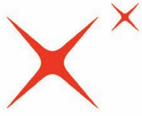

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Edited transcript of DBS second-quarter 2024 media briefing, 7 August 2024

Edna Koh Welcome to DBS's second-quarter results briefing.

Chng Sok Hui Good evening, everyone.

Highlights. We delivered another strong performance in the second quarter with net profit rising 4% from a year ago to $2.80 billion, and ROE at 18.2%. This brought first-half total income and net profit to new highs.

For the second quarter, total income increased 9% from a year ago to $5.48 billion, with the commercial book increasing 9% to $5.30 billion. The growth was broad-based. Net interest income was higher as the balance sheet grew and net interest margin expanded two basis points to 2.83%. Net fee income reached a new high and treasury customer sales remained strong. Markets trading income also grew 6%.

Expenses were 12% higher, with Citi Taiwan accounting for five percentage points. The cost-income ratio was 40%.

For the first half, net profit was up 9% to $5.76 billion. Total income increased 11% to $11.0 billion as fee income and treasury customer sales reached new highs and commercial book net interest margin expanded by five basis points. Expenses rose 11%, with Citi Taiwan accounting for five percentage points. They were little changed compared to the previous half. The cost-income ratio was 39%.

Asset quality remained sound. The NPL ratio was unchanged from the previous quarter at 1.1%. Specific allowances remained low at eight basis points of loans for the second quarter, bringing the first half to nine basis points. Allowance coverage was at 129% and 227% after considering collateral.

Capital was healthy with CET-1 ratio at 14.8%. Liquidity remained ample, with LCR and NSFR well above regulatory requirements.

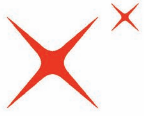
The board declared a dividend of 54 cents per share for the second quarter.

Second-quarter year-on-year. Compared to a year ago, net profit was 4% higher as total income grew 9%.

Commercial book income increased 9% to $5.30 billion. The growth was broad-based. Net interest income rose 5% or $188 million to $3.77 billion as net interest margin improved two basis points and loans grew. Fee income rose 27% or $225 million to $1.05 billion, with double-digit growth in wealth management, cards and loan-related fees. Treasury customer sales and other income remained strong, increasing 3% or $14 million to $478 million.

Markets trading income also rose, by 6% or $10 million to $187 million.

Expenses were 12% or $241 million higher at $2.17 billion, with Citi Taiwan accounting for five percentage points of the increase.



Profit before allowances increased 6% to $3.31 billion.

Specific allowances remained low at $97 million or eight basis point of loans. General allowances of $51 million were taken, compared to a write-back a year ago.

Second-quarter quarter-on-quarter. Compared to the previous quarter's record, net profit was 5% lower as total income was little changed and expenses rose 4%.

Commercial book total income was stable. Net interest income increased 3% or $122 million as net interest margin expanded six basis points led by fixed-rate asset repricing. Fee income rose slightly to a new high. These gains were offset by a 23% or $143 million decline in commercial book other non-interest income. Excluding non-recurring gains, commercial book other non-interest income was 15% lower than the previous quarter.

Markets trading income fell 24% or $59 million.

Expenses rose 4% or $93 million, led by higher staff costs.

Profit before allowances were 5% lower.

Total allowances were 10% or $13m higher from a low base.

First-half. For the first half, net profit increased 9% as total income rose 11%, both were at new highs.

Commercial book total income grew 11%. Net interest income grew 6% or $451 million to $7.42 billion as net interest margin expanded five basis points from higher interest rates. Fee income rose 25% or $417 million to a record $2.09 billion, led by growth in wealth management fees, card fees and loan-related fees. Treasury customer sales and other income increased 23% or $203 million to $1.10 billion. Excluding non-recurring gains, it was up 12%.

Markets trading income was little changed at $433 million.

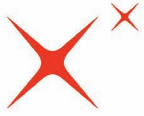
Expenses grew 11% or $438 million to $4.25 billion. Citi Taiwan accounted for five percentage points of the increase. The cost-income ratio was 39%.

Profit before allowances was 10% higher at $6.79 billion.

Specific allowances remained low at $210 million or nine basis points of loans, similar to the eight basis points a year ago. General allowances of $73 million were taken.

