Edited transcript of DBS third-quarter 2018 results media briefing, 5 November 2018

Edna Koh Good morning and welcome to our third-quarter results briefing.

Chng Sok Hui Good morning.

Highlights. We achieved record income of S$3.38 billion for the third quarter, up 10% from a year ago and 5% from the previous quarter, propelled by sustained loan growth, fee income trends and net interest margin progression. Total income surpassed the earlier high in the first quarter, when exceptionally buoyant markets and a property disposal gain had boosted non-interest income.

Business momentum for Consumer Banking / Wealth Management and Institutional Banking continued to be strong. CBG / WM's year-on-year income growth increased from 20% in the first half to 23% in the third quarter, while IBG's doubled from 6% to 12%.

The underlying cost-income ratio, excluding costs for a fiftieth-anniversary staff bonus and other non-recurring items, was 43%, in line with first-half 2018.

Net profit was at $1.41 billion, up 72% from a year ago, when accelerated allowances for oil and gas support exposures had been taken. Net profit was up 3% from the previous quarter.

For the nine months, net profit increased 36% to $4.31 billion. Return on equity improved three percentage points to 12.4% from a higher net interest margin, normalisation of allowances and a more efficient capital base. Total income reached a new high of $9.94 billion, led by a 16% increase in net interest income and 8% rise in fee income. The cost-income ratio was stable at 43%.

The balance sheet remained healthy. Non-performing asset formation continued to be moderate, while SP of 18 basis points for the nine months was around normalised levels. Capital and liquidity ratios remained well above regulatory requirements.

Third quarter compared to a year ago. Total income rose 10% to $3.38 billion, while net profit increased 72% to $1.41 billion.

Net interest income grew 15% to $2.27 billion. Net interest margin increased 13 basis points to 1.86% in line with higher interest rates in Singapore and Hong Kong. Loans expanded 8%, led by consumer and non-trade corporate loan growth.

Fee income was 1% higher at $695 million. Increases in fees for cards, wealth management and transaction services were offset by a two-thirds decline in investment banking. Other non-interest income rose 2% to $407 million. Higher trading gains and treasury customer income was offset by a decline in gains from investment securities.

Underlying expenses rose 15%, of which ANZ accounted for around six percentage points. Business-as-usual expenses increased 9%. The year-on-year increase has been affected by a low base a year ago, when the cost-income ratio of 41% was materially below the 43% we have been guiding for. The current quarter's underlying cost-income ratio of 43% is in line with first-half 2018 and with our guidance.

Total allowances fell $579 million to $236 million as they normalised from last year's charges for oil and gas support service exposures.

Third quarter compared to the previous quarter. Total income rose 5% or $172 million as net interest income and trading income increased.

Net interest income rose 2%. Non-trade corporate and consumer loans grew 2%, which were partially offset by a 6% decline in trade loans as maturing exposures were not rolled over due to unattractive pricing. Net interest margin of 1.86% was one basis point higher.

Fee income was 2% lower as investment banking and wealth management fees fell in a weaker market environment. The declines were moderated by an increase in loan-related fees. Other non-interest income was 49% higher as trading income rose 56% from the previous quarter's weak performance.

Underlying expenses rose 3% compared to the 5% increase in total income. Profit before allowances was 6% higher.

Total allowances were $131 million higher as there had been a specific allowance write-back in the previous quarter.

Nine-month performance. Total income grew 12% or $1.07 billion to a new high of $9.94 billion.

Net interest income gained 16% to $6.63 billion. Net interest margin increased 11 basis points to 1.85% in line with higher interest rates while loans expanded 8%.

Fee income rose 8% to $2.15 billion from higher wealth management and card fees, which were partially offset by lower investment banking fees. Other non-interest income fell 2% to $1.17 billion. An increase in net trading income and a property disposal gain of $86 million in Hong Kong was offset by lower gains on investment securities.

By business unit, Consumer Banking / Wealth Management income rose 21% to $4.20 billion from increases in all key product categories, while IBG income grew 8% to $4.26 billion driven by cash management. Treasury Markets income declined 12% to $580 million.

Expenses rose 14% to $4.30 billion. Excluding ANZ, expenses were 8% higher. The cost-income ratio was 43%, in line with a year ago. Profit before allowances increased 11% to $5.64 billion.

Total allowances fell $814 million to $505 million. Specific allowances were one-fifth the level a year ago as new non-performing asset formation declined.

