

Interviews

2021

Integrated Annual Report



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Introduction

Looking ahead with optimism and basing outlooks on the past

The 2021 Integrated Annual Report provides an overview of a unique year in Bankinter's history. With the consequences of the pandemic on the economy and the financial industry still being felt, the spin-off of Línea Directa Aseguradora (LDA) marked a turning point in the bank's history. The successful outcome of the operation, which means both entities can develop their own separate future strategies adapted to their regulatory environments, shows that Bankinter and LDA have more value as separate entities.

The positive results seen in 2021 show this is a strong strategy. Bankinter's commercial efforts led to the Group seeing a record profit, including the capital gain generated from the Línea Directa IPO. Even without taking into account that capital gain, recurring net profit increased significantly. In addition, all items on the income statement experienced significant growth. Another achievement was the performance of solvency, asset quality, liquidity and profitability ratios, as well as the significant improvement in the share price on the stock market.

This data highlights the strength of the entity's business lines and fills us with hope and ambition for the future. The goal is now to offset the loss of revenue and profits caused by losing the insurance company via organic growth. To do so, we will rely on our diversification strategy and on the great future prospects of some of our business lines. To this end, the role played by the bank in the implementation of European funds will also be key, in our capacity as a solvent financial partner able to channel, advance or supplement grants.

The 2021 Annual Report is also a compendium of the entity's efforts to integrate environmental, social and governance principles into its business strategy. Bankinter renewed its membership of the most prestigious international sustainability indices last year. It is also a member of the Net Zero Banking Alliance, reinforcing its commitment to achieving net-zero emissions in its investment and financing operations by 2050. The bank also offers an extensive catalogue of sustainable products to meet the growing demand of investors. In 2022, Bankinter is developing a roadmap for decarbonising its portfolios. Our aim is to contribute to a greener, fairer and better governed society.

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Interview with the chairman

Pedro Guerrero

'The stress tests at European level demonstrated the soundness of the bank's balance sheet and income statement'



How do you feel the economy performed in 2021?

Last year saw the commencement of the long-awaited recovery, after the sharp fall suffered by the economy due to the outbreak of the pandemic. Thanks to a better control over the disease, restrictions were eased and activity once again began to pick up. The vaccination process proved to be essential and it should be noted that Spanish society showed its maturity with the vast majority of people participating.

A gradual return to normality allowed for an increase in demand for goods and services that had become stagnant, this in turn brought about high growth rates and a better-than-expected increase in job figures, which had been harshly punished in the first few months of the health crisis. That said, the recovery ran out of steam after the summer due to the appearance of several phenomena that had not been anticipated.

One of these being the difficulty detected around the world in satisfying the need for certain intermediate products, essential in basic sectors of the industry. These bottlenecks were particularly damaging to international trade and this was made evident in the performance of most of the world's economies.

Growth was also hampered by the trend in the energy prices, which in Spain reached levels never seen before. This had an impact on the income statements of companies and also the prices of goods and services offered to the public.

As a result of all this, the majority of the analysts as well as the Public Bodies (this includes the Banco de España, the European Community and the IMF), revised their forecasts for growth for the economy for 2022 downwards.

The Spanish National Statistics Institute has published its forecast for the Spanish GDP for 2021. According to the provisional data, the Spanish economy grew 5% over the period, the highest rate in the last 21 years, but very much below the Government's forecasts (6.5% and 7.2% in the Budget) and also below pre-covid levels.

Towards the end of the year, consumption tapered off due to the infections by the new Omicron variant, however, the data from the National Statistics Institute offered positive elements such as the quarterly growth in exports (6.5%) and investments in capital goods and machinery (6.1%), reflecting the dynamism of the Spanish business sector.

Another positive surprise was the trend in employment, according to data from the Labour Force Survey for the fourth quarter of 2021, published on 27 January.

Do you think the inflationary trends will continue?

