Transcript Analyst Call 1Q2023

Presentation

Operator
Good morning. This is Marian welcoming you to ING's First Quarter 2023 Conference Call. Today's conference is being recorded. 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 including 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
Good morning and welcome to our First Quarter of 2023 Results Call. I hope that you're all well. As usual, I'm joined by our CFO Tanate Phutrakul, and our CRO, Ljiljana Čortan. I'm pleased to take you through today's presentation, and after that, we will take your questions.

We started 2023 with a very strong quarter in both our Retail and Wholesale business, by keeping focus on our customers and delivering value and demonstrating stability in a rather turbulent time for the banking sector.

We continue to record organic growth and added another 106,000 primary customers who choose ING for our superior customer experience. This is supported by our digital-only mobile-first strategy, as evidenced in the large share of mobile-only customers.

Another achievement was the growing volume mobilised to help our wholesale banking clients transition to a more sustainable business model. At €22 billion, the volume mobilised was up by more than 25% compared to the first quarter of 2022.

In our P&L, we continue to see the benefits of the current rate environment, both on our retail customer deposits and our wholesale payments and cash management business. This comes on top of the structurally higher fee base. A strong performance on total income with year-on-year growth of 23%.

For the quarter, we realised a strong 13% ROE, increasing our four-quarter rolling average ROE to 9.7%.

All of this has enabled us to announce an additional distribution in the form of a €1.5 billion share buyback, which will kick off tomorrow.

We accomplished all this in another exceptional quarter. Although, honestly, there has not been a dull moment since I became CEO almost three years ago, and I'm proud that our performance has been strong throughout these years, and I'm confident we will continue to deliver our value.

This confidence is underpinned by my belief that we have the right strategic focus and a fortress-like balance sheet with a strong funding and liquidity profile, which provides a robust foundation to build on. Before we go on to the financial results, I want to spend some time on these topics.

Slide three shows our strategic priorities and focus for 2023.

One priority is to deliver a superior customer experience, a key differentiator for customer growth. Our other priority is sustainability, where an important aim is to support our clients in their transition to more sustainable business models.

A superior customer experience means easy, relevant, personal, and instant. And a key enabler for this is the seamless digital delivery with minimal human intervention. This requires straight-through processing of customer journeys. Getting a mortgage is an important customer journey where being quick and predictable can be more important than price. Increasing the level of STP (straight through processing) helps us with that. For example, in Germany, we have reduced the time-to-yes for brokers from 4 to 2 days. In Italy, we improved all aspects of the mortgage process with a faster time-to-yes and time-to-cash and a higher first-time-right.

Streamlining how we interact with our customers is another important element of our customer experience. As an increasing part of that interaction is through chatbots, we use AI to make the interaction more effective and a more personalised experience.

For KYC, the foundation is in place, now the focus is on how we can be more effective and efficient. And aside from combining efforts with other banks and supervisors, the focus is on working smarter internally. For example, grouping the assessment and documentation of multiple individual transaction alerts for one single client, which broadens the view on a client's behaviour and increases the number of alerts that can be handled by one specialist.

On female representation, last year we set a target of at least 30% by 2025 for our top 400 leaders, and we have extended that target to at least 35% by 2028. To reach that, we've also set a target to increase the share of women in the group of around 5000 employees just below top management, from 27% at 2022 to at least 30% by 2025.

In Sustainability, the financing of renewable energy is an important focus area. As the shift to renewable energy needs to go faster, we set a target on new loan growth for renewable energy. In 2022 this book grew 10% and we aim to continue this growing trend. We combined this with further restricting the financing of new oil and gas fields, by extending the existing restrictions for upstream to the infrastructure activities that unlock new fields.

Finally, we work to broaden the scope of Terra, and like we have done for steel, we are part of a working group to develop a framework for aluminium. In oil and gas, we are developing metrics and targets for mid- and downstream, and we will cover an additional part of the value chain by including Trade and Commodity Finance in our reduction targets in 2024.

Then to our strong funding and liquidity profile on slide four. On the funding side, 60% of our balance sheet consists of customer deposits. The vast majority comes from our retail customers who keep €549 billion in deposits with ING. This is a highly granular deposit book as it represents a large retail customer base spread over ten countries. 73% of these deposits are insured, forming a stable basis, which has been steadily growing over the years. More details can be found in the appendix of this slide deck.

As you can see from the recent NII development, in a positive rate environment our deposit base has a material embedded value that will support our revenues in the coming years.

On the liquidity side, our Group LCR stood at 134% on a four-quarter rolling basis and at 137% at the end of the first quarter of 2023. And these ratios exclude any local liquidity surpluses that are not transferable across border and are based on a sizable High Quality Liquid Assets book of €187 billion. And in addition to HQLA, we have large amounts of readily available ECB-eligible retained assets and other non-HQLA liquid assets, bringing the total level of available liquidity resources to €268 billion. In combination with our strong and stable deposit book, we feel very comfortable with this level of liquidity.

