

BNSY Earnings Call Transcript

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Quarter: 3

Lluc Sas: Good morning, and welcome to Sabadell's results presentation for the third quarter and first 9 months of 2025. Today, we are joined by our CEO, Cesar Gonzalez-Bueno; and our CFO, Sergio Palavecino. The presentation will follow a similar structure to previous quarters. Our CEO will start by sharing strategic priorities and then discuss the key developments of the quarter. Next, our CFO will provide a detailed review of financial performance and the balance sheet before our CEO concludes with closing remarks. Finally, we will open the floor for a live Q&A; session to address your questions. So Cesar, over to you.

Cesar Gonzalez-Bueno Wittgenstein: Thank you, Lluc. Good morning, everyone. Before sharing the results of the third quarter, I will start my presentation today with a reflection on Sabadell's evolution since '21 as well as the prospects for the upcoming years. In Slide 4, in early '21, we launched a strategic plan focused on transforming each one of our businesses through specific levers for each one. This transformation would support the financial turnaround of the group. Since then, we have executed the strategy in a decisive and accelerated manner. We have talked about this many times. I won't elaborate into the details now. As a result of our transformation, a solid financial turnaround has been delivered. Return on tangible equity has jumped from 0% in 2020 to the current double-digit figures, which are above our cost of capital. By the way, our transformation process and financial turnaround has not been affected by the hostile takeover bid, and we have been dealing, which we have been dealing with over the last 1.5 years. In July 25, we presented our new strategic plan. An important milestone is the sale of TSB at very attractive multiples, which crystallizes the value created since we acquired TSB in 2015. The sale was signed with Santander and approved by our shareholders last August, and we expect the closing early next year. The new strategic plan is focused on growth and shareholder remuneration as Sabadell has not reached its potential. In terms of profitability, we expect return on tangible equity to keep growing and reach 16% by 2027. We reaffirm all the objectives of the strategic plans in terms of return on tangible equity, growth and shareholder remuneration. On Slide 5, we have a quick reminder of the key elements that underpin our equity story. First, Spain. Following the sale of TSB, the vast majority of our businesses is now in Spain, one of the fastest-growing economies in Europe. Second, growth. Our approach is clear: prudent market share gains while preserving asset quality and pricing. Third, execution. We have a solid track record of delivering results since 2021. We are confident we will deliver on our current targets. And fourth, shareholder remuneration. We have a proved and strong ability to generate capital while growing our lending book. We will leverage on this to offer an attractive shareholder remuneration in the upcoming years. In Slide 6, we are reminding the financial guidance for 2027, which we announced in July and we confirm today. To summarize, our return on tangible equity for '27 is 16%. We also announced cumulative shareholder remuneration between '25 and '27 and we expect it to amount to EUR 6.3 billion. And in September, we actually improved our expectations on shareholder remuneration from this EUR 6.3 billion to EUR 6.45 billion. In Slide 7, we provide more color on shareholder remuneration. The expected EUR 6.45 billion includes recurring distribution based on a 60% payout ratio. This is executed through two interim cash dividends per year plus one final cash dividend. On top of the 60% payout, we are planning to distribute excess capital above the 13% core Tier 1 threshold. Finally, we will distribute the extraordinary dividend from the sale of TSB once the deal is closed. As you can read in the bottom right-hand slide -- of the slide,

