

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'