Transcript Analyst call 3Q2024

Presentation

Operator
Good morning. This is Laura welcoming you to ING's 3Q2024 Conference Call. Before handing this conference call over to Steven van Rijswijk, Chief Executive Officer of ING Group, let me first say that today's comments may include forward-looking statements, such as statements regarding future developments in our business, expectations for our future financial performance, and any statement not involving a historical fact. Actual results may differ materially from those projected in any forward-looking statement. A discussion of factors that may cause actual results to differ from those in any forward-looking statement is contained in our public filings, including our most recent annual report on form 20F filed with the United States Securities and Exchange Commission and our earnings press release as posted on our website today. Furthermore, nothing in today's comments constitutes an offer to sell or a solicitation of an offer to buy any securities. Good morning, Steven, over to you.

Steven van Rijswijk
Hi. Good morning and welcome to our results call 3Q2024. 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, I will inform you on the progress we have made on the strategic priorities we have set during the Capital Markets Day earlier this year. This progress has resulted in another strong quarter and enables us to improve the outlook for the remainder of this year. Tanate will walk you through the financials of the quarter and provide some insights into our expectations for the margin developments going forward. At the end of the call, we will be happy to take your questions.

And now let's move to slide number 2. This slide shows how we have continued accelerating growth. We again had a very strong commercial performance this quarter, with a further increase in the number of customers and client balances. In addition, our total income has reached the highest level ever in 3Q2024. Our continued focus on providing superior value for our customers has again proven to be a key differentiator. This quarter, the number of mobile primary customers increased by 189,000, with more customers choosing us as their primary bank in almost all of our countries. In the last 12 months, we have grown the number of mobile primary customers by around 900,000, and we feel comfortable that we will sustain and even accelerate this strong growth trajectory.

Our lending book grew by €9 bln, with particularly strong performance in mortgages. In the Netherlands, we have been able to significantly increase our market share in new production, mainly as a result of our focus on digitalisation and our flexible operations. And this is a clear example of how we increase impact and deliver value for our customers. In Wholesale Banking, growth in Lending and Financial Markets was partly offset by ongoing efforts to optimise capital usage.

And then, on the liability side, a successful campaign in Belgium, which brought in €5.5 bln of deposits, and growth outside the Eurozone, were partly offset by seasonal outflows and the end of a campaign in Germany. The strategic focus on growing deposits in Wholesale Banking resulted in a net inflow this quarter as well. Annualised customer balances growth, so lending and deposit combined amounted to 5.3% in the first 9 months, exceeding expectations of 4% that we set during the Capital Markets Day. And finally, and as mentioned, total income was at a record level this quarter with fee income more than €1 bln for the first time.

Slide 3 elaborates on how we are increasing impact. As highlighted in the previous slide, we have again seen growth in the number of customers, which shows their appreciation for our products and services. We are the most loved bank in many countries we operate in with a number 1 Net Promoter Score in 5 of our Retail markets. We continue investing in further digitalising our product offering and this quarter we have rolled out our One App to business banking clients in Germany. As employees are our most important asset, we work hard on further improving the employee experience, and we're proud that we've been recognised as a top employer in 5 European countries.

In September, we have published our Climate Progress Update, in which we highlight the progress that we have made in putting sustainability at the heart of what we do. We have €28 bln of sustainable volume mobilised in 3Q2024 and €85 bln in the first 9 months, which is 15% more than last year. The number of sustainable deals has also increased further. We have, for example, provided €250 mln of financing to the National Heat Fund in the Netherlands, which provides loans with the aim to make homes and other buildings more sustainable. On the next slide, I show how we are delivering value for our shareholders.

So let's move to slide 4. Here we highlight that our capital generation was again very strong with a 4-quarter rolling return on equity of 13.8%, while still operating at a CET1 ratio of 14.3%. This has allowed us to consistently distribute cash and deliver value to shareholders. And today we announce another additional distribution of €2.5 bln, thereby providing an attractive return of 17% this year. €2 bln will be returned in the form of a share buyback starting today, which will have a further structural positive impact on both earnings and dividends per share going forward. And in addition, we will pay a cash dividend of €500 mln in January 2025 to meet the cash hurdle in 2025. Note that this hurdle will increase to approximately €3.5 bln next year, which is a significant step up versus the hurdle in 2024. And as we continue to generate capital, we are confident that we can also continue providing attractive shareholder returns going forward. We will update the market on next steps with our first quarter results next year as per our normal rhythm, i.e. every 6 months.

