Transcript of DBS fourth-quarter 2016 conference call for buy and sell sides, 16 February 2017

Michael Sia: Welcome to our fourth-quarter call for the buy and sell-sides. With me are Piyush, Sok Hui and the rest of the management team here in Singapore and Hong Kong, [as well as] some analysts. We've had extensive discussions at the press briefing so we can go straight into Q&A. I am going to open the floor to those in the room before we take questions from those who have dialled in. Harsh from JPM.

Harsh Modi (JPM): Thanks. Two questions. First one is on the offshore marine [support services sector], 21% NPL. The 40% provision is on the [NPLs] or the entire offshore marine book?

Piyush Gupta: It's on the NPAs.

Harsh: On the NPAs. So, the assessed value of collateral is 60% of the NPLs, broadly?

Piyush: Yes.

Harsh: Okay. And second thing is your guidance of [credit costs for 2017 being the same as 2016 excluding Swiber] comes to about 35 bps. Is that including the $350 million [gains from a property divestment in first-quarter 2017 that will be set aside as general allowances] or is it excluding the $350 million?

Piyush: It's excluding the $350 million. That is just taken separately as a cushion.

Harsh: Okay, then it is kind of flat year on year, effectively, for your guidance on the total credit cost?

Piyush: Yes, I've taken it as a cushion. I'm not sure I'm going to use it. I've just taken it [as] insurance.

Harsh: Yes, but whatever your guidance currently is, it excludes the [$350 million]?

Piyush: It excludes the $350 million.

Harsh: And on margins, the one basis point [of interest rate increase] impacting $6 million [of net interest income], that's [referring to] one basis point of Singapore dollar rates, Sibor?

Piyush: Yes.

Harsh: What is your working assumption of the pass-through from Fed rates to [Singapore dollar interest] rates?

Piyush: It's about two-thirds. If you look at it historically, it is actually higher.

Harsh: It was almost 90%.

Piyush: Yes, it was almost 90%. Nobody knows [exactly] what the correlation of [the Fed and Singapore dollar rates] will be because it [involves] exchange rates. Last year, Singapore dollar rates front-ran US rates. [When] the [Fed] rates [went] up recently you [didn't see the Singapore dollar rates going up] because the Sing rate front-ran it. But our working assumption is [a] two-thirds [correlation] going forward.

Nick Lord (Morgan Stanley): A couple of questions. First of all, just to clarify, all your guidance excludes the $350 million.

Piyush: [Yes.] The $350 million is outside [of the guidance]. We sold the building, put it into reserves, we'll use it if we need it.

Nick: And the [consolidation of the retail business of] ANZ [is] excluded as well?

Piyush: And ANZ excluded as well.

Nick: And two more substantial questions. [On the impact of] Singapore dollar [rates], we can understand. What do you think [is] the impact [of rising rates] on your US dollar and Hong Kong dollar books? Do you get any benefit or is there a drag in terms of funding costs rising?

Piyush: Our [US dollar and Hong Kong dollar] funding used to be a bigger challenge. But now, our funding structure has improved a lot. [In] Hong Kong, we [have built up] a lot more Casa. And we [have built up] a lot more US dollar Casa. But we don't have the same degree of pricing freedom as we have in Singapore. So you wind up having to pay up on the funding side, almost as much as you make on the lending side.

But we have upside in China because PBOC [has] started tightening. They did one tightening cycle already. Also they've started squeezing [the] money supply. So we've been able to start pricing up in China and [if we can continue doing so it would be] a big upside. If you look at the $400 million [negative] impact [that China had] on [our group income in 2016], a chunk of it is NIM, not volume. And so if China NIM starts coming back, it will be a tailwind.

Nick: And on capital – you're still offering the scrip alternative. You've got a 13.3% Common Equity Tier-1 ratio. You don't expect any real impact on risk-weighted assets [from the new capital rules]. Would you consider buying back the scrip to stop you accreting more capital?

Chng Sok Hui: We will come to a firmer view of our capital position once [all] the final rules are out. That's a big unknown at this point in time. But based on the known rules, [our capital position is] quite fine.

Piyush: What I have indicated [in the past was that] once the [all] rules are finalised, we will revisit our dividend policy.

Harsh: You are providing zero discount on the scrip, right?

