

EARNINGS CALL  
TRANSCRIPTION

# Q3 2024 RESULTS

28 October 2024 at 10:00 CET

SPEAKERS:  
ANAS ABUZAAKOUK  
ENVER SIRUCIC



## Anas Abuzaakouk

I hope everyone is doing well this morning. I am joined by Enver, our CFO. Before we jump into 3Q results, I am happy to announce that we received ECB approval for the acquisition of Knab in the Netherlands last Friday. We are excited about welcoming the team, rolling out the integration plans, and pursuing the many opportunities ahead of us.

That's for third quarter results, let us start on slide three.

We delivered net profit of €178 million, EPS of €2.25, and a return on tangible common equity of 24% during the third quarter. Tangible book value per share was €38.48, up by 16% versus prior year and up 3% versus prior quarter.

The operating performance of our business was very strong with pre-provision profits of €265 million and a cost-income ratio of 32%.

Total risk costs were €25 million, translating into a risk cost ratio of 25 basis points. We utilised €10 million of our management overlay with the remaining ECL management overlay of €70 million. We have a very low NPL ratio of 1% and continue to see solid credit performance across our businesses.

In terms of our balance sheet and capital, average customer loans were down 2% and average customer deposits were up 1% quarter-over-quarter, when excluding the sale of our German Bausparkasse business.

Our CET1 ratio landed at 17.2%, up 70 basis points from prior quarter, after considering the year-to-date dividend accrual of €286 million. We have increased our CET1 target to 12.5%, up 25 basis points, and adjusted our capital distribution threshold to 13% for the years 2024 and 2025.

In light of our two strategic acquisitions this year, we have made adjustments to our capital framework, given several moving parts that I will address on the next slide.

We have a fortress balance sheet with €15.6 billion of cash, equal to almost 28% of our balance sheet, an LCR of 260%, and overall strong asset quality. We are starting to see a pickup in customer activity across the franchise, albeit customers continue to remain cautious as they adjust to new normal at higher rates. Given the recent approval of the Knab acquisition, we are increasing our full-year profit-before-tax target to over €950 million to account for two months of the Knab acquisition.

We are also on track to deliver a full-year return on tangible common equity of greater than 20% and a cost-to-income ratio under 34%.

The two acquisitions of Knab and Barclays Consumer Bank Europe will consume approximately €500 million of excess capital, and we forecast to generate over €250 million of pre-tax profit by 2027. Therefore, we are targeting a year-end pro-forma CET1 ratio of greater than 14% and excess capital of greater than €200 million.

The first three quarters of the year have been defined by M&A and integration planning, ensuring constant dialogue with the businesses, our regulators, and laying out detailed integration plans. There has been a great deal of work taking place behind the scenes. We are excited about the opportunities ahead and laying the groundwork for success in the quarters ahead of us.

On slide four, in terms of capital, this was a very busy quarter with several significant developments that I wanted to highlight.

We ended the quarter with a CET1 ratio of 17.2%, up 70 basis points from prior quarter, post-dividend accrual, and another quarter of very strong capital generation. We decided on several key capital items during the quarter considering our two strategic acquisitions.

First, both Knab and Barclays Consumer Bank Europe operate on the standardised approach. Given these acquisitions will grow our total balance sheet by approximately 35% and our Retail & SME business by over 70%, we have taken a decision to return to the standardised approach for our Retail & SME business.

We informed the ECB of our intentions during the third quarter, which will be formalised in the first quarter of 2025, and have already taken the full impact this quarter, adding over €900 million of RWAs to our Retail & SME segment, which was offset by the sale of the German Bausparkasse business, executing a consumer unsecured SRT and lower business volumes.

Ultimately, we took this decision to simplify our business, allow for more streamlined integrations, and better product alignment across the Group given the convergence of the standardised approach to IRB for our business model. All of our past acquisitions were on the standardised approach, and we believe this better aligns with our product offering and an approach of centralised risk management across the Group.

As part of our overall capital planning, we plan to continue executing synthetic risk transfers, or SRTs, for both loss mitigation as well as capital relief purposes. Going forward, we will retain our IRB foundation and specialised lending models for our non-Retail & SME customer businesses.

