EARNINGS CALL
TRANSCRIPTION

# Q2 2024 RESULTS

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SPEAKERS:
ANAS ABUZAAKOUK
ENVER SIRUCIC

**Anas Abuzaakouk:** Thank you, operator. Good morning, everyone. I hope everyone is keeping well. I am joined this morning by Enver, our CFO. Let us start with a summary of the second quarter results on slide three.

During the second quarter, we delivered net profit of €175 million, earnings per share of €2.22, and a return on tangible common equity of 24%. The operating performance of our business was very strong with pre-provision profits of €263 million and a cost-income ratio of 33%. Total risk costs were €28 million, translating into a risk cost ratio of 27 basis points. We did not release any credit reserves, with an ECL management overlay of €80 million. We have a low NPL ratio of 1.1%, and continue to see solid credit performance across our businesses.

In terms of our balance sheet and capital, average customer loans were down 1% and average customer deposits were up 1%, quarter-over-quarter. Our CET1 ratio was 16.5%, up 90 basis points from prior quarter, after considering the second quarter dividend accrual of €96 million.

We have a fortress balance sheet with €12.5 billion of cash, an LCR of 220% and overall strong asset quality. We continue to see a market where customers are cautious and adjusting to higher rates.

We closed the second quarter with excess capital of €770 million, which we are investing in two strategic acquisitions. In February, we signed the acquisition of knab bank, based in the Netherlands, which we forecast to add over €150 million of pre-tax profit by 2026. In early July, we signed the acquisition of Barclays consumer lending business in Germany, which we forecast to add over €100 million of pre-tax profit by 2027. The two deals will consume approximately 250 to 300 basis points of CET1 capital and are subject to regulatory approvals. We have purposely maintained dry powder to pursue these two strategic acquisitions that will be highly accretive to the franchise and will further position us for continued profitable growth in our core markets within the DACH/NL region, focused on Retail & SME.

Moving to slide four:

The acquisition of Barclays German consumer lending business will expand our footprint in the German retail banking space and position us for future growth in one of our core markets. The business has been operating successfully in Germany for more than 30 years, and is one of the leading providers of credit cards in Germany and Austria. The business has €4.7 billion of assets comprised primarily of card and loan receivables, of which approximately €2 billion are revolving credit card receivables, which is the primary focus of the acquisition. The business raises deposits via cross-selling to credit card customers and is fully self-funded.

This acquisition is a great strategic fit, providing us with a German consumer lending platform focused on credit cards, personal loans and savings products across a large and diverse customer base. We will work with the current leadership team to continue growing the business in Germany and Austria, while also exploring potential opportunities in adjacent markets. We believe the combination of the business's leadership and team members with deep credit card expertise coupled with the operating infrastructure of BAWAG Group will be a dynamic combination.

We have had a presence in Germany since 2017, when we acquired Südwestbank and subsequently completed small bolt-on acquisitions in the speciality finance space focused on dental factoring and IT and equipment leasing.

The acquisition will consume approximately 140 basis points of CET1 capital. Given the nature of the transaction and the quality franchise we are buying, the deal will be P&L accretive day one, and is forecast to contribute over €100 million of pre-tax profit by 2027 with EPS accretion greater than 10%, without factoring in any future potential buybacks. The transaction is over 2x more accretive versus pursuing a share buyback. The deal was underwritten with a premium to our RoTCE target of greater than 20%. The transaction is subject to customary regulatory approvals.

Moving to slide five, let me provide a summary of the two deals signed this year and the overall strategic rationale.

With the acquisition of knab bank and Barclays German consumer lending business, we will increase both our DACH/NL footprint as well as our Retail & SME business share from approximately 70% today to approximately 90% in the midterm, when considering customer franchise and core revenues. Our strategic focus since our transformation in 2012 has been on growing our Retail & SME franchise, which is granular, process-oriented and systems-based. Additionally, we have been keen to grow in core continental Europe, what we refer to as the DACH/NL region, given the macro- and microeconomic dynamics of the region. Our focus in the early years of our transformation was rightsizing the business and putting in place the building blocks to grow the franchise. In 2015, we were confident in the strong foundation we had established and executed our first acquisition with the purchase of Volksbank's Austrian leasing business, and have closed 12 acquisitions since that point. This year, we have signed two strategic acquisitions that allow us to grow in several of our core products across new jurisdictions focused on current accounts, credit cards, savings products and mortgages.

