Transcription

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Presentation

Operator

Good morning. This is Mark, your Operator, welcoming you to ING's second quarter 2022 conference call.

Before handing this conference call over to Steven van Rijswijk, Chief Executive Officer of ING, 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 statement not involving a historical fact. Actual results may differ materially from those projected in any forward-looking statement. 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, Operator. Good morning, and welcome to our second quarter of 2022 results call. I hope you're all well. I'm joined by our CFO, Tanate Phutrakul, and our CRO, Ljiljana Čortan, and I'm pleased to take you through today's presentation. After that, we will take your questions.

During our recent investor update, the board and I showed you the value ING has delivered over the past years. We talked about our two strategic priorities: our customer experience and sustainability, and what we do to ensure we can keep delivering value. Today, I will discuss some of this quarter's achievements on these priorities, and how we keep improving ourselves, also in today's challenging environment.

And challenging it is. We keep a close eye on what seems to be quite a storm. It's hard to predict how things will evolve. However, even with reduced visibility, we are confident about the strengths of ING. This confidence is based on several factors. First of all, on our strong commercial positioning. We see this reflected in almost a quarter of a million new primary customers added during the quarter. Second, our strong financial performance, with strong pre-provision profits driven by increased NII, resilient fees, and well-contained costs. Third, on the prudent way we manage risks, visible in our risk metrics and in the further reduction of our Russia exposure. Though we can expect to see some impact of the current macroeconomic environment, we are well-prepared, with healthy provisioning and a low Stage 3 ratio. And finally, our strong capital position, which also leaves us with the opportunity to provide our shareholders with an attractive return. Today we announced an interim cash dividend of €0.17 per share, bringing the yield of distributions so far in 2022 to 9.1%.

Before we go into the quarterly figures, I will spend some time on our strategic priorities and this quarter's pre-provision profit. Slide 3 shows some improvements we made on our customer experience. We focus on the digital customer journey and especially on mobile solutions, as mobile is the main banking channel with now 53% of our customers only interacting with us through the mobile. And as Ron and Marnix explained to you during our investor update, expanding our mobile offering also reduces our cost to serve.

In half of our retail countries, we have the highest net promoter score, meaning we have the highest share of customers recommending ING to others. And as Aris mentioned during the investor update, we want to be number one in NPS in all of our retail markets. This in turn supports growth of our primary customer base, and this grew by 228,000 this quarter, reaching 14.2

million primary customers, or 46% of our private individual customer base. We will continue to grow these numbers, while improving the customer experience through focused projects with high execution certainty.

Some examples this quarter show how we further digitalised mortgages, making the process more easy and instant in Romania and Belgium. And in Spain we added new features to our app, using applications developed in other countries based on our Touchpoint components. These applications, being Round Up and Aggregation, now have been reused to benefit our Spanish customers.

The next slide shows how we place sustainability at the heart of what we do. We joined forces in the sector of aluminium, to develop a framework defining how lenders can support the decarbonisation of this sector. This is key to realising climate goals and follows earlier successful sectoral working groups on steel, aviation and shipping. At our investor update in June, we announced intermediate targets for three of the sectors in scope of our Terra approach, to align with our Net Zero by 2050 commitment. Since then we've added intermediate targets for three more sectors, being cement, steel and aviation. More details on these and other intermediate targets will be included in our next climate report.

Our sustainability focus goes beyond the environment. For example, at the end of June we published our fourth human rights review, following-up on our previous reports and extending the assessment of the most impactful human rights issues to our retail operations. Commercially, transition financing activity remained robust. The number of sustainability deals was slightly higher than in the first half of 2021, a year in which activity in this area made a big jump compared to previous years.

During our investor update we introduced a volume target, which is to have an annual €125 billion mobilised by 2025. And over the first half of 2022, that number reached €40 billion. One example from this quarter is in Singapore, where we had the lead role in the first social bond in healthcare.

Then slide 5, it shows our pre-provision profits, up almost 20% year on year, and 3% quarter on quarter. I'm happy that we realised another very strong quarter, despite market circumstances becoming increasingly challenging.

On NII, we see the effects of an improving yield curve. As Tanate showed during our investor update, we benefit from the shift to a positive environment, and the drag on liability margins from negative rates has disappeared. We also continue to benefit from higher rates in non-eurozone countries. On lending NII the picture was a bit different, as client rates generally track higher funding rates with some delay, and prepayment penalty income continued to level off to more normal levels.

