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PRESENTATION

Operator

Good morning. This is Brasina welcoming you to ING's Fourth Quarter 2019 Conference Call. Before handing this conference call over to Ralph Hamers, Chief Executive Officer of ING Group, let me first say that today's comments may include forward-looking statements, such as statements regarding future developments in our business, expectations for our future financial performance and any statement not involving an 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, Ralph. Over to you.

Ralph A. J. G. Hamers ***ING Groep N.V. - Chairman of the Executive Board & CEO***

Okay. Good morning, everyone. Welcome to our full year 2019 results call. As always, there's a whole team here to support us in order to give you as much details as possible. And both Tanate Phutrakul, our CFO; and Steven van Rijswijk, our CRO, are here as well. And after my introduction, as you know, we'll have plenty of time for Q&A.

So let's go through the presentation. I hope you all have it now in front of you on the screen. So in our annual results, we posted a profit of EUR 4.8 billion in 2019. For earning primary relationships, 2019 was actually another strong year. Our primary customer base has increased to 13.3 million. We grew by 830,000 primary customers, which is nearly 100 new primary clients per hour. And that is in a 24/7 world, which it is, in a digital environment. So 24/7, 100 new primary clients an hour.

On the back of this commercial growth, we were also able to increase our core lending. That was up almost 3%. And at the same time, we were able to keep our pricing discipline, and that translated into higher lending margins, especially in mortgages.

The clients do more business with us, and as a consequence of that, we see good fee growth. And also that's largely countered the margin pressure that we see coming from customer deposits as well as the higher expenses that are related to KYC and further increasing regulatory costs.

Risk costs increased as we saw a number of larger uncorrelated incidents. However, risk costs remained below our through the average -- through-the-cycle average, and the quality of our loan book remains strong. Now if you combine all of that, we generated a return on equity for 2019 of 9.4%. The CET1 ratio ended the year at a 14.6%, but that already includes the EUR 13.2 billion of expected supervisory impact on risk-weighted assets. If you were to exclude these risk-weighted assets increase, CET1 ratio would have increased to 15.2%.

Overall, also in 2019, we are earning the primary relationships, developing better analytical skills and increasing the pace of innovation. Cost discipline remains a focal point with KYC increasingly weighing on costs. But as you know, countering financial and economic crime remains a priority for us. And we, thus, continue our efforts to improve the effectiveness of that environment. We proposed an attractive full year cash dividend of EUR 0.69, and of course, subject to our AGM in April.

Turning to Slide 3. Just look at the continuation of our commercial momentum, specifically in retail. You can see that our private customers increased by more than 830,000 for the year. Very well spread over all of the countries, but particular growth in Germany; still going strong in Australia, Poland, Romania for the years, Spain in the last quarter as well. So real good results and very well spread.

Net core lending growth, a key enabler, as you know, came in at EUR 17.2 billion for the year or 2.9% year-on-year, mainly realized in our retail markets. Net core lending growth in Wholesale Banking slowed down. But that, we indicated that already about a year ago. It's in line with what we have been guiding since.

Aside from the caps that we have on certain sectors, we flagged that our focus would be on return with higher pricing hurdles and appropriate risk. And that does result in us passing up on deals. And you see the effect of that here, combined with a subdued syndicated loan market in the first 3 quarters of last year and higher loan prepayments as well, and specifically also in the last quarter, we saw that. Overall, we maintain our ambition of 3% to 4% of loan growth, with a slightly lower level for wholesale at 2% to 3%.

Now customer deposits grew by EUR 23.4 billion. And as said before, we do not see the effect of increased spending due to lower rates, but rather the opposite. One of the -- so basically we see that customers save more because they are uncertain about their own financial buffers. So the monetary easing is doing exactly the opposite from what it's supposed to do.

And at the same time, we also see that over time, the low rates, may lead to businesses having a higher impact when the rates would increase back again, because businesses are getting used to very low-risk costs, so -- very low costs. So I think that we have to be mindful -- I have to be mindful of the financial impact for these businesses once the interest rates would return to normal. But again, that is not on the horizon.

Now in terms of the most recent Net Promoter Score, you see that we scored #1 in 6 out of 14 retail countries. And as of now, the Philippines are included as a retail country.

Turning to Slide #4, I'd like to share with you the achievements so far of our digital-only, mobile-first approach as we are increasing the pace of innovation in this field. Especially mobile is key. So basically, the strategy that we set out some 6, 7 years ago, really going for digital banking, going from mobile-first banking, that one is really banking the trend. Actually, you can see that here.

More and more customers spend their time on their mobile. The mobile is part of their lives, and you need to be there if you want to make a difference. You need to be there and interact with them. So today, 37% of all of our customers only interact with us on their mobile devices. You see that that is growing very fast, and that comes from 12% in 2016. And on a growing customer base, yes, so at the same time, we're also growing our customers. And this is a CAGR, an annual growth rate of 56%.

You see that in the middle bar chart, that mobile is, by far, our customers' preferred channel to interact with us. In 2019, 82% of interactions with our customers was mobile, up from 52% in 2016, and this is on a further increasing number of interactions, reaching 4.5 billion in 2019 or 20% higher than 2018.

As we said in our Investor Day in March, growing the number of interactions is very important because we see every interaction as an opportunity to engage with our customers and convert it into a higher purchase of products or services by them.

The last graph that you see here shows that we're also more successful at delivering products and sales digitally. The number of mobile sales per 1,000 customers in 2019 was almost 7x higher than in 2016. So as said, it's clear that we are banking the trend here. All in all, these are the achievements that we're proud of, and these numbers show that we're delivering on our purpose to empower people to stay a step ahead in life and in business.

Now let's turn to the 2019 results on Slide 6 now. So here, we can see some of the key drivers of the underlying income growth. Despite the impact of the lower rate environment on liability income, we have managed to grow our net interest income over the past years. And also, the fee income has progressed in line with our ambition of growing this by 5% to 10% per annum.

Compared to 2018, underlying income grew by 1.2% in 2019, mostly because of stronger NII in Retail Other Challengers & Growth Markets and Wholesale Banking as well as marked improvement in the Corporate Line. Margin pressure on customer deposits resulted in a lower NII in Retail Benelux, and that's driven by the Netherlands, but we also see some of that now in Germany.

Net fee and commission income was also up, as you can see, despite a subdued syndicated loan market in Wholesale Banking. And overall, seeing the pressure we get from negative rates and then seeing that we managed to absorb the pressure by growing the book, by being very disciplined in our asset pricing, and this leading to a growth in NII, I think we did a good job on that aspect.

Note that we have announced in the Netherlands that we will be charging negative rates on credit balances over EUR 1 million and as for business customers starting in April 2020 and for retail customers starting in July 2020.

On the expense side, also excluding regulatory costs, we saw costs increasing in 2019. And that mainly reflects the increased spending on KYC, continued investments in business growth and also some higher staff-related expenses. And this should not be taken as a sign that we do not focus on our cost discipline, and as I said before, we have proven throughout the years that we are capable of absorbing higher costs.

And if you look at the CAGR of 2.7%, all these increasing costs are coming together, and we're committed to absorbing these costs. But they come in, in specific years, and it takes us a couple of years to really absorb them by digitalizing further, by making sure that we improve the operating leverage. And that's what we're working on every day.

Regulatory costs is one of the costs that we have to absorb. And also this year, they again increased by 8% compared to 2018. That's driven by higher contributions to local deposit guarantee schemes, higher bank taxes. Regulatory costs are now 10% of our cost base.

Overall, notwithstanding the growth on the income side, our cost-to-income ratio was up in 2019, and that's coming in at 56.6%. When you focus on our operations, excluding those regulatory costs that are growing faster than the other costs, the cost-to-income ratio came in at 51%.

