Transcript Analyst call 4Q2023

Presentation

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

Good morning, Steven, over to you.

Steven van Rijswijk
Thank you very much, Saskia. Good morning, and welcome to our results call for the fourth quarter. I hope you're all well and had a good start of the year. As usual, I'm joined by our CRO, Ljiljana Čortan and our CFO, Tanate Phutrakul.

In today's presentation, I would like to highlight our exceptional results in 2023; discuss the developments that we saw in the fourth quarter; and share our outlook for 2024. As always, there will be room for questions at the end of the call.

First, I will start with explaining how we were impacted by the developments in the world around us on slide 2. Most notably, we live in a world with increasing geopolitical tensions and conflicts in many countries, resulting in the loss of many lives. We're saddened and concerned by the devastating impacts that these conflicts are having and the threat that they pose to international stability and security. These tensions also have an ongoing effect on the global economy and have led to heightened economic uncertainty and increased pressure on supply chains.

At the same time, inflation remained elevated for most of 2023 and only came down towards the end of the year. To tackle this inflation, central bankers around the world have increased policy rates at an unprecedented speed. And now with inflation at a much lower level, the market expects rates to come down during 2024.

Despite all these uncertainties, economies have proven to be resilient, and the IMF is forecasting the global economy to grow slightly in 2024.

We've also witnessed political and regulatory uncertainty in 2023. Several government elections have already had a surprising outcome and other important elections are coming up in 2024. On the regulatory side, we've seen increased volatility following the collapses of Silicon Valley Bank and Credit Suisse. In the aftermath, the European banking sector has proven its strength.

Lastly, we see a continued and accelerating transition to a more sustainable economy, also reinforced by a promising outcome of COP 28. Given our strong ESG focus, the transition offers significant opportunities for ING, and we look forward to continuing our frontrunner role.

Then we go to slide 3. We have shown exceptional results in this challenging environment, and more importantly, we are well-positioned to deliver value through the cycle. Through our continued investments in our digital capabilities and our focus on offering a superior customer experience, we are able to grow our retail bank across our countries.

Our well diversified wholesale bank is highly regarded by our clients who appreciate our global reach, our local knowledge and strong sector expertise. Our pioneering role in sustainability and our ESG focus positions us well to capture growth opportunities.

The bank is built on healthy fundamentals with a highly insured retail funding base, a senior, well-diversified and mostly collateralised loan portfolio resulting in the lowest risk cost in our Eurozone peer group.

Finally, our capital position is strong with ample buffer to our target ratio. All this has resulted in an excellent track record of delivering value to all our stakeholders and market-leading returns, and we are confident that we will continue to do so.

On slide 4, we highlight ING's outstanding results in 2023. We have achieved significant growth in primary customers. At the end of 2023, 40% of our total customer base had an active payment account with recurring income and at least one other product, meaning that over 15.3 million customers have chosen us as their primary bank. This growth in primary customers is reflecting the appreciation of our products and services, which is also highlighted by market-leading Net Promoter Scores in both Retail and Wholesale Banking.

On sustainability, we are increasingly integrating climate into our decision-making and business processes. And we're progressing well with introducing sustainable alternatives for key products in most of our retail banking markets. In Wholesale Banking, the volume mobilised to help our clients transition to more sustainable business models grew to €115 billion in 2023, or 14% higher compared to 2022.

Our balance sheet remains strong with over 64% funded by customer deposits. The strong asset quality is reflected in low risk costs, which came in at only 8 bps over customer lending this year, well below our through-the-cycle average of around 25 bps.

Our return on equity was 14.8% despite still operating at a high 14.7% CET1 ratio. Our capital ratio strengthened again, while we distributed almost €6.5 billion to shareholders in 2023.

In the next section, starting on slide 6, I will highlight the major developments driving our results in 2023 also in the context of a longer period.

Looking closer at our total income in the past six years, I would like to emphasise a few developments:

What clearly stands out is that ING benefits from a positive rate environment. That is particularly visible in a strong increase of the liability NII. This has had a significant impact on total income, which is now roughly 25% higher than in the 2018-2021 period, which was still impacted by negative rates.

This increase was somewhat offset by subdued loan demand, which has impacted our lending NII. We do see first signs of loan demand recovering, which bodes well for future income growth.

Another important development in 2023 was the lack of fee growth. Although we grew by 750,000 primary customers and implemented strategic pricing actions, fee income only rose 0.3%. This is mainly explained by limited demand for mortgages and low trading levels in Investment Products. The market is expecting demand for mortgages to pick up in 2024, and we are seeing the first signs of the rebound.

On the next slide, we provide some more details on the drivers of net interest income.

The impact of the sharp increase of interest rates is evident on slide 7, especially when looking at the margin we make on liabilities. The average liability margin in 2023 was 119 bps compared to a historical level of around 100 bps in a positive rate environment. This was driven by the positive impact from reinvesting part of our replicating portfolio at higher rates, which more than offset the increase of the core rates throughout the year. In the fourth quarter, we paid a core rate of around 120 bps, corresponding to a pass-through of roughly 30%.