For the second half of 2022, several factors play a role in how NII will develop. The yield curve development is supportive, while benefits from negative interest rate charging and tiering will disappear. We expect that higher funding costs will be passed on to the market. Loan demand could weaken in the current environment, although for transition finance we saw during the pandemic that demand continued also in more difficult times. Overall, we maintain our expectation that NII will be up in 2022.

Looking at the other P&L items, there were some more impacts from the macro environment. The main impact came from hyperinflation accounting applied to Turkey. Combined with the goodwill impairment, the impact on our net result was €-277 million, mainly in other income., This amount was added back when determining resilient net profit for distribution.

On fees, growing uncertainty resulted in lower stock markets and less trading activity, leading to lower fees on investment products. Although visibility going forward is reduced, with 6.5% growth realised year to date, we continue to target on average a 5% to 10% growth rate.

Operating expenses reflected inflationary pressure, mainly in staff costs. Overall, with measures taken to control costs, we contained the upward pressure and kept cost growth well below inflation rates. Although higher inflation seems to continue, we maintain our commitment to keep underlying costs flat this year and to keep cost growth beyond 2022 below inflation.

Now let me take you through our second quarter results, starting on slide 7.
Year-on-year NII was up 3.7%, benefiting from a further recovery of liability margins reflecting increasing interest rates, as well as higher results in Treasury. We continued to see some pressure on lending margins in the second quarter, reflecting lower prepayment levels on mortgages and a delay in tracking higher funding rates. We expect that the current higher rates have now been incorporated in market rates. NII went up 1.5% quarter on quarter, again supported by improved liability margins and also slightly higher volumes, offsetting the pressure on mortgage margins due to the reasons I just mentioned. Our net interest margin for the quarter was slightly lower, at around 136 basis points, as higher NII was offset by a higher average balance sheet.

Slide 8 shows net core lending growth. In Retail, mortgages were again the largest driver of growth, especially in Germany, the Netherlands, and Australia. Also in business lending we saw good demand, mainly driven by working capital. In Wholesale Banking, loan growth was mainly visible in term loans in Lending and in working capital facilities. Going forward, with increased macroeconomic uncertainty, visibility is reduced on how loan amounts will develop in the second half of the year. Net customer deposit growth was €8.1 billion, fully-driven by Retail, which included the seasonal effect of holiday pay allowances in the Netherlands. In Germany we saw a reversal of outflows following the announcement of an increase of the threshold above which negative interest rates are charged. Wholesale banking recorded a small outflow, following the high level of deposits at the end of the first quarter.

Now turning to fees on page 9. Year-on-year fee income grew by 4%, driven by 10% higher fees in Retail, where daily banking fees increased with an impressive 34%. This reflected growth in primary customers, the increase in payment package fees and new service fees. Lending fees were also higher, while investment product fees were down, although still at a consistent high level, as increased uncertainty resulted in lower stock markets and less trading activity.

In Wholesale Banking, fees were 7% lower, as generally subdued capital market activity led to lower deal flow in Global Capital Markets and Corporate Finance, after very high activity in the first quarter of this year. Sequentially, fees were stable in Retail, with growth in daily banking and lending, while investment products were lower, affected by growing uncertainty. In Wholesale Banking this uncertainty was visible in the deal flow in syndicated loans and Global Capital Markets, while lending fees were elevated in the first quarter driven by a high number of syndicated transactions.

Then on to expenses on slide 10. Excluding incidentals and regulatory costs, operating expenses were slightly higher on both comparable quarters. This is mainly the effect of inflation coming in, which is leading to higher salary costs driven by CLA increases and indexation. In many countries where we are active, inflation rates are now in the double digits. And we keep investing in the customer experience and in areas where we can get the best returns. In this context, with a 1.4% increase year on year, and 3% increase quarter on quarter, our costs are under control and we still guide for flat costs over 2022.

Regulatory costs were up on both periods. Year over year, this mainly reflected a one-off contribution in Poland to a new Institutional Protection Scheme. Quarter on quarter, the reduction is explained by the full payment of the annual contributions to the European SRF and Belgian DGS in the first quarter of this year. This also applies to the annual Belgian bank tax.

