bankinter.

2019
Pillar 3
Disclosures
Report

Contents

Executive summary

Bankinter Group posted a new record profit in 2019 of 550.7 million euros. This marked a 4.6% increase from 2018 and the seventh straight year of profit growth. EVO Banco and Avantcard were added to the Group's accounts in 2019; their acquisitions were completed on 31 May. All margins increased even without these two additions thanks to growth in customer business.

The Group continues to report profits above those of its competitors; confirming its position as one of Europe's most profitable listed banks with a return on equity (RoE) of 13%.

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 2019. The purpose of this document is to provide useful information about the institution's capital and risk profile in the interests of greater transparency for market agents and to ensure compliance with the disclosure requirements established in Regulation (EU) 575/2013.

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

Risk profile

One of 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 of this report, respectively.

The following metrics reflect the Group's risk profile, and at 2019 year-end, they were all within the risk appetite threshold set by the board of directors:

11.61%	2018: 11.75%
Common equity tier 1 – CET1 (%) fully loaded (see point 2)	
€3,922mn	2018: €3,853mn
Common equity tier 1 – CET1 (%) fully loaded (see point 2)	
€551mn	2018: €526mn
Profit after tax (see the management report of the annual report)	
13.00%	2018: 13.19%
RoE (see the management report of the annual report)	
2.51%	2018: 2.90%
Non-performing loans ratio (see page 182 of the annual report)	
€33,770mn	2018: €32,801mn
Risk-weighted Assets (See point 3)	
€30,679mn	2018: €29,938mn
Credit Risk-weighted Assets (See point 3)	
€240mn	2018: €305mn
Market Risk-weighted Assets (See point 3)	
€2,851mn	2018: €2,558mn
Operational Risk-weighted Assets (See point 3)	
153.70%	2018: 144.2%
Liquidity coverage ratio - LCR (see point 9)	
4.8%	2018: 5.1%
Leverage Ratio (See point 10)	

The Pillar 3 disclosures report provides particulars of the regulatory risk measures reflecting the Group's risk profile and strategy. The changes in these figures during 2019, include an increase in credit risk requirements as a result of the growth of the credit business, especially with companies; a slight reduction in market risk requirements as a result of a much more active management of the trading book; and an increase in the requirements for operational risk, which are closely related to the positive performance of income statement margins, which are calculated using the standardised approach.

The European Central Bank directly supervises Bankinter Group through the Single Supervisory Mechanism. The conclusion of the Supervisory Review and Evaluation Process (SREP) conducted throughout 2019, and which focussed, among other issues, on the assessment of the allocation and distribution of the internal capital available to cover the Bank's risks and on the analysis of the robustness of the existing strategies, policies, processes and systems in the Institution to identify, measure and monitor the risks inherent to its activity, has determined a minimum level of CET1 (including the capital conservation buffer) for Bankinter Group of 8.2% and 11.7% in terms of total capital. As a result, the minimum capital requirement figure for 2020 will remain the same as for 2019, which continues to be the lowest level of all Spanish institutions under its supervision.

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

At 31 December 2019, Bankinter Group had a CET1 ratio of 11.61% and a total capital ratio of 13.94%, far in excess of the requirements of the European institution for 2019 and 2020. This means there are no limitations on how it distributes its earnings for the year.

Introduction

Introduction

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

Under part 8 of the first chapter of the Regulation, institutions must publish, at least annually, relevant information for an adequate understanding of the Group's risk profile, its policies and objectives in risk management, and details of its exposure to different risks and the composition of its capital base. This report is a reflection of these requirements for Bankinter Group in 2019.

The purpose of this report is to facilitate market agents' assessment of Bankinter Group's capital adequacy at 31 December 2019. 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.

In accordance with the procedure for disclosing information ratified by Bankinter's board of directors on 16 February 2016, at their meeting held on 21 March 2019, the board approved this document subject to verification by the audit and 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 consolidated annual financial statements (webcorporativa.bankinter.com).

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

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

The definition of the Group is based on current accounting standards. 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 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.

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

Below, and as established in Annexe I of the Commission Implementing Regulation (EU) 1423/2013, is presented a reconciliation between the Public Balance Sheet and the Balance Sheet for purposes of solvency regulations for banks (Prudential Balance Sheet) at 31 December 2019. The purpose is to compare the accounting information published in the consolidated financial statements with the regulatory information included in this report.

Public Balance Sheet Vs Prudential Balance Sheet Reconciliation

	Public Balance Sheet	Insurance Companies	Adjustments and Eliminations	Prudential Balance Sheet
Cash, cash balances at central banks and other demand deposits	6,407,046	124,196	(62,725)	6,345,575
Financial assets held for trading	3,848,150	-	-	3,848,150
Financial assets designated at fair value through profit or loss	-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	130,303	-	-	130,303
Financial assets at fair value through other comprehensive income	5,340,159	837,494	(13,676)	4,516,341
Financial assets at amortised cost	65,670,760	117,235	(28,179)	65,581,704
Fair value changes of the hedged items in portfolio hedge of interest rate risk	107,439	-	-	107,439
Derivatives – Hedge accounting	202,118	-	-	202,118
Non-current assets held for sale	192,917	-	-	192,917
Investments in joint ventures and associates	140,875	-	(482,770)	623,646
Assets under reinsurance and insurance contracts	12,108	12,108	-	-
Tangible assets	600,654	120,724	13,473	466,457
Intangible assets	391,936	11,845	161,837	218,255
Tax assets	470,032	48,096	100	421,836
Other assets	217,848	86,588	(2,071)	133,330
TOTAL ASSETS	83,732,345	1,358,285	(414,011)	82,788,071
Financial liabilities held for trading	2,823,849	-	(0)	2,823,849
Financial liabilities designated at fair value through profit or loss	-	-	-	-
Financial liabilities at amortised cost	73,970,770	155,129	(94,103)	73,909,744
Fair value changes of the hedged items in portfolio hedge of interest rate risk	40,022	-	-	40,022
Derivatives – Hedge accounting	265,394	13,584	(0)	251,810
Liabilities held for sale	-	-	-	-
Liabilities under insurance contracts	750,267	750,267	-	-
Provisions	382,733	492	(0)	382,242
Tax liabilities	421,254	75,595	3,981	341,678
Share capital repayable on demand	-	-	-	-
Other liabilities	278,092	36,802	(2,071)	243,362
TOTAL LIABILITIES	78,932,381	1,031,868	(92,192)	77,992,705
Own funds	4,612,343	288,789	(284,085)	4,607,639
Accumulated other comprehensive income	187,621	37,628	(37,734)	187,727
Minority interests	-	-	-	-
TOTAL EQUITY	4,799,964	326,417	(321,819)	4,795,366
TOTAL LIABILITIES AND EQUITY	83,732,345	1,358,285	(414,011)	82,788,071

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	6,407,046	6,345,575	6,345,575				
Financial assets held for trading	3,848,150	3,848,150		314,215		3,533,935	
Financial assets designated at fair value through profit or loss	-	-					
Non-trading financial assets mandatorily at fair value through profit or loss	130,303	130,303	130,303				
Financial assets at fair value through other comprehensive income	5,340,159	4,516,341	4,489,480		26,860		
Financial assets at amortised cost	65,670,760	65,581,704	63,587,300	454,184	1,540,221		
Fair value changes of the hedged items in portfolio hedge of interest rate risk	107,439	107,439					107,439
Derivatives – Hedge accounting	202,118	202,118		202,118			
Non-current assets held for sale	192,917	192,917	192,917				
Investments in joint ventures and associates	140,875	623,646	46,743				576,903
Assets under reinsurance and insurance contracts	12,108	-					
Tangible assets	600,654	466,457	466,457				
Intangible assets	391,936	218,255					218,255
Tax assets	470,032	421,836	123,480				298,356
Other assets	217,848	133,330	133,330				
TOTAL ASSETS	**83,732,345**	**82,788,071**	**75,515,587**	**970,517**	**1,567,081**	**3,533,935**	**1,200,952**
Financial liabilities held for trading	2,823,849	2,823,849		386,503		2,436,808	538
Financial liabilities designated at fair value through profit or loss	-	-					-
Financial liabilities at amortised cost	73,970,770	73,909,744			(459,856)		74,369,600
Fair value changes of the hedged items in portfolio hedge of interest rate risk	40,022	40,022					40,022
Derivatives – Hedge accounting	265,394	251,810		251,810			-
Liabilities held for sale	-	-					-
Liabilities under insurance contracts	750,267	-					-
Provisions	382,733	382,242					382,242
Tax liabilities	421,254	341,678					0.00%341,678
Share capital repayable on demand	-	-					-
Other liabilities	278,092	243,362					243,362
TOTAL LIABILITIES	**78,932,381**	**77,992,705**		**638,313**	**(459,856)**	**2,436,808**	**75,377,440**

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)	81,587,119	75,515,587	970,517	1,567,081	3,533,935
Liabilities carrying value amount under scope of regulatory consolidation (as per template LI1)	(3,705,186)	-	(638,313)	(630,065)	(2,436,808)
Amount corresponding to investments in financial institutions	394,898	394,898	-	-	-
Differences due to different netting rules, other than those already included in row 2	(1,097,127)	-	-	-	(1,097,127)
Differences due to consideration of provisions	337,599	337,599	-	-	-
Off-balance-sheet items after applying CCFs	3,162,280	3,162,280	-	-	-
Risk mitigation techniques	(1,561,701)	(1,418,605)	(143,096)	-	-
Exposure "Other non-credit obligation assets"	(725,428)	(725,428)	-	-	-
CCP	171,126	-	171,126	-	-
Exposure amounts considered for regulatory purposes	**78,563,582**	**77,266,332**	**360,234**	**937,016**	**-**

Figures in thousands of euros

1.1.4. Main changes in the Group's scope in 2019

Note 13 of the Report of the consolidated financial statements of 2019 describes the main changes in the public consolidation scope during the financial year. These do not affect any of the companies constituting the Línea Directa Aseguradora Group.

1.2. Subsidiaries with own funds below the required minimum

None of the subsidiary institutions included in the consolidated Group present an amount of own funds below the minimum required by the 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

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

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

- Comprehensive consideration of all risks as a target for their suitable management and control. Bankinter Group's target risk profile is moderate and prudent.
- Independence of the risk function from the business, guaranteeing an appropriate level of autonomy to carry out adequate risk control.
- Direct involvement of the governing bodies in decision-making.
- Need for collective decision-making, ensuring the consideration of different opinions.
- Clear definition of responsibilities in each risk acceptance and risk management unit: activities, sectors and risks it can take on and the decisions that they can take based on the delegated powers.
- 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.
- Adequate compliance with the corporate governance standards established by the Company through its corporate governance system, implementing its 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

These general risk management and control principles of the Grupo Bankinter, S.A. constitute the foundation and are complemented by the principles set out in the risk appetite framework approved by the board of directors.

1.4.2. Risk appetite framework

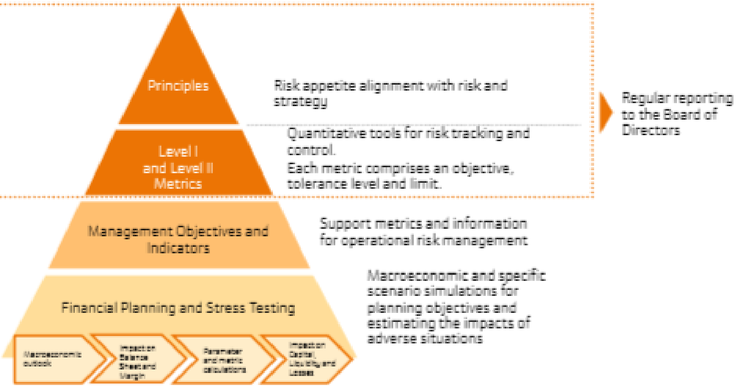
The risk appetite framework is a comprehensive and forward-looking tool that the board of directors uses to determine risk classifications and thresholds that it is prepared to accept to achieve the Group's strategic objectives and target profitability.

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

- Implementation of management strategies, policies, organisation and systems that are prudent and suitable for the size, scope and complexity of the 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 a low or moderate exposure to credit risk with a non-performing loan ratio in the lowest range of the Spanish financial system.
- Appropriate hedging of problem assets.
- Appropriate return on capital invested to ensure minimum return on the risk-free rate throughout the cycle.

- Maintain a low level of market risk, so that in stress scenarios, the losses generated have a limited impact on the Institution'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.
- Reinforced control of the Group's reputational position.
- Desire to round out the level of services level 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.

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

1.4.3. Corporate governance of the risk function

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

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

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

Executive committee

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

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

The executive committee in turn delegates to the following second-level committees:

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

The executive committee met 11 times in 2019 (refer to the 2019 annual corporate governance report on the corporate website for further details).

Risk committee

The risk committee is an advisory body that oversees the Entity'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 of directors in the effective implementation of that strategy. However, the board of directors shall retain overall responsibility with respect to risks.
- Assessing whether the prices for the assets and liabilities offered to customers fully take into account the company's business model and risk strategy.
- Determining, together with the board of directors, the nature, quantity, format and frequency of the information on risk to be received by the committee itself and the board of directors.
- Assisting with the establishment of 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 the replacement of the chief risk officer (CRO) at the proposal of the chairman of the board, vice-chairman or 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 Risk Control function by-laws, which contain its functions and powers.
- Overseeing the activities of the Risk Control unit, which will report to the committee regularly.
- Submitting the annual report of the risk committee to the board of directors for its approval.

In 2019, the risk committee met 5 times (refer to the 2019 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 2019, the audit and regulatory compliance committee met eleven times in person, and a further eight times in writing and out of session (for more details see the 2019 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 different committees to which these powers are delegated. Some of these reports are:

- Solvency report
- Credit risk report
- ICAAP
- ILAAP
- Liquidity report
- Concentration report
- ALCO report
- Operational risk report

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

1.4.4. Structure and organisation of the risk management and control function

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 adequate procedures and performing the first line controls for these risks. Furthermore, it is focused on carrying out the risks function and integrating it into management within the 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):

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

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

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

Two differentiated and separate functions report to the CRO:

- Risk Management function.
- Risk Control and Internal Validation 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. Furthermore, it is focused on performing the risk function and integrating it into the management of the various businesses of Bankinter and its 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 model risk management framework. Its responsibilities also include supervisor relations, official communications and regulatory reporting in relation to models, and monitoring the roll out plan for the sequential implementation of the IRB approach at 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 (CRO), its function is first-line control and the monitoring of structural (liquidity, interest rate and foreign currency) and market risks arising from the Institution'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 department 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. Operational risk management is delegated to the Group's various subsidiaries, support areas and business units. This management is occasionally carried out by specialised or centralised departments when circumstances require it (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.

Risk Control and Internal Validation

The risk control and validation unit, 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 unit

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

Internal Validation unit

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.

Organisations and Subsidiaries Control unit:

This unit oversees credit risk management at regional organisations and exercises control of 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, remuneration, criminal, etc.).

Other risks managed indirectly by the chief risk officer (CRO)

Structural risks

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

The board of directors delegates the continuous monitoring of decisions regarding structural risks of the balance sheet (interest and liquidity risk), stock market risk and the exchange rates of the Institution's institutional positions, in addition to the establishment of financing policies, to the assets and liabilities committee (ALCO). It reviews and approves the relevant limits for the management of all such risks every year and delegates such powers to the ALCO.

