Transcript Analyst call 3Q2023

Presentation

Operator
Good morning. This is Jessica welcoming you to ING's third quarter 2023 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 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 20F 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
Good morning, operator. Good morning everybody, and welcome to our third quarter 2023 results call. I hope you're all well. As usual, I'm joined by our CRO Ljiljana Čortan and our CFO Tanate Phutrakul.

We continue to focus on our strategic priorities and I'm pleased to take you through today's presentation, and after that we'll take your questions.

The third quarter was, again, a strong quarter for ING and we continue to deliver outstanding results. I'm proud to see our people creating a superior customer experience every day, and this is evidenced by further organic growth. We have now more than 15 million primary customers. Since 2016 we have grown our primary customer base with a CAGR of nearly 6% and are on track to reach our target of 17 million primary customers by 2025.

The share of mobile-only customers increased further, and 62% of our retail customers do business with us through their mobile only, our main channel. In Wholesale Banking, the volume mobilised to help our clients transition to more sustainable business models was €27 billion in the third quarter and reached 74 billion in the first nine months of 2023, which is 15% higher compared with the same period last year.

Our income grew 32% year-on-year and is at a structurally higher level now that the rate environment has turned positive. The four-quarter rolling average return on equity increased to 13.8%, and we have achieved it while operating on a high CET1 ratio of 15.2%. Assuming a CET1 ratio of 12.5%, our long-term target, our four-quarter rolling return on equity would be more than 16%.

Our strong capital position and capital generation allow us to take another step in returning capital to our shareholders. We have announced a share buyback of €2.5 billion starting tomorrow, which will bring the total amount of capital we will return to our shareholders to €7 billion this year.

I want to emphasise that we have realised these strong results in a quarter characterised by ongoing macroeconomic challenges. Geopolitical uncertainties persist and further increased over the last few weeks; cost of living rises as inflation remained elevated, while the cycle of recent central bank rate hikes appears to have paused.

Before moving to 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 three, our purpose and strategic priorities are shown. The first priority is to deliver a superior customer experience that is personal, easy, relevant, and instant. And this is highly valued by our customers as evidenced by our net promoter scores where we maintained our number one position in five of our ten retail banking markets.

One example of how we offer this excellent experience is via digital onboarding. In many markets, we now onboard most of our new retail customers via the mobile banking app. Another example is introduction of a KYC tracker in the mobile app in Poland. An important part of keeping ING safe and secure is knowing our customers, and this new feature in the mobile app allows retail customers to track easily the status of their onboarding and directly address any requirements, making the process as seamless as possible.

Our second strategic pillar is putting sustainability at the heart of what we do.

We have recently published our 2023 climate report, which describes progress on our aim to steer our lending portfolio towards global net-zero climate goals and highlights our leading role in the banking sector.

We also introduced several new sustainable alternatives for retail products. In Germany, we added sustainability filters for investments in our app, enabling our customers to identify investments that fit their sustainability preferences. They are already among the top four most-used filters in the app.

In Romania, we added new purposes to our sustainable personal loans, like solar panels.

And then we move to slide four, which shows our achievements in helping our clients in their low-carbon transition.

As mentioned, we have recently published our 2023 climate report and I would like to highlight a few milestones.

We are increasingly making climate part of business processes, working on our approach to assessing client transition plans in scope of our Terra approach and developing tools to support this. We have expanded our oil and gas approach and we're not done yet. Last year, we were the first large global bank to stop providing dedicated finance to new upstream oil and gas fields. This year, we expanded our coverage by restricting dedicated finance to midstream activities, also aiming to reduce the volumes of the traded oil and gas that we finance.

We also help set standards to jointly tackle decarbonisation: we have done this for the shipping and steel sectors and we're now collaborating on a new methodology for the aluminium sector. Our leading role in sustainability also offers opportunities. In the third quarter, we had a leading role in the financing of the first offshore wind farm in Poland, which will produce enough clean energy to power over 1.5 million households.

In the Netherlands, we finance the National Heat Fund, which provides loans to private homeowners, homeowners' associations and schools with the aim to make homes and buildings more sustainable. In the Netherlands, almost half of the labelled homes have an energy efficient label, but much still needs to be done to make homes more sustainable. However, we need to work on this together and specifically call on governments and regulators to guide the transformation more firmly.

Then on slide five, we highlight our continuous success in the retail banking market in Germany. We have been chosen as the most preferred bank for 17 years in a row by Euro magazine and have continuously maintained our number one NPS position since we started measuring it in 2015.

The appreciation of our digital products and services has resulted in a strong growth in the number of primary customers, particularly in the last few years. As of 2023, we once again were able to benefit from the positive rate environment and grow the number of clients further via attractive and profitable savings campaigns. Despite some limited outflow of deposits to competition this quarter, we have grown our deposit base by over €11 billion year-to-date. We may expect some further outflows as the savings campaigns have ended.

We also saw a continued shift to asset under management and the number of investment product accounts continues to increase. We have also again been able to grow the lending book, despite challenging market circumstances with subdued demand.

