Transcript Analyst call 2Q2024

Presentation

Operator
Good morning. This is Laura welcoming you to ING's 2Q2024 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 20-F filed with the United States Securities and Exchange Commission and our earnings press release as posted on our website today. Furthermore, nothing in today's comments constitutes an offer to sell or a solicitation of an offer to buy any securities. Good morning, Steven, over to you.

Steven van Rijswijk
Thank you very much. Good morning and welcome to our results call for 2Q2024. I hope you're all well. And as usual, I'm joined by our CRO, Ljiljana Čortan, and our CFO, Tanate Phutrakul. In today's presentation, we'll discuss the strong quarter we had, and I will inform you about how we're progressing on the priorities we set out during our recent Capital Markets Day. Tanate will walk you through the financial quarter and show you how we're performing compared to our targets. At the end of the call, we will be happy to take your questions.

Now let's move to slide 2. Before going through our strong results in more detail, let's start with a recap of the key messages from our recent Capital Markets Day. First, we've shown that our entrepreneurship, our relentless focus on our customers and our collaborative culture have made us a very successful bank, delivering value for all stakeholders. This DNA enables us to capture opportunities in the highly attractive markets where we operate. By executing our 'Growing the difference strategy', we will capture this potential and we will accelerate growth, increase our impact and deliver value for our stakeholders. And I will now take you through how we have done so in Q2.

On slide 3, we show how we are accelerating growth. After a successful Q1, we again had a very strong commercial performance in Q2 with an increase in the number of customers, in lending and in deposits. The number of mobile primary customers increased by almost 250,000, with increases in all countries where we pursue growth opportunities. And with this increase, we've grown the number of mobile primary customers by well over 900,000 customers in the last 12 months, and we're well on track to reach our target of 1 mln per year. We have also grown our lending book with a particularly strong performance in mortgages, where we saw growth across all markets. Growth in Wholesale Banking lending was offset by loan sales, as we continue to optimise capital usage. On the liability side, successful marketing efforts in Retail Banking and a stronger focus on deposit gathering in Wholesale Banking resulted in €15 bln inflow this quarter. Annualised customer balance growth, so that's lending and deposits combined amounted to 6.2% in 1H2024, exceeding the annual target of 4% we set during our Capital Markets Day.

Then I'm moving on to slide 4, and there we show how we're increasing impact for all our stakeholders. After growing by 430,000 in the first half year, we now have 13.7 mln mobile primary customers. This growth reflects the appreciation of our products and services. 65% of our customers now only do business via the mobile, and we're the most loved bank in many markets we operate with a number one NPS in 6 out of the 10 retail markets.

We have a highly engaged workforce, and we're proud that we're seen as a role model in advancing LGBTQI+ inclusion in workplaces worldwide.

The number of sustainable deals has increased further, with €32 bln of volume mobilised in Q2 and €57 bln in H1, which is €10 bln more than last year. In Retail, more than 40% of the mortgage production in the Netherlands has at least an A label. Finally, we are showing excellent financial results for our shareholders. As a result of continued strong profitability, we have announced an interim dividend of €0.35 per share, bringing the year-to-date yield to over 13% already.

Slide 5 lists how we are delivering value. Net interest income remained resilient with an increase compared to last quarter, despite the negative impact of higher accounting asymmetry. Fee income was very close to €1 bln this quarter and we're well underway to reach €4 bln this year. Most of this growth compared to last year was driven by structural increases as Tanate will show you in more detail later.

Risk costs continue to be below our through the cycle average, and we remain comfortable with the quality of our loan book. And this has all resulted in a return on equity of 14%, and we're confident that we will end the year with a return on equity of more than 12%. We have achieved this return while operating at a healthy CET1 ratio. With the ongoing share buyback, we've made further steps converging our CET1 ratio towards our target level and will update the market on next steps with our Q3 results.

Then slide 6, and on this slide, I would like to zoom in on an individual country and show how we're executing on our strategy in Retail Banking. In Romania, we've been the most preferred bank since 2016, and this appreciation of our digital products and services has resulted in strong growth in the number of total customers, and over half of these customers now use us as their primary bank. We've also been able to grow both sides of the balance sheet and make a very healthy return, and we firmly believe we can grow further and make more impact for our customers. For example, we completely redesigned our digital onboarding process that now really stands out in the country. And we've introduced a digital mortgage in Romania with digital financial approval and collateral appraisal. To increase presence in new segments, as we also talked about during Capital Markets Day, we have introduced dedicated value propositions for GenZ, while we renewed our focus on the affluent segment. And we've increased cross-sell within business banking so that more customers use our daily banking packages, which helps to further increase fee income. Overall, Romania is a great example of how we're growing the difference. And now I'll hand over to Tanate who'll take you through the results of Q2 in more detail starting on slide 8.