Both acquisitions are expected to be P&L accretive day one and are forecasted to add over €250 million of pre-tax profit by 2027. They are both underwritten to a premium of our RoTCE target of greater than 20%, will consume approximately 250 to 300 basis points of CET1 capital and are more than 2x more accretive than share buybacks when using the average of our share price during the first half of 2024.

We have been making good progress with the knab bank integration and are on track for an expected closing in the fourth quarter of this year, of course, subject to final regulatory approvals. The closing of Barclays Consumer Bank Europe is anticipated for the fourth quarter of this year or first quarter of 2025.

Given the size of the acquisitions, we are planning to host a Capital Markets Day in early 2025, once both acquisitions have closed. Our goal would be to provide greater insights into our growth plans, a refresh of our strategic pillars, and to set new midterm financial targets.

Moving to slide six.

We delivered net profit of €175 million, up 5% versus prior quarter and down 3% versus prior year. Overall, strong operating performance with total pre-provision profits of €263 million, flat versus prior year. Tangible book value per share was €37.20, up 15% versus prior year and 2% versus prior quarter. This assumes the deduction of the dividend accrual.

Moving to slide seven.

At the end of the second quarter, our CET1 ratio was 16.5% after deducting the dividend accrual. For the quarter, we generated approximately 90 basis points of gross capital through earnings. In addition, risk-weighted assets were down due to lower volumes in the corporates. We plan to invest our excess capital of €770 million to fund the two strategic acquisitions signed in 2024.

On slide eight, our Retail & SME business delivered a second quarter net profit of €135 million, flat versus prior year and generating a very strong return on tangible common equity of 35% and a cost-income ratio of 31%. Pre-provision profits were €206 million, up 4% compared to the prior year, with operating income up 5% and operating expenses up 7% versus prior year. Risk costs were €25 million. The retail risk cost run-rate has now returned to pre-COVID levels, as multiple stimulus and government support programmes have now expired. However, we continue to see solid credit performance across the business, with an NPL ratio of 1.9%.

We expect continued earnings growth across the Retail & SME franchise in 2024, driven by strong operating performance and on the back of ongoing strong fee income. We expect muted customer loan growth this year, given the overall economic environment and subdued demand for mortgages.

On to slide nine, our corporates, real estate & public sector business delivered second quarter net profit of €42 million, down 16% versus prior year and up 8% versus prior quarter, generating a strong return on tangible common equity of 24% and a cost-income ratio of 23%. Pre-provision profits were €59 million, down 10% versus prior year. Risk costs were €2 million. We continue to see solid credit performance across the business, with an NPL ratio of 80 basis points.

We pride ourselves on disciplined underwriting, focusing on risk-adjusted returns and not blindly chasing volume growth, as we continue to remain patient and disciplined. We have the capital and liquidity to support our customers as we expect markets to normalise in the next few quarters.

On slide ten, an update on the real estate portfolio, which remains stable this quarter. The portfolio continues to perform well, reflecting the underlying exposure to residential, logistics and industrial assets, which make up 66% of the total real estate portfolio and 77% of our total US exposure. Our office exposure in the United States stands at €375 million, slightly up versus prior quarter, which is solely related to FX movements. The performing US office portfolio represents less than 1% of total customer loans and 6% of our total real estate exposure. The remaining US office portfolio has a debt yield of approximately 9%, occupancy levels of approximately 80%, a weighted average lease term of six years with very solid tenants and an LTV under 75%.

With that, I will hand it over to Enver.

**Enver Sirucic**:

Thank you, Anas. I will continue on slide 12.

A strong quarter with net profit of €175 million and a return on tangible common equity of 24%. While net interest income was down 1% versus prior quarter, the net commission income remained ongoing strong, up 1% in the second quarter. Year-over-year, core revenues were up 1% and flat versus prior quarter.

Operating expenses up 1% in the quarter and cost-income ratio 33%. Risk costs were €28 million in the quarter, slightly lower than prior quarter. ECL management overlay remained at €80 million.

