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INGA.AS - Q4 2016 ING Groep NV Earnings Call

EVENT DATE/TIME: FEBRUARY 02, 2017 / 08:00AM GMT

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PRESENTATION

Operator

Good morning. This is Saskia welcoming you to the ING's fourth quarter 2016 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 a historical fact. Actual results may differ materially from those projected in any forward-looking statement. A discussion of factors that may cause actual results to differ from those in any forward-looking statement is contained in our public filings including our most recent annual report on Form 20-F, filed with the United States Securities and Exchange Commission and our earnings press release as posted on our website today. Furthermore, nothing in today's comments constitutes an offer to sell or a solicitation of an offer to buy any securities.

Good morning, Ralph. Over to you.

Ralph Hamers - ***ING Group NV - CEO***

I hope everybody here hears me. We have some technical problems here, but let's start nevertheless. Meanwhile, they're trying to get some more mikes here around the table.

Now, welcome to ING's fourth quarter 2016 results and this conference call. Thank you for joining us today. I'll talk you through today's presentation. Patrick Flynn is here, the CRO; Wilfred Nagel -- Patrick Flynn is here, our CFO. Wilfred Nagel, our CRO is here from the Executive Board in order to help me answer some questions as well that you may have later as well. So let's go through the presentation.

Slide 2. ING Bank posted a record underlying net profit of nearly EUR5 billion, which is an 18% increase on 2015. We have maintained very good momentum in primary customer growth, which continues to lead to a strong financial result, aided by continued decline in loan loss provisioning. And as announced during our recent Investor Day, we have booked a EUR1.1 billion restructuring charge in Q4 for the acceleration of Think Forward, and that is taken below the line as a special item.

Our Group CET1 capital position ended the year at a robust 14.2%, and even with our strengthened capital base, we delivered a return on equity above 10% at the Group. We're proposing a full-year cash dividend of EUR0.66 in line with our progressive dividend policy. Those are the key points. Let's go into some of the details.

Slide 3. As you can see on this slide, we continued to attract many new clients. In 2016, we added another 1.4 million customers and a growing proportion of these customers are considered the primary client. We aim to continue this strength as we are now targeting 14 million primary customers by 2020. Now, this year alone we have extended an additional EUR35 billion of loans and received EUR28 billion of customer deposits, both increasing by roughly 6% year on year.

And as you know, our [compass] the Net Promoter Score remains one of our most important KPIs in the business and a forward-looking KPI as to the continuance of our commercial growth. In the fourth quarter, we were once again ranked number one in seven, part of the 13 retail markets in which we are active.

Now, all of these commercial results lead to a good and strong financial result, which you will see on slide 4. The underlying net result for the Bank was nearly EUR5 billion, which represents a 16% compound annual increase since 2013, despite the headwinds we are facing from the low-rate environment. And even though the fully-loaded Bank CET1 ratio has increased by 4 percentage points this year, we further increased the Bank's return on equity to 11.6%.

The underlying income, excluding CVA/DVA improved by 7.4% in 2016 -- I'm on slide 5 now -- with an increase visible in all income line items. With that core lending growth of nearly EUR35 billion during the year, we have been able to grow net interest income by 5.2% compared to 2015. However, it's not just the NII that drives the result; we also saw substantial progress in the fee and commission income line, particularly in our challengers and growth markets.

On the expense side, as you can see, we've managed to keep the underlying expenses stable this year. Existing cost savings programs have funded the growth initiatives that we have in both the challengers and growth markets, as well as in the industry lending activities within the wholesale bank.

In combination with a stronger income line, this has led to a 1.7 percentage point reduction of the cost-to-income ratio to 54.2%, edging closer to our 50% to 52% target range for 2020. In addition to that, we have low risk costs supporting the underlying result. Risk cost came in at 31 basis points for 2016 and that's well below our through-the-cycle average of 40 to 45 basis points, with good development on all counts there.

Turning to capital, the Group CET1 ended up at 14.2%, which is up 70 basis points quarter over quarter and up 150 basis points compared to the end of last year. That's comfortably above the current 11.75% fully-loaded requirement by 2019, excluding Pillar 2 guidance.

For 2016, we propose a full-year cash dividend of EUR0.66 per share. This means that we will have a EUR0.42 final dividend since we already paid a EUR0.24 interim dividend in August 2016. The full-year dividend is payable in May 2017, after the AGM. After accounting for the dividend payment, there is a total of EUR2.1 billion of interim profits flowing back to the Group capital, and that explains much of the quarter-on-quarter increase in the CET1 of the Group.

Now, in summary, if we compare all of this against the financial targets of 2020, the Group CET1 ratio of 14.2% and the leverage ratio of 4.8% are well ahead of regulatory requirements. We've made good progress of our cost efficiency this year and we are certainly confident that we can reach the 50% to 52% target range for 2020.

We've been saying over the past few months that given the regulatory uncertainty that we think it's prudent to wait for further clarity before we announce a Group return on equity target and given the fact that there is not more clarity yet from Basel, we will not be able to give more clarity around the Group return on equity targets for the moment. Nonetheless, we achieved a strong underlying Group return on equity of 10.1%, and we continue our progressive dividend policy.

This actually sums up the full-year results. So we have healthy growth, we have an improvement in capital, we have a healthy return on equity and we have an attractive dividend. That's basically the summary.

So let's dive deeper now into how we're progressing for the future. I'm turning to the transformation programs now, slide 9. You will recognize this picture, as recent as yesterday; this is where we use this picture. We announced four different digital transformation programs. We've started to see the tangible successes of these programs with a project team now being established for the Model Bank in Spain.

Germany has introduced a multi-bank feature in its daily banking app, which is a very important step; we open up for third parties. It's part of our philosophy; we believe in that creating open platforms. We remain confident about the execution of these transformation programs, for sure, including the EUR900 million of annual savings they will deliver by 2021.

As we have indicated four months ago, we took a EUR1.1 billion pre-tax restructuring charge in the fourth quarter, and that's because it's by a special item below the line.

You also know that innovation is very important for our future, which is the next page. And innovation, the way we can summarize it is really about the three 's. The C of customer experience because that's what the real focus is about, that's what's causing this success, that's what causing the growth of 1.4 million customers also last year. It's the culture that you need to be innovative, and it's the connection that you need with different ecosystems that you need in order to be innovative, and that's what you see.

So in this spirit we have developed innovations over the last year such as payconiq in Belgium, which is more or less becoming the standard now in Belgium; Instant Lending in Romania; so many of the examples that you see here you will recognize because we have talked to you about these in the past.

Now, as said we can only innovate if we have the right culture. We build on our ING Direct heritage here. We have our own innovation program, PACE as we call it, and we have an annual innovation boot camp, all of those in order to stimulate our employees to constantly think about creating a better product and a better service for our customers.

And then the connection part, as I said, it's all about our own ecosystems, so how do you make sure you get the right people in to talk to each other, how do they open up, how do they connect, how do they basically motivate each other? But these connections are not limited to what you do inside; you have to open up in order to get also the good idea from the outside. We don't have a monopoly on good ideas, and therefore we have partnerships with more than 70 fintechs now, aimed at improving the customer experience.

The way we work with fintechs tends to be a little bit different from many of the other of our colleague banks. It is that we're not investing in them because of the upside in the fintech itself, we're investing in them because we believe they can truly improve what we are trying to do towards our clients, and that's a different philosophy.

Turning to sustainability, I'd like to remind you how important that is to ING, and I think the annual results is a good moment to give you an update. Fourth quarter we've seen further growth of our financing of sustainable projects, as well as the social and environmental outperformers. That portfolio of Sustainable Transitions Financed, as we call it, the STF, has increased to EUR34 billion now.

In November, we launched the Sustainable Finance Collective Asia, and that's the first of its kind. It's a funding initiative in the region where we basically group different parties together, look at different business models and see how we together can support the development of new circular models, climate neutral models, and help each other.

At the same time, in our real estate finance Netherlands activity we decided that we will only offer new financing to green office buildings going forward.

As you've probably already read and seen in the different newspapers, we also get strong external recognition for our sustainability policies. [Genius] sustainability and responsible investment magazine Corporate Knights ranked us as the fifth most sustainable company in the world even, and we're pretty proud of that. And naturally, we're also proud, and specifically with our colleagues we're very proud to have been recognized as the Global Bank of the Year 2016 by The Banker magazine.

Let's look into more detail now if it comes to the segments for 2016 as a whole. Turning to slide 13 for reference. This is a reminder of what we said during our Investor Day. Top left you see the recipe that we repeated there. So this is a recipe that has been around since we launched Think Forward three years ago, in which we expect the market leaders not to grow income but to really become more and more efficient, the challengers and growth markets to grow fast, grow income, and then they will be allowed to grow on their cost side. And for the wholesale bank we do expect income growth; however, we do expect the wholesale bank to more or less manage on a flat cost base across the business.