Although these show an efficient operation, we are not happy with this and we're not happy with an increase in costs that we are seeing. And we will have to continue to work very hard on becoming more efficient. So you can expect some of that to come in this year. Our transition to a digital bank is going to help us realize that. But it's a lot of effort that we are putting in.

Now moving on to the risk costs for 2019. Risk costs came in at 18 basis points over average customer lending. So that's well -- that's below the through-the-cycle average of around 25 basis points. But it is up from 2018.

As you know, we always monitor whether we see a trend of risk costs originating in a certain geography or a certain sector or whether we see a correlation in underlying causes. And clearly, the development of risk costs in 2019, and especially in the fourth quarter, this has led to higher scrutiny within the risk chain, the credit risk chain. But over the quarters, we do not see that a certain specific geography or a certain sector is consistently generating higher risk costs.

Also, when we look at the underlying causes, it's just -- it's not just 1 factor that we can point to. We see clients impacted by trade wars.

We see clients impacted by commodity prices. We see them in businesses that are being disrupted, not being in time in changing their model. And at the time of the fourth quarter -- at the end of the fourth quarter, we also saw a sizable suspected external fraud case coming in, and that's included here as well.

Furthermore, when we look at the loan book, we see the Stage 3 ratio further improving actually to 1.4%. And also the exposure of clients, which we have placed on watch list, has actually come down over 2019.

So we can have a discussion about it in the Q&A. But so far, when we're looking at things, we're seeing these risk costs happening in different areas. We don't find a common denominator. We don't find any correlation. And the underlying book is actually improving.

Turning to the -- Slide 9 now, looking at the results. Our net result came in below 2018 due to the higher risk costs; increased expenses, especially related to KYC; deposit guarantee schemes; bank taxes, as mentioned; as well as having a higher effective tax rate for the year. And for the full year, the results led to a return on equity of 9.4%.

If you then compare where we are versus our ambitions. That's Slide 10, I think, in my presentation, just to make sure. You see the CET1 ratio and the leverage ratios remaining well ahead of minimum regulatory requirements for the return on equity was slightly below our ambition. I believe we continue to produce an attractive total return despite higher capital requirements, despite a lower interest rate environment and despite the increased regulatory costs.

Our cost/income ratio, as mentioned, impacted by some of these factors. And also to reiterate to you, cost/income is not how we run our business, but it certainly remains an important input for return on equity. We look at operating leverage in terms of really looking at the efficiency of our business. But from a cost/income ratio perspective, we do still think that for a business that we run, if you digitize your processes and your customer experiences, that the 50% to 52% ambition is still achievable.

Also, for 2019, our policy is to pay a progressive dividend, like we did in the past years, with a proposed cash dividend of EUR 0.69 per share.

Now turning to the fourth quarter results. And by now, I'm on Slide 12. Here, you see a summary of what we're doing on the KYC side. So countering financial and economic crime, as you know, remains a top priority for us. It's also reflected in the number of FTEs, has further increased to 4,000 as we speak. We're still working and implementing our enhancement program. As part of this, all countries now apply what we call a uniform systematic integrity risk analysis or SIRA.

SIRA provides guidance on KYC integrity risk, helps determine which clients to accept as well as the required type and frequency of monitoring that you have to apply to those. In Italy, we continue with the implementation of the improvements required by Banca d'Italia, where we still refrain from onboarding new customers. But we fully service our existing customer base.

We've also invested in Ascent, which is a company which provides tools based on artificial intelligence. These tools help companies by tracking which regulations apply to their business, helps them manage the associated regulatory obligations, provides order reporting on these obligations as well.

So you see that from an innovation perspective, we saw a lot of things coming up focused on KYC and AML and transaction monitoring. You see that we're buying and investing in companies that help us there as well. Because in the end, we really want to do this very well, and we want to do it our way, which is an intelligent and digital way over time. But we're working on it.

In order to improve the effectiveness of all of this, we have to work together with other banks, but also with law enforcement and regulators to be able to develop our joint analytical skills in this area. In the Netherlands, we've taken the cooperation with other banks a step further. But also in Belgium, we have now joined forces with other banks and fintechs. In our view, it's really a necessity to increase the effectiveness of safeguarding the financial system. And I think that's really the next step, which is how do we make it even more effective.

Turning to Slide 13 on innovation. Just a milestone in Poland, where we are the first bank to introduce account aggregation. An update in Yolt. In Yolt, as you know, that's the account aggregation app that we have developed in-house. We launched that in the U.K. some 2 years ago. We are now exceeding 1 million users, and also businesses can now use Yolt aggregation services. And we are getting a lot of recognition that Yolt is a success, and it's receiving quite some awards for Best Personal Finance App. So innovation continues both on customer experience, but as said, also in the KYC area.

Our leadership on the climate change side, of fighting climate change, has also been recognized and reinforced. As for the fifth consecutive year, we are now recognized as an A-list company by CDP. That's a leading global environmental disclosure platform. And commercially, 2019 also in the sustainability area was very strong with the number of deals actually doubled and the amount of sustainable finance deals doubling.

A few examples are outlined here for an Italian client as well as a Norwegian client. You basically see that our specialists in this one are in high demand in order to help these customers across the globe to manage their improvements on sustainability. And I want to do that also through receiving incentives in the way we structure these loans but also tapping different parts of the market from a sustainable bond perspective.

Turning to Slide 14, the financial results, that's where we start here. The underlying pre-tax result was over EUR 1.3 billion. That's EUR 355 million below the same quarter of last year. And that is due to slightly lower income, higher expenses and higher risk costs.

Year-on-year underlying income was EUR 62 million lower, and the higher negative valuation adjustments in financial markets this quarter and the exceptional EUR 50 million higher profit from our stake in TMB in the same quarter last year more than offset the combination of higher margins resulting from our pricing discipline as well as the higher fee income.

So basically, a positive one-off last year, a negative one-off this year is really blurring the picture on this one. Underlying NII, underlying fee is actually good. Sequentially, the underlying income was also down by EUR 187 million. And that is again largely explained by the Bank of Beijing dividend that we received in the third quarter of this year to the amount of EUR 93 million and then the higher negative valuation results of financial markets for the fourth quarter.

Turning to NII, so basically the business. The NII was up on last year and up in the last quarter, and I think that's quite an accomplishment. Excluding Financial Markets, it was up 0.5% year-on-year. A slight growth despite the increasing margin pressure on customer deposits here.

The important driver for this is that we have been able to keep the pricing discipline, as we had indicated to you, and grow volumes at the same time, especially mortgages. Furthermore, we do really benefit from the fact that we have activities in non-euro retail countries and also negative rates that we are charging in deposits. And as indicated earlier, we have now announced that we will extend in the Netherlands a negative rate to deposits over 1 million.

In addition, deposit tiering came into effect during the fourth quarter, which cancels out some of the negative rates on our deposits -- actually cancels out the negative rates on our deposits at the ECB. So lowering our losses there. Our net interest margin was 3 bps higher this quarter at 157. As you can see, it was driven by Financial Markets and Treasury, you know that those are a little bit more volatile, but also driven by improved lending margins.

And as mentioned before, this is an important metric for the market, the NIM, but we really look at the NII more and more because of some of the volatile aspects of the NIM. So from a development perspective, an NII that is positive. Partially that is because of the growth in our lending book; partially it is because of repricing.

And in terms of the growth of the lending book, we have the known picture on Slide 16. Here, you see that the core lending was up EUR 2 billion, driven by EUR 2.6 billion growth in retail and a decline in wholesale. Retail Netherlands was a bit lower. That's mainly driven by business lending. That's a seasonal pattern that you see there. Over the year, we actually grew also business lending in the Netherlands. But for the quarter, it was down.

On the Retail Belgium side, you see an increase. That's almost fully due to an increase in business lending there. Retail in Challengers were up, especially in mortgages. EUR 2 billion in mortgages in Retail Challengers & Growth Markets. EUR 0.5 billion increase in consumer lending in Challengers & Growth Markets as well.

