Transcript Analyst call 1Q2025

Presentation

Operator
Good morning. This is Laura welcoming you to ING's 1Q2025 Conference Call. Before handing this conference 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 businesses, 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 statements is contained in our public filings, including our most recent Annual Report on Form 20-F filed with the United States Securities and Exchange Commission and our earnings press release as posted on our website today. Furthermore, nothing in today's comments constitutes an offer to sell or a solicitation of an offer to buy any securities. Good morning, Steven. Over to you.

Steven van Rijswijk
Thank you very much, Laura, and good morning. Welcome to our results call for 1Q2025. I hope you're all well. And thank you for joining us. As usual, I'm joined by our CRO, Ljiljana Čortan and our CFO, Tanate Phutrakul, and we had a good start to 2025.

Today, I will show you how the strength of our franchise enabled continued commercial growth during 1Q2025, as evidenced by exceptional growth in deposits and higher mortgage volumes. I will also explain how our strategy and strong business fundamentals enable us to navigate the current geopolitical and macroeconomic uncertainty. As a leading European bank, we're well-positioned to support the European economy and capture growth opportunities as we remain confident in our outlook. Later in the presentation, Tanate will walk you through the quarterly financials, including the financial impact from the progress we're making on our strategic priorities. And at the end of the call, we will be happy to take your questions.

Let's move to slide 2. This slide gives more details on our strong growth trajectory in 1Q2025. Our relentless focus on providing superior value for our customers has again proven to be a key differentiator. The total number of private individual customers increased to more than 40 mln, and the number of customers choosing us as their primary bank grew as well. We also recorded significant growth in our loan book. Net core lending in Retail Banking grew by €8.6 bln, which was primarily driven by mortgages, while we also captured growth in business lending and consumer lending.

In Wholesale Banking, we saw a modest decline in lending, mainly due to seasonal volatility in Working Capital Solutions, but also as a result of consistent capital optimisation. On the liability side, we saw exceptional growth driven by a strong inflow in Retail Germany after a promotional campaign. Net core deposit growth in Wholesale Banking reflected higher short-term client balances in our cash pooling business. This commercial growth also resulted in a significant increase in fee income, which was 10% higher than 1Q2024. We continue to support clients in their sustainability transitions, with the volume of sustainable finance mobilised rising 23% from 1Q2024 to €30 bln. And I'm proud to say that ING is the first global systemically important bank to have climate targets validated by the Science-Based Targets initiative (SBTi).

Slide 3 summarises how our strategy and strong fundamentals enable us to navigate the current turmoil. And let me start by saying that the introduction of tariffs and the current macroeconomic uncertainty have led to lower growth forecasts worldwide. However, we remain confident in our ability to grow in line with our targets, as our diversified presence allows us to capture opportunities in different geographies and across various sectors.

Most of our lending growth is driven by residential mortgages, which is less sensitive to changes in economic outlook. And, as one of the largest and most diversified wholesale banks, we're also well-positioned to support the economy and benefit from the investment plans across Europe.

On asset quality, although the potential longer-term indirect impacts from tariffs are not yet clear, we are confident that our prudent risk management framework will also prove itself going forward. Around 65% of our portfolio is fully or partially secured. We have a large and growing residential mortgage book with historically low risk costs. And in our main markets, house prices remain high and unemployment rates remain low, as illustrated on the next slide. In Wholesale, we have further increased the portion of our exposure to investment-grade clients.

Then our funding and liquidity position remains very strong. As you know, around 70% of our balance sheet is funded by granular retail deposits, and we maintain strong funding and liquidity positions in all currencies.

And lastly, on interest rates, which have again been volatile over the last weeks. We have proven our ability to manage our margins by taking disciplined repricing actions, and we can confirm our outlook for the liability margin for the 2025-2027 period.

We move to slide 4. here you can see how market dynamics and our position as a leading European mortgage bank enabled us to achieve continuous growth. The outlook for mortgages is positive and we expect the market to continue growing. Mortgage demand for some of our markets, such as the Netherlands, has already recovered after a temporary dip when interest rates went up sharply. And in other countries, such as Germany, we still expect a further recovery.

In addition to this increased demand, volume growth is also supported by a sustained increase in house prices across most markets. At ING, we have been able to strengthen our mortgage offering and significantly increase our market share in those growing markets. In the Netherlands, for example, our market share in new production is currently 17% versus 10% a few years ago, supported by our strategy which focuses on digitalisation and flexible operations to facilitate new production.

Default rates in our mortgage portfolio remain very strong, mostly driven by the constant low unemployment rates in our largest markets. The average loan-to-value in our mortgage book is 56%, with a low Stage 3 ratio below 1%.

Now, on the next slide, I will show that we see growth opportunities in Wholesale Banking as well.

As we are one of the most geographically diversified banks in Europe, with leading positions in lending across many markets, we are really well-positioned to support the investment initiatives. We have strong expertise in key focus sectors such as infrastructure and TMT, and we have adopted a more proactive stance on defence-related funding. In this sector, we, of course, have an ESR policy to make sure that what we finance is responsible, but within that context, we're open to finance defence initiatives to safeguard European security. And demand is picking up, and we see this reflected in our pipeline as well. While we do see growth opportunity in Europe, we will also remain focused on optimising our capital usage in the Wholesale Bank, as we have shown over the last few quarters.

