Transcript of DBS third-quarter 2016 results media briefing, 31 October 2016

Edna Koh: Good morning everyone and welcome to DBS's results briefing. And I think some of you were probably quite surprised to see not just that announcement but a second announcement that came out later on us doing a transaction with ANZ.

So just to let you know, today's briefing will be broken up into the two parts. The first part will be on our third-quarter results and followed by another one starting at 11 o'clock, just to talk about the transaction. So without further ado, let me invite Sok Hui to take you through the numbers.

Chng Sok Hui: Good morning everyone.

Highlights. We achieved a strong operating performance for the third quarter. Higher total income combined with cost containment resulted in a 19% increase in profit before allowances to a record $1.73 billion. Total income rose 8% to $2.93 billion from loan growth and broad-based non-interest income growth. Costs fell 5% to $1.20 billion. The strong operating performance provided substantial headroom for higher general allowances, which amounted to $169 million, to be taken as a prudent measure.

The performance was equally strong for the nine months. Total income rose 7% to $8.71 billion with both net interest income and non-interest income reaching new highs. With expenses rising by 2%, the cost-income ratio improved from 45% a year ago to 43% as past investments to digitise the bank as well as strategic cost management efforts yielded productivity gains. The resulting 11% increase in profit before allowances to $4.96 billion was offset by higher total allowances.

The NPL rate rose moderately to 1.3% as a previously-disclosed weak exposure in oil and gas support services was recognised as an NPL during the quarter. The NPL is well-collateralised with losses expected to be minimal. Allowance coverage for NPL was at 100% and at 204% when collateral was considered.

Net profit was little changed for the third quarter and the nine months. The resilience of our earnings in challenging operating conditions underscores the quality of our franchise. We have continued to capture opportunities across multiple business lines while recognising loan impairment promptly and maintaining a healthy balance sheet.

We built up liquidity buffers during the quarter in anticipation of US money market reforms and central bank actions. Our capital ratios improved during the quarter, with the final Common Equity Tier-1 ratio at 13.5%.

Third quarter compared to year ago. Total income for the third quarter rose 8% to $2.93 billion. Expenses fell 5%, which resulted in profit before allowances growing by 19% to a record $1.73 billion.

Net interest income was little changed at $1.82 billion. Net interest margin was stable at 1.77% while loans rose 2%. In constant-currency terms, loans rose 5% or $13 billion to $290 billion. Non-trade loans rose 8% or $19 billion as corporate loans grew and we gained market share in Singapore housing loans. This more than offset a 14% or $6 billion contraction in trade loans over the past year due to the convergence of onshore and offshore RMB rates.

Net fee income increased 19% or $97 million to $614 million, led by a 47% increase in wealth management fees. Contributions from investment banking, cards and cash management were also higher. Other non-interest income grew 32% or $121 million to $500 million from higher trading income and gains from investment securities.

Expenses fell 5% or $60 million to $1.20 billion due to lower operating expenses as well as productivity gains.

Total allowances more than doubled to $436 million from $178 million. General allowances of $169 million were taken as a prudent measure and compared with $35 million a year ago. Specific allowances for credit exposures amounted to $261 million as specific allowances for loans rose to 30 basis points compared to 20 basis points a year ago.

Net profit was stable at $1.07 billion.

<u>Third quarter compared to previous quarter.</u> Total income was stable at $2.93 billion.

Net interest income was 1% or $18 million lower at $1.82 billion. Net interest margin fell 10 basis points to 1.77% in line with lower Singapore-dollar interest rates and higher liquidity buffers. Loans rose 1% or $3 billion in constant-currency terms from growth in corporate and Singapore housing loans, while trade loans were stable.

Fee income declined 2% or $14 million to $614 million as investment banking fees fell 35% from a high base in the previous quarter. Other non-interest income rose 9% or $42 million from an increase in trading income and gains on fixed assets.

Expenses of $1.20 billion were 7% or $86 million lower, due partly to non-recurring expenses in the second quarter as well as lower bonus accruals.

Total allowances were 19% higher at $436 million. This includes a $169 million boost to general allowance reserves taken as a prudent measure.

Net profit of $1.07 billion was 2% higher than the previous quarter.

<u>Nine-month performance.</u> Net profit was stable from a year ago at $3.33 billion. Profit before allowances rose 11% as total income growth of 7% exceeded cost growth of 2%.

Net interest income rose 4% or $235 million to $5.48 billion. Net interest margin improved 9 basis points to 1.83% in line with higher Singapore-dollar interest rates. In constant-currency terms, loans were 5% higher.

Net fee income rose 9% or $157 million to $1.82 billion. The growth was broad-based and led by double-digit growth in wealth management, cards and investment banking. Other non-interest income increased 14% or $172 million to $1.42 billion from higher trading income and gains from investment securities.

Expenses rose at a slower rate of 2% or $91 million to $3.75 billion. The cost-income ratio improved to 43% from 45% a year ago.

Total allowances doubled to $972 million as specific allowances rose, due largely to charges for Swiber in the second quarter.

Net interest income. Third-quarter net interest income of $1.82 billion was 1% lower than the previous quarter as a decline in net interest margin was partially offset by an increase in average loan balance.