At first, the Central Banks and analysts, almost unanimously, considered it to be a fleeting trend, given the temporary nature of the factors behind it. It was believed that the gradual normalisation of trade flows and the levelling out of energy bills would allow inflation to return to the path that it had previously been following.

However, today there are many doubts given the latest published figures, which are significantly higher than those forecast, even in terms of core inflation. The Federal reserve has announced that it will raise interest rates soon, in 2022, the general consensus is that it will probably increase them at least four times over the year.

It has also suggested that it will terminate the purchase of bonds (*Quantitative Easing*) and this could even reduce its Balance Sheet.

Likewise, the Bank of England has increased its rates twice, to now stand at 0.5% and even the president of the European Central Bank has expressed the institution's concern with regard to inflation that is higher than expected.

In any event, what will be essential is to manage the expectations of the economic agents to impede the creation of a classic inflationary spiral (prices-salaries), which could threaten the potential recovery.

So, do you think that the hopes of an economic recovery are well-founded?

The international organisations seem to think so, provided that the immunisation process against COVID-19 and its variants continues, especially in those countries where the vaccines are not arriving with sufficient fluidity or the social resistance to their use remains very high in spite of the evidence. Even so, they are revising their forecasts downwards just as the IMF has done.

In our area of influence, there are additional circumstances that may contribute to the economy recovering its brisk step. Firstly, I am referring to the European Central Bank's commitment to maintain favourable conditions so private and public agents can access financing. And there is also the European Union *Next Generation* programme, to facilitate the necessary structural changes to ensure long-term growth. I am convinced that if the projects that fall

under the umbrella of this programme are subject to a rigorous selection process and the money arrives where it has to in time, the production sector will not only rebuild itself, but it will become modernised at a much faster pace than under normal circumstances.

So, are you optimistic about what 2022 may bring us?

I want to be optimistic, but I am not going to underestimate the threats and uncertainties to the global economy. I have mentioned a few of them already, such as inflation, and it is also worth emphasising the geopolitical tensions, which are serious and varied, as well as the costs related to the necessary transition.

In the short term, one of the most serious continues to be that we believe that the fight against the virus has been won and we lose that sense of responsibility and prudence that we had during the worst moments of the pandemic.

Obviously, the high contagion capability shown by the new predominant variant, Omicron, is causing widespread concern, although fortunately it seems to be less harmful than the previous variants.

No one wants a return of the mobility restrictions that have changed our lifestyles so much and done so much damage to all sectors of the economy, especially services. But this essentially depends on us and, of course, on the success of the authorities when it comes to finding the necessary balance between preserving health and economic activity.

How do you see the financial sector?

Banks played a significant role during the first year of the pandemic. They prevented the illiquidity, derived from the lack of income due to mobility restrictions, from causing a general crisis in terms of business solvency, which would have been catastrophic. The banks also made a noteworthy effort to strengthen their balance sheets, anticipating a possible increase in non-performing loans.

'I want to be optimistic, but I do not underestimate the threats and uncertainties that lie in wait for the global economy; we must avoid believing that the fight against the virus has been won'

'It is important that the expectations of the economic agents do not contribute to the creation of an inflationary spiral that ends up ruining the potential recovery'

Thanks to this, the financial sector faced 2021 solidly, as was shown in the stress tests carried out on the 50 most important banks in the Union during the month of July, under the coordination of the European Banking Authority. All the Spanish groups participating in the tests demonstrated that they had satisfactory levels of capital to face the most adverse theoretical scenario, which foresaw three years of continued depression due to the health crisis.

In these tests, incidentally the most severe ever proposed by the EBA, Bankinter obtained the best mark of all the entities in our country and the third best of the 50 analysed, which demonstrates the soundness of our business model on a European scale, as well as the strength of our balance sheet and income statement and, therefore, our resilience in the face of the severe scenarios proposed.

'The Spanish financial sector faced 2021 solidly in terms of capital, as was shown in the stress tests carried out by the EBA'

The fact that the bank reached 2021 in such good conditions has not been without a cost to the shareholders.