And then we move to slide 5. As we did last quarter, I would like to zoom in on one individual country and show how we are executing on our Retail strategy. With an income of around €2 bln, ING Poland is one of our largest franchises and with a strong presence in all segments of the market (Private Individuals, Business Banking, Private Banking, Wholesale Banking), we are an integral part of society. The bank is highly successful with a large and growing number of customers, a favourable development in market shares in various products and strong profitability. And our high level of digitalisation and our focus on offering superior value for customers is visible in their appreciation of our products and services. In that, we are consistently amongst the most loved banks in the country, have been awarded being the best private bank in the market, and we have a leading position in the Business Banking sector.

Our customer balances have grown with a CAGR of 9% since 2019, and Poland is a significant contributor to ING's fee income and profitability. We firmly believe we can grow further and make more impact for our customers. To increase presence in new segments, we have for example, introduced new value propositions and enhanced existing product offering for Gen Z and Business Banking clients. Our Polish franchise is a true example of how we are growing the difference.

And then moving to the next slide. I would like to highlight the progress that we have made in our aim to be a leader in accelerating the low-carbon transition. Society is in a race against time when it comes to climate change. We believe that we can make a difference with how we steer our lending in alignment with science-based and sector-agreed de-carbonisation pathways, which we call our Terra approach. In the past year, we have expanded our approach to include aluminium and dairy sectors. And for the aluminium industry, we have co-developed standards which are designed to enable banks to measure and disclose their financial aluminium-related emissions and help them align financing decisions with their own decarbonisation targets. Earlier, we also co-developed the standards for the steel and shipping industries.

We have also made great strides with our client engagement approach. We have put a data-driven assessment and decision-making process in place that has led us to step up in how we advise and support Wholesale Banking clients with sustainable business transformation. And we've also expanded our oil and gas policy. In addition, we will stop all new financing to pure-play upstream oil and gas companies that continue to develop new fields. In addition, we have decided to stop providing new financing for new LNG terminals after 2025. And I'm very proud of the progress that we've made and are making. At the same time, there is much more to do for us. And we want to work with all stakeholders and everyone who is driving progress, bringing impactful change to the areas where it most needs to happen.

Then we move to slide 7. I would like to highlight again that executing on our strategy has resulted in a very successful first 9 months of this year, with good commercial and financial performance. This progress on our strategy execution also allows us to improve the outlook for the remainder of the year. And we now expect total income to end up above €22.5 bln up from more than €22 bln previously. We keep our outlook for total costs unchanged at around €12 bln, which means that we expect a cost-income ratio to come out lower at around 53%.

And finally, the return on equity is forecasted to be more than 13% for the full year. And now with that, I will hand it over to Tanate, who will take you through the results in 3Q2024 in more detail, starting from slide 9.

Tanate Phutrakul

Thank you, Steven.

I'd like to start on slide 9, where we show the development of total income, which reached our highest level ever this quarter. Total net interest income was impacted by Treasury results, but the core net interest income lines consisting of lending and liability NII, are resilient. I'll share more insights on the specific driver in the next slides. Fee income has increased for the third consecutive quarter and is now more than €1 bln. Financial Markets continued to show good performance as well. The biggest growth this quarter came from other income, which benefited from the receipt of our annual dividend, from our stake in the

Bank of Beijing, and a one-off profit from an associate company that we have invested in.

On the next slide, slide 10, we highlight our sustained commercial momentum, with strong net core lending growth of around €8.5 bln. We have been able to grow our mortgage book. Growth was achieved in all of our Retail countries, partly driven by supportive market developments but also by our ability to gain market share.

On the liability side, we saw core deposits increase by almost €3 bln in 3Q2024 due to strong performance in both Retail and Wholesale Banking. In Retail, growth was particularly coming from Belgium, mainly driven by a successful marketing campaign which brought in €5.5 bln. This inflow exceeded the €2.6 bln outflow we saw last year when customers bought bonds issued by the Belgian government. In the Wholesale Banking sector, growth reflected our continued momentum in strategic initiatives in PCM and money markets.

The key point on slide 11 is that the decrease in net interest income was driven by volatile items in Treasury-related income, while the core drivers of net interest income were resilient in this quarter. Liability NII actually increased by €15 mln, driven by higher volumes at stable margins. Lending NII was slightly lower as volume growth did not fully compensate for the decrease in margin, especially in the Wholesale Banking segment. We did not have any one-off this quarter, and the impact of accounting asymmetry decreased somewhat compared to last quarter. On the next slide we will show the development of the margins.

