Structural and market risks

The year was characterised by a pick-up in inflation and by the actions of the central banks, which preserved, as in the previous year, their policies of supplying ample liquidity and intervening in the debt markets. In certain markets, systematic purchases public debt by central banks continued to trigger a reduction in market depth.

Structural interest rate risk. The Bank's exposure to changes in market interest rates arising from the different timing structure of maturities and repricing of global balance sheet items. Bankinter actively manages this risk with the aim of safeguarding net interest income and preserving the Bank's economic value.

The exposure of net interest income to different scenarios of interest rate changes is analysed monthly using dynamic simulation measures. With a more long-term outlook, the Bank also analyses the sensitivity of its economic value to movements in interest rates.

The interest rate risk exposure of net interest income of parallel shifts of ±100 basis points in market interest rates is 9.3/-2.5%, for a 12-month horizon.

The sensitivity of economic value to parallel shifts of +/- 100 basis points was +11.1%/-5.8% of own funds at year-end 2020.

Management assumptions were used to calculate both measures, considering negative interest rates, except for items with a Euribor floor.

Structural liquidity risk

Risk associated with the Bank's ability to meet the payment obligations it acquires and to fund its investment lending business. The Bank actively monitors liquidity and liquidity forecasts, as well the actions to be taken in both business-as-usual situations and in exceptional circumstances arising due to internal causes or market behaviours.

The instruments used to control liquidity risk include monitoring changes in the liquidity gap or map, such as information and specific analysis of balances resulting from trade transactions, wholesale maturities, interbank assets and liabilities and other funding sources. These analyses are performed under business as usual conditions or simulating different scenarios of liquidity needs based on varying business conditions or market changes. Bankinter's liquidity management includes monitoring of short-term (the liquidity coverage ratio or LCR) and long-term (net stable funding ratio or NSFR) regulatory ratios.

During 2021, the entity's liquidity position improved significantly due to the positive performance of the customer funding gap (the difference between investment and customer funds). Fund levels are higher than loans and receivables. Customer funds have grown sharply and have comfortably met the liquidity needs generated by the growth in lending.

This improvement led to a significant increase in available liquid assets, which made it possible to maintain LCR levels comfortably above both the regulatory threshold and the internal limits set in the Bank's Risk Appetite Framework. At the end of 2021, the LCR ratio stood at 228.6%, compared to 198.1% recorded at the end of 2020.

The liquidity ratio, the NSFR, which measures the proportion of long-term assets funded by stable funding, stood at 151.0%, up from 133.0% the year before. The Bank's financing structure, with a significant and increasing weight of customer deposits and wholesale funding focused on the medium-long term, has driven a steady increase in this indicador.

In relation to wholesale funding, maturities were replaced with new issuances. Thus, dependence on wholesale markets continued at the same levels as in the previous year.

Market risk

The possibility of losses as a result of changes in the market prices of on- and off-balance sheet positions of the trading book. To measure it, Bankinter uses the historical value at risk (VaR) methodology with data for one year and a 95% confidence interval.

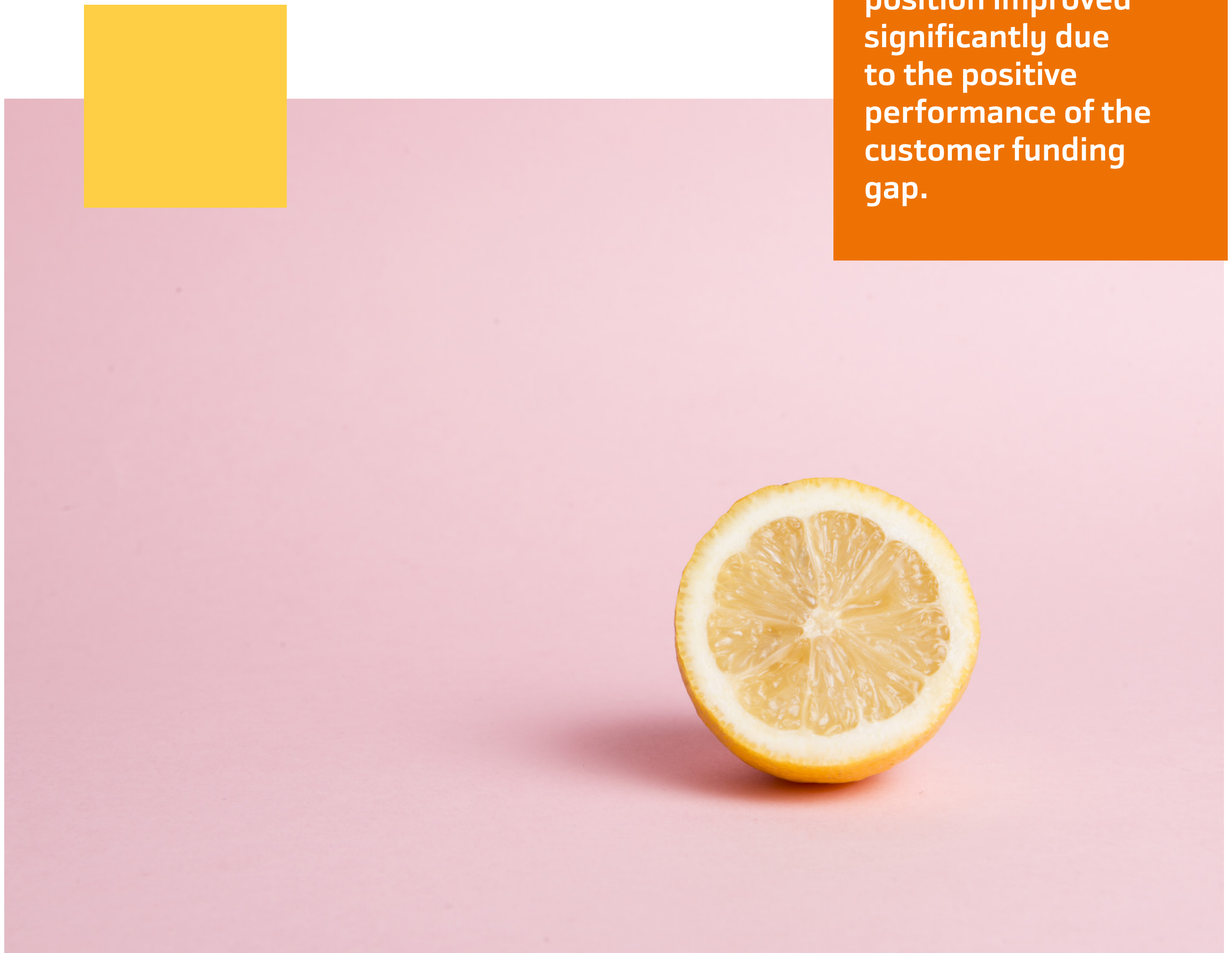
An asset portfolio's VaR is the estimated maximum potential loss that could be incurred for a specific time horizon with a particular confidence interval. Given the instability experience in recent years, Bankinter kept limits unchanged from the previous year.

The following table sets out the VaR values of trading positions at the close of 2021.

Moreover, the VaR of the portfolio positions of the subsidiary Bankinter Luxembourg are monitored on a monthly basis using the historical simulation methodology. The VaR of this portfolio at the end of the year was 0.06 million euros.

2020 VaR trading

Millions of euros	Last
VaR – Interest rate	0.46
VaR – Equities	0.40
VaR – Exchange rate	0.06
VaR – Volatility rate	0.40
Total VaR	**0.71**



During 2021, the Bank's liquidity position improved significantly due to the positive performance of the customer funding gap.