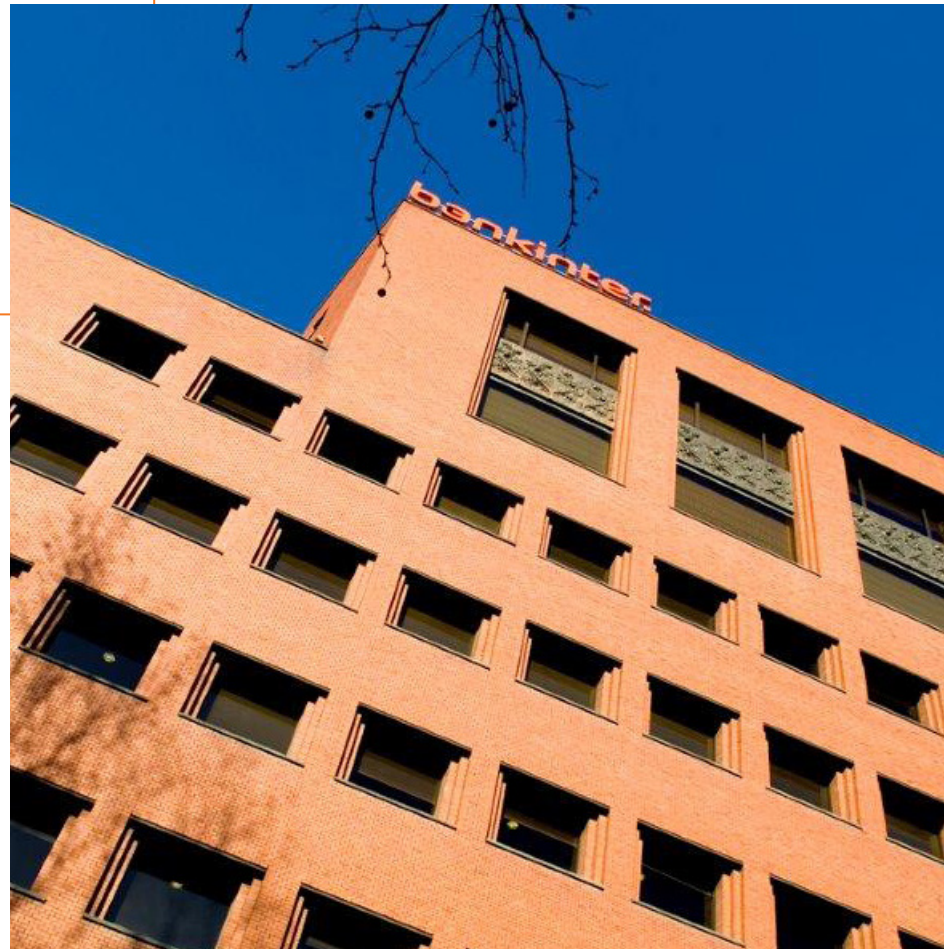


Letters/
Interviews



2020 INTEGRATED
ANNUAL REPORT



Letter/Interview with the chairman

Pedro Guerrero

'Our professionals have shown exemplary effort and ability to overcome the odds during the pandemic'

What is your perception of the economy in 2020?

The 2020 financial year was undoubtedly marked by the pandemic, an absolutely unforeseen global event with a profound impact on our economy. Because it was so contagious and life threatening, the authorities were forced to restrict mobility and social interaction. In Spain, they resorted to applying the state of emergency twice, once in the first wave and another in the second, to back up these restrictions from a legal standpoint. These were very tough measures, although they were also inevitable in order to reduce the number of infections, pressure on the healthcare system and, ultimately, the number of deaths.

The impact on the economy was brutal, with drops in activity never before seen in our recent history, and which were especially significant in sectors such as tourism, hospitality and retail. Sectors of great importance in our economy. Together with the fragility of our production structure, which had not yet fully recovered from

the 2008 crisis, it only exacerbated these effects. We saw a sharp decline in the main indicators, with unprecedented falls.

What is your opinion of the measures adopted by the authorities to mitigate the economic consequences of COVID-19?

