Edited transcript of DBS fourth-quarter 2020 results media briefing, 10 February 2021

Jean Khong Good morning and welcome to our fourth-quarter results briefing.

Chng Sok Hui Good morning everyone and Happy Lunar New Year in advance.

Overview. Full-year net profit was 26% lower at $4.72 billion as the bank navigated the Covid pandemic.

Operating profit before allowances rose 2% to a record $8.43 billion as total income was stable at $14.6 and expenses was tightly managed. Net interest income declined 6% to $9.08 billion as a 27-basis-point fall in net interest margin was partly offset by loan growth of 4% to $371 billion. The impact of lower interest rates was offset by a tripling of gains on investment securities as profits were realised on bond portfolios hedging the impact of lower interest rates. Fees were stable at $3.06 billion. Expenses declined 2% to $6.16 billion and the positive jaw improved the cost-income ratio by one percentage point to 42%.

Total allowances quadrupled from the previous year to $3.07 billion. General allowances of $1.71 billion were conservatively set aside against potential risks arising from the pandemic. GP reserves increased 72% to $4.31 billion, exceeding MAS' minimum requirement by 42%.

The NPL ratio was 0.1 percentage point higher at 1.6% and non-performing assets rose 16% over the year. Allowance coverage was 110%, or 206% after taking collateral into account.

Liquidity remained ample as deposits grew 15% to $465 billion with current and savings accounts growing by a record $99 billion. The Casa ratio improved 14 percentage points to 73%.

The liquidity coverage ratio and net stable funding ratio were comfortably above regulatory requirements at 137% and 125% respectively.

DBS India amalgamated the business of Lakshmi Vilas Bank with effect from 27 November, broadening our presence in a key emerging market. The provisional goodwill was determined at $153 million. The fourth quarter results included amalgamation expenses of $33 million and additional general allowances of $87 million.

The CET-1 ratio was 13.9%, well above regulatory requirements and 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%.

The Board declared a fourth quarter dividend of 18 cents per share, in line with MAS guidance.

Full year compared to a year ago. Full-year net profit was $4.72 billion, a 26% decline from the record set the year before.

Total income was stable at $14.6 billion as lower net interest income was offset by gains on investment securities.

Net interest income declined 6% or $549 million to $9.08 billion. Net interest margin fell 27 basis points to 1.62% due to sharply lower interest rates. This more than offset the impact of 4% constant-currency loan growth to $371 billion.

Fees were stable at $3.06 billion despite the challenging economic environment. Wealth management fees and brokerage commissions increased but were offset by lower cards and investment banking fees.

Other income increased 32% or $591 million to $2.46 billion mainly due to a tripling of gains from investment securities. This increase offset the decline in net interest income.

Expenses were 2% or $100 million lower at $6.16 billion as costs were tightly managed.

Profit before allowances increased 2% to a record $8.43 billion.

Total allowances quadrupled to $3.07 billion. General allowances of $1.71 billion were set aside for potential risks arising from the pandemic compared to a small write-back the year before. Specific allowances were higher at $1.35 billion.

Taxes were lower due to deductions for allowances and a higher proportion of income that incurred a lower tax rate.

Fourth-quarter performance. Fourth quarter net profit declined 22% from the previous quarter to $1.01 billion as total income declined 9% to $3.26 billion.

Net interest income was 2% or $51 million lower at $2.12 billion due to a four basis point decline in net interest margin to 1.49%. The decline was slower than in previous quarters as interest rates stabilised.

Fee income declined 6% or $51 million to $747 million. Seasonally lower wealth management fees and lower loan related fees were partly mitigated by higher cards fees from festive spending.

Other income declined 35% or $212 million to $396 million due to lower gains taken on investment securities.

Expenses increased 3% or $41 million to $1.58 billion after incorporating expenses from the amalgamation of LVB.

Specific allowances were $45 million higher at $363 million. Underlying new NPA formation was in line with the quarterly run rate for the first nine months.

General allowances were $22 million lower at $214 million. Excluding the $87 million additional GP taken for LVB, the general allowances set aside in the fourth quarter was half the amount taken in the third quarter. Total allowances crossed the $3 billion mark for the full year.

Taxes were lower mainly due to approval of the derivatives market incentive in the fourth quarter and effective 1 Jan 2020.