we reaffirm that yearly cash dividends per share in '25, '26 and '27 will be higher than cash dividends per share paid in 2024, which was EUR 0.2044. And now let's move to the third quarter results highlights. In Slide 9, the key messages of the quarter. Third quarter results are on track to meet 2025 guidance. Our recurrent return on tangible equity, that is excluding one-offs, and extraordinary items stood at 14.1%. Core Tier 1 reached 13.7%. We kept generating capital in the quarter and in line with our strategy. I will later elaborate on this. Commercial activity continued to accelerate, both performing loans and customer funds grew by around 8%, excluding TSB. Core revenues remained in line with expectations. NII is on track to meet the EUR 3.6 billion target for 2025. Fees grew by 3.7% year-on-year. Asset quality continues to improve. Total cost of risk stands at 37 basis points, decreasing by 18 basis points year-on-year. Finally, we are pleased to confirm a second interim cash dividend of EUR 0.07 per share payable on December 29. Let me remind you that 2025 shareholder distribution amounts to a total of EUR 1.45 billion. On Slide 10, we turn to volumes. One more quarter, we delivered strong growth, both in loans and customer funds. Performing loans ex-TSB grew by 1.2% quarter-on-quarter, even with expected third quarter seasonality. On a year-on-year basis, loans ex-TSB grew by above 8%. On the right-hand side of the slide, total customer funds ex-TSB grew by 1.5% in the quarter and by 7.8% year-on-year. This is mainly driven by off-balance sheet funds, which grew by more than 15% year-on-year. Regarding TSB, volumes in euros were impacted by sterling depreciation, but remained fairly stable at constant FX, both quarter-on-quarter and year-on-year. All in all, at constant FX, group performing loans grew by 5.9% and customer funds increased by 6.4%. If we move to slide origination, and we talk now about loan origination in Spain, let me start with new mortgages. Origination in the first 9 months of the year increased by 26% compared to 24. Mortgage origination in Q3 decreased by 12% quarter-on-quarter, driven by seasonality. Our volumes of new mortgage origination remain reasonable. Our new lending market share is in line with our stock market share. Furthermore, we keep managing risk-adjusted return on capital rigorously for new mortgages to make sure growth is delivered in a profitable manner. Moving to new customer consumer loans. We continue to perform well, growing origination by 19% in the first 9 months of the year versus previous year. In new loans and credit facilities to SMEs and corporates, there was the expected quarterly seasonality. Year-on-year, evolution has been broadly stable. Finally, Third quarter origination of working capital finance declined slightly compared to Q2. However, it increased 3% year-on-year. Yearly cumulative origination in SMEs and corporates remains broadly stable compared to '24. All in all, current levels of new lending in all products allow for growth of the loan book. On Slide 12, performance of Payment systems remains strong. On the first 9 months, cards turnover increased by 6% and point-of-sale turnover rose by 2%. We can see a slower growth in point-of-sale turnover. Taking into account our already strong market share in this business, we are now focused on pricing and profitability. This approach has resulted in a reduction of certain exposures with very low margins, but we have increased total fees coming from this business. In the bottom half of the slide, you can see the evolution of savings and investment products. They grew by EUR 4.8 billion in the year, driven by an increase of EUR 6.8 billion in off-balance sheet products. On Slide 13, we show the breakdown of performing loan book ex-TSB across segments and geographies. In Spain, our performing loans were up by 0.9% quarter-on-quarter and by 7.6% year-on-year. All segments and products keep growing. The stock of mortgages grew by 5.6% year-on-year, consumer loans by 19% and SMEs and corporates grew by 6.2%. International operations were equally strong with performing loans by -- up by 11% year-on-year. In sum, performing loans ex-TSB grew by 8.1%. In Slide 14, I will elaborate on our strategy to enhance capital generation while growing loan book. I think this is a crucial element of our strategy, which we have shared before. We keep growing our book significantly, yes. But on the left-hand side of the slide, you can see that the probabilities of default of new lending originated in '25 are much lower than those of new lending originated in previous years. These are the result of our approach to credit growth, as we explained in the presentation of our strategic plan in July. In the last few years, we have been working very significantly on improving our risk models and processes. We have done this on a portfolio-by-portfolio basis. Once the risk origination capabilities of a given portfolio were improved, we fostered lending growth in that particular portfolio. Furthermore, the quality of the risk we are granting after improving our models and processes is much better as we are able to skew new lending towards lower-risk segments in each portfolio. On the right-hand side of the slide, you can

see a simplification of the implications of our strategy. In each portfolio, we might be obtaining lower loan yields, but at a lower cost of risk as the resilience of our franchise improves and we generate more capital. As a matter of fact, we have already generated a very handsome figure of 176 basis points of capital year-to-date. This is fully in line with guidance that we shared in our Capital Markets Day of 175 basis points per year. And this is for the first 9 months of the year, the 176 basis points. Let's turn now on Slide 15 for the U.K. business. As expected, volumes remained broadly stable in the quarter. Net profit of TSB reached GBP 59 million in the quarter, which translates into almost GBP 200 million in the year. That brings its contribution to Sabadell to EUR 242 million year-to-date, up by 44% year-on-year. Stand-alone return on tangible equity was 13.8% despite having a high solvency that remained strong with a core Tier 1 of 16.3%. Finally, the TNAV increased by GBP 104 million between April and September. This will be included in the final proceeds coming from the sale of TSB to Santander, ensuring TSB continues to contribute to Sabadell until the transaction closes. On Slide 16, we can see a summary of our Q3 results. Net profit ex TSB amounted to more than EUR 1.1 billion in the first 9 months of the year. Net profit of the group reached almost EUR 1.4 billion. This implies a recurring return on tangible equity of 14.1%. This level of profitability allows us to grow our loan book while accruing a 60% dividend payout and still generate capital. We have already, as I said before, generated 176 basis points of capital year-to-date. And indeed, this is a high capacity to generate capital and it is a key factor supporting our high shareholder remuneration. And with this, I will now pass the floor to Sergio, who will provide a more detailed overview of the bank's financial performance.