For much of the last two years, the distribution of dividends and the buyback of shares were suspended based on the recommendation of the ECB. This measure was of a general nature and indiscriminate, which did not take into account the specific situation of each entity. This prevented the normal remuneration to shareholders, which had very unfavourable effects on the stock market valuation of the entire sector.

The ban was lifted when the panorama created by the pandemic began to clear up, so on 1 October 2021 we were able to pay out an interim dividend entirely in cash of 0.13 euros per share charged to the results of the year, not including the capital gain derived from the IPO of Línea Directa. In total, 119.78 million euros were distributed, an increase of 168% compared to the 44.72 million in 2020.

The bank again paid a second dividend on 30 December, charged to the same results for a gross amount of 0.0514 euros per share, representing an amount entirely in cash of 46.26 million euros.

In short, once the limitations on dividends have been lifted, our commitment is to maintain a payout, or percentage of the net profit that is distributed among the shareholders, of 50%, because we believe that the Bank's situation is more than capable of allowing this. To achieve this objective, the Board of Directors will propose the corresponding final dividend before the Annual General Meeting.

Is the Bank's situation able to cover that remuneration?

Absolutely. As I mentioned earlier, the results of the stress tests are conclusive. And the performance of the different Bankinter businesses in 2021, which the chief executive officer details on the following pages, was also very good, thanks to the extraordinary work of our

'Once the limitations on dividends have been lifted, our commitment is to maintain a 50% payout because we believe that the Bank's performance easily allows for this'

professionals and the growing marketing of high value-added financial products and services, based on innovation and specialisation.

In addition to these realities, the expectations for the bank are encouraging, as demonstrated last year by two of the major ratings agencies. S&P maintained Bankinter's rating at BBB+ in June and raised its outlook a notch from 'negative' to 'stable', as did DBR in November. In both cases, it was considered that the effects of the spin-off of Línea Directa would be offset by an increase in income from banking business and by Bankinter's presence in international markets.

What role does Sustainability play in the Bank's present and future?

Acting with integrity, developing equality and non-discriminatory policies, working actively in favour of environmental management and maintaining good relations with stakeholders are factors that, in addition to their deep ethical roots, attract talent, customers and capital. Investors are increasingly looking more favourably at socially responsible companies, because they have been shown to be more profitable. Banking supervisors also share this vision and promote the integration of

sustainable criteria in all business activities, as shown by the climate stress test that is scheduled to be carried out in 2022.

Bankinter has been aware of the strategic importance of Sustainability for years. In 2009, we were the first in the Spanish banking system to measure our carbon footprint and then register it. Now there is a much greater awareness about this issue, but Bankinter has been a sustainable bank for many years. This strategy is present in all our activity, as part of a plan called 3D, because it is developed around three dimensions: Economic, Environmental and Social.

By way of example, in 2021, Bankinter launched its first green mortgage aimed at financing highly efficient homes from the point of view of combating climate change. We also reached an agreement with Endesa (X) and OHLA to facilitate the energy rehabilitation in neighbouring communities taking advantage of funds from the Next Generation programme. The Bank also created an indicator - a green rating- which measures the vulnerability of its corporate customers to the effects of climate change and launched a new internal initiative, the Bankinter Healthy platform, which promotes healthy lifestyle habits among its employees in Spain, Portugal and Luxembourg.

The result of Bankinter's commitment to sustainability has been its recent renewal in the Dow Jones Sustainability index for the fourth consecutive year, in which the financial and non-financial companies with best practices in the area are listed, along with its inclusion in the Euronext Vigeo Eiris Eurozone 120 ESG index last summer.

In October, the bank joined the Net Zero Banking Alliance, an organisation sponsored by the UN and by the financial industry itself, thus reinforcing its commitment to reach net zero emissions in its investment and financing operations by 2050, in line with the most ambitious goals set by the Paris Climate Agreement. As regards its own emissions, Bankinter has been neutral since 2020.

