

2018 ANNUAL REPORT

Business areas



The best professionals for an excellent service

For years, Bankinter has been a point of reference in the Private Banking segment, thanks to its strategy of building a long-term relationship with its customers, based on specialisation and the excellence of the service provided.

To this end, having a highly qualified team that receives constant training, as is the case at Bankinter is essential; this team comprises 223 professionals, who are amongst the best in the industry.

The vast majority of these professionals have taken the Expert in Private Banking course, approved by the CNMV and who must taken 30-hours of refresher training each year.

This has made it possible, for example, to launch an independent assessment service for customers with the most property assets, which will globally managed by Bankinter.

These initiatives contributed to Private Banking meeting the targets set in 2018, despite the adverse circumstances that affected its activities, such as market volatility, political instability, growing regulations and low margins in the finance sector.

At 31 December, property assets under management came to €35,650 million, increasing by €3,110 million during the year.

The Helia Renovables II capital fund is also worth particular mention, launched by Bankinter 2018 in collaboration with Plenium Partners, with investment over the past year coming to €251 million, in addition

to the Vstudent Venture Capital Fund in collaboration with Valeo, which came to €153 million.

Great uptake

In addition to strong results, in 2018 Private Banking achieved a high level of acceptance: set the target of 39%. this business segment obtained a score of 41.6% from its customers and its staff received a score of 65.5%, according to data for December.

Amongst the means provided most recently to private bankers, worth special mention is the new reporting system, which was launched in 2017 and consolidated in 2018, and an advice tool that ensures homogeneity and high quality in investment proposals.

One of the challenges in 2019 will be to continue making progress, making the most of the opportunities offered by digital technology.

In addition to strong results, in 2018 Private Banking achieved a high level of acceptance: set the target of 39%. this business segment obtained a score of 41.6% from its customers.

Private banking

	2018	2017	% Dif.
Acquisition (No. customers)	3,968	4,843	-18.1
Active customers (No. customers)	35,971	33,357	+7.8
Total customer funds (millions of euros)	22,662	21,733	+4.3
Customer deposits (millions of euros)	10,216	9,031	+13.1
Customer loans (millions of euros)	3,712	3,366	+10.3

Maximum quality in the face of intense competition

Personal Banking had to react to strong competition in 2018, forcing the division to intensify its efforts to offer distinguished products and services of the highest quality.

This segment, which included customers with annual net income greater than €70,000 or with assets of between €75,000 and €1 million, also suffered as a result of market volatility and the regulatory changes introduced during the year.

In spite of all of this, Personal Banking achieved strong results, as can be seen in the acquisition of 31,713 new customers, which has made it possible for us to reach 230,519 active customers. Active customers have grown by 8.8% during the year.

Once again, one of the main points of access to the bank was the Payroll Account, which has become one of the most successful products launched by Bankinter in recent years.

Mortgage activity also experienced significant growth, offsetting the fluctuations seen in the second half of the year on account of the legislation applicable to taxation. New production in this type of loan increased by 8.9% to €1,255 million.

The strategy to diversify the range of investment funds as an alternative for the lower spreads on deposits, generated very strong results for the second successive year. Property assets in investment funds came to €4,648 million, thanks in large part to the range of profiled funds launched in 2018, which adapts to all customer types, from the most conservative to the most dynamic customers.

Leap in quality

However, Personal Banking not only experienced an improvement in its business figures in 2018; there was also a notable increase in quality, in line with Bankinter's aim of offering a progressively better service.

In this respect, the training acquired by Personal Banking managers and branch directors in consultancy proved to be a significant help, which was essential in obtaining the certifications required by MiFID II.

The challenge for 2019 will be to continue improving the figures in terms of customer acquisition, mortgage production and new property assets under management.

