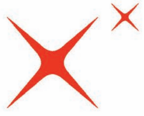

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Edited transcript for DBS fourth-quarter 2023 results briefing for buy and sell sides, 7 February 2024

Nicholas Teh Welcome to the fourth-quarter briefing.

Yong Hong Tan (Citi) I have three questions. First, can we have some thoughts if trading income of $800 million per quarter can be sustained? I am looking at the total other non-interest income which was about $3.2 billion in 2023.

Piyush Gupta For that $800 million, a big chunk of it is treasury customer sales, where the franchise has grown very strongly, and is sustainable. Partly because of Wealth Management as we continue to structure more products. We are also seeing the impact from the growth of our FX business.

The other portion is trading or Treasury Markets income, which includes warehousing and market making. We only made $113 million in that part of the business in the fourth quarter because of higher funding costs, as we fund those positions at market rates. If rates start coming off in the second half of the year, that will benefit Treasury Markets income. For 2024, we are budgeting $900 million, or about $230 million a quarter.

Yong Hong Tan Second, what is the sensitivity of net interest income to interest rates?

Piyush Gupta The interest rate sensitivity of our commercial book is about $9 million-10 million per basis point, for a full year. This is lower than what our interest rate sensitivity used to be at about $18 million-20 million per basis point at the start of the interest rate cycle.

Two things have happened which has brought our interest rate sensitivity down. One is that we have changed the nature of our book and added more fixed-rate assets. Therefore, the floating rate component of our book is slightly smaller. The other factor is that there has been so much conversion from Casa to FD which limits the sensitivity on the downside, as fixed deposits will reprice lower when rates go down.

Yong Hong Tan My final question is on dividends. You do not have a policy for payout ratio but what level would you be comfortable raising your payout ratio to?

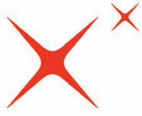
Piyush Gupta To return the capital we want, the payout ratio has got to be in the 70% range and that's something that the Board has recognised.

Aakash Rawat (UBS) My first question is on dividends. Why did you go down the route of a bonus issue as opposed to just increasing the quarterly DPS by the equivalent amount to $0.59?

Piyush Gupta The bonus issue gives you certainty. We could have raised the DPS by the equivalent amount but if I raise the quantum, I can also cut it down. Whereas with the bonus issue, once I issue the shares, it is hard to take them back. So the bonus issue gives you more certainty and shows that we are committed to returning capital.

Aakash Rawat Did MAS constrain your ability to pay a special dividend?

Piyush Gupta It was not an MAS requirement, but it was our own Board consideration that given everything that is happening on tech, it is not the right time for a special dividend.



Aakash Rawat On your guidance of NIM resilience, is it largely based on the timing of the rate cuts or is it also based on the deposit beta?

Piyush Gupta Our net interest income, and therefore the NIM resilience is predicated on several things. I think we will continue to see Casa repricing this year, but it will slow. In 2022, we had about $90 billion of Casa reprice. Last year, we had $40 billion. This year, I am expecting another $20 billion or so of Casa to reprice which seems about right because in the fourth quarter, the repricing slowed down dramatically. Repricing in the first month of this year has also been slow. Nevertheless, the Casa repricing will cost us about $500 million of net interest income. The interest rate sensitivity of our commercial book will cost another $200 million. In total, I expect about $700 million of headwinds.

On the other hand, we have some tailwinds. We have about $40 billion of fixed-rate assets repricing this year which will get a yield uplift of about 1.7-1.8%, this equates to about $400 million. The full-year impact of Citi Taiwan will give us about $200 million. The TM drag will also be lower when rates get cut in the later part of the year, and that provides another $100 million.

So when I match the headwinds and the tailwinds, I get a net interest income which is about flat year-on-year and I think the NIM drops off slightly from the 2.13% in the fourth quarter.

Aakash Rawat The final question is how are you thinking about your China exposure, particularly since you recently increased your stake in Shenzhen Rural Commercial Bank?