The situation was so serious that it forced the implementation of shock measures aimed at mitigating the impact of the crisis both on families who were in a situation of greater vulnerability, and on companies in particularly affected sectors. Basically, there were two types of measures. First, temporary employment adjustment programmes designed to relieve companies of their personnel costs until the reactivation of their respective markets. Second, backing by public guarantees of corporate financing granted by financial institutions. Although they did not stop many Spaniards going through and still going through a really hard time, these are all measures that have at least made it possible to alleviate the consequences of such an unfavourable situation.

What has been the contribution of banks in this context?

Given the difficult environment we faced, our main obligation was to maintain corporate financing as much as possible, to avoid their financial asphyxia, facilitate liquidity for particularly vulnerable families and strengthen our balance sheets in the face of macroeconomic downturn, anticipating a potential increase of the NPL ratio.

With regard to credit, I sincerely believe that we have managed to prevent the illiquidity stemming from a lack of income from becoming a generalised crisis of business solvency, and its potential effects on our economy. Also, the strong provisions made by banks against their results have led to strengthened balance sheets. And this allows us to face any future worsening of the situation with guarantees. We must also add that banks have gone even further than the government as refers to helping businesses, the self-employed and struggling families to meet their repayment obligations, extending the government-established moratoriums and relaxing the conditions for access. Banking is undoubtedly an inseparable part of the solution to this crisis.

Do you think we will soon begin the journey to recovery?

That's what we all hope, but it's not going to be easy or quick. Vaccines allow us to be somewhat optimistic, and it is likely that when a sufficient portion of the population has been inoculated, we can gradually return to normality. Now, it is one thing for us to lead a fairly normal life again and another

for the economy to regain the momentum it had before the pandemic. Despite the efforts made, much of the production structure has been broken and it will take time to rebuild it. Macroeconomic indicators may soon look more favourable. Regaining the levels of well-being we enjoyed before the coronavirus broke out, on the other hand, will take considerably longer.

Do you learn from all crises?

Certainly, although sometimes it is a very hard learning process, as happened in the 2008 crisis. We emerged from it with a more solid financial system, subject to more rigorous regulation and with a centralised European supervisory mechanism. But many banks fell by the wayside and others were diluted into larger clusters, amid a notable overall decline in the sector's installed capacity, facilitated by digital transformation. A transformation strongly boosted during the pandemic, not only in banking, but in the economy as a whole, and whose most popular face is teleworking. I am sure that this phenomenon will have a positive and lasting impact on productivity and the competitiveness of companies, with the consequent benefit for the economy as a whole.

But Bankinter was already highly digitalised ...

That's right. We have been working on it for many years and we have always been ahead of the sector in terms of innovation. Our customers are used to operating remotely through the various channels we offer them, and this has made their relationship with the Bank less affected by mobility restrictions. In

fact, more than 90% of the Bank's customers operated digitally before the pandemic, either exclusively or alternating with the more traditional channels. EVO, included in 2019, also played an essential role due to its innovative approach to the business, which is helping us to further leverage new technologies to provide an ever better service.

What was 2020 like for the banking system as a whole?

Apart from facing the consequences of the pandemic, the sector had to keep learning to live with an environment of low interest rates that forces us to look for new sources of income. As I have said here on other occasions, taking money from some customers and lending it to others, and nothing else, is not longer as profitable as before. We need to continue designing high value-added products and to further develop personalised advice, for which, at least at Bankinter, we have highly qualified professionals. If innovation has always been important, now it is simply essential, together with a rigorous risk policy that avoids the excesses of other times, the consequences of which are well known.

Was the 'recommendation' not to pay out dividends in 2020 very harmful?

One only has to look at the sector's unfavourable performance in the stock market throughout the year to understand the impact of this decision by the European Central Bank. Even today, the market does not reflect the true value of banks, and this has a lot to do with the flight of investors after

'The banking sector has been an inseparable part of the solution to this crisis'

'Recovering the levels of well-being we enjoyed before coronavirus will still take a long time'

'Banks' dividends should not have been suspended indiscriminately, but rather on a case-by-case basis'

the ban on dividends. We can understand the substance of the matter: the need to strengthen the capital of banks in case there is an upturn in non-performing loans derived from the coronavirus crisis. However, we do not share the indiscriminate nature of the decision. It should have been studied case by case, because we are not all the same or in the same situation. We could have continued with our plan of paying out 50% of our profits as a dividend without any problem. That said, banking is a regulated sector, and at Bankinter we comply with the instructions given to us. Now, I am sure that, once the restrictions on dividends are lifted, our stock has a clear upward path, simply because of the power of our business model.