Tanate Phutrakul
Thank you Steven.

As Steven mentioned in his introduction, net interest income was strong again this quarter and improved QoQ despite a more negative impact from accounting asymmetry. Lending NII increased for the fifth consecutive quarter, driven by higher volumes, while the margin rose by 1 bps. Liability NII continued to be resilient as the expected normalisation of the liability margin was almost fully compensated by higher volumes. The overall net interest margin, which takes the development in the total balance sheet into account, decreased by 3 bps, driven by the impact of increased accounting asymmetry.

Now, if you go to page 9, I'll show you more details on this.

The point I'd like to make here is that the structural drivers of net interest income developed very well this quarter, while reported net interest income increased by €5 mln QoQ. However, when excluding the impact of one-offs and the increased accounting asymmetry, our net interest income actually increased by a strong €65 mln compared to the previous quarter. As you know, the negative impact from accounting asymmetry on a NII is more than compensated by other income. I'll get back on this on slide 12.

On the next slide, we'll show you the strong volume growth in both core lending and deposits. The commercial momentum that we had in the first quarter continued in the second, with strong net core lending growth of almost €8 bln. We have been able to grow our mortgage book in all of our retail countries. This was just not driven by recovery of the market, but also by increasing our market share in some countries.

In the Netherlands, for example, we have grown our market share in new production to over 16% on the back of providing an excellent customer experience. Growth in Wholesale Banking lending was offset by loan sales, as we continue to focus on capital efficiency. On liabilities, we saw core deposits grow by €14.7 bln in Q2, due to strong performance in both Retail and Wholesale Banking. In Retail, we grew across many markets, driven by effective marketing and supported by the inflows of holiday allowances in some countries. In Wholesale Banking, our focus on increasing deposit paid off, with strong inflows in payment and cash management in particular.

Now turning to slide 11. Fee income year-on-year was again double-digit as we made almost €1 bln in fees this quarter. This is a record. The growth was particularly driven by Retail Banking as we were able to grow mobile primary customers, active investment product customers, lifting income from daily banking, investment products and insurance. In addition, we paid lower commissions to independent agents and brokers in Belgium. We also benefited from favourable market conditions that led to higher fees from mortgage brokerage and an increase in the number of investment product trades as well. In Wholesale Banking, fees were slightly lower due to lending that was still at a strong level. Given the strong performance across the bank, we remain confident that we can reach our €4 bln fee income outlook this year.

Now, on slide 12, we show what the developments in the different income lines in H1 mean for our guidance for total income this year. Note that we previously provided an outlook for net interest income, assuming a stable accounting asymmetry, resulting in a range of between €15 to €15.5 bln. However, as this asymmetry remained difficult to forecast, we have now excluded this impact from our outlook. Any impact from accounting asymmetry will be more than compensated in other income. As structural drivers of NII remain strong, we continue to guide for interest income, excluding accounting asymmetry, to end up in the upper end of the range. We are confident that the fee income will reach the €4 bln outlook and as a result, we have increased our total income guidance this year from around €22 bln to more than €22 bln.

Now, on slide 13, we'd like to explain a bit about the cost development. Total expenses in H1 increased by roughly 3% compared to the first six months of 2023. In the same period, expenses excluding regulatory costs and incidental items were approximately 6% higher, which is in line with our outlook for 2024. This increase was mainly because of the impact of inflation on staff expenses, reflecting salary indexation and collective labour agreement increases across most of our markets. We also continue to invest in our business and had to pay a higher VAT following the implementation of the Danske Bank ruling in the Netherlands.

Regulatory costs were significantly lower than last year because no contribution is required to the eurozone Single Resolution Fund for 2024. For the full year, we continue to guide for a total expense base of around €12 bln.