On slide 13, key developments of our balance sheet. A few things I would highlight here: Customer loans were down 3% in Q2 and 4% year-over-year. This was largely driven by the corporates business. Our customer deposits were up 1% quarter-over-quarter.

Our cash position increased to €12.5 billion this quarter. Cash and cash equivalents make up approximately 23% of our balance sheet, leaving us with a very comfortable liquidity buffer to address potential organic and inorganic market opportunities in the coming quarters.

Moving on to next slide, our customer funding, which is made up of customer deposits and AAA rated mortgage and public sector covered bonds, grew by 1% versus prior quarter to around €46.5 billion. Our cash position, as I said before, is now at €12.5 billion. In terms of customer deposits, no relevant structural changes in the second quarter. Repricing continued in line with our expectations, and the overall deposit betas are now at around 32%. We expect the possibilities to stay between 30-35% in 2024.

With that, moving on to slide 15, core revenues. Net interest income was down 1% versus prior quarter, with a net interest margin of 300 basis points. Overall, we have seen lower volumes in the business and a pick-up of deposit betas from 29% to 32%, leading to slightly lower net interest income. In terms of net commission income, up 1%, with an overall good performance across securities and payments in our Retail & SME segment.

For 2024, our guidance remains unchanged. We expect core revenues and net interest income to grow by 1%.

On slide 16, operating expenses are up 1% versus prior quarter, largely driven by the collective bargaining agreement for banking having been finalised in March. We expect to offset the largest part of inflationary increase through further simplification measure and therefore, expect a cost increase of around 3% for 2024, before any M&A.

Our expectation for regulatory charges in 2024 remains at around €16 million, or €4 million per quarter for the remainder of the year.

Moving to slide 17, risk costs. Overall, continued strong asset quality with a low NPL ratio of 1.1%. We booked €28 million of risk costs in the second quarter, which was slightly below prior quarter. We kept our management overlay at €80 million. We expect risk costs in 2024 in the context of 25 to 30 basis points.

On slide 18, we reconfirm our outlook and targets for 2024. This is based on current interest rate expectations and assuming no M&A in 2024. We are targeting net interest income and core revenue growth in 2024 of 1%, while containing operating expenses to around 3% growth. Foreseeable regulatory charges are expected to be around €16 million in 2024.

Based on overall macro environment, the recent underlying trends and solid asset quality, the risk cost ratio is expected to be between 25 and 30 basis points.

The financial target for 2024 is a profit before tax greater than €920 million; return on tangible common equity greater than 20%; and the cost income ratio under 34%.

And with that, let us open the Q&A, please. Thank you.

**Vishal Shah (Morgan Stanley):**

Hi, Anas. Hi, Enver. I hope you both are doing well, and thanks a lot for the presentation. First one is on the Barclays deal.

Can you run us through the rationale on how you got to that greater than €100 million pre-tax guidance? Though I appreciate you may not be able to give very granular details, but first, in terms of revenue trajectory, how should we approach that, given you mentioned the focus would be the €2 billion credit card portfolio? Then on the cost side, is there anything to highlight in terms of low-hanging fruit, for example, that could be taken out on day one? For example, at knab, you paid €80 million to transfer the mortgage servicing ownership. So any similar type of effects we should be aware of there? That is my first question.

The second one is more on NII. You generated, you know in a first half based on what you generated and your 1% year-over-year guidance, it seems like you will need to see stable NII for the next two quarters. With sort of rate cuts coming, if you could explain, you know, how you reach that 1% guidance, that would be very helpful, and also touch upon the deposit behaviour there. That is all. Thanks a lot.

**Anas Abuzaakouk:**

Thank you, Vishal, very good questions. I will take the Barclays deal, and then, Enver, you can address the NII.

Vishal, please do understand that we have just signed. We are going to provide more details during the Capital Markets Day in terms of integration plans, kind of the go-forward approach towards the platform, but I can say more broadly, it is P&L accretive day one. Just to reiterate, it is over €100 million of pre-tax profit in 2027. And as it comes to just when you think about revenues and costs, we have mentioned the credit card business, which is about €2 billion in receivables, that is going to be the core franchise. So I think just thinking about revenues, you should think about in the context of the credit cards.