Personal banking

	2018	2017	% Dif.
Acquisition (No. customers)	31,713	32,277	-1.7%
Active customers (No. customers)	230,519	211,785	8.8%
Total customer funds (millions of euros)	18,696	17,998	3.9%
Customer deposits (millions of euros)	12,485	11,550	8.1%
Customer loans (millions of euros)	9,019	8,441	6.9%

Individuals and foreign residents

The fact that now, banks must assume Stamp Duty subjects margins to further pressure, the effects of which will be seen in full force in the coming years.

However, despite the legal ups and downs that preceded the Government's decision to rule in favour of customers, mortgage production figures were very strong for Bankinter in 2018: the amount loaned grew by 18% in Individual Retail Banking and 17% in Foreigners. These figures are very high compared to other years and the growth of the real-estate market, although the latter is very high.

In terms of mortgages, fixed and mixed rate mortgages continue to gain strength, in particular amongst Foreigners, now representing 47% of the total, although the Individual Retail Banking division is not far behind: (39%).

The figures for personal loans were also spectacular, with the outstanding balance growing by 18% in Individual Retail Banking thanks to activity growth and campaigns undertaken by the bank in terms of

Strong results in a difficult year

The change in regulations on tax applicable to mortgages was one of the challenges faced by the Individual Retail Banking and Foreigners division in 2018, as its main source of income is from this type of loan.

consumer finance. In total, this business segment granted personal loans worth €254 million in 2018, 41% higher than in 2017.

Payroll Account

When it comes to customer funds, the Payroll Account was once again the main engine for acquiring customer deposits, as a result of its advantageous conditions: balance remuneration of 5% up to €5,000 in the first year and 2% in the second year, with no maintenance fee. This account, which involves direct debiting of bill payments and the use of credit cards, registered a 10% increase in uptake year-on-year, demonstrating its potential. It is the most competitive on the market based on its characteristics.

The challenges for 2019 include: placing a greater emphasis on mortgage production and attracting young customers, strengthening the digital relationship and omnichannel banking, keeping the focus on consumption and liquidity management and improving the customer retention rate.

Individual Retail Banking

	2018	2017	% Dif.
Acquisition (No. customers)	51,638	45,371	13.8%
Active customers (No. customers)	353,062	335,641	5.2%
Total customer funds (millions of euros)	5,117	4,564	12.1%
Customer deposits (millions of euros)	4,326	3,750	15.4%
Customer loans (millions of euros)	12,629	12,925	-2.3%

Foreigners

	2018	2017	% Dif.
Acquisition (No. customers)	4,163	3,641	14.3%
Active customers (No. customers)	28,893	27,214	6.2%
Total customer funds (millions of euros)	285	253	12.7%
Customer deposits (millions of euros)	263	229	14.5%
Customer loans (millions of euros)	649	626	3.7%

One of the bank's main pillars

Despite its activities being undertaken in a complex environment, the Corporate banking business, which serves companies with annual billing of more than €50 million, remains one of the main pillars in Bankinter's income statement in 2018.

The presence of factors of instability, with the threat that they pose to growth; the difficulty in term investment transactions, due to the increase in risk profiles and the increase in competition, did not prevent Corporate Banking from contributing €260.6 million to the Bank's gross operating income last year, and €211 million in pre-tax profit.

One of the most important figures last year was the 14.1% increase in new production, which came to €5,086 million, attributable, in large part, to the specialisation strategy embarked upon in 2015 with a view to managers having a better understanding of companies and being in a position to offer

them a service that is increasingly tailor-made to their needs.

Specialisation

In 2018, the specialisation strategy resulted in the opening of two new Corporate Banking centres, one in Madrid East and one in Madrid West, in addition to the 22 that were open at year-end 2017; of these, three are dedicated to companies with annual income of more than one billion euros.

More than 160 professionals work at the Corporate Banking centres; they are experts in different economic sectors and their main challenge is to guarantee an appropriate

balance between return and risk. Thanks to their efforts, Bankinter's investment in this segment at 31 December came to €11.564 million, commission revenue grew by 7.0% and the customer recommendation rate increased to 55%, ten points higher than the previous year.

