DBS

Transcript of DBS fourth-quarter 2017 results media briefing, 8 February 2018

Edna Koh Good morning everyone, and welcome to DBS's fourth quarter and full year results briefing. Very pleased to say that this morning, we announced full-year net profit of $4.39 billion, a record high. For the fourth quarter, net profit was at $1.22 billion, also a record. And the board has proposed a final dividend of 60 cents a share and a special dividend of 50 cents a share. Today we have our CEO, Piyush Gupta, and our CFO, Chng Sok Hui, to give us more colour on the numbers. Without further ado, Sok Hui, please.

Chng Sok Hui Good morning everyone.

Overview. We achieved record results for the full year and the fourth quarter.

Full-year earnings rose 4% to $4.39 billion as total income grew 4% to a new high of $11.9 billion. Broad-based growth in loans and fee income more than offset the impact of a lower net interest margin and weaker trading performance. Underlying loans rose 9%, with breadth and momentum increasing over the course of the year. Including loans from the consolidation of the ANZ retail and wealth management businesses we acquired, overall loan growth was 11%. Fee income grew 12%, which was also broad-based. Productivity gains from digitalisation and cost management initiatives contained expense growth to 3%.

The fourth quarter's earnings were also at a new high, rising 33% from a year ago to $1.22 billion. Total income grew 10% to stay above the $3 billion mark for the second consecutive quarter, despite seasonally weaker non-interest income in fourth quarters. Business momentum was strong. Loans expanded by an underlying 3% and by 4% after the consolidation of the Taiwan operations of ANZ during the quarter. At the same time, net interest margin improved five basis points from the previous quarter and seven basis points from a year ago to 1.78%. As a result, net interest income crossed $2 billion for the first time. Fee income was 23% higher, led by wealth management and investment banking.

Our balance sheet remained healthy. Non-performing assets were stable from the previous quarter while specific allowances for the quarter were at a more normalised 25 basis points of loans. Our liquidity was ample with the liquidity coverage ratio at 131%.

Our final Common Equity Tier-1 was at 13.9%. With the recent finalisation of Basel capital rules, we are now able to ascertain that the impact on us is benign. As such, we have decided to rationalise our capital requirements. The board has suspended the scrip dividend with immediate effect. It has proposed a final dividend per share of 60 cents, raising the full-year pay-out by 55% to 93 cents, as well as a special dividend per share of 50 cents.

Full year compared to a year ago. Full-year net profit rose 4% to $4.39 billion. Total income also increased 4%, to $11.9 billion. Higher net interest income and fee income more than offset the impact of lower trading income and higher allowances.

Net interest income grew 7% or $486 million from asset volume growth, which more than offset the impact of a five-basis-point decline in net interest margin to 1.75%. Fee income rose 12% or $291 million led by growth in wealth management, cash management and investment banking. Other non-interest income declined 18% or $342 million due to a weaker trading performance and to a net gain on fixed assets a year ago.

Expenses rose 3% or $158 million to $5.13 billion as ongoing digitalisation and productivity initiatives capped cost growth. Profit before allowances increased 4% to $6.79 billion.

Total allowances were 8% or $110 million higher at $1.54 billion from the accelerated recognition of weak oil and gas support service exposures during the third quarter.

Fourth quarter compared to a year ago. Fourth-quarter net profit was 33% higher than a year ago at $1.22 billion.

Total income rose 10% to $3.06 billion as strong business momentum resulted in double-digit increases in net interest income and fee income. Net interest income grew 15% or $273 million from loan growth as well as a higher net interest margin, which rose seven basis points to 1.78%. Fee income increased 23% or $121 million from broad-based growth led by wealth management and investment banking. These increases were partially offset by a weaker trading performance, which resulted in a 26% or $115 million decline in other non-interest income.

Expenses rose 11% or $134 million to $1.36 billion due to higher marketing and technology costs as well as the consolidation of ANZ. Profit before allowances was 9% higher at $1.70 billion.

With oil and gas exposures having been dealt with in the previous quarter, total allowances halved to a more normalised $225 million.

Fourth quarter compared to previous quarter. Compared to the previous quarter, fourth-quarter earnings were 48% higher.

Total income was maintained above $3 billion despite seasonally-weaker non-interest income. A combined 12% or $126 million decline in fee and other non-interest income was offset by a 6% or $122 million increase in net interest income from loan growth and a higher net interest margin during the quarter.

Expenses rose 8% or $100 million, resulting in a 6% decline in profit before allowances to $1.70 billion. Total allowances of $225 million were one-quarter of the previous quarter, when we recognised residual weak oil and gas support service exposures as non-performing.

Business momentum. Business momentum accelerated over the course of the year, resulting in a progressive increase in the year-on-year growth of total income and profit before allowances. A large part of the year’s income and operating earnings growth occurred in the second half.

At the same time, the growth in income and operating earnings was due fully to net interest income and fee income. Other non-interest income was lower for each of the four quarters due to a weaker trading performance.

