

2018 ANNUAL REPORT

Other business



A very adverse backdrop

The Group company specialising in collective investment performed its activities in 2018 in a context of a clear economic slowdown and loss of risk appetite, reflected in significant contractions in financial markets and corporate bonds.

Consequently, managed assets, which had grown in 2017, experienced a downturn, despite the efforts made to expand the range of funds, both in terms of passively managed funds (emerging and global equities) and actively managed funds (energy efficiency).

The results of the different activities in 2018 were as follows:

Investment funds. Managed equity came to €8,372 million at year-end, slightly down, by 0.5%, on the same date in 2017. The downturn was more pronounced when considering the third-party funds distributed by the bank: 5.6%, to €16,353 million.

Sicavs. The poor performance of the stock markets resulted in a 10% drop in their property assets, which came to €2,370 million compared to €2,637 million the previous year.

Pension funds. Equity also dropped, for the same reason as mentioned for SICAVs. Following the €2,459 million recognised in 2017 for this type of product, the figure dropped to €2,359 million in 2018, a loss of 4% in relative terms.

Delegated management. The regulatory changes resulting from the introduction of the MiFID II Directive resulted in this type of investment being less attractive compared to profiled funds (based on the risk appetite of each customer). Portfolios dropped 22% and their value at 31 December came to €1,894 million.

The outlook for 2019 is that risk markets will become more attractive and provide new, positive yields, which must be harnessed by insisting on the professional management of investment funds compared to forms of direct management.

Against uncertainty, training

In a year plagued by uncertainty (increase in protectionism, slowdown of the Chinese economy, concerns about the outcome of Brexit, upturn in political and social conflict in Europe), the Equities area at Bankinter placed an emphasis on training its customers, which resulted in an improvement in the management of the portfolio and a better balance in the diversification of assets, which was consequently reflected in results.

Over the course of 2018, 337 training sessions were held, attended by 12,667 people, of which 1,997 were not Bankinter customers. These 337 sessions can be broken down as follows: 316 courses by the Bankinter Academia Bróker across Spain, twelve face-to-face 'Fórum Bolsa' sessions, two online 'Fórum Bolsa' sessions, three Traderlab sessions (on ETFs, futures and warrants) and an online Traderlab session.

Amongst new initiatives, worth particular mention was the Masterclass, a new training format with customers, where the basics for operating in a more professional way are imparted, establishing profit and loss targets, working methods, tools and discipline. There were ten Masterclass sessions during the year. The 'Customer Journey' was also designed to guide customers on their life-cycle and relationship with Bankinter.

Other advances

The improvement of the invitation, sign-up and attendance system for Equities training sessions was also of great use, helping as many customers as possible to benefit from the efforts made by the bank. And the launch of Bróker Gráfico, the uptake of which has been significant on account of the information and operating options offered.

The foregoing, combined with the rate changes implemented in 2017, made it possible for turnover last year, despite the lower contract volume on the stock market, to decrease by -18% after capturing 9,596 new securities accounts. In total, the portfolio at 31 December came to €14,669 million, 4% down year-on-year, taking into account the market effect.

The challenges in 2019 will be acquiring customers who still have no securities account with Bankinter, raising awareness of the value proposition amongst non-customers, creating new, more customised forms of relationship and launching a new app.



Sustained growth and internationalisation

In 2018, the Bankinter company specialised in consumer loans and credit cards profited from the growth of the Spanish economy, although in the final months of the year, this slowed down to some extent, and this may become more acute in the future.

Consumer lending continued to increase in Spain at levels of more than 10%, although this was well below the historic maximums seen in 2006-2007, i.e. just before the economic and financial crisis occurred.

In this context, Bankinter Consumer Finance experienced new developments in all its lines of business, recognising gross investment of €1,843 million, which represents 28% growth compared to 2017 and record pre-tax earnings of €103.4 million.

To achieve these results, the commercial work and experience of the bank in risk management was essential; this represents one of the fundamental pillars at the company for its profitable growth.