Net interest income. Fourth-quarter net interest income was 2% lower than the previous quarter at $2.12 billion. Net interest margin declined at a slower pace of four basis points to 1.49% as interest rates stabilised.

Full-year net interest income declined 6% from a year ago to $9.08 billion as the impact of lower interest rates more than offset the impact of 4% loan growth to $371 billion. Net interest margin fell 27 basis points to 1.62%, with most of the decline occurring in the second and third quarters as central banks cut interest rates at the end of the first quarter. The large part of the net interest margin decline is now behind us.

A considerably more flush balance sheet contributed six basis points to the decline in net interest margin of 27 basis points for the year as excess deposits were deployed into low-risk liquid assets. The margin from the deployment of surplus funds were tighter than customer loans but was accretive to net interest income and return on equity.

Net interest margin is expected to stabilize between 1.45% and 1.50% in 2021.

Loans. In constant-currency terms, gross loans grew 1% or $5 billion during the quarter to $378 billion. LVB contributed $2 billion of loans when it was amalgamated with effect from 27 November.

Non-trade corporate loans grew $2 billion to $221 billion due to healthy business momentum and reduced pace of repayments for short-term facilities made in the first half. Mortgage loans grew $1 billion to $74 billion. New bookings were strong in the third quarter and the momentum continued through the fourth quarter. Wealth management loans were also higher. Trade loans were $2 billion lower at $38 billion.

Loans grew 4% or $16 billion over the course of the year to $371 billion. Non-trade corporate loans grew $19 billion led by drawdowns in Singapore and Hong Kong. Trade loans fell $6 billion as tighter pricing made them less attractive to roll-over and as transaction values fell from lower oil prices. Consumer loans were stable. Housing loans were little changed as declines in the second and third quarters due partly to the circuit-breaker were offset by a recovery in the fourth quarter.

Five billion dollars of non-trade corporate loan growth was associated with Singapore's credit relief programmes where the government provided a 90% risk share.

Deposits. Deposits grew a record 15% from the previous year to $465 billion in constant-currency terms. The amalgamation of LVB contributed $3 billion of deposits.

Current accounts and savings accounts grew a record 42% or $99 billion, reflecting the bank's leading savings deposit and cash management franchises enhanced by digitalisation capabilities. Consumer Banking and Wealth Management contributed three-fifths of the Casa increase.

The Casa growth allowed more expensive fixed deposits to be released. This improved the Casa ratio to a record 73% of total deposits.

The loan-deposit ratio fell nine percentage points to 80% as deposit growth out-stripped loan growth. Surplus deposits were placed into high quality liquid assets. This was accretive to net interest income and return on equity but was a headwind to net interest margin.

The liquidity coverage ratio of 137% and the net stable funding ratio of 125% were both comfortably above their respective regulatory requirements of 100%.

Fee income. Fourth-quarter gross fees were $872 million. They were 4% lower than the quarter before due to seasonal effects and unchanged from a year ago.

Compared to the previous year, wealth management fees increased 21% to $345 million. Demand for investment products continued to be robust with healthy customer risk appetite amidst a low yield environment. Brokerage commissions increased 48% to $37 million as market sentiment remained strong. Cards fees were 12% lower at $177 million having progressively recovered from the trough during the second quarter towards pre-Covid levels. Investment banking fees declined 45% from a year ago to $44 million.

Fee income was stable in the second half compared to the previous year as economic activity rebounded from the second-quarter circuit breaker.

Full-year fee income declined 1% to $3.53 billion despite headwinds from the pandemic. Wealth management fee income rose 11% to $1.43 billion with the first and third quarters the highest on record. Brokerage commissions increased 31% to $149 million with higher stock market volumes and increased new digital account openings. Card fees fell 19% to $641 million as spending on travel remained low. Investment banking fees were 31% lower at $148 million as record fixed income fees were more than offset by a fall in equity capital market activity.

Expenses. Full-year expenses were 2% lower than a year ago at $6.16 billion as costs were tightly managed.

General expenses such as on travel, advertising and promotions were lower. Staff costs were little changed with an increase in base salaries from a higher staff count and higher leave accruals offset by lower bonuses and by government grants.

The cost-income ratio improved one percentage point to 42%.

Fourth-quarter expenses were little changed from a year ago at $1.58 billion after incorporating expenses from Lakshmi Vilas Bank.

