

Highlights

- Consolidation of the corporate finance business.
- Development of business finance.
- Gearing up to providing funding to individuals.

Business overview

The Other Regions business comprises mainly Mexico, offices in other countries and representative offices that offer all kinds of banking and financial services in corporate banking, private banking and commercial banking.

As part of the internationalisation process that commenced under the TRIPLE plan, the Bank decided to focus on Mexico, a country that represents a clear opportunity as an attractive market for the banking business and one in which Sabadell has been operating since 1991, first by opening a representative office and then through its interest in Banco del Bajío, held for 14 years (from 1998 to 2012).

The business was established in Mexico through an organic project with the creation of two financial vehicles, starting with a SOFOM (Mexican multi-purpose financial company), which commenced operations in 2014, followed by a bank. The banking licence was obtained in 2015 and the Bank commenced operations in early 2016.

Both vehicles operate using a customer-focused approach, with agile processes, digital channels and no branches. The roll-out of commercial capacities is based on the aforementioned two vehicles and the following business lines:

- Corporate Banking, with the focus on companies and major corporations: 3 branches (Mexico City, Monterrey and Guadalajara) and sector-specific specialisation.
- Banking for Companies, which reproduces the Group's original business relationship model: launched in 2016 with 13 branches and in the growth phase over the next few years.
- Personal Banking, based on a disruptive digital model initially focused on capturing customer funds. Launch is scheduled for early 2018.

Earnings before taxes

130€M

Management priorities in 2017

2017 was a year of considerable challenges and achievements for Sabadell in Mexico with the priority of continuing to build the banking business.

To consolidate the corporate banking business and develop banking for companies, progress was made with integrating a multi-channel range of products and services through a sales team with vast experience of the local market, and the focus was on developing a stand-out customer services model based on the Group's values: commitment, quality and proximity.

Furthermore, Banking for Companies has focused on strengthening its sales force, by expanding the team and its territorial presence, increasing from 6 to 13 centres for companies.

Meanwhile, Corporate Banking increased the return for its customers through cross selling products and achieved a leading position in specialised sectors like hotels and renewable energies.

Actions in those two business lines enabled Sabadell to rank tenth by lending volume to companies, and sixth in terms of annual growth in this business, competing with institutions that have been operating in the Mexican market for decades.

2017 was also a year of preparation for the launch of Personal Banking in 2018. A predominately digital model, without precedent in the local market, aimed at becoming the first Mexican bank to offer 100% digital sign-up and management of customers' needs. All of this is based on a savings products proposal with an attractive return backed by an agile, straightforward service using a mobile app, the channel through which we relate to our customers on a day-to-day basis.

Key business data

€M

T10 Key figures
Other Regions

	2016	2017	% 17/16
Net interest income	300	293	(2.4)
Equity-accounted affiliates and dividends	3	3	(2.0)
Fees and commissions (net)	64	50	(22.4)
Net income from financial transactions and exchange differences	23	9	(60.1)
Other operating income/expense	3	3	—
Gross income	394	358	(9.1)
Administrative expenses and depreciation and amortisation	(206)	(205)	(0.4)
Operating profit/(loss)	188	153	(18.7)
Provisions and impairments	(29)	(24)	(14.6)
Gain/(loss) on derecognition of assets, etc.	(0)	1	—
Profit/(loss) before tax	160	130	(18.5)
Income tax	(54)	(37)	(31.1)
Profit/(loss) after tax	105	93	(12.1)
Minority interest	(0)	4	—
Profit/(loss) attributable to the group	105	89	(16.0)
Ratios (%)			
ROE (profit / average shareholders' equity)	13.2%	8.8%	—
Cost:income (general administrative expenses / gross income)	49.1%	54.5%	—
NPL ratio (%)	0.5%	0.9%	—
Coverage ratio (%)	174.8%	113.0%	—
Assets			
	20,740	15,298	(26.2)
Loans and advances to customers (net), excluding repos	12,083	8,836	(26.9)
Real estate exposure (net)	22	23	3.5
Liabilities			
	19,629	14,431	(26.5)
On-balance sheet customer funds	9,116	5,024	(44.9)
Assigned capital			
	1,111	866	(22.0)
Off-balance sheet customer funds			
	988	1,033	4.5
Other indicators			
Employees	1,059	765	(27.8)
Branches	61	42	(31.1)

The average exchange rate in 2017 was USD 1.132, MXN 21.303 and MAD 11.597 for the income statement, and the exchange rates for the balance sheet were USD 1.199, MXN 23.661 and MAD 11.426.

The average exchange rates in 2016 were USD 1.105, MXN 20.736 and MAD 10.666 for the income statement, and the exchange rates for the balance sheet were USD 1.054, MXN 21.771 and MAD 10.652.

Net profit in 2017 amounted to €88.6 million, a 16.0% year-on-year decrease following the sale of Sabadell United Bank (SUB), which was previously included in this business unit (T10). Excluding this sale, net profit would have increased by 25.4%, due mainly to the sound performance by net interest income and fees and commissions and to judicious control of administration and development expenses.

Net interest income fell by 2.4% to €292.7 million. Not counting the SUB sale, growth was 21.8%, mainly due to Mexico.

Net fees and commissions declined by 22.4% due to lower commissions on securities and mutual funds and a decline in corporate banking transactions in Mexico.

Gross income fell 9.1% to €358.0 million, but would have increased by 9.9% but for the SUB sale.

Administration expenses and amortisation and depreciation charges fell by 0.4%. Not counting the SUB sale, this item would have increased by 22.3%, due mainly to the costs of expansion in Mexico.

Net lending amounted to €8,836 million, down 26.9% due to the SUB sale, but would have increased by 9.2% due to performance in Mexico if the impact of SUB is not included. Loan loss levels remained very low, evidencing healthy risk management at this unit.

Customer funds on the balance sheet amounted to €5,024 million, having decreased by 44.9% due to the Sabadell United Bank sale. Excluding that sale, customer funds would have fallen by 3.8% while off-balance sheet funds would have risen 4.5% to €1,033 million.

The two subsidiaries in Mexico are rated by Standard & Poor's and by the Mexican agency HR Ratings. Due to the positive performance by the subsidiaries, S&P upgraded the rating by three notches and HR Ratings by one notch in 2017. At present, both SabCapital and Banco Sabadell have a long-term rating of A- from Standard & Poor's, with positive outlook (formerly stable), and AA from HR Ratings.