All areas of the company have grown significantly, both the loan consumption business and cards for the bank's customers, for whom new added-value online services have been created, such as Automatic Smart Purchase or Limit Management, and the business for the open market with important new alliances.

Internationalisation

In addition to the strong results, 2018 was the year of internationalisation at the company. The business took root in Portugal, where consumer lending came to €148 million, bankintercard was launched and an agreement was signed to roll out another co-branded card on the market in cooperation with Mapfre. Furthermore, we secured a foothold in Ireland with the acquisition of Avantcard, as part of the transaction that saw Bankinter assume control over Evo Banco. From an operational perspective, one of the main developments in the past year was the adaptation to the new Data Protection Regulation, which forced the Bank to change a number of internal and customer-facing procedures. Furthermore, we amended products such as car loans, which now constitutes an exclusively online model, the profitability of which is greater.

Bankinter Consumer Finance started 2019 as a multinational company with a presence in three countries: Spain, Portugal and Ireland. Its challenges for the year are: continue with product diversification; strengthen its position on financing markets in point of sale; continue growing in terms of personal and car loans; and intensify its commitment to digital products and processes.

Gross investment

€1,843_{mn}
+28%

A positive year marked by digitalisation

The financial context in 2018 was positive for the insurance business, making it possible to achieve strong results in the Life sector and the Savings and Corporate businesses. The commitment to digitalisation made it possible to update and modernise platforms and processes at the institution.

The characteristics of the different businesses over the course of the year were as follows:

- **Life Insurance.** Growth was up on recent years, both in terms of individual customers and legal entities. At year end, the portfolio stood at €85.1 million, representing an increase of 5.9%. This increase came to 6.4% for private individuals and 3.6% for legal entities. Simulators were set up on the website and the option of taking out certain insurance policies online was also rolled out.
- **Pension plans.** Net activities came to more than €148 million, with an increase in customers of 5% and unit holders by 2.7%, in contrast to the market contraction of 1%. However, the negative performance of the markets prevented these positive data from being reflected in managed property assets. In 2018, we continued to promote a culture of saving and conveyed the importance of complementing the public pension system with private savings to customers, placing a particular emphasis on periodic contributions.
- **Savings.** These products performed very strongly, both in terms of Life Annuities and Individual Systematic Savings Plans (PIAS), with year-on-year growth of 54.7%. In terms of Life Annuities, the range of products was expanded to cover customer needs. In this connection, financial planning simulators were developed to make it easier for customers to predict their savings through to retirement age and how this compared to their salary.
- **Corporate insurance.** In the Multirisk and Civil Liability businesses, considered essential products in the correct undertaking of business activities, the portfolio increased by 12.9%. Furthermore, the sale of credit insurance, which mitigates the risks assumed by companies when expanding abroad, began successfully.

New law in 2019

This year, the new Insurance Distribution Law is expected to come into force, which will regulate the framework for the sale of insurance, incentives, governance and training in the sector. Its main objective is to promote transparency and provide adequate information to customers about insurance products, placing a special emphasis on the most complex insurance types.

Bankinter has made significant efforts in preparing for the entry into force of the new law and has prioritised the training needs of all employees involved in the sale of insurance products.

A sting in the heart of Europe

Bankinter Luxembourg first came into operation in 2013 and remains the only Spanish financial institution with its own banking licence in the country, which is the leading EU country in private banking and distribution of investment funds. Its main objective is to offer global financial proposals in a secure environment, facilitating diversification and a maximum-quality service.

The subsidiary provides Bankinter with a direct perspective of the European market, greater knowledge of the international markets and a more in-depth and overall view of activity trends in the private banking sector, which is constantly evolving and growing and is key to the Group's business strategy.

In 2018, Bankinter Luxembourg continued working on the consolidation of its team, which hired new recruits, and adapting to the new and ever-increasingly demanding regulatory requirements.

From a commercial point of view, activity stepped up in countries in which Bankinter is present and there was a high rate of growth in terms of customer lending.

