

# 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.

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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.

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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.