitoring of decisions with regard to the structural risks of the balance sheet (interest and liquidity risk), of market risk and of the exchange rate of the institutional positions of the bank, as well as the establishment of the financing policies. In addition, it annually reviews, approves and delegates to the ALCO the applicable limits for the management of the aforementioned risks.

The ALCO is directly responsible for managing all risks on interest rates and liquidity, as well as stock exchange and institutional change risks and company financing policies, although Capital Markets, within its powers or following the directives of the chairman, Chief Executive Officer or the managing director of trading and capital markets, may conduct actions aimed at protecting the bank from its risks or taking advantage of trading opportunities that arise.

As frequently as it deems necessary, if not once a year at least, the board of directors checks the framework and policies for managing these risks as well as the need to modify operating the limits operating limits set out in the framework.

The Balance Sheet Management Unit or, as per its instructions, Trading and Capital Markets, implement the decisions taken by the ALCO in regard to the bank's institutional positions. Depending on the circumstances, they may act immediately in order to protect the bank from potential market downturns and subsequently report on their actions to the ALCO committee.

Technological Risks

These risks are supervised by the Technological Risk and IT Security Area. It is set up within Bankinter Global Services and reports directly to its managing director. It functionally reports to Bankinter's CRO, to whom it issues reports on a regular basis. In the management of these risks, it is mainly responsible for: training and awareness-raising on information security; coordination of technology environment improvement plans; management of system vulnerabilities; coordination of certified risk management systems; cryptographic key custody; identification and definition of the security requirements for new projects and developments; definition, approval and maintenance of business continuity plans, technological contingency and incident response plans; implementation of security measures on operating systems, databases and middleware; identification and management of detected vulnerabilities.

Reputational Risk

The first-line management of this risk is delegated to the Group's various subsidiaries, support areas and business units, operating within the scope of the policies and guidelines issued by the Corporate Reputation Unit. This unit operates within the 'Corporate Communications and Responsibility' area, draws up metrics on reputational risks and handles the preventive management thereof and mitigation of potential reputational risks through participation in crisis response actions.

Other units in the second line of defence

Regulatory Compliance Unit

The board of directors is responsible for ensuring compliance with the Group's general code of conduct, general policy on anti-money laundering and financing of terrorism and the policy on marketing products and services.

The audit and regulatory compliance committee is charged with functions like overseeing compliance with legal requirements, supervising the effectiveness of internal control and risk management systems, supervising compliance with the Group's code of conduct in securities markets, anti-money laundering manuals and procedures and, in general, the bank's governance and compliance rules. It should also make any necessary proposals for its improvement and revise the fulfilment of any actions and measures arising from reports or actions by administrative supervision and control authorities.

The Regulatory Compliance Unit acts, from a hierarchical point of view, under Bankinter's audit and regulatory compliance committee and is functionally assigned to the office of the bank's general secretary. Its functions include: advising senior officers, employees and the Group's business and operating areas; supervision and monitoring of compliance with rules of conduct; detection and management of noncompliance risks; and relations with regulatory and supervisory bodies and authorities on any matters within its remit.

Financial Control and Analysis Unit

Under the General Finance Division, this unit reports to the audit and regulatory compliance committee and its functions include tracking of the general internal financial control framework regarding the reliability of the group's financial information. This includes the implementation and development of the system for internal control over financial reporting (ICFR).

1.4.5. Risk culture

The company has maintained a strong risk management culture over time resulting from its traditionally prudent risk strategy and profile. This culture is conveyed in everyday practice via the deliberation and collective decision-making processes in different risk commitments, involving intense and frequent communication along with systems of control.

The specific elements of these practices are as follows.

The basic documents approved by the board of directors such as the Risk Appetite Framework and the Risk Management Framework, Policies, Limits, Organisation, Methods and Procedures are published and available to the entire staff of the company, and are mandatory knowledge for risk staff.

The risk function is present in every high-level meeting in which the strategy, planning and performance of the business are discussed.

The structure of delegated powers for the authorisation of credit transactions is disseminated throughout the institution and periodically updated in a Circular that is mandatory for the entire risks and business network staff.

The risks staff of regional divisions receives annual training on the most significant technical, business and organisational aspects related to risk management. This training is shared with the central service departments directly related to admission, monitoring, control and recoveries.

Communications are conveyed through several internal channels to enable immediate notification of any news on the business, policies, and risk criteria and operations.

The systems supporting admission processes allow for modification of decision-making rules with great speed and security as soon as conditions change.

1.5. Risk mitigation and hedging policies: Supervision strategies and policies.

Prudence is a hallmark of Bankinter Group's lending policy: credit granting criteria is based on the customer's verified solvency and capacity to make repayments, in line with a realistic payment plan and taking only ordinary customer income into consideration. Transaction guarantees are only considered a secondary method of recovery.

In any case, the mitigation of the credit risk is achieved, in many cases, through the contribution of guarantees by the borrower, with the acceptance of either collateral (essentially mortgage securities, money securities, pledged securities or other securities) or personal guarantees (both of the counterparty and guarantors that have a better credit rating).

For further details, refer to points '4.3.1. Counterparty credit risk management policy' and '4.7. Information on credit risk mitigation techniques'.

2. Information on Own Funds

2. Information on Own Funds

Title I of Part Two of Regulation (EU) 575/2013 of the European Parliament and of the Council defines the different levels of capital that will constitute the Institution's Own Funds under the new solvency regulations, as well as the items comprising them. Regulation (EU) 2016/445 of the European Central Bank establishes the options and discretions that, in relation to the prudential requirements of banks, are exercised by the Supervisor, specifying the timelines for gradual application for the counting of certain items as own funds.

2.1. Elements that constitute Own Funds

Under solvency regulations, the Institution's Own Funds are the sum of Tier 1 (T1) and Tier 2 (T2) Capital. In turn, Tier 1 consists of Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1) capital.

Common Equity Tier 1 (CET1) is considered first-class quality capital for its loss absorption capacity. CET1 instrument holders are subordinated to the rest of bank creditors, including AT1 and T2 instrument holders.

Additional Tier 1 (AT1) only has preference, in the order of precedence of payments in case of insolvency, over CET1 instrument holders, remaining subordinated to the rest of creditors of the institution, including T2 instrument holders.

Lastly, Tier 2 (T2) absorbs losses after CET1 and AT1 instruments, and remains subordinated to the rest of bank creditors. Its loss absorption capacity is therefore lower.

Common Equity Tier 1

Bankinter's Common Equity Tier 1 (CET1), as set forth in the Regulation, consists of:

- Share capital of the bank.
- Share premiums associated with the share capital.
- Accumulated gains in accordance with Article 26.1.c of Regulation no. 575/2013 available to the institution for unrestricted and immediate use to cover losses. It also includes the reserves of institutions accounted for by the equity method.
- Interim profit accumulated over the course of the financial year related to the prudent consolidation scope and net of the foreseeable dividends to distribute against the financial year's profit.
- Other accumulated income, which basically reflects valuation adjustments associated with available-for-sale financial assets, from exchange rate differences and from institutions accounted for by the equity method, and other valuation adjustments.

The Regulation defers to the Competent Authorities insofar as the decision on how to progressively incorporate these adjustments, where Regulation (EU) 2016/445 defines the percentage of valuation adjustments to be incorporated over the calendar of progressive phase-in of the solvency regulation.

Valuation Adjustments	2017	2018
Gains	80%	100
Losses	80%	100

The Common Equity Tier 1 calculated in this manner must be adjusted by the following deductions:

- Intangible assets.
- Holdings of instruments countable as Common Equity Tier 1 that the institution or any Group institution holds directly, indirectly or synthetically, including those shares that the institution must acquire by virtue of any contractual commitment.
- Any provision shortfall resulting from the comparison between the calculation of expected losses for exposures whose minimum capital requirements are calculated with internal methods (IRB) and the provisions associated with these exposures.
- The amount of shares held in financial sector institutions, including insurance companies, when the institution has a significant investment, that exceed the threshold of 10% of CET1, in accordance with Article 48 of Regulation (EU) No 575/2013.
- Additional valuation adjustments that arise from prudential valuation of positions accounted for at fair value, in accordance with Article 105 of Regulation (EU) No 575/2013.
- Items that must be deducted from Additional Tier 1 Capital elements that exceed the Institution's Additional Tier 1 Capital.
- The Regulation allows the competent authorities of Member States to put in place a schedule for the progressive application of these deductions until 2019. Specifically, Regulation (EU) No 2016/445 of the European Central Bank establishes that the above deductions, except the deduction for holding of own CET1 instruments and the excess of deductions for the holding of own Additional Tier 1 Capital which are deduced at 100% from the entry into force of solvency regulations, applied in a percentage according to the following calendar:

Deductions	2017	2018
Intangible assets	80%	100
Shortfall of IRB expected losses to provisions	80%	100
Amount of significant investments in financial sector institutions that exceed 10% of CET1	80%	100

The rest of the amount to be deducted shall be adjusted from Additional Tier 1 Capital and Tier 2 Capital.

Additional Tier 1 capital

Bankinter's Additional Tier 1 capital (AT1), as set forth in the Regulation, consists of:

- Additional Tier 1 capital instruments, which are perpetual, potentially convertible securities that have the characteristics set out in Article 52 of Regulation (EU) No 575/2013. These instruments ranks below Tier 2 Capital instruments in case of insolvency.
- Share premiums associated with said instruments, if available.

The characteristics of issues of potentially convertible securities forming part of Additional Tier 1 capital (AT1) at 31 December 2018 are detailed in Appendix I.

Additional Tier 1 capital must be adjusted by the following deductions:

- Direct, indirect and synthetic holdings of own AT1 instruments belonging to group institutions, including the AT1 instruments that the institution may be forced to acquire as a result of current contractual commitments.
- Direct, indirect and synthetic holdings of own AT1 instruments in financial sector entities, with certain limitations when the institution maintains a significant investment in these entities.

In addition, and during the phase-in period of the solvency regulation, as detailed in Regulation (EU) No 2016/445 of the European Central Bank, the following percentages shall be deducted from items of Additional Tier 1 capital that are not temporarily deducted from Common Equity Tier 1.

Deductions	2017	2018
Intangible assets	20%	0%
Shortfall of IRB expected losses to provisions	10%	0%
Amount of significant investments in financial sector institutions that exceed 10% of CET1	10%	0%

If the amount of Additional Tier 1 is not sufficient to temporarily deduct these items, the excess deductions shall be directly deducted from Common Equity Tier 1.

The rest of the amount to be deducted and that has not been deducted from Common Equity Tier 1 shall be deducted from Tier 2 Capital.

Tier 2 Capital

Bankinter's Tier 2 Capital (T2), as set forth in the Regulation, consists of:

- Tier 2 capital instruments, which are subordinated obligations that have the characteristics set out in Article 63 of Regulation (EU) 575/2013. These instruments are ranked behind common creditors in case of insolvency.
- Share premiums associated with said instruments, if available.

It should be borne in mind that, according to the regulation, issues of eligible Tier 2 instruments with less than five years left until they mature start to lose their computability as Tier 2 Capital at an annual rate of 20%.

The characteristics of issues of subordinated debentures forming part of Tier 2 capital (T2) at 31 December 2018 are detailed in Appendix I.

The computable live balance of issues eligible as Tier 2 at 31 December 2017 amounted to 697,018 thousand euros and 636,382 thousand euros at 31 December 2018.

Tier 2 Capital calculated in this manner must be adjusted by the following deductions:

- Direct, indirect and synthetic holdings of own Tier 2 instruments belonging to group institutions, including the Tier 2 instruments that the institution may be forced to acquire as a result of current contractual commitments.
- Direct, indirect and synthetic holdings of own Tier 2 instruments in financial sector entities, with certain limitations when the institution maintains a significant investment in these entities.

In addition, during the phase-in period of the solvency regulation, as detailed in Regulation (EU) No 2016/445 of the European Central Bank, the following percentages shall be deducted from items of Tier 2 Capital that are not temporarily deducted from Common Equity Tier 1 or from Additional Tier 1 Capital:

Deductions	2017	2018
Shortfall of IRB expected losses to provisions	10%	0%
Amount of significant investments in financial sector institutions that exceed 10% of CET1	10%	0%

2.2. Amount of Own Funds

The breakdown and composition of Own Funds of Bankinter Group is as follows:

Amount of computable own funds ('fully loaded')

Amount of computable own funds	2018	2017
Common Equity Tier 1: instruments and reserves	4,389,844	4,256,918
Capital instruments and share premiums	1,453,925	1,453,925
Retained earnings	2,531,123	2,449,177
Other accumulated income	141,597	106,213
Interim profit net of foreseeable dividends	263,199	247,603
Common Equity Tier 1: regulatory adjustments	(536,938)	(667,083)
Other value adjustments	(5,996)	(2,731)
Intangible assets	(284,397)	(233,010)
Shortfall of IRB expected losses to provisions	(244,134)	(383,531)
Direct and indirect holdings of own instruments	(2,411)	(5,381)
Investments in financial institutions	-	(42,430)
Deductions of Additional Tier 1 Capital in excess of Additional Tier 1 Capital	-	-
Common Equity Tier 1 (CET1)	**3,852,906**	**3,589,835**
Additional Tier 1 Capital: instruments	199,000	199,000
AT1 instruments	199,000	199,000
Additional Tier 1 Capital: regulatory adjustments	-	-
Temporary adjustments of Additional Tier 1 Capital	-	-
Additional Tier 1 Capital (AT1)	**199,000**	**199,000**
Tier 1 Capital (CET1 + AT1)	**4,051,906**	**3,788,835**
Tier 2 Capital: instruments	636,382	697,018
Tier 2 countable instruments	636,382	697,018
Tier 2 Capital: regulatory adjustments	-	-
Temporary adjustments of Additional Tier 1 Capital	-	-
Tier 2 Capital	**636,382**	**697,018**
Total Capital (Tier 1 Capital + Tier 2 Capital)	**4,688,288**	**4,485,853**
Risk-weighted Assets	**32,800,807**	**31,315,807**
Fully-loaded CET 1 (%)	**11.75%**	**11.46%**
Fully-loaded Tier 1 (%)	**12.35%**	**12.10%**
Total fully-loaded capital (%)	**14.29%**	**14.32%**

Figures in thousands of euros

For comparison purposes, all figures provided throughout this report about 2017 are expressed in 'fully loaded' terms, in order to be consistent with the information presented for 2018.

Common Equity Tier 1 (CET1) in 2018 increased owing mainly to the retention of part of the earnings for the year, the impact of the new IFRS 9 accounting standard and changes in deductions.

Tier 2 Capital decreased, primarily because of the reduction in the Tier 2 value of certain subordinated debt issues that are losing part of their consideration as capital because they will soon mature.

Credit risk-weighted assets increased in 2018 as a result of the performance of the institution's ordinary business.

The reconciliation between own funds reported in the public financial statements and the regulatory capital is presented below for solvency purposes:

Reconciliation between accounting own funds and regulatory capital ('fully loaded')

Countable amounts	2018	2017
Paid-in capital	269,660	269,660
Risk premium	1,184,265	1,184,265
Reserves	2,520,385	2,454,316
Other equity items	18,151	10,161
Treasury shares	(694)	(813)
Attributed earnings	526,398	495,207
Interim dividends	(173,980)	(163,177)
Total Own Funds (Public Balance Sheet)	4,344,186	4,249,619
Accumulated other comprehensive income	141,666	107,521
Total Equity (Public Balance Sheet)	4,485,852	4,357,140
Computable preferred shares	199,000	199,000
Goodwill and another intangible assets	-	-
Valuation adjustments not computable as Tier 1	-	(1,212)
Rest of adjustments	(89,219)	(84,426)
Consolidation scope differences	(7,483)	(15,397)
Tier 1 (before deductions)	**4,588,150**	**4,455,105**
(-) CET1 deductions	(536,244)	(666,270)
(-) AT1 deductions	-	-
Tier 1	**4,051,906**	**3,788,835**

Figures in thousands of euros

2.3. Capital Buffers

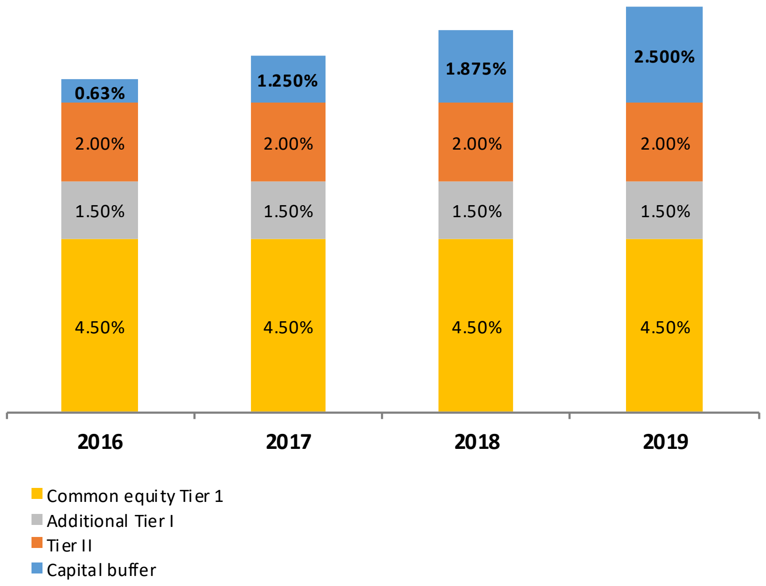
Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 concerning access to the activity of banks and the prudential supervision (CRD IV), together with Regulation (EU) 575/2013 of the European Parliament and of the Council (CRR), comprise the solvency regulations applicable to European banks. The contents of this Directive have been incorporated in Spain in Act 10/2014 of June 26 on the regulation, supervision and solvency of banks, and it includes the establishment of additional capital buffers above the minimum regulatory levels set by Regulation (EU) 575/2013.

In addition to the minimum capital requirements, a total of five capital buffers are established therein:

- Capital Conservation Buffer: The objective of this buffer is to ensure that the institutions have capital in a sufficient amount and quality to absorb losses in a stressed economic environment and keep up above minimum requirements. To attain this objective, the Capital Conservation Buffer must be made up of Common Equity Tier 1 (CET).
- Countercyclical Capital Buffer: It is not a permanent buffer, but instead it shall be required only in moments in which the credit activity is growing excessively in a certain jurisdiction. Its purpose is to act as a brake on this excessive growth and alleviate the possible consequences of economic bubbles. In periods of normal credit growth, this buffer is zero.
- Systemic Risk Buffer: Its purpose is to prevent or avoid systemic risks or macroprudential countercyclical risks in the long term. These are risks that can cause a disturbance in the financial system with serious negative consequences to said system and the real economy.
- Global Systemically Important Institutions Buffer (G-SII): It is established for institutions that constitute a systemic risk due to their size, degree of interconnection with the rest of institutions or non-existence of substitute services and activities, as their failure can affect the financial system as a whole.
- Other Systemically Important Institutions Buffer (O-SII): This buffer is established for institutions whose demise can affect the financial system, albeit to a lesser extent than the aforementioned, and therefore, it has fewer requirements.

Two of the buffers included in the Act are not discretionary: the Capital Conservation Buffer and the Global Systematically Important Institutions Buffer, which are in place in all jurisdictions of the European Union. Banco de España has the discretionary authority to set a buffer for Other Systematically Important Institutions, the Countercyclical Capital Buffer and the Systemic Risk Buffer.

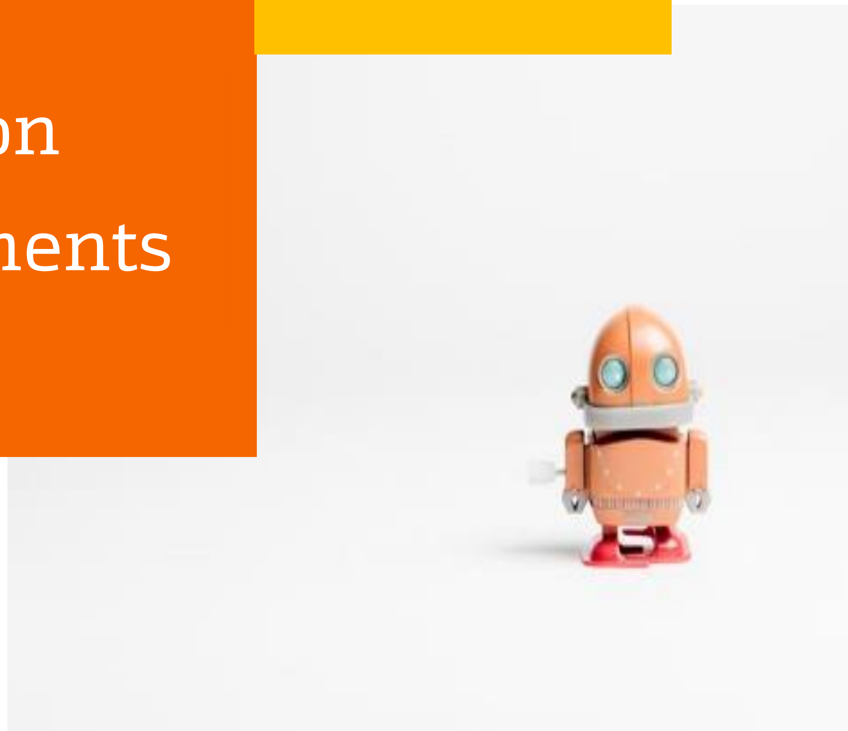
The Capital Conservation Buffer is being phased in from 2016 to 2019 at an annual rate of 0.625%, until it reaches 2.5% The regulatory requirements for 2016, 2017, 2018 and 2019 are listed below:



The application of buffers for systematically important institutions and other systemically important institutions are not applicable to Bankinter; therefore, there are no additional requirements for these items. In addition, Banco de España has set a Countercyclical Capital Buffer of 0% for 2018, as it does not foresee a risk of excessive credit growth, and it has not established requirements against systemic risks.

In 2018, the Entity was only subject to the Capital Conservation Buffer, which, as previously mentioned, is a requirement being progressively phased in until 2019. Nevertheless, it maintains active management of capital that ensures compliance with requirements and anticipates any phased-in implementation of buffers or increases in requirements to due to changes brought about by market cycles.

3. Information on capital requirements



3. Information on capital requirements

Title II of Part Two of Regulation (EU) 575/2013 of the European Parliament and of the Council defines the credit risk capital requirements; Title III refers to the requirements of own funds for operational risk; and Title IV refers to the requirements of own funds for market risk. The following Titles specify the own funds requirements for settlement risk and for credit valuation adjustment risk.

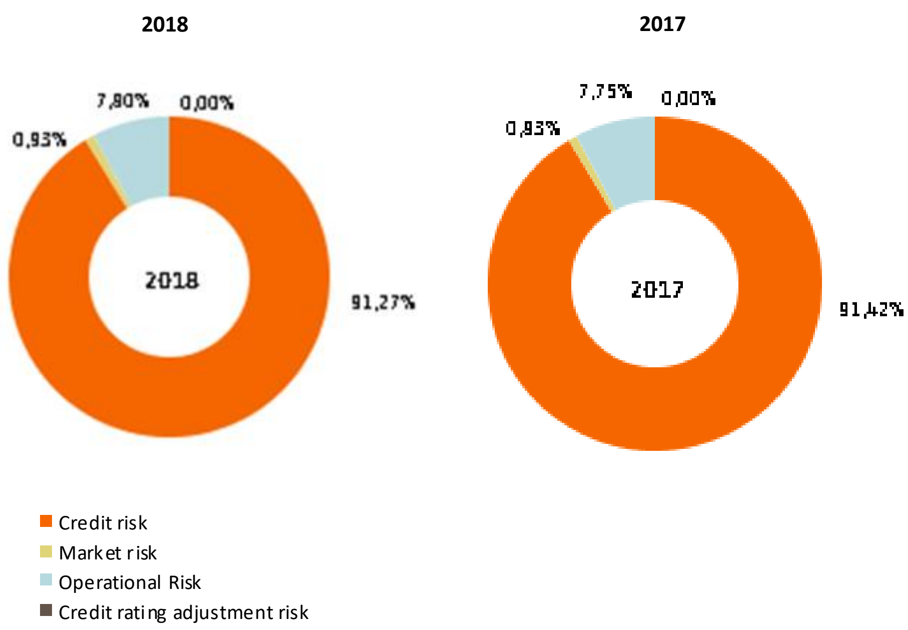
3.1. Breakdown of risk-weighted exposures

The total risk-weighted exposure, broken down by credit risk, market risk and operational risk at 31 December 2018 and 2017, is presented below.

For comparison purposes, all figures provided throughout this report about 2017 are expressed in 'fully loaded' terms, in order to be consistent with the information presented for 2018.

Credit risk-weighted assets include positions in securitisations, equity positions that are not recorded in the trading book, holdings in financial institutions in which there is a significant investment below the 10% CET1 threshold and deferred tax assets that do not rely on future profitability.