The acceleration in net interest income growth was due to both net interest margin and loans. Net interest margin in the first half was lower than the year-ago period, but stabilised in the third quarter and rose in the fourth. Loan growth had a slow start in the first quarter and progressively accelerated in the subsequent quarters.

Fee income growth was also faster in the second half as both business momentum and buoyant market sentiment boosted a range of fee income activities.

Net interest income. Fourth-quarter net interest income crossed $2 billion for the first time, rising 6% from the previous quarter and 15% from a year ago to $2.10 billion.

Contributing to the strong growth was a higher net interest margin, which rose five basis points from the previous quarter to 1.78% as Singapore dollar and Hong Kong dollar loans were repriced. Net interest margin was also higher than the year-ago period, by seven basis points, in contrast to the first three quarters of 2017 when net interest margin was lower year on year.

For the full year, net interest income was 7% higher at $7.79 billion, with most of the increase occurring in the second half.

Loans. We had underlying loan growth of $9 billion or 3% in the fourth quarter. The growth was broad-based across trade, corporate and Singapore housing loans. In addition, we consolidated $2 billion of ANZ loans in Taiwan. Including these loans, overall constant-currency loan growth during the fourth quarter was $11 billion or 4%.

For the full year, underlying loan growth was $25 billion or 9%, with the growth accelerating and broadening over the course of the year after a slow first quarter. Including the consolidation of $8 billion of loans from ANZ for the year, overall constant-currency growth was $33 billion or 11% for the year.

Liquidity. Deposits rose 4% during the quarter and 11% from a year ago in constant-currency terms to $374 billion. They included $11 billion from the consolidation of ANZ.

Other funding rose $5 billion during the quarter to $41 billion from issuances of commercial papers and covered bonds.

Our liquidity ratios remain well above regulatory requirements. The liquidity coverage ratio was at 131% while the net stable funding ratio exceeded the requirement of 100% due in 2018.

Fee income. Fourth-quarter gross fee income was $734 million, 22% higher than a year ago. The growth was broad-based.

Wealth management fees rose by an underlying 30% to $227 million as buoyant market sentiment and franchise growth resulted in higher sales of unit trusts and other investment products. Investment banking fees doubled to $66 million from higher equity market and fixed income activities. Transaction service fees grew 3% to $153 million as a 13% increase in cash management fees was partially offset by a decline in trade finance fees.

Compared to the previous quarter's record, gross fee income was 7% lower due to seasonally slower wealth management and loan-related activities.

For the full year, gross fee income was 13% higher at $2.99 billion, with the growth led by wealth management, transaction services and investment banking.

Institutional Banking. Institutional Banking's full-year operating performance was stable from a year ago. Total income of $5.28 billion and profit before allowances of $3.52 billion were little changed.

Cash management income grew 32% to $1.11 billion as the introduction of new products and solutions using digital channels increased customer mandates across the markets we operate in. The improvement was offset by declines in treasury products and loan-related activities.

Asset balances rose 6% or $15 billion to $247 billion as both trade and non-trade loans grew. Cash management deposits were 4% higher at $142 billion.

Consumer Banking and Wealth Management. Consumer Banking and Wealth Management's full-year income rose 9% to a record $4.67 billion. The growth was across all categories and led by a 21% increase in investment products to $1.38 billion. Loan and deposit income grew 5% to $2.63 billion from higher housing loan and deposit volumes. Card fees were also higher.

Wealth Management customer segment income rose 25% to $2.11 billion. Assets under management grew an underlying 13% to $188 billion. Including ANZ, AUM rose 24% to $206 billion, strengthening our position as one of the top wealth management banks in the region.

Income from the retail customer segment was stable at $2.56 billion. Our market share in Singapore housing loans crossed 30% during the year, and we continued to have more than 50% of Singapore-dollar savings deposit market share.

Treasury. Full-year treasury customer income fell 3% to $1.15 billion. A decline in income from corporate and institutional customers was offset by higher income from wealth management customers.

Income from the Treasury Markets business segment, which reflects structuring, market-making and trading activities, fell 24% to $856 million due to lower contributions from interest rate activities.

Total treasury income amounted to $2.01 billion, 13% below a year ago.

Expenses. For the fourth quarter, expenses of $1.36 billion were 11% above a year ago and 8% higher than the previous quarter. The increase was due to higher technology costs, higher business-related costs including marketing, and the consolidation of ANZ.

For the full year, expense growth was capped at 3% to $5.13 billion as digitalisation and cost management initiatives yielded productivity gains. Staff costs and revenue-related costs were higher in line with income and business volume growth. Technology costs were flat for the full year.

The full-year cost-income ratio was 43%, in line with guidance.

Hong Kong. Hong Kong's full-year earnings rose 40% to $996 million. Total income increased by 6% to $2.22 billion as net interest income and fee income growth was offset by a decline in other non-interest income.

Net interest income rose 9% or $122 million from higher loan and deposit volumes. Loans grew 16% in constant-currency terms; excluding ANZ, loans increased 15% from trade and non-trade corporate loan growth. Deposits increased 19% in constant-currency terms; excluding ANZ, deposits were 12% higher from growth in current and savings accounts. The Casa mix improved from 57% at end-2016 to 61%. Net interest margin was stable at 1.74% as the benefit of higher interest rates and an improved Casa mix were offset by a lower LDR.