What do you think of the new round of mergers and its likely impact on employment?

Each institution has the right to choose its future and, if you believe that your future lies in joining another, you are right to take that path. Bankinter's strategy is different: we are committed to independence, organic growth and specific purchases of businesses that can be complementary to ours or that can open up new horizons, as were the cases of Portugal or Ireland and EVO. Also, mergers tend to have a cost in terms of employment, and Bankinter is firmly committed to maintaining its jobs and even increasing them when circumstances permit. Especially after our professionals were such a great example of effort and ability to overcome the odds during the pandemic. We need all of them to overcome this dire situation.

How do you see Bankinter's last financial year?

Without going into details that should be provided by our CEO, I think the 2020 results were more than acceptable, given the circumstances. We continue to grow at a good pace in all our operations, once again reinforcing capital adequacy and keeping non-performing loans at bay. Excluding the extraordinary provisions to cushion the impact of the COVID-19, the profitability in terms of RoE would have been higher than 10%, clearly above the cost of capital. The full integration of EVO also took place throughout the year, and this represented a notable boost to its mortgage activity, with growth of around 30% in loan volume and number of customers. We are sure its integration into the Group, as with the businesses in Portugal and Ireland, will bring us great satisfaction.

And what are the plans for Línea Directa?

The decision to go public is firm, because it benefits the Bank, the shareholders and the insurance company itself. Línea Directa is more than ready to fly alone, after having consolidated a model of direct insurance distribution much more powerful than the traditional model and that has made history in a sector subject to profound transformation in recent years. Our wish is for the company to start trading before the summer, under the expected conditions.

'We are firmly committed to maintaining employment; we need all our professionals to overcome this situation'

Has the pandemic changed Bankinter's commitment to sustainability in any way?

Sustainability criteria are an essential part of our way of understanding the banking business, they are already in our DNA. This was recognised internationally when Bankinter was included in such prestigious indices as the Dow Jones Sustainability Index Global or the FTSE4Good. But these recognitions are not the end or a goal in themselves. They are an incentive for our organisation to continue excelling in social, environmental and corporate governance, while also producing strong financial results every year.


As a consequence of our commitment to sustainability, Bankinter reached one of the great milestones of its Climate Change Strategy in 2020: to be completely carbon neutral. The Bank was already carbon neutral in Spain, and last year achieved the same status at its facilities in Portugal and Luxembourg. The Bank offsets its direct emissions by collaborating in the conservation of the Madre de Dios area in the Amazon, and all electricity it consumes comes from renewable sources.

In 2020, we were also proud to join the United Nations Environment Programme specifically dedicated to the financial sector and signed the Programme's Principles for Responsible Banking, which aligns our industry with the Sustainable Development Goals and with the Paris Climate Agreement. Bankinter has been working in these areas for years. It has already incorporated sustainability criteria into processes such as supplier approval and the granting of financing to companies.

In line with these criteria, the Bank launched its first green bond issue in January 2020, amounting to 750 million euros, for projects related to renewable energy and environmentally-friendly construction. The demand tripled the supply, which reflects how well it was received. In November, Bankinter put a pension plan on the market that will invest between 50% and 75% of its assets in equity assets of companies around the world that respect the most demanding environmental, social and corporate governance standards.

What activities were performed by the Foundation in 2020?

Although with the difficulties inherent to such an adverse environment, the Bankinter Innovation Foundation kept running its various programmes, which aim to promote knowledge of technological change and its consequences and of new social and business trends (Future Trends Forum), as well as how to promote entrepreneurship among students in their last years at university (Akademia), and support companies in their initial phases (Startups) or growth (Cre100do). The Foundation, a world pioneer in its class and an undisputed leader in innovation, promoted the creation of the Startup Ecosystem Observatory in March 2020. The observatory makes relevant information available to entrepreneurs so that they can have a clear view of the ecosystem and help with decision-making. It is already being a very useful tool for the Company.



