Edited transcript of DBS third-quarter 2021 results media briefing, 5 November 2021

Edna Koh Good morning everyone, and welcome to DBS's third-quarter results briefing.

Chng Sok Hui Good morning, everyone.

Overview. Third-quarter net profit was maintained at the previous quarter's level of $1.70 billion. Business momentum was sustained and asset quality continued to be resilient. Loans grew 2% from the previous quarter, which was moderated by a two basis-point decline in net interest margin due to lower rates. This resulted in a 1% increase in net interest income. Fee income rose 2% to the second highest level on record.

Nine-month net profit increased 46% to a new high of $5.41 billion, with the first, second and third quarters the three highest on record. Business momentum was strong with broad-based loan growth of 9% from a year ago and with fee income and Treasury Markets income at records. The increased business volumes moderated the impact of a lower NIM and a decline in investment gains. Underlying expenses were 1% higher. The cost-income ratio was 44%.

Asset quality continued to be resilient. Non-performing assets declined 1% from the previous quarter as new NPA formation was more than offset by repayments. Specific allowances for the quarter fell to six basis points of loans due to a write-back for a non-performing loan. Nine-month SP halved to 14 basis points, below pre-pandemic levels.

General allowances of $138 million were written back in the third quarter as portfolio quality improved. This brought the GP write-back for the nine months to $413 million. The GP overlay was maintained. GP reserves continued to be prudent at $3.92 billion, $0.6 billion above the MAS requirement.

Capital was healthy with the CET-1 ratio stable at 14.5%, well above the group's target operating range. Liquidity was ample with the liquidity coverage ratio at 131% and the net stable funding ratio at 127%.

The Board declared a third quarter dividend of 33 cents a share, bringing the dividend for the nine months to 84 cents a share. Capital was healthy with the CET1 ratio stable at 14.5%, well above the group's target operating range. Liquidity was ample with the liquidity coverage ratio at 131% and a net stable funding ratio at 127%. The Board declared a third quarter dividend of 33 cents per share, bringing the dividend for the nine months to 84 cents per share.

Third-quarter performance. Third-quarter net profit was stable from the previous quarter at $1.70 billion. Total income was little changed at $3.56 billion as higher net interest income, fee income and trading income were offset by lower investment gains. Asset quality was resilient and total allowances of $70 million were written-back. There was a GP write-back and SP were lower from a write-back for an NPL.

Net interest income rose 1% or $15 million to $2.10 billion as 2% loan growth was offset by a two basis-point decline in net interest margin due to lower interest rates.

Fee income rose 2% or $20 million to $888 million as momentum was sustained across most fee activities. Increases in wealth management, transaction services and cards fees were moderated by declines in investment banking and loan-related fees.

Other income declined 10% or $63 million to $569 million as higher trading income was more than offset by lower investment gains.

Expenses were 8% or $125 million higher at $1.67 billion. On an underlying basis, expenses were 6% higher due to base salary increments at mid-year and investments for future growth.

Asset quality was resilient. Improved portfolio quality resulted in a general allowance write-back of $138 million, while specific allowances halved to $68 million from repayments.

Nine months performance. Nine-month net profit rose 46% to a record $5.41 billion as business volume growth and lower allowances more than offset the impact of lower interest rates. Total income declined 3% to $11.0 billion as record fee income was offset by a decline in net interest income. Total allowances fell to $19 million as general allowance write-backs offset specific allowances. In comparison, $2.49 billion of allowances were set aside over the same period a year ago.

Net interest income fell 9% or $656 million to $6.30 billion as broad-based loan growth of 9% was more than offset by a 22 basis point decline in net interest margin.

Fee income rose 17% or $398 million to $2.71 billion with the growth led by wealth management, transaction services, cards and investment banking.

Other non-interest income declined 3% or $67 million to $2.00 billion as record trading income was offset by lower investment gains due to favourable market opportunities a year ago.

Expenses rose 5% or $220 million to $4.80 billion. Underlying expenses were up 1%.

General allowances of $413 million were written back due to improved portfolio quality. In comparison $1.50 billion were set aside over the same period a year ago. Specific allowances halved to $432 million.