Net interest margin declined 10 basis points from the previous quarter to 1.77%. The decline was in line-with lower Singapore-dollar interest rates. We also built up liquidity buffers in anticipation of US money market reforms and central bank actions. We expect net interest margin to be a few basis points lower in the fourth quarter. Nevertheless, we continue to expect full-year NIM to be higher than the 1.77% in 2015.

Loans. In constant-currency terms, loans rose 1% or $3 billion from the previous quarter and 5% or $13 billion during the nine months to $294 billion.

Consumer loans rose 2% or $2 billion during the quarter, and 6% or $5 billion year to date. The increase was led by Singapore housing loans, in which our market share has risen two percentage points over the past 12 months to 28%.

Non-trade corporate loans grew 1% or $2 billion during the quarter, and 7% or $10 billion year to date. The increase was broad-based across regions and industries. Trade loans were little changed during the quarter. For the year to date, they were 6% or $2 billion lower as China loans shrank. China now accounts for $13 billion of our $37 billion trade loan book.

Our loan pipeline continues to be healthy, and we expect full-year overall loan growth to be in the mid-single digits.

Deposits and funding. We built up liquidity buffers during the quarter, and shifted out of more expensive commercial paper funding to customer deposits. Deposits rose $14 billion during the quarter to $324 billion, led by higher US dollar and Singapore-dollar deposits. The overall loan-deposit ratio declined 3% points to 89%.

Commercial paper funding, which had become more expensive during the quarter due to the US money market reforms, declined $7 billion during the quarter.

The average liquidity coverage ratio during the quarter was at 115%, above the final requirement of 100% due in 2019. In addition, our net stable funding ratio also exceeded the requirement of 100% due in 2018.

<u>Fee income.</u> Third-quarter gross fee income rose 19% from a year ago and was little changed from the previous quarter at $702 million.

Wealth management fees rose to a new high of $201 million, up 47% from a year ago from higher bancassurance fees. Compared to the previous quarter, wealth management fees were 12% higher. Cards fees rose 15% from a year ago and 14% from the previous quarter to $123 million as credit and debit card transactions in Singapore grew. Investment banking fees doubled 74% from a year ago to $54 million from higher equity market and fixed income fees as well as higher advisory activities. Compared to the high base in the previous quarter, investment banking fees were 35% lower. Transaction banking fees grew 11% from a year ago to $147 million due to higher cash management fees as transaction volumes grew.

For the nine months, gross fee income rose 9% to a new high of $2.04 billion. The increase was led by double-digit growth in investment banking, cards, wealth management and cash management activities.

<u>Institutional Banking:</u> Nine-month total income was little changed at $3.96 billion. Growth in cash management and investment banking was offset by lower trade and treasury customer activities, both of which were due to uncertainty related to China and the renminbi. In particular, cash management income grew 28% to $602 million as transaction volumes grew.

Expenses rose marginally by 1% to $1.28 billion. Allowances more than doubled from a year ago due largely to specific allowances for Swiber in the previous quarter. The higher allowances resulted in a 28% decline in pre-tax profit to $1.69 billion.

Asset balances fell slightly by 2% to $224 billion as a contraction of trade assets more than offset growth in non-trade assets. Cash management deposits were stable at $125 billion. The deposit mix improved as lower-cost Casa deposits replaced higher-cost fixed deposits.

<u>Consumer Banking and Wealth Management:</u> Nine-month pre-tax profit rose 49% or $451 million to a new high of $1.38 billion.

Total income grew 21% or $554 million to $3.20 billion. Loan and deposit income increased 30% to $1.86 billion from higher deposits and housing loans as well as improved net interest margin. Investment product income rose from higher bancassurance contributions, while card fees were also higher as transactions rose.

Both the Consumer Banking and Wealth Management customer segments did well. Income from the Wealth Management segment rose 16% to $1.26 billion as assets under management grew 11% to $159 billion, putting DBS among the top five banks in the Asia-Pacific. With the announcement this morning of our acquisition of ANZ wealth and retail portfolio in five Asian markets, AUM will grow by another $23 billion to $182 billion. Income from the retail customer segment rose 24% to $1.94 billion. Our market share in Singapore-dollar savings accounts was maintained at 52%.

Expenses grew 5%, less quickly than income, resulting in a lower cost-income ratio of 54% compared to 62% a year ago.

Treasury: For the third quarter, treasury customer income was stable from a year ago at $308 million while other treasury income was 27% higher. Total treasury income was 11% higher at $595 million.

For the nine months, total treasury income declined 4% to $1.80 billion. Customer income fell 5% to $932 million as there was lower demand from corporate customers for RMB hedging products, particularly compared to the first six months of 2015. Customer income for the nine months accounted for 52% of total Treasury segment income, similar to 2015.

Expenses. Year-on-year cost growth continued to decelerate into the third quarter. Expenses declined 5% to $1.20 billion due to lower operating expenses as well as productivity gains. While business volumes grew, staff costs were little changed at $672 million as bonus accruals declined.

For the nine months, expenses increased 2% to $3.75 billion. The cost-income ratio improved two percentage points to 43% due to productivity gains from past investments to digitise the bank as well as strategic cost management efforts. Underlying headcount, which excludes staff from insourcing certain technology functions as part of strategic cost management, fell slightly over the nine months.

We expect the cost-income ratio to be at 43-44% for the full year.