Amongst the objective for 2019 are: maintaining margins; harnessing the expected increase in asset price; focussing activities on new opportunities offered by Investment Banking; increasing transactional banking in working capital to achieve higher commissions; increasing self-financing in dollars, which will reduce the cost of transactions in this currency; and, implementing the 'Portfolio Management' project throughout the Network.

This project defines customer categories based on their billing (€50 to €100 million, €100 to €350 million, €350 million to €1,000 million, and more than €1,000 million) and will contribute to improving the bank's value proposition and identifying niches with growth potential, in addition to other aspects.

New production
+14.1%
€5,086 M

Corporate banking

	2018	2017	% Dif.
Acquisition (No. customers)	801	692	13.7%
Active customers (No. customers)	5,806	5,649	3.4%
Total customer funds (millions of euros)	8,768	8,648	1.4%
Customer deposits (millions of euros)	8,506	8,408	1.2%
Investment (millions of euros) (*)	11,564	11,807	-2.1%

(*) Affects depreciation financing supplier payment (Treasury) in November 2018, to the sum of €912 million, segregating this transaction, the December 2018 vs December 2017 variation is +0.06%.

Medium-sized enterprises

A strong relationship day to day

A team of almost 300 people, spread across 72 specific centres, are responsible for attending Medium-sized enterprises at Bankinter, i.e. those billing between €5 million and €50 million. Their work over the past year was carried out in a very competitive environment, in which the main actors in the sector offered financing at very aggressive rates.

Despite this, there was a €533 million increase in the investment portfolio, thanks in large part to two strategies: focussing commercial activities on acquiring working capital business and the strengthening of the bank's relationship with companies, in particular in their daily operations, which offers significant opportunities.

Another two milestones in 2018 were the net acquisition of 4,198 new customers, increasing Bankinter's penetration rate in the segment to 40%; and the improvement in perceived quality by 4.6 points, resulting in a higher level of loyalty and greater likelihood of recommending our services.

At year-end, total investment in medium-sized enterprises came to €6,191 million, of which €3,446 million corresponded to term investments and €2,711 to investments in working capital. Its gross operating income amounted to €154 million, with 41.7% coming from commissions.

Global customers

The keys to the strong performance of this business are the reassignment of portfolios in recent years and the aim of medium-sized companies not being one-off customers of Bankinter when they need financing, rather global customers whose life the bank can make easier.

The challenges for 2019 include: enhancing the penetration rate further still, continuing to increase the participation of the working capital business and improving the management of customers with growing doses of proximity and service quality.

Customers Medium sized enterprises;

40%

Bankinter's level of penetration in this segment

Medium-sized enterprises

	2018	2017	% Dif.
Acquisition (No. customers)	4,198	4,393	-4.4%
Active customers (No. customers)	24,102	23,259	3.6%
Total customer funds (millions of euros)	4,573	4,208	8.7%
Customer deposits (millions of euros)	4,348	3,960	9.8%
Customer loans (millions of euros)	6,191	5,658	9.4%

More customers, more loyalty

In 2018, the SME business experienced solid growth, encouraged by the improvement of business results and greater demand for financing. Bankinter serves SMEs at its universal branches, where 273 employees performed this task as of 31 December.

As a result of the intense commercial activities undertaken during the year, the number of customers grew from 68,650 to 70,688, distributed across Spain. The investment volume in this segment increased by 6.7%, off-balance sheet exposure by 15.5% and gross operating income by 10.9%.

The strategy consists not only in increasing the customer base, but in strengthening their loyalty, making us their reference bank. Bankinter aspires to becoming their main finance partner, a partner they can entrust the daily business undertakings to, supporting them in their national and international financing and operations.

An example of Bankinter's dedication to satisfying the needs of small enterprises can be seen in the launch of the new App for SMEs, through which customers can perform their company's main transactions.

