**Transcript of DBS third-quarter 2017 results media briefing, 6 November 2017**

**Edna Koh** This morning we announced net profits of $822 million for the third quarter and net allowances of $815 million were taken to remove uncertainty over our oil and gas support service exposures. Business momentum remains strong. To tell us more, we have our CEO, Piyush Gupta, and our CFO, Chng Sok Hui. Without further ado, Sok Hui, please.

**Chng Sok Hui** Good morning, everyone.

Highlights. We achieved record operating results in the third quarter. Quarterly total income crossed $3 billion for the first time, rising 4% from a year ago to $3.06 billion. Profit before allowances also grew 4% to a new high of $1.80 billion. The performance underscored the strong momentum of our businesses. Underlying loans grew 2% over the quarter led by corporate and consumer loans, bringing year-to-date growth to 6% in constant-currency terms. Including ANZ, loan growth was 4% for the quarter and 7% year-to-date. Third-quarter fee income was also at a new high of $685 million, led by wealth management and cash management.

The third quarter's results built on the strong operating performance trends in the first half, nine months total income of $8.87 billion and profit before allowances of $5.10 billion were also at new highs. Loan and fee income growth during the nine months more than offset the impact of softer interest rates and weaker trading income. Digitalisation and cost management initiatives kept expense growth to 1% as underlying headcount fell.

Consistent with the assessment we provided in the second quarter, and taking into account the impending implementation of Financial Reporting Standard 109 on expected credit losses, we accelerated the recognition of residual weak oil and gas support service exposures as NPAs during the quarter and drew $850 million from general allowance reserves. This resulted in net allowances of $815 million. The step removes uncertainty over asset quality and enables investors to refocus their attention on our operating performance and digitalisation agenda. Asset quality and credit costs for the rest of our portfolio remains benign.

Our allowance coverage is at 83% and at 171% with collateral. These coverage levels are based on a conservative approach to recognising oil and gas support services NPAs and vessel collateral markdowns to liquidation values. General allowances at 30 September 2017 are above both the MAS 1% and the amount that has to be set aside under FRS 109 when it is implemented on 1 January 2018. As such, our coverage ratio remains at prudent levels.

Our capital and liquidity ratios remain well above regulatory requirements with a final Common Equity Tier-1 ratio at 13.6% and the liquidity coverage ratio at 141%.

Non-performing loans. Let me take you through the asset quality slides first.

Our exposure to the oil and gas support services sector is $5.3 billion, less than 2% of our group's total loans.

During the quarter, we accelerated the recognition of non-performing assets amounting to $1.7 billion. They form the residual weak cases in the sector that weren't previously classified as non-performing. This bought total sector NPAs to $3.0 billion, or 57% of the portfolio. Because of our conservative approach, borrowers that are current or not overdue form 26% of the NPAs, while those that are within 90 days overdue form another 37%. This means that two-thirds of the NPAs here are not more than 90 days overdue.

In addition, we have also taken a conservative approach to valuing vessel collateral by marking them down during the quarter to liquidation values. We took additional specific allowances to cover 100% of the collateral shortfall.

This next slide highlights the NPA formation, SP charges and NPL rates for the portfolio outside oil and gas support services. NPA formation for the non-oil and gas support services sector has been low and stable over the past several quarters, averaging $295 million per quarter this year compared to $493 million last year. The NPL rate of 0.9% has been stable over the past several quarters.

Similarly, allowance charges have been low, averaging $100 million per quarter for the nine months this year.

During the quarter, we consolidated $6 billion of loans from the Singapore, Hong Kong and China operations of the wealth management and retail business acquired from ANZ. Included in these loans were $123 million that were classified as NPAs, for which we have adequate loan loss allowances from ANZ as part of the transaction.

The MAS finalised its rules on FRS 109 relating to expected credit losses on 19 October 2017. At the end of the second quarter, we had $3.5 billion of general allowance reserve. This was in excess of the amount that would be permitted from 1 January 2018, when FRS 109 is implemented. Any surplus would have to be transferred to shareholders funds on that day and such surplus cannot be released to P&L subsequently. We decided to draw down part of the surplus general allowance reserve during the quarter, amounting to $850 million. After the draw down, we now have outstanding general allowance reserves of $2.6 billion and this amount is in excess of the current MAS 1% requirement as well as the FRS 109 requirement effective 1 January 2018.

Going forward, FRS 109 general provisions will be based on credit losses computed using a model as well as overlays that meet the requirements under the new accounting standard. The profit and loss account going forward will reflect movements in FRS 109 general provisions.

Allowance coverage. Our total allowance reserves currently stand at $5.1 billion, comprising $2.4 billion of specific allowances and $2.6 billion of general allowances.