ALCO is directly responsible for managing overall interest rate, liquidity, stock market and institutional change risks, and the Entity'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 Trading 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, Trading 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; identification and management of 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, which is part of the Corporate Communications and Responsibility area, draws up reputational risk metrics, overseeing the preventive management of this risk and mitigation of potential reputational risk by participating in crisis response actions.

Other units in the second line of defence

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 functions of the audit and compliance committee 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 proposing improvement. It is also responsible for reviewing fulfilment of any actions and measures arising from reports or actions by administrative supervision and control authorities.

The regulatory compliance unit reports hierarchically to the audit and regulatory compliance committee and functionally to the office of the general secretary of the Bank. Its functions include the following: advising Group 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 and Analysis unit

Part of the General Finance division, this unit reports to the audit and regulatory compliance committee, and its functions include monitoring the internal financial control framework on the reliability of the Group's financial reporting. This includes the implementation and development of the internal control over financial reporting system (ICFR).

Anti-Money Laundering unit

This is the technical unit that forms part of the Compliance, Regulation and Corporate Governance division and reports to the Internal Control Body. It is staffed by specialist, full-time personnel with suitable training in analysis, as established in prevailing legislation.

The audit and regulatory compliance committee of the Bank's board of directors is regularly informed of the progress of measures and action plans for anti-money laundering and combating the financing of terrorism.

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

The functions of the Anti-Money Laundering unit include ensuring compliance with the rules established by the Internal Control department, detecting suspicious transactions, special examinations and possible communications to SEPBLAC, as appropriate. It also proposes internal procedures and controls that must be reported to and approved by the internal control body.

These functions may be divided into three groups: Prevention (which includes, among other things, the profile, map and analysis of the risks which exist on the basis of the risk appetite approved by the Institution, in general, and for their reporting to the OCI), training and communication.

Data protection officer (DPO).

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

The specific elements of these practices are as follows:

- The basic documents approved by the board of directors such as the risk appetite framework and the risk management framework, policies, limits, organisation, methods and procedures are published and available to every Bankinter employee, and are mandatory knowledge for Risks staff.
- The Risks function is present in every high-level meeting in which the strategy, planning and performance of the business are discussed.
- The structure of delegated powers for the authorisation of credit transactions is disseminated throughout the institution and periodically updated in a circular that is mandatory for the entire staff of Risks and of Business networks.
- The Risks staff of regional divisions receives annual training on the most significant technical, business and organisational aspects related to risk management. This training is shared with the central services departments directly related to admission, monitoring, control and recoveries.
- Communications are conveyed through several internal channels to enable immediate notification of any news on the business, policies, and risk criteria and operations.
- The systems supporting admission processes allow for modification of decision-making rules with great speed and security as soon as conditions change.

1.5. Risk mitigation and hedging policies. Supervision strategies and 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 further details, refer to points "4.3.1. Counterparty credit risk management policy" and "4.7. Information on credit risk mitigation techniques".

2. Information on own funds

2. Information on own funds

Title I of Part Two of Regulation (EU) 575/2013 of the European Parliament and of the Council defines the different levels of capital that will constitute the Institution's own funds under the new solvency regulations, as well as the items comprising them. Regulation (EU) 2016/445 of the European Central Bank establishes the options and discretions that, in relation to the prudential requirements of 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 no. 575/2013 available to the institution for unrestricted and immediate use to cover losses. It also includes the reserves of institutions accounted for by the equity method.
- Interim profit accumulated over the course of the financial year related to the prudent consolidation scope and net of the foreseeable dividends to distribute against the financial year's profit.
- Other accumulated income, which basically reflects valuation adjustments associated with 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.
- 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) No 575/2013.
- Additional valuation adjustments that arise from prudential valuation of positions accounted for at fair value, in accordance with Article 105 of Regulation (EU) No 575/2013.
- Items that must be deducted from additional tier 1 capital elements that exceed the Institution's additional tier 1 capital.

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) No 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 2019 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) No 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 (AT1) at 31 December 2019 are detailed in Annex I.

The computable live balance of issues eligible as Tier 2 at 31 December 2018 amounted to €636,382 thousand and €587,393 thousand at 31 December 2019.

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	**2019**	**2018**
Common equity tier 1: instruments and reserves	4,708,802	4,389,844
Capital instruments and share premiums	1,453,925	1,453,925
Retained earnings	2,779,712	2,531,123
Other accumulated income	187,699	141,597
Interim profit net of foreseeable dividends	287,466	263,199
Common equity tier 1: regulatory adjustments	(786,877)	(536,938)
Other valuation adjustments	(5,715)	(5,996)
Intangible assets	(382,131)	(284,397)
Shortfall of provisions in IRB portfolios	(367,245)	(244,134)
Direct and indirect holdings of own instruments	(1,266)	(2,411)
Investments in financial institutions	(27,060)	
Deferred tax assets	(3,460)	-
Deductions of additional tier 1 capital in excess of additional tier 1 capital		-
Common equity tier 1 (CET1)	**3,921,925**	**3,852,906**
Additional tier 1 capital: instruments	199,000	199,000
Eligible AT1 instruments	199,000	199,000
Additional tier 1 capital: regulatory adjustments		-
Temporary adjustments to additional tier 1 capital		-
Additional tier 1 capital (AT1)	**199,000**	**199,000**
Tier 1 capital (CET1 + AT1)	**4,120,925**	**4,051,906**
Tier 2 capital: instruments	587,393	636,382
Eligible tier 2 instruments	587,393	636,382
Tier 2 capital: regulatory adjustments	-	-
Temporary adjustments to additional tier 1 capital	-	-
Tier 2 capital	**587,393**	**636,382**
Total capital (tier 1 capital + tier 2 capital)	**4,708,318**	**4,688,288**
Risk-weighted assets	**33,769,813**	**32,800,807**
CET1 fully loaded (%)	**11.61%**	**11.75%**
Tier 1 fully loaded (%)	**12.20%**	**12.35%**
Total capital fully loaded (%)	**13.94%**	**14.29%**

Figures in thousands of euros

The increase in common equity tier 1 (CET1) in 2019 was mainly due to the retention of part of the earnings for the year, the increase in other accumulated income and changes in deductions, heavily impacted by the application of a new IRB approach for the risk treatment of very large companies and the acquisition of EVO Banco and Avantcard.

Tier 2 capital (T2) decreased mainly as a result of the reduction in the amount of certain subordinated debt issues eligible as tier 2, which are losing part of their status as capital because they are approaching maturity.

Risk-weighted assets increased in 2019, due to the performance of the Institution's ordinary business and in particular to the inclusion of the assets from the acquisition of EVO Banco and Avantcard.

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	2019	2018
Paid-up capital	269,660	269,660
Share premium	1,184,265	1,184,265
Reserves	2,771,850	2,520,385
Other equity	12,566	18,151
Treasury shares	(1,222)	(694)
Attributed earnings	550,665	526,398
Interim dividends	(175,442)	(173,980)
Total own funds (public balance sheet)	4,612,343	4,344,186
Accumulated other comprehensive income	187,621	141,666
Total equity (public balance sheet)	4,799,964	4,485,852
Eligible preferred stock	199,000	199,000
Goodwill and another intangible assets	-	-
Valuation adjustments not eligible as tier 1	-	-
Other adjustments (*)	(87,758)	(89,219)
Consolidation scope differences	(4,627)	(7,483)
Tier 1 (before deductions)	**4,906,580**	**4,588,150**
(-) CET1 deductions	(785,655)	(536,244)
(-) AT1 deductions	-	-
Tier 1	**4,120,925**	**4,051,906**

Figures in thousands of euros

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

2.3. Capital buffers

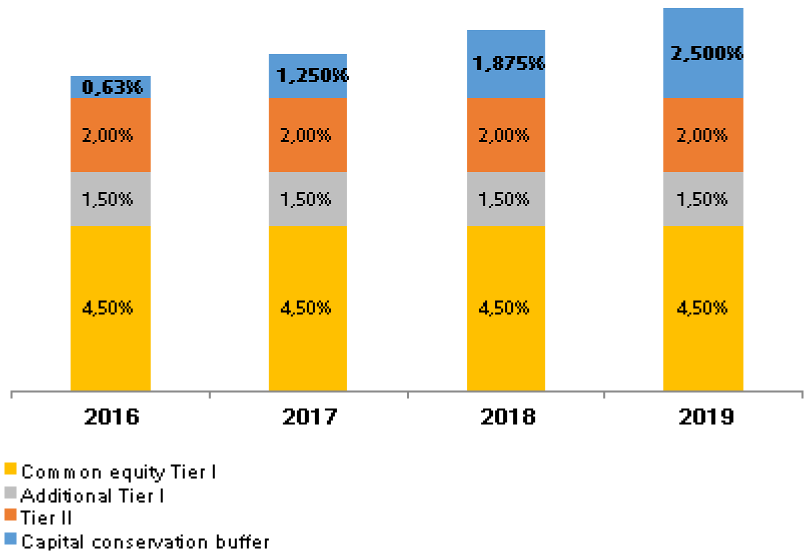
Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 concerning access to the activity of banks and the prudential supervision (CRD IV), together with Regulation (EU) 575/2013 of the European Parliament and of the Council (CRR), comprise the solvency regulations applicable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

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

- **Capital conservation buffer**: The objective of this buffer is to ensure that the institutions have capital in a sufficient amount and quality to absorb losses in a stressed economic environment and keep up above minimum requirements. To attain this objective, the capital 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.

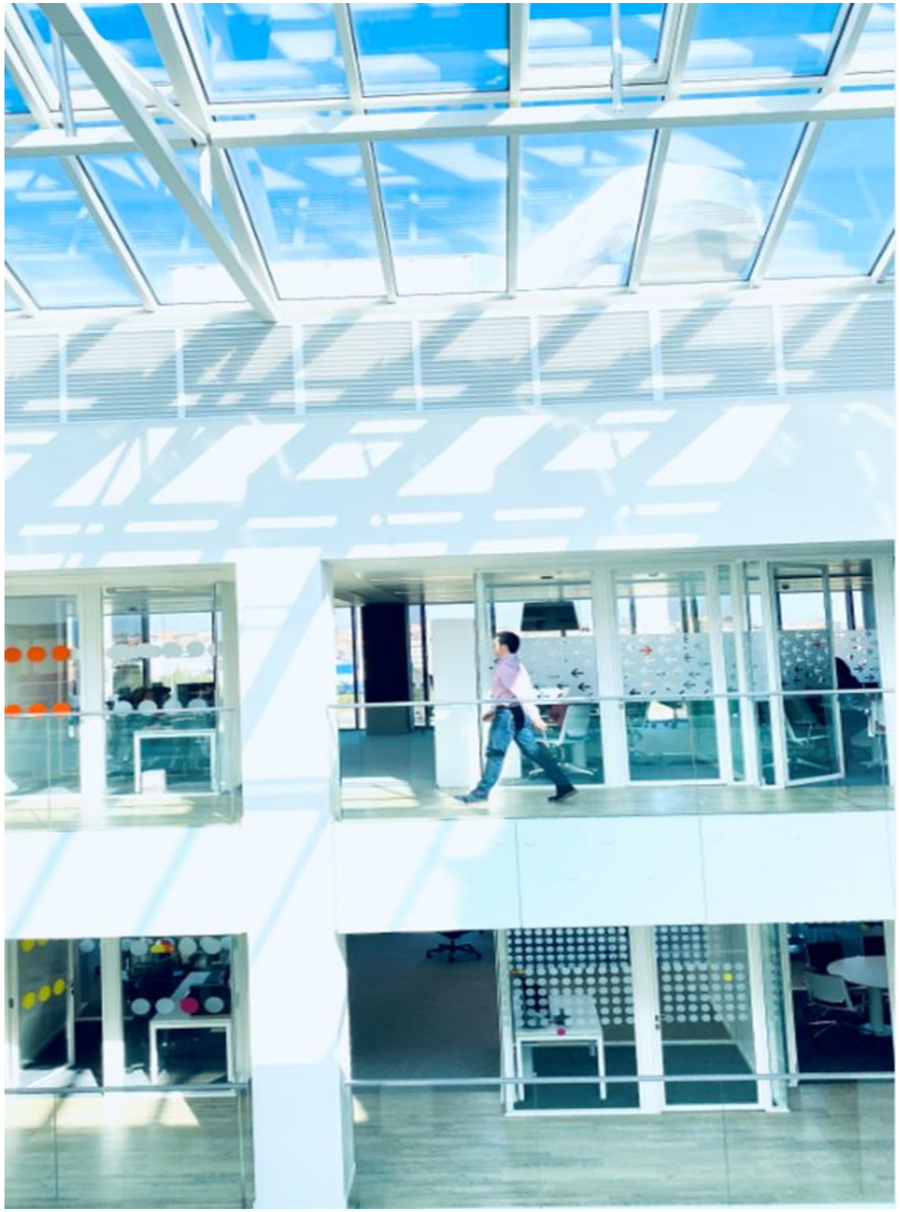
Two of the buffers included in the act are not discretionary: the Capital Conservation Buffer and the Global Systematically Important Institutions Buffer, which are in place in all jurisdictions of the European Union. Banco de España has the discretionary authority to set a buffer for other systematically important institutions, the countercyclical capital buffer and the systemic risk buffer.

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



The application of buffers for global systemically important institutions and other systemically important institutions are not applicable to Bankinter; therefore, there are no additional requirements for these items. In addition, Banco de España has set a countercyclical capital buffer of 0% for 2019, as it does not foresee a risk of excessive credit growth, and it has not yet established any additional requirements to cover systemic risks.