Fee income rose 19% or $96 million from broad-based growth led by wealth management including investment products and bancassurance, cash management and investment banking. Other non-interest income fell by one-third or $97 million due to lower treasury customer flows as well as a $45 million property disposal gain last year.

Expenses declined 2% to $945 million. Profit before allowances rose 12% to $1.28 billion.

Total allowances of $80 million were one-quarter the previous year's, which had included specific allowances for corporates with RMB derivative exposures. The 2017 allowances also included an SP write-back of $57 million from the recovery of a major loan exposure. General allowances of $75 million were taken for loan growth.

Non-performing loans. Non-performing assets were little changed from the previous quarter at $6.1 billion. With residual weak oil and gas exposures having been recognised in the previous quarter, new NPA formation fell to $362 million, in line with the ex-oil and gas NPA formation over the past several quarters. The NPL ratio was unchanged at 1.7%.

Allowances. Specific allowances for loans for the fourth quarter totalled $206 million or 25 basis points, in line with our through-the-cycle average. The majority of the charges was for existing NPLs, including exposures in India and China.

Impact of transition to FRS 109 Expected Credit Loss. We wrote back $5 million of general allowances in the fourth quarter, resulting in general allowance reserves of $2.62 billion as at 31 December 2017. The reserves amounted to the 1% of uncollateralised credit exposures we are required to maintain under MAS Notice 612.

With the implementation of FRS 109 on 1 January 2018, our Expected Credit Loss – the equivalent of general provisions today – was estimated to be $2.53 billion. This was $95 million lower than the 1% GP we had maintained.

Under MAS Notice 612, if the ECL is below 1%, the difference must be held as Regulatory Loss Allowance Reserves in shareholders' funds. As such, the $95 million was transferred to the RLAR on 1 January 2018.

Going forward, under FRS 109, SP charges will be the same as before. However, the charge for GP will depend on changes to the ECL from quarter to quarter. We expect these charges to be lower than the 1% GP charge we used to take but they are likely to be more volatile.

Capital. Our capital ratios remained strong. The fully phased-in Common Equity Tier-1 ratio was 13.9%, 30 basis points higher than the previous quarter from the accretion of retained earnings. Risk-weighted assets were little changed as loan growth was offset by a decline in off-balance sheet items.

Our leverage ratio of 7.6% was more than twice the minimum of 3% envisaged by the Basel Committee.

The Basel Committee announced the finalisation of Basel 3 reforms on 7 December 2017. The finalised reforms pertain to revisions to the standardised approach for calculating credit risk; market risk, credit valuation adjustment and operational risk; constraints on using internal models as well as the introduction of a RWA output floor based on the credit standardised approach. These revisions, together with the Fundamental Review of the Trading Book will not be implemented until 1 January 2022. For DBS, the aggregate impact of the 2022 rule changes as well as the changes to standardised approach for counterparty credit risk effective 1 January 2019, is fairly benign, increasing RWA by about 5% on a pro-forma basis.

Dividends. Given the benign impact of the Basel capital rules, the Board has determined that ordinary dividends can be sustained at higher levels. The Board therefore proposed a final dividend of 60 cents per share, bringing the full-year ordinary dividend to 93 cents, up 55% from a year ago. Barring unforeseen circumstances, we expect to pay a dividend per share of $1.20 for 2018.

Our policy of increasing dividends over the longer term in line with earnings growth remains unchanged.

The Board also proposed paying a special dividend of 50 cents per share together with the final dividend. The special dividend is intended to return the capital buffers that had been

built up prior to the finalisation of the new capital rules. The special dividend is also intended to mark the fiftieth anniversary of DBS this coming year.

In addition, the Board determined that the scrip dividend scheme would not be applied to the full-year 2017 final dividend and special dividend.

In summary. Our record full-year and quarterly performance was driven by business volume growth, which more than offset a lower net interest margin and weaker trading performance. The results reflected the quality of our broad-based franchise and nimble execution. Our pipeline continues to be healthy.

Our digitalisation efforts are enabling us to capture market share in developed markets, deepen our presence in emerging markets and increase overall productivity. As a result, our structural growth and returns have improved.

Asset quality is benign, with NPA formation and specific allowances reverting to more normalised levels. Our liquidity and capital are strong.

The significant increase in dividends reflects the quality of our earnings, the strength of our balance sheet and the improved returns we are generating for shareholders.

Piyush Gupta Thanks, Sok Hui. I'll make a few observations and then we can open it up for Q&A. [First,] I'll make a couple of comments on 2017. [Second, I'll share] some thoughts on capital and dividends – the big news this quarter. [Third, I'll] comment on where I see next year and how we've [started] off.

