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'Bankinter is still strong, despite the difficult environment'



How would you define 2019 from an economic standpoint?

2019 was a difficult year, in which some uncertainties that already existed in 2018 became more pronounced. On the international front, tensions between the United States and China once again curbed trade, even though there was some easing off towards the end of the year. In Europe, the prospect of the UK's disorderly exit was a serious threat for the performance of the EU economy. In Spain, the greatest concerns stemmed from the situation in Catalonia and the political paralysis caused by the caretaker government that was in power for most of the year.

Do you think that last year's figures suggest a new crisis is coming?

World economic growth slowed last year. In Spain, figures show a clear slowdown in both economic growth and employment. However, lest we forget, the Spanish economy is today growing at a higher pace than the euro area as whole.

However, in its last report (while it has lowered its forecasts for last October), the IMF expects a recovery in global growth from

2.9% in 2019 to 3.3% in 2020 and 3.4% in 2021. The economic outlook has also improved following the truce in the trade war and the emergence of a Brexit deal. The institution recognised that its new forecasts have a high component of uncertainty, with downside risk, due to such factors as the stagnation seen in the advanced economies, new trade tensions, this time between the United States and the EU, growing geopolitical tension and the worsening social unrest in many countries.

I do not believe a new crisis is likely to emerge in the short term, although it cannot be completely ruled out; but it would not be anywhere near the scale of the previous one.

Will our economy return to what it was before?

It is difficult to know and especially difficult to pinpoint when this could happen. There are very significant circumstances that are outside our control, such as the trade war, Brexit, geopolitical tensions affecting oil prices, etc.

From an internal standpoint, Spain needs to be able to provide stability to economic agents and facilities for companies to operate

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and create jobs. Entrepreneurs and investors need certainty, a legal framework that is not constantly changing, and a government that provides encouragement and fosters economic growth.

How do you see the situation in the financial sector?

The enduring scenario of negative interest rates is forcing banks to reassess their traditional business practices. Taking in money from customers and lending it to other customers is no longer as profitable as it once was. Of course, lending must continue and we must fight to preserve our margins, as we have always done. But now, this is no longer enough. New higher-value products and personalised advisory services have become inescapable challenges, that will bring with them - are already bringing with them - a more innovative, dynamic and supportive banking system.

The digital transformation of the world will also have a particularly strong impact on our industry.

How did Bankinter fare in 2019?

Last year's results are detailed by our Chief Executive Officer below. I can say that Bankinter remained strong despite the surrounding difficulties. Net profit stood at 551 million euros, 4.6% more than a year earlier. Return on equity was 13%, much higher than the sector average. And these

achievements were made with no impact on the quality of our assets or capital adequacy. It is important to highlight that Moody's raised all its ratings for Bankinter in 2019.

As a result, I am able to inform our shareholders that the board of directors will submit a motion at the annual general meeting to pay a dividend against 2019 profits of 0.0976 euros per share, resulting in the distribution of 263 million euros in the year as a whole, the same dividend paid in 2018. We believe this is satisfactory remuneration given the Bank's performance and that it complies with the principle of capital preservation, in line with regulatory requirements.

What are the minimum capital requirements set by the European Central Bank for Bankinter in 2020?

Exactly the same as in 2019: 8.20% for CET1, tier one capital, and 11.70% for total capital. These are the lowest requirements established by the European Central Bank for Spanish banks and Bankinter amply satisfied them at 31 December. I would also like to mention something that shows the extent to which the authorities hold our capital adequacy levels and prudent risk policy in high esteem. The European Central Bank has ruled to evaluate of Bankinter every two years from now on, instead of every year. We are extremely satisfied with this move, but it is also a responsibility.

How has the entry into force of the new Mortgage Act affected Bankinter?

The new law implies a considerable change in the procedure for granting and signing real estate credit contracts. The first few months following its entry into force were difficult for everyone (customers, financial institutions, notaries), due to infrastructure problems (among other issues) which affected the volume of mortgages signed. However, for Bankinter the new law did not have a damaging effect on new mortgage loans, which speaks highly to our teams' agility and adaptability. In any case, this is a law that offers a great deal of protection to consumers, and will certainly lead to a decline in the number of complaints. That is good news for everyone. Moreover, financial institutions would like the regulatory framework (for this and other aspects) to be sufficiently stable to avoid putting legal certainty at risk.

What does the inclusion of EVO mean for the Bank?

Bankinter's acquisition of EVO and its consumer finance subsidiary in Ireland, Avantcard, took place in May, after all the pertinent regulatory authorisations had been obtained. This is an important transaction for the Bank.