Second, given the two concurrent acquisitions, our growing geographic footprint, and the integration work ahead of us over the coming years, we have decided to increase our CET1 target by 25 basis points to 12.5%. We will also limit excess capital distributions for both 2024 and 2025 to over 13%, 50 basis points above our new target to be both cautious and prudent as we integrate two large and strategic acquisitions. This reflects our disciplined approach to capital allocation and the changing contours of our business.

More importantly, we forecast our pro-forma year-end CET1 ratio to be over 14%. This takes into account the two strategic acquisitions, the impact of Basel IV, and a strong pipeline of lending opportunities we see in the fourth quarter.

With a year-end pro-forma CET1 ratio of greater than 14%, we will have generated gross capital over 360 basis points, deployed approximately €500 million of excess capital towards two strategic acquisitions that will add over €250 million of pre-tax profit by 2027, accrued an annual dividend of at least €400 million, returned our Retail & SME business to the standardised approach, addressed the impacts of Basel IV, and will still have over €200 million of excess capital above our new capital distribution threshold of 13% for full year 2024. This is a true testament to the strong profitability and high capital generation of our business.

We plan to hold an Investor Day in tandem with our year-end results on March 4, 2025, and we will address potential capital distributions at that point.

On slide five, our Retail & SME business delivered third quarter net profit of €131 million, down 4% versus the prior year, and generating a very strong return on tangible common equity of 33%, and a cost to income ratio of 32%.

Pre-provision profits were €201 million, down 2% compared to the prior year, with operating income up 2% and operating expenses up 12% 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. We continue to see solid credit performance across the business with an NPL ratio of 2%.

We expect continued earnings growth across the Retail & SME franchise in 2024, driven by strong operating performance. Overall, we see muted customer loan growth given low new originations in the mortgage space, offset by growth in consumer & SME.

Okay. On slide six. Our Corporates, Real estate, and Public sector business delivered third quarter net profit of €40 million, down by 6% versus prior year, and generating a strong return on tangible common equity of 23%, and a cost to income ratio of 26%.

Pre-provision profits were €54 million, down 6% versus prior year. Risk costs were effectively zero. However, we used €10 million of our management overlay to address an NPL in our US office exposure, which we have marked conservatively.

Despite the office NPL, we continue to see solid credit performance across the business with an NPL ratio of 70 basis points. We pride ourselves on disciplined underwriting, focussing on risk-adjusted returns, and not blindly chasing volume growth, as we continue to remain patient and disciplined. We built a strong pipeline of new lending opportunities during the third quarter that we anticipate funding in the fourth quarter focused on both residential and public sector opportunities.

On slide seven, an update on the real estate portfolio. Our real estate portfolio is stable this quarter. The portfolio continues to perform well, reflecting the underlying exposure to residential, logistics, and industrial assets, which make up 69% of the total portfolio and 83% of our total US exposure.

Our office exposure in the United States stands at €264 million, down 59% versus the peak in 2022. The remaining portfolio is approximately 70% performing and 30% non-performing. The performing portfolio has a debt yield of approximately 10%, occupancy levels of approximately 80%, weighted average lease term of six years with solid tenants and LTV of approximately 75%. The performing US office exposure represents less than 40 basis points of total assets and 4% of our total real estate exposure.

As I have stated many times before, the stress we are seeing in certain asset classes, US office in particular, will differentiate banks in terms of underwriting and asset quality as we see greater dispersion across lending portfolios.

With that, I will hand it over to Enver.

Enver Sirucic

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

A strong quarter with net profit of €178 million and a return on tangible common equity of 24%. While net interest income was down by 1% versus prior quarter, the net commission income remains strong, up by 1% versus prior quarter. Year-over-year, as well as versus prior quarter, core revenues were down by 1%.

Operating expenses were flat in the quarter and cost to income ratio stood at 32.3%. Risk costs were €25 million in the quarter, down by 9% versus prior quarter. We consumed €10 million of the ECL management overlay, which now stands at €70 million.