Key highlights. I think the most important takeaway last year was [the strong] business momentum. As you saw on Sok Hui's slide, it really kicked in [during] the second half of the year. Third quarter was strong. Fourth quarter was even stronger. Loan growth was 9% ex-ANZ, 11% with ANZ – that's pretty robust. Deposit growth was in the same order of magnitude – very robust. Fee income grew 13% for the year – [again] very robust.

The fact that we delivered a $4.4 billion bottom line after the accelerated provisions we took for the oil and gas sector in the third quarter says a lot. To be able to deliver a record bottom line, and to not even take a down year, after all of the [portfolio] clean-up reflects strength of the franchise.

Our fourth-quarter business momentum was also very good. Again, as Sok Hui pointed out, we had 3% growth in the loan book ex-ANZ, very broad-based, [including] from China, real estate, M&A, the mortgage book in Singapore. Net interest income was up 15% for the quarter – about $120 million [more than] the third quarter.

Our [fourth-quarter] non-interest income was flat year on year and that reflects, after a weaker trading performance, that the rest of the fee and commission income has been very strong [up 23%]. We made about $130 million less than the third quarter – but that's to be expected. Our fourth quarter has always been the lowest for our non-interest income.

Frankly, the fact that we have a $3 billion top line in the fourth quarter, which is normally seasonally our weakest quarter, says a lot on how strong the underlying momentum was for the quarter.

Our NIM for the quarter was good. This drove a large part of the net interest income, apart from the loan growth. Our fourth-quarter [NIM] was 1.78%. Our exit rate in December was 1.80-1.81% – even stronger. While rates have eased off in January, from the December levels, my anticipation is that NIM will continue to increase from where we are.

So what were the challenges for the year? Trading was the biggest challenge. Our fourth-quarter Treasury Markets trading income is down 24% [year on year]. That's in line with the global banks' [FICC performance]. Looking at full-year Treasury Markets activity, [combining] the customer side and the trading side, we're down 13% – midway of the pack.

The good news is 2018 just kicked off to a rolling start. The $340 million of drag [in non-interest income in 2017 was] on the back of treasury and trading. First of all, I don't expect another down year [for trading]. Even if we had a flat year, there won't be a year-on-year delta. But the year has kicked off to a great start, so I'm optimistic.

The other thing which came out, as Sok Hui pointed out, our expenses in the fourth quarter were higher than you would expect. We're a $100 million [higher than the previous quarter and] some of that reflects bringing on the Taiwan business from ANZ. If you look at the ANZ business, the overall cost-income ratio of the business is, when ANZ had it, close to 90% – that's one of the reasons they were selling it.

We think we can bring it down on our books at 55-60% – but that's substantially higher than the rest of our businesses. [In that] 55-60%, [on the one hand,] there is Singapore and Hong Kong with lower cost-income ratios because we bring on the businesses with little marginal cost [to our existing] platform. [On the other hand,] Taiwan and Indonesia have quite high cost-income ratios – Taiwan's cost-income ratio is over 80% and Indonesia's cost-income ratio is in the 60% range. As Taiwan and Indonesia come in, they are a drag on our overall cost-income ratio. That [contributed to] part of the fourth-quarter expenses.

We also spent some money in marketing. You'll see from my next slide that our market shares are up. We pumped some money in marketing, we have a rebranding effort going on, and we spent some money on tech. We did some of the tech cloud transformation projects in the fourth quarter – [resulting in] one-time expenses. But the full-year [cost-income ratio is] at 43%, so it's nothing to be overly concerned about.

Underlying business momentum. Going back to the business momentum, it's quite a robust story. On mortgages, our market share is now at 30.8% for Singapore – we had a 2.1% point [increase in] market share. About 1.2% points came from ANZ and almost 1% point came from our organic business. We haven't seen a 30%-plus market share in Singapore for a long time.

Our Singapore credit card receivables share is up from 20% to 25% – one-fourth of the market now. About 3-3.5% points came from ANZ but ex-ANZ our share went up by 1.5% points – that's quite substantial. Our share of billings went up by 2% points, from 19% to 21%. About half of that [came from] ANZ and the other 1% point is organic growth. [Wealth] AUM grew 24%. Our net new money for the year is very strong. We grew net new money 60% more than in 2016. This is ex-ANZ – if I treat ANZ as new money, then it's 140-150%.

SME was strong. We turned around the business and had 11% growth in the book. Our cash management was strong – with 29% growth for the year. If you look at the last four to five years, we're running at 26% Cagr on cash management, which is very robust. The trade book turned around [as well]. Our asset book is up 24% in constant-currency terms or by almost $10 billion for the year.

So cash, trade, mortgages, consumer, cards, lending, SMEs – very broad-based, robust business momentum, and a lot of which we started seeing through the [second half] of the year.

The other thing – we obviously covered this just a couple of months ago in our investor day – worth re-emphasising is that we are seeing the digital impact come through in our numbers; we will update our digital value capture numbers in our annual report. We continue to see market share gains. You don't [easily] get market share gains of the sort we're talking about in areas like cards and mortgage, which are fairly commoditised businesses. A large part of that is driven by the digitalisation of the business in Singapore and Hong Kong.