Sergio Palavecino: Thank you, Cesar, and good morning, everyone. Let me start by showing the detailed P&L for the quarter and for the first 9 months of the year. As always, we have prepared the full group P&L; as well as the P&L; ex TSB, which will be the relevant perimeter going forward once we close the TSB sale. The performance of the different lines of the P&L; is aligned with our year-end guidance, and we will review them in a minute. Whilst we are on this slide and before going into the detail of each of the lines, I'd like to point out that on the trading income line, this quarter, we recorded an extraordinary gross expense of EUR 23 million. This reflects mainly two items, minus EUR 8 million one-off related to liability management and minus EUR 15 million related to FX hedging on the entire proceeds from the sale of TSB, which will be quarterly incurred until the transaction is closed. We will now go through the different P&L; items in more detail, focusing on Sabadell's performance, excluding TSB. Starting with NII on Slide 19, I'd like to highlight that the net interest income is broadly stable this quarter and future growth will be primarily driven by volumes. Excluding TSB, NII closed at EUR 899 million in Q3, reflecting a marginal quarter-on-quarter decline of 0.8%. Now let's look at the top right-hand side of the slide to understand the drivers behind this quarterly evolution. Moving from left to right. Customer NII had a negative impact of minus EUR 5 million. Within this, the customer margin decreased by EUR 24 million, mainly due to lower loan yield. However, quarterly average volumes of both loans and deposits had a very positive impact in the quarter, contributing EUR 8 million and EUR 12 million positively, respectively. The FX effect was marginally negative, subtracting EUR 1 million due to the depreciation of the U.S. dollar. The excess liquidity and other items had a combined impact of EUR 19 million adverse. This reflects the combination of reduced excess liquidity used to finance volume growth invested at a lower ECB deposit facility rate. Wholesale funding costs contributed positively with EUR 14 million, supported by lower funding needs, the maturity of early amortization of expensive instruments and the benefits of the floating rate hedges. And finally, one additional business day in the quarter had a marginally positive impact of EUR 3 million. Overall, we can see that the positive contributions from larger volumes and lower wholesale funding costs helped to offset the drag from lower customer margins and reduced liquidity contribution. TSB added EUR 303 million, in line with Q2 as the higher contribution from the structural hedge was fully offset by the depreciation of the sterling. All in all, we are on track to meet our 2025 NII ex TSB guidance of EUR 3.6 billion. Let's now move on to the fees on the next slide. For Sabadell, excluding TSB, the quarter saw a decrease of 4%. This was mainly due to the usual seasonality in the quarter, particularly in credit risk as well as service banking fees, which were lower during the summer season. However, year-on-year performance remains positive with fees growing by 3.7%. This growth reflects strong contributions from asset management and insurance products, which continue to support fee income. Based on this going forward, we confirm that we remain on track to meet our guidance of mid-single-digit fee growth in

2025, excluding TSB. Now moving on to costs on Slide 21. Total group costs remained contained, reflecting disciplined cost control and supported by depreciation of the British pound. On a year-on-year basis, costs remained broadly stable, increasing by just 0.5% year-on-year. In this context, we confirm again our guidance of low single-digit growth in cost, excluding TSB. On the next slide, we cover cost of risk and provisions. The cost of risk continues to evolve in line with our year-end targets or even better, reflecting prudent credit risk management. Looking at the bridge on the top right-hand side of the slide from left to right, we booked EUR 88 million of loan loss provisions, excluding TSB, during the quarter, which leads to a credit cost of risk of 21 basis points in the year. Next, a positive of EUR 5 million in provisions driven by foreclosed asset provision releases, along with capital gains on real estate assets. NPA management costs and other provisions, mainly related to litigation and other asset impairments in line with the usual run rate. Finally, TSB provisions contributed EUR 16 million this quarter. All in all, total provisions equate to a cost of risk of 37 basis points when excluding TSB. And looking ahead, we expect the total cost of risk, again, excluding TSB, to remain in line with our full year guidance or a touch better. Slide 24 provides a closer look at nonperforming loans, which continued to improve both quarter-on-quarter and year-on-year. The NPL ratio for the ex TSB perimeter declined further to 2.75%, representing a quarter-on-quarter reduction of 6 basis points and a year-on-year reduction of 96 basis points. Meanwhile, the coverage ratio remained broadly stable during the quarter and increased by 5% points over the year, reaching almost 70%. This once again confirms that our cost of risk is improving, but not at the expense of our coverage ratio. Looking at the exposures and coverage level by stage on the right-hand side, we can see that Stage 2 and Stage 3 exposures at ex-TSB level decreased by circa EUR 1.8 billion and EUR 1 billion, respectively, over the last 12 months, which I believe are remarkable figures. Moving on to the next slide. We can see that the stock of foreclosed assets continued to decline quarter-on-quarter, quarter after quarter. This is virtually a runoff portfolio with very limited entries and sales over the last 12 months of 20% of the stock at an average premium of 11%. Total NPAs, which include both NPLs and foreclosed assets, decreased by 19% year-on-year. To sum up, over the past 12 months, we have seen a strong improvement across all the 3 pillars of asset quality. Firstly, NPAs are down by around 20%. Secondly, the coverage ratio has improved by 4 percentage points. And all this has been done provisioning less. Turning now to liquidity and credit ratings. All indicators show that we ended the quarter with a very solid liquidity position, as you can see from this slide, with the loan-to-deposit ratio ex TSB showing a slight increase to 94%. Moving on to the credit ratings. Moody's upgraded Banco Sabadell's long-term rating to Baa1. This upgrade reflects the bank's improved solvency supported by the continued enhancement of both asset quality and profitability compared to past performance. Also, Fitch affirmed our long-term rating at BBB+, giving it a stable outlook once the hostile takeover bid is over. On the next slide, we present our current MREL position. We are comfortably meeting our MREL requirements in terms of both risk-weighted assets and leverage ratio exposure. In addition, we have built a solid management buffer across all requirements, which is our funding plan needs and will help to reduce wholesale funding costs in the coming quarters. For the last quarter -- sorry, in the last quarter, we issued one senior nonpreferred and one SRT transaction. And for this fourth quarter, the last one of the year, we expect one more SRT transaction to take place. Turning now to capital. At the end of September, our CET1 ratio reached 13.74%, reflecting an increase of 18 basis points during this quarter. Looking more closely at the quarterly evolution, we recorded 49 basis points of capital generation per dividend accrual. This includes 60 basis points from organic CET1 generation after deducting AT1 coupons. Zero impact from fair value reserve adjustments, minus 11 basis points from risk-weighted assets growth. Then the accrual of a 60% dividend payout represents an impact of minus 31 basis points. Now looking at the right-hand side of the slide, in terms of available capital to meet the announced shareholder remuneration, we already have EUR 3.7 billion of accrued and unpaid dividends plus excess capital above the 13% CET1 ratio on a pro forma basis. This means after the sale of TSB. This capital has already been generated. Now let's talk about the expected distributions on the next slide. We expect to distribute EUR 3.6 billion in the next 6 months, which is equivalent to more than 20% of our current market cap. This amount is the result of a second interim dividend of EUR 350 million already agreed by the Board, and that is EUR 0.07 per share in cash, which will be paid on December 29. This will be followed by the final dividend plus the excess capital of 13% CET1 to be paid after the Annual General