In 2019, the Institution was subject only to the capital conservation buffer which, as noted, is being phased in until 2019. Nevertheless, the institution 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

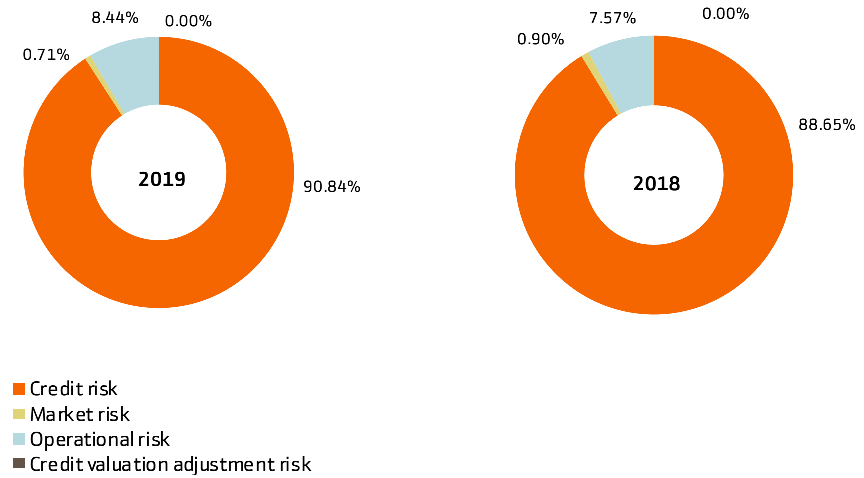
Title II of Part Two of Regulation (EU) 575/2013 of the European Parliament and of the Council defines the credit risk capital requirements; Title III refers to the requirements of own funds for operational risk; and Title IV refers to the requirements of own funds for market risk. The following titles 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 2019 and 2018, 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
	2019	2018	2019
Credit risk (excluding counterparty credit risk)	**29,314,606**	**28,655,580**	**2,345,168**
Of which, standardised approach (SA)	13,165,060	21,849,392	1,053,205
Of which, foundation internal ratings based (FIRB) approach	9,726,120	812,607	778,090
Of which, internal ratings based (IRB) approach	6,423,426	5,993,580	513,874
Of which, equities under the IRB approach with the simple risk-weight approach or the IMA approach			
Counterparty credit risk	**106,116**	**78,559**	**8,489**
Of which, mark to market approach	104,999	77,611	8,400
Of which, under original exposure method			
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	489	537	39
Of which CVA	627	411	50
Settlement risk	**-**	**-**	**-**
Securitisation exposure in the loan book	**270,767**	**291,824**	**21,661**
Of which, IRB approach	270,767	291,824	21,661
Of which, IRB approach based on the supervisory formula approach (SFA)			
Of which, internal assessment approach (IAA)			
Of which, standardised approach (SA)	-	-	-
Market risk	**239,949**	**304,817**	**19,196**
Of which, standardised approach (SA)	239,949	304,817	19,196
Of which, internal models approach (IMA)			
Large exposures	**-**	**-**	**-**
Operational risk	**2,851,129**	**2,557,538**	**228,090**
Of which, basic indicator approach (BIA)			
Of which, standardised approach	2,851,129	2,557,538	228,090
Of which, advanced measurement approach (AMA)			
Amounts below the thresholds for deduction (subject to 250% risk weight)	**987,246**	**912,488**	**78,980**
Floor adjustment	**-**	**-**	**-**
Total	**33,769,813**	**32,800,807**	**2,701,585**

Figures in thousands of euros

3.2. Description of the internal capital adequacy assessment process

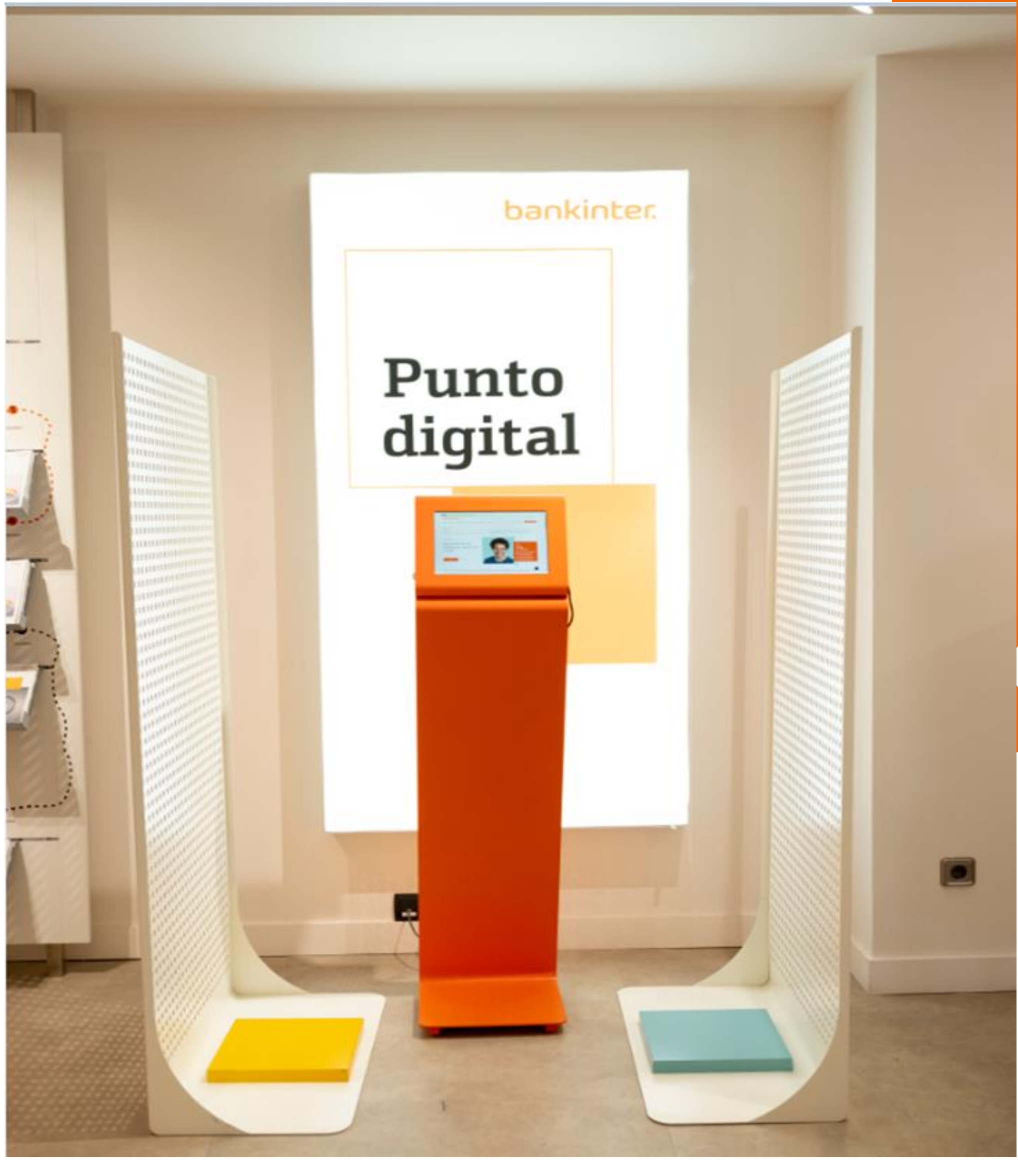
One of the requirements established in Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of banks and the prudential supervision of banks and investment firms, is that the institutions must conduct, at least annually, an internal capital adequacy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

The 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.



Credit risk

4. Credit risk

4.1. Accounting definitions

4.1.1. Impairment of financial assets

The notes to the consolidated Group's 2019 annual financial statements define the concepts related to impairment of financial assets.

Impairment of debt instruments and off-balance-sheet exposures:

Impairment losses on debt instruments for the period 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).

4) Write-offs: this category includes any financial assets that are not reasonably expected to be recovered. Classification in this category will entail recognising losses in the income statement at the financial asset's carrying amount and its full derecognition.

Meanwhile, forbearance will in no circumstance require reclassification to Performing. These exposures will be classified under Watchlist or Non-performing. Reclassifications from Non-performing to Watchlist and from Watchlist to Performing are made with the related cure periods have elapsed.

Expected credit losses will be determined:

a) individually for all debt instruments considered significant.

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

Where reasonable and supportable information is unavailable to estimate lifetime expected credit losses on an individual instrument basis, this instrument will be included in a group of financial assets with similar credit risk characteristics to assess whether the group is collectively impaired. Credit risk characteristics considered for grouping assets include, but are not limited to, instrument type, the debtor's business sector, the geographical area of the activity, collateral type, age of past-due amounts, and any other factor that is relevant for estimating future cash flows. The impairment loss for each group is the difference between the carrying amount of all of the Group's debt instruments and the present value of its estimated future cash flows.

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

The amounts expected to be paid out from off-balance-sheet exposures are estimated by multiplying the nominal amount of the transaction by a factor.

To calculate the amount of impairment arising from credit risk recognised at the close of each financial year, the Group uses a methodology based on parameters that reflect the different components affecting expected loss: exposure at default (EAD), probability of default (PD) and loss given default (LGD). These parameters are calculated and adjusted taking into account the economic climate at each reporting date.

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 backtesting. These tests assess accuracy by subsequently comparing actual losses effectively observed on transactions.

Equity instruments: investments in subsidiaries, joint ventures and associates.

The Group recognises impairment losses on investments in subsidiaries, joint ventures and associates whenever there is objective evidence that the carrying amount of the investment is 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) No. 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 from January 2021. Bankinter is adopting these new criteria 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, 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 book value and the sum of: a) the payment received, including any new asset obtained less any liability assumed, and b) any accumulated profit or loss recognised directly as "accumulated other comprehensive income" in equity attributable to the transferred financial asset.

4.2. Information on credit risks

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

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

- 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 2018 for standardised and advanced approaches. As established in the regulations, the original exposures are only adjusted by provisions when employing the standardised approach.

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

Average net amount of exposures	Net exposure at 31/12/2019	2019 average exposure
Central governments	-	-
Financial institutions	-	-
Corporates	20,335,029	15,216,257
Of which: specialised lending	1,106,701	1,176,682
Of which: SME	4,797,491	3,429,417
Retail	27,432,180	26,953,548
Secured by real estate property	24,477,791	23,862,335
Of which: SME	1,806,049	1,860,020
Eligible renewables	-	-
Other retail	2,954,389	3,091,213
Of which: SME	2,739,307	2,868,559
Equity	-	-
Other non-credit obligation assets	725,428	736,546
Total IRB approach (*)	48,492,637	42,906,352
Central governments	13,402,148	13,498,292
Regional governments or local authorities	849,606	596,603
Public sector entities	619,493	668,135
Multilateral development banks	1,495	2,097
International organisations	-	-
Financial institutions	4,498,716	4,434,605
Corporates	6,061,750	9,707,966
Of which SME	3,882,549	4,312,418
Retail	14,022,271	13,693,761
Of which SME	5,908,115	6,357,912
Secured by mortgages on immovable property	5,312,659	5,612,009
Of which SME	3,413,057	3,609,591
In default	527,706	591,714
Items associated with particularly high risks	79,173	74,027
Covered bonds	-	-
Institutions and companies in short-term	-	-
Investments or shares in collective investment undertakings (CIUs)	-	-
Equity	134,191	118,482
Other exposures (**)	595,077	601,287
Standard approach total	46,104,286	49,598,978
Total	94,596,922	92,505,330

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	Other	Total
Central governments	-	-		-	-
Financial institutions	-	-		-	-
Corporates	18,872,807	-	-	1,462,222	20,335,029
Retail	22,479,953	4,146,398	-	805,829	27,432,180
Equity	-	-	-	-	-
Other non-credit obligation assets	665,688	59,739	-	-	725,428
Total IRB approach (*)	**42,018,448**	**4,206,137**	-	**2,268,050**	**48,492,637**
Central governments	12,126,246	694,722	-	581,180	13,402,147
Regional governments or local authorities	845,793	3,813	-	-	849,606
Public sector entities	571,760	47,733	-	-	619,493
Multilateral development banks	1,495	-	-	-	1,495
International organisations	-	-	-	-	-
Financial institutions	2,808,429	116,891	23,808	1,549,587	4,498,716
Corporates	4,242,206	1,280,594	-	538,951	6,061,750
Retail	11,345,486	1,364,435	1,093,264	219,087	14,022,271
Secured by mortgages on immovable property	4,974,757	236,814	-	101,089	5,312,659
In default	486,100	32,190	930	8,487	527,707
Items associated with particularly high risks	64,082	15,091	-		79,173
Covered bonds					-
Institutions and companies in short-term					-
Investments or shares in collective investment undertakings (CIUs)					-
Equity	127,297	6,894	-		134,191
Other exposures (**)	595,077				595,077
Standard approach total	**38,188,728**	**3,799,176**	**1,118,001**	**2,998,380**	**46,104,286**
Total	**80,207,176**	**8,005,314**	**1,118,001**	**5,266,430**	**94,596,922**

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	Artistic activities	Other services	Total
Central governments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporates	1%	1%	21%	4%	1%	8%	11%	4%	5%	2%	9%	6%	4%	-	0%	0%	0%	23%	20,335,029
Retail	0%	0%	2%	0%	0%	2%	4%	1%	1%	1%	3%	2%	1%	-	0%	1%	0%	83%	27,432,180
Equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other non-credit obligation assets																		100%	725,428
Total IRB approach (*)	**1%**	0%	**10%**	**2%**	0%	**4%**	**7%**	**2%**	**3%**	**1%**	**5%**	**4%**	**2%**	**0%**	**0%**	**0%**	**0%**	**58%**	**48,492,637**
Central governments	-	-	-	-	-	-	-	-	-	-	-	-	-	100%	-	-	-	0%	13,402,148
Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	99%	-	-	-	-	849,606
Public sector entities	-	-	11%	-	6%	2%	-	54%	-	2%	-	1%	7%	17%	-	0%	-	0%	619,493
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	100%	1,495
International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	100%	4,498,716
Corporates	3%	0%	17%	6%	1%	7%	14%	9%	2%	2%	7%	7%	3%	-	0%	1%	1%	17%	6,061,750
Retail	1%	0%	8%	0%	-	4%	11%	2%	1%	1%	2%	2%	1%	-	0%	0%	0%	66%	14,022,271
Secured by mortgages on immovable property	1%	0%	3%	-	-	5%	5%	1%	5%	1%	30%	3%	1%	-	0%	1%	0%	43%	5,312,659
In default	2%	1%	10%	0%	0%	11%	13%	2%	2%	2%	9%	4%	3%	-	1%	1%	0%	40%	527,706
Items associated with particularly high risks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	37%	79,173
Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions and companies in short-term	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments or shares in collective investment undertakings (CIUs)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	100%	134,191
Other exposures (**)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	100%	595,077
Standard approach total	**1%**	**0%**	**5%**	**1%**	**0%**	**3%**	**6%**	**3%**	**1%**	**1%**	**5%**	**2%**	**1%**	**31%**	**0%**	**0%**	**0%**	**39%**	**46,104,286**
Total	**1%**	**0%**	**8%**	**1%**	**0%**	**4%**	**6%**	**2%**	**2%**	**1%**	**5%**	**3%**	**2%**	**15%**	**0%**	**0%**	**0%**	**49%**	**94,596,922**

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
Governments		-	-	-	-	-
Financial institutions		-	-	-	-	-
Corporates	7,695	230,778	12,473,655	4,075,781	3,547,119	20,335,029
Retail	11,584	177,652	2,869,197	24,033,983	339,765	27,432,180
Equity		-	-	-	-	-
Other non-credit obligation assets					725,428	725,428
Total IRB approach (*)	**19,279**	**408,430**	**15,342,852**	**28,109,764**	**4,612,311**	**48,492,637**
Central governments		13,022,299	158,395	219,034	2,419	13,402,148
Regional governments or local authorities	1	401,115	199,490	246,992	2,008	849,606
Public sector entities	1,182	1,687	394,862	153,912	67,849	619,493
Multilateral development banks		229	1,266	-	-	1,495
International organisations		-			-	-
Financial institutions	0	2,363,963	1,896,203	50,802	187,748	4,498,716
Corporates	6,265	305,901	3,753,551	1,047,403	948,630	6,061,750
Retail	5,759	1,479,456	5,136,666	1,112,133	6,288,257	14,022,271
Mortgages on immovable properties		3,475	367,164	4,136,936	805,085	5,312,659
In default	7,911	159,150	138,423	163,638	58,585	527,707
Particularly high risk		29,355	23,014	26,544	260	79,173
Covered bonds						-
Institutions and companies in short-term						-
Investments or shares in collective investment undertakings (CIUs)						-
Equity					134,191	134,191
Other exposures (**)					595,077	595,077
Standard approach total	**21,118**	**17,766,630**	**12,069,034**	**7,157,394**	**9,090,109**	**46,104,286**
Total	**40,398**	**18,175,061**	**27,411,885**	**35,267,158**	**13,702,420**	**94,596,922**

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 2019, in general and specific credit risk adjustments.