Capital requirements by risk type



The following tables show a breakdown of risk-weighted exposures by type of risk:

Presentation of RWA (OV1)

Presentation of RWA	RWA		Capital
	2018	2017	2018
Credit risk (excluding counterparty credit risk)	**28,655,580**	**27,302,431**	**2,292,446**
Of which standardised approach (SA)	21,849,392	21,111,279	1,747,951
Of which foundation internal rating-based (FIRB) approach	812,607	642,894	65,009
Of which internal ratings-based (IRB) approach	5,993,580	5,548,258	479,486
Counterparty credit risk	**78,559**	**78,305**	**6,285**
Of which standardised approach	77,611	77,521	6,209
Of which amount of risk exposure from contribution to CCP default guarantee fund	537	488	43
Of which CVA	411	296	33
Settlement risk	**-**	**-**	**-**
Securitisation exposure in the investment portfolio	**291,824**	**339,034**	**23,346**
Of which IRB approach	291,824	339,034	23,346
Of which SA approach	-		-
Market risk	**304,817**	**260,021**	**24,385**
Of which standardised approach (SA)	304,817	260,021	24,385
Large exposures	**-**	**-**	**-**
Operational risk	**2,557,538**	**2,427,950**	**204,603**
Of which standardised approach	2,557,538	2,427,950	204,603
Amounts below the thresholds for deduction (subject to 250% risk weight)	**912,488**	**908,066**	**72,999**
Floor adjustment	**-**	**-**	**-**
Total	**32,800,807**	**31,315,807**	**2,624,065**

Figures in thousands of euros

3.2. Description of the Internal Capital Adequacy Assessment Process

One of the requirements established in Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of banks and the prudential supervision of banks and investment firms, is that the institutions must conduct, at least annually, an internal capital adequacy assessment process following the guidelines set forth in said Directive. Bankinter conducts its internal capital adequacy assessment process following the guidelines set by supervisors and regulators.

The Bank assesses the following aspects in its internal capital adequacy assessment process:

- Risk profile of the Group: The inherent residual risk of the various risks to which the bank is exposed is assessed. An internal quantitative and qualitative assessment is carried out of credit, market, operational and liquidity risks, and of the amount of capital necessary to cover such risks.

- Governance, management and risk control systems: The Bank's corporate governance procedures and system and the control and management processes of each relevant risk, as well as their adequacy for the Institution's risk profile, is assessed during the process.

  The European Banking Authority Guidelines on Internal Governance are employed in the assessment of the corporate governance system. The Institution's risk culture, its reflection in the organisation of the function, its policies and procedures in terms of risks, and the procedures related to the internal control and audit are assessed in the review of risk management and control.

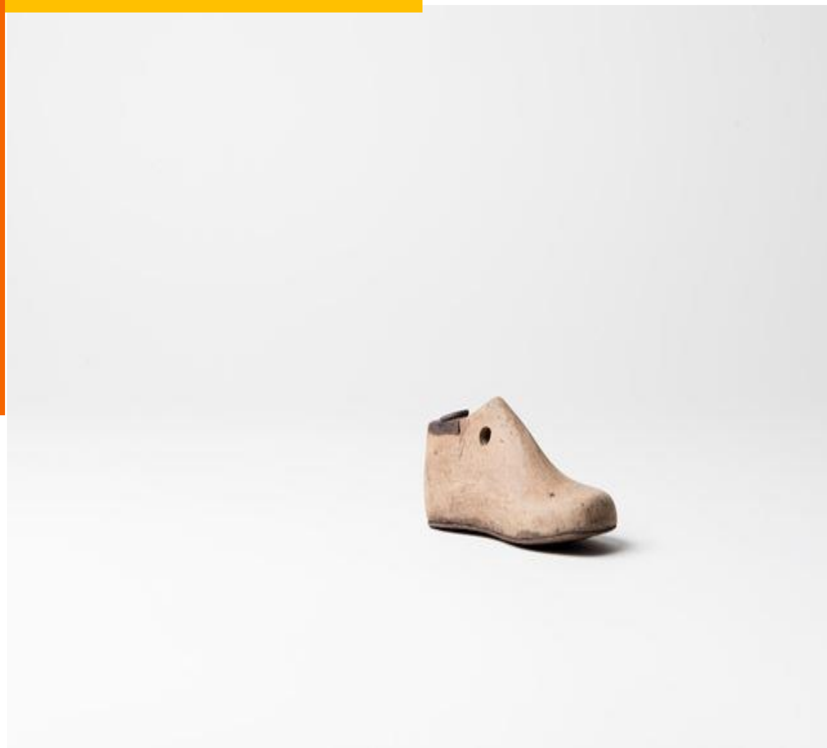
- Capital objective: established in terms of Common Equity Tier 1 and total capital and compared to the existing capital levels. These objectives are set by the board of directors, and it monitors them periodically.

- Capital planning: the Group's capital plan is summarised and assessed in the medium term, including the actions established in the strategic and business plans, and the capitalisation and dividend policies. The capital plan is subjected to stress scenarios in order to assess the resilience of the Institution's capital levels in adverse situations.

- Future action programme: includes the actions established to correct any weakness identified in the internal capital adequacy assessment process, as well as any action established to improve the control and management of risks.

The Internal Capital Adequacy Assessment Process is carried out on a yearly basis and it involves multiple areas of the Institution. The process consists of the Internal Capital Adequacy Assessment Report, which is approved by the board of directors and submitted to the Supervisor. This report, along with the assessment findings and any other significant information, constitute the basis for dialogue with the Supervisor on the Institution's medium-term plans, risk profile and capital adequacy.

4. Credit risk



4. Credit risk

4.1. Accounting definitions

4.1.1. Impairment of the value of financial assets

The Notes to the consolidated Group's 2018 Annual Accounts define the concepts related to impairment of value and financial assets.

Impairments in debt instruments and off-balance-sheet exposures:

Impairment losses on debt instruments in the period will be recorded as an expense in the income statement. Impairment losses on debt instruments at amortised cost will be recorded against a corrective account to reduce the carrying amount of the asset. On the other hand, losses on debt instruments at fair value through other comprehensive income will be recorded against 'Other cumulative comprehensive income'.

The subsequent reversals of the impairment loss hedges previous recognised will be immediately recorded as income in the income statement for the period.

Expected credit losses correspond to the difference between all contractual cash flows owed to the bank under the financial asset contract and all cash flows that the entity expects to receive, discounted at the original effective interest rate (or a reasonable approximation thereof); or, for financial assets purchased or originated with credit impairment, at the effective interest rate adjusted for credit quality.

Future estimated cash flows from a debt instrument consist of all principal and interest amounts that the Group believes it will obtain over the life of the instrument. That estimate takes into consideration all relevant information that is available at the date on which the consolidated financial statements are prepared, and which provides up to date and reliable information regarding the possible future collection of the contractual cash flows. Also, in estimating the future cash flows of instruments that have collateral guarantees, the flows that would be obtained from realising them are taken into account, less the costs necessary to obtain and subsequently sell them, regardless of the probability of the guarantee being executed.

Future perspective information through the use of alternative scenarios and the occurrence of future idiosyncratic items is taken into consideration both in determining expected credit losses and in classifying credit exposures. Expected credit losses are weighted by the probability of occurrence of each scenario or idiosyncratic event.

Credit exposures will be classified in terms of their credit risk under one of the following categories:

1) Stage 1: includes transactions for which credit risk has not increased significantly since they were initially recognised. The impairment hedge will equal the credit losses expected in twelve months. Interest income will be calculated with the effective interest rate applied to the gross carrying amount of the transaction.

2) Stage 2: includes transactions for which credit risk has not increased significantly since they were initially recognised, without any default or impairment. The impairment hedge will equal the credit losses expected over the life of the transaction. Interest income will be calculated with the effective interest rate applied to the gross carrying amount of the transaction.

3) Stage 3: includes transactions with credit impairment (ie, a default or impairment). The hedge will equal the credit losses expected over the life of the transaction. Interest income will be calculated with the effective interest rate applied to the amortised cost (ie, adjusted for any impairment losses) of the financial asset.

4) Write-offs: this category includes any transactions that are not reasonably expected to be recovered. Classification in this category will entail the recording in the income statement of losses for the carrying amount of the transaction and its full derecognition from assets.

Furthermore, the refinancing or restructuring of a transaction will not, under any circumstances, lead to its being reclassified as 'Normal'. These positions will be classified under 'Special Observation' or 'Doubtful'. 'Doubtful' positions will be reclassified under 'Special Observation' and 'Special Observation' positions to 'Normal' provided that the related receivership periods have been fulfilled.

Expected credit losses will be determined:

a) individually for any the debt instruments that are considered significant.

b) individually or collectively for any groups of debt instruments not considered individually significant.

Whenever reasonable and well-founded information is deemed unavailable in order to estimate the expected credit losses during the entire life of an instrument considered individually, the instrument will be included in a group of financial assets with similar credit risk characteristics so as to assess whether there is impairment collectively within the group. The credit risk characteristics that are considered for grouping the assets together are, among others, the type of instrument, the debtor's business sector, the geographical area of the activity, the type of guarantee, the age of the overdue amounts and any other factor that is relevant for estimating the future cash flows. The impairment loss for each group is the difference between the carrying amount of all of the Group's debt instruments and the present value of its estimated future cash flows.

When a specific instrument cannot be included in any group of assets with similar risk characteristics, it will be analysed exclusively individually to determine whether it is impaired and, where applicable, to estimate the impairment loss.

The estimate of the amounts expected to be paid out from off-balance-sheet exposures will be the product of the nominal value of the transactions and a conversion factor.

To calculate the amount of impairment arising from credit risk recognised at the end of each year, the Group uses a methodology based on parameters that reflect the various components affecting expected loss: exposure at default ('EAD'), probability of default ('PD') and loss given default 'LGD'). These parameters are calculated taking into account whether they are in line with the economic climate at the end of the reporting period.

The Group has established regular procedures to analyse the reliability and coherence of the results obtained through its collective estimation methods concerning credit risk hedges through back testing. These procedures evaluate its precision by subsequently comparing the actual losses effectively observed in the transactions.

Equity instruments: Investments in subsidiaries, joint ventures and associates

The Group recognises impairment losses on investments in subsidiaries, joint ventures and associates whenever there is objective evidence that the carrying amount of the investment is greater than recoverable amount. The amount of impairment losses will be the difference between the carrying amount of the instrument and its recoverable amount. The recoverable amount will be the larger amount between the fair value, less the costs of sale, and the value-in-use.

For these purposes, the entity will estimate the value in use their investment as follows:

a) the present value of its interest in the cash flows expected to be generated by the investee, which will include both those from ordinary activities and from the gains or losses on their sale or disposal by other means, or

b) the present value of the cash flows expected to be received by the investee in the form of dividends and those relating to its sale or disposal by other means of the investment.

Impairment losses will be recorded immediately as an expense in the income statement for the period in which they occur. The subsequent reversals of the impairment losses previous recognised will be immediately recorded as income in the consolidated income statement.

There is objective evidence that equity instruments become impaired when an event (or the combined effect of several events) occurs after their initial recognition that suggests that their carrying amount is no longer recoverable. The bank will use all the information it has available on the performance and operations of its investee in order to determine whether there is objective evidence of impairment.

4.1.2. Transfers and derecognition of financial instruments from the balance sheet

Transfers of financial instruments are accounted for taking into account the way in which the transfer of the risks and rewards associated with the financial instruments transferred occurs, based on the following criteria:

- If the risks and rewards are substantially transferred to third parties, such as in the case of unconditional sales, sales with a buyback agreement at the fair value on the repurchase date, sales of financial assets with a purchase option acquired or a put option issued that is significantly out of the money, securitisations of assets in which the grantor does not retain subordinated financings nor grants any kind of credit improvement to the new holders, etc., the financial instrument transferred is removed from the balance sheet, and any right or obligation retained or created as a result of the transfer is simultaneously recognised.
- If the risks and rewards associated with the financial instrument transferred are substantially retained, such as in the case of sales of financial assets with a buyback agreement at a fixed price or at the sale price plus an interest charge, security loan contracts in which the borrower has the obligation to return the securities or similar assets, etc., the financial instrument transferred is not removed from the balance sheet and it is continued to be measured with the same criteria used prior to the transfer. However, the associated financial liabilities is recognised for an amount equal to that of the payment received, which is subsequently measured at its amortised cost. The income from the financial asset transferred but not removed from the balance sheet and the expenses of the new financial liability will be recognised directly in the income statement.
- If the risks and rewards associated with the transferred financial instrument are neither substantially transferred nor retained, such as in the case of sales of financial assets with a call option acquired or a put option issued that is neither significantly in nor out

of the money, securitisations in which the grantor assumes a subordinated financing or another type of credit improvement for a part of the transferred asset, etc., a distinction is made between:

- If the Group does not retain control over the transferred financial instrument, in which case it is eliminated from the balance sheet and any retained or created right or obligation as a result of the transfer is recognised.
- If the Group retains control of the transferred financial instrument, it continues to recognise it for an amount equal to its exposure to changes in value and recognises a financial liability associated with the transferred financial asset.

The net amount of the transferred asset and of the associated liability will be the amortised cost of the rights and obligations retained, if the transferred asset is measured at its amortised cost, or the fair value of the rights and obligations retained, if the transferred asset is measured at its fair value.

Financial assets are therefore only written off the consolidated balance sheet when the cash flows that are generated have been extinguished or when all implicit risks and benefits have been substantially transferred to a third party.

4.1.3. Criteria for the recognition of earnings when derecognising assets from the balance sheet

When the transferred financial asset is completely removed from the balance sheet, an amount will be recognised in the income statement based on the difference between its book value and the sum of: a) the payment received, including any new asset obtained less any liability assumed, and b) any accumulated profit or loss recognised directly as 'accumulated other comprehensive income' in equity attributable to the transferred financial asset.

4.2. Information on credit risks

In accordance with chapter 2 of Title II of Regulation 575/2013, exposure refers to all asset items and memorandum accounts that incorporate credit risk and that have not been deducted from Own Funds. Therefore, it includes entries for loans and advances, debt securities, equity instruments, derivatives, cash and deposits with central banks and other demand deposits, guarantees and contingent obligations.

This section includes information about the Group's original counterparty and credit risk exposure with the following breakdowns:

- Total and average net amount of original exposures
- Breakdown of original exposures:
  - By geographical area.
  - By industry.
  - By term to maturity.
- Impairment losses on financial assets.
- Credit quality of on-balance sheet exposures:
  - By exposure class and instrument.
  - By industry.
  - By geographical area.

4.2.1. Average exposure value

The following table contains the balance of the original exposure net of provisions and the average value thereof before applying credit conversion factors (CCF) in 2018 for standardised and advanced approaches. As established in the regulations, the original exposures are only adjusted by provisions when employing the standardised approach.

Total and average net amount of original exposures (CRB-B)

Average net amount of exposures	Net exposure at 31/12/2018	2018 average exposure
Central governments	-	-
Financial institutions	-	-
Companies	1,521,054	1,426,120
Of which: specialised lending	1,179,014	1,109,266
Of which: SMEs	221,566	177,813
Retail	26,273,704	27,211,860
Secured with properties	23,231,099	23,555,509
Of which: SMEs	1,892,525	1,713,393
Eligible renewables	-	-
Other retail	3,042,605	3,656,351
Of which: SMEs	2,808,319	3,411,851
Equity portfolio	-	-
Other non-credit obligation assets	614,007	309,188
Total IRB approach (*)	**28,408,765**	**28,947,168**
Central governments	11,443,404	12,708,091
Regional governments or local authorities	809,928	1,220,869
Public sector entities	721,634	611,248
Multilateral development banks	3,943	6,261
International organisations	-	-
Financial institutions	3,401,858	3,237,280
Companies	21,320,773	26,963,400
Of which SMEs	10,711,588	10,984,237
Retail	11,472,022	9,252,152
Of which SMEs	2,762,658	2,992,019
Secured with mortgages on properties	6,318,161	6,412,907
Of which SMEs	4,611,262	4,767,421
In default	693,827	762,224
Items associated with particularly high risks	49,164	32,908
Covered bonds	-	-
Institutions and companies in short-term	-	-
Investments or shares in collective investment undertakings (CIUs)	-	-
Equity portfolio	100,129	91,491
Other exposures (**)	535,765	916,187
Standard approach total	**56,870,608**	**62,215,019**
Total	**85,279,373**	**91,162,186**

Figures in thousands of euros

(*) Exposure in IRB approach is gross, as provisions are not included for calculation of capital.

(**) Includes requirements for holdings in financial institutions in which there are significant investments below the threshold of 10% of CET1 and requirements for deferred tax assets that do not rely on future profitability.

4.2.2. Geographic distribution of exposures

The distribution of the original exposure net of provisions by geographical area is broken down below.

Geographical breakdown of original exposures (CRB-C)

Geographical breakdown of net exposures	Spain	Portugal	Other lending	Total
Central governments	-	-	-	-
Financial institutions	-	-	-	-
Companies	1,512,992	-	8,062	1,521,054
Retail	21,715,826	3,826,194	731,685	26,273,704
Equity portfolio	-	-	-	-
Other non-credit obligation assets	563,753	50,254	-	614,007
Total IRB approach (*)	**23,792,571**	**3,876,448**	**739,747**	**28,408,765**
Central governments	9,850,157	579,207	1,014,040	11,443,404
Regional governments or local authorities	809,158	769	-	809,928
Public sector entities	698,680	22,954	-	721,634
Multilateral development banks	3,943	-	-	3,943
International organisations	-	-	-	-
Financial institutions	2,091,675	90,553	1,219,630	3,401,858
Companies	18,092,177	1,087,502	2,141,094	21,320,773
Retail	10,301,545	1,097,674	72,803	11,472,022
Secured with mortgages on properties	5,952,984	172,850	192,327	6,318,161
In default	661,210	26,241	6,376	693,827
Items associated with particularly high risks	27,505	21,659	-	49,164
Covered bonds	-	-	-	-
Institutions and companies in short-term	-	-	-	-
Investments or shares in collective investment undertakings (CIUs)	-	-	-	-
Equity portfolio	92,638	7,490	-	100,129
Other exposures (**)	535,765	-	-	535,765
Standard approach total	**49,117,438**	**3,106,900**	**4,646,269**	**56,870,608**
Total	**72,910,009**	**6,983,348**	**5,386,016**	**85,279,373**

Figures in thousands of euros

(*) Exposure in IRB approach is gross, as provisions are not included for calculation of capital.

(**) Includes requirements for holdings in financial institutions in which there are significant investments below the threshold of 10% of CET1 and requirements for deferred tax assets that do not rely on future profitability.

4.2.3. Distribution of exposures by sector

The following table shows the distribution of the original exposure net of provisions and prior to application of credit conversion factors (CCF) at default, by economic sector:

Concentration of exposures by industry (CRB-D)

Concentration of exposures by industry	Agriculture, livestock and fishing	Mining ind.	Manufacturing ind.	Electricity	Water	Building	Shop	Transport	Hospitality	Information and communication	Property activities	Professional and scientific activities	Administrative activities	Public Administrations and defence	Education	Health activities	Artistic activities	Other services	Total
Central governments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Companies	1%	-	2%	1%	-	64%	3%	1%	1%	1%	19%	4%	1%	-	1%	1%	1%	1%	1,521,054
Retail	-	-	2%	-	-	2%	4%	1%	1%	1%	3%	2%	1%	-	-	1%	-	82%	26,273,704
Equity portfolio	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other non-credit obligation assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	100	614,007
Total IRB approach (*)	**0%**	-	**2%**	**0%**	-	**5%**	**4%**	**1%**	**1%**	**1%**	**4%**	**2%**	**1%**	**0%**	**0%**	**1%**	**0%**	**78%**	**28,408,765**
Central governments	-	-	-	-	-	-	-	-	-	-	-	-	-	98%	-	-	-	2%	11,443,404
Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	100	-	-	-	-	809,928
Public sector entities	-	-	7%	-	4%	3%	-	52%	-	8%	-	3%	9%	9%	-	1%	-	3%	721,634
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	100	3,943
International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	100	3,401,858
Companies	1%	1%	23%	4%	1%	7%	13%	5%	3%	2%	6%	6%	4%	-	-	1%	0%	22%	21,320,773
Retail	2%	-	10%	1%	-	4%	15%	2%	1%	1%	2%	2%	1%	-	-	1%	0%	56%	11,472,022
Secured with mortgages on properties	1%	-	3%	-	-	8%	5%	4%	9%	1%	36%	3%	1%	-	-	1%	0%	28%	6,318,161
In default	2%	-	17%	1%	1%	12%	12%	2%	2%	1%	9%	4%	2%	-	1%	1%	1%	34%	693,827
Items associated with particularly high risks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	100	49,164
Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions and companies in short-term	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments or shares in collective investment undertakings (CIUs)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity portfolio	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	100	100,129
Other exposures (**)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	100	535,765
Standard approach total	**1%**	**0%**	**12%**	**2%**	**0%**	**5%**	**9%**	**3%**	**2%**	**1%**	**7%**	**3%**	**2%**	**21%**	**0%**	**0%**	**0%**	**31%**	**56,870,608**
Total	**1%**	**0%**	**8%**	**1%**	**0%**	**5%**	**7%**	**2%**	**2%**	**1%**	**6%**	**3%**	**2%**	**14%**	**0%**	**0%**	**0%**	**46%**	**85,279,373**

Figures in thousands of euros

(*) Exposure in IRB approach is gross, as provisions are not included for calculation of capital.

(**) Includes requirements for holdings in financial institutions in which there are significant investments below the threshold of 10% of CET1 and requirements for deferred tax assets that do not rely on future profitability.

4.2.4. Distribution of exposures by residual maturity

The distribution of the original net exposure at default by residual maturity is shown below:

Distribution of original exposures by residual maturity (CRB-E)

Distribution of net exposures by residual maturity	On demand	≤ 1 year	> 1 year ≤ 5 years	> 5 years	No maturity	Total
Governments		-	-	-	-	-
Financial institutions	-	-	-	-	-	-
Companies	40	6,960	227,360	1,286,694	-	1,521,054
Retail	8,938	160,395	3,030,790	23,073,581	-	26,273,704
Equity portfolio	-	-	-	-	-	-
Other non-credit obligation assets	-	-	-	-	614,007	614,007
Total IRB approach (*)	**8,978**	**167,355**	**3,258,150**	**24,360,275**	**614,007**	**28,408,765**
Central governments	-	10,738,302	454,834	244,480	5,789	11,443,404
Regional governments or local authorities	1	348,142	227,825	233,960	-	809,928
Public sector entities	199	1,742	503,539	216,155	-	721,634
Multilateral development banks	-	201	3,742	-	-	3,943
International organisations	-	-	-	-	-	-
Financial institutions	3	1,452,456	1,837,271	112,086	42	3,401,858
Companies	13,254	1,052,729	15,018,958	4,931,188	304,644	21,320,773
Retail	6,577	136,168	4,848,633	5,815,984	664,661	11,472,022
Mortgages of immovable properties	-	4,633	707,750	5,600,544	5,234	6,318,161
In default	7,675	202,441	215,422	262,038	6,252	693,827
Particularly high risk	-	27,505	21,392	18	250	49,164
Covered bonds	-	-	-	-	-	-
Institutions and companies in short-term	-	-	-	-	-	-
Investments or shares in collective investment undertakings (CIUs)	-	-	-	-	-	-
Equity portfolio	-	-	-	-	100,129	100,129
Other exposures (**)	-	-	-	-	535,765	535,765
Standard approach total	**27,708**	**13,964,318**	**23,839,365**	**17,416,452**	**1,622,765**	**56,870,608**
Total	**36,686**	**14,131,673**	**27,097,515**	**41,776,727**	**2,236,772**	**85,279,373**

Figures in thousands of euros

(*) Exposure in IRB approach is gross, as provisions are not included for calculation of capital.

(**) Includes requirements for holdings in financial institutions in which there are significant investments below the threshold of 10% of CET1 and requirements for deferred tax assets that do not rely on future profitability.

