Pillar 3 Disclosures Report

2020

Contents

Executive summary

The Bankinter Group closed the 2020 financial year with a consolidated net profit of 317.1 million euros; down 42.4% on 2019. This reduction is due to the significant provisions that the Bank has made - amounting to 242.5 million euros - to anticipate the worsening macroeconomic situation as a result of the impact of the COVID-19 pandemic, as well as the absence of the extraordinary items recognised in 2019 for the purchase of EVO Banco. Despite this the Bank maintains its leadership position among listed banks in terms of profitability and asset quality, with enhanced capital adequacy that remains well above the ECB's regulatory requirements.

Bankinter continues to capitalise on its prudent risk management with asset quality and a risk profile that are once again the best among listed banks, as shown by its non-performing loan ratio and the capital requirements established by the ECB following its exercise of supervisory review and evaluation.

The optimisation of capital and the maintenance of a moderate risk profile are hallmarks of the Group and create the foundations for continued and sustainable growth.

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 regarding Bankinter Group's capital and risk management as at 31 December 2020. The purpose of this document is to provide useful information on the institution's capital and risk profile in order to provide greater transparency to market agents and to ensure compliance with the disclosure requirements established in Regulation (EU) 575/2013 ('CRR'), which has been modified by Regulation 2019/876 in relation to presentation and disclosure of information requirements, among other matters.

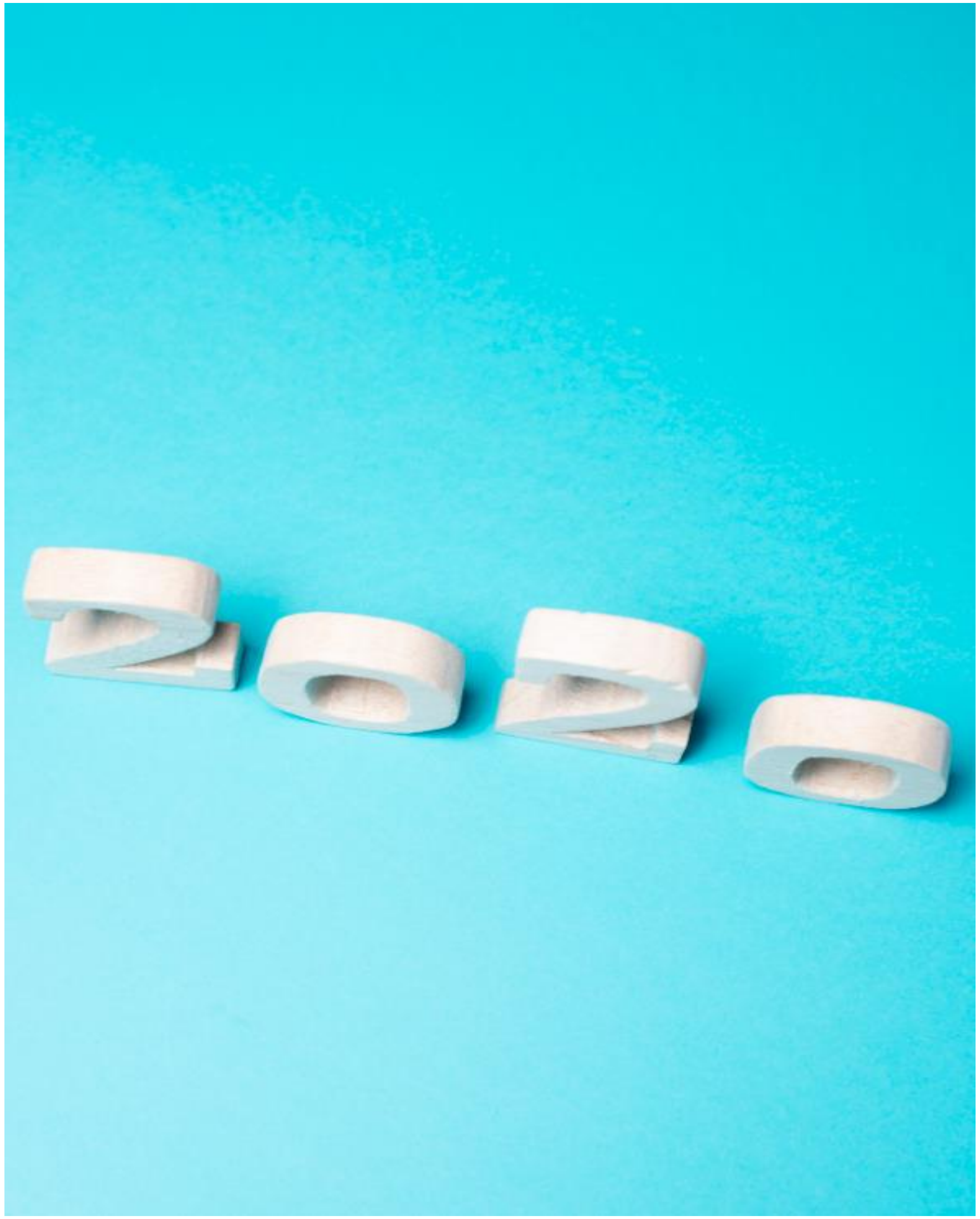
The Group publishes additional relevant information in its annual report that can be viewed on its corporate website: webcorporativa.bankinter.

Risk profile

One of Bankinter 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 the risk levels at which it wishes to operate to achieve the Group's strategic objectives and to continuously monitor both existing and emerging risks. The Bank's internal capital adequacy assessment process (ICAAP) 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 2020 year-end, they were all within the risk appetite limits set by the Board of Directors:

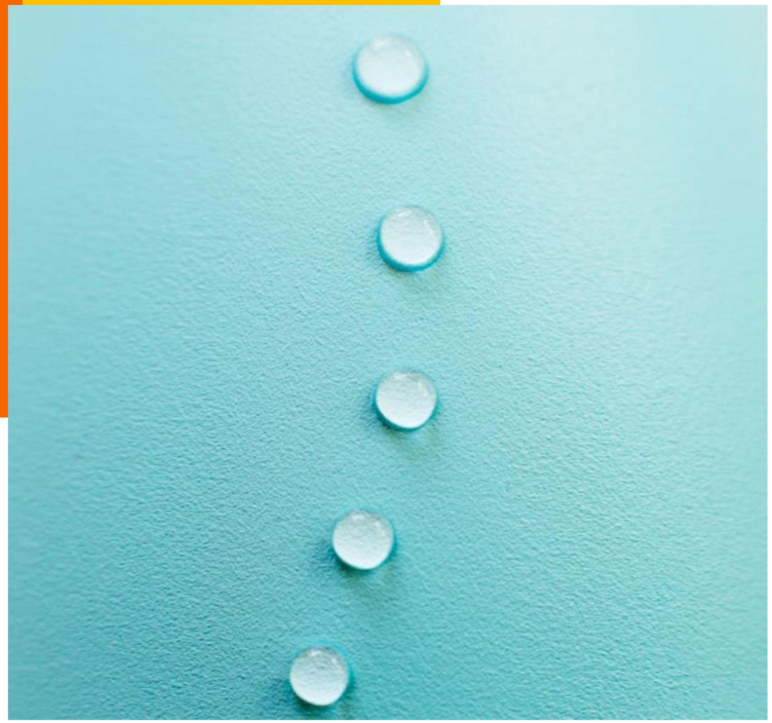
12.29% **Common equity tier 1 – CET1 (%) fully loaded** (see Chapter 2)	2019: 11.61%
€4,172mn **Common equity tier 1 – CET1 (%) fully loaded** (see Chapter 2)	2019: €3,922mn
€317mn **Profit after tax** (see the management report of the annual report)	2019: €551mn
7.03% **RoE** (see the management report of the annual report)	2019: 12.98%
2.37% **Non-performing loans ratio** (see page 182 of the annual report)	2019: 2.51%
€33,955mn **Risk-weighted assets** (see Chapter 3)	2019: €33,770mn
€30,805mn **Credit risk-weighted assets** (see Chapter 3)	2019: €30,679mn
€190mn **Market risk-weighted assets** (see Chapter 3)	2019: €240mn
€2,960mn **Operational risk-weighted assets** (see Chapter 3)	2019: €2,851mn
198% **Liquidity coverage ratio - LCR** (see Chapter 9)	2019: 153.7%
5.2% **Leverage ratio** (See Chapter 10)	2019: 4.8%

The Pillar 3 disclosures report provides particulars of the regulatory risk measures reflecting the Group's risk profile and strategy. In 2020, there has been an increase in credit risk requirements as a result of the growth of investment and the credit business. There has been a decrease in market risk requirements as a result of a much more active management of the trading portfolio and an increase in operational risk requirements, due to the increase in relevant income during the year. As the standardised approach is used in its calculation, there is a close relationship between the positive trend in income statement margins and operational risk requirements.

As of 31 December 2020, the Bankinter Group maintains a CET1 (%) ratio of 12.29% compared to the minimum 7.675% required by the European Central Bank after its Supervisory Review and Evaluation Process (SREP). The minimum required CET1 ratio of 7.675% comprises the Pillar 1 requirement (4.5%), the Pillar 2 requirement (0.675%) and the capital conservation buffer (2.5%).

Likewise, the total capital ratio at the end of the reporting period stood at 15.02%, with 11.7% being the minimum requirement established by the Supervisor.

Introduction



Introduction

Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013, on prudential requirements for credit institutions and investment firms, amended by Regulation (EU) 2019/876, together with Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions, itself modified by Directive 2019/878/EU, constitute the legislation in force on own funds and supervision on a consolidated basis of Spanish banks.

Under part eight 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 2020.

The purpose of this report is to facilitate market agents' assessment of Bankinter Group's capital adequacy at 31 December 2020. 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 not omitted any required information for reasons of confidentiality or privacy.

The Board of Directors of Bankinter certifies that the preparation of this report and its publication have been carried out following at all times the instructions set out in Part Eight of Regulation (EU) 575/2013, modified by Regulation (EU) 2019/876, and has been prepared in accordance with the 'Bankinter policy for the communication of economic-financial, non-financial, risk management and corporate information' approved by the Board on 16 December 2020.

No use has been made of exceptions to the publication of information considered reserved or confidential.

At its meeting of 17 March 2021, the Board of Directors approved this document subject to verification by the Audit and Regulatory Compliance Committee.

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 among the consolidated Group for the purposes of the capital adequacy 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. Its corporate purpose is the performance of banking business, and it is subject to the standards and regulations applicable to credit institutions operating in Spain.

The Bank is the parent company of a group of subsidiaries that are engaged in various activities (mainly asset management, investment services, credit cards and the insurance business) that, with it, constitute Bankinter Group. The details of the subsidiaries which comprise Bankinter Group are listed in the annual consolidated financial statements (webcorporativa.bankinter.com).

1.1.2. Differences among the consolidated Group for the purposes of capital adequacy and accounting regulations

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

The definition of the Group is based on prevailing accounting legislation. In it investees are defined as all subsidiaries, jointly-controlled entities and associates. Subsidiaries are entities over which the Group has the ability to exercise control. Jointly-controlled entities are investees that are not subsidiaries. They are jointly controlled by the Group and another company or companies not related to the Group, and joint ventures. Associates are companies 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 relevant scope for the purposes of this report, as it aims 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, modified by Regulation (EU) 2019/876, 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 the insurance business, 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

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

Annexe 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 under article 36 of Regulation (EU) 575/2013, modified by Regulation (EU) 2019/876.

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

In accordance with Annexe 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 capital adequacy regulations for banks (Prudential Balance Sheet) at 31 December 2020. This seeks to compare the accounting information published in the Consolidated Financial Statements with the regulatory information included in this report.

Reconciliation of Public Balance Sheet vs Prudential Balance Sheet

	Public Balance Sheet	Insurance companies	Adjustments and eliminations	Prudential Balance Sheet
Cash, cash balances at central banks and other demand deposits	15,044,317	140,910	(140,910)	15,044,317
Financial assets held for trading	2,158,742	-	-	2,158,742
Financial assets designated at fair value through profit or loss	-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	119,555	-	-	119,555
Financial assets at fair value through other comprehensive income	2,629,598	927,897	(927,898)	2,629,598
Financial assets at amortised cost	72,861,812	112,958	(112,958)	72,861,812
Fair value changes of the hedged items in portfolio hedge of interest rate risk	195,805	-	-	195,805
Derivatives – Hedge accounting	210,773	-	-	210,773
Non-current assets held for sale	1,708,409	-	921,149	787,260
Investments in joint ventures and associates	109,526	(400)	400	109,526
Assets under reinsurance and insurance contracts	-	16,581	(16,581)	-
Tangible assets	455,069	113,916	(113,916)	455,069
Intangible assets	258,075	12,688	(12,688)	258,075
Tax assets	380,086	41,137	(41,137)	380,085
Other assets	120,326	84,188	(84,814)	120,952
TOTAL ASSETS	**96,252,093**	**1,449,875**	**(529,352)**	**95,331,571**
Financial liabilities held for trading	1,382,300	-	0	1,382,300
Financial liabilities designated at fair value through profit or loss	-	-	-	-
Financial liabilities at amortised cost	87,472,834	120,678	(191,954)	87,544,110
Fair value changes of the hedged items in portfolio hedge of interest rate risk	38,775	-	-	38,775
Derivatives – Hedge accounting	482,033	15,167	(15,167)	482,033
Liabilities held for sale	988,948	-	988,948	-
Liabilities under insurance contracts	-	734,563	(734,563)	-
Provisions	438,512	492	(492)	438,512
Tax liabilities	220,101	70,986	(70,986)	220,101
Share capital repayable on demand	-	-	-	-
Other liabilities	264,433	41,583	(42,452)	265,302
TOTAL LIABILITIES	**91,287,936**	**983,468**	**(66,666)**	**90,371,134**
Own funds	4,816,055	421,443	(417,486)	4,812,097
Accumulated other comprehensive income	148,103	44,963	(45,200)	148,340
Minority interests	148,103	-	-	-
TOTAL EQUITY	**4,964,157**	**466,406**	**(462,686)**	**4,960,437**
TOTAL LIABILITIES AND EQUITY	**96,252,093**	**1,449,875**	**(529,352)**	**95,331,571**

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, cash balances at central banks and other demand deposits	15,044,317	15,044,317	15,044,317				
Financial assets held for trading	2,158,742	2,158,742	-	498,922	-	1,659,820	-
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	119,555	119,555	119,555	-	-	-	-
Financial assets at fair value through other comprehensive income	2,629,598	2,629,598	2,607,848	-	21,750	-	-
Financial assets at amortised cost	72,861,812	72,861,812	71,131,663	422,748	1,307,402	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	195,805	195,805	-	-	-	-	195,805
Derivatives – Hedge accounting	210,773	210,773	-	210,773	-	-	-
Non-current assets held for sale	1,708,409	787,260	147,302	-	-	-	639,958
Investments in joint ventures and associates	109,526	109,526	45,607	-	-	-	63,919
Assets under reinsurance and insurance contracts	-	-	-	-	-	-	-
Tangible assets	455,069	455,069	455,069	-	-	-	-
Intangible assets	258,075	258,075	-	-	-	-	258,075
Tax assets	380,086	380,085	164,933	-	-	-	215,152
Other assets	120,326	120,952	120,952	-	-	-	-
TOTAL ASSETS	**96,252,093**	**95,331,571**	**89,837,247**	**1,132,443**	**1,329,152**	**1,659,820**	**1,372,909**
Financial liabilities held for trading	1,382,300	1,382,300	-	437,233	-	941,589	3,478
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-
Financial liabilities at amortised cost	87,472,834	87,544,110	-	-	(367,891)	-	87,912,002
Fair value changes of the hedged items in portfolio hedge of interest rate risk	38,775	38,775	-	-	-	-	38,775
Derivatives – Hedge accounting	482,033	482,033	-	482,033	-	-	-
Liabilities held for sale	988,948	-	-	-	-	-	-
Liabilities under insurance contracts	-	-	-	-	-	-	-
Provisions	438,512	438,512	-	-	-	-	438,512
Tax liabilities	220,101	220,101	-	-	-	-	220,101
Share capital repayable on demand	-	-	-	-	-	-	-
Other liabilities	264,433	265,302	-	-	-	-	265,302
TOTAL LIABILITIES	**91,287,936**	**90,371,134**	**-**	**919,265**	**(367,891)**	**941,589**	**88,878,171**

Figures in thousands of euros

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

		Items subject to:			
	Total	**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)	93,958,662	89,837,247	1,132,443	1,329,152	1,659,820
Liabilities carrying value amount under scope of regulatory consolidation (as per template LI1)	(2,308,094)	-	(919,265)	(447,239)	(941,589)
Amount corresponding to investments in financial institutions	429,198	429,198	-	-	-
Differences due to different netting rules, other than those already included in row 2	(718,231)	-	-	-	(718,231)
Differences due to consideration of provisions	430,783	430,783	-	-	-
Off-balance-sheet items after applying CCFs	5,385,266	5,385,266	-	-	-
Risk mitigation techniques	(1,769,317)	(1,734,604)	(34,713)	-	-
Exposure 'Other non-credit obligation assets'	(673,375)	(673,375)	-	-	-
CCP	178,667	-	178,667	-	-
Exposure amounts considered for regulatory purposes	**94,913,560**	**93,674,516**	**357,131**	**881,913**	**-**

Figures in thousands of euros

1.1.4. Main changes in the Group's scope of consolidation in 2020

Note 13 of the notes to the 2020 consolidated financial statements describes the main changes in the public scope of consolidation during the financial year. This note describes the following significant event affecting the companies comprising the Línea Directa Aseguradora Group.

At the annual general meeting of Bankinter, S.A., held on 19 March 2020, approval was given for the distribution in kind of the full share premium, by the delivery to its shareholders of shares representing approximately 82.6% of the share capital of its subsidiary Línea Directa Aseguradora, S.A., Compañía de Seguros y Reaseguros ("Línea Directa Aseguradora").

Bankinter, S.A., as the sole shareholder of Línea Directa Aseguradora, will file the application for admission to trading of Línea Directa Aseguradora's shares on the continuous market so that they are admitted to trading as close as possible in time to the actual delivery of the shares of Línea Directa Aseguradora to Bankinter S.A. shareholders.

Before the transaction, it will be agreed that Línea Directa will pay a dividend to bring its capital adequacy ratio average market levels for similar insurance companies. The number of shares representing Línea Directa Aseguradora's share capital is expected to be adjusted so that each Bankinter shareholder will receive one share for each Bankinter share.

It is estimated that the execution of this operation will be completed within 12 months from the close of the 2020 financial year.

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 applicable legislation.

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 charges at an individual or sub-consolidated level

Bankinter Group asked Banco de España 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 reasons 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 Institution on 8 October 2009.

1.4. Risk management policies and objectives

Quality risk management is essential for the business of any credit institution and, in particular, those like Bankinter Group, which 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 its management. 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:

- Integrity. Comprehensive consideration of all material risks, including risks generated directly or indirectly.
- Independence of the risk function from the business units: separating the functions of the areas involved in the taking of risks and those responsible for the analysis, control and supervision of them; thereby guaranteeing an appropriate level of independence and autonomy to ensure proper risk control.
- Direct involvement of senior management in decision-making.
- Collective decisions to ensure consideration of different opinions, with no assignment of solely individual decision-making powers.
- Clear definition of responsibilities. Each risk acceptance and management unit will clearly define the type of activity, segment and risk it may incur and the decisions it may make as refers to risk, according to its delegated powers. How transactions are arranged and managed and where they are recognised will also be established.
- Centralised control. Integrated risk management and control through a corporate structure with responsibilities that extend across the organisation
- Transparency of the information on the Group's risks and the operation of risk control systems provided to regulatory bodies and key external agents, while maintaining the right channels to facilitate communication
- Alignment with all procedures, manuals and specific internal circulars, which it is necessary to create in relation to the risks in the Group's various businesses and subsidiaries.
- Assurance of proper compliance with the corporate governance rules defined by the Company through its corporate governance system, updating and constant improvement of this system as per the best international practices in transparency and good governance, and creation of instruments for monitoring and measurement
- Conduct at all times within the law and as per the Company's corporate governance system and, particularly, the values defined in the Code of Professional Ethics of Bankinter Group
- Responsibility to society, which is manifested through different lines of action:
    - Providing adequate financing to the situation and needs of customers.

- Encouraging sustainable development that allows the goals set by the United Nations to be achieved and that, in particular, promotes environmental protection and ensures that the commitments to combat the effects of climate change are met.
- Ensuring that the purpose of the funds is lawful and that it is not related to activities that violate fundamental rights, labour rights or that negatively affect society.

These general risk management and control principles of Bankinter Group form the basis of, 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 Institution's activities based on quality banking practices.
- Respect and conformity of the Group's actions with established requirements, thresholds and regulatory restrictions, ensuring proper compliance with prevailing legislation at all times.
- Maintenance of low or moderate exposure to credit risk with a non-performing loan ratio in the lowest range for the Spanish financial system.
- Appropriate hedging of problem assets.
- Appropriate return on capital invested, ensuring minimum return on the risk-free rate throughout the cycle.
- Maintenance of a low level of market risk, so that the losses generated in stress scenarios have limited impact on the Bank's income statement.
- Intense growth in the priority strategic medium-sized and large enterprise segments, characterised by higher-quality risk and its notable contribution to earnings through the generation of income, fees and commissions, and other recurring income.
- Balance of the loan book between individuals and legal entities.
- Balanced growth in retail funds.
- Diversification of wholesale funding sources, from the viewpoint of both instruments and markets, and the maintenance of a balanced maturity profile.
- Optimisation of retail funding costs, maintaining a balance between the return on the loan and market interest rates.
- Use of a risk diversification policy to avoid excessive concentration levels that might translate into difficulties for the Bank.
- Limitation of business in sensitive sectors that could entail a risk for the Institution'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.
- Enhanced control of the Group's reputational position.
- Desire to round out the level of services that Bankinter offers its customers, both in private banking and merchant banking, offering limited-risk investment banking services.
- Optimising the cost-to-income ratio.
- 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 capital adequacy 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 Institution'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 periodic 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 Institution does not want to go beyond under any circumstances.

Therefore, the risk appetite framework is a governance tool to ensure that the risks assumed are consistent with Bankinter Group's strategy and business plans, irrespective of any limits established for the various risks and monitored regularly though the relevant committees and organisational structures.

1.4.3. Corporate governance of the risk function

Bankinter Group has a corporate governance system that is in line with the industry best practices and adapted to regulatory requirements. Detailed information on corporate governance procedures can be found in the 2020 annual corporate governance report, on the Group's corporate website.

The Board of Directors, in accordance with the Rules and Regulations of the Board of Directors, is responsible for approving the risk control and management policy and regularly monitoring the internal information and risk control systems.

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

All the functions of the Board have been delegated to the Executive Committee, except for those which cannot be delegated under the law, the by-laws or the Rules and Regulations of the Board of Directors. It takes decisions for managing and monitoring all types risks and, in turn, delegates to the following committees:

Credit risk, in the Executive Risk Committee, which in turn sets the limits on the delegation of powers to the lower-ranking internal bodies, within the limits set by the board of directors. The Executive Risk Committee is the top risk committee, except for risks that fall under the Management Committee's and the Assets and Liabilities Committee's remit.

Business risk, to the Management Committee.

Structural risk (liquidity, interest rate, foreign currency) and market risk, to the Assets and Liabilities Committee (ALCO).

The Executive Committee met 11 times in 2020 (see the 2020 annual corporate governance report on the corporate website for further details).

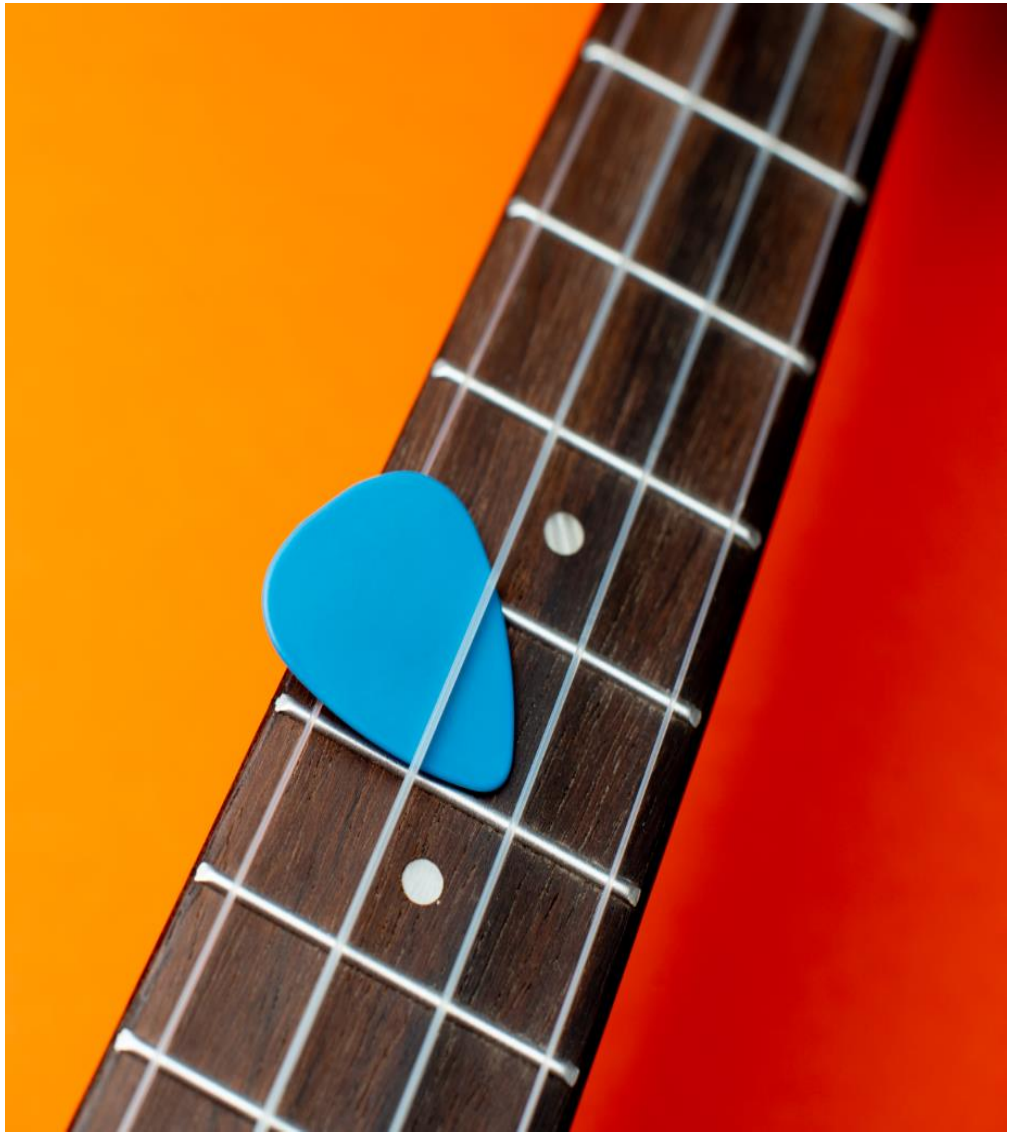
Risk Committee

The Risk Committee is an advisory body that oversees the Group's risks 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 corporate 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 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 Bank'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 by the Board.
- Jointly establishing rational remuneration policies and practices. To this end, and without prejudice to the duties of the Remuneration Committee, the Risk Committee shall examine whether the incentives envisaged in the remuneration system take into account risk, capital, liquidity, and probability and opportunity for profit.
- Approving the appointment or replacement of the Chief Risk Officer (CRO) at the proposal of the Chairman of the Board, its Executive Vice Chairman or the Chief Executive Officer.
- Reviewing the general risks map for both the Bank and the Group, and submitting the corresponding proposals to the Board.
- Approving, at the proposal of the Chairman of the Board, the Vice Chairman, if the latter is an executive, or the CEO, the appointment or the replacement of the head of the Risk Control unit.
- Approving or modifying the charter of the Risk Control function, which contain its functions and powers.
- Overseeing the activities of the Risk Control unit, which will report regularly to the Committee.
- Submitting the Risk Committee's annual report to the Board of Directors for its approval.