On slide 6, we highlight that our robust capital position and strong results have allowed us to consistently distribute cash and deliver value to shareholders. Our CET1 ratio came in at 13.6% at the end of 1Q2025, and this includes the impact of the implementation of Basel IV and the RWA from our 20% stake in Van Lanschot Kempen. With the acquisition of this financial stake, we have further increased the capital allocation towards Retail Banking, in line with our strategy.

Today, we announced another share buyback of €2 bln. Including this amount, we have distributed over €28 bln to shareholders since 2021, and we are committed to providing an attractive shareholder return going forward. Our CET1 ratio target is unchanged at ~12.5%, but we steer to end this year at a slightly higher level, as we take the prevailing macroeconomic and geopolitical uncertainty into account, in line with our distribution policy. We now steer on a CET1 ratio between 12.8% and 13% by the end of 2025. We will update the market on next steps with our 3Q2025 results, as per our normal rhythm that is about distributions.

Then on to slide 7. I would like to emphasise again that we remain confident in our ability to execute on our strategy even in these more volatile markets. This is also reflected in our strong performance in 1Q2025. We therefore reconfirm our outlook for 2025, including the refinement of our CET1 target, and reiterate our targets for 2027. And now I will hand over to Tanate, who will take you through the results of 1Q2025 in more detail, starting on slide 9. Tanate, over to you.

Tanate Phutrakul

Thank you, Steven. I would like to start on slide 9, where we show the development of our total income, which increased significantly compared to the previous quarter. Commercial NII was resilient and was supported by an exceptional growth in deposits and a continued growth of our mortgage portfolio. Fee income increased significantly and grew by 10% compared to last year. We're confident that most of this growth is structural, and I'll explain why in a few minutes. Lastly, all other income, which is a combination of other NII, investment income, and other income, was supported by strong client activity in Financial Markets and good results in Treasury.

Now let's move to slide 10, where we show the growth in customer balances.

What is clearly visible in this slide is that our commercial growth has continued in the first quarter of this year. Our net core lending grew by €6.8 bln, which was again mostly driven by strong performance in residential mortgage markets. As Steven already explained, we have been able to further increase our market share in a growing market situation, which resulted in 6 bln of growth in mortgages. We were also able to grow in consumer lending and business lending.

In Wholesale Banking, we saw seasonal volatility in balances for Working Capital Solution and we continue our efforts to optimise capital usage. On the liability side, we saw core deposits increase by almost €23 bln in 1Q2025 due to strong performance in both retail and Wholesale Banking. This strong growth underscores our ability to attract deposits. In Retail, growth was particularly coming from Germany, mainly driven by a successful promotional campaign. In Wholesale, the growth mainly reflected higher client balances of our cash pooling business, which can be volatile.

On slide 11, you can see our commercial NII was resilient. Liability NII increased as strong growth in customer balances and our repricing actions compensated for lower ECB deposit facility rates. It also included a structural shift from other NII to liability NII. On lending, NII was broadly stable. However, the growth in balances was offset by a lower margin, which is driven by continued mix shift towards mortgages, which have a higher ROE but a lower margin. It also reflects the impact of having 2 fewer days in the quarter. Our commercial NIM, which is based on commercial NII, was stable quarter-on-quarter.

Turning to slide 12, fee income growth year-on-year was again almost double-digit, mostly driven by structural revenue drivers, or as we call it, alpha. Growth in Retail Banking was driven by a strong performance in Investment Products, as well as higher daily banking fees. The strong performance in Investment Products was driven by a further growth in active Investment Product customers, an increase in asset under management and much higher customer trading activity. Daily banking fees rose on the back of strong customer growth and an updated pricing for payment packages.

In addition, Retail Banking grew its fee income from insurance products and also from lending. But that was more than offset by lower fees from lending in Wholesale Banking. Given the strong performance across the bank, we remain confident that we can grow our fee income by 5-10% this year and reaching our €5 bln goal target in 2027.

On slide 13, we show the development of All other income. Financial Markets had a strong quarter, as it benefited from increased client activity and favourable market conditions. Treasury had a good quarter as well, with income up on both comparable quarters, mainly driven by strong results from FX ratio hedging. And we also received an interim dividend from our stake in the Bank of Beijing.

On slide 14, our operating expenses, excluding regulatory costs and incidental items, increased by just over 6% in the first 3 months of the year. This is in line with our guidance, and we still expect these expenses to end up in line with our outlook for the full year 2025 or between €12.5 to €12.7 bln. This increase was mainly driven by the impact of inflationary pressure and our continued investments in business growth, particularly in customer acquisition, developing products for new customer segments, and in building and scaling our Tech platform.

Operational efficiencies compensated for a part of these increases, as we continue to digitise our services and infrastructure to further increase our operational leverage. We have, for example, used GenAI to improve the customer proposition in contact centres, and KYC processes, which has also resulted in lower expenses.