And then the decline in Wholesale Banking was predominantly driven by lending, as you can see in this chart, reflecting some larger prepayments. While on the Daily Banking & Trade Finance side, it was really up. And that's on the positive impact -- that's driven by the positive impact because of the higher oil price for the quarter in Trade & Commodity Finance. And you know that fluctuates; sometimes it goes down because of the oil price, sometimes it goes up because of the oil price. So this quarter, it actually went up.

Now on to fees, an important component, as you know, and also a -- kind of a driver for showing that the primary customer focus is working with the introduction of new products. If you see the fee income, including some of the accounting adjustments, fee income increased, according to the slide, 4.4%. If you do some accounting adjustments, it's 5.3% actually. That's driven by Retail Other Challenges & Growth Markets, which is up by 18%; and Retail Benelux were up at 10%.

But specifically, the one for Retail Other Challengers & Growth Markets shows you, because this is a lot of the digital franchises that we have there, it shows you that our focus on primary customer relationships, and on the back of that, increasing the cross-buy, introducing products for which clients do want to pay fees, that that is truly breaking through now. And that's an important trend to be picked up.

Also, with the mentioned the accounting adjustments -- the FM adjustment in the third quarter 2019. Total fees increased by 1.6% sequentially, and that's coming from a very strong third quarter which included a record quarter for Interhyp in Germany. So the third quarter was really good in Germany, and so that's where you see that leveling off sequentially. But year-on-year, that's a structural growth. That's an important factor to look at.

Then turning to Financial Markets. As you know, we have been working on turning this business around, from a cost perspective in centralizing our trading activities in London; from an income and commercial focus perspective, moving away from equity derivatives and into more client business on the rates and credit side.

And basically, you've now seen this bar chart, that we're -- on the client businesses, we are actually turning the corner. And year-on-year, you see a real improvement at EUR 41 million higher year-on-year. Sequentially it's lower. But that's the quarterly effect, the seasonal effect.

Then turning to the fair value adjustment that you see again in the fourth quarter at minus EUR 74 million. Some of that is because of the methodology that we use and what the effect of that is in the fourth quarter. And some of that is because of actually changing the methodology so that going forward, we have less of this volatility coming through our results.

So also there, we're taking actions in order to ensure that we reposition Financial Markets. And that's feasible on the clients' side, and let's make sure that going forward, it is then continuing. And limiting the volatility will help us and yourself as well to -- well, to analyze this business and make sure that it will lead to better returns.

Then we move to the expense side on Slide 18. You see the expenses, excluding the regulatory costs, were up EUR 69 million year-on-year. The main factor driving this is KYC. So the KYC-related activities had a cost increase, quarterly cost increase by EUR 75 million. There's another effect here that you see.

If you look at the fourth quarter of 2019 versus the fourth quarter of 2018, you may remember that we had a reduced accrual for performance-related pay last year on the back of the settlement. And that's an important factor, as a consequence of which, now you see an increased cost if it comes to performance-related pay for this year.

Now quarter-on-quarter, expenses, excluding regulatory costs, were EUR 38 million higher. This was mainly driven by a KYC-related cost, some investments in business growth. The CLA impact that we have seen in many different countries in which the salaries are basically increasing have been generally absorbed by cost discipline. So we were able to neutralize most of that so that the real cost drivers are KYC, regulatory costs as well as some business growth where we can afford it.

On the regulatory costs, you know that they are seasonal, and you see that peak again here in the fourth quarter. And it's not only the peak, it's also an increase year-on-year. And that is because of a higher DTS contribution and a higher bank tax in the Netherlands and a new bank tax in Romania.

Turning to Slide 19, the risk costs. Rick costs in the fourth quarter came in at EUR 428 million, 28 basis points of average customer lending. That's up from EUR 276 million recorded last quarter and EUR 242 million a year ago. And basically, you see that increase coming from wholesale as well as Retail Benelux.

Compared to the third quarter, Retail Netherlands was lower, as the previous quarter included higher risk costs due to the change in the house price index for mortgages. But in Retail Belgium, the risk costs actually increased, and that's partly due to a number of individual mid-corporate files. As you know, that's part of the retail business. In Retail Germany, we saw EUR 23 million of net release versus a EUR 7 million net release last quarter due to model updates here. Risk costs were flattish in Other Challengers & Growth Markets.

Wholesale Banking, and that's, I think, where most of the attention goes to, those risk costs were high at EUR 254 million for the quarter, driven by additions to existing files -- some new files. And out of the new files, there's one sizable suspected external fraud case.

And as mentioned earlier, we don't see correlation of geographies, no correlation between sectors or underlying causes, this increase. And we see the quality of the loan book remaining strong. And that's confirmed by the nonperforming loans for ING as measured by the Stage 3 ratio under IFRS 9. You can see that this is decreasing to -- from 1.5% in the third quarter to 1.4% in the fourth quarter.

Now if it comes to 2020, we continue to expect risk costs to stay below the through-the-cycle average of around 25 basis points of average customer lending. So that's where we see it, and we can have a discussion on that.

Turning to capital. Good picture here. You see that the capital remains strong at 14.6%. And the buildup is as follows. We have profit added, EUR 838 million of profits added to the capital as we only have to reserve the progressive parts of the dividend in the fourth quarter. Combined with lower operational risk-weighted assets and the impact of positive risk migration, this would have resulted in a CET1 ratio of 15.2%. So real strong on capital.

However, we already took a EUR 13.2 billion risk-weighted assets increase, reflecting expected supervisory impact on risk-weighted assets, which translates into a 0.6% reduction of the CET1 ratio. That brings it back to the 14.6%. And the EUR 13.2 billion that I referred to is largely TRIM related, it's based on our own scenario analysis, as well as extrapolating earlier feedback on TRIM model reviews to the models for which we still need to receive final closing letters.

As we expect to receive these final letters in the coming quarters, we will then have more clarity on the total impact on risk-weighted assets from banking regulation and model reviews. And as mentioned last quarter, this could bring earlier impacts on the CET1 ratio, though the magnitude of the remaining risk-weighted asset inflation, for now, is still uncertain. Overall, we remain well positioned to achieve the CET1 ratio ambition of around 13.5%.

Now to wrap it up. Commercially, 2019 was another strong year. Continued growth of our primary customer base is very important. It's really value-accretive. This is how we build the value going forward. Our digital-only, mobile-first strategy is on the right track, and we're backing the right trend.

Impressive growth in mobile-only customers. We're growing the number of customers, but we're also growing the percentage of those customers that are actually mobile-only. You see the mobile interactions growing fast. And so that gives ample opportunity for us to continue to convert these interactions into more purchases of services by the same customers.

Core lending was up by almost 3%, while we have been able to keep our pricing discipline. The good thing is, again, here, that we are diversified, we're banking in many markets. So we're not dependent on 1 specific market to basically offset the pressure on the savings side by repricing. That's why we can keep the pricing discipline. It's a very important part of our story.

We see higher interest rates, margins, specifically in mortgages. And combined with good fee growth, we managed to offset most of the pressure on the margins, savings margins. And also, most of the KYC-related expenses have further increased regulatory costs.

We did see higher risk costs in 2019, but we remained below the through-the-cycle average. The quality of the loan book, remaining strong. CET1, very solid, 14.6%, already taking 13.2 of expected supervisory impact; excluding this, 15.2%. And as said, KYC, countering financial and economic crime remains a priority.

So overall, we delivered on our ambition to continue to grow profitably within the risk appetite despite the continuing challenges with the rate environment or geopolitical uncertainties. It's been a challenging year with good results. And I think quite some room now for your questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) First question is from Mr. Robin van den Broek, Mediobanca.