Piyush: Yes.

Stephen Andrews (Deutsche Bank): Can I just focus on one of the positives? The retail revenue growth – which has been extraordinary – I just want to understand the drivers because it was up 20% year-on-year. In the text you say net interest income was up 26% and the volume side of this is only growing 7% or 8%. You alluded to a two or three basis point improvement in NIM in your comments [at the media briefing]. What's driving this huge [net interest income growth]?

Piyush: The NIM improvement for the consumer bank was higher. [The] three basis points [were] for the [group, from] 1.77% to 1.80%.

Stephen: So, what's driving the huge [net interest income growth]? It's driving the [retail bank's] revenues and it's offset everything else. The sustainability of that momentum is crucial. It's highly unusual to see a 20%-25% increase in revenues in a retail bank with 26% in net interest income in one year. Can you give us a breakdown of what is driving that NIM improvement versus the volume?

Piyush: Remember, we are tremendously advantaged because of our 52% [savings deposit] base in Singapore. We have a sticky low-cost funding base. And if there's any pick-up in Singapore rates, then that drives through to the consumer business.

Stephen: Can you explain the internal transfer pricing then? Is this dragging [other businesses]? Treasury wasn't down. The group's net interest income was under pressure and yet retail's going up a lot. I'm trying to understand the mechanics as to how one can go up so much, whilst the group isn't showing the same sort of momentum.

Piyush: The consumer – or any liability – business does a lot better with rising interest rates because our transfer price is benchmarked to the marginal cost of funds in the market. So you wind up with the liability business earning the marginal cost of funds and the asset business paying the marginal cost of funds. If you have an uptick in the marginal cost of funds, then it benefits the liability business and it impacts the asset business, unless the asset business can price it through. Of our [Singapore-dollar] loan book of S$120 billion, about S$60 billion is priced off Sibor and Sor that automatically reprices when Sibor and Sor go up. The balance is priced off [fixed deposit rates] or fixed rates, so if the internal transfer price goes up, [the margin for] that portion comes down.

Robert Kong (Citi): Three questions, please. First of all, on your liquidity position, I think you were building US dollars and your LCR is looking very healthy. Your LDR came down. I just wanted to understand how you're looking at that going forward? Is it because you're concerned, for example, about US dollar repatriation? Second, [could you provide] some updates on IFRS 9 and Basel 4. I know you said that derivatives and trading are going to have minimal impact but we've had some [talk] about potential RWA floors and mortgages. Third, on slide 25 of Sok Hui's deck, the quarterly numbers [for Hong Kong] look very volatile and I didn't really understand the drivers of that.

Piyush: [On] the first question, we built up liquidity [but] some of it was unexpected. It's quite interesting that we wound up getting a lot more deposits in December than we anticipated. It is counter intuitive. The reason we started building up liquidity is because of Trump and post-Trump. It wasn't clear to me how much dollars might flow out of the system. And as people started worrying about a tightening Fed cycle, [it was better] to buffer up and make sure we were long dollars.

But as things [turned out], instead of money flowing out, money flowed in. We wound up getting more deposits [than planned]. And that continues to be fairly steady. I want to stay long. I'll see what happens [on] the March rate hike possibility. I don't want to be caught napping. But if it looks like – and it seems to be [the case] right now – you don't have a turbulent, taper-tantrum situation, then we can start being more efficient with our liquidity. For the time being my bias is to be safe by keeping some more money. The second question you had…

Robert: Any regulatory updates – IFRS 9, Basel 4, risk weight floors.

Sok Hui: For IFRS 9, we are waiting [for the] MAS consultation paper [which is expected at] end of this quarter. Singapore doesn't want to [be the] only country that [isn't fully IFRS-compliant]. MAS will make a determination on the route they will take. We are preparing for IFRS 9 implementation. We think MAS might want to keep some kind of floor [on the amount of allowance reserves], notwithstanding IFRS 9 implementation. Given the reserves that we have set aside, I think we should have more than adequate provisions under the IFRS 9 regime.

Robert: And on the mortgage risk weight floors, 25%, plus some of the other countries.