And as far as operating expense, which again, we will provide more details, hopefully in the Capital Markets Day, once it is closed, there has been really intense work with the Barclays team in Hamburg. Just thinking through the integration, they do a great job in terms of originating, understanding their diverse, large customer base. I think we are going to be able to couple that with a really strong operating infrastructure when it comes to Tech Ops, when it comes to system migrations, when it comes to third-party service agreements. And that is, I think, where we are going to see a lot of the opportunity set when it comes to the operating expenses coupled with, I think, what they have done on the front end with the originations, plus with the strong risk culture that they have. So it is probably not the exact answer that you want, but just to kind of give you some broad outline or contours as to where the integration is going to focus on.

And I will pass it over to Enver to discuss the NII.

**Enver Sirucic**:

Thanks for the questions, Vishal. So on the NII, I think you are right. So we would expect quite a stable trend for the rest of the year. What would be expected if you break it up into two components, what we expected at the beginning of the year, we said the NIM for 2024 is going to be very similar to the NIM in 2023, which was 290 basis points on average. We are trending better than that. As you could see, we are closer to 300 in the first half. However, the offset to that is that the customer loan growth is not as expected. So we are a bit behind on the customer loan growth. So it will all depend on how the second half looks in terms on customer loan development. On NIM I think we feel quite comfortable. So in context of both, we think it is fair to say that the NII trend is going to be stable and that is how we will get to the plus 1% that we guided for.

**Vishal Shah:**

Thank you so much.

**Mate Nemes (UBS):**

Yes, good morning, and thank you very much for the presentation. I have two questions, please. The first one is still on volumes.

So you mentioned the NII development year-on-year will also depend on volume development in the second half, which is fair enough. I was wondering if you could unpack a little bit your expectations, particularly on Retail & SME, in terms of loan growth. Primarily what you are seeing, what you are expecting in residential mortgages in Austria, Germany and perhaps Netherlands? Are you seeing any meaningful pick-up? Any colour on that would be helpful.

The second question would be on slide five. You mentioned there that the idea or the strategic rationale of the acquisitions is to increase your DACH/NL and Retail & SME footprint to around 90% midterm. Could you give us a bit more colour on this whole transition? Do we need to look at pre-tax profit? Is that revenues? What do you exactly have in mind? Also, should that higher share or higher contribution of Retail & SME simply be the result of the acquisitions and perhaps the natural run-off in perhaps part of real estate lending and maybe part of the non-DACH/NL corporate business? Thank you.

**Anas Abuzaakouk:**

Thank you, Mate. Both very good questions. I will try to answer both questions and then, Enver, jump in if you have some clarifications.

I would say on the volumes, Mate, the Retail & SME, it is really two stories. Consumer & SME I think has held up quite well. And when we say consumer & SME, that is auto leasing, IT equipment leasing, that is personal loans across the different jurisdictions that we are in. So that we see, I think, good demand. The mortgage business in particular, if you look at just overall mortgage volumes in the key jurisdictions, but if we just focus on Austria being the main kind of hub, those volumes are down pre kind of rising rates almost 50% at a system level. And you know, given just our margin focus and being disciplined, that also puts some constraints. So we do not see that. We think that is going to be pretty muted for the second half of this year, and hopefully, we will start to see a normalisation in 2025.

However, that is the biggest driver when it comes to muted volumes or declined volumes on the mortgage side. We see pretty robust volumes on consumer & SME. We think that will continue.

As it relates to corporates, real estate & public sector: Public sector we see good opportunities, that is more idiosyncratic. Corporates, we actually had a lot of redemptions, early redemptions on a number of facilities, and we think that is going to be idiosyncratic. We have a pretty good pipeline. I have to reiterate this: we will never chase volume growth for the sake of just growth because of just the movements within intra-year or between quarters. If there are good risk-adjusted returns, we will be there with capital and liquidity to support our customers. If it does not meet our risk-adjusted returns, we are going to be patient. That has kind of defined how we have approached lending in general and specifically as it relates to corporates, real estate & public sector.