Incidental cost items this quarter included restructuring costs in Belgium, where we are adjusting our network, and also for the Philippines, where we have decided to discontinue our Retail activities as we don't believe the required scale can be reached in an acceptable timeframe. This decision does not affect our Wholesale Banking activities or the shared service center we have in Manila, which as a hub plays a central role in our scalable operations, as also explained during our Investor Day. Overall, in light of the current operating environment and especially when looking at the high inflation rates, I'm pleased with the development of operating expenses.

Then on to risk costs on slide 11, which were €202 million or 13 basis points over average customer lending. We booked €181 million reflecting updated macroeconomic indicators and recorded a net addition of €116 million for sector overlays. This reflected

a €268 million addition for the potential impact of secondary risks of the current macroeconomic environment, minus a release of €152 million taken in the previous quarters, mainly for vulnerable sectors during the pandemic. In total we have built up €492 million in management overlays.

Risk costs further included a release of €117 million for our Russia exposure. This reflected a further reduction of our Russia exposure, while we also partly replaced the management overlay taken in the last quarter with provisions based on individual client assessments. Inflow of Stage 3 for Russia exposure was limited at €58 million, as the book generally remained performing. Including some regular stage migration, we saw a net release in Stage 2 and a reduction of the Stage 2 ratio. The Stage 3 ratio was stable at a low 1.4%.

Slide 12 provides some details on our Russia exposure as of the 30th of June. Since the end of February, we reduced that exposure by €2.1 billion, and we will continue our efforts to de-risk. Of the amount remaining, €0.9 billion was onshore, with €0.2 billion covered by European parent guarantees and part of the remaining exposure is central bank deposits. Our local capital at risk was €0.2 billion. €3.6 billion was offshore, with €1 billion covered by ECA and CPRI, which is the outstanding amount covered.

We now have €0.7 billion in loan loss provisions for Russia, which reflects capital impacts from expected losses, while RWA impact reflects unexpected losses. RWA on our Russia exposure decreased to €9.4 billion, consistent with our reduced exposure. At 12.5%, this is equivalent to €1.2 billion CET1 capital impact. So a combined €1.9 billion of potential impacts is already included in CET1 capital. Our focus remains on further reducing our Russia-related exposure, although we should not expect our portfolio to run off at the same pace as it did in the past four months.

The next slide shows our CET1, which came in at 14.7%. CET1 capital was €0.5 billion lower, mainly due to the €1.25 billion additional distribution, which was partly offset by the inclusion of €0.5 billion of net profits for the quarter. RWA were up by €1 billion, including €4.5 billion of FX impacts. Credit RWA were down, mainly due to the reduction in our Russia-related exposure. Market RWA were higher, reflecting the implementation of EBA guidelines on the treatment of structural FX positions. Furthermore, lower operational RWA reflected the update of the AMA model.

Concerning our distribution plans, we will be paying an interim cash dividend of €0.17 per share over the first half of 2022. For additional distributions, it is our intention to optimise our capital structure and bring our CET1 capital to around 12.5% in equal steps over the next few years. We have already distributed an extra €1.25 billion this year, and we are in a good position to do more. This, however, requires approvals. We are in a constructive dialogue on this, and we will update you when possible.

Slide 14 shows our targets, as we presented them to you during our investor update. The CET1 ratio remains well ahead of our target of around 12.5%. On RoE, we saw some impact from hyperinflation accounting this quarter. With continued growth of customers, loans and fees as well as the focus on cost and capital optimisation, we maintain our ambition to provide an attractive total return. Cost/income remains an important input for our RoE and we continue to work on our ambition of 50% to 52%, which is not only about growing our income, but also about cost control.

And then, I would like to wrap up with the highlights of the quarter. In the second quarter we made additional progress on our strategic priorities, with new digital capabilities added to improve our customer experience and some new initiatives in sustainability, including further efforts to support the transition to Net Zero by 2050. Pre-provision profit was strong, driven by increased NII, resilient fees, and well-contained costs. We have a high-quality loan book with solid risk metrics, and we further reduced our Russia exposure. We have a strong capital position. This provides the opportunity to continue delivering an attractive return to our shareholders, and today we have announced an interim cash dividend of €0.17 per share.

Overall, although forward-looking visibility is reduced, and we can expect to see some impact of the current macroeconomic environment on our business, we are well-positioned and confident about our ability to navigate these challenges and continue to deliver value. And that brings me to the Q&A. Operator?

Q&A

Operator

Thank you. If you wish to ask a question, please dial 01 on your telephone keypads now to enter the queue. Once your name has been announced, you can ask your question. If you find your question has been answered before it's your turn to speak, you can dial 02 to cancel. So, once again that's 01 to ask a question, and 02 if you need to cancel. Also, in the interest of time, we kindly ask each analyst to limit themselves to two questions only.