On to risk costs on page 14. Total risk costs were €300 mln this quarter, or 18 bps of average customer lending. Still below our through the cycle average and demonstrating the quality of our loan book. In Retail Banking, asset quality continued to be strong and we benefited from strong improvement in the macroeconomic outlook for house prices. In Wholesale Banking, risk costs included additions to Stage 3 for a number of unrelated existing files. We have also transferred a part of the Russia-related exposure from Stage 2 to Stage 3, reflecting the worsening economic outlook in that country. At the end of Q2, we still have a stock of overlays amounting to €415 mln.

Page 15 shows the development of our CET1 ratio, which was mostly impacted by the ongoing share buyback, which we announced last quarter. CET1 capital decreased by €1.7 bln as the buyback was partly offset by the inclusion of net profit for the quarter after reserving for dividends. RWA increased by €7.3 bln, excluding €0.6 bln of FX impact. CRWA, again excluding FX impact, increased by €7.7 bln, partly driven by an increase in exposure. A temporary increase from quarterly model updates had an impact of €6.5 bln, of which the majority will be reversed before year-end. This temporary increase has no impact on our capital outlook.

Changes in the profile of the books resulted in a decrease of the CRWA by €2.1 bln. ORWA was stable. MRWA decreased by €0.4 bln. The interim cash dividend of €0.35 cts per share will be paid on the 12th of August, and we will update the market with our Q3 results on the next steps in converging our CET1 ratio towards our target levels of around 12.5%.

Then finally, on to slide 16.

As Steven and I have explained today, executing on our strategy has resulted in a very successful first half year with good commercial and financial performance. Mobile primary customers increased by 430,000 as more and more customers choose us as their primary bank. An increasing number of customers are using mobile as their preferred channel. Total income increased with strong NII, double-digit fee income growth, and we have updated our outlook for total income for the full year to end up above €22 bln. The development of operating expenses was in line with our outlook, while regulatory costs decreased significantly compared to last year. CET1 ratio continued to be high at 14%. Our 4-quarter rolling average return on equity remains very attractive at 14%, and we're confident we'll be able to provide an ROE of over 12% for the full year. Now on to the Q&A. Over to you, operator.

Q&A

Operator
Thank you. Ladies and gentlemen, if you would like to ask a question, please press one on your telephone keypad. And in the interest of time, we kindly ask each analyst to limit yourself to two questions only. Thank you. We will now take our first question from Benoit Petrarque of Kepler Cheuvreux, your line is open. Please go ahead.

Benoît Pétrarque (Kepler Cheuvreux)
Yes. Good morning, gentlemen. Thanks for taking my questions. So the first one will be on net interest income. Looking at the 2 main moving parts, so lending NII and liability NII. Although lending NII, obviously, very strong growth on the volume side, it sounds that you, or at least, I am more positive on the lending NII development going forward. Are you also a bit more positive

on lending volumes for the rest of the year and also on lending margin developments? That will be the first sub-question on NII. And then on NII again, on page 22, you provide a very interesting sensitivity. Last quarter, you told us that based on the curve of end of March, you expect to be between 100 and 110 bps on the liability margin. I see a delta based on the current curve of €600 mln on interest income from the replicating income in 2026, which will be about 9 bps on the total customer deposits.

So my question is, based on the current curve, are you maybe a little bit more also positive on this range of 100-110 bps? Are we more likely to be on the high end of this range based on the current curve? That's the question. And then, just a very tiny question on the asset sale. So well, the Wholesale book is down by €1 bln, but how much is the kind of effect of the asset sales in, say, Q2 or H1 2024? I just wanted to get the full picture on an underlying basis. And also you talk about SRTs in the past and just wondering where you are on that. Thank you very much.

Steven van Rijswijk
All right, thanks. I will do the one on asset sales and NII, and Tanate will talk about the graph on page 22. Talking about the NII, I think we also are quite positive. And if you look at the volumes in mortgages, to start with, the volumes were good. You also saw, if you look at the market share of the new production in the Netherlands, it was 16% and higher, where our total market share is around 13%. So we're doing very well. That also has to do, by the way, with the strength of our digital channel and interaction with our brokers. So we're doing very well. I'm very happy with that. You also, by the way, see it in our number 1 NPS position in this market. And also you see gradually increasing volumes in Belgium and Germany. And those markets are recovering a bit slower on the mortgage side. So they are still quite some way off of where their mortgage sales or house sales were in 2022 and 2021 and before that time. So that recovery is slower, but also in that slower market, we're doing well. So that gives us also confidence for the future.