How is the Foundation doing?

I don't think I am exaggerating when I say that it has become an essential instrument for anticipating the most important trends of the future in terms of innovation, based on a global, multidisciplinary and disruptive ecosystem of professionals from different fields. These experts generate knowledge that we then share through education and dissemination, in addition to making it a reality by promoting entrepreneurship.

The Foundation's programmes continue to function at a good pace, despite the difficulties caused by the pandemic. In 2021, the Future Trends Forum think tank presented two reports on trust in the digital age and the future of work. More than 143 university students participated in Akademia activities, putting the knowledge acquired in their formative stage into practice. The Startups programme went deeper into the performance of these companies towards becoming scale ups, by gaining in size and capacity for a long-term impact on society. And Cre100do continued with its work to support the best medium-sized companies in Spain, helping them grow through talent, culture, organisation and technology.

'Investors are increasingly looking more favourably on responsible companies and at Bankinter we are aware of the strategic importance of sustainability'

Interview with the chief executive officer

María Dolores Dancausa

'The good results of 2021 demonstrate the success of our strategy'



What is your take on the year and what is your assessment of the year's economic results?

I believe that 2021 has been a very positive year for Bankinter, in which we have achieved a net result of 1.333 billion euros, the highest in our history. This figure includes a capital gain of 895 million euros generated by the spin-off and IPO of our former subsidiary, Línea Directa Aseguradora. Obviously this is a non-recurring profit, but even without taking this capital gain into account, the bank's net profit was 38% higher than the previous year, reaching 437.4 million euros.

This profit is built on the income provided by our different lines of business, all of which have experienced a strong boost in the year, doubtlessly accompanied by a recovery in the economy.

The growth of all margins is a good sign of the greater commercial activity and a sample of the excellent prospects opening up for us in the future. Thus, net interest income reached 1.2753 billion euros, 2.3% more than in 2020, thanks to higher investment volumes and an improvement in spreads, despite the environment of negative rates still affecting us. The gross operating income, which includes all revenues and a series of regulatory costs, amounts to 1.8553 billion euros, up 8.6%, where commissions have performed well, 603 million euros, mostly from products and services that add value to the customer. And as for the operating margin before provisions, which already includes operating expenses, it has exceeded 1 billion

euros for the first time in our history and is 14% higher than in 2020.

All these figures place us in an optimal situation for the coming years and are a sign of a successful strategy and correct positioning in the market.

'We achieved a net result of 1.333 billion euros in the year, the highest in our history, but even without the capital gains from the Línea Directa operation, the result was 38% higher than the previous year'

'The growth of all the margins of the account is good proof of the momentum of the commercial activity and a foretaste of the excellent prospects that open up for us in the future'

How have the different accounting ratios closed the year and how do they compare with the rest of the sector?

The various ratios with which we obtain profitability, capital adequacy, efficiency or asset quality indicators all give fully satisfactory results. And the comparison for all of them with the rest of the entities in the sector is equally positive. For example, the return on equity, or ROE, excluding the capital gain of Línea Directa, rose to 9.6%, one of the highest among the main Spanish banks. The default rate, another of our traditional strengths, was 2.24%, 13 basis points less than in the previous year. This is all despite the end of the mortgage moratorium period. Another of the most closely monitored ratios, the Capital level, stands at a 'CET1 *fully-loaded*' of 12.1%, much higher than the supervisor's requirements, which for 2022 has been established at 7.726%, so we continue to be placed among the group of Spanish and European entities with the lowest capital requirement.

The best guarantee for all these data is the excellent results obtained by the bank in the stress test carried out by the European Banking Authority. The stress test revealed that in a hypothetical very adverse macroeconomic scenario the Bank would be impacted by only 104 basis points of capital, which translated into a relative position in this 'stress ranking', Bankinter has ranked first among the participating Spanish entities, and third among all European banks examined.