Then I move to slide five. Over the past years, we have built a solid track record of delivering an attractive return for our shareholders. ING continues to be a strong investment case as the best European universal bank with consistent strategy execution, income growth, discipline on expenses, and strong asset quality.

Combined with our strong capital position, we are in a position to return capital to our shareholders. Including the share buyback we announced today, our shareholder return for 2023 already stands at an attractive 8%.

Slide six shows our financial targets for 2025 and our first quarter 2023 performance. On fee growth, in daily banking we see further room to increase or introduce fees. In investment products the continued growth of accounts is a strong base for fee growth when market confidence improves, and this confidence will also support growth of lending fees.

Higher fees will support total income growth, though for 2023 the main driver will continue to be liability NII. And while there are some uncertainties such as further central bank rate increases, deposit tracking, and customer behaviour, the tailwind from liabilities will continue.

We expect total income growth of more than 10% for 2023 with lower growth in 2024 and 2025, reflecting the flattening of the curve. And this income growth will support an improvement of our cost-income ratio. On the cost side, we see the pressure from high inflation and we continue to invest in our business and to execute our strategy, which will bring benefits in the longer term.

On our CET1 ratio, we intend to move to our target CET1 ratio of around 12.5% through our 50% pay-out of resilient net profit combined with additional distributions, in roughly equal steps.

On return on equity, with the targeted development of the cost-income ratio, our low through-the-cycle risk costs and a CET1 ratio target of around 12.5%, we have confidence we will reach our targeted 12% ROE by 2025.

Now we're going to move on to the first quarter results on slide eight. The first quarter of this year showed a strong performance of our pre-provision profit. When excluding volatile items and regulatory costs, pre-provision profit was up 31% year-on-year and 11% higher quarter-on-quarter. And I will address the underlying P&L lines in the following slides.

Slide nine shows the continued strong development of NII. This was driven by liability NII, reflecting rate increases, limited deposit tracking, and a continued deposit inflow. The positive impact was also clearly visible in Wholesale Banking, with our Payments and Cash Management business benefiting from higher interest rates.

In lending NII, we saw year-on-year pressure on mortgage margins due to rising interest rates, as client rates generally track higher funding costs with a delay, as well as declining income from prepayment penalties. Quarter-on-quarter, these effects stabilised, and lending margins slightly increased.

Furthermore, on both comparable quarters, we saw the impact of a temporary shift of NII to Other income in Treasury and Financial Markets. In Treasury, this reflected activities to benefit from prevailing favourable FX swap interest rate differentials, while in Financial Markets, this was due to the impact of rising rates on hedge positions. And as I mentioned on the previous slide, the boost in Other income was further driven by Financial Markets benefiting from good client flow and market volatility.

Excluding the net TLTRO impact and the Polish mortgage moratorium, our net interest margin for the quarter increased by 11 basis points to 159 basis points, mainly reflecting the higher NII on liabilities.

Slide ten shows net core lending growth. We are pleased to continue to support economic growth and our clients in meeting their demand across our businesses and regions.

In Retail, mortgages continued to grow, although at a lower pace, reflecting an overall slowdown of demand, driven by uncertainty and higher interest rates. Higher net core lending in Business Lending was mainly visible in Belgium.
In Wholesale Banking, loan growth was visible in Lending, which was more than offset by lower utilisation in Working Capital Solutions and lower lending volume in Trade & Commodity Finance, reflecting lower commodity prices.

Going forward, with still heightened macroeconomic uncertainty, we expect loan demand to remain subdued.

Net customer deposits growth was €1.3 billion, fully due to Retail and mainly reflecting inflows in Poland, Spain, Belgium, and Germany, partly offset by an outflow in the Netherlands, mainly due to operational payments made by our business clients and an internal shift from savings to Assets Under Management from our private banking customers. Assets Under Management further increased driven by external flows. Wholesale Banking recorded a small outflow visible in Financial Markets.

Turning to fees on page 11, we showed resilience despite uncertainty continuing to affect the appetite for both investments and lending. Compared to a very high fee level in the first quarter of 2022, fee income was down year-on-year. Daily Banking fees continued to grow, this quarter by 13%, and this reflected growth in primary customers, the increase in payment package fees and new service fees. Lending fees were lower year-on-year, mainly due to lower demand for mortgages. For investment product fees, we continue to see the effect of lower stock markets and less trading activity, although the opening of new investment accounts continued and AUM increased.

Sequentially, fees were up, reflecting growth in Financial Markets, and higher fees in investment products and Daily Banking in Retail. Lending fees in Wholesale Banking were lower after a strong fourth quarter.

On slide 12, excluding regulatory costs and incidental items, operating expenses were up, mainly visible in staff costs due to the full-year effect of high inflation coming in via salary indexation and CLA increases.