Net interest income. This quarter we begin the disclosure of net interest margin excluding Treasury Markets to show the NIM of our customer lending and funding franchises. This underlying NIM rose steadily by a cumulative 17 basis point in the past year and three basis points in the third quarter to 2.08%. Higher interest rates boosted the underlying NIM by four basis points as loan yields rose faster than deposit costs in Singapore and Hong Kong. The increase was moderated by a one basis point decline from the full-period impact of Tier-2 issuances in the second quarter.

The three-basis-point increase in the underlying NIM was offset by a drag in Treasury Markets' NIM. Two-thirds of the drag was due to swap accounting, when what would have been deemed as net interest income is classified as non-interest income under swap accounting rules. The other one-third was due to lower gapping income and compression of NIM in the fixed-rate securities portfolio as funding cost rose.

We are expecting reported fourth-quarter NIM to be at 1.86-1.87%. For 2019, we expect continued NIM progression from a higher interest rate environment.

Loans. This chart shows loan growth in constant-currency terms.

Non-trade corporate and consumer loans grew 2% or $6 billion during the quarter, sustaining the momentum of previous quarters. Non-trade corporate loans rose 3% or $5.6 billion, while Singapore housing loans rose 1% or $0.4 billion.

For the year-to-date, non-trade corporate and consumer loans grew 6% or $18 billion over the nine months. Non-trade corporate loans grew 9% or $15 billion, while consumer loans grew 3% or $3 billion. The growth in non-trade corporate loans was broad-based across regions led by Singapore and Hong Kong.

Trade loan pricing continued to be unattractive during the quarter, as we had indicated at the previous quarter's briefing. As such, we have been disciplined in letting maturing exposures run off, resulting in a 6% or $3 billion decline during the quarter. For the year-to-date, trade loans fell 5% or $2 billion.

For the fourth quarter, we expect non-trade corporate and consumer loan growth to continue. However, trade loan movements will remain dependent on pricing. For 2019, we are expecting loan growth to be in the mid-single digits.

Deposits. Deposits were unchanged from the previous quarter at $388 billion. Savings deposits across all main currencies were stable. Current accounts declined moderately, which was offset by an increase in fixed deposits.

Singapore-dollar and US-dollar Casa deposit costs were stable. Rate-sensitive fixed deposit costs were higher, resulting in a 10 basis point increase in overall deposit costs during the quarter. The increase was less than the 17 basis point increase in loan yields.

Our liquidity ratios remained well above regulatory requirements. The liquidity coverage ratio was at 132% while the net stable funding ratio was at 109%.

Fee income. Compared to a year ago, third-quarter gross fee income was 4% higher at $823 million, due to growth in a wide range of activities.

Card fees increased 33% to $185 million from higher customer transactions and the consolidation of the retail and wealth management business of ANZ. Wealth management fees grew 7% to $292 million as higher bancassurance income was moderated by lower investment sales income. Loan-related fees increased 10% to $110 million with a higher number of deals. Transaction service fees rose 5% to $162 million from a 12% increase in cash management fees.

The growth from these activities was moderated by lower investment banking fees, which declined 66% on year due to fewer deals.

Compared to the previous quarter, gross fee income was 1% higher, with the increase in loan-related fees offset by lower investment banking and wealth management fees.

For the nine months, gross fee income grew 10% to $2.49 billion, led by an increase in wealth management and card fees.

Consumer Banking and Wealth Management. Total income for the nine months increased 21% to a record $4.20 billion. The growth accelerated from 17% in the first quarter to 23% in the second and third quarters.

Loan and deposit income rose 23% to $2.39 billion from volume growth and higher net interest margin. Investment products grew 17% to $1.21 billion as bancassurance sales and investment product sales grew, partly due to the consolidation of ANZ. Card income rose 27% to $568 million from higher credit card transactions as well as the consolidation of ANZ.

Wealth Management customer segment income grew 29% to $2.03 billion as assets under management rose 13% to $220 billion, including $22 billion from ANZ. Income from the retail customer segment increased 15% to $2.18 billion.

Our market share in Singapore housing loans was maintained at 31%, while our market share of Singapore-dollar savings deposits rose to 53% during the quarter.

Institutional Banking. Nine-month total income rose 8% to $4.26 billion. Like CBG, the growth accelerated over the course of the year from 3% in the first quarter and 9% in the second to 12% in the third.

Cash management was the largest contributor to growth as its income increased 54% to $1.21 billion. Deposits rose 5% and net interest margin was higher. Euromoney magazine recently ranked us as the third-largest in global market share for cash management services to non-financial institutions. We were also named first in customer satisfaction by these institutions.