Consumer Banking and Wealth Management. Full-year income declined 8% from a year ago to $5.77 billion.

Loans and deposits income declined 19% to $3.02 billion due to lower interest rates. Cards fees were 8% lower at $730 million on lower spending from lockdowns across the region and a general decline in travel.

Income from investment products rose 13% to $1.94 billion as customers looked to improve returns amidst the low interest rate environment.

Income was evenly split between the Retail and Wealth Management segments.

Assets under management increased 7% to $264 billion.

We maintained our domestic market share for savings deposits and housing loans at 52% and 31% respectively.

Institutional Banking. Full-year income declined 5% from a year ago to $5.75 billion.

Cash management income fell 39% to $1.20 billion due to lower interest rates while investment banking income declined 30% to $122 million.

The declines more than offset a 13% higher income from loans at $3.03 billion, a 13% higher income from treasury products at $677 million and a 8% higher income from trade at $719 million.

70% of income was from large corporates and 30% was from the SME base.

GTS deposits grew 19% to $166 billion.

Treasury Markets. Full-year income increased 54% to $1.44 billion as market volatility created opportunities for trading. The performance was broad-based across interest rates, equities, foreign exchange and credit trading.

Treasury customer income increased 18% to a new high of $1.51 billion with similar contributions from consumer banking and institutional banking. Consumer banking demand increased for equity, FX and interest rate products. Institutional banking demand increased largely for interest rate products.

Hong Kong. In constant-currency terms, Hong Kong's full-year net profit fell 34% from a year ago to $963 million. Total income declined 15% to $2.53 billion primarily from lower interest rates. Profit before allowances was 21% lower at $1.48 billion. Total allowances tripled to $332 million mainly from higher general allowances.

Net interest income declined 22% to $1.61 billion. Loans grew 3% in constant-currency terms mainly from large corporates. This was offset by a 52 basis point fall in net interest margin to 1.55%.

Fee income declined 3% as an increase in sales of investment products was offset by lower bancassurance, cash management and loan-related activities. Other non-interest income increased 4% mainly from gains in investment securities.

Expenses declined 6% to $1.06 billion as a result of proactive cost management. The cost-income ratio increased four percentage points to 42%. Profit before allowances declined 21% to $1.48 billion.

Total allowances rose to $332 million, including $177 million of general allowances conservatively taken for potential risks arising from the pandemic. Specific allowances doubled to $155 million from two major corporate cases.

India. Lakshmi Vilas Bank was amalgamated with DBS India with effect from 27 November 2020. This occurred under special powers of the Government of India and the Reserve Bank of India under Section 45 of the Banking Regulation Act.

The amalgamation expanded a business that had delivered a strong performance in 2020. DBS India's total income had grown 40% from the previous year to a record $376 million and pre-tax profit had quadrupled to $89 million. LVB complemented DBS' Digibank strategy with an expanded network of 600 branches and 1,000 ATMs, an additional two million retail and 125,000 non-retail customers, as well as strengthened the deposit franchise.

Under the amalgamation, DBS provisionally booked $153 million of goodwill. LVB had NPA of $881 million and specific provisions amounting to 76% had been set aside in the computation of goodwill. The net NPA of $212 million, which is fully secured, was transferred to DBS India. Asset quality was dealt with decisively as general allowances of $183 million were conservatively set aside, amounting to 9.5% of LVB's performing loans. Of the total performing loans of $1.9 billion, the corporate and SME book amounted to $1.1 billion. The retail portfolio which comprise mainly secured gold loans amounted to $800 million. As a percentage of the $1.1 billion corporate and SME book, the general allowance reserves of $183 million represents 16% coverage. We also set aside amalgamation expenses of $33 million in the fourth quarter. With the additional amalgamation expenses and allowances set aside, we expect LVB to be profitable within 12 to 24 months.

The impact on group capital was minimal with the CET-1 0.3 percentage points lower as result of the amalgamation.

Non-performing loans. Non-performing assets increased 16% to $6.69 billion over the year. Higher new NPA formation was moderated by write-offs and recoveries. The NPL rate rose slightly to 1.6%, still within the range of recent years.

Fourth-quarter new NPA formation was little changed from the previous quarter at $541 million, and in line with the quarterly run-rate of 2020.

The amalgamation of LVB with effect from 27 November contributed an additional $212 million to NPA.