Hong Kong. For Hong Kong, currency effects for the nine-month results were minimal compared to the previous year. Hong Kong's nine-month net profit declined 32% to $602 million as its performance was affected by a slowing economy, market volatility and the effects of RMB depreciation. Total income fell 10% to $1.59 billion.

Net interest income declined 1% to $975 million. Loans fell 2% or $1 billion in constant-currency terms due to a contraction in trade loans despite a 5% increase in non-trade loans. While deposits fell 4% or $2 billion, the deposit mix improved as steps were taken to replace higher-cost deposits with current and savings accounts. The lower deposit costs contributed to a 12 basis point improvement in net interest margin to 1.77%.

Fee income fell 9% or $37 million to $363 million, while other non-interest income was 34% or $127 million lower at $252 million. Most of the declines were due to a high base in first-half 2015, when buoyant equity markets and a stable RMB resulted in strong wealth management and treasury customer activities. Non-interest income in the third quarter was little changed compared to a year ago.

Expenses declined slightly by 2% to $688 million. The cost-income ratio was at 43%.

Allowances rose from $30 million to $195 million, led by higher specific allowances for customers with exposures to RMB hedging contracts.

Non-performing assets: NPAs rose $476 million during the quarter to $4.33 billion. New NPAs amounted to $1.06 billion. The increase was led by a previously-disclosed weak exposure in oil and gas support services, which was recognised as an NPL during the quarter. In addition, there was a steel exposure that we had previously flagged as well as two Indian exposures that have been undergoing restructuring. Losses on these NPLs are expected to be modest.

The NPL rate rose moderately from the previous quarter to 1.3%. As NPL recognition in the offshore support services sector taper off, we expect to see more granular NPL formation going forward.

Allowances. Our allowance coverage remains sound at 100%. It included $3.13 billion of general allowance reserve, which was $181 million higher than the previous quarter. The strong operating results provided substantial headroom for us to boost general allowance reserves as a prudent measure.

Of the $3.13 billion of general allowance reserves as at 30 September, $1.37 billion could be admitted as Tier 2 capital under Basel rules. Surplus GP exceeding the $1.37 billion cap for Tier 2 capital recognition amounts to another $110 million.

Our allowance coverage after taking collateral into account remains high at 204%. The value of the collateral is assessed regularly, and conservatively, by applying haircuts to current market valuations.

Capital. Our capital adequacy ratios strengthened during the quarter. The Basel III fully phased-in Common Equity Tier 1 ratio increased 0.1 percentage points from the previous quarter to 13.5% due to scrip dividend take-up and higher retained earnings. Total risk-weighted assets increased $3 billion due to asset growth as well as the impact of changes in exchange rates and risk weights.

Forthcoming RWA rule changes for derivatives and the trading book that have been finalized by the Basel Committee are not expected to increase RWA significantly. There are further rule changes that the Basel Committee has stated that it intends to finalize by end-2016. We note that these are not intended to increase capital requirements significantly.

Our leverage ratio at 7.8% remains more than twice the minimum of 3% currently envisaged by the Basel Committee.

<u>In summary:</u> Despite a challenging environment, we have been able to achieve consistent year-on-year growth in total income over the first three quarters of this year. This reflects the sustained ability of our multiple businesses to capture opportunities across the region. At the same time, our past investments to digitise the bank as well as our strategic cost management efforts are delivering productivity gains. As an indication of the higher productivity, underlying headcount has declined slightly over the past year even as business volumes have increased.

The improvement in operating leverage means that profit before allowances will continue to be healthy even with a slowing external environment. This will provide us with headroom to take higher general and specific allowances while maintaining the resilience of our earnings.

In addition, we have been strengthening our balance sheet over the past few years to ensure that our capital, allowance reserves and liquidity are sufficiently strong to weather a downturn. We will continue to grow prudently, manage risks assiduously and deliver steady financial performance for shareholders. Thank you.

Piyush Gupta: Thanks, Sok Hui. I'll just make a few comments.

The first thing that I'd like to point out – slide, please – is what Sok Hui has alluded to. The exterior environment has been challenging. Obviously, the oil and gas situation in Singapore's offshore support sector has been challenging. [In addition,] Singapore interest rates have been tapering off. So in that environment, we're actually quite pleased that our overall performance has been extraordinarily resilient.

And a couple of things that Sok Hui pointed out are worth highlighting. We grew our top line by 8% for the quarter. It not only speaks to the fact that we got some growth in the loan book, but perhaps more important, our non-interest income has been very stable, very robust. And that comes across multiple lines of business. It's not only the wealth business which has been strong; it is the cash management business, it's some elements of investment banking. A lot of this is not directly balance sheet originated so I'm quite pleased with the quality of that 8% growth. Interestingly, the growth for the nine months of the year is 7% as well, so it's not just a one-quarter effort. You can see the sustainability of that top line.

The second thing which Sok Hui pointed out is the expense reduction of 5%. That's obviously unusual for the quarter. But I have been pointing out now for the last couple of quarters that we're beginning to pick up pace in the outcomes of both our productivity drive and our strategic cost management. Our efficiency from digitisation is flowing through. And for the last couple of years, we've been able to get 3%, 4% expense reduction from several productivity initiatives. As a general rule, we've been taking some of those productivity sales and using the opportunity to reinvest them in several areas. But that does give us the flexibility to be able to pace our expense growth going forward. You currently will see that we can drive increased productivity on the expense line.