On slide 10, key developments of our balance sheet. A few things I would highlight here. Customer loans were down by 1% in Q3 and 3% year-over-year, which also led to a decline in risk-weighted assets. This was largely driven by the corporates business. Our customer deposits were up quarter-over-quarter.

Our cash position increased to €15.6 billion this quarter. Cash and cash equivalents make up 28% of the balance sheet, leaving us with a very comfortable liquidity buffer to address potential organic and inorganic market opportunities in the coming quarters.

On the next slide, our customer funding, which is made up of customer deposit and AAA-rated mortgage and public sector covered bonds, is flat versus prior quarter at €46.2 billion, with our cash position now at €15.6 billion.

In terms of customer deposits, we have not seen any relevant structural changes in the third quarter, and the overall deposit betas are now at around 35%, which is in line with our expectations.

With that, moving on to slide 12, core revenues. Net interest income was down by 1% versus prior quarter, with a very strong net interest margin of 304 basis points. Overall, we have seen lower volumes in the business and an expected pickup of deposit betas from 32% to 35%, leading to a slightly lower net interest income.

In terms of net commission income, up by 1%, with an overall good performance across securities and payments business in our Retail & SME segment.



On slide 13, operating expenses are flat in the quarter. We expect to offset the largest part of inflationary increase through further simplification measures, and therefore expect a stable cost base in Q4. This is prior to any impact of M&A.

Moving to slide 14, risk costs. Overall, continuous strong asset quality with a low NPL ratio of 1%. We booked €25 million of risk costs in the third quarter and hold a management overlay of €17 million. We still expect risk costs in 2024 in the context of 25 basis points to 30 basis points.

On slide 15, given the recent approval of the Knab acquisition, we are updating our full-year profit before tax target to over €950 million to account for two months of the Knab acquisition. And we are fully on track to deliver a return on tangible common equity of greater than 20% and a cost-to-income ratio of under 34%.

We expect a year-end performance CET1 ratio of greater than 14%. Post two strategic acquisitions, dividend accruals of at least €400 million. Post Basel IV impacts, and after return our Retail & SME business to the standardised approach.

With that, let us open the Q&A, please.

**Noemi Peruch (Mediobanca):**

My first question is on Knab. The implied run rate from your guidance points at €180 million. Could you please clarify the moving parts of the upgrade and indeed comment on this 180 vis-à-vis your previous indication, which was more than €150 million if I am not mistaken?

Then on cost. I see that the run rate is plus 5%. Previously, we had the guidance of plus 3%. And could you please give us a bit of details on this, whether you had higher-than-expected inflation or whether the cost cuts you envisaged were delayed for some reason?

My third question is on the move from IRB to standardised. Here, if you could please outline the benefits of the move?

**Anas Abuzaakouk:**

Okay. Thank you, Noemi. It was a bit hard to hear, but I think I will try to recap. The impact from Knab vis-à-vis our increased upgrade on the pre-tax profits, the OPEX, and then the standardised approach. Okay. I will take the first, and then, Enver, you want to take the OPEX?

**Enver Sirucic:**

Sure. Yes.

**Anas Abuzaakouk:**

Noemi, the Knab acquisition factors in two months. Hopefully, closing is in the next few days. You should read from that, obviously, the upgrade is in large part resulting from the Knab acquisition.

Now, when we signed the acquisition, we gave guidance of over €150 million of pre-tax profit. There is a lot of moving parts. The most significant is the interest rate environment next year. We will provide more guidance in terms of the accretion that takes place from the Knab acquisition during the Capital Markets Day. But suffice it to say, from our initial pro forma, things look, I think, more positive than what we had initially anticipated when we communicated the signing earlier in the year.

Do you want to take the OPEX?

**Enver Sirucic:**

Yes. So the second question was on OPEX. I believe our guidance is 3% year-over-year versus a run rate of 5%. I think it is somewhere in the middle. I think it is going to be around 4%. So not really a big difference. The main reason for that is just having higher cost for integrating the businesses, Knab and Barclays this year.

