DBS

Edited transcript of DBS second-quarter 2018 results media briefing, 2 August 2018

Edna Koh Good morning, and welcome to DBS' second-quarter results meeting.

Chng Sok Hui Good morning.

Highlights. We achieved record first-half net profit of $2.89 billion, up 23% from a year ago. The results were driven by broad-based growth in loans and fee income as well as a higher net interest margin. Total income increased 13% to a new high of $6.56 billion as net interest income grew 17% while fee income rose 11%. By business unit, Consumer Banking / Wealth Management (CBG/WM) income increased 20% while Institutional Banking (IBG) income rose 6%. The performance was moderated by a 20% decline in Treasury Markets (TM) trading income.

Return on equity for the first half was 12.5%, up two percentage points from a year ago. The underlying profitability of our franchise has been made clearer with the normalisation of interest rates and allowance charges.

For the second quarter, net profit rose 20% to $1.37 billion as total income increased 10% to $3.20 billion. Business momentum continued to be healthy as consumer and corporate loan growth, underlying net interest margin progression as well as overall fee income trends were sustained. Year-on-year income growth for CBG/WM accelerated from 17% in the first quarter to 23% in the second quarter, while IBG's income growth accelerated from 3% to 9%.

The results were dampened by the weakest trading performance on record as TM trading income fell 59% from a year ago. If TM income had been at the average of the previous four quarters, the cost-income ratio would have been at 43% instead of the reported 44%.

The balance sheet continued to be strong. New non-performing assets and Specific Provisions for the first six months were half the levels a year ago. Capital and liquidity ratios continued to be well above regulatory requirements.

The Board declared a first-half dividend of 60 cents per share, compared to 33 cents a year ago. The dividend is in line with the guidance provided at the fourth-quarter results in February.

First-half performance. Total income rose 13% or $753 million to $6.56 billion.

Net interest income increased 17% or $633 million to $4.35 billion from broad-based loan growth and higher net interest margin. Loans expanded 12% to $338 billion from growth across corporate, trade and consumer loans. Net interest margin rose ten basis points to 1.84% in line with higher interest rates.

Fee income grew 11% or $149 million to $1.45 billion. It was led by a 27% underlying increase in wealth management fees from higher bancassurance and investment product sales. Card fees were 29% higher from higher credit and debit card transactions as well as

the consolidation of ANZ. Also contributing to the increase in overall fee income were higher brokerage and cash management fees.

Other non-interest income fell 4% or $29 million to $761 million. A $145 million decline in gains on investment securities was partially offset by a property disposal gain in Hong Kong of $86 million. Trading non-interest income was $30 million higher as an increase in the first quarter was partially offset by a weak performance in the second quarter.

Expenses rose 12% or $300 million to $2.82 billion. Excluding ANZ, expenses were 6% higher. The cost-income ratio was at 43%. Profit before allowances rose 14% to $3.75 billion.

Total allowances halved to $269 million, in line with new non-performing assets.

Second quarter compared to year ago. Total income rose 10% or $279 million to $3.20 billion. Business momentum was healthy as income growth for CBG/WM and IBG accelerated. Double-digit percentage increases in net interest income and fee income were moderated by a 32% decline in other non-interest income.

Net interest income increased 18% or $336 million to $2.22 billion. Net interest margin rose 11 basis points to 1.85% in line with higher interest rates. Loans grew 12%.

Fee income increased 11% or $70 million to $706 million, led by wealth management and cards. Other non-interest income fell 32% or $127 million to $273 million. Half of the decline was due to trading income, which fell 23% or $68 million to $227 million as a flatter yield curve and wider credit spreads created trading headwinds. The other half of the decline in other non-interest income was due to a 68% or $65 million decline in gains on investment securities to $30 million.

Expenses rose 12% or $150 million to $1.42 billion. Excluding ANZ, expenses were 5% higher. Profit before allowances increased 8% to $1.79 billion.

Total allowances fell 65% or $199 million to $105 million.