Sok Hui: You are talking about the [minimum] mortgage risk weight of 25%? We don't know how they will calibrate it. But there was so much issue around it that they couldn't agree [and] had to defer the meeting. Hopefully we will hear from them soon. But I suspect that DBS's risk density is higher compared to most other banks. [Since] they are not going to calibrate it product by product but take the whole stack – we don't know whether [it is only] the whole stack of credit RWA or the whole stake of credit, market and operational RWA – and put a floor around it, my read is that we should be better off compared to banks which have a much lower risk density.

Piyush: I mentioned before we've had several discussions with the MAS. And recognising that the totality of our risk density is so high, the likelihood of their actually imposing a specific [minimum risk weight] on [an] individual asset class is very low.

Sok Hui: And you had a question on?

Robert: The Hong Kong [quarter-on-quarter performance] looks to be volatile.

Sok Hui: I think the net interest income line is stable. You see the volatility in the non-interest income line. That reflects some seasonal effects; there is also [impact from] onshore/offshore CNH and CNY rates in our positions in Treasury. Essentially, that is what accounts for the volatility.

Robert: The overall profit is down 52% quarter-on-quarter, so it just looks...

Sok Hui: The other factor is provisions.

Robert: And also higher operating expenses. Everything that could have gone the wrong way has gone the wrong way, except for net interest income. Fifty-two percent down quarter-on-quarter is just unusual.

Michael: Sebastian, are you on the line?

Sebastian Paredes: I'm on the line. Let me address a couple of things. On expenses, we had a one-off legal expense provision for an old case and we had a one-off expense for right sizing the unsecured loans channel. And we had a one-off bonus accrual at the end of the year. These would be the one-off [expenses] in the fourth quarter. [There was] nothing unusual on core expenses. On the revenue line in the fourth quarter, basically [there were] seasonal factors. We had trading losses in the fourth quarter, mainly because of the volatility created [by] the US elections. [So there were several] one-off events in the fourth quarter.

Stephen: Can I come back to the NIM guidance and test your confidence on the 1.80% guidance [for 2017]? Because people, as you rightly point out, are buying banks on the [basis of the] US rate [rise]. You had a NIM of 1.71% [in fourth quarter 2016 and are targeting an average of] 1.80% for [2017]. You're going to have to see a 15-20 basis point increase by the end of the year from the 1.71% if you're going to average 1.80%.

Piyush: If you look at Sor/Sibor, Sor bottomed in October at 65 basis points. It was [higher] at 85 basis points in December.

Stephen: So, your [year-end] exit NIM?

Piyush: The exit NIM was higher than the [fourth-quarter's] 1.71% because Sor moved between October and December.

Stephen: And what was the exit NIM? I'm trying to gauge how big it is.

Piyush: I don't have the number for December.

Stephen: If I take the [sensitivity of] one basis point [of interest rates to] $6 million of net interest income [and assuming a] two-thirds pass-through [from US rates to Sibor/Sor] – for 100 basis points of US rates [there is a] $400 million impact [to your net interest income], whereas your 1.80% implies almost twice that impact. I'm trying to square the two.

Sok Hui: We said the lift wasn't just coming from Singapore dollars. Our baseline planning is that US rates will go up. Some of that will translate into higher Singapore dollar rates and on account of that, [every one basis point results in a $6 million lift]. If you assume 25 basis points – you can assume whatever that is – there is some upside to [net interest income]. But Piyush also said for our non-Singapore-dollar book, [particularly] China, NIM has been under pressure. We are already seeing some uptick in those rates. [Taken] in combination, not just Singapore but also across the other locations, we think that [group NIM is] going to be around [the 2016] level, plus or minus.

Kevin Kwek (Bernstein): Piyush, could I ask three questions? First, you have the GTS cash balances that's really been very nice. A chunk of that [would have come from US companies]. What's your take – will there be any pullback of this that you can foresee? Second is on wealth management, that's also been growing nicely – [particularly in] the past five years [for] the Singapore banks. And you have to assume part of that was building off from something that was not quite there before. You [have] had an above-market growth rate. Do you see that tapering off significantly in the next three, five years? Lastly, you mentioned something around better recovery rates on your vessel sales, zero to 20% [above the valuations you imputed]. Is that because your estimates were conservative or did the market improve?