The spin-off of Línea Directa was the main operation in 2021. How was it carried out and what can we expect from the future performance of the entity without its contribution?

The spin-off operation of the Bankinter Group and listing on the Madrid Stock Exchange, which was scheduled for 2020 and had to be postponed until 2021 due to the pandemic, has been excellent for both Línea Directa and Bankinter and all its shareholders, who have been rewarded for the efforts made at the time regarding the capital increase we carried out to acquire 100% of the insurance company.

The operation consisted of the distribution of Bankinter's share premium among the shareholders, amounting to 1.184 billion euros, in the form of shares of Línea Directa, and its subsequent listing on the stock market as an independent entity. Given that the company was valued at 1.434 billion, this meant the distribution among the shareholders of 82.6% of the capital, with the bank retaining ownership of the remaining 17.4%. Today the company is worth almost 1.7 billion euros, which reflects the success of the operation. It has been shown that Bankinter and Línea Directa are worth more separately than together. From now on, both companies will be able to develop their strategies independently in their respective regulatory environments, with a capital structure and a dividend policy appropriate to their sector and circumstances.

'The best guarantee for all these data is the excellent results obtained by the bank in the stress test carried out by the European Banking Authority'

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Our challenge now is to offset the results provided by the insurance company with regular and recurring income from banking business. We aim to achieve this by 2023, equalling the figure of 550 million euros reached in 2019, when Línea Directa was an integral part of our accounts as a wholly-owned Bankinter subsidiary.

Such results will be the consequence of greater growth in all lines of banking business, both in the traditional and more mature ones, as well as in the most recent and with greater potential. And of course, they will also be a consequence of economic activity not making the same demands for provisions it did during the years of the pandemic.

What were the Business units with the most positive performance and on which do you expect to build this greater growth?

The vast majority of our business lines and customer segments maintained significant growth and we see excellent prospects in all of them. In Commercial Retail Banking, for example, all product categories, both active and passive, recorded high levels of new customer acquisition. The balance of salary accounts, a product that is a source of attracting new customers, rose to 14.9 billion euros from 12.7 billion in 2020; and in the mortgage business we have closed a historic year, with a new production that is 58% higher than last year. The asset management business, a great generator of fees and commissions, has had a brilliant year, especially in investment funds, showing a growth of 30% in the year.

Within Commercial Retail Banking, Bankinter has continued to increase its market share in strategic customer segments, with especially in Private Banking, whose assets under management reached 49.900 billion euros. I would like to highlight the synergies generated between this activity and that of Bankinter Investment, which has become a benchmark in the alternative investment business, as a value proposition in a highly volatile environment.

Turning to the Companies business, its loans and receivables were at almost at the same level as in 2020, which means that it offset the step effect produced by the absence of ICO-backed loans through organic growth.

But there are other types of lines that are going to gain more and more prominence in our results. Bankinter Portugal, for example, whose gross operating income has grown by 10% in the year, already generates 50 million in profit before taxes. Bankinter Consumer Finance has resumed activity thanks to the reactivation of leisure and consumption, and its new production reached 1.5 billion euros. I would also like to highlight the rising mortgage activity of Avant Money, in the Republic of Ireland, and the progress of EVO Banco, which continues to consolidate its position in the segment of younger and digital customers.

With these results, what do you forecast for the performance of the share price in the coming years?

It is always audacious to anticipate the performance of the stock markets, because it depends on many factors, many of them undoubtedly associated with the good performance and good management of the company, but many of them more associated with economic performance, geopolitical factors and the appeal typical of the sector as a whole.