Second quarter compared to previous quarter. Total income was 5% or $157 million lower than the previous quarter's record due to weaker trading income, the absence of a property disposal gain, as well as a high base for wealth management income in the previous quarter. Business momentum was healthy.

Net interest income was 5% or $96 million higher. Loans grew 1% in constant-currency terms as non-trade corporate loans and consumer loans increased 2% while trade loans were unchanged. Net interest margin rose two basis points to 1.85%.

Fee income fell 5% or $38 million from a high base for wealth management fees in the previous quarter, which had benefited from exceptionally buoyant equity markets and investor sentiment. Fees from cards and cash management were higher.

Other non-interest income fell 44% or $215 million. Two-fifths of the decline was due to the $86 million property disposal gain in Hong Kong in the first quarter. The remaining three-fifths was due to a 38% decline in trading income.

Expenses were 1% or $20 million higher. Profit before allowances was 9% lower.

Total allowances fell by one-third or $59 million.

Net interest income. Second-quarter net interest income of $2.22 billion was 5% higher than the previous quarter.

Net interest margin rose two basis points. Higher interest rates in Singapore and Hong Kong boosted net interest margin by four basis points as loan yields rose faster than deposit costs in both markets. The impact was moderated by an increase in liquidity buffers given the uncertain market environment and by $3bn of Tier-2 capital issuances, partly to replace preference shares that rolled off.

For the first half, net interest income rose 17% to $4.35 billion. Net interest margin was ten basis points higher at 1.84%.

We are expecting full-year NIM to be slightly above our original guidance of 1.85%. This is predicated on two more US Fed rate increases and a 50% pass-through to Sibor and Sor, as well as the impact of higher Libor and Hibor rates.

Loans. Non-trade corporate loans and consumer loans rose $5 billion or 2% during the quarter. Trade loans were unchanged.

As with recent quarters, the growth in corporate loans was led by Singapore and Hong Kong companies. Singapore housing loans grew in line with the market during the quarter. Trade loans were flat as pricing was unattractive.

For the year to date, constant-currency loan growth was 4% or $13 billion, including $1 billion from ANZ Indonesia. Most of the underlying loan growth was due to consumer loans and non-trade corporate loans.

For the 12 months, constant-currency loan growth was 12% or $37 billion from increases in corporate, trade and consumer loans, as well as $9 billion from ANZ.

Deposits. Deposits rose 2% or $6 billion in constant-currency terms during the quarter to $388 billion. The increase was led by US dollar fixed deposits from corporate and central bank customers as we built up liquidity buffers given the uncertain economic environment.

Partially offsetting the increase was a $3 billion decline in other funding to $40 billion as a roll-off of commercial papers was partially offset by the new Tier-2 issuances.

In constant-currency terms, deposits rose 3% or $11 billion year to date. Over the past 12 months, they increased 14% or $47 billion, including $12 billion from ANZ.

Our liquidity ratios remained well above regulatory requirements. The liquidity coverage ratio was at 135% while the net stable funding ratio was at 110%.

Fee income. Second-quarter gross fee income was $817 million, 12% higher than a year ago.

Wealth management fees rose 22% to $300 million. The growth was due partly to the addition of the ANZ customer base. Investment products such as unit trusts and treasury products accounted for two-thirds of the increase while bancassurance accounted for the remaining one-third.

Card fees rose 32% to $171 million from higher credit card transactions in Singapore and the consolidation of ANZ.

Transaction services fees rose 4% to $160 million as a 13% increase in cash management fees was offset by a decline in trade finance. Cash management accounted for two-thirds of transaction services fees during the quarter compared to half a year ago.

Loan-related fees were lower as there were no significant transactions compared to a year ago.

Compared to the previous quarter, total gross fee income was 4% lower due to a high base for wealth management and brokerage.

CBG/WM. First-half total income rose 20% to $2.76 billion, with year-on-year growth accelerating from 17% in the first quarter to 23% in the second. In constant-currency terms, total income for the first half was two percentage points higher at 22%.

