Presentation

Operator
Good morning, this is Laura welcoming you to ING's 1Q2024 Conference Call. Before handing this conference call over to Steven van Rijswijk, Chief Executive Officer of ING Group, let me first say that today's comments may include forward-looking statements, such as statements regarding future developments in our business, expectations for our future financial performance, and any statements not involving a historical fact.

Actual results may differ materially from those projected in any forward-looking statements. A discussion of factors that may cause actual results to differ from those in any forward-looking statement is contained in our public filings, including our most recent annual report on Form 20-F filed with the United States Securities and Exchange Commission and our earnings press release as posted on our website today. Furthermore, nothing in today's comments constitutes an offer to sell or a solicitation of an offer to buy any securities.

Good morning, Steven, over to you.

Steven van Rijswijk
Thank you very much, good morning and welcome to our results call for 1Q2024. I hope you are all well. And as usual, I'm joined by our CRO, Ljiljana Čortan, and our CFO, Tanate Phutrakul. In today's presentation, I will inform you about the fundamental drivers of ING's excellent start of the year, both in terms of our commercial performance and in our financials.

Tanate will walk you through the financials of the quarter and the resilience of our net interest income, also in a lower-rate environment. At the end of the call, we will be happy to take your questions.

Now let's move to slide 2. As you can see on this slide, we achieved a very strong commercial performance in the first quarter with growth across the board in customers, lending and deposits.

We added 99,000 primary customers, comprising both new and existing customers who have chosen us as their primary bank. Our primary customer base now amounts to over 15.4 mln primary customers, and we are well on track to reach our target of 17 mln by the end of 2025.

We've also been able to grow our lending book following a strong fourth quarter. Our mortgage book grew by €2.4 bln this quarter. Most of this growth was visible in the Netherlands, where we further increased our market share, and in Germany. In Wholesale Banking, we were also able to capture loan demand while we continued focusing on capital efficiency.

On the deposit side, we had successful campaigns to raise new funds in Germany and Poland. Also in Italy, we were able to further grow our business, as evidenced by the deposit inflow this quarter.

This strong commercial growth contributed to an excellent start of the year, which we highlight on slide 3 and can summarize in 4 main points:

1. NII was strong
We have been able to keep our lending and liability margins relatively stable and benefit from the growth in volumes. When excluding the increased impact from accounting asymmetry, our NII rose compared to last quarter.

2. Our focus on fees is clearly paying off
Income from fees has grown by double-digits versus both comparable quarters. As mentioned during our 4Q2023 earnings call, we are benefiting from more customers choosing ING for their banking products and from increased package fees.

Also, the new commission structure for independent brokers in Belgium is resulting in lower fees paid. Some market dynamics have also become more favourable, leading to positive impacts on fees from investment products and lending. As such, we remain confident in our ability to grow fees by 5 to 10% this year.

3. Operating costs were on track
Operating costs increased by 5%, which was mostly attributable to the impact of inflation on staff expenses and the implementation of the Danske Bank ruling on VAT. However, when taking the lower regulatory costs into account, total operating expenses were 1.4% lower than last year.

4. We maintain a high-quality loan book
In line with 2023, the high quality of our loan book continues to be reflected in low-risk costs, which came in at only 16 bps this quarter. This has all resulted in another quarter with very attractive returns.

Our four-quarter rolling return on equity was 14.8%, and we have achieved this while operating on a high CET1 ratio of 14.8%.

Then we turn to slide 4.

As you can see on the top graph, we are in a very predictable rhythm of announcing distributions to our shareholders. And I'm pleased that we have announced another €2.5 bln share buyback today, which is the next step in converging our CET1 ratio towards our target of around 12.5%.

Including this buyback, we have returned almost €26 bln to shareholders since 2018 and over €5 bln in 2024 alone, also including the final cash dividend over 2023, which will be paid tomorrow. With a pro forma CET1 ratio of around 14.1% and continued capital generation, we have ample capacity to continue providing an attractive return. We will update the market at the time of announcing our 3Q2024 results.

Before Tanate takes you through the financial results in more detail, I will spend some time on the progress we're making on the execution of our strategy and related targets.

On slide 5, our purpose and strategic priorities are shown. The first priority is to deliver a superior customer experience that is personal, easy, relevant, and instant. This is highly valued by our customers, as evidenced by our Net Promoter Scores, where we are ranked number 1 in 4 of our 10 retail banking markets.

One example of how we offer this excellent experience is the launch of a feature in our banking app that allows customers to immediately check whether a caller who contacts them is actually an ING employee. This will protect both the customer and ING from fraud.

In Romania, we expanded our instant lending proposition by introducing an instant overdraft product in addition to term loans. And in Wholesale Banking, the ING InsideBusiness portal now includes a portfolio insights tool that saves clients time by giving them real-time insights into their lending portfolio.