I think on inflation, there was obviously the effect that it was as expected. So, yes, there is going to be probably 1 percentage point higher run rate on the OPEX than what we said before.

I think the third question was IRB versus a standardised approach. I think there are multiple benefits. One of them is all the recent acquisitions that we have done are on a standardised approach. So our natural approach is standardised approach. Two-thirds of the book before the acquisitions are on standardised approach. It will simplify the overall structure for us.

We also believe the growth is going to be in the standardised approach. Also keep in mind we have been doing from a risk management perspective and also from a pricing managing perspective, we have always underwritten things based also on standardised approach. So for us, it is really simplification of the overall RWA landscape.

**Noemi Peruch:**

If I may, I have a follow-up on the cost answer. So if the higher costs are related to the integration, shall we consider that 1% of higher growth as non-recurrent?



**Anas Abuzaakouk:**

I think Enver gave the guidance for the year. I think it is more important what does the trajectory look like into 2025 vis-à-vis your OPEX with the two acquisitions as well as we will try to break out the underlying. But to be quite frank, it is a bit of a rounding error, I think is what you are focussing on. And what is more important is what is the actual cost-income ratio in the OPEX development for 2025 and beyond.

**Mehmet Sevim (JP Morgan):**

I have three questions, please. First of all, in your capital trajectory, you are signalling a strong lending pipeline for the fourth quarter. I was just wondering where you see the lending opportunities given the muted momentum recently. Does this imply an improved lending appetite on your side or have you adjusted your credit box? Maybe can we read this as an early signal of the end-of-the-week momentum that we have seen recently?

My second question would be on the NII sensitivity. If you could kindly provide us with an update on the Group sensitivity for next year considering the recent moves, maybe at least at the core level, that would be super helpful.

And finally, on Basel IV impact, if I am not mistaken, the guided impact was de-minimis recently. So I was just wondering what has changed there and if you could clarify the exact expected impact and where it comes from?

**Anas Abuzaakouk:**

Great. Thank you, Mehmet. I will take the first on lending opportunities and then I guess NII, and then we can also both address Basel IV.

Mehmet, on the lending opportunities, I think we probably hit a trough in the third quarter. And why I say that confidently is we have a pretty robust pipeline, more so in the non-retail. So this is corporate, real estate, public sector. Within that specifically, we see a number of resi opportunities, which is we have always been positive on that space, but we are finally starting to see term sheets signed. There seems to be more movement there.

A lot of it is also refinancing opportunities, which is great because you come into existing cash flow generating opportunities. So that would be great.

Public sector, we are seeing some movement there. We are quite bullish on that front. I think corporates too, we probably hit a low point in the

third quarter, but that has been an area in the past few years. I think absent a change in just the risk adjusted returns, it is going to be hard for us to compete, but obviously we are always going to be focused on trying to be able to extend credit in that space.

You had mentioned an adjustment to credit box. Absolutely not. If anything, we have probably been more conservative, but we see some really interesting opportunities.

On the retail side, we mentioned it during the call, but mortgage originations has been muted in the past year and a half, really corresponding with the increase in rates. I think we will start to see that pick up, really going into 2025. Where we see good opportunities is in the non-mortgage, consumer and SME. That is across leasing, factoring, a number of other areas across our business, personal loans and cards.

I think third quarter in general is probably the trough in terms of lending, and we will start to see increased customer activity across the board. You want to take NII?

**Enver Sirucic:**

Yes, Mehmet. On NII sensitivity, so the way we look at it is the first 100 bps, so going from 400 basis points to 300 basis points level, are going to be de-minimis. I mean, we can see already now after three rate cuts, the net interest margin was really holding up quite well. The next 100 bps, going from 300 to 200 will have an impact on net interest margin, not as pronounced as we have seen it on the way up. It is going to be less of an impact.

Having said that, we will see a bit of a NIM compression, but that will be offset by obviously M&A and also the lending pipeline that looks really good. So long way of saying that NII will be growing from now on for the rest of the year, but also into 2025. So small NIM compression, growing NII for the next couple of quarters.