On to risk costs, on the next slide. Slide 15. Total risk cost was €313 mln this quarter, or 18 bps of average customer lending, which is below our through-the-cycle average. Net additions to Stage 3 provisions amounted to €215 mln and were mainly related to collective provisioning in the consumer and business lending portfolios. Individual Stage 3 costs decreased reflecting lower new inflow and low provisions in Wholesale Banking, driven by repayments and recoveries. Stage 1 and Stage 2 risk costs were €98 mln, mainly reflecting an update of the macroeconomic forecast, model updates, and some risk migration. We remain confident in the quality of our loan book. This is also reflected in a decrease in Stage 2 and Stage 3 ratio.

Slide 16 shows the development of our CET1 ratio, which is increasing slightly from the level of year-end 2024, as higher RWA was more than offset by strong capital generation. The impact of Basel IV and other model updates on our RWA was €-1.4 bln. So that's an improvement on capital. If we exclude this impact and the impact from FX movements, credit RWA increased by €5.2 bln, mainly driven by volume growth in Retail Banking. Operational RWA remained flat while market RWA increased by €1.3 bln, again, excluding the impact of Basel IV and other model updates.

Today, we announced our next share buyback program of €2 bln, which will have a pro-forma impact of 59 bps on our CET1 ratio.

Now, Steven would like to wrap up before going into Q&A.

Transcript Analyst call 1Q2025

Steven van Rijswijk
Thanks Tanate. I would like to recap a few key messages before going into Q&A. First of all, we have had a very strong start of the year, with outstanding commercial growth, resilient commercial NII and strong fee growth which has allowed us to announce the next share buyback programme. Furthermore, our strategy and strong fundamentals enable us to navigate the current geopolitical and macroeconomic uncertainty.

As one of the leading European banks, we are well-positioned to support the economy and capture growth opportunities. We are therefore confident in our ability to execute on our strategy going forward and reconfirm our 2025 outlook and 2027 targets. And with that, I would like to open the floor 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 each analyst to limit yourself to 2 questions only. Thank you. We will now take our first question from Benoit Petrarque of Kepler Cheuvreux, your line is open. Please go ahead.

Benoit Pétrarque (Kepler Cheuvreux)
Yes. Good morning. So I've got 2 questions. The first one is on the liability and lending margin, and the second one is on the share buyback. So maybe starting with the liability margin. I guess the 101 bps posted in Q1 is a strong achievement versus expectations. What is your view on liability margin for the rest of the year? I think, in the previous quarter, you put a comment that it could drop temporarily below the 100 bps mark. I'm wondering if this is still something you expect. I don't see any similar comments in the Q1 presentation.

And then on lending margin also again, could you maybe give us a bit of an update on the guidance, which was at 130 bps before. And also clarify the impact of day count specifically in 1Q2025. And also, if you continue to expect the mix effect to be negative in the coming quarters on lending margin. And then maybe just briefly on buyback, it was just to get a bit of a view on how you got to the 12.8%-13%. What have been the consideration taken on board to get to that level? Thank you very much.

Steven van Rijswijk
All right. Thank you very much, Benoit. And Tanate will take the questions on liability and lending margins, and let me answer you the question on the share buyback. Look, we have a target of ~12.5%. Clearly, the world now knows quite some volatility and macroeconomic uncertainty, given the tariffs and all the discussions that are going on. And in that setting, we have said we want to be prudent and in that mist or fog, if you want to call it that way, we are targeting for 2025, 12.8% to 13%, but our longer-term target remains ~12.5%.

Tanate Phutrakul
To answer your question on liability NII first, I think our expectation is that our net interest margin on liability will remain at roughly similar levels in Q2. What we see in Q1 in terms of our optimism is that the volume growth has been strong. As you know, in a number of markets, we have had significant rate cuts, including the Netherlands, and we have seen no reduction in terms of balances based on those rate cuts, which means that if we had to take further rate cuts, we're confident in the resilience of our liability franchise.

Then, in terms of lending margin. So the lending margin is coming down a little bit in Q2. I think it's driven by 3 impacts. First is the day count impact, which has an impact of approximately 1.5 bps. The lending mix has changed, particularly strong growth in terms of mortgages, and the mix in terms of Wholesale Banking has also changed. So those are the second. And the third is that the funding of the mortgage book has lengthened somewhat in light of interest rate movements. So that is something on lending margin. I think guidance for the rest of the year, we don't give that guidance on lending margin. But I give you the components of what's moving the margin during the course of Q1.

Benoit Pétrarque (Kepler Cheuvreux)
Great. Thank you very much.

Operator
Thank you. We will 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, and thank you for taking my questions. So the first one is a quick follow-up. The 12.8-13% just to reassure the market. Did that involve any ECB request? And if the situation normalises, you plan to go back to ~12.5%?

And then secondly, to stay on the capital topic, during the quarter, you have taken a stake in Van Lanschot, and there have been headlines around potential M&A activity in Spain and Italy. Can you please comment on whether you are indeed looking at something in Spain and Italy, and whether you would consider buying something which is sort of an old-school bank with branches even if you are mostly digital in these countries? Thank you.