In 2018, we launched the digital version of the loan for tax payments, which can be obtained hassle-free, immediately and practically online. This type of lending came to €400 million in 2018, of which 43% of transactions were completed digitally.

Contribution

In total, the SME business contributed €161.4 million to Bankinter's gross operating income and €39.1 million to pre-tax profit; furthermore, the Bank made progress with the reorganisation of the balance sheet with a further reduction in non-performing loans.

The efforts made over the course of the year were also reflected in an increase in the level of quality perceived by customers, climbing to 26.9%, up 5.7 points compared to 2017.

In 2019, the challenge will be to gain market share, promoting the transactional and international activities of our customers, making it possible to continue improving margins and make progress with the digitalisation and improvement of the customer experience.

Contribution to
Gross Operating Income

€161.4mn

SMEs

	2018	2017	% Dif.
Acquisition (No. customers)	13,401	13,485	-0.6%
Active customers (No. customers)	70,688	68,560	3.1%
Total customer funds (millions of euros)	4,108	3,650	12.5%
Customer deposits (millions of euros)	3,826	3,323	15.1%
Customer loans (millions of euros)	5,197	4,873	6.7%

The permanent quest for opportunities

This division of Bankinter has two fundamental objectives: provide global corporate advice to companies, in particular families, and serve as a bridge between them and investors who would be potentially interested in financing their projects.

To this end, it has two strengths: its reputation in terms of risk management and a model in which Investment Banking is closely related to the bank's commercial activities. Bankinter's work to this end consists, essentially, constantly seeking out opportunities, taking advantage of abundant liquidity and poor returns of other alternatives.

The performance of the different segments of Investment Banking in 2018 was as follows:

Mergers and acquisitions. The market was very active, both on account of transactions between manufacturers and acquisitions, which venture capital funds played an important part in. Two transactions materialised as a result of Bankinter's advice: the sale of Ingapán to an international leader in the frozen dough industry; and the sale of Seral to an international catering leader. In 2019, the number of transactions completed is expected to increase, thanks to the visibility with which the year has started compared to 2018.

Capital markets. The roll out in Portugal began with mandates from important companies, including building giant Motal-Engil and hospital group José de Mello Saúde, who both top their corresponding specialities. Bankinter headed up the largest capital expansion through a private placement amongst institutional investors on the Alternative Stock Market, undertaken by Alquiber Quality. ATOM Hoteles, comprising the bank and investment management firm, GMA HCI, was floated on the stock market. The goal for 2019 is to become leaders in the mid market in Spain.

Structured and alternative financing. Growth from previous years continued, both in terms of investment and number of transactions formally arranged, with greater activity in project financing, mainly in terms of renewable energy. The volume approved surpassed €1,400 million, taking the portfolio (including corporate) to above €2,200 million. Bankinter assisted different institutional investors in their foray into the field of structured financing.

Property financing. 2018 was characterised by demand residential land with full planning permission and investor appetite for leased residential properties, in addition to alternative assets. Transactions were closed in the offices, residential land and alternative financing sector, whilst a significant portfolio of projects continued to be generated that has made it possible to start 2019 with a high volume of transactions in different sectors.

Alternative investment funds. Bankinter's strategy placed the spotlight on investment in real assets with the capacity to generate stable cash flows in the long term, in order to offer Private Banking customers investments with an adequate risk profile/return. Three new alternative vehicles for alternative investment in hotel properties (ATOM), student halls of residence (VStudent Aulis FCR) and energy (Helia Renovables II FCR) were launched. As a result, the bank generated a managed volume of €1,200 million in capital and almost €3,000 million in total potential investment.

Alternative investment
funds

€1,200_{mn}

Managed volume

Key commercial activity

The commitment of Spanish firms to internationalisation and the uncertainties they face on the market means that the banking sector must spare no efforts in offering solutions abroad, where they face fierce competition in terms of tenders and projects.