And Basel IV, nothing changed. We said de-minimis, and it is going to be de-minimis. We just put it in as part of the Q4 pro-forma. That is also how we plan to disclose it. Year-end should really capture all known impacts from standard, from Basel IV, from both acquisitions, from everything. We have a clean picture by year-end and can take that as a starting point for excess capital discussions.

**Mate Nemes (UBS):**

I have two questions, please. The first one would be on the capital side of things. Would you be able to provide us a bridge or walk from the 17.2% CET1 as of the end of Q3 to the north of 14% pro-forma number by year end? I hear you on the acquisition impact, some de-minimis impact from Basel IV. But if you could lay out that bridge, that would be very helpful.

The second question is on the office portfolio in the US that has declined by 30%, and I think you have used €10 million of overlays for an NPL case. Could you talk about how you see the quality of that book and whether you have any other potential situation there? What do we expect in provisioning in that segment?

**Anas Abuzaakouk:**

Thanks, Mate. Enver, you want to take the capital? I will take the office.

**Enver Sirucic:**

Sure. I think, Mate, in a simple way, how to think about it is you have the regular earnings, you have the dividend accrual, so call that 40 basis points to 50 basis points net that we are going to accrete ~~it~~ in Q4. The rest, that is why we gave also the RWA guidance, comes from the RWA piece going from 17.8 to 22.5. And these combined will get you to the number 72. We kept it a bit open, above 14% is what we believe. The majority of that RWA is really tied to the M&A. It is assuming both deals in that number.

**Anas Abuzaakouk:**

Mate, as it relates to office, what we tried to do is to address your question where we see things developing. We took a look back. The peak of US office exposure, which is the most acutely distressed asset class that we have seen in quite some time, was about €640 million. That is down almost 60%, so we are down to €260 million-plus, of which over 70% is performing. We gave the stats on the performing, and the non-performing is around about €80 million or so.

But if you go from the €640 million down to where we are today, we have taken almost €30 million of our management overlay, really applied to US office. You can say that is, call it 4.5% to 5% loss rate. We hope to be able to recover that as we recapitalise or those assets have been recapitalised because of the cash flows. But I think more importantly, I have said this before, the worst is behind us as we see the remaining portfolio and the amortisations and the refinancings. But it is still a very distressed asset class. And it goes back to your day one underwriting.

I think you will be able to see the quality of that underwriting, the advanced rates, the sponsors that you work with, the permanency of the cash flows. Look, I think one thing that we have as an advantage, and this informs how we look at the different assets, is we are not worried about an NPL, we are worried more about asset recovery and making sure that we are making the right decisions as it relates to that particular asset.

We try to avoid any of these extensions that are uneconomical. We try to preserve our position and we try to work with sponsors, existing or new sponsors that put in equity that help with the overall asset recovery. I think that approach has served us well. I think it has more to do honestly with the day one underwriting than anything else. But, if you get that right, I think then you have optionality day two. That is what we have seen with the portfolio.

We feel really good about the 180. You never say never, but I think all things considered, this should hopefully be behind us.

**Gabor Kemeny (Autonomous Research):**

A couple of follow-ups left from me. One is on the NII guidance. Enver, when you said you expect the NII to grow next year, was that on a like-for-like basis or including the M&A? If the latter, could you please share any thoughts on the like-for-like development?

The other question was a follow-up on the US office. I mean, what do you think is the likelihood of more provisioning over Q4? I mean, up to 30 basis points of provision guidance leaves room for more P&L provisions. You have €70 million of overlays. Why would you not get over with running off this portfolio?

**Anas Abuzaakouk:**

Gabor, the line was a bit hard, but I will take the office. I think your question was, is there any more provisions expected? No. I think the €30 million that we have taken on office over the past two years, that is sufficient. I mean, never say never, but we feel pretty confident, definitely for the fourth quarter.

And then there was a question on NII.

**Enver Sirucic:**

Yes, I think you asked like on the NII projection, that does include M&A. I just said there is going to be some NIM compression, limited from just the

rate cuts, but that will be more than offset by the new business and also the M&A transactions.