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

2019	Cumulative adjustment for specific credit risk	Cumulative adjustment for general credit risk
Opening balance	**889,478**	**-**
Net allowances taken to profit or loss	181,543	-
- Provisions charged to profit or loss	637,500	-
- Recoveries of provisions with a credit to profit or loss	(455,958)	-
Amounts used	(174,206)	-
Addition due to business differences	(6,190)	-
Exchange differences and other movements	(68,482)	-
Closing balance	**822,143**	**-**

Figures in thousands of euros

(*) Includes impairment on credit risk and discounts for acquisition of financial assets arising from business combination.

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	**1,785,160**
Loans and debt securities that have defaulted or impaired since the last reporting period	377,720
Returned to non-defaulted status	(136,164)
Transfers to write-offs	(222,059)
Other changes	(123,067)
Closing balance	**1,681,590**

Figures in thousands of euros

(*) This table refers to accounting default.

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)

2019	On-balance sheet exposures				
	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustments	General credit risk adjustments	Net Values (**)
Central governments	-	-	-	-	-
Financial institutions	-	-	-	-	-
Corporates	156,011	11,836,329	80,509		11,911,831
Of which: specialised lending	9,797	498,269	3,804	-	504,262
Of which: SME	52,436	3,419,243	28,907	-	3,442,772
Retail	849,339	25,590,954	257,090	-	26,183,203
Secured by real estate property	629,491	23,656,228	101,968	-	24,183,750
Of which: SME	135,732	1,614,197	18,218	-	1,731,711
Eligible renewables	-	-	-	-	-
Other retail	219,848	1,934,727	155,122	-	1,999,453
Of which: SME	187,261	1,778,617	139,828	-	1,826,050
Equity	-	-	-	-	-
Other non-credit obligation assets	-	725,428	-	-	725,428
Total IRB approach	**1,005,350**	**38,152,711**	**337,599**	**-**	**38,820,462**
Central governments	-	13,012,909	75	-	13,012,834
Regional governments or local authorities	-	848,075	26	-	848,049
Public sector entities	-	360,294	3,858	-	356,436
Multilateral development banks	-	1,620	125	-	1,495
International organisations	-	-	-	-	-
Financial institutions	-	3,916,936	626	-	3,916,309
Corporates	-	4,484,643	20,218	-	4,464,425
Of which SME	-	2,924,377	11,716	-	2,912,661
Retail	-	6,899,473	91,980	-	6,807,493
Of which SME	-	3,575,696	24,201	-	3,551,495
Secured by mortgages on immovable property	-	5,217,148	21,869	-	5,195,280
Of which SME	-	3,325,747	15,780	-	3,309,967
Defaulted exposures (*)	831,211	-	344,060	-	487,150
Particularly high risk	-	61,405	127	-	61,278
Covered bonds	-	-	-	-	-
Institutions and companies in short-term	-	-	-	-	-
Investments or shares in collective investment undertakings (CIUs)	-	-	-	-	-
Equity	-	134,191	-	-	134,191
Other exposures	-	595,077	-	-	595,077
Standard approach total	**831,211**	**35,531,772**	**482,964**	**-**	**35,880,018**
Total(***)	**1,836,561**	**73,684,483**	**820,563**	**-**	**74,700,481**

Figures in thousands of euros

(*) The line "Defaulted exposures" in the STD method is the sum of all non-performing exposures included to reflect the specific credit risk adjustment for non-performing exposures
(**) The net value is equal to the sum of on-balance exposures less credit risk value adjustments.

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

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

2019	On-balance sheet exposures					
	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustments	General credit risk adjustments	Net Values (**)
Agriculture, livestock and fishing	22,344	564,630	9,428	-	577,546
Mining and quarrying	3,472	97,834	1,070	-	100,235
Manufacturing	177,492	4,771,429	85,196	-	4,863,725
Electricity supply	2,632	800,659	2,256	-	801,035
Water supply	7,278	165,507	4,547	-	168,238
Construction	157,656	1,966,808	98,941		2,025,523
Wholesale and retail trade	245,930	3,922,502	128,860	-	4,039,572
Transport	36,463	1,565,914	21,123	-	1,581,254
Accommodation and food service activities	32,478	1,551,437	14,464	-	1,569,451
Information and communication	25,700	446,818	12,882	-	459,636
Real estate activities	105,573	4,130,795	33,013	-	4,203,355
Professional, scientific and technical activities	64,067	1,604,255	28,220		1,640,102
Administrative activities	40,731	852,215	17,332	-	875,614
Public administration and defence		13,762,467	4,600	-	13,757,867
Education	11,028	162,328	3,033	-	170,323
Human health services and social work activities	13,554	314,436	4,862	-	323,127
Arts, entertainment and recreation	6,737	214,503	3,966	-	217,275
Other services	883,427	36,789,944	346,771	-	37,326,601
Total (**)	**1,836,561**	**73,684,483**	**820,563**	**-**	**74,700,481**

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)

2019	On-balance sheet exposures			
	Defaulted exposures	Non-defaulted exposures	Credit risk value adjustments	Net value (*)
Spain	1,653,804	61,925,793	675,531	62,904,066
Portugal	167,504	7,544,287	117,906	7,593,885
Ireland	3,650	494,652	15,524	482,779
Other	11,603	3,719,751	11,603	3,719,751
Total (**)	**1,836,561**	**73,684,483**	**820,563**	**74,700,481**

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 2019.

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 non-performing exposures					
	Forborne performing exposures		of which: in default	of which: with impairment	On forborne performing exposures	On forborne non-performing exposures	
Loans and advances	622	458	458	458	(17)	(132)	802
Central banks	-	-	-	-	-	-	-
General governments	2	0	0	0	-	-	-
Credit institutions	-	-	-	-	-	-	-
Other financial corporations	1	6	6	6	-	0	4
Non-financial corporations	329	291	291	291	(10)	(91)	423
Households	291	161	161	161	(7)	(42)	375
Debt securities	-	-	-	-	-	-	-
Loan commitments given	9	0	0	0	-	-	-
Total	632	458	458	458	(17)	(132)	802

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 2019.

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

		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 =< 5 years	Past due > 5 years	of which: in default
Loans and advances	66,000	65,704	295	1,600	194	133	199	614	459	1,599
Central banks	5,611	5,611	-	-	-	-	-	-	-	-
General governments	716	713	3	0	0	-	0	(0)	0	0
Credit institutions	2,181	2,181	-	0	-	-	-	0	0	0
Other financial corporations	2,174	2,173	1	11	3	1	0	5	1	11
Non-financial corporations	24,921	24,793	127	848	130	62	84	84	84	848
Of which: SMEs	15,881	15,788	92	758	101	55	77	77	77	758
Households	30,397	30,233	164	741	62	71	115	284	210	740
Debt securities	9,368	9,368	-	1	-	-	-	-	1	1
Central banks	-	-	-	-	-	-	-	-	-	-
General governments	7,185	7,185	-	-	-	-	-	-	-	-
Credit institutions	1,515	1,515	-	-	-	-	-	-	-	-
Other financial corporations	152	152	-	-	-	-	-	-	-	-
Non-financial corporations	515	515	-	1	-	-	-	-	-	1
Off balance sheet exposures	21,386	-	-	15	-	-	-	-	-	15
Central banks	-	-	-	-	-	-	-	-	-	-
General governments	143	-	-	-	-	-	-	-	-	-
Credit institutions	869	-	-	-	-	-	-	-	-	-
Other financial corporations	827	-	-	0	-	-	-	-	-	0
Non-financial corporations	13,896	-	-	14	-	-	-	-	-	14
Households	5,651	-	-	1	-	-	-	-	-	1
Total	96,754	75,073	295	1,615	194	133	199	614	460	1,614

Figures in millions of euros

Performing and non-performing exposures and related provisions

Below is a table showing performing and non-performing exposures and their related provisions, at 31 December 2019:

	Gross carrying amount/nominal amount					Accumulated impairment and provisions and negative fair value adjustments due to credit risk					Collateral and financial guarantees received on non-performing exposures
	Performing exposures			Non-performing exposures		Performing exposures			Non-performing exposures		
		Of which: in Stage 1	Of which: in Stage 2		Of which: in Stage 3		Of which: in Stage 1	Of which: in Stage 2		Of which: in Stage 3	
Loans and advances	66,000	58,278	1,559	1,600	1,600	(185)	(128)	(57)	(520)	(520)	157
Central banks	5,611	-	-	-	-	-	-	-	-	-	-
General governments	716	714	2	0	0	-	-	-	-	-	-
Credit institutions	2,181	1,629	-	0	0	-	-	-	-	-	-
Other financial corporations	2,174	2,172	2	11	11	(0)	(0)	-	(2)	(2)	3
Non-financial corporations	24,921	24,367	554	848	848	(78)	(44)	(34)	(321)	(321)	147
Households	30,397	29,396	1,001	741	741	(107)	(84)	(23)	(197)	(197)	4
Debt securities	9,368	9,368	-	1	1	(2)	(2)	-	(0)	(0)	-
Central banks	-	-	-	-	-	-	-	-	-	-	-
General governments	7,185	7,185	-	-	-	(0)	(0)	-	-	-	-
Credit institutions	1,515	1,515	-	-	-	(0)	(0)	-	-	-	-
Other financial corporations	152	152	-	-	-	(1)	(1)	-	-	-	-
Non-financial corporations	515	515	-	1	-	(1)	(1)	-	(0)	(0)	-
Off balance sheet exposures	21,386	-	-	15	-	-	-	-	-	-	5
Central banks	-	-	-	-	-	-	-	-	-	-	-
General governments	143	-	-	-	-	-	-	-	-	-	-
Credit institutions	869	-	-	-	-	-	-	-	-	-	-
Other financial corporations	827	-	-	0	-	-	-	-	-	-	-
Non-financial corporations	13,896	-	-	14	-	-	-	-	-	-	5
Households	5,651	-	-	1	-	-	-	-	-	-	0
Total	96,753,821	67,645,887	1,558,598	1,615,450	1,600,791	(187,013)	(130,002)	(57,012)	(520,217)	(520,217)	162,308

Figures in millions of euros

Finally, this section gives details of the collateral obtained by taking possession and execution processes, at 31 December 2019

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	206,400	44,269
Residential immovable property	108,328	10,691
Commercial immovable property	96,407	33,224
Moveable property (automobiles ships, etc.)	1,010	355
Debt and equity instruments	655	
Other		
Total	206,400	44,269

Figures in thousands of euros

The difference between the value of assets at initial recognition and the accumulated negative changes is 161,476 thousand euros, excluding debt and equity instruments.

4.3. Information on counterparty credit risk

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

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

The control of these limits is carried out by the Market Risk and Institutional Control unit, which is independent of the business units. The same operational platform used by Trading 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 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 Trading Back Office to the Market Risks and Institutional Control and Collateral Management areas on a daily basis for subsequent analysis and monitoring.

The Institution's external rating is closely linked to the level of collateral that it must contribute in transactions subject to CSA. A downgrade of an institution's credit quality below a certain level would involve, if settlement of the transaction entails providing guarantees, contributing a larger amount. In the particular case of Bankinter, a downgrade of its external rating below investment grade would involve providing an additional 6.7 million euros for the active CSA contracts at 31 December 2019.

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 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 to counterparty credit risk, which includes the institution's exposure in repo operations, amounted to 376,384 thousand euros at December 2019.

The following table contain a breakdown of gross positive fair value, guarantees received and net exposure of derivatives contracts and repo operations in 2019, including the part of the contribution to the default guarantee fund of the central counterparties (CCPs). Exposure herein amounts to 13,600 thousand euros.

Exposures to 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 2019	Gross positive fair value	Netting benefits	Netted current credit exposure*	Collateral	Net credit exposure after netting agreements and guarantees received
Derivatives	387,557	296,526	495,146	166,006	329,140
SFTs	4,085,467	4,038,223	47,244	-	47,244
Cross-product netting	-	-	-	-	-
Total	4,473,024	4,334,749	542,390	166,006	376,384

Figures in thousands of euros

(*) Includes potential future value

The breakdown below includes collateral employed in transactions with derivatives at the close of 2019. 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	18,960		244,441	-	3,072	-
Cash - other currencies	-	-	-	-	-	-
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	18,960	-	244,441	-	3,072	-

Figures in thousands of euros

The breakdown of exposure and of the counterparty credit risk-weighted assets of OTC derivatives and repo operations for 2019 is as follows:

Analysis of CCR exposure by approach (CCR1)

Exposure by approach	Notional	Replacement cost / Present market value	Potential future credit risk exposure	EEPE	Multiplier	EAD post CRM	RWAs
Marking-to-market		173,308	203,091			191,665	91,424
Total							91,424

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	52,241	-	-	-	-	52,241
Institutions	39,489	-	2,258	-	-	41,747
Corporates	-	-	-	-	88,567	88,567
Retail exposures	-	-	-	9,110	-	9,110
Total	91,730	-	2,258	9,110	88,567	191,665

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 13,740 thousand euros, 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)	184,719	13,740
Exposures for trades at non-QCCPs (excluding initial margin and	171,119	13,468
default fund contributions); of which:	-	-
(i) OTC derivatives	111,445	2,229
(ii) Exchange-traded derivatives	51,919	11,239
(iii) SFTs	7,755	-
(iv) Netting sets where cross-product netting has been approved	-	-
Segregated initial margin	-	-
Non-segregated initial margin	-	-
Prefunded default fund contributions	13,600	272
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 increased slightly during the period due to rise in the number of 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 adjustment (CVA) is the difference between the risk-free valuation and the real valuation of the portfolio, including counterparty credit risk. Thus, the CVA capital 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 2019 are shown below, during which the CVA requirements increased slightly, from 411 thousand euros at the end of 2018, to 627 thousand euros at the end of 2019.