Piyush Gupta We are quite clear about our strategy, and we have also been consistent about the Greater Bay Area. We think it is a long-term opportunity that is going to continue to be a big engine of growth.

We like Shenzhen Rural Commercial Bank, because it is a Shenzhen bank. It does not have exposure to major real estate developers that are in distress. It is mostly architected around Shenzhen. Its capital adequacy, returns and NIM are good. We are on the Board and are actively involved with the credit portfolio, so we like the nature of the bank. It allows us to link and build into supply chain networks that we want to. So over time, this is going to be a good platform for us to build out our Greater Bay Area business.

On a regulatory capital basis, this investment is returning us 25-30% ROE and we do not see that changing.

Harsh Modi (JP Morgan) On the low-40% range cost-income guidance. The number I should compare is 39% going to 40-42%?

Piyush Gupta Correct.

Harsh Modi If we do not get any rate cuts and your margins hold up, when will the high rates start impacting your portfolio's asset quality in a meaningful way?

Piyush Gupta I have been expecting the asset quality to start showing up for the last 18 months, ever since the start of the rate hike cycle. However, it has not shown up. We are not unique, as it's not showing up anywhere in the world, outside of commercial real estate and isolated pockets.

In our case, we are not seeing any delinquency build up in SME. But we did proactively manage the portfolio to reduce exposure to weaker sectors. On the consumer side, I am seeing some pickup in consumer delinquencies, but by and large, they are still lower than they were in 2019, pre-COVID.

If rates do not get cut, I suspect you could see some asset quality issues, which is one of the reasons why we have not touched our $2.2 billion GP overlay.

Harsh Modi On Hong Kong commercial real estate, could you provide data on two or three of the weakest borrowers? Also, for the loan-to-values, what are the cap rates being used?

Piyush Gupta A lot of our loans is corporate lending to high-quality names, they are very solid. There was some noise on New World, but after their capital raising, that noise is gone because they had enough money at the parent level. For the rest of the portfolio, we have done some very detailed kicking of the tires, on both the property and the corporate balance sheet.

[Afternote: Property values are based on valuation reports prepared by professional valuers using various methodologies, including the income capitalisation approach. The cap rates applied vary across asset type, quality and location. For office properties, the cap rates are generally in the range of 3-4%. For retail properties, cap rates are generally in the range of about 3.5-5.0%.]

Harsh Modi What could derail the strong growth momentum in fee income?

Piyush Gupta We budgeted double-digit growth for card and wealth management fees. Everything I am seeing on flows and conversion of deposits to investments, looks robust. Of course, if there is a risk-off event somewhere, sentiment can get impacted. If market sentiment turns wealth management investments tend to dry up, but I am not seeing that right now.

Weldon Sng (HSBC) My first question pertains to NIM. You mentioned an increase in fixed-rate assets. Could you provide colour on the type of fixed-rate assets as well as their duration and yield? Have you increased hedges, and were there other things done to protect NIM in view of a falling rate environment?

Piyush Gupta When I say fixed-rate assets, I am referring to both cash assets and swaps, which includes our hedges. We have added $30 billion plus of duration, locking in yields around the 4.5% level for the next two, three years.

Chng Sok Hui The cash assets are mainly in government securities.

Weldon Sng You said previously that floating-rate loans were 70% of total loans. What is the percentage now?

Piyush Gupta Fixed-rate assets stand at $180 billion, one-third of commercial book interest-bearing assets of about $530 billion. So the floating-rate proportion is two-thirds.

Weldon Sng Regarding Wealth Management, during the Investor Day, you alluded to structural improvements allowing you to generate more revenue from AUM compared to peers. Given this, why are you guiding for just low single-digit growth? Could it be higher?

Piyush Gupta We did not say low single-digit. We guided for low-teens growth for Wealth Management.

Shee Tse Koon Last year's growth was very robust. If interest rates go down, that would be another tailwind for us in Wealth.