4.2.5. Value adjustments due to impairment of assets and impairment losses of financial assets

The following table shows the movements during 2018 in impairment losses on financial assets:

Changes in stock of specific credit risk adjustments (CR2-A)

2018	Accumulated specific credit risk adjustment
Opening balance	**1,101,498**
Net provisions charged to profit for the period	189,332
- Provisions charged to profit	778,431
- Reversal of provisions credited to profit	(589,099)
Use of funds	(217,668)
Addition due to business differences	(128,536)
Exchange differences and other changes	(55,148)
Closing balance	**889,478**

Figures in thousands of euros

The movements in the balance of financial assets classified as doubtful loans and receivables are shown below:

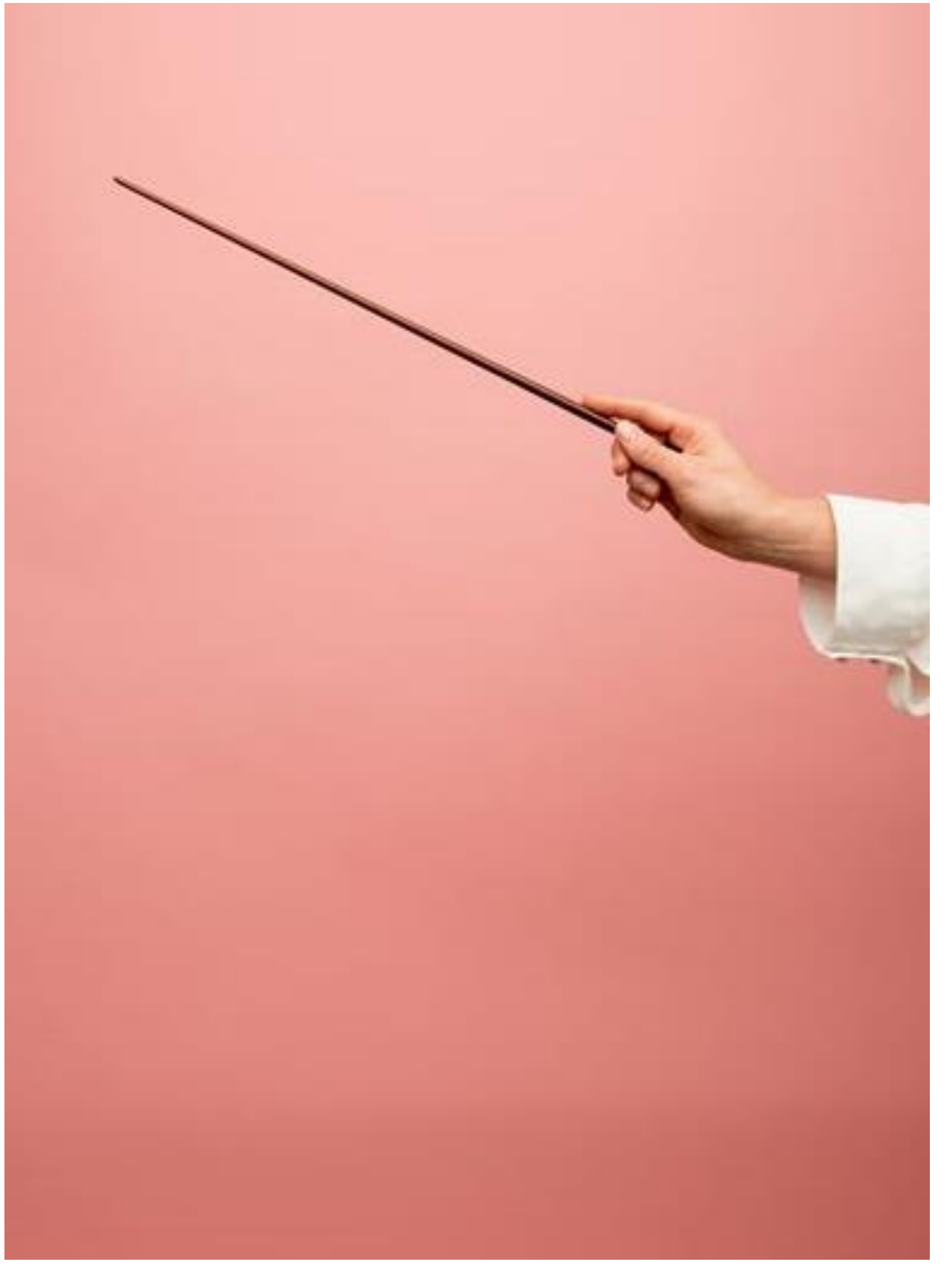
Changes in the stock of defaulted and impaired loans and debt securities (CR2-B)

	Gross carrying value of defaulted exposures
Opening balance	**2,029,908**
Loans and debt securities that have been reclassified as 'default' or 'impaired' since the last period	368,335
Reclassification to performing	(100,592)
Transferred to write-off	(148,106)
Other changes	(364,385)
Closing balance	**1,785,160**

Figures in thousands of euros

(*) This table refers to defaulted.

The following table contains the ageing of exposures susceptible to impairment upon maturity, i.e., when an amount of principal, interests or commissions has not been paid on the maturity date.



Ageing of past-due exposures (CR1-D)

	Gross carrying amount					
2018	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
Loans	1,370,631	167,529	159,990	117,824	189,190	1,123,758
Debt securities						
Total	**1,370,631**	**167,529**	**159,990**	**117,824**	**189,190**	**1,123,758**

Figures in thousands of euros

The following table displays the volume of non-performing and forborne exposures at the close of the financial year 2018:

Non-performing and forborne exposures (CR1-E)

	Gross carrying values of performing and non-performing exposures						
		Of which performing but past due > 30 days and ≤ 90 days	Of which performing forborne	Of which non-performing			
2018					Of which defaulted	Of which impaired	Of which forborne
Loans	61,599,067	327,519	642,103	1,664,705	1,664,705	1,664,705	487,608
Debt securities	3,100,975	-	-	-	-	-	-
Off balance sheet exposures	19,147,201	-	-	23,482	23,482	-	-

Figures in thousands of euros

	Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Guarantees received	
	On performing exposures		On non-performing exposures		On non-performing exposures	On forborne exposures
2018		Of which forborne		Of which forborne		
Loans	(151,307)	(14,271)	(579,323)	(148,974)	886,160	833,202
Debt securities	(263)	-	-	-	-	-
Off balance sheet exposures	(15,241)	-	3,334	-	8,857	-

Figures in thousands of euros

4.2.6. Credit quality of assets:

This section presents information on the credit quality of exposures broken down by:

- Exposure class.
- Sector of activity.
- Geographical area.

Credit quality of exposures by exposure classes and instruments (CR1-A)

2018	On-balance sheet exposures			
	Defaulted exposures	Non-defaulted exposures	Credit risk value adjustments	Net Values (**)
Central governments	-	-	-	-
Financial institutions	-	-	-	-
Companies	24,462	773,394	10,844	787,012
Of which: specialised lending	16,085	510,095	5,359	520,822
Of which: SMEs	5,256	186,506	3,967	187,794
Retail	872,774	24,405,916	291,391	24,987,299
Secured with properties	685,819	22,373,124	157,544	22,901,399
Of which: SMEs	148,715	1,685,265	31,320	1,802,661
Eligible renewables	-	-	-	-
Other retail	186,955	2,032,791	133,847	2,085,899
Of which: SMEs	155,095	1,857,858	118,612	1,894,341
Equity portfolio	-	-	-	-
Other non-credit obligation assets	-	614,007	-	614,007
Total IRB approach	**897,236**	**25,793,317**	**302,235**	**26,388,318**
Central governments	-	11,225,035	392	11,224,643
Regional governments or local authorities	-	804,894	123	804,771
Public sector entities	-	261,102	4,441	256,662
Multilateral development banks	-	4,137	194	3,943
International organisations	-	-	-	-
Financial institutions	-	2,913,542	1,867	2,911,675
Companies	-	12,728,790	46,658	12,682,132
Of which: SMEs	-	4,359,451	22,480	4,336,970
Retail	-	5,697,596	73,022	5,624,573
Of which SMEs	-	3,697,633	25,582	3,672,051
Secured with mortgages on properties	-	6,097,564	38,072	6,059,492
Of which SMEs	-	4,377,154	27,140	4,350,013
Defaulted exposures (*)	1,038,839	-	424,063	614,776
Particularly high risk	-	36,874	79	36,795
Covered bonds	-	-	-	-
Institutions and companies in short-term	-	-	-	-
Investments or shares in collective investment undertakings (CIUs)	-	-	-	-
Equity portfolio	-	100,129	-	100,129
Other exposures	-	535,765	-	535,765
Standard approach total	**1,038,839**	**40,405,428**	**588,911**	**40,855,356**
Total (***)	**1,936,075**	**66,198,745**	**891,146**	**67,243,674**

Figures in thousands of euros

(*) The line 'Defaulted exposures' in the STD method is the sum of all non-performing exposures included to reflect the specific credit risk adjustment for non-performing exposures

(**) The net value is equal to the sum of on-balance exposures less credit risk value adjustments.

(***) The total excludes provisions associated with securitisations with risk transfers.

Credit quality of exposures by industry or counterparty types (CR1-B)

2018	On-balance sheet exposures			
	Defaulted exposures	Non-defaulted exposures	Credit risk value adjustments	Net Values (**)
Agriculture, livestock and fishing	22,852	504,157	10,143	516,866
Mining industry	3,052	84,420	682	86,790
Manufacturing	179,374	4,565,008	89,355	4,655,027
Electricity supply	8,140	668,144	3,532	672,752
Water supply	8,142	157,080	4,737	160,485
Building	185,688	2,196,675	113,952	2,268,411
Wholesale and retail trade	217,922	3,871,500	114,584	3,974,838
Transport	32,420	1,367,357	20,210	1,379,568
Hospitality	37,039	1,298,207	17,103	1,318,142
Information and communication	20,808	495,009	10,934	504,883
Property activities	126,027	4,080,463	53,625	4,152,865
Professional and scientific activities	65,307	1,468,169	29,002	1,504,474
Administrative activities	35,739	891,398	16,991	910,146
Public administration and defence	-	11,488,213	831	11,487,383
Education	9,679	124,432	3,920	130,191
Health-related activities	13,739	301,200	6,254	308,684
Artistic activities	10,054	204,567	4,712	209,909
Other services	960,092	32,432,747	390,580	33,002,259
Total (**)	1,936,075	66,198,745	891,146	67,243,674

Figures in thousands of euros

(*) The net value is equal to the sum of on-balance exposures less credit risk value adjustments.

(**) The total excludes provisions associated with securitisations with risk transfers.

Credit quality of exposures by geography (CR1-C)

2018	On-balance sheet exposures			
	Defaulted exposures	Non-defaulted exposures	Credit risk value adjustments	Net value (*)
Spain	1,699,246	55,928,994	716,963	56,911,277
Portugal	200,630	6,184,257	161,408	6,223,479
Other lending	36,199	4,085,495	12,776	4,108,918
Total (**)	1,936,075	66,198,745	891,147	67,243,674

Figures in thousands of euros

(*) The net value is equal to the sum of on-balance exposures less credit risk value adjustments.

(**) The total excludes provisions associated with securitisations with risk transfers.

4.3. Information on counterparty credit risk

According to chapter 6 of Title II of Regulation (EU) 575/2013 of the European Parliament and of the Council, counterparty credit risk is the risk that the counterparty could default before the final cash flow settlement of any of the following types of transaction: derivative instruments, transactions with a buy-back commitment or security lending operations and deferred settlement operations.

The counterparty limits are established by Risk Division after analysing the counterparty's transactions and the macroeconomic situation, and they are submitted for approval to the risk committee. The limits are established based on the maturity of the operations to which the Institution is exposed.

The control of these limits is carried out by the Market Risk and Institutional Control unit, which is independent of the business units. The same operational platform used by Treasury is used for this control. The use of transactions within the above-mentioned limits is measured in terms of mark-to-market valuation plus the potential risk and bearing in mind possible mitigating factors (netting arrangements, collateral).

4.3.1. Counterparty credit risk management policy

Bankinter Group's counterparty credit risk management mainly aims to align security with the Institution's business objectives.

The Group has entered into credit support annexes (CSAs) with the majority of the counterparties with which it operates bilaterally. These agreements entail either the reception of collateral to secure the net balance owed by the counterparty or the contribution of collateral to the counterparty to secure the net balance owed by the group, depending on how the transaction is settled.

Bankinter is a tool designed especially to process and manage the collateral contracts signed bilaterally with counterparties. This application enables the management of collateral at a transaction level (useful for controlling and monitoring the status of specific transactions) as well as at a position level by providing aggregate information according to different parameters or characteristics. The market prices of transactions subject to such contracts and the deposits made by the counterparties is monitored on a daily basis. Once the amount of the collateral to be delivered or received is calculated, the collateral demand, or the demand received by the counterparty, is carried out at the intervals established in the contract, usually daily. If significant variations arise in the calculation of the valuation between the counterparties, they are reported by the Treasury Back Office to the Market Risks and Institutional Control and Collateral Management areas on a daily basis for subsequent analysis and monitoring.

The institution's external rating is closely linked to the level of collateral that it must contribute in transactions subject to CSA. A downgrade of an institution's credit quality below a certain level would involve, if settlement of the transaction entails providing guarantees, contributing a larger amount. In the particular case of Bankinter, a downgrade of its external rating below the investment grade would involve providing an additional 60.9 million euros for the active CSA contracts at 31 December 2018.

4.3.2. Policy on risk of adverse effects from wrong way risk

Derivatives may have wrong way adverse effects between the guarantee and the guarantor, but there is no risk at year end when the entirety of the collateral is received in cash.

4.3.3. Amounts of counterparty credit risk

Bankinter calculates the capital charges for counterparty credit risk using the mark-to-market method described in chapter 6 of Title II of Regulation 575/2013. Counterparty credit risk exposure is measured by adding an estimate of future potential risk (the result of multiplying the transaction's nominal value by a specific add-on, depending on the instrument type and its maturity) to the mark-to-market value. The exposure is mitigated, if applicable, with collateral provided by the counterparty.

The total exposure (net) to counterparty credit risk, which includes the institution's exposure in repo operations, amounted to 246,435 thousand euros at December 2018.

The following table contain a breakdown of gross positive fair value, guarantees received and net exposure of derivatives contracts and repo operations in 2018, including the part of the contribution to the default guarantee fund of central counterparties (CCP). Exposure herein amounts to 26,844 thousand euros.

Impact of netting and collateral held on exposure values (CCR5-A)

Impact of netting and collateral held on exposure values 2018	Gross positive fair value	Positive effects of netting agreements	Credit exposure after netting*	Collateral	Net exposure after netting agreements and guarantees received
Derivatives	353,044	290,092	443,509	228,058	215,451
Repurchase transactions	4,416,168	4,385,184	30,984	-	30,984
Netting between products	-	-	-	-	-
Total	4,769,212	4,675,276	474,493	228,058	246,435

Figures in thousands of euros

(*) Includes potential future value

The breakdown below includes collateral employed in transactions with derivatives at the close of 2018.

Composition of collateral for counterparty risk exposures (CCR5-B)

	Collateral used in derivative transactions				Collateral used in SFT	
	Fair value of collateral received		Fair value of posted collateral			
Composition of the collateral	Segregated	Unsegregated	Segregated	Unsegregated	Fair value of collateral received	Fair value of posted collateral
Cash - domestic currency	37,170		221,410	-	-	9,328
Cash - other currencies	-	-	-	-	-	-
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	37,170	-	221,410	-	-	9,328

Figures in thousands of euros

The breakdown of exposure and of the counterparty credit risk-weighted assets of OTC derivatives and repo operations for 2018 is as follows:

Analysis of CCR exposure by approach (CCR1)

Exposure by approach	Notional	Replacement cost / Present market value	Potential future credit risk exposure	EEPE	Multiplier	EAD after CRM	RWAs
Mark-to-market		101,879	204,976			99,304	64,036
Total							64,036

Figures in thousands of euros

Counterparty credit risk exposure under standardised approach (CCR3)

Exposure classes	0%	20%	50%	75%	100	Total
Central governments or central banks	-	-	-	-	-	-
Institutions	30,984	261	1,821	-	-	33,066
Companies	-	-	-	-	54,983	54,983
Retail exposures	-	-	-	11,256	-	11,256
Total	30,984	261	1,821	11,256	54,983	99,304

Figures in thousands of euros

(*) The table only contains categories and percentages of RW in which the Group has exposures.

In transactions settled through clearing houses, risk-weighted assets would amount to 14,113 thousand euros, taking into account the part of the contribution to the default guarantee fund.

Exposures to central counterparties (CCR8)

Exposures to central counterparties	EAD (post-CRM)	RWA
Exposure to QCCP (total)	147,131	14,113
Exposures in transactions to QCCP (excluding initial margins and	120,287	13,576
contributions to guarantee fund); of which:	-	-
(i) OTC derivatives	69,735	1,395
(ii) Stock market-traded derivatives	50,552	12,181
(iii) Securities financing transactions	-	-
(iv) Netting pool in which netting between products approved	-	-
Segregated initial margin	-	-
Unsegregated initial margin	-	-
Contributions paid out to guarantee fund	26,844	537
Contributions not paid out to guarantee fund	-	-
Non-admissible exposure to CCP (total)	-	-

Figures in thousands of euros

Lastly, the bank had no exposure in credit derivatives at year end.

4.3.4. CVA capital requirement

The credit valuation adjustment (CVA) is the difference between the risk-free valuation and the real valuation of the portfolio, including counterparty credit risk. Thus, the CVA capital requirement aims to cover losses caused by changes in the market value of the portfolio due to CVA variations.

Amounts relating to credit risk adjustments at 31 December 2018 are shown below:

Credit valuation adjustment (CVA) capital charge (CCR2)

CVA capital charge	EAD after CRM	RWA
Total portfolio subject to CVA Advanced Capital Charge	-	-
(i) VaR component (including multiplier x 3)	-	-
(ii) Stressed VaR component (including multiplier x 3)	-	-
All portfolios subject to CVA Standard Capital Charge	2,011	411
Original approach		
Total subject to CVA capital requirement	2,011	411

Figures in thousands of euros

4.4. Information on the Standardised Approach

As established in chapter 2 of Title II of Regulation (EU) 575/2013, the calculation of capital requirements for credit risk using the Standardised Approach is based on the exposure's assigned category and on its credit quality. The credit quality will be determined by reference to external ratings that External Credit Assessment Institutions (ECAI) give to obligors or transactions.

4.4.1. Information on External Credit Assessment Institutions

The External Credit Assessment Institutions (ECAI) appointed by the Group to determine the risk weightings applicable to its exposures are Standard & Poor's, Moody's, Fitch Ratings and DBRS Ratings.

In cases where a counterparty or operation has ratings from different rating agencies, Bankinter follows the procedure laid down in Article 138 of the Regulation, which specifies the following:

- When there are two different credit assessments, the higher risk weighting will be applied.
- However, when there are more than two credit assessments, the two lowest risk weightings shall be used. If the two weightings do not coincide, the higher of the two will be applied.

The exposures for which the ratings of different agencies are used are 'Central Governments and Central Banks', 'Public Sector Entities', 'Rated institutions', 'Enterprises' and 'Covered bonds'. The following table presents the correspondence between risk ratings from the different credit assessment institutions and the risk weightings applied based on exposure class:

	External long-term ratings				Risk weighting					
Credit quality level	S&P	Moody's	Fitch	DBRS	Governments and Central Banks	Public Sector Entities	Institut. ≤ 3 months	Institut. > 3 months	Unrated institutions	Companies
1	AAA to AA-	Aaa to Aaa3	AAA to AA-	AAA to AAL	0%	20%	20%	20%	20%	20%
2	A+ to A-	A1 to A3	A+ to A-	AH to AL	20%	50%	20%	50%	50%	50%
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	BBBH to BBBL	50%	100	20%	50%	100	100
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-	BBH to BBL	100	100	50%	100	100	100
5	B+ to B-	B1 to B3	B+ to B-	BH to BL	100	100	50%	100	100	150%
6	< B	< B3	< B	< CCCH	150%	150%	150%	150%	150%	150%

4.4.2. Credit ratings of publicly listed securities

At present, no process exists in the Institutions to assign credit ratings of publicly listed securities to comparable assets not included in the trading book

4.4.3. Exposure values before and after applying credit risk mitigation techniques

As set forth in chapter 4 of Title II of the Regulation, institutions may recognise, in their calculation of capital requirements for credit risk, the mitigation of risk by collateral, personal guarantees and netting agreements associated with operations that meet the criteria and requirements specified in the regulation.

Depending on the type of guarantee used, the mitigation of the credit risk can be reflected in the exposure value or in the risk weight applied.

The following table presents the amounts for net exposure amounts before and after the application of credit risk mitigation techniques, broken down by risk category and weightings and excluding securitisation positions and exposure to counterparty credit risk.

Standardised approach: credit risk exposure and Credit Risk Mitigation (CRM) effects (CR4)

Effects of risk mitigation techniques under the standardised approach 2018	Exposures before CCF and CRM		Exposures after CCF and CRM		RWA and RWA density	
Asset classes	**Balance sheet amount**	**Off-balance sheet amount**	**Balance sheet amount**	**Off-balance sheet amount**	**RWA**	**RWA density**
Central governments	11,224,645	218,759	11,206,960	112,210	-	0.00%
Regional governments or local authorities	804,771	5,156	804,771	1,205	154	0.02%
Public sector entities	256,662	464,973	257,637	51,661	220,900	71.42%
Multilateral development banks	3,943	-	3,943	-	-	0.00%
International organisations	-	-	-	-	-	-
Financial institutions	2,911,713	490,146	2,911,611	174,510	1,223,400	39.64%
Companies	12,685,393	8,635,381	11,690,230	2,208,782	13,333,921	95.93%
Retail	5,626,950	5,845,072	5,272,420	529,112	3,645,126	62.83%
Secured with mortgages on properties	6,059,504	258,657	5,777,866	116,456	2,342,566	39.74%
In default	615,932	77,896	612,701	16,294	696,047	110.66%
Items associated with particularly high risks	36,799	12,366	36,799	6,192	64,486	150.00%
Covered bonds	-	-	-	-	-	-
Institutions and companies in short-term	-	-	-	-	-	-
Investments or shares in collective investment undertakings (CIUs)	-	-	-	-	-	-
Equity portfolio	100,129	-	100,129	-	100,129	100.00%
Other exposures (*)	535,765	-	535,765	-	1,135,153	211.88%
Total	40,862,203	16,008,405	39,210,830	3,216,422	22,761,881	53.65%

Figures in thousands of euros

(*) Includes requirements for holdings in financial institutions in which there are significant investments below the threshold of 10% of CET1 (912,488 million euros in RWAs) and requirements for deferred tax assets that do not rely on future profitability.

The increase in risk-weighted assets during the year is mainly due to the growth of the credit business, which increase exposure to the regulatory categories.

4.4.4. Exposure values broken down by risk weights

The following table presents the amounts for exposure amounts after the application of conversion factors and application of credit risk mitigation techniques, broken down by risk weightings and excluding securitisation positions and exposure to counterparty credit risk.

Standardised approach: exposures by asset class and risk weighting (CR5)

2018				Risk Weighting						of which with
Asset classes	**0%**	**20%**	**35%**	**50%**	**75%**	**100**	**150%**	**250%**	**Total**	**no rating**
Central governments	11,319,170	-	-	-	-	-	-	-	11,319,170	-
Regional governments or local authorities	805,207	769	-	-	-	-	-	-	805,976	385,855
Public sector entities	74,627	-	-	27,542	-	207,129	-	-	309,298	213,735
Multilateral development banks	3,943	-	-	-	-	-	-	-	3,943	3,943
International organisations	-	-	-	-	-	-	-	-	-	-
Financial institutions	-	1,187,070	-	1,826,128	-	72,922	-	-	3,086,121	1,721,591
Companies	-	75,010	-	372,413	-	13,451,589	-	-	13,899,012	9,470,031
Retail	-	-	-	-	5,801,532	-	-	-	5,801,532	5,801,532
Secured with mortgages on properties	-	-	2,102,590	3,328,207	263,326	200,199	-	-	5,894,322	5,888,674
In default	-	-	-	-	-	494,890	134,105	-	628,994	628,989
Items associated with particularly high risks	-	-	-	-	-	-	42,990	-	42,990	-
Covered bonds	-	-	-	-	-	-	-	-	-	-
Institutions and companies in short-term	-	-	-	-	-	-	-	-	-	-
Investments or shares in collective investment undertakings (CIUs)	-	-	-	-	-	-	-	-	-	-
Equity portfolio	-	-	-	-	-	100,129	-	-	100,129	100,129
Other exposures (*)	-	-	-	-	-	136,173	-	399,592	535,765	535,765
Total	12,202,946	1,262,850	2,102,590	5,554,291	6,064,858	14,663,030	177,095	399,592	42,427,251	24,750,242

Figures in thousands of euros

(*) Includes requirements for holdings in financial institutions in which there are significant investments and requirements for deferred tax assets that do not rely on future profitability below the threshold of 10% of CET1.

This table shows a breakdown of exposure by original risk weightings, without considering the SME reduction factor.

4.5. Information on the IRB approach

4.5.1. General information

As set forth in chapter 3 of Title II of the Regulation (EU) 5757/2013 regarding the calculation of risk-weighted exposures under the Internal Rating Based (IRB) approach, institutions use their own risk parameters.

Bankinter Group uses its own internal models to estimate the risk parameters of its credit portfolio: the probability of default of the operations it grants, the exposure in case of default and the loss that these operations would generate. These models are used for accepting and monitoring credit operations, but also for other Bank processes, such as estimating the price of operations or calculating capital requirements for credit risk.

Authorisation from Banco de España to follow the IRB approach and for the rollout plan

The Group has had authorisation from the Supervisor since 2008 to use internal rating models when calculating the capital requirements for credit risk.

Bankinter is currently authorised to employ the IRB approach in the following portfolios in Spain:

- Residential mortgages for individuals
- Second home mortgages for individuals
- Large mortgages for individuals
- Personal loans and consumer loans for individuals
- Small businesses
- Medium-sized companies
- Specialised lending.

And in the portfolio of home mortgages for individuals in Portugal.

The Supervisor has approved the internal calculation of Probability of Default (PD), Loss Given Default (LGD) and Credit Conversion Factor (CCF) parameters for these portfolios. These parameters are specific for each portfolio and are reviewed annually, in accordance with prevailing regulations.

Bankinter and the Supervisor have also agreed to a roll out plan whereby the following portfolios will be gradually incorporated under the IRB approach, subject to specific authorisation in Spain:

- Bankinter Consumer Finance personal loans
- Bankinter Consumer Finance cards
- Bankinter cards
- Other operations involving individuals
- Large companies
- Very large companies

and Portugal:

- Personal loans and consumer loans for individuals, BK and BKCF
- Small businesses
- Medium-sized companies
- Large companies
- Very large companies
- Specialised lending
- BK and BKCF cards
- Other operations involving individuals

The Supervisor has also authorised Bankinter to permanently apply the standardised approach for exposures in the following portfolios in Spain:

- Public Sector Central Government
- Public Sector Regional Governments
- Financial institutions
- Equity portfolio
- Overdrafts - Individuals

Likewise, the company will permanently apply the standardised approach for exposures in the following portfolios in Portugal:

- Public Sector Central Government
- Public Sector Regional Governments
- Financial institutions
- Overdrafts - Individuals

The internal ratings models are constructed by the Predictive Models Unit, which reports to the Global Risk Management area. These models are submitted to the model committee for approval and modification. For their implementation, internal models with greater materiality must be approved not only by the aforementioned committee but also by the Executive Risk Committee.

The models are maintained and reviewed internally and subject to independent review at least once a year, in accordance with the Group's Model Policy. In addition, as part of the review, regular back testing and stress tests are carried out.