Piyush: On the US dollar deposits: we polled [many of] our clients in November – multinationals, et cetera – [that have] cash management with us. My net take was that you won't see too much outflow. I think people who will take money back for tax purposes will [be recycling the] money back for investment and funding purposes. As best [as] I can tell, of the US$2 trillion lying overseas, about US$1 trillion is with tech firms [and] is mostly in Europe – not too much of the money is in Asia. Obviously there is a second-order impact. [If there is a] withdrawal from Europe, there'll be tightness around the world. [But] we do not expect a lot of outflow of dollars net-net, [although] it remains to be seen. We ran a whole poll just to see how worried we should be. And even though the net [effect was that] we shouldn't be too worried, we still decided to fund up, just in case. Your second question is?

Kevin: Wealth management growth rate going forward.

Piyush: We continue to see very robust growth in that business. It's a function of [two factors]. One, the market itself continues to grow quite nicely for wealth. The wealth creation and wealth accumulation in Asia is [for] the middle and long term. And you can see that wealth creation happening around the region, not just in [Greater] China but in Southeast Asia as well. That's a tailwind. [Two,] we continue to gain market share and we're not seeing signs of slowing at this time. At some stage maybe it will. [While] our [ranking in the Asia-Pacific] has moved from number 15 to number five, there's still a big gap between us and UBS or Citi or HSBC or JPMorgan. These guys still have AUMs which are triple ours.

Kevin: Right. But you are already kind of the leader of the tier twos, right?

Piyush: Yes, but you're starting with an assumption that we don't have an aspiration to be in tier one.

Sok Hui: Remember the ANZ integration, it has about $20 billion in AUM. That will come through with the integration of the ANZ.

Piyush: That [has] a one-time [impact] and will help. We'll get a big lift from the ANZ wealth base. But the real question is, can a bank like DBS still continue to gain share [organically] and win in wealth management in Asia? My [view] right now is we are winning business all round. I'll tell you anecdotally. Take the bond [market] in Singapore. [What has happened] should have [had] a meaningfully negative impact on our business. [But] we [have continued to get] so much inflow of money because clients appreciated the fact that we stood by them. We were willing to be there [to] help them. Our approach of being an Asian-centric, Asian style bank resonates well. You had a third question?

Kevin: Yes, recovery values.

Piyush: I gave you three anecdotal cases. We [take] the latest [valuation] and knock it down sharply to see how much provisions we need. [But] what price the ships will [actually fetch] we won't know until we start trying to sell the ships. We sold ships, if you remember, [at] end 2015, early 2016. [For] all [those] ships we got [the] value [we imputed]. And [again] we sold some [recently and we are now] in the process of selling some ships either [for] us or our client. So far we're getting the values that we need to recover our loans. While [these instances are] anecdotal, my observation is that the haircuts we're taking seem to be reasonable. Now, it's not clear to me the market is necessarily improving. I don't think people are paying a lot more money for ships. If anything, people are trying to discount the ships they're getting. So it just tells you that the discounting rate we're using is relatively conservative.

Aakash Rawat (UBS): The first [question is] on the risk weights for your mortgage book. In the last six months, it seems that the risk weights have gone up a bit from 11% to 13%. That seems to be largely driven by the change in your default which has gone up from 0.58 to 0.69. I was wondering what's going on there because it seemed stable for a very long time. The second [question] is [on] the specific provisions this quarter. What's the split – is it for new NPLs or also to existing ones? Third, “other currency” deposits grew by 5% [during the quarter]. What is that other currency?

Sok Hui: [On] the first [question], it’s a recalibration of the model. We constantly recalibrate our models. And we try and make it a bit more conservative each time.

Aakash: What would have driven that PD up? Any particular factor that you are thinking of? Is it likely to be market type? What in your mind has driven that?

Sok Hui: I think the impetus is that everybody [would] like to see higher [risk weights], which people [think] is more reasonable, so we used more conservative assumptions to get to a higher risk weight. [The increase] is very tiny.

Aakash: What’s the longer term [trend]?

Sok Hui: Francis, do you have any visibility on the model?

Francis Nyan: There was a one-time recalibration of risk parameters; we review risk parameters from time to time.

Sok Hui: [On the] SPs for this quarter – on slide 28 you can see how much [were for] new NPLs [and for] existing NPLs. Your third question is around deposits.