We also recorded significant growth in our core deposits, which was driven by particularly strong contributions from Germany, Spain and Poland. In lending, we saw a further decrease of the margin compared to 2022, although the margin stabilised over the course of the year at around 130 bps.

Lending NII was noticeably impacted by subdued demand for loans. Yet, we were able to increase our market shares in the mortgage market and capture some growth opportunities. The market does expect loan demand to return in 2024, and we do see first signs of this in our books as well.

On slide 8, we show the evolution of our fee and commission income. Although growth has been muted in the last two years, fee income has grown at an average rate of more than 5% since 2018 and is at a materially higher level than in the past.

Looking at the different product categories in detail, there are some differences to notice in the development. Fees from Daily Banking in retail have nearly doubled since 2018, driven by continued customer growth and strategic pricing actions in several markets. Going forward, this will have our continued focus.

Fees from lending have declined, driven by a lower demand for new loans, mostly visible in Retail Banking. In Germany, for example, the fee income from Interhyp, the largest residential mortgage broker in the country, was down 40% year-on-year and decreased by more than 50% compared to 2021, the last year not impacted by rapidly increasing rates. Now we do see some signs of recovery, which should support lending fees going forward.

Lastly, lower trading activity in the last two years has impacted fees from Investment Products. As an example, in Germany, the number of Investment Product accounts increased by more than 20% compared to 2021, while the total number of standard trades decreased by ~35%. So you can see that we're well positioned to benefit from the turnaround.

Then we move to slide 9. Operating expenses, excluding regulatory costs and incidental items, increased by 6.8%. This increase was mostly driven by the effect of high inflation on staff expenses, reflecting indexation and CLA increases across most of our markets. We also continued investing in our business, which benefits all of our stakeholders, and we will continue to do so.

As we indicated during our Investor Day in 2022, regulatory costs have come down from their peak in 2021 and were roughly €200 million lower than in 2022, partly driven by lower contributions to the Deposit Guarantee Scheme and the Single Resolution Fund. In 2024, regulatory costs will decrease by another €0.1 billion, despite additional bank taxes in various countries.

Despite the growth in expenses, we've seen positive jaws, resulting in a 51% cost/income ratio in 2023.

Going forward, we will continue to be impacted by inflationary pressure, which will partly be offset by efficiencies on the back of our continued focus on operational excellence. More on this in the section with the outlook for 2024.

On to risk costs on the next slide. In 2023, our strong asset quality and robust approach to risk management resulted in low provisions for new defaults combined with effective recoveries. In addition, we saw a significant reduction of our Russia-related exposure, resulting in a release of provisions taken in 2022. Total risk costs in Wholesale Banking amounted to €-92 million for the full year. Total risk costs for the bank amounted to only €520 million, or 8 bps of average customer lending. All in all, a very benign year in terms of risk costs. We are vigilant as the cost of living and doing business increases for our customers, but we remain confident in the quality of our loan book.

Slide 11 shows the development of our CET1 capital ratio, which strengthened from 14.5% to 14.7%, while we returned €6.4 billion to shareholders. This increase in CET1 ratio was primarily driven by our ability to generate capital. In addition, RWAs decreased, driven by disciplined capital management and a better overall profile of the loan book.

Our fully loaded CET1 SREP requirements decreased year-on-year, driven by an announced 50 bps reduction of the SIFI buffer and a lower Pillar 2 requirement. These decreases were only partly offset by higher countercyclical buffers, which increased by 34 bps. As a result, the buffer to both our target ratio and the regulatory requirements increased, positioning us well to continue providing an attractive shareholder return. More on that on the next slide.

As already mentioned, we have returned €6.4 billion to shareholders in 2023, consisting of almost €3 billion in cash dividends and slightly less than €3.5 billion of completed share buybacks. At the end of 2023, €0.5 billion of the latest share buyback still needed to be completed. The share buybacks have a structural impact on the earnings and dividend per share, and we have already repurchased more than 14% of shares outstanding since our first buyback in 2021. Given our strong capital position and market-leading profitability, we are well positioned to continue providing attractive returns.

Then starting from slide 14, we show some key developments in the fourth quarter. As these are mostly in line with the developments in the full year, which I just presented, I will focus on the highlights only.

Total income was again strong and increased compared to last year, driven by higher liability NII and other income. Compared to the third quarter, our total income decreased, mostly due to a negative swing in reserves in Financial Market and lower investment income as the previous quarter had included the annual dividend from the Bank of Beijing.

The ECB's decision to adjust the remuneration on the minimum reserve requirement to zero bps had an impact of €69 million on NII. The decrease of liability NII was only limited. The higher cost for retail deposits was almost fully compensated by the positive impact from reinvesting our replicating portfolio at higher rates. More details on the development of our margins are shown on slide 15.

Net interest income, excluding the impact of TLTRO, increased slightly year-on-year. Liability margins and liability NII were still at much higher levels than last year. This was partly offset by lower NII from Treasury & Financial Markets, reflecting the impact of accounting asymmetry between NII and other income.