Our first person is Giulia Miotto of Morgan Stanley. Please go ahead. Your line is open.

Giulia Miotto

Good morning. Two questions: the first one will be on cost of risk. It was very low in the quarter, but some banks are disclosing to the market what they think the impact could be in the case of a Russian gas cut-off. And I'm not talking about the direct Russian exposure necessarily; I'm just talking about the broader corporate loan book. So, how much do you think that could add to your cost of risk? That's my first question.

Then the second question on NII. Some progress in the quarter, but I was just wondering whether you have some guidance, perhaps for the second half of the year. How do you think this could evolve, given what you are seeing on the deposit side, on the mortgage market, and in terms of loan growth demand? Thank you.

Steven van Rijswijk

OK. Thank you very much, Giulia. I will focus on the first question on NII, and then Ljiljana will do the question on risk cost. So, on NII, if you look at this quarter, the increase was supported by higher liability margins both in the Eurozone but also outside of it. And we are, as we also showed during our investor update, well-positioned to benefit from a rising interest rate environment, and the current positive trend of the liability margin improvements will further accelerate now that the ECB has decided to increase interest rates as per the end of July from minus 50 basis points to zero.

In the third and fourth quarter, of course, we will also need to absorb the loss of the negative charging that we will lose, and also of the tiering benefits. But on a net basis, then still, we will have a positive benefit from liabilities in 2022.

The flip side also is that rising interest rates have caused prepayments behaviour on mortgages to change. There are less prepayments, and the funding rates we have not been able yet to fully integrate into our mortgage loans. Growth in lending was of course relatively high in this quarter with around €10 billion. We see in some of the markets the home prices gradually not rising any more, so flatlining. We see the number of properties sold going down. For example, the growth in properties sold in this market will go down with approximately 15% compared to last year, that's what we expect. So, it also means that may have an impact on loan growth. Despite all that, we do see growth in NII in the second half of the year as a result of increasing liability margins.

Ljiljana Čortan

Good morning, Giulia. On the risk costs, yes, the risk costs this quarter were modest and were primarily reflecting few of the moves that we have taken consciously within the portfolio. The largest impact was clearly coming from less favourable macroeconomic indicators going forward, and the impact on risk cost was €181 million there. Clearly within these macroeconomic indicators, you already do have encompassed certain assumptions macro-related to the energy prices and gas.

But more specifically, as we've said this quarter, we have replaced the majority of our COVID-related portfolio with a so-called new second order impact portfolio. So, it's not related directly to the Russian exposure; it's related to the macroeconomic indicators that we see, which is clearly the gas potentially to be cut off, leading to rising energy prices. Furthermore, I would say, dislocated supply chains and definitely inflation.

So, having in mind these changes in releasing the COVID overlay and also building a new overlay, we are currently having approximately €492 million of overlays, out of which €228 million is related to Wholesale Banking. We believe with that amount we have tackled properly the impacts of the eventual gas cut in Germany, but as well in Europe itself.

And for the Retail part, clearly we have taken some sensitivity analysis and also the impact of increasing energy prices on the household cost and ability to repay. And you remember that already in the fourth quarter we took some Stage 2 provisions related to energy prices, and as well, on the Retail side, to the potential impact on the housing markets. So, I do believe we are forward-looking, taking sufficient caution. We clearly remain alert and observing the situation amongst others with tools like watchlisting.

Giulia Miotto

Thank you. And can I just follow up to make sure I understood you correctly? The Russian gas cut-off scenario is already factored in in your provisions, or would they require a further top-up?

Ljiljana Čortan

We do the assumptions based on the current macroeconomic environment. The assumptions that we have taken are actually for all energy-intense customers, having looked at several scenarios. We do see, in the meantime, that some of the countries like Germany for example, are thinking of a so-called gas auction model that would definitely give some subvention to the clients that would not be able to replace Russian gas with the other ones. So, several scenarios have been taken into account. In case there is increased severity going forward, we will adjust our scenarios. But we do believe that with the provisions we have taken currently, we are more than well provisioned.

Giulia Aurora Miotto

OK. Thank you.

Operator

Thank you. Our next question comes from the line of Farquhar Murray at Autonomous. Please go ahead. Your line is open.