Now, on the right-hand side you see the results, so we continue to see rapid income growth in our challengers & growth markets, as we are becoming the primary bank for more and more customers and we grow fee income on the back of that. That's what you will see later today as well. And we're improving the cost line.

On the wholesale bank, we are continuing to grow our portfolio, particularly in industry lending, while we hold the cost flat and that's through the implementation of our efficiency programs. But in the Benelux, you see that the top-line growth remains challenging as the persistence, the low-rate environment persistence causing margin pressure and therefore in order to drive the result in the future we have to ensure that we become more digital, have better client services, and with that also become more efficient.

Let's take a closer look at the challenge there in the Benelux. We see here over the years a lack of that revenue growth. In the Netherlands, this is largely caused by lower volumes. In Belgium, although we see reasonable growth, there's a pressure on savings and current accounts as we are at the legal floor in terms of our savings rates already. And you see that in this picture, you see the difference there between the Netherlands and Belgium coming through on the margin pressure. So the volume increases in Belgium help us to offset some of the pressure in Holland.

We are keeping the margin, being able to manage the margin, but we see a decrease of volume. So therefore, the focus across Benelux is mainly on cost efficiency. How do we adapt our model to a new more digital way that our customers can do their banking?

Now, the program that we announce is intended to further align the Dutch and the Belgium platforms in order to deliver much better customer experience in a much more efficient way, unfortunately this also involves the headcount reductions as announced, the further rationalization of the Belgium branch network. And at this moment we continue to work constructively on these proposals with the relevant stakeholders. So there's a good debate there, a constructive debate with the different stakeholders for these transformation programs.

Turning to the retail side of challenges and growths now, you see the strong business performance on slide 15. It's evident in all of these numbers, the NII for the segment has grown annually by 9% since 2013 versus the strong 8% growth for the fee income. We still expect the fee income will grow faster than NII in the coming years as we offer more and more products with the increase in mobile and digital platforms. At the same time, while we have selectively invested in business growth in countries like Germany and had to absorb higher regulatory costs, we have managed to improve the cost-to-income ratio. So it's a real good story.

At the same time our growth is with a prudent risk approach, as you can see in the development of the risk costs. So then the growth is not coming in by becoming -- by moving away from our risk assessments criteria. We keep the same risk assessments criteria but we get the clients in on the back of the superior experience really, and that's how it works.

Now, if you look at the C&G in total, so this is the picture, including wholesale banking you can clearly see that the Think Forward strategy is delivering results. We see customers growing, we see primary customers growing, we see lending growing, we see assets under management, but the headcount remains flat. This is efficiency at work. This is how you run a digital platform. It's fully scalable, you can grow it, you can keep your headcounts flat. And we actually think we can improve from here; that's why we launched the Model Bank as well.

Now, also from a balance sheet perspective, you see that we have been able to further optimize the use of our balance sheet in these countries by growing customer lending on one side, including the wholesale bank. And we have been able to develop that lending faster than the growth in our customer deposits, and that has improved the loan-to-deposit ratios through the ratio as well. We've also seen an acceleration in consumer finance and much of that is coming from the rollout of our instant lending capability in various countries.

The investment products are making good progress as well with assets under management up 11% year-on-year, and we invest -- we continue to invest in our digital investment advisory capabilities, for example, through our -- through the form of robo-advice as well. Now, all of these improvements have driven a 23% increase in pre-tax results for the region to EUR2.7 billion.

Turning to wholesale banking, we benefited from a well-diversified business portfolio so that we can tap into profitable growth in different countries and industries. Underlying income growth is consistently higher than the operating expense growth and that has resulted in the positive jaws that we see in the wholesale bank. And that therefore leads to a further improvement of the cost-to-income ratio to 45.3% in 2016, and that's well below the 50% to 52% target range for the Group as a whole.

As the macroeconomic environment continues to improve, we have seen a further reduction in risk cost, also in the wholesale banking side, with provisions being low at EUR368 million or 24 basis points over average risk-weighted assets in 2016. A good picture as well from a growth perspective, from an expense perspective, efficiency perspective and a risk-cost perspective.

That's the year, so let's make a deep dive into the fourth quarter results. We're turning to slide 19 here. We posted a strong fourth quarter, underlying result before tax of nearly EUR2 billion, which confirms the good business momentum. We see it continuing while we continue to grow our customer lending.

The net interest margin was down by 3 basis points quarter on quarter. Most of that is due to financial markets but also due to there not being any savings rates adjustments in our domestic markets in the fourth quarter. You may remember that most of the adjustments were in the third quarter, and in the fourth quarter, not adjusting them slowly but surely you get a bit more pressure on those margins. Lending margins however were slightly up in the quarter.

And looking at the lending growth and how you can decompose it, slide 20, the lending growth continues. It's good growth again in the fourth quarter, and that's supporting the 6.5% increase year on year. Geographically, the lending growth comes from all regions with the exception of the Netherlands where we see a modest decline in volumes. This quarter we saw the strongest contribution from industry lending and working capital solutions within the wholesale bank as well as from the mortgage book and retail challengers in growth markets.

I have to mention that the industry lending growth was flattened a little by higher oil and commodity prices with trade and commodity finance. But we have been updating you on that effect every quarter anyway, and the value, you actually see it -- it actually supports the growth but only a bit. So the underlying volumes keep coming through, so it's a good signal there as well.

Moving to expenses for the quarter. You see that the expense base remains flat to the extent we can control it ourselves. So quarter on quarter we see that the underlying operating expenses remain flat, but the overall expense base remains impacted by regulatory cost.

Most of these costs, as you can see here, the regulatory costs are more skewed toward the first quarter and to a lesser extent, the fourth quarter of each year. This is a picture, but over the last five quarters you've seen that we've been able to more or less manage stable operational expenses for a quarter and then the volatility of the regulatory cost coming in.

On the risk environment, (technical difficulty) improved steadily here. The NPL ratio for the Bank as a whole came down slightly (technical difficulty), it's now at 2.1%. In absolute terms, risk costs were a modest EUR138 million for the quarter, only 18 basis points over average risk-weighted assets.

If we take a closer look in the fourth quarter, we benefited from a provision release on the German mortgage portfolio and also some releases in the wholesale banking book in Ukraine and Spain. [This 24:] retail again recorded lower risk costs as well as business lending is now starting to turn a corner, and the strong housing market conditions lowered the NPL ratios of the mortgage book.

Now, to wrap it all up, I think we can all be proud of this underlying result for the Bank, which is the evidence that we're on the right track and that the Think Forward strategy is effective, and that the decision to accelerate the Think Forward strategy focusing on customer experience and through that getting the growth in that is the best recipe also to weather some of the headwinds that we're seeing.

At the same time, these headwinds will not go so we'll have to keep a close eye on it, whether it is on the low rates, whether it is on regulatory cost, whether it is on client behavior. We do think that investing in digital capabilities, making sure that we create one scalable banking platform, that that is the best way for the customers to stay a step ahead but also for the Bank to stay a step ahead. With that, I open the call to questions.

QUESTION AND ANSWER

Operator

(Operator Instructions) We take our first question today from Tarik El Mejjad from Bank of America. Please go ahead.

Tarik El Mejjad - ***BofA Merrill Lynch - Analyst***

Hi, good morning, everyone. Just a couple of questions please, first of all on the dividend policy and then your proposed dividend of EUR0.66 came one -- and it's slightly short from the EUR0.67 consensus this number. In slide 7 you say that this is reflecting regulatory certainty and growth opportunities. So for regulatory uncertainty we know Basel IV, waiting for that. First of all, do you have any comments on that because it's getting a bit confusing, a few messages out there? What do you think will be the expected outcome?

But my main point is on the growth opportunities. Are you shifting here towards potentially higher volume growth than the 3%, 4% that you've been guiding before, if you see an opportunity there? Or you're really staying to that but just expect RWA (inaudible) and RWA to start to grow perhaps faster than the 2016 level. Actually, I will limit to this question. Thank you.

Ralph Hamers - ***ING Group NV - CEO***

Okay. I'll give an answer on the second part of your question and then I'll refer to Patrick for the first part. So on the growth that we pursue, so from the beginning when we launched the strategy, we indicated we thought we could grow 3% to 4% and for growth you do need capital.

We had a very good capital position but also from the beginning we said well, we need capital and the capital generation of the Bank from three sources. The first one is in order to make sure that we improve our capital buffers; the second one is in order to make sure that we can continue to grow; and the third one is to make sure that we can pay a dividend over time. And when we came out with the policy we said it was going to be a progressive dividend over time.