Net interest income. Third-quarter net interest income rose 1% from the previous quarter to $2.10 billion as loan growth was moderated by a decline in net interest margin. NIM was two basis points lower at 1.43% due to lower short-term interest rates.

Nine-month net interest income declined 9% from a year ago to $6.30 billion. Broad-based loan growth of 9% mitigated a 22 basis point fall in net interest margin to 1.45%. The fall in NIM was due to interest rates that have remained low since central banks cut rates in March of 2020.

Our deployment of surplus deposits is accretive to net interest income but has resulted in a six basis point headwind to net interest margin.

Loans. Loans grew 2% or $6 billion in constant-currency terms during the quarter to $411 billion. Compared to the previous quarter, non-trade corporate loans expanded at a faster pace while housing loans and wealth management loans rose by similar amounts. The strong momentum was moderated by a reduction in trade loans.

Non-trade corporate loans grew $5 billion, led by drawdowns in Singapore and Greater China. Housing loans rose $1 billion as bookings continued to be strong. Other consumer loans grew $2 billion from healthy wealth management activity. Trade loans declined $2 billion due to higher repayments.

Over the nine months loans grew 8% or $28 billion from broad-based growth.

Deposits. Deposits amounted to $489 billion, up 1% or $4 billion in constant-currency terms from the previous quarter. Over the nine months deposits rose 4% or $18 billion. Current and savings accounts grew $28 billion, allowing $10 billion of fixed deposits to be released. Casa made up 75% of customer deposits.

The loan-deposit ratio rose one percentage point from the previous quarter and three percentage points from end-2020 to 83%. The liquidity coverage ratio and net stable funding ratio were at 131% and 127% respectively.

Fee income. Third-quarter gross fee income rose 4% from the previous quarter to $1.03 billion as momentum was sustained across most activities. Wealth management fees grew 8% to SGD 461 million with higher activity across a range of investment products. Transaction service fees grew 7% to a new high of SGD 239 million as cash management and trade finance fees increased. Card fees rose 9% to SGD 180 million as consumer spending continued to recover towards pre-pandemic levels. These increases were moderated by declines in investment banking fees from a high base and in loan-related fees.

Compared to a year ago, third-quarter gross fee income increased 12%. The growth was led by a 16% increase in wealth management fees as AUM increased 13%. Transaction services fees grew 18% while card fees grew 13%.

Gross fee income over the nine months rose 17% to a record $3.10 billion. The performance was broad-based with the growth led by wealth management, transaction services, cards and investment banking.

Expenses. Nine-month expenses were at $4.80 billion. Underlying expenses, which exclude the erstwhile Lakshmi Vilas Bank and the previous year's government grants, rose 1%. The cost income ratio was 44%.

Third-quarter expenses were $1.67 billion. Underlying expenses rose 6% from the previous quarter due to base salary increments at mid-year and investments for future growth. Underlying expenses were 2% higher than a year ago.

Non-performing loans. Asset quality remained resilient. Non-performing assets fell 1% from the previous quarter and 2% year to date to $6.57 billion as new NPA was more than offset by repayments and write-offs. The NPL rate was stable from the previous quarter at 1.5%.

Specific allowances. Third-quarter specific allowances halved from the previous quarter to $68 million or six basis points of loans due to a significant write-back of allowances for an NPL, reflecting our prudent stance on allowances. Nine-month SP amounted to SGD 431 million or 14 basis points of loans, half of the previous year's level and below pre-pandemic levels.

General allowances. The balance sheet remains well-fortified against risks with prudent general allowance reserves of $3.92 billion. The GP overlay built up in prior periods was maintained. GP reserves were $0.6 billion above the MAS requirement and $1.1 billion above Tier-2 eligibility. Together with specific allowance reserves, total allowance reserves amounted to $7.06 billion. Allowance coverage was at 107%, or at 205% when collateral was considered.