Against this backdrop, the International Trade Finance division, within the Corporate Area, offers a wide range of services that continues to grow: issue and receipt of guarantees, international payments and collections, exchange risk hedging, documentary credit, etc.

It is particularly active in the optimisation of the working capital of companies and long-term funding operations (construction of schools, refineries or ships) in Latin America, Europe, North Africa, the US and Asia.

Last year, the division, with an important pillar in new technologies, brokered transactions worth €65,438 million, up 13.9% year-on-year. Its investment activity came to €4,839 million, 19.52% more than at year-end 2017.

This made it possible to record a gross operating margin of €155.1 million, up 10.5% year on year; this accounts for more than one quarter (specifically, 27%) of the entire Area's gross operating income.

Presence at events

The strong performance of International Trade Finance is directly related to its significant presence at large-scale international events, including meetings of the Latin American Banking Federation or the annual meeting of the Inter-American Development Bank.

In terms of Spain, Bankinter has participated at the International Business Fair (IMEX) for a number of years and has joined the Exporters Club, with a view to providing maximum visibility to the solutions provided in this area.

Worth particular mention in 2018 was the work performed by the international financial institutions team, in addition to structured trade and export financing team, which supports the commercial network in preparing made-to-measure products for customers in a wide range of sectors, including infrastructures, energy, transport, commodities or automotives.

Digitalisation and the development of supply chain financing platforms in other markets and global banks will be a fundamental part of the growth strategy in the years to come.

Operations

€65,439mn

+13.9%

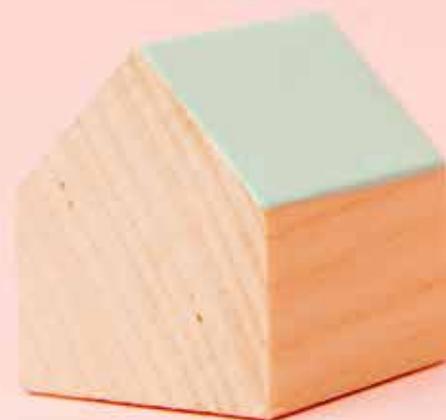
Balanced business growth

Bankinter Portugal's business was carried out in quite a dynamic economic context, with GDP growing by over 2%. The economy's main lever in 2018 was consumption, driven by the strong pace of job creation, which has seen ten percent chopped off the unemployment rate in just five years. This is reflected in greater demand for financing from families and companies, with the subsequent positive impact on returns in the banking sector.

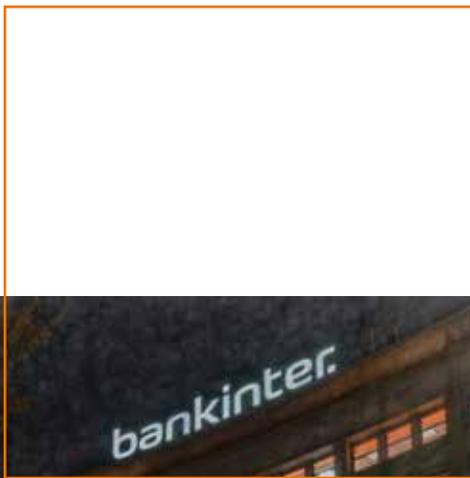
When it comes to Bankinter, 2018 closed with more than 20,000 new customers in Portugal and a balanced improvement in the different business areas. The strong results in Commercial Banking were consolidated, following strong growth in Corporate Banking and Bankinter Consumer Finance ended its first full year in Portugal with very impressive results.

As part of this strong performance, the following aspects were key: the expansion of the functions of digital channels; the launch of new mortgage lending, consumer credit and investment fund options for private customers; the implementation of the Bankinter Broker platform, which provides access to the world's main markets, and the implementation of different programmes to support companies in general, in addition to their international expansion, in particular.