Steven van Rijswijk
All right. Thank you, Giulia, for your questions. And let me confirm that the 12.8%- 13% is our own decision. It has nothing to do with the ECB. So this has not been discussed with the ECB as such. We have just taken that own decision based on what we see. Nothing more, nothing less. And the goal remains ~12.5%, and everybody knows that, including the ECB.

You started with Van Lanschot, but the question is about, are you looking at acquisitions, and where are you looking at acquisitions? I believe. And would you buy an old school bank? We are very pleased with our autonomous strategy, where we also, during our Capital Markets Day, said that we want to diversify more, diversify within existing segments in Gen Z or mass affluent, for example, whereby we want to provide more specific propositions to our existing customer base. Diversification in terms of deeper product capabilities in Wholesale Banking and Financial Markets, and transaction services in the markets in which we're active. And diversification in terms of filling in the blanks, if you will, in, for example, Business Banking, consumer lending, Private Banking, Wealth Management in markets where we are active but don't have these activities as yet. We have these activities, for example, in Belgium and the Netherlands, and in Poland, but not all of them in Germany and Spain and Italy and other markets. So that's what we're doing, and we're good at it.

At the same time, if we can accelerate that growth, if it is a skill or product that we do not have, or if it can increase our domestic market position, because retail is still largely a local scale game, given the compartmentalisation of regulation in Europe, then we will look at it and we are looking at it in all the markets in which we're active. And then it has to also fulfil our strict M&A and ROE criteria that we have, and that's how we will look at it. And when there is something to tell you about it, we will. But there is currently nothing to comment about any specific opportunity.

Giulia Miotto (Morgan Stanley)
Thank you.

Operator
Thank you. And we will now take our next question from Hari Sivakumaran of KBW. Your line is open. Please go ahead.

Hari Sivakumaran (KBW)
Hi there. Can I ask on slide 23. I appreciate you're quite consistent here in giving the quarter-end forward curve. But just given that rates have been quite volatile, if we roll forward a month, I would guess that the €9 bln in 2025 would move towards €8 bln. But I'm just wondering with a steeper yield curve, is that €10 bln number in 2027? Is that a little more sticky? And then my second question is on the Wholesale business. I can see the RWAs are coming down. And that's kind of in line with the strategy. But I was a bit surprised that the FTEs are increasing. It's up 5% this quarter and up 11% year-on-year. So any colour on that would be helpful.

Steven van Rijswijk
Thank you very much, Hari. I will give the question on page 23 to Tanate. When it comes to the FTEs in Wholesale Banking, it has to do with more fee business so that we are broadening our capabilities in Financial Markets, which, by the way, had a very good quarter. We're putting salespeople more on the ground to be able to diversify better. And that's why we continue to invest there as well. And that's why you see the fee is going up. So we have scalability in our operations. Where we reach more scalability, we can also invest more in either our sales capabilities, our product capabilities or our tech platforms.

Tanate Phutrakul
Hi, Hari. On page 23, as you see, we're consistent in providing this every quarter to show the impact. And I think what we have done also during the course of the last 6 months has been extending the duration of the replication so that instead of 50%-50% duration, we have now gone to 55%-45%, which should help stabilise a bit the replication results in 2026 and 2027. We also are demonstrating quite strong engine in terms of liability growth in 1Q2025, and we expect that trend to continue into the rest of the year.

And lastly, of course, we manage our margin. You can see that we have taken significant rate actions in 1Q2025 with a full-year impact of €1 bln. And that our room in terms of cutting rates, remains in place. For every 10 bps cut, it means €400 mln additional revenue. So those are some of the components to describe a bit what's happening and the levers that we could pull in terms of stabilising our replicated revenue.

Hari Sivakumaran (KBW)
Thank you.

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

Farquhar Murray (Autonomous)
Good morning, all. Just 2 questions, if I may. Firstly, deposit volumes are clearly running better than the 4%. You seem to expect that to continue to a degree, and replication dynamics are better. So I just wondered why you perhaps maybe aren't hedging NII guidance a bit better. On the other hand, I presume the 130 bps on lending margin is now probably a little bit stretching given the dynamics you outlined earlier. And then secondly, on the CET1 targeting for full year 2025, it's early in the year. The tariff discussion could frankly settle out as quickly as it flared up. In those circumstances, would you revert back to the ~12.5% CET1 target for this year-end, or when realistically, might you do that? Thanks.

Steven van Rijswijk
On the CET1 target look, there is quite a bit of uncertainty, and we want to, at least, remain consistent. There is a consistency right now: so for 2025, we stick to that target, and then depending on how things will be, then we're going to move back to the ~12.5%.

Tanate Phutrakul
Then on liability margin and the volume outperformance in Q1, but I emphasise it's only Q1. So in fact it's early in the year, we are much more optimistic and confident in maintaining our net interest margin on liability, but no change in guidance for now.

Farquhar Murray (Autonomous)
Thank so much.