We have shown in the previous slide that the $1.5 billion of outstanding specific allowances more than adequately covers for the exposures in the oil and gas support services NPAs. The remaining total allowance reserve of $3.6 billion is also more than adequate to cover the $3.1 billion NPAs for the rest of the portfolio. In other words, the allowance coverage for the non-oil and gas service sector is ample at 115%.

The overall allowance coverage, which is the composite of both portfolios, is prudent.

Third quarter compared to a year ago. Moving on to business performance. Our third-quarter net profit was $822 million after taking the net allowance charge of $815 million.

Total income rose 4% or $130 million from a year ago to $3.06 billion. The increase was due to higher business volumes. Net interest income rose 9% or $160 million from higher loan volumes while fee income grew 12% or $71 million from broad-based growth led by wealth management.

The growth in net interest income and fee income was partially offset by a 20% or $101 million decline in other non-interest income as trading income fell. Excluding the impact of weaker trading income, total income rose 7% from a year ago.

Expenses rose 5% or $58 million to $1.26 billion, resulting in a 4% or $72 million increase in profit before allowances to $1.80 billion.

Third quarter compared to previous quarter. Compared to the previous quarter, total income was 5% or $135 million higher.

The increase was due to net interest income, which rose 5% or $87 million, and fee income, which was 8% or $49 million higher as business momentum continued from the previous quarter. Other non-interest income was stable.

Expenses declined 1% or $11 million. The higher income and lower expenses resulted in a 9% or $146 million increase in profit before allowances.

Nine months compared to a year ago. For the nine months, net profit declined 5% to $3.17 billion as a result of the higher net allowances in the third quarter. Strong business momentum propelled total income and profit before allowances to new highs despite lower interest rates and weaker trading income.

Total income rose 2% or $156 million to $8.87 billion from higher loan volumes and record fee income. Net interest income grew 4% or $213 million as an 8% increase in loan volumes was partially offset by the impact of lower interest rates, which dampened net interest margins by nine basis point to 1.74%. Fee income rose 9% or $170 million led by growth in wealth management and cash management. The combined $383 million increase in net interest income and fee income was partially offset by a 16% or $227 million decline in other non-interest income due mainly to lower trading income. Excluding the impact of weaker trading income, total income rose 4% from a year ago.

Expenses rose 1% or $24 million to $3.77 billion as ongoing digitalisation and productivity initiatives capped cost growth. Profit before allowances increased 3% to $5.10 billion.

Net interest income. Third-quarter net interest income rose 9% from a year ago and 5% from the previous quarter to $1.98 billion. The increase was driven by higher loan volumes, which grew 8% from a year ago and 4% from the previous quarter after including the ANZ consolidation.

Net interest margin of 1.73% was stable from the previous quarter. While net interest margin for Singapore rose two basis points, the impact was offset by a lower loan-deposit ratio due to underlying growth as well as to the consolidation of ANZ, which brought in $10 billion of deposits.

For the nine months, net interest income was 4% higher at $5.69 billion. The 8% increase in loan volumes was partially offset by a nine-basis-point decline in net interest margin to 1.74% from softer average Singapore-dollar interest rates.

Movements in Sibor and Sor have been tepid so far as the flow-through from US interest rate increases has been low. We expect net interest margin to improve with the higher average Singapore-dollar interest rates seen in the recent period and to benefit from US rate increases in the coming year.

Loans. We consolidated $6 billion of ANZ loans in Singapore, Hong Kong and China during the quarter, bringing loan growth for the quarter to 4%. Excluding the consolidation, loans rose $8 billion or 2% in constant-currency terms. This was faster than the $7 billion in the second quarter and $2 billion in the first quarter.

At the same time the composition of loan growth has changed from the first quarter. The proportion of housing and corporate term loan growth has risen while the share of shorter-term trade loan growth has declined.

In constant-currency terms, corporate loans grew more than $2 billion or 2% during the quarter, bringing year-to-date growth to $5 billion or 3%. The increase during the quarter was broad-based and led by property transactions in Singapore and the region.

Consumer loans excluding ANZ grew $3 billion or 3% during the quarter, bringing year-to-date growth to $5 billion or 5%. Singapore housing loans accounted for half the increase for both periods.

Trade loans grew $2 billion or 4% during the quarter and $8 billion or 21% year-to-date.

Total underlying loans grew $8 billion or 2% during the quarter, bringing year-to-date growth to $16 billion or 6%.

Our loan pipeline remains healthy and we are likely to end the year at 7-8% growth.

Liquidity. We consolidated $10 billion of deposits from ANZ during the quarter. Underlying growth in constant-currency terms was $11 billion or 3%.

Other funding rose $2 billion during the quarter to $36 billion from issuances of medium-term notes and covered bonds.

Our liquidity ratios remain well above regulatory requirements. The liquidity coverage ratio was 141% while the net stable funding ratio exceeded the requirement of 100% due in 2018.