Our second strategic pillar is putting sustainability at the heart of what we do. We continue to support our clients in their transitions to a low-carbon economy. In the first quarter, we achieved a volume of sustainable finance mobilised of €24.7 bln, an increase of 13% from the same period last year, and we closed 156 sustainability transactions, 59% more than in the first quarter last year.

In Retail Banking, we provide sustainable mortgages in several countries, and we're also working to help connect customers with services to undertake sustainable home renovations. For example, in Germany, we started a pilot in the first quarter where customers can receive advice and connect to partners specialized in sustainable solutions such as heat pumps, solar panels, installation services, and subsidy advice.

And looking at sustainability and ESG more broadly across the bank, we released publications on human rights and nature that transparently outline our progress.

On the next slide, I'll give you some insight in the key themes of our Capital Markets Day. As you know, we'll host a Capital Markets Day on the 17th of June. I will obviously not reveal too much now but can give you a broad outline of what we intend to discuss.

First, we will update you on the next phase of our strategy. In addition, we will highlight how capital will be allocated going forward and how that results in further growth and diversification of our business. We will discuss how we leverage our operational excellence. Lastly, we will update you on the targets for the next few years. Now I will hand over to Tanate, who will take you through the results in the first quarter in more detail starting on slide 8.

Transcript Analyst call 1Q2024

Tanate Phutrakul
Thank you. As Steven mentioned in his introduction, net interest income was strong again this quarter. Lending NII increased for the fourth consecutive quarter, driven by increased volumes at a higher margin. Liability NII continued to be resilient with a margin above our historical average. We did not increase our core rate this quarter. We reinvested part of our replicating portfolio at higher rates and benefit from the positive impact of these actions.

The overall net interest margin, which takes the developments in the total Balance Sheet into account, decreased by 3 bps, fully driven by lower net interest income for Financial Markets, following an increase in the accounting asymmetry. I'll give you more details on slide 9.

On this slide, there are two main messages I want to get across. First, note that when excluding the increased impact of the accounting asymmetry, our net interest income increased compared to the previous quarter. However, our net interest income continued to be impacted by accounting asymmetry, which lowers net interest income in Group Treasury and Financial Markets, with an offset in other income. This quarter, this accounting symmetry increased particularly in Financial Markets.

Second point that I want to make is that we have clearly benefited from improvement in the curve since our 4Q2023 results presentation, and this will also positively impact the development of our NII in 2024. The normalization of our liability margin is likely to happen more gradually compared to the scenario we gave in February, while there's no reason to change the assumptions from lending growth and other NII. As a result, we now expect to end up at the high end of the range given in February. On the next slide, we see the resilience of our net interest income, also in a decreasing rate environment.

Slide 10 illustrates our ability to maintain a strong liability NII, also in a lower-rate environment. The graph on the left shows the improved forward curve as per the end of March compared to the end of December 2023, with rates moderating at around 220 bps.

These continued positive rates benefit our gross replicating income, as you can see in the graph on the middle of the slide. Then, when you assume a scenario in which the pass-through gradually increases over time to 50%, the liability NII for our Retail eurozone deposits, net of deposit costs, remained at a strong level. The pass-through on total retail eurozone deposit was around 30% in 1Q2024.

Under this scenario, the liability margin is expected to stabilize at a level of around 100 to 110 bps.

Now moving to slide 11. This shows the development of our core lending and deposits in retail banking. Mortgages continued to increase, with growth mainly visible in the Netherlands and Germany. In Wholesale Banking, we were also able to capture growth opportunities while we continued focusing on capital efficiency.

On liabilities, we saw core deposits increase by €13.5 bln in the first quarter. This was mainly due to another successful promotional campaign in Germany, but we also saw growth in Poland as well as in Italy. Wholesale Banking also recorded a small inflow, mostly driven by Financial Markets and Bank Mendes Gans, where we offer cash pooling for our clients.

Turning to page 12, you can see that our focus on fees is clearly paying off, as income has grown by double-digits versus both comparable quarters. Roughly half of this growth was driven by growth in the number of customers and our own pricing actions. The new commission structure in Belgium is also resulting in lower fees paid to independent brokers.

On top of this, we saw that market dynamics have improved, leading to positive impacts on fees from investment products, as our customers start to trade more and Assets under Management increase. At the same time, in Wholesale Banking, our Global Capital Markets teams have also had a very successful start for the year. With that in mind, we remain confident in our ability to grow fees by 5 to 10% this year.

On page 13, we continue to be disciplined on costs. Excluding regulatory costs and incidental items, operating expenses were up 5% year-on-year, which is in line with what we said during our 4Q2023 earnings call. This increase was mainly the impact of inflation on staff expenses, reflecting indexation and CLA increases across most of our markets.