Piyush: I was just looking at that. Everything [grouped under “other currency” deposits has] gone up. Taiwan dollar's up, Indian rupee is up, the Indonesian rupiah is up. Chunks of [the increase] are [also for the] Aussie.

Sok Hui: And [there was] also the exchange rate impact [in the fourth quarter].

Piyush: We've been building up our book in Australia and the UK, so we've been funding more in sterling and Aussie.

Melissa Kuang (Goldman Sachs): [On] wealth management, you were talking about market share gains. I wanted to get a bit more colour on the quarter on quarter numbers, which fell. And then [on] the 90 names [in oil and gas support services], you mentioned that three were moved to NPA [in the fourth quarter]. [Prior to that were] there were also some [that had already been] NPLs?

Piyush: On wealth management, there is a high trading bias [in Asia]. [The uncertainty resulting from the US presidential elections resulted in lower activities from traders. In addition,] December is a [seasonally] slow month. But it has come back [since]. In the first quarter, business activity is back. On the [oil and gas support services] NPLs, we took S$100 million in NPLs this quarter, we had S$100 million in NPLs prior to that.

Krishna Guha (Jefferies): On the China market, [for a] 10 basis point increase in say the Shanghai interbank rate, how much will it impact your bottom line?

Piyush: I don't have the answer to [that].

Krishna: The second question is what would it take to bring down your cost-income ratio further?

Piyush: As I've said, my agenda is to try and get a one percentage point improvement in cost-income every year. We're going to slow down [in 2017] because we got [a] two [percentage point improvement in 2016] – we might consolidate a bit. I think there's a capacity to get one percentage point a year for the next two, three years.

Krishna: One final question. Your 10% bottom line growth [projection] for 2017 looks fairly conservative. You made [net profit of] $4.2 billion [in 2016], and [so] a 10% [increase means] $400 million. Considering that Swiber's [specific allowances of] $400 million [in 2016 won't be repeated], the [projections are] conservative?

Piyush: We're conservative on that.

Michael: Okay, I'm going to ask the operator for questions from those who have dialled in and then come back to those on the floor. Serena, can you open the floor? While we are waiting, Steve.

Stephen: I just want to get 100% clear on the NIM because your entire 10% [earnings] growth [projection] is predicated on the NIM expansion guidance you're giving. So, [for] the 180 basis points average NIM, what you're saying is that you factored into that two more 25 basis point rate rises in the US? And a two-thirds pass through into Sibor and Sor? Is that broadly what you're saying?

Piyush: Correct.

Anand Swaminathan (BAML): On the rates again, [for] the Singapore book at what level of Sibor does it start impacting credit costs? At what level of Sibor do you start seeing stress in your mortgage or SME book? What is the internal view on that?

Piyush: You will see some [stress on housing loans] but it's not mostly [interest] rate-driven. [That's] because when we do a mortgage debt burden ratio, you always use 3.5% rates – it's built into our [assumption of the customer's] servicing capacity. Obviously if rates go up, it'll get [tougher] but I don't think it'll be very significant. I keep saying [for] the mortgage book, the real challenge is unemployment more than rates. If you start seeing people [losing] jobs then that's more of a challenge. The other thing with the mortgage book is a lot of it is serviced by CPF.

The SME book is the more uncertain piece. The SME book, I've said before, has been unusually resilient to my mind. I've been expecting more delinquencies and NPLs than have come through. And I think part of the [reason is] that, with low rates, [companies] have the capacity to hold [on] a lot [longer]. If rates go up, that should change. If you look at the vulnerable sectors, it's building and construction, F&B, retail and offshore marine.

We have about $2 billion in exposure to building and construction. A lot of that is to [companies that] have contracts [from] government spending on infrastructure [rather than from] private[-sector activities]. [Since they] are government related, those contracts are sound [and] when rates go up, I don't expect a lot of damage. We have about $1 billion in F&B and about $500 million in retail in the SME segment. The retailers are mostly the [lower cost shops] and their businesses are doing fine. In F&B, we're not doing the restaurants. We are doing the supply chain to the restaurants. As interest rates go up, these [companies] should have the capacity to hold.