We continue to see very good traction with digibank and the SME distribution growth in India and Indonesia. We are just a tad short of two million customers in India, as of last week, and in Indonesia, we ended the year at about 70,000 savings account customers, so momentum is good.

On the back-end architecture, two-thirds of our applications are now cloud-ready; by the end of 2018, 90% will be cloud-ready. A chunk of that will be on our private cloud, but by the end of this year, a large part of our computation power will have started moving to the public cloud. We also launched the world's biggest banking API platform in November. We now have about 180 different open APIs. We have 60 API partnerships, so the ecosystem strategy is beginning to kick in quite nicely. So that was the second big thing to me in 2017 – digitalisation. This was a watershed year in our transformation journey.

The third big thing [in 2017 was] we cleaned up the [oil and gas support services] portfolio. The issue was an overhang and in the third quarter, we cleaned it up. Having cleaned it up, our new NPA formation for the fourth quarter has gone back to normal levels. Our SPs were a tad on the high side because we recognised provisions for some old NPLs in China and India. Again, we're just trying to clean up the book as much as we can. Asset quality is looking very good from where we are.

Capital. Next, just a quick comment on capital and dividends – Sok Hui talked about the overall Basel rule finalisation and impact on us. I had [thought] we might have an impact of maybe up to 10% on RWA. As the way the rules have come out, the impact [on us] is only 5%. This is much lower than the European banks. My estimate is most European banks would see an impact of 30-50% on RWA. We will see some impact from the standardised approach to calculating counterparty credit risk and from the fundamental review of the trading book – those are the two areas we will see some impact. The standardised floors have no impact on us at all.

We had a 14.3% transitional CET-1 at the end of the year and 13.9% fully phased-in. I've guided before that we're comfortable at around the 13% range – it could be plus minus 0.5% points – which means we have surplus capital. As I had said before, as soon as we get clarity on the Basel reforms we can be more efficient with our capital usage.

So we did three things. One, we bumped up the annual dividend to $1.20 per share. That gives you a pay-out ratio north of 50%. [While] we're not committed to a pay-out ratio, that's a good starting base. On top of that, we decided to do a one-time 50 cent dividend. And that's really to do a one-time return of the surplus that we'd built up in preparation for the Basel reforms kicking in. [In addition,] we decided to terminate the scrip dividend. As you know, we never gave a discount on scrip dividend for several years, so it [minimised dilution]. Nevertheless, we kept issuing more capital every year and we decided to stop that. So in sum, the impact of these is a dividend yield as of today's share price of about 4.5-4.6% – we're a fairly high-yield stock at this point in time.

We're not changing our dividend policy. Our policy has always been to increase dividends over the longer term in line with earnings growth. We're going to maintain that stance. We don't have a specific pay-out ratio in mind but we will continue to be steady and stable in terms of how we think about dividends, in line with earnings growth.

Outlook. A quick comment on 2018. Despite the volatility in the market and the turbulence, the fundamentals of the global macroeconomy are very robust. The US economy is strong – they published a circa 3% GDP growth rate. Europe is strong, still relatively stable. Japan is outperforming. China, strong and steady. The rest of the region is looking good. India will see a little notch up. I'm quite optimistic about the global macroeconomic environment.

On the back of that, we're retaining some of the guidance. We previously gave loan guidance of 7-8% [for 2018]. We think we should be able to do that. There are a couple of tailwinds on the loan side. One is that as the Renminbi is strengthening [again], it's re-opened some offshore-onshore arbitrage. There [will be] opportunities to do more financing. Also, Chinese outbound investments have continued to be fairly robust. We're in the middle of that deal flow, so that's helpful. The other thing is that the Singapore mortgage book continues to be robust with en bloc and residential [activity]. We didn't see a lot of the impact in 2017. In 2018, we expect to see [it]. So I'm relatively confident about the loan guidance.

On NIM, there's no question we expect to see higher NIM. It's hard to give a call on NIM. Like I said, our exit rate in December was already at 1.80-1.81%. On the negative side, [there are] two things. One, Libor has already run ahead of the Fed actions. So even if you wind up with two or three Fed hikes, [it may not] flow through [significantly] to Libor. The second is that the Singapore dollar is strengthening. [When this is the case,] MAS does not enter the swap market. The pass-through rate into Sibor and Sor [then] tends to be somewhat muted. Those are the negatives.

The positives are that given the strength of the US economy, people are now talking about three to four rate hikes, so we might get one rate hike more than we had anticipated. When you put all of that together, I think it's safe to assume that [we can get at least ten basis points better than our] blended NIM in 2017 of 1.75%. But it's very hard to call because there are a lot of moving parts in that NIM story.

On income, I expect to get low-double-digit growth, including ANZ. We'll get the full-year impact of ANZ. As I told you before, that's worth about $600 million at least on the top line. [This is on top of underlying] business momentum and the NIM increase that will kick in as well.

If I exclude ANZ, our cost-income ratio will come off by 0.5% points, which is [in line with] what we've been guiding. But because of that higher Taiwan and Indonesia businesses that came on – we won't be able to drive all the synergies upfront – we'll get a cost-income ratio which will still be stable at 43% after including the ANZ integration.