The growth was across all key products. Loan and deposit income rose 18% to $1.52 billion for the first half from higher net interest margin and volumes. Investment product income increased 21% as a result of buoyant market sentiment and the consolidation of ANZ. Card income grew 29% from higher credit card transactions as well as the consolidation of ANZ.

Wealth Management customer segment income grew 30% to $1.33 billion as assets under management rose 23% to $216 billion, including $22 billion from ANZ. Income from the retail customer segment increased 12% to $1.43 billion. Our market share in Singapore housing loans was at maintained 31% while our market share of Singapore-dollar saving deposits remained at 52% compared to the previous quarter.

IBG. First-half total income rose 6% to $2.78 billion, with the year-on-year growth accelerating to 9% in the second quarter from 3% in the first. In constant-currency terms, IBG's income for the first half was two percentage points higher at 8%.

The growth was led by cash management, which grew 47% to $746 million for the first half. New customer mandates and deeper relationships, differentiated by digital innovations and integrated solutions, contributed to a 5% growth in deposits to $137 billion. At the same time, net interest margin was also higher as the deeper relationships increased the proportion of lower-cost sticky deposits.

The higher cash management deposit volumes and net interest margin also contributed to a 12% increase in SME customer segment income to $941 million.

Treasury customer income rose 2% to $308 million, the first increase since 2015 when a change in the direction of the RMB lowered customer activity.

The increases in cash management and treasury customer income, as well as investment banking income, were partially offset by single-digit percentage declines in loan and trade income.

TM. Total income, which comprises trading, market-making and structuring, fell 20% in the first half to $356 million. The brunt of the decline was in the second quarter, when it fell 59% to $107 million compared to an increase of 33% in the first quarter, as a flatter yield curve and wider credit spreads created trading headwinds. In addition, the strong equity market contributions in the first quarter were not repeated.

Treasury customer income, which is reflected under CBG/WM and IBG, was 7% higher for the first half at $635 million. The growth was similar for both the first and second quarters.

Total treasury income, which comprises both components, fell 5% to $991 million for the first half. The decline was due to a 24% fall in the second quarter to $419 million, compared to a 16% increase in the first quarter to $572 million.

Business momentum. This chart shows the growth of the three business units over the year-ago period. CBG/WM and IBG income growth has been accelerating over the past five quarters. The growth for the two businesses combined was $382 million in the second quarter, compared to $239 million in the first quarter, $193 million in fourth quarter 2017 and under $100 million for the second and third quarters of 2017.

For CBG/WM, the increased rate of growth reflects net interest margin improvements as well as the consolidation of ANZ. For IBG, the faster increases are due to momentum in cash management and a stabilisation of treasury customer income.

The increases in CBG/WM and IBG income have been moderated by declines in Treasury Markets income. The exception was in first quarter 2018, when strong equity markets contributed to a year-on-year increase in Treasury Markets income.

Expenses. First-half expenses rose 12% to $2.82 billion, slightly below the 13% increase in total income. Excluding ANZ, expenses were 6% higher. The cost-income ratio was 43%.

Second-quarter expenses also rose 12% from a year ago to $1.42 billion. The weakness in Treasury Markets income resulted in a cost-income ratio of 44%. If Treasury Markets income was at the average of recent quarters, the cost-income ratio would have been at 43%.

Quarter on quarter, expenses were 1% higher.

Hong Kong. In constant-currency terms, Hong Kong's first-half earnings rose 71% to $740 million as total income increased 37% to $1.37 billion. Excluding a property gain of $86

million in the first quarter, first-half earnings increased 51% to $654 million while total income grew 28% to $1.29 billion. Earnings and total income excluding the property gain were both at new highs.

The increase in total income was broad-based. Net interest income rose 29% to $842 million. Loans grew 20%, led by lending to large corporate customers. The consolidation of ANZ also contributed to the increase. Net interest margin increased 18 basis points to 1.92%. With Casa accounting for 61% of the deposit base, an increase in Hibor and Libor resulted in a faster repricing of loan yields than deposit costs.