In 2020, the Risk Committee met five times, one of those in writing (see the 2020 annual corporate governance report on the corporate website for further details).



Audit and Regulatory Compliance Committee

The Audit and Regulatory Compliance Committee directs the Internal Audit activity. 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.

In 2020, the Audit and Regulatory Compliance Committee met 10 times, 10 of them in writing with no physical meeting held (for more details see the 2020 annual corporate governance report on the corporate website).

Reports are drawn up regularly for the performance of these functions by the Board of Directors and various committees to which these powers are delegated. Some of these reports are:

- Capital 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 management 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 is based on the principle of independence and separation of functions between the various units that assume and manage risks and those that monitor and control risks, in accordance with the '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 appropriate 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 Group's various businesses.

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

- Structural and market risks, which are managed by the Treasury and Capital Markets Division.
- Operational risks, which have specific management.
- 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 Division 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 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 Control and Compliance Division, which comprises the Risk Control and Validation Unit, the Regulatory Compliance Unit, the Anti-Money Laundering Unit and the Financial Control 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 risk, and the risk of compliance, conduct and money laundering, which are the responsibility of the Regulatory Compliance Unit.

The Regulatory Compliance Unit also controls conduct risk in the second line, which is controlled in the first line by the Products Committee, ensuring that the entity has effective procedures for approval or modification of products or services aimed at its customers. Likewise, the Regulatory Compliance Unit controls proper compliance with the Commercial Communication Policy, which is managed and controlled first by the Marketing and External Communication Areas.

Legal Counsel Division, through the data protection officer, will be responsible for data protection risk control.

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 is ultimately responsible for the management and control of Bankinter's risks.

The managing director of risk is the CRO ('Chief Risk Officer') in accordance with current regulations. The Board's Risk Committee appoints and removes the Chief Risk Officer on a proposal by the Bank's Chairman, Executive Vice Chairman or the Chief Executive Officer.

The Risk Division combines two differentiated and separate functions:

- Risk management function.
- Control and Compliance function.

The organisation of these functions is described below.

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 Group's governance bodies. It is charged with defining the methods and executing the risk controls as the first line of defence. It is also geared towards executing and integration the risk function into the management of the various businesses of Bankinter and Bankinter Group. It comprises the following first-line divisions and units:

Credit risk

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

Risk analysis and processes

The main functions of risk analysis and processes is the definition and implementation of the various processes depending on the type of business; the definition and support for management reports; and the maintenance and development of the current risk approval and management systems.

Global risk management

responsible for developing, improving, controlling, implementing and regularly monitoring statistical and risk parameter models for the various credit portfolios, and enhancing the integration of these models into management. The internal models perform a key role in the approval process, in the calculation of regulatory and internal capital, in the collective estimation of provisions, in recovery processes and in the establishment of risk-adjusted return measures (RARORAC). It also oversees, together with the global risk division, the development of the specific policies and procedures that must be included in the framework for the risk management model. Its responsibilities also include supervisor relations, official announcements and regulatory reporting in regard to models, and monitoring the sequentially implementation plan for IRB models in the Bank.

Global risk

Coordinates the different areas of Risks in activities and projects related 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

Reporting to the Chief Risk Officer, its function is to control and monitor structural risks (liquidity, interest rate and foreign currency) and market risks, arising from the Entity's institutional and trading operations.

As discussed in due course, the Balance Sheet Management area and the Trading Department, which report to the general Capital Markets Division, are responsible, respectively, for managing liquidity, interest and foreign currency risks (structural risks) and 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; i.e., those taken by the Assets and Liabilities Committee (ALCO) and by the Treasury Area for trading purposes.

Operational risk

Responsible for promoting and coordinating the procedures and tools for the identification, measurement, first-line control and reporting of operational risks, providing the organisation with a uniform vision of operational risk. First-line management of operational risk is delegated to the Group's various subsidiaries, support areas and business units. Operational risk is occasionally managed by specialised or centralised departments when necessary given the circumstances (complexity, size, cross-sector corporate processes, etc.).

Non-performing loans and incidence

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 actions for this purpose with a view to minimising new non-performing loans. It is also responsible for running and managing the control, monitoring and non-amicable recovery of loans in accordance with prevailing legislation by creating and promoting automatic systems that make management more efficient and by implementing more efficient and effective mechanisms and processes to improve the recovery of overdue sums. It is also responsible for all matters related to the policy, analysis, approval and monitoring of forbearance arrangements.

Property assets

This area sets and updates the price of foreclosed assets and allocates them for a specific purpose. Its responsibilities include ensuring the technical and legal adequacy of these assets and monitoring them to prevent impairment. Its purpose and main responsibility is to proactively seek out buyers by advertising and managing assets according to principles of transparency, appropriate advertising, competition and effectiveness to obtain the highest price possible, while prioritising rapid selling.

Control and Compliance function

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

Risk Control and Internal Validation Unit

Functionally organised as follows:

Risk control: 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 in the banking sector and/or required by regulators, overseeing that the actual risk profile assumed is in line with that established by senior management.

Organisations and Subsidiaries Control Unit: This unit oversees credit risk management at regional organisations and the second line of defence for the various risks of Group subsidiaries.

Technical Division: This area is in charge of procedural aspects of the risk appetite framework and the corporate risk map, and oversight of the second line of defence of certain specific risks (e.g. reputational risk).

Internal validation: It is in charge of validating the advanced risk models and their results. To do so, it analyses them and issues reports with opinions on their validity for risk management and on their use in managing risks, and issues the related recommendations.

Regulatory Compliance Unit

The Board of Directors is responsible for overseeing compliance with the Group's general code of conduct, the general anti-money laundering and terrorist financing policy and the products and services marketing policy.

The Audit and Regulatory Compliance Committee is charged with functions that include 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, and making any necessary proposals for their improvement, as well as reviewing fulfilment of any actions and measures arising from reports or actions by government supervisory and control authorities.

The Regulatory Compliance Unit reports directly to the Audit and Regulatory Compliance Committee. Its functions include the following: advising the Group's senior management, employees, and business and operating areas; supervising and monitoring compliance with rules of conduct; detecting and managing non-compliance risks; and liaising with regulatory and supervisory bodies and authorities on any matters within its remit.

Financial Control Unit.

The Financial Control Unit reports directly to the Audit and Regulatory Compliance Committee on a regular basis.

The mission of the Financial Information Control function is to assess the effectiveness of the general internal financial control framework, to ensure the reliability of the Group's financial reporting. Its scope includes the functions and competencies of all Bankinter Group entities, subsidiaries and investees. It can also consider activities performed as outsourced services.

Anti-Money Laundering Unit.

The Anti-Money Laundering Unit reports directly to the Audit and Regulatory Compliance Committee.

It is staffed by specialist, full-time personnel with suitable training in analysis, as established in prevailing legislation.

Its aim is to guarantee adequate coverage of the risks arising from money laundering and terrorist financing, complying with all related legislation.

Other risks managed indirectly by the managing director of risk/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 Bankinter, setting maximum limits that it delegates to such bodies, as defined in the risk management and control framework.

The Board of Directors confers powers upon the Assets and Liabilities Committee (ALCO), authorising it to continuously monitor decisions regarding structural balance sheet risks (interest and liquidity risk), stock market risk and the exchange rates of the Bank's institutional positions, while also establishing financing policies. It reviews and approves the relevant limits for the management of all such risks every year and delegates such powers to the ALCO.

The ALCO is the body directly responsible for managing overall interest rate, liquidity, stock market and institutional change risks, and the Group's financing policies. Capital Markets may take action to protect the Bank from risks or take advantage of trading opportunities, under its own powers or following guidelines from the Chairman, Chief Executive Officer or the head of Treasury and Capital Markets.

The Board of Directors reviews the framework and policies for managing these risks and the appropriateness of changing the operating limits established in it as often as it considers necessary and at least annually.

The Balance Sheet Management Unit or, on its instructions, Treasury and Capital Markets, implements the decisions taken by the ALCO in relation to the Bank's institutional positions. Depending on the circumstances, it may act immediately to protect the Bank from potential adverse market movements, subsequently reporting its actions to the ALCO.

Technology risks

These risks are supervised by the Technology Risk and IT security Area, which is part of Bankinter Global Services and reports directly to its managing director. Functionally, it regularly reports to Bankinter's CRO. Its main responsibilities regarding the management of these risks include: 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; and identification and management of any vulnerabilities detected.

Reputational risk

The first-line management of this risk is delegated to the various subsidiaries, support areas and business units, operating within the scope of the policies and guidelines issued by the Corporate Reputation unit. This unit in the Corporate Communications and Responsibility Area draws up reputational risk metrics, overseeing the preventive management of this risk and mitigation of potential reputational risks by participating in crisis response actions.

Other units in the second line of defence

Data protection officer (DPO).

Reporting to the Legal department, the privacy and data protection officer coordinates and supervises compliance with personal data privacy and protection laws.

The corporate privacy and data protection officer reports to Legal Counsel and has the following functions:

- Coordinating the privacy and data protection officers of Group companies, to ensure they apply the same privacy and personal data protection criteria.
- Approving new initiatives that affect the right to privacy and personal data protection that differ from those approved in the organisation. Its competencies in this area exceed those of the privacy and data protection officers of Group entities.
- Advising the data controller of their data privacy and protection obligations.
- Oversee compliance with the requirements of privacy and data protection regulations.

Those Bankinter Group entities which process personal data have appointed a privacy and data protection officer. The privacy and data protection officer has the support of an office and/or a unit to carry out their role.

1.4.5. Risk culture

The importance and care given by the Board and senior management to risk management are deeply rooted in Bankinter and represent one of its distinguishing characteristics.

This risk culture is based on the experience and principles mentioned above and is conveyed to all business and management units in the organisation with the support of the following elements, amongst others:

- A defined organisational structure that integrates the business with the various functions and is supported by fast and systematic communication systems and practices, transmitting the priorities at all times with agility and efficiency. Enhanced by people management tools, including incentive systems, internal services evaluation surveys and regular organisational climate surveys.

- The independence of the risk function from business functions;

- The existence of a powerful and independent second line of defence that integrates and coordinates the various control activities.

- The structure of limits, complete and updated at least once a year and/or as necessary, which affects credit risk, structural risks (interest, liquidity and foreign currency) and market risks;

- The structure of responsibilities and limits for the various different risks, designed so that a high number of transactions have to be submitted for approval by the entity's central risk bodies, the agile decision-making and ensuring the heavy involvement of senior management in the day-to-day management of the Institution's risks in the context of the Executive Risk Committee, in addition to the powers assigned to the Executive Committee and/or the Board itself. All decisions are made by collective bodies, resulting in greater rigour and transparency.

- Information systems and risk exposure aggregation systems that make it possible to monitor exposures by systematically observing the approved limits and to adopt the right corrective measures, when necessary;

- Monitoring procedures and systems: The main risks are analysed not only on origination or in the event of irregularities in the ordinary recovery process, but also continuously monitored for all customers. Additionally, the status of the Group's main portfolios and its risks is regularly and systematically monitored.

- The procedures implemented by the Regulation Area for the identification and assessment of the possible impact of any change in the legal or regulatory environment on the Bank's activities, and the compliance framework advising senior management and the administrative body on the measures that must be adopted to guarantee compliance with the regulations.

- The procedures for incorporating the regulations into the Institution's practices include agile communication to all affected functions through the communication forums, internal newsletters, circulars and the internal regulations available on the Bank's website; alongside the regular audit and control activities. All this supported by suitable training programs aimed at all areas and functions affected by the changes.

- The remuneration and incentive policy, including performance variables which consider the Bank's long-term risk quality and results.

Transmission of the risk culture is also based on training, strict compliance by employees with the general codes of conduct, and systematic and independent action by the Internal Audit services.

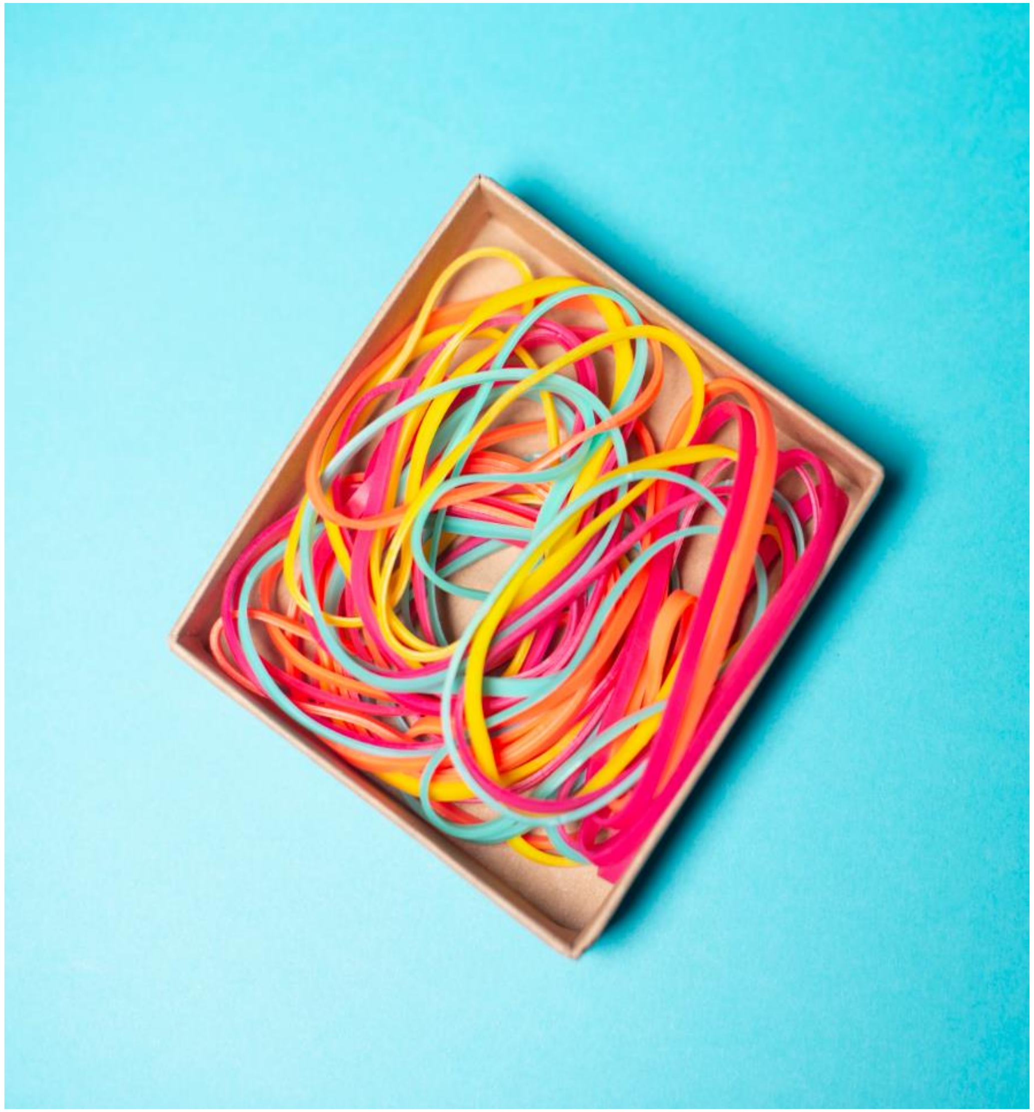
1.6. Risk mitigation and hedging policies. Supervision strategies and processes.

Prudence is the 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.

Indeed, in many cases, the mitigation of the credit risk is achieved 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 more details about the risk mitigation and hedging policies, and the strategies and processes used to supervise the continued effectiveness of hedging and risk mitigation techniques, as required by article 435.1.d. of the CRR, please refer to the following points:

- 4.3.1. Counterparty credit risk management policy
- 4.7. Information on credit risk mitigation techniques
- 5.2 Characteristics of the market risk management system and models used
- 6.1. Management of operational risk.
- 8. Structural interest rate and foreign exchange risk.
- 9. Liquidity and funding risk.



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, modified by Regulation (EU) 2019/876, 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 credit institutions, are exercised by the Supervisor, specifying the phase-in periods to be followed for certain items to qualify 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 capital consists of common equity tier 1 (CET1) and additional tier 1 capital (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 capital (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 capital (T2) absorbs losses after instruments CET1 and T1, and it 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 established in the regulation, consists of:

- The Bank's share capital.
- Share premiums associated with the share capital.
- Accumulated gains in accordance with Article 26.1.c) of Regulation (EU) 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 financial assets at fair value through other comprehensive income, from exchange rate differences and from institutions accounted for by the equity method, and other valuation adjustments.

The common equity tier 1 calculated in this manner must be adjusted by the following deductions:

- Intangible assets. Deductions for software assets have a new treatment with the entry into force of Regulation (EU) 2020/873 (CRR2- Quick Fix).
- Holdings of instruments eligible 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 for which the minimum capital requirements are calculated through internal ratings-based approaches (IRB) and the provisions associated with these exposures.
- The amount of shares held in financial sector institutions, including insurance companies, where the entity has a significant investment, that exceeds the threshold of 10% of CET1, in accordance with Article 48 of Regulation (EU) 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) 575/2013.
- Items that must be deducted from additional tier 1 capital elements that exceed the Institution's additional tier 1 capital.

Additional tier 1 capital

Bankinter's additional tier 1 capital (AT1), as established 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) 575/2013. These instruments ranks below tier 2 capital instruments in case of insolvency.
- Share premiums associated with these instruments, if available.

The characteristics of issues of potentially convertible securities forming part of additional tier 1 capital (AT1) at 31 December 2020 are detailed in Annexe 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.

Tier 2 capital

Bankinter's tier 2 capital (T2), as established in the Regulation, consists of:

- Additional 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 these 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 their maturity, start to lose their eligibility as tier 2 capital at an annual rate of 20%.

The characteristics of issues of subordinated debentures forming part of additional tier 2 capital at 31 December 2020 are detailed in Annexe I.

The computable live balance of issues eligible as tier 2 at 31 December 2019 amounted to 587,393 thousand euros and 579,899 thousand euros at 31 December 2020.

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 entities, 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.

2.2. Amount of own funds

The breakdown and composition of Bankinter Group's own funds is as follows:

Amount of eligible own funds (fully loaded)

Amount of eligible own funds	2020	2019
Common equity tier 1: instruments and reserves	4,918,608	4,708,802
Capital instruments and share premiums	1,453,925	1,453,925
Retained earnings	3,043,943	2,779,712
Other accumulated income	148,340	187,699
Interim profit net of foreseeable dividends	272,400	287,466
Common equity tier 1: regulatory adjustments	(747,032)	(786,877)
Other valuation adjustments	(4,170)	(5,715)
Intangible assets	(350,591)	(382,131)
Shortfall of provisions in IRB portfolios	(253,536)	(367,245)
Direct and indirect holdings of own instruments	(14,867)	(1,266)
Investments in financial institutions	(120,408)	(27,060)
Deferred tax assets	(3,460)	(3,460)
Deductions of additional tier 1 capital in excess of additional tier 1 capital		-
Common equity tier 1 (CET1)	**4,171,576**	**3,921,925**
Additional tier 1 capital: instruments	350,000	199,000
Eligible AT1 instruments	350,000	199,000
Additional tier 1 capital: regulatory adjustments		-
Temporary adjustments to additional tier 1 capital		-
Additional tier 1 capital (AT1)	**350,000**	**199,000**
Tier 1 capital (CET1 + AT1)	**4,521,576**	**4,120,925**
Tier 2 capital: instruments	579,899	587,393
Eligible tier 2 instruments	579,899	587,393
Tier 2 capital: regulatory adjustments	-	-
Temporary adjustments to additional tier 1 capital	-	-
Tier 2 capital	**579,899**	**587,393**
Total capital (tier 1 capital + tier 2 capital)	**5,101,475**	**4,708,318**
Risk-weighted assets	**33,954,487**	**33,769,813**
CET1 fully loaded (%)	**12.29%**	**11.61%**
Tier 1 fully loaded (%)	**13.32%**	**12.20%**
Total capital fully loaded (%)	**15.02%**	**13.94%**

Figures in thousands of euros

The increase in common equity tier 1 (CET1) in 2020 is mainly due to the retention of part of the earnings for the year, higher than initially estimated after the ECB's authorisation for the distribution to shareholders of a maximum of 15% of annual profit after payment of coupons of AT1 instrument. Deductions have reduced in the year mainly due to the positive trend in the shortfall of provisions in IRB portfolios has followed, a consequence of the higher provisioning in the year to tackle the economic effects of the pandemic.

Additional tier 1 capital (AT1) has increased from 199,000 thousand euros at 31 December 2019 to 350,000 thousand euros at 31 December 2020, with the addition of an AT1 instrument, issued in July 2020, which replaces an issue that will be redeemed early in 2021 and therefore cease to be eligible as own capital.

Risk-weighted assets increased in 2020 due to the performance of the Institution's ordinary business, which led to an increase in loans and receivables.

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

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

Eligible amounts	2020	2019
Paid-up capital	269,660	269,660
Share premium	1,184,265	1,184,265
Reserves	3,041,165	2,771,850
Other equity items	7,482	12,566
Treasury shares	(3,641)	(1,222)
Attributed earnings	317,123	550,665
Interim dividends	0	(175,442)
Total own funds (public balance sheet)	4,816,055	4,612,343
Accumulated other comprehensive income	148,103	187,621
Total equity (public balance sheet)	4,964,157	4,799,964
Eligible preferred stock	350,000	199,000
Goodwill and another intangible assets	-	-
Valuation adjustments not eligible as tier 1	-	-
Other adjustments (*)	(44,724)	(87,758)
Consolidation scope differences	(4,467)	(4,627)
Tier 1 (before deductions)	**5,264,966**	**4,906,580**
(-) CET1 deductions	(743,391)	(785,655)
(-) AT1 deductions	-	-
Tier 1	**4,521,576**	**4,120,925**

Figures in thousands of euros

(*) For differences between the interim dividend recognised and that forecast.

2.3. Capital buffers

Directive 2013/36/EU of the European Parliament and of the Council, of June 26, 2013, on access to the activity of credit institutions and their prudential supervision (CRD IV), as amended by European Directive 2019/878 of the European Parliament and of the Council, of May 20, 2019 (CRD V), together with Regulation (EU) 575/2013 of the European Parliament and of the Council (CRR), in turn modified by Regulation (EU) 2019/876 of the European Parliament and of the Council (CRR2), comprise the capital adequacy regulations applicable to European credit institutions. The contents of this Directive have been incorporated in Spain in Act 10/2014 of June 26 on the regulation, supervision and capital adequacy 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 also established:

- **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 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 for both the 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 was phased in from 2016 to 2019, at an annual rate of 0.625%, until it reached 2.5%. Both in 2019 and 2020, the required level of this capital buffer remained at 2.5%

The application of buffers for global systemically important institutions and other systemically important institutions are not applicable to Bankinter; therefore, there are no additional requirements for these items. For 2020, Banco de España has set a countercyclical capital buffer of 0%, as it does not foresee a risk of excessive credit growth, and it has not yet established any additional requirements to cover systemic risks.

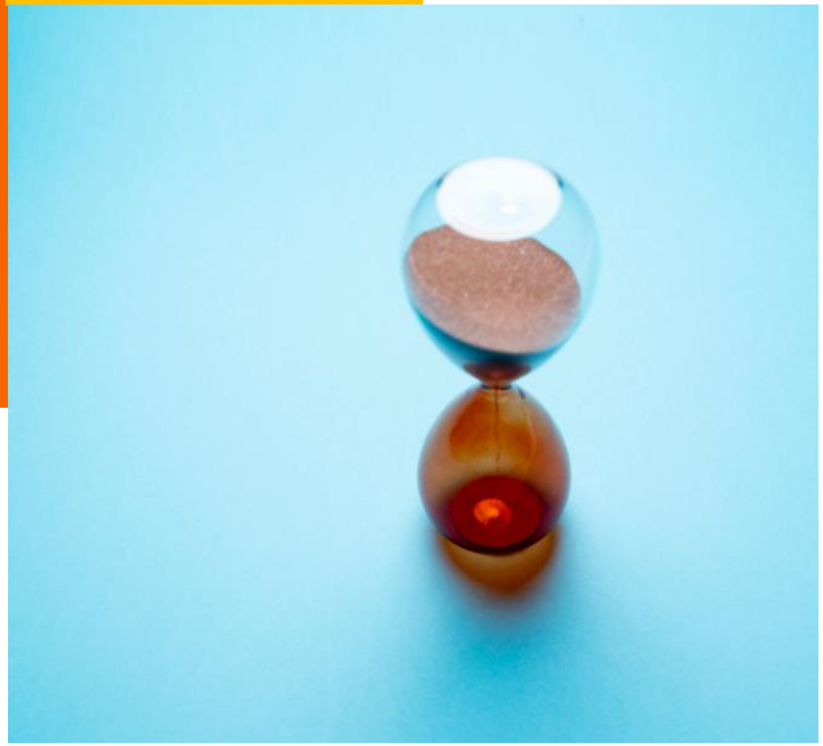
Additionally, it should be noted that on 21 December 2020, Banco de España kept the countercyclical capital buffer applicable to credit risk exposures located in Spain at 0% for the first quarter of 2021. Banco de España considers that, in the current pandemic scenario, it is a priority to help ensure that banks can continue to maintain the funding flow to businesses and households. In addition, Banco de España has confirmed its forward-looking stance that it will not increase the percentage of this buffer over the coming quarters, until the main economic and financial effects arising from the COVID-19 crisis have been overcome.