CVA capital charge (CCR2)

CVA charge	EAD post CRM	RWA
Total portfolios subject to the advanced method	-	-
(i) VaR component (including multiplier x 3)	-	-
(ii) SVaR component (including multiplier x 3)	-	-
All portfolios subject to the standardised method	3,530	627
Based on the original exposure method		
Total subject to CVA capital charge	3,530	627

Figures in thousands of euros

4.4. Information on the standardised method

As established in chapter 2 of Title II of Regulation (EU) 575/2013, the calculation of capital requirements for credit risk using the standardised method 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 2019	Exposures before CCF and CRM		Exposures after CCF and CRM		RWA and RWA density	
Asset classes	Balance sheet amount	Off-balance sheet amount	Balance sheet amount	Off-balance sheet amount	RWAs	RWA density
Central governments	13,012,834	389,313	12,988,518	193,902	0	0.00%
Regional governments or local authorities	848,049	1,557	848,042	695	757	0.09%
Public sector entities	356,436	263,057	357,047	58,500	271,834	65.42%
Multilateral development banks	1,495	-	1,495	-	-	0.00%
International organisations	-	-	-	-	-	-
Financial institutions	3,916,350	582,366	3,916,349	270,892	1,604,735	38.32%
Corporates	4,465,883	1,595,867	3,761,692	368,315	3,789,348	91.75%
Retail	6,810,140	7,212,131	6,270,245	586,194	4,454,458	64.97%
Secured by mortgages on immovable property	5,195,282	117,377	5,141,002	49,581	1,988,452	38.31%
In default	487,789	39,917	485,108	6,516	546,288	111.12%
Items associated with particularly high risks	61,281	17,891	59,732	8,305	102,055	150.00%
Covered bonds	-	-	-	-	-	-
Institutions and companies in short-term	-	-	-	-	-	-
Investments or shares in collective investment undertakings (CIUs)	-	-	-	-	-	-
Equity	134,191	-	134,191	-	134,191	100.00%
Other exposures (*)	595,077	-	595,077	-	1,260,189	211.77%
Total	35,884,809	10,219,477	34,558,499	1,542,899	14,152,306	39.20%

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)

2019	Risk weight									
Asset classes	0%	20%	35%	50%	75%	100%	150%	250%	Total	of which unrated
Central governments	13,182,420	-	-	-	-	-	-	-	13,182,420	-
Regional governments or local authorities	844,953	3,783	-	-	-	-	-	-	848,736	463,117
Public sector entities	117,990	-	-	51,446	-	246,111	-	-	415,547	283,283
Multilateral development banks	1,495	-	-	-	-	-	-	-	1,495	1,495
International organisations	-	-	-	-	-	-	-	-	-	-
Financial institutions	-	1,830,147	-	2,236,777		120,317	-	-	4,187,241	2,793,292
Corporates	-	12,375	-	263,702	-	3,853,929	-		4,130,007	4,007,658
Retail	-	-	-	-	6,856,439	-	-	-	6,856,439	6,856,439
Secured by mortgages on immovable property	-	-	2,647,966	2,099,177	296,831	146,610	-	-	5,190,584	5,190,584
In default	-	-	-	-	-	382,297	109,327	-	491,624	491,624
Items associated with particularly high risks	-	-	-	-	-	-	68,037	-	68,037	-
Covered bonds	-	-	-	-	-	-	-	-	-	-
Institutions and companies in short-term	-	-	-	-		-	-	-	-	
Investments or shares in collective investment undertakings (CIUs)	-	-	-	-	-	-	-	-	-	
Equity	-	-	-	-	-	134,191	-	-	134,191	134,191
Other exposures (*)		-	-	-	-	151,669	-	443,408	595,077	595,077
Total	14,146,859	1,846,305	2,647,966	4,651,103	7,153,270	5,035,123	177,364	443,408	36,101,398	20,816,760

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 to a roll out plan whereby the following Bankinter Spain portfolios will be gradually incorporated under the IRB approach, subject to specific authorisation:

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

And of Bankinter Portugal:

- Bankinter and Bankinter Consumer Finance personal loans and consumer loans for individuals
- Small businesses
- Medium-sized companies
- Large companies
- Very large companies
- Public companies
- Specialised lending
- Bankinter and Bankinter Consumer Finance cards
- Other operations involving individuals
- Residential mortgages using the standardised approach2

Likewise, exposures with individuals from the portfolio acquired in May 2019 with the purchase of EVO Banco and its subsidiary in Ireland, Avantcard.

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) No 575/2013", published by the European Banking Authority in December 2016, this scale was reduced to seven levels plus the default level. The master scale used for the purposes of this report is as follows:

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 portfolio (CR9)

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

IRB Companies

PD range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Obligors in 2019	Obligors in 2018	Defaulted obligors in the year	Average historical annual default rate
0.00 to < 0.15%	AAA to BBB+	0.05%	0.07%	106	47	5	0.09%
0.15 to < 0.25%	BBB+ to BBB	0.16%	0.16%	94	38	-	0.19%
0.25 to < 0.50%	BBB to BB+	0.32%	0.33%	435	148	-	0.41%
0.50 to < 0.75%	BB+ to BB	-	-	-	-	-	-
0.75 to < 2.50%	BB to B+	1.53%	1.45%	735	254	1	1.24%
2.50 to < 10.0%	B+ to B-	7.79%	6.61%	128	125	5	5.13%
10.00 to < 100%	B- to C	18.22%	18.00%	37	21	7	17.54%
100% (Default)	D	100.00%	100.00%	36	26	-	100.00%

Mortgages

PD range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Obligors in 2019	Obligors in 2018	Defaulted obligors in the year	Average historical annual default rate
0.00 to < 0.15%	AAA to BBB+	0.10%	0.10%	29,727	27,131	9	0.10%
0.15 to < 0.25%	BBB+ to BBB	0.23%	0.23%	21,592	26,903	16	0.25%
0.25 to < 0.50%	BBB to BB+	0.33%	0.36%	61,775	59,309	73	0.38%
0.50 to < 0.75%	BB+ to BB	0.59%	0.61%	39,908	37,538	71	0.65%
0.75 to < 2.50%	BB to B+	1.46%	1.44%	58,877	50,569	212	1.46%
2.50 to < 10.0%	B+ to B-	4.78%	4.57%	12,131	12,938	246	4.13%
10.00 to < 100%	B- to C	20.15%	24.56%	2,266	2,889	388	13.37%
100% (Default)	D	100.00%	100.00%	5,392	5,867	-	100.00%

Retail

PD range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Obligors in 2019	Obligors in 2018	Defaulted obligors in the year	Average historical annual default rate
0.00 to < 0.15%	AAA to BBB+	0.06%	0.08%	4,245	4,038	33	0.19%
0.15 to < 0.25%	BBB+ to BBB	0.16%	0.16%	2,149	1,998	20	0.00%
0.25 to < 0.50%	BBB to BB+	0.33%	0.34%	12,131	11,462	313	0.41%
0.50 to < 0.75%	BB+ to BB	0.51%	0.51%	994	1,184	10	0.73%
0.75 to < 2.50%	BB to B+	1.49%	1.45%	20,631	17,232	950	1.26%
2.50 to < 10.0%	B+ to B-	6.20%	5.44%	11,225	16,654	2,548	3.61%
10.00 to < 100%	B- to C	16.83%	16.83%	3,935	4,069	1,984	9.06%
100% (Default)	D	100.00%	100.00%	8,611	7,971	-	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 credit risk own funds requirements, distributed by exposure category at the 2019 year end. The information is broken down, showing those categories in which in-house estimates are used for all parameters (advanced IRB approach) and those for which the foundation IRB approach is used for assigning the risk weighting (slotting criteria method).

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	19,228,328	11,484,274	1,955,233	13,439,507	2.44%	42.83%	9,371,024	69.73%
Of which IRF	18,611,755	10,996,448	1,902,406	12,898,853	2.35%	42.82%	8,951,887	69.40%
Mortgages	24,477,791	24,285,719	75,759	24,361,478	3.75%	16.16%	4,381,132	17.98%
Retail	2,954,389	2,154,575	401,992	2,556,567	10.83%	50.24%	909,714	35.58%
Total (*)	**46,660,508**	**37,924,568**	**2,432,983**	**40,357,551**	**3.77%**	**27.20%**	**14,661,870**	**36.33%**

Figures in thousands of euros

(*) Note that (EAD) in enterprises under the IRB method does not reach 2,5% of the total exposure to enterprises (standardised method used for 97,5%). When using the IRB method for the entire exposure (EAD) of portfolios of enterprises currently in rollout, the average PD for enterprises will be 4%, the average LGD under 43% and the average RWA density under 60%.

Exposures under foundation IRB approach (slotting criteria)

2019 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	1,106,701	508,066	299,317	807,384	774,233	15,399

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**)

Companies - IRB

2019	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	18,886	12,567	32.3%	22,943	0.1%	106	44.3%	928	3,665	16.0%	5	
2	20,883	5,744	47.0%	23,585	0.2%	94	44.4%	916	6,873	29.1%	16	
3	107,450	39,065	30.5%	119,368	0.3%	435	46.1%	908	56,278	47.1%	178	
4	-	-	0.0%	-	0.0%	-	0.0%	-	-	0.0%	-	
5	261,066	62,420	45.5%	289,453	1.5%	735	39.7%	955	219,234	75.7%	1,770	
6	33,292	6,745	57.3%	37,155	7.8%	128	39.8%	912	44,969	121.0%	1,147	
7	36,432	1,827	91.2%	38,097	18.2%	37	50.4%	696	87,602	229.9%	3,497	
8	9,817	379	62.2%	10,053	100.0%	36	87.0%	922	516	5.1%	8,745	5,339
Total	487,826	128,747	41.0%	540,653	4.58%	1,571	43.13%	920	419,137	77.52%	15,359	7,157

Figures in thousands of euros

(*) The number of obligors is in units

(**) Maturity expressed in days

Companies - IRF

2019	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	265,829	267,274	33.9%	356,494	0.0%	27	45.0%	913	73,282	20.6%	79	
2	1,842,672	2,303,009	20.1%	2,305,387	0.2%	226	45.0%	912	947,385	41.1%	1,657	
3	2,773,084	2,028,428	28.2%	3,344,366	0.3%	852	44.3%	913	1,783,984	53.3%	3,945	
4	2,557,635	1,382,275	24.9%	2,901,457	0.6%	1,601	40.4%	912	1,892,467	65.2%	6,495	
5	2,054,339	1,256,130	26.8%	2,391,284	1.2%	1,020	42.9%	913	2,244,334	93.9%	12,519	
6	940,059	247,283	27.1%	1,006,983	4.3%	623	39.4%	913	1,197,125	118.9%	17,495	
7	426,435	94,046	24.0%	448,977	13.0%	554	40.7%	912	813,310	181.1%	23,537	
8	136,397	36,863	20.4%	143,905	100.0%	236	45.0%	913	-	0.0%	64,757	46,028
Total	10,996,448	7,615,307	25.0%	12,898,853	2.35%	5,139	42.82%	913	8,951,887	69.40%	130,484	69,547

Figures in thousands of euros

Mortgages

Rate	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	3,451,226	6,925	51.4%	3,454,783	0.1%	29,727	15.7%	-	143,790	4.2%	584	
2	2,068,897	13,044	13.1%	2,070,599	0.2%	21,592	13.3%	-	135,724	6.6%	623	
3	5,300,798	33,386	41.1%	5,314,510	0.3%	61,775	15.3%	-	496,236	9.3%	2,655	
4	4,615,081	27,125	47.4%	4,627,929	0.6%	39,908	14.8%	-	637,546	13.8%	3,987	
5	6,394,493	81,722	38.0%	6,425,586	1.5%	58,877	16.1%	-	1,726,135	26.9%	15,581	
6	1,505,211	23,303	43.7%	1,515,385	4.8%	12,131	15.7%	-	789,928	52.1%	11,718	
7	320,522	5,634	41.1%	322,835	20.2%	2,266	17.1%	-	263,002	81.5%	10,542	
8	629,491	933	38.4%	629,849	100.0%	5,392	45.9%	-	188,771	30.0%	289,305	77,558
Total	24,285,719	192,073	43.2%	24,361,478	3.75%	231,668	16.16%	-	4,381,132	17.98%	334,996	101,968
Of which Portugal	4,115,345	31,054	0.00%	4,115,345	3.23%	50,357	17.27%	-	996,045	24.20%	21,157	18,561

Figures in thousands of euros

(*) The number of obligors is in units

Retail

2019	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	99,248	80,014	49.4%	138,804	0.1%	4,245	48.6%	-	10,015	7.2%	43	
2	93,224	67,276	49.4%	126,430	0.2%	2,149	48.8%	-	17,103	13.5%	97	
3	377,697	213,250	51.5%	487,527	0.3%	12,131	47.3%	-	105,744	21.7%	768	
4	17,153	5,291	55.0%	20,065	0.5%	994	49.0%	-	6,890	0.0%	50	
5	990,512	350,469	49.7%	1,164,670	1.5%	20,631	46.8%	-	509,441	43.7%	8,096	
6	264,057	59,694	55.0%	296,909	6.2%	11,225	47.6%	-	178,028	60.0%	8,764	
7	92,835	17,218	40.5%	99,803	16.8%	3,935	45.9%	-	76,029	76.2%	7,746	
8	219,848	6,602	38.0%	222,358	100.0%	8,611	82.3%	-	6,466	2.9%	183,042	131,097
Total	2,154,575	799,814	50.3%	2,556,567	10.83%	63,921	50.24%	-	909,714	35.58%	208,608	155,122

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 2018	5,390,357	431,229
Asset size	708,399	56,672
Asset quality	(439,727)	(35,178)
Model updates (*)	8,920,868	713,669
Other	81,974	6,558
RWA year-end 2019	14,661,870	1,172,950

Figures in thousands of euros

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

4.5.5. Comparative analysis of estimates 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 2004 to 2018. 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 2004-2018. In open recovery processes, an estimated of final LGD is included.
- Average effective expected loss. Average of effective losses of each year from 2004 to 2018.

The charts reflect how the economic crisis has 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.

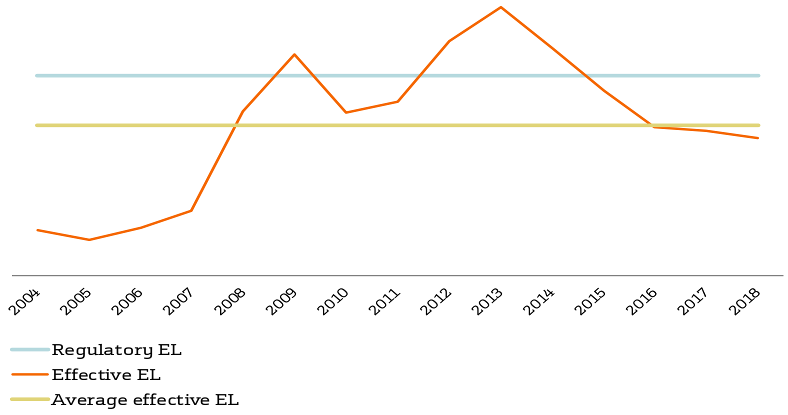
The comparison was made for portfolios of residential mortgages for individuals, consumer loans and credit with personal guarantees, small- and medium-sized enterprises.

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.

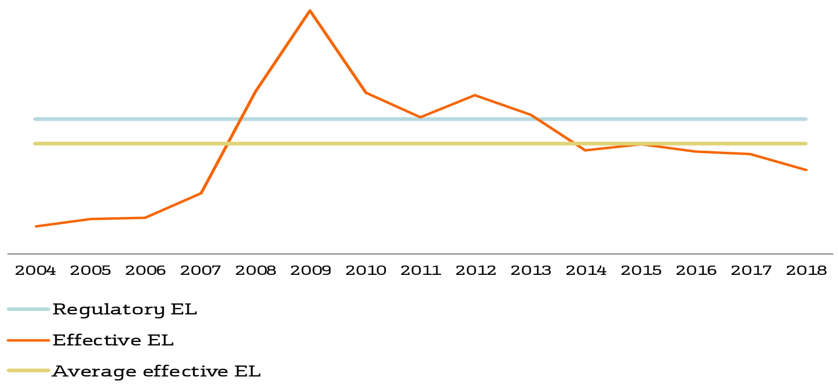
Consumer loans and credit with personal guarantees

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 pre-crisis levels.