Fee income rose 20% to $321 million, led by increases in wealth management and cash management. Excluding the property gain, other non-interest income rose 54% to $122 million from higher treasury customer sales and trading gains.

Expenses rose 11% to $487 million, due to business growth and the consolidation of ANZ. Profit before allowances increased 57% to $884 million. Excluding the property gain, profit before allowances was 42% higher at $798 million, which was also a record.

Allowances of $13 million were less than one-third the level of a year ago as both specific allowances and general allowances were lower.

Non-performing assets. Non-performing assets were little changed from the previous quarter at $5.9 billion.

New NPA formation of $358 million was higher than the previous quarter due to a significant corporate exposure in Singapore. Excluding the exposure, NPA formation was similar to the previous quarter, which was at a four-year low.

The NPL rate of 1.6% was unchanged from the previous quarter.

Specific allowances. Specific allowances for loans fell to $98 million or 12 basis points of loans. It included a write-back of $65 million from the sale of an oil and gas support service vessel.

For the first half, specific allowances amounted to 16 basis points of loans, below our long-term average of around 25 basis points. Excluding the write-back, first-half specific allowances for loans amounted to 25 basis points.

General allowances. During the course of the quarter, the Expected Credit Loss for Stage 1 and 2 – or general allowances – rose by $18 million to $2.59 billion. Of the increase, $7 million was taken through the profit and loss account for loan growth and migration of exposures between Stage 1 and Stage 2, less transfers of ECL to specific allowances. The remaining $11 million was due to translation effects and taken through the balance sheet.

Regulatory Loss Allowance Reserves, which are required by MAS if the Expected Credit Loss for Stage 1 and 2 falls short of the 1% general allowance requirement, increased by $136 million to $286 million. The increase was transferred from retained earnings.

Capital. Our capital ratios remained strong. The Common Equity Tier-1 ratio was 13.6%, after a dividend payout of $2.8 billion in May, which included a special dividend of $1.3 billion. The leverage ratio stood at 7.0%, well above the regulatory minimum of 3%.

Dividends. The Board declared a first-half dividend of 60 cents per share, almost twice the 33 cents a year ago. The payout is in line with the guidance provided in February this year. Barring unforeseen circumstances, we expect to pay $1.20 per share for this financial year. Based on yesterday's closing share price, the dividend yield is 4.5%.

Summary. The record first-half performance was driven by broad-based growth in loans and fee income. The growth was driven by CBG/WM and IBG, moderated by weakness in TM. Business momentum was sustained in the second quarter as CBG/WM and IBG income growth accelerated from the first quarter.

The two-percentage-point increase in first-half ROE to 12.5% underscores the improvements we have made to our franchise over the years. The impact is now more evident with the normalisation of interest rates and allowance charges.

Heightened uncertainty from trade tensions, economic deceleration in China and increased market volatility have clouded the short-term outlook. However, over the medium term, the region's prospects remain sound.

With a strong balance sheet, multiple business engines and an ability to execute nimbly, we expect to continue to deliver further growth and shareholder returns in the coming quarters.

Piyush Gupta It's fair to say this wasn't our greatest quarter, but it wasn't bad either. And on balance, given everything, I'll take it. I'll take it because the overall underlying business momentum has been strong. The cards business is doing well, up 30% for the half year and getting close to a $800 million annual business. The wealth segment's doing well. It's also up 30% for the half year and it will do well over $2.5 billion in income this year. AUMs are growing, net new money is growing.

The SME segment is doing well, up 12%. Cash management is doing extraordinarily well, up 47%. Some of this is higher net interest margin but the volumes are also doing well. The quality of deal flow continues to be strong.

The underlying business is stronger for both CBG/WM and IBG accelerated in the second quarter relative to the first quarter.

We're quite chuffed about the fact that we were named the World's Best Digital Bank by Euromoney for the second time in three years. We were also named the World's Best SME Bank. And My Private Banking research in Switzerland, which evaluates everybody's digital wealth offering around the world, ranked, by a margin, ours the best in the world.