Treasury customer income also increased during the nine months, by 6%. The growth in cash and treasury income more than offset declines in loan and trade income.

Business momentum. The acceleration in CBG / WM's and IBG's income growth over the past few quarters can be clearly seen on this chart. The year-on-year growth for the two businesses combined was $239 million in the first quarter, $382 million in the second quarter and $429 million in the third quarter.

For CBG / WM, the increased rate of growth is from higher net interest margin, wealth management as well as the consolidation of ANZ. For IBG, it is from cash management and treasury customer income.

Treasury Markets. Trading income, shown by the red bar segment, doubled from the previous quarter to $224 million, which was more in line with recent quarterly averages. The previous quarter's performance had been affected by a widening of credit spreads, which reversed during the quarter.

Treasury customer income, shown by the beige bars and is recorded under CBG / WM and IBG, fell 3% from the previous quarter to $303 million. It was 9% higher than a year ago as activity from both corporate and wealth management customers increased.

For the nine months, Treasury Markets trading income fell 12% to $580 million. This was offset by an 8% increase in treasury customer income to $938 million. Total Treasury income was stable at $1.52 billion.

Expenses. Third-quarter expenses of $1.48 billion included costs for fiftieth-anniversary staff bonus and other non-recurring items. If these items were excluded, underlying expenses increased 3% from the previous quarter, below the 5% increase in total income.

Compared to a year ago, underlying expenses were 15% higher. The double-digit increase was due to a few factors.

First, the consolidation of ANZ added about six percentage points of cost increase; excluding ANZ, underlying expenses grew 9%.

Second, we hired new staff for income-generating positions including Wealth Management relationship managers and bancassurance sales.

Third, the cost base had been unusually low in third quarter 2017, when bonus accruals were curtailed as accelerated allowances were taken for oil and gas exposures. As a result, the cost-income ratio a year ago was 41%, materially below our usual levels. This quarter's underlying cost-income ratio reverted to 43%, in line with the first half and our guidance for the full year.

Hong Kong. Reported nine-month earnings rose to $1.03 billion as total income increased to $2.04 billion, both at new highs. Excluding the property disposal gain of $86 million in the first quarter, both total income and earnings were also at records. Total income rose 25% in constant-currency terms to $1.96 billion while earnings were 31% higher at $947 million. Total income in the third quarter of $672 million was a quarterly record when previous property gains are excluded.

The increase in nine-month total income was broad-based. Net interest income rose 32% to $1.33 billion. Loans grew 16% from corporate lending and the consolidation of ANZ. Deposits increased 13%, with current and savings accounts accounting for 59% of deposits. The high Casa base resulted in a faster repricing of loans than deposits as Hibor rose over the year. This resulted in a 24 basis point increase in net interest margin to 1.97%.

Fee income rose 10% to $469 million, led by wealth management and cash management. Excluding the first-quarter property gain, other non-interest income improved 24% to $159 million from higher treasury customer sales and trading gains.

Expenses rose 18% to $783 million, with the increase due partly to the consolidation of ANZ. Excluding the property gain, profit before allowances rose 30% to $1.17 billion.

Total allowances of $41 million were 19% more than a year ago because of specific allowance write-backs last year.

NPA movements. From this quarter, we are disclosing NPA movements for IBG and CBG separately for better clarity.

New NPA formation for IBG continued to be moderate during the quarter at $233 million. Upgrades, settlements, recoveries and write-offs were less than new NPA formation, resulting in a small net NPA increase of $69 million.

For CBG / WM, there was a net NPA decline of $17 million during the quarter. CBG's number has been consolidated into a single net line because the majority of the movements involves credit card or unsecured loans. As a portion of such loan repayments are routinely late, they are initially recorded as new NPA formation and then reversed as recoveries in subsequent quarters when they are repaid. The gross movements therefore mask the actual NPA trend.

For the group, the overall NPAs of $5.90 billion as well as the NPL rate of 1.6% were stable from the previous quarter.

Specific allowances. Specific allowances remained around normalised levels at 21 basis points of average loans. Specific allowances were higher than the previous quarter, when there had been a write-back for a significant oil and gas support service exposure.

General allowances. The ECL for Stage 1 and 2 – or general allowances – was little changed from the previous quarter at $2.59 billion. There was an increase of $9 million for loan growth and migration between Stages 1 and 2 net of transfers to specific allowances. This amount was taken through the profit and loss account. The charge was partially offset by a negative $7 million of translation effects, which was taken through the balance sheet.