Small businesses

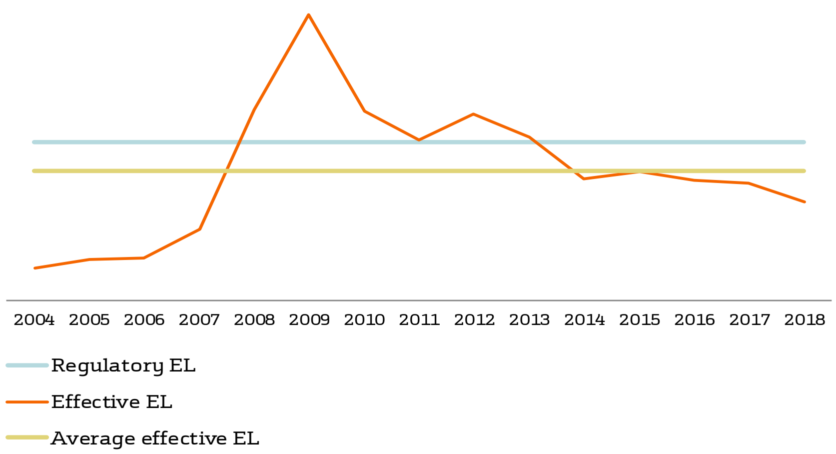


As shown in the chart, the maximum effective expected loss was reached in 2009. From then on, the indicator has continued to fall, with a slight spike in 2012, although it is yet to reach pre-crisis values.

Medium-sized companies

The final chart here 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-crisis levels have not yet been reached.



4.5.6. Risk weightings of specialised lending exposures

Regulation (EU) No 575/2013 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	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	24,779	27,257	70%	38,408	26,885	154
Category 2	Less than 2.5 years	59	137	70%	127	89	1
	equal to or longer than 2.5 years	397,947	520,759	90%	658,327	592,494	5,267
Category 3	Less than 2.5 years	6	-	115%	6	7	0
	equal to or longer than 2.5 years	49,430	39,452	115%	69,156	79,530	1,936
Category 4	Less than 2.5 years	751	-	250%	751	1,878	60
	equal to or longer than 2.5 years	25,296	8,087	250%	29,340	73,350	2,347
Category 5	Less than 2.5 years	-	-	0%	-	-	-
	equal to or longer than 2.5 years	9,797	2,941	0%	11,268	-	5,634
Total	Less than 2.5 years	816	137	-	885	1,974	61
	equal to or longer than 2.5 years	507,250	598,497	-	806,499	772,259	15,338

Figures in thousands of euros

Figures in thousands of euros

4.6. Securitisations

4.6.1. General characteristics

Pursuant to Regulation (EU) No 575/2013, 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 2019, 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 fa;so 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.

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

In case of a significant transfer of risk during the securitisation process, as foreseen in articles 243 and 244 of Regulation (EU) No 575/2013, the securitisation exposures maintained by the 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.

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

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

Credit quality levels	Short-term ratings	Long-term ratings	Securitisation positions	Resecuritisation positions
1	A-1+ A-1	AAA to AA-	20%	40%
2	A-2	A+ to A-	50%	100%
3	A-3	BBB+ to BBB-	100%	225%
4	N/A	BB+ to BB-	350%	650%
Other Levels			1250%	1250%

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

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

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

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

4.6.2. Securitisations originated

Rating agencies used

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

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

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

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

Securitisation activity in the Group

At 31 December 2019, 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)

2019	Bank acting as originator			Bank acting as investor		
Asset classes	**Traditional**	**Synthetic**	**Subtotal**	**Traditional**	**Synthetic**	**Subtotal**
Retail (total) - of which	1,540,215	-	1,540,215	-	-	-
Residential mortgage loans	1,539,820	-	1,539,820	-	-	-
Credit card	-	-	-	-	-	-
Other retail exposure	395	-	395	-	-	-
Resecuritisation	-	-	-	-	-	-
Wholesale (total) - of which	8	-	8	-	-	-
Corporate loans	8	-	8	-	-	-
Commercial mortgages	-	-	-	-	-	-
Finance leases	-	-	-	-	-	-
Other wholesale exposures	-	-	-	-	-	-
Resecuritisation	-	-	-	-	-	-

Figures in thousands of euros

During 2019, 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 2019 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)

2019	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	838,828	21,759	19,316	-	57,112	937,016	-	-	-	34,886	-	-	235,880	2,791	-	-	18,870
Traditional securitisation	838,828	21,759	19,316	-	57,112	937,016	-	-	-	34,886	-	-	235,880	2,791	-	-	18,870
Of which securitisation	838,828	21,759	19,316	-	57,112	937,016	-	-	-	34,886	-	-	235,880	2,791	-	-	18,870
Of which retail underlying	838,828	21,759	19,316	-	57,112	937,016	-	-	-	34,886	-	-	235,880	2,791	-	-	18,870
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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 capital.

At 31 December 2019, risk-weighted assets amounted to 270,767 thousand euros versus 291,824 thousand euros last 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	1,540,215	26,044	1,576
Commercial mortgages	8	0	4
Total	1,540,223	26,044	1,580

Figures in thousands of euros

4.6.3. Investment in securitisations

At 31 December 2019, Bankinter does not act as investor in any securitisation.

4.7. Information on credit risk mitigation techniques

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

Prudence is 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	21,348,208	27,144,429	26,042,320	1,102,109
Of which defaulted	376,648	676,421	668,322	8,099
Total STD exposure	39,250,966	6,853,320	4,777,709	2,075,611
Of which defaulted	3,116,727	296,330	288,037	8,293

Figures in thousands of euros

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 2019.

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

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

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

In accordance with title I, chapter 3 of Regulation (EU) 575/2013 of the European Parliament and of the Council, the trading book 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 "Financial assets held for trading" portfolio is not limited to the activity of a specific business area, but rather is based on the accounting criteria established in current accounting regulations, namely, Circular 4/2017, which came into effect on 1 January 2018. "Financial assets held for trading" also includes transactions that cannot be accounted for in other portfolios and are included in the trading book even thought they do not entail a market risk for Bankinter.

5.2. Characteristics of the risk management system and models used

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

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.

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

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

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 2019 financial year:

VaR by risk factor	
Interest rate VaR	1.35
Equity VaR	0.50
Exchange rate VaR	0.05
Volatility VaR	0.38
Total VaR	**1.25**

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. 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 2019, 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 Regulation (EU) 575/2013, own funds requirements for position risk are the sum of the own funds requirements for the general and specific risk of its positions in debt and equity instruments in "Assets held for trading". General risk is that which derives from a change in value of the portfolio due to general market movements, while specific risk is that which arises from a change in the value of portfolio instruments due to causes relating to the securities issuer or to the issuer of the underlying asset.

Exposure to this type of risk continues to represent a very small percentage of the Institution's risk taken as a whole. At 31 December 2019, 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)

2019	RWAs	Capital
Outright products		
Interest rate risk (general and specific)	206,472	16,518
Equity risk (general and specific)	31,342	2,507
Foreign exchange risk	-	-
Commodity risk	-	-
Options		
Simplified approach	-	-
Delta-plus method	2,135	171
Scenario approach	-	-
Securitisation	-	-
Total	239,949	19,196

Figures in thousands of euros

The changes in capital requirements for market risk in 2019 were due to changes in the portfolio, as there were no changes to the methodology used.

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

6. Operational risk

6. Operational risk

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

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 "Guide 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 set forth the following basic principles of action:

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

These principles are set out in the Group's risk management and control framework approved by the board of directors.

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 2019 are listed below.

Operational risk capital charge:

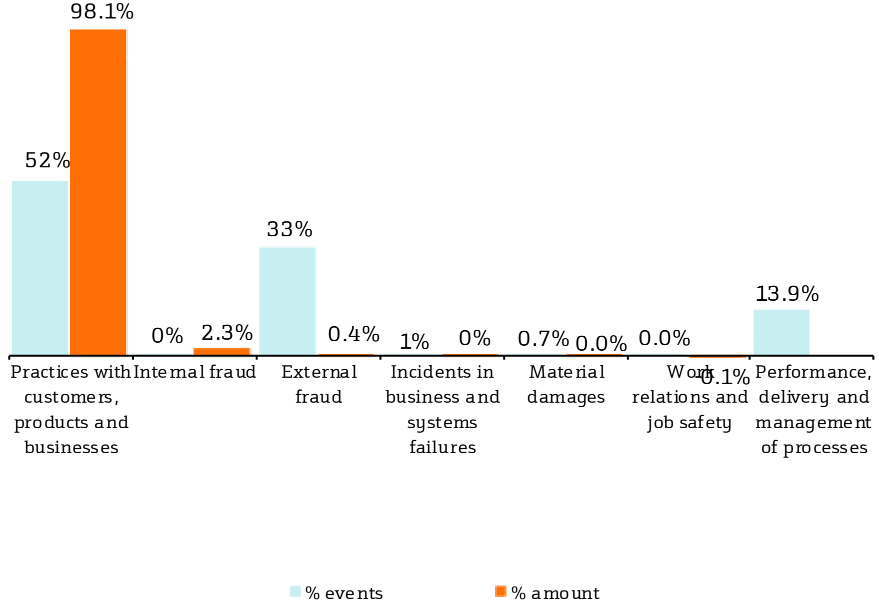
	2019
Beta factor key indicator	237,422
Operational risk-weighted assets	2,851,129
Capital charge for operational risk	228,090

Figures in thousands of euros

6.3. Group operational risk profile

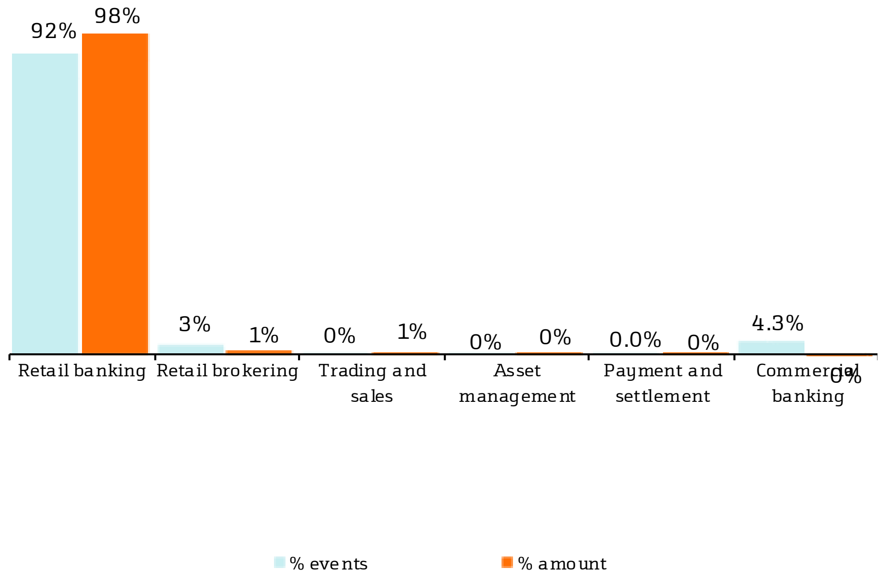
The following charts reflect Bankinter's operational risk profile, shown through the breakdown of historic operational losses analysed under several view points:

Percentage breakdown by type of risk



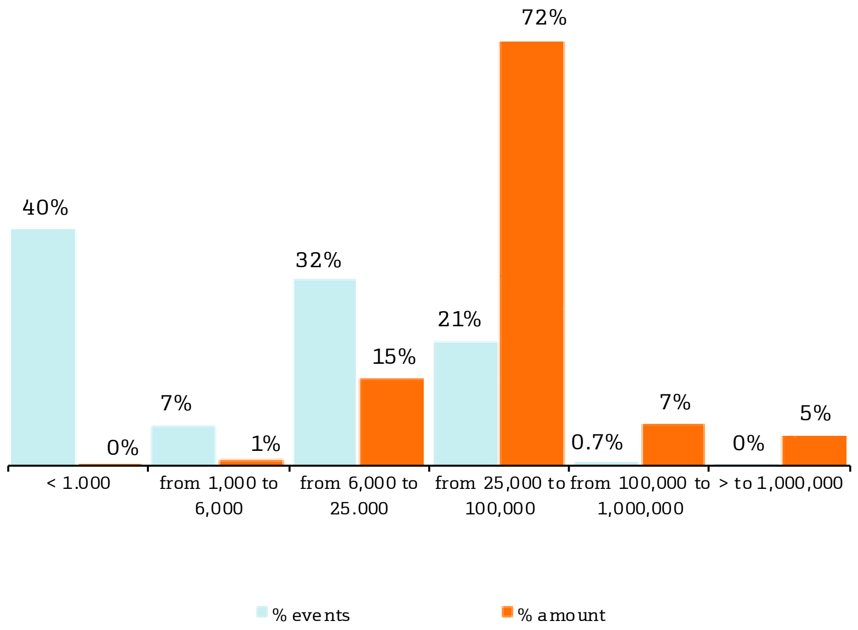
The chart reflects a concentration of losses due to a number of events in "Commercial practices", "External fraud" and "Performance, delivery and management of process". "Commercial practices" is also the type of risk where the highest amounts are concentrated.

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 47% of the total number of events and only 1% of losses. Most of the losses (87%) occur in the interval between 6,000 euros and 100,000 euros, which accounts for 53% 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 forms part of the Risk division, are as follows:

- Promoting the management of operational risks in the areas and units, encouraging risk identification, allocation of responsibility, establishment of controls, generation of indicators, drawing up of mitigation plans and the action to be taken in case of new significant losses or risks
- Facilitating the methodologies, tools and procedures necessary for managing operational risk.
- Promoting the creation of business continuity and contingency plans
- Ensuring that operational losses are correctly and accurately recorded
- Providing the organisation with a uniform vision of operational risk exposure
- Proposing changes in the 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 committee is a delegate committee of the board of directors. It is entrusted with approving the operational risk management framework and policies, as well as with establishing, limiting and monitoring Bankinter Group's operational risk appetite at any time.

The risk committee is responsible for creating the organisational culture and structure needed to promote efficient management of operational risk 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) to the consolidated financial statements.

7.1.1. Portfolios held for sale

The "Financial assets held for trading" portfolio corresponds in an accounting sense to the category "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": includes information on financial instruments, the fair values of which are obtained from prices quoted on active markets for similar instruments.
- "Level 3": includes information on financial instruments the fair values of which are obtained from valuation techniques which have some significant input that is not based on observable market data.

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

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

7.3. Carrying amount of equity investments and capital instruments

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

	Non-trading financial assets mandatorily at fair value through profit or loss	Investments		
		Associates	Jointly controlled entities	Group companies
2018	89,880	72,885	27,767	459,367
2019	116,805	93,141	37,809	492,695

Figures in thousands of euros

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

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

	2019	2018
	Carrying amount	Carrying amount
Listed instruments	42,460	38,414
Unlisted instruments	697,990	611,485
Total	**740,450**	**649,899**

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 2019 and 2018.