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

Tarik El Mejjad (Bank of America)
Hi. Good morning everyone. Just 2 questions for me as well. On the margins first, can you explain a bit the deposit growth strategy you have in Germany? And this campaign targets what exactly, what type of deposits, and what's your plan for the rest of the year on this? And still on the margins, you mentioned before Tanate, that your replication portfolio was purely to replicate deposit behaviours, and you're not playing with duration or mix. And now you've shifted from 40%-50% to 50%-50%, and now 55%-45%. Are you still willing to pull that lever even further if the rates pressure intensifies to maintain your liability margin around 100-110?

And then on the capital return, to follow up on Farquhar's question on reversing back. I don't want to be too cynical here, but if let's say, I mean, the situation improves a bit better, this capital, higher capital target is not also a bit to gather or retain some capital for potentially M&A? Or is it purely macro-driven, kind of uncertainty-driven? I'll keep it here. Thank you.

Steven van Rijswijk
All right. Thanks, Tarik. I'll take the one on capital and on deposit strategy. And then Tanate will talk about duration. On the deposit strategy, look, we have a great deal of experience on these customer acquisition campaigns, and we've done this for decades, so we know very well what to do, at which point in time, what to expect. And therefore, we've seen that in Germany previously as well, but also in other markets that we deploy these campaigns. And, these campaigns, then, are aimed either at fresh money that should show an NPV – fresh money of existing customers that would show a positive NPV on a 6 to 12-month basis. Or if they are linked to-new-customer bank, then they show a 2-3 year payback period. And again, the target is that we make these clients primary customers because then they will do more business with us at higher ROE levels.

And so these campaigns are very targeted, very precise, very data-driven, which means that we continuously monitor what they do, how much money will remain in the bank. We've seen the success of that also in the past couple of years, and that's how we go about that. And again, you saw this quarter that we had a very successful campaign in Germany and in each market, we continuously look at and discuss where and how do we plan these campaigns to get money in and get more customers to work with us, because it drives scalability and it drives ROE. Tanate.

Tanate Phutrakul
On duration, you're right. Basically, we manage duration on the basis of maintaining stable balance sheet. That is what is our hedging goal. And, as interest rate started to decline sharply the last few months, we have also adjusted the duration to the anticipated client behaviour situation that we have. And as a side effect of that, by increasing the duration, it brings further stability to our income in 2026 and 2027.

Steven van Rijswijk
And then on the third question, I forgot, Tarik. Everybody is entitled to their own cynicism, but I can assure you this is only because of macroeconomic circumstances, nothing else.

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

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

Benjamin Goy (Deutsche Bank)
Good morning. 2 questions please, from my side. So the first on loan growth, you mentioned a healthy pipeline in Wholesale Banking, but maybe can speak a bit about how much more specific this has become and how much confidence you have in an improving outlook from here.

And then secondly, on Van Lanschot specifically, maybe you can explain again why a minority stake is the right amount of investment. Thank you.

Steven van Rijswijk
I think if you look at loan growth in the Wholesale Bank, what we do see is very healthy pipelines. And I think that if you look at our Wholesale Bank, which has a good global diversification, but also a very good diversification in Europe, with strong, typically top 5 lending positions in most of the markets in which we're active in Europe, which is 20+. Then, we can benefit quite a bit from, let's say the investments push that Europe wants to give in infrastructure, and in defence and in technology. And also, the plan that Germany has, it will always take a while for these plans to come to fruition.

So, the pipeline is healthy, the question will be the conversion. So, and of course, there is uncertainty. We've seen that industry and consumer confidence parameters are relatively low. So, we need to see what the conversion levels are. But we are confident that when they come, that we are then a bank that will be able to benefit from it. And it's just a matter of time when the uncertainty will lift. So that's where we currently are, and that will then result in a higher or lower conversion.

On Van Lanschot, like we also said during Capital Markets Day, we want to diversify further. But also want to diversify our capital more towards the Retail segment, which has more sustainably higher return levels. And that's why we have a capital velocity program in Wholesale Banking whereby we increasingly use all kinds of techniques and insurances and secondary sell-downs to reuse the capital more often in Wholesale Banking and to grow faster in Retail Banking. And as part of this, with Van Lanschot, which is also a retail player, we have also moved part of our capital again into the Retail Banking space, which is exactly what we want to increase the weight of capital from Wholesale to Retail. And this adds to it.

Benjamin Goy (Deutsche Bank)
Thank you.

Operator
Thank you. We will now take our next question from Delphine Lee of J.P. Morgan. Your line is open. Please go ahead.

Delphine Lee (J.P. Morgan)
Yes. Thank you for taking my questions. So my first one is going back to liability margins. So I just wanted to understand a little bit with the actions you've taken on deposit rates that leads to total €1 bln. Is your target for the full year still €1.3 bln or how much more can you really get? Just to understand the moving parts within NII, given the low rates. And then my second question is just on cost of risk asset quality. I've seen you increased your Stage 1, Stage 2 provisions. If you don't mind, just reminding us a little bit your assumptions macro-wise under IFRS 9 accounting. Thank you.