As a consequence of that, the profit before allowances is up 19%. And what's good about that is that gives us the resiliency to be able to bolster up our provisioning. As you remember, we took out a chunk of general provisions in the last quarter to be able to support SPs we needed for Swiber. And I'm quite pleased that we've been able to rebuild the GPs to a substantial extent in this quarter. But that just came from the very strong operating performance that we had.

A quick comment on the offshore sector in respect of what's happening. First, this is a slide I showed you in August. I wanted to go back to the slide. We had showed $7 billion of offshore services exposure, out of which $2 billion relates to the shipyards, [which are] government supported, and so really [there is] $5 billion of offshore support sector exposure ex of that.

And we pointed out last time that you could think of it in two blocks. [For the first,] there were five names which comprised $2.3 billion, of which we said one had some weakness. That one name which had some weakness we have moved to non-performing in this quarter. That name has actually been restructured. The process of restructuring is proceeding actually quite well among the [banks involved]. The [name] doesn't have any short-term – frankly even near-term – bond maturities. It needs some working capital support, which the banks are all committed to being able to provide them. The reason we moved [it to NPL is that it] still has outstanding issues [related to] its associated companies. We are well-collateralised on this name. We don't anticipate having to take very significant losses on this name over time.

On the other [block], we told you we had a residual of some 90-odd names [amounting to] $2.7 billion of exposure. At that time, I said one-third of this was showing signs of weakness. Now, quite clearly in the third quarter, we saw an effect of Swiber and the spill-off from that. And that was in two ways. [First,] there are obviously two or three names which are more directly associated with Swiber through supply chain contracts, and [second] there are another few names – which were not directly associated with Swiber – suffering from the tightness in the capital markets which has come on the back of Swiber. So it's not that easy to raise either equity or debt as a consequence. Therefore, a few more names than we had at the end of the second quarter are now showing some signs of weakness. And overall, what I think of as part of the portfolio showing weakness in this group has moved therefore from about a third to close to half. Not exactly half yet.

Now, if you think about this weak portfolio – call it roughly $1.3 billion of the $2.7 [billion] – that portfolio comprises really two kinds of activities. One is those people which do and support exploration activities. So new business, drilling, exploration, et cetera. That part of the business is obviously more challenged because even as oil prices are edging up to $50, the exploration activity has not picked up. A couple of the majors announced new investments in this quarter. I think Total and BP both announced some stuff. But I think that's just miniscule. I don't see that part of the business picking up anytime soon.

But the other part of the business is the people who support production of existing oil [wells]. So these are support services for production facilities and their job is to move the equipment up and down, to ferry people up and down, to provide accessibility for people to go and stay at the existing ships and the existing well sites. Now that part of the business is obviously holding up a lot better because people aren't shutting down the wells. The wells are still in production. In fact, in some cases, because people are trying to extend their oil rigs, there's actually more servicing required than less servicing required.

In our case, we're fortunate that about 90% of our business in the big names tend to be with the production support side and not with the exploration side. So [for] 90% there is still some business to be done. Now that doesn't mean the production support is safe. Obviously, there is excess capacity, even in the production support side. I think capacity utilisation is about 60% in that part of the business.

But the fact is, there is still cash flow generation. And while margins have come down quite substantially in that sector, the fact that they have cash flow and the fact that they have vessels which have long life relative to the short loans that they have – and frankly in our case many of the vessels are very good quality vessels – means that it's viable to refinance them, extend the duration of the loans and lower the amount of payment they need to make for [interest] and principal. So we've been very proactively engaged in doing this refinancing with several of these names. At this point in time, [for] 40% of those big names, we have actively either finished refinancing or are in the final stages of documentation. [For] the balance 60%, we're [currently] in discussion with [them]. Several of them will also be refinanced out over the course of the coming quarter or two.

Now, I do expect that on the basis of this discussion, there will be a couple of names that will trickle into the non-performing category in the fourth quarter. But these are granular and these will be part of our business-as-usual. So we should be able to take care of that, including any provisions that are required as part of our business-as-usual provisioning process. Overall, for the full year, we don't anticipate NPLs to creep over 1.4%. So the granular nature is not going to be bulky or chunky.

So that's an update on the offshore services sector. Slide please. If you look at the stuff we have outside of that, the oil and gas we showed you the last time – our total exposures are $23 [billion]. That's come off a bit. It's now down to $20 [billion]. And where it's come off mostly is in the producers' category. And we have cut back on some of the trade financing with the producers – [it's] not a risk issue but a marginal liquidity issue. So we've scaled back some of the activity.

Sok Hui referred to this earlier. There's an unusual phenomenon in the global markets, in the commercial paper market. And that was essentially because of a change in the regulation, a lot of the people who do commercial paper, the funds, instead of holding it at book value of $1, they're going to start marking to market. And therefore those funds moved out of commercial paper and moved to government [paper]. And that created a dislocation therefore in availability of liquidity and increased Libor quite sharply.

So just to be prudent, because it was quite unclear what was happening in the global markets and also coming up to the US elections, we chose to bolster up our liquidity in this quarter. So we built up a liquidity buffer and we also chose to cut back on some of this [trade] financing which we thought we could easily [reduce]. And that explains the reduction in the $3 billion-odd in that producer category.