'Sustainability criteria are already in our DNA and this has been recognised internationally'



Letter/Interview with the CEO

María Dolores Dancausa

'It was a very difficult and complex year, but we are satisfied with what has been achieved'

How can Bankinter's trajectory be summarised during an exceptional year such as 2020?

It is not easy to summarise, because it was indeed an extraordinary year, which broke our plans and demanded the best of ourselves. But I would say that it was, above all, the year of commitments. The year of commitment to our customers, our employees, our shareholders, the economy and society as a whole. It was a very difficult year, but we are satisfied with what has been achieved.

What did the Bank do to face the health and economic crisis?

Our first reaction after the state of emergency was declared was to reorganise so as to continue to serve our customers under conditions of tremendous uncertainty, and to protect our customers and employees from the virus. Banks were considered an essential service. As such, we had to keep a part of our infrastructure open and put our human teams at the disposal of citizens, in difficult sanitary conditions, to provide the face-to-face help they needed, in addition to using remote

channels to handle collections, payments and normal transactions. After those first decisions, we focused on helping our customers cope with the crisis with different kinds of measures.

What were the most important measures?

In the case of private customers, we implemented moratoriums for mortgages and consumer loans, both those approved by the government and those adopted by the Bank on a voluntary basis, which were much more ambitious. I believe that this enabled us to contribute to building a first containment dam to prevent the health crisis from being transferred in all its harshness to the economy of families and having unpredictable effects on society as a whole. We also brought forward the payment of unemployment benefits and pensions. And we softened the conditions of mortgages linked to other products and of the salary account, as well as the business account of self-employed workers, so that no customer could be penalised for breaching contractual obligations associated with these products.

And what decisions were made to help companies deal with the crisis?

Our greatest efforts were focused on facilitating the access of companies to loans with public guarantees from the ICO, which have been an essential liquidity network for the survival of many companies, especially SMEs. We also adhered to a specific line of ICO loans aimed at companies in the tourism sector and their related activities, which have been particularly hit by the crisis. And we provided facilities to customers with reverse factoring and leasing operations. We also worked intensively to help the business community to maintain its presence abroad. This has been recognised by the Asociación de Financieros de Empresas. It presented our International Banking with the award for the best financing project of 2020 for its management of the COVID-19 line of liquidity backed by the insurance company CESCE. We attended to the needs of our suppliers by advancing payments to all companies and

'The increase in loans and receivables demonstrates our commitment and our confidence in the resilience of the Spanish economy'

professionals who are suppliers of goods and services to the Bank.

To what extent have these decisions also served to contribute to the recovery of the economy?

Our measures to support customers are the best proof of our commitment to economic growth, because helping families and businesses stay afloat in such difficult and uncertain times is the best contribution we can make to move the economy forward. But I would like to stress that in global terms, during the 2020 financial year, Bankinter's loans and receivables amounted to 64.384.3 billion euros. This means that not only did we not restrict our credit activity, as would be logical given an increase in the risks associated with our loan portfolio, but we also increased it by 6.6% compared to 2019. This increase demonstrates our commitment and our confidence in the resilience of the Spanish economy, which we are sure will quickly recover as soon as the health threat lessens or disappears. I say this cautiously, because the current economic scenario is very unstable and is conditioned by exogenous factors, but I believe that we are in a position to contribute to leaving the crisis behind.

'With our aid to families and companies, we have shown our support to those who constitute the foundations of the country, and we would like that effort to have more of an impact on public opinion'

'The 2020 profit fell by 42.4% due to higher provisions as a result of the sharp decline in economic forecasts, but all the margins performed positively'

What impact has the crisis had on the Bank's results?

Obviously, the impact has been significant. Against a setting such as 2020, marked by the spread of the disease and the economic recession, Bankinter Group achieved a net profit of 317.1 million euros, 42.4% lower YoY due to higher provisions (242.5 million euros) made as a result of the sharp decline in economic forecasts, and the absence of the extraordinary results generated in 2019 with the purchase of EVO and Avantcard. If we remove both exceptional headings, the result of recurring banking business is 473 million, only 13.2% lower than the previous year. All the margins of the income statement performed positively, indicating that the Bank's management, advisory and marketing machinery worked at full capacity. I believe that, under the circumstances, we can be happy.

What other aspects can be highlighted in the year?