For much of the year, bank share prices have been penalised by the economic crisis caused by the pandemic, and linked to it, by the ECB's recommendation to limit the distribution of bank dividends. The green shoots of recovery, driven by the arrival of European funds, the lifting of certain limitations on dividends, the improvement in the results of the banking business and, lastly, the possibility of interest rate hikes by the ECB, have stimulated the performance of bank share prices, including our own, since the beginning of 2022. If we take into account that strong economic growth is expected for both 2022 and 2023 and, in parallel, for Bankinter's business and its results, everything seems to indicate that the share value will continue to trend

'Our challenge now is to offset the results provided by the insurance company with regular and recurring income from banking business. We hope to achieve this in 2023'

upwards. At the close of these lines, Bankinter is already trading above its book value, being the only entity in Spain that is trading at a premium. In this sense, I have full confidence that in the medium term the market will know how to recognise the true value of the entity.

The reality of the sector continues to be marked by the impact of concentration operations. How do these transactions affect Bankinter and its position in the market?

Our position on mergers is well known and we are not going to change it. We have been an independent bank for more than half a century and we do not want to enter into this type of operation, because in exchange for a sudden increase in size, not necessarily long-lasting, they cause a lot of wear and tear and only make sense if they really add value, if they allow you to reach other geographies or Business units and if all of this also forms part of your strategic model. Therefore, the opportunity has to be extremely exceptional for it to pay off. It is true that we have made some acquisitions in recent years, with some very specific movements in Portugal, Ireland and Luxembourg. All of them have been a success, but we are not considering merger operations and in spite of that, we continue to grow organically.

The Spanish economy is pending the execution of the European recovery funds. What role does banking, and Bankinter in particular, play in this process?

Banking should play a leading role in the execution and distribution of European funds. Not only can we act as channelers, we are also in a position to advance aid to recipients and offer them additional financing if they need it. Thanks to our capillarity and in-depth knowledge of the customer, our contribution could be decisive in getting the funds to act as a catalyst for recovery.

At Bankinter we have set up a specific team to provide an agile response to the needs of our customers. We want to assist companies and give them the financial support they need so that they can start their projects without waiting for the requested aid to be executed. Furthermore many customers are proposing collateral initiatives to us for European funds, although linked to their framework, and at Bankinter we will also support this type of solvent project with additional financing.

One of the trends in the financial business is the strong performance of the cryptoassets market. What is Bankinter's position on this issue?

Well, at Bankinter we do not recommend this type of investment asset to our customers because of its high speculative level and the difficulties in measuring and comparing it with other investment assets.

That said, the technology underlying cryptocurrencies, the blockchain technology, offers great benefits, among them the traceability of assets, and we expect it will be successful, so we are going to continue exploring other applications of this technology, particularly from our subsidiary bank EVO, as one of its missions is to act as a laboratory for technological tests and ideas.

What are the expectations for 2022?

We hope that this will be the year during which the economic recovery continues, approaching the GDP levels reached in 2019. We also hope that it will be the year in which the demand for credit recovers the levels reached back then.

Of course, there are some uncertainties that remain which could alter the pace of the recovery, including the trends for inflation, interest rates, the non-performing loan ratio, and the always imprecise evolution of the pandemic and the paths it may take, which have surprised us in the past when we already believed that the virus was defeated.

'Bankinter is already listed above its book value, currently being the only entity in Spain that is listed at a premium'

Of all these uncertainties, controlling inflation will be the main challenge for the monetary authorities, and the positive performance of multiple economic indicators will largely depend on the successes with which it is faced.

Of the remaining uncertainties mentioned, we will surely see interest rates that gradually leave behind the anomaly of zero or negative rates, but we do not expect their increase to be either rapid or radical, due to the many dependencies that have generated so many stimuli in the economy for so long.

Finally, there is the trend of the non-performing loans once the ICO credits and the benefits of the redundancy plans have reached maturity. It is possible that these will increase slightly, although at Bankinter we have non-performing loans under control thanks to our perseverance in proper credit risk management and a prudent provisioning policy.

In summary, although we are subject to certain uncertainties that are beyond our control, at Bankinter we will continue to focus our activity on the businesses that provide the greatest value for our customers, redoubling our efforts to continue with the profitability figures that have traditionally distinguished us from the rest of the industry.