It is not any purposeful deleveraging. That is not we should read into any of this. And we think just given what we are seeing in the market, some deals unfortunately did not close that we had term sheets on. And I think that hopefully that will normalise in the second half and going into 2025.

Your question on, I think the overall franchise in the DACH/NL, the way to look at that, and we will provide more details during the Capital Markets Day because I think we can provide more specificity on the businesses. However, you should see that as customer franchise, which is your customer assets as well as our customer deposits and funding, what we call a customer franchise, as well as the core revenues. That today, when you kind of look at that holistically, is around 70%, probably a little higher than 70%, and that our target by midterm will be around 90%. However, I think we will be able to give more details on that.

Then I think you were asking, is it just a combination of the deals and is there deleveraging elsewhere? Now, you should assume the business as it is, is static, slightly growing. Then this combination, as we were able to forecast the 70-90% composition.

**Mate Nemes:**

Okay. Thank you.

**Gabor Kemeny (Autonomous Research):**

Hi, a couple of follow-up questions from me, please. First one on Barclays.

I understand this is early days to comment on the deal in detail, but can you share some thoughts, just qualitatively, what you see distinctly differently from Barclays when you talk about reducing a large part of this portfolio? I mean, Barclays was experienced in the German market, presumably did its own cost-benefit analysis on these portfolios. Yes, would be useful to understand what you see differently, especially outside of the credit cards.

My other question would be, again, a follow-up on the deposit beta, which has been trending up, I believe 25% in Q4, 29% in Q1, and then 32% in Q2. I guess, what do you think is the likelihood that we will see readings above the 35% mark by the end of the year? I understand that the 30-35% average guidance is still valid, but would be useful to hear your thoughts on that. Thank you.

**Anas Abuzaakouk:**

Thanks, Gabor. Both good questions. I will take the Barclays and, Enver, if you want to address the deposit beta.

Barclays, Gabor, we keep on reiterating the €2 billion of credit card because that is the core franchise. Obviously, we will continue to do personal loans. We will focus on certain channels. Not to get into the specifics now, but what really underpins the transaction is their experience in the credit card business. They have been doing it for 30 years. Very strong leadership team, really deep credit card expertise across the organisation. Their ability to originate credit cards, I think, is quite unique. They are number two, depending on how you read market share; number two, credit card provider in Germany as to how we kind of analyse it. We think this has a lot to do on that front. It is not to say that the personal loans is not something we are going to pursue, but really the core of the franchise is the credit cards and the personal loans are fairly short-weighted average life that turn over fairly quickly, and we are going to look at certain channels that we will pursue the personal loans on.

I will go ahead and pass it to Enver for the deposit beta.

**Enver Sirucic**:

Yes, on the deposit betas, yes. We are still quite confident that we will stay below the 35% guidance. I would just mention one thing, obviously, that is before M&A. With knab, which we expect closing in Q4, that might change because knab having a bit higher deposit beta, but on a standalone basis, we feel quite comfortable with the 30-35% guidance.

**Gabor Kemeny:**

Thank you. Just a small follow-up on this. What impact have you seen from the government-sponsored bonds, the Bundesschatz, so far, if any?

**Enver Sirucic**:

Overall, it is quite limited, Gabor. At the beginning, the first two weeks, we have seen a bit of outflows, nothing relevant to that product, which is a good product overall, but it has declined significantly since then. It was just the first couple of weeks. Now what we are seeing on a daily basis is de minimis.

**Gabor Kemeny:**

Thank you.

**Jeremy Sigee (BNP Paribas Exane):**

Morning. Thanks very much. Two questions, please. The first is just continuing on NII.

Could you talk about the outlook for 2025 and 2026? Obviously expecting rate cuts, but there should be quite a significant benefit from your hedges rolling over. That could actually net to quite a nice positive. I just wondered if you could talk about that a little bit.

The second question, sort of fairly obvious one just on, you are flagging the very large amount of surplus capital which is likely to grow further by year-end, and probably only about half of it gets eaten up by your acquisition. It is at an early stage, but how you might be thinking about possible additional capital returns around year-end if that sort of capital surplus is confirmed and only partly used up by these acquisitions?

**Anas Abuzaakouk:**

Thanks, Jeremy. Very good questions. Let me start on the capital surplus, or what we are going to do with excess capital. Enver can take the NII.

