

Bankinter keeps up business drive, posting 309 million euros in net profits in June, up 18.3%

- The bank improves in all account margins, with and without newly acquired EVO Banco and Avantcard.
- Customer retail funds (+12.1%) and loan book (+8.3%) grow at higher rate than industrial average in Spain.
- Bankinter maintains top profitability (12.8% RoE) and NPL (2.7%) figures, with capital adequacy (fully-loaded CET 1 ratio of 11.50%) well above the European Central Bank's minimum requirement.

25/07/2019. At the end of the first half of 2019, Bankinter continues to show strength with a gainful and diversified customer business, a sound balance sheet and a level of profitability well above the industrial average.

Accordingly, Bankinter has earned a net profit of 309 million euros at 30 June and a pre-tax profit of 406.9 million euros, up by 18.3% and 13.7%, respectively, from last year.

It is important to note that final data already include business figures from EVO Banco and its consumer credit subsidiary in Ireland, Avantcard, integrated within Bankinter Group on 31 May following the required authorisation from regulators.

Minus the goodwill from the acquisition of EVO and other figures on acquired businesses, net profit would amount to 264 million euros, 1.1% higher than in June 2018, with a pre-tax profit of 387.3 million euros, up 2.6%.

One of Bankinter Group's strongest points continues to be its return on equity (RoE) of 12.84%, outperforming listed banks in Spain.

Quality of assets also remains a distinguishing feature. Its non-performing loan ratio, at 2.71%, still maintains a considerable distance from the industrial average.

In regard to capital adequacy, the interim CET1 fully-loaded capital ratio stood at 11.50%, well above the European Central Bank's minimum capital requirement of 8.20% for Bankinter this year.

In terms of liquidity, the funding gap (between loans and customer funds) fell to 2 billion euros from the 4.2 billion gap recorded a year ago. In parallel, the loan-to-deposit ratio stands at 102.5%, versus 106.6% in the first half of 2018.

Lastly, wholesale debt issues reaching maturity this year amount to 800 million euros; and maturities in 2020 are expected to total another 800 million euros. Nonetheless, this year, the

bank has already issued 500 million and 750 million euros in preferred and non-preferred senior debt, respectively.

To cover these maturities, the Group has 12.4 billion euros in liquid assets and the capacity to issue up to 7.1 billion euros in covered bonds.

As a result of this strong performance, Moody's has recently upgraded the bank's long-term credit rating from Baa2 to Baa1, with a stable outlook.

All margins still on the rise

Bankinter Group's earnings continue to be driven mainly by its customer business, which has the robustness needed to sustain high revenues. This is evident across all account margins, which are higher than those from the same period in 2018.

Despite current interest rates, Bankinter's net interest income at 30 June 2019 reached 567.9 million euros, a year-on-year increase of 4.6%. Without the contribution from EVO Banco, it would have increased by 3.6%.

Gross operating income amounted to 1,004.7 million euros, up 2.7%. Net fee income stood at 231 million euros, growing by 3% and accounting for 23% of this margin. Minus EVO Banco, gross operating income would have grown by 2.1%.

Moreover, pre-provision profit ended the last six months at 490.3 million euros, a 3.4% year-on-year increase (and a 4.7% increase minus EVO). Operating costs have increased by 2.1%; however, not including EVO Banco, they see a slight decrease. This cost control has led to an improved cost-to-income ratio of 46.4% for banking operations with amortisations, bearing in mind that, at the end of last year, it stood at 46.8% owing to higher revenues.

Bankinter Group's total balance sheet assets amounted to 82,764.7 million euros (including EVO Banco and Avantcard), 8.8% more than at 30 June 2018.

Customer loans and receivables totalled 59,223.4 million euros, up 8.3% year on year. In Spain alone (not including EVO Banco), the Group's lending grew by 5%, while across the industry, it shrunk by 0.9% according to Banco de España figures from May.

Customer retail deposits increased by 12.1% (or 5% only in Spain, minus EVO) to 55,926.2 million euros. Furthermore, off-balance-sheet managed funds total 28,861.3 million euros, a 3.1% increase.