Specific allowances. Full-year specific allowances were higher at $1.35 billion, or 31 basis points of loans.

Fourth quarter SP were $362 million, or 34 basis points of loans.

NPL were transferred from LVB net of SP and no additional SP were taken in the fourth quarter after the transfer.

General allowances. GP reserves rose 72% from a year ago to $4.31 billion. The reserves exceed the regulator's minimum requirement by 42%. GP reserves are also $1.5 billion higher than the amount eligible as Tier-2 capital. The surplus acts as a buffer for the total capital adequacy ratio.

While we have set aside substantial general allowances in 2020, asset quality trends are encouraging post the expiry of the initial government support programmes. Significantly fewer SME and housing loans remain under moratorium compared to their respective peaks. Delinquencies have also been low.

Allowance coverage was at 110%. When collateral valued at $3.12 billion was considered, allowance coverage was at 206%.

Capital. Capital continued to be healthy. The Common Equity Tier-1 ratio was 13.9% at the end of 2020, up 0.2 percentage points from the end of the first half and unchanged from the previous quarter. The amalgamation of LVB caused a 0.3-percentage-point dip in the ratio which was offset as profit accreted during the quarter.

The CET-1 ratio was above the group's target operating range as well as regulatory requirements. The leverage ratio of 6.8% was more than twice the regulatory requirement of 3%.

Dividends. The Board declared a dividend of 18 cents per share for the fourth quarter, bringing the total dividend for the 2020 financial year to 87 cents per share.

This was in line with MAS's call for local banks to moderate dividends for the 2020 financial year.

The scrip dividend scheme will be applicable to the fourth-quarter dividend. Scrip dividends will be issued at the average of the closing prices of the 7th and 8th of April 2021.

Based on yesterday's closing share price and assuming that dividends are held at 18 cents per quarter, the annualised dividend yield is 2.8%.

In summary. We achieved record profit before allowances despite the economic disruption which attests to the quality of our franchise.

Our balance sheet is strong. The general allowance reserves we have built up are significantly in excess of MAS requirements and Tier 2 qualification.

Our business pipelines for loans and fee income streams are healthy.

We have also taken proactive steps to build platforms for growth. LVB and our China securities joint venture will enhance our footprint in key growth markets. Initiatives such as the Digital Exchange, which began operations in December 2020, supply chain digitalisation and efforts to digitally broaden wealth management to the mass market reinforce our leadership in digital finance.

Our enhanced franchise and strong balance sheet strengthen our ability to continue supporting customers and delivering shareholder returns.

Piyush Gupta Thanks, Sok Hui. I would like to wish everybody a Happy Lunar New Year. I will make a few observations before moving to the Q&A.

Business outlook. Business momentum in the fourth quarter was quite strong and we saw a rebound across all of our markets. Loan growth was broad-based in the fourth quarter. In the third quarter, we saw some repayments from customers who drew down on credit lines over the first half of the year. The repayments have slowed down in the fourth quarter and we saw loan growth in sectors such as real estate, TMT, as well as in the oil and gas industry.

Housing loans grew by over a billion dollars because of large bookings in the third quarter. In fact, the growth in the fourth quarter more than offset the declines in the previous two quarters. We thus ended the year with a marginally larger housing loan book compared to the previous year. Wealth management lending was strong as customers took more margin financing. The other side of the balance sheet also saw robust growth as there were continued deposits inflow.

Fee income was also very robust. Wealth management was up strongly year-on-year. Our brokerage business was also great. It is notable that in the fourth quarter, both the credit cards and bancassurance segments have recovered from their weak performance earlier in the year.

Credit cards income was down 20% in the third quarter. In the second quarter, it was down 34%. However, we were down 12% for the full year so the recovery in the fourth quarter is quite notable. Card spending in November and December were flat to pre-Covid levels and fourth quarter revenues for this segment have largely normalised and the revenue drag from cards is largely behind us.

Other income was softer in the fourth quarter as we booked lower gains on investment securities from reduced selling of bonds in our portfolio to crystalise gains. This resulted in a lower income of about $200 million compared to the third quarter. However, trading income was quite robust.

On allowances, some global banks, especially the US banks, chose to start writing back reserves in the fourth quarter on the back of improved macroeconomic conditions. We opted not to do that. Our view was that we could use the fourth quarter to further fortify our balance sheet so that any potential vulnerabilities this year would have be provisioned for in 2020.