Significant figures

Specifically, the balances drawn down in terms of credit facilities increased by 30% in 2018. At 31 December, all lines were guaranteed with collateral, the coverage ratio was 215% and there were no non-performing loans.

Assets under management on this date came to €2,887 million, almost 10% up on year-end 2017.

The objectives of Bankinter Luxembourg for 2019 are: continue increasing the customer base, continue developing the technological transformation plan and consolidating itself as one of the main players in the Iberian market.

Assets under management

€2,887 mn
+10%

Transactions, in pursuit of maximum efficiency

For Operations, the area dedicated to providing operating services to Bankinter, 2018 was a particularly complicated year, given the changing regulatory framework, for starters. An example of this can be seen in the successive and contradictory rulings by the Supreme Court about who should be responsible for paying Stamp Duty on mortgages, resulting in the Government's decision to allocate liability to the banks. This forced Operations to change handling procedures several times, even overnight, in order to ensure strict compliance with the law and court rulings at all times.



Last year also saw the consolidation of Bankinter's new operating model, both in Spain and Portugal, in order to internalise all critical tasks and outsource only tasks with the least value. To this end, centres had to be created to offer specialist support to the different businesses or segments; however, in exchange, it was possible to clearly contain costs and receive very high quality scores, which were particularly relevant in the case of the team supporting the Corporate Area in Madrid.

Operations maintained very close relations with Private Banking and the Agent Network in 2018, to whom they provided support for their most important projects in addition to taking mechanical tasks away from offices to allow them more time to

perform commercial duties, and where a large part of the bank's development lies. In this regard, particular mention must be made of the efforts made in Portugal, where tasks for which the Network was previously responsible, were centralised and externalised, clearly hindering the bank's opportunities for growth.

In 2019, the Operations Area is expected to place a greater emphasis on technology, developing the main applications with which Bankinter works, and increase target automation, an area in which work is already under way.

Technology: a record year for developments

2018 was a record year for the Technology Department in terms of concurrent developments, the consolidation of the bank's technological transformation plan and cyber security. Furthermore, over the course of the year, the Bank complied with the new regulatory requirements for institutions and made progress with the implementation of transformation and digital projects, within the secure environment required by regulators.

This progress is Bankinter's response to the new reality, in which technology represents an increasingly important part of the future business. Digitalisation, automation, data analysis, etc. are concepts that form part of business models. Furthermore, in Spain, new channels (Internet, mobile, social networks, etc.) are now used by most customers, meaning that companies must be prepared to undertake omnichannel transactions, i.e., a transaction may start in one channel, continue in another and finish in a third.