Avantcard will allow us to continue to expand internationally in a country, Ireland, with a very robust economy and strengthen our

'The stock market listing of Línea Directa will greatly benefit our shareholders'

consumer finance business at the same time. Through Avantcard we will gain 130,000 customers, on top of those we already have in Portugal and, of course, Spain.

EVO has a different and innovative approach and will be a key part of the Bank's digital strategy.

Is the digital transformation of Bankinter complete?

Digitalisation is an ongoing process that makes many demands on us; but it will also offer some hitherto unexpected opportunities. We have made a great deal of progress in the past few years. For instance, most Bankinter customers now relate to the Bank using digital channels, most of our transactions are made online and 89% of consumer loans are taken out using this channel. This allows us to maintain our ability to take advantage of new technologies to provide an increasingly better service.

But a lot more is needed. We have to adapt to a social environment that is changing faster every day due to digital transformation. We have great confidence in the capacities that EVO, our recent acquisition, can offer us, through its innovative and fully digital business model, reflecting the retail banking of the future.

How will the stock market listing of Línea Directa affect shareholders?

Since we acquired 100% of Línea Directa we have known that (as it was a financial

investment), if the company remained successful, one day it would be listed. We believe that the time is right for several reasons. The company has over three million policyholders. It works in three insurance branches: auto, home and health insurance. The first two are extremely profitable and high-growth areas, and the latter, launched barely two years ago, is showing great potential. Línea Directa's business model, based on direct distribution, has proved to be much more powerful than the traditional models. This is extremely important in a sector that is entering a phase of profound transformation. We also consider that market conditions are right as the low interest rates are fuelling the appetite of companies with growth potential.

We have structured the transaction in the best way for our shareholders. Bankinter is not selling LDA shares on the market, but is distributing them for free among shareholders so that they keep their full rights over them. The formula used – the distribution of a share premium in kind – is fiscally neutral and the percentage distributed allows Bankinter to keep its capital ratio intact (or increase it slightly), while at the same time remaining a significant shareholder of the company with a stake of 17.4%.

Further, the separation of the two companies will allow them to develop their strategies independently, which is important in our changing world that offers a bright future full of opportunity but at the same time is filled with change and uncertainty.

What does the fact that Bankinter is considered to be one of the most sustainable banks in the world by specialist analysts mean?

The fact that Bankinter has been included in some of the most prestigious sustainability indices – Dow Jones Sustainability Index Global, FTSE4Good, CDP – is recognition of the company's extraordinary management, which in addition to its magnificent economic results, also shows an excellent social and environmental performance, and well-recognised corporate governance.

The Bank's good ESG credentials (environmental, social and governance) are increasingly weighted by institutional investors and proxy advisors, who recognise corporate strategies that are based on long-term value creation.

While sustainability management has always been one of the Bank's priorities, in 2016 it drew up its Sustainability Policy, which the basis of the current Sustainability Plan for 2016-2020, known as the 'Three in a Row' plan because it has a three-fold management objective – economic, social, environmental – aligned with the inclusive and sustainable development recommended by the UN Agenda 2030.

This Plan includes commitments to develop good corporate governance, facilitate inclusion and financial education and draw up a climate-related strategy.

'There are a majority of women on Bankinter's management committee, based on merit not positive discrimination'

Therefore, in 2019, a new climate change strategy was approved, which, in addition to strengthening the environmental commitments adopted previously by the Bank to ensure carbon neutrality, addresses the management of indirect impacts, through the application of environmental and social criteria to its financing and investment policies.

The strategy also includes the far-reaching goal of increasing our offer of sustainable financial products and services, and a plan to involve our stakeholders in a joint climate action.

What activities were performed by the Foundation in 2019?

Bankinter Innovation Foundation has been a reference in Spain and abroad for several years. There is no other foundation in the world that focuses on innovation from a multidisciplinary standpoint. The purpose of its various programmes is to disseminate knowledge about the consequences of technological change and new trends for companies and for society as a whole, through its Future Trends Forum; to promote entrepreneurship among students in their final years of university through the Akademia programme and support companies in their early stages, through the Startups programme; and in the growth

stage, through Cre100do. In 2019, the Future Trends Forum addressed two salient topics: artificial intelligence and the interaction between neuroscience and technology. I would also highlight the strengthening of the Startups programme, where the team has been enhanced with talented professionals with recognised experience, and I am sure they will help us to shore up our efforts.

Gender equality has been one of the most common issues discussed by companies in recent years. How is Bankinter addressing this subject?

The banking sector has traditionally been dominated by men, especially at management level. Fortunately, this is changing. 51% of Bankinter's workforce is female and there are a majority of women sitting on the management committee. Further, the number of female directors on the board of directors is higher than average, and has been over the recommended good practice level of 30% for several years. However, these figures are based on merit, not on a policy of quotas or positive discrimination. At Bankinter equality is merit-based.

