

# Regulatory Compliance

**A new institutional framework to strengthen the second line of control**



The bank must achieve its business objectives while complying not only with regulations, but also the domestic and international standards and best practices required of its operations. Regulatory compliance is not just a legal obligation for Bankinter, it is an ethical commitment to society.

This commitment also serves as an opportunity to reflect for Bankinter to become a leading institution adapted to the new reality of the finance industry, which is subject to the need to change relationships with customers and adjust the bank's business model in line with new financial consumption habits and multiple reporting requirements.

The growing importance of regulatory compliance has been underlined by the entry into force (first as a result of the economic and financial crisis and then as a result of the health crisis) of several highly complex regulations and the launch of a new supervisory architecture, obliging the bank to strengthen its available resources.

The purpose of the compliance function is to assess and provide guidelines for the lines of business that help define its strategy, ensuring compliance with applicable legislation at all times. With this in mind, all areas of the compliance function spare no efforts in enhancing the training activities of its commercial staff.

## New Department of Control and Compliance

The regulatory compliance function is integrated within Bankinter through an internal institutional framework. The new Control and Compliance Department was formed in January 2021, integrating the areas responsible for the following second lines of control in the entity:

- Risk Control and Internal Validation Unit.
- Financial control and analysis unit.
- Regulatory Compliance unit.
- Anti-Money Laundering And Counter Terrorism Financing Unit.

The decision aims to standardise the information systems of these second-level control areas, ensuring greater interaction between them and a single risk map. All of this will result in greater efficiency and optimisation of resources and will provide the second line of control with the necessary independence to perform its functions, in line with the best practices in this field.

The new Department was included as a corporate function in September 2021, structured so as to coordinate the management of all risks at the group level, while preserving the individual and specific features of each country. The new framework also allows for better coordination of the control and compliance areas at a global level, as well as the simplification of reports and controls within the organisation, by establishing common policies and procedures and a single methodology, in accordance with the new international internal control framework standards.

This corporate structure follows the model based on the three lines of defence and is integrated into Bankinter's risk culture, which is deeply rooted in the organisation and driven by the strong involvement of the Board of Directors and Senior Management. Its application leads to the agile

and efficient use of the necessary tools and systems to ensure compliance with the regulations and prevent undesired behaviour. The risk control culture is reinforced through an incentive policy aligned with the Group's risk appetite, a continuous and compulsory training programme for the entire workforce, and a reinforced whistleblower channel.

Under this regulatory and institutional framework, the bank developed the basic areas of the compliance function in 2021 through the following units:

- **Control and advice on banking transparency and products, investment services, market abuse, Internal Code of Conduct and conflicts of interest.** Bankinter has implemented a methodology based on the risk approach that enables the risk of default in each area of activity to be assessed in relation to the provision of investment and banking services.
- **Anti-money laundering and counter terrorist financing.** In 2021, the risk control and management framework was reinforced and centralised monitoring was developed.
- **Risk Control and Internal Validation.** This unit is in charge of controlling credit, operational, technological, and market and institutional risks.
- **Financial control and analysis.** It reviews the general framework of internal financial control and outsourced services.

The functions of Regulatory Compliance and Anti Money Laundering and Counter Terrorism Financing are integrated into the Corporate Control and Compliance Department, which has global and corporate responsibilities and supports the Group's governing bodies. The head of the Control and Compliance division reports to the chief risk officer, and reports hierarchically to the board of directors' risk and compliance committee. The Control and Compliance unit ensures effective control in relation to the bank's risk culture and policies, and compliance with its operating procedures and regulations. It also guarantees that risks are managed as per the defined risk appetite.

This organisational structure enables the Bank to adequately manage the risk of failing to comply with regulations, which also entails significant reputational risk, with a potentially adverse impact on relations with customers, markets, employees and the authorities. In particular, failure to comply with regulations may lead to sanctions, damage or cancellation of contracts, harming the bank's image.