Now, that means that if you see, for example, growth opportunities that fit your risk profile, you can pursue them, and in some quarters, we grow a little bit faster than in other quarters but you need capital for that. What we will not pursue is growth opportunities that don't fit our risk profile.

So do we expect to stay at this level of growth in our lending book? I don't know. It really depends on the opportunities and whether they fit our growth profile, our risk profile; that is the important.

But that's one component, growth and the capital that you need for that, then you have the component of dividends and the capital that you need for that. And then your last part is the cover that you need for improving your buffers, and there's some uncertainty remaining there, and I'll give the word to Patrick.

Patrick Flynn - ***ING Group NV - CFO***

Morning, Tarik. On Basel IV, we're watching it as you are, we don't have that much more insight than anybody else. And I think what you see is that the most recent or perhaps close to final proposals from the Basel committee still would result in increases in capital requirements for most European banks, above the threshold of 10%, above the no significant increase threshold. And hence there was no agreement in early January.

Now, there are several authoritative voices across a number of countries who were saying that they will not accept increases in excess of that minimum threshold. But it remains to be seen whether under the pressure -- and I'm sure it's a very big pressure to reach an overall consensus agreement -- that the line is held. We just don't know yet and we are waiting to see the outcome as you are.

Tarik El Mejjad - ***BofA Merrill Lynch - Analyst***

Okay, thank you very much.

Operator

Thank you. We now move on to our next question from Daniel Do-Thoi from JPMorgan. Please go ahead.

Daniel Do-Thoi - ***JP Morgan Chase & Co. - Analyst***

Hi, I've just got two questions. The first one is on net interest margin, the second one on provisions. On the first one the underlying NIM of 152 basis points this year, I guess that's developed slightly better than you had thought just a few months back at the Capital Markets Day when I believe you guided for a stable NIM which at the time implied about 150 bps or so. Given the (inaudible) developments and also given the rise in bond yields that we've seen at the end of last year, is 150 basis points still the right level? Or do you think you can deliver in line with the second half of this year?

And then secondly on provisions, last quarter you guided for the full year to be down on 2015. You've gotten to the EUR1 billion for the full year at 30 basis points of risk-weighted assets. Just wondering what your thoughts are going into next year and whether that kind of level at around EUR1 billion is sustainable, thank you.

Patrick Flynn - ***ING Group NV - CFO***

Okay, in terms of NIM I think the interest margin has come out very much in line with how we thought it might and how we tried to guide at the Investor Day. So nothing really changed there. If you exclude financial markets which can be variable quarter on quarter. We've said we think we can keep it in and around the 150 bps mark, maybe a little bit above 150 bps, maybe a little bit below -- high 140s, low 150s I think is what we said and that's what's happened.

Now again we said that should pertain for most of 2017 because the actions we had been taking on including the asset mix, growing at healthy margins which again we continue to do in the fourth quarter. And also, there's still some scope to manage deposit rates in line with the low rate environment. So the combination of all those three things gives us the ability to manage NIM at hopefully the stable level in and around the 150 bps mark for the best part of this year. That's what we said in October, it still remains the case and I think Q4 is entirely consistent with the -- what we guided on October 3.

Wilfred Nagel *- ING Group - Chief Risk Office*

Yes, on the provisions traditionally at the beginning of the year we do give some indication of what our thinking is. If we look at the environment today the range of possible outcomes is probably widening somewhat because of all the uncertainties out there. With sharing the thoughts because that is really what we do here, I'd also like to make clear that internally we do not budget risk cost as such. Risk cost in the end is the product of economic events and our ability to mitigate the impact on ING. That mitigation comes from two things. One is the quality of the origination that we do and second is our ability to deal with difficult situations and do workouts, etc.

If we were to budget for these numbers, then it would become a matter of managing to a number and that's exactly where we don't want to go. We do our best under the circumstances. We don't want to be influenced by some budget concept of risk cost. Having said all that, if we look at the trends and Ralph already in his presentation alluded to that -- we still see in a large part (technical difficulty) migration. That will help us going into 2017.

At the same time that (technical difficulty) simply don't have a backlog of large restructurings pending (technical difficulty) in Q4 we had a very significant cash recovery in the Ukraine as an example. There will be some more but not to the extent that we saw it in 2016.

There are also some portfolios discussed on these calls a few times 34:39 now that may create some additional risk costs. I just mention here shipping, the drilling side of our oil and gas book, Turkey is an uncertainty.

So on balance, based on the current trends I think our current idea around risk cost 2017 is somewhere around 16 bps, potentially a little bit higher than that. Also reflecting the (technical difficulty) growth that Ralph was talking about.

Daniel Do-Thoi *- JP Morgan Chase & Co. - Analyst*

Okay, that's clear. Just on net interest income. I know on margins -- does the rise in long-term rates not at all affect the way that you think about net interest margin beyond 2017? I mean I know there is a lot of hedging but --

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Patrick Flynn *- ING Group NV - CFO*

The answer, Daniel, in 2017, well, we need to get there to understand what it would look like when we're there first. Secondly, I mean we do -- have seen an increase in the long end of the curve albeit very modest -- 50 odd basis points. Directionally that's good. But we would prefer a positive yield curve significantly higher than it is today. But it's directionally beneficial.

But we do not take outright interest rate risk in our business. Our loans and deposits are match funded into our treasury. And hence that enables us in a falling interest rate scenario which we've seen for several years to manage our margins in a stable manner, hence the earlier question. And we have been doing that. And it means that then when rates fall the impact is slow and we have (inaudible) to try and mitigate this as I said.

Equally on the upside, the positive impact of rising rates will take quite some time to manifest. And they would need I think to be significantly higher than they currently are (technical difficulty) meaningful.

Daniel Do-Thoi *- JP Morgan Chase & Co. - Analyst*

Okay, so significantly higher than the 50 basis points or so that we've seen so far before we see any kind of -- we should expect any kind of change to your NIM guidance?

Ralph Hamers *- ING Group NV - CEO*

Yes and sustained for a long time. We --

Daniel Do-Thoi *- JP Morgan Chase & Co. - Analyst*

Okay.

Patrick Flynn *- ING Group NV - CFO*

--our deposits are tranched, they roll over every quarter. It's not all at one -- we spread these out over time so the treasury buys them in each quarter. It replicates them before the end of each quarter, loans are originated and bought in and the margin fixed over time.

So it's only when they come to renewal that the impact of a higher rate might be seen on deposits. So this would need to be prolonged -- a sustained increase in rates over a prolonged period for it to start to become manifest in the overall stock.

Daniel Do-Thoi *- JP Morgan Chase & Co. - Analyst*

Okay, so the 50-odd basis points rate rise so far if it's maintained should not materially change your view on the interest margin?

Ralph Hamers *- ING Group NV - CEO*

No.

Daniel Do-Thoi *- JP Morgan Chase & Co. - Analyst*

Okay, that's clear. Thank you.

Ralph Hamers *- ING Group NV - CEO*

Correct.

Daniel Do-Thoi *- JP Morgan Chase & Co. - Analyst*

That's clear, thank you.

Operator

Thank you. We now move on to our next question from Bruce Hamilton of Morgan Stanley. Please go ahead.

Bruce Hamilton *- Morgan Stanley - Analyst*

Yes, morning, guys. Thanks for the (inaudible). Just going back to the dividend question and capital build. I mean clearly did -- the regulatory input is one of the key ones and there's still quite a lot of fog out there. But are you expecting that we will get clarity by say the end of March? Or does that feel quite an aggressive timescale?

And then secondly on a separate point. In terms of your robo-advice offering, is that in partnership with a fintech company? Or is that your own product? And can you talk a little bit more about it? Is it a model -- an algorithmic driven model which depending on inputs people give on risk will throw out what investments they should make? Or how does that sort of offering work? Because obviously, the growth there looks kind of interesting.

Patrick Flynn - ***ING Group NV - CFO***

The first one, well we were, as you know, promised there would be a definitive answer on this at the end of 2016 -- by the end of 2016. So (technical difficulty) we didn't get it means that (technical difficulty) there wasn't an answer. Yes, we would hope that we will get clarity in March but I don't think there's any guarantee. We'd like it obviously, the sooner the better. But again it's not] in our control. I just don't know when they're going to reach a conclusion.

Ralph Hamers - ***ING Group NV - CEO***

Okay then on robo-advice actually, Bruce, it's both. So we have launched different concepts to do investment management. For example, we launched in a couple of countries what we call My Money Coach. And that allows people to kind of make a short-term and longer-term financial picture of their own situation and generates advice as to how to invest across different categories on one side.

And then the investment itself that's behind it is sometimes algorithmic driven, sometimes just a fund. But we also give recommendations on what peers would have done in their situation. So you get some kind of an Amazon approach like put people in your situation with -- both financial situation -- with your future plans has this and this and this for this and this reason. So it's -- that's one way we would do it in our own in-house product of My Money Coach.