On slide 12, you can see that the liability margin was stable this quarter, supported by lower average deposit costs and the tailwind from the longer duration in our replicating portfolio, which offset the decrease in short-term rates. The movement in lending margin this quarter is explained by Wholesale Banking due to growth in a low-risk segment, and some one-offs in the previous quarter. The overall net interest margin, which takes the development of the total balance sheet into account, decreased by 7 bps, mostly driven by lower Treasury related net interest income. Overall, the net interest income in 3Q2024 supports our outlook for the upper end of the €16.1 to €16.6 bln range for the full year 2024.

Slide 13 illustrates our ability to maintain a strong liability NII also in a lower-rate environment. The graph on the left shows the forward curve as per the end of September 2024 compared to the end of June, with rates coming down quite significantly. Forward curves are volatile and today again look somewhat higher than at the end of September. However, for the sake of simulation, we have used this quarter-end forward curve. You can see the impact of this development on our gross replicating income in the graph in the middle of the slide. Despite this pressure on replicating income, we remain confident that we're able to manage our liability margin at a level of between 100 to 110 bps, whereby we expect the margin in 2025 to end up at the lower end of this range.

Turning to slide 14. Fee income growth year on year was again double-digit, mostly driven by structural revenue drivers or as we term it, the alpha factors. Growth in Retail Banking was driven by higher daily banking fees and a growing number of customers with an active investment product account. Together with the growth in customers, we also see asset under management increasing by 19% since last year, which is a key driver for fee income growth going forward as well. The increase in fee income in Wholesale Banking was mainly attributable to a higher deal flow in Global Capital Markets and Corporate Finance. Given the strong performance across the bank, we remain confident that we can reach our €4 bln fee income outlook this year and our €5 bln target in 2027.

Next slide, slide 15. Total expenses in the first 9 months of the year increased by just over 3% compared to the same period last year, and we expect total cost to end up at around €12 bln for the full year 2024. Expenses, excluding regulatory costs and incidental items, were approximately 7% higher. This increase was mainly driven by the impact of inflation on staff expenses, reflecting salary indexation and CLA increases across most of our markets. We also continue investing in our business and had to pay higher VAT following the implementation of the Danske Bank ruling in the Netherlands. Operational efficiencies compensated a large part of these increases, and we continue to digitise our service and build our infrastructure to further increase operational leverage.

On to the next slide. On risk costs on slide 16, total risk costs were €336 mln this quarter, or 20 bps on average customer lending, equal to our through the cycle average. Net additions to stage 3 provisions amounted to €453 mln, which is partly offset by a net release in stage 1 and stage 2 risk costs, reflecting a partial release of management overlays and some model updates in Retail Banking. The stage 3 risk costs were largely due to additions for few new or existing files in Wholesale Banking. Although we see more macroeconomic uncertainty, we remain confident in the quality of our loan book. This is also reflected in a decrease in stage 2 outstanding, following repayments and lower levels of new inflows.

Slide 17 shows the development of our CET1 ratio, which increased to a strong 14.3% at the end of 3Q2024. CET1 capital increased due to the inclusion of quarterly net profit after reserving for dividend. In the previous quarter, we saw an increase in credit risk-weighted assets. We also indicated that part of this increase was temporary and would largely be reversed before year-end. In 3Q2024, part of the impact was indeed reversed. Together with positive changes in the profile of our loan book, this more than offset the higher risk-weighted assets driven by the increase in exposure. Market risk-weighted assets also declined by around €0.5 bln while operational risk-weighted assets were stable. The announced €2.5 bln additional distribution will have a pro forma impact of 76 bps on CET1 ratio, which is well above our target of around 12.5%.

That's it. Thank you very much.

Steven van Rijswijk
Good. And with that, we open up for Q&A.

Q&A

Operator
Thank you, ladies and gentlemen. If you would like to ask a question, please press star one on your telephone keypad. And in the interest of time, we kindly ask you to limit yourself to questions only. We will now take our first question from Benjamin Goy of Deutsche Bank. Your line is open.

Benjamin Goy (Deutsche Bank)
Yes. Hi. Good morning. Two questions, please. And the first, on your replicating income, you downgraded it 15% to 20%, but you keep the margin. So effectively, I think you have more confidence in repricing deposits. Maybe you can give a bit more colour around that, why this is the case.

And the second question, thank you for the new disclosure, the Retail AUM and brokerage volumes. And can you talk a bit about the net inflows you have been seeing, so outside of market effects? And is there any recurring fee income share on those AUM in terms of pricing or is it mainly activity-driven? Thank you.