We will wait till year-end, Jeremy, to see kind of where things shake out, hopefully post the deal closings year-end, and then obviously the year-end reporting will be in February. I think we will have more clarity as to the overall excess capital situation. I think we will be better positioned to have those discussions. It is just the plate is full at the moment, but we are not oblivious to the fact that the excess capital generation is quite significant on a quarterly basis. Hopefully, we will address it then.

Enver?

**Enver Sirucic**:

I think same is true for the NII outlook for 2025 and 2026, something that we will try to address, obviously, at year-end 2024, or at the Capital Markets Day. Directionally, you are right. So the roll-off of the replication hedge is definitely a positive. The question will be, how many rate cuts do we see based on ECB action? The more and the quicker they happen, the more negative it is. The longer they take, the more positive it is. It is really hard to say, but it will very much depend on the actions set by the ECB.

**Jeremy Sigee:**

Great. Thank you.

**Anas Abuzaakouk:**

Thanks, Jeremy.

**Mehmet Sevim (JP Morgan):**

Good morning, Anas. Good morning, Enver. Thanks very much. I hope you are well. I have just a couple of questions on Barclays and one on capital, please.

So just on M&A opportunities and Barclays, essentially. You mentioned you are more excited about future growth opportunities than ever before. This is what you are writing in the press release. If I think about the organic growth potential of these two businesses that you are acquiring from day two onwards relative to the rest of the Group, could you give us any colour on that and any early thinking that you may have at this stage when the acquisitions close?

Just on Barclays also, can I ask under what brand you are planning to operate in Germany, especially given I think they did have quite a strong brand name there, if you would see any risks related to that from the closing onwards?

One final one on this one. You mentioned that you expect to close the transaction in the fourth quarter or the first quarter of next year. Would you expect the non-core part of the loan book to have completely run off by then so that the capital impact is 140 basis points on day one, as guided, or could there be a small timing gap until we get there? Thank you.

**Anas Abuzaakouk:**

Mehmet, thanks. Great questions. I will take this. Enver, feel free to jump in.

As it relates to the organic opportunities for both knab and Barclays, what is exciting in the comment that I made in the release and with how the team feels is in both situations in knab, you have a current account payments business for almost 400,000-500,000 customers that has a strong presence with the self-employed, in Netherlands, which is a strong growth area.

The way we underwrote the business was very conservative. We think there is going to be a lot more opportunity for growth. However, I think in past M&A, the way we have approached things has been very conservative in the underwriting and then, obviously, do everything we can to grow the business and provide it with the investments and the operating support from the Group. And that is what we intend to do. However, the day one, the financials that we have reflected takes a more conservative approach. However, that is not to say that we are not going to be growing the business. Quite frankly, I think these are two really dynamic opportunities where we see a lot of growth potential, both domestically and then potentially in adjacent markets.

The same for Barclays. Really, that is focused on the credit card franchise. They have a very strong position. They already operate in Austria. We are a credit card provider, more on the issuing side as far as charge cards as opposed to revolvers. However, that is something that, we think, will be synergistic. Plus, there are opportunities in adjacent markets. And when I say adjacent markets and the opportunities, those are not factored into any of our numbers. That is just something that we think down the road will provide hopeful potential for growth.

Then on the brand, there is going to be a transition. I think it is early right now to kind of communicate anything. We will do that in the Capital Markets Day. However, you should assume there is a transition, obviously, away from the Barclays brand, which is a very strong brand, well-recognised in the market to one of the BAWAG brands. However, I think it is premature to address that now. However, we are very excited. I think they were great acquisitions, great teams both in the Netherlands as well as in Germany, great market presence and position. I think with our operating infrastructure, with what they are doing on the front end and originating in great customer focus, I think it is going to be a dynamic combination.

Thanks, Mehmet.

**Mehmet Sevim:**

Super. Thank you. If you could also comment on the capital impact on day one and whether the non-core part of the loan book would have run off by then, that will be great.