On the other side, robo-advice through algorithms. We are working with different fintechs there just to get a sense for how some of these really work. Some are more successful than others as you know. And we're working very closely with a particular fintech on this one as well in Germany, yes. And that's really fully (technical difficulty).

But we're looking at this -- taking a very open view as to all the possibilities and all the angles that you have to take. Also by the way from a duty of care perspective which is something that you really have to keep in mind when it comes to investment advice or (technical difficulty). Thank you.

Bruce Hamilton - ***Morgan Stanley - Analyst***

That's helpful. Thank you.

Operator

Thank you. We move on to our next question from Benoit Petrarque of Kepler Cheuvreux. Please go ahead.

Benoit Petrarque - ***Kepler Cheuvreux - Analyst***

Yes, good morning, thanks for taking my questions. The first one will be on the dividend per share. So EUR0.01 increase this year. Clearly constrained by the Basel IV uncertainty. But how do we have to think about DPS growth going forwards? I'm asking consensus expects EUR0.70 next year in 2017. It's a EUR0.04 increase versus a just EUR0.01 increase we have seen now. So is there a kind of relationship which ultimately will [fund] this growth? Or you do see a EUR0.01 kind of increase per year the normal run rate going forward? Could you just guide us a bit on what DPS would look going forward?

Then the second question will be on commercial margins. Clearly the risk cost outlook has been improving substantially recently. Do you expect any type of margin pressure? Or do you expect commercial margins in your different segments to remain at current levels? Thank you.

Patrick Flynn - ***ING Group NV - CFO***

Yes, thank you, Benoit. Well, on the DPS growth, the policy that we released which saying that we (technical difficulty) at the time when we launched this (inaudible) we also indicated that we expected yes, lower than the EPS growth. So that's the relationship there. It's going to be slower. And whether it's going to be EUR0.01 now and it's going to be again EUR0.01 next year we have (technical difficulty) at that moment in time how do we look at surplus capital, (technical difficulty) opportunities because we don't want to run into a stop and go scenario for your own growth either.

So we always have to make sure that your buffers are level for] growth going forward. If the -- a handsome dividend to be paid that (technical difficulty) progression.

Now if we would ever come into a situation of true surplus capital you would want to think of one-time distribution. (technical difficulty) time and including this in kind of a different projector at that point.

The on your commercial margins we don't see the margin pressure coming in at moment in time across the board specifically in industry lending honestly. And we've seen that in all of the different kind of activities. There is only a couple of banks that play in this business. The parties that you deal with are very professional, they know that risk so that's where we really see the margins are holding up. But even in the other commercial banking products at this moment of time the margins are holding up.

Across the board on mortgages we see some pressure now coming through in Belgium on the mortgage business. And in Belgium we also see [most of the] pressure coming through on the savings side. So in Belgium in particular we see pressure on both sides of the balance sheet in terms of margin pressure.

Margins on the savings side generally in our activities can still be managed because we still have some room to go before we hit a commercial or legal floor in the countries in which we're active. But again, besides Belgium where we have already reached the legal floor. So that's a little bit the word on margins.

Benoit Petrarque - ***Kepler Cheuvreux - Analyst***

Great, thank you very much.

Operator

Thank you. Benjamin Goy from Deutsche Bank has our next question. Please go ahead.

Benjamin Goy - ***Deutsche Bank AG - Analyst***

Yes, good morning, Benjamin Goy from Deutsche Bank. Two questions please. First on loan growth. Maybe you can specify a bit how you think in the near term -- so let's say 2017 -- about your through-the-cycle loan growth guidance. Considering you actually have a good momentum you can say it's slightly improving even in European loan growth. So I would be interested in your thoughts here.

And then secondly on the cost. Regulatory costs were lower again in 2016. Is that a one-off or could it help you also in the next years -- say 2017 or maybe even longer than that?

Ralph Hamers - ***ING Group NV - CEO***

Thank you, Benjamin. On loan growth, the -- basically what we have said -- the 3% to 4% is still where we kind of guide. This year was particularly interesting for loan growth because of the sectors in which we're active and the countries in which we're active. Clearly on the back of commercial growth and number of clients we will continue to see loan growth. On the back of the investments that we do in the wholesale bank we will continue to see some loan growth.

But there's two parts to this that you have to take into account. The first one is that we don't want to loosen our risk acceptance criteria in order to get more growth in. And the second one is the loan growth has to make the returns on ever increasing capital requirements. So those are two filters that we continue to use consistently.

And by the way you have seen that. You see that actually we have been improving our return on equity -- higher .We do see an improved return on equity. But this discipline we apply in pursuing loan growth that should protect us from future problems. And therefore, we're not going to go overboard if we see the opportunity. We'll just still stick with return on equity requirements and (technical difficulty) here and there.

Now again, the 3% to 4% is not a target it's the guidance. Some quarters it will be higher, some quarters it will be lower. But that's where we see it.

On regulatory costs, our regulatory costs have increased but they are lower than what we had expected at the beginning of the year. But they have increased by just over EUR200 million to EUR845 million for the year. But short of the expectation, that is true and that is because when we (inaudible) standard schemes, whether there are deposit guarantee systems or whether they're bank (inaudible), the moment we understand better we also know how to manage them better a little bit. And I said in some cases we have been able to change a funded requirement into an unfunded payment obligation. And where we can do so we will to do so.

Benjamin Goy - ***Deutsche Bank AG - Analyst***

Okay, thank you.

Operator

Thank you. We move on to our next question from Kiri Vijayarajah from Barclays. Please go ahead.

Kiri Vijayarajah - ***Barclays Capital - Analyst***

Yes, good morning, gentlemen. Just a couple of questions on Belgium. You show on slide 14 the margin the margin, the net interest margin in Belgium underperforming, particularly the Netherlands. So really just what's your outlook there? Have we seen the worst of the Belgium margin pressure there?

And I wonder if you could comment on customer satisfaction or customer retention data that -- how is Belgium -- the customer base in Belgium been faring after the announcements you made at the Investor Day? So is there any comments you can make on how the franchise is faring would be helpful.

Ralph Hamers - ***ING Group NV - CEO***

The NIM performing comparison between the Netherlands and Belgium. Yes, there's two different countries. If you look at the Belgium situation we're not sure we've seen the worst of the margin pressure in Belgium. All the banks have reached more or less the legal floor on the liabilities side. So there was not a lot of room to manage your margin on the savings side. And there's quite some competition in the market on the lending side with pressure on the margins there.

So yes, we're not sure whether we've seen the worst honestly. Assuming we haven't -- that's why we feel that we have to improve our efficiency. That goes directly to your second question.

Is -- the announcements themselves don't change the customer satisfaction. The -- if you look at the earlier reactions in the media, they were not pretty. We had expected that. But if you look at the underlying development, whether it is in the growth or number of customers, if you look at the lending book and the savings book it's just growing as expected also since October [3]. So in terms of the conversion performance we don't see any effect there. And honestly it shouldn't because although it's a sad message for many of our colleagues, what the consequence is of the (technical difficulty) country.

We are very committed to our clients in Belgium and that's why we're (technical difficulty) in Belgium in order to make sure that we can continue to be committed. And basically, the clients see that and they stay with us.

Kiri Vijayarajah - ***Barclays Capital - Analyst***

Okay, very clear, thank you.

Operator

Thank you. We now move on to a question from Anke Reingen from RBC. Please go ahead.

Anke Reingen - ***RBC Capital Markets - Analyst***

Yes, good morning. Just two follow-up questions. Firstly, on the provisions, I just wondered if you could be a bit more specific? I mean obviously, there is a very wide range for the Q4 18 basis points for the year. Or should we maybe be looking more at the nine-month level for 2017 at 35 basis points? But any more like where you think you are relative to on these different ranges.

And then just on your savings rates. I just wondered -- you continued to cut in some countries in January. But is it like you think you've almost reached the floor? Or the potential for further cuts has come to an end especially as -- especially due to the change in interest rate environment? Thank you very much.

Wilfred Nagel *- ING Group - Chief Risk Office*

So on the provisions, Anke, the crystal ball that you're looking for we'd all love to have but we don't. I think Q4 you should look at as extraordinarily low for a number of reasons. The better base to think about the projection it is as I said before 2016 total keeping in mind that there is quite a bit of uncertainty both in the world political and economic environment.

And also of course keeping in mind as always that provisioning is a lumpy business, particularly in wholesale. There can always be incidents. So it's quite difficult to (technical difficulty) be in (technical difficulty) to repeat that the underlying (inaudible) generally on of positive migration. A couple of portfolios, oil and gas, particularly [trading stock] shipping, Turkey, potentially offshore services are ones that we would see a bit more pressure in.