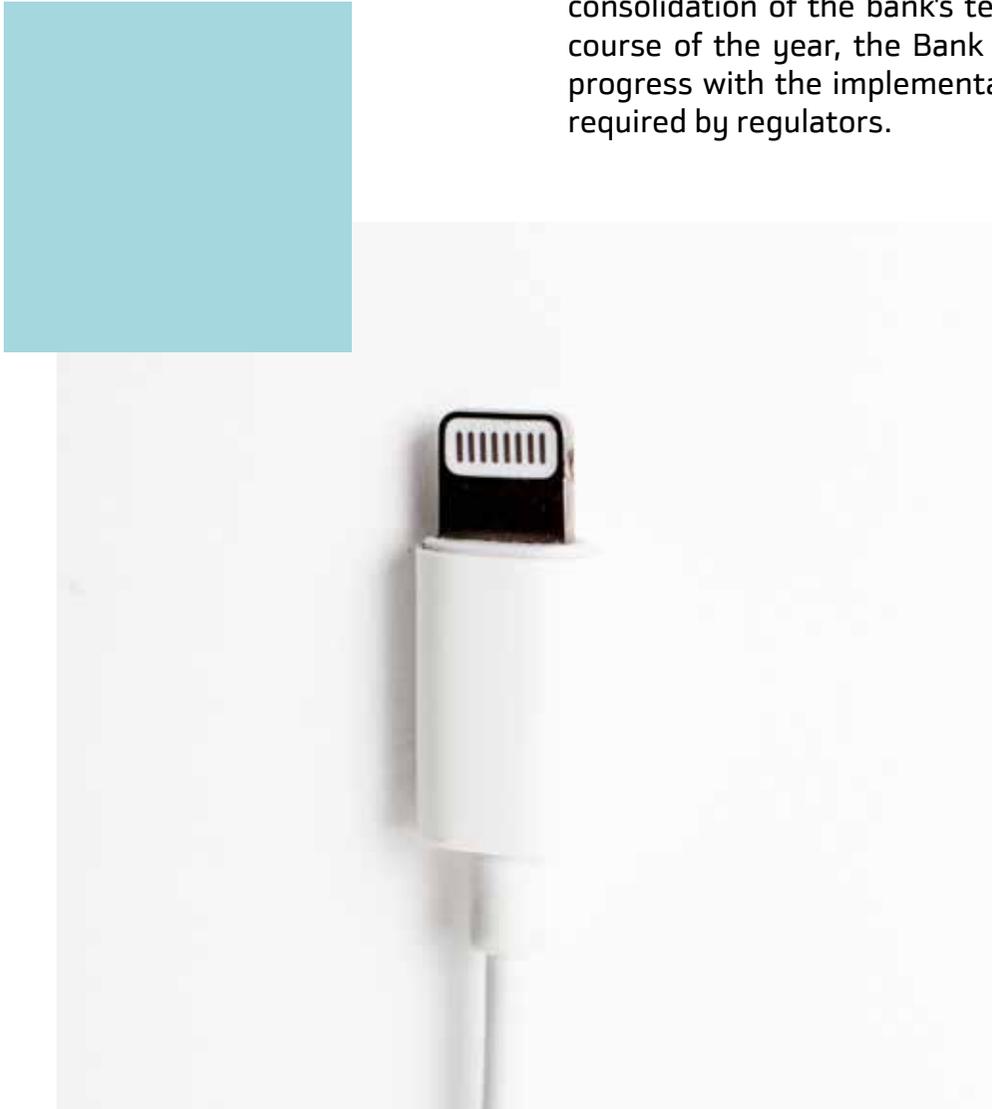
However, this would not be possible without considering cyber security, which is acquiring an extraordinary importance. In 2018, security measures were strengthened to ensure customers enjoy a secure experience.

Furthermore, over the course of the year, the technological platform was generally enhanced in terms of availability, response times, etc. As a result, it was possible to absorb a 35% increase in transactional activities and a 10% increase in other services offered by Technology. Furthermore, there was a 27% increase in production in development and the number of incidents involving the bank's app was reduced.

Progress with the Transformation Plan

Furthermore, in 2018, progress was made with different aspects of the Transformation Plan, in particular in terms of the internationalisation process (technological transformation in Luxembourg and Portugal).

Looking to 2019, the objectives are to guarantee a quality technical response in all areas of the institution, in order for customers to notice a substantial improvement in the operations and services provided by the bank, continue making progress with the Transformation Plan and assume control of the banking business systems of EVO Banco in Spain and its Irish consumer finance subsidiary, which is due to be formally integrated in the first quarter of the year.



Record three million customers

Línea Directa Aseguradora, S.A. is the leading company in direct car insurance sales in Spain

In 2018, it maintained one of the highest rates of growth in the insurance industry, which has seen it organically obtain three million customers in little over two decades without having to resort to buy outs or mergers. The key to this success lies in cutting out the middle man, flexibility, careful underwriting of risks and a multibrand strategy to adapt to the needs of each customer.

Línea Directa obtained positive results over the past year:

- The volume of premiums increased to €853 million, almost 7% up on 2017, thanks to the 5.3% increase in the Automotive area and the extraordinary pace of growth, 12.4%, in the Home sector.
- Its combined ratio was 87.3%, one of the best in the insurance sector, and the accident rate was contained, at 66.48%.
- Pre-tax profit came to €155.9 million, placing Línea Directa amongst the most efficient companies in the industry, with a RoE of 38%.