The rest of the exposure – well, there's nothing much to add. It continues to be quite stable, it's performing, we haven't seen any incremental challenges in this part of the portfolio.
Slide. If we look at the commodities outside of oil and gas, again, that total portfolio has also come down about $1 billion, from $15 billion [in the previous quarter] to $14 billion. Again, this is not a risk-related thing. This part of the portfolio moves up and down, depending on what drawdown state it is and what traders have done. We took one extra NPA in this part of the portfolio. Sok Hui referred to that, and that was in the steel sector. We again [had] flagged this earlier – that there was weakness and, depending on how things go, we might recognise it as NPA. We did recognise it as NPA in this quarter and took appropriate provisions against that name.

So if you think about the total credit situation and our portfolio profile, I think we've seen the bulk of the pain. There will be some more but it's not dramatic. And I think the whole offshore sector in particular – this could be wishful thinking – but in some ways, the production part of the offshore sector is beginning to see a trough.

If you think about the anchor handling tug supply [AHTS] vessels, for example, between May and now the large vessels, the premium on the one-year rate has moved up from something like $200 a day to almost $1,000 a day. [We are] beginning to see an inch up in the premium. Even the small vessels, the 5,000 tonne vessels, even there the premiums have moved up for the one-year lock-in from nothing to about $150 a day. So there's some pick-up in the premiums at that end.

The secondary transactions in the AHTS and PSV [platform supply vessels] are holding up. So [since the beginning of the year to] the end of August, there have been about 47 transactions done in the secondary market. That's pretty flat to last year. Last year, full year, there were some 60-odd transactions done. We're seeing that there is some trading happening. We've been able to sell off some of those vessels. There is some pick-up in charter rates. I don't think it's going to climb up sharply anytime soon but I think you might've started seeing the establishment of a bottom in that part of the market. So as we look at the whole portfolio, we are relatively stable and there's some challenges but nothing very material.

Slide. If you look at the forecast and where we are therefore, we think, as we go into next year, we're going to continue to be able to get loan growth and associated non-interest income growth in the mid-single digits. That's roughly what we got this year. And it is not surprising. Asia continues to grow at roughly 6% GDP. Nominal GDP is slightly higher. And therefore, it's still possible to find pockets of opportunities to support business around the region.

We've been careful in our SME business. Our SME business has been flat and we will continue to be careful with the SME part of the exposure. But in the large corporate exposure, we are continuing to see opportunities in India, in Indonesia, in some of the Chinese offshore expansions. So mid-single digit growth we think is doable.

Interest rates. Obviously, SOR and SIBOR are choppy and uncertain. In the short term, we think the uncertainty will stay. But if, as seems to be the case, there are a couple of Fed hikes in the course of the next 15 months, that should wind up putting a floor under the Singapore interest rates. So we think that you will start seeing a pick-up in SOR/SIBOR a little bit into next year. I don't think it will be dramatic but you will see some pick-up on the back of the Fed actions.

On expenses, we continue to be able to drive productivity. We continue to invest in our strategic agenda so we don't want to [go] back on that. And the best way to manage and balance that for next year is we will focus on trying to get flat jaws. So we will make sure our expenses are pretty much in line with our top-line growth.

However, we do see some upside in cost of credit and that's because we hopefully won't have another Swiber next year. Our total one-time lumpy costs on Swiber were chunky. If you take those out, our SPs this year [should be] about $850 million, give or take a bit. It's a bit more than I anticipated. At the beginning of the year, I [had] forecast about $750 [million]. But principally because of the oil and gas situation, we'll probably come in at about $850 million. Next year we don't see that being very different. Which means that it will be meaningfully lower than the total provisions this year [including Swiber] and that should hopefully give us some support to our bottom-line growth for next year. So why don't I stop there and take some questions.

Edna Koh: Just a request, please. If you could just speak into the mics or take a handheld because this is being webcast. First question, Chris.

Chris Wright (Euromoney): Thanks, Piyush. A couple of questions – one about Hong Kong and one broader point. This provisioning for renminbi derivative exposure – I think you said exposure to customers with renminbi, just expand on what that means. Are these derivatives you've sold or you've accounted firstly?

And then secondly, more broadly, this is an impressive quarter in terms of numbers but there has, of course, been some reputational damage, specifically around 1MDB. Do you have any comments on that and is there a danger that expansion can come at a cost of best financial [practice]?

Piyush Gupta: So on the Hong Kong side, we said that we have over the last several years – five or six years – built out a very good practice in providing hedging products to customers in China, Hong Kong and Taiwan. By and large, these are exporters and when people export, they tend to want to take a hedge against a possible depreciation of the currency. So we provide them the opportunity to hedge against that possibility.

When the renminbi started depreciating very sharply, a lot of these customers started feeling a lot more squeezed than they had anticipated. The underlying business logic is quite simple. When the renminbi depreciates, their exports become more valuable. And then because those exports become more valuable, the cash flows improve. They should therefore be able to do well in the underlying business, [and] therefore they can pay for the cost of the hedge.

And that's pretty much proven to be the case. We have had over 1,200, 1,400 customers and that's proven to be the case for 90%, 95% of them. But there is a small residual bunch of customers who actually wound up over-hedging. So they wound up hedging not only with us but with other players in the market, which means the size in the hedge they have is disproportionate to the size of the underlying business.