On 31 December 2020, Banco de Portugal also ratified the maintenance of the countercyclical buffer applicable to credit risk exposures located in Portugal at 0% for the first quarter of 2021.

In addition, the Bank of Ireland, as a measure to support the real economy during the COVID-19 crisis, removed the countercyclical buffer of 1% applicable to credit risk exposures located in Ireland from the beginning of April 2020, and in November 2020 it confirmed that keeping the countercyclical buffer at 0% was considered appropriate under the circumstances and that a change in this level was not foreseen throughout 2021.

Nevertheless, Bankinter 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 own funds requirements



3. Information on own funds requirements

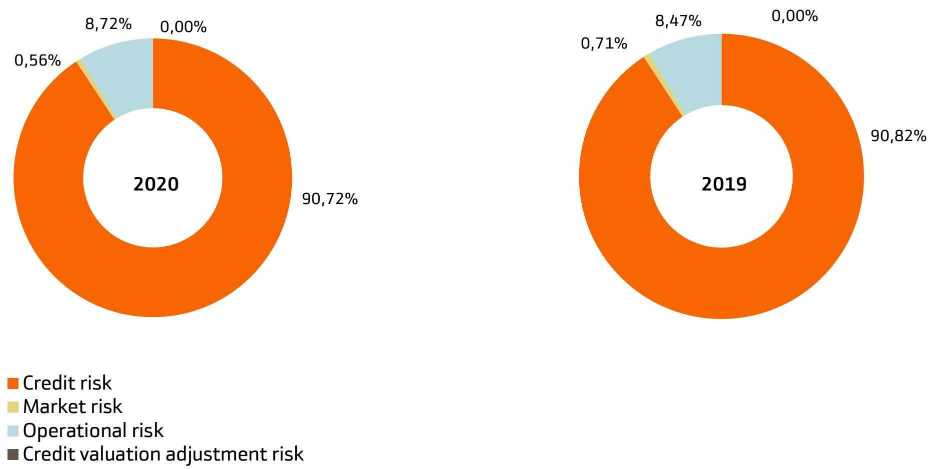
Title II of Part Two of Regulation (EU) 575/2013 of the European Parliament and of the Council, modified by Regulation (EU) 876/2019, defines the credit risk capital requirements; Title III refers to the requirements of own funds for operational risk; and Title IV refers to the requirements of own funds 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 exposure

The total risk-weighted exposure, broken down by credit risk, market risk and operational risk at 31 December 2020 and 2019, is presented below.

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 type of risk



The following tables show a breakdown of risk-weighted exposures by type of risk:Presentation of RWA (OV1)

Presentation of RWA	RWAs		Capital
	2020	2019	2020
Credit risk (excluding counterparty credit risk)	**29,306,575**	**29,314,606**	**2,344,526**
Of which, standardised approach (SA)	13,592,427	13,165,060	1,087,394
Of which, foundation internal ratings based (FIRB) approach	9,496,976	9,726,120	759,758
Of which, internal ratings based (IRB) approach	6,217,171	6,423,426	497,374
Of which, equities under the IRB approach with the simple risk-weight approach or the IMA approach			
Counterparty credit risk	**167,087**	**106,116**	**13,367**
Of which, mark to market approach	165,510	104,999	13,241
Of which, under original exposure approach			-
Of which, standardised approach			-
Of which, under the internal model method (IMM)			-
Of which amount of risk exposure from contribution to CCP default guarantee fund	195	489	16
Of which CVA	1,381	627	110
Settlement risk	**-**	**-**	**-**
Securitisation exposure in the loan book	**258,047**	**270,767**	**20,644**
Of which, IRB approach	258,047	270,767	20,644
Of which, IRB approach based on the supervisory formula approach (SFA)			
Of which, internal assessment approach (IAA)			
Of which, standardised approach (SA)	-	-	-
Market risk	**189,972**	**239,949**	**15,198**
Of which, standardised approach (SA)	189,972	239,949	15,198
Of which, internal models approach (IMA)			
Large exposures	**-**	**-**	**-**
Operational risk	**2,959,810**	**2,851,129**	**236,785**
Of which, basic indicator approach (BIA)			
Of which, standardised approach	2,959,810	2,851,129	236,785
Of which, advanced measurement approach (AMA)			
Amounts below the thresholds for deduction (subject to 250% risk weight)	**1,072,996**	**987,246**	**85,840**
Floor adjustment	**-**	**-**	**-**
Total	**33,954,487**	**33,769,813**	**2,716,359**

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 (modified by the European Directive 2019/878/EU of the European Parliament and of the Council of May 20, 2019), on access to the activity of credit institutions and their prudential supervision, is that the institutions must conduct, at least annually, an internal capital adequacy assessment process following the guidelines established in that Directive. Bankinter conducts its internal capital adequacy assessment process following the guidelines set by supervisors and regulators.

The following aspects are included in the Bank's internal capital adequacy assessment process (ICAAP):

- Group risk profile: an assessment is made of the inherent and residual risk involved in the various risks to which the Institution is exposed. 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.
- Own funds target: established in terms of common equity tier 1 and total capital, and compared to the existing capital levels. These targets 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 continuously throughout the year and it involves several areas of the Institution. The process is materialised in the internal capital adequacy assessment report, which is approved annually by the Board of Directors and submitted to the Supervisor. This report is 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 financial assets

Note 5 of the notes to the Group's 2020 annual consolidated financial statements defines the concepts related to impairment of financial assets.

Debt instruments and off-balance-sheet exposures:

Impairment losses for the period on debt instruments are recognised as an expense in the income statement. Impairment losses on debt instruments at amortised cost are recognised through an allowance account that reduces the carrying amount of the asset, while those on debt instruments at fair value through other comprehensive income are recognised in "Accumulated other comprehensive income".

Subsequent reversals of previously recognised impairment losses are recognised as income in the income statement for the period.

Expected credit losses relate to the difference between all contractual cash flows that are due to the Institution in accordance with the financial asset contract and all the cash flows that the Institution expects to receive discounted at the original effective interest rate, or a reasonable approximation thereof, or the credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets.

Future estimated cash flows from a debt instrument consist of all principal and interest amounts that the Group estimates 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.

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

Credit exposures are classified, in accordance with their credit risk, into one of the following categories:

1) Performing exposure (Stage 1): includes transactions for which credit risk has not increased significantly since initial recognition. The loss allowance will be measured at an amount equal to 12-month expected credit losses. Interest income will be calculated by applying the effective interest rate to the financial asset's gross carrying amount.

2) Watchlist exposures (Stage 2): includes transactions with a significant increase in credit from initial recognition, but no default event or impairment. The loss allowance will be measured at an amount equal to the financial asset's lifetime expected credit losses. Interest income will be calculated by applying the effective interest rate to the financial asset's gross carrying amount.

3) Non-performing exposures (Stage 3): includes credit-impaired assets; i.e. that present a default event or impairment. The loss allowance is measured at an amount equal to the financial asset's lifetime expected credit losses. Interest income will be calculated applying the effective interest rate to the financial asset's amortised cost (i.e., adjusted for any impairment losses). If these positions are reclassified to Stage 1 or Stage 2, the reversal of previously recognised impairment losses is recognised as a loss allowance update, not as interest income.

4) Risks in default: Transactions for which there is no reasonable expectation of recovery, or which are over 4 years past-due, will be included in this category. Classification in this category will entail recognising losses in profit or loss at the financial asset's carrying amount and its full derecognition, although the Group may take any actions necessary to attempt to collect until its rights have been definitively extinguished due to statute of limitations, forgiveness or other causes.

At initial recognition, purchased or originated credit-impaired financial assets, such as those purchased at a large discount that reflects credit losses, are classified as non-performing exposures. The expected credit loss on the purchase or origination of these assets will not be included in the loss allowance or the gross carrying amount at initial recognition. Irrespective of how they are subsequently categorised, when the entity purchases or originates a credit-impaired financial asset, it recognises the cumulative changes in credit losses from initial recognition as a loss allowance and interest income on these assets by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset.

Expected credit losses are determined and assigned individually to each instrument. Models that provide estimates of the probability of default (PD), loss given default (LGD) and the exposure at default (EAD) are used, depending on the specific situation of each of the exposures and their obligors, which enables a collective estimate of expected losses to be made available on a daily basis. However, in Stages 2 and 3, an individualized evaluation of the instruments considered significant is carried out on a systematic basis. Conversely, in the case of Stage 1 and also for non-significant exposures in Stages 2 and 3, the use of expert analysis may exceptionally be triggered when certain results provided by the models are deemed inadequate in the monitoring of the collective estimation.

Note 46 Risk Management and Policies expands on this information, and also includes a section on the estimation of expected credit losses and another on forbearance policy.

The Group has established regular procedures to assess the reliability and coherence of the results obtained through its methods for collectively estimating credit loss allowances through back testing. These tests assess accuracy by subsequently comparing actual losses effectively observed on transactions.

Equity instruments: Joint ventures and associates

The Group recognises impairment losses on investments in joint ventures and associates whenever there is objective evidence that the carrying amount of the investment is not recoverable. The amount of impairment losses will be the difference between the carrying amount of the instrument and its recoverable amount. The recoverable amount is the higher of fair value less costs of disposal and value in use.

For these purposes, the entity will estimate the value in use of an investment as:

a) the present value of its share of 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 its sale or disposal, 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 the sale or disposal of the investment.

Impairment losses are recognised immediately as an expense in profit or loss for the period in which they occur. Subsequent reversals of previously recognised impairment losses are recognised immediately as income in the consolidated income statement.

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

Regulatory definition of default

The definition of default used within regulatory parameters for the estimation of capital in Bankinter Group meets the regulatory requirements established in Article 178 Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013 (CRR), taking into account that these criteria, due to their general nature, are open to different interpretations. The EBA has issued guidelines in this regard, which require the application of this article on its subsequent entry into force. Bankinter is ready to adopt these new criteria on their subsequent entry into force which, in any case, do not substantially alter the definition of default accepted and applied in all internal processes and models used to estimate regulatory capital in the consolidated financial statements of Bankinter, S.A. from the date of its approval (both for IRB and standardised approach models).

A set of concepts related to default are briefly defined below:

- Past due: Failure to pay or meet credit obligations by the payment maturity date.
- Default: (indistinctly bad). Default of a credit obligation in accordance with Article 178 of the CRR and applicable for the purposes of determining capital requirements. The definition of default is the precise purpose of this section.
- Non-performing/doubtful: Criteria for default of credit obligations according to Banco de España accounting circular used for the classification of exposures in phases or stages. Specifically, non-performing/doubtful corresponds to Stage 3.

A credit obligation is considered to be in default/non-performing when it satisfies any of the following criteria:

- The obligor is past due more than 90 days on any material credit payment obligations principal, interests or fees and commissions).
- The institution considers that the obligor is unlikely to pay its credit obligations to the institution, the parent undertaking or any of its subsidiaries in full, regardless of whether or not the debt is covered by the guarantees.

Includes situations where the obligation has been transferred to write-offs, or a foreclosure event or dation in payment has occurred.

For legal entities, default is considered at a personal level, and therefore all the accounts with which that person is involved, as holder or guarantor, are taken into consideration. As a result, it is sufficient for just one of their accounts to be in default for the Company to be considered to be in default.

The identification of default exposures with individuals takes place at operating level, such that the rest of the positions belonging to that person are not taken into account.

An exposure stops being classified as default when it no longer meets the conditions which led it to being considered as such:

- When the total past due amount (debt + interest) has been paid.

- When the conditions no longer exist which led to the exposure being classified as 'subjective doubtful'.

Although there are certain differences between the definition of 'default' used by the Group and the concept of non-performing/doubtful, (which fully responds to the definition of an 'Impaired Asset' contained in Appendix A of IFRS 9 as well as the indications of its Paragraph B5.5.37, considering in all cases that an instrument is recognised as doubtful when it is more than 90 days past due), these have no substantial effect. Therefore, the differences between portfolios in default and those classified as non-performing/doubtful are in practice limited. The main differences are as follows:

- The concept of non-performing/doubtful is applied at exposure level, which means that transactions from the same debtor with different ratings (e.g. sustainable and unsustainable tranches in a restructuring agreement). On the other hand, for legal entities, the concept of default is applied at obligor level and, once they are considered to be in default, a carry-over of all of their exposures takes place. However, it should be noted that, where carry-over criteria are observed in relation to assets classified as non-performing/doubtful and, in general, for assets seen as 'subjective doubtful', then this carry-over effect is also applied at individual level.

- The concept of default includes materiality thresholds, as mentioned earlier, not considered in non-performing/doubtful exposures.

- On the other hand, for individuals, the concept of default is applied at exposure level, without considering automatic carry-over criteria like those anticipated in the case of non-performing/doubtful exposures.

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

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 before the transfer. However, the associated financial liability 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 removed 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.

Therefore, financial assets are only removed from the consolidated balance sheet when the cash flows that are generated have been extinguished or when the risks and rewards of ownership have been substantially transferred to a third party.

4.1.3. Criteria for the recognition of earnings when removing 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 carrying amount 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 (EU) 575/2013, modified by Regulation (EU) 2019/876, 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.

As previously indicated in this report, one of Bankinter Group's primary objectives is to maintain a moderate and prudent risk profile. To do this, Bankinter uses the risk appetite framework as a governance tool to ensure that the risk levels assumed are consistent with the Group's strategy and business plans. These objectives apply to credit risk, which is also the main risk to which the Group is subject.

The structure and organisation of the credit risk management and control functions, the relationships between the credit risk management, risk control, compliance and internal audit functions, has been previously explained throughout sections 1.3. and 1.4. of this report.

Note 46 of the notes to the annual consolidated financial statements contains a breakdown of the information on credit risk policies and management, along with the procedures and criteria for estimating it.

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

- Original exposures and their average value
- 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 2020 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 31/12/2020	2020 average exposure
Central governments or central banks	-	-
Financial institutions	-	-
Corporates	21,213,607	21,139,903
Of which: specialised lending	924,496	1,034,813
Of which: SMEs	5,146,375	4,973,829
Retail	29,015,088	28,368,572
Secured by real estate property	25,260,580	24,929,233
Of which: SMEs	1,818,954	1,844,585
Qualifying revolving	-	-
Other retail	3,754,508	3,439,339
Of which: SMEs	231,367	2,390,639
Equity	-	-
Other non-credit obligation assets	673,375	696,053
Total IRB approach (*)	50,902,071	50,204,528
Central governments or central banks	25,439,263	21,274,389
Regional governments or local authorities	789,300	782,400
Public sector entities	1,121,315	869,534
Multilateral development banks	357	458
International organisations	-	-
Financial institutions	5,909,198	5,459,406
Corporates	6,339,561	6,146,369
Of which SMEs	4,408,737	4,031,873
Retail	13,656,593	14,015,231
Of which SMEs	5,637,107	5,966,452
Secured by mortgages on immovable property	5,718,735	5,567,005
Of which SMEs	3,472,938	3,461,036
In default	432,907	484,869
Items associated with particularly high risks	127,667	117,334
Covered bonds	-	-
Institutions and corporates with a short-term credit assessment	-	-
Investments or shares in collective investment undertakings (CIUs)	-	-
Equity	164,204	143,626
Other exposures (**)	760,285	684,834
Total standardised approach	60,459,386	55,545,454
Total	111,361,457	105,749,982

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. Geographical breakdown of exposures

A breakdown of the original exposure net of provisions by geographical area is shown below.

Geographic breakdown of original exposures (CRB-C)

Geographical breakdown of net exposures	Spain	Portugal	Ireland	Total
Central governments or central banks	-	-	-	-
Financial institutions	-	-	-	-
Corporates	21,213,607	-	-	21,213,607
Retail	24,700,324	4,314,765	-	29,015,088
Equity	-	-	-	-
Other non-credit obligation assets	615,679	57,696	-	673,375
Total IRB approach (*)	**46,529,610**	**4,372,461**	-	**50,902,071**
Central governments or central banks	24,045,469	1,393,794	-	25,439,263
Regional governments or local authorities	772,981	16,320	-	789,300
Public sector entities	1,091,072	30,243	-	1,121,315
Multilateral development banks	357	-	-	357
International organisations	-	-	-	-
Financial institutions	5,802,295	85,315	21,588	5,909,198
Corporates	4,906,773	1,432,787	-	6,339,561
Retail	10,941,016	1,596,948	1,118,629	13,656,593
Secured by mortgages on immovable property	5,300,855	397,871	20,009	5,718,735
In default	383,382	32,548	16,977	432,907
Items associated with particularly high risks	119,151	8,517	-	127,667
Covered bonds	-	-	-	-
Institutions and corporates with a short-term credit assessment	-	-	-	-
Investments or shares in collective investment undertakings (CIUs)	-	-	-	-
Equity	158,094	6,110	-	164,204
Other exposures (**)	748,333	-	11,951	760,285
Total standardised approach	**54,269,777**	**5,000,454**	**1,189,155**	**60,459,386**
Total	**100,799,387**	**9,372,915**	**1,189,155**	**111,361,457**

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. Breakdown of exposures by industry

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

Breakdown of original exposures by industry (CRB-D)

Breakdown of exposures by industry	Agriculture, livestock and fishing	Mining and quarrying	Manufacturing	Electricity supply	Water supply	Construction	Wholesale and retail	Transport	Accommodation and food service activities	Information and communication	Real estate activities	Professional, scientific and technical activities	Administrative activities	Public admin. and defence	Education	Human health services and social work activities	Arts, entertainment and recreation	Other services	Total
Central governments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporates	1%	0%	18%	5%	1%	7%	9%	4%	5%	2%	8%	6%	3%	8%	0%	1%	0%	21%	21,213,607
Retail	0%	0%	1%	0%	0%	2%	3%	1%	1%	0%	3%	2%	1%	4%	0%	0%	0%	81%	29,015,088
Equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other non-credit obligation assets																		100%	673,375
Total IRB approach (*)	**1%**	**0%**	**8%**	**2%**	**0%**	**4%**	**6%**	**2%**	**3%**	**1%**	**5%**	**4%**	**2%**	**6%**	**0%**	**1%**	**0%**	**56%**	**50,902,071**
Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	100%	-	-	-	-	25,439,263
Regional governments or local authorities	-	-	-	-	-	-	-	-	-	0%	-	-	-	72%	0%	0%	-	28%	789,300
Public sector entities	0%	0%	6%	-	2%	6%	-	38%	0%	2%	0%	2%	5%	8%	-	0%	0%	30%	1,121,315
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-	100%	-	-	-	-	357
International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial institutions	-	-	-	-	-	-	-	-	-	-	-	0%	-	3%	-	-	-	96%	5,909,198
Corporates	2%	0%	19%	7%	1%	5%	12%	11%	2%	2%	6%	8%	4%	1%	0%	1%	1%	18%	6,339,561
Retail	1%	0%	7%	0%	0%	3%	9%	2%	1%	1%	2%	2%	1%	0%	0%	1%	0%	69%	13,656,593
Secured by mortgages on immovable property	1%	0%	2%	0%	0%	5%	4%	1%	6%	1%	29%	3%	1%	0%	0%	1%	0%	46%	5,718,735
In default	1%	1%	9%	0%	0%	13%	11%	2%	2%	1%	9%	3%	1%	-	1%	1%	0%	45%	432,907
Items associated with particularly high risks	-	-	-	-	-	100%	-	-	-	-	-	-	-	-	-	-	-	-	127,667
Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments or shares in collective investment undertakings (CIUs)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	100%	164,204
Other exposures (**)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	100%	760,285
Total standardised approach	**1%**	**0%**	**4%**	**1%**	**0%**	**2%**	**4%**	**2%**	**1%**	**1%**	**4%**	**2%**	**1%**	**44%**	**0%**	**0%**	**0%**	**34%**	**60,459,386**
Total	**1%**	**0%**	**6%**	**1%**	**0%**	**3%**	**5%**	**2%**	**2%**	**1%**	**4%**	**3%**	**1%**	**26%**	**0%**	**0%**	**0%**	**44%**	**111,361,457**

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. Breakdown of exposures by residual maturity

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

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

Breakdown of net exposures by residual maturity	On demand	≤ 1 year	> 1 year ≤ 5 years	> 5 years	No maturity	Total
Central governments or central banks		-	-	-	-	-
Financial institutions		-	-	-	-	-
Corporates	10,223	259,966	14,802,370	3,659,293	2,481,755	21,213,607
Retail	13,136	208,569	3,718,212	24,781,169	294,002	29,015,088
Equity		-	-	-	-	-
Other non-credit obligation assets					673,375	673,375
Total IRB approach (*)	**23,359**	**468,536**	**18,520,582**	**28,440,462**	**3,449,132**	**50,902,071**
Central governments or central banks	-	22,319,132	2,790,679	325,083	4,369	25,439,263
Regional governments or local authorities	-	218,359	265,019	290,913	15,010	789,300
Public sector entities	382	246	605,309	440,061	75,318	1,121,315
Multilateral development banks	-	81	275	-	-	357
International organisations	-	-	-	-	-	-
Financial institutions	416,071	2,390,812	2,029,109	60,211	1,012,994	5,909,198
Corporates	1,260	423,409	3,737,737	1,379,274	797,882	6,339,561
Retail	5,628	1,746,195	4,650,192	1,038,116	6,216,461	13,656,593
Mortgages on immovable properties	-	1,253,973	359,917	4,102,265	2,579	5,718,735
In default	2,733	134,245	110,449	139,891	45,590	432,907
Particularly high risk	-	-	80,324	25,644	21,699	127,667
Covered bonds	-	-	-	-	-	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
Investments or shares in collective investment undertakings (CIUs)	-	-	-	-	-	-
Equity	-	-	-	-	164,204	164,204
Other exposures (**)	-	-	-	-	760,285	760,285
Total standardised approach	**426,074**	**28,486,452**	**14,629,010**	**7,801,458**	**9,116,391**	**60,459,386**
Total	**449,433**	**28,954,988**	**33,149,592**	**36,241,920**	**12,565,523**	**111,361,457**

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 changes during 2020, in general and specific credit risk adjustments.

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

	Cumulative adjustment for specific credit risk	Cumulative adjustment for general credit risk
Opening balance (December 2019)	**707,230**	**-**
Increases due to amounts set aside for estimated loan losses during the period	614,292	-
Decreases due to amounts reversed for estimated loan losses during the period	(265,017)	-
Decreases due to amounts taken against accumulated credit risk adjustments (write-offs)	(117,026)	-
Business combinations, including acquisitions and disposals of subsidiaries	-	-
Other adjustments	(19,894)	-
Closing balance (December 2020)	**919,585**	**-**
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	5,733	-
Specific credit risk adjustments directly recorded to the statement of profit or loss	(53,935)	-

Figures in thousands of euros

The changes 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 defaulted exposures
Opening balance	**1,681,590**
Loans and debt securities that have defaulted or impaired since the last reporting period	403,336
Returned to non-defaulted status	(100,718)
Transfers to write-offs	(186,167)
Other changes*	(112,834)
Closing balance	**1,685,207**

Figures in thousands of euros

*Includes the sale of a multi-currency mortgage portfolio for 48.6 million 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 class and instrument (CR1-A)

2020	On-balance sheet exposures						
	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustments	General credit risk adjustments	Accumulated write-offs	Credit risk adjustment charges of the period	Net values (**)
Central governments or central banks	-	-	-	-			-
Financial institutions	-	-	-	-			-
Corporates	129,776	12,611,414	133,089	-	71,241	52,580	12,608,102
Of which: specialised lending	7,509	442,064	2,636	-	-	(1,169)	446,937
Of which: SMEs	55,835	3,626,738	47,018	-	10,684	18,111	3,635,555
Retail	811,129	26,972,737	297,695	-	149,866	40,604	27,486,171
Secured by real estate property	567,680	24,483,193	104,888	-	91,295	2,919	24,945,985
Of which: SMEs	130,359	1,630,032	19,590	-	7,980	1,372	1,740,802
Qualifying revolving	-	-	-	-	-	-	-
Other retail	243,449	2,489,544	192,807	-	58,572	37,685	2,540,186
Of which: SMEs	209,549	2,323,106	174,919	-	56,676	35,091	2,357,737
Equity	-	-	-	-	-	-	-
Other non-credit obligation assets	-	673,375	-	-	-	-	673,375
Total IRB approach	**940,905**	**40,257,527**	**430,783**	-	**221,108**	**93,184**	**40,767,649**
Central governments or central banks	-	24,716,964	11,428	-	-	11,353	24,705,536
Regional governments or local authorities	-	672,784	27	-	-	0	672,757
Public sector entities	-	380,283	3,312	-	-	(546)	376,972
Multilateral development banks	-	545	188	-	-	64	357
International organisations	-	-	-	-	-	-	-
Financial institutions	-	4,799,094	3,801	-	-	3,175	4,795,293
Corporates	-	4,360,760	35,909	-	336,892	15,690	4,324,851
Of which SMEs	-	3,154,918	29,845	-	-	18,129	3,125,073
Retail	-	6,350,965	118,570	-	172,154	26,590	6,232,395
Of which SMEs	-	3,145,767	35,095	-	-	10,894	3,110,673
Secured by mortgages on immovable property	-	5,621,485	34,455	-	954	12,586	5,587,030
Of which SMEs	-	3,386,910	26,048	-	-	10,268	3,360,862
Defaulted exposures (*)	810,033	-	407,496	-	113,578	63,435	402,537
Particularly high risk	-	74,078	202	-	-	74	73,877
Covered bonds	-	-	-	-	-	-	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-
Investments or shares in collective investment undertakings (CIUs)	-	-	-	-	-	-	-
Equity	-	164,204	-	-	-	-	164,204
Other exposures	-	760,285	-	-	-	-	760,285
Total standardised approach	**810,033**	**47,901,446**	**615,387**	-	**623,578**	**132,423**	**48,096,092**
Total (***)	**1,750,938**	**88,158,973**	**1,046,170**	-	**844,685**	**225,607**	**88,863,741**

Figures in thousands of euros

(*) The line 'Defaulted exposures' in the STD approach 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)

2020	On-balance sheet exposures						
	Defaulted exposures	**Non-defaulted exposures**	**Specific credit risk adjustments**	**General credit risk adjustments**	**Accumulated write-offs**	**Credit risk adjustment charges**	**Net values (**)**
Agriculture, livestock and fishing	23,276	501,800	15,562	-	-	6,134	509,514
Mining and quarrying	2,769	22,349,304	1,429	-	-	358	22,350,645
Manufacturing	165,541	3,957,101	117,203	-	207,357	32,007	4,005,439
Electricity supply	3,123	994,836	6,495	-	7,275	4,239	991,464
Water supply	5,920	148,585	5,603	-	3,795	1,056	148,902
Construction	153,710	1,737,445	120,199	-	135,707	21,258	1,770,957
Wholesale and retail trade	250,083	3,160,013	178,815	-	170,970	49,955	3,231,282
Transport	39,297	1,557,751	31,391	-	26,691	10,269	1,565,656
Accommodation and food service activities	38,256	1,539,828	24,445	-	7,812	9,981	1,553,639
Information and communication	25,531	461,732	20,945	-	27,039	8,063	466,319
Real estate activities	100,218	4,104,117	44,661	-	38,315	11,648	4,159,673
Professional, scientific and technical activities	59,123	1,576,951	36,934	-	60,152	8,714	1,599,140
Administrative activities	34,128	857,337	26,678	-	36,866	9,346	864,787
Public administration and defence	0	5,785,008	20,298	-	50	15,698	5,764,710
Education	10,718	151,226	5,147	-	2,738	2,114	156,797
Human health services and social work activities	24,777	4,606,349	5,998	-	7,316	1,136	4,625,128
Arts, entertainment and recreation	7,381	208,277	5,428	-	3,275	1,462	210,230
Other services	807,087	34,461,313	378,938	-	109,327	32,167	34,889,461
Total (**)	1,750,938	88,158,973	1,046,170	-	844,685	225,607	88,863,741

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)

2020	**On-balance sheet exposures**						
	Defaulted exposures	**Non-defaulted exposures**	**Specific credit risk adjustments**	**General credit risk adjustments**	**Accumulated write-offs**	**Specific credit risk adjustment charges**	**Net value (*)**
Spain	1,577,695	79,559,367	920,349	-	713,961	225,239	80,216,714
Portugal	154,114	8,088,446	109,929	-	122,246		8,132,631
Ireland	19,128	511,160	15,892	-	8,478	368	514,396
Total (**)	1,750,938	88,158,973	1,046,170	-	844,685	225,607	88,863,741

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.