This included a 10.5% automatic indexation in Belgium and an accrual for the CLA increase in the Netherlands. And furthermore, there was a one-off energy payment in Germany and a more frontloaded accrual of variable remuneration in Wholesale Banking. Next to this, legal provisions and energy costs were at elevated levels in the first quarter of 2023.

We also have to continue to invest in our business. This includes marketing campaigns as well as digitalising customer journeys. We do this to ensure we keep increasing the number of primary customers, thereby expanding the base for future growth.

At the same time, as I mentioned at the start of the presentation, investing to be more digital, to increase STP, and to make processes smarter helps us to be more efficient and to reduce our cost-to-serve.

Taking all this into account, and with inflation rates declining, we expect cost growth for 2023 to be more subdued than the year-on-year development suggests.

Regulatory costs were down year-on-year, mainly due to a lower SRF contribution. The quarter-on-quarter increase reflects the full payment of several annual contributions due in the first quarter of the year.

Then we move on to risk loss on the next slide, which were €152 million this quarter, or nine basis points of average customer lending, and this included a €67 million increase of management overlays, bringing the total of management overlays built up at the end of Q1 to €521 million.

Risk cost in Wholesale Banking included a further release of €118 million in stage 2 for the Russian book, reflecting a further reduction of our Russia-related exposure, which we will continue to bring down.

We saw some collective provisioning in Retail Banking, which included additions related to model adjustments and consumer lending, while we also booked an additional provision related to Swiss franc-indexed mortgages in Poland.

The lower stage 2 ratio mainly reflects the decreasing Russia-related exposure and the stage 3 ratio remained low at 1.4%. All-in-all, a very benign quarter in risk costs, and we remain comfortable with the quality of our loan book.

Slide 14 shows our CET1 ratio, which increased to a very strong 14.8%. CET1 capital was €600 million higher, mainly due to the inclusion of 50% of resilient net profit for the quarter. Furthermore, RWA were €4.1 billion lower, including minus 1.4 billion of FX impacts.

Credit risk-weighted assets were down when excluding FX impacts, reflecting an improvement of the overall profile of our loan book and of course the lower Russia-related exposure. Operational risk-weighted assets were flat, while market risk-weighted assets were slightly higher.

On our distribution plans, the final 2022 dividend was approved at our AGM and has been paid out on the 5th of May. And in line with our ambition to converge to our CET1 ratio ambition, we will distribute an additional €1.5 billion in the form of a share buyback, which will start on the 12th of May, which means tomorrow.

This additional distribution will bring our CET1 ratio to 14.4% on a pro forma basis. I'm pleased that we take this additional step in returning capital to our shareholders and optimise our capital structure. We expect to further update the market on our distribution plans at the third quarter of 2023 results presentation.

We wrap up with the highlights. Overall, in a turbulent quarter, we have delivered a very strong start of 2023. Our people make a big effort every day to build a superior experience for our customers and to support the transition to a more sustainable society. We see these efforts positively reflected in primary customer numbers and volumes mobilised in transition finance.

Our financial results show that accelerating NII momentum is a clear tailwind, while fee income has proven to be resilient. Expenses reflected the inflationary pressure, especially on staff costs, but also on our continued investments to realise our strategy.

Our capital position remains very strong and we have announced an additional €1.5 billion distribution. Going forward, I'm confident that we will continue to deliver robust financial results and successfully execute our strategy. And with that, I would like to move on to Q&A. Operator.

Q&A

Operator
Thank you. If you would like to ask a question, please press star one on your telephone keypad. To withdraw your question from the queue, it's star two. In the interest of time, we kindly ask each analyst to limit yourself to two questions only. Again, it's star one to ask a question. The first question comes from Raul Sinha from JP Morgan.

Raul Sinha (JP Morgan)
Good morning, Steven. Good morning, everybody. Thanks very much for taking my questions. I guess the first one is around capital distributions. Thank you for the new slide on the withholding tax mechanics and also for the clarity on the next decision date.

I guess my question is around how did you decide the size - is this the right size of the buyback? Just, you know, it looks like you seem to have a good problem in that your capital ratio is not changing much even after a 50% dividend accrual and the share buyback. So, are you expecting a rebound in RWA growth or capital consumption later in the year? I guess they're all related.

And the second question is just on costs. You're at 55% cost-income in Q1 and obviously, you're not reiterating this 55-56% that you said last quarter for the year. I was just wondering how to read this. It looks like it's a bit easier now for you to get to your 50-52%. And is that why you're not reiterating the 55-56%, because you're already at the lower end? Thank you.

Steven van Rijswijk
Okay. Thank you, Raul. I will answer the question on costs and Tanate will answer the question on the decision on how we decide the size of share buybacks or capital distributions.