The challenge is really this: Treasury Markets. Our treasury business is a simple FICC business, with both a customer sales element and a trading element. The trading element is what we call Treasury Markets. That business used to do about $280 million a quarter, all

the way to 2015-16. Last year, it came off to an average of $214 million per quarter, off by $60 million-70 million. Some of the impact is structural, which we estimate to be about $30 million a quarter. The movement towards exchange traded instruments and high frequency trading has had an impact on margins in the business. This means, after taking $30 million off, about $250 million a quarter should be the steady-state income for TM.

We were around that level in the first quarter, but it tanked in the second quarter, which was the worst since I've been with DBS ten years ago. There are several reasons. First, credit spreads in Asia have widened on the back of macroeconomic uncertainty. So the credit trading book lost money. Second, the flattening yield curve makes it harder for the bond portfolio to generate income between the short and the long ends. Third, the first quarter had benefited from a surge in equity markets, which sold off in the second quarter. You could call the second quarter a perfect storm in some ways, and we wound up well over $100 million short of the steady-state income in TM.

The uncertain environment affects TM more than the core business. The first-order impact of trade tensions has little impact on the core business. As the duties on Chinese exports are on components for goods, the impact on end-product cost is marginal. In addition, it is hard for US importers to switch supply chains, so it is not going to change volumes. The duties on agricultural products going into China have a similar consequence. The volumes are not changing much.

The second-order impact from a potential additional 10-25% duties on US$200 billion of goods is less certain. That amount involves finished goods. But big shifts in the supply chain are unlikely and the duties will be priced into sales margins and consumer costs in my view. But some parts of the supply chain could shift. And when it does, it is unclear who benefits. It could be that the rest of Asia. But it’s hard to understand the effects.

I think the biggest immediate impact of the trade tensions is the effect on confidence, which affects equity markets, yield curves, credit spreads in the region. Therefore, it’s not the core business that gets impacted but TM.

The other uncertainty is China deleveraging. With headwinds from trade, China is starting to pump liquidity to ease the situation. As it turns out, the liquidity is staying in the official and SOE sectors rather than the POE sector and shadow banking complex, at least for now as best as we can see. With a large amount of bonds coming due over the next 18 months, you could see liquidity problems. Already in the first half, there have been 22 defaults. That means the need to be cognisant of the impact of deleveraging over the medium term.

Weakening Asian currencies have been somewhat less of a challenge so far than could have been the case. While India’s and Indonesia’s currencies have weakened, their macroeconomic situations are stronger than before. From stress-testing our own portfolio, we don’t see major problems. But if currencies weaken a lot more, we could start seeing stress in those economies.

Finally, in Singapore, the impact of recent property cooling measures. First, we do see a slowdown in housing loans. We’d originally expected to add $4 billion this year. Based on

what happened with past tightening measures, we'd probably give up about half a billion dollars of the expected growth and come in at $3.5 billion instead of $4 billion. In addition, large Singapore developers could slow down their rebuilding of land banks. Altogether, we could see a shortfall of about $1 billion of loan growth from the property measures.

There's one piece of good news – it’s a considerable one – and it is the US economy is going gangbusters. The pace of US growth can offset the other headwinds as US consumption demand has kept the global economy going in the past.

With the uncertainty, you've got to be more thoughtful and careful about the bets to take. We’re moderated our guidance on loan growth, particularly trade. In the second quarter, our trade book was flat, not because of the trade tensions – because, as I said, trade volumes have not really suffered – but pricing, which has been very fine.

With higher US-dollar Libor, we’ve been able to pass through pricing on our non-trade loans, but for the trade book pricing and margins have become very fine. So it hasn’t made any sense to put on trade assets. I think the situation might continue for some time. We think our trade loans might stay flat or even run off a couple of billion dollars if pricing stays tight. But because trade is a low-margin business, the impact of the lower trade volumes won't impact net interest income much.

Moreover, net interest margin is doing better than we expected. We exited June at 1.88%, while the full second quarter was 1.85%. We think we should be able to get a basis point or two more than the original full-year guidance for net interest margin.

