

Risk management

Solid investment growth in the face of uncertain recovery

The year was shaped by the development of the health and economic crisis caused by the pandemic (with an uneven impact that affected, above all, the hospitality, leisure and transport sectors) and by the gradual recovery of economic activity, supported by the continuation of the extraordinary measures approved by national governments.

In 2021, Bankinter continued to proactively apply the support measures initiated in 2020, as well as the extensions and legislative developments introduced during the year. At the close of the financial year, the figures for moratoriums and public guarantee programmes were as follows:

Legislative and non-legislative moratoria

	Gross carrying amount, thousands of euros				Distribution by phases		
	Number of obligors	Total	Legislative moratoriums	Unexpired moratoriums	1	2	3
Households		1,589,890	765,606	11,148	80.7%	16.5%	2.8%
Collateralised by residential immovable property		1,460,992	730,043	10,159	81.3%	16.9%	1.8%
Non-financial corporations		461,763	461,199	23,006	81.5%	7.4%	11.0%
Small- and medium-sized enterprises		356,587	356,023	12,577	88.7%	9.6%	1.7%
Collateralised by commercial immovable property		202,971	202,874	18,886	70.5%	7.1%	22.4%
Total loans and advances	22,257	2,068,190	1,243,342	34,153	81.0%	14.3%	4.7%

Newly originated loans and advances subject to public guarantee schemes in the context of the COVID-19 crisis

	Number of obligors	Gross carrying amount, thousands of euros			
		1	2	3	
Households		67,792	99.0%	0.0%	1.0%
Non-financial corporations		6,424,919	93.3%	5.4%	1.3%
Total loans and advances	31,073	6,523,733	93.4%	5.3%	1.3%

Official bodies, particularly Banco de España, repeatedly upgraded their economic forecasts from the end of 2020 through to the third quarter of 2021. This upwards trend slowed in the final quarter of 2021 as a result of supply shortage, higher energy prices and the spread of new variants of the virus. Therefore, there is still considerable uncertainty about the recovery trend.

In this context, Bankinter's loan activity maintained a steady rate of growth in 2021. Loans rose to 68 billion euros, up 5.7% from the previous year. In the Spanish market, loans increased by 3.9%, compared to a decrease of 0.3% in the sector as a whole, with data from November.

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Cornerstone of the strategy

Bankinter maintains its risk appetite principles and levels and a prudent risk profile, the management of which is one of the central pillars of its competitive strategy. The bank has a risk management model of proven effectiveness that is in line with regulatory standards and best international practices, in proportion to the scale and complexity of its business activities.

The board of directors is ultimately responsible for risk management. It approves the risk strategy and, in particular, defines the risk appetite framework. The risk appetite framework is an internal governance document that defines:

- The type and levels of risk that the group considers reasonable to accept as part of its business strategy.
- A set of metrics and key indicators to monitor and manage risks. These cover variables such as risk levels and cost, returns, liquidity and capital. Tolerance levels and thresholds are established for each metric. If these are breached, they trigger corrective measures.

The Risk Appetite Framework establishes the criteria that govern the group's risk strategy:

Risk appetite statement. Bankinter carries out its activity with a moderate and prudent risk profile. Its objective is a balanced balance sheet and a recurrent and healthy income statement, to maximise the entity's value in the long term.

Risk management principles. The group's risk appetite and tolerance in its activities are subject to the following principles:

- Prudent strategies, policies, organisation and management systems adapted adjusted to the size, environment and complexity of the group's activities, based on quality banking practices.
- Respect for and conformance to established regulatory requirements, limits and restrictions, and ongoing compliance with current legislation. New regulatory developments are also being anticipated, which may reduce the potential impact.
- Maintenance a low or moderate credit-risk exposure, in line with the values shown by the lowest NPL ratio in Spain's financial system and the lowest expected losses under stress scenarios.
- Working with first-class financial institutions in every country, of recognised solvency and sufficient rating to limit counterparty risks.
- Appropriate hedging of problem assets.
- Adequate return on capital invested, ensuring a minimum return over the risk-free rate throughout the cycle and complying at all times with target capital levels and operating profitably.
- Maintenance of a low level of market risk in the trading book, so that in stress scenarios the losses generated have a significantly reduced impact on the Group's income statement.

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- An ALCO portfolio comprising low-risk securities and a return commensurate with the entity's RoE requirements, designed to reduce the volatility of net interest income and adjust the impact of any changes in interest rates.
- 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 to boost profitability.
- Reduction of dependence on retail markets, supported by stable growth of retail funds.
- Diversification of wholesale funding sources, from the viewpoint of both instruments and markets, maintaining a balanced maturity profile.
- Optimisation of retail funding costs, maintaining a balance between returns on lending and market interest rates. The aim is stability and avoidance of an excessive concentration of maturities.
- Use of a risk diversification policy to avoid excessive concentration levels that could pose problems for the Bank.
- Contribution to the sustainable development of society, including the preservation of environmental resources.
- Limitation of business in sensitive sectors that could entail a risk for Bankinter's sustainability or have a negative impact on its reputation and/or honour.
- Moderate appetite for interest rate risk.
- Maintenance of a scaled-back structural FX position that is as close to zero as possible at all times.
- Strengthening control of the Bank's reputational positioning (e.g. good corporate governance, systemic risks).
- Less exposure to pension obligation risk through the most appropriate mitigating measures (e.g. outsourcing, hedging instruments, diversification).
- Willingness to round out the level of services Bankinter offers its Private Banking and Business Banking customers with limited-risk investment banking services.
- Optimisation of the cost-to-income ratio.
- Maximisation of shareholder value creation throughout cycles, all underpinned by a strong capital and liquidity base.
- Diversification of lines of activity. To this end, opportunities in companies in the financial sector that are related to or complement our main business model will be taken advantage of.
- Maintaining a *Common Equity Tier 1* (CET1) within the fluctuation band set by the entity, above the regulatory minimum, with a medium-term target of 10%-12%.

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