**Anas Abuzaakouk:**

Yes. On that, the weighted average life is fairly short given just kind of fourth quarter, first quarter. I think you will see a big part of that addressed in terms of the personal loans, which we will do obviously in the future, but through different origination channels. I think that will account for the biggest gap in terms of what we are buying versus what we are going to close at, the headline figure €4.7 billion versus the €2 billion.

**Mehmet Sevim:**

Super. Thanks very much.

**Anas Abuzaakouk:**

Thank you.

**Tobias Lukesch (Kepler Cheuvreux):**

Good morning. I would like to touch on one question, the loan growth again.

You highlighted that there was a lot of redemption basically in the corporate space, and you are quite muted in terms of H2 at the same time. You pointed to a good pipeline. I was just wondering how you see especially loan growth in the corporate area, which kind of benefited the CET1 ratio beat, that you have shown today with 50 bps, basically. Should we think that this corporate portfolio is going to rise again in H2 or also earlier next year, i.e., then have a bit of a kind of dampening impact on the CET1 ratio development and the excess capital development? Or would you rather think that you keep the corporate portfolio at a level where you are, thinking 12 months ahead? Thank you.

**Anas Abuzaakouk:**

Thanks, Tobias. The way to think about that, there is not any purposeful deleveraging. We got refinanced out of positions. I think that when you think about the CET1 development, 90 basis points of gross capital generation just through earnings, I think that is the more impactful statistic. The 50 basis points reduction because of RWAs, I think that was a bit of an anomaly in the second quarter. We have a good pipeline, but there is not a situation where I can tell you this is the volume that we are going to put on in the second half or in 2025. It is really situational and idiosyncratic. If there is a good deal, or if there are good deals in terms of lending that have great risk-adjusted returns, I think we have demonstrated that we have the capital and liquidity to be able to deploy that, but we will be patient.

I know it is not answering your question if you probably want something specific, but I think we have a stronger pipeline in the second half than the first half. However, a deal's not done until it is done, and we will see how things develop. I think the more important factor or metric to look at is the gross capital generation through earnings, which I think is the real engine for CET1 growth.

**Tobias Lukesch:**

Absolutely. Maybe, if I may, you mentioned basically the housing loans, right. And this is really making the impact in the Retail & SME segment. I was just trying to get a feeling. It is like if you are a bit more upbeat on potential growth or positive growth impact from the housing market, which is down so much, or rather the corporate space, or is it really super hard to tell, and you are really here flying at site level, basically?

**Anas Abuzaakouk:**

No, I would say, Tobias, the housing is more muted. That, I think, you will not see a pickup till 2025, just because you can see the lead times, the pre-approvals, the funding, the cycle time. I think that will take some time. That is more of 2025, hopefully. That is going to be also at a macro level. That, quite frankly, is tied to also the velocity of rate cuts.

As far as the corporates, that is more idiosyncratic. That, you could have early redemptions, or you can have a strong pipeline that emerges over a few months, so that is harder to predict.

**Tobias Lukesch:**

Thank you.

**Anas Abuzaakouk:**

Thank you.

**Noemi Peruch (Mediobanca):**

Hello and good morning. So my first question is on capital.

So you have a 12.25% core equity target. We know that Austria is considering adding some national capital requirement buffers. I was wondering whether you set your target on an MDA buffer or an absolute basis.

Then on commercial real estate, we have seen a bit of reshuffle in the quarter, higher US residential hospitality and lower European residential, and also an uptick in NPL ratio. If you could just walk us through the moving parts here and your appetite on new production towards the various categories? Thank you.

**Anas Abuzaakouk:**

Thanks, Noemi. I will take the real estate question and, Enver, if you could take the capital question. I was not sure I heard it also clearly, so you might have to repeat it, Noemi.

However, just on the real estate, fairly steady, the €200 million, that has a lot of rounding in that. The €2.4 billion to the €2.6 billion, that was a residential deal, which the credit metrics were phenomenal, and then the hospitality, and that is really the driver. There was no increase in NPL, that was just the denominator effect. You do not see it in the rounding. So when you see from 1.5% to 1.6%, you should not read anything into it. It is the same NPL volume from the prior quarter. That is just the overall denominator effect as far as the absolute numbers.