On cost, and I said that during my presentation - we saw the quarter-on-quarter cost rise by 10.7%. That had to do with, first of all, the fact that there were salary indexations and the CLA that came in this quarter, but were not there basically at that level in the first quarter of last year. Two, we had a number of specific cost items that we moved forward, such as the CLA agreement that we have for later this year and some other costs in Wholesale Banking, as well as a legal provision that we took. So, we took some additional costs in that sense in the first quarter and we continue to invest in marketing and in our digital experience.

And so, we say that basically, therefore, this means that you should not take that 10.7% and extrapolate that over the year. We've previously given a cost guidance of 55% to 56%, but actually, we do not currently see the 55% as a floor. That should give you some guidance.

Raul Sinha (JP Morgan)
Thank you.

Tanate Phutrakul
On capital, I think we look at three things. The most important of which is the level of capital generation in our franchise. That would be the first factor in looking at capital. The second we look at is stress testing, making sure that we capture all the macroeconomic situations into our numbers when determining the level of additional distribution. And then we look at any specific event risk that may occur at any point.

And the other thing is really the fact that we have split our capital management announcements, in terms of providing this clarity in Q1, and based on certain calibration of outlook another announcement in Q3. So that's a bit how we do the decision-making around the level of capital distribution.

Rahul Sinha (JP Morgan)
Thanks very much. And RWA growth, are you expecting a rebound?

Tanate Phutrakul
At this point in time, no. The level of negative risk migration, despite the situation, remains benign.

Operator
The next question comes from Jon Peace from Credit Suisse.

Jon Peace (Credit Suisse)
Thank you. Morning, everybody. So, my first question is on NII. I'm not sure what you would consider a normal level of the sort of FX revenue transfer between NII and Other operating income. But it feels like underlying NII was probably at least €100 million above the reported number. So given lending margins are stabilising, could we think of annualising to sort of 16.4, 16.5 as an NII level that would be reasonable for this year?

And my second question, please, is just on the cost of risk. Are you seeing stage 3 defaults still running at a very low level in Q2? So, could we imagine you might again be well below the through-the-cycle rates this quarter? Thank you.

Steven van Rijswijk
I'll do the one on NII, and then Ljiljana will take the cost of risk. Look, as you know, we have given guidance that we will increase our revenues compared to last year with more than 10%. Of course, we have seen the tailwinds from the interest rates. And indeed, you point to the revenue that we booked in Other income, which indeed is therefore sort of a deflation of interest income because that was moved to another income line. So as a matter of fact, interest income, if you correct for that anomaly, if you will, would have been higher.

And at this point, we continue to see that tailwind. And basically, the question is when do interest rates move or savings rates move? But that also is very much linked to higher loan demand and which would then, therefore, create more competition. But that's currently not what we're seeing. So currently at this point, we continue to see that tailwind continuing.

Ljiljana Čortan
Good morning. On the risk cost, I think Steven already said we see very modest and benign overall risk costs for the quarter. And if we are looking specifically at the structure of the Stage 3 risk costs, we do see €197 million as we've presented. However, less than 40% of that amount relates to individual Stage 3 risk costs.

Coming back to your questions, no, we do not see an increased number of individual defaults. On the contrary, this quarter has been characterised by a very low number of individual defaults in Wholesale Banking. While in Retail banking as well, we do not see a structural deterioration in our major portfolios, also if we are looking at delinquency rates, days overdue, and as well unlikely to pay.

What is also important to note is that the increase in Stage 3 mostly relates to model updates for some of our regular mortgage and consumer loans IFRS models. And as well we have had the impact of the indexed mortgages in Retail banking, in Poland with respect to the Swiss franc mortgages. So, all in all, a very good quarter and no signs of deterioration on that part.

Jon Peace (Credit Suisse)
Right. Thank you.

Operator
The next question comes from Johan Ekblom from UBS.

Johan Ekblom (UBS)
Thank you. If we can just come back to NII and these temporary effects. I guess two things I'd like to understand. One, is the full negative amount we see in Q1, the €271 million, I guess, transferred between the income lines? Should we expect all of that to reverse into NII at some point? And then maybe if you can just highlight the mechanics for what would cause that transfer back to NII to start and what's the duration? So, do we need to wait for ECB rates to stabilise or to fall? And how quickly would that unwind?

And maybe just to come back on the cost side, when we talk about the regulatory costs this quarter, you flagged both the lower SRF contribution and something that sounded like temporary effects in Belgium. When we think about regulatory costs going forward, is the kind of run rate we saw last year Q2 to Q4 the right level to think of, or will we see some of these effects in Belgium reverse in the coming quarters?

Steven van Rijswijk
I guess for Tanate.

Tanate Phutrakul
Thanks, Johan. Just to be clear, there are certain market opportunities which are linked to interest rate differentials between different currencies. So, you can see this transfer between Other income and Interest income to be completely linked. So that

would mean if we unwind these positions, those would normalise. So, you should be able to see that the normal run rate of replication and lending of that €234 million, it should be added to our numbers for Q1. So, it's related to each other.