Our overall SME book [in Singapore] is about $20 billion. [While the portfolio] is [relatively] more vulnerable, I don't see it [under significant stress]. Overall, I think we [will see] a pick-up in delinquencies if rates go up. But looking at past cycles, it doesn't move very much. We are going [to have to] watch this. But I don't think it's that material.

Diksha Gera (Bloomberg): Piyush, just a quick extension on that question. With all this happening in the oil and gas space and there are a lot of [related] jobs at stake, do you foresee a slightly bigger problem?

Piyush: I think in the medium term that's a bigger challenge. How does Singapore as a country address this? The newspapers [have reported] 1,500 jobs lost, 1,700, 2,000. [These numbers are] good for headlines but [they are] not going to make an impact on our mortgage portfolio. You really have to see a material pick-up in unemployment. If that happens, what is the government going to do about it? And that could happen. If you ask me, I'd say Singapore has [to answer the question] where will the jobs come from [in the medium term]. [And] it's part of a [larger] social issue.

Diksha: I think there's a structural problem with the offshore support services. I think the next four, five years are going to be challenging for them, especially given [where] oil prices [are]. We don't have that visibility of them going up [much higher]. [For the 90 names in the granular portfolio, assuming] a prolonged [period of low oil prices], [and] with rates going up, [would there be] a slightly deeper issue [for them]?

Piyush: I think there will be issues [among] those 90 names. [A few have become NPLs.] For the residual [names], I think you'll see companies which [eventually] will not be able to [hold out]. There will definitely be more consolidation in the industry. I think there'll be more companies [seeking judicial management]. So I do think there will be some incremental damage in that part of the portfolio.

Diksha: And that'll last multiple years?

Piyush: I think it'll take a couple of years to resolve. So I'm not being sanguine by any [measure]. All I'm saying is that on a year-on-year basis, since we had such a big [amount of new NPLs from the sector] in 2016, on a year-on-year basis it will be better.

Diksha: Can I just follow up with two more? Dodd-Frank, from what memory serves me, you shied away from some businesses in the US because of all this extra [regulation]. Do you think you will look back at that, now that regulation is easing?

Piyush: Our question was whether we get a full branch in the US. We [decided to keep] away because of regulations [in their entirety]. It's not [on the] front burner [for us] at this point.

Diksha: And a quick update on what you expect in India with this whole demonetisation push? And for digibank, [do you have] any updates?

Piyush: We're going to get a million [digibank] customers in the first year, which is very good. In the past two, three months, the pace of customer acquisition has picked up quite notably. [And] transacting volumes have picked up. I'm more excited about that because customers can come in but if they're not [transacting], they can go out as well. But the minute they start [transacting with] you [they become sticky]. We've had a four times increase in transacting volumes in the past three months. People are using [digibank] to make payments.

And we are adding more payment types. We are adding a QR code capability [at the] end of this month. We are linking into the UPI [user payments interface] in a month. As we keep adding payment functions, I'm hoping that digibank becomes a more mainstream proposition for people to use. Our account balances are also beginning to pick up quite nicely. So I'm quite positive. That having been said, we don't make money [yet]. We're like the other fintechs. But we are going to [introduce] a wealth proposition as well as a lending proposition this year. And once those kick in, I think we'll start making money on our customer base. I'm quite positive we'll make money in the medium term.

Aakash: One quick question on the NIMs. Do you still have room to go for funding optimisation? Are you baking that into your NIM expectations?

Piyush: There are two elements. We reduced our commercial paper [CP] programme quite substantially because CP prices went up, so it's cheaper to get deposits. [We have the] flexibility of [funding with] commercial paper [or] deposits, and we always figure out [the best option]. We've also been able to use a covered bond programme to get really low-cost [longer-]tenure funding. And the [Alternative Tier-1 issuance] we [recently] did was [at] the lowest [cost] in the world. We still have opportunities to fund opportunistically [from these sources]. But in the long term our biggest opportunity is cash management. As long as current account balances keep increasing, that's the cheapest cost funding you can get. To me, that is our biggest upside.

On balance sheet management, our opportunity on NIM is really around LDR. We let our LDR drop to 87%. I said earlier I'm comfortable going up to 90-92%. If we take it up to 90-92%, you get an immediate benefit on NIM.