4.2.7. Credit quality of performing and non-performing exposures:

This section presents information on the credit quality of performing and non-performing exposures: The tables show the carrying amount of the exposures, excluding the discount in value for certain assets in the Portuguese portfolio.

Details are provided below of the credit quality of forborne exposures at 31 December 2020.

Credit quality of forborne exposures

	Gross carrying amount/nominal amount of forborne exposures				Accumulated impairment and provisions and negative fair value adjustments due to credit risk		Collateral and financial guarantees received on forborne exposures	
	Forborne performing exposures	Forborne non-performing exposures	of which: in default	of which: with impairment	On forborne performing exposures	On forborne non-performing exposures		of which: collateral and financial guarantees received on forborne non-performing exposures
Loans and advances	559	451	451	451	(26)	(170)	713	43
Central banks	-	-	-	-	-	-	-	-
Public administrations	2	0	0	0	-	-	-	-
Credit institutions	-	-	-	-	-	-	-	-
Other financial corporations	0	4	4	4	-	0	4	2
Non-financial corporations	286	309	309	309	(17)	(134)	372	39
Households	271	138	138	138	(8)	(36)	337	2
Debt securities	-	-	-	-	-	-	-	-
Loan commitments given	28	-	-	-	0	-	713	43
Total	587	451	451	451	(25)	(170)	1,427	85

Figures in millions of euros

The following chart provides information on the credit quality of performing and non-performing exposures by maturity tranche, at 31 December 2020.

Credit quality of performing and non-performing exposures by number of days elapsed since their due date

	Gross carrying amount/nominal amount											
	Performing exposures			Non-performing exposures								
		Not past due or past due =< 30 days	Past due >30 days =< 90 days		Unlikely to pay not past due or past due =< 90 days	Past due >90 days =< 180 days	Past due >180 days =< 1 year	Past due >1 year =< 2 years	Past due >2 years =< 5 years	Past due >5 years =< 7 years	Past due > 7 years	of which: in default
Loans and advances	64,589	64,391	197	1,611	196	113	215	251	374	184	278	1,611
Central banks	0	0	0	0	0	0	0	0	0	0	0	0
Public Administrations	740	740	0	0	0	0	0	0	0	0	0	0
Credit institutions	2,122	2,122	0	0	0	0	0	0	0	0	0	0
Other financial corporations	1,977	1,976	1	9	3	0	1	1	3	1	1	9
Non-financial corporations	27,960	27,895	65	880	131	39	76	152	229	102	151	880
Of which: SMEs	17,196	17,155	41	795	103	36	72	137	206	95	146	795
Households	31,789	31,658	131	721	62	74	138	98	142	81	127	721
Debt securities	10,211	10,211	0	1	0	0	0	0	0	1	0	1
Central banks	0	0	0	0	0	0	0	0	0	0	0	0
Public administrations	8,003	8,003	0	0	0	0	0	0	0	0	0	0
Credit institutions	1,541	1,541	0	0	0	0	0	0	0	0	0	0
Other financial corporations	120	120	0	0	0	0	0	0	0	0	0	0
Non-financial corporations	547	547	0	1	0	0	0	0	0	1	0	1
Off balance sheet exposures	25,751			15								15
Central banks	0			0								0
Public Administrations	668			0								0
Credit institutions	977			0								0
Other financial corporations	1,009			0								0
Non-financial corporations	17,224			14								14
Households	5,872			1								1
Total	100,550	74,602	197	1,627	196	113	215	251	0	0	278	1,627

Figures in millions of euros

Below is a table showing performing and non-performing exposures and their related provisions, at 31 December 2020:

Performing and non-performing exposures and related provisions

	Gross carrying amount/nominal amount						Accumulated impairment and provisions and negative fair value adjustments due to credit risk						Accumulated partial write-offs	Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures			Non-performing exposures					
		Of which: in Stage 1	Of which: in Stage 2		Of which: in Stage 1	Of which: in Stage 3		Of which: in Stage 1	Of which: in Stage 2		Of which: in Stage 1	Of which: in Stage 3		On performing exposures	On non-performing exposures
Loans and advances	64,589	63,027	1,562	1,611	0	1,611	239	180	59	678	0	678	0	45,576	748
Central banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Public administrations	740	738	2	0	0	0	0	0	0	0	0	0	0	439	0
Credit institutions	2,122	2,122	0	0	0	0	0	0	0	0	0	0	0	74	0
Other financial corporations	1,977	1,974	2	9	0	9	0	0	0	2	0	2	0	585	5
Non-financial corporations	27,960	27,341	620	880	0	880	136	103	33	452	0	452	0	16,966	355
Of which: SMEs	17,196	16,868	327	795	0	795	82	58	24	405	0	405	0	12,831	332
Households	31,789	30,851	938	721	0	721	102	77	25	224	0	224	0	27,512	388
Debt securities	10,211	10,211	0	1	0	1	2	2	0	0	0	0	0	0	0
Central banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Public administrations	8,003	8,003	0	0	0	0	0	0	0	0	0	0	0	0	0
Credit institutions	1,541	1,541	0	0	0	0	0	0	0	0	0	0	0	0	0
Other financial corporations	120	120	0	0	0	0	0	0	0	0	0	0	0	0	0
Non-financial corporations	547	547	0	1	0	1	2	2	0	0	0	0	0	0	0
Off balance sheet exposures	25,751	25,673	78	15	0	15	34	32	3	3	0	3	0	903	9
Central banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Public administrations	668	668	0	0	0	0	0	0	0	0	0	0	0	2	0
Credit institutions	977	977	0	0	0	0	0	0	0	0	0	0	0	5	0
Other financial corporations	1,009	1,009	0	0	0	0	0	0	0	0	0	0	0	10	0
Non-financial corporations	17,224	17,148	76	14	0	14	19	17	2	3	0	3	0	828	9
Households	5,872	5,870	2	1	0	1	15	15	0	0	0	0	0	58	0
Total	100,550	98,911	1,640	1,627	0	1,627	271	210	61	681	0	681	0	46,479	757

Figures in millions of euros

Finally, this section gives details of the collateral obtained by taking possession and execution processes, at 31 December 2020

Collateral obtained by taking possession and execution processes

	Collateral obtained by taking possession	
	Value at initial recognition	Accumulated negative changes
Property, plant and equipment	-	-
Other differences of items classified as property, plant and equipment	160,662	(43,757)
Residential immovable property	77,365	(13,784)
Commercial immovable property	79,254	(26,464)
Moveable property (vehicles, ships, etc.)	614	(80)
Debt and equity instruments	3,429	(3,429)
Other		
Total	160,662	(43,757)

Figures in thousands of euros

The difference between the value of assets at initial recognition and the accumulated negative changes is 116,905 thousand euros, excluding debt and equity instruments.

4.2.8. Exposures subject to measures adopted in response to the COVID-19 crisis:

The crisis caused by Covid-19 has forced the European Union to take measures to support the economy since March 2020. As a result of these measures, the State has established legislative moratoriums on the repayment of mortgages and other loans. In addition to these initiatives, two types of non-legislative moratoria were implemented, one mortgaged backed and one without collateral, which extend the reach of the mortgage moratoria enacted by the Spanish Government through the Royal Decree-Laws.

Additionally, it approved guarantee lines to ensure the liquidity and working capital needs of the business community, to be implemented through Spain's official credit institute (Instituto de Crédito Oficial or ICO), and which are largely backed by the State.

From the very start of the crisis, Bankinter signalled that its number-one priority was to take care of customer needs, and to rapidly implement moratoriums and government-backed financing schemes. It has worked hard in that way to ensure that its customers have access to credit solutions that can help to improve their financial situation. Note 1.bis of the notes to Bankinter Group's annual consolidated financial statements provides more details on the measures adopted.

Presented below are the tables included in Annexe 3 of the EBA Guidelines 2020/07 with the information requirements on exposures subject to measures adopted in response to the COVID-19 crisis.

Information on loans and advances subject to legislative and non-legislative moratoriums

	Gross carrying amount							Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying amount
		Performing			Non-performing				Performing			Non-performing			
			Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days			Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	Inflows to non-performing exposures
Loans and advances subject to moratorium	**2,206,347**	**2,176,150**	**63,063**	**150,078**	**30,196**	**10,094**	**11,229**	**(15,162)**	**(5,843)**	**877**	**(1,972)**	**(9,319)**	**(2,120)**	**(2,300)**	**20,299**
of which: Households	1,704,636	1,679,096	56,471	97,629	25,539	7,428	7,218	(15,478)	(7,379)	(2,307)	(4,229)	(8,099)	(1,453)	(1,213)	19,290
of which: Collateralised by residential immovable property	1,537,036	1,523,165	51,176	84,589	13,871	6,628	6,015	(4,728)	(2,802)	(1,877)	(2,027)	(1,926)	(1,001)	(570)	9,238
of which: Non-financial corporations	484,328	479,671	6,591	52,449	4,657	2,666	4,011	316	1,535	3,184	2,257	(1,219)	(667)	(1,087)	1,009
of which: SMEs	386,960	382,887	6,591	8,670	4,073	2,666	3,427	1,182	2,227	3,184	2,871	(1,044)	(667)	(912)	1,009
of which: Collateralised by commercial immovable property	152,547	152,526	4,105	49,728	20	-	-	672	675	1,514	842	(3)	-	-	20

Figures in thousands of euros

Breakdown of loans and advances subject to legislative and non-legislative moratoriums by residual maturity of moratoriums

	Gross carrying amount								
					Residual maturity of moratoria				
	Number of obligors*		Of which: legislative moratoriums	Of which: expired	<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
Loans and advances for which moratorium was offered	25,845	2,286,632							
Loans and advances subject to moratorium (granted)	23,620	2,206,347	1,319,582	596,006	1,012,492	429,419	121,663	20,604	26,162
of which: Households		1,704,636	817,968	573,032	668,715	407,033	55,407	254	194
of which: Collateralised by residential immovable property		1,537,036	768,816	435,831	656,472	390,972	53,312	254	194
of which: Non-financial corporations		484,328	484,232	22,664	327,205	22,385	65,756	20,350	25,968
of which: SMEs		386,960	386,863	18,721	300,286	18,622	15,624	20,350	13,358
of which: Collateralised by commercial immovable property		152,547	152,547	2,599	64,021	-	57,900	18,119	9,908

Figures in thousands of euros

As can be seen, at the close of the 2020 financial year, the Group had a gross carrying amount in moratoriums of 2,206 million euros of which 596 million euros of which has expired, with an average residual term of 3.7 months, and 5,794 million euros in financing under public guarantee schemes, with average coverage of 78%. These balances, as a whole, represent 11.2% of eligible exposures.

Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis

	Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
		of which: forborne	Public guarantees received	Inflows to non-performing exposures
Newly originated loans and advances subject to public guarantee schemes	5,794,118	226	4,536,106	9,809
of which: Households	62,447	0	0	66
of which: Collateralised by residential immovable property	0	0	0	0
of which: Non-financial corporations	5,707,242	226	4,465,676	9,743
of which: SMEs	4,215,910	0	0	9,372
of which: Collateralised by commercial immovable property	15,142	0	0	0

Figures in thousands of euros

Analysing the distribution of aid by branches of activity, the wholesale and retail trade sectors stand out considerably. They are followed by manufacturing, due to the large scale of this sector, although, in relative terms, the weighting of accommodation and food service activities, and arts, entertainment and recreation is also of note.

These measures have had a clearly positive impact on containing the economic effects of the pandemic. Proof of this is that the volume of exposure with unpaid balances is at its lowest of recent years, having dropped by 39% in December 2020 compared to the end of 2019.

Throughout 2020, the Group recognised provisions totalling 242.5 million euros to enable it adjust to the new macroeconomic scenario.

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 Division. 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 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 marking-to-market valuation plus the potential risk and bearing in mind possible risk 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 has a tool available especially designed 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 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 investment grade would involve providing an additional 9 million euros for the active CSA contracts at 31 December 2020.

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 marking-to-market method described in chapter 6 of Title II of Regulation (EU) 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 net exposure of counterparty credit risk, which includes the institution's exposure in repo operations, amounted to 366,901 thousand euros at December 2020.

The following table gives a breakdown of the gross positive fair value of the guarantees received and of the net exposure of derivatives contracts and repo operations in 2020, including the part of the contribution to the default guarantee fund of the central counterparties (CCPs) with which the Bank operates. Exposure in this regard amounts to 9,770 thousand euros.

Exposures in derivatives and repo or securities financing transactions, have followed market trends over the year.

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

Impact of netting and collateral held on exposure values 2020	Gross positive fair value	Netting benefits	Netted current credit exposure*	Collateral	Net credit exposure after netting agreements and guarantees received
Derivatives	461,598	537,662	739,174	402,290	346,182
SFTs	2,096,933	2,076,213	20,720	-	20,720
Cross-product netting	-	-	-	-	-
Total	2,558,531	2,613,875	759,894	402,290	366,901

Figures in thousands of euros

(*) Includes potential future value

The breakdown below includes collateral employed in transactions with derivatives at the close of 2020. The fair values of collateral, received and posted, have followed the trend in market prices over the year.

Composition of collateral for exposures to CCR (CCR5-B)

	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
Composition of collateral	Segregated	Unsegregated	Segregated	Unsegregated		
Cash - domestic currency	45,642		277,277	-	3,505	3,418
Cash - other currencies	-	-	-	-	-	-
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	45,642	-	277,277	-	3,505	3,418

Figures in thousands of euros

The breakdown of exposure and of the counterparty credit risk-weighted assets of OTC derivatives and repo operations for 2020 is as follows:

Analysis of CCR exposure by approach (CCR1)

Exposure by approach	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
Mark to market		106,284	437,420			178,465	153,574
Total							153,574

Figures in thousands of euros

Standardised approach – CCR exposures by regulatory portfolio and risk (CCR3)

Exposure classes	0%	20%	50%	75%	100%	Total
Central governments or central banks	-	-	-	-	-	-
Institutions	18,169	1,821	6,097	-	-	26,087
Corporates	-	-	-	-	143,511	143,511
Retail exposures	-	-	-	8,866	-	8,866
Total	18,169	1,821	6,097	8,866	143,511	178,465

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 12,132 million euros at the end of the reporting period, taking into account the part of the contribution to the default guarantee fund.

Exposures to CCPs (CCR8)

Exposures to CCPs	EAD (post-CRM)	RWAs
Exposure to QCCP (total)	188,437	12,132
Exposures for trades at non-QCCPs (excluding initial margin and	178,667	11,937
default fund contributions); of which:	-	-
(i) OTC derivatives	105,048	2,101
(ii) Exchange-traded derivatives	72,805	9,836
(iii) SFTs	813	-
(iv) Netting sets where cross-product netting has been approved	-	-
Segregated initial margin	-	-
Non-segregated initial margin	-	-
Prefunded default fund contributions	9,770	195
Unfunded default fund contributions	-	-
Exposures to non-QCCPs (total)	-	-
Exposures for trades at non-QCCPs (excluding initial margin and	-	-
default fund contributions); of which	-	-
(i) OTC derivatives	-	-
(ii) Exchange-traded derivatives	-	-
(iii) SFTs	-	-
(iv) Netting sets where cross-product netting has been approved	-	-
Segregated initial margin	-	-
Non-segregated initial margin	-	-
Prefunded default fund contributions	-	-
Unfunded default fund contributions	-	-

Figures in thousands of euros

All exposures to central counterparties correspond to QCCP. These have also followed the trends in the markets over the period without experiencing significant changes compared to the previous year, since there have been no changes in OTC derivatives trades made through these CCPs.

Lastly, the Institution has no exposure in credit derivatives at year end.

4.3.4. CVA capital charge

The credit valuation adjustments (CVA) are the difference between the risk-free valuation and the real valuation of the portfolio, including counterparty credit risk. Thus, the CVA capital charge 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 2020 are shown below. The exposure value has increased compared to the close of the previous financial year due to the increase in the valuation of market operations, going from 3,530 thousand euros to 6,787 thousand euros as of 31 December 2020, which triggered an increase in RWAs, from 627 thousand euros to 1,381 thousand euros at the end of 2020.CVA capital charge (CCR2)

CVA charge	EAD post CRM	RWA
Total portfolios subject to the advanced approach	-	-
(i) VaR component (including the 3x multiplier)	-	-
(ii) SVaR component (including the 3x multiplier)	-	-
All portfolios subject to the standardised approach	6,787	1,381
Based on the original exposure approach		
Total subject to CVA capital charge	6,787	1,381

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, modified by Regulation (EU) 2019/876, 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 institutions', 'Financial institutions', 'Corporates' and 'Covered bonds'. The following table presents the correspondence between risk ratings from the different credit assessment institutions and the risk weightings applied by exposure class:

	External long-term ratings				Risk weighting					
Credit quality level	S&P	Moody's	Fitch	DBRS	Central governments and central banks	Public sector entities	Institut. ≤ 3 months	Institut. > 3 months	Unrated institutions	Corporates
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 public securities issues

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

4.4.3. Exposure values before and after application of 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 standardised approach 2020	Exposures before CCF and CRM		Exposures after CCF and CRM		RWA and RWA density	
Exposure classes	**Balance sheet amount**	**Off-balance sheet amount**	**Balance sheet amount**	**Off-balance sheet amount**	**RWAs**	**RWA density**
Central governments or central banks	24,705,547	733,716	27,258,439	702,125	0	0
Regional governments or local authorities	672,757	116,544	672,873	8,207	1,764	0.26%
Public sector entities	376,972	744,343	377,207	269,503	314,901	48.69%
Multilateral development banks	357	-	357	-	-	0.00%
International organisations	-	-	-	-	-	-
Financial institutions	4,795,492	1,113,706	4,801,106	577,692	2,236,925	41.59%
Corporates	4,327,225	2,012,336	3,528,231	771,260	3,527,250	82.04%
Retail	6,242,480	7,414,113	5,614,333	666,861	4,166,640	66.34%
Secured by mortgages on immovable property	5,587,041	131,694	5,545,355	59,879	2,116,188	37.75%
In default	403,883	29,024	402,973	4,244	438,956	107.79%
Items associated with particularly high risks	73,881	53,787	71,777	28,800	150,866	150.00%
Covered bonds	-	-	-	-	0	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	0	-
Investments or shares in collective investment undertakings (CIUs)	-	-	-	-	0	-
Equity	164,204	-	164,204	-	164,204	100.00%
Other exposures (*)	760,285	-	760,285	-	1,547,730	203.57%
Total	48,110,124	12,349,262	49,197,140	3,088,572	14,665,423	28.05%

Figures in thousands of euros

(*) Includes requirements for holdings in financial institutions in which there are significant investments below the 10% threshold (912,488 million euros of APRs) 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. Breakdown of exposure values 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 classes and risk weights (CR5)

2020	Risk weight									
Exposure classes	**0%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**250%**	**Total**	**of which unrated**
Central governments or central banks	27,960,564	-	-	-	-	-	-	-	27,960,564	-
Regional governments or local authorities	672,260	8,820	-	-	-	-	-	-	681,080	273,235
Public sector entities	284,927	-	-	93,764	-	268,019	-	-	646,710	496,582
Multilateral development banks	357	-	-	-	-	-	-	-	357	357
International organisations	-	-	-	-	-	-	-	-	-	-
Financial institutions	-	1,605,054	-	3,716,231	-	57,513	-	-	5,378,798	3,243,401
Corporates	-	39,517	-	351,350	-	3,892,963	15,660	-	4,299,491	4,130,520
Retail	-	-	-	-	6,281,194	-	-	-	6,281,194	6,281,194
Secured by mortgages on immovable property	-	-	3,069,954	2,106,389	297,644	131,247	-	-	5,605,234	5,605,234
In default	-	-	-	-	-	343,740	63,477	-	407,217	407,217
Items associated with particularly high risks	-	-	-	-	-	-	100,577	-	100,577	-
Covered bonds	-	-	-	-	-	-	-	-	-	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-
Investments or shares in collective investment undertakings (CIUs)	-	-	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	164,204	-	-	164,204	164,204
Other exposures (*)	-	-	-	-	-	235,321	-	524,963	760,285	760,285
Total	28,918,108	1,653,391	3,069,954	6,267,734	6,578,839	5,093,007	179,715	524,963	52,285,712	21,362,231

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 established in chapter 3 of Title II of the Regulation (EU) 575/2013 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 loan book: 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 credit risk capital requirements.

Authorisation by the Supervisor to employ the IRB approach and for the successive implementation plan

The Group has had authorisation from the Supervisor since 2008 to use the IRB approach 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.
- Personal loans and consumer loans for individuals
- Small businesses
- Medium-sized companies
- Very large companies (foundation IRB approach).
- Specialised developer lending

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

The Supervisor has approved the internal calculation of probability 1of 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 a roll out plan whereby the following Bankinter Spain portfolios will, over the next few years, be gradually incorporated under the IRB approach, subject to specific authorisation:

- Bankinter Consumer Finance personal loans
- Other operations involving individuals
- Large companies
- Public companies

And of Bankinter Portugal:

- Very large companies
- Public companies
- Residential mortgages using the standardised approach2

Other card portfolios in Spain and other portfolios of companies and non-mortgage transactions with individuals in Portugal, as well as the exposures of the portfolio acquired in May 2019 with the purchase of EVO Banco and its subsidiary in Ireland (Avantcard), will temporarily apply the standardised approach.

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

- Public sector central administration
- Public sector regional administration
- Financial institutions
- Equity
- Current account overdrafts - Individuals

Likewise, the Institution will permanently apply the standardised approach for exposures in the following portfolios in Portugal, EVO Banco and Avantcard:

- Public sector central administration
- Public sector regional administration
- Financial institutions
- Current account overdrafts - Individuals

Likewise, the exposures with large insurance company, fiscal structures and other non-material exposures.

The Global Risk Management Area develops internal ratings models. These models are then submitted to the Models Committee for its approval and modification. In addition, those internal models with greater materiality are required to be approved by the Executive Risk Committee before they can be implemented.

The models are maintained and reviewed internally and subject to independent review at least once a year, in accordance with Bankinter Group's model policy. Backtesting is also periodically carried out as part of this review.

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) 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:

1 In the case of specialised lending, PD, LGD or CCF risk parameters are not used. The 'slotting criteria' approach is used instead and its degrees and residual value are assigned based on regulatory requirements (CRR arts. 153.5 and 258.6)

2 Mortgage portfolio from the Barclays (Wealth) private banking business unit before Bankinter's acquisition of Barclays Portugal

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 can be made at transaction level or customer level. 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 viewpoint, parameters are estimated using a method that takes into account the prevailing part of the economic cycle ('point in time' approach) and its projection.

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 capital requirements and expected losses.
- Transaction admission and approval.
- Setting the minimum recommended price of the transaction and its estimated profitability.
- Monitoring or reporting portfolio credit quality.

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

Models have also been developed for collective estimation of credit risk provisions, in accordance with the requirements of Banco de España 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

When a transaction is being approved, individual exposures are rated according to the corresponding internal model (on the basis of transaction, collateral and customer type), which is part of the automatic study and approval system which is used to process transactions. The model uses the information input in the transaction proposal, information on customer behaviour available in the Institution'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 Institution's risk policies. The transaction is either authorised, rejected or forwarded to a manual approval process. In this process, a PD, LGD and CCF are assigned for each transaction thus rated.