Weldon Sng Regarding the CSR commitment. Is it correct to understand the $100 million payment is a yearly thing for the next nine years?

Piyush Gupta Yes, correct. We reported it as a "one-time item". We debated how to present the item in the financials. Going forward, we will still reflect it below the line as a non-operating item.

Weldon Sng Are further increases in ordinary dividend your base case? Because now your payout is 65% or 70%? With stable or falling NIM and some RWA growth, shouldn't the ordinary dividend be stable rather than growing?

Piyush Gupta No, because there is so much capital, we can afford to increase dividends by $0.24 a year for the next two to three years in our base case.

Weldon Sng But if you say earnings are stable, then the payout will be higher and higher if the ordinary dividend keeps going up.

Chng Sok Hui We should be able to sustain the 24-cent per year increase for two to three years. It is not just payout from earnings for the year, but there is also an element of a capital return from the stock position as we currently have a CAR ratio that is quite high.

Weldon Sng This year's payout ratio will already be close to 70% right? So you are saying that you can go up to even 80% or 90% in subsequent years?

Piyush Gupta Like I said, the ratio goes into the 70% range in our projections. The Board recognises this. However, we decide on dividends each quarter, and there are no approvals for future dividends now, so I cannot provide a more definitive answer. But yes, we recognise that the payout ratio could potentially rise to the 70% range.

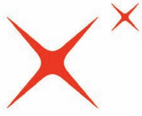
Melissa Kuang (Goldman Sachs) Can we assume this bonus issue is a one-time thing that will not be repeated next year? And further return of excess capital will come through specials instead?

Piyush Gupta All options are on the table. We could do special dividends. We have some capacity to do buybacks. We still have room to further step up ordinary dividends, including through another bonus issue.

Melissa Kuang If dividends increase $0.24 per year for two to three years as you mentioned, what happens after that? How should we think about dividends past this mark?

Piyush Gupta I cannot give you the answer to that yet. For now, we can continue to increase ordinary dividends by the $0.24 a year that was part of the medium-term guidance we provided at the Investor Day in May last year. To the extent we have excess capacity to return, we will figure out how best to do it.

Melissa Kuang Past the two-to-three-year mark, we should not see you having the need to cut DPS right? Say if rates go back to near zero, will you maintain the DPS?



Piyush Gupta Our projections have been stress-tested, not down to zero rates, but sensitised to the possibility of rates collapsing. Even under such a scenario, we don't foresee the need to cut DPS.

Melissa Kuang You previously guided for total credit costs for 2024 of 17-20 basis points. And now it is specific allowances that are to be 17-20 basis points. Are you just not expecting any GP this year, given that you have a lot of buffer? Or will there be a little bit of GP this year, such that the total credit cost would be higher than the 17-20 basis points that you are now guiding?

Piyush Gupta I do not think total credit costs will be higher than 17-20 basis points. I do not anticipate adding much more GP because we have $2.2 billion above the modelled amount. We are sitting on a huge amount of surplus GP already.

Melissa Kuang Regarding CRE, some of your peers had the issue with RWA when they downgraded their credit exposures. Do you foresee that happening to your portfolio? Or has it happened over the last year but was not highlighted?

Piyush Gupta No, we have not had any material downgrades. We have managed to avoid problems in China, unlike many of our peers. We have been closely monitoring the CRE portfolio. I recently spent three days in one-on-one conversations with our biggest clients. We have not found it necessary to revisit valuations and therefore risk weights.

Harsh Modi What is hindering stronger credit growth? Is it slower economic activity, or unattractive pricing due to borrowers switching into lower-yield currencies? Considering that most trade finance loans have sub-one-year tenors and with a lot of bonds up for renewal, is there a possibility we get a pick-up in credit demand in the 3-5% range. Are there any early signs of this?

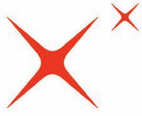
Piyush Gupta We have been getting growth in many segments. We are getting good growth in India. The TMT cycle is turning around, and we are beginning to see growth in the TMT sectors.