Farquhar Murray

Morning, all. Just two questions if I may. Firstly, just on lending demand. Quite a strong second quarter, but you are flagging weakening loan demand in the second half, and obviously visibility is reduced. I just wondered if you could elaborate on where you are seeing weaker demand. In particular, is that mainly coming from just reduced refinancing on mortgages, or is it a more insidious cooling of corporate demand?

And then secondly, and perhaps a little bit more Dutch specific, we are seeing a combination of pressures on Dutch agricultural and horticultural sectors. I just wondered if you could elaborate on your exposure there, and in particular, when you think of that €492 million that you put aside, could you elaborate on which sectors those are probably most-specifically focused upon? Thanks.

Steven van Rijswijk

OK. Lending demands. Thank you, Farquhar. If you look at the growth that we have seen in this quarter, next to mortgages, if you look at both business banking and wholesale banking, the growth was largely in short-term facilities. You've also seen that in terms of the fees on the big, syndicated loans, there was less activity in the large deals, which was one of the reasons why also fees came down. So, that also shows that demand is relatively soft, except for working capital. We do expect demand for new mortgages to be softer as a result of less house sales, and also as a result of higher interest rates. Therefore, we have seen lower prepayments as well.

It's a bit too early to say, but if you currently look at the house price development forecast for the third and fourth quarter for the Netherlands, Belgium and Germany, where last year, for the Netherlands, it was in the double digits, you see that during the first half there is still continuing growth in all these three countries, where we have approximately 80% of our mortgages. But that's tapering off to, let's say, a zero-ish level. Of course due to inflation, but also due to lower demand. And like I said, we see a lower number of dwellings being sold. So, that's what we see on the lending side.

If you look at the agri sector, our exposure is low. If you look at the total exposure, approximately 4% of exposure that Dutch banks have is on agri. So, that gives you an indication of how limited it is.

Farquhar Murray

OK. Perfect.

Operator

Thank you. Our next question comes from the line of Benoit Petrarque at Kepler Cheuvreux. Please go ahead, your line is open.

Benoit Petrarque

Good morning. The first question is actually on NII again. So, just to come back on your NII sensitivity provided in June, I think at that time you provided an impact of €200 million for 2020, €800 million for 2023. And that was the Eurozone effect, net of exiting the negative charging. So, can you confirm that NII will be up in the second part of the year, but is the €0.2 million still a figure you have in mind, and also for next year the €0.8 billion? And do you expect also maybe some positive effect in the non-Eurozone countries still in the second part of the year? And just to come back on the NII sensitivity, I wanted to confirm with you your deposit beta of 50% in your sensitivity. It seems to be quite high, looking at your mix retail/wholesale. So, do you still have a 50% deposit beta in mind? Or do you see probably different developments on the market currently? That's the first question.

Second one is actually on your capital plan. You reconfirmed that you wanted to distribute your excess capital in equal steps, and you are actually in constant dialogue with the regulator. What can we expect in terms of timing in light with the current uncertainties? Is that something you still expect in H2, or will that be slightly postponed, given the macro development you flagged? I just wanted to check that.

And also, the equal steps, 50 bps. Is that still 50 bps for each year? 50 bps potentially for 2022-2023 up to 2025? Or would that be slightly different based on the current macro? Thank you.

Steven van Rijswijk

The good thing of these questions is that I now realise that you have looked very well at the slides that we presented during Investor Day, and I'm very happy with it. There's one caveat to make about these slides, which is that we gave, let's say, the tracking rate,

and therefore, the growth in our liability income. We can base that on either 100% tracking or 0% percent tracking, as well. And what is it? 50% tracking, and maybe somewhere in between 0% and 100%. So, the 50% was an example, not what it really is. So, therefore we don't really comment exactly on that figure. Still, the curve has become more positive for us, and with the fact that 40% of our replicating portfolio lapses within one year, that brings us good benefit. And it also means that, despite the fact that we have a weakening loan environment that we just discussed, and the fact, of course, that we will not benefit any more from the negative interest rate charging and tiering, we do still expect to have positive impacts on NII in the second half of the year compared to the first half. So, the answer is yes.

Tanate, capital planning.

Tanate Phutrakul

Benoit, we are engaging with our regulators on capital planning and cash distribution, and we have been engaging with them about where our target capital ratio will be and the path at which we get to that capital ratio. So, these interactions with our regulators are ongoing, including if we were to do additional cash distribution, how that would look like. So, we're constructively engaging with them, and we consider ourselves to be in a strong capital position, despite what's happening in the macroeconomic situation. And so, we'll let you know when we get approval for any further cash distribution. But so far, the discussion with the regulator has been constructive.