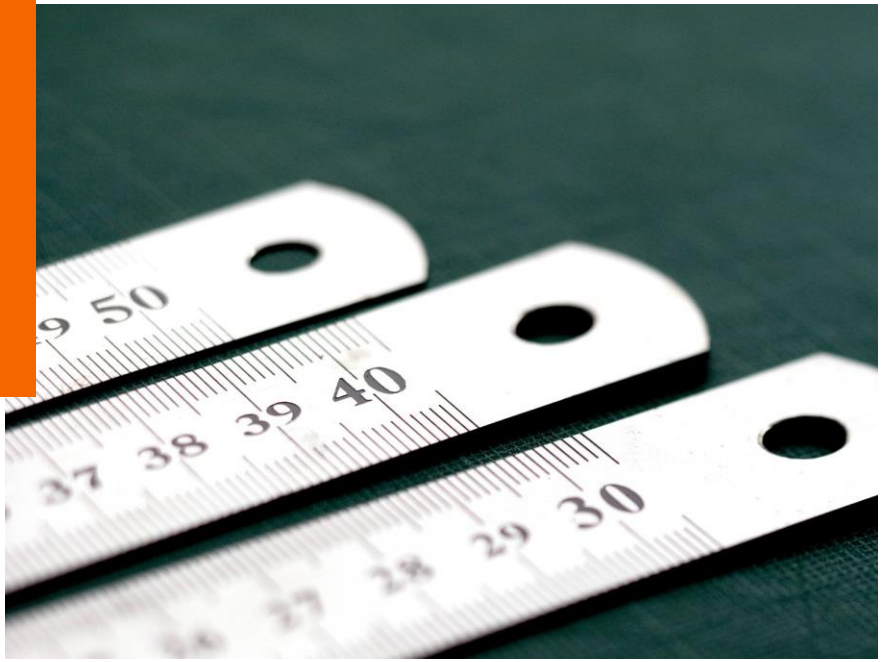
Likewise, the gains or losses on non-trading financial assets mandatorily at fair value through profit or loss in the "Non-trading financial assets mandatorily at fair value through profit or loss" portfolio at 31 December 2019 was 7,782 thousand euros.

In addition, in 2019 and 2018, the Group did not recognise any impairments for these types of equity instruments under "Impairment or reversal of impairment and gains or losses on modifications of cash flows of financial assets not measured at fair value through profit or loss or modification gains or losses, net" in the accompanying consolidated income statement.

The Supervisor has authorised Bankinter to permanently apply the standardised approach to equities-related exposures, except for financial-sector investments in which the Institution holds a significant interest (as is the case of the Institution's insurance holdings). The amount in excess of 10% of CET1, which in 2019 was €27,060 thousand, 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 1,119,958 thousand euros at the close of the 2019 financial year, compared to 1,012,617 thousand euros at year-end 2018.

8. Structural interest rate risk



8. Structural interest rate risk

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

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

- Sight liabilities are classified according to their type of remuneration in non interest-bearing accounts, Euribor-linked accounts and managed accounts, the interest rate of which is not linked to any index and is updated on the basis of the 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. Given the current low level of interest rates, the incentive for the customer to prepay is considered minimal; therefore, as a prudential measure, no prepayment rate is taken into account in the interest rate models.

8.2. Interest rate variations

The main measurements used by the Bank to manage and control the interest rate risk profile approved by the board of directors are as follows:

Net interest income sensitivity

Monthly dynamic measurements are made to simulate the exposure of the net interest income to different scenarios of interest rate fluctuations for a 12-month time horizon. The sensitivity of 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 asset and liability committee.

Bankinter's net interest income's interest rate risk exposure facing parallel movements of 100 basis points in market interest rate curves is approximately +14.7% for rises and -4.3% 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 +2.5% and -5.2%, respectively, of own funds at year-end 2019. 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 assets and liabilities committee.

During 2019, 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 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:

- Hedges of fixed-interest rate liabilities, thereby counteracting the detrimental effect of asset repricing.
- 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.

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

9. Liquidity and funding risk

9. Liquidity and funding risk

9.1. Governance and monitoring of funding and liquidity risk

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

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

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

The primary goal of managing liquidity risk is that the 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, adding the capacity to issue covered bonds

Level 2

a) ECB financing

Total amount of financing through the European Central Bank.

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 assets and liabilities committee.

9.2. Liquidity and funding prospects

In 2019, the customer funding gap (the difference between loans and customer funds) for the business in Spain, was reduced by 2.451 billion euros. The acquisition of EVO Banco and Avantcard at the end of May, accounted for 1.784 billion euros of this decrease. The banking business in Spain's customer funding gap decreased by 1,100 million euros thanks to strong growth in customer funds, which easily outstripped the liquidity requirements generated by the growth of loans and receivables. Conversely, the banking business in Portugal has a positive impact on the customer funding gap, with loans and receivables growing more than customer funds by 434 million euros. As a result, customer funds financed 98.3% of loans and receivables, up from 93.8% 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 liquid assets, leaving the LCR well above both internal and regulatory limits; closing 2019 at 153.7%.

During the year, the short-term LCR was well above the regulatory requirement. Bankinter's liquid assets portfolio has enabled it to present LCR ratios above 100%.

The balanced and stable composition of the funding obtained by Bankinter Group to cover its needs, led to the net stable funding ratio (NSFR) standing above 100% during the whole of 2019. This ratio closed December at 123.4%, beating the figure for year-end 2018 of 115.3%.

For 2020, Bankinter expects to continue its balanced growth in lending and in deposits, thus reducing dependence on wholesale markets. Maturities in the year amounted to 790 million euros and will be refinanced in long-term wholesale markets.

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

9.3. Liquidity coverage ratio (LCR)

The monthly averages of the components of the LCR ratio at the close of each quarter in 2019 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	31.03.2019	30.06.2019	30.09.2019	31.12.2019	31.03.2019	30.06.2019	30.09.2019	31.12.2019
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)	-	-	-	-	10,788	11,117	11,788	12,458
CASH OUTFLOWS								
Retail deposits and deposits from small business customers, of which:	24,096	25,317	26,964	28,788	1,644	1,728	1,832	1,947
Stable deposits	15,720	16,473	17,693	19,030	786	824	885	951
Less stable deposits	8,376	8,844	9,272	9,758	858	905	947	996
Unsecured wholesale funding	17,879	18,356	18,985	19,794	7,001	7,314	7,631	7,972
Operational deposits (all counterparties) and deposits in networks of cooperative banks	11,150	11,272	11,633	12,139	2,643	2,671	2,744	2,852
Non-operational deposits (all counterparties)	6,678	6,996	7,244	7,551	4,307	4,555	4,778	5,015
Unsecured debt	51	88	108	105	51	88	108	105
Secured wholesale funding					-	-	-	-
Additional requirements	9,066	9,227	9,623	9,809	742	734	761	786
Outflows related to derivative exposures and other collateral requirements	197	184	180	184	197	184	180	184
Outflows related to loss of funding on debt products	9	7	7	7	9	7	7	7
Credit and liquidity facilities	8,860	9,035	9,436	9,618	536	543	574	595
Other contractual funding obligations	150	141	136	118	93	84	79	59
Other contingent funding obligations	331	386	453	528	-	-	-	-
TOTAL CASH OUTFLOWS					9,480	9,862	10,302	10,764
CASH INFLOWS								
Secured lending (e.g. reverse repos)	1,837	1,699	1,709	1,640	2	1	0	1
Inflows from fully performing exposures	3,774	4,095	4,346	4,512	2,146	2,380	2,560	2,671
Other cash inflows	-	7	28	47	-	3	9	16
(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	5,610	5,801	6,082	6,198	2,148	2,384	2,569	2,689
Fully exempt inflows	-	-	-	-	-	-	-	-
Inflows subject to 90% cap	-	-	-	-	-	-	-	-
Inflows subject to 75% cap	5,610	5,801	6,082	6,198	2,148	2,384	2,569	2,689
LIQUIDITY BUFFER					10,788	11,117	11,788	12,458
TOTAL NET CASH OUTFLOWS					7,332	7,478	7,733	8,076
LIQUIDITY COVERAGE RATIO (%)					147%	149%	152%	155%

Figures in millions of euros

Below we include some comments about the data in table LIQ1:

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

The Bank habitually practices the use of collateral agreements (CSA) when using derivatives to hedge its exposure.

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 funding 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.

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

At the close of the financial year, Bankinter Group's leverage ratio stood at 4.75%, compared to 5.13% in the previous financial year, always complying with the regulatory minimum requirement set at 3%.

Bankinter Group's leverage ratio at 31 December 2018 and 2017:

	2019	2018
Tier 1	4,120,925	4,051,906
Exposure	86,672,758	79,037,024
Leverage ratio	4.75%	5.13%

Figures in thousands of euros

A reconciliation between the Group's financial statements and the exposure measure used in calculating the 2019 leverage ratio is as follows:

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

	2019
Total assets according to published financial statements	83,732,345
Adjustment for entities consolidated for accounting purposes, but which fall o utside the scope of regulatory consolidation	(944,274)
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	(376,943)
Adjustment for securities financing transactions (SFT)	(271,466)
Adjustment for off-balance-sheet items (i.e., conversions of off-balance-sheet exposures to credit equivalents	5,319,972
Adjustment for intragroup exposures excluded from the leverage ratio exposure	-
Adjustment for exposures excluded from the leverage ratio exposure	-
Other adjustments	(786,877)
Measurement of the total exposure for the leverage ratio	86,672,758

Figures in thousands of euros

The following table provides a breakdown of the items used to calculate the leverage ratio at 31 December 2019:

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)	80,021,896
Amounts of assets deducted to determine tier 1 capital	(786,877)
Total on balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	79,235,019
Derivatives exposures (under article 429 bis)	
Replacement cost associated with all derivatives transactions	173,308
Add-on amount for PFE associated with all derivatives transactions	249,883
Exposure determined under original exposure method	-
Gross-up for derivative collaterals provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-
Deductions of receivables assets for cash variation margin provided in derivatives transaction	(283,801)
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	139,390
SFT exposures (under article 429 and 429 ter)	
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	1,977,383
Net amounts of cash payables and cash receivables of gross SFT assets	-
Counterparty credit risk exposure for SFT assets	993
Derogation for SFTs: Counterparty credit risk exposure	-
Agent transaction exposures	-
Exempted CCP leg of client-cleared SFT exposure	-
Total SFT exposures	1,978,376
Other off balance-sheet exposures (after applying CCF, according to art. 429)	
Off-balance sheet exposures at gross notional amount	19,923,301
Adjustments for conversion to credit equivalent amounts	(14,603,329)
Off balance-sheet exposures	5,319,972
Exposures exempted	
Exemption of intragroup exposures (solo basis)	-
Exposures exempted	-
Capital and total exposure measurement	
Tier 1 capital	4,120,925
Measurement of total exposure for leverage ratio	86,672,758
Leverage ratio	
Leverage ratio	4.75%

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:	80,021,896
Trading book exposures	1,702,971
Banking book exposures of which:	78,318,925
Covered bonds	-
Exposures treated as sovereigns	13,954,709
Exposures to regional governments, MDB international organisations and PSE not treated as sovereigns	266,703
Institutions	3,916,936
Secured by mortgages of immovable properties	28,848,612
Retail exposures	8,808,445
Corporates	16,285,730
Defaulted exposures	1,573,522
Other exposures	4,664,268

Figures in thousands of euros

10.2. Trends in the ratio

The leverage ratio decreased by 38 basis points in 2018, from 5.13 % at 31 December 2018 to 4.75% at 31 December 2019. This was a result of the increased exposure to leverage ratio effects, particularly due to the strong growth in total consolidated assets with the addition of the EVO Group and Avantcard's balance sheets. Total asset growth exceeded 7 million euros. Off-balance sheet items also increased by almost 1 billion euros.

The value of the numerator, tier 1 capital, rose slightly during the year, by 69 million euros, which was not enough to offset part of the increase in the ratio's denominator.

10.3. Leverage ratio management

Each quarter, Bankinter estimates and monitors this ratio to ensure that the Institution's leverage is within appropriate levels. The leverage ratio is one of the level 1 ratios monitored by the board of directors as part of the risk appetite framework. The 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.

Likewise, forecasts are made of the ratio in the three-year stress scenario projections, to guarantee its 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.

Lastly, it should be pointed out that, as an additional transparency measure, the LRSum, LRCom and LRSpl tables have been published quarterly on the Group's corporate website since the start of the 2019 financial year.

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. 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 reflected as loans associated with these bonds. With regard to on-balance sheet covered bonds, we are including loans for 125% of the amount required to obtain Eurosystem funds.

Transferable securities

Repurchase agreements

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

Short positions

A large number of temporary debt acquisitions are often carried out when the bond has been sold by the Trading area. All bonds purchased under reverse repos that correspond to bonds sold short are included as 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, we could also add that 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 2019 close.

Encumbered and unencumbered assets (AE1)

	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
Assets of the reporting institution	**17,335**	**3,463**			**64,506**	**11,474**		
Equity instruments	7	4			274	121		
Debt securities	3,745	3,459	4,305	4,068	7,276	5,688	7,156	5,821
of which: covered bonds	0	0	0	0	0	0	0	0
of which: asset-backed securities	20	20	20	20	33	0	33	0
of which: issued by general governments	3,384	3,384	4,007	4,007	5,595	5,595	5,733	5,733
of which: issued by financial corporations	279	0	279	0	1,129	0	1,129	0
of which: issued by non-financial corporations	53	53	53	53	471	97	471	97
Other assets	13,580	0			57,031	4,972		
of which: loans:	12,977	0			54,644	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 relate 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	1,668	1,666	409	385
Loans on demand	-	-	-	-
Equity instruments	-	-	-	-
Debt securities	1,666	1,666	385	385
Of which: covered bonds	-	-	-	-
Of which: asset-backed securities	-	-	-	-
Of which: issued by general governments	1,666	1,666	385	385
Of which: issued by financial corporations	-	-	-	-
Of which: issued by non-financial corporations	-	-	-	-
Loans and advances other than loans on demand	-	-	-	-
Other collateral received	-	-	30	-
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			2,052	1,739
TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	19,073	5,201		

Figures in millions of euros

Lastly, the amounts of encumbered own debt securities issued (covered bonds and securitisation bonds) and the assets which cover them, are detailed 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 2019, 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	**13,944**	**17,294**
Derivatives	445	483
of which: OTC	319	357
Deposits	8,872	11,110
Reverse repos	2,148	2,010
of which: central banks	-	-
Collateralised deposits other than repurchase agreements	6,526	8,744
of which: central banks	6,526	8,744
Debt securities issued	4,791	5,888
of which: covered bonds issued	4,225	5,281
of which: asset-backed securities issued	546	585
Other sources of encumbrance	2,236	2,058
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	2,236	2,058
TOTAL SOURCES OF ENCUMBRANCE	16,180	19,073

Figures in millions of euros

12. Remuneration

12. Remuneration

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

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

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

- Submitting the director remuneration policy and the individual remuneration of directors to the board of directors for its approval, along with the corresponding annual director remuneration report (which the board shall then lay before shareholders at a general meeting for a consultative vote).
- 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 director 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 director remuneration; and to submit all appropriate information to the board of directors for this purpose.
- 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 six external members, most of whom are independent, including the committee chairman.