Steven van Rijswijk
All right. I'll give the question on liability, the €1.3 bln to Tanate and on the Stage 1, Stage 2 to Ljiljana.

Ljiljana Čortan
Let me start. Thank you very much for the question. You've seen the asset quality in 1Q2025 improving when it comes to all of the indicators. And what we are specifically proud of is that the Stage 3 ratio has decreased. And specifically, provisions for Stage 3 have decreased, specifically on the individual side. You're right, Stage 2 combined also with Stage 1 amounts to €98 mln this quarter. And it's the impact of several parts.

First is correct, the macroeconomic forecast. And when we do the macroeconomic forecasts, we use the external unbiased scenarios, and we update our models regularly in order to make sure that they are objective and that they are following the latest outlook. That's one. Secondly, you've seen in the first quarter differently than previously that there has not been significant overlays decrease. That means that the risk cost as shown is in Stage 1, and Stage 2 are the real risk costs coming from the, as I say, macroeconomic, risk migration, and some model changes. However, normalised, we do see the situation still below through the cycle and we do expect to remain there.

Tanate Phutrakul
Ok. Just on liability margin. Again, I think you go back to page 23 that shows the replication impact. I think a couple of points to add there. One is that the savings rate cuts that have taken year-to-date, May 6th results is €1 bln. But we didn't explain further that, in fact, the term deposit rate cuts also has a positive impact on top of that €1 bln. So that's the first point to make.

The second is that, as you know, in a number of markets, we are not the best pricer in terms of deposit costs. And yet by our rate actions, our deposit volume continues to be stable or increasing. So that gives us confidence. And that's because of the granular levels of our retail deposits, which average around €15,000 per person.

And then the last point is that our blended cost of eurozone deposits for savings and term deposits was 143 bps in Q1. So we do have room for further rate action if required. And every 10 bps point reduction means €400 mln annualised impact.

Delphine Lee (J.P. Morgan)
Great. Thank you very much.

Operator
Thank you. We'll take our next question from Matthew Clark of Mediobanca. Your line is open. Please go ahead.

Matthew Clark (Mediobanca)
Hi. Some questions on the replicating portfolio, please. So firstly, just to understand, you said that the shift from 50% to 55% invested over 1 year happened over the last 6 months. Can you be a bit more specific? Was it genuinely a gradual implementation? Because I wasn't aware in prior commentary that you'd said that it was moving. And then what duration have you or what maturity instruments have you been buying at in order to make that shift? And what's the overall updated duration of the replicating portfolio overall? Now, I think it used to be 2.4 you guided, but presumably that's moved up as a result of this shift. So some commentary there, please.

Steven van Rijswijk
All right. I give the questions to Tanate.

Tanate Phutrakul
The shifts to 55% is happening gradually over time, and that's shifting with the forward curve coming down. So the replication stretches over time. So it's been gradual, not happening in one fell swoop over 6 months. In terms of the maturity instrument that we use is a combination of using swaps to extend the duration and, of course, using our investment portfolio as a hedge. And then the average duration is about 2.4 years still, roughly. A bit higher.

Matthew Clark (Mediobanca)
Can you just elaborate how you shifted out of the liquidity into the duration part by 5 percentage points, but it doesn't impact the average duration. It implies you've been buying at or around the 2-year maturity level. Is that the right way to think about it?

Tanate Phutrakul
Yes. I suppose in a way we do what we would call barbell hedging. So we have a significant part of our replication in the 3 month bucket. And then over one year it's anywhere from over 1 to 10, 15 years, right? So it's a barbell strategy. But I think

if you want to follow us, and by the way, we do the calculations for you on page 23 anyway. But the average duration on the part, which is more than one year, is around 4 years, something like that. So if you look at the curve around 4 years, you should get a sense of how accretive that is. But we, as always, reaffirm and we will keep updating page 23 every quarter.

Matthew Clark (Mediobanca)
Ok. But you weren't selling 364 days and buying 367 day instruments in order to shift that, right?

Tanate Phutrakul
No, we're not doing that.

Matthew Clark (Mediobanca)
Ok. Thank you.

Operator
Thank you. Our next question comes from Kiri Vijayarajah of HSBC. Your line is open. Please go ahead.

Kiri Vijayarajah (HSBC)
Yes. Good morning, everyone. A couple of questions, if I may. On fees and the 24% growth in the insurance part of the fees. Could we just have a bit more colour, which geographies, which partnerships? Which specific products are driving that growth?

And then secondly, actually still on fees. The Retail brokerage activity, the data looks pretty strong through April, with all the market volatility. And I guess we've seen that movie before. But does it feel like there's some sustainability there? Or should we think of the recent April as more of a blip in terms of Retail brokerage and maybe some weakening as we go into the summer on that side of things? So 2 questions on fees, please.

Steven van Rijswijk
First of all, I think that on fees, what we want to do is to continuously increase the alpha. And that also means that in the past couple of years, we have put in some substantial efforts to not only have daily banking, but also to grow our investment product business and our insurance business. And I'm sure we're going to add a few more in the next couple of years. And when that is the case, I will tell you something about that. But one of them was insurance because that is good annuity income for our existing customer base.