Meeting. The estimated amount is around EUR 750 million and its composition, which may combine a cash dividend and a share buyback still needs to be defined by the Board of Directors. Finally, the extraordinary cash dividend of EUR 2.5 billion that will be paid on the last day of the month following the closing of the TSB sale. As we have seen in the previous slide, the capital required for this remuneration has already been generated. I will now conclude my part of the presentation by highlighting our shareholder value creation and the impact of TSB sale on Sabadell's multiple -- current valuation multiples. Sabadell continues to deliver strong value creation for its shareholders. This is reflected in a 17% year-on-year growth in tangible book value per share plus the dividends distributed over the last 12 months. And finally, given the importance of the extraordinary dividend related to the sale of TSV, let me share one aspect about the valuation. When we look at the 2027 consensus estimates, the Sabadell perimeter obviously already excludes TSB. Therefore, in order to accurately compare that figure with the current market cap, this extraordinary dividend for the sale of TSB must be adjusted for. So when adjusting for the EUR 2.5 billion extraordinary dividend, the market cap is EUR 14.5 billion. This adjustment obviously does affect the valuation metrics, particularly price to earnings ratio. When using the adjusted market cap as of November 11, Sabadell's P/E is below 9x and compares to an average of more than 10x for Spanish peers. And with this, I'll hand over to Cesar, who will conclude today's presentation.

Cesar Gonzalez-Bueno Wittgenstein: Thank you, Sergio. To conclude, I would like to review our financial targets ex TSB for '25. We are on track to delivering these yearly targets. Starting with NII, we have delivered EUR 2.7 billion in the first 9 months of '25. So we are well positioned to achieve the full year target of EUR 3.6 billion. Fees and commissions have grown by 3.7% year-on-year consistent with our mid-single-digit expectations. On the cost side, total expenses remained under tight control. We are well within the low single-digit range. Risk metrics remain robust with total cost of risk at 37 basis points, in line with our guidance and close to -- that is close to 40 basis points. In summary, all P&L; lines, ex TSB, are on track to meet the year-end guidance and we remain confident in delivering a group return on tangible equity of 14.5% by year-end. Finally, let me highlight that shareholder remuneration is projected at EUR 145 billion for 2025, reflecting an improved outlook. And with this, I will hand over to Lluç for Q&A.;

Lluç Sas: Perfect. Thank you, Cesar. We will now begin the Q&A; session. As we have a limited amount of time, I would kindly ask you to limit the number of questions to no more than 2. Operator, could you open the line for the first question, please?

Operator: First question is coming from Maks Mishyn from JB Capital. Please go ahead.

Maksym Mishyn: Thank you very much for the presentation and taking our questions. Two questions for me. The first one is on cost. Could you confirm if all the costs related to the tender offer have been booked already? Or is there anything else left for the first quarter? And if so, in what line? And then on medium-term growth, do you expect the strong trend to continue in 2026 if the loan book grows faster than the mid-single digits you have put in the plan, can this have any implications for the capital distribution?

Cesar Gonzalez-Bueno Wittgenstein: Okay. The cost related to the tender offer have all been booked provisioned and paid or paid, except the new that will come on Q4, which is related to the shares to be granted to employees. And as you know, it's 300 shares per employee. And this will come as extraordinary in Q4. All the rest are already taken care of. In terms of the medium-term growth, I think we remain exactly on the guidance that we give -- that we gave and therefore, for sure, no implication, and we see no risk in terms of our capital distribution versus the guidance. Anything to add?

Operator: Next question is coming from Francisco Riquel from Alantra.

Francisco Riquel: My first one is on NII. I would like to refer to Slide 19 of your presentation. So here, the quarterly bridge of NII, I see that new volumes are contributing with EUR 20 million NII in the quarter, loans and deposits. But then there is the column liquidity, which are negative of EUR 19 billion, so most largely offsetting the new volume growth. So it seems to me that redeploying liquidity positions out of the ECB or elsewhere is not accretive to the group with the new volumes. So I wonder how can you reassure us that you are not chasing volumes at the expense of pricing? So that's my first question. And my second question is regarding NII also. So you are targeting NII of EUR 3.6 billion in '25 and EUR 3.9 billion in '27. So that was based on mid-single-digit growth in volumes, but you are growing

high single digit in Tier 1. However, the guidance for '25 probably anticipate flattish NII again in Q4. So what shall we expect going forward? If you can share with us some color for NII in '26 that you can share with us at this point? Do you think that there is upside risk to your '27 guidance, assuming you keep on growing mid-single digit for the remaining of the plan? Or do you see margin headwinds.