Net interest income. Compared to the previous quarter, commercial book net interest income increased 3% to $3.77 billion. Net interest margin improved six basis points to 2.83% led by fixed-rate asset repricing.

Compared to a year ago, commercial book net interest income rose 5% as net interest margin improved two basis points, and loans and deposits were higher.



Markets trading net interest income continued to be negative this quarter due to products with inherent accounting asymmetry where income is taken in the non-interest income line and funding cost is taken in net interest income. These activities are accretive to income but dilutive to net interest margin at the GFM level.

Combining the commercial book and the markets trading, the Group's net interest income grew 3% from the previous quarter to $3.59 billion, while net interest margin was unchanged at 2.14%. Compared to a year ago, Group net interest income was 5% higher as growth in loans and deposits was partially offset by a two-basis-point contraction in net interest margin.

For the first half, commercial book net interest income increased 6% to $7.42 billion from a five-basis-point expansion in net interest margin to 2.80%. The Group's total net interest income was 6% higher driven by loan and deposit growth, and stable net interest margin of 2.14%.

Loans. Gross loans were stable in constant-currency terms during the quarter at $431 billion, as increases in trade and wealth management loans were offset by a decline in non-trade corporate loans. While there was good demand for non-trade corporate loans, this was offset by idiosyncratic repayments, including some due to asset sales by clients.

Over the first half, loans grew 1% or $5 billion. The growth was led by trade and non-trade corporate loans, both of which grew by $3 billion.

Deposits. During the quarter, deposits were stable in constant-currency terms as Casa and fixed deposit flows stabilised. Casa declined $2 billion, one-third of the first quarter's pace and one-fifth a year ago.

Amidst the slower loan growth, we continue to profitably deploy surplus deposits to high quality liquid assets. These assets consume limited capital and boost liquidity ratios. LCR of 148% and NSFR of 116% were well above regulatory requirements.

Fee income. Second-quarter gross fee income rose 27% from a year ago to $1.26 billion. Excluding Citi Taiwan, which was consolidated in third-quarter 2023, gross fee income grew 17%, unchanged from both the previous two quarters.

This quarter's growth was led by wealth management fees, which rose 37% to $518 million. Excluding Citi, they increased 25% driven by a shift from deposits to investments and bancassurance, and by expanded assets under management. Assets under management grew 24% year-on-year to a new high of $396 billion, with Citi contributing 10 percentage points to the increase. We had $3 billion of net new money inflows in the second quarter, bringing the total to $9 billion for the first half. Gross inflows remained strong during the quarter, but outflows were higher due to client diversification into real assets and more competitive deposit rates offered by other banks.

Card fees increased 32% to $313 million from higher spending and the inclusion of Citi. Excluding Citi, card fees rose 9%.

Loan-related fees also saw significant growth, rising 40% to $186 million due to an increased number of deals.

Transaction service fees were 3% higher at $228 million, while investment banking fees fell 39% to $19 million.

For the first half, gross fee income rose 26% to a record of $2.54 billion.

Commercial book non-interest income. First-half commercial book non-interest income, which is boxed up in red, rose 24% from a year ago to $3.19 billion. The growth was driven by fee income and treasury customer sales, which both reached new highs. There were also non-recurring gains on FX hedges for our overseas operations accounting for around $100 million or four percentage points of the increase.

For the second quarter, commercial book non-interest income was 19% higher than a year ago at $1.53 billion. Fee income was at a record, while treasury customer sales were over 20% higher. Compared to the previous quarter, and excluding non-recurring gains, commercial book non-interest income was 5% lower.

Combining commercial book and markets trading, total non-interest income was $3.94 billion for the first half, 20% higher than a year ago. For the second quarter, it was $1.89 billion, 17% higher than a year ago.

Expenses. First-half expenses rose 11% from a year ago to $4.25 billion, with Citi Taiwan accounting for five percentage points of the increase. Compared to the previous half, expenses were little changed. The cost-income ratio was at 39%.

Second-quarter expenses were 12% higher than a year ago at $2.17 billion, with Citi Taiwan accounting for five percentage points of the increase. Compared to the previous quarter, expenses rose 4% led by higher staff costs. The cost-income ratio was at 40%.