For exposures with legal entities, the systems gather information on the characteristics of the transaction and the customer, and input them into 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, an identical PD is assigned to all the customer's transactions.

This rating forms part of the approval rules which determine whether a transaction is designated as authorised, denied or not able to be approved (in which case the rating is reported and a manual approval process is used for the transaction). When approval is manual, the rating is taken into account in the approval or denial decision.

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 the transaction, namely: the type of product, collateral, etc. They are assigned at account level for both individuals and legal entities.

The specialised lending process uses the slotting criteria approach (CRR, Art 153.5). In particular, Bankinter has a rigorous approval 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 portfolio.

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)

For corporate portfolios, the historical annual default rate is obtained from the default rates from 2006 to 2019 for the population of internal portfolios, to ensure that the calculations are robust and consistent.

Corporates - IRB

PD range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Obligors in 2020	Obligors in 2019	Defaulted obligors in the year	Average historical annual default rate
0.00 to < 0.15%	AAA to BBB+	0.05%	0.06%	77	106	-	0.10%
0.15 to < 0.25%	BBB+ to BBB	0.16%	0.16%	109	94	-	0.19%
0.25 to < 0.50%	BBB to BB+	0.32%	0.33%	481	435	-	0.41%
0.50 to < 0.75%	BB+ to BB	0.00%	0.00%	-	-	-	0.00%
0.75 to < 2.50%	BB to B+	1.59%	1.22%	1,261	735	1	1.74%
2.50 to < 10.0%	B+ to B-	7.62%	4.91%	413	128	16	6.67%
10.00 to < 100%	B- to C	14.65%	16.90%	85	37	5	17.47%
100% (Default)	D	100.00%	100.00%	75	36	-	100.00%

IRF Corporates

PD range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Obligors in 2020	Obligors in 2019	Defaulted obligors in the year	Average historical annual default rate
0.00 to < 0.15%	AAA to BBB+	0.04%	0.05%	30	27	-	0.28%
0.15 to < 0.25%	BBB+ to BBB	0.16%	0.16%	194	226	-	0.23%
0.25 to < 0.50%	BBB to BB+	0.27%	0.27%	802	852	8	0.30%
0.50 to < 0.75%	BB+ to BB	0.55%	0.55%	1,604	1,601	1	0.48%
0.75 to < 2.50%	BB to B+	1.24%	1.29%	1,262	1,020	157	1.60%
2.50 to < 10.0%	B+ to B-	3.92%	4.58%	731	623	72	5.71%
10.00 to < 100%	B- to C	13.70%	12.92%	535	554	807	16.06%
100% (Default)	D	100.00%	100.00%	221	236	-	100.00%

For mortgages, the historical annual default rate is obtained from the default rates from 2008 to 2019 for the population of internal portfolios, to ensure that the calculations are robust and consistent.

Mortgages

PD range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Obligors in 2020	Obligors in 2019	Defaulted obligors in the year	Average historical annual default rate
0.00 to < 0.15%	AAA to BBB+	0.10%	0.10%	31,632	29,727	-	0.09%
0.15 to < 0.25%	BBB+ to BBB	0.22%	0.23%	10,139	21,592	4	0.23%
0.25 to < 0.50%	BBB to BB+	0.33%	0.33%	56,796	61,775	1	0.36%
0.50 to < 0.75%	BB+ to BB	0.58%	0.59%	42,667	39,908	4	0.61%
0.75 to < 2.50%	BB to B+	1.34%	1.24%	72,865	58,877	126	1.39%
2.50 to < 10.0%	B+ to B-	4.82%	4.69%	17,264	12,131	180	3.93%
10.00 to < 100%	B- to C	18.93%	22.33%	2,895	2,266	190	12.92%
100% (Default)	D	100.00%	100.00%	5,135	5,392	-	100.00%

For the retail tranche, the historical annual default rate is obtained from the default rates from 2003 to 2019 for the population of internal portfolios, to ensure that the calculations are robust and consistent.

Retail

PD range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Obligors in 2020	Obligors in 2019	Defaulted obligors in the year	Average historical annual default rate
0.00 to < 0.15%	AAA to BBB+	0.06%	0.08%	5,925	4,245	-	0.19%
0.15 to < 0.25%	BBB+ to BBB	0.16%	0.16%	3,362	2,149	4	0.00%
0.25 to < 0.50%	BBB to BB+	0.33%	0.34%	17,853	12,131	1	0.41%
0.50 to < 0.75%	BB+ to BB	0.51%	0.51%	1,498	994	4	0.75%
0.75 to < 2.50%	BB to B+	1.46%	1.43%	27,541	20,631	126	1.22%
2.50 to < 10.0%	B+ to B-	6.36%	5.94%	14,064	11,225	180	3.55%
10.00 to < 100%	B- to C	16.49%	16.61%	5,116	3,935	190	8.82%
100% (Default)	D	100.00%	100.00%	9,403	8,611	-	100.00%

4.5.3. Exposure values by category and obligor levels

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 category at the end of December 2020. 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 approach).

Exposures under advanced IRB approach

Category	Original exposure	Exposure after application of CRM within balance sheet	Exposure after application of CRM off-balance sheet	EAD	Average PD	Average LGD	RWAs	RWA density
Corporates	20,289,111	10,609,626	2,233,630	12,843,256	2.27%	42.39%	9,011,942	70.17%
Of which IRF	17,944,611	10,298,605	2,191,308	12,489,913	2.21%	42.34%	8,802,963	70.48%
Mortgages	25,260,580	25,050,647	85,069	25,135,715	3.46%	16.33%	4,677,156	18.61%
Retail	3,754,508	1,691,535	357,887	2,049,422	13.80%	51.28%	671,630	32.77%
Total (*)	**49,304,199**	**37,351,808**	**2,676,586**	**40,028,394**	**3.61%**	**26.49%**	**14,360,728**	**35.88%**

Figures in thousands of euros

(*) Note that (EAD) in enterprises under the IRB approach does not reach 2.5% of the total exposure to enterprises (standardised approach used for 97.5%). When using the IRB approach 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)

2020 Category	Original exposure	Exposure after application of CRM within balance sheet	Exposure after application of CRM off-balance sheet	EAD	RWAs	Expected losses
Specialised lending	924,496	449,573	474,923	687,034	694,013	14,653

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 the guidelines on disclosure requirements under Part Eight of Regulation (EU) 575/2013, published by the EBA.

Exposures under advanced IRB approach (CR6)

Corporates - IRB

2020	Original balance sheet gross exposures	Off balance sheet exposures pre-CCF	Average CCF	EAD post-CRM and post-CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Provisions
1	24,852	4,002	39.6%	15,900	0.05%	77	42.50%	905	2,214	13.9%	4	
2	111,812	64,796	34.3%	43,383	0.16%	109	49.89%	922	13,353	30.8%	34	
3	270,464	136,783	21.5%	95,422	0.32%	481	45.49%	935	44,081	46.2%	140	
4	-	-	0.0%	-	0.00%	-	0.00%	-	-	0.0%	-	
5	1,235,490	71,672	39.2%	157,829	1.59%	1,261	39.13%	921	106,461	67.5%	979	
6	297,495	66,236	51.4%	12,345	7.62%	413	27.72%	958	9,624	78.0%	267	
7	39,651	6,935	72.4%	19,667	14.65%	85	50.70%	932	33,162	168.6%	1,444	
8	13,248	1,064	22.2%	8,798	100.00%	75	92.39%	918	84	0.9%	8,121	7,297
Total	1,993,013	351,488	34.3%	353,344	4.39%	2,501	43.89%	926	208,979	59.14%	10,989	9,490

Figures in thousands of euros

(*) The number of obligors is in units

(**) Maturity expressed in days

Corporates - IRF

2020	Original balance sheet gross exposures	Off balance sheet exposures pre-CCF	Average CCF	EAD post-CRM and post-CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Provisions
1	359,786	359,867	25.9%	452,931	0.04%	30	45.0%	912	75,845	16.7%	72	
2	1,302,252	1,679,239	25.3%	1,726,922	0.16%	194	45.0%	913	695,568	40.3%	1,241	
3	1,894,661	2,075,507	27.0%	2,455,853	0.27%	802	43.5%	913	1,267,761	51.6%	2,893	
4	2,360,652	1,306,018	26.3%	2,703,484	0.55%	1,604	40.2%	913	1,635,337	60.5%	6,014	
5	3,005,911	1,772,278	33.5%	3,599,549	1.24%	1,262	42.6%	913	3,332,181	92.6%	18,932	
6	988,445	366,413	39.0%	1,131,415	3.92%	731	39.4%	913	1,279,470	113.1%	17,578	
7	273,381	59,785	40.3%	297,488	13.70%	535	39.7%	912	516,800	173.7%	16,180	
8	113,517	26,897	32.5%	122,270	100.00%	221	45.0%	912	-	0.0%	55,022	58,554
Total	10,298,605	7,646,006	28.7%	12,489,913	2.21%	5,379	42.34%	913	8,802,963	70.48%	117,933	120,963

Figures in thousands of euros

Mortgages

Scale	Original balance sheet gross exposures	Off balance sheet exposures pre-CCF	Average CCF	EAD post-CRM and post-CCF	Average PD	Number of obligors	Average LGD	Maturity	RWAs	RWA density	EL	Provisions
1	3,674,752	8,660	49.1%	3,679,006	0.1%	31,632	16.1%	-	156,533	4.3%	636	
2	804,440	4,422	34.7%	805,976	0.2%	10,139	8.6%	-	29,681	3.7%	148	
3	6,131,428	37,234	38.9%	6,145,906	0.3%	56,796	15.9%	-	594,425	9.7%	3,147	
4	4,510,556	25,582	50.8%	4,523,553	0.6%	42,667	15.6%	-	641,712	14.2%	4,005	
5	7,182,778	87,811	42.0%	7,219,696	1.3%	72,865	15.9%	-	1,798,583	24.9%	15,602	
6	1,849,048	41,325	31.4%	1,862,008	4.8%	17,264	16.1%	-	1,017,668	54.7%	14,657	
7	330,190	3,817	41.0%	331,530	18.9%	2,895	17.2%	-	281,492	84.9%	10,190	
8	567,680	856	42.3%	568,042	100.0%	5,135	46.7%	-	157,062	27.6%	257,877	76,722
Total	25,050,873	209,707	40.6%	25,135,715	3.46%	239,393	16.33%	-	4,677,156	18.61%	306,263	104,888
Of which Portugal	4,281,046	33,718	0.00%	4,281,046	3.09%	53,901	15.87%	-	1,041,883	24.34%	19,542	15,640

Figures in thousands of euros

(*) The number of obligors is in units

Retail

2020	Original balance sheet gross exposures	Off balance sheet exposures pre-CCF	Average CCF	EAD post-CRM and post-CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Provisions
1	175,073	104,736	46.3%	153,300	0.1%	5,925	48.0%	-	11,279	7.4%	47	
2	167,434	96,021	50.8%	126,564	0.2%	3,362	47.8%	-	17,729	14.0%	95	
3	600,347	273,318	50.3%	440,387	0.3%	17,853	46.3%	-	98,317	22.3%	675	
4	23,428	4,099	54.6%	19,966	0.5%	1,498	50.5%	-	7,239	36.3%	52	
5	1,114,942	445,154	47.6%	800,922	1.5%	27,541	45.3%	-	356,494	44.5%	5,231	
6	304,004	70,826	48.9%	198,160	6.4%	14,064	46.9%	-	125,651	63.4%	5,907	
7	98,536	20,411	40.2%	63,888	16.5%	5,116	45.5%	-	50,729	79.4%	4,788	
8	249,230	6,951	41.8%	246,236	100.0%	9,403	88.5%	-	4,192	1.7%	217,686	175,768
Total	2,732,993	1,021,515	48.4%	2,049,422	13.80%	84,762	51.28%	-	671,630	32.77%	234,481	192,807

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	RWA amounts	Capital requirements
RWA year-end 2019	14,661,870	1,172,950
Asset size	(142,509)	(11,401)
Asset quality	60,491	4,839
Model updates	40,982	3,279
Other	(260,106)	(20,808)
RWA year-end 2020	14,360,728	1,148,858

Figures in thousands of euros

The decrease in risk-weighted assets is mainly due to the application of article 501 of Regulation (EU) 575/2013 (CRR), amount included under 'Other'.

4.5.5. Comparative analysis of estimates made.

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 2005 to 2019. The charts show the following information:

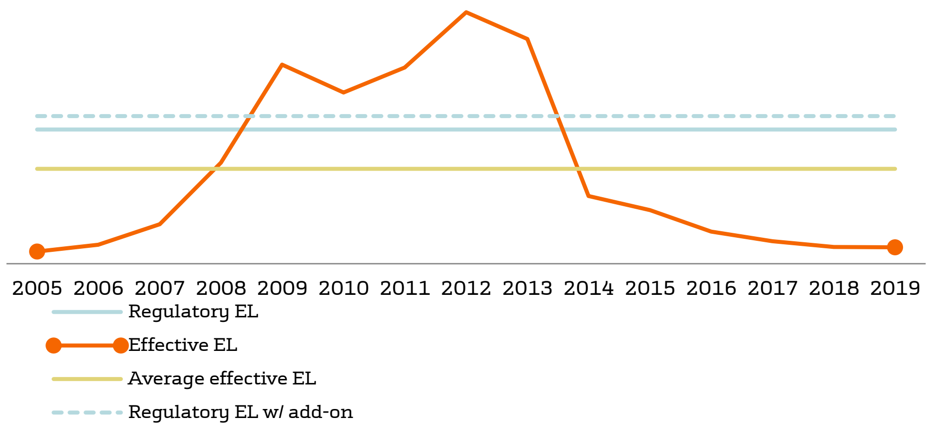
- **Regulatory expected loss**. Expected loss calculated by multiplying the cycle-adjusted PD by the LGD during the worst cycle moment or downturn (LGD DT).
- **Regulatory expected loss with add-on.** calculated applying a margin of conservatism required by the Supervisor to the regulatory expected loss of certain portfolios.
- **Effective expected loss**. Calculated as the annual observed frequency of default, multiplied by the estimated point-in-time LGD (PiT LGD) for the period 2005-2019. In open recovery processes, an estimated of final LGD is included.
- **Average effective expected loss**. Average of effective losses of each year from 2005 to 2019.

The charts reflect how the 2008 economic crisis spurred an increase in effective loss between 2009 and 2013. Effective loss was also considerably lower than regulatory loss during the first years of the period, exceeding it during the worst part of the crisis, which is in line with the regulatory target.

The comparison was made for portfolios of residential mortgages for individuals, consumer loans and credit with personal guarantees, small- and medium-sized enterprises.

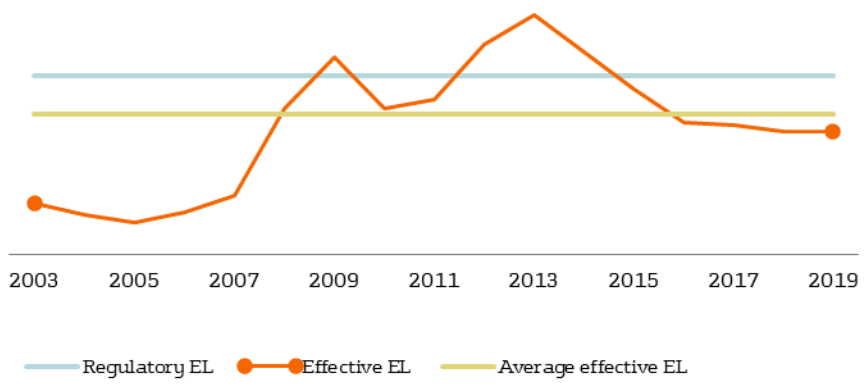
Residential mortgages for individuals

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 showed a downward trend and it even reached pre-crisis levels. Regulatory expected loss appears sufficiently conservative compared with average effective expected loss.



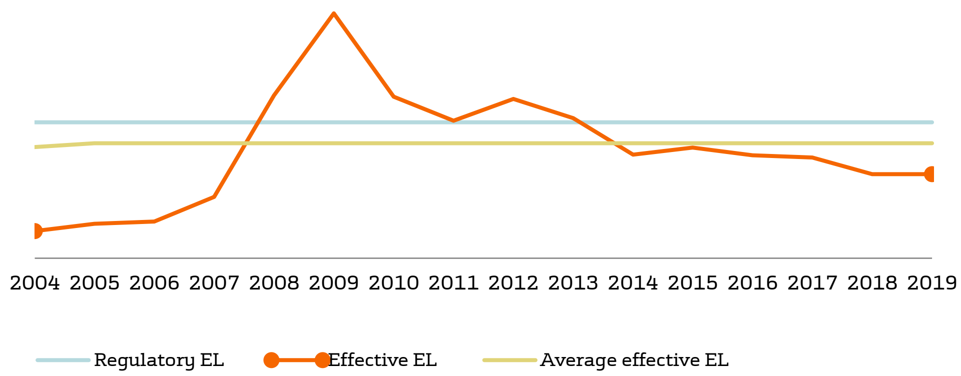
Consumer loans and credit with personal guarantees

The chart reflects the growth in effective expected loss during the 2008-2015 economic crisis, exceeding the value of regulatory expected loss in several years during the period. Despite this, regulatory expected loss remains some way above average effective expected loss.



Furthermore, a fall in effective expected loss can be observed from 2015, which needs to be monitored to see if it returns to levels similar to those of before the 2008 financial crisis.

Small businesses

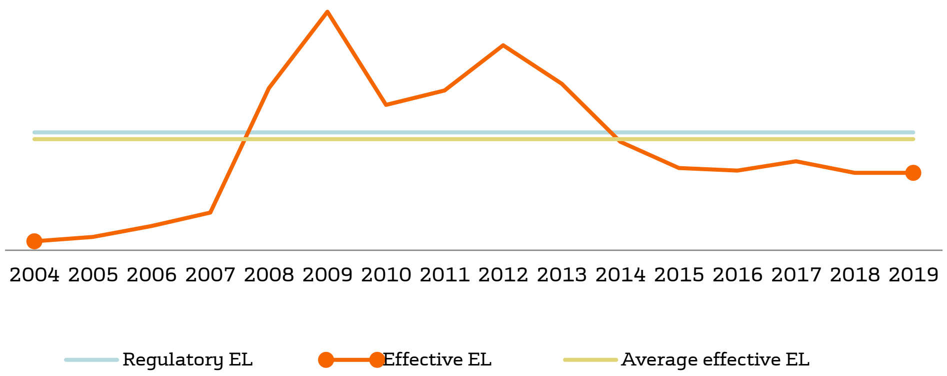


As shown in the chart, the maximum effective expected loss was reached in 2009. From then on, the indicator has continued to fall, with a slight spike in 2012, although it is yet to reach the levels seen prior to the 2008 financial crisis.

Medium-sized companies

The chart below shows the medium-sized companies portfolio. In this portfolio, the maximum effective loss was also reached in 2009, after which in general it declined, albeit with an increase in 2012.

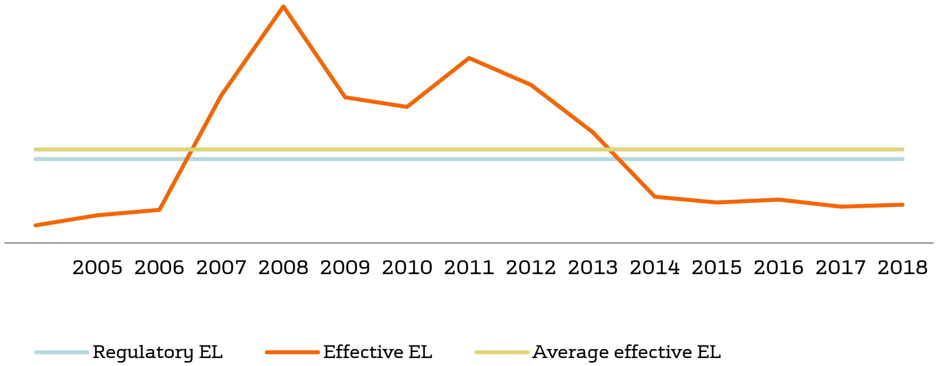
Currently, there is a rather notable downward trend, although pre-2008 financial crisis levels have not yet been reached.



Very large companies

The final chart here shows the very large companies portfolio. In this portfolio, the maximum effective loss was also reached in 2009, after which in general it declined, although once again a rise can be observed in 2012.

Currently, there is a rather notable downward trend, although pre-2008 financial crisis levels have not yet been reached.



4.5.6. Risk weightings of specialised lending exposures

Regulation (EU) of the European Parliament and of the Council 2013/575, modified by Regulation (EU) of the European Parliament and of the Council 2019/876, requires exposures that possess the following characteristics to 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 2019:

IRB specialised lending (CR10)

Regulatory categories	Remaining maturity	On-balance sheet amount	Off-balance sheet amount	RW	Exposure amount	RWAs	Expected losses
Category 1	Less than 2.5 years	-	-	50%	-	-	-
	equal to or longer than 2.5 years	8,829	6,490	70%	12,074	8,452	48
Category 2	Less than 2.5 years	124	480	70%	364	255	1
	equal to or longer than 2.5 years	331,515	386,776	90%	524,903	472,413	4,199
Category 3	Less than 2.5 years	33	137	115%	101	117	3
	equal to or longer than 2.5 years	74,451	56,613	115%	102,758	118,171	2,877
Category 4	Less than 2.5 years	768	-	250%	768	1,920	61
	equal to or longer than 2.5 years	26,345	21,459	250%	37,074	92,686	2,966
Category 5	Less than 2.5 years	-	-	-	-	-	-
	equal to or longer than 2.5 years	7,509	2,967	-	8,992	-	4,496
Total	Less than 2.5 years	924	617	-	1,233	2,291	66
	equal to or longer than 2.5 years	448,649	474,306	-	685,802	691,722	14,587

Figures in thousands of euros

4.6. Securitisations

4.6.1. General characteristics

Pursuant to Regulation (EU) 575/2013, amended by Regulation (EU) 2019/876, 'securitisation' is defined as a transaction or scheme whereby the credit risk associated with an exposure or pool of exposures is divided into two or more independently-transferrable tranches, which have 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 the 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 economic 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 2019, the Group has seven outstanding traditional securitisation transactions.

Group securitisation activity objectives

During certain years, traditional securitisations played a relevant role in funding liquidity growth and 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 the securitisation of the exposure.

It also participates as counterparty in payment agent contracts and administrator of the 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 2020, nor has it 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.

Nature of the risks inherent to securitised assets

The securitisation activity carries with it a series of associated risks that have repercussions for originator and investor institutions. The main risks are:

- Credit risk: It is the main risk that is transferred from the issuer to the investors that have acquired securitised assets. This risk occurs when on the payment date, the borrower does not meet their contractual obligations of making the payment in due time and form. This non-compliance results in the impairment of the underlying asset of the securitisation positions originated.

- Prepayment risk: This risk is associated with an early redemption of the underlying assets, either partial or total. With this repayment, the real maturity of the securitisation positions is reduced, while the contractual maturity of the underlying assets is maintained.

- Basis risk: Basis risk exists where the settlements of interest rates of securitised assets do not match the interest rates of the securitisation positions. To cover this risk it is common to undertake interest rate swaps, the so-called 'securitisation swap'. To mitigate this risk, all Bankinter's securitisation funds have an associated basis swap.

- Liquidity risk: From the viewpoint of the originator of the risk, it reduces with the securitisation process, which consists of converting illiquid assets into liquid bonds to be traded on secondary debt markets. It is worth highlighting that Bankinter is barely affected by this risk, as it does not have securitisations of promissory notes nor additional lines of liquidity.

  Liquidity risk also exists from the viewpoint of the investor, something that does not affect Bankinter, since, as already explained in this chapter, the Group does not carry out any investment activity.

Accounting policy in securitisation activity

The criteria followed by the Bankinter Group in transfers and derecognition of financial instruments, including asset securitisations, are detailed in Note 5 of the notes to the annual consolidated financial statements and in section 4.1.2. of this report. Accounting information in this respect can also be found in Note 27 of the notes to the annual consolidated financial statements on Transfers of financial assets.

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 2019 and 876 of Regulation (EU) 2013/575, modified by Regulation (EU) 2019/876, the securitisation exposures maintained by the Institution could be treated under the securitisation framework established in capital adequacy regulations. Otherwise, securitisation exposures will be treated as if they had not be securitised.

Regulation (EU) 2017/2401, amending the capital requirements for positions in a securitisation, came into force on 1 January 2020. This new regulation establishes a series of methods to calculate the amounts of risk-weighted exposures amounts in securitisation positions and establishes a hierarchy to determine the method to be used, according to which:

- **SEC- IRBA approach:** Where the conditions set out in Article 258 are met, an institution will use the SEC-IRBA approach.
- **SEC-SA approach:** Where the SEC-IRBA method may not be used, entities will use the SEC-SA method, in accordance with Articles 261 and 262.
- **SEC-ERBA approach:** Where the SEC-SA approach may not be used, an institution shall use the SEC-ERBA approach in accordance with Articles 263 and 264 for rated positions or positions in respect of which an inferred rating may be used.

Bankinter uses the SEC-IRBA approach to calculate risk-weighted exposures in securitisations.

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 Institution closely monitors the credit risk trends of underlying assets in the positions it originates, given that their behaviour 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 2020, the Group has seven outstanding traditional securitisation transactions. 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 Institution, by asset class.

Securitisation exposures in the banking book (SEC1)

2020	Bank acting as originator			Bank acting as investor		
Asset classes	**Traditional**	**Synthetic**	**Subtotal**	**Traditional**	**Synthetic**	**Subtotal**
Retail (total) - of which	1,307,433	-	1,307,433	-	-	-
Residential mortgage loans	1,307,156	-	1,307,156	-	-	-
Credit card	-	-	-	-	-	-
Other retail exposure	277	-	277	-	-	-
Resecuritisation	-	-	-	-	-	-
Wholesale (total) - of which	-	-	-	-	-	-
Corporate loans	-	-	-	-	-	-
Commercial mortgages	-	-	-	-	-	-
Finance leases	-	-	-	-	-	-
Other wholesale exposures	-	-	-	-	-	-
Resecuritisation	-	-	-	-	-	-

Figures in thousands of euros

During 2020, Bankinter generated no securitisation transactions and therefore no profit or loss has been recognised for this activity. The Institution has no assets pending securitisation.