Robin van den Broek ***Mediobanca - Banca di credito finanziario S.p.A., Research Division - Research Analyst***

My first question is around capital and dividend. I mean, in the past, you've always guided for regulatory overhang to be 15% to 18% to RWAs. Today, you take a 60 bps impact. I think the guidance was pre-mitigation. So is it fair to assume that we're basically roughly halfway through taking that regulatory overhang into your capital ratio?

And in connection to that, some of your peers are starting to get a little bit more enthusiastic about the Article 104, which allows you to fill your Pillar II with lower-quality capital instruments. Can you comment a little bit on that, and how that would possibly, yes, lead to maybe a bit more than EUR 0.01 dividend accrual in the year?

And secondly, on return on equity. Ralph, I think in your introductory statements, you mentioned that you're still happy with the total return package the company is offering. But yes, clearly, it's short of the 10% to 12% target. So I was just wondering on how quickly do you think you could get to that target range also considering, yes, that the step-up on capital you probably still need compared to the average base in 2019?

Ralph A. J. G. Hamers ***ING Groep N.V. - Chairman of the Executive Board & CEO***

Yes. Thank you, Robin. I'll start with the last question. And then the other questions, I will kind of give it to Steven and Tanate here.

So return on equity, well, it's the first time that we stepped out of that range. It is particularly because of the last quarter here. So yes, we're not happy with that. Indeed, the further pressure on capital will have an effect on that.

Having said that, so we're looking at a low rate environment. We may have some capital increases coming still. We have some regulatory costs. We have some KYC costs. But on the other side, we're also management. And as management, we are here to manage these kind of things.

So the big thing still stays, our strategy of making sure that we move to a platform, that we get more customers, that they buy more products, that we charge more fees on the back of selling products, that we expand in also non-euro areas, that we decrease the cost to serve because of digitalization. So that's how you manage it.

Now clearly, from a more how do you go about pricing perspective, as you see this year both in wholesale as well as in retail, we have pricing discipline. And we don't mind to walk away from business if it doesn't yield the return that we need to have.

As a diversified bank in many different geographies and many different sectors on the Wholesale Banking side, we have the opportunity because we're not tied to one specific geography like some of our competitors have. So the repricing is happening, and we will continue with that discipline.

Then is to continue to grow the lending book versus the costs. So you should expect that we will continue to improve in what we call operating leverage. Then it is a change in lending mix, which we will continue to do, moving to higher NIM lending businesses.

So that's kind of still how we think we can manage things. Will we kind of be able to be back in the 10% to 12% tomorrow? We'll have to see, we're working hard on it. But at this moment, the guidance that we have is the guidance that we keep. Maybe then on capital, Steven, and then on [B2R], Tanate.

Steven J. A. van Rijswijk ***ING Groep N.V. - Chief Risk Officer, Member of the Executive Board & Member of Management Board Banking***

Thanks, Ralph. So with regards to the capital, like I said the previous quarters, we would expect the impact of the regulations, including TRIM and the new regulatory technology standards coming up in the next 4 quarters, this is now what we are seeing. We will see some more impact coming up in the next couple of quarters. But we are confident that we will remain in our ambition level of around 13.5%. And the biggest impacts -- this was a big impact and 1 or 2 will follow. But then by the third quarter, we have had, by and large, impact of all new regulation that has been coming up.

Tanate Phutrakul ***ING Groep N.V. - CFO & Member of Executive Board***

I think just to supplement Steven's statement, I think if you look at the original calculation on Basel IV, we talked about a 2% reduction of our core Tier 1 because of [Basel IV], and that after mitigation, it's around 1.5%. And where you see us standing today at 14.6%, having already taken 60 basis points on TRIM, which is related somewhat to Basel IV, you can say that our capital targets remains actually on track.

I think there are some new things happening, for example, the introduction of DoD, which could have a potential impact. But at the same time, we do see, as you mentioned, the introduction of CRD V, which is beneficial from a core Tier 1 perspective. We are still in discussion with the ECB on the precise impact on CRD V, but that, indeed, would be positive on our core Tier 1 development.

Operator

Next question is from Mr. Pawel Dziedzic, Goldman Sachs.

Pawel Dziedzic ***Goldman Sachs Group Inc., Research Division - Equity Analyst***

So 2 questions from me. The first one is on cost. So you reported EUR 25 million increase in KYC-related expenses, I think, in the fourth quarter alone. And you talked in your presentation about EUR 75 million increase throughout the entire year.

And I think your comments also kind of pointed out that this is still an ongoing process and you're intensifying your efforts rather than maybe making them -- reducing them. So how should we think about increase in this line going forward? Should we see a similar rate of growth in 2020, or you think this can be contained? So that's the first question.

The second one is on cost of risk. And I think you rightly point out there is a lot of noise. You mentioned there is no common denominator and that your Stage 3 assets are down while your impairments are up and so on.

But I was hoping if you can comment on your confidence that cost of risk will actually remain below through-the-cycle levels this year. Where is it coming from? We kind of -- we are late in the cycle, and you would expect that recoveries will be lower. You would expect that single case files will probably happen more often and so on. So where does your confidence come from?

Ralph A. J. G. Hamers ***ING Groep N.V. - Chairman of the Executive Board & CEO***

Yes. Thank you, Pawel. So I will take the first one, and Steven will take the second one then.

So the first one. So on KYC. So clearly, you know that we're still in a phase of massive file enhancement, just getting the documents in place, getting all the customer information in place. And that will continue also in 2020.

At the same time, we're looking at how can we do this smarter, how can we digitalize these processes, what kind of tooling can we introduce. And we're in the midst of introducing a lot of tooling, both in dealing with these files as well as a tool on the transaction monitoring side. So that will be introduced in and rolled out this year as well.

So from an overall cost perspective, maybe a bit increased, but I actually think that 2020, it will plateau. The KYC cost will plateau.

Steven J. A. van Rijswijk ***ING Groep N.V. - Chief Risk Officer, Member of the Executive Board & Member of Management Board Banking***

Okay. Then on cost of risks, yes. I mean if you look at the fourth quarter, we see a number of files. But if you're looking at Wholesale Banking, it is around 25 files. It is a similar amount that you would typically see for the quarter, both existing files and a few new ones.

Within that, and then I point out that the press release in the section on Wholesale Banking regarding Daily Banking & Trade Finance, there is a big suspected external fraud case. So that is a special one, I would say.

And if you then look at our watch list, our forbearance levels, the number of increased risk files, the number of files that we're dealing with in our credit restructuring departments are all not going up or even going down. And that gives us confidence, given the current economic circumstances, so to continue to guide below the through-the-cycle cost average in risk for 2020.

Pawel Dziedzic ***Goldman Sachs Group Inc., Research Division - Equity Analyst***

That's very clear. Maybe just one follow-up. If the KYC expenses were to plateau, is it then fair to assume that your total cost base could actually go down in 2020? Is this how you would see it?

Tanate Phutrakul ***ING Groep N.V. - CFO & Member of Executive Board***

Maybe I give you a bit more detail about the evolution of costs in Q4, right? Because if you look at it, we have 3 buckets of cost increases. Clearly, KYC is one where we flag as being EUR 75 million in cost increase. And if you look at our total wage bill, it's roughly about EUR 1.1 billion per quarter, right?

So if you estimate the inflation cost of that on a quarterly basis, 3.5%, you're talking EUR 45 million or EUR 40 million in cost increases there, right? And as Ralph mentioned, this year is somewhat unique because of the lower accrual for performance pay in 2018 affect 2019 numbers.

What you do see is that our efficiency programs are working, right, because we have negated the inflation in terms of our labor cost inflation as well as the impact of additional performance pay. What we are unable at this point in time to negate is the impact of the KYC enhancement program, and that we hope to do over time. And as mentioned, we expect those costs to plateau in 2020.