**Johannes Thormann (HSBC):**

Some follow-up questions from my side as well. First of all, on NII again. If we look at Q4 and your guidance of an uplift on absolute levels versus Q3, can you give some more details what is changing in the new business and the underlying business, despite the rate cuts, that you expect an uplift versus Q3?

Then probably just running ahead or looking ahead on the Knab contribution. If we look at their Annual Report, this would suggest that a monthly NII contribution is something like 30 million per month. Is that fair to assume?

Secondly, on the risk side, you clearly reduce the office exposure in the US, but seemingly you kept the European office exposure relatively stable, if I do a rough calculation on the numbers of page seven. What is the difference between those asset classes in your view?

Then probably just looking a bit ahead, if we take the risk profile of Dutch mortgages, your cost of risk in the next year should come down from this year's level. Is that fair to assume?

**Anas Abuzaakouk:**

Thanks, Johannes.

**Enver Sirucic:**

I will take the first one, maybe.

**Anas Abuzaakouk:**

You want to take the first and the last one. I will take the office.

**Enver Sirucic:**

Yes, sure. The first one, Johannes, the underlying NII, so assuming no acquisitions, is going to be very, very stable in Q4 compared to Q3. The uplift in NII purely comes from the Knab acquisition the two months that we are having. On the guidance, what Knab will contribute? I think it would make sense to probably do an analyst call between now and the Capital Markets Day just to give you guys a bit more details around the composition of the P&L.

We are about to close it only in the next few days, and once we are done with the analysis, we will then do a follow-up call.

Risk cost ratio. I think the question was will the risk cost ratio be lower given the Knab acquisition?

**Anas Abuzaakouk:**

It will dilute.

**Enver Sirucic:**

It will dilute, obviously, just given they are all mortgages. On the other side, once we have closed Barclays, that is a high-risk ratio-concentration business, also high margin business. We think that is going to be almost a natural offset. The one will dilute, the one will increase. Ballpark will be very, very similar levels as of today.

**Anas Abuzaakouk:**

Then, Johannes, I think you asked about just the office in general, not just the US. If you just go back to 2022, the total office exposure, when the US was €640 million, it was about €1 billion in Europe because it was a quarter of our €6 billion of real estate portfolio. If you now move forward, since that point in time, we deleveraged the US office from €640 million to €260 million, as I mentioned, and went through the dynamics, and we feel pretty good about where we stand.

However, equally as important, I think it was a good question that you raised, is the European office exposure went from €1 billion to slightly over €500 million, no losses. The issues in Europe are fundamentally different than the US. In the US, secular change in US office is really I think the work from home has been a real drag or an albatross on US office buildings.

Then you couple on top of that, more aged buildings that have been hollowed out in some of these metropolitan areas, and that has been a real issue, a real challenge.

In Europe, it is not the work from home as much. It is just the cap rates that people lent at pre-raise and interest rates were 2-3%. They were ridiculously low. We have always said that we never lent into that environment. However, the actual cash flows are quite stable, and that I think more than anything else. If you got the underwriting right day one, I think you will be fine.

It is the folks who lent into 2-3% cap rates that are going to have real issues because you are going to see a rejiggering of the capital structure for those office buildings. We are fine on that front. So Europe has actually been a really positive development, and the US has been the one that I have always



highlighted that is acutely distressed and I think the worst that is behind us.  
A good question.

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

Could I just pick a bit more at the NII outlook? You said that the reduction from 300 basis points to 200 basis points ECB rate has some impact. Could you give us a rough idea of how much that impact is on the like-for-like book, just so that we can understand the sensitivity of that move?

The second question on NII is, could you just give us an update on the structural hedge, the size of that hedge and the yield that is currently being returned and what that might step up to?

**Anas Abuzaakouk:**

Jeremy, I will hand this one to Enver.

**Enver Sirucic:**

We have not disclosed anything, Jeremy, in terms of NII sensitivity. However, as I said, it is fair to say first 100 bps almost no impact. Second 100, far less than what we had previously. The previous impact, if you go back, was we went from 235 bps to 300 pre-rates and post-rates. Most of it will be conserved. There is a bit of a timing topic to it.