At the 2020 year end, all the Institution's securitisation positions were recognised in the banking book. There are no securitisation positions in the trading book.

The tables below provides details of the securitisation positions held on the balance sheet in which the Institution 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)

2020	Exposure value (by RW interval)					Exposure value (by regulatory approach)				RWA (by regulatory approach)				Capital charge after cap			
	≤ 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	729,401	21,143	16,588	23,042	91,739	881,914	-	-	-	43,642	-	-	214,405	3,491	-	-	17,152
Traditional securitisation	729,401	21,143	16,588	23,042	91,739	881,914	-	-	-	43,642	-	-	214,405	3,491	-	-	17,152
Of which securitisation	729,401	21,143	16,588	23,042	91,739	881,914	-	-	-	43,642	-	-	214,405	3,491	-	-	17,152
Of which retail underlying	729,401	21,143	16,588	23,042	91,739	881,914	-	-	-	43,642	-	-	214,405	3,491	-	-	17,152
Of which wholesale underlying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which resecuritisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which non-senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Synthetic securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which retail underlying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which wholesale underlying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which resecuritisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Of which non-senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Figures in thousands of euros

For all securitisations to which a weighting of 1.250% is applicable, the Institution calculates its risk-weighted exposures rather than deducting the exposure from own funds.

Risk-weighted assets amounted to 258,047 thousand euros at the close of the 2020 financial year compared to 270,767 thousand euros in the previous 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 act as a cap.

Below is a table showing a breakdown by type of exposure of the securitised outstanding balance, of the volume of transactions impaired and in default, and the losses recognised in the year.

Securitised outstanding balance, assets impaired and in default, and losses recognised in the year

Breakdown by type of exposure	Securitised outstanding balance	Of which: securitised assets, impaired and in default	Losses recognised in the year
Residential mortgages	1,307,433	314,088	1,271
Total	1,307,433	314,088	1,271

Figures in thousands of euros

4.6.3. Investment securitisations

At 31 December 2020, Bankinter does not act as investor in any securitisation.

4.7. Information on credit risk mitigation techniques

Title II, Chapter 4 of Regulation (EU) 575/2013, modified by Regulation (EU) 2019/876, 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 the 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. Funded credit protection

Collateral is considered to be those assets that secure an obligation. These assets can be pledged 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.

Among the types of collateral accepted by Bankinter, primary residence mortgages are particularly important.

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 monetary 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	21,236,292	29,665,779	27,558,435	2,107,344
Of which: defaulted	318,259	622,646	613,026	9,620
Total STD exposure	46,423,351	14,036,035	4,709,718	9,326,318
Of which: defaulted	116,892	316,016	248,034	67,982

Figures in thousands of euros

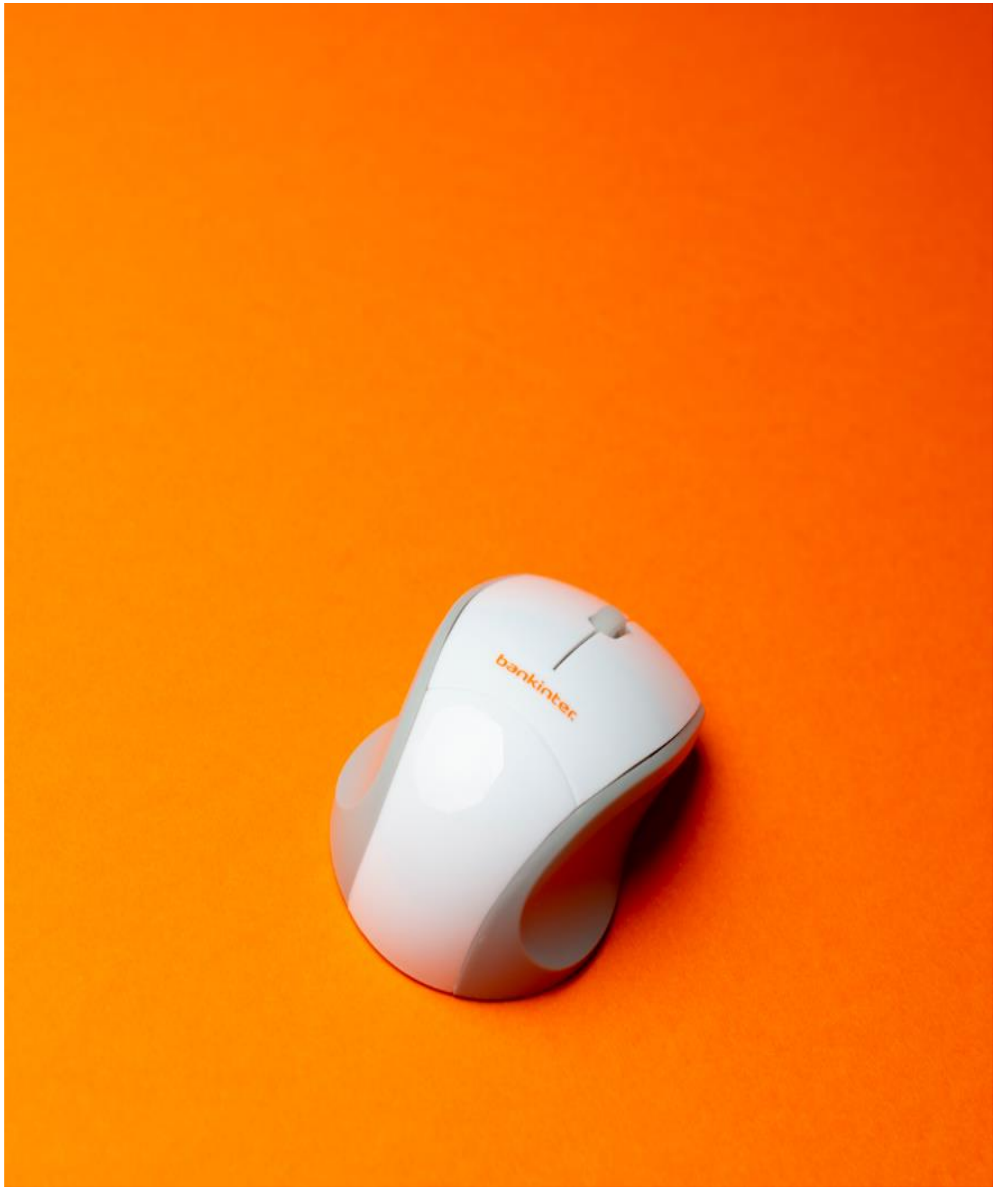
The above table lists the exposure covered by guarantee type and calculation method only for cases in which the guarantee could have been used to reduce capital requirements. In IRB models, the effect of collateral is taken into account in the calculation of the LGD of exposures, with the effect generally 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 2020.

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 trading book

5. Market risk in the Assets held for trading portfolio

Market risk relates to the possibility of suffering 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 on prudential requirements for credit institutions and investment firms

In accordance with title I, chapter 3 of Regulation (EU) 575/2013 of the European Parliament and of the Council, the trading book means all positions in financial instruments and commodities held by an institution 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 the Group's trading room, by the Trading Area, 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 current accounting regulations, namely, Circular 4/2017, which came into effect on 1 January 2018.

Note 5 of the notes to the 2020 consolidated financial statements describes which financial assets should be classified in the portfolio of 'Financial assets at fair value through profit or loss'. As it indicates, assets will be included provided that, due to the business model chosen for managing the asset and the contractual cash flow characteristics, they cannot be measured at amortised cost or at fair value through other comprehensive income. This means that transactions may be included in the 'Held-for-trading' portfolio although they do not pose a market risk for Bankinter.

All assets within 'Financial assets at fair value through profit or loss' which satisfy any of the following characteristics, must be included in the trading portfolio:

Financial assets

- They are originated or acquired for the purpose of realising them in the short term
- They are part of a portfolio of identified financial instruments that are managed together for which there is evidence of a recent pattern of short-term profit taking.
- They are derivative instruments that do not meet the definition of financial guarantee contracts and have not been designated as hedging instruments.

The 'Financial liabilities held for trading' portfolio must include all financial liabilities that have any of the following characteristics:

Financial liabilities

- They are issued with an intention to repurchase them in the near term.
- Are short securities positions
- They are part of a, jointly identified and managed, portfolio of financial instruments for which there is evidence of a recent pattern of short-term profit taking.
- They are derivative instruments that do not meet the definition of financial guarantee contracts and have not been designated as hedging instruments.

The mere fact that a financial liability is used to finance trading activities does not mean that it will be included under this category.

5.2. Characteristics of the risk management system and models used

Bankinter Group's Board of Directors entrusts the Treasury and Capital Markets Division 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.

Annually, 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 Area, which reports to the Risk Division, independently measures, monitors and controls the Institution'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 Institution'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 periodically 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 the close of the 2020 financial year:

VaR by risk factor	
Interest rate VaR	1.23
Equity VaR	0.85
Exchange rate VaR	0.11
Volatility VaR	0.82
Total VaR	**2.09**

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 in 95% of the 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 backtesting to ensure that they are correctly calibrated. The results of these tests were satisfactory.

5.3. Own funds requirements for market risk

Bankinter uses the standardised approach for calculating own funds requirements for market risk, as established by Regulation (EU) 575/2013 (CRR), modified by Regulation (EU) 2019/876. In accordance with this Regulation, 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 2020, Bankinter had no exposure to commodities risk and its exposure to foreign exchange risk was also reduced. Accordingly, under Title IV, Chapter 3 of the Regulation, no requirements need be considered for these types of risk.

As established in Title IV of the Regulation, 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 Institution's risk taken as a whole. At 31 December 2020, 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)

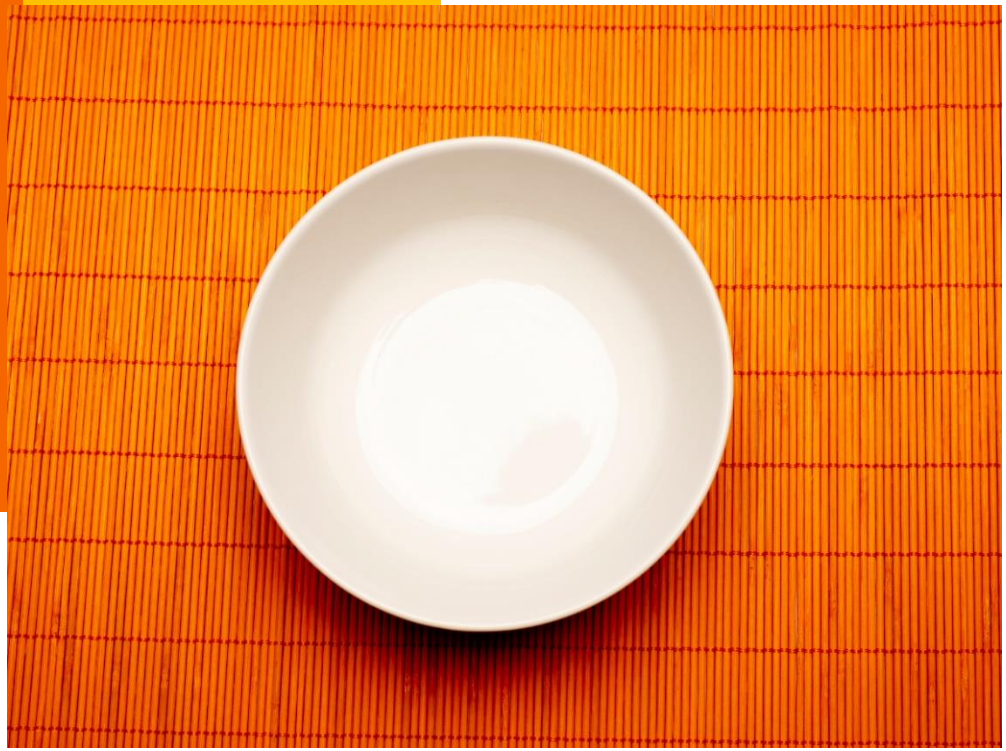
2020	RWAs	Capital requirements
Outright products		
Interest rate risk (general and specific)	165,283	13,223
Equity risk (general and specific)	22,578	1,806
Foreign exchange risk	-	-
Commodity risk	-	-
Options	-	-
Simplified approach	-	-
Delta-plus method	2,112	169
Scenario approach	-	-
Securitisation	-	-
Total	189,972	15,198

Figures in thousands of euros

Capital requirements for market risk have decreased, compared to the close of the previous financial year, as a result of the reduction in the volume of exposures and in line with the performance of the markets and of the trading portfolio itself. There were no changes made to the calculation methodology used during the year.

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 total eligible own funds. As the Group does not hold any gold positions and the foreign exchange position is very reduced (below the 2% threshold established in the Regulation), there are no own funds requirements to be considered in relation to this risk.

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.

Bankinter Group calculates its exposures weighted for operational risk using the standardised approach, according to Title III, Chapter 1 of Regulation (EU) 575/2013, and Banco de España's 'Guidelines for applying the standardised approach for operational risks'.

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

To estimate own funds requirements for operational risk, the Group 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 established 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 Bankinter Group's 'Risk management and control framework' approved by the Board of Directors.

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

- Risk identification and assessment by developing risk maps estimating the significance of the risks and evaluating the appropriateness of their control environments.
- Record of loss events occurring in the Group. 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 Group 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 responsibility for operational risk management.

6.2. Risk-weighted exposure and operational risk capital charge

Operational risk capital charge at year-end 2020 are listed below.

Operational risk capital charge:

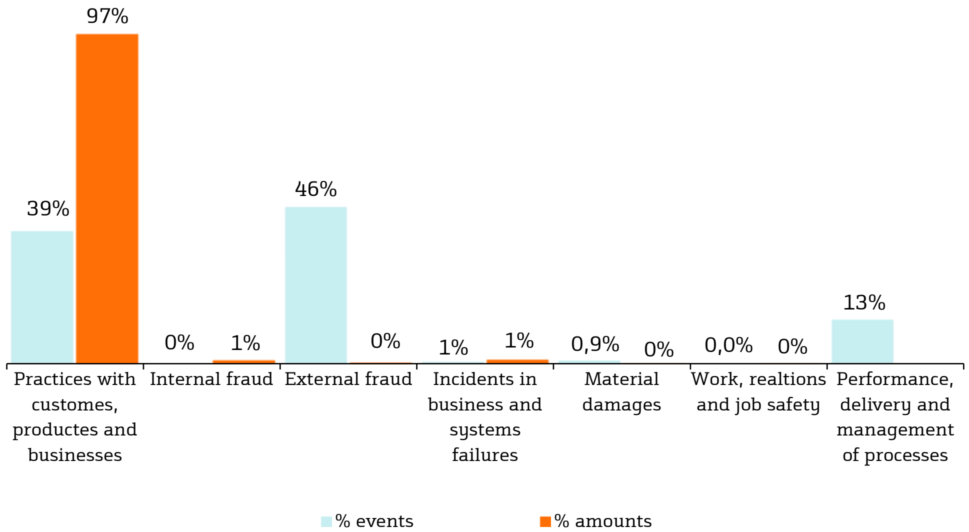
	2020
Beta factor key indicator	242,744
Operational risk-weighted assets	2,959,810
Capital charge for operational risk	236,785

Figures in thousands of euros

6.3. Group operational risk profile

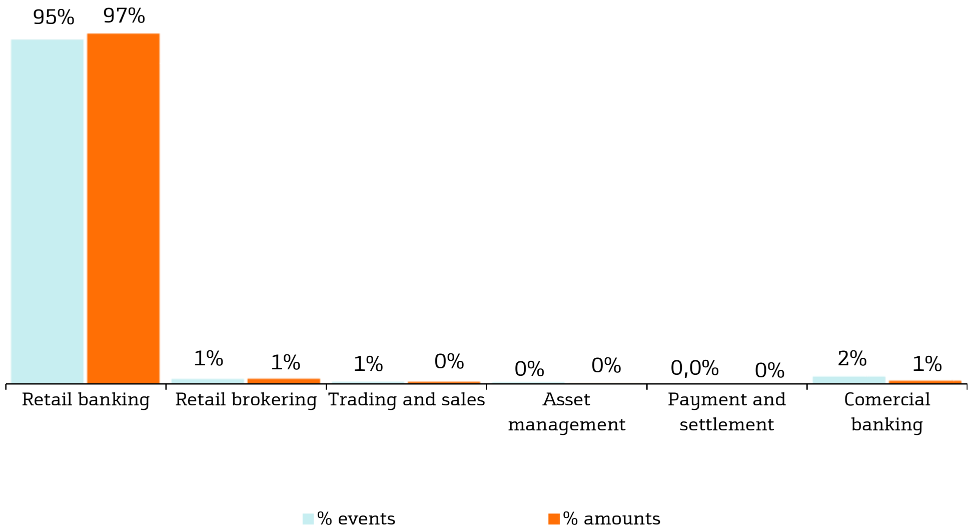
The following charts reflect Bankinter's operational risk profile, shown through the breakdown of historic operational losses analysed under several view points:

Percentage breakdown by type of risk



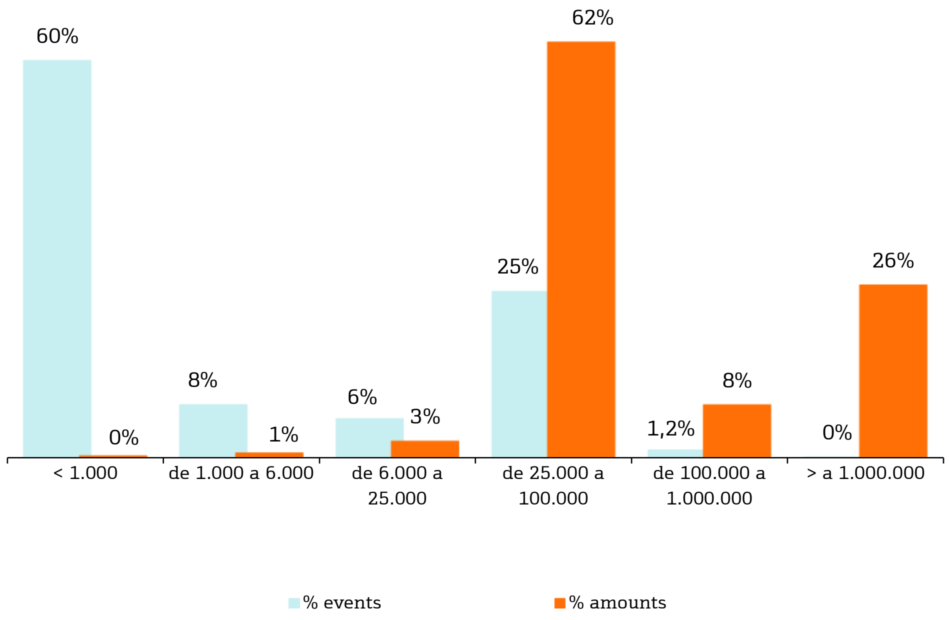
The chart reflects a concentration of losses due to a number of events in 'Commercial practices', 'External fraud' and 'Performance, delivery and management of process'. 'Commercial practices' is also the type of risk where the highest amounts are concentrated.

Percentage breakdown by line of business



As a result of the Group's business model, the higher number of loss events are concentrated under 'Retail commercial banking'.

Percentage breakdown by amount intervals



This chart shows that operational risk events involving a small amount (less than 6,000 euros) account for 68% of the total number of events and only 1% of losses. Most of the losses (62%) occur in the interval between 25,000 euros and 100,000 euros, which accounts for 25% of the total number of events.

6.4. Governance of the operational risk model

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

Support areas and business units

The managers of the various area and business unit are responsible for operational risk management 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 (ORU)

The functions of this unit, which is 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 operational risk management framework.

Risk Control Unit

As 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 Group, 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 body 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 Group's operational risk appetite at any time.

The Risk Committee is responsible for creating an organisational culture and structure that promotes efficient management of operational risk in the Group.

7. Equity investments and capital instruments not included in the trading book

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 'Non-trading financial assets mandatorily at fair value through profit or loss' and the 'Investments' portfolio: The accounting treatment for these portfolios is disclosed in Note 5(g) of the notes to the annual 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 'Non-trading financial assets mandatorily 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 management
- 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 included in the portfolio of 'Non-trading financial assets mandatorily at fair value through profit or loss', must be recognised as such both at initial and subsequent measurement.

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

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

- "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' hierarchy includes data on financial instruments whose fair value is obtained from listed prices in active markets for similar instruments or other valuation techniques wherein all significant inputs are based on observable market data.
- 'Level 3': includes information on financial instruments the fair values of which are obtained from valuation techniques which have some significant input that is not based on observable market data.

Note 45 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 equity investments and capital instruments not included in the portfolio of financial assets held for trading is shown below:

Equity investments and capital instruments in associates and Group companies

	Non-trading financial assets mandatorily at fair value through profit or loss	Investments			Total
		Associates	Jointly controlled entities	Subsidiaries	
2019	116,805	93,141	37,809	492,695	740,450
2020	118,865	72,847	36,679	(0)	228,391

Figures in thousands of euros

The difference with 2019 in the 'Subsidiaries' column is due to the classification of the subsidiary, Línea Directa Aseguradora, as a discontinued operation and, therefore, it is included on the balance sheet under the headings 'Non-current assets or disposal groups classified as held for sale' and 'Liabilities included in disposal groups classified as held for sale'.

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

Listed and unlisted equity instruments

	2020	2019
	Carrying amount	**Carrying amount**
Listed instruments	38,142	42,460
Unlisted instruments	190,248	697,990
Total	**228,391**	**740,450**

Figures in thousands of euros

The Group did not obtain any 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 2020 and 2019.

Likewise, the gains or losses on non-trading financial assets mandatorily at fair value through profit or loss in the 'Non-trading financial assets mandatorily at fair value through profit or loss' portfolio at 31 December 2020 was 5,025 thousand euros.

At 31 December 2020, there were no amounts for unrealised gains or losses, corresponding to equity investments and capital instruments not included in the portfolio of 'Financial assets held for trading', included in CET1.

The Supervisor has authorised Bankinter to permanently apply the standardised approach to equities-related exposures, except for financial-sector investments in which the Institution holds a significant interest (as is the case of the Institution's insurance holdings). The amount in excess of 10% of CET1, which at 31 December 2020 amounted to 120,408 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 1,237,200 thousand at the close of the 2020 financial year, compared to 1,119,958 thousand euros at the end of 2019.

8. Structural interest rate and foreign exchange risk

8. Structural interest rate and foreign exchange risk

8.1. Interest rate risk

8.1.1. Nature of interest rate risk and key assumptions

Structural interest rate risk is the Institution'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 Institution's net interest income and economic value. As a result, it is essential to keep interest rate risk at prudent levels, in order to ensure the strength and stability of the Bank. This allows it to:

- Avoid unexpected losses due to the impact of interest rate changes on net interest income and economic value
- Adopt lending 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 exposure to structural interest rate risk, Bankinter has established a limits structure that is reviewed and approved annually by the Board of Directors in accordance with its risk management strategies and policies.

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 Institution'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.

8.1.2. 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 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 interest rates and changes in the slope of the curve. The sensitivity in the various different scenarios is monitored by the ALCO.

Bankinter's net interest income's interest rate risk exposure facing parallel movements of 100 basis points in market interest rate curves is approximately +14.2% for rises and -3.2% for reductions, both for a 12-month horizon.

Economic value sensitivity

This measure supplements that of net interest income sensitivity 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 economic value to parallel shifts of +/- 100 basis points was +11.1% and -5.8%, respectively, of own funds at year-end 2020. The scenario of interest-rate cuts considers more negative rates than at present. The sensitivity in this scenario is measured, controlled and reported to the ALCO.

During 2020, the negative trend in interest rates and the characteristics of the Institution's own balance sheet, where the interest rates on asset products continue to be repriced downward and a large part of the liability products have reached the 0% floor, has increased sensitivity in a scenario of falling interest rates.

As a result of the active management of this risk, the sensitivity of economic value metric has remained at stable levels, offsetting the negative impact on the Institution's net interest income. The following measures were taken to mitigate this effect:

- Unwind asset hedges, to guarantee net interest income during the period of negative interest rates.
- Measures have been taken to incentivise the contracting of fixed-rate assets, hedging them above a certain term.

- Cancellation of wholesale liabilities with interest rate floors.

These measures, among others, explain the positive performance of Bankinter's net interest income in a scenario of negative market interest rates.

8.2. Exchange rate risk

8.2.1. Management of structural foreign currency risk

The structural exchange rate risk on the balance sheet derives from investment positions and funds that are denominated in foreign currency. The aim of managing this risk is to limit the possible negative impact of exchange rate fluctuations on the Bank's margins and equity.

The Balance Sheet Management area, part of the Treasury and Capital Markets area, establishes the management and hedging policies for exchange rate risk. The Bank's policy is to hedge all balance sheet positions, so that the number of open positions in each of them is kept to a minimum.

The risk of operating with assets and liabilities in other currencies before hedging would be defined by:

- The percentage of devaluation of a currency if a long position (more assets than liabilities in that currency) is taken.
- The percentage of appreciation of a currency if a short position (more liabilities than assets) is taken.

The Liquidity desk, within the Balance Sheet Management area, is responsible for exchange rate hedging. It receives information on a daily basis about the position in each of the currencies and the expected movements. The positions are then hedged in light of the resulting balances, either by placing surpluses on the market or taking negative positions. These hedges are carried out either through spot transactions or FX Swaps.

As a result, the structural exchange rate risk is managed on a daily basis, minimising the impact on the Bank of any possible adverse movement in exchange rates. Additionally, a second level control is carried out by the Financial Control Department on the positions in each of the currencies.

The currency positions generated by trading activities are also managed by the Currency Desk, but their measurement is included in the monitoring of the rest of the market risks.

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. The Bankinter Group actively monitors liquidity and its forecasts as well the measures to take either under normal market conditions or in exceptional situations resulting from external causes or market behaviour.

The management of this risk is the responsibility of the ALCO by delegation of the Board of Directors.

The principles, strategies and practices for liquidity management are set out in the 'Liquidity planning framework' that is approved by the Board of Directors.