Bankinter Group's non-performing loan ratio fell 54 basis points from 3.25% to 2.71% year-on-year. In Spain alone, the NPL ratio is even smaller: 2.68%.

In this setting, the decrease in foreclosed property assets during the period is significant. They now amount to 315.5 million euros, 18.5% less than a year ago. The coverage ratio for foreclosed assets was 45.5%.

A sound and profitable business.

Within the bank's customer business, its corporate banking operations continue to contribute the most to gross operating income.

The corporate loan book has continued to swell, reaching 25.3 billion euros in contrast with 23.9 billion euros from a year ago. In Spain alone, new lending to corporates has totalled 23.7 billion euros, as opposed to 22.7 billion euros recorded a year ago. This constitutes an 4.5% increase at times when, across the financial system, lending has continued to fall (-3.7% according to Banco de España figures in May).

Of this business's loan book, 50% relates to large corporates; 27%, to mid-corporates; and 23%, to small companies.

Two areas are the main drivers of corporate lending growth in Bankinter: International trade and export finance, and investment banking. Both areas have performed well in new loans (up by 23% and 15% from a year ago, respectively) and gross income (up by 15% and 18%, respectively).

With respect to commercial banking (oriented toward individuals), the performance of private banking and personal banking stands out in particular. Both businesses cover high net-worth customers, a segment in which Bankinter has a significant market share in Spain.

In private banking, assets under management amount to 38.2 billion euros, 4% more than at the end of June 2018. In the first six months of 2019, it increased by 2.5 billion euros.

Furthermore, in personal banking, managed wealth grew by 5% to 23 billion euros, a 1.4 billion euros increase over the last six months.

Commercial banking operations have also performed well in lending and savings products as well as off-balance sheet managed funds. Growth is also noteworthy in products on which the bank has been placing its focus in particular. For instance, the payroll account ended the half-year period with a balance of 9.5 billion euros, up 24% from a year ago. This speaks to the level of market acceptance of a product that, unlike other similar products, has not changed its advantageous conditions since it began to be marketed in 2012.

More can be said about mortgages. In Spain, new mortgage originations in the last six months amount to 1.42 billion euros, a 10% increase with respect to the same period in 2018. This accounts of a market share of 5.9% in new mortgage originations. The loan-to-value ratio of these new mortgages is 64%, which demonstrates the rigorous risk control involved in these new originations.

As of 30 June 2019, total mortgages originated in Spain amount to 22.5 billion euros, up 1.7% from a year ago, despite the 1% decrease in mortgage lending seen across the Spanish banking system as of May.

In Línea Directa Aseguradora, a company wholly owned by Bankinter, new policies increased by 7.1%, amounting to 3.13 million euros in insured risks. Issued premiums total 451.3 million euros, up by 6.1%, well above the industry in terms of motor insurance (+3.9% vs +1.9% across the industry) and home insurance (+11.6% vs +3.7% across the industry, based on figures from May). Línea Directa Group's combined ratio stands at 88.1%, with an RoE of 38%.

Consumer credit operations, led by Bankinter Consumer Finance, saw growth carry over from the previous quarter. The loan book swelled to 2.2 billion euros, a year-on-year increase of 28%,

with 405 million euros in new lending, up 35% from the first six months in 2018. The customer portfolio has increased by 15% to 1.4 million.

Operations in Bankinter Portugal continue on the same positive trend, as evidenced by the performance of its loan book and deposits, which both grew by 13% during the period. Pre-tax profit in the last six months totals 35 million euros, 11% more than in the June of 2018.

Last quarter, Bankinter Group closed a deal to acquire EVO Banco and its Irish consumer credit subsidiary, Avantcard, whose performance has already been reflected on its balance sheet: 1.3 billion in loans and 3.2 billion in customer funds.

Lastly, it is important to mention the level of digitalisation of the bank's customers. 97% use their mobiles, PCs or tablets to engage the bank, either exclusively or along with other channels. This speaks to the level of development and solid implementation of this strategy.