We also had to pay higher VAT, following the implementation of the Danske Bank ruling in the Netherlands. Regulatory costs are also seasonally high in the first quarter but were significantly lower than last year because no contribution is required to the eurozone's Single Resolution Fund in 2024. The additional bank tax in the Netherlands will be paid in the fourth quarter as per normal.

As Steven said at the beginning of the presentation, the total expenses, including regulatory costs and incidental items,

decreased versus both comparable quarters.

On to risk costs on the next slide, slide 14. Total risk costs were €258 mln this quarter, or 16 bps of average customer lending, well below our through-the-cycle average, and demonstrating the quality of our loan book.

In wholesale banking, risk costs included additions for a number of individual files in unrelated industries that were newly provisioned in stage 3. This was, however offset by releases in stage 1 and 2. In Retail Banking, risk costs were predominantly driven by Business Banking and consumer loans, while mortgages, our largest book, continued to perform well.

Looking at the different stages:

Additions to stage 3 provisions were €368 mln, but the stage 3 ratio remained stable at 1.5%. Risk costs for stage 1 and 2 were a €-110 mln, reflecting an update of the macroeconomic forecasts and releases of management overlay. We still have a stock of overlays amounting to €533 mln. All in all, another benign quarter in risk costs and we remain confident in the quality of our loan book.

Now slide 15 shows the development of our CET1 ratio, which increased further to a very strong 14.8%. CET1 capital increased by more than €1 bln, driven by the inclusion of the net profit for the quarter, after reserving for dividend.

Risk-weighted assets increased by €3.9 bln, including €1 bln of FX impact.

Credit risk-weighted assets increased by €3 bln mostly driven by an increase in exposure and some model changes. These factors were partly offset by a change in the overall profile of the loan book. Both operational and Market risk weighted assets were stable.

The share buyback announced today will have an impact of approximately 77 bps on the CET1 ratio, which will be visible in the 2Q2024 numbers.

We will update the market again on our capital plans with the disclosure of our 3Q2024 results in November.

Then on to slide 16. As Steven and I have explained today, ING has had an excellent start of the year, with good commercial and financial performance, as we have executed on our strategy. Total income grew, with strong NII double-digit fee growth. The development of operating costs was in line with the outlook we gave, while regulatory costs decreased significantly compared to last year. Our four-quarter rolling ROE remained very attractive at almost 15%, while our CET1 ratio further strengthened to 14.8%. This has allowed us to announce another sizable share buyback program which has started today. We will update the market again at the time of announcing our 3Q2024 results.

The strong 1Q2024 performance gives us further confidence that we will reach above 12% return on equity target. In general, looking ahead, we are confident that we will continue to deliver robust financial results while successfully executing our strategy. We will take a long-term view at our Capital Markets Day taking place in June. We look forward to discussing this with you then. Now on to the Q&A, operator.

Q&A

Operator
Thank you. Ladies and gentlemen, if you would like to ask a question, please press Star One on your telephone keypad. And in the interest of time, we kindly ask each analyst to limit yourself to two questions only. Thank you. We'll now take our first question from Tarik El Mejjad with Bank of America. Your line is open. Please go ahead.

Tarik El Mejjad (Bank of America)
Hi, good morning. Thanks for taking my questions and well done on a good set of results. The first question would be on capital and capital return. You reiterated the 12.5% CET1 into 2025. So how do you read the increased scrutiny on capital and bank resilience in Europe, with the chair of SSM talking a bit cautiously about buffers and your own Ministry of Finance issuing a report with more cautious kind of outlook on capital build and the Swiss Federal Council reports on the capital stock.

So are you still comfortable to run toward 12.5% CET1 which doesn't include any management buffer. Also, in terms of timing, when you announced 12.5% in 2022, we didn't expect rates to go up so quickly and you've managed your RWA very well in the last 2 years. So would you probably need 2 or 3 more years actually to reach 12.5%?

And still, on capital, the M&A activity in Europe has picked up as we've seen with the latest deals. How do you see your business model? Is this business model that you think can participate in that, especially that you have plenty of capital? And I know I ask this question every call, but would that be almost necessary for you to fix your unbalanced fee/NII mix that could be under pressure in a normalized rate environment?

And last question on NII. I'm sure there will be many questions after mine, but just to get the trajectory, your slide 10 is very helpful for the liability margin. Should we read that if we exclude the volume growth for 2024, you should see NII pressure from liability margin until first half of next year? And then, the volume growth will be there supporting a kind of a flattish level and will be more having a recovery towards 2027. Thank you.

Steven van Rijswijk
Thank you very much Tarik. The answer on the third question is yes, but Tanate will elaborate. Tanate will also talk about capital. I'll talk about M&A and fees.

Look, clearly we see continued growth in our customer base but also in our fee income. So autonomously we are doing very well and we can also continue to grow very well.

As I have also said for our retail markets, scale is key because you can make more impact. You can do that with better operational leverage. You can offer better propositions just given the share size you have in that market. And so therefore, it's important to remain sizeable in every retail market where we're active.