Bankinter Group has a master ratings scale of 17 levels plus the default level. In line with the recommendations for publication set out in the final report 'Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013', published by the European

Banking Authority in December 2016, this scale was reduced to seven levels plus the default level. The master scale used for the purposes of this report is as follows:

Levels of the master scale	Minimum PD (%)	Maximum PD (%)
1	0.00%	<0.15%
2	0.15%	<0.25%
3	0.25%	<0.50%
4	0.50%	<0.75%
5	0.75%	<2.50%
6	2.50%	<10%
7	10%	<100%
Default risk (8)	100	100

Internal rating systems

Bankinter has developed internal models for both the portfolios for which the use of the IRB approach has already been authorised for calculating own funds requirements and for those that are included in the IRB roll-out plan. The rating is established at transaction and customer levels. The internal models that rate transactions (scoring models) are used in portfolios for individuals, while the models that rate at customer level (rating models) are primarily applied to legal entities. The internal models have been developed using statistical methods and were completed using expert criteria.

The quantification of credit risk of a transaction is determined by both its expected loss and its unexpected loss. Expected losses are generally covered using provisions, while unexpected losses must be covered with capital. The estimated unexpected loss given by the models is therefore the basis for calculating regulatory and internal own funds requirements for exposures, and refers to a highly unlikely loss that must be covered using an entity's own funds.

Both expected and unexpected losses are estimated by calculating internal parameters:

- Probability of Default (PD)
- Loss Given Default (LGD)
- Credit Conversion Factor (CCF), which is an input for estimating exposure at default (EAD).

When estimating regulatory parameters, PD is calculated using historic information on a complete cycle ('through the cycle' approach), while LGD and the CCF are estimated using data relating to a recession period ('downturn' approach). From the management point of view, parameters are estimated using a method that takes into account the prevailing part of the economic cycle ('point in time' approach) and related forecasts.

Each internal risk category groups positions that, while sufficiently similar to each other in terms of risk, nevertheless differ sufficiently from other categories to permit statistical modelling.

Models are currently implemented in the Group's operating applications and are widely integrated in management. Its main uses are:

- Calculating regulatory capital requirements and expected losses.
- Transaction admission and sanction.
- Pricing and estimated profitability of transactions.
- Portfolio credit quality monitoring and reports.

Models are also used for commercial purposes (pre-approved transaction campaigns, CRM alerts), early-warning processes and recovery of defaulted transactions.

Models have also been developed for collective estimation of credit risk provisions, in accordance with the requirements of Bank of Spain Circular 4/2017 (replacing the previous models developed under the requirements of the preceding Circular 4/2016, since 1 January 2018). Although these models differ somewhat from IRB models, the fundamental aspects of both are in alignment.

Internal ratings are key in the transaction approval process, either as part of the automatic assessment algorithms or as base information for taking decisions in manually-approved transactions. In retail segment transactions, the transaction scoring model already takes into account the guarantees that mitigate the related risk. In customer rating models, which are primarily used for assessing legal entity transactions, the mitigation of risk through collateral is included in the transaction's LGD.

Description of the internal rating process

At the time of approval, exposures with individuals are rated through the corresponding internal model (based on the type of transaction, guarantee and customer), integrated in the automatic transaction review and approval system. The model uses the information input in the transaction proposal, information on customer behaviour available in the company's databases and other information from external sources. These models are at the account level.

The rating obtained from the internal model forms part of the algorithm that automatically assesses transactions, which incorporates the company's risk policies. The transaction is either authorised, rejected or forwarded to a manual assessment process. In this process, a PD, LGD and CCF are assigned for each transaction thus rated.

In respect of exposures to legal entities, the systems take into account the characteristics of the transaction and of the customer, and input them in the transaction rating module, which assigns a rating to each transaction based on the corresponding internal model. The rating models for companies are customer-level models. Based on these models, a PD is assigned to transactions.

This rating forms part of the assessment rule under which a transaction is designated as authorised, denied or not able to be assessed (in which case the rating is reporting and a manual assessment process is undertaken). For manually-assessed transactions, the rating is taken into account in the approval or denial decision. If the transaction is approved and formalised, the rating is associated with the transaction in the IT system.

Bankinter reviews the ratings assigned to customers at least once a year. In addition, the ratings are updated whenever the corresponding information is updated (for example, upon publication of new financial statements).

LGD and a CCF are assigned primarily in consideration of the main characteristics of a given transaction, namely the type of product, collateral, etc. For both individuals and legal entities, they are assigned to accounts.

For specialised lending, the process follows the slotting criteria approach (CRR, art. 153.5). In particular, Bankinter has a rigorous admission process, which includes a comprehensive subjective questionnaire regarding the characteristics of the customer and the project to be financed. This serves as the basis for rating the transaction and is incorporated as relevant information for the assessment decision. Risk policies for admitting these transactions are very strict.

In all transactions falling under categories for which the internal model is applied, both for individuals and legal entities, once a transaction is assessed, the rating, the risk parameters and their updates are fully integrated in the information regarding the customer and the transaction. This information is used in the different management processes (calculation of regulatory and internal own funds requirements, risk-adjusted returns measurement systems, monitoring of portfolio credit risk, etc.).

4.5.2. Probability of Default (PD) per exposure class.

The following table contains information on rates and probabilities of default for Bankinter Group portfolios authorised to use the IRB approach for calculating capital requirements. None have had substantial changes in the past year.

Backtesting of PD per exposure class (CR9)

The historical annual default rate is obtained from the default rates from 2006 to 2018 for the population of internal portfolios, to ensure that the calculations are robust and consistent.

Companies

PD intervals	External rating equivalent	Weighted average PD	Arithmetic mean PD per obligor	Number of obligors in 2018	Number of obligors in 2017	Obligors defaulted in the year	Average historical annual default rate
0.00 to < 0.15 %	AAA to BBB+	0.05%	0.06%	47	65	-	0.09%
0.15 to < 0.25 %	BBB+ to BBB	0.19%	0.19%	38	47	-	0.20%
0.25 to < 0.50 %	BBB to BB+	0.34%	0.35%	148	232	-	0.41%
0.50 to < 0.75 %	BB+ to BB	-	-	-	-	-	-
0.75 to < 2.50 %	BB to B+	1.14%	1.15%	254	303	1	1.26%
2.50 to < 10.0 %	B+ to B-	4.20%	3.98%	125	198	3	5.28%
10.00 to < 100%	B- to C	20.20%	20.10%	21	19	4	18.04%
100% (Default)	T	100.00%	100.00%	26	54	-	100.00%

Mortgages

PD intervals	External rating equivalent	Weighted average PD	Arithmetic mean PD per obligor	Number of obligors in 2018	Number of obligors in 2017	Obligors defaulted in the year	Average historical annual default rate
0.00 to < 0.15 %	AAA to BBB+	0.10%	0.10%	24,544	37,823	48	0.10%
0.15 to < 0.25 %	BBB+ to BBB	0.19%	0.19%	26,112	13,604	21	0.25%
0.25 to < 0.50 %	BBB to BB+	0.33%	0.33%	57,204	57,344	74	0.38%
0.50 to < 0.75 %	BB+ to BB	0.60%	0.60%	35,908	37,517	91	0.65%
0.75 to < 2.50 %	BB to B+	1.40%	1.37%	49,386	47,842	229	1.46%
2.50 to < 10.0 %	B+ to B-	4.64%	4.58%	12,711	12,482	278	4.13%
10.00 to < 100%	B- to C	19.26%	21.88%	2,834	2,662	339	13.37%
100% (Default)	T	100.00%	100.00%	5,621	7,330	-	100.00%

Retail

PD intervals	External rating equivalent	Weighted average PD	Arithmetic mean PD per obligor	Number of obligors in 2018	Number of obligors in 2017	Obligors defaulted in the year	Average historical annual default rate
0.00 to < 0.15 %	AAA to BBB+	0.06%	0.08%	3,720	4,180	21	0.19%
0.15 to < 0.25 %	BBB+ to BBB	0.19%	0.19%	1,998	2,118	2	0.00%
0.25 to < 0.50 %	BBB to BB+	0.36%	0.38%	11,156	12,222	367	0.41%
0.50 to < 0.75 %	BB+ to BB	0.52%	0.52%	881	1,352	7	0.73%
0.75 to < 2.50 %	BB to B+	1.18%	1.27%	16,099	19,266	818	1.26%
2.50 to < 10.0 %	B+ to B-	4.39%	4.83%	16,308	20,256	2,436	3.61%
10.00 to < 100%	B- to C	17.44%	17.01%	4,054	3,433	1,684	9.06%
100% (Default)	T	100.00%	100.00%	7,756	8,574	-	100.00%

4.5.3. Credit risk exposures by exposure class and PD range

The following tables reflect the exposure and risk parameters for those transactions for which the IRB approach is used to calculate own funds requirements for credit risk, distributed by exposure class at year-end 2018. The information is broken down into categories where in-house estimates are used for all parameters (advanced IRB approach), and where the foundation IRB approach is used for assigning risk weightings (slotting criteria approach).

Exposures under advanced IRB approach

Exposure class	Original Exposure	Exposure after application of CRM within balance sheet	Exposure after application of CRM off balance sheet	EAD	Average PD	Average LGD	RWA	RWA density
Enterprises(*)	342,040	271,647	70,365	299,062	4.93%	45.13%	236,148	78.96%
Mortgages	23,231,099	23,058,944	172,156	23,103,331	4.15%	16.18%	4,130,928	17.88%
Retail	3,042,605	2,218,544	822,859	2,631,882	9.57%	51.26%	1,023,280	38.88%
Total (**)	**26,615,745**	**25,549,134**	**1,065,380**	**26,034,275**	**4.70%**	**20.06%**	**5,390,357**	**20.70%**

Figures in thousands of euros

(*) Note that (EAD) in enterprises under the IRB method does not reach 2.5 % of the total exposure to enterprises (standardised method used for 97.5%). When using the IRB method for the entire exposure (EAD) of portfolios of enterprises currently in rollout, the average PD for enterprises will be 4%, the average LGD under 43% and the average RWA density under 60%.

Exposures under foundation IRB approach (slotting criteria)

2018 Exposure class	Original exposure	Exposure after application of CRM within balance sheet	Exposure after application of CRM off balance sheet	EAD	RWA	Expected loss
Specialised lending	1,179,014	526,181	652,833	852,597	812,607	19,332

Figures in thousands of euros

The following tables reflect the risk parameters and exposure, by PD interval, for those categories for which the advanced IRB approach is used. The intervals used correspond to those recommended in the final report on Guidelines on disclosure requirements under Part Eight of Regulation (EU) 575/2013, published by the EBA.

Exposures under advanced IRB approach (CR6)

Companies

2018	Original balance sheet gross exposure	Off balance sheet exposures pre-CCF	CCF average	EAD post-CRM and post-CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density	EL	Provisions
1	7,564	3,263	17.5%	9,456	0.0%	47	45.2%	946	1,367	14.5%	2	
2	8,486	2,511	15.6%	9,666	0.2%	38	51.8%	913	3,630	37.6%	9	
3	46,883	9,826	23.5%	51,800	0.3%	148	49.3%	936	27,748	53.6%	87	
4	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	
5	135,336	38,278	22.9%	148,722	1.1%	254	43.2%	919	115,717	77.8%	734	
6	57,369	13,291	22.8%	61,978	4.2%	125	43.2%	1,009	76,703	123.8%	1,190	
7	7,631	3,015	35.7%	9,028	20.2%	21	35.3%	912	10,794	119.6%	647	
8	8,406	182	20.7%	8,413	100.0%	26	70.9%	932	190	2.3%	5,953	4,810
Total	271,675	70,365	22.9%	299,062	4.93%	659	45.13%	941	236,148	78.96%	8,623	5,485

Figures in thousands of euros

(*) The number of obligors is in units

(**) Maturity expressed in days

Mortgages

Rate	Original balance sheet gross exposure	Off balance sheet exposures pre-CCF	CCF average	EAD post-CRM and post-CCF	Average PD	Number of obligors	Average LGD	Maturity	RWA	RWA density	EL	Provisions
1	3,134,532	7,052	0.8%	3,136,700	0.1%	24,544	14.8%	-	122,279	3.9%	496	
2	2,555,084	11,725	0.7%	2,556,133	0.2%	26,112	15.6%	-	160,405	6.3%	683	
3	5,208,447	33,256	1.7%	5,216,172	0.3%	57,204	15.4%	-	487,226	9.3%	2,573	
4	3,891,525	22,117	2.6%	3,898,803	0.6%	35,908	13.7%	-	494,279	12.7%	3,123	
5	5,592,955	59,908	3.5%	5,607,167	1.4%	49,386	15.8%	-	1,446,398	25.8%	12,534	
6	1,635,171	28,195	3.6%	1,644,111	4.6%	12,711	17.4%	-	862,096	52.4%	13,540	
7	355,411	7,941	4.1%	357,992	19.3%	2,834	18.6%	-	316,520	88.4%	13,045	
8	685,819	1,960	3.3%	686,252	100.0%	5,621	44.0%	-	241,725	35.2%	287,971	110,731
Total	23,058,944	172,156	2.3%	23,103,331	4.15%	214,320	16.18%	-	4,130,928	17.88%	333,967	157,544
Of which Portugal	3,799,095	27,099	0.0%	3,799,095	3.43%	50,666	20.82%	-	888,728	23.39%	25,294	25,468

Figures in thousands of euros

(*) The number of obligors is in units

Retail

2018	Original balance sheet gross exposure	Off balance sheet exposures pre-CCF	CCF average	EAD post-CRM and post-CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density	EL	Provisions
1	95,569	76,309	30.9%	134,583	0.1%	3,720	50.4%	-	9,635	7.2%	41	
2	85,687	76,479	36.3%	125,269	0.2%	1,998	49.9%	-	19,673	15.7%	118	
3	389,120	207,596	31.9%	497,236	0.4%	11,156	48.7%	-	116,041	23.3%	868	
4	20,192	5,265	30.5%	22,478	0.5%	881	51.1%	-	8,134	36.2%	59	
5	712,910	262,372	33.8%	845,457	1.2%	16,099	49.3%	-	372,168	44.0%	4,920	
6	622,930	169,251	35.1%	706,475	4.4%	16,308	48.3%	-	402,299	56.9%	15,017	
7	105,183	14,611	31.3%	111,213	17.4%	4,054	47.4%	-	88,886	79.9%	9,234	
8	188,157	10,976	19.0%	189,170	100.0%	7,756	81.8%	-	6,443	3.4%	154,188	107,010
Total	2,219,746	822,859	32.6%	2,631,882	9.57%	61,972	51.26%	-	1,023,280	38.88%	184,446	133,847

Figures in thousands of euros

(*) The number of obligors is in units

4.5.4. Changes in the period in terms of risk-weighted assets in advanced IRB models

The main changes occurred during the year in risk-weighted assets under the advanced IRB approach are as follows.

RWA flow statements of credit risk exposures under IRB approach (CR8)

RWA flow statements	Amount of RWA	Capital requirements
2017 year-end RWA	5,548,258	443,861
Asset size	158,946	12,716
Asset quality	(259,219)	(20,738)
Model updates	(57,628)	(4,610)
Other	603,224	48,258
2018 year-end RWA	5,993,581	479,486

Figures in thousands of euros

The decrease in risk-weighted assets is fundamentally due to the improved risk profile in IRB portfolios.

4.5.5. Comparative analysis of estimates.

The charts in this section compare the regulatory expected loss (EL) calculated using internal models approved by the Supervisor with the effective loss observed from 2004 to 2017. The charts show the following information:

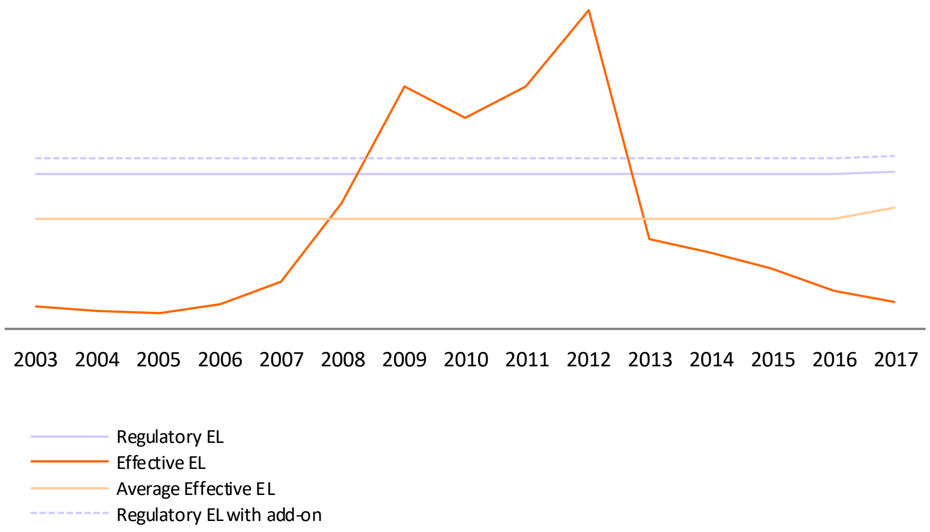
- Regulatory expected loss: expected loss calculated by multiplying the cycle-adjusted PD by the LGD during the worst cycle moment or downturn (LGD DT).
- Regulatory expected loss with add-on: calculated applying a margin of conservatism required by the Supervisor to the regulatory expected loss of certain portfolios.
- Effective expected loss: Calculated as the annual observed frequency of default, multiplied by the estimated point-in-time LGD (LGD PiT) for the period 2003-2017. Open recovery processes include an estimate of final LGD.
- Average effective expected loss. average of effective losses of each year from 2003 to 2017.

The charts reflect how the economic crisis spurred an increase in effective loss between 2009 and 2012. In addition, effective loss was considerably lower than regulatory loss during the first years of the period, exceeding it during the worst part of the crisis, which is consistent with the regulatory objective.

The comparison was made for portfolios of residential mortgages for individuals, personal loans and consumer credit for individuals secured by personal guarantees, small businesses and mid-sized companies.

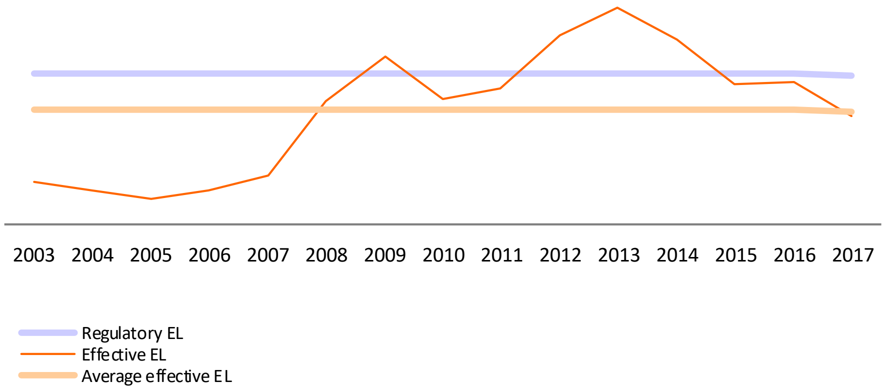
Residential mortgages for individuals

As shown in the following chart, the effective expected loss on residential mortgages in the retail portfolios is below that of the regulatory portfolios, except from 2009 to 2013. A peak in effective expected loss was reached in 2012. From that point onwards, the indicator began falling; it even hit pre-crisis levels. Regulatory expected loss appears sufficiently conservative compared with the average effective expected loss.



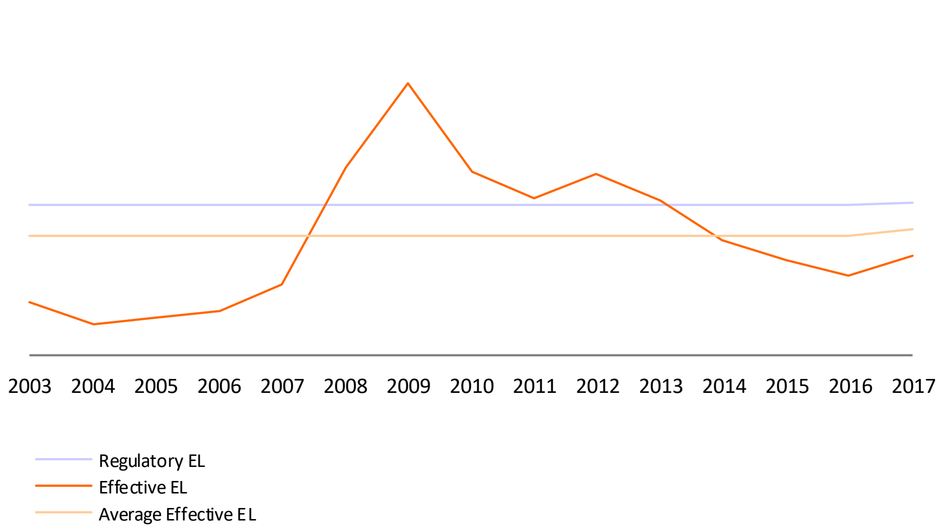
Personal loans and consumer loans for individuals, secured by personal guarantees

The chart reflects the growth in effective expected loss during the 2007-2014 economic crisis, exceeding the value of the regulatory expected loss in several years during the period. Nevertheless, regulatory expected loss is sufficiently above average effective expected loss.



Furthermore, by 2014, effective expected loss began to decline; this should be monitored to see whether it returns to pre-crisis levels.

Small businesses

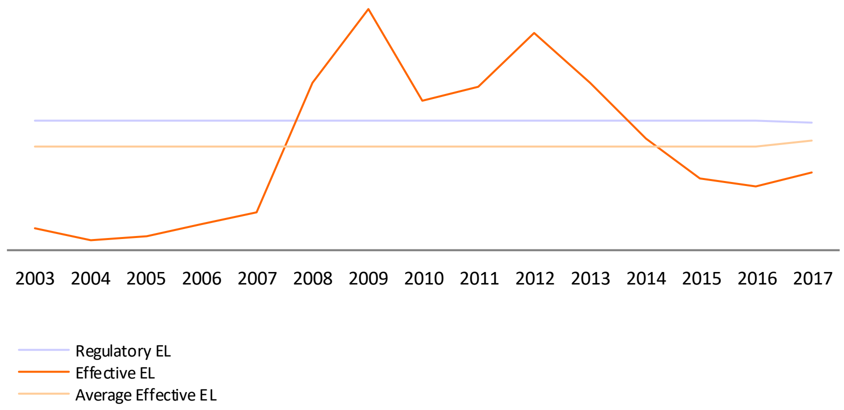


The chart shows that the highest effective expected loss was recorded in 2009. As from that year, the indicator decreased steadily, with a small rally in 2012, although it has still not reached pre-crisis values.

Medium-sized companies

Lastly, the following chart reflects the medium-sized companies portfolio. In this portfolio, the maximum effective loss was also reached in 2009, after which a downward trend was seen, albeit with a rally in 2012.

Currently, there is a rather notable downward trend, although pre-crisis levels have not yet been reached.



4.5.6. Risk Weights of specialised lending exposures

Pursuant to Regulation (EU) 575/2013, exposures that possess the following characteristics should be classified as specialised lending exposures:

- The exposure is to an entity which was created specifically to finance or operate physical assets.
- The contractual arrangements give the lender a substantial degree of control over the assets and the income that they generate.
- The primary source of repayment of the obligation is the income generated by the assets being financed.

The Regulation classifies exposures into five categories, taking into account diverse factors such a financial strength, political and legal environment, transaction and/or asset characteristics and strength of the sponsor and developer.

The following chart reflects the exposures assigned to each risk weighting for specialised lending exposures at 31 December 2018:

IRB specialised lending (CR10)

Regulatory categories	Term to maturity	Balance sheet amount	Off-balance sheet amount	RW	Exposure amount	RWA	Expected loss
Category 1	Less than 2.5 years	-	-	50%	-	-	-
	equal to or greater than 2.5 years	22,546	20,029	70%	32,561	22,792	130
Category 2	Less than 2.5 years	-	-	70%	-	-	-
	equal to or greater than 2.5 years	394,210	567,527	90%	677,974	610,177	5,424
Category 3	Less than 2.5 years	-	-	115%	-	-	-
	equal to or greater than 2.5 years	69,594	55,029	115%	97,108	111,674	2,719
Category 4	Less than 2.5 years	1,651	-	250%	1,651	4,128	132
	equal to or greater than 2.5 years	22,094	6,880	250%	25,534	63,835	2,043
Category 5	Less than 2.5 years	-	-	0%	-	-	-
	equal to or greater than 2.5 years	16,085	3,367	0%	17,769	-	8,884
Total	Less than 2.5 years	1,651	-	-	1,651	4,128	132
	equal to or greater than 2.5 years	524,529	652,833	-	850,946	808,479	19,200

Figures in thousands of euros

4.6. Securitisation

4.6.1. General characteristics

Pursuant to Regulation (EU) No 575/2013, securitisation is construed as a transaction or scheme whereby the credit risk associated with an exposure or pool of exposures is trenched into two or more independently-transferrable tranches, having both of the following characteristics:

- Payments in the transaction or scheme are dependent upon the performance of the exposure or pool of exposures
- The subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme

The assessment of these characteristics to determine whether there is a securitisation transaction will be carried out according to law and on the financial substance of the transaction.

A **synthetic securitisation** is a transaction in which the credit risk is divided into tranches and transferred through the purchase of credit protection on the securitised exposures, either through the use of credit derivatives or guarantees.

A traditional securitisation differs in that it entails the economic transfer of the securitised exposures to a securitisation special purpose entity (SSPE) that issues securities. The securities issued by this entity represent no payment obligations for the originator institution.