The MAS 1% requirement for general allowances rose $27 million from the previous quarter to $2.90 billion due to loan growth. The shortfall between the 1% requirement and the ECL for Stage 1 and Stage 2 resulted in a Regulatory Loss Allowance Reserve of $311 million, an increase of $25 million from the previous quarter. The amount was transferred from retained earnings.

Capital. Our capital ratios remained strong. The Common Equity Tier-1 ratio was 13.3%, 0.3% points below the previous quarter due to the interim dividend payout of $1.54 billion in August. The leverage ratio of 7.1% was more than twice the regulatory minimum of 3%.

In summary. To summarise, business momentum was sustained in the third quarter with continued loan growth, healthy fee income trends and net interest margin progression. As a result, total income reached a quarterly high even as market sentiment was weaker.

The business momentum has been reflected in the acceleration in CBG / WM's and IBG's year-on-year income growth. The strong growth underpinned the record earnings per share achieved for the nine months.

Equally important, the earnings growth has been accompanied by higher returns. Return on equity for the nine months rose three percentage points from a year ago to 12.4%, the best in more than a decade. It demonstrates the improved structural profitability of our franchise as interest rates and allowances normalise.

We are well positioned to capitalise on the region's long-term prospects while navigating short-term uncertainties.

Piyush Gupta As usual, I have a few comments and observations. They are all on this one slide. The headline says we think the macroeconomic slowdown next year is going to be modest. I'm going to talk about macroeconomic conditions but, by and large, we think the outlook for next year continues to be quite favourable. We think we should be able to continue to grow our business in a sustained way. We also think that the margins are going to continue to improve, which means that our overall returns should continue to prosper into 2019.

We are quite pleased that our third-quarter income and earnings continued to show sustained franchise strength. Sok Hui pointed out that consumer banking income has been improving quarter by quarter: 17% in the first quarter, then 23% in the second and third. IBG income has also improved, from 6% growth in the first quarter to 12% in the third quarter. Non-trade loan growth continues to be strong: we're up $6 billion or 2% for the quarter, and it was broad-based. So was fee income: wealth management, cards and loan fees were strong. While market-related fees, such as investment banking, were soft, overall fee income continued to strong.

Our own assessment is that we'll achieve ROE of above 12% this year. We think we should be able to approach 13% next year because the ROE drivers are encouraging. We think NIM will continue to trend up. The cost-income ratio is slightly high this quarter because of one-off items: we paid a staff bonus for our fiftieth anniversary, we launched a 'Live More Bank Less' rebranding campaign, and we took charges for a litigation case. Our underlying our cost-income ratio is where we want it to be. Specific allowances will be at the through-cycle average.

On macroeconomics, there is a lot of anxiety around trade war tensions. There has been a slowdown in PMIs in some countries across the region. But the ultimate impact of the trade war on the economy may not be as material as people worry about. Technology supply chains are hard to re-locate within three or four years. And even if it's somewhat easier to move non-technology supply chains to other countries, it takes time to get land and hire and train people. It doesn't happen overnight. And a large part of what could shift out of China will stay within the region – Vietnam, Thailand, Indonesia and Malaysia.

What impact the trade war has had is indirect through market sentiment. You can see the risk-off sentiment affecting equity markets and causing regional currency weakness. Of course, some of this impact on animal spirits might flow into the real economy. But net-net, we think Asia will continue to grow next year.

What continues to be a concern is China deleveraging. Although they've taken their foot off the accelerator, liquidity has been pumped into the system over the past few quarters. But overall, they remain very disciplined about squeezing out over-leverage. As such, there will continue to be idiosyncratic risk in bond defaults into next year. That might have some impact on Chinese growth, but we don't think it's going to be significant.

All in, the macroeconomic environment will moderate, but I don't think it's going to materially affect business prospects.

Interest rates are hard to call precisely. The Fed dot plot suggests three rate hikes. I think the future market is pricing two to three. Several economists, including our own, are calling for four rate hikes, saying the US economy is so strong the Fed will have to disregard other considerations. Whether two or four rate hikes, they will create an environment of continued US dollar strength, which will support a relatively high pass-through of US dollar interest rates to Sibor and be beneficial to our NIM.