We thus increased our general allowance reserves in the fourth quarter. As Sok Hui mentioned earlier, we took GP of $1.7 billion over the full year, increasing general allowance reserves to $4.3 billion. This is a conservative stance and gives us a bigger cushion. Total allowances amounted to $3.1 billion for the full year. Our guidance for total allowances was between $3 billion and $5 billion, so if we end up at the lower end of our guidance, then we would have already provided for it in 2020. We also topped up SPs for existing NPAs. We revisited our book and added additional SPs on accounts which are displaying vulnerability.

We were also conservative with LVB's book. RBI had been reviewing LVB for about two years prior to the amalgamation, and they had recognised NPAs quite conservatively. When we took over LVB, we further recognised an additional 20% of NPAs. We went through their loan book thoroughly and so we think that our provisions are adequate.

LVB's performing loan book stands at about $2 billion. Of that, $800 million comprise gold loans and secured lending. LVB has seen one credit default on the gold portfolio over a period of 30 years. The remaining unsecured loan book is insignificant, at just over a billion dollars. Our general provisions against this book stands at about 16%. This means that if 30% of the performing book becomes non-performing and half of it gets written down, it would already be provided for.

I don't normally give guidance for the current quarter, but I want to touch briefly on the prior guidance for this year which was given in our third quarter results briefing. We said that there will be some recovery and loans would grow by mid-single digits. We also said that fee income would grow by double digits. Despite that, we would see a decline in total income because of NIM compression, which would be between 1.45% and 1.50%. We also said our expenses will be flat at 2019 levels which means this year's expenses will be a few percentage points higher than last year. On net basis we will probably have a negative jaws this year, and that we will more than make up for it from lower credit costs.

Our prior guidance is on track which is supported by recent economic data. Fourth-quarter GDP growth is coming in stronger in many countries . PMI data are within the 50 to 60 range, which is another positive sign. Trade is also holding up quite well. Retail sales are doing well and that is what we are seeing in our business across the region.

Our performance in January has been quite strong. Overall income was up compared to January 2020. Given the sharp drop in rates between the beginning of last year and this year, this suggests the strength of our business.

Fee income was very strong in January. Wealth management, brokerage and transaction services are up year-on-year, while cards and bancassurance were flat. Investment banking is coming back. Last year, DCM was strong while ECM was weak. Now, ECM deals are coming back. Overall, January's fee income performance gives me confidence that we can do double-digit growth for the full year. Treasury Markets performance was equally robust so far this year.

On loans, growth for the first quarter is likely to come in at around 2% than the 1%-1.5% that we guided for. It remains to be seen whether this will continue through the year but it gives me confidence that we will meet the mid-single digit loan growth we were targeting. While the growth in deposits is not at the same rate as it was in the peak of last year, we are still seeing meaningful inflows.

Credit outlook. The loan moratoriums are coming to an end and we are seeing encouraging signs of recovery. In Singapore, there were close to $5 billion of housing loans under moratorium. Only about 10% of these have signed up for the extended scheme after the moratoriums ended. Even under the extended scheme, applicants have to make partial principal repayments. So far, delinquencies have been low.

In the SME book, of about $4.6 billion of loans which were under moratorium, around 25% of them have applied for extended financial relief, which means the other 75% are paying. And again, delinquencies are very low. Those which have extended into the new scheme also have to start making partial principal repayments.

In Hong Kong, the extension of loan moratorium is high at around 50%. At the peak, we had $6.4 billion in moratorium. About half of these applied for extended relief in January. A meaningful proportion of these loans are from large corporates which are generally holding up well. Some of these corporates chose to extend their loan moratoriums because it reduces their borrowing cost. Among those who did not apply for extended relief, delinquencies have been low which is very encouraging.

On the consumer book, delinquencies came down quite sharply. They peaked in the second quarter, particularly the unsecured book in Indonesia, Taiwan and Singapore. Delinquencies fell in the third quarter and they were down even more sharply in the fourth quarter. While existing government schemes may be masking some delinquencies in the consumer space, our capacity to collect has improved as the economy recovers.

In our corporate book, we are not seeing a lot more weaknesses compared to the previous quarter and we have topped up additional SPs for some previous names. Thus, overall we think that we will end up at the middle of our guidance of between $3 billion and $5 billion of total allowances.