In order to fulfil its duties, the Bankinter remuneration committee met on five occasions in 2019 to discuss all matters encompassed within its competencies.

All of the committee's activities are included in the annual activity report for 2019, approved by the committee in February 2020 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 director remuneration; verification of the information on the remuneration of directors and senior officers found in corporate documents; and monitoring of compliance with and regular revision of the Bankinter remuneration policy; determination of identified staff[3]; and updating of remuneration-related policies and procedures.

Article 40 of the Rules and Regulations of the Board of Directors provides that the remuneration committee must have access to all information and documentation needed for it to carry out its

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

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 20 February 2019, 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 21 March 2019 (with a 91.019% approval rating), and can be viewed on the Company's corporate website. The report followed the format, content and structure set out in Circular 4/2013, of 12 June, of the Spanish National Securities Market Commission (Comisión Nacional del Mercado de Valores), which was amended by Circular 2/2018, of 12 June, which remains in force for this year's reports.

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.

At the time this report is approved, the board of directors, on a reasoned report by the remuneration committee, has decided to submit a motion at the annual general meeting in March 2020 to amend the director remuneration policy for 2019, 2020 and 2021 (the "Director remuneration policy") approved at the annual general meeting held on 21 March 2019.

The proposed amendments to the remuneration policy approved on 21 March 2019 are justified by 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,

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

adjustments or changes shall be disclosed in the annual report on the remuneration of directors."

In both cases, the Directors' remuneration policy is accompanied by an explanatory report by the board and a specific report by the remuneration committee, pursuant to Article 529 novodecies of the Spanish 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 18 February 2020, before the publication of this report and in accordance with the proposal put forth by the remuneration committee, the board of directors approved Bankinter's annual report on directors' remuneration, in accordance with the Law as well as Spanish National Securities Market Commission (CMNV) Circular 4/2013 of 12 June (as amended by the Spanish National Securities Market Commission Circular 2/2018 of 12 June). The report will be put to an advisory vote at the annual general meeting to be held on 19 March 2020, 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, upon a proposal from the remuneration committee, approved a policy to determine 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. In the board meeting of 18 February 2020, the previously mentioned amendment to the directors remuneration policy was introduced in relation to identified staff, to whom the deferral and delivery of shares clauses apply. This policy contemplates the criteria established in the European Commission's Delegated Regulation (EU) 604/2014 of 4 March 2014, which supplements Directive 2013/36/EU of the European Parliament and the European Council, in relation to the regulatory technical standards corresponding to the appropriate qualitative and quantitative criteria to be used to identify the categories of staff whose professional activities have a significant impact on an institution's risk profile.

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

The companies forming Bankinter Group participate actively in the identification process, providing all of the necessary information to adequately identify all staff who have a material impact on the Group's risk profile. As a result of the identification process explained, a total of 91 professionals were classified as identified staff at the close of the 2019 financial year.

The total number of people identified in 2019 rose slightly on the previous year, increasing to 85.

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

12.4. Characteristics of the remuneration scheme applied to identified staff

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

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 2019, 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.

1. 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 2019, along with a description of the amounts to be accrued for each item in 2020.

ii. Remuneration of the chairman of the board of directors:

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

The report on the remuneration of directors, available on the Institution's corporate website (www.bankinter.com/webcorporativa) includes the individual amount paid to the chairman for the performance of his duties in 2019 and remuneration corresponding to 2020.

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 department leading the process.

Variable remuneration

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

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

- When remuneration is linked to results, its total amount will be based on an assessment that combines the results of the individual, estimated using both financial and non-financial criteria, the results of the business unit in question and the global results of the 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 incentive

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 2019 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.

These indicators - PBT and gross operating income - account for 60% and 40%, 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. Pursuant to these tables of achievement and accrual, the global percentage accrual of the incentive in 2019 was 99.55%.

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

Long-term variable incentive:

On a recommendation by the remuneration committee, the board of directors approved a long-term incentive plan for 2019-2021 (the "plan"), in accordance with the director 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 annual general meeting.

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: 3 years for calculating the amount accrued (2019-2021) and a deferral period of 5 years, as of 31 December 2021, in the case of executive directors and senior managers (i.e. 2023, 2024, 2025, 2026 and 2027), and 3 years of deferral for all other participants (i.e. 2023, 2024 and 2025).

Benchmark amount of incentive:

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

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

The directors' remuneration report, which will be subject to an advisory vote at the next annual general meeting, is available on the Institution's corporate website. The report contains a more comprehensive description of the indicators and adjustment mechanisms is provided as well as payment conditions.

Specific characteristics of 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 director 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 the identified group

The total identified staff remuneration generated in 2019, by area of activity, is as follows:

Remuneration by activity

Business	Investment banking (1)	Commercial Banking (2)	Asset management (3)	Other (4)	Total
No. of employees who form part of the identified staff	5	34	8	44	**91**
Total remuneration	1,556	9,771	2,137	13,381	**26,845**
Of which: Variable remuneration	773	1,609	1,065	2,082	**5,529**

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.

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)		**2,139**	**1,936**	**2,632**	**11,632**	**18,339**
Variable remuneration (4)			526	946	4,057	**5,529**
Immediate payment	In shares		126	284	857	**1,267**
	In cash		126	284	2,057	**2,467**
Deferred payment	In shares		155	189	572	**916**
	In cash		118	189	572	**879**
No. payees		10	2	8	71	**91**
Payments for new recruitment						**-**
Fixed remuneration		189			222	**411**
Variable remuneration					51	**51**
Immediate payment	In shares			-	-	**-**
	In cash			51	51	**102**
Deferred payment	In shares			-	-	**-**
	In cash			-	-	**-**
No. payees		2			3	**5**
Severance payments (5)					2,264	**2,264**
No. payees					4	**4**
Deferred remuneration pending payment			2,379	3,206	8,181	**13,766**
Vested part			147	195	465	**807**
Non-vested part			2,232	3,012	7,716	**12,960**
Pension scheme contributions		-	539	568	1,871	**2,978**

Figures in thousands of euros

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

(2) Individualised information for executive and non-executive directors, accrued and effectively paid, can be found in the director remuneration report that the board of directors submit to an advisory vote at the annual general meeting of shareholders. This report is available on 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 chief executive officer, 60% of variable remuneration accrued in 2019 is subject to a 5-year deferral period. In the case of the vice chairman and senior managers, 40% of variable remuneration earned in 2019 is subject to a 5-year deferral period. In the case of other identified staff, 40% of variable remuneration accrued in 2019 is subject to a 3-year deferral period, provided that the proportionality rule in the deferral policy is not enforced. All variable remuneration is subject to a 3-year deferral and on the condition that it is not revealed during this period that its accrual occurred partially or wholly based on information that the falsity or serious inaccuracy of which has been clearly demonstrated a posteriori. In addition no risks assumed during the vesting period or during the period of deferment should surface, or other unforeseen or assumed circumstances by the Bank that have an adverse material effect on the accounts of Bankinter or the area that has generated such remuneration. The amounts outstanding payment may be reduced or cancelled.

(5) The maximum amount paid to a person in the identified staff as severance pay is 1.153 thousand euros, exceeding two years of fixed remuneration. In 2019, a severance payment was made to four members of the identified staff.

This table shows the amounts actually vested until December 31, 2019.

In 2019, two people in Bankinter accrued more than one million euros during the year, through multi-year and annual variable remuneration. The following table shows the distribution of these two people by salary bands:

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

Annexes

Annexes:

Annexe I. Capital instruments of Bankinter Group

1	Issuer	Bankinter, S.A.	Bankinter, S.A.	Bankinter, S.A.	Bankinter, S.A.
2	Single identifier	XS1404935204	ES0213679030	ES0213679204	XS1592168451
3	Legislation applicable to the instrument	Spanish law	Spanish law	Spanish law	Spanish law/English law
4	Transitional CRR rules	Additional Tier 1	Tier 2 capital	Tier 2 capital	Tier 2 capital
5	CRR rules after transition	Additional Tier 1	Tier 2 capital	Tier 2 capital	Tier 2 capital
6	Admissible on an individual/sub-consolidated/consolidated basis	Consolidated	Consolidated	Consolidated	Consolidated
7	Type of instrument	Preferred Securities	Subordinated debentures	Subordinated debentures	Subordinated debentures
8	Amount recognised in regulatory capital	200,000	81,894	7,496	498,005
9	Nominal amount of the instrument	200,000	81,894	40,000	500,000
9a	Issue price	100%	100%	99.368%	99.601%
9b	Redemption price	100%	100%	100%	100%
10	Accounting classification	Liabilities-amortised cost	Liabilities-amortised cost	Liabilities-amortised cost	Liabilities-amortised cost
11	Original issue date	10/05/2016	14/05/1998	7/07/2010	6/04/2017
12	Perpetual or date	Perpetual	With maturity	With maturity	With maturity
13	Initial maturity date	No maturity	18/12/2028	7/12/2020	6/04/2027
14	Issuer´s call option subject to prior approval by the supervision authorities	Yes	No	No	Yes

15	Optional call date, contingent call dates redemption amount	10/05/2021; 5 years after the issue date	-	-	6/04/2022
16	Subsequent call dates, if applicable	Quarterly from 10/05/2021	-	-	-
17	Fixed or floating dividend or coupon	Fixed	Fixed	Fixed	Fixed
18	Coupon interest rate and any related index	8.625% (quarterly coupon)/ 8.908% (on annual basis)	6.000%	6.750%	2.500%
19	Existence of a dividend stopper	No	No	No	No
20a	Fully discretionary, partially discretionary or compulsory (in calendar terms)	Fully discretionary	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or compulsory (in terms of amount)	Fully discretionary	Mandatory	Mandatory	Mandatory
21	Existence of a coupon step up or other incentives to redeem	No	No	No	No
22	Noncumulative or cumulative	Noncumulative	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Convertible	Non-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		-	-	-
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	No	-	-	-
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	Senior to common shares and reserves and pari passu with preferred shares	Subordinated	Subordinated	Subordinated
36	Non-compliant transitioned features	No	No	No	No
37	If so, specify non-compliant features	-	-	-	-

Annexe II. Own funds reporting template.

		Amount at 31 December 2019	Amount at 31 December 2018	Regulation (EU) No 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	1,453,925	26 (1), 27, 28, 29, EBA list 26 (3)		
2	Retained earnings	2,779,712	2,531,123	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)	187,699	141,597	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 CET 1			486 (2)		
5	Minority interest (amount accepted in consolidated CET 1)			84, 479, 480		
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	287,466	263,199	26 (2)		
6	Common equity tier 1 before the regulatory adjustments	4,708,802	4,389,844	-		
Common equity tier 1: Regulatory adjustments						
7	Additional value adjustments (negative amount)	(5,715)	(5,996)	34, 105		
8	Intangible assets (net of tax debt) (negative amount)	(382,131)	(284,397)	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			33 (a)		

		Amount at 31 December 2019	Amount at 31 December 2018	Regulation (EU) No 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	(367,245)	(244,134)	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			36 (1) (e), 41, 472 (7)		
16	Direct and indirect holdings of own CET 1 instruments by an institution (negative amount)	(1,266)	(2,411)	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)	(27,060)	-	36 (1) (i) 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79		
20	Empty set in the EU			-		
20a	Exposure amount of the following items which qualify for a RW of 1,250%, where the institution opts for the deduction alternative			36 (1) (k)		
20b	of which: qualifying holdings outside the financial sector (negative amounts)			36 (1) (k) (i), 89 to 91		

		Amount at 31 December 2019	Amount at 31 December 2018	Regulation (EU) No 575/2013 (CRR) Reference to article	Amounts subject to processing before the CRR or residual amount prescribed by the CRR	Explanatory notes
28	Total CET1 regulatory adjustment COMMON EQUITY TIER 1	(786,877)	(536,938)			
29	ADDITIONAL TIER 1 CAPITAL:	3,921,925	3,852,906			
Instruments Instruments						
30	Capital instruments and the corresponding share premium accounts	199,000	199,000	51, 52		
31	of which: classified as equity under applicable accounting standards			-		
32	of which: classified as liabilities under applicable accounting standards			-		
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to gradual exclusion from Additional Tier 1 Capital	-	-	486 (3)		
34	Qualifying tier 1 capital included in consolidated 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	199,000	199,000			
Instruments 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)		

		Amount at 31 December 2019	Amount at 31 December 2018	Regulation (EU) No 575/2013 (CRR) Reference to article	Amounts subject to processing before the CRR or residual amount prescribed by the CRR	Explanatory notes
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 Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) 575/2013 (i.e., CRR residual amounts)			-		
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013			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 T2 deductions that exceed the T2 capital of the institution (negative amount)			56 (e)		
43	Total regulatory adjustments to additional tier 1 capital					
44	Additional tier 1 capital	199,000	199,000			
45	Tier 1 capital (tier 1 capital = common equity tier 1 + additional tier 1 capital)	4,120,925	4,051,906			
Tier 2 capital: Instruments and reserves						
46	Capital instruments and the corresponding share premium accounts	587,393	636,382	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)	-	

		Amount at 31 December 2019	Amount at 31 December 2018	Regulation (EU) No 575/2013 (CRR) Reference to article	Amounts subject to processing before the CRR or residual amount prescribed by the CRR	Explanatory notes
50	Credit risk adjustments			62 (c) and (d)	-	
51	Tier 2 capital before the regulatory adjustments	587,393	636,382			
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)		
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) No 575/2013 (i.e., CRR residual amounts)	-	-			
57	Total tier 2 capital regulatory adjustments	-	-	-		
58	Tier 2 capital	587,393	636,382	-		
59	Total capital (total capital= tier 1 capital + tier 2 capital)	4,708,318	4,688,288	-		
60	Total risk-weighted assets	33,769,813	32,800,807			

		Amount at 31 December 2019	Amount at 31 December 2018	Regulation (EU) No 575/2013 (CRR) Reference to article	Amounts subject to processing before the CRR or residual amount prescribed by the CRR	Explanatory notes
Ratios and capital buffers						
61	Common equity tier 1 (as a percentage of the total risk exposure amount)	11.61%	11.75%	92 (2) (a), 465		
62	Tier 1 capital (as a percentage of the total risk exposure amount)	12.20%	12.35%	92 (2) (b), 465		
63	Total capital (as a percentage of the total risk exposure amount)	13.94%	14.29%	92 (2) (c)		
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	0.00%	0.00%	DRC 128, 129 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 the capital of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	394,898	364,995	36 (1) (i), 45, 48, 470, 472 (11)		

		Amount at 31 December 2019	Amount at 31 December 2018	Regulation (EU) No 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)

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

Bankinter Group 2019. 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
Bankinter Gestao de Activos, S.A.	Full consolidation	Full consolidation			Asset management
Hispamarket, S.A.	Full consolidation	Full consolidation			Holding and purchasing securities
Intermobiliaria, S.A.	Full consolidation	Full consolidation			Real estate management
BK Consultoria, Asesoramiento y Atención Telefonica, S.A.	Full consolidation	Full consolidation			Telephone assistance
BK Sociedad de Financiación, S.A.U.	Full consolidation	Full consolidation			Issuance of debt securities
BK Capital Riesgo I Fondo de Capital	Full consolidation	Full consolidation			Venture capital fund
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.U.	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 Services, AIE	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