In lending, the margin stabilised after having increased by 1 basis points for three consecutive quarters. This stable margin, combined with higher volumes, resulted in a small increase of our lending NII. Our overall net interest margin for the quarter decreased by 3 basis points to 154 basis points, mostly driven by the lower ECB remuneration.

Slide 16 shows the development of our net core lending. In Retail, our mortgage portfolio continued to grow despite challenging market circumstances. Growth was mainly visible in Australia and the Netherlands. Other lending grew, driven by the strong commercial performance of Business Banking in Belgium. In Wholesale Banking, we saw a small increase in net core lending, although demand was still subdued, and we continue to optimise our capital usage.

Going forward, we expect loan demand to pick up, although uncertainties remain given the heightened geopolitical and macroeconomic uncertainty that I outlined at the beginning of this presentation. We're confident that our business model and geographic diversification positions us well to capture growth opportunities when they arise.

On to liabilities then. We saw core deposits decline by €0.9 billion in the fourth quarter, which was fully driven by Wholesale Banking reflecting seasonal outflows, mainly related to Bank Mendes Gans. Core deposits in our retail bank increased, although we continue to see some shifts from deposits to assets under management, most notably in Germany.

Then slide 17. In the fourth quarter, operating expenses, excluding regulatory costs and incidental items, were up on both comparable quarters. This increase was mostly due to high inflation but was also driven by higher marketing expenses and continued investments in our business. Regulatory costs were up slightly year-on-year, mostly including a higher annual Dutch bank tax, which is always fully recorded in the fourth quarter.

And then we go to risk costs on slide 18. Risk costs were €86 million in this quarter or 5 basis points of average customer lending. In Wholesale Banking, risk costs were limited, driven by net releases in Stages 1 and 2, which included the impact of improved macroeconomic forecasts and further active reduction of our Russia-related exposure, which came down to €1.3 billion at the end of the year. The risk costs in Retail Banking included a previously announced €21 million addition for CHF-indexed mortgages in Poland.

Looking at the various stages. Our Stage 3 ratio was stable, with limited inflows and significant releases due to repayments and recoveries. Stage 2 was up, driven entirely by the implementation of a new methodology for interest-only mortgages in the Netherlands. Good to note that the mortgage portfolio continues to perform very well with low payment arrears.

As I mentioned in my introduction, I will share our perspective on the outlook for 2024. Good to highlight again that the world around us continues to be uncertain, which limits the visibility on important operating drivers, such as interest rates. The cycle of recent Central Bank rate hikes has paused, and the market expects some rate cuts in 2024. If this happens, it will have an impact on our liability NII in particular.

In the scenario illustrated on this slide, we assume a gradual normalisation of liability margins to around 100 bps at the end of 2024, meaning that the average liability margin would be around 10 bps lower than last year. Given our customer deposit base of €625 billion, this would lower the liability NII by around €600 million.

The decrease in this scenario would be partly offset by a higher lending NII. As indicated, we do see initial signs of recovery of loan demand across the bank. If this would indeed materialise into loan growth of 4%, our lending NII would increase by over €200 million, assuming stable margins.

As explained on a previous slide, we were remunerated on the ECB minimum reserve requirement until 20 September 2023. The benefit will no longer be there in 2024.

In such scenario, our NII would amount to €15.0 to €15.5 billion in 2024 – lower than in 2023, but still significantly above the level of 2022.

Slide 21. Then over to fees, which we aim to grow by 5-10% in 2024. As indicated before, the development of our fee income in 2022 and in 2023 was impacted by the lack of loan demand and low trading volumes in Investment Products. For 2024, we are confident that fee growth will improve from the stable levels seen in the last two years. This is because of a few factors on which we'll execute.

First, in Investment Products, the trading activity was at a low level in the last two years. In Germany, for example, the total number of standard trades decreased by 35% compared to 2021, despite having 20% more accounts now. Given the continuous growth in the number of clients choosing ING for their Investment Products, we are well positioned to benefit from higher trading activity and generate higher fees. In addition, we will put more emphasis on growing the AuM in the affluent and private banking segments.

Next, as indicated in the ECB's Euro area bank lending survey, the market is expecting mortgage volumes to recover this year. If that happens, we are well positioned to benefit, given our market-leading positions in several geographies and via Interhyp, the largest residential mortgage provider in Germany. Interhyp benefits from higher mortgage volumes. To illustrate this, the fees we make on mortgages in Germany are almost €60 million lower compared to two years ago, reflecting a decrease in mortgage volumes in Germany, which are down more than 30% over the same time period.

Thirdly, our strong primary customer base is the foundation of our leading retail franchise. Here, the implementation of strategic pricing actions to better reflect the cost of having an account, have already resulted in the structural growth of Daily Banking fees. And this is something that we will continue to focus on.

Lastly, loan demand is likely to return in Wholesale Banking, where our continued focus on capital velocity will guide us in disciplined, profitable growth.

Given all these levers, we feel comfortable that fee growth will pick up from the last two years.

Then we go over to the outlook on costs on slide 22. We expect total cost growth of around 3%, excluding potential incidental cost items, driven by a continued delayed effect from the high inflation levels in 2022 and 2023. This will again mostly be impacting staff expenses.