Cesar Gonzalez-Bueno Wittgenstein: Okay. Let me start. I will give you some color, but certainly, Sergio will complete the explanation. I think you're spot on. I think Slide 19, which reflects that there is a EUR 19 million negative in liquidity and others. This is mainly driven by the fact that although we have grown significantly in customer liabilities, the deposits part and is lower than the growth of the asset part. And this is very clearly explained by a very simple reason. We are -- we have been below and we will continue probably being slightly below our expectations for new customer acquisition on all fronts, because of the result of the hostile takeover. We have delivered approximately 75% of our target in terms of growth of new customers and volumes on the -- on-balance sheet deposits and liabilities, which is below our target. If I look at it at face value, what is quite extraordinary is that we did the 75%, given the uncertainty and the difficulty for new customers to join the bank in such a period. But this going forward should improve, and we should again rebalance the growth of our on-balance sheet growth of deposits with the growth of assets. And therefore, that would affect positively that EUR 19 million that you're seeing there. I think I'll leave it at that and pass it on to Sergio.

Sergio Palavecino: Yes. Thank you, Cesar. Paco, I think you need also to take into account that the liquidity part is affected by rates as still looking at the third quarter, rates at the ECB were invested at a lower rate than in the second quarter. So that does affect. Then on that part of the breakdown is also the others, which includes some hedges related to the fixed income -- sorry, to the fixed rate mortgages that have been brought to floating because the amount of fixed rate mortgages that we have is a lot and part of them are hedged. So the rates part is also affecting that component. So going forward, we -- as rates stabilize, we will expect not an adverse -- not so big adverse contribution from that portion. And then the volume component to be present during 2026. So we expect NII to start growing during 2026. With this, we will basically reconfirming our expectation that this year, we will end that NII at EUR 3.6 billion. NII will start growing during 2026. And for 2027, our estimate is that this EUR 3.9 billion that comes with -- after mid-single-digit growth of both loans and customer funds. Related to your mention of high [yield] on the loan book, that's at the end of the -- that's at the very end of the period, which typically has a peak in terms of loan demand. When you look at the average volumes for the loan book, we are rather on the mid-single digit that we expected. So far on volumes, I think things are progressing in line with our expectations. And if anything, we're lagging a bit in customer acquisition, as Cesar described, which, for sure, I'm sure that the hostile tender offer affected a little bit in that part of the business. Now luckily, the hostile tender offer is over, so we don't have that going forward.

Cesar Gonzalez-Bueno Wittgenstein: Although we will have it for the beginning of the next quarter because, of course, the tender offer ended mid-October. If I may make a general comment on the NII. And I think although we've said this many, many times, I think it's important to repeat it, because it's at the core of our strategy. First, the NII is in line with our guidance. And the improvement of the credit quality of new lending, of course, partially dilutes also loan yields. We are growing with lower yields but with better credit quality. And this is a strategy. Because it means lower cost of risk and higher capital generation and it furthermore makes the franchise significantly more resilient. So when you look at line per line, sometimes it's difficult not to realize this underlying shift in strategy, which I think is very positive and at the core of our endeavors.

Sergio Palavecino: Yes. So I think that answers also, Paco your comment that if we make sure that growth is not done at the expense of margins. And that's not the case, Cesar explained that we focus on returns, and we have a very strong discipline of allocating all cost, cost of risk and capital to all the lending. So we will only grow as long as it makes sense to do it.

Operator: Next question is coming from Alvaro Serrano from Morgan Stanley.

Alvaro de Tejada: The kind of follow-ups from the previous questions on loan spreads. So we've seen in the press and it looks like some of your competitors repricing mortgages up and repricing loans up last few weeks. Are you -- can you comment on what you're doing on new production? Do you recognize those comments? And I know you're also repricing up. And related to that, Seth, you mentioned that contrary to some of your competitors, you do hedge and you do swap those mortgages.

Can you give us a feel of what the spread is post once the mortgage are swapped, what the spread is at the moment? . And I guess sort of related to that, in your 2027 NII target 3.9, what spread on loans, does that have factored in, what should we think about on the loan spread when we put everything in, where should it stabilize? I realize in the short term. Obviously, there's some repricing to lower Euribor still going on. But once during 2026, where do you think the loan spread can stabilize?

Cesar Gonzalez-Bueno Wittgenstein: I'll take just the first part of the mortgage question. I think we are following very closely all the comments also from our competitors and following the market. And it's very clear that we are growing in mortgages at our market share. And that means that, of course, the market is competitive, has always been. But what has transformed dramatically the way we look at mortgages is that we are now fully rail rock-based. The average rate rock of new mortgages is around 20%. And that means that we price correctly, but we also include -- it's based on the segmentation approach, and we are aiming and attracting high-value clients. And the pricing includes and the RaRoC, the impact of cross-selling. That is, if a mortgage offer discounts when customers are also purchasing other products that increase their overall contribution. What has changed also is that before that was only set at the time of the issuance of the mortgage. Now that is a condition. So for example, if there's an insurance attached to a mortgage, it has an improved pricing. But if that insurance is canceled, then the price is automatically adjusted as per agreement with the client. So I think it is very clear we are all focusing very carefully. The market is growing. There's a lot of demand for mortgages, but we are all focusing on and certainly, we are on not increasing our market share on this segment growing with -- and that is our strategy, and that's what we have executed and measuring very carefully what is the value generation.