Steven van Rijswijk
All right. So I'll answer the question on inflows and Tanate will answer the question on the replication income.

So, yes. I mean, if you look at the total assets under management, last year we were at around €200 bln now we're at around €230 bln. So that's an increase of around 15% already. But more importantly I think, that is part market but also part inflows. But more importantly, if you go to the fee slide there, you also see that we had a 9% increase in investments product customers to 4.6 mln. And that's important, I also come back to the Capital Markets Day, because only 10% of our approximately 40 mln customers have an active trading account with us. And now we've grown that with 9%. So yes, on one hand, this is about an inflow and getting more investments and money from our investors to us, but also just do more business with more customers. And still, and that's what I said on Capital Markets Day, the upside is gigantic because 4 mln over 40 mln is 10%, which is very low. And that's why we're able to continuously increase the penetration rate, and with that, the assets under management, and with that the fees.

Tanate Phutrakul
Hi, Ben. I think the question on replication is, you're right, on page 13. We showed the new replication based on the curves of September. But I think the reason why we're confident that we can manage the margin within the 100 to 110 bps is just take a look at 3Q margin that is stable at 112 bps despite two rate cuts by the ECB, right? And it's three moving parts within that number. The tailwind from the replication remains strong, that's one. The second one we have volume growth that you know helps us on NII. And the third, the liability deposit that we pay to our depositors have also started to come down. You can see that at the bottom of that page, the same page 13, that the combined cost of savings and term deposits is around 164 bps, which is lower than the same prevailing number as of 2Q2024. So we do see that the cost of deposit we pay to customers is also coming down as well.

Benjamin Goy (Deutsche Bank)
Thank you. Just a small follow-up. I couldn't find the equivalent to the 164 bps in 2Q2024 this morning. Can you just give us a flavour because total deposit costs are down?

Tanate Phutrakul
Yes. I think the number the same number for 2Q2024 is 168 bps.

Benjamin Goy (Deutsche Bank)
Great. Thank you.

Operator
Thank you. And we will now take our next question from Guillaume Tiberghien of BNP Paribas Exane. Your line is open. Please go ahead.

Guillaume Tiberghien (BNP Paribas Exane)
Yes. Good morning. Thanks for taking the question. Just a question on M&A actually. Can you remind us the M&A strategy if there's going to be a bit more cross-border consolidation in Europe? I saw obviously your comment on Poland, would there be any interest in cross-border from your side? Thank you.

Steven van Rijswijk
Yes. Well, look, first of all, our organic growth is good and we continue to do so. So that's our first focus. But yes, and I've said it also earlier that we would be looking at potential opportunities with strict criteria with regards to return on investment or return on equity, but also very much focused on either domestic consolidation in Retail. Because local scale in Retail is important. So, if we can increase scale there and therefore realise synergy benefits in a given market, then we will look at it.

And secondly, if there is a skill set or product that we do not have whereby we would be able to grow and diversify our income to our customers. So those are the two areas that we are looking at. As a matter of fact, we are looking at opportunities, but so far we have not been able to find something that would fit us and our criteria.

Guillaume Tiberghien (BNP Paribas Exane)
Thank you.

Operator
Thank you. And we will now take our next question from Tarik El Mejjad of Bank of America. Please go ahead.

Tarik El Mejjad (Bank of America)
Hi. Good morning, everyone. Thanks indeed for the more disclosure on the margin side. So I have 2 questions. First, on the volume growth, can you take us through what you see in terms of main drivers of growth coming in the next few quarters that you see already in the pipelines. Maybe sectors, geographies, just to have a better view on this.

And secondly, on costs, despite the good resilience on the NII and maybe volatility on the trading side, I mean, the jaw will remain a bit under pressure. So now 2 quarters or so, I mean, almost 2 quarters into the plan, have you identified or do you see some room for more optimisation of costs? As I understand, your strategy is more ongoing basis, when you see opportunities, you implement them. So do you see any new opportunities to save a bit on running costs? Thank you.

Steven van Rijswijk
Yes, okay. Thank you. On the volume growth, what we continue to see is clear growth mainly in Retail. So we see that mortgage markets are coming back. The biggest part of the Retail loan book it sits in mortgages. We see mortgages coming back. We already have seen that in the Netherlands and to some extent in Belgium. In the Netherlands, the number of houses being sold this year is around 200,000. That is still a bit lower than 2 years ago but coming back to that level. In Germany, for example, the housing market still has been quite benign. So it has come back to the 56% - well, it was 56% of normal levels a year ago - it is now a bit higher, but still not back to the normal levels that we've seen 2 or 3 years ago. And that, we believe will gradually come back.