With such trades, will the opportunities continue into Q2? It really depends on, again, market opportunities and the interest rate differential that you see in the markets today. So, I would say that we would give clarity in Q2 what these effects are. But that's why we flagged it, because these opportunities had a material impact in Q1.

Then on the regulatory expenses, yes, you see a reduction of €124 million. Something that we want to flag is, of course, that the SRF contribution will likely be finished by the end of 2023 and that the DGS contribution would be targeted to be filled by the middle of 2024.

We have given some guidance during our Investor Day that we expect regulatory expenses in this bucket to be down by approximately €400 million starting in 2025, from 2021 levels, and we stick with that guidance.

Johan Ekblom (UBS)
So just maybe to come back on the NII side. I mean, when we look at it - is there a normal kind of historical run-rate of these trades or is it a roughly a zero kind of net impact over time? Just to try and gauge kind of how big the extraordinary component is?

Tanate Phutrakul
Well, I think the extraordinary component we mentioned exactly, that is €234 million.

Johan Ekblom (UBS)
So, zero is the long-term average. Okay. Thank you.

Tanate Phutrakul
Yes, indeed.

Operator
The next question comes from Amit Goel from Barclays.

Amit Goel (Barclays)
Hi. Thank you. So, I just wanted to come back in terms of the broader revenue picture then. So, the greater than 10% revenue growth. I mean, clearly, given the level of revenue growth in Q1, I guess partially driven by this effect that you just were talking about, it still means that the actual kind of revenue trajectory and the rest of the year doesn't need to be very strong to achieve it. Just want to get your sense of where you could see revenues kind of getting to this year.
And also, just in terms of the NII development, again, relative to the kind of information you gave at Q3 in terms of the sensitivities based on rates at that time - I'm just curious how you're seeing that based on current rates and your current expectations. Thank you.

Steven van Rijswijk
Okay. Thank you, Amit. I will do the question on revenues and Tanate will give an answer on the NII trajectory. And you refer to, I think, the examples and replication scenario we have at our 3Q22 results.

Yeah. Well, I mean, we said, I don't want to nit-pick on words, but we said greater than 10% for 2023, which we still stand by. And as you said, I think it was based on a previous question, that we clearly benefit from the tailwinds in interest rates. We continue to see that currently because part of the pressure to increase interest rates will depend on the loan demand in markets or the higher loan demand in markets. And that's currently what we do not see. So, we continue to currently see benefits from these interest rate differentials and that supports the greater than 10% revenue growth. Tanate.

Tanate Phutrakul
If you go back to look at our presentation in Q3, I would say that the shape of the interest rate curve is more beneficial to us than it was then. So, a much sharper short-term rate increase compared to then. And I think in terms of the simulation that we did then, that curve was based on a simulation of roughly around 30% tracking speed for 2023. And what we see in Q1 is that the tracking speed is significantly below that number. And how it would look the rest of the year, it really depends on competitive pressure and it depends on demand for deposits to fund our loan growth. And so far, we see that competition level as being relatively benign.

Amit Goel (Barclays)
Okay. Thank you.

Operator
The next question comes from Benoît Pétrarque from Kepler Cheuvreux.

Benoît Pétrarque (Kepler Cheuvreux)
Yes. Good morning. So, the first question is on the current deposit margin at 114 bps, which is well above the through-the-cycle average. So, the question is, yeah, are you confident you can sustain this level? Also, kind of in the medium term is it fair to assume that there will be a bit of a normalisation at some point towards the end of the year?

And also on the deposit side, do you see any indication on the shift out of current accounts into savings or term deposits. Do you see any changes in customer behaviour on that side?

And then the next question will be on the cost side. So, I get the message that obviously we should not extrapolate Q1. But okay, now you have clarity on the Dutch staff costs. Belgium's inflation seems to have slowed down. I mean, there's more clarity on the wage front. Do you think you could maybe be a bit more specific in terms of cost growth for this year? I mean, on the full year. I think in the past you would try to provide a bit more granular levels in terms of expected cost growth, in terms of guidance. But, you know, could we get a bit more detail on cost growth for the full year – could you be a bit more specific, please? Thank you.

Steven van Rijswijk
All right, Benoît. So, I will give both questions to Tanate.

Tanate Phutrakul
When you talk about the deposit margin, I think we've given guidance before on that. Over the long term, we see deposit margin around 100 basis points, right? And we're sitting at 114. So, from that perspective, we are flying a little bit higher than what we normally do. And to address, do we see any shifts? We don't see that material shift in terms of fixed-term deposits. There are some, but not that material. What we do see as more of a trend line is the switch from current account into savings account. It is small for the time being, but it's beginning to increase compared to Q4. So that's a bit of a flavour around deposit margin. And to reiterate the point, we don't see competition for deposits being very heated in light of fairly muted demand for loan growth.