Sergio Palavecino: Yes. And Alvaro to your question related mortgages and its ALM related mortgage, the origination of mortgages is fixed rate in the vast majority, more than 80% of our origination is coming in fixed. And it's been the case now for, I think, the last maybe 7 or 8 years. So the book is definitely turning very much on to the fixed rate. That is also combined with the fact that in the last quarters, the origination volumes are higher. So it's a pretty good amount of fixed rate loans. So yes, we do swap of that part connected with our ALM policy. We're swapping between 30% to 50% of the new entrants. And after swap, it depends on the different portfolios, but the final spread after swapping stays at 30 to 50 basis points. But please take into account that all the business we do, we do with customers. So the mortgage profitability is assigned in connection with other products that the customers take. So we make sure that the RaRoC all in all, makes full sense.

Alvaro de Tejada: And as for the total loan book, where do you think the spread could stabilize consistent with that EUR 3.9 billion?

Sergio Palavecino: Yes. The spread for the asset -- the loan yield currently in the ex TSB perimeter is at 3.68%. So when compared to ECB or Euribor, it means that in average spread is at above 150 basis points. We think that, that kind of spring is sustainable over time. So when I see maybe a little bit of additional reduction, maybe but then the mix and the rates we think that spread is sustainable over time.

Operator: Next question is coming from Borja Ramirez from Citi.

Borja Ramirez Segura: Can you hear me? .

Cesar Gonzalez-Bueno Wittgenstein: Yes.

Borja Ramirez Segura: I have to two. Firstly, on the capital distribution. I would like to ask if you could provide more details on the cash dividend growth. if that applies every year, the EPS will be higher year-over-year. And also, I think your capital distribution target does not include the potential capital from the payments JV. So that could be upside to your target? And then my second question would be on the NII, I would like to ask if the customer NII has bottomed in Q3. And also, I think you have a competitive advantage compared to domestic peers because I think you still have tailwinds from lower cost of hostile funding to come. I think you quoted EUR 200 million of upside after 2027. I'm not sure that, that's in consensus.

Cesar Gonzalez-Bueno Wittgenstein: Okay. In terms of the capital distribution, I think that what we are guiding and we are guiding with confidence is that the cash dividend per share and that includes also numerator and denominator. So the number of shares will be higher in '25, '26 and '27 or equal than the one of '24. and that is what that's how we are guiding. And of course, it does not include Nexi.

Sergio Palavecino: Precisely, exactly. And regarding your question on NII, I think the third quarter might be the bottom or sort of a valley as we expect the last quarter of this year to have similar levels of NII. And then as mentioned before, we expect NII to start growing in 2026. When you discussed the -- when you mentioned Borja, the wholesale funding savings that we expect, and we touched on them in our Capital Markets Day, we were comparing, I think, 2027 to 2024, there were meaningful expenses. But that was a combination of 2 things. The lower -- maybe 3 lower rates, lower spreads in the market for us in connection with our ratings. That's clear. That's structural. That's a strength going forward for sure. But there's another component, which is that the sale of TSB is going to reduce our wholesale funding needs. But that is connected to some income that we get in the ex-TSB ALCO book because in the ex-TSB ALCO book in the asset side, we also have the MREL from TSB. So I think it's not fully that sort of benefit that goes into NII, because it will be somewhat offset by the MREL bonds in the ex-TSB ALCO book.

Cesar Gonzalez-Bueno Wittgenstein: That will be sold to Santander.

Operator: Next question is coming from Carlos Peixoto from CaixaBank.

Carlos Peixoto: A couple of questions from my side as well. There was a small decline in the...

Cesar Gonzalez-Bueno Wittgenstein: Carlos, sorry to interrupt you, but could you -- Yes, much better. Thank you.

Carlos Peixoto: So as I was saying, there was a 3% to 4% decline in deposits and overall balance sheet customer funds in the first Q stand-alone in -- excluding TSP. I just wondering whether you see that mainly related with the impact that you mentioned before or whether there's something else that explains this decline? And then on trading gains, well, you have the Tier 2 impact in the quarter and the hedge cost, still underlying trading would actually be slightly negative. I was just wondering whether you see this as being the trend for upcoming quarters in trading as well. And then sorry, just to overstep, but if I may, just on other provisions, if you could also give us a on how sustainable these levels are? Should we look at this adjusted by the EUR 5 million that I believe it was EUR 5 million from a recovery write-back in terms of provisions. If you adjust for that, should we see there more or less a recurrent level of provisions or just your outlook on this?

Cesar Gonzalez-Bueno Wittgenstein: I'm going to try to answer the first question, but I'm not 100% sure. I understood that fully. So if I missed the answer, please come back. I think you were referring to customer funds growing less than our asset side and if that was perturbable over time. And I think that what we already tried to explain is that, that difference in growth between assets and liabilities on balance sheet from clients, it's mainly due to a weaker acquisition of new customers versus our expectations due mainly to the tender offer. Therefore, we expect that to be reverted over time and to come back to our original plans with the new ones that would not happen fully during Q4, because the transaction ended at mid-October. I don't know if that was your first question, and if I answered it to your satisfaction.

Carlos Peixoto: Well, actually was between June and September, you had a decline in overall stock of deposits, but I guess...

Cesar Gonzalez-Bueno Wittgenstein: Deposits, you mean. Carlos, or just are you...

Carlos Peixoto: Overall stock of deposits.

Cesar Gonzalez-Bueno Wittgenstein: Term deposit.

Carlos Peixoto: Excluding TSB.

Sergio Palavecino: Term deposits.