So in the mortgage market, we see, in general, the markets picking up. And you've seen that in the Netherlands, for example, because of our digitalisation of processes which is better, if not the best of what is there in the market. As a result of that, we are increasing our market share. That's where we see the main growth. In Wholesale Banking it still depends on the recovery of GDP growth, and that is still a bit, I would say, lukewarm, if I were to call it like that. There, we will stay disciplined in terms of where we can grow depending on the outlook of the industry, but most of the growth will be expected from Retail in the next couple of quarters.

Tanate Phutrakul
Tarik of course, maybe a few points to make. First of all, the collective labour agreement increases are somewhat high. As you can see on page 15, around 4% and the stickiness of wage inflation is likely to last through 2025 as well. So that's the first point I want to make. The second, we have optimised our balance between investing in our franchise and reaping the benefit from that investment. The 3 big buckets of our investment is really client acquisition costs. So these are marketing expenses

and other promotional expenses to bring in our targeted 1 mln new primary mobile customers. The second bucket is really expenses related to more front-office hires in Wholesale Banking as we become more capital-light in terms of our model. But the majority of our investment is really building out our product and tech platform. These are the major investments that we have. And with respect to savings, it's really seeing the optimisation and the investments coming through. We continue to optimise our network. So people that work in our branches in Belgium, in Turkey and in Poland, those are coming through, as you can see in our numbers. We also see contact centre expenses also coming down as we digitise more and make our mobile channels more user-friendly for our customer. And we also see the first signs of KYC optimisation feeding through in that 2% reduction in cost.

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

Operator
Thank you. And 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 from me. Firstly, on the Belgian deposit inflow, obviously, congratulations on the €5.5 bln there. I just wondered if you could outline how ING intends to kind of recoup the initial loss on the one-year term offer there. Specifically, I'd be quite interested in what products you're hoping to cross-sell into and perhaps the retention you're assuming around that?

And then secondly, some more a point of detail just on the Treasury income within NII. Could you give us maybe some sense of where you think we stand versus kind of a normalised rate there? And also, possibly what you think the structural trend is in your treasury results from here? Thanks.

Steven van Rijswijk
Ok. Tanate will take the question on Treasury, and I will take it on the Belgian deposits. Yes, that was indeed quite a steal with that deposit campaign which brought in €5.5 bln. Well, look, there are different reasons why you do campaigns. You can do a campaign because you then make money on that particular deposit amount on the fly, and/or you return them into primary clients. And that means that you then do cross-sell with them in terms of daily banking. That's what typically starts and then investment products and mortgages. So those would be the typical products that we would cross-sell them into.

To give you an example, out of the last 2 campaigns in Germany that we had, so both the one in 2Q2023 and 1Q2024, two-thirds of the money after the campaign was over stayed in, and those customers therefore became primary customers. So that's the way that we are structuring these campaigns, and we're confident that we can also do that this time.

Tanate Phutrakul
Then on other NII, Farquhar, I think we give quite clear disclosure in terms of what we make on lending NII, what we make on liability NII. And the other NII is more volatile. We give you the lines of what we call the treasury asymmetry, and as well as the Financial Markets asymmetry, which results in a negative number of around €400 mln. And when you look at that number and strip that out, you see that the volatile items within our Treasury result ranges this quarter on income of around €200 mln and from the previous quarter, around €300 mln. These are quite volatile items, so it's hard to predict, but I think a good range over time is between €200 mln to €300 mln in other NII, in terms of these volatile items. That would be kind of what we experienced in the past few quarters.

Farquhar Murray (Autonomous)
Ok. Many thanks.

Operator
Thank you. And we will now move on to our next question from Kiri Vijayarajah of HSBC. Your line is open. Please go ahead.

Kiri Vijayarajah (HSBC)
Yes, sir. Good morning, everyone. A couple of questions, if I may. So firstly, in the Wholesale Bank, when you think about the RWA efficiencies and given the short-term demand at the moment for things like SRTs, is there a sense that you want to accelerate a bit, you know, maybe get some transactions done before year end while the mood is still positive for those type of deals? Or do you think about some of the Wholesale Bank and capital efficiency levers more as a kind of medium-term story so no real sense of urgency on a one to two quarter view?