According to this definition, at 31 December 2018, the Group has 9 outstanding traditional securitisation transactions and one outstanding synthetic securitisation transaction.

Group securitisation activity objectives

During certain years, traditional securitisations played a relevant role in funding balance sheet growth and liquidity management in the medium/long term. This programme was complemented by the remaining financing and capital instruments, thereby diversifying the reliance on wholesale markets.

The primary objective of securitisation has been to serve as an instrument for effectively managing the balance sheet, as a source of liquidity at a competitive cost and as a regulatory capital management tool, through the transfer of risk.

Functions performed by the Group in securitisation processes and degree of involvement

Bankinter Group participates in securitisation transactions as an originator institution, participating in the initial agreement to create the obligation or potential obligations of the debtor or the potential debtor, giving rise to securitisation of the exposure.

It also participates as counterparty in payment agent contracts and administrator of loans, and counterparty in an interest rate swap contract for certain securitisation funds, by virtue of which the fund will make payments to Bankinter calculated on the reference interest rate for participated mortgage loans, and, as counterparty, Bankinter will make payments to the fund calculated on the reference interest rate set for bonds.

Since the start of its securitisation activity, Bankinter has maintained adequate risk management standards in respect of the securitised transactions, applying the same grant, monitoring and recovery criteria for securitised transactions as for non-securitised transactions.

Bankinter did not make any new issues in 2018, nor has added or substituted underlying positions in its existing issues. Since the start of its securitisation activity, Bankinter has maintained the same risk management standards for its securitised and non-securitised transactions.

Methods used for calculating credit risk-weighted exposures in securitisation activities

In case of a significant transfer of risk during the securitisation process, as foreseen in articles 243 and 244 of Regulation (EU) No 575/2013, the securitisation exposures maintained by the company could be treated under the securitisation framework established in solvency regulations. Otherwise, securitisation exposures will be treated as if they had not been securitised.

The own funds requirements for securitisation positions held under the securitisation framework are calculated by applying the corresponding risk weighing, based on the approach used by the Entity to calculate the risk-weighted exposures of the securitised portfolio (standard or IRB), to the exposure value of each position.

- **Standardised approach:** this method is applied when the standardised approach is used to calculate credit risk own funds requirements for all or the majority of an issue's underlying assets. The approach entails assigning the weights defined in the Regulation, based on the external credit assessment for the position.

Credit quality levels	Short-term ratings	Long-term ratings	Securitisation positions	Resecuritisation positions
1	A-1+ A-1	AAA to AA-	20%	40%
2	A-2	A+ to A-	50%	100
3	A-3	BBB+ to BBB-	100	225%
4	Does not apply	BB+ to BB-	350%	650%
Other Levels			1250%	1250%

- **IRB approach:** this approach is applied when internal models are exclusively or predominately used to calculate credit risk own funds requirements for underlying assets in a securitisation issue. The company applies the Risk-Based Approach (RBA) for those securitisation positions in which the company acts as originator. This approach also entails assigning weights based on the external credit assessment for the position, but it is much more sensitive to risk.

Credit quality levels	Rating	Senior tranche and effective no. of positions >6	Effective no. of positions > 6 and subordinated tranche	Effective no. of positions < 6	Senior tranche	Subordinated tranches
1	AAA	7%	12%	20%	20%	30%
2	AA+ AA. AA-	8%	15%	25%	25%	40%
3	A+	10%	18%	35%	35%	50%
4	A	12%	20%	35%	40%	65%
5	A-	20%	35%	35%	60%	100
6	BBB+	35%	50%	50%	100	150%
7	BBB	60%	75%	75%	150%	225%
8	BBB -	100	100	100	200%	350%
9	BB+	250%	250%	250%	300%	500%
10	BB	425%	425%	425%	500%	650%
11	BB-	650%	650%	650%	750%	850%
Other Levels and Unclassified Positions		1250%	1250%	1250%	1250%	1250%

Originator institutions may limit the risk-weighted exposure amounts calculated in respect of its positions in a securitisation to that which would produce the underlying exposure amounts which would be produced if the securitised assets had not been securitised.

The company closely monitors the credit risk trends of underlying assets in the positions it originates, given that the behaviour thereof can directly influence the risk-weighted assets needed to cover the securitisation positions held on its balance sheet.

4.6.2. Securitisations originated

Rating agencies used

S&P, Moody's, Fitch and DBRS have participated in the issues originated by Bankinter.

In all securitisation funds, the agencies have evaluated the risk of the entire issue structure:

- Issuing ratings for all bond tranches
- Establishing the volume of credit enhancements
- Establishing the necessary triggers.

In all issues, in addition to the initial rating, the agencies regularly monitor the behaviour of underlying assets and of the fund structure, in order to update the bond ratings to take into account any improvement or deterioration in the level of credit risk.

Securitisation activity in the Group

At 31 December 2018, the Group has 9 outstanding traditional securitisation transactions and one outstanding synthetic securitisation transaction. The Group does not act as sponsor for any securitisation issue.

The following table shows the outstanding balances of assets underlying the securitisation issues originated by the company, by type of asset.

Securitisation exposure in the investment portfolio (SEC1)

2018	Bank acting as originator			Bank acting as investor		
Asset classes	Traditional	Synthetic	Subtotal	Traditional	Synthetic	Subtotal
Retail (total) - of which	1,880,552	73,984	1,954,536	-	-	-
Residential mortgage loans	1,880,230	73,984	1,954,215	-	-	-
Credit card	-	-	-	-	-	-
Other retail exposures	321	-	321	-	-	-
Resecuritisation	-	-	-	-	-	-
Wholesale (total) - of which	27,726	-	27,726	-	-	-
Corporate loans	27,086	-	27,086	-	-	-
Commercial mortgages	640	-	640	-	-	-
Lease and receivables	-	-	-	-	-	-
Other wholesale exposures	-	-	-	-	-	-
Resecuritisation	-	-	-	-	-	-

Figures in thousands of euros

During 2018, Bankinter generated no securitisation transactions and therefore no profit or loss has been recognised for this activity. The company has no assets pending securitisation.

At the 2018 year end, all the company's securitisation positions were recognised in the investment portfolio. The company had no securitisation positions in the trading book.

The tables below provides details of the securitisation positions held on the balance sheet in which the company acts as originator and for which the significant and effective transfer of risk requirement is met, distributed by the weighting assigned based on the credit quality of each position:

Securitisation exposures in the banking book and associated regulatory capital requirements – bank acting as originator or as sponsor (SEC3)

2018	Exposure value (by RW interval)					Exposure value (by regulatory approach)				RWA (regulatory approach)				Capital requirements after ceiling			
	≤ 20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW	IRB RBA (including IAA)	IRB SFA	SA/SSFA	1250%	IRB RBA (including IAA)	IRB SFA	SA/SSFA	1250%	IRB RBA (including IAA)	IRB SFA	SA/SSFA	1250%
Total exposure	919,373	21,727	25,487	-	104,468	1,071,056	-	-	-	37,081	-	-	254,744	2,966	-	-	20,379
Traditional securitisation	919,373	21,727	25,487	-	104,468	1,071,056	-	-	-	37,081	-	-	254,744	2,966	-	-	20,379
Of which securitisation	919,373	21,727	25,487	-	104,468	1,071,056	-	-	-	37,081	-	-	254,744	2,966	-	-	20,379
Of which retail underlying	919,373	21,727	25,487	-	104,468	1,071,056	-	-	-	37,081	-	-	254,744	2,966	-	-	20,379
Of which wholesale underlying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which non-senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Synthetic securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which retail underlying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which wholesale underlying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which non-senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Figures in thousands of euros

For all securitisations to which a risk weighting of 1.250% is applicable, the company calculates its risk-weighted exposures instead of deducting the exposure from capital.

At 31 December 2018, risk-weighted assets amounted to 291,824 thousand euros versus 339,034 million in the prior year. The change is primarily due to trends in the balance of securitised bonds that will be redeemed and to changes in the mortgage IRB model applied to both calculate the minimum own funds requirements for securitised positions and to serve as a ceiling.

4.6.3. Investment securitisations

At 31 December 2018, Bankinter was not acting as investor in any securitisation.

4.7. Information on credit risk mitigation techniques

Title II, chapter 4 of Regulation No 575/2013 establishes the admissible credit risk mitigation techniques in reducing the credit risk capital charge and calculating the mitigating effect these techniques have on credit risk exposures.

Prudence is a hallmark of Bankinter Group's lending policy: credit granting criteria is based on the customer's verified solvency and capacity to make repayments, in line with a realistic payment plan and taking only ordinary customer income into consideration. Transaction guarantees are only considered a secondary method of recovery.

With respect to the implementation and management of guarantees covering and mitigating credit risk exposure, Bankinter Group's solid processes ensure that such coverage is effective.

4.7.1. On-balance sheet and off-balance sheet netting

Regarding operations in capital markets, guarantees for instruments in the trading book are included in the clauses of the corresponding financial instruments. In contrast, derivative transactions that Bankinter performs with its counterparties are governed by international framework agreements (ISDA or CMOF), which incorporate netting of off-balance sheet transactions. In addition, Bankinter has entered into credit support annexes (CSA) with the majority of the counterparties with which it operates bilaterally. These agreements entail either the reception of collateral to secure the net balance owed by the counterparty or the contribution of collateral to the counterparty to secure the net balance owed by Bankinter, depending on how the transaction is settled.

These mitigation techniques (netting and CSAs) decrease the total counterparty risk exposure.

4.7.2. Hedging based on collateral

Collateral is considered to be those assets that secure an obligation. These assets can be put forth by the customer or by a third party.

In accordance with the Regulation, the following may be considered credit risk mitigation techniques, amongst others:

- Cash on deposit with, or cash assimilated instruments held by, the lending institution
- Debt securities issued by central governments or central bank, where the securities have a credit assessment by an ECAI or recognised export credit agency
- Debt securities issued by institutions, where the securities have a credit assessment by an ECAI determined to be associated with credit quality step 3 or above
- Equities or convertible bonds that are included in a main index
- Gold

Pledged financial assets are associated through an IT system with the risk positions, thus guaranteeing their availability is blocked. The IT system also automatically updates the assessment of these positions at market prices.

Amongst the types of collateral accepted by Bankinter, primary residence mortgages are particularly relevant.

The mortgage process is robust and is based on independent expert appraisals. Third-party appraisal companies are selected periodically from amongst those certified by Banco de España. The appraisal process is completely independent of the Commercial network. Under this centralised process, the appraisal companies assigned for each appraisal is selected at random. Accordingly, the transactions of any given branch are guaranteed to have been assessed by different appraisal companies.

In accordance with the risk policy, mortgaged assets must be located in consolidated urban areas where the property market has significant supply and demand so as to allow sales to be processed quickly where necessary. This criteria applies to both homes and to commercial premises and offices used to secure credit risk. Once a transaction is formalised, the mortgage process in place at Bankinter ensures that the collateral is correctly recorded in a public deed and that the deed is entered in the corresponding registry. In addition, processes are in place to periodically update the appraisal values throughout the life cycle of the product, covering the risk of volatility in the real-estate market and allowing for adequate coverage of transactions as from formalisation of the loan until maturity.

In order to reduce credit risk on its transactions, Bankinter Group also uses deposits, fixed income securities and equities traded on official markets and investment funds, with priority given to liquidity of the collateral provided.

Credit risk mitigation techniques (CR3)

	Exposures unsecured	Total exposures secured	Exposures secured by collateral	Exposures secured by financial guarantees
Total IRB exposure	1,925,665	26,483,101	23,111,034	3,372,067
Of which defaulted	226,235	688,716	688,716	-
Total STD exposure	47,927,256	8,943,352	6,447,405	2,495,947
Of which defaulted	4,252,797	358,465	355,431	3,034

Figures in thousands of euros

The above table lists the exposure covered by guarantee type and calculation method only for cases in which the guarantee could have been used to reduce capital requirements. In IRB models, the effect of collateral is taken into account in the calculation of the LGD of exposures, with the effect generally being a reduction in LGD, as a risk mitigation element.

Credit derivative-based protection, primarily carried out through Credit Default Swaps (CDS), are not customary in the bank's operations, and there were no such swaps at 31 December 2018.

4.7.3. Risk concentration

For management purposes, Bankinter has established risk concentration limits that are considerably more rigorous than regulatory limits.

In light of the bank's risk management policies and the netting agreements and credit support annexes entered into with virtually all counterparties, there is no relevant concentration of risk.

5. Market risk in the portfolio of Assets held for trading

5. Market risk in the portfolio of Assets held for trading

Market risk relates to potential losses due to changes in the value of positions held in the trading book. This risk arises from changes in the following risk factors: interest rate, exchange rate, equities and commodities.

Title IV of Regulation (EU) 575/2013 details the calculation of own funds requirements for market risk in the trading book.

5.1. Differences in Assets held for trading for the purposes of Regulation (EU) 575/2013 and accounting standards

In accordance with title I, chapter 3 of Regulation (EU) 575/2013 of the European Parliament and of the Council, the trading book is understood as all positions in financial instruments and commodities held by the company either with trading intent or in order to hedge positions held with trading intent.

To that end, the regulatory trading book defined by Bankinter Group contains the positions managed from its trading room to sell them in the short term for a profit.

For accounting purposes, the portfolio of 'Financial assets held for trading' is not limited to the activity of a specific business area, but rather is based on the accounting criteria set forth in prevailing accounting regulations, namely, Circular 4/2017, which came into effect on 1 January 2018. Moreover, 'Financial assets held for trading' also includes transactions that cannot be accounted for in other portfolios and are included in the trading book even though they do not entail a market risk for Bankinter.

Within 'Financial assets at fair value through profit or loss', all assets that satisfy any of the following characteristics will be necessarily included in the trading portfolio:

Financial assets

- Are originated or acquired with the aim of being realised in the short term
- Are part of a portfolio of financial instruments that are jointly identified and managed for which there is evidence of recent activities to obtain short-term gains.
- They are derivative instruments that do not meet the definition of financial contract guarantee nor have been designated as accounting hedging instruments.

The 'Financial liabilities held for trading' portfolio will also be required to include all financial liabilities that satisfy any of the following characteristics:

Financial liabilities

- They are issued with the intention to repurchase them in the near future
- They are short positions on securities
- Form part of a portfolio of financial instruments that are jointly identified and managed for which there is evidence of recent activities to obtain short-term gains.
- They are derivative instruments that do not meet the definition of financial contract guarantee nor have been designated as hedging instruments.

5.2. Characteristics of the risk management system and models used

Bankinter Group's board of directors entrusts the Capital Markets and Trading area with taking action on behalf of the bank in financial markets, through the Trading area. The purpose of the trading business is to optimise the business opportunities that arise, using the most appropriate financial instruments at any given time, including interest rate, exchange rate and equity derivatives. In general, the financial instruments traded must be sufficiently liquid and linked to hedging instruments. The risk that may arise from managing the institution's own accounts is associated with potential changes in the market value of positions as a result of movements in interest rates, stock market prices, exchange rates, volatility and credit spreads.

Every year, Bankinter Group's board of directors approves the internal risk measurement procedures and limits for each product and market in which the Trading area operates.

The Market Risks and Institutional Control area, which reports to the Risk Division, independently measures, monitors and controls the company's market risks and the limits established by the board. To that end, value at risk (VaR) is calculated using a historical simulation, with a 95% confidence level and a time horizon of one day. This calculation provides an estimate of the possible losses arising from changes in the value of the company's trading positions in financial assets that could arise as a result of variations in factors such as interest risk, foreign exchange risk, credit spreads or stock market prices, in the event the same movements that took place in the past 12 months are repeated.

This method re-evaluates all trading positions in the different market conditions occurring every day during twelve months before the calculation date. After obtaining the results in economic terms, the scenario corresponding to a 95% confidence interval is taken to establish all the limits.

The VaR limits are approved annually by the board of directors. The use of risk limits during the year remained within and did not exceed the maximum VaR approved. The board of directors and the assets and liabilities committee are regularly informed about the levels of use of these limits, through specific reports.

The following chart details the VaR, by risk factor, of the trading positions at 31 December 2018:

VaR by risk factor	
Interest rate VaR	0.64
Equity VaR	0.36
Exchange rate VaR	0.03
Volatility VaR	0.30
Total VaR	**0.80**

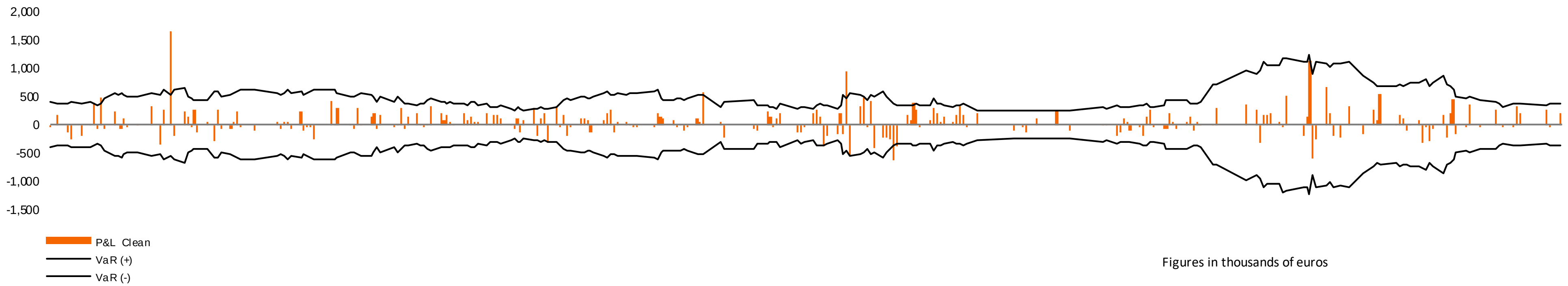
Confidence level 95% and time horizon of one day

When calculating VaR at one day with a confidence level of 95%, the losses incurred in the trading business are expected to remain below VaR during 95% of days. In order to estimate the losses that could be incurred on the days in which VaR is exceeded, the expected shortfall or conditional VaR is calculated on a daily basis. This VaR provides the estimated average loss in the event any of the scenarios corresponding to the remaining 5% of days were to occur.

The risk measurement models are regularly tested to verify their validity, through back testing to ensure that they are correctly calibrated. The results of these tests were satisfactory.

The following chart reflects the accuracy of the VaR model analysed using back testing on the main trading activities. As we can see, there were four breaches of the model in 2018, due to sharp movements in sovereign markets. We can therefore conclude that the model performed adequately throughout the financial year.

Backtesting (MR4)



Figures in thousands of euros

5.3. Own funds requirements for market risk

Bankinter uses the standardised approach for calculating own funds requirements for market risk. Own funds requirements for market risk are the combination of own funds requirements for position risk, for foreign exchange risk and for commodities risk.

In 2018, Bankinter had no exposure to commodities risk and its exposure to foreign exchange risk was also reduced. Accordingly, pursuant to title IV, chapter 3 of Regulation (EU) 575/2013, its requirements for these types of risk can be considered negligible.

As established in title IV of Regulation (EU) 575/2013, own funds requirements for position risk are the sum of the own funds requirements for the general and specific risk of its positions in debt and equity instruments in Assets held for trading. General risk is that which derives from a change in value of the portfolio due to general market movements, while specific risk is that which arises from a change in the value of portfolio instruments due to causes relating to the securities issuer or to the issuer of the underlying asset.

Exposure to this type of risk continues to represent a very small percentage of the company's risk taken as a whole. At 31 December 2018, the amounts of risk-weighted assets and the own funds requirements for each type of instrument are as follows:

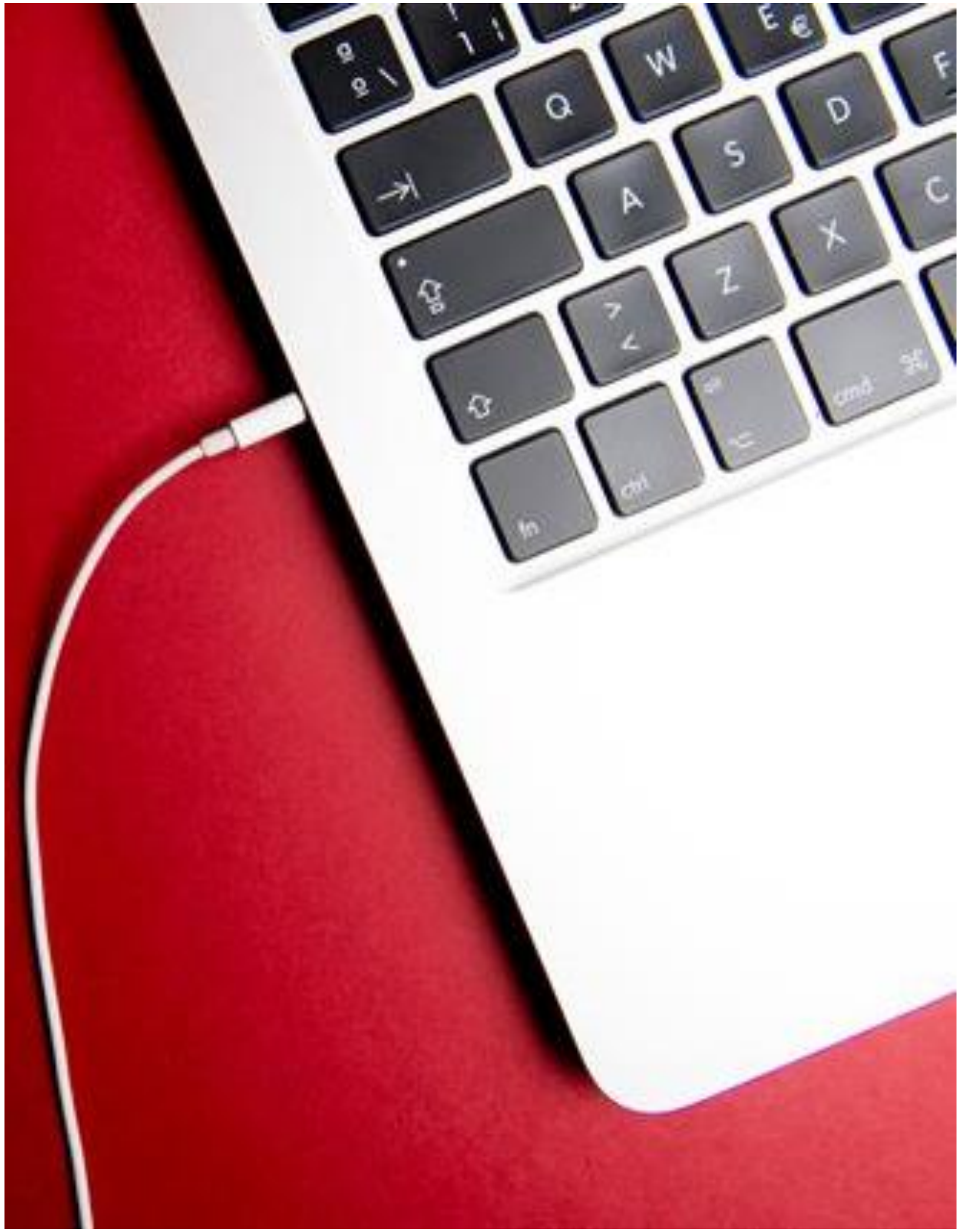
Market risk under the standardised approach (MR1)

2018	RWA	Capital
Direct products		
Interest rate risk (general and specific)	290,955	23,276
Shareholding risk (general and specific)	13,376	1,070
Currency risk	-	-
Commodities risk	-	-
Options		
Simplified approach	-	-
Delta-plus approach	487	39
Scenario-based approach	-	-
Securitisation	-	-
Total	304,817	24,385

Figures in thousands of euros

The changes in capital requirements for market risk in 2018 were due to changes in the portfolio, as there were no changes to the methodology used.

In accordance with article 351 of Regulation (EU) 575/2013, own funds requirements for foreign exchange risk can be disregarded if the sum of overall net foreign-exchange position and the net gold position do not exceed 2% of computable own funds. The Group does not hold any gold positions and the foreign exchange position is very reduced, under the 2% threshold established in the Regulation. Accordingly, no own funds requirements need be considered in this regard.



6. Operational risk

6. Operational risk

Operational risk is defined as the possibility of incurring financial losses due to failures or unsuitability of processes, people or internal systems, or due to external events.

The Group calculates its exposures weighted for operational risk using the standardised approach, in accordance with title III, chapter 1 of Regulation (EU) 575/2013, and according to Banco de España's Guide for applying the standardised approach for operational risks.

The bank meets all the requirements for applying this approach, as established in applicable regulations: its operational risk management and evaluation system is integrated in management, and senior officers is regularly apprised of operational risk in the company. Operation risk management is described in the following section.

In order to estimate own funds requirements for operational risk, the bank distributes its relevant income based on the business lines foreseen in the Regulation, applying the corresponding weighting. Total requirements are calculated as the average of own funds requirements for operational risks in the past three years.

6.1. Management of operational risk

Bankinter's operational risk management model brings together the best sector practices as shared in the Spanish Operational Risk Consortium (Consorcio Español de Riesgo Operacional, CERO), an experience-exchange group comprising the main banks operating in Spain.

With a view to achieving an efficient system for managing operational risk, Bankinter has set forth the following basic principles of action:

- Management focussing on preventive mitigation of major operational risks.
- Decentralised management model so that the responsibility for managing risks falls upon a first level at the respective business and support units.
- Regular review of the situations and levels of operational risk management at each unit through analysis.

These principles are set out in the Group's Risk Management and Control Framework approved by the board of directors.