You pointed to it. It is the structural hedge. If rate cuts come as they are forecasted, which is going to be very quick, we cannot absorb the full impact of it in 2025. That is why we will see some NIM compression. However, looking into 2026 and 2027, everything else static, we will pretty much recover most of that effect through the structural hedge in the coming years.

Stable, small dip in 2025, recovery in 2026, pretty much recovered in 2027. That is how the mechanics are. Then actually growing then in the outer years. Like-for-like, no M&A, nothing else happened in the world.

How the structural hedge is designed is basically we have 40%, very short overnight, up to three months. That is to absorb the deposit betas. The remainder, 60% is split. A majority of that is in the longer-term hedge, which is ten-year rolling. Then we have a three-year roll-off hedge, which is supporting some of that recovery that I mentioned of the second-rate cutaway. That is the design of it.

**Anas Abuzaakouk:**

Do not forget you got to factor in, obviously, the M&A, and have the increased volumes that we were just kind of highlighting. That is why I think

waiting for the Capital Markets Day, absent just looking at things like-for-like, might not provide the best picture to go forward because there is a lot of moving parts, but we also understand the nature of the question.

**Jeremy Sigee:**

That is very helpful. Can I just ask a quick follow-up? Your comments implied a shift away from M&A with these two big acquisitions to digest. And possibly more of a share buyback kind of emphasis. Is that a fair interpretation or is it still wait and see?

**Anas Abuzaakouk:**

No, Jeremy, I would say, look, we have two strategic acquisitions. They are going to add over 35% to our balance sheet. We need to fully digest and absorb the acquisitions. So there is a lot on the integration front.

M&A is a key plank to our business model. I think we have demonstrated that with almost over 14 acquisitions over the past decade, and buybacks are a key plank in what we do with our excess capital. They will go hand in hand, but the reality is we are focused on integration for the foreseeable future, at least from an M&A standpoint.

**Tobias Lukesch (Kepler Cheuvreux):**

Just two follow-up questions on my side, please, around capital. In terms of the RWA growth from potential lending in Q4, maybe is that relevant in the fact that it would be relevant to point out maybe what an impact that is? Thinking about the capital ratio guidance above 14% CET1 ratio on the pro-forma for the financial year 2024, is it fair to assume that this ratio might be even closer to 15% than the 14%?

**Enver Sirucic:**

Yes, I think, yes, Tobias. On the RWA growth from lending, it plays a role in the overall RWA outlook we provided for Q4, but much bigger is obviously the M&A piece. However, both are considered completely in the RWA number. We cannot give more on the CET1 ratio than just saying over 14% because there are still moving parts. It would not be fair to give any more guidance than that.

Tobias, I mentioned there is a strong pipeline, but term sheet to actual funding, you do not control that. I think it would be more prudent to wait till year end because we will actually have a firm figure. However, we thought giving over 14% would be a good guidance, at least directionally, for you guys to work with.

**Tobias Lukesch:**

Understood. Maybe a follow-up on the US office as well. The big reduction, basically, of the US office portfolio by €112 million, how was that exactly achieved in Q3?

**Anas Abuzaakouk:**

Yes, Tobias, that one was one where NPL that went to REO, recapitalised new equity investors, and we feel pretty good about that particular position.

**Tobias Lukesch:**

So at the end of the day, this was sold?

**Anas Abuzaakouk:**

New investors were brought into the asset, but we continue to be in the asset.

**Tobias Lukesch:**

Okay. Your portion dramatically dropped, basically. That was potentially not a whole loan you had or because, I guess, you were rather in the syndicated space there, right?

**Anas Abuzaakouk:**

No, Tobias, that one was one we marked before. We were conservative in our mark. We had marked it under 50% LTV on current valuations. We feel pretty good about the recovery on that end. However, what we are more, I guess, positive on this is you have new equity investors that came in that will be able to manage the asset as opposed to letting the asset drift, and that is important in terms of any office exposure that you have the right sponsors and equity guys behind it.