In Wholesale Banking, we saw also lending growth, but we also have a number of underwrites and loan sales. And therefore, I link question 1 and question 3: we had about €2 bln in loan sales this quarter and therefore you see the total going down. But we also have a number of committed facilities which are undrawn. So we grow, but you don't see it in the numbers because it's not drawn at this point in time. But we see in our pipelines of deals that the market is becoming stronger. So from a volume point of view, we have a positive viewpoint based on what we see, the market shares in the market and how the market in mortgages and Wholesale Banking are recovering. If you look at the margins, in Wholesale Banking, you already see a bit of margin expansion, ok? it's only 1 bps, but it gives at least- it has been stable- but you now see the growth is coming back. When liquidity in the market should become a bit lower with quantitative tightening, that should have a positive impact on it. Let's see where that goes. But we saw, at least for this quarter, a limited increase. And the deposit margin is holding up well in line with what we expected. But I'll let Tanate talk about page 22.

Tanate Phutrakul
Thank you Benoit. We wanted to provide this mechanical replication of the yield curve for the eurozone deposit book. I think this is one determinant of where our NII for liability will go. But I think there are 3 other developments. I think volume is clearly one in terms of deposits. And you can see that we are quite optimistic about our momentum in terms of volumes, given what we see in Q1 and also Q2. It will also be determined by the mix of our deposits between term deposits, savings and current account. And what we also saw is that the migration from current account to savings account has stopped, right. So that is a clear trend line, which is also positive for NII liability. And the third is the deposit rate itself. And that of course we do not give forward guidance, but we reaffirm the guidance that going into 2025, the liability margin should be between 100 bps to 110 bps with some of those positive momentums that I mentioned.

Benoît Pétrarque (Kepler Cheuvreux)
Thank you. Thank you very much.

Operator
Thank you. And we'll now move on to our next question from Giulia Miotto of Morgan Stanley. Your line is open. Please go ahead.

Giulia Miotto (Morgan Stanley)
Hi. Good morning. Thank you for taking my questions. The first one, I want to stay on the same topic and double-click on the margins by country. Is it correct that Belgium is still under pressure probably on lending and deposits, whereas Netherlands and Germany look better or any further colour that you can give us by country would be welcome. And then my second question is that goes on a different topic, capital. The €6.5 bln temporary model increase. Can you give us a bit more colour there? What are those and why are they temporary? Essentially how do you then offset them? Thank you.

Steven van Rijswijk
On the margins, I will take that question and Ljiljana will take the one on the €6.5 bln temporary increase. It is true that in

terms of the countries, if you look at mortgage margins, that they are better in the Netherlands and Germany than they are in Belgium. So what we clearly do, of course, is when we look at pricing of our products, and of our services to our customers, we look at where we make the right return on it, and we're a return-focused bank. And if we are able to make a return that meets our internal return hurdles, then we'll do it, and if not, we don't. And that's also, if you look at the expansion of the mortgage book, you see a significant expansion in the Netherlands also as a result of the fact that it's an attractive market. But I must say that also the mortgage markets in Belgium and Germany are still a bit slow, so there is some recovery, but not to the tune that we have seen in the Netherlands already, which is now already back at the level of house sales as of 2022. That's where we currently are.

Ljiljana Čortan
Good morning, Giulia. On the models, yes, we have seen a temporary increase this quarter, which is a bit higher than usual of €6.5 bln. And we say majority of it will be reversed before the year end with no implications for our capital outlook. And what do we mean with that? You know that we execute, in line with our ING model roadmap strategy, every quarter the model updates. In some quarters it goes up or down, depending on the timing of the changes taken, but as well on the timing of the mitigating actions that are being taken in parallel, in order to work on that impact. What we have seen in Q2 is the negative impact that you've mentioned. However, most of it will be taken through different mitigating actions, primarily risk transfers that we use in order to come to the structural level of RWA that we will operate at. If you look, for example, in the last six quarters, you will see a net impact of our model changes of around €1 to €1.5 bln, which is the proof that we actively manage our RWA throughout the year, in which some quarters might have the upticks due to these changes, but then in the others, given risk-mitigating actions in place, they're going down.

Giulia Miotto (Morgan Stanley)
Ok, thank you. So if I understand you correctly, these negative €6.5 bln impact will be offset by SRTs, is that correct?