Fee income. Third-quarter gross fee income of $788 million was 12% higher than a year ago and 8% above the previous quarter. The increase over both periods was led by wealth management, cash management and investment banking.

Wealth management fees rose to a new high of $272 million, led by stronger sales of unit trusts and other investment products. Compared to a year ago, insurance income was also higher. This quarter's fees included $28 million of treasury customer income sold on open architecture platforms, just slightly above the $23 million in the previous quarter. The 21% underlying increase from a year ago and 11% increase from the previous quarter reflected more buoyant market conditions as well as franchise growth.

Transaction service fees grew 5% from a year ago to $154 million from a 10% increase in cash management fees. Cash management fees were moderately higher than the previous quarter, offsetting a decline in trade fees.

Investment banking fees rose 19% from a year ago and 56% from the previous quarter to $64 million as a result of more sizeable equity underwriting and advisory activities.

For the nine months, gross fee income was 11% higher at $2.26 billion, led by wealth management and transaction services.

Institutional Banking. Institutional Banking's nine-month operating performance was stable from a year ago. Total income of $3.94 billion and profit before allowances of $2.65 billion were little changed.

Cash management income grew 30% to $784 million from increased customer mandates as well as higher deposit volumes. The improvement was offset by declines in income from treasury products, loans and investment banking.

Asset balances rose 8% or $17 billion to $241 billion as both trade and non-trade loans grew. Cash management deposits were 7% higher at $134 billion.

Consumer Banking and Wealth Management. Nine-month pre-tax profit for Consumer Banking and Wealth Management rose 9% to a new high of $1.49 billion.

Total income grew 9% to a record $3.47 billion. The growth was broad-based and led by a 20% increase in investment product income to $1.04 billion. Loan and deposit income grew 4% to $1.94 billion from higher housing loan and deposit volumes, partially offset by lower net interest margin. Card fees were also higher.

Wealth Management customer segment income rose 25% to $1.57 billion. Assets under management grew 23% to $195 billion, including $15 billion from ANZ, strengthening our position as one of the top wealth management banks in the region.

Income from the retail customer segment declined 2% to $1.90 billion as volume growth was offset by lower net interest margin. Our market share in Singapore housing loans crossed 30%, while we continue to have more than 50% of Singapore-dollar savings deposit market share.

Treasury. Nine-month treasury customer income fell 6% to $872 million. A decline in income from corporate and institutional customers was partially offset by higher income from wealth management customers.

Income from the Treasury Markets business segment, which reflects structuring, market-making and trading activities, fell 24% to $656 million from lower contributions from interest rate activities.

Total treasury income amounted to $1.53 billion, 15% below a year ago.

Expenses. Nine-month expenses were slightly higher at $3.77 billion as productivity gains from digitalisation and cost management initiatives capped cost increases. Underlying headcount has been on a declining trend, falling 1% from a year ago and 2% from the beginning of 2016.

For the third quarter, expenses of $1.26 billion were slightly below the previous quarter. They were 5% higher than a year ago due partly to increased advertising and promotion costs.

The nine-month cost-income ratio was 43%, which is the level we have guided for the full year.

Hong Kong. Hong Kong's nine-month net profit rose 24% to $749 million. Total income increased 2% or $33 million to $1.62 billion as growth in loans and fee income was offset by a decline in net interest margin and other non-interest income.

Net interest income rose 7% or $73 million to $1.05 billion from higher business volumes. Loans grew 9%; excluding ANZ, underlying loans increased 7% from trade and non-trade corporate loan growth. Deposits rose 18%; excluding ANZ, deposits were 10% higher from growth in current and savings accounts. The benefit of the higher volumes was offset by lower loan yields and a lower loan-deposit ratio. Net interest margin declined four basis points to 1.73%.

Fee income rose 22% or $81 million to $444 million from broad-based growth led by wealth management, cash management and investment banking. Other non-interest income halved to $131 million due to lower trading gains and treasury customer flows as well as a $45 million property disposal gain last year.

Expenses were little changed at $689 million. Profit before allowances rose 4% to $934 million.

There was a net specific allowance write-back of $32 million from the recovery of a major exposure, another indicator of our conservative provisioning policy. General allowances of $68 million were taken for loan growth. Total allowances of $36 million were one-fifth the amount from a year ago, when there had been specific allowance charges for customers with RMB hedging derivative exposures as well as for the major exposure.

Capital. Our capital ratios remain strong. The fully phased-in Common Equity Tier-1 ratio was 13.6%, forty basis points below the previous quarter. The decline was due to the payment of the interim dividends during the quarter and to asset growth including the consolidation of ANZ. These factors more than offset the capital accretion from the third quarter's earnings.

Our leverage ratio of 7.5% was more than twice the minimum of 3% envisaged by the Basel Committee.