Asheefa Sarangi (CLSA): Can I ask about asset quality in your portfolio in India? And also can I ask what the total income was with the Manulife agreement? How much came in ahead of the straight line amortisation this year? I remember you mentioned that there could be kind of a trough in the fourth quarter. I'm kind of curious as to what that is.

Piyush: The India portfolio has behaved worse than I thought it would. It's the second year in a row where it's behaved worse than I thought. We have a large pool of weak cases and every year a couple of those which you don't expect to topple over, topple over. It's not sector-specific anymore. If you remember the big issue until 2014 was the EPC [engineering, procurement and construction] sector – so [like the NPLs in the oil and gas support services sector] it's the contractor [business] again. But in 2015 and 2016 it's [been] episodic. There are a couple of names in manufacturing, one name in trading, and they topple over and [they're typically] \$50 million-\$60 million [in size]. It's unexpected. Our current [view] is that both the [NPL formation and] provisions in the portfolio will look better in 2017. Your other question was?

Asheefa: On Manulife.

Piyush: So, Manulife, our original agreement was $1.6 billion which we are amortising over 15 years.

Asheefa: And then there was a top-up beyond that, right?

Piyush: Yes. So, the top-up beyond that, which is based on marketing and [performance-related commissions], we didn't book too much in the fourth quarter.

Asheefa: And the total running booked this year?

Piyush: $107 million from [the amortisation] plus the rest. Do [we disclose] bancassurance [separately]?

Sok Hui: We didn’t disclose it. Over and above the $107 million [amortisation], we probably got an additional lift of some $40 million-$50 million.

Michael: It's been pretty stable [over the four quarters].

Piyush: It looks like it's pretty stable.

Stephen: Just the simple maths on RMB derivatives. You said last year you lost $300 million in revenues and it cost you $200 million in provisions. That was all [in 2016]. So in total it was a 10% drag in profit before tax?

Piyush: No, the $200 million [in allowances] were not all [taken in 2016]. Do you have the [breakdown] of the China impact? How much is the RMB derivative impact?

Sok Hui: You are referring to the China-impact for?

Stephen: In Piyush’s [media] presentation [he] mentioned the $200 million provision on the RMB derivatives and then you also said on the slide that there's a $300 million drag.

Piyush: The RMB derivative impact is about $200 million on the top line and $100 million on the provision line for [2016]. The other $200 million [impact on overall income] is [from] trade.

Norbert Topouzoglou (Bernstein): Sorry, I may have missed that but for Manulife going forward, what is your projection on top of the $107 million next year? What is the contribution?

Piyush: [Do] we have [the] budget for banca?

Sok Hui: If I recall [correctly, the projections show that] it will grow quite quickly year to year. The first year was kind of slow [as] we were doing integration. So it will be better in the years ahead.

Michael: Okay, Serena, I think there's somebody on the phone that's asked questions.

Operator: Sure. Our first audio question is from Wee Siang from Fitch Rating

Ng Wee Siang (Fitch): I just wanted to ask some questions pertaining to slide 4 of the CEO [presentation]. [On] the $2.9 billion [of exposure] associated with the 90 names – you mentioned that three names [were] moved to NPA [in the fourth quarter]. In total how many accounts have been moved?

Piyush: We had three [names amounting to] about S$100 million in NPA prior to that. We added another S$100 million in NPA in [the fourth quarter].

Wee Siang: So $200 million has been classified in this account. Correct?

Piyush: Correct.

Wee Siang: The other question pertains to how many of these 90 names have been restructured or refinanced? If you could just give me the number of accounts and also the amount as well?

Piyush: There are about 20 names in the weak portfolio. And so, maybe half of those went to refinancing but I'm [not certain].

Wee Siang: Of the 90 names, could you give me a range as to the largest account, what's the amount, and the smallest account, what's the amount?

Piyush: It'll range from zero to $200 million.

Wee Siang: If you were to exclude the oil and gas sector and [housing] sectors, [are there] any other [sectors] that you would be paying more attention to currently?