The reason I'm not being more definitive is that the extended moratoriums will expire from the second quarter and it is only then that we can get a better sense of the realised credit costs. However, given recent trends I'm feeling more optimistic now than I was a few months ago.

New platforms for growth. We have been proactive through this crisis in building new platforms for growth. We think that the LVB deal will be extremely positive for us. The $150 million of goodwill is not a large amount to pay for a franchise that fundamentally changes the texture of our India business and I will come back to that later.

On the China securities joint venture, we expect to get final approval from regulators in a couple of months. Our timing is perfect because as China's capital markets liberalise with the establishment of both the Stock Connect and Bond Connect, and coupled with trade internationalisation, business volumes will grow rapidly. We are already observing this in our investor business, our custody business as well as our International Energy Exchange business. We would be able to bring to market both cross-border and onshore deals.

My view is that the opening up of China's capital account is going have a big impact over the next decade, which will be more significant than its ascension to the WTO in 2002. China's capital market is tiny as a proportion of its GDP, and its weight in global economic affairs is relatively small despite the size of its economy. This is definitely on the cusp of changing. So, building up our capabilities such as with the securities joint venture is going to be a significant growth driver.

Digital Exchange went live in December. It's still early days yet and daily volumes are around 300-400 trades in four cryptocurrencies and four fiat currencies. Currently, we only onboard private banking customers. We are cautious because we want to make sure our compliance protocols are sound. We are also using this time to conduct due diligence on the coins we are offering. It is looking good so far and there is potential to scale this up over time given the interest in tokenised assets, which will provide meaningful contribution to our revenues.

On retail wealth management, we are also making good progress. The recent open banking initiative has added momentum to that. A lot more people are now participating in equity markets and we are trying to encourage that by making our platforms more accessible. But we are also mindful about doing this sensibly by making sure that there is good research content to aid in financial literacy rather than encourage retail speculation.

Lastly, the pandemic has renewed companies' focus on digitalisation, especially regarding supply chains. We have been able to facilitate this shift through our digital solutions such as Rapid which utilises our API capabilities. We have been able to increase participation significantly over the past couple of quarters. We have seen volume growth in payments, collections and trade finance on the back of this supply chain digitalisation effort. This trend will continue as we emerge from the crisis and we are extremely well-positioned to capitalise on this.

Lakshmi Vilas Bank. It would be useful to highlight how the addition of LVB helps DBS. LVB is an old bank – it has been established since the 1920s and was performing well up till recently in 2017. It is a well-known bank in India and has a dominant position in south India with close to 90 percent of the bank situated in five southern Indian states. These states have higher GDP per capita compared to the rest of India. These states, which include Hyderabad, Bangalore and Chennai, are better-managed and have a high amount of large corporate activity where core industries such as automotive and TMT are located. This fits well with our business as Singapore and ASEAN trade primarily with these Indian states.

The amalgamation of LVB has given us two million retail customers and 125,000 SME customers, which improves our customer footprint. This is a good customer base to leverage off and adds a layer to what we have built digitally. Our organic expansion with the wholesale subsidiary proved to be helpful and has been profitable since the first year. This is because when we have a branch presence, we are able to reach out to our SME customer base and then leverage our digital capabilities for last-mile fulfilment. Hence, I am quite confident that the expansion of our phygital strategy through LVB will allow us to deepen that digital capability and grow the business there faster.

One of the good things about this deal was that LVB was fully amalgamated under Section 45 of India's Banking Regulation Act which gave us full control of the bank. The reason we were able to do this is that we have been classified as a local bank in India since our subsidiarisation.

LVB gives us a substantial retail deposit base. Prior to amalgamation, DBS India was primarily wholesale funded, with the retail deposit base at only 23%. With LVB, DBS India's retail funding base is now close to 50%, which makes a big difference to our capacity to grow the domestic India business.

As I alluded to earlier, the customer footprint improves with the addition of LVB. The SME footprint also improves, which was something we had been trying to grow aggressively. With 125,000 new SME customers, it allows us to apply our digital capability on a larger customer base. There is also a niche gold business which is interesting and provides high returns.

We are thus optimistic and are fairly confident that this will be profitable within 12 to 24 months and I think it will be ROE accretive within two to three years, which is the normal timeframe for acquisitions to become profitable.