On balance, I don't think is going to be a million miles away from what we saw in 2016. It could certainly be a bit different. And again, we also need to keep in mind when we look at the absolute number that the loan book is growing above IDF's number even if the basis points stay the same. Our longer-term guidance remains at the 40 to 45% rate.

Anke Reingen *- RBC Capital Markets - Analyst*

Okay.

Patrick Flynn *- ING Group NV - CFO*

Okay, in terms of deposit rates there was modest cuts and it's more or less (inaudible) in Q4 in Australia There's an element in Q1 there's a small reduction of 5 bps in Spain also 10 bps.

I think the point is that other than in Belgium where we are at a floor, in other major markets we still have the capacity to manage rates down if that's justified. That links in to what I said earlier about being able to maintain a stable margin throughout 2017. So there is room on the deposit side to active if as (technical difficulty). So no we haven't hit a floor other than in Belgium.

Anke Reingen *- RBC Capital Markets - Analyst*

Okay, thank you.

Operator

Thank you. We now take our next question from JP Lambert of KBW. Please go ahead.

Jean-Pierre Lambert *- Keefe, Bruyette & Woods - Analyst*

Yes, good morning to you. Two questions. The first one, thank you very much for the slide 30 with the breakdown by country. I have a question about France. As you know Orange Bank is going to introduce banking services. So they have 28 million mobile phone customers, they are targeting 2 million customers. You currently have 1 million. How do you see the impact of a new entrant from a mobile perspective on your business? Is that the read cross you have from other geographies where you face such a competition.

Second question is about innovation. Something you've announced on January 31 is blockchain experimentation which you ran in six business areas in wholesale. Still currently you have a cost/income ratio which is fairly low, 45. I know these are pilot experimentation. But what kind of impact could it have on the cost-to-income ratio in wholesale? Thank you.

Ralph Hamers - ***ING Group NV - CEO***

Well, thank you, Jean-Pierre. Well, yes, the Orange Bank will start operating. The -- well, I mean there is more mobile operators around the world that are initiating banks and banking activities. And we see them as well. It's good to have competition, that's what we can say about it.

How will it impact our business specifically? I think that we have more to gain than to lose. If you look at our market position in France, we're a challenger there. What we can do which none of (inaudible) can do is that going forward with our Model Bank we will have a (technical difficulty), as a consequence of which our cost/income ratio will be even lower to operate in our digital and mobile banking than we currently do already. as you may remember from the strategy presentation, we think that we can further shift the (inaudible) lower from already what we do in the direct franchises which is already lower in comparison to the branch banks in the markets in which we are active.

So we will push that cost-to-income ratio even lower with our model bank approach, therefore we will be even more competitive. And, yes, if there is one or two more additional competitors I think it will only help us in markets in which we are a challenger. So it's good to see what's happening there.

On the blockchain specifically, these are all pilots. Some of the biggest impacts that we can envisage for blockchain is to make the service that we give to our clients faster for sure through blockchain because then a lot of the paperwork that for example in a trade process is still needed will become digital.

Apart from it becoming faster it will also be safer. Because through a digital way we think we can manage the fraud percentage down further. And it can be cheaper because if you digitize the manual processes that are still behind some of these activities in the wholesale bank, not only in ING but in the market practice globally that you can use them for all three. So faster, safer and cheaper.

How will that impact the wholesale bank cost/income ratio? It will just add to a further efficiency increase. But as we use most of the efficiency increase in the wholesale bank to also grow the front office in order to support the growth of the lending book whether you're going to truly see it back in the cost /income ratio per se I can't say yet. Let's first await the result of these pilots and see whether we can actually come to market standards because I mean there is absolutely no use to have a blockchain standard in the wholesale banking area if it's not open. If it's not open to third parties, if it doesn't become a market standard.

So before it will really help your cost-to-income ratio (inaudible) market standards and then all banks will benefit from it really.

Jean-Pierre Lambert - ***Keefe, Bruyette & Woods - Analyst***

Thank you very much.

Operator

Thank you. From ABN Amro we have Cor Kluis with our next question. Please go ahead.

Cor Kluis - ***ABN Amro - Analyst***

Good morning, Cor Kluis ABN Amro. Got a few questions. So first of all about the Netherlands retail, we saw there the RWAs coming down by EUR3.2 billion [for the EUR2 billion] for the quarter and you mentioned this use of risk [creation in mortgages and risk planning but it is quite a material decline also compared to previous quarters. Could you mention what happened especially this quarter? And also the RWA weightings for Dutch mortgages, Belgian mortgages and the (technical difficulty) mortgages?

And my second question is more related to the regulatory expenses which were EUR845 million. You had the release in Germany of course of around EUR50 million. Is the future run rate then around EUR800 million we should we think about 2017. Those are my questions.

Patrick Flynn - ***ING Group NV - CFO***

Cor, hi. In the Netherlands, you've got to remember we have (inaudible) book and run-off which is big in (technical difficulty), the run-off part anyways you'll see each quarter. And you are seeing house prices (technical difficulty). Some impact as well a positive (inaudible) it's small, part of the overall trend it's helped. And the average weighting stayed the same at around 12 in the Netherlands.

Yes, SME lending continued to decline for us. It's not something we particularly like or want but we do see a number of portfolios with high NPL still so we're trying to get the risk reward trade off right. But SME (technical difficulty).

Wilfred Nagel - ***ING Group - Chief Risk Office***

Yes, to add to that, Cor, the risk weights on Dutch, Belgian and German are 12, 18 and 22. The average weighted is 16. And following on from Patrick's comment on the business lending book in the Netherlands. I mean the absolute level of NPLs and risk cost is still not quite what we wanted. The trend is positive, that also contributes to the change of risk weight.

Ralph Hamers - ***ING Group NV - CEO***

And, Cor, on regulatory cost. Well you never know what new incoming governments kind of may pursue. If what we currently know stays, then the run rate will not be around EUR800 million but will actually increase with the volume increase of our activities really. So -- because some of these -- or most of these are related either to the balance sheet size or liability size or the size and shape of the savings portfolio. So they are volume driven. So that's the good assumption assuming that the programs that are currently running on the regulatory side will stay as they are.

Cor Kluis - ***ABN Amro - Analyst***

Okay, thank you very much.

Operator

Thank you. We now move on to a question from Pawel Dziedzic from Goldman Sachs. Please go ahead.

Pawel Dziedzic - ***Goldman Sachs Group Inc. - Analyst***

So good morning and thank you for the presentation. One question on financial markets and then one follow up on the regulatory cost. On financial markets, it looks like it was a decent quarter but over the years your adjusted and underlying pretax profit has eroded. When you look forward to 2017 are you more hopeful that unit can see some earnings recovery going forward?

And then on the bank taxes that you have just mentioned. You said that politics remain one big uncertainty as to the level that they're going to be going forward. But could you perhaps comment on that a little bit more? Do you see risk only to the downside of higher bank taxes as it was the case in the past? Or perhaps you hope that the levy can be lowered in the future. We have now seen a few examples of European countries where authorities manage to strike a deal with banks of lowering bank taxes. And it also seems that bank profitability is much higher on the (inaudible 65:) agenda which would support such move. Thank you.

Ralph Hamers - ***ING Group NV - CEO***

Yes, Pawel, on financial markets yes, we're very happy with the performance of financial markets in the fourth quarter. We're specifically happy with the performance of financial markets given the fact that over the last couple of years it has been transformed really towards a business that is very much focused on client activity and supporting our clients. Now that's what we've seen in the fourth quarter on the rates business, on the FX business, on the equity business -- good performances there.

Now on a return basis, on a return on equity basis we still do see room for improvement in our financial markets franchise and our team is working on improving such. What we can see is that with improved client focus with a further alignment between the different activities that we have in our wholesale bank we actually think we can move the business forward and improve the profits going over time and returns over time. And that's what the transformation of the financial markets business is -- and the plan is really aimed at.

On bank levies, it's -- honestly I think it's a mixed picture. We've seen Poland actually coming in with higher bank levies. We've seen Belgium coming in last year with higher bank levies and we see markets like Germany and other markets with decreased bank taxes. So it's truly a mixed picture. I don't think you can talk of a trend yet.

You're right in terms of saying that there's sufficient new laws and new safety valves in order to make sure that banks don't need to be bailed out but they can be bailed in. And therefore, they are less and less reliant on being saved by governments. I fully agree with you. So therefore, the real reason to have bank levies specifically in the form of bank taxes, that argument has gone. But it doesn't mean that the bank tax itself will go. Just because an argument for levying them has gone.