The primary goal of managing liquidity risk is that the Institution 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:

- Maintaining a reduced reliance on wholesale markets to fund operations through a balanced growth in loans and retail funds.
- Diversify wholesale funding sources, both from the point of view of instruments and markets
- Maintain a presence in wholesale markets, issuing on a regular basis in accordance with market opportunities and needs
- Offer maximum transparency to investors, by regularly providing information about the Institution
- Have an appropriate wholesale maturity profile, avoiding concentrations
- Maintain a 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) Liquidity coverage ratio (LCR)

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

b) 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

c) 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, including the issuing capacity of covered bonds.

Level 2

a) ECB financing

Total amount of financing through the European Central Bank (ECB) net of balances deposited in accounts at the ECB.

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 Institution's liquid assets

e) 90-day LCR

Stock of high-quality liquid assets that covers net cash outflows over a 90-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 deposits. This measures the liquidity risk derived from concentrating liability balances.

h) Funding costs

It is measured as the weekly change in the secondary market spread of the Institution's issues compared to the rest of the sector. If it is trading with a large spread compared to the sector as a whole, the Bank could face problems in obtaining funding from the wholesale markets or may have to pay a higher rate of interest to do so.

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, backtesting is also conducted on the projections made.

In addition to the above, the Market Risks 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 ALCO.

9.2. Liquidity and funding prospects

The customer funding gap in the banking business (i.e. the difference between loans and customer funds) decreased in 2020 by 3,132 million euros. Havign been steadily reduced in recent years, the customer funding gap switched sign for the first time this year, with customer funds exceeding lending. The banking business in Spain's customer funding gap decreased by 2,857 million euros thanks to strong growth in customer funds, which easily outstripped the liquidity requirements generated by the growth of loans and receivables. EVO Banco contributed to reducing the customer funding gap through an additional 410 million euros. Portugal's banking business, meanwhile, had a positive impact on the gap, as lending rose to 136 million euros above the growth in customer funds. As a result, customer funds financed 103.2% of loans and receivables, up from 98.3% the year before.

In wholesale funding, maturities were replaced with new issues, maintaining a similar reliance on markets to the year before.

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

The improved liquidity position drove significant growth in the liquidity buffer, leaving the LCR comfortably above both internal and regulatory limits. The LCR stood at 198% at year-end 2020, up from 153.7% at the close of 2019.

The balanced and stable composition of the funding obtained by Bankinter Group to cover its needs, led to the net stable funding ratio (NSFR) being over 100% during the whole of 2020. At 31 December 2020, this ratio had increased to 133% from the figure of 123.4% at the close of the 2019 financial year.

For 2021, Bankinter expects to continue its balanced growth in lending and in deposits, thus reducing dependence on wholesale markets.

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

9.3. Liquidity coverage ratio (LCR)

The monthly averages of the components of the LCR ratio at the close of each quarter in 2020 are shown below. These values and figures have been calculated as the simple averages of month-end observations over the twelve months preceding the end of each quarter.

Liquidity coverage ratio, LCR (LIQ1)

Consolidated scope	Total unweighted value (average)				Total weighted value (average)			
Quarter ending	31.03.20	30.06.20	30.09.20	30.12.20	31.03.20	30.06.20	44,104	30.12.20
Number of data used in calculating the average	12	12	12	12	12	12	12	12
HIGH QUALITY LIQUID ASSETS								
Total high-quality liquid assets (HQLA)	-	-	-	-	**12,898**	**13,514**	14,784	16,631
CASH OUTFLOWS								
Retail deposits and deposits from small business customers, of which:	**30,665**	**33,224**	**35,238**	**37,127**	**2,066**	**2,196**	2,296	2,386
Stable deposits	**20,402**	**21,763**	**22,656**	**23,490**	**1,020**	**1,088**	1,133	1,174
Less stable deposits	**10,263**	**10,817**	**11,316**	**11,752**	**1,046**	**1,107**	1,163	1,212
Unsecured wholesale funding	**20,524**	**21,009**	**21,462**	**22,016**	**8,227**	**8,237**	8,220	8,293
Operational deposits (all counterparties) and deposits in networks of cooperative banks	**12,733**	**13,353**	**13,941**	**14,530**	**2,985**	**3,130**	3,255	3,380
Non-operational deposits (all counterparties)	**7,702**	**7,598**	**7,483**	**7,433**	**5,153**	**5,049**	4,927	4,860
Unsecured debt	**88**	**58**	**38**	**52**	**88**	**58**	38	52
Secured wholesale funding					**-**	**4**	7	10
Additional requirements	**10,107**	**10,430**	**11,004**	**11,694**	**825**	**881**	1,019	1,090
Outflows related to derivative exposures and other collateral requirements	**186**	**198**	**203**	**199**	**186**	**198**	203	199
Outflows related to loss of funding on debt products	**6**	**6**	**70**	**70**	**6**	**6**	70	70
Credit and liquidity facilities	**9,914**	**10,225**	**10,732**	**11,426**	**633**	**676**	746	821
Other contractual funding obligations	**114**	**113**	**97**	**120**	**54**	**51**	36	59
Other contingent funding obligations	**574**	**641**	**727**	**1,118**	**-**	**-**	-	51
TOTAL CASH OUTFLOWS					**11,172**	**11,369**	11,578	11,889
CASH INFLOWS								
Secured lending (e.g. reverse repos)	**1,641**	**1,727**	**1,676**	**1,627**	**1**	**1**	1	-
Inflows from fully performing exposures	**4,610**	**4,531**	**4,328**	**4,102**	**2,748**	**2,714**	2,607	2,511
Other cash inflows	**60**	**85**	**88**	**89**	**21**	**47**	57	62
(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					**-**	**-**	-	-
(Excess inflows from a related specialised credit institution)					**-**	**-**	-	-
TOTAL CASH INFLOWS	**6,311**	**6,342**	**6,092**	**5,819**	**2,770**	**2,762**	2,665	2,574
Fully exempt inflows	**-**	**-**	**-**	**-**	**-**	**-**	-	-
Inflows subject to 90% cap	**-**	**-**	**-**	**-**	**-**	**-**	-	-
Inflows subject to 75% cap	**6,311**	**6,342**	**6,092**	**5,819**	**2,770**	**2,762**	2,665	2,574
LIQUIDITY BUFFER					**12,898**	**13,514**	14,784	16,631
TOTAL NET CASH OUTFLOWS					8,402	8,607	8,913	9,315
LIQUIDITY COVERAGE RATIO (%)					154%	157%	165%	177%

Figures in millions of euros

Concentration of liquidity sources and funding

The liquidity buffer largely comprises tier 1 assets, mainly central, regional and local administrations' assets, followed by paper which acts as a source of liquidity within the ratio, reserves at central banks which can be withdrawn. On the other hand, corporate debt securities and equities play a major role.

Of particular importance within the various sources of funding, is that originating from retail deposits; which is characterised by its stability. Wholesale funding occupies second place, with operational deposits exceeding non-operational. Lines of credit and liquidity play a minor role.

Derivative exposures and possible collateral calls

Most of the derivative operations are carried out under credit support annexes (CSAs) that Bankinter has entered into with the counterparties, illustrating that hedging derivatives exposure is normal practice for the Bank.

Currency mismatches in the LCR

Bankinter only produces a liquidity coverage ratio (LCR) in euros at consolidated level, as this is its only significant currency.

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 financing structures, restricting excessive leverage and avoiding a destabilisation of the economy and of the banking system.

As defined in Regulation (EU) 575/2013, modified 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 capital adequacy regulations. It includes capital, reserves, retained earnings and capital gains on other available-for-sale assets, as well as additional tier 1 capital 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.

  f) f) The variation margin received in cash in derivative transactions, under Article 429bis (3).

At the close of the 2020 financial year, Bankinter Group's leverage ratio stood at 5.20%, compared to 4.75% in the previous financial year, well above the regulatory minimum requirement set at 3%. For the calculation of the ratio at 31 December 2020, the exclusion of the exposures of Eurosystem central banks, established by Regulation (EU) 2020/873 (CRR2 Quick Fix), has been temporarily applied in the exceptional circumstances of the COVID-19 pandemic, after permission to do so was announced by the European Central Bank on 16 September. Without applying this measure, the leverage ratio at the end of December 2020 would be 4.51%.

Bankinter Group's leverage ratio at 31 December 2019 and 2020:

	2020	2019
Tier 1	4,521,576	4,120,925
Exposure	87,004,215	86,672,758
Leverage ratio	5.20%	4.75%

Figures in thousands of euros

A reconciliation between the Group's financial statements and the exposure measure used in calculating the 2020 leverage ratio is as follows:

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

	2020
Total assets according to published financial statements	96,252,093
Adjustment for entities consolidated for accounting purposes, but which fall o utside the scope of regulatory consolidation	(920,523)
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	(429,671)
Adjustment for securities financing transactions (SFT)	(821,298)
Adjustment for off-balance-sheet items (i.e., conversions of off-balance-sheet exposures to credit equivalents	6,971,009
Adjustment for intragroup exposures excluded from the leverage ratio exposure	-
Adjustment for exposures excluded from the leverage ratio exposure	(13,300,364)
Other adjustments	(747,032)
Measurement of the total exposure for the leverage ratio	87,004,215

Figures in thousands of euros

The following table provides a breakdown of the items used to calculate the leverage ratio at 31 December 2020:

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 y fiduciary assets, but including security interests)	79,707,119
Amounts of assets deducted to determine tier 1 capital	(746,211)
Total on balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	78,960,909
Derivatives exposures (under Article 429 bis)	
Replacement cost associated with all derivatives transactions	107,457
Add-on amount for PFE associated with all derivatives transactions	484,075
Exposure determined under original exposure approach	-
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	(311,507)
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	280,024
SFT exposures (under Article 429 and 429 ter)	
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	790,776
Net amounts of cash payables and cash receivables of gross SFT assets	-
Counterparty credit risk exposure for SFT assets	2,318
Derogation for SFTs: Counterparty credit risk exposure	-
Agent transaction exposures	-
Exempted CCP leg of client-cleared SFT exposure	-
Total SFT exposures	793,094
Other off balance-sheet exposures (after applying CCF, according to Article 429)	
Off-balance sheet exposures at gross notional amount	22,816,392
Adjustments for conversion to credit equivalent amounts	(15,845,383)
Off balance-sheet exposures	6,971,009
Exposures exempted	
Exemption of intragroup exposures (solo basis)	-
Exposures exempted	-
Capital and total exposure measurement	
Tier 1 capital	4,521,576
Measurement of total exposure for leverage ratio	87,004,215
Leverage ratio	
Leverage ratio	5.20%
Leverage ratio without applying the exclusions of exposures to central banks established by Regulation (EU) 2020/873	4.51%
Choice of transitional arrangements and amount of derecognised fiduciary items	
Choice of transitional arrangements for the definition of the capital measure	Transitional measure
Amount of derecognised fiduciary items	-

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:	79,707,119
Trading book exposures	701,643
Banking book exposures of which:	79,005,477
Covered bonds	-
Exposures treated as sovereigns	12,184,268
Exposures to regional governments, MDB international organisations and PSE not treated as sovereigns	271,001
Institutions	4,795,492
Secured by mortgages of immovable properties	30,041,738
Retail exposures	8,718,699
Corporates	16,870,621
Defaulted exposures	1,038,632
Other exposures	5,085,025

Figures in thousands of euros

10.2. Trends in the leverage ratio

The leverage ratio increased by 45 basis points during 2020, from 4.74% at the end of 2019 to 5.20% at 31 December 2020.

The events that have occurred as a result of the COVID-19 pandemic have led central banks to expand credit in support of the real economy, which has led to a considerable increase in banks' balance sheets.

As explained in the previous section, in view of this situation, certain exposures to central banks have been temporarily excluded from the calculation of the total exposure measure, as established in Article 429 bis of Regulation (EU) 575/2013, amended by Regulation (EU) 2019/876.

In December 2020, therefore, these temporary relief measures were applied to the leverage ratio as established by Regulation (EU) 2020/873 with exposures to central banks (including reserves, coins and banknotes) being excluded. The total amount excluded was 13,300 million euros and without it the ratio at the end of the 2020 financial year would have stood at 4.51%. Total consolidated assets have increased by 12,500 million euros during the year, which has been offset by the exclusion measure applied.

The value of the numerator, tier 1 capital, increased during the year, by 401 million euros, which has underpinned the positive effect of the ratio's denominator. Also of note, is that part of the increase in tier 1 capital was due to the issuance of a new AT1 instrument in July 2020 for 350,000 thousand euros. This new issuance replaced another AT1 issuance for the amount of 199,000 thousand which as at 31 December 2020 had already ceased to be eligible as own funds due to its pending early repayment, scheduled for 2021.

10.3. Managing the risk of excessive leverage

The Bankinter Group calculates the leverage ratio quarterly, analysing the changes in all the items that comprise both its numerator and denominator, and carrying out close monitoring to ensure that the ratio remains comfortably above the minimum required level and that there is no risk of excessive leverage at any time. This analysis is reported quarterly to Senior Management.

In addition to this quarterly monitoring, Bankinter's leverage ratio is also one of the tier 1 ratios tracked by the Board of Directors in the risk appetite framework. The Institution 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.

Forecasts for this ratio are also made in the three-year balance sheet, earnings and capital projections, in both central and stress scenarios, to guarantee compliance in adverse situations.

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

As an additional transparency measure, the LRSum, LRCom and LRSpl tables are published quarterly on the Group's corporate website.

11. Information on asset encumbrance

11. Information on asset encumbrance

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

Below, Bankinter Group reports the information required under Commission Delegated Regulation (EU) 2017/2295.

The scope of regulatory consolidation used in this report, is the same as that defined for the application of liquidity requirements on a consolidated basis, as set out in Part Two, Chapter 2 of Regulation (EU) 575/2013, modified by Regulation (EU) 876/2019. Therefore, there is no difference between them.

Neither are there any difference between the assets pledged and transferred in accordance with the applicable accounting frameworks used by the Bank, and the encumbered assets. There is no difference between the treatment of these transactions.

The amount of the exposure shown in the following tables, corresponds to the carrying amount and the fair value. The information relating to the amount of the published values is calculated as the average of the quarterly values, as this measure of centralisation reflects the inequality of the frequency distribution of the values, dividing the distribution of them into two equal parts (second quartile).

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 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. It is also worth pointing out that there is no significant guarantee envelope.

Covered bonds

In accordance with the Spanish Mortgage Market Law, 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 recognised as loans associated with these bonds.

With regard to on-balance sheet covered bonds, loans have been included for 125% of the amount required to obtain Eurosystem funds.

Transferable securities

Repurchase agreements

A significant part of fixed income 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 short by the Trading area of Treasury. All bonds purchased under reverse repos that correspond to bonds sold short are included as encumbered 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.

Impact of the business model on the level of encumbrance. Importance of encumbrance in the financing model

It should be pointed out that in relation to the structure of the encumbrances among Group entities, they always come from the parent and there are no major intra-group encumbrances.

In addition to this, there are no material encumbrances either off-balance sheet or in currencies other than the reference currencies.

Other forms of encumbrance are also carried out. These are shown in the summary table below, 'Encumbered and unencumbered assets (AE1)', with figures for the December 2020 close:

Encumbered and unencumbered assets (AE1)

	Carrying amount of encumbered assets	of which notionally eligible EHQLA and HQLA	Fair value of encumbered assets	of which notionally eligible EHQLA and HQLA	Carrying amount of unencumbered assets	of which EHQLA and HQLA	Fair value of unencumbered assets	of which EHQLA and HQLA
Assets of the reporting institution	**23,995**	**4,531**			**68,373**	**16,308**		
Equity instruments	6	3			284	101		
Debt securities	4,810	4,526	5,159	4,862	6,592	4,559	6,518	4,757
of which: covered bonds	0	0	0	0	0	0	0	0
of which: asset-backed securities	17	17	17	17	7	0	7	0
of which: issued by pubic administrations	4,414	4,414	4,747	4,747	4,874	4,429	4,658	4,604
of which: issued by financial corporations	323	0	323	0	1,349	0	1,353	0
of which: issued by non-financial corporations	96	96	99	99	432	129	443	127
Other assets	19,177	0			61,269	11,534		
of which: loans:	18,482	0			58,781	0		

Figures in millions of euros

The columns of “Unencumbered assets” reflect 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 these columns relates to items that cannot be sold or pledged and that correspond to intangible assets, goodwill, tax assets, etc.

The columns of 'Encumbered assets' mostly relate to loans and credits linked to the issue of covered bonds and securitisation bonds.

The amount for 'Other assets' mainly relates to the Bank's loan book.

Collateral received (AE2)

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

Guarantees received	Fair value of encumbered collateral received or own debt securities issued		Unencumbered: Fair value of collateral received or own debt securities issued available for encumbrance	
		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
Collateral received by the reporting institution	1,313	1,313	739	474
Loans on demand	-	-	-	-
Equity instruments	-	-	-	-
Debt securities	1,313	1,313	697	474
Of which: covered bonds	-	-	-	-
Of which: asset-backed securities	106	106	125	12
Of which: issued by pubic administrations	1,098	1,098	447	220
Of which: issued by financial corporations	209	209	292	2
Of which: issued by non-financial corporations	-	-	-	-
Loans and advances other than loans on demand	-	-	-	-
Other collateral received	-	-	36	-
of which:	-	-	-	-
Own debt securities issued other than own covered bonds or asset-backed securities	-	-	-	-
Own covered bonds and asset-backed securities issued and not yet pledged			2,118	1,886
TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	25,145	5,681		

Figures in millions of euros

Lastly, a breakdown of the amounts of encumbered own debt securities issued (covered bonds and securitisation bonds) and the assets which cover them is shown in table AE3 below. The balances recorded correspond to securities lending and asset repurchase transactions to hedge short positions in securities.

Therefore, financial liabilities issued and linked to certain assets and guarantees received at 31 December 2020, is as follows:

The 'Liabilities' column includes matching liabilities, contingent liabilities or securities lent

The 'Assets' column includes assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered.

Sources of encumbrance (AE3)

	Liabilities	Assets
Carrying amount of selected financial liabilities	**18,102**	**22,724**
Derivatives	601	718
of which: OTC	429	522
Deposits	13,874	17,547
Reverse repos	2,055	2,097
of which: central banks	-	-
Collateralised deposits other than repurchase agreements	12,071	15,737
of which: central banks	12,071	15,737
Debt securities issued	4,241	5,224
of which: covered bonds issued	3,793	4,741
of which: asset-backed securities issued	449	483
Other sources of encumbrance	2,502	2,348
Nominal value of loan commitments received	-	-
Nominal value of personal financial guarantees received	-	-
Fair value of securities received on loan with collateral other than cash	-	-
Other	2,502	2,348
TOTAL SOURCES OF ENCUMBRANCE	20,673	25,145

Figures in millions of euros

12. Remuneration

12. Remuneration

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

Bankinter's corporate by-laws state 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 Institution'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.

Bankinter's 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 in the remuneration issues falling under its remit in the Rules and Regulations of the Board of Directors, overseeing observance of the established remuneration policy.

At its meeting of 22 July 2020, and on the recommendation of the Remuneration Committee, the Board of Directors approved a specific set of Remuneration Committee Regulations. The aim of these regulations (which were added to Bankinter Group's internal corporate governance rules) is to enhance the Committee's independence and determine the basic guidelines for action and the rules of its composition, operation and powers while observing corporate governance best practices.

As set out in Article 41 of the Bank's Rules and Regulations of the Board of Directors, and in its own Regulations, the Remuneration Committee's functions include:

- Proposing to the Board the remuneration policy for directors and their individual remuneration, along with the annual directors' remuneration report, which the Board puts to an advisory vote at the annual general meeting.
- Submitting a proposal to the board of directors on the individual remuneration of executive directors and, as the case may be, external directors, for the performance of duties other than those of a director and other terms and conditions of their contracts.
- Proposing the remuneration policy for senior managers, including managing directors or those who perform senior management duties and report directly to the board, to executive committees or to chief executive officers, as well as their individual remuneration and other basic terms and conditions of their contracts.
- Setting the remuneration of members who are not considered senior managers but who receive significant remuneration (especially variable remuneration), and whose activities may have a significant impact on the Group's risk profile.
- Verifying the extent of compliance with the remuneration policy in general during the financial year and enforcing compliance.
- Conducting regular reviews of remuneration programmes; assessing their implementation and effectiveness; and ensuring that directors' remuneration conforms to standards of moderation and the Bank's results.
- Ensuring transparent remuneration and its inclusion in the annual report and in any other annual reports containing information on directors' remuneration; and, to this end, submitting relevant information to the Board.
- Reporting on incentive plans for senior managers or employees that are pegged to the performance of the Bank's listed share price or other variable indices, as well as on remuneration systems for the Bank's management team based on collective insurance systems or deferred remuneration systems, if applicable.
- discharging any other duties delegated to the committee under these rules and regulations or by the Board of Directors.

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 carry out its duties, the Bankinter Remuneration Committee held a total of five ordinary meetings and one written meeting in 2020 to discuss all matters that come under its remit.

All of the committee's activities are included in the annual activity report for 2020, approved by the committee in February 2021 and posted on Bankinter's corporate website for the called annual general meeting. The activities specified in this report include yet are not restricted to: the determination and proposal to the Board of individual remuneration of the non-executive Chairman, executive directors and senior management, tracking of multi-year variable remuneration, proposal of the annual report on directors' 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 the Bankinter remuneration policy;

determination of identified staff[3]; and updating of remuneration-related policies and procedures.

Article 41 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 advisors, 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.

On 18 February 2020, 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 held on 19 March 2020 (with a 93.496% approval rating), and can be viewed on the Company's corporate website.

At the annual general meeting held on 21 March 2019, and in accordance with article 529 novodecies of the Spanish Companies Act, Bankinter shareholders approved (91.655% approval) the remuneration policy for directors of Bankinter, S.A., for a maximum period of three years (2019, 2020 and 2021). The approved text is available on the corporate website.

The annual general meeting held on March 19, 2020 agreed (with an approval percentage of 97.38%) to amend the directors' remuneration policy for 2019, 2020 and 2021 (the 'Directors' remuneration policy').

The proposed amendment of the Remuneration Policy was justified for the following reasons:

> The current remuneration policy authorises the Board of Directors to modify and adjust the number of shares to be delivered to executive directors are part of the deferred variable remuneration in shares under the following terms[4]:
>
> > *'The Board of Directors is authorised to modify and adjust the number of shares to be delivered on each of the aforementioned dates when an increase in capital in the form of a bonus share issue and/or with a charge to reserves, a split or reverse split of the outstanding shares, or any other corporate transaction of a similar nature or having similar effects has been carried out between the date of approval of the corresponding resolution and the effective date of delivery.'*

Bankinter's Board of Directors is authorised to modify and adjust the number of shares to be delivered as part of the deferred variable remuneration in shares when there is a bonus share issue, a split or a reverse split of Bankinter shares, or "any other corporate transaction of a similar nature or having similar effects".

Nevertheless, the possibility of different situations, events or special circumstances arising, or regulatory requirements or recommendations to be issued by regulatory or supervisory bodies, and corporate transactions may trigger changes in the unit value of Bankinter's shares, which could therefore affect the initial value of the investment made by any Bankinter shareholder, must be clearly explained in the aforementioned policy. In these cases, Bankinter's Board of Directors is also authorised to make the necessary adjustments to offset the loss of value of the Bank's shares resulting exclusively from these situations, events, special circumstances or corporate transactions to maintain the balance of its remuneration system.

To do so, Bankinter must have the appropriate corrective mechanisms to ensure that variable remuneration is the same as the amount that would have been paid if such events had not occurred. Therefore, a motion is being laid before shareholders at the annual general meeting to replace this paragraph with the following:

> *'The Board of Directors is authorised to modify and adjust the number of shares to be delivered as part of the variable remuneration and change the rules on settlement and the payment schedule when before the date of effective delivery special situations, events or circumstances have arisen due to internal or external factors, such as but not limited to laws or requirements or recommendations by regulators of supervisors or corporate transactions affecting the Bank (e.g. capital increases, stock splits or reverse stock splits, structural modifications or similar operations, public takeover bids, etc.), and in the opinion of the Board of Directors such modification, adjustment or change is warranted to maintain the value of the consideration and/or the balance of the remuneration system. These modifications, adjustments or changes shall be disclosed in the annual report on directors' remuneration.'*

3 The categories of staff whose professional activities have a material impact on the institution's risk profile ('identified staff').

4 Section 3.3.c) ii of the Bankinter directors' remuneration policy on the timing, terms and conditions for delivering variable remuneration

In both cases, the Directors' remuneration policy was accompanied by an explanatory report by the Board and a specific report by the Remuneration Committee, pursuant to Article 529 novodecies of the Spanish Companies Act, all of which are available on the corporate website.

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 Institution by providing incentives for employees to assume excessive risk.

On 17 March 2021, before the publication of this report and in line with the proposal submitted by the Remuneration Committee, the Board of Directors approved Bankinter's annual report on directors' remuneration, in accordance with the Law and the Spanish National Securities Market Commission (CMNV) circulars that regulate it. The report will be put to an advisory vote at the annual general meeting to be held on 21 April 2021, in compliance with article 541 of Royal Legislative Decree 1/2010 of 2 July approving the consolidated text of the Spanish Companies 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.

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 the Bank.
- Alignment with long-term interests: The policy must be compatible with the business strategy, objectives, values and long-term interest of the company, and must include measures to avoid conflicts of interest.
- Appropriate balance between fixed and variable components: As a general rule, variable remuneration must not represent a significant portion in comparison with fixed remuneration, in order to avoid the assumption of excessive risks.
- Multiple elements: Remuneration packages must comprise a set of instruments that allows remuneration to be adjusted to both the needs of the Company and of its professionals in terms of content (remuneration in cash and in kind), time horizon (short, medium and long term), security (fixed and variable) and purpose.
- Internal fairness and external competitiveness: 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: As part of its supervisory duties, the Bank's Board of Directors will adopt and periodically review the general principles of the remuneration policy and will be responsible for monitoring and guaranteeing its effective and appropriate application.
- Flexibility and transparency: The rules established to manage the compensation paid to identified staff must include mechanisms that enable exceptional situations to be addressed, 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: Remuneration management standards must be written clearly and concisely, simplifying, as far as possible, their description, the calculation methods of the remuneration and the necessary conditions to access it.