Chanyaporn Chanjaroen (Bloomberg) First, how much do you expect to invest into your India and China business over the next three to five years? Second, which region is expected to be next largest contributor to revenues after Singapore and Hong Kong?

Piyush Gupta We don't have to make large capital investments because we made them earlier. The bulk of the investments are going to keep pace with business growth, which are not very material. The money we put in the China securities joint venture largely go towards staff expenses. We hired a team of about 70 people which includes a local CEO, and about 20 bankers and originators. Any incremental investments that we make will be to support business growth, such as hiring more staff.

On India, we have taken $30 million of amalgamation expenses upfront which covers the bulk of our capital investments such as for branch upgrades and the bulk of the expenses going forward will be towards growing the business such as additional hiring and for improving our digital capability. However, as the balance sheet grows, we obviously have to commit more capital to fund that growth but that would happen whether it was organic or not.

On your second question, China, India and Indonesia present large opportunities for us and so we will continue to invest in all three markets. The pace of our investments in each country will vary and depends on when the opportunities present themselves. We are opportunistic in seeking bolt-on acquisitions and we don't specifically target which countries to prioritise our investments. However, China is five times bigger than India so we may get a lot more opportunities in China over time.

Chanyaporn Are you still open to bolt-on acquisitions in Indonesia going forward?

Piyush Gupta We are open to bolt-on opportunities anywhere. Our criteria are the same. It has to be a deal that does not distract us from our digital agenda. Thus, we are not keen on big deals which require a large amount of management bandwidth. It also has to be aligned to our overall business.

Goola Warden (The Edge) First, what is the amount of outstanding loans under moratorium and when will you start general allowance writebacks? Second, can you provide clarity on dividends going forward? Third, can you give us some colour on NIMs going forward for DBS India?

Piyush Gupta The amount of loans under moratorium is not linked to the amount of general allowance reserves we take. We have provided the loan moratorium figures in our presentation earlier. Of the loans that are no longer on moratorium, the delinquencies are very low and the majority of customers are servicing their loans. For those under extended moratorium, we will only find out about delinquency rates from the second quarter. My best guess is that it will be slightly worse. Mortgages under moratoriums stand at about $1 billion and these are fully secured. For SMEs, we have about $3.5 billion of loans under moratorium, with $1 billion from Singapore and $2.5 billion from Hong Kong. Whether we need to take additional provisions depends on the actual credit costs and whether we have made provisions for it earlier. My sense is that we are not going to need as much provisions as we have originally expected even for that book. On writebacks, the way it works under the Expected Credit Loss model is that if anything goes into SP then GP reserves gets written back at least partially because some of these credit costs would have already been recognised earlier.

Chng Sok Hui It depends on how proactive we had been in credit provisioning. If a customer’s credit displays weaknesses and there was a potential delinquency then we would have already set aside at least half of it in general allowances earlier. This will be reversed if it subsequently moves to SP.

Piyush Gupta We have actually set aside a lot of general allowances and at this juncture we are unsure how much of it we may write back. Our reserves also include over $1 billion in management overlay. If the macroenvironment improves over the course of the year, we might be able to write back some of that.

On dividends, I have nothing to add as we had no further conversations with MAS. This question is premature because we were asked to hold dividends at this level for four quarters including the end of first quarter. However, in several other jurisdictions, the regulators have started relaxing restrictions on returning capital to shareholders. It is possible the MAS might take that view as well, but it is equally possible that the MAS could maintain their prior guidance given that they had been relatively lenient on these restrictions as compared to other regulators. Nonetheless, we have always maintained that we have the capacity to pay more dividends.

On your last question, it is without a doubt that the LVB deal would improve our NIM because the funding cost reduces as we increase the retail deposit base and our lending yield improves because yields on products like retail gold loans and SME loans are much higher than other products we offer in India .

Lydia Zhen (Channel NewsAsia) I have a few questions. First, how much bad loans were incurred in 2020 and were the allowances taken sufficiently cover it? Second, what is your economic outlook for the first quarter and for the full year, and how will this impact your business in various markets? Third, can you update us on your Myanmar operations?

Piyush Gupta On your first question, NPAs increased by $1.9 billion in 2020, most of which were loans. We took $3.1 billion in total allowances for the year, which is substantially higher than the increase in NPA. This is because we have pre-emptively set aside $1.7 billion in general allowances to strengthen our balance sheet against downside risks in the future. The higher general provisions which were taken over the year to build up our reserves were not directly related to loans which turned bad in 2020 but were taken as a precautionary measure for potential bad loans in the coming years.