Finally, on allowances, our SPs should be on the lower side of the cycle average. I think the cycle average is 25-27 basis points. I don't anticipate getting to the cycle average. The [asset quality for] rest of the portfolio [has been] fairly benign.

For the transition to Expected Credit Loss from GP, as Sok Hui described, we used to put aside 1%. The way it works out now is any new loans we put in our book, what's called Stage 1 ECL only comes in at under 20 basis points – 18 to 20 basis points. The rest of the ECL comes from Stage 2, from migration or deterioration in the portfolio through the year, which is tough to call.

On the stock [of allowances] that we have, our ECL is close to a 1% GP. But if you look at our forecast for next year – we've cleaned up our book and don't have too much weakness in the portfolio – I don't anticipate a lot of downward migration in the portfolio given the overall macroeconomic environment. So my sense is that [GP charges] won't get anywhere near the 1% that we used to have. But as Sok Hui said, this number depends on migration and Stage 2 ECL, so it could move up and down a bit.

When you put all of that together, we're quite optimistic about 2018. Top line looks good, costs are under control, the credit environment looks fairly steady, the full impact of ANZ is kicking in, interest rates should be robust, and all our fee income businesses are doing very well.

Chris Wright (Euromoney) Two questions from me. First, you've addressed the issue of what the ANZ loan book has done in terms of the cost-income ratio. What about the credit quality of the ANZ portfolio? How does that compare to the rest of your book? Second, no doubt you've watched the Danamon transaction finally go through with MUFG. How does that feel, after spending a year and a half trying to bed it down, and given how DBS's strategy has moved towards digital and away from bricks and mortar – is it good for DBS that that deal never happened?

Piyush Gupta Let me take the second question first. When we went in and made a bid for Danamon, the Rupiah was trading at 9,000 [against the US dollar]. The Rupiah now trades at 13,000. I would have taken a 40-50% hit on goodwill, just on the currency before everything else. [In addition], the regulations changed. They put pricing caps, rate caps and so on. So yes, we're not unhappy that the deal didn't come through.

The broader answer is that the digital transformation agenda is so important to frankly any bank, and certainly to us, that anything that would distract us from pursuing that agenda at scale [would not be a] good idea in the short to medium term. Even for the ANZ acquisition, we spent a long time thinking about it. It was a very attractive deal in financial terms, but we [deliberated] because of how much it might distract us from the digital journey we are undertaking. We decided to do it because we figured we could handle it without putting us too far behind our agenda. But as I look back, we're at least a couple of quarters behind where I would have liked to be – the ANZ [acquisition] took a lot out of the company.

I still think, on balance, it was a worthwhile trade-off. But if we tried to do a large deal, it would set us back a couple of years, and I don't think that [would be] worth it. The window for transformation is short, with all of big tech and everybody else participating in this space. If you're not able to make the change in this period of time, you will suffer a lot more. So I think we're better off getting this [digital transformation] done and then we can worry about other expansion strategies in the future.

[On your first question,] the ANZ portfolio is quite good. The quality of the portfolio and book is very similar to ours. Since we've brought it on, it's not resulting in any material changes in our delinquency or in the profile of our business. [When we acquired] ANZ we also brought on the related [allowance] reserves they had. These reserves are more than adequate for any losses that we anticipate, so we're not expecting anything from there.

Jamie Lee (Business Times) There's been talk about how banks are exiting the oil and gas market, and there are some funds that are perhaps looking to buy up some distressed loans. How do you see that market? Where is DBS's position on this right now?

Piyush Gupta Let me recap what I've said before. I think there are two parts to the [oil and gas support services] sector in Singapore. One part of the sector is the part that supports deep-sea development activity. I think the deep-see development activity is going to be structurally challenged for a period of time. Even though oil prices have ticked up to $65-$70, when I talk to our oil and gas producer clients, nobody has appetite to take on

serious development projects at this price level. I think you'll have to see oil sustainably higher before people go back to North Sea, Brazil and off the Africa coast – I don't see that happening. To my mind, that part of the industry is structurally impaired. I don't think there's going to be a lot of upside in that part of the industry in the short to medium term.

I think also – I'm not smarter than anybody else – that all of the issues around peaking oil [demand] and shale [adds to the uncertainty]. [These raise the questions of] at what stage do electric cars result in peaking oil [demand] and at what stage does shale come in [to increase supply]. My own sense is I don't see oil going up to $80 and beyond sustainably – so I don't think deep sea will come back. That's my view.

The rest of the industry in Singapore supports the shallow-sea activities – the tugs and barges, the maintenance activity of the drilling and so on. I think that's in a cyclical downturn. I think that part will be restructured – it will survive and come back. But the cyclical downturn is protracted. Even though oil prices have gone up – you're seeing some pickup in the chartering activity – you're still not seeing a material shift in the margins. The reason for that is all the oil majors are just pricing to a $50 oil price. They're still not going back and revisiting the margins of the supply chain. I'm beginning to see some pickup, but it's not that material yet. I think it'll take at least another year before margins pick up and that part of the industry can generate enough cash flow to service debt and principal in a sustained way.