In addition, the implementation of the Danske ruling on VAT in the Netherlands will have an impact of ~€0.1 billion on the costs, while regulatory costs are expected to decrease with a similar amount, primarily driven by a lower contribution to the Single Resolution Fund.

We will also continue to make investments in the business to facilitate both growth and further increased efficiency. For example, investments in marketing will be made to support customer acquisition and commercial growth in selected markets. We will be making investments in the payment infrastructure and in further enhancing the Financial Markets business. And in line with earlier years, we will also be strengthening the core banking operations in several markets to further improve on delivery of a seamless digital experience for our customers.

A large part of the investments will be offset with structural cost savings. Examples of these cost savings are further branch reductions in several markets and efficiency gains in our KYC process.

ING delivered outstanding financial results in 2023. Slide 23 shows our achievements and summarises our perspective on the outlook for 2024.

To recap: 2023 was an exceptional year with strong growth of primary customers, income growing 16% and a low cost/income ratio of 51%; a further strengthening of our CET1 ratio despite announcing €4 billion of share buybacks and a very healthy return on equity of 14.8%. For 2024, we expect total income to remain strong as we continue to benefit from a normalised interest rate environment. Income may however, likely come in somewhat below the level of 2023, driven by an expected normalisation of the liability margin. Given the operating context and the scenarios described today, which assumes recoveries in loan demand and trading activity, we reiterate our 5-10% growth ambition for fees in 2024.

We maintain our focus on cost control and operational efficiency. In 2024, we expect expenses to reflect the elevated inflation levels that we've seen in 2023. We will continue to make selective investments in the business and together with cost discipline and expected savings from earlier investments, we aim to moderate the growth in total expenses.

Our CET1 ratio will continue to converge towards our target of around 12.5%, and we have capacity to continue providing an attractive shareholder return. We will update the market with our next quarterly results. We aim for a return on equity of 12%.

Going forward, I'm confident that we will continue to deliver robust financial results while successfully executing our strategy.

We will take a longer-term view at our Capital Markets Day in June. By then a more stable rate outlook should help to provide us all with additional colour. We look forward to discussing this with you in June.

And with that, we now move on to Q&A.

Q&A

Operator
Ladies and gentlemen, if you would like to ask a question or make a contribution on today's call, please press star one on your telephone keypad. In the interest of time, we kindly ask each analyst to limit yourself to two questions only. So again, that is star one for your question today. And first up, we have Farquhar Murray from Autonomous. Please go ahead.

Farquhar Murray (Autonomous)
Morning, all. Just two questions, if I may, both kind of digging into the outlook statements on slide 20, if possible. Firstly, you're indicating that the Eurozone replicating income will increase in 2024. Could I just ask: is that driven by volumes? Because I would have thought the replication yield would maybe dip a little bit this year before moving up in 2025.

Then secondly, just following on from that. What is driving the convergence of the liability margin towards 100 bps since – if the replication yield is not coming down – I presume that the deposit rates will be sticky downwards. So which part would pressure the liability margin in 2024? Thanks.

Steven van Rijswijk
I'll give this question to Tanate.

Tanate Phutrakul
Hi, Farquhar. Good morning. I think if you look at our simulation on page 20, we don't assume any volume increases, although we have seen some volume increases. But for the sake of this simulation we don't assume any. And in Q4, we have also seen continued increase in the level of our replication income.

A couple of other points to mention, in particular in Q4: we increased the deposit core rates in the Netherlands and Germany, which are two of our biggest books. And when we increase our core rates, we then reprice our whole savings book. This is something I think you need to take a note of.

As for the future, I think it's not so much that the replicated income will come down. It's more a reflection on the fact that the ECB curve is expected to go down next year by 150 to 200 bps and that the liability margin, which is on the high side at the moment, will converge to the historical average of 100 bps.

Farquhar Murray (Autonomous)
Okay. Thanks.

Operator
Thank you. And our next question now comes from Giulia Miotto from Morgan Stanley. Please go ahead.

Giulia Miotto (Morgan Stanley)
Hi. Good morning. Two questions from me as well. I know that you have given the 2024 NII guidance, but I was trying to ask a question about 2025: looking forward and assuming an interest rate of 2%, is the direction of travel downwards because you think liability margins will go down to 100 bps? Or in fact, given that in 2025 you can cut the deposit remuneration, NII can stay stable or even grow? So this is my first question.

Then on the second question – sorry, let me stick to one. This is my most important question. Thank you.

Steven van Rijswijk
Tanate?

Tanate Phutrakul
Yes. If you look into 2025, it's a question of the different levers that would happen. One, if you look at replicated margin - replicated revenue, there would be further downwards pressure from that in 2025, given the fact that we have roughly half of our replicated book in the bucket of below one year.

But having said that, there are other levers that are at play in our NII line. Number one being clearly loan growth, potentially higher spreads in terms of lending, and deposit growth numbers. So these are also positive impact that would negate to a certain degree.

And then the last one, which, of course we don't give guidance on is what we do in terms of deposit rates offered to our customers, but you would imagine in a lower rate environment, we would start tracking downwards. But that's something for the future.