And then still sticking with the Wholesale Bank in Germany and the Mittelstand sector there: I wonder if you're seeing any early signs, you know, fresh cracks appearing, maybe in the automotive supply chain sector, for instance. I know overall you're seeing positive ratings migration at the moment, but I just wondered if there were kind of any early warning signs you're seeing there. Thank you.

Steven van Rijswijk
I will give all of these questions to Ljiljana.

Ljiljana Čortan
Good morning, and thank you for the questions. Well, on the Wholesale Banking and RWA efficiency, well, we have started really looking into that more intensely, and we do expect some, first, I would say ripping off of the impacts of the SRTs in 2025. So you clearly know that the process is also requiring the regulatory approval. We have built internal capacities so we are, I think, fully loaded to do this more seriously in 2025.

On the German Mittelstand. First, let me start with a statement that we are very small there in that area. So our portfolio on that part is really minuscule. And there are strong, I would say, attempts and also wishes to grow there. Clearly, the macroeconomic environment also needs to be taken into account. But as we've discussed during our Capital Markets Day, the intention to start there is as well from the liability side so from the deposit side. So getting the clients with the current accounts and savings accounts and making sure that they are also then after a certain time, transferring this I would say relationship into more asset heavy relationship which will clearly be differently, as well remunerated.

We also are very much focused on being digital. And this is where we believe in Germany, specifically in Mittelstand we can make the difference. And so, making sure that our offer, also going forward, is fitting with our digital prerogatives, is something that we are taking into place when we are deciding about the timing of putting certain products in place.

Kiri Vijayarajah (HSBC)
Great. Thank you.

Operator
Thank you. And we will now move on to our next question from Sam Moran-Smith of Barclays. Please go ahead.

Sam Moran-Smyth (Barclays)
Hi, morning. Thank you for taking my questions. 2 questions on liability NII, if that's okay. So one, specifically on deposits in Belgium, you noted that you brought in €5.5 bln of term deposits from the offer in September. I wondered if you could help me square that with the QoQ increase in total deposits in Belgium of €2.4 bln so €3 bln less. If I understand correctly, the term deposit offer was just for new money. So should I understand from that that there was kind of €3 bln deposit outflows working in the other direction.

And then more specifically on the replicating portfolio, apologies if I missed it on the slide, but is there any update on the 50% less than one year mix and 50% more than one year or should we assume that that's the same? Thank you.

Steven van Rijswijk
So there's only one, there's one question. Right, Sam?

Sam Moran-Smyth (Barclays)
Sorry, perhaps my line cut off. So there was one question on Belgian deposits, so €5.5 bln in from the term.

Steven van Rijswijk
That we got, the second question we did not get.

Sam Moran-Smyth (Barclays)
Sorry. Second question was on the replicating portfolio whether we should still consider 50% the less than one-year maturity and 50% of the more than one-year maturity or whether there's been any changes there. Thank you.

Steven van Rijswijk
All right. So Tanate will take the question on replication portfolio and I'll take it on liability NII in Belgium. So indeed, the campaign gave us €5.5 bln and you ask, why is that an only an increase of about €2.5 bln. That's correct. That it has to do with outflows from the Business Banking side. Particularly, one customer with big amounts where the deposits depending on the activities come in or go out. So that is not structural.

Sam Moran-Smyth (Barclays)
Thank you.

Tanate Phutrakul
And, Sam, to confirm the replication distribution hasn't changed. It's roughly 50% less than a year and 50% more than a year.

Sam Moran-Smyth (Barclays)
Thank you both.

Operator
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)
Yes, hi, good morning: 2 questions for me, please. The first one is actually back to Ljiljana on asset quality. If I look at slide 16, the stage 3 ratio in Wholesale Banking is increasing, I know it's super low 1.9% but still increasing. And if I look at cost of risk 20 bps, I know it's through the cycle but because you're using some release of overlays. So what do you expect on the evolution of cost of risk? Do you think we could, you know, 2025, see a deterioration, especially on the corporate side? And which areas are you watching more closely? That's the first question.

And then sorry to go back to slide 13, which is my favourite slide. How do you square the idea that you can lower a compensation on deposits with the trend we have seen from ING of essentially being a leader in offering higher rates and gaining market share via deposit growth? So, would you be willing to essentially give away some growth on deposits in order to defend the margins? Or how are you thinking about the balance between the margin and the growth in a much lower-rate environment? Thank you.

Steven van Rijswijk
All right. Good questions. We'll start with asset quality with Ljiljana, and then we'll go to liability NII with Tanate.