On the economic outlook, I would first like to caveat that there is still some uncertainty on how this pandemic may play out. If we see a resurgence of infections and countries go into lockdown again then our business will be impacted. Barring that scenario, it's quite clear that the business is rebounding strongly. China's rebound has been very strong. Its fourth-quarter GDP growth was positive and our various businesses segments there are largely back at pre-Covid levels. We are seeing this in Taiwan as well. Its TMT sector has benefitted strongly from the increase in demand for remote working equipment.

For India, IMF projects GDP growth to be at around 11.5% for the year. If that pans out, India would be the fastest growing economy in 2021, and this would more than make up for its 7.5% contraction in 2020. From our discussions with large corporate clients, there has been a strong rebound in production and companies are more optimistic. The government's budget which was announced last week committed a large proportion to capital expenditure and that will be very positive for growth.

My outlook on Indonesia is less certain as the pandemic is still not under control. However, commodity prices have rebounded and Indonesia is a key beneficiary of that as a net exporter of commodities.

From a top line standpoint, our biggest challenge is actually in Hong Kong. As it relies heavily on its linkages with China and cross-border traffic has not resumed, businesses have been affected. Apart from that, our other business segments there are doing well. A large part of our loan book is from Hong Kong. Another segment which is doing well is the capital markets business as companies continue to seek listings there.

On Myanmar, we don't have major operations in that market. We have a representative office there with two staff, as well as some business exposure which is not material.

Chris Wright (Euromoney) First, I note that Digital Exchange currently offers cryptocurrency trading, when will tokenisation services be offered? Second, your expenses and cost-income ratio were lower year-on-year, how much of that is due to lower travel costs, and when the pandemic is over does the bank see a need to resume these activities? Third, LVB adds close to 600 branches to the India franchise despite DBS's digital-focused strategy, does that mean that Indonesia's Digibank strategy might also be enhanced by a brick-and-mortar operation which you have been trying to move away from?

Piyush Gupta On securities token offerings through Digital Exchange, we have a few deals in the pipeline, both for equities and debt, and we hope to bring a couple of deals to the market in the first half of the year. On the tokenisation of private equity secondary market offerings which are more illiquid, we are actively working on it with our clients and lawyers and it might take a bit longer.

On expenses, our total savings from travel amounts to about $92 million. We will likely see a pick-up in travel expenses this year, but it is unlikely to return to where it used to be. The experience over the past year has shown that there is no real need to physically travel to another country to conduct meetings. Also, we won't see an increase in travel for the first half of the year as cross-border travel restrictions in most countries will only likely be lifted in the second half.

On your last question, a physical presence helps with our digital strategy. This insight came from our experience in Indonesia. We noticed several years ago that our Indonesia Digibank was performing better than India Digibank. The reason for this difference is that in Indonesia, we had a physical branch footprint from our acquisition of ANZ's Indonesia operations. This branch footprint allowed us to gain brand recognition among people living close to the branches. This adds to our last-mile services for customers and actually increase digital adoption. This experience led us to our subsidiarisation of our India franchise which allowed us to open branches in the country. While the bulk of the transactions are done digitally, the branch presence helps with last-mile service delivery and brand recognition. While a physical branch presence will help with our digital strategy, we do not need that many branches in India. Over the next two or three years, we will rationalise our branch network there.

Rebecca Isjwara (S&P Global Platts) Do you see scope for a reversal of the general provisions taken in 2020, and what might trigger that?

Piyush Gupta I answered that question earlier. There is scope for reversal because as SP is taken, some of these provisions which were initially recognised as GP is revered; it's an automatic process. But we do have some management overlay as part of the GP we took last year to buffer up our general allowance reserves. At this point in time, we do not have clarity on whether we could reverse these allowances. If the economic situation improves, there is scope to write back some of these provisions.

We gave guidance last year that total allowances will be in the $3 billion to $5 billion range. Assuming that we end up at the middle of our guidance, which is $4 billion, then we have already taken the majority of total allowances in 2020, which is $3.1 billion. So, this year we may end up taking another $1 billion of incremental provisions, which is what we do in a normalised year.

Jean Khong Thank you for joining us.