Benoit Petrarque

OK. Thank you very much.

Operator

Thank you. Our next question comes from the line of Tarik El Mejjad of Bank of America. Please go ahead. Your line is open.

Tarik El Mejjad

Hi, good morning. Just one quick question left. Can you please give more details on the restructuring cost in retail Belgium that you booked in Q2? What it’s consisting of, and should we expect more restructuring in the coming quarters on the retail side? Thank you.

Steven van Rijswijk

Thanks, Tarik. This restructuring cost in Belgium had to do with how we deal with our network and our independent agents. And there, we came to a new type of contract which led to us taking provisions in this quarter on how we work with them going forward. So, there's nothing else to be expected on that particular front. And we continue to further optimise when we develop our digital services, our branch network, but that's something separate. But this has to do with how we work with our independent agents.

Tarik El Mejjad

OK. Thank you. And can I add a question on costs? I think you had salary negotiations or discussions with unions in June in the Netherlands. Is that correct? And what's been the outcome of this in terms of impacts on cost? I know you reiterated your full-year guidance of flat costs, but how should we think about the next year? Thanks.

Steven van Rijswijk

If you look at the CLA impacts, they are different in each country. Some countries have automatic indexation. In other countries, it depends on the month or the quarter where we index, not per year, but per quarter. In some countries, it is based on discussions with unions, which is also the case in the Netherlands. We have a current running agreement on CLA in the Netherlands that is running until the end of this year. So then discussions will resume, and then, I will make the bridge to costs.

What we have said, indeed, is that we are targeting flat operating costs for 2022 compared to 2021. Clearly, we see a big impact from inflation. At the same time, we continue to work on our digitalisation strategy, our end-to-end digitisation, and the different propositions in Retail, in business banking and in Wholesale Banking. And of course, we've taken a number of decisions on stopping or closing of our business activities in some of the countries, which benefits have not completely come through. So, with those benefits coming through, that helps us keeping costs flat for 2022. Thereafter we have said, because of our continuation of our digital improvements, we want to be able, and should be able by the way, to keep our cost increases below the level of inflation.

Tarik El Mejjad

Thank you.

Operator

Thank you. And our next question comes from the line of Kiri Vijararajah of HSBC. Please go ahead. Your line is open.

Kiri Vijararajah

Good morning, everyone. A couple of questions from my side. Firstly, sticking with expenses, I wonder if you could just give us your quick view on the risk of windfall bank taxes in the various geographies in which you operate. Obviously, quite topical at the moment. And then secondly, just on this issue of the lag in terms of repricing on mortgages, are you able to quantify exactly what the negative impact was in 2Q? And I guess, more importantly, does that recur whenever you have another quarter of sharp upward moves in funding costs that you can't reprice the mortgages swiftly enough, and so, we could see further quarters of that repricing lag impacting your net interest margin? Thank you.

Steven van Rijswijk

Let me first start with the lack of repricing in mortgages. That actually always happens when interest rates increase.The market rates are an input factor for our funding rates, obviously, but will also be an input factor for mortgages. Typically, the rate of repricing of mortgages, or loans in general, when rates go up is slower than the funding rate. So, there will always be a lag between repricing to the markets and the funding rates that are higher. So, that will also continue when interest rates would go further up in mortgages.

Then, on the windfall on costs.

Tanate Phutrakul

Kiri, on regulatory expenses, as opposed to operating expenses, we have a bucket of just a little over €1 billion in these types of charges, consisting of single resolution fund contribution, deposit guarantee contribution and bank taxes. Our guidance has been, and it continues to be, that both the SRF contribution and DGS should come to its targeted amount by the middle of 2024. So, we do expect a fairly sharp reduction in those buckets at that time.

In terms of bank taxes, we don't really count on windfalls. If anything, governments around where we operate are looking for additional revenue to help support the economy and support people. So we don't expect any further reductions in terms of bank taxes, and we're not counting on much increases either. So we're neutral on bank taxes.

Kiri Vijararajah

OK. That's very clear. Thank you.

Operator

Thank you. Our next question comes from the line of Benjamin Goy at Deutsche Bank. Please go ahead. Your line is open.