On loan growth, non-trade corporate loan growth has been strong. It will likely achieve 10-11% this year. Because of the moderation in macroeconomic outlook, we expect non-trade corporate loan growth to come off to 6-7% next year. Singapore housing loans are slowing down more than we had guided last quarter. We had thought the July cooling measures would cut half a billion dollars of housing loan growth, but we now think the reduction will we be one billion and a half dollars below our original expectations at the start of this year. This is because new housing loan bookings have fallen by 50% instead of the 30% in previous rounds of cooling measures. And for some reason I can't fully explain, drawdowns on committed loans are taking a tad longer. We think we should get 4-5% growth in housing and consumer loans next year.

On trade loans, we indicated during the previous quarter's briefing we'd be happy to let them run off if we aren't able to price them up in line with interest rates. That's been the case, and so we let trade loans run off by $3 billion this quarter. But our view is that trade loans are going to be repriced at some point, and when that happens, we will rebuild the trade book. Our assumption is mid-single digit growth in trade loans next year.

Putting all the loan components together, overall growth of 5-6% next year should be possible.

On NIM, the outlook is fairly upbeat. Our underlying NIM has gone up 17 basis points over the past four quarters, but the improvement doesn't reflect the delayed repricing of a significant part of our loan book. Of our Singapore dollar book, 45% is repriced with Sibor with a few weeks' lag. Another 45% is on administered and fixed rates – most of which are housing loans but there are other loans as well. The impact of interest rate increases that have already occurred will flow through to these loans only next year and the year after. All of this is before the impact of the two to four rate hikes expected next year.

The market also takes time to fully factor in higher interest rates into loan repricing. Like I said, we haven't been able to push the price up as much as we wanted in trade loans, for example, due to competitive pressures. But over the few quarters, I expect the impact of higher deposit costs to be more fully reflected in loan pricing. Some of our competitors spoke of this. As the market passes on higher rates to loan customers, there will be benefit to NIM as well.

There will be some offset from a pick-up in funding cost. By and large, we don't have to pay up much for Casa, for which our market share has been stable. Most banks are reliant on fixed deposits, which rates have been going up for, and they don't have an option but to start repricing their loan rates sooner or later.

All in, we are quite upbeat about NIM next year.

Asset quality continues to be stable. We're not seeing undue stress other than a moderate pick-up in the SME portfolio. We've flagged for some time that as rates go up, the vulnerable portfolio is likely to be SME. In the overall scheme of things, it's not that material. It's a reasonable-sized portfolio for us but mostly secured. So the expected pick-up in SME credit costs doesn't worry me too much.

Chanyaporn Chanjaroen (Bloomberg) Could you repeat the numbers on Singapore housing loans?

Piyush Gupta We had originally expected housing loan growth of $4 billion for this year. When the latest cooling measures were announced in July, we reduced the expected growth to $3.5 billion. We now think it will probably wind up at $2.5 billion instead because new loan bookings are down by 50%, compared to 30% we had expected.

Jamie Lee (Business Times) Your Singapore dollar savings deposits rose 3% from a year ago and your market share also increased. Is the increase from the ANZ consolidation or due to organic growth? Other banks have expressed concern whether they can secure more Singapore dollar deposits, so I am wondering what your view is.

Piyush Gupta We have been holding savings deposit share in Singapore between 52% and 53%. In the previous quarter, it trended towards 53%. ANZ was consolidated a year ago in Singapore. The issue is that Singapore dollar Casa system deposits have shrunk – so we are gaining market share in a slightly tighter market – because people are moving from Casa into fixed deposits as well as Singapore government or Temasek bonds. We don't lose as much as the overall market because we are main transaction account for most people. The bigger pressure has been from higher fixed deposit rates.

Takashi Nakano (Nikkei) What are the prospects for growth in Hong Kong since other banks are increasing their resources into the market?

Piyush Gupta The Hong Kong market is basically the China market, and therefore the question is whether China continues to grow. Even if China's growth slows from 6.5% to 6%, on a $11 trillion economy that is still a lot of growth that creates a lot of market opportunities to propel Asia's growth. There will be ups and downs but fundamentally there is a growing middle class driving consumption and demand for goods and services. That creates opportunities and Hong Kong tends to be where those opportunities surface.

Goola Warden (The Edge) Is the rising cost of funds a concern given that liquidity also appears to have gone away from the region. And could you elaborate on rising credit costs for SMEs. Finally, could you disclose how much of the wealth management AUM is for private banking.

Piyush Gupta As interest rates rise it is natural for cost of funds to go up, so the real question is whether the higher costs can be passed on to borrowers. As you can see from our financial disclosures, our loan yields went up 17 basis points during the quarter while deposit costs rose 10 basis points, giving a delta of seven basis points, which was bigger than our local peers. Our strong Casa base is one reason. Another is that we are disciplined to let loans we can't price up run off because it doesn't make sense to do non-profitable business.