Pawel Dziedzic *- Goldman Sachs Group Inc. - Analyst*

Thank you, that's very useful. Can I have just one follow up on your comments around transformation of financial market unit. Should we expect a further risk-weighted asset decline going forward? And could the magnitude be similar of the level of decline of risk-weighted assets that was recorded in 2016? Or perhaps at the run rate that we've seen in fourth quarter? Thank you.

Ralph Hamers *- ING Group NV - CEO*

No, not necessarily. When I'm talking about the transformation, clearly there is a further focus on specific products. But it's also about centralizing some of the trading activities in one location rather than three, taking out the costs in systems and support, for instance. A further focus and a further alignment in client focus. It's all that in order to actually stir up the results but not necessarily to further decrease to risk-weighted assets. If there's more business to be done we will do more business at the right return.

Pawel Dziedzic *- Goldman Sachs Group Inc. - Analyst*

That's very helpful, thank you.

Operator

Thank you. We take our next question now from Alicia Chung from Exane. Please go ahead.

Alicia Chung *- Exane BNP Paribas - Analyst*

Morning, everyone. Just a couple of quick questions from me. First of all, on the subject of rising rates, could you just give a sense of what the impact would be on NII if the ECB were to increase their deposit rate from the current minus 40 bps to say zero?

And also on the same vein more generally what would you see as the sensitivity of [cap] to rising rates?

And then if I could just have one more. Some banks have started to talk about the TRIM process. Have you started this process and can you give any color as to what this will entail for ING and a little bit about timing and process? Thanks a lot.

Patrick Flynn *- ING Group NV - CFO*

Okay, on NII and like I said earlier, small reductions or increases in rates are to be welcomed. In time I would hope that the economy is performing better and the level of stimulus needed is lowered . But I can only repeat that certainly for 2017 a small increase is unlikely to be that visible in our results.. We take a long-term view in [behaviorizing] our savings. They are invested over multiple years. That's crunched. Lending is match funded at initiation, so directionally positive. I don't see 40-odd bps -- that's your example -- having a number impact NII that you could hike out now.

In terms of capital, we disclose in the press release, we disclose every quarter, the mark to market of the debt securities and equities. So the mark to market of debt securities that were a EUR1 billion-odd, EUR1.2 billion, that would be impacted by rising rates were it to happen this year. Next year, you have IFRS 9 and the accounting of that may well change. It may [actually] disappear since we published the number.

So yes, within our capital at the moment is EUR1.2 billion of the mark to market on bonds, which are obviously subject -- will be influenced by rising rates.

Ralph Hamers *- ING Group NV - CEO*

So on TRIM for us, that will start in April and it will start on the retail side of our business in our models. It's obviously very hard to predict what the outcome or implications are going to be, even prior to the process starting.

If you're thinking in terms of operational cost, we tend to do most of these things with in-house people, so it's unlikely that you'll see a spike in cost because of this exercise. But it does of course mean workloads and shifting of priorities from other things to this, clearly has operational implications. I don't think you're going to see much in the numbers.

And like I said, it's very early to talk about the impact. The only remark I would make on that is the actual net impact of whatever changes we make in our models is also going to be heavily influenced by what Basel IV exactly does where the floors and the (inaudible) are going to be calibrated. It may well be that the outcome of this exercise is going to be blunted quite a bit by what comes out of Basel IV. But again, we don't know where either is going to land, so it's just speculation to say anything more.

Alicia Chung *- Exane BNP Paribas - Analyst*

Thank you very much. And just on that last part, do you have a sense of when the TRIM process will be finished as well or is it just an ongoing thing?

Patrick Flynn *- ING Group NV - CFO*

No. We don't exactly. We do know that the initial assumption has been that this was going to be a one-and-a-half to two-years exercise.

Alicia Chung *- Exane BNP Paribas - Analyst*

Okay. Okay, thank you.

Operator

Thank you. We now move onto Nick Davey from Redburn for our next question. Please go ahead.

Nick Davey *- Redburn - Analyst*

Yes. Good morning, everyone. Two questions, please, the first one on volume growth. Interesting to hear you mention having an ROE hurdle rate when you conduct new business. Could you let us know a bit more about that, what ROE hurdle rate you actually target?

And maybe just if you could make a couple of other comments around the same theme. If I look at ECB data about where new loan rates are in most of your core markets, particularly on corporate loans now, this is 1.3% and 1.5%. It's quite difficult I think with that starting loan rate if I think about your funding costs, cost/income ratio and your through-the-cycle cost of risk guidance to get to a bottom-line margin which gives you a very sensible ROE. So it'd just be interesting to hear whether or not that's the right way of thinking about these available loan rates that we can see.

The second question, and sorry to come back to this net interest margin question, and particularly around interest rate sensitivity, but you can tell there's a bit of confusion on this side. One really helpful theme, if you'd be happy to elaborate on, would be this structural hedge on the deposit side. I realize you're not too willing to give us NIM guidance beyond 2017, but the big variable for us really is to understand quite how big a contribution to net interest income this structural hedge makes. And therefore, if we can get an idea of the duration or the size of it we could probably begin to understand better where long bond yields need to be for us to expect NIM compression or expansion. So any more guidance on that would be much appreciated. Thanks.

Patrick Flynn *- ING Group NV - CFO*

For quite some time ING has operated on pricing for cost to capital, and it's no surprise that we're delivering 11.6% return on equity, which is, well, progressively increasing, as the slide shows. So the pudding is in the eating. I don't know why you've a question about it. We're delivering it.

And I'd also point out the Group as well are at 10%, so not only is the Bank delivering return on equity, because it's managed to do so, the Group is also delivering it. The mechanics of that we disclose in the press release, the ROEs per segment. For those in subsidiaries, we measure it on what they have in equity. For those in branches, we measure it to be imputed from RWAs.

Typically, we use 12%, on which you have to make a minimum 10% return. And the combination of business on the lending and fees and ancillary services delivers more than 10%, as you can see in the results.

I think you're confused. I don't know where you get this point about the structural hedge. We don't have structural hedges. I think that may be still a feature of UK banks. We've never talked about that. We don't have it. We simply replicate our deposits to the behavioral maturity.

The bulk of our deposits are sticky, long term. Whilst they may be available on demand, they stay with us. And we do statistical measures, linear regression, to measure their stickiness through time and then invest those at the behavioral maturity, which is typically three to four years.

It's very simple. A tranche of deposits comes in, it's sold to treasury at the behavioral rate that's [back] tested and validated. And then treasury will place that into the market, typically, with interest swaps.

Lending as well, if it's a three- or four-year loan, you get a three- or four-year interest rate and better margin on top. The business has to make a margin over the cost of funds that the treasury provided.

So it's a very simple, basic ALM process and there's no currency actual hedge on top of it.

Nick Davey - ***Redburn - Analyst***

No. That's really helpful. Thank you. I suppose the interesting part from our side is that three- to four-year interest rate swap because presumably as that rolls off and a new interest rate swap is taken up that there is a bit of lost income on that process.

Patrick Flynn - ***ING Group NV - CFO***

This is a constant process that happens every quarter across multiple geographies. It's broken up, so it's not in lump sums. So that's why we are able to address and mitigate low rates, because it's a slow process that takes many years to go through. So there's no one-time lump-sum cliff effect.

Nick Davey - ***Redburn - Analyst***

Understood. No, it's --

Ralph Hamers - ***ING Group NV - CEO***

And we've been dealing with low rates for the past two and a half years and this is how we've been managing it.

Nick Davey - ***Redburn - Analyst***

That's really helpful.

Patrick Flynn - ***ING Group NV - CFO***

So as the cost of funds has come down we've been able to trim deposit rates and hold deposit margins broadly stable. And we'll continue to be able to do that through 2017.

Nick Davey - ***Redburn - Analyst***

Understood. Thank you.

Operator

Thank you. From Citigroup, we have Stefan Nedialkov with our next question. Please go ahead.

Stefan Nedialkov - ***Citigroup - Analyst***

Hi guys. Good morning. It's Stefan from Citi. Two questions on my side. In terms of the savings rate in Germany, is there a reason why you are 20, 25, even 30 bps above competition? Is there a strategic reason for that or a competitive reason that you can share with us?

And my second question is on risk-weighted assets, again just following up on the better-than-expected capital in 4Q. In the footnote to the presentation on slide 28 you mentioned that 18 basis points positive was driven by regulatory items and CVA/RWA and negative 14 bps was driven by a model update. These on their own are quite large swings, to my mind. Obviously, they do offset each other somewhat, but if you can just give us some color on the 18-bp regulatory item RWA movement and on the 14-bp model updates that would be really good. Thank you.

Ralph Hamers - ***ING Group NV - CEO***

Hi Stefan. It's Ralph. On your first question, well, the way we look at savings rates, particularly in a market -- a challenging market, yes, I would certainly look at competition. We look at the competition that may also be challenging the incumbents. We look at our own position challenging the incumbents. We also look at the client relationship.