We think we’ll still be able to achieve our original guidance: low double-digit growth in total income and a cost-income ratio of 43%. The cost-income ratio was higher for the quarter because income declined. Our costs were flat quarter-on-quarter. Besides trailer fees related to the ANZ deal, which was reflected in the revenue-related cost line, costs were fairly well contained.

We expect allowances to be better than the cycle average of 25-27 basis points. We were at 20 basis points for the first half if we exclude a significant write-back we had. We don’t expect large write-backs in the second half.

So other than the loan guidance, which is lower, our income and earnings guidance are otherwise unchanged. We should be able to deliver what we set out to do for this year.

Kevin Lim (Nikkei NewsRise) First, can you elaborate why US banks did better in trading, what is the difference between the US and Asia. Second, OCBC has redeployed half its tellers as it automates. Can you share what you're going to do?

Piyush Gupta On the first question, most US banks’ treasury business is down from the previous quarter, but compared to a year ago they benefited from commodities and credit. The problem in Asia is that Asian credit spreads widened on the back of trade tensions compared to other parts of the world. Second, Asian equities sold off in the second quarter.

On the second question, we've also been saying that as we digitalise, we will need less staff, including in the branches. And what we have, exactly as OCBC just announced, is a very active re-skilling programme and then moving the staff to other parts of the bank. We've been doing this for the past two years.

Ed Lane (Shenton Wire) You talked a bit about the digital transformation. We see computerisation costs up 11% and revenue-related costs up 39%: are those costs related to the digital transformation?

Piyush Gupta The revenue-related expenses have nothing to do with digitalisation. Those are incentives we pay to salespeople for generating revenues. Some of them relate to sales done in the previous quarter. It also has to do with the ANZ deal. We had to pay trailer fees on the revenues we make on mutual funds and insurance, so there are some peculiarities there. It has nothing to do with digitalisation.

The computerisation expense growth has to do with digitalisation. As we digitalise, we've continued to invest. We're investing in data. But in the big picture, our overall technology expenses have been about $1 billion every year for the past several years. And we don't see that changing very much. We're able to re-engineer and save money in technology, which we re-direct to digital activities.

Ed Lane Does that make you money, by spending this money to move to digitalisation?

Piyush Gupta Our thesis is that our digital agenda allows us to make a lot more money per customer. Every customer who moves beyond the digital threshold makes us twice as much money, in both the consumer and SME space. At the same time, digital allows us to get into markets that we could not get into, in the large countries like India and Indonesia. We are convinced that the digital expenditure pays off.

Takashi Nakano (Nikkei) You have started a property market place, a car market place and an electricity market place, but you still enjoy a lot of profit from traditional banking. So how profitable would the marketplaces be and how would they contribute to future growth?

Piyush Gupta The market places are not new businesses. We don't expect to grow new business from doing brokerage in cars and property. Our belief is that customers increasingly want to buy cars, properties and electricity digitally, and our banking products will have to be distributed accordingly. It's just a change in the distribution mechanism. And I strongly believe you'll see a lot more of distribution into these ecosystems. But banks will continue to make money in the traditional way. We take money, we lend money, we move money around.

Goola Warden (The Edge) Where are you on digibank in India and Indonesia in terms of customers and are you near breakeven? You mentioned that loan growth from property developers will fall, but how about their credit standing?

Piyush Gupta We continue to track to our plan in both India and Indonesia. We have about two million customers in India, and we're adding about 70,000-75,000 customers every month. We have about 250,000 in Indonesia. We're adding fewer in Indonesia because we have a different strategy and customer profile in Indonesia. The customers make money on operating costs from day one, but not if the cost of acquisition is included. The breakeven, as I've indicated before, will take us four to five years.

The good news is that in both countries, in the past quarter, we've launched lending products, which are doing well. While it's early days and we don't have scale yet, the lending in India is getting a good response, and we're doing the same thing in Indonesia and getting a good response. I'm optimistic that as the lending picks up, it'll drive the profitability in the business.