Operator

Our next question is from Mr. Benoit Petrarque, Kepler Cheuvreux.

Benoit Petrarque ***Kepler Cheuvreux, Research Division - Head of Benelux Equity Research***

Benoit Petrarque from Kepler Cheuvreux. Two questions on my side. So the first one is to come back on capital. I mean there will be a lot of clarification on most of the regulatory uncertainty this year. When do you expect to be able to update the market on capital management? Do you think you could start to update us maybe end of this year? Because clearly, ECB is coming with a big update on Basel IV, and I think most of the regulatory uncertainty will be clarified by year-end.

And you mentioned also that you're still building up capital, i.e. the CET1 capital is still going up. Where are you basically in that process? Do you think you are kind of finalizing this ramp-up of capital or you're still in the phase of building up capital?

The second question is actually on the negative rate. So moving to negative above EUR 1 million. What is the kind of deposit base which will be impacted by that one?

Steven J. A. van Rijswijk ***ING Groep N.V. - Chief Risk Officer, Member of the Executive Board & Member of Management Board Banking***

Okay. I'll take the one on capital, I guess. So thanks, Benoit. So the regulatory levels are coming on in hand, both on our -- the redevelopment of our models as well as on the finalization of TRIM. Of course, we get the macro prudential impacts on the mortgages in the Netherlands. That will come in the third quarter.

Basically for ING, that basically means that based on what we currently see in all regulations, all the major impacts we then have held as modest 3rd quarter. And it basically means that we can give you an update in the second half of the year on our capital planning.

Tanate Phutrakul ***ING Groep N.V. - CFO & Member of Executive Board***

I think, as Ralph mentioned, we have gone negative on accounts of over EUR 1 million. And while we don't give precise numbers in terms of outstanding, our expectation is on a full year basis, the pressure on our negative rate gets less by approximately EUR 70 million.

Operator

Our next question is from Mr. Farquhar Murray, Autonomous.

Farquhar Charles Murray ***Autonomous Research LLP - Partner, Insurance and Banks***

Just 2 questions if I may. Firstly, on the topic of negative deposit rates. I just wondered if you can outline how you see that developing across the businesses you have. Clearly, we've seen movement in the Netherlands, but I just wonder what you might expect from the competitive dynamics in Belgium and Germany.

And then just on the recent loan officers' survey for the Netherlands. There seems to have been a bit of a drop-off in loan demand. Is that something you're seeing on the ground? And is that potentially related to the nitrogen crisis at all? And have you seen any asset quality consequences from that at all?

Ralph A. J. G. Hamers ***ING Groep N.V. - Chairman of the Executive Board & CEO***

Okay. So on the negative rates. So clearly, as -- basically, we can tell you what we do. We're not allowed to tell you what we're planning to do if it comes to rates because these are market prices and there is authorities that are very clearly indicating to us that we should not guide to things around that. So what we can say is what we do.

But it is clear that in order to shield some of the negative effects and then -- and the losses coming from the deposit base, specifically when it comes to the larger deposits and the companies that bring the larger deposits as well as the private individuals who bring the larger deposits that we will be really looking into that. So that is what we're doing in the Netherlands.

On the -- and that's certainly something that's in the Eurozone because we also have many non-Eurozone businesses like Poland and Romania and in Australia, where this is -- this doesn't play a factor, right?

Then on the loan demand. We -- it's not so much a loan demand that we see. And so in the fourth quarter, we had this kind of decrease on the business side. We think it's more seasonal than anything else. Over the last year in the Netherlands, we saw quite good loan demand. It's not a -- nothing indicating overheating nor the other way around. So it's okay.

From the nitrogen crisis specifically, we know that our customers are taking measures specifically in the construction business, but we don't expect more impairments from that.

Operator

Next question is from Mr. Stefan Nedialkov, Citi.

Stefan Rosenov Nedialkov ***Citigroup Inc, Research Division - Director***

It's Stefan. A lot of interesting questions until now. Just to get a couple of clarifications and additional color. On the NIM, so when you put it all together, right now you're guiding through end of 1Q '20. Could you give us an update on your guidance for the next couple of quarters beyond 1Q '20 or maybe through the end of 2020?

And secondly, to come back on the component and [slash] KYC cost, right now, you have 4,000 people working on that. It's up from 3,500 last quarter. That's an additional 500. Can you give us some color on the increase? Is that mainly from external people or internal people that have been moved from front-office or middle-office functions temporarily as well as the split of the 4,000 overall in terms of external versus internal? So the split on the increase and the split on the sort of stock of employees, if you will.

Ralph A. J. G. Hamers ***ING Groep N.V. - Chairman of the Executive Board & CEO***

Yes. Thank you, Stefan. Thanks for the questions. Well, as you know, we're not really guiding NIM these days anymore because as I said already in my introduction, there are so many factors there that also kind of bring some kind of a volatile nature. What we really want to continue to guide on is how we see the net interest income develop. That one we see as stable-ish given the margin pressure from the savings side.

The NII with the repricing efforts that we have, the pricing discipline that we have installed, we think that we can manage the margin protection on one side, pricing at 10% minimum return, over 13.5% risk-weighted assets. On the other side, we do expect lending growth in the retail bank to be more like 3% to 4% and also bank lower than that.

And that is how we kind of manage it. So making sure we have to price -- the pricing discipline, making sure that we change the mix, making sure that we continue to grow on the lending side where it is profitable. And that's how we basically manage and offset the pressure from the savings side.

On KYC, the 4,000 is actually excluding the internal workforce if it comes to the front office that also has to work on this. So for the total effect of KYC, you would have to add that even, and that has 2 sides. So basically, it has a cost side. It also has an opportunity cost side because clearly if people are working on KYC, they can't be working on specific deals. Now so that's the picture there.

The 4,000 FTEs are, to a large extent, externals as we would call them. So basically companies that we work with that have these services. We are internalizing a lot of these skills as we speak. So the large number has very much to do with the enormous work that has to do with the file enhancement. So from a number of perspective, that may at a certain moment drop off from the enhancement perspective. But as you know, we also have a business as usual as well as we will continue to have to improve the effectiveness with new tools with -- and new skills. So that's why we're more looking at the euros. And that's why I said earlier that we think that 2020 from a KYC cost perspective will, more or less, plateau. So that's where we are.

Having said that, also in terms of kind of managing the cost from this and just also to come back to some of the questions on cost and adding to what Tanate was indicating, the transformation programs are really paying off. You can't see them specifically maybe because of the rhythm of KYC. But if I could just kind of hint at looking at Market Leaders where costs have really gone down for the year, including KYC costs, and the recipe there is to -- for costs to go further down. That is certainly what we are working on and expect in 2020.

Stefan Rosenov Nedialkov ***Citigroup Inc, Research Division - Director***

And then Ralph, just to follow up on your comments about the opportunity cost of moving front-office employees to deal with KYC issues. When you go back to your October 2016 cost savings targets for this year, for 2020, what is the percentage of that original target that you think you will be accomplishing this year?

Ralph A. J. G. Hamers ***ING Groep N.V. - Chairman of the Executive Board & CEO***

So we refreshed that during our IR Day in March, as you know. And that from a Market Leaders perspective, over time we would expect, next to the 2,000 that we already kind of saved, the Market Leaders that we would, over time, for the next -- so 2020 and '21, we would be able to save another 1,500 in FTEs. And those are the numbers that we gave you at the IR Day, and that is certainly the numbers that we are still managing and expecting.

Operator

Next question is from Mr. Raul Sinha, JPMorgan.

Raul Sinha ***JP Morgan Chase & Co, Research Division - Analyst***

I've got 2, please. The first one is on the decision to obviously reiterate the progressive dividend policy. We know at some point last year, you were debating whether or not you should treat that. And that's why I was wondering whether that option is still open in terms of once you have full regulatory clarity, you might still look at the appropriateness of that progressive dividend policy. Or do you think that, that is something that you believe is very much set in stone given how you view your capital position, which is obviously quite strong?