Now in that sense, in case there would be opportunities to increase that size, while fitting to our culture and our digital operations, we would look at it with the perspective of increasing size. And two, we would look at certain skill sets either digitally or fee-related whereby I would say we can diversify quicker than we could do that on an autonomous basis. So the first strategy is continued to be autonomously. If there is a market consolidation or skill opportunity, then we will look at it.

Tanate Phutrakul
Hi Tarik. To answer your question clearly, we're comfortable operating at around 12.5% CET1 level. And I think what drives that confidence is the fact that we have a diversified business model. We have gradually transitioned to a much more capital-light revenue model and the fact that we were able to manage our risk cost through the cycle: credit risk, market risk, operational risk. So I think that this gives us comfort that we can operate at the buffer levels that you see now.

The second point to make on the comfort that we take is that clearly, every share buyback that we do would means a consultation and a preparation with the ECB to actually do the share buyback, and that has been granted. That's why we're starting the share buyback today.

Now to your second question around NII on liabilities. Yes, we do expect in our simulation that rates will remain stable where they are now until the end of June, and then gradually transition to a lower level somewhere during the course of 2025. So if these simulations come through, indeed, you will see a dip during the course of the second half of 2024 and stabilization in 2025 and indeed, with volume growth, we'll see accretion in terms of NII on liability going forward with the assumptions we've given around tracking speed of deposit costs.

Tarik El Mejjad (Bank of America)
Thank you very much.

Operator
We'll now take our next question from Giulia Miotto of Morgan Stanley. Your line is open. Please go ahead.

Giulia Miotto (Morgan Stanley)
Yes, hi, good morning, and thank you for the slide 10. I want to ask another question on this slide, please. The 50% assumption in terms of pass through on the savings rate, is that realistic or is it a bit conservative? Because it means that essentially, you're not cutting savings rates as rates go down. So, I would like to pick your brain on that one. And then secondly, I know that Russia by now is small for ING, but we have seen a pickup of attention from Europe in terms of reducing, getting out from that country. Any comment there please? Thank you.

Steven van Rijswijk
I'll do the question on Russia and then we'll talk about the pass-through assumptions. Well, on Russia, like we said at the beginning of the war, we did not see a future for ourselves in Russia. Since then, we have been building down our loan book. It was about €6.7 bln at the time, it is now about €1.3 bln. So we decreased with over 75%, and we will continue to do so.

In that setting, also €600 mln is covered by ECA, European Credit Agencies or insurance, and in the meantime, we took ample provisions and capital. So we're well covered for that book. And yes, of course, we see the attention but there is no particular attention to us. We are just continuing our decrease and that's what we have chosen already 2 years ago.

Tanate Phutrakul
Giulia, to answer your question, clearly, deposit tracking is one of the, I would say, 2 major or 3 major assumptions that we make in this scenario. The forward curve being one, then deposit growth being the second and the tracking being the third. Now the tracking I think what I can say is the following:

The tracking up until Q1 was around 30%, take that as an anchor point. We have done indeed a simulation for 50%. I think there's an element of prudence in there. But at the same time, we are also giving you a sensitivity that every 10 bps, it's around €400 mln. So I think we're giving all the major driving parts, and then you can take a judgment on that as well.

Operator
And we'll now take our next question from Sam Moran-Smyth of Barclays. Your line is open. Please go ahead.

Sam Moran-Smyth (Barclays)
Hi, morning, thanks. So, 1 question on NII and 1 question on fees, please. So, pretty sure it's going to be a lot of questions about liabilities, but on the asset side, the lending margin grew again QoQ. Could you please talk about which geographies and products are driving that, and is it something that you expect to gradually pick up going forwards? Appreciate you've given a lot of colour on the liability margins and your expectations there. So, anything you can give on lending would be great.

And then on fees, I'm just trying to understand if we should be expecting fees to kind of grow QoQ from here, because when I look at the mix, daily banking fees up QoQ. And next quarter, we'll have a full quarter of the package increase in the Netherlands. And then on lending and investment products, you might expect those to grow as we approach lower rates.

So, is that the right way to think about it, or am I missing something? I can see on the insurance and financial market fees that they look a bit inflated perhaps this quarter. So just wondering how we should extrapolate that. Thanks very much.

Steven van Rijswijk
Thank you. On the lending margin, the largest impact of that increase was in mortgages, also because most of our mortgages are funded a bit earlier. So, with the decrease in the funding rate, there you see an increase in the margin coming in. So, that was the reason for the increase in lending margin.

When we come to fees, in the end, what we want to do is to increase the alpha, if you will. So which is, first of all, a growth in customers. Indeed, payment packages increased this quarter and will also filter through then for the full quarter. In the second quarter, what we told you on the brokers in Belgium will continue, and of course, we will also continue to see growth in the number of investment accounts that we have, because once people have investment accounts with us, when the market is changing, which it has now done again, then we are going back to the trade situation that we did see in the past.