In terms of costs, maybe a bit more guidance. You know, if you break down the 10.7% increase in costs we have had in Q1, this includes quite a sizable legal provision and also high marketing spend. Those would account for roughly around 2.5%. So, the run rate in Q1 on a normalised basis is closer to around 8% cost growth. Where would we go from here: indexation on salaries are coming down, energy costs are coming down. And so that bodes well in terms of the trend line. But if you say where we are in terms of Q1 cost projection, it's around 8%.

Benoît Pétrarque (Kepler Cheuvreux)
Yeah. Clear. Thank you.

Operator
The next question comes from Benjamin Goy from Deutsche Bank.

Benjamin Goy (Deutsche Bank)
Yes. Hi. Good morning. Two questions, please. First, on new customer growth. It seems like you are a bit more on the front foot. Just wondering if you can give a bit more colour on the markets and whether attractive savings rates are the main driver of that.

And then secondly, you mentioned fairly subdued loan growth. Historically, you mentioned some pockets like Asia or US that were better. Wondering whether there is some differentiation or whether you see essentially rather subdued demand essentially across all your lending books. Thank you.

Steven van Rijswijk
Yeah. Thank you, Ben. On customer growth, I mean, that was a little bit over 100,000 this quarter. A significant part came from Germany, as we've already said earlier. But I think also our CEO in Germany said we want to grow our customer base there to 10 million in the next three years. So, we invest in the digital experience as well as in our marketing. And that is paying off by seeing the growth there.

But also in other markets, we continue to see primary customer growth. And in the end, that's what we want to do and why we call them primary customers. Is not only to make them customers and as you may know, we currently have this action in the German market that we started in April. But in the end, we want to convert those new customers into primary customers because we do more with these customers and these customers are more profitable.

In terms of loan growth, whether there is any differentiation in different markets, not really. I think what you see is much similar in the markets, and in general, mortgage demand is down 30% to 50%. But on the other hand, the stock of mortgages stays stable. So therefore, you see our book being relatively stable, and at some point that mortgage market will return. And Wholesale Banking more on, let's say, term lending and syndicated loans with a little bit less working capital and trade commodity finance that's based on lower commodity prices. And that has influenced the book, but there's not a particular regional element in there.

Benjamin Goy (Deutsche Bank)
Understood. Thank you.

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

Flora Bocahut (Jefferies)
Yes, good morning. The first question is on revenues. I'd like to come back, you know, to this guidance for this year where you expect revenue growth of over 10%. I know it's only Q1, so beginning of this year, I know that guidance doesn't have a maximum. But if we annualise the Q1 run rate, you're actually going for about 20% growth this year versus last year. So, the question is really, why do you keep that guidance, or another way to ask it - is there anything when we look into the Q1 results today that you think will not be sustainable or could turn more negative before the end of this year?

And then the second question, still on revenues. You know, the revenues that you booked in Other income this quarter, but you say are actually NII related. Could you clarify that these come actually on top of the replicating portfolio contribution guidance that you had made? Thank you.

Steven van Rijswijk
I think the answer on the second question is yes. And the answer on the first question is, yeah, look, we cannot predict the future. We can only report on what we currently see. And for us to continue to benefit in a similar way that we have benefited from increasing interest rates so far means that the level of tracking should remain relatively limited to what we see in the past.

Tanate already said that based on what we presented in the third quarter last year, we gave a few examples of how tracking could develop itself. It is lagging, and as a result of it, we have been benefiting more. And another element driving tracking increase would be that there would be higher lending demand, which would spur more need for savings, for example, or deposits. And that we currently do not see. So, at this point in time, we see continued benefit at the same level and we need to see how that will further develop.

Flora Bocahut (Jefferies)
Okay. Thank you.

Operator
The next question comes from Kiri Vijarayarajah from HSBC. Please go ahead.

Kiri Vijarayarajah (HSBC)
Yes. Good morning, everyone. A couple of questions from my side. So firstly, coming back to the core lending growth slide, which if I look at it, annualised, is running at less than 1%. And, you know, given last year, you added over half a million new primary customers and I think it was another half a million the year before that as well. So, my question is, how come all of that kind of primary customer growth isn't translating into better lending volumes, particularly when I look at the retail and challenger growth segment on that slide for your core lending growth?

And then linked to that, with the deposit margin recovering quite nicely, I was wondering, is that feeding through more meaningfully into rising customer acquisition costs as you add these extra primary customers? Particularly in those markets where maybe some of your competitors might be a bit more deposit driven in terms of their growth strategies, that's pushing up your customer acquisition costs across your retail markets. Those are my two questions, please.

Steven van Rijswijk
Okay. I'll give these questions to Tanate.