However, over the course of the year, not only income but the visibility of Bankinter grew in Portugal, with almost 1,200 mentions in the media. The awareness index rose by 16.4%, from 42.2% in November 2017 to 49.1% in November 2018. Customer satisfaction also increased substantially, with the NPS index up from 13% in December 2017 to 23.3% in December 2018.



By activity segment, the following is worth note:



Retail Banking. Bolstering of the Private Banking team, with the opening of new centres and recruitment of four bankers, the launch of the Partnet Banking and Agent Network. Furthermore, there has been an improvement in remote customer management via Bankinter+. Finally, worth particular mention is the €306M growth in total customer resources, 6.2% up on year-end 2017 and lending portfolio growth of €194 million (+5%).

Credit activity. The Bankinter Portugal Mortgage has yielded excellent results once again, with production of €512 million (+14%), thanks to a very competitive offer, improved management and a strong media campaign. Consumer lending came to €81 million and 17,000 bankinter cards were put into circulation.

In October 2018, the sale of a non-performing and written-off loan portfolio worth €360 million was signed off.

Corporate Banking. 18% growth in number of customers, which now stands at around 18,643. Growth of €267 million in terms of customer resources (+15%) and €397 million in the lending portfolio (+42%).

Asset management. Portfolio management on behalf of third parties was included in the range of products and services offered, aimed at institutional customer including banks, insurers and pension funds. As a result of this and other business development actions, total assets under management increased significantly, by 6%, year-on-year.

Growing commitment to the international business. Involvement in different financial acquisition and structured financing transactions.

Life insurance It has been a year of intense activity, culminating with €1,457 million euros in assets, 10% up on 2017. Worth particular mention is the success of the sale of life insurance in the Business and Consumer Lending divisions online.

A growing activity

2017 was characterised by synchronised global growth: the rate of growth gained inertia in the major developed economies, whilst the economic environment improved significantly in emerging countries, which had experienced more adverse economic conditions in the last few years.

The Capital Markets area manages the trading and distribution of cash products and the Bank's balance sheet. The environment in which it carried on its activity last was much more unstable than in 2017:

- **United States.** The situation was characterised by the trade wars waged by the country's administration and the evolution of interest rates. Bond increased until the upward trend was inverted in the fourth quarter, interest rates began discounting a more flexible monetary policy and analysts warned that the economy would slow down to a certain extent.
- **Europe.** The European Central Bank's maintenance of monetary policy actions and the absence of an inflationary outlook saw interest rates in the Eurozone remain at minimum levels. The budget conflict with Italy, Brexit negotiations and other international political matters contributed to very negative stock market performance.

- **Spain.** The Treasury had no problems in meeting its funding needs for the year. Despite the premium ending slightly up on 2017, the improved ratings saw the 10-year bond close significantly below 1.50%.

In this scenario, the trading area was active in the foreign exchange, equities and fixed income markets. Bankinter benefited from its status as a market maker in government debt and bills of exchange and acted as a co-leader in syndicated issues of Spanish Treasuries.

The Bank's growing activity in the Private Banking segment generated notable demand for the products designed by the Distribution area. Also noteworthy was the work done in this area for access by customers to foreign exchange, interest rate hedge and fixed income markets. The specific action plans of the Distribution area, in particular in terms of currency, offered very strong results.

Balance sheet management

The Bank's balance sheet continued the sustained improvement in its liquidity position. The increase in lending was offset by an even larger growth in customer funds. It was only necessary to issue €500 million in 10-year mortgage-backed securities with a spread of 0.15%, harnessing the strong market position at the start of the year. Demand outnumbered supply by three-to-one.

Wholesale funding maturities were distributed over time to minimise refinancing difficulties.

The bank's interest rate risk was also monitored and managed, and it was maintained at acceptable levels. Indeed, the positioning of the fixed income ALCO portfolio and the balance sheet hedges mitigated the adverse effect of the Euribor interest rates, to which the majority of the bank's loans are referenced.

All structural currency positions were hedged, thanks to which Bankinter's income statement was not affected by the fluctuations in major currencies.