'For us, sustainability is not an option, but a key part of our strategy'

María Dolores Dancausa

'In 2019, our results exceeded those of the previous year for the seventh year running'



How would you summarise what 2019 meant for Bankinter?

2019 was an excellent year for Bankinter. Our earnings exceeded those of the previous year for the seventh year running. We reported profit of 551 million euros, an increase of 4.6% compared to the figure of 526.4 million euros posted in 2018.

The top part of the income statement, which includes income and margins, was particularly strong, and for the first time it surpassed 2,000 million euros, just over half of which corresponded to net interest income, in an unfavourable context of interest rates that are close to zero.

The inclusion of EVO and Avantcard on 1 June 2019 contributed seven months of their activity to the above figures, and we expect these new acquisitions to provide a higher contribution to margins in 2020, when they will have been on our books for 12 full months.

What other indicators can be highlighted in the year?

It was also a satisfactory year in terms of asset quality, capital adequacy, profitability, efficiency and liquidity. The non-performing loan ratio dropped to 2.51%, down 39 basis points compared to 2018, and much lower than the sector average. Bankinter kept its CET1 capital ratio at 11.6%, well above the requirement of 8.20% established by the European Central Bank for our entity for both 2019 and 2020, the lowest in the whole banking sector. Our profitability, measured in terms of RoE, was 13%, the highest in the sector in Spain.

Our traditional banking business, excluding the recent acquisitions, reported a cost-to-income ratio of 45.3%. In terms of liquidity, the customer funding gap (difference between loans and receivables and customer funds) was also positive, narrowing to 1,300 million euros from 3,700 million euros.

In short, 2019 was an excellent year in which the main pillars that underpin our different business lines grew in size and stature, preparing the Bank for future success.

"Gross operating income, despite the environment of interest rates at close to zero, continues to grow at a rate of 6%, breaking the 2,000 million euro barrier"

Which were the most notable business units?

All our business lines that have been operating for a longer time and, therefore, have greater maturity, performed well. The Corporate Banking business, the business line that traditionally contributes most to gross operating income, loans and receivables in Spain increased by 5.1% and we obtained a 1.9% market share of new transactions. I would highlight the expansion of the International Business and Investment Banking, which both saw sharp growth in their loan book. Commercial Retail Banking, which includes individual banking, continues to grow steadily in the areas of Private and Personal Banking. In the area of funds, the Salary Account is our star product and in 2019 it became clear why, as its balance grew by 25%. The mortgage portfolio ended the year on a positive note, in contrast the general decrease marked by the sector as a whole. More significantly, new mortgage loans increased by 17% despite the economic slowdown and problems caused by the entry into force of the new Real Estate Credit Act.

In the insurance business, both policies and premiums in the Linea Directa insurance area increased by around 5%, with particularly significant growth in the homeowners segment and the high profitability of the business was maintained, with an exceptional return on equity of 33%, although the increase in claims penalised profit before tax, which was down by 8%.

The performance of one of our key growth drivers, Bankinter Consumer Finance, stood out again this year. Transactions increased

sharply even though there was some slowdown in internal consumption in Spain during the year. Customers rose to 1.4 million and the volume of new loans extended stood at a healthy 45%.

I would also like to highlight Bankinter Portugal, where business is more than meeting the expectations we had when it joined the Group in 2016. Its loan book and its deposits showed double-digit growth in 2019 and the entity reported a profit before tax of 66 million euros, 9% more than the previous year.

The inclusion of EVO Banco and Avantcard was a milestone in the year. How does this transaction fit with the Bank's strategy, which has historically been based on organic growth?

Effectively, at Bankinter we have traditionally sought organic growth. We have followed the criteria of growth through innovation not acquisition for more than half a century. There have been three exceptions: in 2012 we acquired our current bank in Luxembourg to strengthen the Private Banking business; in 2016, we acquired the retail network that today is Bankinter Portugal; and in 2019, we acquired EVO Banco in Spain and Avantcard in the Republic of Ireland. In all these cases, the decision was guided by the principle that the asset to be acquired was a fit with the Bank's strategic lines.

The acquisitions made in 2019 offer us new business opportunities and the possibility of diversifying in two key areas, digital banking and consumer finance, and in two different geographical areas. EVO Banco is a brand

recognised by younger, online customers, which gives us a presence in this business segment and allows us to explore new ideas and products. The activity carried out by Avantcard supplements our consumer finance business, which is currently one of our biggest growth drivers.

How have they performed in their first seven months as part of the Group?

It is early to say, but preliminary data are positive. EVO Banco attracted 50,000 new customers and Avantcard's loan book grew by 23%. In any case, the two businesses have different short-term expectations, because EVO Banco will require more investment to make it profitable, which we expect to occur 2023. In contrast, Avantcard has been profitable since day one.