We looked at all of the restructuring that is happening, and Ezion announced theirs yesterday, Nam Cheong did this before, [so did] Marco Polo. Everybody is trying to minimise the cash outflow to service principal and interest and extend it out so that they get time to build cash flows. Margins will improve and then they can start servicing their debt. That's the nature of the restructuring that is going on. We're very active in that restructuring.

On the one hand, we're conservative; we've recognised all the possible provisions [needed], so we're not banking on [a recovery]. On the other hand, we're not exiting that space. Some of these are good companies, they're clients of ours, and we're actively participating in helping these clients restructure so that they can survive and be able to participate in the industry going forward.

Hu Yuan Wen (Lianhe Zaobao) For the housing loan market share that crossed 30%, is it mainly from refinancing? Or is it from new launches?

Piyush Gupta It's broad-based, but a lot of it is from refinancing. We have been active in refinancing and in [new launches] as well. We're not seeing the impact of the [financing related to] en bloc sales [until] this year. Our new bookings have been strong for both the quarter – [fourth-quarter new bookings] went over $2 billion again – and for the year at over $12 billion, up 21% up from 2016.

Goola Warden (The Edge) On the dividend pay-out ratio, this year you're [poised] to pay out $1.20 per share, so that's about $3.1 billion and around a 54% pay-out. Is that what you're expecting? Thanks.

Piyush Gupta $3.1 billion is a lot of money, Goola.

Goola Warden Yes, but it's a 54% pay-out of this year's earnings.

Piyush Gupta Yes, that's correct.

Goola Warden You've got total AUM at $206 billion. Could you give us an idea [how much] private banking AUM do you have out of that?

Piyush Gupta I think of all of them as Wealth AUMs because we generate the same business and money from all of them. But if you look at the high net worth AUM, people with more than $1.5 million [of investible assets], which is comparable to some of the other private banks, that's $145 billion.

Livia Yap [Bloomberg] Do you expect declines in non-performing loan ratios in 2018? Is it correct to say that it's at a peak?

Piyush Gupta I'm not sure we'll get declines in the ratio – it will stay pretty stable. Obviously the denominator will go up – so we might see something from that – but for the numerator, I don't think we'll see a lot of recoveries in the course of the year. I think it's one more year before we start to see [some recoveries].

Livia Yap And can you give some colour on the collateral value in [oil and gas support services]? Do you think there has been stabilisation?

Piyush Gupta The number of transactions has been limited. Like I told you about the margins, the activity rate has gone up, charters have gone up, there's been some pickup in rates, but the number of transactions is limited. These are very small tugs and boats at the $1 million to $3 million level. These prices have stayed roughly where they were in the previous quarter – but they were small boats so it's hard to see what happens.

I told you last time that when we took our third-quarter clean-up, we were very conservative in our collateral valuation. We don't expect collateral values to fall below that. Since then, oil prices have gone up and rates have gone up. If anything, it should have firmed. But we don't go back and check collateral values every other month – so I'm just telling you anecdotally from the transactions we saw in the market.

Siow Lisen (Business Times) I have two questions. First, on NIM, [could you confirm your expectations for] this year? Second, on oil and gas, we've been hearing that local banks have shrunk their overall oil and gas lending to the industry. Have you dismantled your oil and gas unit?

Piyush Gupta Absolutely not. If you had seen the papers today, we just restructured Ezion. We're an active participant and we have money in the restructuring. We couldn't have disbanded the unit by a long shot. We've got 100-plus clients in Singapore in this industry.

On NIM, there are many moving parts as I've explained before. First, how many Fed rate hikes are there? If you look at the analysts and economists, they're talking three to four. If you look at the futures market, it's still pricing two to three. So it's still unclear how many rate hikes we'll get. Does the sell-off this past three to four days have an impact on Fed decisions? [What's the view of] the new Fed Chairman? It's hard to call. It could be anywhere between two and four rate hikes, and that's a big difference and I can't tell you what the right answer to that is.

Second, even if you [know the number of] Fed rate hikes, how much of that has already been factored into Libor and how much will pass through to Libor? Libor has already outrun some of the Fed rate hikes. I think part of that is a function of what people's expectations for 2019 rate hikes will be. If people expect that rate hikes will hit three and stabilise, then you won't see more impact on Libor. But if people expect further rate hikes in 2019, then Libor will continue to reflect that.

Third, how much of that then trades into Singapore dollars? As I explained before, [the impact on] Singapore dollar [interest rates is affected by] the exchange rate. If the Singapore dollar is weakening, then there is no reason for monetary policy activity from MAS. You get almost a 90% pass-through from the Fed rate hike into the Singapore dollar. But if the Singapore dollar is strengthening, then it's a function of how does MAS choose to intervene – whether through the swap market or money market. Net-net, if the Singapore dollar is strengthening, then you only get about 40% flow-through.