Our challenge has been higher repayments. A lot of this has happened in North Asia, because people are borrowing onshore in China where it is cheaper. Because of high interest rates, people are also using whatever cash they can find to repay loans. North Asia activity is a headwind, but we are seeing growth elsewhere, though not massive growth.

We will see some loan growth this year. In 2023 it was flattish. In 2024, we expect low single-digit growth. India is growing quite nicely as mentioned. Any big upside depends on a China and Hong Kong turnaround, which I do not see happening this year.

Harsh Modi You alluded to better loan growth if we get more rate cuts. I am struggling to understand this. If we get, say, a 100-basis-point rate cut, will it really change the IRR of projects and lead to higher credit growth? Is it just that rate cuts lead to better confidence on growth, and hence better credit demand?

Piyush Gupta So, for example, we have a $40-50 billion portfolio of wealth management loans. That came down by $1 billion last year because of high interest rates. If rates come down by one percentage point, people will start putting on leverage again for wealth activity. They will be opportunistic, evaluating the cost of borrowing relative to the returns they can get.



Harsh Modi Are regulators in your geographical footprint asking you to mark down CRE valuations? Some regulators are doing this, scrutinising assessed values of certain CRE.

Piyush Gupta No.

Aakash Rawat You said that wealth management inflows have remained strong in the fourth quarter. Could I understand whether the geographical mix of these inflows is similar as before or has it changed?

Piyush Gupta It is similar. Net new money was $6 billion for the quarter and remains quite broad-based from North Asia, Southeast Asia and India.

Aakash Rawat You said that the investments-to-deposit mix is improving. You said previously it was a 50-50% split, what is it now?

Piyush Gupta It is now a 54%-46% split.

Aakash Rawat If sentiment keeps improving as rates come down, do you think that the return on AUM that you had shared at the Investor Day of 100 basis points could go up?

Piyush Gupta It should.

Tejkiran Kannaluri (White Oak Capital) At the media briefing, you said that if rates surprise on the downside, you can still meet guidance of stable net interest income by growing faster. Does it mean that front-book yields are still higher than back-book yields?

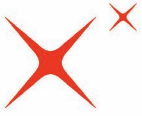
Piyush Gupta Yes. Through-the-door floating rate loans are still higher yielding than the portfolio. We have $180 billion of fixed-rate assets, of which $90 billion have yet to reprice this cycle. The $90 billion yields about 2.5%, while the through-the-door loans have 4% plus rates depending on the loan category.

Tejkiran Kannaluri Regarding what you said on the investments-to-deposit ratio, could you quantify the difference in income we get from a customer who is deploying his funds in investments versus a customer who holds them in deposits?

Piyush Gupta Right now, it is not that much different because deposits also earn us a lot of money given the high interest rates. The deposit spread depends on how much stays in Casa and how much customers put in fixed deposits, but it is decent. For investments, we can make around 1% of fees on AUMs with close-to-zero risk, and therefore close-to-zero capital. That is a more attractive proposition than deposits.

Tejkiran Kannaluri Could you help us understand the long-term ROE trajectory in India. Over a five-to-seven-year timeframe, which levers will be the most important? Are you expecting higher ROE from cost control or other levers?

Piyush Gupta There are two main levers. The first is business mix. Our business used to be mostly large corporates. Returns on large corporate business are low, 10-12% at best. What we are doing with digital and LVB is to achieve a better balance in our business mix. The aim is to get to a mix of one-third for large corporate, one-third for SME/mid cap and one-third for consumer. The



ROE on SME, mid cap and consumer can be much higher than large corporate because the margins are better in these segments.

The second is scale. Our cost-income ratio for the India business is still in the high 70% range, and we are still losing money on the consumer business. But that is a function of operating leverage. As we continue to grow volumes and get scale, the cost-income ratio will come down.

Nicholas Teh That brings us to the end of call. Thanks everyone for dialling in. We will see you next quarter.