Capital. Capital continued to be healthy. The Common Equity Tier-1 ratio was stable from the previous quarter at 14.5% as profit accretion was offset by risk-weighted asset growth. The CET-1 ratio was above the group’s target operating range of between 12.5% and 13.5%. The leverage ratio of 6.8% was more than twice the regulatory requirement of 3%.

Dividends. The Board declared a quarterly dividend of SGD 33 cents per share for the third quarter, bringing the dividend for the nine months to SGD 84 cents a share. Based on the previous trading day’s closing share price and assuming that dividends are held at 33 cents per quarter, the annualised dividend yield is 4.1%.

In summary. The first half’s strong business momentum was sustained in the third quarter, and the pipeline leading into next year is healthy. At the same time, forecasted interest rate increases in the coming year will benefit earnings. Asset quality continues to be resilient and total allowances are expected to be remain low. Our balance sheet is strong. CET-1 at 14.5% is high, and prudent GP reserves of $3.92 billion are comfortably above the MAS requirement. Liquidity remains ample and of a high quality. We are ready to put the pandemic behind us and remain well-placed to support customers and deliver shareholder returns.

Piyush Gupta Thanks, Sok Hui.

Business momentum. As Sok Hui pointed out, loans grew 8% for the nine months. I think we'll see another percentage point in the fourth quarter, maybe a little bit more. So somewhere between 9% and 10% overall loan growth for the year, which is consistent with our guidance. Non-trade corporate loan growth has been strong and diversified, by country as well as by industry – real estate, TMT, energy, housing. So I'm feeling positive about momentum as we go into year-end and next year.

That momentum can also be seen in fee income. Wealth Management is up 16% for the third quarter year-on-year and 8% quarter-on-quarter. AUMs are up 13%. The growth includes good momentum in retail wealth. Transaction banking is also up. Cash management has done well because of the digital services we provide. This quarter, trade finance was also strong from activity in supply chain financing and documentary trade. Cards have continued to do well as economies open up, with customer spending recovering towards pre-pandemic levels. Outstanding card balances are about 10% short but I'm optimistic that balances will also get back to pre-pandemic levels over time. Travel used to be 15% of total card spend, but it’s currently running around 2%. If travel kicks in, there should be a 10%-12% lift in the next several months.

Treasury Markets had a record for the nine months, up 20% in trading and 12% in customer flows. The overall 16% growth is in the tenth percentile of global players.

The new platforms in various growth markets are also performing well. The integration of LVB is going smoothly. We've had about 15% deposit growth. The loan book was deliberately slower, but we're now starting to put our foot on the pedal there. All the approvals for Shenzhen Rural

Commercial Bank have come in and it's going to be equity accounted from the fourth quarter. The China securities joint venture has kicked off well with two deals in the first three months of operation, whereas it normally takes others a year to start getting deal flow. So there is momentum across the board.

<u>Business outlook.</u> How we are seeing next year? There's been some uncertainty around supply chain bottlenecks. As we look around our customer base, there are pockets where manufacturing utilisation is down, but it is not material. PMIs across the region are holding up well at over 50, although China's slower growth in the third quarter could continue. Our pipelines are healthy into next year. Loan growth this year will be 9-10%, which is helped by a low-base effect. We're expecting 6-7% next year, which will be above the 5% prior to the pandemic.

Despite what many central banks are saying, I think inflation could be a bit more than transitory. One reason is that I see wage inflation in several of our markets, which puts some pressure on costs. Market conditions compelled us to make salary increments in the middle of the year, and we're not the only bank that did so. But there is a positive aspect to the inflationary impulse – it will give a boost to the interest rate outlook.

The market is already pricing in two-and-a-half rate increases next year. Many central banks have already started tightening, including some in the region. Rate increases are obviously very beneficial to us. If you recall, before the pandemic, we guided our interest rate sensitivity to be $14 million per basis point of interest rates, spread over three years. It has now increased to $18 million-20 million because the deposit size and Casa ratio have both increased.

We put out a press release a few days ago on the investments we are making in digital and AI in consumer banking. We're also going to be doing that in other parts of the group. Over the past 18 months since the pandemic, we have managed our costs extremely well. Our underlying expenses are only up 1% for the nine months. Our headcount till the middle of the year was actually down. We think it is now appropriate to start investing for growth given our outlook on the region and the platforms we've created. In the third quarter, we added some 250-300 in headcount.