Another development in the year was the renewal of the Investment Banking brand, which is now called Bankinter Investment. Why was that done?

2019 was the five-year anniversary of the launch of the investment banking business, which showed very positive results, and we thought that it was a good moment to strengthen and relaunch this business line that has become a key market player in a short space of time. With this move, we aim to give a firm boost to the alternative investment business, which we consider to be promising in today's context of very low interest rates and market volatility. We already have an established presence in this market, after setting up two SOCIMIs comprising hotel and commercial real estate assets, three renewable energy funds,

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two funds in the student residences and infrastructure segments, and one fund of funds focused on technology. The objective is to comfortably double our investment volumes in three years to over 8,000 million euros.

One of the main strategic decisions taken in the year was to submit a motion to the annual general meeting proposing the stock market listing of Línea Directa. What is the objective of this decision?

The board of directors approved a motion in December to submit a proposal to a vote at the 2020 annual general meeting for the stock market listing of Línea Directa, according to which 82.6% of the insurance company would be delivered to shareholders, while the Bank would retain the remaining 17.4%. The Chairman has explained above the reasons why this is the best time to perform this transaction.

Although the sum of the value of the two companies is identical whether taken together or separately, we believe that with the passage of time, they will be worth significantly more separately than together as one company. Once the spin-off has been carried out, each one will be able to operate in its own sector and under its own regulatory environment, with the appropriate capital structure and dividend policy.

After seven consecutive years of reporting an increase in profit compared to the previous year, what is the key to Bankinter's success?

This good performance is due to many factors: efficient risk management, which has been one of our core strengths, exposure to recurrent customer activities, agility and simplicity in our actions, diversification of revenues and a wish to be independent. But if I had to single out one reason for our success, it would be our people.

Bankinter has an exceptional team of people who are well qualified, committed and dedicated, with a determination to take advantage of opportunities and face up to obstacles. Without them, without these people who make up our different teams and strive to improve their work every day, Bankinter would not be where it is today.

Let us talk about the future. What is the outlook for 2020 and beyond?

2020 is another year marked by uncertainty, which appears to be the sign of our times. The slowdown in international economic activity, the impacts of an epidemic that is proving hard to contain, the rise in protectionism, a Europe without the United Kingdom, the abnormal surplus of liquidity and political instability are all factors that we will have to live with.

We have to continue expanding the projects and business lines that have already proven successful, and attend to every small detail day after day. This is what makes us different and efficient.

Is an interest rate hike still expected to improve profitability?

We do not base our business decisions on a hypothetical increase in interest rates. We expect them to remain very low, at around zero. When they do rise, which they will, although we do not know when, we will be prepared to take advantage of this. But until that moment arrives, we are well prepared to deal with the current situation.

For this reason, we have been developing business lines such as private banking, investment banking and supporting the international business lines of Spanish companies. These activities and associated

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services contribute a value that is recognised and appreciated by our customers, and that is billed in the form of fees.

There are also segments such as consumer finance, where net interest income remains attractive and which offer an appealing revenue channel. As a result, gross operating income has not only shown resilience to the environment of interest rates at close to zero, but continues to grow at a rate of 6%, breaking the 2,000 million euro barrier in 2019.

Are innovation and technology still essential values in Bankinter's strategy?

Bankinter would not be understood without these two variables, that have been a part of the Bank's identity and strategy practically since it was founded. At Bankinter, we see innovation as a competitive advantage that has allowed us to survive successfully and independently in a sector that has seen a complicated past few years. Early positioning in technology and a focus on digitalisation explain why today Bankinter is immune from some of the major problems affecting the sector, such as installed capacity surplus, and are behind our positive performance in the area of efficiency or profitability, for instance. More than 93% of the Bank's customers currently interact with us through digital channels, and this allows us to keep a streamlined branch network that is dedicated to tasks that contribute customer value.

However, our objective for 2020 is to continue to invest in technology to improve customer experience, optimise processes to reduce response times, and consolidate the competitive advantage our long history has provided us with.

Broadening our analysis, what is your view of the current situation in the Spanish banking sector?

The Spanish banking sector as a whole has seen a significant transformation over the last ten years, in line with European banks. In the last few years, the sector has had to deal with a very strict and demanding regulatory framework, a technology revolution that has forced banks to rethink their business models, lower margins and profits, the judicialisation of numerous banking practices and a loss of reputation among the general public. The latter is particularly concerning as the essence of the banking business, trust, has been damaged by this unjust perception. Despite the difficulties and obstacles in our path, we are part of a healthy financial system, which is much more robust and resilient than it was in the past, and that plays a major role in funding economic activity, a mission that is not fully recognised by the public authorities or by society.