It was also a positive year in terms of asset quality, capital adequacy and liquidity. The non-performing loan ratio fell to 2.37%, 14 basis points less than in 2019, and remains the lowest in the sector. Also, the Bank strengthened its CET1 capital ratio, the main capital adequacy indicator, to 12.3%. It is one of the highest ratios of Spanish banks and far exceeds regulatory requirements, demonstrating our resilience in stressful situations. With regard to liquidity, we should note that for the first time the Bank has more deposits than credits. Profitability naturally suffered, especially as a result of extraordinary provisions, but with an

RoE of 7% we continue to lead the sector's profitability. I therefore believe that in 2020 Bankinter Group consolidated its strategic strengths to continue growing consistently in the future.

Going into details, how did the different products and business areas perform?

Despite the crisis, the Bank maintained an intense commercial activity, which favoured the behaviour of salary accounts and mortgages, two of our main financial products. The portfolio of salary accounts grew by 22%. And the portfolio of mortgages also increased, albeit to a lesser extent, a noteworthy fact in an environment of economic paralysis. Within the Corporate business, key to the Bank's strategy, loans and receivables grew by 11%, with the investment banking and international business areas as the main engines of gross operating income growth. In Commercial Retail Banking, the assets under management between Private Banking and Personal Banking customers maintained a slight growth, despite the strong ups and downs in market performance. The Bankinter Consumer Finance business was where we felt the crisis the most, affected by the reduction in household consumption. New business fell by 25%, although loans and receivables were similar to 2019. In the case of Bankinter Portugal, recurring business performed at a good pace, with growth in all margins, although provisions reduced their result by around 31%.

EVO Banco notably increased its customer portfolio and strengthened its mortgage activity. As for Línea Directa Aseguradora, it maintained solidity in all its ratios and business figures and reached a net profit of 135 million euros, up by 26%.

There is some controversy about the allowance for provisions that the banks are making to face the probable increases in non-performing loans in the coming months. Are they adequate?

This is very difficult to determine right now. There are no known precedents for this crisis. We have never encountered a situation like this, and therefore we do not have references on which to rely to make well-founded projections. The non-performing loan ratio will depend on the extent and depth of the crisis, which in turn are impacted by the pandemic's progress, and by its repercussions on the business community and employment. All of these factors are unpredictable and we cannot influence them. But we can guarantee that the calculations of our allocation for provisions are made based on criteria of maximum prudence. At Bankinter, we are facing the uncertainty of the coming months with the tranquility and confidence derived from having a rigorous risk control system, which has enabled us to be the institution with the lowest NPL ratio of Spanish banks, in recent years.

Has society recognised the efforts of banks to cushion the impact of the crisis?