Tanate Phutrakul
I'll first address your second question, Kiri. If you look at the past, with negative interest rates, acquisition of customers using deposits was a negative proposition from a P&L perspective. Given the curve, given the current absolute rates from the ECB, customer acquisition using deposits has turned into a positive proposition. And that's why you see promotions that we do in a number of markets, whether Poland, Germany, or Spain. And that's what is driving our primary customers.

And in terms of lending, we continue to acquire lending customers. But it's just that demand given where the rates are, is more subdued. So that's basically it. But we have accelerated somewhat additional marketing spend during the course of Q1 to increase our drive of primary customers. So that is the case.

Kiri Vijarayarajah (HSBC)
Okay. So from that ramp-up in marketing spend in 1Q, are you anticipating more of a pick-up then on the retail lending side, maybe for the back end of the year?

Tanate Phutrakul
It's demand-driven. During the course of 2023, we just need to adjust to this new rate environment. And when that adjustment takes place, then it will be reflected first in GDP, consumer confidence and feed through into bank lending.

Kiri Vijarayarajah (HSBC)
Fair enough. Thank you.

Operator
The next question comes from Andreas Scheriau from Goldman Sachs. Please go ahead.

Andreas Scheriau (Goldman Sachs)
Hello. Thank you for the questions. So, I'd like to come back to deposits, please. What do you see your most rate-sensitive customers doing? Are they moving towards variable savings accounts, time deposits or money market funds, or other investment solutions? And if you could just speak a bit about any difference that you see across regions, I think that would be helpful.

And then the second question is on the size of the Eurozone retail replicating portfolio. Has the size of that changed materially since the last time you gave an update? And then following on from that, are you expecting to adjust the size of that hedge going forward, and how you're thinking about this in general? Thank you.

Steven van Rijswijk
Okay. I'll give the second question to Tanate and I'll do the first question. So first of all, our deposits have increased again. This time by €1.3 billion. And you talked about money market funds, but that's a US phenomenon. We don't have that here in Europe. And individuals cannot just buy money market funds. So, there is some shift from current accounts to savings, as Tanate already said, but that's relatively limited. And we do see some shift to Asset Under Management. So that is what we see. So, we see our Asset Under Management books increase, not yet the number of trades, but we do see the number of clients and accounts increase. That is the main shift that's currently taking place, but not so much in any other forms that you talked about.

Tanate Phutrakul
Then for the second question, from what we disclosed before about the size of our eurozone deposit replication, it's roughly about the same. Maybe the level of deposits is somewhat higher than perhaps in Q4 or Q3. And then in terms of interest rate, whether the replication is adjusting the hedges, we dynamically change our hedges all the time to reflect prevailing rates, prevailing customer behaviour. So that's a dynamic process that we do constantly.

Andreas Scheriau (Goldman Sachs)
Okay. Thank you very much.

Operator
We will now take the next question from Anke Reingen from RBC.

Anke Reingen (RBC)
Hello? Can you hear me? Hello?

Steven van Rijswijk
Yes, Hi. We can hear you.

Anke Reingen (RBC)
Oh, sorry. Apologies. Thank you for taking my question. Just two, please. On the fees, you're slightly below your target range. And clearly, Q1 last year was a high level. But do you think like in order to move higher up in the range, you need more supportive capital market and wholesale lending to pick up again? Or could there also be a headwind especially on payment packages given the higher rate environment?

And then secondly, just on this Treasury impact in Q1, I mean, it's like an absolute number. It's quite sizable. And just I mean, if you can just provide some comfort in terms of the size of the positions that the Treasury is taking? I mean, I guess it's also because of the magnitude of the rate changes, it's quite meaningful. But it just seems quite large in terms of impact, if you can provide some comfort here. Thank you.

Steven van Rijswijk
Thank you, Anke. I will answer the first question and Tanate the second. A couple of remarks on fees. In general, we want to grow our primary customers because if we have more primary customers, these customers will do more with us and also do more in commission products. Then we are active in a number of markets where there are, let's say, local incumbents who may feel more pressure to increase their prices on commission products. And then we can follow. And there are also markets in which we are more a challenger, where we have started only in a limited way to levy fees for services that we provide. So, there is room there.

And then we are extending our services. So, if you look at our number of investment accounts, we only started a couple of years ago with apps on investment accounts and we are seeing good growth in a number of countries. And I've mentioned Germany a number of times. Certainly, more subdued given the uncertainties in the market, but the number of accounts has again increased. And once the confidence in the market returns, we can see and we will continue then to see an uplift in investment fee income.

On payment packages, we have gradually increased payment packages in a number of the markets, but we've also seen that the number of transactions has increased as well. And lending in Wholesale Banking, we've seen a very good quarter in the fourth quarter because of a number of larger syndicated loans. That is a bit lower now. But once the market is rebounding, we expect that also to pick up.