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

In its meeting on 21 January 2015, the Board of Directors, on the recommendation of the Remuneration Committee, approved a policy to determine the Company's identified staff, which was revised by the Remuneration Committee and the corresponding amendments were submitted to the Board of Directors, who approved the current wording in the meeting held on 21 February 2018. This policy contemplates the criteria established in 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 that form part of 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 the identification process explained, a total of 92 professionals were classified as identified staff at the close of the 2020 financial year.

There were a total of 91 identified staff in 2020, more or less the same number as in the previous year.

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, on the recommendation of the Remuneration Committee, analyses and approves Bankinter Group's general remuneration policy, particularly the policy for its directors, senior management and identified staff.

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 through one or a combination of the following three remuneration items, all of which are included in the Bank's corporate by-laws: i) annual fixed amount for membership on the Board of Directors and chairing any committees thereof; ii) allowances for attending meetings of the Board and the committees thereof; and iii) delivery of shares, share options or remuneration indexed to the value of shares.

For 2020, remuneration includes only the first two items.

The annual general meeting held on 21 March 2019 approved, in accordance with articles 217 and 529 septdecies of the Spanish Companies Act, to set the maximum amount of the directors' annual remuneration in their status as such at the amount of 2,000,000 euros, an amount that will remain in force provided no modification is approved at the annual general meeting.

The specific amounts for each director for the items mentioned above are set annually by the Board of Directors considering the positions held by each director on the Board, their membership of the Board and board committees, and their attendance at board and committee meetings.

The annual report on directors' remuneration, available on the corporate website (corporate websitewww.bankinter.com/webcorporativa) includes the individual amount paid to the members of the Board for the performance of their duties in 2020, along with a description of the amounts to be accrued for each item in 2021.

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

Since January 2013, his non-executive institutional functions (described in the directors' remuneration policy published on the Bank'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 Chairman of the Board of Directors will receive no variable remuneration of any kind, for the same reasons noted in the previous point for non-executive directors.

The report on directors' remuneration, available on the Bank's corporate website (www.bankinter.com/webcorporativa) includes the individual amount paid to the Chairman for the performance of his duties in 2020 and remuneration corresponding to 2021.

The directors' remuneration policy for 2019, 2020 and 2021, which was approved by the annual general meeting in March 2019, also shows the maximum overall limit for fixed remuneration to be received by the Chairman for the duties indicated above, during the term of this policy.

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, and was amended as indicated above, on 18 February 2020.

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 of the Board of Directors, 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 Institution.

The directors' remuneration policy for 2019, 2020 and 2021, 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 rest of 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, among 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 Institution'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 Bank'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 main aims of performance assessment are 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 immediate superior, with the Human Resources Division leading the process.

Variable remuneration

Objectives and principles

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 Bank.
- Total variable remuneration does not limit Bankinter's capacity to reinforce the soundness of its capital base.
- Given that guaranteed variable remuneration is not compatible with healthy risk management or with the principle of rewarding performance, it does not form part of any of the Bank's remuneration plans.
- Guaranteed variable remuneration is exceptional and can only occur when hiring new staff and where the Entity has a sound and strong capital base, and is limited to the first year of employment.
- Fixed and variable components shall be appropriately balanced in total remuneration. The fixed component constitutes a sufficiently large portion of total remuneration, so that payment of variable components can be fully flexible and even be suspended where appropriate.

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

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.
- Nevertheless, Bankinter’s annual general meeting can approve a higher variable component than this, provided that it does not exceed 200% of the fixed component.

Type of variable remuneration

Annual variable remuneration

The purpose of the annual variable remuneration 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 2020 was linked to financial indicators: i) earnings before tax (EBT) as a correct indicator of proper risk management and medium and long-term sustainability; and ii) annual gross operating income targets to be achieved by the respective areas/offices as a fundamental metric of business sustainability in the medium and long term, in line with Bankinter's risk policy.

The indicators (EBT and gross operating income of Bankinter Group) represent 70% and 30%, respectively, of variable remuneration. 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 targets is 120% of the benchmark incentive.

The global percentage accrual of the incentive in 2020 was 27.48%, compared to 99.55% in 2019. This is due to the achievement of the first target, Banking Business EBT, remaining below 80%, as a result of the effects of the COVID-19 pandemic during the year, and no incentive being accrued for that element. Furthermore, to earn this 2020 variable remuneration, the following indicators (which may reduce accrued variable remuneration to zero but may never increase the amount) had to be met cumulatively:

- Risk appetite framework ratios, which measure the following risks: credit risk, solvency risk, liquidity risk, interest rate risk and reputational risk, which must meet the condition of not exceeding the risk level defined in the risk appetite framework.
- RoE (return on equity invested), which had to exceed 9% to accrue 100% of the incentive attained. If this ratio were between 6% and 9%, 50% of the achieved indicators would be made payable; however, if it were below 6%, no amount whatsoever would be paid.

In this respect, in November 2019, Bankinter's Board of Directors asked the Risk Committee to look at the risk metrics included in the RAF, as part of the analysis of appropriate measures to improve them; considering that it was necessary to include the difference between long-term objectives and short-term instrumental objectives in the Bank's risk appetite statement. In September 2020, the Risk Committee 's final analysis was submitted to the Board of Directors, which approved the modification of the structure of the RAF metrics, incorporating the structural perspective via TTC (through-the-cycle) metrics.

At the same time, the Risk Committee's analysis found that the APM metrics applied to the ex ante adjustment factors of the variable remuneration established in the remuneration policy, incorporated the structural perspective except for two of them: RoE and Cost of risk. The situational perspective of these metrics means they are influenced to a large extent by the economic cycle, unlike the structural perspective, which eliminates the effect of the cycle and is, therefore, the ideal measure of the management carried out. For this reason, at its September meeting, the Risk Committee agreed to propose to the Remuneration Committee the use of this structural perspective when applying such adjustment factors and, consequently, it was proposed that the thresholds applicable to these effects would be those corresponding to the TTC metrics.

In view of the above, the Board, on the recommendation of the Risk Committee and the Remuneration Committee, in its September meeting, approved the use of TTC metrics for the application of ex ante adjustment factors of the variable remuneration included in the remuneration policy, considering that these metrics are better aligned with the philosophy underlying the regulation that governs this type of remuneration, which aims to ensure that the remuneration concepts are consistent with the banks' long-term strategy.

As a result of this, the achievement percentages of both indicators are as follows:

- Risk appetite framework ratios. The level of achievement of this indicator in 2020 was 100%. Therefore, the amount of the variable remuneration receivable will not be reduced.
- RoE. The level of achievement of this indicator in 2020 was 100% (with a level of 9.09% being attained). Therefore, the amount of the variable remuneration receivable will not be reduced.

Thus, the percentage of annual variable remuneration was earned was: 27.48%, as indicated above.

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. In some cases the weightings of the targets will be 50% EBT and 50% area objectives.

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 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 of Directors the approval of the target variable remuneration of executive directors without them being present.

Long-term variable remuneration 2019- 2021:

On the recommendation of the Remuneration Committee, the Board of Directors approved a long-term incentive plan for 2019-2021 (the 'plan'), in accordance with the directors' remuneration policy, was approved at the 2019 annual general meeting. Details of this plan are included in the remuneration report approved in a consultative vote at the 2019 and 2020 annual general meetings.

The main features of this plan are as follows:

Plan objectives

- To improve levels of engagement and loyalty among 'key' officers and employees.
- To bring "key" officers and employees in line with the Bank's Strategic Plan for the 2019-2021 horizon, showing them a long-term vision of the Bank that will generate a culture of sustainability.

Accordingly, this plan is in addition to any other variable remuneration plans existing now or in future at Bankinter Group.

Participants: Executive Vice Chairman, Chief Executive Officer, management team, regional unit heads and other key individuals. Currently, a total of 71 people.

Duration: three years for calculating the amount accrued (2019-2021) and a deferral period of five years, as of 31 December 2021, in the case of executive directors and senior managers (i.e. 2023, 2024, 2025, 2026 and 2027), and three years of deferral for all other participants (i.e. 2023, 2024 and 2025).

Reference amount of the Incentive (Target Incentive):

Two annual instalments of the gross annual fixed salary received by the plan participant at 31 December 2018.

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

Specific characteristics of vested variable remuneration systems:

Accrued variable remuneration is subject to the following clauses:

- **Deferral:** a substantial portion of variable remuneration, of 60% for the Chief Executive Officer (considered particularly high) and at least 40% for the Executive Vice Chairman and members of senior management, will be deferred over a period of five years. For the rest of the people forming part of the identified staff who are subject to this clause, the 40% variable remuneration will be deferred for a period of three years.

  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 retention periods:** a substantial portion of variable remuneration of at least 50%, of 60% for the Chief Executive Officer (considered particularly high) and 50% for the Executive Vice Chairman, senior management and the rest of the identified staff, whose variable remuneration is subject to this clause, will be delivered in Bankinter shares. 50% of non-deferred variable remuneration will be delivered in shares.

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

  Under this section, Bankinter shares delivered to identified staff members, including executive directors, will be subject to a retention period of one year from delivery. This is considered an appropriate practice for incentives to be consistent with the Entity's long-term interests.

- **Ex-post adjustments:** variable remuneration (including the deferred portion) will be paid or vest only if it is deemed sustainable based on Bankinter Group's financial situation, and when justified based on the Entity's, business unit's or person's performance.

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 strategies or insurance relating to remuneration and liabilities that undermine the sound risk alignment effects promoted by the remuneration arrangements may not be used.

  Specifically, they 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 Bankinter shares already delivery that are subject to the retention period.

- **Risk adjustments:** The variable remuneration of all members of the identified staff is contingent on the achievement of a series of indicators in the risk appetite framework; specifically *(financial and non-financial)* indicators for solvency, liquidity, interest rate, reputational and credit risk:

In the directors' remuneration report is available on the Bank's corporate website, a more comprehensive description of the indicators and adjustment mechanisms is provided as well as payment conditions.

Pension schemes:

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

Bankinter's pension scheme is a defined contribution plan. To implement it, the Bank has taken out a unit-linked group insurance policy and a guaranteed return group insurance policy covering 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 remuneration of identified staff

The total identified staff remuneration generated in 2020, by area of activity, is as follows:

Remuneration by activity

Business	Investment Banking (1)	Commercial Retail Banking (2)	Asset Management (3)	Other (4)	Total
No. of employees who form part of the identified staff	5	35	8	44	92
Total remuneration	1,419	8,568	2,687	13,540	26,214
Of which: Variable remuneration (5)	624	982	912	1,059	3,577

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 Securities.

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

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

(4) Includes individuals who perform corporate functions, control functions, senior management and the Board of Directors.

(5) Includes 15% of contributions to social benefit schemes that are considered discretionary pension benefits, in relation to executive directors and senior management.

The ratio of maximum variable remuneration to fixed remuneration set for the identified staff did not exceed 100% of the fixed remuneration, in accordance with Article 94, Paragraph 1, Letter g) of Directive 36/2013/EU, except in the case of those employees who, due to their specific activity in areas related to the Capital Markets, or because of their participation in long-term incentive plans, for whom, and with prior authorisation from the annual general meeting, the limit was raised to 200% of fixed remuneration.

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 managers	Other employees of identified staff	Total
Fixed remuneration (3)		**2,016**	**1,983**	**2,705**	**12,892**	**19,595**
Variable remuneration (4)			149	377	2,875	**3,402**
Immediate payment	In shares		36	113	640	**789**
	In cash		36	113	1,382	**1,531**
Deferred payment	In shares		44	75	427	**546**
	In cash		33	75	427	**536**
No. beneficiaries		9	2	8	73	**92**
Payments for new recruitment						**-**
Fixed remuneration		89				**89**
Variable remuneration						**-**
Immediate payment	In shares					**-**
	In cash					**-**
Deferred payment	In shares					**-**
	In cash					**-**
No. beneficiaries		1				**1**
Severance payments (5)						**-**
No. beneficiaries						**-**
Deferred remuneration pending payment			1,972	2,623	6,328	**10,923**
Vested part			1,972	2,623	6,328	**10,923**
Non-vested part			-	-	-	**-**
Pension scheme contributions		-	560	608	2,048	**3,217**

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 duties on 1 January 2013.
In addition to these amounts, two members of the Board of Directors have received attendance fees for belonging to other Boards of Directors of subsidiary companies. In one of the cases, 14 thousand euros was received for the performance of duties as a non-executive director of Línea Directa Aseguradora and in attendance allowances for the board of directors of Línea Directa Aseguradora; and in the other case, 74 thousand euros were received for the performance of duties as a member of the board of directors of EVO Banco and as a member of its supervision committees, and in allowances for attending EVO Banco board and committee meetings.
(2) Individualised information for executive and non-executive directors, accrued and effectively paid, can be found in the directors' remuneration report that the Board of Directors submit to an advisory vote at the annual general meeting of shareholders. This report is available on the Institution's corporate website (www.bankinter.com/webcorporativa).
(3) Remuneration in kind received during the year is included, as well as other amounts paid as corporate benefits.
(4) In the case of the CEO, 60% of the variable remuneration accrued in 2020 is subject to a 5-year deferral. In the case of the Vice Chairman and senior management, 40% of the variable remuneration accrued in 2020 is subject to a 5-year deferral. In the case of other identified staff, 40% of variable remuneration accrued in 2020 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 three-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 Bankinter or the area that has generated such remuneration. The amounts outstanding payment may be reduced or cancelled.
(5) In 2020, no severance payment was made to any member of the identified staff.
(6) Includes total contributions to social benefit schemes, including the 15% considered as discretionary pension benefit in the cases of executive directors and senior management.

The table above shows the amounts actually vested until 31 December 2020.

In 2020, one person in Bankinter Group accrued more than 1 million euros during the year, through variable remuneration. The following table shows the distribution by salary bands:

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

The following table shows the annualised target amount (i.e. assuming a 100% achievement of the objectives) of the long-term incentive plan for 2019-2021. The measurement period of the plan's objectives ends on 31 December 2021, so the amounts were not accrued at the end of 2020.

Annualised target value of the long-term incentive

Identified staff	Board of directors. Non-executive directors	Board of directors. Executive directors	Senior Management	Other employees of identified staff	Total
Long-term incentive		976	1,643	5,445	8,064
No. beneficiaries		2	8	47	57

Annexes

Annexes:

Annexe I. Capital instruments of Bankinter Group

1	Issuer	Bankinter, S.A.	Bankinter, S.A.	Bankinter, S.A.
2	Single identifier	XS2199369070	ES0213679030	XS1592168451
3	Legislation applicable to the instrument	Spanish law/English law	Spanish law	Spanish law/English law
4	Transitional CRR rules	Additional tier 1	Tier 2 capital	Tier 2 capital
5	CRR rules after transition	Additional tier 1	Tier 2 capital	Tier 2 capital
6	Admissible on an individual/sub-consolidated/consolidated basis	Consolidated	Consolidated	Consolidated
7	Type of instrument	Preferred securities	Subordinated debentures	Subordinated debentures
8	Amount recognised in regulatory capital	350,000	81,894	498,005
9	Nominal amount of the instrument	350,000	81,894	500,000
9a	Issue price	100%	100%	99.601%
9b	Redemption price	100%	100%	100%
10	Accounting classification	Liabilities-amortised cost	Liabilities-amortised cost	Liabilities-amortised cost
11	Original issue date	17.07.2020	14.05.1998	06.04.2017
12	Perpetual or date	Perpetual	With maturity	With maturity
13	Initial maturity date	No maturity	18.12.2028	06.04.2027
14	Issuer´s call option subject to prior approval by the supervision authorities	Yes	No	Yes
15	Optional call date, contingent call dates redemption amount	4603900%	-	4465700%
16	Subsequent call dates, if applicable	-	-	-
17	Fixed or floating dividend or coupon	Fixed	Fixed	Fixed
18	Coupon interest rate and any related index	6.25% (quarterly coupon)	6.000%	2.500%
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or compulsory (in calendar terms)	Fully discretionary	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or compulsory (in terms of amount)	Fully discretionary	Mandatory	Mandatory
21	Existence of a coupon step up or other incentives to redeem	No	No	No
22	Non-cumulative or cumulative	Non-cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	5%	-	-
25	If convertible, totally or partially	Totally	-	-
26	If convertible, applicable conversion rate	Variable	-	-
27	If convertible, mandatory or optional conversion	Mandatory	-	-

28	If convertible, specify instrument type convertible into	Common shares	-	-
29	If convertible, specify issuer of instrument it converts into	Bankinter, S.A.	-	-
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
36	Non-compliant transitioned features		No	No
37	If so, specify non-compliant features		-	-

Figures in thousands of euros

Annexe II. Own funds reporting template.

		Amount at 31 December 2020	Regulation (EU) 575/2013 (CRR) Reference to Article	Amounts subject to processing before 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	26 (1), 27, 28, 29, EBA list 26 (3)		
2	Retained earnings	3,043,943	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)	150,278	26 (1)		(a)
3a	Funds for general banking risks		26 (1) (f)		
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 CET1		486 (2)		
5	Minority interest (amount accepted in consolidated CET1)		84, 479, 480		
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	272,400	26 (2)		
6	Common equity tier 1 before regulatory adjustments	4,920,545	-		
Common equity tier 1: Regulatory adjustments					
7	Additional value adjustments (negative amount)	(4,170)	34, 105		
8	Intangible assets (net of tax debt) (negative amount)	(350,591)	36 (1) (b), 37, 472 (4)	-	
9	Regulatory adjustments for IAS 19		473		
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)	(3,460)	36 (1) (c), 38, 472 (5)		
11	Fair-value reserves connected to loss or profit for cash-flow hedges	(962)	33 (a)		

		Amount at 31 December 2020	Regulation (EU) 575/2013 (CRR) Reference to Article	Amounts subject to processing before the CRR or residual amount prescribed by the CRR	Explanatory notes
12	Negative amounts resulting from the calculation of expected losses	(253,536)	36 (1) (d), 40, 159, 472 (6)	-	
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 (b)		
15	Defined-benefit pension fund assets (negative amount)	(976)	36 (1) (e), 41, 472 (7)		
16	Direct and indirect holdings of own CET1 instruments by an institution (negative amount)	(14,867)	36 (1) (f), 42, 472 (8)		
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, 472 (9)		
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 and 3, 79, 472 (10)		
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)	(120,408)	36 (1) (i) 43, 45, 47, 48 (1) (b), 49 (1) a (3), 79, 470, 472 (11)		
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 to 91		

		Amount at 31 December 2020	Regulation (EU) 575/2013 (CRR) Reference to Article	Amounts subject to processing before the CRR or residual amount prescribed by the CRR	Explanatory notes
20c	of which: securitisation positions (negative amounts)		36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258		
20d	of which: incomplete operations (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), 470, 472 (5)		
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 investment in those entities		36 (1) (I), 48 (1) (B), 470, 472 (11)		
24	Empty set in the EU		-		
25	of which: deferred tax assets arising from temporary difference		36 (1) (c), 38, 48 (1) (a), 470, 472 (5)		
25a	Losses for the current financial year (negative amount)		36 (1) (a), 472 (3)		
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 AT1 deductions that exceeds the AT1 capital of the institution (negative amount)		36 (1) (j)		
28	Total of CET1 regulatory adjustments	(748,970)			
29	ADDITIONAL TIER 1 CAPITAL	4,171,576			
Additional tier 1 capital: Instruments					
30	Capital instruments and the corresponding share premium accounts	350,000	51, 52		
31	of which: classified as equity under applicable accounting standards		-		

		Amount at 31 December 2020	Regulation (EU) 575/2013 (CRR) Reference to Article	Amounts subject to processing before the CRR or residual amount prescribed by the CRR	Explanatory notes
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 AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties		85, 86, 480		
35	of which: instruments issued by subsidiary subject to phase-out		486 (3)		
36	Additional tier 1 capital before regulatory adjustments	350,000			
Additional tier 1 capital: Regulatory adjustments					
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)		52 (1) (b), 56 (a), 57, 475 (2)		
38	Holdings of the AT1 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 amounts)		56 (b), 58, 475 (3)		
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)		56 (c), 59, 60, 79, 475 (4)		
40	Direct, indirect, and synthetic holdings of the AT1, 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)		56 (d), 59, 79, 475 (4)		
41	Regulatory adjustments applied to AT1 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)		-		

		Amount at 31 December 2020	Regulation (EU) 575/2013 (CRR) Reference to Article	Amounts subject to processing before the CRR or residual amount prescribed by the CRR	Explanatory notes
41a	Residual amounts deducted from AT1 capital with regard to deduction from CET1 during the transitional period pursuant to Article 472 of Regulation (EU) 575/2013		472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)		
	of which: intangible assets				
	of which: negative amounts resulting from the calculation of the expected losses				
42	Qualifying tier 2 capital deductions that exceed the tier 2 capital of the institution (negative amount)		56 (e)		
43	**Total regulatory adjustments to AT1 capital**				
44	**Additional tier 1 capital**	350,000			
45	**Tier 1 capital (tier 1 capital = common equity tier 1 + additional tier 1 capital)**	4,521,576			
Tier 2 capital: Instruments and reserves					
46	Capital instruments and the corresponding share premium accounts	579,899	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 T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties		87, 88, 480	-	
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**	350,000			
Tier 2 capital: Regulatory adjustments and reserves					
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)		63 (b) (i), 66 (a), 67, 477 (2)		

		Amount at 31 December 2020	Regulation (EU) 575/2013 (CRR) Reference to Article	Amounts subject to processing before the CRR or residual amount prescribed by the CRR	Explanatory notes
53	Holdings of the T2 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 amounts)		66 (b), 68, 477 (3)		
54	Direct, indirect, and synthetic holdings of the T2 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 and 79, 477 (4)		
55	Direct, indirect, and synthetic holdings of the T2 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, 477 (4)		
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) 575/2013 (i.e., CRR residual amounts)	-			
57	Total tier 2 capital regulatory adjustments	-	-		
58	Tier 2 capital	579,899	-		
59	Total capital (total capital= tier 1 capital + tier 2 capital)	5,101,475	-		
60	Total risk-weighted assets	33,954,487			
Ratios and capital buffers					
61	Common equity tier 1 (as a percentage of the total risk exposure amount)	12.29%	92 (2) (a), 465		
62	Tier 1 capital (as a percentage of the total risk exposure amount)	13.32%	92 (2) (b), 465		
63	Total capital (as a percentage of the total risk exposure amount)	15.02%	92 (2) (c)		

		Amount at 31 December 2020	Regulation (EU) 575/2013 (CRR) Reference to Article	Amounts subject to processing before the CRR or residual amount prescribed by the CRR	Explanatory notes
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%	DRC 128, 129 and 130		
65	of which: capital conservation buffer requirement	-			
66	of which: countercyclical capital buffer requirement	-			
67	of which: systemic risk buffer requirement	-			
67a	of which: global systemically important institution (G-SII) or other systemically important institution (O-SII) buffer	-	DRC 131		
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, 477 (4)		
73	Direct and indirect holding of 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)	429,198	36 (1) (i), 45, 48, 470, 472 (11)		

		Amount at 31 December 2020	Regulation (EU) 575/2013 (CRR) Reference to Article	Amounts subject to processing before the CRR or residual amount prescribed by the CRR	Explanatory notes
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, 470, 472 (5)		
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 standardised approach (before the application of the cap)		62		
77	Cap on inclusion of credit risk adjustments in T2 under the standardised approach		62		
78	Credit risk adjustments included in T2 in respect of exposure subject to internal rating-based approach (before application of the cap)		62		
79	Cap for inclusion of credit risk adjustments in T2 under 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)		
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 AT1 instruments subject to phase-out arrangements		484 (3), 486 (2) and (5)		
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		484 (3), 486 (2) and (5)		
84	Current cap on T2 instruments subject to phase-out arrangements		484 (3), 486 (2) and (5)		(b)
85	- Amounts excluded from tier 2 due to cap (excess over cap after redemptions and maturities)		484 (3), 486 (2) and (5)		

(a) Unrealised capital gains excluding Public Debt

(b) Informed 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 2020. Institution Name	Accounting consolidation method	Prudential consolidation method	Not consolidated, not deducted	Deducted	Description of the Institution
Bankinter Gestión de Activos, S.A. SGIIC	Full consolidation	Full consolidation			Asset management
Hispamarket, S.A.	Full consolidation	Full consolidation			Holding and purchasing of securities
Intermobiliaria, S.A.	Full consolidation	Full consolidation			Real estate management
BK Consultoria, Asesoramiento y Atención Telefonica, S.A.	Full consolidation	Full consolidation			Telephone helpline
BK Sociedad de Financiación, S.A.U.	Full consolidation	Full consolidation			Issuance of debt securities
Bankinter Consumer Finance, EFC, S.A.	Full consolidation	Full consolidation			Financial credit institution
Bankinter Capital Riesgo, SGECR, S.A	Full consolidation	Full consolidation			Capital fund manager
Arroyo Business Consulting Development, S.L.	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
Evo Banco, S.A	Full consolidation	Full consolidation			Credit institution
Avantcard, D.A.C.	Full consolidation	Full consolidation			Cards and consumer finance
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.U.	Full consolidation	Equity method		X	Home repair
LDA Activos, S.L.U.	Full consolidation	Equity method		X	Real estate management
Bankinter Seguros Generales, S.A. de Seguros y Reaseguros	Equity method	Equity method		X	Insurance company
Bankinter Seguros de Vida, S.A. de Seguros y Reaseguros	Equity method	Equity method		X	Insurance company
Olimpo Real Estate Socimi, S.A.	Equity method	Equity method			Real estate investment trust
Atom Hoteles, Socimi, S.A.	Equity method	Equity method			Real estate investment trust
Olimpo Real Estate Portugal, SIGI, S.A.	Equity method	Equity method			Real estate investment trust
Naviera Sorolla, S.L	Full consolidation	Full consolidation			Special purpose vehicle
Naviera Goya, S.L.	Full consolidation	Full consolidation			Special purpose vehicle
Bankinter 7 Fondo de Titulización Hipotecaria	Full consolidation	Full consolidation			Special purpose vehicle
Bankinter 8 Fondo de Titulización de Activos	Full consolidation	Full consolidation			Special purpose vehicle
Bankinter 9 Fondo de Titulización de Activos	Full consolidation	Full consolidation			Special purpose vehicle
Bankinter 10 Fondo de Titulización de Activos	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