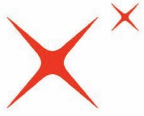
[Post-briefing note] CBG/WM. First-half Consumer Banking and Wealth Management total income rose 18% to $5.06 billion. The growth was driven by higher net interest income and record cards and wealth management fees, bolstered by the consolidation of Citi Taiwan.

Income from loans and deposits rose 9% to $3.12 billion due to higher volumes and an improved net interest margin. Investment product income increased by 42% to $1.49 billion from higher sales of investment and bancassurance products. Card income also increased, rising 34% to $420 million from higher spending.

Assets under management grew 24% to a new high of $396 billion, with Citi contributing 10 percentage points to the increase. The proportion in investments rose from 51% a year ago to 55% due to stronger market sentiment.

Singapore-dollar savings deposits fell 4% to $128 billion, with the decline occurring mostly in the second half of 2023. They were stable in the first half of this year. Total CBG deposits rose 9% to $303 billion on the back of fixed deposit growth and the reduced savings deposit outflows.

[Post-briefing note] IBG. Institutional Banking's first-half income was stable from a year ago at $4.69 billion, as higher loan-related fees, cash management fees, and treasury customer sales offset lower net interest income.



Total income from loans increased 2% to $1.74 billion driven by higher volumes and loan-related fees. Trade income declined 7% to $320 million due to reduced volumes. Cash management income fell 2% to $2.08 billion as higher fees and a 3% growth in deposits mitigated the impact of a lower net interest margin. Treasury customer income rose 8% to $498 million. Investment banking income fell 18% to $46 million due to slower capital market activities.

[Post-briefing note] Global Financial Markets. First-half treasury customer income rose 26% from a year ago to a record $1.18 billion, driven by higher sales to both Consumer Banking and Institutional Banking customers. Sales were strong throughout the half, with income for both the first and second quarters growing more than 20% over their respective year-ago periods.

Markets trading income, which comprises both net interest income and non-interest income, was $433 million for the first half, little changed from a year ago. Lower income from rates was partially offset by stronger performances in equity derivatives, FX and credit.

Combining treasury customer income and markets trading income, Global Financial Markets income rose 17% from a year ago to $1.61 billion for the first half.

[Post-briefing note] Hong Kong. Hong Kong's first-half net profit fell 2% in constant-currency terms from a year ago to $800 million. Return on equity was 19%.

Total income increased 6% to a record of $1.68 billion driven by higher wealth management and trading income.

Net interest income was stable at $1.03 billion despite sluggish loan demand. Net interest margin was slightly higher year-on-year.

Net fee income grew 16% to $411 million led by wealth management. Most other fee activities were also stronger.

Other non-interest income increased 23% to $234 million led by higher trading gains. Treasury customer sales to Wealth Management customers were also higher, while treasury customer sales to Institutional Banking customers were stable.

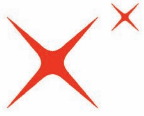
Expenses rose 8% to $626 million, led by higher staff costs and revenue-related expenses. The cost-to-income ratio was stable at 37%.

Total allowances increased from $45 million a year ago to $93 million due to higher general allowances. Specific allowances were lower than a year ago at 10 basis points of loans.

Compared to the previous half, net profit was up 3%. Total income rose 2%, led by growth in wealth management fees and trading income, which was partially offset by a 1% increase in expenses.

Non-performing assets. Asset quality remained resilient.

Non-performing assets fell 3% from the previous quarter to $5.08 billion as new non-performing asset formation was more than offset by repayments and write-offs. A few new NPAs in the first



quarter were settled in the second quarter. As such, first-half new NPAs were less than the sum of the first and second quarters.

The NPL ratio was unchanged at 1.1%.

Specific allowances. Second-quarter specific allowances remained low at $97 million or eight basis points of loans.

First-half specific allowances amounted to $212 million or nine basis points of loans, similar to the eight basis points a year ago.

General allowances. General allowances of $51 million were taken in the second quarter and $73 million for the first half.

Total allowance reserves stood at $6.55 billion, with $2.57 billion in specific allowance reserves and $3.98 billion in general allowance reserves.