In particular, it is involved in the following bodies of the bank:

- **The Regulatory Compliance Committee.** This is the senior management body that monitors the Bank's compliance policies according to the Charter of the Regulatory Compliance function. The committee executes the policies in relation to the regulatory and regulatory compliance matters established by the board of directors' risk and compliance committee.

- **The products and operational risk committee.** This committee approves the launch, modification and cancellation of products and services offered to customers. It is the body to which information on the entity's operating and operational risk is reported. During 2021, new products and services continued to be reviewed, along with existing products and services. This guarantees that the correct target audience is being reached and that the services and products are offered with sufficient quality and control guarantees.
- **The internal control body.** The body in charge of establishing and ensuring compliance with anti-money laundering and counter-terrorism financing policies and procedures, pursuant to Law 10/2010 and other applicable legislation. This body must be aware of the risks applicable to the bank in this regard and ensure that the necessary measures are taken to mitigate them effectively.

In addition, to support the supervisory function of the Board of Directors, other specialised Senior Management committees have been set up, which the Control and Compliance Department participates in to ensure effective and consistent risk management, such as the Crime Prevention and Professional Ethics Committee. It is also involved in various committees, such as the credit risk map monitoring committee, the credit risk models committee, the data management operations committee; the coordination of technological risks committee, the information security and business continuity committee, and the outsourcing committee.

## Three-year regulatory map

Bankinter Group has assigned the competencies of identifying and reporting regulatory changes to the Regulatory Area, attached to the Office of the General Secretary. The Regulatory area facilitates the early detection of the potential impacts of regulatory changes, thus reducing their risks. Every year it prepares a three-year regulatory map that serves as the basis for the relevant strategy. The management of regulatory change was carried out in a cross-cutting manner last year, through the participation in various projects that required the adaptation of Group activities or processes. These notably include regulations deriving from the European

Union's legislative package on Sustainable Finance and preparation of a new report to the Banco de España under Circular 4/2021, on models for reserved statements in matters of market conduct, transparency and customer protection, and on the recording of complaints.

Another priority was the final cessation or loss of representativeness of certain LIBOR maturities and currencies announced by the UK Financial Conduct Authority, with advice being provided to the Group Regulation area regarding adaptation and the analysis and decisions to be adopted in order to mitigate the impact and carry out a smooth transition.

The entry into force of consumer protection regulations, such as those relating to open-ended credit associated with payment instruments, also required certain adaptations that enhance customer protection. In the same vein, the guide on the criteria for organising and running customer services to be followed by banks supervised by Banco de España was adapted.

Other significant regulatory changes included: those introduced by: the Central Securities Depository Regulations, specifically with regard to the Securities Settlement Discipline regime; the ESMA Guidelines on the Regulatory Compliance function; and those resulting from transposition of Directive 2015/849, on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing.

## Intense activity

Looking ahead to 2022, intense regulatory activity is expected. Below are the main projects underway:

- Level-two regulatory developments of the Sustainable Finance legislative package. Bankinter Group is committed to and supports this legislative package, which will increase Europe's resilience.
- Relaxation of some aspects of the Markets in Financial Instruments Directive, as a result of the *quick-fix* carried out by the European authorities in response to the COVID-19 pandemic.
- Developments in the transition of certain LIBOR maturities and currencies, calculated during 2022 under a synthetic methodology, and the smooth transition towards risk-free indices designated by the European Commission.
- Adaptation of the entity to the modifications made and being reviewed under PRIIPS, the Regulation on packaged retail investment and insurance products.
- Proposed regulations on Markets in Crypto-Assets and on Artificial Intelligence and the results of the application of the DLT Pilot Regime.
- Changes to the European Union package on anti-money laundering and counter terrorist financing, with the creation of the new European authority, the modifications to the regulation on information accompanying transfers of funds, and the anti-money laundering and counter-terrorism financing regulation.
- In the longer term, it will be necessary to pay attention to regulations that have not yet been adopted, but that will have a significant impact, such as the Digital Operational Resilience Act (DORA), the European Union initiative on retail investment and the reviews of directives such as Consumer Credit or Mortgage Credit.

2021 milestones

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