Or there are some customers where even though the pricing improved, their buyers in North America squeezed them on price. They said, hey, you're improving because of [currency] strength so we're going to reduce the rate [we pay you at]. So as a consequence there is some small number of customers where the hedge doesn't fully work. When the hedge doesn't fully work, that produces pressure on the cash flows because they've got to first pay us right off because their hedge is out of the money and then they're going to maybe improve their position over time.

Or the hedge doesn't work – for those kinds of customers, we recognise the losses on this. And that's what the losses related to RMB customers did. That's pretty much behind us. The last residual hedging contracts – there are some which spill over into next year – are now very small. So the bulk of the provisions related to that kind of business are actually already behind us.

On the other question around MAS and 1MDB, yes, we're not terribly proud of the sanction. But if you go back and look at what the MAS has cited. They've been careful to make the point that there is no pervasive or systematic problem with DBS's processes. The fact is that this was a very well-orchestrated and very complex set of layering which has been conducted by some people who were very thoughtful about what they were trying to do.

And in some of those cases, it is not entirely easy to pick up exactly what is going on. In our case, frankly our processes worked and they threw up the kinds of [alerts] except we were not able to actually exercise the [full] degree of [judgements on] these [alerts], to figure out, hey, maybe there's something else going on over here.

You also have to remember this is 2013. Since then, 2014, 15, 16, in the last three years – partly because the regulators have continued to raise the bar, partly because we have improved our own technology systems and are putting a lot more capacity into being more sensitive to the judgements that we need to make – our positions are a lot stronger and a lot better today. And so no, I don't think your general premise that part of this [issue] is because of accelerated growth is really true. We will always have situations where there's room to improve and we're going to constantly keep improving.

Edna Koh: Goola.

Goola Warden (The Edge): Yes. Of the $1.055 billion of new NPAs, what portion was from the oil and gas sector? Could you just outline that? And then could I also ask, how do you assess collateral in the sector and would you still continue to lend to the sector? And secondly, you had some growth in corporate loans as well in this last quarter. Which sectors did that come from?

Piyush Gupta: The commodity sector, both oil and gas and steel, is just over half of that new NPA formation, maybe 60%. The rest of it is business as usual, business across the region. Sok Hui talked about a couple of names in India where we're restructuring. We put a couple of names into NPA. We don't expect to take any write-downs or provisions on those. The [remaining] roughly $400-odd million of NPA formation [is consistent with what] you're seeing in our business now for the last several quarters, it just reflects the overall nature of the environment.

In respect of collateral, as I told you last time, we actually go to third-party collateral valuers to give us valuations. We haven't done that since June. And part of the reason is that it's getting very tricky even for the valuers to put a value on many of these vessels [as] there are not that many transactions taking place. Therefore, you have to use a lot of judgement in looking at the specific vessel, the life of the vessel. We obviously talk to valuers – in specific cases we go back and ask the valuers what they think and get their input. We talk around in the industry to see what is an appropriate valuation for what [a vessel] could be.

If you ask me, if you had to do a stress sale on anything [today], you'll get very little value. Certainly on the exploration side, you'd probably have to sell for scrap just because there is no market. On the production side, like I told you, there have been some transactions. There are 50, 60 transactions for the year. And therefore, depending on the actual vessels you have, you can actually get a fairly decent bid on those vessels. But this is, at this stage, an art and not a science in terms of how do you define the collateral value. Our current [situation] though is that most of [our customers'] vessels and their activities continue to generate cash so we're working with them as going concerns. So we don't anticipate having to do stress sales into this market.

Your last question was in respect of the loan growth. If you look at our loan growth for the quarter, we've got about $2 billion in the Singapore consumer and wealth space, mostly mortgages. And we've got a couple of billion dollars in the corporate banking space, net of [reductions in] trade. That [growth] continues to be fairly broad-based. This is the same thing we pointed out in the second quarter. We're seeing some loan pick-up in growth markets. We're seeing pick-up, working with our clients, as they move out of the region. So many of our clients, including in property, are doing projects in Australia, are doing projects in the UK, so we're able to support these clients as they go out into the region as well. It's basically across multiple industries.

Chanyaporn Chanjaroen (Bloomberg): The NPL ratio, that wouldn't exceed 1.4%. Is that right?

Piyush Gupta: I don't think it should exceed that.

Edna Koh: Question over here.

Nicole Nee (Reuters): Nicole from Reuters. There was talk on the call of the $200 million and $600 million earnings target.

Piyush Gupta: Sorry, I'm not following you.

Nicole Nee: There was talk of the $200 million and $600 million earnings target set in the presentation. And then ANZ states its business earnings…

Piyush Gupta: Oh, you're talking about the ANZ transaction.

Nicole Nee: Yes.

Piyush Gupta: Do you mind holding that question because it's in the discussion for ANZ at 11 o'clock.

Nicole Nee: Okay.

Piyush Gupta: So we'll deal with that question then.

Edna Koh: Are there any more questions? Jamie?

Jamie Lee (Business Times): It's two questions. Just a follow-up. Post-Swiber, are you assessing companies differently from before – specifically [for] oil and gas. And secondly, [on] bancassurance – [whether] you're seeing growth, looking at market share and perhaps a look at growth ahead and where you see the growth.