In summary. Strong business momentum propelled the third-quarter and nine-month operating results to new highs. Quarterly total income crossed $3 billion for the first time. Loan and fee income growth more than offset the impact of softer interest rates and weaker trading income for the nine months.

Uncertainty over asset quality has been removed by the accelerated recognition of residual weak oil and gas support service exposures as NPAs. Asset quality in the rest of our portfolio remains benign. Our allowance coverage is prudent and above both the MAS requirement for 1% GP and FRS 109 standards. In addition, our capital and liquidity are well above regulatory requirements.

With asset quality concerns out of the way, investors can return their focus on our operating performance and digitalisation efforts. Our business pipeline continues to be healthy and will sustain business momentum. Our digitalisation agenda, which we will be showcasing on 17 November, is progressively transforming the way the bank operates, creating new customer benefits and generating shareholder returns.

Thank you for your attention. I will now pass you over to Piyush.

**Piyush Gupta** Thanks, Sok Hui. Again, thank you all for being here.

Key highlights. I want to talk about three things. First, as Sok Hui spent some time explaining, is on our decision to take a conservative stance on the sector and accelerate the [recognition of] non-performing assets and provide for them adequately in this quarter. I will give you a deeper insight on that.

[Second], a reflection on FRS 109 and the MAS guidelines which, in a way, gives us an opportunity to accelerate the recognition [of oil and gas support service exposures as NPAs] without damaging our P&L for this year.

[Third], some comments on the business momentum and outlook for next year.

Portfolio update on support services. This next slide is a snapshot of the slide I presented during the last quarter and it is consistent with what we've told you over several quarters before. If you exclude the government-linked shipyards, our net residual exposure is in the order of $5.4 billion that we had previously; there're some moving parts. We also said you should look at our [sector portfolio] in two parts. There are five chunky exposures on the left and about 100 exposures on the right. In the past we'd taken NPAs worth $600 million on the left side, and we'd taken NPAs worth $800 million on the right side.

What we've done in this quarter is to accelerate all of the [residual weak exposures] we think are likely to go into NPA over the next several quarters and moved them ahead into this quarter. The total NPAs we took in this quarter are about $1.7 billion. It is roughly half and half; half came from the left side, half came from the right side. We took a couple of the items on the left side and we pretty much cleaned up everything on the right side of the book. We built up our specific provisions to $1.5 billion to accommodate the unsecured portion of this portfolio.

The first thing to keep in mind is that we have not actually found any new [weak cases]. These [are exposures] that we've been flagging for the last several quarters. There's weakness in the portfolio, and we think that weakness would have typically trickled in over the next several quarters through to the end of 2018. We've just taken the opportunity to accelerate the recognition of that weakness upfront into this quarter.

The first question I want to answer is: why did we do this? In this quarter, we've taken a sector view. I think there are two parts to the sector – one part of the sector is the deep-sea drilling and the developmental activity, [and the other part is the support services which includes shallow-water activity].

My own view is that the first part of the sector is going to be structurally challenged on a secular basis. The reason is that deep-sea drilling works at oil prices of $85-$90 and above. Even though oil prices have firmed in recent times – they're at the $60 level – it seems unlikely to us that oil is getting back to the $100 level. [That is why we view] that deep-sea drilling is going to be facing a structural and secular problem. Adding to that is the impact of shale, as well as the conversion to renewable energy, and it just seems to us that about half of the sector is going to be structurally damaged. I think you will see consolidation in that part of the sector and I think you will see a hollowing out over the coming years.

The other part of the sector is going through what I think of as a cyclical problem. This part can actually survive at roughly $60 oil prices but even in that part of the sector, the problem is that even with the firming of oil prices and utilisation rates creeping up, operating margins are not improving yet. This is because the oil majors have tried to restructure their supply chain to cater for a $50 oil price. Therefore, while [there is] some business in that sector, their operating revenues are only enough to cover opex. They're not able to generate enough margin to service bank debt and [interest].

There will be some pain because the restructuring [takes place during a period of weakness in the] cycle which will take some time to play out. We don't think that that part of the sector is going to recover before 2019 – when margins might pick up and utilisation comes up to an adequate rate.

Given this view on the sector, we decided to just be conservative and move all of our concerns upfront.

The second part on this slide is what Sok Hui pointed out. Without belabouring the point, you can see that 63% of the [NPAs in the sector] are not more than 90 days overdue. 26% are not overdue, which means the names are still current, while 37% are within 90 days overdue. In the normal course we would not have had to recognise them as NPAs, and would have let this portfolio continue deteriorating over the next several quarters. This means that some of these names might have become NPAs, some might not. But we just decided to put this behind us and to recognise them all as NPA at this point in time.