Cesar Gonzalez-Bueno Wittgenstein: Yes, yes, the EUR 2.5 billion, yes, that is a mix, and that's a shift. If you see the growth in the slide, I think it's more than EUR 5 billion growth, excluding capital appreciation on mutual funds. I think we have always pursued a greater growth in our mutual fund strategy in our off balance sheet. And part of that is cannibalization so that minus 2.5 of term deposits is also a significant shift towards mutual funds. And that's overall, what yields the growth of close to circa of 8% year-on-year on our overall funds from customers, both on balance sheet and off balance sheet. And it is the mix of the on balance sheet that I was explaining previously that has had some impact on our NII together with all the other elements that we already commented.

Sergio Palavecino: Yes. Despite that -- let me also highlight the very -- the remarkable growth in the

off-balance sheet products growing at a very nice double digits. So very successful, I think, part of the business. And then Carlos, your other questions, the second one was related to trading. In the trading line, the way we see things are, of course, it's probably the most volatile line. However, if we were to say a recurrent path, could maybe be between EUR 5 million to EUR 10 million per quarter. And as we have explained, we are hedging the entire proceeds coming from the sale of TSB, and that is going to have a cost of EUR 15 million every quarter during this process. And this is up to, as in our expectation, the first quarter of next year included. So those are the numbers, and we will be, I think, in that range. And regarding provisions, yes, we think that this is sustainable. This is in line with our longer-term expectations that we shared with you in the Capital Markets Day. We guided to also 40 basis points cost of risk in 2027. When we look at all the portfolios are doing a little bit better than expected, that's why we are actually below 40 basis points of cost of risk this year. And I think it's important to take that in connection with the important transformation that Cesar has described it, where we focus all the organization in originating better quality portfolios that might have not such a big spread, but it comes with lower cost of risk. And at the end of the day, we are seeing that the capital generation is actually higher. So quite happy with the transformation and the story.

Cesar Gonzalez-Bueno Wittgenstein: And at risk of becoming too repetitive. I think the probability of default reduction is very, very significant. It's around 50% the first 9 months of the year versus '23 new lending. That flows through the balance sheet over time because it's the new production that improves. But after that comes the book improvement overall, depending on the maturity, term maturity of every product, and then the models in which you calculate risk also are adjusted. It all takes time, but it is in the right path. But immediately, it is producing exactly as Sergio was saying the improvement in capital generation. Loan growth is not at the expense of credit quality. On the contrary, it is based on 3 pillars. The first is risk, the preapproved loans by limiting the probabilities of default, both on average and taking away the queues. The second one is pricing. And sometimes, it yields to lower NII, but it is with higher RaRoC considering everything. So the quality of the metrics has improved dramatically. And third, it also comes at the expense of processes. I think one thing that is undervalued usually in banking is that the way you conduct your processes in the sales have a significant impact in your growth or the rest being constant. It is what we call the funnel. The focus on funnels. There's now an obsession around funnels here. And that means that chatter is parable all the rest being constant, you can have with the same pricing or equivalent pricing, the same risk, you can have higher growth. These are the 3 pillars of growth, and we are focusing very much on the execution of the 3 of them.

Operator: Next question is coming from Ignacio Cerezo from UBS.

Ignacio Cerezo Olmos: So I've got one actually on the mortgage yield discussion. So if you can tell us on your standard mortgages, if you on how much yield you're adding on cross-selling? And how is that broken down between different products. And then the second one, if you can remind us the breakdown of your Miami book, and if you're seeing any deterioration based on, I mean, the developments on private credit, U.S. credit quality in general.

Cesar Gonzalez-Bueno Wittgenstein: Unfortunately, I don't think we are able to respond to the first question. I don't think we have that breakdown or that we are sharing that breakdown. And it's changing game continuously, and we would show you averages, but that would also not mean a lot, because it's based on every mortgage one by one and the pricing is based on a RaRoC product. It basically only includes the RaRoC the elements that are contractual. On top of that, you have an additional tailwind, which comes with higher liabilities, higher payrolls and a number of things. But that's as much as we can share. And on the breakdown on Miami. .

Sergio Palavecino: No deterioration at all in our Miami book, is not in the activities that might be more affected, but we are seeing no deterioration at all. It's a very high-credit quality book.

Operator: Next question is coming from [indiscernible] from Autonomous.

Unknown Analyst: The first one is on the Nexi deal. If you could provide any update on the negotiations with Nexi, if this is still a priority by management? And when shall we expect any news on this? And then my second question is on the customer spread. So on the loan side, you commented that 150 basis points is sort of sustainable. Now I wanted to ask you about the deposit spread ex-TSB, -- where do you see this landing once repricing stabilizes? And just one final clarification on the CET1. You mentioned that there should be another SRT in Q4. If you could provide any expected basis points

impact from that? And if you also expect any operational risk inflation in the last quarter?

Cesar Gonzalez-Bueno Wittgenstein: Okay. On the Nexi deal, I think both sides have been very, very clear that has been a very long time lapse and the market has changed significantly since the prior agreement. So what we have engaged is that on first that there is more ongoing obligation. And second, we are both engaged in continuing exploring if there's a way to come to a new agreement or not. We haven't given us each other a fixed date or we haven't given each other fixed commitment. We just have mutually agreed approach to continue to exploring opportunities. Certainly, if that happens, it will be in probably very different terms and scopes than the original one. And we'll see how this evolves in the following months.