And of course, the past couple of years, it was a bit benign, which also therefore caused the fees to be flatlining. So with that, the fact that we can grow our customers, the fact that there is a feed through of the increase in the payment packages for the next quarter, the fact that the contracts with the independent brokers in Belgium are there and, on top of it, the increase in primary customers, the increase in the activities in investment products, in insurance, and maybe more cyclical on Wholesale Banking makes us very confident to target 5 to 10% in 2024.

Sam Moran-Smyth (Barclays)
Thank you very much.

Operator
And we'll now take our next question from Benoît Pétrarque of Kepler Cheuvreux. Your line is open. Please go ahead.
Benoît Pétrarque (Kepler Cheuvreux)

Yes, good morning, It's Benoît Pétrarque. So sorry to come back on the lending margin because obviously, you guide for a drop of your liability margin to the 100-110 bps range. In your current interest rate scenario, basically going to a Euribor at I think 2.3% by 2027, how much lending margin improvement will you expect in that scenario? That will be extremely useful to get a bit of details on that.

Also, number two was on the replicating portfolio and the usual questions around the duration, it was 2.4 years last time and

just wondering if that moved up a bit. Obviously, you've probably managed a bit the duration. And then just the last question, we saw an interview from the CEO of Germany a few weeks ago talking about growing the SME business in Germany. Just wondering how much potential growth you see there and whether that could be meaningful. Thank you.

Steven van Rijswijk
I'll take the question on growth in Germany, and Tanate will take the 2 other questions. There is a lot of growth opportunity in Germany. We have just started with a digital SME offering. As in the past, when we came to Germany saying we will only do digital banking for private individuals, people said, well, that will not work in Germany, and that's just not how the German culture and German sector works. You have to have branches, etc.

And well, now, we are 20 years further and 9 mln of clients further. Moreover, also Corona in that sense really gave an additional appetite for people to do digital and even mobile banking, so only using their mobile. In the beginning, digital in Germany was largely desktop and then gradually became mobile.

Now, since the last 2 years, we have said, okay, we can also do this for let's say, smaller SMEs or self-employed, smaller SMEs. Small businesses also built a fully digital offering for them as well. Most people don't necessarily want to spend a lot of time on banking. They want it to be easy, instant, safe, personal. And that's how we are offering that as well.

It doesn't exist in Germany, we have launched it, it's currently small, in the end, we also want to test it also with the risk costs that come in. So you provide a savings account, a current account, a loan and then you calibrate your model and gradually we go with our business. But we have a very positive views on how we greatly diversified our business. And moreover, with the learnings that we have in Germany, we then also intend to roll it out in other markets as well.

Tanate Phutrakul
Then some reflection on lending margins. I think we have seen the beginning of a quantitative tightening cycle. We have seen the fact that the TLTRO funding, €3.5 trillion is being taken out by the ECB. So that points to the thesis from us that lending margins should improve.

But what I think is also important in terms of our lending NII, is the fact that as rates move from 400 bps to 220 bps, that should stimulate more lending growth. And that's what we see signs of already. So that's with respect to NII lending. So I do see potential upside from where we are today. And to answer your second question, we did indeed give guidance on the weighted average duration of liability of 2.4 years, and that remains roughly the same in Q1.

Benoît Pétrarque (Kepler Cheuvreux)
Great, thank you very much.

Operator
And we'll now take our next question from Benjamin Goy of Deutsche Bank. Your line is open. Please go ahead.

Benjamin Goy (Deutsche Bank)
Yes, hi, good morning. Two questions please, the first on costs, and you mentioned that in Q1 your expense growth is a bit below your target for a full year. Just wondering why this should increase throughout the year or is it just a full-year guidance of conservative element considering inflation came down in most of your markets already?

And the second is with the accounting asymmetry: is a bit more difficult to judge the developments across the countries. Maybe can you comment on these moves in some of your key geographies, whether it was Netherlands, also Germany, the challenger markets, Q1, QoQ net interest income, what was underlying? What was accounting asymmetry driven the QoQ move? Thank you.

Steven van Rijswijk
So on the cost, I'll take it. So basically, what we have factored in the outlook of our costs that we gave last quarter is also the spillover of the CLA increase that came from last year into this year, but also the CLA amendments that we will need to make in the second and third quarter. That's what gives you that guidance.

Tanate Phutrakul
And then, on accounting symmetry: most of the accounting asymmetry happens in Financial Markets which is a global business. So that is not linked to any particular country. And with respect to GT, it's the same. It's the global results which are predominantly based in Amsterdam. So, it's in our Dutch location. And we give you a bit more clarity in terms of what these asymmetries are on page 22 of our results presentation as well. So, you can see where the movements are.