And so we have all the Retail markets, contracts with providers. There are different providers that we work with, there're different structures we work with depending on the market. And also, we introduced insurance also for Business Banking in different markets, which in the past we did not have. So it started out small a few years ago. And once or twice, I've made remarks about that we have relatively small insurance distribution fees. But now, you see, it's becoming quite sizable. And we expect this to continue.

When we talk about Retail brokerage in 1Q2025, we had more assets under management and we had more trades, and we had a higher number of people who are trading with us, that is now currently 4.6% in Capital Markets Day, sorry 4.6 mln (customers). I said in the Capital Markets Day last year, it was about 4.2 mln. So ok, now we moved up to about 11%, 12%. It is good. But that still means that approximately 88% of our customer base is not trading through ING if they are trading. So there are a lot of upsides there.

We continue to refine our products, improve and centralise our investment engine, improve our reporting. So move to additional segments also not only brokerage but also simple advice and personal advice. So those are new brackets in that setting. So we're confident in being able to further grow that. And that will support the fee guidance that we have given. But we remain very confident on that.

Kiri Vijayarajah (HSBC)
Great. Thank you.

Operator
Thank you. And our next question comes from Johan Ekblom of UBS. Your line is open. Please go ahead.

Johan Ekblom (UBS)
Thank you. Can I just follow up on 2 things that we haven't spoken about? One is at the Capital Market Days, we spoke about the use of Significant Risk Transfer trades. Can you just give us an update on where you are, if there is anything, any impact in Q1 or where you are in terms of timelines there? And then secondly, also just an update on the Business Banking rollout in

Germany where we are there would be helpful. Thank you.

Steven van Rijswijk
On Business Banking, I will say something, and I give the SRT question to Tanate. Our Business Banking rollout is going well, we focus on the digital part of Business Banking. So that means self-employed, SME. With that, we have an interesting proposition, but also a proposition that we will go with it. And therefore, we gradually grow step by step. But still, in the bigger scheme of things, it remains small. But we're confident that we're going to be able to also realise a position in that market because there's a lot of untapped potential, especially on the digital side, where there is no other player really in Germany that rolls it out in a way that we are currently rolling it out.

Tanate Phutrakul
We're still planning on doing an SRT trade this year. We're in the process of preparing for that, and we expect that trade to happen in the second half of the year. In terms of size, I think we expect, subject to regulatory approval and market conditions, somewhere around 10 bps relief in CET1 in the second half of the year.

Johan Ekblom (UBS)
Thank you.

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

Anke Reingen (RBC)
Thank you very much. Just 2 follow-up questions. The first is on the increase, in your temporary increase in your target capital ratio 12.8%-13%. The cautious stance that's underpinning this increase. What other business decision has it impacted? Are you looking a bit more cautious on your lending or investment spend? Or where else does it impact your operations or your thinking?

And then, just in terms of April and the tariffs, given you are obviously very strong in the corporate banking world. I'm just curious about what you're seeing from customers. So maybe a bit more cautious at the beginning of April, but are you seeing more demand for loans or cash balances in the last few days? Thank you very much.

Steven van Rijswijk
I'll take the question on customers, and I will give the question on where are we cautious or how do we look at, let's say, the circumstances to Ljiljana. So if you look at our customers, there are 2 tales, if you will, or maybe even a few more. But on one hand, we have Retail, which is 65% of our lending book and there, you see that a significant part of that retail lending book is mortgages. And if you then look at mortgages, we are active in markets which have low unemployment rates Netherlands, Belgium, Germany, Poland, Spain. And you see all of those markets, you see good growth on the back of low unemployment on the back of the market restoring after, let's say, the start of the Ukraine war and the high interest rates that it brought with it, which are then coming down on the back of house shortages. And as you see, also depicted on one of the slides, where we show a number of these developments that are supporting that. That's one element on the retail side.

Secondly, on the Retail side, you see customer confidence relatively low, but we don't actually see that back in our payment volumes. And we are one of the biggest payment providers in Europe. And the number of payments that are being done or the volume of those payments remains strong. So we can't see it in indicators there. So there's not so much to see on the Retail side of things. What we do see in Wholesale Banking is that the lending demands and the lending growth in Wholesale Banking were relatively subdued, with a small decrease. Companies are a bit uncertain, depending on the sector and the import tariffs that are being levied. You maybe see that in there was a lot of quick demand in 1Q2025 with the expectation that these tariffs would come, that demand then goes a bit down at the end of 1Q2025 and into Q2. And then you see that in terms of production companies or transportation companies, there is a bit more conservatism in terms of investment. That's what we currently see. We don't see a big inflow currently in our restructuring departments, but you see caution in further growth and investments being made on the Wholesale side. Ljiljana.