So where are we investing in?

The first is digital and AI. In Singapore, there are going to be new digital banks next year. Outside Singapore, we are seeing good traction on investments. Incremental measurable revenues from AI and our ecosystem strategies are coming through, so we think it's worth putting additional money to scale up.

The second is the Digital Exchange. After a calibrated start in the first half, things have picked up in the past three to four months. The exchange now operates 24/7. We received approval to market to institutional customers. As a result, assets under custody in the past month alone went up from S$200 million to well over S$600 million or US$0.5 billion. Trading volumes in the past two months surpassed the entire volume in the first eight months of the year. So we think it's a business worth putting some more money in to scale up.

The third is retail wealth. I've been mentioning for several quarters how pleased we are with progress. Retail AUMs have been rising to several billion dollars.

Fourth, geographically, we have now assembled stronger growth platforms in India and China. In India, we aim to triple the size of the franchise in five years. We are investing in the integration of Lakshmi Vilas. We're getting savings from rationalising branches and staff, but we need to invest to leverage the platform. In China, in addition to the securities joint venture I mentioned earlier, early results for our consumer finance platform are also promising. We doubled the consumer finance book in the past quarter.

Putting all of it together – some wage inflation, some calibrated and targeted investments – we might still have negative jaws next year in the worst case based on conservative assumptions. The first is that the strong performance in Treasury Markets this year is not repeated and we return to more normal results. Second, we haven't assumed any interest rate increase. If there are one or two rate increases, it will improve our cost efficiency.

But even if we end up with negative jaws, we expect profit before allowances to be higher next year.

In addition, the credit outlook remains benign. New NPA formation went up a tad during the quarter, but it was due to a national airline, which we moved to non-performing more on a technicality rather than a real issue. Overall NPAs are looking good. The specific allowances we took in the past were conservative, and we had a write-back this quarter in for an oil and gas support service exposure.

Loans under moratorium are now only half a percent of our loan book. SME loans in Singapore are down to $100 million and we're not seeing any delinquencies. Of the ESG loans in Singapore, 80% are already paying interest and principal and we're not seeing any pick-up in delinquencies. The performance is much better than I had expected.

We've done stress tests on our China exposure. Our real estate exposure does not have any to Evergrande, high-yield names or those crossing the three red lines.

We are seeing improvements in overall portfolio quality from upgrades as well as repayments of weaker exposures. As a consequence, we wrote back $400 million of general allowances over the nine months, and I can foresee it will continue to be the case. I do think we are in a position to continue releasing general allowances, and we have drawn up a framework for when to do so and how much.

So we are confident that allowances next year will mirror the level this year, which is close to zero. This will provide an earnings tailwind as well.

DBS Finnovation. I received a lot of questions after the Siam Commercial Bank announcement recently. So I added this slide to point out that we already have a structure that is helpful for realising value of our new businesses. We have a holding company structure, with the operating bank under the holding company. Last year, we put another company called DBS Finnovation under the bank, and the new activities we are doing – Partior, Climate Impact X, Digital Exchange – are being held as individual entities under DBS Finnovation. The structure will allow us to create partnerships, joint ventures or even our own bespoke activities and keep them at arm's length from the bank.

In the future, we could look at spinning additional businesses, which are currently under the bank, to Finnovation. We are exploring businesses that have digital characteristics and are more easily unbundled. I would hasten to add, though, that it's not that easy to unbundle many businesses. The fact that we have a banking licence and many of our businesses are integrated means that not everything can be unbundled, but some things can. And so there are opportunities for us.

We have put DBS Finnovation itself under the bank to simplify governance. The holding company and the bank are currently managed under a common governance mechanism. If and when it becomes appropriate, we could move Finnovation directly under the holding company alongside the bank. Whether this happens will depend on the regulatory environment. In most countries, including Singapore and the US, bank holding companies are regulated in the same way as banks. As such, moving entities within a holding company does not bring regulatory arbitrage. It will be interesting see what Bank of Thailand chooses to do.