Benjamin Goy (Deutsche Bank)
Thank you.

Operator
And we'll now take our next question from Farquhar Murray from Autonomous. Your line is open. Please go ahead.

Farquhar Murray (Autonomous)
Morning all. Just two questions, if I may. Firstly, the new liability margin guidance of 100 to 110 bps is obviously slightly higher. I just wondered if in very broad terms, you could maybe split that between, say, the curve movement and the tracking speed assumptions. It feels like there's a little bit of both in there somewhere.

And then, in terms of, actually is there any particular geographies driving that particularly with respect to the tracking speed assumption? It feels like maybe you've got a bit more confidence about tracking in certain places. And then secondly, the €2.5 bln is another step in the right direction on the share buyback.

But if I look at the CET1 ratio target of 12.5%, it would, by full year 2025, find you towards probably the lower end versus peer group. So, can I ask, is that an outcome that ING would be comfortable with? And can I therefore look at the 12.5% as fully independent of relative peer positioning? Thanks.

Steven van Rijswijk
I'll take the second question, and Tanate will take the first question on even further splitting of page 10, I guess. And the answer on the second question is yes. So yes, we are comfortable with our CET1 target of around 12.5%, which we have said all along.

And we are a bank that operates in relatively low-risk environments, with low-risk costs, with low NPL ratios, with either largely collateralized loans in the form of mortgages or senior or super senior loans, also in Wholesale Banking. So, yes, in that sense, we are comfortable with our 12.5% and we're comfortable with our buffer.

Tanate Phutrakul
And to try to give you a bit more detail. I think it's a combination of tracking and of the curve. I think maybe three things to answer your question, Farquhar, is that we believe that we're reaching a point of stabilization in terms of our current account levels, which drives a lot of the margin improvement. And we see that as being structurally more stable given the higher number of primary customers. That would be one.

The second one is that we also see that in the picture we gave on page 10, that the total liability margin also includes a liability margin in non-eurozone countries, and it also includes Wholesale Banking margin. And we see that the liability margin in our non-eurozone is actually holding up quite well, and it's the same for liability margin in the Wholesale Bank. That gives us the comfort to give you this outlook of between 100 and 110 bps.

Farquhar Murray (Autonomous)
Thanks, that's really helpful.

Operator
And we'll take our next question from Kiri Vijayarajah from HSBC. Your line is open. Please go ahead.

Kiri Vijayarajah (HSBC)
Yes, good morning everyone. A couple of questions from my side. So, you've given us refreshed guidance on Basel IV day 1 impact. I wonder if there's anything you can say or you can update us on the impact of the phasing from the output floor. I appreciate lots of moving parts but just some colour there would be helpful.

And then secondly, just a more bigger picture question on the fees and investment products, because we're seeing, particularly in continental Europe, that ETFs are getting more and more popular, particularly with the younger customers that is your target demographic.

So how should we think about that? Is there some kind of structural margin pressure to think about on a kind of medium-term view or, is it more of a benefit for the likes of ING because you don't really have kind of legacy product factories that do traditional asset management products. So how does that play out for you guys? Thank you.

Steven van Rijswijk
Thank you, Kiri. I think I'll take the second question and Ljiljana will take the first question. On the investment product fees, clearly we don't have these production engines. We distribute, so we buy these ETFs or these funds and we distribute them in the markets. And we come out of an environment whereby we were in a number of these countries where we were quite narrow as a bank. And some banks, people call it sort of a neo bank in retail, where we are very big in number of clients, but our activity is still small. And a couple of years ago we started to diversify that. And one of those diversification levers was investment products.

Now we have started with that. So our total assets under management now is approximately €220 bln. Please note the largest part of that is still brokerage. So we are providing very simple, very easy, very instant digital products, which we distribute, not produce. We do that now in a number of markets, but the number of clients that do this with us is still significantly lower than our primary customers.

So we first have to make sure that our customers use these apps for these products because we're relatively new in that game. Secondly, because it's largely brokerage or self-execution, if you will, we can still grow quite dramatically and move ourselves up the curve into simple advice or personal advice which in a number of markets we currently don't do or hardly do. So we are still moving ourselves up and we have not this effect from let's say, margin pressure on the ETF side.

Ljiljana Čortan
Good morning, on the Basel IV day 1 impact as you've seen, there are no actual updates. What we are doing every quarter, as you notice as well, in our RWA moves, we are periodically updating our models and having some results for calibrations that can cater for the RWA going up or down as you have seen throughout the quarters.

That's why I would say our view on Basel IV day 1 impact remains around 20 bps and it's driven by various drivers as predominantly with operational RWA. When it comes to the output floor as well, I would say no update at this point of time. There are still some topics in the industry, as you know, that we are discussing, and it depends also on the national regulators and how are they going to tackle certain areas. We're going to update you in due time, but so far, as I say, around 20 bps remains our guidance.