The opportunities that we see in the US are few and far between. Quite frankly, I think everybody's a bit frozen. Europe, we have been refinanced out of a few positions this year, but we will be disciplined. However, if there are great lending opportunities, we are in no way deleveraging. It is just we are reacting to where the market is at, and obviously an additional conservatism that we might be layering in, just given the overall macro environment where we see things heading. That is on the real estate side.

Enver, you want to take the capital? If you want to repeat that question.

**Enver Sirucic**:

Yes, sure. Yes. I think, Noemi, if I got the question right, it is how we set the target of 12.25% on a CET1 ratio basis, absolute or MDA buffer? The answer would be both. So we look, and we benchmark with other banks. We obviously look at the risk-weighted asset density, asset quality, different business models, and again, we do both. We set it on an absolute level, which we think is in line with our business model and our risk profile. Also, we look at this MDA buffer, so management buffer approach as well.

Reality is, if you look back, I do not remember we ever came close to that target. The reason for that is we assess everything at year-end and by the time something happens, be it dividends, buybacks or M&A, we have built up another capital on top of it, given the 90 bps earnings generation each quarter. It rebuilds quite quickly. And typically, I think, or usually, we have stayed above 13%, actually, most of the time.

Thanks, Noemi.

**Hugo Cruz (KBW):**

Hi, thank you for the time. I have three questions if I may.

Firstly, on the two deals, I think it is quite clear that consensus is still not reflecting these deals in their estimates. Will you be able to provide more details ahead of the Capital Markets Day so that we do not have to wait so long for the consensus to be a bit more responsive?

Secondly, can you give a bit more clarity on deposit costs? I have seen the comment on the deposit beta, but I think that was mainly more a benchmark rate effect. I think deposit costs are probably more or less stable, but how do you expect deposit costs to evolve for the rest of the year, and what is the average maturity of your deposit base?

Thirdly, if you could talk a bit about, what is the latest you are doing on Ireland there? What kind of volumes do you expect to see coming out of Ireland in mortgages? Thank you.

**Anas Abuzaakouk:**

Thanks, Hugo. I will do the question on the deals and consensus, and then Ireland and Enver, I will pass it over to you on the deposits.

Hugo, it is out of our control what goes into the analyst estimates. We have tried to provide as much clarity up to this point anyway as to the accretion from the deals, both in terms of versus a buyback, as well as obviously the forecasted pre-tax profit contribution, the timing. We will hopefully be able to give you more clarity on the deals, the integration plans, the annual contributions at Capital Markets Day. Obviously, if there are developments on the integration front, we will be able to share that with you. However, I think we have given broad strokes now that people can work with, whether they input it into their models, I mean, that is out of our control. However, I understand your question.

Then on Ireland, really slow methodical approach, building a good platform there, the MoCo platform, really good team that we have on the ground. We are just going to be patient. We are disciplined when we look at the market. We like the macro fundamentals of Ireland in terms of supply-demand, in that there is an acute shortage of housing that we think in due course we are going to be able to hopefully provide financing for customers, for new home creation, and being one of the many banks that provide financing there. However, the volumes, to answer your question, are very de minimis at this point. Then we will start to reflect what those volumes are in due course when it makes sense. However, at this point it is a rounding error.

Enver, you want to take the deposit cost?

**Enver Sirucic**:

Yes. Absolutely right, Hugo. The deposit cost in terms of customer yield remain pretty much flat compared to Q1. It is really coming from the denominator effect, as said, because of the rate cut in the front running of the Euribor curve.

I did not get the second part of the question. You said, how long is the, or something like that.

**Hugo Cruz:**

Yes. How do you expect deposit costs to evolve in the rest of the year, and what is the average maturity of the deposit base?

**Enver Sirucic**:

Most of it contractually is really daily or overnight deposits, but behaviourally, obviously longer. I think we would expect it to move in line as much as possible with the ECB rates. It will depend if there are a few more rate cuts or less for the rest of the year. However, the idea is actually to move quite in line with that development.

**Hugo Cruz:**

Very good. Thank you.

**Anas Abuzaakouk:**

Thanks, Hugo.

Thank you, guys, for attending the call. Thank you to the analysts for great questions. We look forward to catching up in the third quarter and hopefully provide more updates.

All the best. Have a great summer. Take care.