Giulia Miotto (Morgan Stanley)
Understand. Thanks.

Operator
Thank you. And up next, we have Tarik El Mejjad from Bank of America. Please go ahead.

Tarik El Mejjad (Bank of America)
Hi. Just a couple of questions, please. First, on NII. So to come back to that again. But just to understand really the liability margin dynamics. So now we are at 1.2%. You guide for the full year will be converging towards 1%. But I guess the downward trend will continue into 2025 before we hope to see some improvements in the back end of 2025 when you can start to cut deposit rates. Is that the way to look into it? And then obviously, volumes and asset spreads is another discussion.

And then, secondly on the costs. Thank you. I mean the waterfall chart is very useful, and we can have a nice view on the different moving parts. But when you talk about additional savings, can you discuss a bit more what kind of savings you would be implementing? And should we expect the kind of savings we had in the last two, three years, with exits from some geographies in Retail and some businesses, or will it be more kind of working with what you have and trying to find here and there some better cost efficiency. Thank you.

Tanate Phutrakul
Thanks, Tarik, for that. I think on NII, it's not the right assumption to say that we expect deposit margin to go below 100 bps. There's a number of actions that we would take in that case, in terms of promo rates to customers, in terms of core rate reductions, in terms of deposit growth, variability there. So I think from that perspective, we see the 100 basis point NII as more of a long-term level that we're confident we can manage at that kind of particular level. So that's really the question on NII. Regarding your second question in terms of cost reduction, what's contained in that 2% or €200 million, it's not about the impact of reducing our footprint. It's really about digitising the core operations of ING. And maybe I can call out what some of the big highlights for that €200 million reduction would be.

One would be clearly a reduction of front office staff and branches. That would be one area. The second is the positive impact in terms of optimising and automating our KYC processes. That would be the second. And then the third would be reductions in terms of our tech investments from the previous year. So these would be the three buckets that would drive those cost reduction: its more about digitising the core of ING rather than footprint reductions.

Tarik El Mejjad (Bank of America)
Very helpful. Thank you.

Operator
Thank you. And from JP Morgan, we have Raul Sinha with our next question. Please go ahead.

Raul Sinha (JP Morgan)
Hi. Good morning. Two questions from me, one follow-up and one on capital distributions. Firstly, the follow-up, Tanate. I just come back to this because it seems to be very important. You are indicating that the liability margin, you can maintain at 100 basis points, which you're expecting to hit that level by the end of 2024 based on the forward curve, which implies that there will be further rate cuts in 2025. So essentially, what you're indicating to us is that your liability margin, you can manage around 100 basis points even in 2025, even if you have rate cuts. Is that the fair conclusion?

Tanate Phutrakul
Do you have two questions? Do you want to ask them both?

Raul Sinha (JP Morgan)
Yes. And the second one is just on the capital ratio on the distribution, and this is more for Steven. I mean, I'm sorry to flag this. But the capital ratio has actually increased to 14.7% from 14.5% last year despite your best efforts to get - to reiterate the

target of 12.5%. So I guess the real question is, what are you actually planning around this?

It appears that doing capital return every six months is not enough based on the trajectory you have. So are you thinking about an acceleration? Because you are not mentioning this in your outlook for 2024. Could you even consider maybe moving to every quarter in terms of capital distribution, perhaps including some special dividends if you're not able to buy back quickly enough? Just to get some thoughts on where - what gives you comfort that you can actually reduce the capital target towards the capital target when actually your capital ratio is going up.

Steven van Rijswijk
Thank you very much, Raul, and thank you for calling out the fact that indeed, our capital went up compared to last year from 14.5% to 14.7%. That is correct. That also has to do, of course with the performance. So I can't complain. But it also means because we have said that we want to move gradually towards around 12.5% by end of 2025. We will continue to look at how to optimally do our capital distribution and we maintain the rhythm that we have maintained for the past two years, which is at every six months we will come back.

Therefore, during our first quarter results, we come back to explain what we will do in terms of capital distributions at that point in time, including potential share buybacks.

Tanate Phutrakul
And I'd like to confirm, yes, our view is that we can maintain for the long term an interest rate margin of around 100 basis points on liabilities.

Raul Sinha (JP Morgan)
Thank you.

Operator
Thank you. We're now moving on to our next question, which is Benoît Pétrarque from Kepler Cheuvreux. Please go ahead.

Benoît Pétrarque (Kepler Cheuvreux)
Yes, good morning. So a few questions on my side. I wanted to come back on the slide 20 on the NII outlook. So if I sum up everything, my impression is that your convergence towards the 100 bps is clearly quicker than expected in 2024. Now you will maintain that in 2025. But I'm trying to understand why you expect in 2024 this guidance. Obviously, you expect ECB rates to be cut quite aggressively. And it seems that you expect, well, the core rate, the deposit rate adjustment will be more back-end loaded, i.e. competition forces will play. You might not be able to cut deposit rates as much as you might want in 2024 and the cut might more come in 2025, i.e., allowing you to maintain your liability margin relatively stable also in 2025. So I just wanted to kind of confirm this view.