Ljiljana Čortan
Good morning, Giulia. Thank you for the question. Yes, as you said, our risk costs in 3Q2024 are through the cycle average at 20 bps and €336 mln. And this is in line with our expectations. Clearly, as you mentioned, there is an impact of overlays in it but this is exactly what overlays are being built for. And this is how we manage our risk costs through the cycle and not point in time. Clearly, the majority of the impact also this quarter comes from the stage 3, but if you compare it to the QoQ, you will see that they remain broadly stable, if not slightly lower at the Wholesale Banking side.

This is, again, I would say, related to a number of additions for new and existing Stage 3 files that are affected with specific circumstances. And part of these circumstances clearly comes from the delayed impact of the macroeconomic environment that is uncertain and already for quite some time, subdued. However, while we do have the confidence that we are actually doing a good job in a quite difficult environment is that our low stage 3 ratio remains low. And yes, on Wholesale Bank is increasing due to this lumpiness on the few clients that I've mentioned. However, also, if you are looking at the stage 2 stock and the trend in 3Q2024, you will see that it's decreasing. So this is something that is giving us kind of a confidence that the new inflows are low and that probably going forward we will be able or actually probably definitely going forward, I'm sure we will be able to manage through the cycle as we've done so far.

Oh apologies, you asked about areas to watch? Yes, clearly also just looking around in the environment, we've seen that commercial real estate is still, I would say, very high in the headlines. However, we do see this stabilising and we do see as well in our numbers. However, we remain very vigilant because, we are aware of possible spillover effects in different areas which we don't see yet. But as I say, we are not complacent there. And definitely we do see some of the also cyclical industries being under temporary stress through few of these clients that I've mentioned. But also due to the competitiveness, for example, that is becoming more and more important specifically for the European clients. We do see automotive industry facing, I would say, some industry trends and challenges and they are not just related to technology part, which we have been managing, I think well in our selection criteria of the client, but also connected to, as I said, with the lacking of demand, again, subdued economic growth. Nevertheless, our portfolio remains performing quite well in that area, based as I said, on the selectivity criteria that we have put in place quite early in order to differentiate the winners of the future.

Tanate Phutrakul
And Giulia, on your question on deposits, I think we are competitive in terms of our pricing in most or all of the markets we operate in. But I want to differentiate between normal offering in terms of rates and promotional campaigns that we run from time to time. And as you can see in Belgium, we ran a promotional campaign during 3Q2024. We also ran a promotional

campaign twice in the past in Germany. And those come with somewhat higher promotional term rates, but of course, we expect that as these customers join us, we are able to cross-sell payment accounts, investment funds and attract them to remain with us when the promotional campaigns are over. And that we have done successfully. We modelled this quite carefully, and we're confident that these promotional campaigns are accretive to our NII. And you see that's the case for the last 3 months in terms of maintaining a net interest margin on liabilities of 112 bps.

Giulia Miotto (Morgan Stanley)
Thank you.

Operator
Thank you. Once again, as a reminder, if you would like to ask a question, please press star one on your telephone keypad. And kindly be reminded this is limited to a maximum of 2 questions. Thank you. We will now take our next question from Benoit Pétrarque of Kepler Cheuvreux. Your line is open. Please go ahead.

Benoit Pétrarque (Kepler Cheuvreux)
Yes. Good morning. So first question on my side will be on the lending NII which was quite weak QoQ despite the very strong growth momentum on the lending side. So, I mean, there have been some reasons like de-risking in the quarter, probably loan sale and production into low margin business. But could you help to identify let's say the drop linked to the de-risking actions versus the kind of underlying picture on the lending NII side QoQ? And what do you expect in terms of lending NII going forward? Thank you for that.

And then the second one is actually 2 small ones. Liability NII so 100-110 bps maintain, could we get 1 or 2 quarters just below 100, potentially? Or do you think we will remain above the 100 bps liability margin every quarter in 2025.
And then maybe on the other income, which was very strong and consensus does not believe this strong figure obviously, but you know, is that a sustainable level, you think? Do you expect this current other income generation to be maintained going forward? Thank you.

Steven van Rijswijk
Thanks. I'll take the one on lending NII and Tanate will take it on the liability side and our income. No. I mean, look, if you look at lending NII indeed it was impacted this quarter by some elements whereby we had last quarter underwrote some deals that were in a somewhat more risky spectrum. And this quarter, we have more high investment-grade clients and that brings the margin down. It's a combination of many sectors in many markets, and a few deals here and there can flip the margin depending on what the new production actually does, but there is no trend in it. So if you ask us, okay, is this giving a signal in terms of the margin is coming down on more pressure in Wholesale Banking? The answer is no. And we do expect that the lending margin will continue to hover around 130 bps as we have said before. Tanate, on liability.