Amongst other elements, operational risk management is based on the following:

- Risk identification and assessment by developing risk maps estimating the severity thereof and evaluating the appropriateness of their control environments.
- Record of loss events occurring at the company. The loss database contains quantitative information on economic losses generated as a result of operational risk events occurring in recent years. It classifies and keeps a record of operational losses, generating the historic information necessary to examine trends, evaluate potential correlations with indicators, and validate the effectiveness of the implemented mitigation plans. This database contains all loss events without minimum thresholds.
- Execution of corrective actions, requesting incident analyses and corrective measures from responsible units for all loss events exceeding 6,000 euros.
- Risk tracking through key indicators. These indicators are a series of data on the situation or performance of aspects related to the structure, procedures and activities of the institution from which to draw conclusions with a view to predicting or correcting future situations.
- Generation and dissemination of management information suited to the needs of each governing body that has responsibilities in managing operational risk.

6.2. Risk-weighted exposure and own funds requirements for operational risk

Operational risk capital charges at year-end 2018 are listed below.

Capital requirements for operational risk

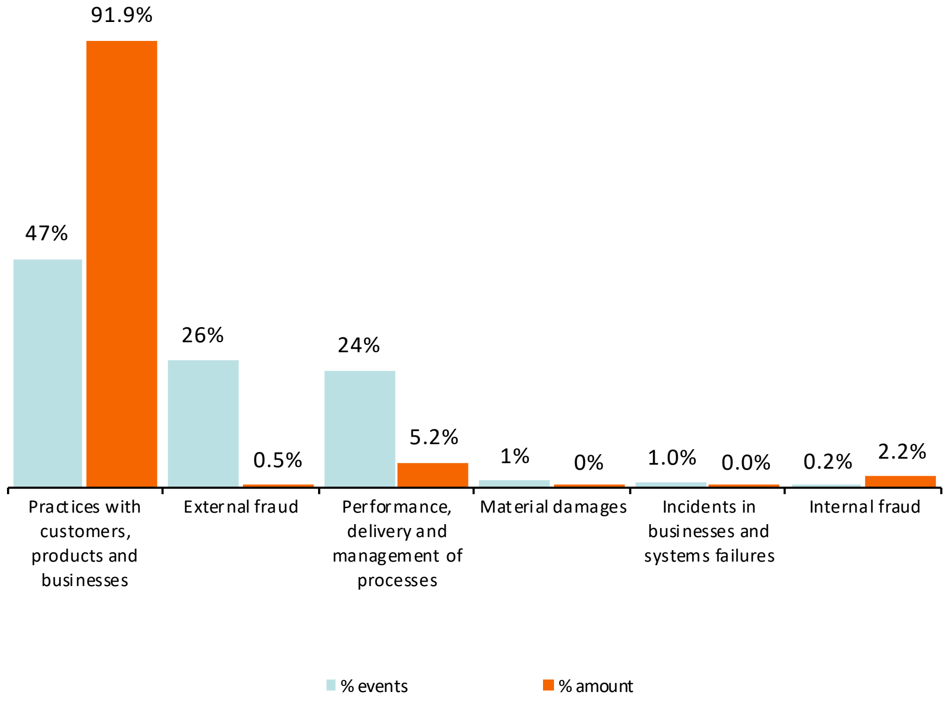
	2018
Beta factor key indicator	214,628
Operational risk-weighted assets	2,557,538
Capital requirements for operational risk	204,603

Figures in thousands of euros

6.3. Group operational risk profile

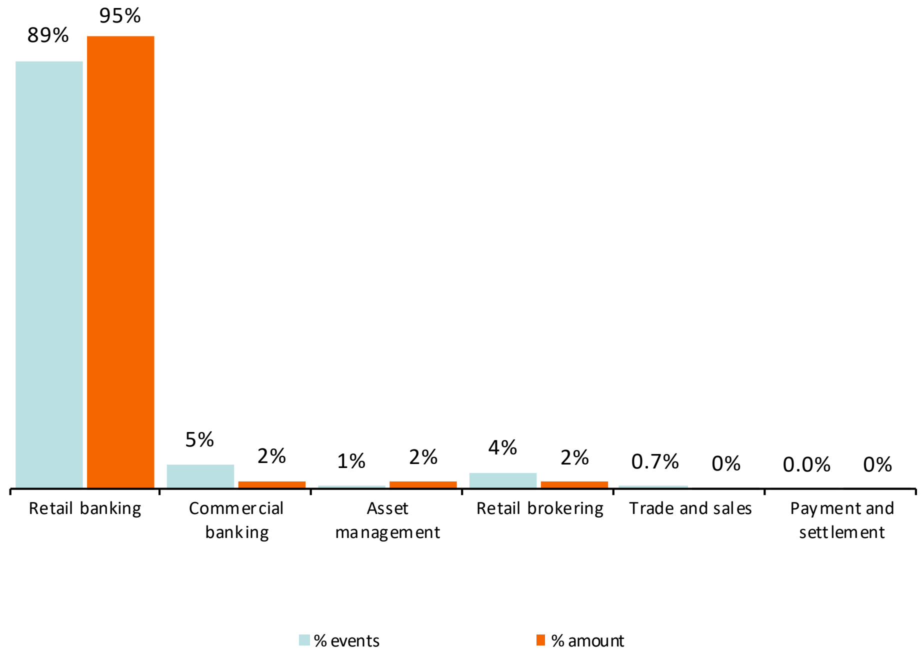
The following charts reflect Bankinter's operational risk profile, shown through the breakdown of historic operational losses analysed under several viewpoints:

Percentage breakdown by type of risk



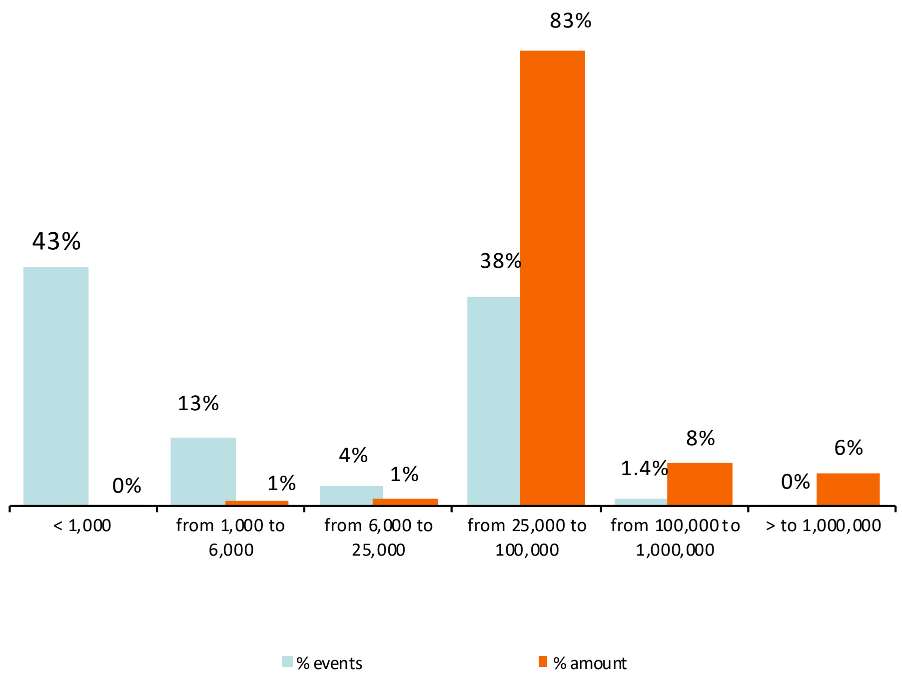
The chart reflects a concentration of losses due to a number of events in 'Commercial practices', 'External fraud' and 'Performance, delivery and management of process'. The highest figures are concentrated in 'Commercial practices'.

Percentage breakdown by line of business



As a result of the company's business model, the higher number of loss events are concentrated under the 'Commercial banking' business line.

Percentage breakdown by amount intervals



This chart shows that most operational risk events at the company (approximately 43%) are for a very reduced amount (below 1,000 euros). Most of the losses (83%) occur in the interval between 25 thousand euros and 100 thousand euros.

6.4. Governance of the operational risk model

Bankinter's operational risk governance structure is based on the following main elements:

6.5. Support areas and business units

The area and business unit managers are responsible for managing operational risk in their respective centres. Their duties include the following:

- Managing the unit's operational risks and specifically, identifying, assessing, controlling and mitigating the risks on which they have the capacity to act
- Recording and managing operational risk events, as well as reporting operational losses
- Studying, defining, prioritising and financing mitigation plans for operational risks
- Maintaining and testing the business continuity plans for which they are responsible

Operational Risk Unit

The functions of this unit, which forms part of the Risk Division, are as follows:

- Promoting the management of operational risks in the areas and units, encouraging risk identification, allocation of responsibility, establishment of controls, generation of indicators, drawing up of mitigation plans and the action to be taken in case of new significant losses or risks
- Facilitating the methodologies, tools and procedures necessary for managing operational risk.
- Promoting the creation of business continuity and contingency plans
- Ensuring that operational losses are correctly and accurately recorded.
- Providing the organisation with a uniform vision of operational risk exposure
- Proposing changes in the Framework of Operational Risk Management.

Risk Control Unit

As a second line of defence, the main objective of the Risk Control Unit is to guarantee the effective control of all types of risks at the company, including operational risk. To that end, the unit ensures that the corresponding management frameworks, policies, procedures and internal and external regulations are properly followed.

Internal Audit

On an annual basis, Internal Audit reviews and assesses the Operational Risk Management Framework, its adaptation to current legislation and the effectiveness and impact of its implementation.

Risk committee

This committee is a delegate committee of the board of directors. It is entrusted with approving the operational risk management framework and policies, as well as with establishing, limiting and monitoring Bankinter's operational risk appetite at any time.

The risk committee is responsible for creating the organisational culture and structure needed to promote efficient management of operational risk at Bankinter.

7. Equity investments and capital instruments not included under Assets held for trading

7. Equity investments and capital instruments not included under Assets held for trading

7.1. Distinction between portfolios held for sale and for strategic purposes

Equity exposures not recognised in the 'Financial assets held for trading' portfolio are recognised in the 'Financial assets not held for trading and required at fair value through profit or loss' and the 'Investments' portfolio: The accounting treatment for these portfolios is disclosed in Note 5(g) to the consolidated financial statements.

7.1.1. Portfolios held for sale

The 'Financial assets held for trading' portfolio corresponds in an accounting sense to the category 'Financial assets not held for trading and required at fair value through profit or loss'. The primary objective of this portfolio is to generate gains.

This portfolio includes the capital instruments of entities that are not strategic, that are not classified as subsidiaries or associates, and that are not classified as 'Financial assets held for trading'.

7.1.2. Portfolios held for strategic purposes

This portfolio is included, for accounting purposes, within the investments portfolio.

A capital instrument is considered a strategic investment when it has been made with the purpose of maintaining an operating or commercial relationship through any of the following situations, but not to exercise significant influence over the investee:

- Representation on the board of directors or equivalent body of the investee
- Participation in policy setting processes
- Exchange of senior officers
- Existence of significant transactions between investor and investee
- Provision of essential technical information

7.2. Accounting principles and measurement of instruments

Capital instruments assigned to the investment portfolio are accounted for on the balance sheet using the equity method. Capital instruments classified as financial assets not held for trading must be initially recognised and subsequently measured at fair value.

Upon initial recognition, the best evidence of the fair value is the quoted price on an active market. When these prices are not available, the measurement techniques described in prevailing accounting regulations - Bank of Spain Circular 4/2017, which came into effect on 1 January 2018 - are used.

For subsequent measurement, the following methods will be used based on fair value:

- 'Level 1' includes information on financial instruments, the fair values of which are obtained from prices quoted on active markets for the same instrument, i.e., without modification or reorganisation.
- 'Level 2': includes information on financial instruments, the fair values of which are obtained from prices quoted on active markets for similar instruments.
- 'Level 3': includes information on financial instruments whose fair value is obtained from valuation techniques wherein some significant input is not based on observable market data.

Note 44 to the consolidated financial statements discloses the fair value of these equity instruments and the valuation method based on their fair value hierarchy.

For equities traded on official markets, there is no difference between the carrying amount, the fair value and the quoted value.

7.3. Carrying amount of equity investments and capital instruments

The carrying amount of the portfolios held for sale and of the portfolios held for strategic purposes is as follows:

Financial assets not held for trading and required at fair value through profit or loss

		Shares		
		Associates	Jointly controlled entities	Group companies
2017	105,635	94,993	14,627	486,459
2018	89,880	72,885	27,767	459,367

Figures in thousands of euros

The following chart shows the accounting balances of equity investments and capital instruments not included in the trading book, by type of instrument:

Equity investments and capital instruments not included under Assets held for trading

	2018	2017
	Carrying amount	**Carrying amount**
Listed instruments	38,414	3,320
Unlisted instruments	611,485	698,394
Total	**649,899**	**701,714**

Figures in thousands of euros

In addition, the gains or losses on derecognition of financial asset and liability accounts not valued at fair value through profit or loss for equity instruments in the 'Financial assets at fair value through other comprehensive income' portfolio at 31 December 2018 and 2017, were 0 thousand euros and 5,634 thousand euros, respectively.

In 2018, the Group also recognised impairments in this type of capital instruments in the amount of 0 thousand euros versus the 1,423 thousand euros recorded in 2017 under 'Impairment of value or reversal of impairment and gains or losses due to changes in cash flows from financial assets not measured at fair value through profit or loss, or net changes for adjustments ' in the consolidated income statement.

The Supervisor has authorised Bankinter to permanently apply the standardised approach to equities-related exposures, except for financial-sector investments in which the company holds a significant interest (as is the case of the company's insurance holdings). The amount in excess of 10% of CET1, which in 2018 was 0 thousand euros, must be deducted from capital, while the amount of the holdings below 10% of CET1 is receives a risk weighting of 250%.

Risk-weighted capital instruments and equity investments, including the amount of investments in financial institutions below 10% of CET1, stood at EUR 1,012,617 thousand at 31 December 2018, compared to EUR 1,704,000 thousand at the 2017 year end.

8. Structural interest rate risk

8. Structural interest rate risk

8.1. Nature of interest rate risk and key assumptions

Structural interest risk is the company's exposure to changes in market interest rates, deriving from the different timing structure of maturities and repricing of balance sheet items. This risk is a substantial part of the banking business and may have a major impact on the net interest income and on the company's economic value. Consequently, to ensure the strength and security of the bank, it is essential to keep interest rate risk at prudent levels. This allows the company to:

- Avoid unexpected losses due to the impact of interest rate changes on the net interest income and on the economic value
- Adopt investment and hedging strategies that ensure a short-term (net interest income) and long-term (economic value) balance of the financial impact derived from interest rate movements.

To control the exposure to structural interest rate risk, the bank has established a limits structure that is reviewed and approved each year by the board of directors, in accordance with Bankinter's strategies and policies in this regard.

Bankinter has tools to manage and control the structural interest rate risk. The measurement is made monthly with the following main assumptions used in the calculation:

- Sight liabilities are classified according to their type of remuneration in non-interest-bearing accounts, EURIBOR-linked accounts and managed accounts, the interest rate of which is not linked to any index and is updated on the basis of the company's business decisions. The duration and sensitivity to interest rate variations are estimated for each group using historical data and based on econometric models.
- The modelling of prepayments is essential to determining the flows of a mortgage, as in this type of instrument the customer has the option of prepaying at any time during the life of the loan. This behaviour is modelled by analysing the historical data and including the level of interest rates as a variable. Given the current level of low interest rates, the incentive for the customer to prepay is considered minimal; therefore, as a prudential measure, no prepayment rate is taken into account in the interest rate models.

8.2. Interest rate variations

The main measurements used by the bank to manage and control the interest-rate risk profile approved by the Board of Directors are as follows:

Net interest income sensitivity

Monthly dynamic measurements are made to simulate the exposure of the net interest income to different scenarios of interest rate fluctuations for a 12-month time horizon. The sensitivity of the net interest income is obtained as the difference between the net interest income projected with the market curves at each analysis date and the net interest income projected with the interest rate curves altered in different scenarios, of both parallel movements of rates and changes in the slope of the curve.

The board of directors establishes, on a yearly basis, a sensitivity benchmark of the net interest income to variations of 100 parallel basis points in market interest rate curves of up to 12 months. The sensitivity in this scenario is monitored by the assets and liabilities committee.

Bankinter's net interest income's interest rate risk exposure facing parallel movements of 100 basis points in market interest rate curves is approximately +9.9% for rises and -11.4% for reductions, both for a 12-month horizon.

In addition, the model is subject to back-testing on a monthly basis, verifying both estimated and actual variations in the interest margin.

Sensitivity of the economic value

This is a measure that is supplementary to the previous one, and is calculated monthly. It allows Bankinter Group to quantify the exposure of its economic value to interest rate risk, and it is obtained as the difference between the net present value of the items sensitive to the interest rates calculated using the interest rate curves in different scenarios and the curve quoted in the market at each analysis date.

The sensitivity of the economic value to parallel scenarios of ±100 basis points was +2.1% and -0.5% of its own funds, respectively, at year-end 2018. The falling rate scenario considered rates that were more negative than current rates, but limiting their scope for downwards movement, given current levels. The sensitivity in this scenario is measured, controlled and reported to the assets and liabilities committee.

9. Liquidity and funding risk

9. Liquidity and funding risk

9.1. Governance and monitoring of funding and liquidity risk

Structural liquidity risk is associated with the financial institution's capacity to handle the payment obligations it takes on and to fund its investment business. Bankinter Group actively monitors liquidity and its forecasts as well the measures to take in both normal market situations and exceptional situations resulting from external causes or market behaviour.

The management of this risk is the responsibility of the assets and liabilities committee by delegation of the board of directors.

The principles, strategies and practices for liquidity management are set out in the Liquidity Planning Framework approved by the board of directors.

The primary goal of managing liquidity risk is that the company maintains enough funds to cover all its commitments over a long period of time in any market conditions.

Fulfilment of this objective is subject to the following restrictions:

- Continued reduction of the customer funding gap and, as a result, dependence on wholesale markets
- Diversification of wholesale funding sources, both from the point of view of instruments and markets
- Presence in wholesale markets, issuing on a regular basis in accordance with market opportunities and needs
- Maximum transparency offered to investors, by regularly providing information about the company
- Appropriate wholesale maturity profile, avoiding concentrations
- Sufficiently large buffer of liquid assets to cover a possible shutdown of wholesale markets

The metrics used to value liquidity risk are defined in the Risk Appetite Framework, on a two-level system:

Level 1

a) 90-day LCR

Stock of high-quality liquid assets that covers net cash outflows over a 90-day period

Loan-to-deposit ratio

Ratio of net lending to stable customer deposits, ensuring that there are suitable levels of self-funding of loans in the balance sheet at all times

b) Total liquidity buffer [(first + second lines of liquidity) + covered bonds issuing capacity]

Amount of assets that can be easily liquidated in order to cover any liquidity needs, adding the capacity to issue covered bonds

Level 2

a) Customer funding gap

The amount of customer loans that are not funded with retail deposits, but rather with funds attracted from wholesale markets and from the company's own funds

b) Limit of maturity concentrations of issues

The amount of wholesale issues with a maturity lower than six months that exceeds the outstanding issues sold in the market

c) Short-term wholesale funding ratio

Short-term wholesale funding as a percentage of total wholesale funding

d) Wholesale funding with maturity of less than 12 months as a percentage of liquid assets

Wholesale funding with maturity of 12 months as a percentage of the company's liquid assets

e) 30-day LCR

Stock of high-quality liquid assets that covers net cash outflows over a 30-day period

f) NSFR

Ratio of available stable funding over required stable funding

g) Deposit Concentration

Coefficient between the top 10 depositors and total customer resources. This measures the liquidity risk derived from concentrating liability balances.

Bankinter Group has several tools for analysing and monitoring the short- and long-term liquidity situation. These include both static and dynamic tools. In addition, Back-testing is also conducted on the projections made.

In addition to the foregoing, the Market Risks and Institutional Control area controls liquidity risk by verifying compliance with the limits set by the board of directors and delegated to the persons responsible for their management and the assets and liabilities committee.

9.2. Liquidity and funding prospects

During 2018, the commercial gap (the difference between investment and customer funds) of the business in Spain was down 1,691 million, primarily due to a growth of 3,006 million in customer resources, which covered the liquidity needs generated by increased loans and receivables. The commercial gap of business in Portugal remained at similar levels to the previous financial year, falling slightly, by 16 million euros. The notable 592 million euro increase in loans and receivables was financed by an increase in customer funds. In this regard, the total banking business gap decreased by 1,707 million euros in the year.

93.8% of loans and receivables were financed by customer deposits at year-end.

Regarding wholesale funding, the only public issue was for 500 million euros in covered bonds redeemed in February 2018.

Wholesale funding maturities are distributed over time so as to minimise refinancing difficulties.

The liquid asset buffer maintained during the year afforded a stable short-term liquidity coverage ratio (LCR) well above 100%. At the end of 2018, it stood at 144.2%.

During the year, the short-term liquidity coverage ratio (LCR) was well above the regulatory requirement. Bankinter has a broad liquid assets portfolio, the bank was able to present LCR ratios above 100%.

In 2018, Bankinter Group's Net Stable Funding Ratio (NSFR) was above 100%, given the balanced and stable composition of its funding to cover its requirements.

For 2019, Bankinter expects to continue its balanced growth in lending and in deposits, thus reducing dependence on wholesale markets. Maturities in the year amounted to 797 million euros and will be refinanced in long-term wholesale markets.

No substantial increase in short-term issues aimed at institutional customers or fund raising through asset securitisation are expected.

10. Leverage

10. Leverage

10.1. Definition and composition of the leverage ratio

The leverage ratio is a supplementary measure to the remaining capital indicators, intended to encourage institutions to maintain prudent funding structures, restricting excessive leverage and avoiding a destabilisation of the economy and of the banking system.

As defined in Regulation (EU) 575/2013, amended by Commission Delegated Regulation (EU) 2015/62, this ratio is Tier 1 capital as a percentage of total exposure. The elements used to build the ratio are as follows:

- Tier 1 capital: calculated according to the solvency regulations. It includes capital, reserves, retained earnings and capital gains on other available-for-sale assets, as well as Additional Tier 1 instruments adjusted for Tier 1 deductions.
- Exposure: as defined in Delegated Regulation (EU) 2015/62 (which modified the exposure calculation method set out in the CRR), exposure is the sum of balance sheet assets, off-balance sheet items, exposures in derivatives and securities financing, and Tier 1 deductions.
  a) Balance sheet assets: includes the carrying amount of financial assets, but does not include derivatives or securities financing transactions (which are considered in the following sections).
  b) Exposures in derivatives: includes the replacement cost following application of netting agreements and collateral received and the potential future risk (add-on) taking into account contractual netting agreements.
  c) Exposures in securities financing transactions: includes the exposure measure plus an add-on for counterparty credit risk.
  d) Off-balance sheet items: relates to contingent risks and commitments, applying a floor of 10% to the conversion factors, in line with article 429.10 Delegated Regulation (EU) 2015/62.
  e) Tier 1 deductions: amounts deducted from the Tier 1 capital measure to ensure consistency between the capital measure and exposure, therefore reducing leverage ratio exposure. These deductions are shown in point 2 of this report.

The variation margin received in cash in derivative transactions, pursuant to article 429bis (3).

The transitional adjustment calendar ended in 2018, with the convergence of the phased-in and fully loaded leverage ratios. At the close of the financial year, Bankinter Group's fully loaded ratio stood at 5.13%, compared to 5.21% in the previous financial year.

Bankinter Group's leverage ratio at the end of December 2018 and 2017:

	2018	2017
Tier I	4,051,906	3,788,835
Exposure	79,037,024	72,703,105
Leverage ratio	5.13%	5.21%

Figures in thousands of euros

A reconciliation between the Group's financial statements and the exposure measure used in calculating the 2018 leverage ratio is as follows:

Summary of the reconciliation of accounting assets and exposures corresponding to the leverage ratio (LRSum)

	2018
Total assets according to published financial statements	76,501,539
Adjustment for entities consolidated for accounting purposes, but which fall outside the scope of regulatory consolidation	(951,801)
Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure	-
Adjustment for derivative financial instruments	(476,138)
Adjustment for securities financing transactions (SFT)	(664,787)
Adjustment for off-balance-sheet items (i.e., conversions of off-balance-sheet exposures to credit equivalents	5,165,150
Adjustment for intragroup exposures excluded from the leverage ratio exposure	-
Adjustment for exposures excluded from the leverage ratio exposure	-
Other adjustments	(536,938)
Measurement of total exposure for leverage ratio	79,037,024

Figures in thousands of euros

The following table provides a breakdown of the items used to calculate the leverage ratio at 31 December 2018:

Leverage ratio common disclosure table (LRCom)

	CRR leverage ratio exposures
On balance sheet exposures (excluding derivatives and SFTs)	
On-balance-sheet items (excluding derivatives, SFTs and fiduciary assets, but including security interests)	72,835,308
Amounts of assets deducted to determine Tier 1 Capital	(536,938)
Total on balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	72,298,370
Derivatives exposures (under article 429 bis)	
Replacement cost associated with all derivatives transactions	110,112
Add-on amount for PFE associated with all derivatives transactions	241,142
Exposure determined under original exposure method	-
Gross-up for derivative collaterals provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-
Deductions of receivables assets for cash variation margin provided in derivatives transaction	(221,410)
Exempted CCP leg of client-cleared trade exposure	-
Adjusted effective notional amount of written credit derivatives	-
Adjusted effective notional offsets and add-on deductions for written credit derivatives	-
Total derivatives exposures	126,292
SFT exposures (under article 429 and 429 ter)	
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	1,445,747
Net amounts of cash payables and cash receivables of gross SFT assets	-
Counterparty credit risk exposure for SFT assets	1,465
Derogation for SFTs: Counterparty credit risk exposure	-
Agent transaction exposures	-
Exempted CCP leg of client-cleared SFT exposure	-
Total SFT exposures	1,447,213
Other off balance-sheet exposures (after applying CCF, according to art. 429)	
Off-balance sheet exposures at gross notional amount	17,981,435
Adjustments for conversion to credit equivalent amounts	(12,816,285)
Off balance-sheet exposures	5,165,150
Exposures exempted	
Exemption of intragroup exposures (solo basis)	-
Exposures exempted	-
Capital and total exposure measurement	
Tier 1 capital	4,051,906
Measurement of total exposure for leverage ratio	79,037,024
Leverage ratio	
Leverage ratio	5.13%

Figures in thousands of euros

Below is a breakdown of the on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures):

On-balance sheet exposures [excluding derivatives, SFTs and exempted exposures (LRSpl)

	CRR leverage ratio exposures
Total on-balance sheet exposures (excluding derivatives and SFTs) of which:	72,835,308
Trading book exposures	2,887,181
Banking book exposures of which:	69,948,127
Covered bonds	-
Exposures treated as sovereigns	11,712,876
Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	577,145
Institutions	2,911,713
Secured by mortgages of immovable properties	28,345,875
Retail exposures	7,567,796
Companies	13,727,172
Defaulted exposures	1,441,825
Other exposures	3,663,726

Figures in thousands of euros

10.2. Trends in the ratio

The leverage ratio decreased in 2018, because of increased exposure to leverage effects. This increase was particularly due to the increase in total consolidated assets, by over 5 billion euros. Off-balance sheet items also increased during the period, though to a lesser extent. This resulted in an 8 point reduction in the leverage ratio, compared to December 2017. This growth was partially offset by the increase in Tier 1 Capital, mainly because of the retained earnings.