We expect to be able to continue repricing loans into next year, including for loans on administered rates. We raised rates for FHR loans, which account for 50% of our total Singapore housing loans, three times this year. But because repricing lags Sibor by several months, the full impact of Sibor movements will only flow through next year.

On credit costs, the impact of rising rates is felt most in the SME and unsecured consumer books. The unsecured consumer book is not large for us. There is a further advantage because borrowing caps are regulated in Singapore to four times a borrower's monthly income. So that book doesn't worry me. That leaves the SME book. While it is secured, you should expect delinquencies and allowances to go up, which we have already seen the first signs of as rates go up. But it's not significant. The expected allowances of around 25-27 basis points next year have already factored in higher SME delinquencies.

On AUM, of the total $220 billion, $151 billion relate to the high net worth segment.

John Geddie (Reuters) Could you elaborate on whether the trade war is impacting your business and in what segments.

Piyush Gupta The biggest impact is on market sentiment, so both ECM and DCM deals couldn't get done, which shows up in investment banking fee income. Wealth management income has been flattish, reflecting the anxiety of customers who trade less frequently. So market sentiment has caused a slowdown in activities that would normally be expected to continue growing. Until the anxiety goes away, I don't see people coming back to these activities in a hurry.

On the flipside, there is a massive deal pipeline. There are billions of dollars of bonds that need to be refinanced over the next 18 months. There are a lot of equity deals that are waiting to come to market. If some degree of certainty returns, if there is a conversation on a trade deal, I think you will see a massive resurgence in business volumes.

Chen Jing (Lianhe Zaobao) Both UOB and OCBC recently announced that they were going to put in more effort to build up their digital banking business. Do you expect your digital bank to face more competition both locally and overseas?

Piyush Gupta What we are doing is an overall digital transformation, which is also what OCBC said it believes in. The goal is to continue improving customer experience and hence get greater business. Revenues will increase and costs decline, improving the cost-income ratio.

The digital transformation requires many years of work. We increased our technology investments from $700 million to $1 billion a year between 2009 and 2014 as a down-payment to get the foundations right. Only then were we able in the past four years to build full digital capabilities such as smaller data centres, more virtualisation, being more API-driven. It's not easy for others to catch up on the required investment and changes in technology, culture and mindset easily. I am sure it can be done but it's not overnight.

The other piece we believe in is the opportunity to engage the customer on the mobile phone. This is digital banking. We think it's a really differentiated way to get distribution in big countries. This is where we differ from some competitors because we think it's viable. Companies such as Alibaba have proven it can be done. Our efforts in India and Indonesia are going extremely well and I am convinced that the case has been proven. You can distribute at much lower costs than through a brick-and mortar-infrastructure. While it is still an open question whether we can make the customer base in India profitable, we have modified the strategy in Indonesia and it is profitable. So we now know how to make the customer base profitable and believe that driving the digital agenda to improve the quality for distribution is a smart thing to do.

Brandon Tanoto (Channel News Asia) Where do you expect fourth-quarter NIM to be if there are four US interest rate increases?

Piyush Gupta I think you have got to work out the math for yourself. How many Fed rate hikes do you see? And what is the pass-through to Singapore and Hong Kong rates, which depends on whether the local currencies weaken or strengthen. Then you have the impact of this year's higher interest rates, part of which have not flowed through to our Singapore dollar book yet.

Kentaro Imawoto (Nikkei) Do you think the trade war will have an impact on your loan growth next year?

Piyush Gupta We are guiding for a moderation in loan growth. Our pipeline is still quite robust, but because of the macroeconomic uncertainties I am a little unsure whether investments and capital will be put to work. Non-trade corporate loans are growing 10-11% this year and we are assuming it will grow at 6-7% next year.

Jamie Lee There has been talk about using digital banking for financial inclusion to reach the unbanked or underbanked. How far do you think DBS can go with that?

Piyush Gupta It can go a long way depending on business strategy. In Singapore, it is part of our strategy to use mobile and digital to reach foreign workers at a viable cost. In India and Indonesia, it's not part of our strategy. We are a small bank in these markets. No matter what we do, we can’t play in the same game as State Bank of India, which has 300 million accounts. In these countries, because we are using a mobile-only distribution in the English language, it limits the target market to people who own a smartphone and speak English.

Edna Koh Thank you everyone for coming.