We will review our options over the course of the coming year. We believe there are opportunities to monetise the several technology stacks we are building, to create value transparency when the time is right.

Rebecca Isjwara (S&P Global) I have two questions. First, how will supply chain constraints impact loan growth in the coming quarters? Second, what will you be doing to grow fee income by double digits?

Piyush Gupta Let me point out that loan growth this year has been quite diversified. Housing loans in Singapore have been very strong, exceeding what we had expected at the beginning of the year. We will end the year with $4 billion of growth, and market transactions continue to be strong. In wealth management, margin financing has also been healthy, backed by AUM growth as well as $8 billion of net new money inflows over the nine months. Non-trade corporate loans grew $3 billion-4 billion in each of the first two quarters, and $5 billion in the third quarter, with the growth broad-based, including in TMT, real estate and data centres. Our pipelines across the region are good, including in places such as India. I don't expect another year of 9-10% growth, but it will be higher than the 5% we get in a typical year.

On fees are also diversified. Wealth management fees and transaction banking fees have been strong. Digitalisation has helped grow wealth management via retail, and top-end transaction banking via cash management and API-built activity such as supply chain financing. Cards will pick up as economies open, which we are already seeing. What could be a little more up and down is investment banking. It will be up around 50% this year with both debt and equity capital markets strong. The securities joint venture in China is getting more deal flow. So I remain quite optimistic about investment banking.

Goola Warden (The Edge) First, could you give an idea how your subsidiaries such as Hong Kong did? Second, could you elaborate on ESG loans in terms of growth and lending yields. Third, you mentioned in the previous quarter you might IPO DBS Remit. Do you have further thoughts on the issue, and how it could be affected by the links between PayNow and PromptPay, and between PayNow and the Indian equivalent. Finally, in general, your views of how decentralised finance will affect traditional banking services and the earnings profile of traditional banks.

Piyush Gupta Many of our subsidiaries are having a record year. I'll leave it to Sok Hui to give the specifics in a minute.

On ESG, we continue to be very active. In the third quarter, we did 23 loan transactions totalling $4.3 billion, bringing the nine months to 62 transactions totalling $13.7 billion. We are well on the way towards meeting our targets around ESG. We are working on another 30 mandates. All this compares to about 50 transactions worth $10 billion last year. So this year will be about 40-50% up.

I pointed out just now that we can move businesses from the bank into Finnovation. Monetising Remit is one of the things we could look at, but we haven't lined up all our ducks at this time yet. The country-to-country payments connectivity is positive for us. By participating in the origination at the customer end, it will add rails at the back. It's the same with Partior, which we expect to add another set of rails. So we will continue to originate with Remit and then use these various rails at the back to get efficiency and real time settlement.

In addition to our own customers, we are also beginning to white label services to third parties. We're currently working with three counterparty banks in other countries to take our payments capability into their customer bases. I think payments is a genuine opportunity for us. We will get greater clarity on prospects in the next year or so.

DeFi is a big question. If you fast forward 10 years and asked me whether banks will be needed in a world of DeFi, I would say I don't know because the whole construct of a decentralised system means you don't need intermediaries. You could very easily make a case that in a future world, nobody needs banks or stock exchanges anymore. Everybody just deals directly with each other.

The P2P lending space in China is a case in point. It had P2P companies trying to intermediate directly between individual savers and corporate and individual borrowers. Then two years ago, the authorities had to shut down many of them because there weren't enough safety nets. I think over the next 5-10 years rules will have to be built to protect individuals. Can you really get to a world where everybody's dealing with everybody else, and you don't need intermediaries? If you have a dystopian view, you could say you don't need banks anymore. If you have a utopian view, you could say that intermediaries create scale enabling much wider participation between different customer sets across different geographies. The nature of intermediaries will change but they still have a role to play. How it pans out exactly is not easy to forecast.