The other thing I wanted to point out is that we're not only being conservative in recognising the NPAs; we've also been very conservative in building up specific provisions for this part of the portfolio. We've actually tagged only $1.5 billion of the portfolio as secured. Everything else we moved to unsecured. This is how we came up with the secured number. If you remember, we had collateral values at 100% in 2014 when oil prices were high. In 2015, we told you we'd taken a collateral markdown of about 30%. In 2016, we told you we took another collateral markdown of about 30%. In 2017, in the second quarter, I told you we'd taken yet another collateral markdown of about 30%.

Collateral values by the end of June 2017 were roughly one-third of what the original values were. Meantime, we've been writing down or providing for our loans to keep them commensurate to the revised collateral value. This time we've taken another collateral value haircut of about the same amount, so we've brought the collateral values down to about the 25% [of the original] level. We think this is pretty close to liquidation values. At this price we can see transactions happening or have a bid on specific ships. [The unsecured portion of the NPAs represents the difference between the outstanding loan amount and the marked-down collateral value – and the unsecured portion] has been fully provided for.

So, we're pretty confident that the $1.5 billion [of secured NPAs] will be covered by the value of the collateral, and the $1.5 billion of unsecured [NPAs] we are fully provided for. [As such], we should not have to take any more provisions on account of this portfolio going forward.

That's the point I've highlighted on this next slide. The unsecured portion of the book is $1.5 billion. Outstanding specific allowances are now also $1.5 billion. So, everything which is not covered by that [reduced] collateral value of the ships is now fully provided for in our specific provisions. As Sok Hui pointed out, that means we will not need any of our general provisions to cater to this portfolio anymore. [We] can safely assume that the general provisions [we have can be allocated] to cushioning [stresses] in the rest of our portfolio.

The second thing I wanted to do was to really give you a clearer understanding of FRS 109 and why we've chosen to draw down $850 million of our general provisions. If you look at [the chart] bottom up, the first point I want to make is shown on the chart in red [showing the actual general provisions we have today]. The way we calculate general provisions today is based on a judgemental method. One rule of thumb we use is the allowance coverage ratio, whether [we want to maintain a] 100% coverage ratio. A second thing we use is MAS's requirement that general provisions must be 1% of the asset base. But it's [really] a judgemental number – we've been able to build up [general provisions] to 1.4% of our asset base over the years.

On the right-hand side [of the chart], shown in peach colour, is the general provisions required under FRS 109 methodology. This methodology requires you to build general provisions based on a model. The model basically reflects the portfolio mix and macroeconomic outlook. [On top of that] you have some capacity to do judgemental management overlay but it is very limited. This will be how you build up a general provision number. In our case, that works out to a shade less that the 1% MAS requirement – it's around 0.9% [of our asset base] at this point in time. This is the first point to understand – that the basis for calculating general provision changes once FRS 109 comes into place.

The second thing to understand is when you do have general provisions in both cases, it effectively provides loss-absorption capacity. Up till the end of this year, the loss-absorption capacity allows you to protect your P&L. If you have an unexpected credit loss, you can take the general provisions, reverse them out and protect the P&L number and therefore protect the earnings per share. Going forward, the FRS 109 model brings us to 0.9%. [Any excess general provisions would have to be] shifted into a Tier-2 account called RLAR. That account is part of my capital stack. It allows me to have loss-absorption capacity in my capital stack, but it does not allow me to have loss-absorption capacity in my P&L. I would protect the book value but not protect the P&L.

The third thing to note is if you look at our current situation and if we did nothing, the 0.4% excess we have over 1% [MAS requirement] would have to be moved directly into our capital stack on 1 January 2018. It would help to bolster up our capital, providing increased loss-absorption in capital but we already have too much capital. So, you have to wonder whether adding that to the capital stack would be helpful or beneficial to us.

One of the things you've got to take away from this is that the way to think about coverage ratios in the future will be very different. In the past, we used these rules of thumb: you have 100% coverage [of NPAs] and [general provisions amounting to] 1% of the asset base – that was a good way of thinking about it for the Singapore banks and many of the regional banks. In the future, because the coverage that you have is going to be calculated by a different methodology – if you do keep something in RLAR it can't protect the P&L – your thinking about coverage is going to have to change very considerably. If you look at the general provision coverage of the global banks, the range is very wide. It ranges from 40-50% coverage to as much as 120-130%. It really reflects the nature of the underlying portfolios. If you have large, unsecured portfolios, then the model spews out a much larger number. If you have a more secured portfolio, the models tend to spew out lower numbers. But you're going to have to rethink the way you benchmark and use coverage ratios. It [will have] a bigger range and [it will be] difficult to find benchmarks.

Because of the surplus general provisions we have – the gap between 1.0% and 1.4% – if we do nothing till 1 January 2018 it will just move into our capital stack. It will help bolster up capital – that is not very helpful. We chose to draw it out right now and release it back to our P&L. That allows us to take the incremental provisions and to recognise the residual weak cases that we have [while avoiding] a down year from a P&L standpoint. We think [the change in] P&L for this year will be positive relative to last year.