And then the second one is on fee income. If I may ask about -- a little bit about Retail Benelux, especially whether or not you think that we might have a slightly better performance in fee income for 2020? Or do you think this is still going to be a challenging sort of area whereas the other areas within fee income will be the main drivers?

Ralph A. J. G. Hamers ***ING Groep N.V. - Chairman of the Executive Board & CEO***

Yes. Thank you. I will start with the second one. So on fee income Market Leaders. Actually Belgium, over 2019, did a good job. So from that perspective, in Belgium specifically, we have seen fee income really increasing. We didn't see as much in the Netherlands, but we do expect that fee income will increase in the Netherlands because we have already announced that the increase in commissions on the payment packages 2 months ago. And that should really lead into higher commissions for the Market Leaders altogether. So we do expect a better performance in fees in Market Leaders in 2020 because of the announcements that we already made. That's one.

Then specifically on your dividend one. As we said, yes, so we feel that we can reiterate progressive dividends for 2020 as a policy. Clearly, we change the policy when we change it. So I'm not going to be kind of hinting at that as we speak. For 2020, we propose to continue with the progressive dividend. We will consider specials if we deem capital is sufficient. But the next 2, 3 quarters, we do expect some further clarity around some of the impacts from TRIM and DoD. And with those uncertainties at that moment in time hopefully being clarified, we can come back in the year on this whether we want to continue with that or alter it.

Raul Sinha ***JP Morgan Chase & Co, Research Division - Analyst***

So if I can just follow up very quickly on the capital point. As you know, within CRD V, there is also this Article 131, which is quite a negative impact from a systemic risk buffer perspective, depending upon how you interpret this. Have you had any discussions with the regulator about this? And is that kind of driving your view that CRD IV is actually likely to be positive?

Tanate Phutrakul ***ING Groep N.V. - CFO & Member of Executive Board***

Indeed. This is Tanate. And we did have that discussion. I think what you're talking about is whether the different buckets of systemic add-ons are additive or not. We have been getting those clarification that what they say to us is not in addition, right? It's not the 3 numbers added together. So we don't expect that to be the case.

Operator

Next question is from Mr. Tarik El Mejjad, BoFA.

Tarik El Mejjad ***BofA Merrill Lynch, Research Division - Equity Analyst***

Thank you, Ralph, for the explanation about the ROE target, 10% to 12%, and how you're working hard to get back to this range. I mean I just want to focus on costs. I mean we discussed a lot today, but I want to know what are you doing actually to try to absorb the KYC costs. I mean you mentioned it will take probably 2 years. So with all these, you are confident. But I mean can you give us some qualitative things you're doing? And do you exclude like all kind of traditional cost savings things you invest more and then with hopefully getting more savings down the road? Or is this more like sort of everyday discipline and some more tweaking of operations?

And the second question is more clarification on capital. So do you -- are you saying that TRIM impact is front-loading of Basel IV fully?

So there's no -- it's not on top. It's within. And the only extra bit will be definition of default that you hope to offset by potential pillars to relief. Is my understanding correct?

Ralph A. J. G. Hamers ***ING Groep N.V. - Chairman of the Executive Board & CEO***

So I'll do the first one, and Steven is already waving at me that he wants to do the second one. So Steven, you will get the second one.

Steven J. A. van Rijswijk ***ING Groep N.V. - Chief Risk Officer, Member of the Executive Board & Member of Management Board Banking***

Thank you. So should I start?

Ralph A. J. G. Hamers ***ING Groep N.V. - Chairman of the Executive Board & CEO***

Yes.

Steven J. A. van Rijswijk ***ING Groep N.V. - Chief Risk Officer, Member of the Executive Board & Member of Management Board Banking***

Okay, good. So on capital, yes, you're right. So we have TRIM, DoD and the macro prudential measure that the Deutsche Bank took our mortgages. That will all come in, in the next couple of quarters. So the impact of further Basel IV or whatever Basel IV comes for us will be very benign. That's where we currently are and that's what we're waiting for. When we have that, then we can give clear guidance or clear guidance on our capital planning.

Ralph A. J. G. Hamers ***ING Groep N.V. - Chairman of the Executive Board & CEO***

Yes, Tarik. On the cost side, it's a mix of everything literally. So clearly, there's a lot of cost discipline and kind of all the things that you can expect. From procurement, travel, stuff like that. That is under -- that we're putting under the magnifying glass just to make sure that we only do the things that need to be done. That's on one side.

But what really is going to help us is that the change in tech that we already had indicated during our IR Day that -- for example, in the Market Leaders, we will extend the channel offering that we already have in Germany, that we already have in the Netherlands, so the 1 [ad], 1 rep, that we will extend that into Belgium in the next coming months to all of our retail customers. And that we are focusing all of our investments in Market Leaders, for example, in further digitalization of a lot of the processes, ensuring that a lot of these services now actually become available on -- service processes actually come available on the app. That will lead to higher Net Promoter Scores. It will lead to lower costs as well, running costs.

On the Wholesale Banking side, we're very much looking into the digitalization of process as well. So there is a massive program to go after, just go through every process and digitalize whatever you can digitalize. And those are -- those programs continue to need investments on one side. But on the other side, they structurally solve your cost issue and make your model very scalable. And that is -- it's in line with the strategy, but we're putting extra, extra, extra effort on this with short-term reward as well.

Operator

Next question is from Mr. Omar Fall, Barclays.

Omar Fall ***Barclays Bank PLC, Research Division - Analyst***

Could you just highlight where we are on the Unite plan, please? I know Belgium isn't the only beneficiary, but the expenses are still growing 3% there. Any sense at this stage of giving us what you think the euro amount savings to come, particularly given the migration to the new app and the Internet banking environment is happening in the coming months? And do you still expect somewhat of a hockey stick effect on cost savings to come from next year?

And then similarly, sorry again, on expenses, but just so we can get a sense of the underlying developments. Or it would be helpful if you could give a sense of how the increase in KYC costs, either the EUR 75 million of the Q-on-Q number is split across the divisions or maybe just even a sense of how the stock of KYC costs is split across the divisions, that would be great.

Ralph A. J. G. Hamers ***ING Groep N.V. - Chairman of the Executive Board & CEO***

So Omar, on the first one. Just to update you on Unite. Just to go back 3 years ago when we launched it, at that moment we envisaged and we announced a total number of FTEs that were going to be affected by it in the range of 3,500. That was specifically Unite. 2,000 of those, and yes, you can literally go through the numbers, we have done. Then we changed tactics earlier last year. But again, the effect of that was very much focusing on how can we speed up the customer experience to the Belgium clients and thereafter then look at further digitalization. That would lead to a further saving of FTEs as well. That effect, you will see during this year. You will see that effect during this year. So it's not a hockey stick from that perspective. The end of the hockey stick is where we are now. So the next 2 years is where you see where the benefits continue to come in.

But I still want to also say there is that, don't look at Belgium numbers only. Don't look at Netherlands numbers only. The more we have this Unite working -- sometimes the cost in Belgium will increase because we spend more on the teams that do specific work in Belgium for the combination. Sometimes, you see the cost decrease in another area or we see the cost increase in the Netherlands because we have the tribe in the Netherlands working on something for both countries. So look at the combination, and that's where you see a continuation of a decrease of costs already this year. And as you know, that's a recipe to continue that and that you will see this year.

On the KYC number, how it's split across the divisions? Honestly, I don't have it here. So I'm not sure whether we have any of that. So Tanate, do you want to say something to that?