Also on this chart, I wanted to come back on the lending margin because you assume flat lending margins. And I will expect in the low interest rate environment to see kind of more positive trends on lending margins. So just wanted to check if I missed something here.

And then finally, just a short question on the top line. I think you said it will be somewhat below the 2023 level at €22.6 billion. Can we assume something around the €22 billion just to help us to model the bank? Thank you.

Tanate Phutrakul
I think on liability margin, there's a number of views that you have to take, and this is one possible scenario. And you heard from the Federal Reserve last night that the discount rate could be delayed. So that could be a driving factor. And then as I reminded you at the beginning, half of our replicated portfolio is below one year. So we are driven to a certain degree by what happens to the discount rate by the ECB. So that's a simulation. That's a discussion point.

The second one that you mentioned is what do we expect in terms of tracking speed on the way down. It really depends on how sharp the ECB rate comes down, right? If the ECB brings rate down in a gentle manner, then you would expect that tracking will be slower, but if the ECB bring the tracking speed down in a dramatic fashion, then rates would be - the market will be more open to our faster tracking speed on the way down. I think that will be my opinion.

Then on the lending margin itself, yes, it is an assumption that we have shown here. It's one possible scenario. But one thing that you could already see in Q4 for ING is that the mortgage margin, when rates come down, that margin opens up. So that's a potential different scenario, a more positive scenario than what we've shown here.

And then the last question on guidance on total income, that we do not give at this time.

Benoît Pétrarque (Kepler Cheuvreux)
Sorry Tanate, the tracking speed, just to come back on that. Did you assume a relatively slow tracking speed in 2024 vs. the speed of the ECB rate cuts?

Tanate Phutrakul
Sorry, that we don't give as guidance. But what we say is that we're confident we can manage the liability margin to around 100 basis points.

Benoît Pétrarque (Kepler Cheuvreux)
Very clear. Thank you.

Operator
Thank you. And we're now moving to a question from Sam Moran-Smyth from Barclays. Please go ahead.

Sam Moran-Smyth (Barclays)
Good morning. Thanks for taking my questions. So just the first one. So on the bridge in slide 20, I apologise - every analyst asked a question on this. But just on the Other segment, which includes the MRR, I just wondered if you could outline the assumptions behind that, your modelling increased to 2% and then even further in a scenario where it does increase to 2%. Do you think you could get some kind of dispensation on the fact that you're having to take 1% of gross deposits, which for your business is quite different to net deposits, or should we think about the €8.5 billion doubling if you do go from 1% to 2%?

And then secondly, just on the loan growth assumptions of 4%. Could you possibly take us through the assumptions you have on different geographies and different products, or at least where you see particular opportunities for volume growth? Thanks very much.

Tanate Phutrakul
Thanks, Sam. With regards to the MRR, indeed, we talk about the €8.5 billion, with a deposit rate of 4%. If we don't get remuneration anymore, you get to the €300 million that we have there. If that would now account for 2%, then actually you double that, that means that the 1% goes to 2%, then basically you double that amount. So that means that, that would have an impact of an additional €300 million on our P&L. So that's what it would mean.

And again, they are studying it. We have said already, we find it strange given the fact that the ECB is focused on bringing inflation down with higher interest rates and on the other hand, would charge banks for their deposits. That means that banks would move their deposits somewhere else to the capital markets, and that would then bring interest rates down again. So it will almost be counter intuitive to monetary policy. But let's just see what happens there.

The second one is on loan growth. We see that across the board happening now. If you look at the fourth quarter loan growth of Wholesale Banking of around €3.5 billion, if you extrapolate that to the year, you get to around 4%. That was more or less the average over the last decade or so, excluding the year 2023. So that is coming back. That was actually quite subdued.

And also in the mortgage markets, we see for example the number of houses being sold this year increase, depending on the market, with a number of percentage points compared to last year. In the Netherlands, the number of dwellings sold came down with 6%. In the coming year, we expect that to increase again with 3%. You see that more than half of the offers made is above the asking price, which again shows that it's going to be a sellers' market again. So we see actually growth on all fronts, both on private individuals and mortgages, and in Business Banking and Wholesale Banking.

Sam Moran-Smyth (Barclays)
Thank you.

Operator
Thank you. We're now moving on to a question from Kiri Vijayarajah from HSBC. Please HSBC.

Kiri Vijayarajah (HSBC)
Yes. Good morning, everyone. A couple of questions from my side. So firstly, coming back to the NII guidance, I'm afraid. So the deposit margin assumption. I just wondered, are you baking in another repeat of the aggressive deposit-led marketing campaign you did earlier on in 2023? I know it helped you add to customer numbers. But also you were standing optimistic on deposit volumes. So what have you baked in there in terms of repeating what you did last spring, I think it was primarily in

Germany.

And then second question, turning to the costs on slide 22 and your 3% of the cost growth in that waterfall coming from business investments. I just wondered how should we think about that? Is that to drive those operational efficiencies you show on the same slide? Or is it more about you need those investments to drive the kind of the volume growth assumption, the 4%, or to drive the uptick in the fee growth for 2024? So how do you think about the investment cost growing, adding 3% to your cost base? Thank you.