Benjamin Goy

Hi, good morning. Two questions, please. Maybe one on NII on the details in the quarter. Looking at your three largest retail markets, they were bound to plateau, not driving the overall Group results. Maybe you can talk a bit about what was going on there, in particular in the Netherlands?

And then secondly, on the Philippines, you decided to exit that. Can you speak a bit more generally about the framework, how you look at these type of ventures? What's the time frame? What is the break-even period you grant generally, then? Because, correct me if I'm wrong, I think it was first mentioned in 2019 that you were going into the Philippines. Thank you very much.

Steven van Rijswijk

I will take the question, Benjamin, on the ventures or markets. Then Tanate will talk about retail margins. So, as I have said before, from a strategic point of view, in Retail local scale is important. And why is local scale important? That is because, from a regulatory point of view, there is compartmentalisation, not only in capital and equity, but also in terms of data, systems, and product requirements. And because these are so vastly different in each of the markets in which we operate, also the bulk of the cost base will sit locally. That does not mean that we do not want to have global components as much as we can to get benefits of scale, which we do through our scalable technology and operations, including our internal private cloud and our Touchpoint architecture and our global operations in various countries. But if you look at Retail that still means that, in spite of all of that, it means that you need to have a sufficient local scale: sufficient local scale to attract the right talents, sufficient local scale to build the right customer propositions, and sufficient local scale to get to an attractive return through the cycle for our shareholders.

And that means that we have looked and are always looking at where can we invest, ultimately, our capital and our costs and our effort, in markets where we can do that and improve that. And in markets where we believe we are unable to do that in the medium to long term, we then stop that activity to reinvest that capital and those costs elsewhere. And that has, therefore, also been the case in the Philippines.

Tanate Phutrakul

Then, Benjamin, just giving you a bit more highlights on the NII, we reiterate the point that we are geared to rising interest rates, so you will see that come through in the coming period. We already see that coming through in the other C&G segment. When you look at our results in more detail, in markets like Poland, Australia and Romania, you see the benefits of that liability replication in our results already. Where you will see the impact in the quarters to come, thats more in the Eurozone where the discount rate has just been moved in July. And if you look at particularly the Netherlands and the Benelux region, why you see negative impact in terms of NII for this quarter, it has really to do with the mortgage NII and the pre-payment fees or prepayment income, which is reducing in this quarter as Steven has talked about. We do expect by the way, that in the Netherlands the impact of prepayments

on the Netherlands book, where it's going through a transition, should play itself out over the course of the next three to four months.

Benjamin Goy

Thank you.

Operator

Thank you. Our next question comes from the line of Anke Reingen of RBC. Please go ahead. Your line is open.

Anke Reingen

Thank you very much for taking my question. First, just on the capital, and just to clarify when you said you are in constructive dialogue, you just seem to be talking about cash distribution. But just to make sure that buybacks could be part of the potential additional distribution in 2022 as well. And then on your target of 12.5%, just confirming that this wouldn't move in the case of further increases in the capital requirements, as seen in Q2 with counter-cyclical buffers coming in. So, that would already incorporate those potential additional increases in capital requirements.

And then, just secondly, just a question about your sustainability ambitions. And I just wonder how much you're willing to compromise, in the near term, higher energy transition versus energy security. What is your view there? Thank you very much.

Steven van Rijswijk

Thanks, Anke, and let me start with the sustainability, and then Tanate can continue on the capital and the targets. Looking at sustainability, I think, we believe that this is the biggest existential, long-term threat for the planet and the people that live on it. And of course, we do see the challenges in the short term, which is a dilemma. But at the same time, we need to make sure that we play our role in protecting the planet. And it also means that we sometimes will need to take decisions on not doing things anymore and get short term pain to get longer term gain, but always in an inclusive way with our customers.

Now, by the way, I see an enormous amount of interest, focus, investment, dedication of the private sector and also the public sector in really trying to make sure that we get to net zero as quickly as we can, with commitments all over the place to net zero by 2050 and 1.5 degrees Celsius. I am not intending to let that go, and I think that despite the fact that we are in these macroeconomic and geopolitical uncertainties, it is also an extra stimulus for, I would say, the world and the different societies to even reinforce the efforts to decrease dependency of fossil fuels, and that's what we currently stand by, and that's what we will be going for.

Tanate Phutrakul

Then, Anke, on capital, we find the current share price of ING to be an attractive level for a share buyback. And so, to confirm, when we look at cash returns to our shareholders or cash distribution, we also focus with our priority on share buybacks. So, that's just to confirm that question for you.