Ljiljana Čortan
Not just SRTs, there is a number of others, I would say actions, which are insurance policies, derivatives hedging. So different risk transfers, mitigations. And yes, largely it will be offset.

Giulia Miotto (Morgan Stanley)
Okay, perfect. Thank you very much. And if I can go back on the margin question. Anything on the deposit margin by country? Thank you.

Steven van Rijswijk
I give this to Tanate.

Tanate Phutrakul
I think as I mentioned already, Giulia, deposit margin is depending on volume and on mix to be clear. And the mix, I think we have seen favourable developments in terms of stabilisation of current accounts. So I think that's good on the mix. And I think in Q2 we had such high inflows of deposits. So it moved the net interest margin down a little bit. We had quite big promotions in Germany. So I think I just repeat the key drivers replicated income volume growth and mix, those are the key drivers for margins. But we stick with our guidance that we expect net interest margin for liability for this year to be above 110 bps, and that it will be in the corridor of around 100 bps to 110 bps going forward.

Giulia Miotto (Morgan Stanley)
Thank you very much. I was looking for more like comment by country, if you have any, if any country is looking differently or if these trends are sort of similar across countries.

Tanate Phutrakul
I think limited change per country. What I can say is that the margin is actually expanding somewhat in the non-Eurozone countries where interest rate environment are somewhat more favourable for us.

Giulia Miotto (Morgan Stanley)
Thank you.

Operator
Thank you. And we'll now move on to our next question from Tarik El Mejjad of Bank of America. Your line is open. Please go ahead.

Tarik El Mejjad (Bank of America)
Hi. Good morning. 2 quick questions please. First, follow up on the liability margins. One of the moving parts is the pricing on deposits. I understand you can't comment, it depends on competition and other factors. But can you, in your 3 main Eurozone retail markets describe a bit the dynamics there in terms of competition and pressure on pricing? And the second question is on costs. I understand your approach on costs, which has been very kind of continuous and looking for opportunities to optimise costs as it goes. But what are the areas we could potentially look for in terms of finding some levers to offset the sticky high inflation in costs and help the jaws? And maybe you can just confirm that despite, I mean, looking at your guidance for costs and revenues, we should expect still negative jaws this year and negative jaws next year, with potentially slim to slightly improving in 2026? Thank you.

Steven van Rijswijk
All right. The cost question goes to Tanate and I will say something about the liability margin. First of all, like Tanate already said, the margin is holding up well and there are different price points. So in the Netherlands, the base deposit rate is relatively high, and it is a bit lower in Belgium and in Germany. But there you still see in Belgium they work with loyalty premiums, i.e. the longer you stay as a depositor in Belgium, the more you get. And Germany, they work with marketing actions. So what we currently see, and you see it in the past quarters, is that we, of course, look at our own products, our own balance sheet, and we also look at how to grow in a profitable way our primary customers. And that's how we are also looking at deposit gathering. Now, what we therefore especially see in Germany, is that with marketing actions, and we saw it in Q1 again, as we have done it in Q1 also last year, or maybe it was April last year, that we started a marketing action at the right point in a profitable way, by which we got a significant amount of deposits in. And that's how we continue to look at how we balance growth of customers, profitable growth of customers with balance sheet management and with getting more deposits in the bank. And I see a bit more action in Germany than in Belgium and in the Netherlands.

Tanate Phutrakul
Then question on expenses developments. As we kind of highlighted on page 13, we do expect that the cost development for this year to be around 3%, a combination of regulatory expenses and operating expenses. We do expect that if you look at the first half of the year where the increase in business growth comes from, some of the big buckets are really, as we mentioned on our Capital Markets Day, we have increased the level of customer acquisition costs. These include front office staff, marketing expenses to acquire customers, and you see that the volume of new primary customers is developing nicely. This would be one of the big principal drivers of business growth that we see. And you're right that we don't take restructuring provision on a program basis but as they come. And in this quarter, we took around €34 mln restructuring provision for a restructuring in Belgium, which is related to a reduction of our operational staff levels. To give you the comfort about the outlook for the future, if we stick to our CMD guidance, which is that C/I ratio is ready to rise to around 54% next year and gravitate back to 2027 of around 52% to 54% C/I ratio. So those would be re-affirmation of our guidance of the CMD.