<u>Underlying business momentum.</u> As Sok Hui pointed out, our underlying business is very strong. Our third-quarter net interest income is up 9%. Our third-quarter fee and commission income is up 12% – these are strong. The interest income is coming on the back of very strong and broad-based loan growth. In the beginning of the year we'd guided to 5-6%, mid-single-digit loan growth. We'll wind up at 7-8% underlying loan growth because we're seeing very broad and very robust loan pipelines from across the region; they're in building and construction, property related, manufacturing, commodities and trading. We're seeing pick-up of activities as the PMIs go up. We're also seeing strong growth in the mortgage market. It's a fairly broad-based and diversified loan pipeline, so we're fairly confident we should be able to get 7-8% loan growth in the course of the year. The ANZ loan book comes on top of that, so that is also helpful.

The second thing I want to point out is that not only has loan growth been robust, we're beginning to see some of the impact of the rate increases in our NIM. In Singapore, our NIM went up two basis points for the quarter, but we gave that up because we had a huge inflow of deposits. We got around $10 billion deposits from ANZ, but we also got around $10 billion in deposits from our underlying business activities. We saw a big inflight of deposits through this quarter, and a large chunk of the deposits was Casa – about $6 billion of the $10 billion inflow. That deposit increase puts pressure down on LDR, so our NIM goes down. However, it is revenue-accretive because if deposits are cheap we can put them into government securities or into interbank assets and still make a positive spread. It’s good business to do but it puts pressure on the NIM.

The last thing is the fee income. It grew 12% from a year ago, it grew 8% quarter-on-quarter and it is, again, very broad-based. It is in wealth management, it is in cash management. We had a very strong investment banking quarter. The cards business is continuing to see very good fee income, so underlying momentum continues to be extremely good.

The big fly in the ointment has only been trading. Like the global players, our trading [has had a miserable year]. For the nine months, our trading is down about $200 million, about 25%. That’s pretty much in line with the reported globals. If you look at most of the US investment banks, they’re down 20-25% on FICC. If you look at the more recent results of the Europeans banks, they’re down closer to 30% on their FICC book.

The overall environment of low volatility and some secular changes have created headwinds for us as well. The silver lining is that the trading component of our business is now down to 7% of [our total income] so it is not very material for us, unlike many of the globals. From this level, there is not too much downside. If anything, if we see any pick-up in trading in the next few quarters, there’s potentially upside.

<u>Outlook.</u> Finally, a quick comment on outlook.

Like I said, underlying loan growth, I think we’ll see 7-8% this year. At this point in time we feel fairly confident that we should be able to get roughly similar loan growth next year. Income growth would be around 3% this year, impacted by trading. Ex-trading, it’s closer to 6-7%. Next year, we should be able to get double-digit top-line growth.

Our cost-income ratio is about 43% this year. We expect it to improve going into next year as we continue our digitalisation and productivity agenda.

We expect our provisions next year to be lower than our through-cycle average of 27 basis points. Sok Hui pointed out to you that ex-offshore marine, our provisions in the first three quarters of this year have only averaged about $100 million per quarter. That would make it substantially lower than the through-cycle average. But, even assuming that there’re some uncertainties or environmental challenges, it is highly unlikely that we would get to more than [the average].

Finally, the ANZ integration is proceeding extremely well. We think that it will contribute meaningfully to the bottom line next year, [and more] than we had initially projected. We are seeing synergies in both revenues and expenses flow through very quickly, so I think that should give us another boost in our performance next year.

So, why don’t I stop here and take some questions.

**Chanyaporn Chanjaroen (Bloomberg)** Could you give a bit of colour on the increase of the new NPA formation by $2.2 billion? Secondly, you hinted on this during your observation views but could you say with confidence that from the fourth quarter you are starting on a clean slate when it comes to NPA and provisioning? Thirdly, while you say that ANZ deposits came up could you explain why higher local rates in both Hong Kong and Singapore didn't benefit you as much as what we saw at the other two local banks? Thank you.

**Piyush Gupta** The $2.2 billion new NPA formation [is mainly from the] $1.7 billion NPAs from the offshore marine portfolio. Outside of that, Sok Hui pointed out to you that every quarter we're getting some residual NPAs, so that's pretty much in line with what we're seeing in every other quarter. If you refer to our slide, of that $1.7 billion of oil and gas support service new NPAs – two accounts were from the left side [which are larger accounts] and almost everything else was from the right side [which are smaller accounts].