Then we move to slide six. In the third quarter, our strong capital generation and capital discipline have resulted in a further strengthening of our capital position, allowing us to take a next step in converging our CET1 ratio towards our target level. I'm pleased to say that we will distribute an additional €2.5 billion through a share buyback, which will start tomorrow.

Including the buyback, we have already returned approximately €21 billion to shareholders since 2018, and almost €7 billion in 2023 alone, resulting in a 16.2% return year-to-date. The size of the next steps on our path towards our target level by 2025 will depend on profitability and RWA developments going forward.

On risk weighted assets, as indicated before, we have absorbed most of the regulatory RWA inflation and any impact from the implementation of Basel IV is expected to be manageable.

As an example of the regulatory impact, there is a new Standardised Measurement Approach for operational risk, which takes into account profitability and which could result in an impact of up to 20 bps in 2025. Periodic methodology changes and strategies taken regarding the IRB model landscape will continue to have a positive or negative effect on credit risk weighted assets.

Slide seven shows our financial targets for 2025.

On fee growth. In addition to the strong impact of further primary customer growth, we see room to increase or introduce fees in daily banking. The continued growth of investment product accounts will result in higher fee income when market confidence improves. Further support will come from growth of lending fees when overall loan demand recovers.

Total income grew over 20%, year-on-year, significantly higher than what we had guided for in the beginning of the year, mostly driven by the strong recovery of liability margins. Our cost/income ratio has decreased to 51.6%, in line with our 2025 target. Our costs are well under control despite the ongoing pressure from elevated inflation levels. We also continue to invest in our business, which will support commercial growth and bring operational efficiency in the longer term.

On our CET1 ratio, we intend to move to our targeted CET1 ratio of around 12.5% by 2025. And as mentioned before, the next steps will reflect the strong capital generation and capital discipline, and we will update the market with the disclosure of the first quarter results of 2024.

Despite risk costs coming in below our through the cycle average, and no identifiable trends in provisioning, we remain vigilant, as the cost of living and doing business rises for our customers in the current context.

Taking all of the above into account, we are confident that we will be able to sustain our 12% return on equity.

Then to slide nine, there we go to the third quarter results, and we show the development of total income in the last five quarters. It's clear that the strong growth is driven by a recovery of liability margins, while all other income lines have been stable.

The cycle of recent central bank rate hikes appears to have paused, which means that our liability margins may reduce somewhat from current levels.

NII will also be impacted by the change in the remuneration on the minimum reserve requirement by the ECB. As a positive NII support, we currently expect interest rates to be higher for longer and margins to stabilise at a structurally higher level than in the past, depending on developments in the competitive landscape for savings.

55% of our replicating portfolio will continue to support our liability income, while our strong and diversified commercial positions in retail and wholesale banking will enable us to capture income growth, even more so when loan demand recovers.

On to the quarterly development of our net interest income and margins on slide 10. A strong increase of NII year-on-year was driven by normalisation of our liability margin, which now stabilised at around 120 bps. The acceleration of core rate increases was absorbed by the positive impact from reinvesting part of our replicating portfolio at higher rates.

In lending, we saw the overall margin increase for the third consecutive quarter, despite some pressure on mortgage margins due to rising interest rates, as client rates generally track higher funding costs with a delay.

Note that the interest income continued to be impacted by accounting asymmetry, which led to lower net interest income in Treasury and Financial Markets, which was offset in other income.

Our overall net interest margin for the quarter increased by one bps to 157 bps. Year-on-year, the net interest margin increased by almost 30 bps.

Slide 11 shows the development of our net core lending. In retail, mortgages continued to show growth despite challenging market circumstances. Growth was mainly visible in the Netherlands, Germany, and Belgium.

In Wholesale banking, we saw a small decline in net core lending as demand was still subdued and we continued optimising our capital usage.

Going forward, with still heightened macroeconomic uncertainty, we expect loan demand to remain subdued. However, our business model and geographic diversification has enabled us to capture growth opportunities through the cycle.

Then the liabilities. After the significant deposit inflow in the second quarter, we saw core deposits decline by €7 billion this third quarter. This was mainly due to a shift from deposits to asset under management, and seasonal impacts, as customers tend to spend more during the summer holidays.

In Germany, we had some outflow reflecting intensified competition, while the decline in Belgium was mainly attributable to customers buying retail bonds issued by the Belgian government in September. We had significant inflows in retail other, mostly in Poland and in Australia. Wholesale banking recorded a small outflow.

Turning to fees at slide 12, which showed growth year-on-year driven by retail banking, while wholesale banking was seasonally lower.

In retail banking, fees from investment products increased, particularly in Belgium due to a net inflow of assets under management. Daily banking fees also increased, reflecting higher fees in payment packages and new service fees.

Wholesale banking was impacted year-on-year by lower volumes in daily banking.

Sequentially, fees were stable quarter on quarter. Fees in retail banking grew due to seasonally higher travel fee related income and lower commissions paid to independent agents in Belgium. Fee income for wholesale banking was lower, mainly due to subdued demand in lending and seasonally lower deal flow in Global Capital Markets and Corporate Finance.

Then slide 13, excluding regulatory costs and incidental items, operating expenses were up 4.7% year-on-year. This was mostly due to the effect of high inflation rates on staff expenses, reflecting indexation and CLA increases across most of our markets. We also continue to invest in growing our business.