Tanate Phutrakul
And Anke on the trading opportunities. I just want to reiterate the point. We operate well within our market risk tolerance, right. These amounts we highlight relate to accounting asymmetry - these matching positions are split between Other income and Net interest income. And as Steven mentioned, is really unique to our trading strategy and doesn't affect our overall NII replication of our savings book. And if these trading strategies were unwound, then the impact in both lines would also disappear.

Anke Reingen (RBC)
Okay. Thank you.

Operator
The next question comes from Gulnara Saitkulova from Morgan Stanley.

Gulnara Saitkulova (Morgan Stanley)
Hi. Good morning, everyone. This is Gulnara from Morgan Stanley. Thank you for taking my question. Just to follow up on the liability margins, Tanate has indicated that this will remain the main tailwind and the key income driver for this year. Yet the Netherlands is one of the fastest markets for deposit repricing across Europe. Can you share what you are seeing on the ground in terms of repricing pressures from competition in the Netherlands as well as other markets such as Belgium and Germany? And how close do you think we are to the peak NII?

And the second question is on overlays. So, you have made a top-up in the overlays this quarter. And how should we think about the overlays going forward? Do you think we can expect further top-ups to come in the next quarters or are you comfortable at these levels of the overlay buffer? Thank you.

Steven van Rijswijk
Okay. Ljiljana takes the question on risk management overlays and I'll take on liability margin. Like I said. So, the speed of the tracking rate is amongst others linked to the speed of growth in loan demand. And currently, we see an environment whereby loan demand is relatively subdued. You see that in mortgages where I said that depends on the market. And that goes for all the large markets in which we're active.

The current mortgage production is between 30% and 50% lower than we typically see, but yet the stock is there. So therefore, you see some stabilisation. And also in Wholesale Banking, the loan demand is relatively subdued. So, it will depend on the pick-up of loan demand and economic growth. That therefore there's more demand in loans. And that could also then have an impact on the deposits required. So that's one element of it. So, it depends on pick-up of loan demand, which we currently don't see.

The second element I want to say now, like I highlighted before, in a number of the markets, we are a challenger and that means that we do sometimes do actions like you have seen in Germany. We're more on the front foot and in some markets, and we're more incumbent with a more stable market environment. That's where we are more of a follower and that you see in a market like for example Belgium.

Ljiljana Čortan
The overlays. Good morning. Yes, the total amount of the overlay in the first quarter is a bit above €500 million. Precisely €521 million. And yes, it has topped up. However, the top-up comes primarily from model updates. So IFRS model updates that are to be implemented in the second quarter. When it comes to the real risk overlays, I would say we see a quite constant or even a bit decreasing situation. Having in mind that the macroeconomic forecasts are more positive at this point of time, than they have been once we have set this overlay. So, for the time being we are quite confident about the size of these overlays. And as you see also for some of the quarters already we are at a quite stable level.

Gulnara Saitkulova (Morgan Stanley)
Thank you.

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

Farquhar Murray (Autonomous)
Morning all. Two questions from me. Just coming back to the approach taken in sizing the €1.5 billion capital return announced today, it feels like a simple repeat of the €1.5 billion we saw at 3Q 2022. And that's clearly consistent with equal steps. But if we look at the pro forma CET1 ratio of 14.4%, we're not really seeing the downward trajectory we need to get to the 12.5% target. Can I just ask if is that a reflection just of the lagged nature of the conversation with the ECB and maybe a blowout quarter? And can we expect a resumption of the downward trajectory in the pro forma ratio, looking perhaps at the 3Q update? And then secondly, you actually mentioned a recalibration as part of this exercise. Is that a recalibration of the forward scenarios and the kind of key changes you've made there? Thanks.

Steven van Rijswijk
So, let's put it this way. We have said we want to move to around 12.5% by the end of 2025 in roughly equal steps. We have repeated that statement. And when we apply for certain levels of share buybacks, or for capital distributions, we do that a couple of months in advance and circumstances may change and may be a bit more positive or a bit more negative. But of course if, let's say, our profitability would turn out to be higher and therefore our capital would turn out to be higher, we would recalibrate also the capital plan. And that could then also mean that we would recalibrate those capital distributions. But that depends on where we are at that point in time. With the target to go back to around 12.5% in 2025 in roughly equal steps.

Farquhar Murray (Autonomous)
And then with regards to the recalibration, I assume that that's just the macroeconomic outlook being slightly better probably than it was three months ago.

Steven van Rijswijk
Yeah. So I said we then need to, depending on how things go and if the outlook is better or if it is worse, focus on profitability and capital, and where necessary indeed need to recalibrate. That's how we would do it.

Farquhar Murray (Autonomous)
Okay. Great. Thanks.

Steven van Rijswijk
Thank you very much for your time. Thank you very much for listening to us. Thank you very much for your good questions. We will leave you for now, but I'm sure you can also be in touch with our investor relations team. And I'm looking forward to speaking to you again in three months' time. Thank you. Operator.

Operator
Thank you. That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.