On your second question – that's why I spent a couple of slides explaining that we've been conservative in both the NPL recognition as well as the collateral values we've taken. So, at this stage, I can say with a high degree of confidence that we've cleaned the book. Depending on your cyclical view of the sector, if anything, there might be some opportunities to recover some money back over the course of the next years. We're highly unlikely to take any more provisions in that sector.

Your third question was on the net interest margin. As I explained to you, the real issue is we got this huge inflow of deposits. We've got $21 billion of deposits in this one quarter and we can't lend that money out fast enough. Our loan-deposit ratio has come off and when that happens, while you can put the deposits to use into either government securities or into banks, it does not give you the same yield as putting the money in the loan book. The $10 billion we got from ANZ was spread between Singapore and Hong Kong and [the $10 billion organic] incremental inflow of deposits was also spread between Singapore and Hong Kong.

**Siow Lisen (Business Times)** You also said your mortgage market share crossed 30%. What was it previously and how much do you expect that to be next year?

**Piyush Gupta** Mortgage market share had a one percentage point benefit through the ANZ consolidation and we gained about 40 basis points through organic growth as well. That led it to getting over 30%. At the last quarter it was [under] 29%. As you know, we've been increasing mortgage market share. In the last year it's moved from 27% to now over 30%, and the year before that it moved from 24-25% to 27%. So, in the last two to three years, our market share has gone up from a low of 24% at its trough to about 30% now.

Next year it's hard to say. Our mortgage growth is good. We had record bookings in this quarter, $3.9 billion, close to $4.0 billion, higher even than the previous high in the second quarter. However, the en bloc fever [has created a] bit of uncertainty. In the short term, people are paying off their loans when they go en bloc, so that puts downward pressure on the book. It depends how much the en bloc fever impacts housing loan growth next year. We think our housing loans will be up about $4.0 billion to $4.5 billion this year. We think we should be able to get similar growth next year. I think our market share will at least stay stable at this level.

**Goola Warden (The Edge)** What's your pipeline like for next year in terms of loans? How much is likely to come from Singapore's construction and property development sector?

**Piyush Gupta** Like I said, I think the mortgage book will grow about the same, $4.0 billion to $4.5 billion. Outside of that our pipeline is very diversified. We're seeing a loan pipeline from development activity but not only in Singapore. We continue to see development activities around the region, including the Australian market and London market. But our pipeline is also helped by the Belt and Road Initiative projects. Our pipeline also has commodity trading activity, and seen continued pick-up in manufacturing. So it's a very diversified loan pipeline at this point in time. It pretty much mirrors the loan growth in this quarter, very diversified.

**Siow Lisen** Can you give a projection on NIM this quarter and next year?

**Piyush Gupta** I think we should probably see three basis points of pick-up because of Sibor, Sor and Hibor [in the fourth quarter]. I think the accelerated recognition of [oil and gas support sector] NPAs will create a NIM drag of about a basis point because [we do not accrue interest on NPAs]. But, when you balance the two, I think we'll probably see a couple of basis points pick-up.

For next year, we're quite encouraged as the flow-through from the US dollar into both Sibor and Hibor has picked up. I indicated earlier that when you have a strong US dollar environment, and a weakening Singapore dollar, the flow-through tends to be higher. Till the second quarter, we were seeing 35-40% flow-through. In the last two weeks the flow-through has picked up. I would suspect that you'd probably see [flow-through] closer to the long-term average of 60-70% next year. Finally, it obviously depends on how many rate hikes you see. If you see a rate hike in December and then two to three rate hikes next year, I think that will be beneficial.

**Thomas Blott (Reuters)** On trading income, which you described as the fly in the ointment, could you give a little bit more colour around that? You already alluded to the fact that the Wall Street banks have had a terrible quarter for FICC. Is that the issue for DBS or does it extend to equities as well?

**Piyush Gupta** We mainly have a FICC business, and around currencies and rates. As with everybody, it has been the impact of low volatility, but my personal view is that you're seeing the impact of algorithmic trading coming through the system. In the past, our traders by and large used to take views and positions based on some fundamental view of market trends. If they figured that the dollar would be strong, they would go long the dollar and hold that position for a period of time.

Today, what happens is that with algorithmic trading, money goes in and out and you are getting into an environment where there's a lot of short-term trading driven by computer algorithms. This makes it harder to take structured, trend-based views on the markets. You really wind up having to go in and out and do shopping through the day. That makes it a lot more difficult to trade. My view is that some of this is a secular change in the nature of trading patterns, driven to a large extent by computer-based algorithmic trading and I think that's impacting everybody in the world but that's only my personal view. Certainly, the lack of volatility in the markets this year has been a material factor.

**Thomas Blott** On investment banking, I noticed there was a 43% rise quarter-on-quarter. Could you explain a little more what's driving that? Is it ECM?