Sergio Palavecino: Yes. And regarding customer spread, we are now not expecting major movements as mentioned before, maybe some basis points less in customer yield, but also some basis points less in customer funds, in the cost of customer funds. And overall, customer spread that should get stable or very close to these levels and very soon. And then relating to your last question on...

Cesar Gonzalez-Bueno Wittgenstein: On a general view on the capital solution for Q4 and certainly, you can be much more explicit on the SRT. But I think for capital evolution in Q4, you should expect, as you know, we have shown already that we have covered already more than covered our commitments for the year in the first 3 quarters. But nevertheless, we expect a positive contribution to capital in Q4, although it will be more moderate than the one that we have seen in the previous quarters. And the headwinds are seasonality of the quarter because we should expect volume growth and also an impact on operational risk, maybe around 7 basis points or something of the sort. But the tailwinds will be the retained earnings and certainly the SRT now 230.

Sergio Palavecino: No, I think you answered perfectly. I think the -- it's going to be in all the moving parts of the last quarter, which typically is not the strongest in capital generation, but still we expect some capital generation, because you're spot on Luis with the risk-weighted asset inflation coming from operational risk in the quarter, but the SRT will offset this. SRT benefit in the quarter will probably around 8 basis points, 8% to 7%, so offsetting that risk-weighted asset inflation and the conclusion is what Cesar said, that we expect another quarter of capital generation, probably not as strong as this one, but some of that.

Operator: Next question is coming from Hugo Da Cruz from KBW.

Hugo Moniz Marques Da Cruz: I just wanted to ask, so the TSB dividend, the one-off dividend I think you have a slide where you say that so far already generating \$2.65 billion, and the target for the dividend is EUR 2.5 billion. So if you end up generating more capital than the dividend that's been promised so far. Will we get that with a one-off dividend? Or would it be later in the year with as you kind of excess capital.

Cesar Gonzalez-Bueno Wittgenstein: That's one of those -- sorry, that's one of those mysterious questions because it is for the Board to decide. At this point in time, what we are just saying is that we have already replenished in terms of capital generation to fulfill 100% and even a little bit more of our commitments to the market. What the decisions of the Board will be in the future remains to be seen, and it's for their capabilities to address that in due course.

Lluc Sas: Yes. I think we've -- a couple of analysts have just raised their hands. So operator, if we could include them in the list. So let's jump to the next question.

Operator: Next question is coming from [Tetra Romero] from [indiscernible].

Cesar Gonzalez-Bueno Wittgenstein: Can you hear us? Please check that you are not on mute. If not, we can jump to the next analyst.

Unknown Analyst: Can you hear me now?

Cesar Gonzalez-Bueno Wittgenstein: Yes, yes. Yes, we can.

Unknown Analyst: So my question is related to the last 1 on the dividend related to TSB. I was just wondering, you were mentioning that TNAV has already improved by EUR 100 million. You were targeting around EUR 200 million for the period up to April. So if this progressing according to better than planned and could this represent upside risk to your distribution? And also wanted to know if the timing of the closing of the transaction is on track for April? And then my second question is regarding the SRT that you were mentioning that it's going to be 8 to 7 basis points, where is the cost of that SRT showing up? Is that NII, is that included in your guidance?

Sergio Palavecino: The TNAF, as you have seen, has increased by EUR 104 million. And as we guided for roughly EUR 200 million increase of TNAF in 1 year. So it is progressing absolutely in line with our expectation. That TNAF is basically the increase in the book value coming from the net income in the period, and that is flowing into the group results, where the extraordinary dividend is connected with the capital gain and the risk-weighted assets release, which is basically the sort of picture that we had when we cut off as of March 31. So the TNAF is not affecting the capital release, the -- and therefore, the extraordinary dividend is well connected with that. And then for your second question regarding the SRT cost. SRT are done in 2 different ways, synthetic on cash. In the third quarter, we closed a cash transaction. There was a securitization of consumer loans, auto, in particular, auto. So those -- that transaction is SRT and that is a cash bond, so that is going through NII. The synthetic SRT transactions, the cost is going into the fee line, because it's a fee that we pay for the guarantee. So it's going into the fee. And all of that is taken -- is considered in the guidance.

Lluc Sas: Okay. So we can now jump to the final question. So operator, please?

Operator: Last question is coming from Fernando Gil from Intesa Sanpaolo.

Fernando Gil de Santivañes d'Ornellas: So my question is regarding the asset management business and the Amundi deal. Can you just remind us of the main terms of a deal, I think it was 2020 to 2013 -- sorry, '30, so has there been any voluntary breakup clause from Sabadell? And if so, what are the cost to notice periods and some details that you can share, please? .

Cesar Gonzalez-Bueno Wittgenstein: Fernando, yes, it was a 10-year agreement for distribution in 2020 where we sold our asset management company to Amundi. That period, therefore, ends in 2030. And we're very pleased with the agreement. We're very happy. The business is done. It's working very well. So there is nothing that we can add at this moment on this. It's going well.

Lluc Sas: Perfect. So that concludes our presentation today. Thank you, Cesar and Sergio. As always, the Investor Relations team remains available for any additional questions or follow-ups. Thank you, everyone, for participating and for joining us this morning. Have a nice day.

Cesar Gonzalez-Bueno Wittgenstein: Have a nice day.

Sergio Palavecino: Thank you.