Our view has been that the heart of any DeFi world would be blockchain and distributed ledger capability. So we need to make sure we are plugged into the technology, that we know how to use it and, where possible, start launching products we can leverage on. That explains Digital Exchange, Partior and Climate Impact X, so that we can play a meaningful intermediary role in the new world. Exactly what the role will be isn't fully known, so we will be nimble and adapt to how the situation evolves.

Chng Sok Hui Hong Kong has done very well. In the third quarter, profit before allowances was up 11% while net profit more than doubled from last year. Greater China, comprising China and Taiwan, also grew income and operating profit healthily. It's the same for India, where income is up 32% for the third quarter. The only country where income fell was Indoneisa, reflecting a slowdown in unsecured lending due to the pandemic.

Chanyaporn Chanjaroen (Bloomberg) First, you spoke about your readiness to invest early in the cycle. What's the total amount you plan to invest for 2022? Will that be on top of the $300 million earmarked for digital banking? Second, could you elaborate on your options for DBS Finnovation? Is an IPO or a stake sale among the things you are looking at? Third, how is Digital Exchange doing, and how does it compare with non-bank players such as Coinbase, Gemini and Binance?

Piyush Gupta I don't have a specific number to give you on investments. The $300 million we are spending on consumer banking digital capabilities is not new. We spend such money every year – the $300 million for next year reflects a growth of 15% from this year. We will increase headcount in India, as well as the consumer finance and the securities platform in China. We might also put in additional capital of $100 million-150 million to India to support an ambitious growth plan.

Like I said, it's too premature for us to give you specific guidance on what we could do on Finnovation. We could bring in strategic or private investors or we could also IPO the entities. But it's still premature. I'm just explaining that we have the capacity to do something like that.

On Digital Exchange, things have been very encouraging after we took it 24/7. As you know, we've deliberately kept our exchange for wealth customers, accredited investors and institutions. We currently have about 500 customers. Even so, that we now have over half a billion dollars of assets under custody just indicates how much demand there is in the business. Over the next year we will broaden the customer base from private banking to retail.

Dylan Loh (Nikkei) Can you provide more details on your loan book in Greater China? Have the slowdown in China and the risk of financial contagion from Evergrande affected your about China?

Piyush Gupta The best way to think about it is that we are so tiny in China that we can cherry pick. Our exposure in China is miniscule relative to the economy. As a consequence, there are enough growth opportunities for players like us. Whether China slows down from 6% to 5% is not very material to us. We're not in the consumer or SME space at scale. Our portfolio is clean. We deal mostly with the largest state-owned enterprises, many of which continue to grow both in the country and outside.

Takashi Nakano (Nikkei) On Finnovation, how many employees and how much capital does it have? To what extent will Finnovation contribute to the future profits of DBS? You have been trying to get employees of DBS to have entrepreneurship. If everyone in DBS has entrepreneurship, why do you have to create Finnovation?

Piyush Gupta Finnovation does not have independent capital and employees of significance. The bulk of our resources lie within the bank. If I remember, Partior is eventually expected to have 70-80 people, for example. These entities are not heavily consuming capital because their burn rates are very low. The reason we have put them under Finnovation is to enable us to bring in partners or tap on sources of incremental capital to get price discovery. As long as they're integrated within the bank, they tend to get hidden. Whereas if they are spun out to provide transparency, the market valuations are very different. That's the context I spoke on Remit in the previous quarter. Its profitability and volumes compare favourably other market players.

Edna Koh Business Times wanted us to ask two questions on their behalf. First, where do you see domestic borrowing rates next year, given that the Fed is expected to start tapering bond purchases this month? Second, can you provide an update on the bank's interest in Citi's Asia assets?

Piyush Gupta I think rates will go up. In fact, after hitting lows in September, rates began creeping up in October across the region. In Singapore, as the benchmark rate switches to Sora, interest rates could become less sensitive to US rates and more dependent on domestic liquidity conditions. How many rate increases do we see from the Fed? The market is pricing in two and a half increases next year. Based on what Powell is saying there might be one to two increases. Some of it will filter through to Singapore.

On Citibank, it's inappropriate to talk about it as the transactions we are running at this point in time.

Edna Koh Thank you everyone for coming and we'll see you next quarter.