Quarter on quarter, expenses excluding regulatory costs and incidental items increased 1.3%, despite higher staff expenses, so it was relatively limited.

Regulatory costs were up slightly year-on-year, as the third quarter last year had included a lower contribution to the deposit guarantee scheme in Germany.

And on a clean basis, our year-to-date cost growth was roughly 7% versus the prior year, which is a good indication of our run rate in 2023.

Then we move to risk costs on the next slide, that's slide 14. Our risk costs were €183 million this quarter, or 11 bps of average customer lending, well below our through the cycle average of 25 bps. We still have a stock of management overlays, amounting to €486 million.

In wholesale banking, risk costs included a number of well-collateralised individual files. This was however offset by a further release of Russia related provisions as we continue reducing our Russia exposure.

Total offshore Russia exposure amounted to €1.5 billion at the end of the third quarter, and total risk costs in wholesale were €15 million.

In retail banking, the risk costs were predominantly in Belgium, Germany, Poland, and Spain, mainly driven by collective provisions.

And although stage 3 increased slightly at 1.5%, it remained low with modest inflow and no clear trends visible.

The lower stage 2 ratio mainly reflected repayments and some individual files moving to stage 3.

All in all, a very benign quarter in risk costs. We are vigilant as the costs of living and doing business increase for our customers and we remain confident in the quality of our loan book.

Slide 15 shows our CET1 ratio, which increased further to a very strong 15.2%. CET1 ratio, sorry, CET1 capital increased by nearly €800 million driven by the inclusion of net profit for the quarter, after reserving for dividends.

Furthermore, risk weighted assets were €2.1 billion lower, including €400 million of FX impacts. Credit risk weighted assets decreased by €2.2 billion, mostly driven by an improved profile of the loan book and a further decrease of our Russia exposure.

Our share buyback will have an impact of 78 bps on CET1 ratio, which will be visible in the fourth quarter numbers of this year. Including this distribution, we offer a 16.2% return to shareholders year-to-date. We will update the market on our capital plans with the disclosure of our first quarter 2024 results.

Which brings me to the wrap up with the highlights for this quarter. A strong third quarter in which we again delivered an excellent set of results.

Execution of our strategic priorities delivered strong growth of primary customers, and we made significant progress in our aim to help our clients transition to more sustainable business models.

Our financial results in the third quarter clearly demonstrate that we're well positioned to continue to benefit from the positive rate environments. Total income increased further and expenses remained under control.

Our capital position remains very strong, allowing us to announce a €2.5 billion share buyback, starting tomorrow.

Going forward, I am confident that we will continue to deliver robust financial results while executing successfully on our strategy. Now over to Q&A, Operator.

Q&A

Operator
Thank you. If you would like to ask a question, please press star one on your telephone keypad and please ensure your line is unmuted locally as you'll be advised when to ask your question. In the interest of time, we kindly ask each analyst to limit yourself to two questions only. The first question comes from the line of Giulia Miotto from Morgan Stanley. Please go ahead.

Giulia Miotto (Morgan Stanley)
Hi, good morning. Two questions from me. The first one is on net interest income, you're flagging some pressure on the liability margins going forward, which makes sense, deposit beta will go up. But on a net basis, do you think this can be more than compensated by asset margins improving and replicating portfolio or how do you see essentially the net impact? That's my first question.

And then I just want to check something on slide six. So when you say the Basel IV impact is expected to be manageable, so is it a change? What does manageable exactly mean? Can it be more than 50 bps, for example, and also if you can comment on the timeline because the day one impact perhaps is low, but then what would be the total impact, also including the output floors? Thank you.

Steven van Rijswijk
Okay. Thank you very much, Giulia. I'll take the question on that interest income and Ljiljana takes the question on Basel IV impact, which is manageable by the way. But going to net interest income, look, clearly the competition for savings has increased and may increase. And that could have an impact on the core rates, and that could also then have an impact on the net interest margin for deposits.

The good thing is, and that's on the positive side and that's maybe what you're eluding to, that so far we have seen benefits from the higher rates partially, but 55% of our €480 billion retail Eurozone replicating portfolio is invested longer than one year, and that part will continue to reprice at higher rates, and that can provide support for NII.

And furthermore, we will continue to aim to grow our customers and to grow our business, also benefiting from lending when that recovers. So yes, more pressure on NIM. Good diversification in funding, so more than 55% of our retail deposit is longer than one year. A good diversified business with continued focus on growing customers, growing fees, and we will benefit when lending demand recovers. Then to the Basel IV impact, Ljiljana.

Ljiljana Čortan
Good morning, Giulia. As we said, the overall impact is manageable. This means it's within the regular updates that we are

performing quarterly on our model, so we do not expect anything new than what we said before. The only news that we are now more crystallising, is the more clear impact due to the Standardised Measurement Approach on operational risk weighted assets, as well due to increasing profitability of the group. So from that perspective, we say it's up to 20 bps on operational risk weighted assets, but the rest, including this 20 bps, we deem manageable.

