



Edited transcript for DBS third-quarter 2023 results briefing for buy and sell sides, 6 November 2023

Nicholas Teh Welcome to the third-quarter briefing.

Tan Yong Hong (Citi) I have three broad questions. Firstly, are higher corporate repayments leading to pricing competition for loans and lower Casa ratio?

Piyush Gupta So far, we have not seen pricing pressure in the large corporate book, which forms the bulk of our lending. Where we have seen some pressure is in trade, and we have let some trade loans run off. Trade is low margin and if it is well priced, you should get 40 to 50 basis points, but when it starts getting to 25 basis points, we prefer to let it run off. We are also seeing pressure on the mortgage book in Singapore. Our through-the-door pricing was about 3.3% during the quarter but some competitors are at 3.0-3.1%.

The low Casa ratio comes from repricing as customers move from current accounts to fixed deposits. Our SGD Casa ratio is 86% and the US dollar book is 33%. Overall, deposit costs have been better than anticipated. Deposit beta was about 38% in the third quarter and by the end of the year, we might get to 40%. For next year, we expect it to be around 42%.

Tan Yong Hong My next question is on the guidance for flattish net interest income in 2024. What kind of Fed funds rate are you factoring in?

Chng Sok Hui We are assuming that Fed rate cuts will not happen until the second half of the year and cuts at the tail end of the year will have a lesser impact. Other factors to consider are the \$105 billion of fixed rate assets that have yet to reprice this rate hike cycle, and Citi Taiwan, which adds three basis points to NIM.

Tan Yong Hong You mentioned double-digit growth for fees next year. What about the treasury customer sales income?

Piyush Gupta We think both treasury customer sales and fee income should be able to do double-digit growth next year.

Tan Yong Hong Is 13.5% CET-1 ratio broadly in line with your internal target?

Piyush Gupta Our target CET-1 ratio is between 12.5% and 13.5%, so 13% is a better number to work with. I guided earlier that we have \$2 billion-3 billion of surplus capital to return. It is something that we're mindful of and dividends will be evaluated by the Board at year-end.

Aakash Rawat (UBS) Hong Kong property prices have continued to fall. Are you comfortable with your exposure to the mid-tier developers in that market? What is the split between mid-tier and top-tier? What is the provision coverage for your Hong Kong book?

Piyush Gupta We do not have a large mid-tier exposure. The bulk of exposure is to top-end names such as Swire, the Jardines and Henderson. Our secured book for commercial real estate has an LTV below 50%, so even with a big drop in prices, our collateral still holds value. The companies are also fundamentally strong so we are not seeing any signs of stress because of the counterparties that we bank.



Jacqueline Chan (DBS HK CFO) The allowance coverage ratio was 105% at end-September for the overall Hong Kong franchise.

Aakash Rawat If China's growth is expected to slow in the future, should EPS growth for DBS also be lower?

Piyush Gupta We have not grown our China-related exposure or business for the past two years and we have still been able to get high EPS growth rates. This year, China declined and we have continued to generate growth.

One of our investment theses for DBS is the diversified opportunity across Asia. Apart from our two core markets in Singapore and Hong Kong, we have four growth markets. The diversification helps us handle the peaks and troughs better. In the first half of the decade, we were heavily China-driven and had challenges in South and Southeast Asia. In the past three to four years, China has been slow but we have caught up in South and Southeast Asia.

Secondly, even if China slows, we can still find opportunities for growth. Some sectors are still doing well, while there continues to be opportunities in the China-outbound business and the Greater Bay area. Our presence in China is small so we can pick and choose opportunities without getting buffeted by the macro aggregates.

Aakash Rawat The tech cycle seems to be bottoming out, will that have an impact on loan growth next year?

Piyush Gupta There might be some upside in tech-related sectors going into next year, but it is too early to be definitive about it.

Aakash Rawat What was the net new money in the third quarter?

Piyush Gupta It was \$5 billion-\$6 billion. We have been getting \$6 billion per quarter recently and are on track for that in the fourth quarter as well.

Aakash Rawat Why is DBS having more tech issues compared to other banks?

Piyush Gupta We have progressed more than most banks on micro-services architecture. This means that we stitch a lot of our own developed services with third-party services, which then increases our reliance on different vendors for various pieces of software. The architecture gives you advantages and allows you to be more nimble and adaptive, which is why all the big tech companies do it, but it also increases your service vulnerability. So we have laid out a comprehensive roadmap and we are going to be more rigorous with our change control and operations management.

Aakash Rawat Do you think many other banks would also be going down this route in the future?

Piyush Gupta Every company is going down this route. It is just that we started earlier, in 2013.

Nick Lord (Morgan Stanley) I have a couple of questions. First, are you still seeing strong inflows of deposits and how do you manage deposit pricing? The second question is on wealth, how



much of the growth in wealth fees is bancassurance-driven and is there a pick-up in other wealth management activity?

Piyush Gupta Deposit pricing varies by currency. We had about \$90 billion of Casa outflow last year, and this year we are expecting the outflow to halve to about \$45 billion-50 billion. Next year, we expect \$20 billion-25 billion of outflow. This has been factored into our NIM projections. As Casa flows out, it is a deliberate choice whether we want to replace it with fixed deposits. If we need the funding, we price fixed deposits at market or close to market. But if we have enough liquidity and we do not need to compete for fixed deposits, then we let it go. So it is a tactical choice.