So savings is not necessarily a product per se. It's also a starting point of a relationship that will evolve into a private relationship and therefore will create value over time. And that's why we launched our strategy presentation four months ago, this formula, so that you understand a little bit how we go about growing the number customers, getting them into private relationships, see what the crosswire opportunities are and manage the product value. So it has more aspects than just to compare it to the competition and whether we should match it or be a little bit above.

Having said all of this, even with being a little bit more in the competition there and rewarding our customers a little bit better, we are more efficient. We have a lower cost/income ratio by far. Ours is about 40%. The next best competitor is around 70%. The returns are beyond 20%. Return on equity in the German business is 25%, 26%.

So we seem to be able to run a very efficient shop with very strong, sticky client relationships, and not only producing P&L for today, but also for tomorrow. And that's the way we build the franchise.

For the risk-weighted assets question, I'll turn to Wilfred.

Wilfred Nagel - ***ING Group - Chief Risk Office***

Yes. Maybe, Stefan, rather than going into this one item regulatory, let me just give you a quick breakdown of the deltas in Q4. That might be the easiest way to look at this.

So net-net, RWAs were up by EUR1.6 billion. In that is a currency effect of a plus of about EUR3 billion. So if you take that out then you end up with a minus, roughly, EUR1.5 billion.

And the composition of that, at least the major components, are positive migration, minus EUR2 billion and a bit. It is the sale of our [contract] shares, minus EUR1 billion. Then there is one that probably falls in the category that you were referring to. That is the risk weighting due to the CVA, which goes down by EUR0.6 billion in terms of risk-weighted assets. Then there was a reduction in operational risk capital by EUR0.7 billion in the update of the external (inaudible) data (inaudible).

And then model updates, the other one that you're referring to, a total of EUR3.1 billion net. That consists mainly of some adjustments to some of our low default portfolios, where, for example, project finance, we increased our downturn LGD. On Spanish mortgages, where we have hardly any defaults, we increased somewhat. And there was a reduction in there on some of the model RWAs for derivatives.

Net-net, that comes down to the EUR1.6 billion that you see. I hope this helps you understand these swings.

Stefan Nedialkov *- Citigroup - Analyst*

Yes, absolutely. Thank you.

Operator

Thank you. We move onto Anton Kryachok of UBS for our next question. Please go ahead.

Anton Kryachok *- UBS - Analyst*

Thank you, and good morning. Thank you for the presentation. Just two questions, please, the first one on the Dutch mortgage market. Lending from banks to Dutch households has been a declining trend for about four or five years now. Do you think 2017 will be an inflection year from the volume growth point of view or do you think that that market will keep shrinking this year?

And the second question, please, and sorry again to come back to the topic of the interest rate sensitivity, but just to summarize, Patrick, the points that you've made around deposit margins. So your back book is hedged. The front book is influenced by a three- to four-year swap rate and if those improve it takes an average three to four years for that to fully price into the deposit spreads on the back book. Is that broadly your message on deposit pricing? Thank you.

Ralph Hamers *- ING Group NV - CEO*

On the Dutch lending to households, will it keep shrinking? If you're looking at our portfolio, it is shrinking. But that's a combination of a couple of things. The first one is that our book is shrinking because we are transferring an old portfolio to an --on an annual basis, as we have -- as has been in place for quite some time. And that will continue until that portfolio has been transferred. So that's one explanation why our portfolio is shrinking in terms of lending to households in Holland.

The second one is that our new production currently is lower than average given the fact that we are a little bit more cautious with pricing the long end of the market, so the end of the -- the part of the market that goes beyond 10 years. So we're a little bit more cautious than some of our competitors and therefore our new production is a bit lower than the repayment in -- of our portfolio.

Having said that, I do think that the total housing market is still -- and the trend there is still subject to a drive towards a lower LTV. And that drive will have an effect on the market that this will not be a super-growth market, at least not in our portfolio. So that's just to explain how our portfolio is developing there.

And then --

Anton Kryachok *- UBS - Analyst*

Thank you. That's very --

Ralph Hamers *- ING Group NV - CEO*

-- Patrick.

Anton Kryachok -- clear.

Patrick Flynn - ***ING Group NV - CFO***

So our approach to that liability management is pretty standard. I've seen it -- the first time I came across it was 25 years ago. So this is nothing super sexy here or really sophisticated. It's pretty basic, standard ALM. But perhaps if you want to go through it in more detail, maybe it might be better to do so with IR after the call.

Anton Kryachok - ***UBS - Analyst***

Okay, thank you. But just maybe I shorten my question to just one simple sentence. Are we right to assume that it takes three to four years for your savings deposit margins to improve when interest rates rise?

Patrick Flynn - ***ING Group NV - CFO***

No.

Ralph Hamers - ***ING Group NV - CEO***

Well, Anton, the way it works is that this is a continuous process, so it's a combination of new money coming in and the way you price new money coming in, the book that you already have, how you price that, versus the replicating yield for the matched behavioral tenor for that piece of the business. And this is a continuous process through which we adapt the replicating rate to the portfolio. And the difference between the replicating rate, which is subject to change on a continuous basis, and the difference between that and the rates that we pay outside, both for new money and the existing money, that is what determines the margin. So it's a continuous process.

So if you see a steeper yield curve, not so much a higher rate altogether, but if you see a steeper yield curve you can expect to see that coming back into our margins if we would not give -- if that would not translate into a higher rate that we pay to the customers. So -- but we'll manage, more or less, at stable margins, as we have done so over the last couple of years, going down in terms of rates. And you can expect so also from a competition perspective that some of that also will be -- that we would need to pay that also to our customers. And honestly, they should benefit from some of that as well.

Anton Kryachok - ***UBS - Analyst***

Got it. So if the relationship is in deposit pricing and reference interest rate?

Ralph Hamers - ***ING Group NV - CEO***

Exactly.

Anton Kryachok - ***UBS - Analyst***

Thank you so much.

Operator

Thank you. We now move onto Alex Koagne from Natixis for our next question. Please go ahead.

Alex Koagne - ***Natixis - Analyst***

Yes. Hi everybody. Just two follow-up questions from my side. On Basel IV, assuming there is no agreement because I guess today there is just too much difference between what should be the floor, you think that we can have an agreement? What does that mean for European banks or what does that mean for you in terms of RWA? Can we assume that the ECB could just implement some of the Basel IV proposal or not? This is question number one.

Question number two is on the banking union. I guess that's a one-off, your Italian (inaudible) that they were able to transfer capital from Italy. I was just wondering if you confirm that you can now move capital from Italy. And what does that mean for you in term of managing your business and your margin and so on? Thank you.

Patrick Flynn - *ING Group NV - CFO*

Well, in terms of Basel IV, typically the way it works is the EC have to try these things in legislation. There's no agreement and there's nothing to put on the table for new legislation. It would be hard to envisage how that could be put into place, but we're speculating here. So we'll have to see what comes out of this, whether there's an agreement or a proposal or not and whether the EC will endorse it or not. We'll just have to see what happens.

And in terms of capital, I think the ECB, who make fungibility of liquidity of capital of some of their -- even the core objectives, they have made progress on this I think, in terms of we see that they are trying certainly to harmonize the capital requirements across the various Euroland entities in which we operate so that we do see more consistency between the requirements country on country. I think that's a helpful outcome.

It will be a task that'll take some time to fully get there and there are still some national legislative barriers and some national discretions that inhibit them in this. But we're pleased with the direction that ECB is taking and actually that they are making progress here. Still a long way to go.

Alex Koagne - *Natixis - Analyst*

If I just then ask a follow-up question. Can you today move some capital from, let's say, Germany, to Belgium or to Netherland?

Patrick Flynn - *ING Group NV - CFO*

We can get dividends up and then we can inject them down if needs be.

Alex Koagne - *Natixis - Analyst*

Okay. Thank you.

Operator

Thank you. Robin van den Broek from Mediobanca has our next question. Please go ahead.

Robin van den Broek - *Mediobanca - Analyst*

Yes. Good morning. Thank you for taking my question. Most of them have been answered, so I'll take the liberty to put in a more detailed question. Again, towards the Netherlands, the residential book is down 2%, other lending is down 3% q on q. Still NII is up, so I was wondering if you could elaborate a little bit more on the Dutch margin in Q4 specifically. I saw that the margin for the year is flat, but maybe there's some one-off in there or that the margin just improved in the fourth quarter.