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

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

Sam Moran-Smyth (Barclays)
Hi. Good morning. Thanks for taking my questions. So, 2 questions on, I guess, either side of the balance sheet. So on assets, net core lending this quarter, when annualised, was above your 4% annual growth target, but also significantly above eurozone growth. When you talked to Benoit earlier, you commented on the core retail markets. So Netherlands, Belgium, Germany, but it looks like the highest relative growth this quarter was actually in your challenger markets. So perhaps you could give us some colour on which markets you feel you're taking most market share and where you expect that to continue. And then my second question is on the liability side. You mentioned a couple of times your marketing campaigns in Germany. I appreciate the latest campaign started in Q1 and went into Q2. But when I look at net core deposit growth in Germany this quarter, it was actually quite subdued compared to other quarters where you've had those promotions. So should we think about that as a net number where you have had inflows but you've also had outflows? And if so, are those outflows going to competitors, or are they going into asset management products or a bit of both? Any colour there would be really appreciated. Thank you.

Steven van Rijswijk
All right. So, maybe on the marketing campaign in Germany that led to a big inflow in Germany of €11 bln in Q1. I was talking about that in the context of the Q1 inflow in Germany that was €11 bln. And indeed, it has not those levels in Q2 because we did not do a marketing campaign this quarter. That was last year where we did the marketing campaign in April, which then led to an inflow of, I believe, from the top of my head, €16 bln. So, this quarter is actually a deposit inflow all around in the various markets. And depending on at which point in time we want to again push the pedal to grow our customers, we'll do

new marketing campaigns, but I cannot say anything about that. But now, you see actually an increase of deposits across the various markets in which we operate. And there was a bit of a static on the line, but I believe the first question was about where do you see most growth in markets in lending? Is that correct? Can you repeat that question, Sam?

Sam Moran-Smyth (Barclays)
Yeah, specifically in reference to your challenger markets.

Steven van Rijswijk
So the challenger markets. Well, I mean, also there we see a significant growth in most of the markets, but we also see a return of the market in Poland, whereby the economy is gradually improving again. And there we see particular growth coming in that market as well, so next to the Netherlands that we saw is very strong. Gradually markets coming back in Belgium and Germany, but not to the level that we had yet seen a few years ago. We see a return of the growth in Poland and we see also Italy doing particularly well.

Sam Moran-Smyth (Barclays)
Thank you. If you don't mind, if I could just quickly follow up on German deposits. When you talk about marketing campaigns, if I was to go on your German retail banking website right now, I can still get I think it's 3.3%. So the promotion is still there, but are we talking more specifically about actual marketing rather than just a higher bonus rate? Just to clarify. Sorry

Steven van Rijswijk
What we did, we talk about when there is a marketing campaign. So that means that you are allowed to get a certain interest rate for a certain period. And when we talk about the campaign itself, it is about the start of that campaign, the start when we start to offer something new for a certain period that is when you see a big increase in deposits flowing in.

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

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

Benjamin Goy (Deutsche Bank)
Yes. Hi, good morning. 2 questions please. So first on cost and thank you for the breakdown of the cost inflation. Now, we have seen your 2 largest markets, you have essentially seen the CLAs of the sector of key competitors. So wondering if you can help us a little understand how your cost CAGR looks throughout the plan, whether it's slightly elevated initially given the CLA. And then, secondly, on the deposits, and particularly if you can share a bit more colour on the current accounts, which were nicely up QoQ: is that in the by-product of these savings campaigns, that people also bring over current accounts and use them more frequently or how can you frame the growth here? Thank you.

Steven van Rijswijk
All right. I'll do the current accounts question and Tanate talks about costs as he typically does. So, if you look at the current account growth, then indeed, part of it, is just growth of new customers coming in. And you see, 250,000 mobile primary customers and with these customers, we do more. And they also typically keep more money on our accounts. But also, we have a current account growth on the back of holiday allowances, amongst others, in the Netherlands and Belgium and Spain, but also we had a campaign in Italy this quarter as well. So that's what caused it as well. But typically, holiday allowances cause current accounts to go up. The flip side of it is what we typically also see in the third quarter of the year, is that you see an increase of transaction fees in Q3 on the back of the holiday period, because then people start to spend that money, typically in our case by way of credit card fees. So that will then have a positive impact on the transaction fees. That's what we have seen over the past years. So, Q2 increases due to holiday allowances, Q3 increases in credit card usage because of the holidays.