Kiri Vijayarajah (HSBC)
Fair enough, thank you.

Operator
We'll now take our next question from Guillaume Tiberghien of BNP Paribas Exane. Your line is open. Please go ahead.

Guillaume Tiberghien (BNP Paribas Exane)
Yes, good morning, thanks for taking the question. Two, please. Number one is on the lending margin again. I think historically, you guided that the lending margin was around 150 bps. So do you think you can revert back to it? But I guess not within 2 or 3 years, maybe longer term. But do you think 150 bps is still a reasonable long-term lending margin?

And the second one relates to the revenue-to-RWA ratio in the Wholesale division. You've done a good improvement in the last couple of years, both from the revenue side and from the denominator side. Do you think there's more to do on the denominator side? I know your RWA density looks low, but that's due to Mendes Gans to some extent. But do you think you can improve your density further? So thank you very much.

Steven van Rijswijk
Thanks very much. In the past we guided 150 bps total margin, so not necessarily lending margin. So that was a total of it, so not all lending. On the revenue over RWA, I think we said it also in the past quarters, we come out of an environment as ING where we always have been a strong credit bank. And so, we underwrite and then we hold, so our activities in secondary loan trading, packaging it, selling it, trading it, have been very limited.

And what we have been doing over the past 1 to 1.5 years is gradually build up that muscle in becoming better when appropriate. Also making sure that we use the capital more efficiently because arguably Wholesale Banking uses half of the capital of the bank. And we want to increase return on equity in Wholesale Banking. So we're training that muscle and step by step we are becoming better. So we will continue. That is one of the key focus areas in Wholesale Banking to become better at it and increase that muscle.

Guillaume Tiberghien (BNP Paribas Exane)
Thank you.

Operator
And we'll now take our next question from Johan Ekblom of UBS. Your line is open. Please go ahead.

Johan Ekblom (UBS)
Thanks for taking my question. Maybe to come back where we started on M&A in the sector. And just if you could maybe outline how you put further share buybacks versus M&A. How important is near-term EPS accretion, etc, in terms of the criteria that you put up for potential M&A?

And then just to come back on the fee income, I think you've flagged many times how successful the investment product build-out has been in Germany. You said that there are potential in other markets. Can you give us a bit more colour as to where we are in terms of the investment product fees, how much comes from Germany today? What countries are the most under-penetrated in that sense in terms of giving us some confidence on the sustainability of the fee income growth?

Steven van Rijswijk
When talking about M&A, in the end, we will look at what does that do for value. And EPS is a measure to value, but in the end, it needs to be beneficial for the value of the company in terms of ROE and profitability. That's how we will look at it. And, therefore, we also find it important that when we would look at an acquisition, that it has tangible benefits in terms of costs and potentially revenues, especially diversification of fees, that we are clear in how we would integrate this acquisition, that it would not take us too long.

And that's why we have said we would unlikely focus on a company that is very much brick-and-mortar, because then, we're very much focused on very long integration, and then we would go very inward-focused, and we have ample ability to grow and focus externally, also autonomously. So that's why we're careful.

But when we look at it, it means cultural fit, quick integration, also clear digital angle in markets or let's say fee skills because we want to focus on the growth that we currently have rather than being very inward-focused. And in the end, it needs to help our profitability and ROE.

When we look at fees, that is successful in Germany, but the growth that comes from fees also in these accounts comes from various countries. It's not only Germany. But other countries like Belgium continue to grow, if you look at the Netherlands, we're actually quite under-penetrated.

In Spain, we're growing our customer base very nicely. In Australia, we want to broaden our service offering there, we have still a narrow offer. So in most of these markets, like in Germany, we are not a true broad-based universal retail bank, we're quite a narrow digital bank. And we're now gradually building this out in all the markets, not only in Germany.

Johan Ekblom (UBS)
Thank you.

Operator
And we'll now take our next question from Anke Reingen of RBC. Your line is open. Please go ahead.

Anke Reingen (RBC)
Thank you very much for taking my questions. The first is on the pass-through rates. Just trying to understand how conservative this is. In your assumptions of going to higher levels, are you assuming you're sort of like a price leader driving your strategy forward, or is this largely driven by market trends?

And then secondly, on capital distribution, you're thinking about buybacks versus dividends. Would that have changed given your shares are now closer to book value, and also probably considering that over a longer period of time, the 12.5% could be reached? So, is there any thinking about considering changing the mix? Thank you.

Steven van Rijswijk
Thank you, Anke. I will do the question on pass-through and Tanate will talk about the form of capital distribution. Our pass-through rates are dependent on our balance sheet and client strategy. So, in some markets, where we're more an incumbent and we don't grow that much, if the market doesn't grow so much, where lending doesn't grow so much, we will more likely be a follower. If in a market we can use certain actions, like, again, I don't want to mention Germany all the time, but let me do that one more time. We did an additional marketing action earlier this year, where in countries where marketing actions are popular, where that also leads to more customers, where there is still a big shift or a very dispersed banking landscape. Let's say Germany. Then it would be likely that we will use some marketing actions to increase the number of customers. But we

also did these promotional campaigns in Poland and Italy. And also there, we were very successful.