Steven van Rijswijk
Thank you very much. Look, in terms of marketing campaigns, we will not announce up front that we will do specific marketing campaigns. That's not how it works. But what we have pencilled into our P&L is investments in marketing to grow our customer base. For example, we have a target in Germany to grow our customer base by 2025 to 10 million coming from nine million in 2023. So that is our target. And I am confident to meet it. And that's also why we need to invest in marketing.

And in that setting, there are three buckets, if you will, where we invest. First of all is in growth, and marketing is part of that, but the investments in marketing will be there to support customer acquisitions in selected markets.

The second bucket is to make investments in the payment infrastructure. As you know, we have a top quartile, cost-efficient payment infrastructure. In Europe, we want to get to top decile because then you get more payments on your system and you can broaden your services. And for that, we make investments, and we - in the same bucket – we also make investments in enhancing our Financial Markets business to also being able to diversify further in Financial Markets.

And the third bucket is that we continue to strengthen the core banking operations: our core banking, our cloud, our end-to-end digitalisation journeys. That helps us to gain more customers, helps our customers to become more primary customers and do more with us, but at the same time, also realise those operational efficiencies that you also see on that page.

Those are the three buckets. So marketing, payments infrastructure and Financial Markets infrastructure and strengthening core banking and enter on digitalisation journeys.

Kiri Vijayarajah (HSBC)
Okay. Very good. Thanks guys.

Steven van Rijswijk
Thank you.

Operator
Thank you. And up next, we have Mike Harrison from Redburn Atlantic. Please go ahead.

Mike Harrison (Redburn)
Hi guys. Thanks for taking my questions. Two aspects, please. One on margin, one on capital. The guidance you're giving for the NII outlook, I assume that's predicated on 50% of the replicating portfolio sitting in <1y money. Why this increased from, I think it was 45% last quarter, and it was 40% about a year ago? And what might be the mix of duration mix of the replicating portfolio if rates fall.

And then second, it's just a numbers question really, just on your RWAs. I think your operational RWA grew by €3.5 billion this quarter. Is that the 20 bps standardisation of RWAs flagged in the previous quarter or is that something different? Thanks very much.

Steven van Rijswijk
Sorry, I take the question on operational risk-weighted assets. That is not the 20 bps. That is based on a change in our operational risk-weighted asset model that has caused that change. Sometimes it goes up, sometimes it goes down. You can also see it in previous quarters. So that is not different.

In the end, we will go to standardised model for our operational risk-weighted assets. And that is what that 20 bps is relating to.

Tanate Phutrakul
Then your question on replication, why we are shortening the replication. We basically manage that on interest rate outlook, client behaviour, their sensitivity to kind of rate movements. And given the current rate environment, we just feel that our

models indicate we should be shortening the duration, and that's what happened between Q3 and Q4. So it's more driven by balance sheet stability, earnings stability than any particular interest rate strategy.

Mike Harrison (Redburn)
Okay, so the 50% is based on what rates look like in the fourth quarter, not necessarily what the forward curve with pricing at the end of the year?

Tanate Phutrakul
It's a combination. We run various different interest rate scenarios and also customer behaviour sensitivity to rate movements. So it's a combination of factors.

Mike Harrison (Redburn)
Understood. Thank you.

Operator
Thank you. And we're now moving on to Marta Sanchez Romero from Citi with our next question. Please go ahead.

Marta Sanchez Romero (Citi)
Good morning. Thank you very much. So you're stock is down today almost 9% because of an NII miss that was long in the making, and I think a result of a lack of transparency. So my question is, have you considered improving your disclosure? I'm not sure the information you've given us today is very helpful. And when I see other banks in Europe, they do provide a framework that allows the market to have a better picture about NII trajectory, and there is no disconnect that we are seeing today.

And my second question is on deposits. Can you give us an outlook for deposit volume, deposit growth for your three key markets: the Netherlands, Germany and Belgium? You've lost €1 billion of deposits in the Netherlands. What is the expected trajectory?

And then related to this, what has been the retention rate on the campaign you launched in Germany back in April? Thank you.

Steven van Rijswijk
I will respond on the first question, and Tanate will respond to the second question. Thanks for the feedback. And I think that we have been very clear in what we guide for 2024, and we will always look at what others present us well. So thanks for the suggestion, we will look at it. But for now, I think that the rates are where they are, and I think we were very clear on what that means for 2024. Tanate?

Tanate Phutrakul
And then the reduction in deposits in the Netherlands is more - I think if you're looking at the table, more treasury-related declines, not so much on our core deposit numbers, which are somewhat up actually. And in terms of deposit campaigns in Germany, you shouldn't take that as an indication for what may happen in Germany in 2024. That was an exceptional campaign.

What we can say is that competition for deposits in Germany seems to be coming down in light of what rates are doing and what will potentially happen to rates in this year. So I think 2023 was more exceptional than normal.

Operator
Thank you. And we're now moving on to Johan Ekblom from UBS. Please go ahead.