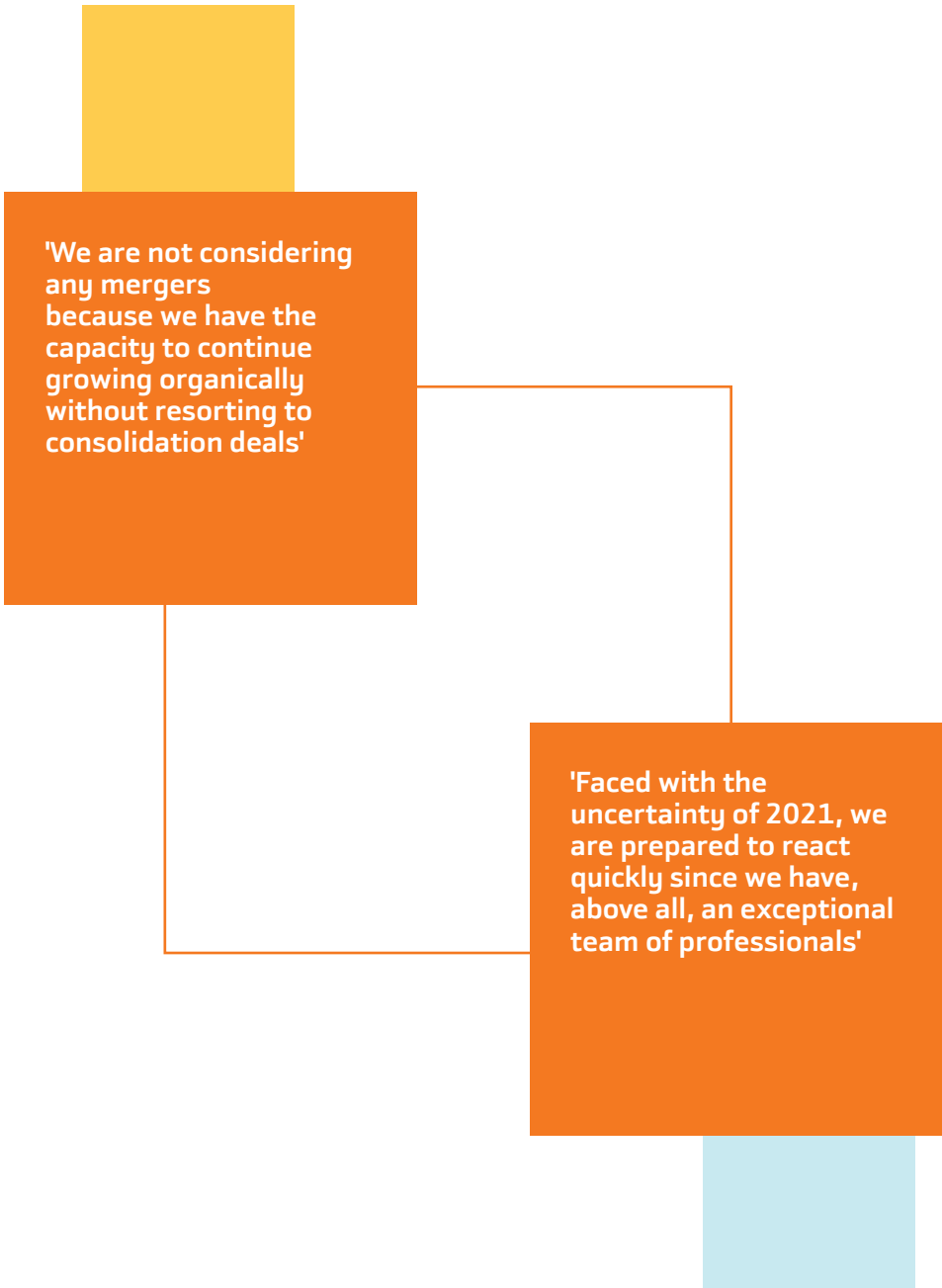
To a certain extent. It is true that we come from a time when the sector's reputation was deeply affected, and it is not easy to regain people's trust. But I believe that, in the complex situation caused by the pandemic, we have shown our support for families and companies. And we would like our efforts, which went as far as working in precarious sanitary conditions and lending our strength to facilitate economic recovery, to have more of an impact on public opinion.

The coronavirus crisis has generated various concentration deals in the sector, partly encouraged by the European supervisor. How do these corporate transactions affect Bankinter and its position in the market?

We follow them closely, but they do not alter our strategy. We are not considering any merger. We are an independent bank, we have proven it in our more than 55 years of existence, and we will continue to be so because we have done very well this way. Our business model is based on organic growth, and we believe that we have the capacity to continue growing in a healthy and profitable manner without resorting to consolidation deals, for the benefit of our employees and shareholders.

Given the circumstances, expectations for the coming months are more uncertain than ever. What can we expect from 2021?

Indeed, 2021 is marked, more than ever, by uncertainty. On the one hand, the unfavourable effects on the economic system are far from disappearing. The arrival of successive waves of the disease raises concerns that the economic crisis has not reached bottom and it will be necessary to see how companies and families react when aid runs out. On the other hand, the news about the distribution of vaccines gives us hope that in a relatively short time we will be able to avert the most serious threats of the pandemic. We can also trust that the European Funds will provide an additional boost to the Spanish economy. Faced with the uncertainty of 2021, we are prepared to react quickly since we have, above all, an exceptional team of professionals. And we have a solid structure, with an efficient risk control mechanism, advanced technology and a clear business model. But I insist that, above all, we have a human team that has repeatedly demonstrated what it is capable of.



'We are not considering any mergers because we have the capacity to continue growing organically without resorting to consolidation deals'

'Faced with the uncertainty of 2021, we are prepared to react quickly since we have, above all, an exceptional team of professionals'