And maybe a similar question to Belgium, where you basically see reversed trends with the book being up and NII being down quite substantially during the quarter. And I was wondering if you could comment a little bit on the prepayment penalties that -- the movement there q on q. Are you seeing now that rates are going up? Do you see that, basically, the last part of the clients that can still refinance at more attractive rates are jumping in or are you seeing, basically, that repayment levels are dropping off compared to Q3? Thank you.

Patrick Flynn - *ING Group NV - CFO*

So obviously, the margin is a function of a numerator and denominator, so (inaudible) in the lending, which, as I said already, particularly in SME, is not something we virtually want per se, it doesn't mean -- necessarily lead to a decline.

And Dutch overall book has been fairly stable. Well, looking at it in front of me here, it's maybe moved 1 basis point over the 5 quarters, so it is pretty stable. As Ralph mentioned earlier when he did his geographic tour de force, in the retail space there has been a marginal improvement in mortgage margins in a number of geographies, Germany and the Netherlands being one. As I mentioned earlier, deposits still are something that are pressurized by virtue of the low-rate environment. But again, as I mentioned before, this a slow lead through.

You asked about prepayments. The market where that principally happens is in Belgium. There's a little bit in Germany, but the bulk of what we saw, which I think was around EUR3.5 billion, EUR3.7 billion year to date -- or, sorry, 2016 in Belgium. So that spiked in the middle of the year, so it seems to trailing back off now.

So in our interest result we do have a prepayment fee, and that's included in the margin. And obviously when that runs out, terminates, throughout the [short] period, it will erode the margin further. Hence, why we're still cautious and flagged the margin pressure in Belgium, because its markets are the highest payment amongst our family, in the order of magnitude of 13-odd bps -- EUR13 million, sorry, in terms of interest income effect.

Robin van den Broek - ***Mediobanca - Analyst***

I'm sorry, can you repeat that last part?

Patrick Flynn - ***ING Group NV - CFO***

EUR13-odd million in the interest income in Belgium that will not recover because of prepayments (multiple speakers) --

Robin van den Broek - ***Mediobanca - Analyst***

And that's for the full year?

Patrick Flynn - ***ING Group NV - CFO***

-- before. (Technical difficulty).

Robin van den Broek - ***Mediobanca - Analyst***

That's very helpful. Thank you.

Operator

Thank you. From Santander, we move onto Patrick Lee with our next question. Please go ahead.

Patrick Lee - ***Santander - Analyst***

Hi. Good morning, everyone. I just have a follow-up question on your robo-advice initiative that you mentioned earlier and generally your thinking on fee income. Do you primarily see this robo-advice as a cross-sell opportunity to your existing primary customer base or do you see this as a tool to attract a new segment of customers that you are not attracting currently? Or maybe it's a mixture of both.

And I think related to that, in terms of the financials, if I look at your fee income as a percentage of total [ING] is relatively low, like 14%, 15% of the revenues (inaudible). And your commission income growth usually grow in line with the NII volume, and in terms of, more or less, what consensus is for you for the next few years. But given these initiatives in robo-advice and other fee income initiatives, do you have any longer-term aspiration in terms of what is the right mix of interest income versus non-interest income for you or can you see fee income growing faster than volume or NII growth because of these initiatives in the next few years? Thanks.

Ralph Hamers - ***ING Group NV - CEO***

So, Patrick, on robo-advice, clearly it's a cross-sell opportunity on one side. On the other side, if you have the right product, every product can generate new customers as well, so whether it's savings, whether it's (inaudible) or whether it's a robo-advice here or any other brokerage service that we also do in a direct way.

So new clients come in through different products, and once they're in we try to make them primary customers because that means that they see us as their primary bank and, hence, that normally means they want to do more business with you. But we do see that, given our substantial savings base in most of our challenger markets, but also outside, that robo-advice could be a real good addition to the product portfolio. And therefore, it will primarily be cross-sell, but again, we will be happy if new clients come in through it as well.

In terms of the fees as a proportion of total income, we actually expect to (technical difficulty) that going forward. As we launched the strategy, the (inaudible) of our strategy four months ago we showed you a formula and we also showed you some other numbers as well as to where we expect things to go. And in the formula, we indicated that -- a large part of our clients currently generate interest income for us, whether on the savings side or on the mortgage side. That's where a bulk of our income is coming from as we speak.

The fee income is low, for a couple of reasons. First, the first reason is we don't believe in charging fees for the sake of charging of fees. I think the success of ING as a challenger in most markets is because we want to be very transparent. We -- and if there is a fee to be charged it is because we deliver added value.

Now, that added value we can deliver by offering different products going forward. And when we indicated the -- when we launched the acceleration of the strategy we indicated that, yes, we want to grow on, for example, the robo-advice side. We want to grow on, for example, the insurance product side in some of the challenger markets as well. And, hence, we do think that as of proportion of total income the fees will increase going forward.

Patrick Lee - ***Santander - Analyst***

Perfect. Thanks.

Operator

Thank you. We now move onto a question from Bart Horsten from Kempen. Please go ahead.

Bart Horsten - ***Kempen - Analyst***

Yes. Good morning. Thank you for taking my questions. First, a follow-up question on core lending growth in the Netherlands, especially on business lending. Looking at the economic developments in the Netherlands, they are very positive. So I was wondering whether you don't see any pickup in business lending at all or, going forward maybe in 2017, you may see some of that.

And the next question relates to the settlement of the -- on the interest rate derivatives. We've seen some of your peers in the Netherlands raising the number of clients which they will offer a settlement or raising the expectation for implementation costs. What's your expectation on that area? And there were some press reports on potentially broadening the claim settlement to semi-government institutions, which could also be regarded as non-professional investors. And I was wondering whether you see that risk as well. Thank you.

Ralph Hamers - ***ING Group NV - CEO***

Yes. Bart, on the core lending growth and maybe Wilfred will fill in (technical difficulty). So we do see business lending proposals coming in and that is increasing. They are approved with the same acceptance criteria. It's the same numbers. Still around 80% of the requests are approved. So from that perspective, yes, we see the demand and it comes in.

From a portfolio perspective though, we do see companies still repaying their outstandings, and we have write-offs. Just to -- for you to remember that the NPLs in our core lending book in the Netherlands are still close to 7.5%, so it's not the best book. The core lending book in the business in the Netherlands is one of the worst books actually, globally.

So it takes some time there before you can really see an improvement, both in making sure that risk standards are accepted, but also the growth because the NPLs cause caution and also cause continuous write-offs there so that before you see a uptake in the portfolio perspective it may take some time. Clearly, we hope so because more demand should cover that and more demand means there is true economic growth. And yes, we're happy to [support so].

Wilfred, do you want to add there?

Wilfred Nagel *- ING Group - Chief Risk Office*

Yes. Ralph I think has summed it up. The one bit of color that I would add to it is we shouldn't forget when looking at these numbers that they do include the short sea shipping book, to a very large extent sit in this business lending environment. And that does have quite a big negative impact on the overall number. The underlying trend for the non-shipping part of this book clearly is more positive than what you see in the overall number.

Bart Horsten *- Kempen - Analyst*

Okay. Thanks.

Patrick Flynn *- ING Group NV - CFO*

And then on the IR derivative settlement, as you know, in comparison to some of our colleagues, we've been a very modest -- we have a modest portfolio of issues here. That doesn't mean that every issue should be taken seriously. We do take every issue with the client seriously, so we are taking care of that. But the issue is just not as big for us as it is for some of our colleagues.

On the expectation of the provisioning, I think Patrick has an update there.

Patrick Flynn *- ING Group NV - CFO*

Yes. We took provisions in the course of last year, early on in the year, which were more than sufficient. And the framework was finalized at the end of the year, and what we've done is consistent with our framework and the visions were adapted in that context.

Ralph Hamers *- ING Group NV - CEO*

And maybe a short remark on the semi-government. There were some articles in the press about that. And the situation there is that pretty much all of those clients have been classified as professionals, and that is the approach that we will take in that discussion if it arises.

I think we do have one or two more questions, but the questions aren't coming through at the moment, so we'll wait for a second. Yes. Okay, so either we don't get the questions or there are not any questions. For the ones who still have questions and we have not been able to answer them at this moment in time, our apologies. Clearly our IR team is available to you to -- also for more detailed questions. Please take that opportunity.

Just to wrap it up, 2016 has been a real good year. Customers growth, 1.4 million customers. Lending growth, EUR35 billion. Savings growth, EUR29 billion, leading to a underlying result of almost EUr5 billion. So you see healthy growth coming through. You see an improvement in capital, at 14.2% CET1 for the Group. You see a healthy return on equity, 11.6% for the Bank and 7.2% for the Group. And you see an attractive dividend.

So I think we're delivering on our target and ambitions on all counts. Thanks very much for your attention and taking the time to go through these results with us. Again, if you have more questions, please raise them with IR. Thanks a lot. Have a nice day.

Operator

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