Piyush: Generally, the SME [segment] across the region is something I'll pay attention to. And that's across all the countries we operate in. In Singapore I look at building and construction, F&B and retail. [In addition to SME], there are two other areas. Shipping I keep looking at. Even though shipping is looking a little better – for example, freight traffic into Europe and the US has improved for container [shipping and] there's [been] a little bit of turnaround on the bunker side – we keep looking at shipping closely. And then for the commodities book we said coal and steel [had weakness] but both of them have rebounded. So the pressures are a lot less than they were some months ago.

Wee Siang: For the SME segment, which geography would be more vulnerable in your view?

Piyush: Singapore.

Wee Siang: What about Hong Kong?

Piyush: We already saw the risk in the last couple of years. That space has been through a stress test. Singapore hasn't been through a stress test.

Wee Siang: The last question from me is your view on Greater China loan quality. I think it wasn't covered in the presentation deck. So, if you could give us a bit more colour.

Piyush: Greater China loan quality is holding up quite nicely, ex of the RMB-related impact in all of the sectors. A large part of our loan book is top-end SOEs and top-end POEs, and [they] continue to not have any problems. We talked about the last time one NPL in the Hong Kong book related to a fishery client that was reasonably sizeable. But [that was] episodic [not systemic]. It's not pointing to any broader weakness.

Ken Ang (Macquarie): Two questions. First, on the 90 names, would you be able to guide [what percentage of them] are cash flow positive? [Second,] what are the collaterals on these 90 names? Because [with] NPAs of just $200 million [out of] a $2.9 billion portfolio, I wanted to know how comfortable [to] get on this portfolio.

Piyush: [A company that] is cashflow positive won't be an NPA. [Those that are] weak [have] stagnant [cash flows]. But everybody [has been] able to service principal, partly [because of] refinancing and restructuring.

Ken: And the collateral?

Piyush: They are extremely well collateralised either [with] vessels, properties or securities.

Ken: Would it be like more than 60%?

Piyush: Our overall portfolio is 90% secured.

Ken: If I could ask another question. I understand that with the Fed rates [going] up, you could see higher interest rates [in Singapore] but how much [of] your floating rate [loans] can you really reprice, especially for your SMEs, your smaller corporates, [which have] a bit of weakness. How confident are you in being able to reprice the whole book?

Piyush: We don't reprice credit spread. Just the basis gets repriced [in line with] a rising Sibor or Sor. [The loans] are priced off base rates [and so the] margin will keep going up. [For example], the customer takes [a loan with a spread of] 50 basis points over Sibor.

Ken: But when you refinance, maybe you [will lower] the spread?

Piyush: Will I have to reduce my credit spread? I don't think so.

Ken: You don't think so? For high quality names, given the liquidity situation, would [they] force you to reduce your credit spread?

Piyush: It's a competitive market but on the whole it's been competitive now the past two, three years. Depending on how you structure the loan, our credit spreads are not coming off that much.

Danny Goh (Credit Suisse): Just a few questions. When I look at loan [growth], the Rest of the World's loans grew about 14% quarter-on-quarter. Can you just give us some colour on that? Second, I was wondering how much of your NPLs in [oil and gas] support services are still performing or servicing debt? Lastly, would you be able to help us quantify the integration costs for ANZ?

Piyush: For the Rest of the World – I have talked to you about it – a large part of our growth is [from] clients [that are] expanding [to] Australia, the UK [and] the US. [These] are areas where many Asian clients are reaching out to. For example, [companies] are looking at [property] projects – [and] there're many [other] activities. [So we have been] able to grow our book in particular the UK and Australia. The second question was?

Danny: On NPLs.

Piyush: [Even if] there's a technical payment, once it is an NPL, you [should consider them to be] not performing, [even though] you can argue you [are getting] some interest from them.

Sok Hui: We stop accruing interest for all our NPL cases. We totally suspend interest.

Piyush: Even if we get [interest payments], we don't recognise [it].

Danny: Even if it comes in you don't accrue the interest?

Sok Hui: We use it to offset the principal. We're very conservative.

Danny: On ANZ integration cost?

Piyush: The total cost of the ANZ integration will spill over a couple of years. I think the total cost over a couple of years is likely to be between $200 million and $250 million. We haven't been able to fine-tune all the elements of it but that's what we expect. Of which one portion of it, maybe two thirds of it, will probably come in this year.

Michael: All right. So, thank you very much. This ends our call. See you next quarter.

Piyush: All right, thanks, everybody.