10.3. Leverage ratio management

Each quarter, Bankinter estimates and monitors this ratio to ensure that the company's leverage is within appropriate levels. The leverage ratio is one of the level 1 ratios monitored by the board of directors as part of the Risk Appetite Framework. The company has established operational measures and limits by actively integrating the leverage ratio into risk management and ensuring that it remains at levels that are in line with sustainable balance sheet growth and with a prudent risk policy.

The ratio has been monitored as part of the Group's regulatory reporting since 2014, in compliance with regulatory disclosure requirements, confirming that the ratio comfortably exceeds the minimum required regulatory levels.

11. Information on asset encumbrance

11. Information on asset encumbrance

Asset encumbrance refers to the part of the company's assets that have been committed as a result of their use in guaranteed funding operations.

The main sources of asset encumbrance in Bankinter can be classified according to the type of asset associated with a specific obligation, as set out below.

Loans and advances to customers

Securitisation

Since 2004, transactions transferred to securitisation funds appear on the consolidated balance sheet. However, credit rights are assigned to funds that in turn issue debt acquired by investors. This statement includes the limitation involved in transferring the credit risk on the securitised transactions to securitisation funds is taken into account, up to the amount of the securitisation bonds held by third parties or used to secure financing transactions.

Mortgage-backed securities

In accordance with the Spanish Mortgage Market Law, mortgage-covered bonds can be issued on mortgages with a LTV of less than 80% and on commercial mortgages with a LTV under 60%. The legal over-collateralisation of issued covered bonds is set at 25%. As a result, in covered bonds sold to investors, 125% of the issued amount is reflected as loans associated with these bonds. With regard to on-balance sheet covered bonds, we are including loans for 125% of the amount required to obtain Eurosystem funds.

Transferable securities

Repurchase agreements

A significant part of debt securities are transferred as a guarantee so they can be funded in the repo market. All securities placed as collateral are considered unavailable for the purpose of asset encumbrance disclosure. All of the Bank's accounting portfolios are included: the 'Financial assets held for trading', 'Financial assets not held for trading and required at fair value through profit or loss', 'Financial assets at fair value through other comprehensive income' and 'Financial assets at amortised cost' portfolios.

Short positions

A large number of temporary debt acquisitions are often carried out when the bond has been sold by the trading area. All bonds purchased under reverse repos that correspond to bonds sold short are included as committed assets.

Collateral agreements signed to trade through CCPs and with other counterparties are also included. The mark-to-market valuation of derivatives and repo transactions are the main generators of collateral taken or given.

Other forms of encumbrance are also carried out. These are shown in the summary table below, with figures for the December 2018 close.

On-balance sheet committed assets

Assets	Compromised assets		Uncommitted assets	
	Carrying amount	Market value	Carrying amount	Market value
	17,989,713		57,560,024	
Credits and loans	13,965,477	-	43,699,537	-
Equity instruments	1,870	1,870	195,034	-
Debt securities	3,585,082	3,818,885	6,246,176	6,158,632
Other assets	437,283	-	7,419,277	-

Figures in thousands of euros

The column 'Uncommitted assets' reflects the assets that are available for sale or to be used as collateral when in need of liquidity. Most of this balance comprises loan and advances with customers, debt securities and equity instruments, all of which can used for this purpose. Nevertheless, a small part of the amount reflected in this column relates to items that cannot be sold or pledged and that correspond to intangible assets, goodwill, tax assets, etc.

The column 'committed assets' mostly relate to loans and credits linked to the issue of mortgage-covered bonds and securitisation bonds.

Received collateral

The following chart reflects collateral received (primarily debt securities) as well as collateral that could be committed.

Guarantees received	Fair value of committed guarantees received or treasury shares issued	Fair value of guarantees received or treasury shares issued available to commit
	2,048,073	115,780
Credits and loans	-	-
Equity instruments	3,595	-
Debt securities	2,044,478	78,610
Other assets	-	37,170
Carrying amount of liabilities used as collateral source	-	-

Figures in thousands of euros

Encumbered assets, received guarantees and related liabilities

Lastly, financial liabilities issued and linked to certain assets and guarantees received at 31 December 2018 are as follows:

	Associated liabilities, contingent liabilities or transferred securities	Encumbered assets and guarantees received
Carrying amount of liabilities used as collateral source	16,682,557	20,037,785

Figures in thousands of euros

12. Remuneration

12. Remuneration

12.1. Information on the decision-making process for establishing the remuneration policy

Bankinter's by-laws states that one of the powers of the board of directors is to approve the remuneration policy for senior executives and for employees whose professional activities may have a material impact on the company's risk profile, and to determine directors' remuneration, and, in the case of executive directors, remuneration for their executive functions and other terms and conditions set out in their contracts.

The Rules and Regulations of the Board of Directors set out the internal rules for the operation of the board and its committees, which provide assistance on matters within their competence. These include the remuneration committee is the body that assists the board of directors in the remuneration issues falling to it under the Rules and Regulations of the Board of Directors, overseeing observance of the remuneration policy established.

As set out in article 40 of the Rules and Regulations of the Board of Directors of the bank, the remuneration committee's functions include:

- proposing to the board the remuneration policy for the directors and their individual remuneration, along with the corresponding annual director remuneration report, which the board shall submit for consultative voting at the Annual General Meeting.
- proposing to the board the individual remuneration of executive directors and, if applicable, of non-executive directors, for the performance of non-board duties, as well as other terms and conditions of their contracts
- proposing the remuneration policy for senior officers, including general directors or those who carry out their senior management duties under the direct control of the board, executive committees or chief executive officers, as well as individual remuneration and other basic conditions of their contracts.
- determining the remuneration of members who are not senior executives and receive significant remuneration (especially variable remuneration), and whose activities may have a significant impact on the group's assumption of risk.
- overseeing the extent to which the remuneration policy is implemented in general during the fiscal year, and ensuring compliance with that policy.
- revising the remuneration programmes on a regular basis, considering their suitability and returns and ensuring that director remuneration conforms to standards of moderation in accordance with Bankinter's earnings.
- ensuring that remuneration is transparent and included in the annual report and in any other annual reports containing information on director remuneration; and to submit all appropriate information to the board of directors for this purpose.
- reporting on incentive plans for senior officers or employees whose duties are linked to the performance of Bankinter's share price or to other variable indices; and on the remuneration systems of Bankinter's management team based on collective insurance systems or deferred remuneration systems, if any.

Composition and functions of Bankinter's remuneration committee

As of the date of this report, the remuneration committee comprises five external members, most of whom are independent, including the committee chairman.

In order to fulfil its duties, Bankinter's remuneration committee met on five occasions in 2018 to discuss all matters encompassed within its competencies.

All of the committee's members and activities are mentioned in the annual activity report for 2018, approved by the committee in February 2019 and posted on Bankinter's corporate website for the annual general meeting of shareholders. The activities specified in this report include: the determination and proposal to the board of individual remuneration of the non-executive chairman, executive directors and senior officers, tracking of multi-year variable remuneration, proposal of the annual report on director remuneration; verification of the information on the remuneration of directors and senior officers found in corporate documents; and monitoring of compliance with and regular revision of Bankinter's remuneration policy; determination of identified staff1; and updating of remuneration-related policies and procedures.

Article 40 of the Rules and Regulations of the Board of Directors provides that the remuneration committee must have access to all information and documentation needed for it to carry out its duties, and may receive assistance from advisers, consultants, experts and other independent professionals.

In this regard, the remuneration committee and the board were able to use comparative studies conducted by the consulting firm Willis Towers Watson in their decision-making processes for remuneration matters. These studies compare the bank's relevant remuneration information with that of peer institutions and comparable markets (Spanish and European), considering the dimension, characteristics and activities of the bank.

1 Las categorías de personal cuyas actividades profesionales tengan repercusión material en el perfil de riesgos de la Entidad ('colectivo identificado').

On 21 February 2018, Bankinter's board of directors approved the annual report on directors' remuneration. This report was subsequently approved, on an advisory basis, at the annual general meeting of shareholders held on 22 March 2018 (with a 97.999% approval rating). The aforementioned report is in accordance with the format, content and structure defined in Circular 7/2015 of 22 December, issued by the Spanish Securities Market Commission (Comisión Nacional del Mercado de Valores, CNMV).

At the Annual General Meeting of Shareholders held on 22 March 2018, and in accordance with article 529 *novodecies* of the Spanish Corporate Enterprises Act, Bankinter shareholders approved (95.472% approval) the remuneration policy for directors of Bankinter, S.A., for a maximum period of three years (2018, 2019 and 2020). The approved text is available on the corporate website.

At the time this report is approved, the board of directors of Bankinter will submit a new directors' remuneration policy for the 2019, 2020 and 2021 financial years for approval in the Annual General Meeting on 21 March. It will replace and render ineffective the previous directors' remuneration policy of Bankinter, S.A for 2019 and 2020. The reason for submitting a new directors' remuneration policy to the annual general meeting for the three years mentioned is not a change in the principles, bases, structure and other features of the directors' remuneration policy approved in the annual general meeting in March 2018. Instead, it is to incorporate all regulatory requirements that apply to the bank as a credit institution and a listed corporation under a single document.

In both cases, the directors' remuneration policy is accompanied by an explanatory report by the Board and a specific report by the remuneration committee, pursuant to Article 529 novodecies of the Spanish Corporate Enterprises Act.

The primary purpose of Bankinter Group's remuneration policy is to establish a remuneration scheme that is consistent with Bankinter's business strategy, objectives, values and long-term interests, both in absolute terms and in comparison with sector peers.

The policy aims to clearly and concisely define and control the bank's remuneration practices, so that these practices in no way jeopardise the soundness of the company by providing incentives for employees to assume excessive risk.

On 20 February 2019, prior to the publication of this report and in accordance with the proposal put forth by the remuneration committee, the board of directors approved Bankinter's annual report on directors' remuneration, in accordance with the Law as well as Spanish National Securities Market Commission (CMNV) Circular 4/2013 of 12 June (as amended by the Spanish National Securities Market Commission Circular 2/2018 of 12 June). The report will be put to an advisory vote at the annual general meeting of shareholders to be held on 21 March 2019, in compliance with article 541 of Royal Legislative Decree 1/2010 of 2 July approving the consolidated text of the Spanish Corporate Enterprises Act. The report has been available on the corporate website (www.bankinter.com/webcorporativa) since the date of the call to the annual general meeting of shareholders.

12.2. Principles of Bankinter's remuneration policy

The general principles governing Bankinter's remuneration policies are as follows:

- **Prudent and effective risk management:** The remuneration policy will be compatible with and promote appropriate and effective risk management, and will not offer any incentives for assuming risks that exceed the level of risk tolerated by Bankinter.
- **Alignment with long-term interests:** The policy will be in line with the business strategy, objectives, values and long-term interests of Bankinter, and contains measures for avoiding conflicts of interest;
- **Appropriate balance between fixed and variable components:** As a general rule, variable remuneration will not represent a significant proportion in comparison with fixed remuneration, in order to avoid excessive risk-taking.
- **Multiple elements:** Remuneration packages will be configured so as to include a number of instruments that, in terms of their content (cash or in kind), time frame (short, medium or long term), security (fixed or variable) and purpose, allow compensation to be adjusted to the needs of Bankinter and its employees.
- **Internal and external fairness:** The policy will provide compensation based on the level of responsibility and career path of Bankinter directors in order to guarantee fairness internally and competitiveness externally.
- **Supervision and effectiveness:** Bankinter's board of directors, as part of its supervisory duties, will adopt and revise the general principles of the remuneration policy on a regular basis. It will be responsible for overseeing and guarantee its effective and proper enforcement.
- **Flexibility and transparency:** The rules established to manage the compensation paid to identified staff must include mechanisms that enable exceptional mechanisms to be taken into account, in accordance with the needs arising at any given time. Remuneration standards must be explicit and known by the company's directors and professionals, always giving priority to transparency around the issue of remuneration.
- **Simplicity and customisation:** These remuneration management rules will be written clearly and concisely, with the utmost simplicity in their descriptions and in the calculation methods and relevant conditions for achieving them.

12.3. Description of the types of employees and executives considered identified staff

At its meeting on 21 January 2015, the Board of Directors approved a policy for determining the company's identified staff, at the proposal of the remuneration committee. This has been reviewed by the remuneration committee, which submitted its changes to the Board of Directors; the current version was approved by the Board at its meeting on 21 February 2018. This policy is based on the standards set out in the Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile.

The composition of this identified staff is revised annually by Bankinter's remuneration committee, which in turn submits the revised list to the board of directors for approval.

The companies forming Bankinter Group participate actively in the identification process, providing all of the necessary information to adequately identify all staff who have a material impact on the Group's risk profile. As a result of this identification process, a total of 85 professionals were classified as identified staff at the close of the 2018 financial year.

The total number of people identified in 2018 was similar to the previous year, when 82 people were identified; therefore, there has been no significant change to this figure.

Nevertheless, Bankinter understands that, in accordance with its current risk management and control structure, no person may make decisions with regard to risks that could compromise the organisation as a whole, its earnings or its capital base, as the decisions must be made by the competent committees in accordance with an established delegation scheme.

12.4. Characteristics of the remuneration scheme applied to identified staff

As indicated above, every year Bankinter's board of directors, at the proposal of the remuneration committee, analyses and approves Bankinter Group's general remuneration policy, particularly the policy for its directors and senior officers.

i. Fixed remuneration of all directors for carrying out supervisory and collective decision-making duties:

The current composition of the board of directors and of its committees can be found on the corporate website.

The remuneration accrued by the members of the board of directors for their collective decision-making and supervisory duties comprise an annual fixed amount that does not include any variable components, insofar as the obtainment of such remuneration are not subject to the achievement of objectives or linked to profits, thus complying with corporate governance recommendations. This practice therefore avoids any potential conflicts of interest when assessing accounting practices or any other decisions that could alter the immediate earnings of the company.

Total remuneration received individually may be paid as one or a combination of three of the following remuneration items, all included in the Bankinter Corporate By-laws: i) annual fixed amount for serving on the board of directors and discharging their duties as chairmen of its committees; ii) fees for attending meetings of the board and its committees; and iii) delivery of shares, options on said shares or remuneration indexed to share value.

For 2018, remuneration includes only the first two items.

The annual general meeting of shareholders held on 22 March 2018 approved, in accordance with articles 217 and 529 *septdecies* of the Spanish Corporate Enterprises Act, to set the maximum amount of the directors' annual remuneration acting as such at the amount of 1,700,000 euros, an amount that will remain in force provided no modification is approved at the annual general meeting of shareholders.

The report on directors' remuneration, available on the corporate website (www.bankinter.com/webcorporativa) includes the individual amount paid to board members for performing their duties in 2018, along with a description of the amounts to be accrued for each item in 2019.

ii. Remuneration of the chairman of the Board of Directors:

Since January 2013, his non-executive institutional functions (described in the directors' remuneration policy for 2019, 2020 and 2021 to be submitted to the annual general meeting in March 2019 and available on the company's corporate website) as well as the functions he performs in his capacity as chairman of the board are remunerated as outlined in the previous point. The board's chairman will receive no variable remuneration of any kind, for the same reasons noted in the previous point for non-executive directors.

The report on the remuneration of directors, available on the company's corporate website (www.bankinter.com/webcorporativa) includes the individual amount paid to the chairman for the performance of his duties in 2018 and remuneration corresponding to 2019.

iii. Remuneration of executive directors for carrying out executive duties and remuneration of the rest of identified staff:

Bankinter Group's remuneration policy described in this report was approved by the Board Of Directors at its meeting on 21 February 2018.

Fixed remuneration

Fixed remuneration constitutes the basic element of the remuneration policy. This concept is in essence linked to the content of the positions and is established on the basis of the degree of responsibility of the position held, as well as the experience, performance and education of the person holding the position.

In addition to the remuneration accrued for membership on the board, executive directors receive annual remuneration, including a fixed component, for their executive duties within the framework of the management agreements that bind them to the company.

The directors' remuneration policy for 2019, 2020 and 2021, which will be submitted to the annual general meeting of shareholders in March 2019, shows the maximum overall limit for fixed remuneration for the executive duties of all executive directors during the term of the policy.

Fixed remuneration for the other employees is established taking into account the following aspects:

- Collective bargaining agreement: The Bank's collective bargaining agreement foresees a minimum annual salary based on, amongst other aspects, the employee's job category and length of service.

  This remuneration takes precedent over the remuneration scheme prevailing at any time. Therefore, if, by virtue of the collective bargaining agreement, an employee is entitled to remuneration above that set out in the company's remuneration framework, the remuneration established in the bargaining agreement will take priority.

- Job evaluation: Bankinter's organisational structure and internal job evaluation system comprise a significant pillar in the establishment of internal salary benchmarks.

  Job evaluation is a basic component in achieving equity and balance in terms of salary. This process is carried out following an exhaustive analysis of the job position, to place each position in a comprehensive ranking and naming system.

  Significant differences between the different positions are the comparative base used for achieving a fair distribution of salaries, thus reducing any arbitrariness.

  Whether an employee is situated in one place or another within the evaluation is mainly due to the responsibility attached to the position, which is established on the basis of the professional qualification, the resources managed, the level of risks managed and the job position's relative contribution to the company's business objectives.

- Performance assessment: This is a systematic process of determining how employees perform their tasks and assume the responsibilities attached to their positions.

  The performance assessment aims to: i) improve the management of people, insofar as it helps detect skills, potential, and training needs; and ii) to motivate employees, insofar as it recognises and rewards performance.

  Performance assessment is a key aspect in defining, within the remuneration based on job evaluation, the trajectory that an employee can follow when it comes to changing position or salary band.

  All Bankinter employees are assessed annually by their superior, with the People Management Directorate leading the process.

Variable remuneration

The main objective of variable remuneration is to incentivise performance in line with the company's objectives and to foster solid and effective risk management whereby this variable remuneration does not encourage individual employees to take on excessive risks.

The variable components of Bankinter employees' remuneration takes into account the following principles:

- When remuneration is linked to results, its total amount will be based on an assessment that combines the results of the individual, estimated using both financial and non-financial criteria, the results of the business unit in question and the global results of the company.
- Total variable remuneration does not limit the company's capacity to reinforce the soundness of its capital base.
- Guaranteed variable remuneration is not compatible with sound risk management practices or the principle of rewarding performance, and will not be included in potential remuneration plans.
- Guaranteed variable remuneration will be exceptional. It will only be implemented when new employees are hired and provided that Bankinter has a sound and robust capital base; and will be limited to the first year of employment.
- Total remuneration will have an appropriate balance of fixed and variable components. The fixed component will constitute a sufficiently high portion of total remuneration, so that a fully flexible policy may be implemented on variable remuneration components, up to the point in which it is possible not to pay them.

Bankinter has established a series of appropriate ratios between the fixed and variable components of total remuneration, considering the different groups within the company.

Notwithstanding the above, the following principles apply to members of identified staff:

- The variable component shall not exceed 100% of the fixed component of each individual’s total remuneration.
- The shareholders at Bankinter’s Annual General Meeting may approve a higher variable component than that stipulated in the preceding section, provided that it does not exceed 200% of this fixed component.

Type of variable remuneration

Annual variable remuneration

The purpose of the annual incentive is to ensure a proper correlation between the resulting remuneration levels and the variations of the results, directly indexed, inter alia, to the Earnings Before Tax (EBT) target of the group's banking activity, with a system of individual distribution to employees based on assigned duty and responsibility.

The annual variable remuneration accrued in 2018 was indexed to the following indicators: i) earnings before tax (EBT) as a correct indicator of proper risk management and medium and long-term sustainability; and ii) the achievement by the centres/areas to which they related of certain annual objectives set for each of them, such as gross operating income, as a fundamental metric of medium- and long-term business sustainability and compliance with Bankinter's risk policy.

In general, earnings before tax and area objectives (eg, gross operating income) represented 60% and 40% of variable remuneration, respectively, if achieved separately. The variable component accrues from the achievement of 90% and up to a maximum of 120% of the targets, potentially resulting in between 80 and 120% of the variable amount assigned to each beneficiary, according to the aforementioned achievement percentages. Therefore, the total incentive amount to be received for the maximum level of achievement of Bankinter Group's targets is 120 of the benchmark incentive.

This variable remuneration system is aimed at executive directors and those groups of employees of the identified staff not involved in the specific incentive aimed at the Group's commercial network or any other specific incentive of the area, or who have no special incentive programme.

For employees who participate in the specific incentive aimed at the Group's commercial network, this aims to incentivise and reward the commercial activity of individuals in the core area where the business was generated, aligning their activity with the business strategy and objectives established by Bankinter.

This was conceived for employees carrying out commercial tasks and lead commercial teams as responsible for the commercial activities of such teams, and for applying the established commercial strategy.

Overall, the amount of the incentive can be broken down into two sections according with the following:

- The first one is linked to different position-based commercial objectives.
- The second section is linked to the banking business results of the Group and the profits at the centre where the employee works, based on indicators established for each financial year.

There are also specific areas such as Capital Markets, Risks, Investment Banking, Bankinter Asset Management, Market Analysis, and Bankinter Consumer Finance. The incentive structure in these areas, depending on the activity, has the following objectives:

- Ensuring the area's independence in relation to the areas it serves.
- Maintaining a senior-level experienced team considering the importance of intellectual capital, preventing a repeat of the temptation to achieve short-term results at the expense of properly managing the risks incurred.
- Correlating the incentive system to the area's specific activity and its contribution to the business.
- Assigning the incentive to the contribution of each employee and achievement of the established objectives.

For members of the identified staff exercising control functions, the indicators established for the accrual of variable remuneration are directly related to their control activities and are independent to the references used for the areas they control.

In the case of executive directors, on an annual basis and if 100% of the targets are met, the remuneration committee proposes to the board the approval of the target variable remuneration of executive directors without them being present.

Long-term variable incentive:

At year-end 2018, the variable remuneration under the 2016-2018 multi-year plan approved by the annual general meeting of shareholders in March 2016 had accrued; the beneficiaries of this plan include the executive vice chairman, the chief executive officer, the management team, regional unit heads and other key individuals. The benchmark amount for the multi-year plan incentive is twice the 2015 gross annual salary of plan beneficiaries. For more information, see the directors' remuneration report published on the corporate website (www.bankinter.com/webcorporativa).

For reference purposes, on the remuneration committee's recommendation, the board of directors has approved a Long-Term Incentive Plan for the years 2019-2021 (the 'Plan'), in accordance with the provisions of the Directors' Remuneration Policy to be submitted to a vote at the 2019 Annual General Meeting.

The most significant features of this plan are:

Plan Objectives

- To improve the level of commitment and loyalty of key employees.
- To transmit a long-term view of Bankinter to key officers in order to generate a culture of sustainability.

Participants: Executive vice-chairman, chief executive officer, management team, regional unit heads and other key individuals. Currently, 70 persons in total.

Duration: 3 years for calculation of the amount accrued (20192022) and a deferral period of 5 years as of 31 December 2021 in the case of executive directors and senior officers (in other words, 2023, 2024, 2025, 2026 and 2027) and a deferral period of 3 years in the case of the other participants (in other words, 2023, 2024 and 2025).

Reference amount of incentive:

Two annual instalments of the gross annual fixed salary, as of 31 December 2018, received by the plan beneficiary.

Remuneration in kind, company benefits and any other type of variable remuneration paid in 2018 are expressly excluded from the calculation of incentive amounts.

The director remuneration report will face an advisory vote at the next annual general meeting of shareholders and is available on the company's corporate website. The report contains a more comprehensive description of the indicators and adjustment mechanisms is provided as well as payment conditions.