On wealth management, both banca and non-banca grew about 20%.

Nick Lord What are customers moving into? Why do you think they are interested to invest in now?

Piyush Gupta In the third quarter, investment activity picked up. Customers were beginning to go into fixed income because the rate cycle was peaking. They were also more willing to do equity-linked structures. That slowed down in October because of uncertainty around geopolitics but fixed income is still robust.

Melissa Kuang (Goldman Sachs) I have two questions on guidance, first on the 2024 net profit, is it on the core net profit excluding one-time integration expenses? Second, is the \$80 million budget to enhance system resiliency included in the expense forecast for next year?

Piyush Gupta On net profit guidance, we are looking at a flattish bottom line on an organic basis with Citi Taiwan adding about \$200 million on top of that. On expenses, the \$80 million is not all new spending because we are pausing non-essential IT changes and redirecting resources to enhancing resiliency. There is also some spend that we are taking this year, which is why expenses are a little higher than expected. The rest of it is factored into next year and the expense guidance includes that.

Melissa Kuang Do the tech issues impact capital return plans for the \$2 billion-3 billion of excess capital?

Piyush Gupta It is premature to talk about that now and we will look at it at year-end. Assuming we don't have more challenges, we should be in a position to continue with our plans to return capital.

Melissa Kuang On commercial real estate exposure, one of your peers had to update valuations and take some credit costs for it. How do you see the valuations and LTVs for your CRE book?

Piyush Gupta We update our valuations regularly and are comfortable with what we have. We do not have a lot of US-based commercial real estate exposure, which some other banks have.

Melissa Kuang Excluding the recent money laundering case, what drove SP this quarter?

Piyush Gupta There were a couple of cases from smaller property-related exposures in China, which we topped up allowances for.



Harsh Modi (JP Morgan) Is there any impact on your deposit franchise from the tech issues?

Piyush Gupta No, I do not expect to see an impact on the deposit franchise.

Harsh Modi Is there no exposure to the mid-sized and small or higher-risk landlords in the Hong Kong book?

Piyush Gupta I will not say none but they are not material and the LTVs are low. The total CRE exposure in Hong Kong is \$19 billion. Of that, about \$3 billion is office, \$3 billion is retail and \$13 billion is mixed use. These are mainly to the top corporates.

Harsh Modi Has NIM peaked at 2.15-2.20%, regardless of the direction of interest rates?

Piyush Gupta It depends on the number of rate cuts or hikes. If you see aggressive rate hikes, then NIM will increase. Assuming no more rate hikes from here, NIMs will peak at the 2.15-2.20%.

Harsh Modi On mortgage competition, how do you think about balancing market share and profitability?

Piyush Gupta Mortgage is an attractive product because the risk weight is low, so even with low NIM, returns can be decent. But we are sensible and selective. I mentioned that our through-the-door pricing of 3.3% was higher than some competitors at 3.0% during the quarter, so we have been willing to let market share run off.

Neel Sinha (CLSA) I would like to know how Lakshmi Vilas Bank is doing now that it has been almost a year out of the lockdowns. Where do you think it will be in terms of your overall asset portfolio in about three years? Secondly, how is Shenzhen Rural Commercial Bank (SZRCB) performing?

Piyush Gupta Our India business grew about 20% this year. We indicated that over the next three to four years, we can effectively double the size of the book, and that is on track.

SZRCB continues to do well. It is Shenzhen-centric, consumer retail deposit funded to a large extent and focused on SME and some new sectors. NPL ratios are healthy at 0.9% and CET-1 ratio is high.

Aakash Rawat On the AML-related exposures, you have taken provisions for most of them already but is there a chance the amount can increase? How prudent are the provisions for the exposures that are property backed?

Piyush Gupta We did a complete search on exposures that might be similar and might be connected so the allowances taken are prudent.

Chng Sok Hui We have assumed zero value for most of the properties.

Aakash Rawat How does the outlook for double-digit non-interest income growth in align with the Treasury Markets income guidance of \$230 million per quarter?



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Piyush Gupta The Treasury Markets income guidance of \$230 million per quarter combines both Treasury Markets net interest income and non-interest income. Adding both together provides the most relevant view on Treasury Markets performance and reflects pure warehousing and positioning-related activities. Last quarter, we lowered the guidance to \$230 million from \$275 million because of the high funding cost on that book. For the third quarter, we were at \$166 million and we are expecting it to improve, but it will not go back to the \$275 million per quarter next year because the funding cost is still very high.

Outside of that, the treasury customer sales activity, which is recorded in the commercial book, grew about 10%. That will continue to grow.

Chng Sok Hui To be very clear, if you look at slide five of the CFO presentation, the nine-month Treasury Markets income is \$612 million. This is the number that corresponds to the \$230 million per quarter guidance. The commercial book includes treasury customer sales which are customer driven and quite distinct from Treasury Markets, which can be volatile.

Neel Sinha On Lakshmi Vilas Bank again, with a doubling of the franchise over the next few years, how much capital will be required for growth?

Piyush Gupta We will have to put in about \$500 million-\$600 million of capital in India over the next three years.

Nicholas Teh We do not have any more questions so that is it for the call. Thank you.