Giulia Miotto (Morgan Stanley)
Understood. Thank you. And if I can just follow up on the NII. So directionally, do we think NII has peaked or it can still grow next year? Essentially? This was what I was trying to get to with my question.

Steven van Rijswijk
Yeah. Well, look, what we do see is if you compare to the past, we are managing our NII at a structurally higher level than what we have seen in the past, and we are confident on the composition of the liability book, and on the ability to further diversify our income, but also to continue to grow our loan book when demand recovers. And depending on the speed with which that happens, that will have the effect, but we're confident that we can continue to provide an attractive NII level.

Giulia Miotto (Morgan Stanley)
Thanks.

Operator
The next question comes from the line of Tarik El Mejjad from Bank of America. Please go ahead.

Tarik El Mejjad (Bank of America)
Hi. Good morning. I have a couple of questions please. First on capital return. So you moved away from equal steps distribution to, if I quote you, the next step will depend on capital generation going forward. So in 2023, you had quite a good capital generation driven by a lower RWAs and some model updates that's yielded to positive generation. And you distributed €2.5 bln in the last tranche buyback. So would that mean that if a normalised kind of capital generation next year would be lower size or, you're still thinking of capital generation in conjunction of equal steps?

That's the first question, the second one is on wholesale banking. The portfolio has shrunk in this quarter. And would you link that to a slow down or uncertainty in the market, or do you see some weakness in some area in your business model, wholesale banking that would probably at later stage need more work and some restructuring. Thank you.

Steven van Rijswijk
Okay. Thank you, Tarik. I'll take the question on the wholesale bank and Tanate will talk about the equal steps. So on the wholesale bank, now, there is nothing in particular to mention other than now loan demand is relatively slow given the let's say, low economic cycle which we currently are in.

Then also seasonal effects play a role where typically the large lending deals don't come into the third quarter because of the summer period. We also see that, by the way, on the Global Capital Markets side, where the third quarter is a bit slower. So nothing out of the ordinary, other than the fact that loan demand is relatively slow.

As I've said before in the past, although we don't have a loan target per se, we have seen loan demand grow in wholesale banking, typically between 3 and 4% per annum over the last number of years on average. This year it is lower with around 1%, so at some point, it will recover again, but there's nothing specific to mention here.

Tanate Phutrakul
And Tarik on capital, yes, we removed the language around roughly equal step. That's because as you mentioned, the last three quarters, the capital generation by ING has been really strong reaching a 15.2% CET1 ratio, that is allowing us to step up our distribution to €2.5 billion. But we still plan to converge on the ~12.5% CET1 target level, but we also flag that this is really depending on how the earnings outlook looks like, risk weighted levels as we see it going forward, and also taking into account macro and geopolitical developments in the coming period.

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

Operator
The next question comes from the line of Farquhar Murray from Autonomous. Please go ahead.

Farquhar Murray (Autonomous)
Morning all, just two questions from me and apologies for the slight cold. Firstly, the €2.5 billion buyback, it kind of takes us to 14.5% CET1 on a pro forma basis. That's still kind of up a little bit from 1Q. Can you just outline when we might actually begin to see that come downwards as part of the trajectory and what the mass might be in trigonometry around it might be.

And then on a related point, when thinking about indicative steps from here, should we think about the annual step of around €4 billion, i.e. 1Q and 3Q added, or most recent €2.5 billion for the six months? And then secondly, the DNB published some details around its new approach on anti-money laundering yesterday. I just wondered what your thoughts might be around that. Is it kind of a step in the right direction, is it leap forward or maybe a bit of a fairy step? Thanks.

Steven van Rijswijk
Yeah. Thank you very much. On the DNB approach on AML, I think we're very happy with that. I think they have come out with principles and guidelines in terms of having a more risk-based approach. It's something that we have been advocating for many years. This bodes well for a better doing of AML, i.e. much more effective and we can also focus our capacity on where it is really needed rather than a one size fits all approach.

So it's much more effective, it can also potentially be more efficient. But in the end, when we do these things, we want to do the right things. I think that's very good. And I'm very happy that the DNB has come out. We also have round tables with them to give input on how this can be done. So I think that the world in general is maturing on AML, but I think that also here in the Netherlands with the DNB coming out, this is a very, very good step forward. So that's maybe point one.

On the share buybacks, indeed, we're moving to 14.5%. That is well calculated. And we will continue with our rhythm of updating you in the first and the third quarter. And as always, we will do it by then and we will not provide any further guidance upfront. We'll do it when we announce the first quarter results in 2024.

Farquhar Murray (Autonomous)
Okay. Thanks.

Operator
The next question comes from the line of Johan Ekblom from UBS. Please go ahead.

Johan Ekblom (UBS)
Thank you. If we can maybe come back to NII and two questions, I guess. In this quarter, we saw the savings rate increases offset the positive impact of the replication portfolio. Can you just talk about what, if any savings rate changes you've implemented since the end of the third quarter to help us understand what the impact could be looking forward?

And secondly, just on the treasury impact, if I look at the Dutch NII, it's down some 14% Q on Q and 20% year-on-year. I'm assuming a lot of the treasury impact is book there. Can you help us understand kind of what the magnitude is impacting the Dutch NII specifically? Because it seems like most other geographies are showing pretty good NII momentum and the weakness is really in the Netherlands.