**Piyush Gupta** It's actually all three pieces [of our investment banking] business – our ECM activity, our debt capital market activity and strategic advisory business. In this quarter we saw a lift in all three. The debt capital market business was strong with a lot of China and regional issuances. We were also able to do a few good equity trades. In fact, there's been some equity activity in the Singapore market and will continue to be through till year end. We were also able to do a couple of trades and strategic advisory [business] on the back of the Belt and Road projects that are coming out of China.

**Siow Lisen** On the impact of the FRS 109, you're currently at 1.4% of the MAS requirement and you took a $850 million GP write-back. Come 1 January 2018, will you be exactly at the 1%?

**Piyush Gupta** We hope to be exactly at 1% because if we have excess over that it will just go into our capital and we already have a lot of capital. In fact, the big problem is people say we have too much capital. Instead of taking it to capital, we prefer to reverse it back into P&L in this quarter.

**Siow Lisen** What happens in the future if it builds up again, or you won't be able to build it up?

**Piyush Gupta** If you want to build it up, you would have to take it into the capital stack and frankly it would be illogical to build it up in the future. It is only shifting it into the capital stack. I could do the same thing by taking a little bit of my Tier-1 capital and moving it to another account in the capital stack and calling it RLAR as Tier-2 capital non-distributable. The only difference when you move it from one to the other is that it becomes non-distributable – you can't pay dividends out of it. If you were capital constrained you might have to worry about it. If you have capital surplus, like us, it's really not consequential at that stage.

**Siow Lisen** Come 1 January 2018, it will be neutral?

**Piyush Gupta** Yes, it will be about 1%, that's correct.

**Chanyaporn Chanjaroen** There are some media reports in Hong Kong saying that DBS has sold the 9th floor of your building to Nine Dragons Paper for about US$81 million. Could you confirm or deny it?

**Piyush Gupta** I can deny it. We haven't sold anything. It is interesting that Li Ka-shing sold that building for $7.2 billion and we have many floors in the building. So, of course, it's a very attractive opportunity but I like to hold on to it, at least for now.

**Chanyaporn Chanjaroen** Any fintech flavours that you could share ahead of [the digital investor day] next week? What are the big fintech projects that you are working on?

**Piyush Gupta** You should come next week. The reason we're running the digital investor day is not to point out the projects that we're running. It's really to point out that today there is a substantial part of DBS's business which is rapidly digitalised and the returns in that part of the business are extraordinarily high, but you have to come and understand and see what it is to really get a good sense of that.

**Clara Ferreira Marques (Reuters)** I wanted to ask about transaction banking. Could you give us a little bit of colour on how that's been? We're seeing some signs that trade is recovering. How is that playing out for DBS?

**Piyush Gupta** We're seeing recoveries on both [cash and trade]. If you look at this year, cash has grown 30% – certainly very strong. I said before on our cash management that we spent three or four years catching up because we didn't have a cash management franchise. We built it and we caught up. In the last year or two, we are now definitely outpacing because we've digitalised cash management. That enabled us to offer solution sets which many of our global competitors are not able to. So we're winning very good business, including Western clients who would never have talked to us before. If you come to our investor forum on 17 November you'll hear a little more about it. That's been very good.

Trade has been picking up too. If you remember our trade book peaked at about $63 billion. It bottomed out at about $41 billion. This year it has gone up by about $8 billion, so it's up to about $49 billion. A large part of that is from Greater China but we've also benefitted from the regional growth of trade, [including] corridors such as Bangladesh and Vietnam.

**Anshuman Daga (Reuters)** I know you have explained about the provisions but I'm just trying to pinpoint on the timing. You said DBS was being more conservative now. Does that mean that you were not so conservative earlier? Other banks have also said there's stress in the sector, so just want to understand more.

**Piyush Gupta** I guess there are two views. One is, as I pointed out in the second quarter, I've started to figure that there's a structural problem in half of the sector, and the other half has a cyclical problem that might last for a long period of time. Till the end of last year, we kept trying to work with our companies. Remember, these are old customers of ours and we restructured the loans, gave them more forbearance, helped them to pay. But, I've started forming the view now that for the half of the sector that supports deep-sea – I don't think it's going to come back. I think that the shift to renewables and the presence of shale means that it's very unlikely that you'll see oil prices get back to the $85-$90, [let alone] $100 levels, you need for deep-sea to be profitable.

I think you've to start recognising that this part of the industry is going to fundamentally change. There will be consolidation, closures and capacity reduction in this part of the industry.

The first reason for our move [to accelerate NPA recognition] is to reflect that view – that there is a structural change and we had better recognise that part of it and move it upfront. The second reason is that there is an opportunity on the back of FRS 109 to clean it up. So we kept one eye on this based on the [amount of general provisions we can draw down based on] MAS guidelines and FRS 109 as well.

**Edna Koh** Okay. On that note, thank you everyone for coming and we'll see you next quarter.