Allowance coverage stood at 129% and at 227% after considering collateral.

Capital adequacy. The CET-1 ratio rose 0.1 percentage points from the previous quarter to 14.8%. The leverage ratio of 6.5% was more than twice the regulatory minimum of 3%.

Dividend. The Board declared a quarterly dividend of 54 cents per share for the second quarter. This brings the first-half dividend to $1.08 per share, 32% higher than a year ago. The payout ratio for the first half was 53%.

Based on yesterday's closing share price and assuming that dividends are held at 54 cents per quarter, the annualised dividend yield is 6.6%.

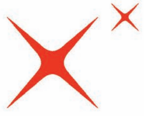
Summary. In summary, we delivered another strong set of results for the second quarter, bringing first half earnings to a new high with ROE at 18.8%.

While recent market volatility and ongoing geopolitical tensions have resulted in heightened uncertainty, we have built resilience against the risks of an economic slowdown and lower interest rates.

Our high general allowance reserves, reduced interest rate sensitivity, strong capital position and ample liquidity will position us to continue supporting customers and delivering shareholder returns.

Piyush Gupta Thanks, Sok Hui.

Our NIM stayed unchanged at 2.14%, which was good. It was driven by fixed-asset repricing in the commercial book. We had indicated earlier that $40 billion of fixed asset repricing would flow through this year. Of this amount, $27 billion was in the first half of the year with a pick-up of 180 basis points. We also took the opportunity to add a further $6 billion in fixed-rate assets during the quarter. Our total fixed asset book is now $190 billion.



The benefits were offset by Markets trading, where the funding cost was still a drag. At the same time, we continued to take deposits and place them in low-risk securities. These were accretive to Markets trading income but dilute NIM, so group NIM was flat.

We did not report any loan growth. In reality, we booked a lot of new loans, as can be seen from our loan fees of $180 million, which were similar to the first quarter and $30 million to $40 million more than a typical quarter. But we lost some loans for idiosyncratic reasons as some clients sold large asset portfolios and repaid us.

Fee income was the standout. Wealth management rose 37% and excluding Citi Taiwan it was 26%. For the first half, the growth was 30% excluding Citi. We continued to see new money inflows and the percentage of AUMs in investments went up by another percentage point to 55%. Cards were also strong, up 9% excluding Citi. Therefore, fee income was strong across the board. We are relatively comfortable with the momentum we have in fees.

The cost-income ratio continued to be fairly steady.

We not seeing signs of stress in asset quality in general. The real estate portfolio in China and Hong Kong continued to be a little stressed but, as I mentioned before, the assets are mostly secured and we do not have large vulnerable exposures. When there is migration to a weaker asset quality classification, we take additional general allowances. By and large, asset quality continued to be good. Our specific allowances were low at eight basis points.

On the consumer side, the cards delinquencies that had picked up in the first quarter levelled off in the second. Our actions on collections and card management paid off. Non-cards unsecured lending delinquencies were still creeping up in some markets, Hong Kong and India in particular, but the exposures were not material. Overall asset quality has continued to be quite good at this point.

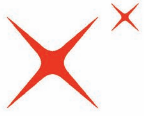
On the outlook, I want to point out we have built resiliency against a potential economic slowdown and lower interest rates. We have got general allowances of $4 billion, with more than half of it in management overlays that are above what the models require. The overlays have been in place since Covid and we have not touched them, so we have a reasonable amount of dry powder to absorb any unexpected risk from a recession.

For interest rate risks, we have built duration. Over the past few years, we added about $60 billion of fixed-rate assets, bringing the total to $190 billion. We had guided at one stage that our interest rate sensitivity was $18 million to $20 million per basis point of Fed funds rate. That was why, as rates climbed, our bottom line went from $6 billion to $10 billion.

What we have done over the past year is to prepare for a new environment. A lot of our Casa balances have gone into fixed deposits and are therefore less sensitive to rates on the way down. More importantly, we have added duration, which is now about three to three-and-a-half years. Today, our interest rate sensitivity is only $4 million.

As a result, our book is a lot more resilient both to credit and income challenges.