Steven van Rijswijk
Okay. I'll give both questions to Tanate, starting with NII.

Tanate Phutrakul
Yes. So I think on NII, you asked about announced rate increases. We have two increases, being a core rate increase in the Netherlands and also an announced core rate increase in Germany. To give you a sense, the deposit beta for ING in Q1 was around 15%, 20% in Q2, 28% in Q3, and it will be 31% as of the 1st of November this year.

Then the second question regarding treasury arbitrage, that continues to be in place. The strategy is still continuing into Q4 and the reason why it affects the Dutch book more than others, this is where our major treasury operation resides, on the Dutch balance sheet.

Johan Ekblom (UBS)
So we can assume that most of the €250 million headwind sits in the Netherlands.

Tanate Phutrakul
It is. Yes.

Johan Ekblom (UBS)
Thank you.

Operator
The next question, it comes from the line of Raul Sinha from JP Morgan. Please go ahead.

Raul Sinha (JP Morgan)
Hi, good morning. Thanks very much for taking my questions. I guess a couple of questions just staying on NII. When we kind of think about the outlook for NII from here, I was wondering if you might be able to comment a little bit around whether or not you think you can maintain NII stable given the rising deposit beta from here through any changes in the replication portfolio.

And I guess the question I'm really trying to ask is, would you consider changing the 45-55% split within the replicating portfolio going forward if it provides you with more NII stability?

And then the second question is just coming back to the volatility within NII. I think this is the second quarter where consensus is a little bit surprised, and your market is obviously much more focused on NII versus other income within your total income. The accounting asymmetry means that your NII is obviously suffering on a reported basis, but I presume on a banking NII basis, things might be a little bit less volatile. So I was wondering if you'd comment on perhaps the underlying NII trends, whether we are a little bit less volatile than the headline that you reported. Thank you.

Steven van Rijswijk
Okay. I'll take the first one and then Tanate takes the second one on the asymmetry. But look, again, on the outlook, there is pressure, or we expect pressure further on the deposit margin as competition progresses or as people will move more money to assets under management. We have seen it also this quarter where we have on a gross basis, a couple of billion moved to assets under management. And it depends on the competition in the markets.

A second element on the NII is of course the minimum reserve requirements, the decision of the ECB that has moved to zero, that is going to have an impact as of the next quarter. And on the positive, we have currently loan demand being subdued, so when that picks up, that will be helpful. Still 55% of our deposits is being invested for longer than a year. I'll come back to that. And we grow the number of customers with what we have done in the past, approximately 6% per annum, so that is between 600,000 and 800,000 per annum currently. And those are all the upward moves and how that all plays out, we have to see. We were positive that we can trade at a structurally higher level than we did in the past on NII.

Regarding the 45-55 split. The way that we have built up our replication has of course to do with the value of savings, i.e. the behaviour of our customers, and that's the way that we're building it up. So we're not changing it as such, because we want to match funds in that sense, if you will, based on behaviour as a liability as much as we can. So we would change based on changing behaviour but not based on, let's say, change in P&L, because you want to keep your bank safe, and that's how we do it.

Raul Sinha (JP Morgan)
Thank you. Steven, if I can follow up on the AUM impact as deposits move into AUM, what is the pickup for the P&L from a fee perspective?

Steven van Rijswijk
Yeah. Currently, you do see that depends on the amount and how many trades that you have in trade and fee income and commission income. Fees is a one-off and commission income, which is ongoing. So that then depends on the mix, but you now see gradually the number of accounts which we have, the increase is continuing, but also the number of trades is picking up again, and that can have a positive effect when that continues to be the case on our fee income in terms of investment products.

Tanate Phutrakul
Then, Raul, to answer your second question, I think overall we manage the bank on overall income. So the fact that in treasury, sometimes you see lower NII and higher other income, I think that is just the result of accounting. But I think overall the net is positive for ING, that's why we do these trades.

But if you strip away those results and you look purely at the banking book, they're quite stable. And I think the best way to describe it is that the pressure from the deposit beta is negated by a replication strategy. So that's why you don't see purely on the banking book much material impact, despite the increase in beta in Q3.

Raul Sinha (JP Morgan)
Thanks very much.

Operator
The next question comes from the line of Benjamin Goy from Deutsche Bank. Please go ahead.

Benjamin Goy (Deutsche Bank)
Yes. Hi, good morning. Two questions please. First Germany, the savings campaign, you mentioned some outflows but still clearly net positive. I was just wondering if you can shed a bit more light on primary customers you are winning out of that, or was it mainly existing customers transfer more funds? What's the longer lasting impact other than this nice margin for six months at least?

And then the second question is capital return and the potential changes to the taxation of buybacks. I'm just wondering how that impacts your thinking about capital return strategy and whether that's a reason why the €2.5 billion might be executed fully as compared to the last buyback in Q3 where you paid out the residual then in January, a special dividend. Thank you.