Tanate Phutrakul
Then in terms of costs, particularly the collective labour increase, we do see the delayed impact in terms of wage inflation and that you had mentioned we watch our competitors in a number of markets like Germany and the Netherlands. So we do expect that the cost increase in the short term so 2024/2025 to remain sticky, but that the normalisation in terms of wage increase to become more prevalent in 2026/2027, indeed. So more uptick in the first part of our planning period and more normalisation in the back end.

Benjamin Goy (Deutsche Bank)
Understood. Thank you.

Operator
Thank you. And we'll now move on to our next question from Anke Reingen of RBC. Your line is open. Please go ahead.

Anke Reingen (RBC)
Thank you very much for taking my questions. The first is on the slide 22. Again, I'm sorry for following up. But in 2025, the €500 mln step up in the replicating portfolio income: why should it not be a similar step up in the guidance you gave on the deposit cost? Is there anything that would make the headwind larger so it's not a €500 mln step up? And then secondly, on the loan volume growth, I mean, it's really quite impressive and you mentioned market share gains. Can you elaborate a bit about what you're doing to grow faster than the competition? Thank you very much.

Steven van Rijswijk
All right. I'll talk about loan growth, Tanate talks about page 22. Well, I mean, in the end, I think we always highlighted that it's a matter of customer experience. What we do is we build very strong channels. Like we talked also about Romania, for example, where we said we have a digital approval or digital collateral evaluation, and it just means that we continuously work very diligently, very focused on lower time-to-yes, and lower time-to-cash. So how long does it take when you get an approval, how long does it take when you get your money? And in Netherlands, we have with our brokers, and the broker channel is the largest channel for mortgages, the time-to-yes less than 24 hours, which is just very good, and I think it's the best in the market. You also see, and I don't know where you come from, but in Germany, also there, it's being sold a lot through brokers. But also, you see that in the way that we do it with our clients, we continuously work and do that fully digital as far as we can as far as law permits us to do so. So in the end, it's creating an environment where there is more certainty for customers in a quicker and less friction type of way. So easy, instant, personal relevant. That's the name of the game and that's just hard work every day.

Tanate Phutrakul
Then in terms of the step up on page 22, that's the replicated income. And I think the other legs of it, which we don't, we cannot disclose, is what happens to customer rates. But we do give on that page a sensitivity analysis, right, that every 10 bps of pass through has an impact of around €400 mln on NII. So that's the second leg. The only thing I would describe is that competition for deposits, from what we see in Q2 has remained benign, right, that we are able to gather quite significant volume in many markets that we operate in. So those are the missing pieces that you need to make your judgment. What is the outlook in terms of competition, in terms of retail deposits, and what tracking do you assume in your model.

Anke Reingen (RBC)
Thank you very much.

Operator
Thank you. Once again, as a reminder, if you would like to ask a question, please press Star 1 on your telephone keypad. Thank you. We will now move on to our next question from Hugh Moorhead of Berenberg. Your line is open. Please go ahead.

Hugh Moorhead (Berenberg)
Good morning. Thanks very much for taking my questions. One on fees and one on risk costs, please. So firstly, on fee income, strong performance in insurance this quarter. Is that sort of should we see that as being driven by a one off like a marketing campaign, for example, or are we seeing a bit more of a structural recovery in that business? If you could just give a bit more insight, that would be great, please. And then secondly, on loan losses, I think cost of risk this quarter, excluding the overlay write back is 25 bps, a bit above your through the cycle guidance. How should we view this quarter in terms of risk cost normalising? How are you guys thinking about the evolution of the overlay as the quarters come? For example, will you write that, will you sort of continue to use the overlay to keep cost of risk at around 20 bps? And also finally, sorry, are you able to quantify the Russia impact of the transfer of the Russia exposures from stage 2 to stage 3 as well, please? Thank you.