Piyush Gupta: On bancassurance?

Jamie Lee (Business Times): Bancassurance, if you're seeing some growth.

Piyush Gupta: One of the changes we're making – we again alluded to it the last time – and not just oil and gas but across our portfolio – is how we think about contractor companies. The Swiber situation, as I pointed out, is really a contractor which effectively raises supplies, does work, et cetera. And so our traditional view has been that this is working capital finance, it generally tends to be low risk.

However, it's quite clear also that in situations of this sort, you wind up with a lot of unsecured exposure. And so even though you have technically security over the underlying inventory – the steel and the pipes and so on – you really can't do very much with that underlying inventory. So we're taking a completely refreshed view to our contract exposure across our entire portfolio. In fact, we've already [started to] create new lending guidelines to our contractor segment.

Outside of that, to oil and gas in general and in terms of Goola's question – we'll tighten up stuff at the margin at how we look at companies and do things earlier. We're looking at improving early warning signals in the sector, for example. But as a general theme, the energy complex will continue to be a very significant part of the GDP of the world and certainly in our part of the world. And so we continue to anticipate supporting clients in this sector, we continue to anticipate working with clients over a period of time.

Like most sectors and industries, these sectors go through cycles and [the oil and gas sector has] been through a downcycle. I think it will stabilise at current levels. Depending on whom you talk to, people project oil prices going up to $60 and even $70. We're not holding our breath on that. But we have to be able to calibrate the business we do for the downcycles and the upcycles. But directionally, we will continue to support clients who are in this sector.

Your other question was on bancassurance. As a general rule, I think bancassurance has a lot of opportunity across Asia, just because insurance penetration is very low. In Singapore, in particular, insurance penetration is much lower than [what] a country with our per capita income should have. Our penetration rate is about 6%. Countries with our per capita showed a penetration rates of 12% to 15%.

Partly this is explained by CPF and so because CPF exists, people have not done a lot of private insurance. But as people continue to live longer, it is quite clear that there will be much greater need for the protection products, insurance products. And therefore we think the major trends are very supportive to building out this business well.

Which is why we did the transaction in Manulife. I'm actually very pleased that the transaction is paying off extremely well, both for Manulife and for us. It speaks to the underlying thesis that insurance is a big opportunity in the region and if you can do it sensibly, if you can do good servicing, a good range of products, there is a lot of upside to be gained.

Edna Koh: You go first.

Mayuko Tani (Nikkei): Thank you. I have a question, something related to Indonesia's tax amnesty bill. They have said that they have been successful in their operation. But how has it affected your wealth management business? The business seems to be quite fluid but the wealth management part is supported by Manulife quite a bit. So how is the Indonesian account part of the business?

Piyush Gupta: Well, the Indonesian tax amnesty has been very successful because there were very substantial disclosures for tax purposes. A lot of the disclosures were domestic disclosures, people who already had assets in Indonesia. A lot of those disclosures, the smaller portion was international. The amount of money which was actually repatriated back into Indonesia was much smaller.

If you remember the way the scheme worked, if you disclosed your wealth, you were charged 4% [if it was not repatriated]. If you repatriated [it] into Indonesia, you were [charged] 2%. A large number of people have opted to disclose their wealth whereas some, much fewer, have actually repatriated money back. And therefore, in terms of assets under management for most wealth players, it hasn't had a very significant impact.

Edna Koh: I will give you the first question and then I'll give Chanya the last question.

Shen Yue (Lianhe Zaobao): I have two questions. The first question is a follow-up to your comment about being careful in the SME sector. So why is that so? Why do you see significant risk in that sector and what does that mean for your SME clients? And the second question is, for some of the clients who bought oil and gas bonds through you, what are the reactions you have been getting and also how are you controlling this situation?

Piyush Gupta: The SME sector generally tends to be the one which is most quickly correlated to GDP slowdown. And therefore we are seeing across the region – in China, in India, we saw the last two, three years some elements of it, in Indonesia and in Singapore – slowdown in the SME sector business. Some of which is sectoral. And therefore, building and construction in Singapore, for example, or the offshore marine sector obviously in Singapore, for example, have been seeing some challenges.

We are responding to [them]. We slowed down our pace of growth. We've had almost no growth in China. We've slowed down our pace of growth in India. And we've been a lot more careful about the growth rates even in Hong Kong and Singapore. That really just speaks to the overall environment. But I have to say, within that, we're also taking a view on sectors. There are some sectors we're a lot more careful, other sectors that we're still relatively sanguine and so we continue to support activity in those sectors.

On your other question of the bond. Let's put it this way. I don't think anybody who bought bonds in the oil and gas sector is a happy camper. So let's start with that premise. I don't think there are a lot of clients who are happy. But actually what we've been doing – and I think they're quite pleased with that – we took a view very early on that we owed it to our wealth clients who bought these bonds as part of their portfolio to give them as much advice and assistance as they could get, or at least extend the help.

So we've worked very hard to organise platforms where they could get together. One of the big challenges if you're a single bond holder is what [could] you do next? And we wanted to make sure that they had a platform, they could get together, they could form a community of views – in some cases, we had to get them legal advice so they could hire a bunch of lawyers and get this thing done – so they could understand the entire range of options that were available to them as they tried to deal with the problem.