Steven van Rijswijk
Okay. Thank you. Yes. If you look at the growth in primary customers, you can also see that on page five, if you do the translation, every quarter in this year, in the top three of fastest growing number of primary customers, Germany has always been there. So that was indeed the strategy, not only to get deposits in, to also make a return on those deposits, because even with the market rates that we had at the time, we made a spread between what we paid to our customers and what we earned on these deposits.

It was also to get new primary customers in, and the primary customers indeed have been growing very well in Germany. And again, like I said, top three every quarter since the last three quarters. That's maybe number one. Number two, indeed there is some outflow because our campaign started somewhere in the second quarter in the beginning. And that campaign, typically these campaigns last for a couple of months, and then after that we were early and I think we timed it very well, then other banks followed with their campaigns. And at some point our campaign is ending, other campaigns are then continuing, and then you will see that you get some outflow. That's what we have always said, that we calculated that we would have some outflow, but let's face it, compared to the beginning of this year, there was still an €11 billion increase in our deposits in Germany. So that is very, very good.

And if there are other marketing campaigns, they typically also lose something. And in terms of the money, where then was flowing out, yes, it flew out partially to assets under management, but it was coming from not per se new clients, it was also coming from existing clients. So it was not that the money is perceived as being very hot, that everything that flows in also flows out. And yeah, look, we have to continue to look at the next quarter, we'll see what will happen. I also said, we can expect perhaps more cash outflows. It typically depends on when our campaigns start and end, and when campaigns of others start and end. Tanate.

Tanate Phutrakul
On capital return, I think clearly, we are watching the taxation on share buyback very carefully. Our expectation is that it will not take place until at least 2025, if at all, once the new Dutch government is in place. But share buyback is one of the key tools that we use in terms of cash distribution to our shareholders. And so we're watching the situation carefully. But clearly given the fact that our stock still trades at a discount to price to book, that's why we decided to announce this share buyback mostly in shares or exclusively in share buyback.

Benjamin Goy (Deutsche Bank)
Understood. Thank you.

Operator
The next question comes from the line of Amit Goel from Barclays. Please go ahead.

Amit Goel (Barclays)
Hi, thank you. So two questions. The first one's maybe a bit more of a follow up, but I just wanted to understand on the replication portfolio, what's the average duration of the 55% of the book, which is more than one year because I'm just trying to understand the shape of the liability margin and if we could see some improvement after some nearer term softening.

And then secondly, in terms of the capital return, I see the consensus doesn't have the group getting down to the 12.5% CET1 target. And that level would leave the group with a smaller buffer to MDA than where we see other banks in the sector. So just wanted to, again, just double check why your confidence in getting down to that level and that it is an appropriate level. Thank you.

Tanate Phutrakul
Okay. The replication, I think we disclosed at the end of 2022, the duration of our behaviour driven replicated liability, it's approximately 2.8 years and given the interest rate movement now, you can expect that duration is somewhat shorter than that 2.8 years. Okay?

Then to your second question on our targeted capital ratio, we have come up with this capital ratio based on a number of factors. Our earning capabilities, stress testing, and looking at the MDA level, and the most importantly, the stability of our business model, right? We are highly stable, very predictable earning capital generator, and that's why we're confident that we can operate at around 12.5%.

Sometimes the buffer looks tighter because of, for example, counter-cyclical buffers being higher this time. But during a different economic cycle, the counter-cyclical buffers could be less. And as you have seen announced by the Dutch National Bank, they have given us an O-SII buffer reduction of 50 bps, which will come due in 2024 as well.

Amit Goel (Barclays)
Okay. Thank you. And just coming back on that first part in terms of the shape of the liability margin, are you thinking it could come back somewhat, but that there could be some support thereafter from the replication portfolio, or is that baked into the guidance? The contribution from the rep portfolio?

Tanate Phutrakul
It's baked into the guidance. I suppose in a way to look at our disclosure and maybe there you can find more facts. Do you remember in Q3 2022, we gave a simulation of how the shape of our replication would look like? That shape is still similar to what you would find, but the exception is that we use that based on the September forward curve where the short end of the curve is materially shifting up in 2023. So perhaps you can look at that and maybe apply the current forward curve rather than the September curve.

Amit Goel
Correct. Thank you.

Operator
The next question that comes from the line of Kiri Vijarayarajah from HSBC. Please go ahead.

Kiri Vijarayarajah (HSBC)
Yes. Good morning everyone. A couple of questions if I may. Firstly, just coming back to the retail fees, you mentioned good momentum there, good conversion rates there, but looking forward, do you think it gets more challenging to convert those deposits into investment products as core rates keep trending up and customers potentially preferring to sit on cash there? So are there some potential fee headwinds on the retail side? We kind of need to think about there.

And then secondly, turning to the restructuring in Belgium and the charge you've taken there. Just wondered what underlying trigger was there. Obviously you want to get the cost base down, but is it that the revenue generation is coming in under budget in Belgium, or is it more underlying cost inflation is proving a bit more severe than you thought? Hence this kind of new restructuring. And then just in terms of the timing and politics and the threat of bank taxes in many places, I just wondered, is now the best time to unveil sort of headcount cuts and branch closures politically speaking? So just your thoughts there on the Belgium restructuring. Thank you.