Johan Ekblom (UBS)
Thank you. Just two clarifications on NII, please. Just first of all, do I understand it correctly that the rate assumptions you've used are forward curves as of the end of December, which would imply needs be at 2.2% or 2.3% at the end of this year?

And then secondly, just on this accounting asymmetry, which I think has caused a lot of the volatility or uncertainty in recent quarters, you make an assumption that it doesn't change from the Q4 run rate. Can you talk a little bit about to what extent that is a kind of simplifying assumption or if that's a prediction of what you think will happen in 2024? Because I think in the past two quarters, you said that it should reverse over time. And I guess, at least my interpretation was that it was in the kind of medium term rather than something that will stay for years and then gradually reverse at some point?

Tanate Phutrakul
On the deposit curve, yes, the simulation was done on the basis of December curve. And then on the guidance on NII and other income that you see in Treasury, we provide more stability now and more guidance on that. And our expectation is that it would remain, during the course of 2024 - but that of course can change depending on whether such arbitrage opportunity would continue to exist or not - for now our guidance is that it would exist in the same pace in 2024. And if that were to change, then obviously you can see that in our quarterly results announcement through the course of this year.

Johan Ekblom (UBS)
Thank you.

Operator
Thank you. And we're moving on to a question from Matthew Clark from Mediobanca. Please go ahead.

Matthew Clark (Mediobanca)
Good morning. Two more questions on the liability margin, I'm afraid. So the first one is to understand, does the liability margin as you presented include the drag from the Treasury rate differential effect? So am I right to think that, that's based on statutory NII? So if you were to give an adjusted liability margin, it would be even higher. Is that the right way to look at this?

And then secondly, this 100 basis point normalised level, how do you get to that? What time period or what's your frame of reference to get to that level? Because presumably you're having to look quite a long way back to find a previous normalised rate environment to base that on. So just to understand where you get your confidence in that 100 basis point end point from, please? Thank you.

Steven van Rijswijk
Okay. On the confidence of the 100 basis points, well, we have been through a number of cycles and have seen that we are able to actually manage it at that level.

Secondly, if you now look and you can also see it in the appendix of the presentation, how much the amount of current account is compared to the number of savings accounts, its still relatively high. So that still means that we have a lot more to - a lot more cushion in that sense.

And thirdly, in the previous cycles, we had a lot more savings-only customers, and now we have a lot more primary customers that are a lot more sticky than we have seen in the past. And that gives us the confidence that we can manage this at 100 basis points.

Tanate Phutrakul
Then to answer your question, Matthew. And I hope I understand your question correctly to say that if we don't have these arbitrage trades in the Treasury line with our NII be higher? And the answer to that will be yes.

Matthew Clark (Mediobanca)
But specifically, it would be in the liability margin.

Tanate Phutrakul
It would be in the liability margin indeed (correction: Treasury accounting asymmetry is in the net interest margin, but not in the liability margin)

Matthew Clark (Mediobanca)
Ok. Thank you.

Operator
Thank you. And as a brief reminder, that is star one for your question today. We're moving on to Hugh Moorhead from Berenberg. Please go ahead.

Hugh Moorhead (Berenberg)
Good morning. Thanks very much for taking my question. Just a quick one on other income. I appreciate that you're assuming stable accounting asymmetry in the 2024 NII guidance. But what sort of assumptions around other income and retaining that €3 billion 2023 figure are in your guidance for revenue to be somewhat lower in 2024?

And then the second one on cost of risk. You're currently guiding for through-the-cycle level of 25 basis points. Is that assumed in your 12% 2024 ROE guidance? And could that level be reviewed as part of your CMD? Thank you.

Steven van Rijswijk
Sorry, can you repeat the second question, please?

Hugh Moorhead (Berenberg)
Yes of course. 25 basis points through-the-guidance cost of risk level, is that being assumed for 2024 cost of risk in your 12% ROE guidance? And could you review the 25 basis point level at your CMD as part of your kind of refresh of CMD targets in June?

Steven van Rijswijk
Ok. Thank you very much. I think clearly, we don't guide for risk costs in a particular year. We also don't do that for 2024. But what we have said is that our risk costs through-the-cycle are around the 25 bps.

Clearly, you see how we're doing on risk costs over 2023. We are quite confident in our loan book and the strength of our assets and collateralisation, also in 2024. That we have factored in, but we have not given a specific guidance for 2024.
Tanate Phutrakul

And then you see that our other income is somewhat elevated in 2023, and I think part of that is the symmetric accounting treatment between NII and other income, but partly is also driven by really strong financial results from our Financial Markets division and Treasury division in 2023. That we don't give guidance on, but just to say that the results in 2023 were very strong.

Hugh Moorhead (Berenberg)
Ok. Thank you.

Operator
Thank you. As there are no further questions in the queue at the moment, I would now like to hand the call back over to you, Mr Van Rijswijk for any additional or closing remarks.

Steven van Rijswijk
Well, thank you very much for your time. Thank you very much for your attention, and the good questions. All the best during 2024. And we look forward to seeing you again soon. Thank you.

Operator
Thank you for joining today's call. Ladies and gentlemen, you may now disconnect.