Tanate Phutrakul
Yes. On liability, our guidance is that we are guiding towards over 110 bps for 2024 and then around 100 to 110 bps for the coming periods. What I think is determining where we are within that range is the shape and how fast the ECB lower rates, right? And if the current curve that we see in September were to manifest itself, you would expect that we would be operating at a lower boundary of that 100 to 110 bps net interest margin on liability.

And then to answer your question on other income, yes, it's been a strong quarter for us. And backed by some requests from analysts, we have also given a bit more highlight in terms of other income on page 23. We break it down into what is NII coming from client business. What is other NII related to accounting asymmetry and what are true volatility within that line. You can see that that client business is around €400 to €470 mln. Accounting asymmetry is quite clear. And yes, indeed in this quarter we had some higher volatile items in other income. But we give you this breakdown to give you more transparency in that line.

Operator
We will now take our next question from Anke Reingen of RBC. Your line is open. Please go ahead.

Anke Reingen (RBC)
Yes. Thank you very much for taking my question. It's just actually to follow up on the lending margin. In 3Q2024, I mean, they talked about the decline in the Wholesale margin, are you able to give us some colour on what's happening on the Retail lending margin side? So I guess it's relatively stable or which pockets you see different trends.

And then about the lending margin, the hover around 130 bps, in 2025 could we expect maybe it's more towards the lower end considering, I mean, the outlook on volume growth is relatively muted, but you might want to lock in some. And I guess there's a concern on asset quality so could lending margins be at the lower end of the hovering over 130 bps in 2025? Thank you very much.

Steven van Rijswijk
All right. Thank you very much. So if we talk about the Wholesale Banking margin again, and maybe I'll repeat myself to what I told to Benoit, that these are a number of individual files in Wholesale Banking that can tip it to one end or the other. Whereby in some quarters where you see some big underwritings or big deals that are in the, let's say, low investment grade or sub investment grade spectrum, that you then see the margin increase or depending on certain sectors that are specialised, structured finance sectors that the margin increases. But then if you do more, let's say plain vanilla, large blue chip corporate transactions, then that margin goes down a little bit. But going forward we are comfortable with our margin of 130 bps. Even more so if we do what we do see in the mortgage side, which is currently a big growth engine for us, with the interest rates coming down and there's always a lag in it that is beneficial for our mortgage margins as well. So we're very comfortable with the margin level of 130 bps.

Anke Reingen (RBC)
Okay. That's it. Thank you very much. And for 3Q2024 on the Retail lending margin side, do you see improving trends or not yet?

Steven van Rijswijk
Sorry. Yes, that's what you asked as well. So that was stable compared to 2Q2024.

Anke Reingen (RBC)
Thank you. Thank you.

Operator
Thank you. And we will now take our next question from Matthew Clark of Mediobanca. Your line is open. Please go ahead.

Mathew Clark (Mediobanca)
Hi. Can I come back to the Treasury other NII line? Thanks to the guidance that it should run between 2Q2024 and 3Q2024 level, but over the longer period, over the last kind of, I guess, 2 years since you've been disclosing that it has come down from more of a €400 mln per quarter down to that €200 to €300 mln level. So I'm just wondering what was driving that deterioration and why is that deterioration now over? That's first question.

Second question is on the Belgian time deposit campaign. I'm just curious to what extent you pre-hedged the interest that you will have to pay to those customers before we saw that the steep decline in swap rates into September. So just trying to gauge whether you're on the hook for the full negative spread at the start of September or whether you've got a more benign negative spread because you'd locked in better returns ahead of time. Thank you.

Steven van Rijswijk
On the second question, the answer is yes, we did pre hedge part of it. So therefore, we locked it in.

Tanate Phutrakul
And then the first one Matthew, the decline year on year is due to the unremunerated minimum reserve requirement by the ECB depending on rates. But it costs us somewhere between €70 to €90 mln per quarter in terms of lower NII from that new rules from the ECB.

Mathew Clark (Mediobanca)
Very clear. Thanks.

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

Steven van Rijswijk
Yes. Thank you very much, operator. And thank you very much to all for dialling in and for your questions. I wish you a very good day. I'm sure it's a very busy day today with all the results coming in. So all the best with that and I hope to speak to you soon again. Cheers.