At 31 December, it was the fifth largest insurer in the Automotive sector, the sixteenth in the Home sector and the twelfth in the non-Life sector, despite only operating in two sectors until 2016.

Digitalisation

The company embarked upon an ambitious Digital Transformation Plan in 2018, the main objective of which is to promote efficiency, personalisation and flexibility in customer service, optimising and simplifying processes.



Línea Directa broke its billing, earnings and portfolio record in 2018, also securing a large solvency margins and one of the best combined ratios in the industry.

To this end, it rolled out three pioneering initiatives in the insurance industry:

- It entered the world of smart contact centres through voice print, making it possible to identify each customer by their voice with natural language, offering the option of executing insurance tasks automatically from their mobile phone or using artificial intelligence chatbot technology.
- It became the first insurer to launch a chatbot connected to its large telephone service centre, with the aim of streamlining the most common services.
- It launched the first voice assistant in the insurance industry for Vivax, its health insurance brand. This assistant includes more than 200 FAQs about products and services, including the specialists closest to the caller.

Social responsibility

Línea Directa is one of the companies with the most solid policies, recognised in terms of reputation, responsibility and corporate governance. In 2018, it placed 43rd in the MERCO Empresas ranking and fourth in its industry. It was also included in the MERCO Talento monitors, which analyses the best brands to work for in Spain (47th), and the MERCO CSR ranking (54th).

Fundación Línea Directa was launched in 2014, as a non-profit institution that picked up the baton from the insurance firm in terms of promoting and supporting road safety, a field in which the firm has always shown itself to be particularly sensitive given its direct involvement in traffic accidents. The Foundation's activities rest on four pillars: research, training, dissemination and social action.

Vivaz: leading a healthy life has its rewards

Línea Directa's commercial offer was expanded in 2017 following the launch of Vivaz, the first one-hundred percent digital Health insurance that economically rewards customers for leading a healthy lifestyle and that has been very well received in the two years since its launch.

Vivaz offers discounts of up to €150 on its premiums to insurers who walk 10,000 steps per day, the minimum amount of daily activity recommended by the World Health Association. If customers sleep at least seven hours per day, they can also benefit from another €50 discount.

As a native digital brand that is committed to the values of flexibility and simplicity, Vivaz has two free apps to interact with its customers. The insurance management app features a number of options, such as obtaining a digital health insurance card, searching for specialists by symptom or location, the possibility of speaking with a doctor 24 hours a day, and online bill payment. The other, Vivaz Actividad, monitors customer and user activity data, informing them of discounts obtained.



Amidst the uncertainties and the new MiFID environment

In 2018, the conditions of the securities market gradually deteriorated, caused by the resurgence of both economic and political uncertainties. As a result, both the price of shares and contracting volumes fell and there was a notable increase in the volatility of equities, with the resulting impact on the activities of Bankinter Securities.

Amongst these uncertainties, worth particular mention is the political instability in Europe and the neo-protectionism demonstrated by the USA. Furthermore, the application of new regulations, in particular MiFID II, has made it necessary for significant investments to be made and has entailed a structural change in the way in which the services that financial brokers offer their customers are charged for. This new regulation, which was transposed into Spanish law at quite a late stage, also generated uncertainty on the market, both amongst institutional investors and stock broking companies, and brought activities to a partial standstill.

Stabilisation of income

This has made 2018 a very complicated year, surpassing even the complexity seen in 2017, which, at the time, was considered difficult. Against this backdrop, Bankinter Securities was able to stabilise the business and maintain the level of income. Furthermore, the entry into force of MiFID II facilitated the integration of its activities at the parent company; the end result of this process is expected to see business costs decrease.

Traded volume during 2018 amounted to €21,509.2 million which represents a 1.83% of the total market share in Spain after third-market trading. Trading fee revenues totalled €8.7 million and earnings before taxes amounted to €4.64 million.

Traded volume
€21,509.2 mn
1.8% total market
share in Spain