Then, in terms of capital ratio, what we look at when we talk about the 12.5%, or around 12.5%, that is our long-term ambition, and we always review those ambitions with respect to what is changing in terms of counter-cyclical buffers, which is what you referred to, and we know there's an upcoming European Commission review generally in Q1 and Q2 next year. So, with that in mind, we always review, and we always see if there's any changes that may or may not need to be made. But for now, we stick with our guidance of around 12.5%.

Anke Reingen

Thank you very much.

Operator

Thank you. Our next question comes from the line of Andreas Scheriau of Goldman Sachs. Please go ahead. Your line is open.

Andreas Scheriau

Hello. Thank you very much for taking my questions. The first question, following up from Benoit's question. If you could just confirm that the 50% deposit beta in your slides from the Investor Day refers to the savings account only and not to the transaction accounts, implying that the actual pass-through on retail accounts, also including the transaction accounts, is actually lower than the 50% in those slides.

And then, secondly, on deposit betas. I was interested in your thoughts around pass-through on corporate deposits. Any replication portfolios in place, and how we should think about this? Thank you very much.

Steven van Rijswijk

The example – and again, I want to stress it was an example – the example given in the slide deck on the investor update, that indeed referred to savings accounts only; that's correct. And if you look in general at replication and corporate deposits, typically that is lower than on Retail, because the behaviour of large treasurers in large organisations is that they will look at their deposits and their compositional banks and their risk managements more often – actually, on a daily basis - and therefore, typically, they will move money around more, and it also means that the replication part is lower than is the case with Retail; that's correct.

Andreas Scheriau

Thank you very much. And perhaps, just to go back to that point, is there any gauge as to how big or what variation in deposit betas we could expect on these balances?

Steven van Rijswijk

I like the interest by the way, and the personal interest in it, but that's something that we do not disclose, and we are really looking at our models to see how we do that in different markets with different types of customers. I think that we've given quite good guidance on 40% in the year, 60% thereafter, what is a low and a high level, which yield curves have we used. And indeed, on deposit betas, there you have to make your own assumptions on what that would mean. But we've also now given you guidance not only on income levels that we gave in the investor update - approximately 3% increase in income - but also that NII for the second half would be up, actually within the guidance. I think that should well work for you.

Andreas Scheriau

Thank you very much. Very helpful.

Operator

Thank you. And we currently have one further question in the queue at this time. That's a follow-up from Benoit Petrarque at Kepler Cheuvreux. Please go ahead. Your line is open.

Benoit Petrarque

Thank you. Just follow-up questions on the prepayment in the Netherlands. Could you just disclose the amount of prepayment in the second quarter? Since you've done that in the third quarter last year, it would be very useful to get a sense on the downside potential from current levels.

And just to come back on the NII, your guidance, basically, is that the H2 NII will be higher than the H1 NII. I think that's what I understand from the call. And could you also clarify your position on TLTRO, what you will do with that? Thank you.

Steven van Rijswijk

Thank you. On prepayments, what I can say, Benoit, is that currently we do see more normalised levels, like before all the low interest levels came in. So we do not expect that that the prepayment level will go down significantly further, or that there will be significant further impacts from lower prepayments or repayments penalties.

Then, to confirm, will NII be higher than the first half in the second half? The answer is yes, that's what we are forecasting. And then, what is our view on TLTRO, Tanate?

Tanate Phutrakul

We have not prepaid the TLTRO funding as of the end of June. So, we have decided to keep it for the time being.

Benoit Petrarque

Which type of benefit do you expect in the coming quarters? I think you were at €76 million in this quarter.

Tanate Phutrakul

We expect similar to somewhat higher benefits from TLTRO, based on the fact that we did not repay, and based on the prevailing interest rate.

Benoit Petrarque

OK. Thank you very much for that. Thank you.

Operator

Thank you. And as we currently have no further questions at this time, I'll hand the floor back to our speakers for the closing comments.

Steven van Rijswijk

Good. Thank you very much, Operator, and thank you very much for listening and asking your questions. It was relatively short after the investor update in the middle of June, but it was good to see each other again, and I hope to speak to you in the near future as well. Have a great Thursday, and if you're still going on holiday, have a great holiday. Thank you very much.

Operator

This now concludes the conference. Thank you, all, very much for attending. You may now disconnect your lines.