Steven van Rijswijk
All right. So I'll give the question about the risk overlays and Russia trends to Ljiljana and I'll talk about fees. That makes my job fun. So well, I mean, there are many reasons why our fee performance is strong. It starts with getting more customers in the bank who do more with us. And we have YoY, we have about 900,000 new mobile primary customers. And this quarter it was about 250,000 new mobile primary customers. Then it's about them doing more with us when they're in the bank. So if you look at the investment accounts, we increased, and I talked on the Capital Markets Day, we have approximately 4.5 mln investment accounts on a total of approximately 40 mln customers. So that's only let's say 11%. So there's nothing wrong with it, but that means there's a lot of upside. And that grew over the past year with 8% and this quarter with 3%. Then in insurance, because we do more and we also made specific agreements with insurance providers in different markets for private individuals, but now, also starting in business banking, still relatively small. We also now are selling more bespoke insurance products to our customers, which we did not do in the past. So we start from a very low base. And as I said previously, there

is a lot more we can do with our customers. We just need to offer it to them and start offering it to them, which we started to do also a bit more in insurance fees and that's why you see the increase coming from. And the same goes for daily banking, where in some countries there were some increases in price packages. And then on top of it, and that's more let's say the beta side of the story, and like I told you, there is some recovery in the mortgage markets in the various markets, and also in Germany and Netherlands. And therefore you see that we have a bit more mortgage fees than we had in the previous quarter. So that's gradually recovering back. But a lot of things have to do to summarise, by just doing more with our customers and offering more bespoke solutions to them in the fields of investments and insurance. Ljiljana, risk costs.

Ljiljana Čortan
Hello and good morning. Yes, the risk costs were €300 mln or if we look at the net amount, it's 18 bps all through the cycle. Overlays are being made when we believe our models are not able to capture fully the risk that we see in the environment, and they have to be used once these risks happen or they have to be released if we don't see these risks happening. So also the average calculation of through the cycle risk costs includes always overlays. When it comes to the specific Russian impact this quarter, you have seen the uptick, I would say in Stage 3 provisions. And from Russia, that uptick is approximately €133 mln on the side of the Stage 3, so that's why it increased. However, there is as well a partial offset on the Stage 2 impact. Net impact on Russia is €39 mln additional risk costs this quarter.

Hugh Moorhead (Berenberg)
Great. Thank you very much.

Operator
We will now take our next question from Farquhar Murray of Autonomous. Your line is open. Please go ahead.

Farquhar Murray (Autonomous)
Morning, all. Just 2 questions if I may. Firstly, just coming back on the model updates, the €6.5 bln of RWA: which parts of the model or lending books did that come from? And in terms of the separate mitigating actions, should we expect a cost from loans? And then secondly, as we move into a cutting cycle, what's ING's philosophy going to be on deposit pricing? I think on the way up you characterised it as slow follower. Is ING willing to move the other way on the way down? Thanks.

Steven van Rijswijk
All right. I take that question on the policy cycle or the cutting cycle and then Ljiljana talks about the model updates. I mean, clearly, we cannot say anything about our strategy in terms of our deposit rates going forward. Clearly, indeed, depending on whether we grow and want to grow in customers and make our income there, it's an economic position we take on it. So in the end, it's a balancing between do we want to have more customers in total, because when we have more customers we make more money, or do we have an impact by leaving rates as they are or lowering them and therefore make more money on less customers? And that's just an economic equation, which we continuously calibrate. We have been in a period whereby rates moved up very quickly, and then at some point competitors are starting to move. And there, we have seen that the markets where we typically see as a challenger, we grow our customers very quickly. We start with marketing actions and sometimes rates are higher but quicker to get those customers in, and the market where that is not the case, we keep it much more stable. And we are in a good position in practically all the markets in which we operate. So, we will be nimble in terms of our approaches, depending on where we want to grow and where we want to be stable in terms of our share or our total balance sheet, and that's how we take it. That's all I want to say about that going forward.

Ljiljana Čortan
Good morning. On the model updates, yes, the update comes from actually various models, but the majority comes from the low default portfolio in the Wholesale Banking space.

Farquhar Murray (Autonomous)
And is there any cost to the mitigating actions?

Ljiljana Čortan
There are risk transfer mitigating actions. As I said, those are the low default portfolio. So there is a number of instruments available also in the market and internally to manage those.

Steven van Rijswijk
The question is are there costs to the mitigating actions?

Tanate Phutrakul
We look at it as three parts of a pyramid, right. We look at revenue trajectory, risk cost, sorry, RWAs and return on equity, and

we will find a way to optimise. We expect the impact from a revenue perspective to be minor in terms of managing our RWAs on this particular point.

Farquhar Murray
All right. Thanks very much.

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

Steven van Rijswijk
Good. Thank you very much for listening in and for the call on 2Q2024. I wish you a great summer. I hope that you still have some time to take some time off and go on holiday, and I'm sure we'll speak again on Q3. Thanks very much.