**Tobias Lukesch:**

This really dropped the exposure by €112 million for the performing side?

**Anas Abuzaakouk:**

Not €112 million.

**Tobias Lukesch:**

I am just puzzled by the sum, because a single loan should normally not drop your performing exposure by €112 million.

**Anas Abuzaakouk:**

I think there is FX. It is not €112 million, but there is a couple of FX movements and amortisations, but it was the NPL from last quarter, that went into REO.

**Tobias Lukesch:**

It is a majority impact, basically. But then, I mean, there was not a big sale, right?

**Anas Abuzaakouk:**

No. The majority of this was actually going to REO, but I do not think it is year-over-year. That is why I am cautious not to give you that, because there were some amortisations as well as just FX adjustments. But yes, the majority is REO, Tobias.

**Hugo Cruz (KBW):**

You already answered a lot of questions. I just have one more. The big increase in cash and cash equivalents in 3Q, did this have a material positive impact on the NII? How do you expect the cash number to look like in Q4? Really, why do you increase this so much?

**Enver Sirucic:**

Hugo, no, it did not have any positive impact. We were just then getting into the ECB, so it is left pocket, right pocket. It does not really move. We issued quite a bit, and we had an increase of deposits. We issued AT1 and senior preferred. That was €1 billion. We had some private placements, and also customer deposits went up, while the lending was a bit slower. That in combination gives you a higher cash balance.

We might expect slightly lower, just given pickup in lending, but the acquisitions are bringing new cash to the balance sheet. Total, probably the balance will not change dramatically. Hopefully, just from a relative perspective, 28% might drop once we added the two businesses.

**Anas Abuzaakouk:**

Just to add on, Enver, the €1 billion that we issued between the AT1 as well as senior preferred, that was really in anticipation of the two M&A. We are trying to get ahead in terms of MREL and just different requirements. Yes, almost 30% of the balance sheet is in cash, and hopefully we will start being able to deploy that.

**Chris Hallam (Goldman Sachs):**

Just two quick follow-ups left for me. First on betas, 35% or around 35% in the quarter. Just how much of the change Q-on-Q there is the reference rate versus your deposit rates? Then, obviously, the Knab closing is going to impact that slightly, but on an organic basis, how would you expect betas to move through to year-end?

Second, and again, sorry to come back on Knab. But the accretion that I guess we are looking at in the guidance changed this morning. Just if I try and isolate that €25 million or so, is there any seasonality or episodic items in the final two months of the year to be aware of? You talked about the rates picture into next year for this, but just any one-offs in that November, December number we need to be aware of?

**Enver Sirucic:**

On the first one, Chris, on the betas, so the increase is purely driven by the reference rate, nothing to do with the customer yield. The customer yield is actually coming down, so expense for customers is going down, and the reference rate is coming down a bit quicker. And now that is going to be the question for the next coming quarters, how quickly can we adjust to the new rate?

~~But the~~ On Knab ~~is out~~, there is nothing seasonal. The only thing I would keep in mind, they are having a record year, just given the overall rate environment, and they benefited significantly on the deposit margin. That is not going to be the case for the coming years, but that is reflected in all our numbers and our forecasts.

**Jovan Sikimic (Raiffeisen Bank International):**

I just have, I think, really a minor one. I think a couple of days or weeks ago, we read about the interest in Mercedes Bank portfolio in Austria. Can you maybe share some details or what is your plan on that? I suppose it is quite a small transaction, it should be, right?

**Anas Abuzaakouk:**

Jovan, yes, you are absolutely right. It is a very small transaction, under €100 million portfolio size, which should be closing in the late fourth quarter, early first quarter. I know there was a whole discussion of mergers, it is less M&A, just more acquiring assets.

Thank you everyone for attending today's call. Thank you for the many questions. I thought that was pretty robust. We look forward to hosting

everybody for our Capital Markets Day on March 4, 2025. As well, that is going to be coupled with our year-end results and there is going to be a lot to cover. Thanks everybody. Have a great rest of the year and we will catch up soon. Take care.