Steven van Rijswijk
Yeah. Starting with restructuring in Belgium, as a bank, we're continuously working on a better digital experience for our customers. So we have all kinds of STP targets and we have scalable Tech targets and scalable Operations targets that we also presented during the investor update that we gave in June of 2022.

And in that setting, that means that also in Belgium - we're relatively speaking compared to some of the other markets, we were not so digital - we have been working very hard in making our organisation more digital. And that's not only branches, that's also how we respond to customers and how we deal with call centres. And our product interaction is in all kinds of levels that we are building a more digital organisation, that is paying off.

And at some point it also means that some of the services we have, we are doing more automatically. And that at this point means we also then do it with less people, and that's what the restructuring is for. And you've seen it in many markets. We don't do that in big bangs, but we continuously look at how we can optimise and maximise the offering for our customers. And this is the result of it.

In terms of daily banking. Yeah. Look, let's take a step back at a higher level. First of all, if you look at our total assets under management, and that's what I've also said a few years ago, if you look at our fee income relatively to our interest income, its relatively low. And one of the reasons is that we did not develop as yet so well a number of our diversification products.

Still now, we have an asset under management base, which is less than €200 billion. Now compared to banks of our size that is very small. So to convert our customers to primary customers, which means customers that do more with us, we're still a long, long way to go.

And that, of course, you could see on the one hand that higher interest rates and depending on investment appetite, customers may be less keen to invest because they may also be able to get on an interest account. But we still need to convert a number of these primary customers also to investment customers. And there we still have a long way to go to get to where we need to be. That's why I'm positive on this.

Kiri Vijarayarajah (HSBC)
Great. Very helpful. Thank you.

Operator
The next question comes from the line of Flora Bocahut from Jefferies. Please go ahead.

Flora Bocahut (Jefferies)
Yes. Thank you, and good morning. I'd like to go back to the NII because you give us on this call pluses and minuses on the evolution from here. But you then don't commit to say whether this is going to be a net positive or a net negative, and that leads to, I think, some people thinking, "Okay, so we should actually annualise the performance you just printed on Q3 NII". And if we do that, it means a substantial decline in consensus expectations, which I suspect is why the shares are under pressure today.

So just two questions I'd like to ask again on NII to make it clearer for us. First is on the deposit beta and thank you Tanate, for giving us the deposit beta evolution here. So 31% as of the 1 of November, where do you think this is going? Because my feeling is, you lack at this stage, the repricing on the asset side, and then you have obviously already had a significant repricing on the deposit side compared to other countries. So where could that go, what's the end level of deposit beta in your view? And then the second question is on the drag to NII from treasury and financial markets, is it going to continue at this pace, the same pace as we saw in Q3? Thank you.

Steven van Rijswijk
Okay. I give the second and third question to Tanate. And the first question, yeah, I gave indeed a number of pluses and minuses and it is what that is. So I think the most – I think what we do very well, and that's what we built confidence in, is that we have been able to continue to grow our primary customers.

We do see that low demand compared to where we currently are is low. We do have the pluses that for 55% are still longer than one year and therefore have an upward pressure on NII. And then of course, there is a competitive pressure, that we need to see what that is in different markets.

That links, by the way to one of the questions of Tanate, whereby the tracking rate so far on average has been below what we thought it would be for the average of the year. But again, that is until now, so that all remains to be seen. At least we're very positive of the levers that we can pull. And the macroeconomic context is the macroeconomic context, and that's what we will live in.

Tanate Phutrakul
Then your question is where would the tracking go from 31% that we see on November 1st? It really depends on a number of factors. The first and the chief one is the level of competition for deposits given that loan demand is weak at the current time. You can see that competition for deposits is likely to remain benign for the time being. And the second factor is really where ECB rates are to go. And clearly some people call it that ECB rates paused, some say it's already peaked and coming to an end, which means competitively banks are less likely to increase deposits to protect NII.

So that's to answer your question. And then to address the second question, if I understand correctly, it's around the treasury arbitrage and FM, whether similar levels of trades would happen in Q4, and the answer is yes. Our expectations is that, that will remain about the same kind of pace.

Flora Bocahut
Thank you. And just to follow up on that last part, is it just a 2023 story or this is something that continues in 2024, these arbitrage you are doing?

Tanate Phutrakul
Yes. If this opportunity remains available, we will continue to do it.

Flora Bocahut (Jefferies)
Thank you.

Operator
The next question, it comes from the line of Anke Reingen from RBC. Please go ahead.

Anke Reingen (RBC)
Yeah. Thank you very much. So just one follow up question on NII. Are you willing to quantify the headwinds into Q4 from the MRR as well as the deposit outflows in Belgium and Germany? And then secondly on cost. Thanks very much for the guidance here on Q4 and the year. Just if we look into 2024, do you think the costs ex-levies have sort of plateaued or do you think inflation is still quite meaningful headwind? And if you cannot, please remind of the latest your expectations about the SRF decline in 2024. Thank you very much.

Steven van Rijswijk
Okay. I think that the first question on the MRR, the negative impact was that for the fourth quarter is €70 million per quarter. So €70 million for the fourth quarter, and then also that's same amount going forward. Tanate.