Goola Warden You also said that you subsidiarised your Indian operations?

Piyush Gupta We still have to get final approvals from RBI. I'm hoping that will be in the next couple of weeks, then it'll take us another two to three months to finish the formalities. I suspect that we'll only be able to the subsidiarisation done in the fourth quarter this year.

On the property developers, the credit quality is fine. We don't bank the smaller developers but with the established developers, which have deep pockets. None of them is likely to run into a problem as a result of the recent measures.

Based on previous cooling measures, the impact of additional stamp duties takes about two quarters to play out. At the end of two quarters, most people adjust to the higher stamp duties and volumes begin to come back. The impact of the lower loan-to-value limits imposed this time could be more long-lasting as they impact the availability of borrowing. For most developers, it means they might have to hold inventory for a couple of quarters longer or they'll offer a bit of discounts. It's not going to fundamentally create a credit issue for us.

Hu Yuanwen (Lianhe Zaobao) You said that TM is going to achieve a steady-state income of $250 million. Do you see that happening in the third quarter? Based on July's performance, is the market coming back to normal?

Piyush Gupta There's been some improvement in July. But my own sense is that you'll probably still see some challenges in the third quarter because of trade tensions. In the past couple of weeks, credit spreads have come down, so that's been helpful. But we might still see some headwinds.

Chanyaporn Chanjaroen (Bloomberg) First, you cited structural changes in the treasury market. How are you going to change your strategy to cope with such changes? Second, I think MAS has allowed banks to hold up to 10% of their capital in non-financial businesses. What is the level at DBS now?

Piyush Gupta On treasury markets, I was trying to give you a sense of what the impact of structural changes could be. It doesn't mean we will make $250 million a quarter,

because it's the nature of the business that it yo-yos a lot quarter to quarter. One of the causes of the structural changes is the very digital transformation happening elsewhere, which we're trying to do as well. We're focused on digitalising treasury markets, which includes algorithmic trading and electronic distribution. As you do that, you maintain market share but pricing and margins come down. We've got some algorithmic trading tools that are now looking at things like sentiment analysis, but we're careful about going large scale into that. But the general strategy is that we will digitise TM as we go forward.

Your second question was about non-financial business. As you know, we have partnerships and small investments of a few million dollars each. Ten percent of capital means we can do $4 billion, we've got $10-20 million. Many banks have a venture capital arm that invests in digital activity. We don't believe in doing that just to take positions. We think anybody who wants to work with us is happy to do so because of who we are, especially since we have a reputation in digital. We don't have to invest money to achieve a portfolio of ideas. If we can find a partner that can strategically make a difference to our value proposition, that we can integrate into our offering, then we will be open to making an investment. We're in conversation with many people at any time

Siddharth Chandani (The Asian Banker) First, you mentioned that your first-half IBG business was driven by cash management, so I want to get a sense of the drivers. Second, trade income recorded a 2% drop. In addition to macroeconomic factors, has there been any de-risking in the business?

Piyush Gupta Cash management has been doing extremely well because the platform we built a couple of years ago is as good and competitive as any global player in Asia. In Greenwich surveys, we are regularly featured as a top-five cash management bank in Asia. In the past two years, we've overlaid the digital transformation on the cash management platform. We've been able to create an API-driven strategy, which allows third parties to integrate with us efficiently and enables us to get to many supply chains. Take insurance, where we have enabled insurance premium payments or claim payments to be made in three days. We started with one insurance company in Singapore. In the past two quarters, we have had 12 insurance companies across Asia doing that with us. Because it's the easiest and most efficient way, we're getting business.

There's now a supply chain platform for metals trading, which we partnered with a leading commodities house to create. We've extended it to other marketplaces such as an auto component supply chain in China, with sub-industries within it. So digital is allowing us to get into supply chain activity, which other traditional banks are not actively pursuing.

On trade loans, the issue in the second quarter wasn't de-risking. While we were looking at the impact of trade wars on the supply chain, the real issue was pricing.

Edna Koh Thank you everyone. See you next time.