Specific characteristics of earned variable remuneration systems:

Annual variable remuneration is subject to the following clauses:

- **Deferral**: a substantial portion of the variable remuneration component, specifically 40% (and up to 60% in cases where the remuneration is considered particularly high), shall be deferred over a period of three years (or five years for executive directors and members of senior management), adjusting to accurately reflect the nature of the businesses, their risks and the activities of identified staff.

  Depending on the staff group, this deferred remuneration shall be paid over three or five years immediately following that of the receipt of the non-deferred portion in fifths, and therefore the remuneration payable under the deferral provisions will not be received more quickly than is proportionate.

- **Payment in shares and holding periods:** a substantial portion of the variable remuneration element, specifically 50%, will be delivered in Bankinter shares (it could amount to 60% where remuneration is considered particularly high).

  The resulting amounts in cash and shares will be paid net of taxes (or tax withholdings).

  Bankinter shares delivered as variable remuneration will be subject to a one-year withholding policy from the time they are delivered. This is considered an appropriate practice in order for incentives to be consistent with Bankinter's long-term interests.

- **Ex-post adjustments to remuneration:** Variable remuneration (including the deferred portion) will be paid or consolidated only if it is deemed sustainable based on Bankinter Group's financial situation, and when justified based on the earnings of Bankinter, a given business unit and a particular individual.

  Bankinter has established malus and clawback clauses that will apply to up to 100% of the total variable remuneration.

- Prohibition on hedging transactions: Personal hedging or insurance strategies relating to remuneration and liabilities that run counter to the sound risk management of risks the remuneration systems promote may not be utilised.

  Specifically, identified staff members may not engage in hedging transactions of any kind or take out any insurance on deferred variable remuneration pending payment, pursuant to the deferral clause in Bankinter's remuneration policy.

  Furthermore, they may not carry out hedging transactions on any delivered Bankinter shares already that are subject to the withholding period.

- **Risk adjustments**: The variable remuneration of all identified staff members is contingent on the achievement of certain indicators in the risk appetite framework (namely indicators for solvency, liquidity risk, interest rate, reputational risk and credit); and certain predetermined return on equity (RoE) levels).

The director remuneration report will face an advisory vote at the next annual general meeting of shareholders and is available on the company's corporate website. The report contains a more comprehensive description of the indicators and adjustment mechanisms is provided as well as payment conditions.

Social welfare:

Bankinter currently has in place a complementary social benefit scheme for executive directors, senior managers and some executives. The chief executive officer is included in this scheme.

Bankinter's social benefit scheme follows a defined contribution arrangement. To implement it, the bank has taken out a unit-linked group insurance policy and a collective guaranteed returns insurance policy covering the contingencies of retirement, death and disability.

The scheme entails an initial contribution, which is a fixed contribution of the same amount for all beneficiaries; and an annual contribution (after five years have passed from the time of the initial contribution), which varies in accordance with each employee's responsibilities and functional scope.

12.5. Aggregated quantitative information on identified staff remuneration

The total identified staff remuneration generated in 2018, by area of activity, is as follows:

Remuneration per activity

Activities	Investment banking (1)	Commercial Banking(2)	Asset management (3)	Other(4)	Total
No. of employees who form part of the identified staff	6	32	7	40	85
Total remuneration	3,443	20,685	2,491	25,834	52,452
Of which: Variable remuneration	2,426	12,694	1,607	15,096	31,822

Figures in thousands of euros

(1) People from the following areas of the identified staff group are included within this activity: Investment banking. Financial Analysis and BK Securities.

(2) People from the following areas of the identified staff are included within this activity: Regional managers of Commercial Banking. Business Managers, Managers of Risk areas responsible for approving loans, recoveries and property assets, Operations, heads of the branch in Portugal and subsidiary in Luxembourg.

(3) People from Asset Management, Balance Sheet Management and Treasury are included within this activity.

(4) Including individuals who perform corporate functions, control functions, senior officers and the board of directors.

(5) Includes 26,813 thousand euros accrued under the 2016-2018 multi-year plan.

Information on identified staff remuneration, by types of employees and managers, is as follows:

Remuneration by employee type

Identified staff		Board of directors. Non-executive directors (1)	Board of directors. Executive directors (2)	senior officers	Other employees of identified staff	Total
Fixed remuneration (3)		**1,925**	**1,884**	**2,729**	**11,069**	**17,607**
Variable remuneration (4)		-	3,956	7,299	20,568	31,822 (4.2)
Immediate payment	In shares	-	959	2,190	6,062	9,211
	In cash	-	959	2,190	6,422	9,571
Deferred payment	In shares	-	1,156	1,460	4,042	6,657
	In cash	-	882	1,460	4,042	6,384
No. payees		8	2	8	67	85
Payments for new recruitment						
Fixed remuneration					323	323
Variable remuneration					163	163
Immediate payment	In shares				41	41
	In cash				67	67
Deferred payment	In shares				27	27
	In cash				27	27
No. payees					3	3
Compensation for dismissal (5)					202	202
No. payees					1	1
Deferred remuneration pending payment			372	675	1,564	2,610
Consolidated part			372	675	1,564	2,610
Non-consolidated part			-	-	-	-
Contributions to the social pensions system		-	518	602	1,903	3,023

Figures in thousands of euros

(1) The chairman of the board of directors is included within this group, as he ceased to perform his executive functions on 1 January 2013.

(2) Individualized information for executive and non-executive directors, accrued and effectively paid, can be found in the director remuneration report that the board of directors submit to an advisory vote at the annual general meeting of shareholders. This report is available on Bankinter's corporate website.

(3) Remuneration in kind received during the year is included, as well as other amounts paid as corporate profits.

(4.1) In the case of the chief executive officer, 60% of variable remuneration earned in 2018 is subject to a 5-year deferral period. In the case of the vice-chairman and senior officers, 40% of variable remuneration earned in 2018 is subject to a 5-year deferral period. In the case of other identified staff, 40% of variable remuneration earned in 2018 is subject to a 3-year deferral period, provided that the proportionality rule in the deferral policy is not enforced. All variable remuneration is subject to a 3-year deferral and on the condition that it is not revealed during this period that its accrual occurred partially or wholly based on information that the falsity or serious inaccuracy of which has been clearly demonstrated a posteriori. In addition no risks assumed during the vesting period or during the period of deferment should surface, or other unforeseen or assumed circumstances by the bank that have an adverse material effect on the accounts of the bank or the area that has generated such remuneration. The amounts outstanding payment may be reduced or cancelled.

(4.2) Includes 26,813 thousand euros accrued under the 2016-2018 multi-year plan.

(5) The maximum amount paid to a person in the identified staff as severance pay is 202 thousand euros, exceeding two years of fixed remuneration. In 2018, severance pay was only paid to one member of the identified staff.

This table shows the amounts actually accrued until 31 December 2018.

In 2018, 14 people in Bankinter accrued more than one million euros during the year, through multi-year and annual variable remuneration. The following table shows the distribution of these 14 people by salary bands:

Salary band (€)	No. of members of identified staff
1mn – 1.5mn	10
1.5mn – 2mn	2
2mn – 2.5mn	1
2.5mn – 3mn	-
3mn – 3.5mn	-
3.5mn – 4mn	1

Appendices

Appendices:

Annex I. Capital instruments of Bankinter Group

1	Issuer	Bankinter, S.A.	Bankinter, S.A.	Bankinter, S.A.	Bankinter, S.A.	Bankinter, S.A.
2	Single identifier	ES0213679030	ES0213679196	ES0213679196	ES0213679204	XS1592168451
3	Legislation applicable to the instrument	Spanish law	Spanish law	Spanish law	Spanish law	Spanish law/ English law
4	Transitional CRR rules	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital
5	CRR rules after transition	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital
6	Admissible on an individual/sub-consolidated/consolidated basis	Consolidated	Consolidated	Consolidated	Consolidated	Consolidated
7	Type of instrument	Subordinated debentures	Subordinated debentures	Subordinated debentures	Subordinated debentures	Subordinated debentures
8	Amount recognised in regulatory capital	81,894	34,411	6,576	15,496	498,005
9	Nominal amount of the instrument	81,894	247,244	47,250	40,000	500,000
9a	Issue price	100	99.417%	90.900%	99.368%	99.601%
9b	Redemption price	100	100	100	100	100
10	Accounting classification	Liabilities-amortised cost	Liabilities-amortised cost	Liabilities-amortised cost	Liabilities-amortised cost	Liabilities-amortised cost
11	Original issue date	14.05.1998	11/09/2009	10/02/2011	07/07/2010	06/04/2017
12	Perpetual or date	With maturity	With maturity	With maturity	With maturity	With maturity
13	Initial maturity date	18.12.2028	11/09/2019	11/09/2019	07/12/2020	06/04/2027
14	Issuer´s call option subject to prior approval by the supervision authorities	No	No	No	No	Yes

15	Optional call date, contingent call dates redemption amount	-	-	-	-	06/04/2022
16	Subsequent call dates, if applicable	-	-	-	-	-
17	Fixed or floating dividend or coupon	Fixed	Fixed	Fixed	Fixed	Fixed
18	Coupon interest rate and any related index	6.000%	6.375%	6.375%	6.750%	2.500%
19	Existence of a dividend stopper	No	No	No	No	No
20a	Fully discretionary, partially discretionary or compulsory (in calendar terms)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or compulsory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of a coupon step up or other incentives to redeem	No	No	No	No	No
22	Noncumulative or cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	-	-	-	-	-
25	If convertible, totally or partially	-	-	-	-	-
26	If convertible, applicable conversion rate	-	-	-	-	-
27	If convertible, mandatory or optional conversion	-	-	-	-	-
28	If convertible, specify instrument type convertible into	-	-	-	-	-
29	If convertible, specify issuer of instrument it converts into	-	-	-	-	-
30	Write-down features	-	-	-	-	-
31	If write-down, write-down trigger(s)	-	-	-	-	-
32	If write-down, total or partial	-	-	-	-	-
33	If write-down, permanent or temporary	-	-	-	-	-
34	If temporary write-down, description of write-up mechanism	-	-	-	-	-
35	Position in subordination hierarchy in liquidation	Subordinated	Subordinated	Subordinated	Subordinated	Subordinated
36	Non-compliant transitioned features	No	No	No	No	No
37	If so, specify non-compliant features	-	-	-	-	-

Appendix II. Own funds reporting template.

		Amount at 31 December 2018	Amount at 31 December 2017	Regulation (EU) No 575/2013 (CRR) Reference to article	Amounts subject to processing prior to the CRR or residual amount prescribed by the CRR	Explanatory notes
Common Equity Tier 1: Instruments and reserves						
1	Capital instruments and the corresponding share premium accounts	1,453,925	1,453,925	26(1),27,28,29		
2	Retained earnings	2,531,123	2,449,177	26 (1) (c)		
3	Other accumulated comprehensive income (and any other reserves, to include the unrealised gains and losses pursuant to the applicable accounting standards)	141,597	106,213	26(1)		(a)
3a	Funds for general banking risks	-	-	-		
4	Amount of the qualifying items referred to in article 484, section 3, and the corresponding share premium accounts subject to phase-out of the CET 1	-	-	486(2)		
5	Minority interest (amount accepted in consolidated CET 1)	-	-	84		
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	263,199	247,603	26(2)		
6	Common Equity Tier 1 before the regulatory adjustments	4,389,844	4,256,918	-		
Common Equity Tier 1: Regulatory adjustments						
7	Additional value adjustments (negative amount)	(5,996)	(2,731)	34, 105		
8	Intangible assets (net of tax debt) (negative amount)	(284,397)	(233,010)	36 (1) (b), 37	-	
9	Empty set in the EU	-	-	-		
10	Deferred tax assets that depend on future profitability excluding those deriving from temporary differences (net of the corresponding tax liabilities when the conditions establish in article 38, section 3 are met) (negative amount)	-	-	36 (1) (c), 38		
11	Fair-value reserves connected to loss or profit for cash-flow hedges	-	-	33 (1) (a)		
12	Negative amounts resulting from the calculation of the expected losses	(244,134)	(383,531)	36 (1) (d), 40, 159	-	
13	Any increase in net equity resulting from securitised assets (negative amount)	-	-	32 (1)		
14	Gains or losses on liabilities valued at fair-value deriving from changes in the own credit quality	-	-	33 (1) (b)		

		Amount at 31 December 2018	Amount at 31 December 2017	Regulation (EU) No 575/2013 (CRR) Reference to article	Amounts subject to processing prior to the CRR or residual amount prescribed by the CRR	Explanatory notes
15	Defined-benefit pension fund assets	-		36 (1) (e), 41		
16	Direct and indirect holdings of own CET 1 instruments by an institution (negative amount)	(2,411)	(5,381)	36 (1) (f), 42		
17	Direct, indirect, and synthetic holdings of the CET 1, instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-	36 (1) (g), 44		
18	Direct, indirect, and synthetic holdings of the CET 1, instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-	36 (1) (h), 43, 45, 46, 49 (2) (3), 79		
19	Direct, indirect, and synthetic holdings of the CET 1, instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	(42,430)	36 (1) (i) 43, 45, 47, 48 (1) (b), 49 (1) a (3), 79		
20	Empty set in the EU	-	-	-		
20a	Exposure amount of the following items which qualify for a RW of 1.250%, where the institution opts for the deduction alternative	-	-	36 (1) (k)		
20b	of which: qualifying holdings outside the financial sector (negative amounts)	-	-	36 (1) (k) (i), 89 a 91		
20c	of which: Securitisation positions (negative amounts)	-	-	36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258		
20d	of which: incomplete transactions (negative amounts)	-	-	36 (1) (k) (iii), 379 (3)		
21	Deferred tax assets arising from temporary difference [amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met] (negative amount)	-	-	36 (1) (c), 38, 48 (1) (a)		
22	Amount exceeding the 15% threshold (negative amount)	-	-	48 (1)		
23	of which: direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant in those entities	-	-	36 (1) (I), 48 (1) (B)		
24	Empty set in the EU	-	-	-		
25	of which: deferred tax assets arising from temporary difference	-	-	36 (1) (c), 38, 48 (1) (a)		

		Amount at 31 December 2018	Amount at 31 December 2017	Regulation (EU) No 575/2013 (CRR) Reference to article	Amounts subject to processing prior to the CRR or residual amount prescribed by the CRR	Explanatory notes
25a	Losses for the current financial year (negative amount)	-		36 (1) (a)		
25b	Foreseeable tax charges relating to CET 1 items (negative amount)	-		36 (1) (l)		
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	-		-		
27	Qualifying Additional Tier 1 deductions that exceed the Additional Tier 1 capital of the institution (negative amount)	-		36 (1) (j)		
28	**Total CET1 regulatory adjustment COMMON EQUITY TIER 1**	**(536,938)**	**(667,083)**			
29	**Additional Tier 1 capital:**	**3,852,906**	**3,589,835**			
Additional Tier 1 capital: Instruments						
30	Capital instruments and the corresponding share premium accounts	199,000	199,000	52		
31	of which: classified as equity under applicable accounting standards	-	-	-		
32	of which: classified as liabilities under applicable accounting standards	-	-	-		
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to gradual exclusion from Additional Tier 1 Capital	-	-	486 (3)		
34	Qualifying Tier 1 capital included in consolidated Additional Tier 1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	-	-	85, 86		
35	of which, instruments issued by subsidiary subject to phase-out	-	-	486 (3)		
36	**Additional Tier 1 capital before regulatory adjustments**	**199,000**	**199,000**			
Additional Tier 1 capital: Regulatory adjustments						
37	Direct and indirect holdings by an institution of own Additional Tier 1 instruments (negative amount)	-		36 (1) (f), 42		
38	Holdings of the Additional Tier 1 instruments of financial sector entities where those entities have a reciprocal cross holding with the institution designed to inflate artificially the own funds of the institution (negative amounts)	-		36 (1) (g), 44		
39	Direct, indirect, and synthetic holdings of the AT1, instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-	36 (1) (h), 43, 45, 46, 49 (2) (3), 79		

		Amount at 31 December 2018	Amount at 31 December 2017	Regulation (EU) No 575/2013 (CRR) Reference to article	Amounts subject to processing prior to the CRR or residual amount prescribed by the CRR	Explanatory notes
40	Direct and indirect holdings of the Additional Tier 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)			36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) a (3) , 79		
41	Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) 575/2013 (i.e., CRR residual amounts)			-		
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013			-		
	of which: intangible assets			-		
	of which: negative amounts resulting from the calculation of the expected losses			-		
42	Qualifying Tier 2 deductions that exceed the Tier 2 capital of the institution (negative amount)			56 (e)		
43	Total regulatory adjustments to additional Tie 1 Capital					
44	Additional Tier 1 Capital	199,000	199,000			
45	Tier 1 Capital (Tier 1 Capital = Common Equity Tier 1 + Additional Tier 1 Capital)	4,051,906	3,788,835			
Tier 2 capital: Instruments and reserves						
46	Capital instruments and the corresponding share premium accounts	636,382	697,018	62, 63	-	
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2 Capital	-		486 (4)	-	
48	Qualifying own funds instruments included in consolidated Tier 2 capital (including minority interest and Additional Tier 1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-		87, 88	-	
49	of which: instruments issued by subsidiaries subject to phase-out	-		486 (4)	-	
50	Credit risk adjustments	-		62 (c) and (d)	-	
51	Tier 2 capital before the regulatory adjustments	636,382	697,018			

		Amount at 31 December 2018	Amount at 31 December 2017	Regulation (EU) No 575/2013 (CRR) Reference to article	Amounts subject to processing prior to the CRR or residual amount prescribed by the CRR	Explanatory notes
Tier 2 capital: Regulatory adjustments and reserves						
52	Direct and indirect holdings by an institution of own Tier 2 instruments (negative amount)	-		63 (b) (i), 66 (a), 67		
53	Holdings of the Tier 2 instruments of financial sector entities where those entities have a reciprocal cross holding with the institution designed to inflate artificially the own funds of the institution (negative amounts)	-		66 (b), 68		
54	Direct and indirect holdings of the Tier 2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-		66 (c), 69, 70 y 79		
55	Direct and indirect holdings of the Tier 2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-		66 (d), 69, 79		
56	Regulatory adjustments applied to Tier 2 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 575/2013 (i.e., CRR residual amounts)	-	-	-		
57	Total Tier 2 capital regulatory adjustments	-	-	-		
58	Tier 2 capital	636,382	697,018	-		
59	Total capital (Total capital= Tier 1 capital + Tier 2 capital)	4,688,288	4,485,853	-		
60	Total risk-weighted assets	32,800,807	31,315,807			
Ratios and capital buffers						
61	Common Equity Tier 1 (as a percentage of the total risk exposure amount)	11.75%	11.46%	92 (2) (a)		
62	Tier 1 capital (as a percentage of the total risk exposure amount)	12.35%	12.10%	92 (2) (b)		
63	Total capital (as a percentage of the total risk exposure amount)	14.29%	14.32%	92 (2) (c)		
64	Institution specific buffer requirement [CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount]	0.00%	0.00%	DRC 128, 129, 130, 131 y 133		

		Amount at 31 December 2018	Amount at 31 December 2017	Regulation (EU) No 575/2013 (CRR) Reference to article	Amounts subject to processing prior to the CRR or residual amount prescribed by the CRR	Explanatory notes
65	of which: Capital Conservation Buffer requirement	0.00%	0.00%	-		
66	of which: Countercyclical Capital Buffer requirement	0.00%	0.00%	-		
67	of which: Systemic Risk Buffer requirement	0.00%	0.00%	-		
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.00%	0.00%	-		
68	Common equity Tier 1 available to meet the capital buffer requirement (as a percentage of the risk exposure amount)			DRC 128		
Amounts below the threshold for deduction (before risk-weighting)						
72	Direct and indirect holding of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-		36 (1) (h), 45, 46, 472 (10), 56 (c), 59, 60, 475 (4), 66 (c), 69, 70		
73	Direct and indirect holdings of the Common Equity Tier 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	364,995	363,227	36 (1) (i), 45, 48		
74	Empty set in the EU	-		-		
75	Deferred tax assets arising from temporary difference [amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met]	-	-	36 (1) (c), 38, 48		
Applicable caps on the inclusion of provisions in Tier 2						
76	Credit risk adjustments included in the Tier 2 capital with respect to exposures subject to the Standardise Approach (before the application of the cap)			62		
77	Cap on inclusion of credit risk adjustments in Tier 2 under the standardised approach			62		
78	Credit risk adjustments included in Tier 2 in respect of exposure subject to the internal rating-based approach (prior to the application of the cap)			62		
79	Cap for inclusion of credit risk adjustments in Tier 2 under the internal ratings-based approach			62		
Capital instruments subject to phase-out provisions (only applicable between 1 January 2014 and 1 January 2022)						
80	- Current cap on CET1 instruments subject to phase-out arrangements	-		484 (3), 486 (2) and (5)		

		Amount at 31 December 2018	Amount at 31 December 2017	Regulation (EU) No 575/2013 (CRR) Reference to article	Amounts subject to processing prior to the CRR or residual amount prescribed by the CRR	Explanatory notes
81	- Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)			484 (3), 486 (2) and (5)		
82	- Current cap on Additional Tier 1 instruments subject to phase-out arrangements			484 (4), 486 (3) and (5)		
83	- Amount excluded from Additional Tier 1 due to cap (excess over cap after redemptions and maturities)			484 (4), 486 (3) and (5)		
84	- Current cap on Tier 2 instruments subject to phase-out arrangements			484 (5), 486 (4) and (5)		(b)
85	- Amounts excluded from Tier 2 due to cap (excess over cap after redemptions and maturities)			484 (5), 486 (4) and (5)		

(a) Unrealised capital gains excluding Public Debt

(b) Reported applicable limit of the subordinated liabilities, based on the notional amount and the applicable percentages in the conformance with rule 486 (5).

Appendix III. Inventory of Group companies. (Template 3: EU LI3- Differences in the scopes of consolidation)

Bankinter Group 2018. Name of the Entity	Accounting consolidation method	Prudential consolidation method	Not consolidated, not deducted	Deducted	Description of the company
Bankinter Gestión de Activos, S.A., SGIIC	Full consolidation	Full consolidation			Asset management
Bankinter Gestão de Ativos, S.A.	Full consolidation	Full consolidation			Asset management
Hispamarket, S.A.	Full consolidation	Full consolidation			Holding and purchasing securities
Intermobiliaria, S.A.	Full consolidation	Full consolidation			Property management
Bankinter Seguros Generales, S.A.	Equity method	Equity method		X	Insurance company
BK Consultoria, S.A.	Full consolidation	Full consolidation			Telephone assistance
BK Sociedad de Financiación, S.A.	Full consolidation	Full consolidation			Bond issues
Helena Activos Liquidos, S.L.	Equity method	Equity method			Other financial services.
BK Capital Riesgo I Fondo de Capital	Full consolidation	Full consolidation			Venture capital fund
Bankinter Seguros de Vida, S.A.	Equity method	Equity method		X	Insurance company
Bankinter Consumer Financer, EFC, SA	Full consolidation	Full consolidation			Credit institution
Bankinter Capital Riesgo, SGECR, S.A	Full consolidation	Full consolidation			Capital fund manager
Bankinter Emisiones, S.A.	Full consolidation	Full consolidation			Bond issues
Arroyo Business Consulting, SL	Full consolidation	Full consolidation			No activity
Bankinter Global Services, S.A.	Full consolidation	Full consolidation			Consulting
Relanza Gestión, S.A.	Full consolidation	Full consolidation			Collections services
Bankinter Luxembourg, S.A.	Full consolidation	Full consolidation			Private banking
Naviera Sorolla, S.L	Full consolidation	Full consolidation			Special purpose vehicle
Naviera Goya, S.L.	Full consolidation	Full consolidation			Special purpose vehicle
Bankinter Services, AIE	Full consolidation	Full consolidation			Special purpose vehicle
Olimpo Real Estate Socimi, S.A.	Equity method	Equity method			Real estate investment company
Atom Hoteles Socimi, S.A.	Equity method	Equity method			Real estate investment company
Bankinter Group 2018. Name of the Entity	**Accounting consolidation method**	**Prudential consolidation method**	**Not consolidated, not deducted**	**Deducted**	**Description of the company**
Bankinter 7 Fondo de Titulización Hipotecaria	Full consolidation	Full consolidation			Special purpose vehicle
Bankinter 8 Fondo de Titulización Hipotecaria	Full consolidation	Full consolidation			Special purpose vehicle
Bankinter 9 Fondo de Titulización Hipotecaria	Full consolidation	Full consolidation			Special purpose vehicle
Bankinter 10 Fondo de Titulización Hipotecaria	Full consolidation	Full consolidation			Special purpose vehicle
Bankinter 11 Fondo de Titulización Hipotecaria	Full consolidation	Full consolidation			Special purpose vehicle
Bankinter 13 Fondo de Titulización de Activos	Full consolidation	Full consolidation			Special purpose vehicle
Bankinter 3 FTPyme Fondo de Titulización de Activos	Full consolidation	Full consolidation			Special purpose vehicle
Castellana Finance, Ltd	Full consolidation	Full consolidation			Special purpose vehicle
Línea Directa Aseguradora, S.A.	Full consolidation	Equity method		X	Insurance company
Línea Directa Asistencia, S.L.U.	Full consolidation	Equity method		X	Expert reports and travel assistance
Moto Club, S.L.U.	Full consolidation	Equity method		X	Motorcycle services
Centro Avanzado de Reparaciones CAR, S.L.U.	Full consolidation	Equity method		X	Vehicle repair.
Ambar Medline, S.L.U.	Full consolidation	Equity method		X	Insurance mediation
LDA Reparaciones, S.L.	Full consolidation	Equity method		X	Home repair
LDA Activos, S.L.U.	Full consolidation	Equity method		X	Property management