Tanate Phutrakul ***ING Groep N.V. - CFO & Member of Executive Board***

Yes. I think our preference is not to really give you divisional numbers, right? A number of our KYC programs are run centrally, and those costs are then allocated. So our preference is just to give you the overall bank numbers. But if as a guide, you probably can expect in terms of the number of customers in each market as a guide of how these costs are shared, but the program and the costs are more centralized.

Operator

Next question is from Mr. Kiri Vijayarajah, HSBC.

Kirishanthan Vijayarajah ***HSBC, Research Division - Analyst***

Kiri Vijayarajah, HSBC. First question just really a clarification on the EUR 70 million benefit from the negative interest rate. So what have you assumed on outflows, if any, once you introduce the negative rates on your Dutch deposit base?

And then secondly, going back to the fee and commission outlook. You've got your 5% to 10% growth ambition. Do you think that's achievable specifically for 2020? And within that, the wholesale bank fee and commission was a drag in 2019. And I wondered do you think that still remains a bit subdued in 2020 given your cautious risk appetite there on volumes at least in the Wholesale Banking.

Ralph A. J. G. Hamers ***ING Groep N.V. - Chairman of the Executive Board & CEO***

Yes. So on the fees, well, yes, we do think it is feasible for 2020 because we are looking at many different aspects there. So if you just look across the retail activities, it's the introduction of behavioral fees. And that will -- that we introduced this year -- last year, but that will really come kind of into the P&L. Also this year, the introduction of fees around payment packages in different countries and the retail share, where we haven't done that earlier. The increase in some of the fees there, it is the introduction of new products around, for example, the insurance products that we are delivering now digitally to our customers, the investment product area. That is growing fast for us in a digital way where we expect fee growth to come from. So from a Retail Banking perspective, it is a little bit more predictable because of what -- the actions we are taking and have taken already and the growth that we see on the customer side and the primary customer side that we can say, well, yes, we feel that, that ambition is feasible.

On the Wholesale Banking side, as you know, it is very dependent on how the markets develop. It's dependent on the demand in the market. It's dependent on the syndicated loan market where we are a player. It's dependent on the debt capital side where we have quite some fee income coming from as well. So whether that is actually specifically going to pan out to have a growth of 5% to 10%, I don't know. But clearly, this year, it was lower. And therefore from that base, a bit of growth is always feasible.

Operator

Our next question is from Ms. Daphne Tsang, Redburn.

Daphne Tsang ***Redburn (Europe) Limited, Research Division - Research Analyst***

It's Daphne from Redburn. I've got 2 questions, please. One on margin and the second one on cost. On margin, regarding charging on negative rate, how much deposits have you got above 100 million and 100k, respectively? And you mentioned you will focus on shifting business towards higher NIM product. What specifically are there that you're shifting to?

My second question on costs. Are you able to give a rough sense on the KYC costs as a percentage of your cost base, please? And how many of those costs in terms of FTE and absolute costs would go down after the KYC cost plateau in 2020, please?

Ralph A. J. G. Hamers ***ING Groep N.V. - Chairman of the Executive Board & CEO***

Thank you, Daphne. Tanate is going to answer some of these questions first. And Kiri, just to make sure, you had one more question outstanding, and we'll come back to that one as well. So Tanate.

Tanate Phutrakul ***ING Groep N.V. - CFO & Member of Executive Board***

Kiri, maybe to address your question. We start in terms of implementing our negative charging for accounts of more than 1 million, I think, just to be clear on that point. And second, I think we do simulation, of course, based on what could potentially may be attrition. But just to remind you, one of the other major banks in the Netherlands have already started charging negative rates. So we take that into account in terms of our assumptions to provide you that guidance. Okay.

In terms of margin improvements, I think we're looking at a number of actions that are ongoing. Clearly, we talk about the overall repricing in every segment where we can. We also look to see that our consumer loan growth should be growing at a higher pace than, for example, our mortgage or business lending where consumer lending has a higher and more attractive NIM as well as return on equity, right?

The other factors that we do is the diversification for some of our Eurozone market into the C&G countries, in particular. And you see that in the shift of loan growth in those countries where the interest rate environment remains more positive for us.

And lastly, we prioritize really Wholesale Banking returns and NIM over perhaps volume growth. And that's why you see in the last 2 quarters perhaps even somewhat slower growth, even negative growth but in lieu of better net interest margin in those markets as well.

And then in terms of KYC costs, I think I just addressed those questions. We talked about the increase being approximately EUR 75 million. We expect those costs to plateau during 2020. And we don't really provide guidance on divisional KYC expenses.

Daphne Tsang ***Redburn (Europe) Limited, Research Division - Research Analyst***

A follow-up on the negative rates. How much deposits have you got above the EUR 1 million mark?

Tanate Phutrakul ***ING Groep N.V. - CFO & Member of Executive Board***

Sorry, we -- as I mentioned, we give you the guidance on the less negative impact on our P&L, but we don't guide on the absolute amount of our deposit base.

Operator

Our next question is from Ms. Alicia Chung, Exane.

Alicia Marianne Chung ***Exane BNP Paribas, Research Division - Analyst on the Pan-European Banks Sector***

Just a few quick questions from me. Firstly, sorry to go back on costs. But when you say that the KYC costs will plateau in 2020, is that versus Q4 levels or versus 2019 levels? Also, would you be able to give the split of ongoing KYC costs versus project costs in the EUR 75 million?

Secondly, just on the capital. Obviously, you had a very nice boost to capital from the EUR 7 billion lower RWAs. I'm just wondering how much of that you see is sustainable, because of the EUR 7 billion, you have about EUR 3 billion related to off-risk RWAs which tends to be quite volatile and move by up to a few billion every quarter. Then of the EUR 4 billion lower credit risk RWAs, how much of that is due to positive credit risk migration that might reverse over the medium term? And then I also have one sort of longer-term strategic question.

Ralph A. J. G. Hamers ***ING Groep N.V. - Chairman of the Executive Board & CEO***

Okay. So where is your strategic question, Alicia?

Alicia Marianne Chung ***Exane BNP Paribas, Research Division - Analyst on the Pan-European Banks Sector***

It's just thinking a little bit -- obviously, the fashion at the moment, I expect, is going to be a very structural fashion, is ESG. So just wondering what your thoughts are right now in terms of how you think about the growth and risks of your lending book in oil and gas and metal mining and natural resources, which is close to 10% of your loan book at ING? And how do you think about that with an ESG context in terms of the longer-term growth risks and potential rise in capital requirements around these portfolios as the sector transitions to decarbonization and likely lower CapEx requirements for those sectors? And how are you preparing for that now? I suppose I'm wondering is this a good opportunity to descale your Wholesale Banking further over the medium term.

Ralph A. J. G. Hamers ***ING Groep N.V. - Chairman of the Executive Board & CEO***

Yes. So let's pick up on that one, and then I will go back to capital and then to KYC costs. So on the last one, on ESG in a broader sense. But -- because that, you see, is -- it's a very broad concept, right? So -- but more importantly, the E part of it, the environmental part of it are more important part of that, again, being the carbon footprint coming from the different industries.

As you know, Alicia, we actually came out in September 2018 with an approach called the Terra approach. And that Terra approach, we have agreed a -- basically, an approach with the 2-degree investment initiative in how we can calculate the impact of the footprint of the different industries that we bank and how we can calculate a trajectory that will get us in line and develop that footprint, our indirect footprint, in line with the Paris Accord and preferably a little bit more ambitious. And we came out with -- in September 2018, already with a commitment that based on these methodologies, we are committed to decrease our indirect footprint in line and a little bit more ambitious than the Paris Accord.

Now the 9 sectors that create the biggest indirect footprint for us are oil and gas; the energy area, so the power generation area; it is the cement industry; the steel industry; the automotive industry, the aviation industry, the shipping industry. And then it is commercial real estate and residential real estate. And for each of these sectors, we have agreed a trajectory which has been tested by the international economic agency for us to decrease our footprint.