Ljiljana Čortan
Thank you for the question, Anke. And I think Steven already gave some flavour to how we think. Maybe to add, we know the tariffs are not good for everyone, and there are clearly no winners in that game. And they have several consequences. And one we've seen in April, which was the spike in market volatility. And during that spike, I think ING has weathered strongly through it. And with no extra demand for cash or non-honoured margin calls or collateral calls. So everything was business as usual. And through our strict monitoring, we're going to ensure that in case of eventual future spikes, we do the same.

The other consequence that the tariffs have brought are definitely economic uncertainty. And here our clients need a bit more time, and we need a bit more time as to understand how is it exactly going to impact the economy and their business models. And while we have dissected our Wholesale Banking portfolio, depending on geographies, industry sectors, we have concluded that the direct impact of the tariffs would be limited based on the fact that we are well diversified into the economies that are less affected by the tariffs. But as well that we are well diversified in industry sectors that are under less pressure.

And that is all confirmed also by strong financial flexibility of our clients. As you know, approximately 84% of our Wholesale Banking client base is investment grade, and two-thirds of our exposure are fully or partially collateralised. Also, the portion of clients in our portfolio that have strong exports to the US is limited. All of that gives us, I would say, current confidence that the direct impact from it will be very limited. However, we have to look into when and how the conflicts are going to be resolved in order to understand longer-term impacts on our clients.

Anke Reingen (RBC)
Ok. Thank you very much.

Operator
Thank you. And our next question comes from Namita Samtani of Barclays. Your line is open. Please go ahead.

Namita Samtani (Barclays)
Thanks for taking my questions. My first question: is there a correlation between the mobile customers only growing 174,000 this quarter and the amount of deposit cuts you've done? I'm just curious, given the 1 mln target of mobile customers you have this year, and whether you would sacrifice on the mobile customers target in order to cut deposit rates and defend net interest income. And secondly, I just wanted to make sure the 25 bps deposit cut in Germany, which takes place on 7 May, is that included in the €1 bln deposit cost guidance or not? Thanks very much.

Steven van Rijswijk
All right. I'll take the question on customers, and Tanate, on the 25 bps cut in Germany. Is there a correlation? No, there is no correlation. If you look at the first quarter, typically it is slow. So if you look at the first quarters in many of the previous years, that's also the case. Then people come out of, let's say, the festive season, and then generally there are less products being sold in terms of new customers. So last year was about 180,000. Now it's about 174,000. So that statistical difference is small. So we're still well on our way to reach 1 mln for this year.

Tanate Phutrakul
And just to confirm, the second rate cut in Germany of 25 bps is included in the €1 bln.

Namita Samtani (Barclays)
Thanks very much.

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 only. Thank you. We will now take our next question, a follow-up from Farquhar Murray of Autonomous. Please go ahead.

Farquhar Murray (Autonomous)
Morning, all. Just 2 quick follow-ups. Just on the Dutch mortgage market, Q1 was notably strong. I just wondered whether you saw any moderation there in the second quarter so far. And also, could you just give an outline on how mortgage pricing on new business compares to the back book? And then secondly, one slightly technical question on the new commercial NII disclosure, which is a positive improvement. And thanks for that. It included a reallocation shift of €160 mln, I think, on full year 2024. I just wondered if you could give the 1Q2025 impact and perhaps how that compared Q on Q. Thanks.

Steven van Rijswijk
I'll give the reallocation question to Tanate. On the Dutch mortgage market. I think you have 2 sub-questions. The one is do you see good commercial momentum continuing also in the second quarter? The answer is yes. We do see continued good momentum also after 1Q2025. And the margin versus the back book. I think that the margin is a little bit higher. On the client side, the only pressure that you get is, let's say, not from the back book, but the fact that people are extending their mortgages. So therefore, you partially refinance the back book, and that gives a bit of pressure. But the margins for the new production are higher.

Tanate Phutrakul
Just in terms of commercial NII. I'm glad you like the new way we present our commercial NII, and you're right that the reclass is around €160 mln because of our cash pooling reclassification. And I think €160 mln is a good basis for which, if you're doing your spreadsheet for 2025, that's a good number to use.

Farquhar Murray (Autonomous)
Ok. Great. Thanks for that.

Operator
Thank you. And our next follow-up question comes from Matthew Clark of Mediobanca. Please go ahead.

Matthew Clark (Mediobanca)
Hi. Just very simplistically given commercial NII was up 1Q2025 versus 4Q2024, given your guiding liability margins flattish for the next quarter, can we draw the conclusion that commercial NII has now troughed and should be drifting up from here? Thanks.

Tanate Phutrakul
I think again, would only describe the moving parts, right? It depends on what the forward curve will do. Depends on how volume growth, lending margin, sorry, lending volume, liability volume, and depends on any further rate action that we do. So those are still the moving parts. But I think looking at where we see now, we do see stability. We see stabilisation of our commercial NII and our liability. And then we should grow from there.

Matthew Clark (Mediobanca)
Thank you.

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
Thank you very much, Laura. And again, we had a strong quarter, the first quarter, with good commercial momentum. We are confident about our outlook for 2025 and 2027 with our targets, and we continue to grow at it. And with that, I thank you very much for your time, for your questions. I wish you a very good Friday and looking forward to speaking to you again soon. Thank you.