We've also been fortunate that in our actual distribution of the stuff we've been quite thoughtful. There [have been] questions raised about [customers being] tagged [as] accredited investors [by banks]. Now, [while] we're obviously distributing to accredited investors, our policy is actually very disciplined. People have to proactively choose to be an accredited investor; we don't just tag them willy-nilly. People have to come back every year and reconfirm that they still want to be accredited investors. So these are all very proactive opt-in processes. There are no opt-out processes on accredited investor selection. We tend to look at the whole portfolio that the customer has with us. We try to make sure they have a balanced portfolio. And in the management of their portfolio, we try to make sure they don't have undue concentration.

So our customer targeting and our sales process have actually been quite robust. This helped us as well in that regard. But we have been consciously working with the customers to make sure that they get as good advice as they can under the circumstances.

Edna Koh: Chanya?

Chanyaporn Chanjaroen: I have two small questions. The first one. For the recovery rate of Swiber debt that you have exposure to, what's the latest? And the second one. For the Singapore-dollar bond market outlook, how do players balance the need to grow the market and also, at the same time, put in the measures?

Piyush Gupta: Okay. Before I answer your question – Su Shan, do you want to add anything to that question on how your private bank clients are reacting? And what you're doing for them.

Tan Su Shan: Okay. Hi, I'm Su Shan. I look after the consumer and wealth management business for DBS. It's not that easy. I won't pretend that it has been. First of all, there was no mis-selling. Everybody who bought them was accredited and there was a follow-up [to ensure customers were] risk-rating matched.

I think [there were] two or three challenges we saw. The first was the illiquidity of the market as these credits got downgraded. To Chanya's point, the Sing-dollar market was not as liquid and there were, in some cases, not many market makers. So as these bonds got downgraded, it became an increasingly difficult market issue. Having said that, the team spent a lot of time hand-holding the customers through this crisis.

[Second,] there was quite a lot of connectivity between some of these companies and that was also an issue. But we did do the unprecedented thing of really finding advice for them, giving them a platform on which to voice their concerns and to get independent help for them, to work through the process.

It's the first time the Sing-dollar bond market has gone through this actually, and we're all in this together. And to this point, DBS, our business, together with SIAS and hopefully other agencies, want to work together to create a better awareness and education in Singapore for the Sing-dollar bond market investors to understand these processes better.

Piyush Gupta: So Chanya, two questions. One was on Swiber. There's relatively good news because we've been able to, through the judicial management process, engage with the big customer, ONGC. And we won an agreement to get the projects re-started. In fact, they should have re-started last week – I don't have the latest on that.

And as the projects are getting restarted, we're quite hopeful when they get completed, that will actually help us in the overall recovery process. As you remember last time, we've taken provisions of roughly $400 million and at this point in time, we think those provisions will be more than adequate.

Chanyaporn Chanjaroen: You were saying earlier that you expect to recover about half of that debt?

Piyush Gupta: We still don't know exactly how much we'll recover because the project completion will take time. They still have to pay off some vendors to get the projects completed with working capital. So it's too early to demonstrate but the reason we took $400 million in provisions, we said that should be enough. I'm pretty confident that that will be enough.

Chanyaporn Chanjaroen: I see. But the prospects are better with the JM in place?

Piyush Gupta: With the JM the projects have been started again. The biggest risk to us was that the projects were terminated because then what do you do after that? We've all had agreement, ONGC wants to do the projects, everybody's working on it. And that's actually created some positive momentum. The second question was?

Chanyaporn Chanjaroen: The Singapore-dollar bond market. What do you see as the outlook from now?

Piyush Gupta: We saw the headlines in the papers – maybe you wrote them – about the Singapore-dollar perps being extremely well traded as there's a lot of demand for yield. I think the Singapore-dollar bond market will do okay. The issue really is liquidity. One of the big things in the last couple of months [was that] liquidity froze. Unfortunately, this is not just true of the Singapore-dollar bond market. If you look at what's happened in the last 18 months, liquidity froze in the dollar-sterling exchange rate market – for a brief second, but it did freeze. Liquidity has been, you know, choppy in many fixed income markets around the world. And partly, that's a function of regulation. So there's a market phenomenon.

One of the things that have been mooted, which might help a little bit, is to progress the Singapore-dollar bond market into a rated bond market [from] an unrated bond market. Most issuers in the past are reluctant to go for ratings because it costs a little bit more. From an investor standpoint, by and large, after the GFC, investors are also a little wary about what the value of some of the ratings was because many of the stuff rated triple-A by the big rating houses collapsed.

However, I do think investors get more comfort if there is a rating on a bond that gives them an independent way of evaluating what is the credit worthiness of a bond. I think it is conceivable that in the medium term, you start seeing more rated bonds coming out of the Sing-dollar bond market. And if that happens, that should actually create a little more transparency from an investor standpoint. I think that will help the liquidity process overall.

Finally, the question on market makers. I think most of the people who take bonds to market are active. We're very active in the Sing-dollar bond market; we're a big market maker. And the more participants you get in, the more liquidity you get. As you start getting more funds of different natures, i.e. they're not banks but funds [or] third- party investors who start actively trading the market, you start getting more liquidity as well.

Edna Koh: Okay. I'm afraid we have to wrap up this briefing now. We'll take a five-minute break and then hope to see you back here again for the next briefing which is on the ANZ transaction. Thank you.