Tanate Phutrakul
And may I answer your second question on regulatory costs? I think our guidance has been that for 2023, we expect regulatory expenses to be approximately €200 million lower than the same period in 2022. So that's the first guidance. And the second guidance is that with the DGS pool being fulfilled, SRF pools being fulfilled and also taking into account what we know of additional bank taxes that are coming in the Netherlands, in Belgium and in Romania, our expectation is that regulatory costs in 2025 are likely to be approximately €300 million lower than the prevailing levels of 2021. Okay.

Anke Reingen (RBC)
And in terms of cost ex the levies, do you think those have plateaued going into 2024?

Tanate Phutrakul
I think there are three component points: the level of labor inflation will remain high in 2024, less than 2023, but remains elevated because some of these collective labour agreements are agreed already upfront. The second part is that we continue to have savings program to negate part of that through our digitisation programs, as Steven mentioned around restructuring like in Belgium that we had. And the third is, of course, that we continue to invest in our future. So these are the three balances that will take into account, the impact, but I would say the pressure on inflation is coming down, but it's not fully over in 2024.

Anke Reingen (RBC)
Thank you very much.

Operator
The next question, it comes from the line of Chris Hallam from Goldman Sachs. Please go ahead.

Chris Hallam (Goldman Sachs)
Yep. Morning everybody, just two. So the first is a follow-up clarification on some of the earlier comments around capital. You mentioned the pace of reduction down to 12.5% could be impacted by the outlook on profit growth, RWA growth, and the broader macro backdrop. Are those inputs really just into the split of distribution between 2024 and 2025, or would they potentially feed into pushing the 12.5% target back beyond 2025, either, through your own decision or from an approvals perspective? That's the first question.

And then second, and maybe we can take this offline, but I think you said in August betas were tracking at 29% and now they're at 31%. So is the right way to think about that, that a two percentage point changed and deposit beta offsets the tailwind from the replicating portfolio? Maybe I got the beta numbers wrong, but I just wanted to check that.

Steven van Rijswijk
Yeah. Thank you very much. I think the answer on the first question is no, that we still have our target of around 12.5% per end of 2025, which is what we said before, and which we still say now. On the beta tracking.

Tanate Phutrakul
Yes. So the beta tracking, what you see is that the increase in beta from 28% in Q3 have been fully compensated by our replication. Whether that would be the case for the two percentage points increase in Q4 is something that we'll report in Q4.

Chris Hallam (Goldman Sachs)
Okay. Thanks.

Operator
The next question, it comes from the line of Mike Harrison from Redburn Atlantic. Please go ahead.

Mike Harrison (Redburn)
Oh, hi guys. Thanks very much for taking my questions. I've got two please. So the savings rate that you're offering depositors in the quarter went up quite a bit. I just wanted to ask about how the higher savings rates were impacting deposit mix and whether you see that accelerating in the future.

And then the second question, again on NII is, there's some discussion about the ECB increasing minimum reserve requirements, not just slashing the remuneration. Can you talk about what offsets you have in the business both in terms of the impact on NII and the impact on the liquidity coverage ratio? Because I guess your BMG subsidiary in Wholesale makes you a little bit more vulnerable versus some of your peers. Thank you.

Steven van Rijswijk
Tanate.

Tanate Phutrakul
Well, I think we have three components in terms of our liability mix, current account, savings and term deposit. And if you go back a decade ago, then you have a split of around 25/75 between current account and savings account and materially very little in term deposits. What you see with the current environment is that current account is coming from a high level and starts normalising as savings are remunerated.

So that trend is beginning to converge back to more normal levels, but remains above the historical trend that I mentioned. And also we see that from a competitive perspective a number of banks, including ING is basically offering more term deposits. So the share of term deposits are rising as part of our funding mix.

Then to talk about the second part, we just think that the introduction of an increase in MRR is simply the wrong thing, and we have advocated that with our regulators and the ECB monetary policy, because increasing MRR actually reduces the bank liquidity coverage ratio. But having said that, if we have to manage it, we have to manage the size of our balance sheet to shorten the balance sheet to compensate for further impact MRR, if that were to take place, including for BMG.

Mike Harrison (Redburn)
Okay. Thank you.

Operator
There are no further questions in the queue. So I will turn the call back over to your host for some closing remarks.

Steven van Rijswijk
Yes. Thank you very much. Thank you very much also for listening in and for your good questions. And today is a special day since Mark Milders the head of investor relations, is going to move on. He started in May 2017 and since then he has been at the helm of investor relations for six years. He is now passing on the baton to Sjoerd Miltenburg who starts today.

And Mark and we have worked a long time together, will stay with ING. I'm very happy with that. He will now become the head of wholesale banking, so I think that's very positive. Netherlands, sorry, wholesale banking Netherlands. The CRO corrects me, the wholesale bank, Netherlands. But still that's a very positive development for ING, and I think for all stakeholders involved.

But Mark, thanks very much for all that you've been doing. I'm sure, by the way, all the analysts on the call that you have really enjoyed working with Mark in this capacity. But I'm sure you will do the same with Sjoerd. With that, we'll leave you for now and then we hope to speak and see you soon. Cheers.

Operator
Thank you for joining today's call. You may now disconnect your lines.