So, typically thinking about growth markets and challenging markets, which is the term that we typically use for the C&G markets. There, you typically see that we use promotions to increase the number of customers. Typically these campaigns are successful because if you look at the last campaign in Germany, two-thirds of the money was sticky with ING, which then also helps to grow the primary customer. So, it's a market-by-market strategy.

Tanate Phutrakul
Okay, just on our thinking in terms of how we distribute cash to our shareholders, probably driven by three things. The first one, and the most important is our internal management view about the intrinsic value of ING. And that relates to book value or getting close to and potentially above book value.

The second one that we look at is also the potential introduction of a share buyback tax in the Netherlands. That's still uncertain, but we take that into consideration. And the third is really making sure that we balance the interests of our stakeholders, particularly looking at the total return to shareholders as a guide for us. These are the three drivers in our consideration.

Anke Reingen (RBC)
Okay. Thank you.

Operator
Thank you, ladies and gentlemen. Once again, as a reminder, if you would like to ask a question, please press star one on your telephone keypad. Kindly be reminded this is limited to a maximum of two questions only. Thank you. We'll now move on to our next question from Hugh Moorhead of Berenberg. Your line is open. Please go ahead.

Hugh Moorhead (Berenberg)
Hi. Good morning. Thanks for taking my questions. Two from me, please. One on deposit mix and one on capital. On deposit mix, thank you for the colour about the proportion of current accounts stabilizing, but do you expect much more of a shift into term deposits, perhaps between savings and term? And do the conservative assumptions in your tracking speeds include conservative assumptions around future mix shift?

And then on capital outside of the Basel IV impact guidance, are there any sort of chunky model approvals pending with regulators, or should we just expect that might lead to sort of sizable RWA movements in future quarters, or should we just expect small movements QoQ a bit like we've seen at Q1? Okay. Thank you.

Steven van Rijswijk
Okay, I'll give the question on the deposit mix to Tanate, and then capital goes to Ljiljana.

Tanate Phutrakul
Yes, we have seen this phenomenon of reducing amount of current account going to savings and term deposits. I think even what we see in Q1, the level of competition in terms of rates on term deposits has subsided, and that the rates are reflecting the yield curve that's coming up in terms of potential reduction. So, we don't see at this time a further change in the deposit mix than we have at the moment.

Ljiljana Čortan
And then on the capital and RWA, correct for the around 20 bps when it comes to Basel IV day 1. You've seen as well throughout the past quarters, but we can anticipate as well for the next quarters, we do have some volatility around amounts that are going up and down. When it comes to the rating models, it is clearly subject to the approvals of the models by the ECB. But as well about performance of the models and calibration based on what we see historically and around us.

So, I would say no specific changes in this guidance. We will continue updating our models quarterly, but we do not expect higher volatility than what we've seen historically.

Hugh Moorhead (Berenberg)
Thank you very much.

Operator
Thank you. And we'll now take our next question from Mike Harrison of Redburn Atlantic. Your line is open. Please go ahead. Mike, would you like to unmute your audio from your end, please?

Mike Harrison (Redburn Atlantic)
Oh, sorry about that. I don't know how to do that. Apologies. Thanks for clarifying the duration of the replicating portfolio. I just wanted to ask a sort of more general question about how we should think about the duration and the mix of durations within the replicating portfolio evolving as and when the yield curve inverts, which the forwards market is saying happens next year. Thanks.

Steven van Rijswijk
Tanate.

Tanate Phutrakul
I think what we look at, in terms of looking at duration, is about managing our balance sheet and managing our interest rate risk. And if you look at the tracking speed in the past, the level of tracking has been below expectations. But I think at the end of the day, we will see continued shift between below 1 year and above 1 year as 2 distinct buckets, and that we will continue to see accretion of income from the level of replication from the bucket that is more than 1 year. And then the bucket below 1 year will subside over time. It's like 2 pendulums on the opposite side. But as we've given in the simulation, we think over a transition to 224 bps, overall, the replication income will be accretive.

Mike Harrison (Redburn Atlantic)
Okay. Thank you.

Operator
Thank you. There are no further questions in queue. I will now hand it back to Steven van Rijswijk for closing remarks. Thank you, thank you.

Steven van Rijswijk
Yes, thank you very much for your time and your questions. I'm sure that you will know how to find our Investor Relations team. And I hope to see all of you during Capital Markets Day on the 17th of June in wonderful London. Have a great day.

Operator
Thank you. Ladies and gentlemen, this concludes today's call. Thank you for your participation. You may now disconnect.