When you add these three things together – how many Fed rate hikes, how much pass-through and how much monetary intervention from MAS – it becomes tough to land a number for what it might be. Like I said, we averaged 1.75% last year and we should be able to get at least ten basis points better than that. If I had to make a guess, I would say that – but it's hard to be accurate.

Ishika Mookerjee (Citywire) I have three questions. First, what's the private banking AUM from the ANZ acquisition up till now? Second, could you give more information on the net new money for the private banking business in 2017. Third, what's been the impact of digitalisation on your private banking business in particular, especially on the hiring front.

Piyush Gupta First, the high net worth AUM from ANZ is $4 billion [out of a total $145 billion]. Total wealth AUM from ANZ is $18 billion [out of a total $206 billion]. Second, net new money is very broad-based. But we got money from the regions such as North Asia, mainly China, and Europe and international business as well. Su Shan, maybe you can give more colour?

Tan Su Shan Net new money grew strongly especially in the fourth quarter, mainly from existing DBS private banking clients. There was quite a lot of organic wealth creation in the last year. We don't normally tell you the absolute number. We've given you the delta, so I think hopefully that will suffice.

Ishika Mookerjee Okay. What about the international business, especially the Middle East?

Piyush Gupta Again, we don't disclose specific numbers from the Middle East but our business activity there has broadened. We're now covering Africa and some of the other regional countries in the Middle East that we didn't in the past, and there's a lot more interest. We're beginning to pick up a lot more flow from Middle East and southern Europe. [That said,] we're also very careful about the money we bring in. For example, we have a lot of Russian and eastern European money which would like to come in, and we turned away.

Third, the digitalisation impact has been massive – and at both ends. At the lower end, we've see a lot of impact from digitalisation. [For instance,] we're doing online acquisition – we're now acquiring one in three of our new mass affluent clients digitally. There's also a lot of self-service where clients would really be able to do a bunch of activities online, not only in the mass affluent but even in the Treasures Private Client [segment].

Tan Su Shan I can share two examples. One is on self-service. We are seeing a big jump in clients doing their own trading online or on their mobile phones. [These are equity trades] as well as FX and unit trust transactions. The [second] is the RM-assisted model. [In the past,] when RMs go and see a wealth customer, they would have to get data from four different systems. Today, the data are all put into their iPads [automatically]. The portfolio agenda is there, the portfolio update is done, the AI will suggest portfolio adjustments and [relevant] corporate actions.

Internally, we've rewired our systems. In the past, for example, if an RM wanted to get a price on a structured product, they would have to call the dealing desk; the dealing desk then had to call 10-12 different service providers. Today, it's all automated. Literally within seconds, you can get 10-12 different service providers to give us the pricing. We look for the best price, we hit the trade and it's done. [These have given us] productivity gains and increased stickiness [with our] customers.

Piyush Gupta I think anecdotally our RM productivity has been [in the] top decile of the market. One of the big upsides we have – we saw this with SocGen and we're seeing this with ANZ – is that we can double RM productivity [as we give these RMs] a broader product range to sell and [empower them with] automated tools. That gives us an immediate lift.

Jamie Lee Two questions. First, Citibank said that their private banking business has the lowest cost-income ratio in the market at about 58%. Are you lower than that?

Piyush Gupta We're lower than that.

DBS

Jamie Lee Second, there's been talk about climate change and reports about the Singapore banks' lending to coal plants, particularly in Vietnam and Indonesia. What is your policy for funding these plants? Are there things that you're doing to change the way you lend in emerging markets?

Piyush Gupta We spent a lot of time in 2017 revamping our sustainability agenda – especially what we call our responsible financing policies. We brought on a full-time officer to help us recraft the policies and we appointed a Chief Sustainability Officer as well.

For each sector that is environmentally vulnerable – mining, plantations or coal [for instance] – we've developed fairly robust policies for what we will do and what we won't do. In developing the policies, we benchmark against global best practices, what banks around the world are doing. We then come up with a policy that is consistent with global guidelines.

On coal, let me start with one caveat: you've got to remember that the bulk of energy needs in our part of the world are [met by] coal, whether it's Indonesia or India or China or Vietnam. That's not changing between now and 2030 or 2040. [The Southeast Asia Energy Outlook] report will tell you that 40% of the [region's] energy needs will [depend on] coal – [even if good progress is made to] convert to renewable and alternative forms of energy. Therefore, it is important to understand that you can't turn off [reliance on coal] overnight – you'll deprive 40% of people – especially in small towns and villages – access to electricity and light. That's not necessarily a good outcome for society. You've got to be thoughtful about how you transition.

The key is how do you manage the transition arrangements in a sensible way. The policies on coal that we set up, for example, is that in any developed market where it's easy to move to renewable energy, we won't do any more – we put a complete stop. In developing markets, we said we will go [only for high-efficiency] coal technology, in line with many of the global players, from the end of this year.

We're starting to build a renewables portfolio. We're consciously and actively working with our clients to do wind, solar and renewables financing – to shift the portfolio mix of what we have in that business.

Edna Koh Thank you for coming. See you next quarter.