Now this does not mean that we will massively decrease our exposure or specific sectors. It does mean that we have the obligation to really enter into real discussions with these sectors for them to apply new technologies as a consequence of which their footprint is actually decreasing.

Now clearly, if they can't provide us with a trajectory, that works for us because they are not going to invest in these technologies. Or for some of these activities, there is a real alternative that is leading to a lower carbon footprint. Then we will actually stop the business and exit client relationships.

And that is what we have done, for example, in our coal policy. 2 years ago, we have come out indicating that we will not continue to finance coal-fired power plants and we will not continue to finance clients whose total revenues are for more than 5% dependent on coal-fired power. And we are actually taking those clients.

So I think your question is spot on. We have taken the lead role in this one. When we came out with the commitment in 2018, we were the only one. Within 4 months, we were followed by 4 more banks, which we're very happy with because, through that, we can have a real impact and really change things going forward. And that was in Katowice that we came together with the other banks. And now we are joined by another 30 banks in total, representing EUR 13 trillion of banking assets.

And through that, it is more the effort to change some of these industries by making sure that they apply the technologies through which they can actually decrease their footprint and with that, our indirect footprint. But again, if they can't and there's a real alternative out there that is much cleaner, then we may exit as well. So that's the answer on the third one.

And then for the risk-weighted assets one, I give the floor to Steven.

Steven J. A. van Rijswijk ***ING Groep N.V. - Chief Risk Officer, Member of the Executive Board & Member of Management Board Banking***

Yes. Thank you. Maybe less inspirational but still also true. On the RWA, we're focusing on -- if you look at the risk migration, part of that comes from increasing housing prices and growing GDP. But part of it was due to management actions in -- that we had better linkage of covers, i.e. loan coverage through particular loans or that we are improving our data quality.

So there are these 2 elements that have caused the positive risk migration, and we continue to work on that. And that was for around EUR 4 billion. That means the operational risk-weighted assets decreased to EUR 3 billion. That more consists of internal scenarios and an external database. We continue to calibrate that. You've seen that coming up in the first half of the year and then greatly coming down a little bit in the second half. And we try to measure it as stable as we can. So I would say it's a mix of factors. But part of it has to do with management actions, not only by risk migration due to economic circumstances.

Tanate Phutrakul ***ING Groep N.V. - CFO & Member of Executive Board***

Then Alicia, on KYC costs. I think you see the ramp starting in Q1, Q2, going into Q3 and Q4. I think we are now flying in Q4 at more what we think is the plateau level. So if you compare the KYC costs in 2020 compared to '19, you should -- you would see somewhat of a modest increase given the annualization of this impact.

Operator

(Operator Instructions) Next question is from Ms. Anke Reingen, Royal Bank of Canada.

Anke Reingen ***RBC Capital Markets, Research Division - Analyst***

Just 2 follow-up questions. Firstly, on your comment that you work hard on improving operating leverage. Is it too early? I mean it's not in consensus expectations. But is there a scenario where you can actually already deliver operating leverage in -- positive operating leverage in 2020 without being too optimistic on the top line?

And then secondly, just on your capital return policy. I understand that you announced changes when you do. But given some of the banks now talk about buybacks, I was just wondering, conceptually, would you consider replacing part of your cash dividend with a buyback? Or is that only really an option as an additional capital return?

Ralph A. J. G. Hamers ***ING Groep N.V. - Chairman of the Executive Board & CEO***

Well, thank you, Anke. So on the operating leverage one. So the way we look at operating leverage is basically can you manage your cost base versus the volume that is going through your business. So it's not against the price of your volume. It's not against the income, cost versus income, but it's cost versus number of transactions, the volume of the balance sheet, et cetera, et cetera, et cetera. Actually, from that perspective, the Market Leaders have really improved on operating leverage even in 2019. And in C&G, we've seen that stabilizing. And the reason for that being is that we're always growing the business there. So we're investing in new products, et cetera, et cetera, et cetera.

So in the remaining part, you see an improvement of operating leverage there as well. But given the fact that we're really investing in broadening the product scope, you see that the operating leverage is not really improving in the C&G countries. And again, you know that, that is -- we're building that for future value. And we're really looking at things more or less as a real strategic value creation play.

And then given the plans that we have in digitalization of the customer interactions and all the processes, you will see that there is still some investments going into these plans. And therefore, the operating leverage itself as a concept will more pan out over time with positive series therefore also to be expected over time. But again, in Market Leaders, you see some of that already also in terms of the cost going down. And we expect that to continue there. And we have always guided that Market Leaders really have to take the costs down. C&G are allowed to grow the cost if the income is growing as well. I mean just make sure that decisions are good there. And Wholesale Banking is a flat-cost business for us over time.

Then on dividend, for the moment -- well, for the moment, as I said, we're on progressive dividend and we pay it out in cash. We may want to consider it, but we're not actively working on that now.

Operator

Our next question is from Mr. Bart Jooris, Degroof Petercam.

Bart Jooris ***Banque Degroof Petercam S.A., Research Division - Analyst***

Main questions have been asked. So I have a detailed question and a more conceptual one. The detailed question is your net core lending is up for a large part from Retail Belgium. What's the effect there of the disappearance of the woon bonus this year? Is that important in that number? Or is that very small?

And then secondly, more on a conceptual basis. You're planning on using AI and machine learning in your KYC processes. However, as I understand it, those machine learning processes often lead to black box algorithms that give you the results. Are your regulators happy with you using black box algorithms in your KYC processes?

Steven J. A. van Rijswijk ***ING Groep N.V. - Chief Risk Officer, Member of the Executive Board & Member of Management Board Banking***

I think regarding your first question, the impact is benign. So we do not see a big impact of that. And on the second question, we are in continuous dialogues with regulators when we use artificial intelligence. So when we do model validation on certain parts, for example, and there are AI guidelines that have been coming out from different regulators, we will use that to discuss with those regulators because, in the end, we need to have explainability in our algorithms. And currently, we [build] (corrected by the company after the call) in our views internally developed AI, which in some stages is still in sandboxing, but in other stages, it's sort of advanced. And then when we come to validation in line with our regulatory standards, we will then discuss with the supervisor.

Ralph A. J. G. Hamers ***ING Groep N.V. - Chairman of the Executive Board & CEO***

Okay. Then thanks for all the questions raised. Thanks for making the time and to go through the annual as well as the fourth quarter results with us.

Maybe just to summarize. Commercially, 2019 was another strong year with further growth of our primary customer base. As said, it is still 2,000 customers a day that basically choose ING as their digital home bank, as their digital primary bank, which is really a driver for future value.

We also see the underlying digitalization in terms of the behavior really increasing in terms of the transactions, through interactions, which gives us ample opportunity to really deliver a differentiated experience with more than 1/3 of our customer base now actually only working with us through the digital channels.

On the back of all this, core lending was up by 3%. Pricing discipline is coming through in the results as well and you see that in the NII. We had a good fee growth. And the combination of that -- through the combination of that, we are able to offset the margin pressure on customer deposits, able to offset some of the higher KYC-related expenses and further increasing regulatory costs.

The fourth quarter specifically showed higher risk costs. As indicated, it's more individual files. We don't see a connection there. And we do expect that going forward, the risk costs will be below the through-the-cycle average. And then from a core Tier 1 perspective, pro forma 15.2% but already taking expected supervisory impact on risk-weighted assets in the amount of EUR 13.2 billion, leading to a 14.6% core Tier 1. So a good buffer there. So overall, yes, it's been tough. It's been hard work, but we can be content.

Thank you very much. And if there's any further questions after this call, you know the IR team is always there to help you also to dig into some of the details and to help you making your write-ups. Thank you very much.

Operator

Ladies and gentlemen, this concludes the analyst call. Thank you for attending. You may now disconnect your lines. Have a nice day.