However, it is hard to say how the market volatility in the past few days plays out. If markets sell off massively, there will be some impact on wealth management. The good news is that after the sell-



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off the day before, the markets rebounded yesterday. And we had not seen any let-up in momentum with July numbers strong.

Based on all of this, we expect total income growth to be high-single-digit for this year, which is stronger than we previously gave – we had started with low-single-digit growth, then mid- to high-single-digit.

We are still targeting a cost-income ratio of around 40%.

We think allowances can also be better than previous guidance. We had earlier guided to the through-cycle average of 17-20 basis points. We had nine basis points in the first half and we are not seeing any major stress. We are now guiding to 10-15 basis points. While we do not know what might happen in the next few months, I would say we probably come in somewhere in the middle of that range.

Putting of that together, we will get net profit growth in the mid- to high-single-digit for the year. Why don't I stop and take questions.

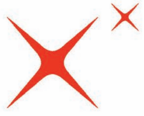
Jovi Ho (The Edge) Just a few questions. General allowances were higher than the previous quarter and a year ago even though loans did not grow. Were there any areas of concern? Could you provide colour on your commercial real estate customer profiles in Hong Kong? Finally, how will you continue to defend your $10 billion profit for this year and next?

Piyush Gupta Our total commercial property exposure in China is $14 billion, with $5 billion-6 billion to state-owned enterprises that are pretty solid, $5 billion to foreign enterprises such as Singapore companies, and $2 billion each to private enterprises and Reits.

Our total property exposure in Hong Kong is $30 billion, of which commercial real estate is $18 billion, which includes $1 billion to Chinese companies in Hong Kong. The bulk of the amount is to the established developers but there is a small amount to companies that are not blue chip. Because of the headwinds in the property sector, there has been some migration in asset quality categories in our portfolio, for example from amber to red. The numbers are not big, but as the portfolio migrates, we add general allowances.

We had two NPLs in the portfolio between China and Hong Kong this year, of about $100 million each in the first and second quarters. We expect one of the cases to get resolved soon and we get repaid.

How do we defend the $10 billion profit for next year? It is still early to give guidance, but if you go back to the $4 million interest rate sensitivity, and you assume the Fed does eight rate cuts and that they will not all happen at the beginning of the year, it would be $600 million to $800 million of income loss. The question is how we offset that. I think if rates come down, loan growth will go up. Wealth management should be fine unless there is a big sell-off in the markets. We lose some income from lower interest rates but make it up from loan growth and double-digit growth in non-interest income, putting us reasonably well positioned for income. For credit charges, we have enough general allowance reserves that we can dip into, but right now we are not seeing a need.



Felicia Tan (The Edge) A few questions on digital banks. First, do they pose any challenges in Singapore and in your overseas markets? Second, in markets such as India, are you attracting Casa and new accounts via digital? Third, how many customers does DBS have in its digital bank, how do you attract new customers, and are there plans to roll out more products on your app?

Piyush Gupta I have said that before, anybody that comes in with a banking proposition is a challenge and we have to be competitively positioned. However, in our home market, not just us but all the Singapore banks have done enough to ensure we are as credible as any digital challenger. There is no digital bank out there that has a better digital capability or experience than ours. There is some threat when new entrants, digital or not, use pricing, but what we have seen in Singapore and Hong Kong is that they do so only for short periods of time. Our experience is that digital banks tend to compete in niche market segments. We can hold our own in the broader market where the large revenue and wallet pools are. Quarter after quarter, our results in all our markets continues to show that we can hold our own.

We are getting Casa growth everywhere, including Indonesia and India, where we combine digital with physical branches. Customers still like to see branches but then transact on mobile and desktop. We are continuing to grow Casa, but you do need to be phygital, not purely digital.

When we tried attracting customers through digital marketing, we found there was adverse customer selection. We got three million customers in India in the first 18 months but many of them were not good-quality ones. There were eyeballs but they could not be monetised. With phygital, we get customers of much better quality.

We already have a complete suite in the overseas markets we operate in but we have to keep improving. For example, we have some capabilities on mobile but not on desktop. When we launched digibank in India, our premise was to do only mobile, but we learned it does not work, partly because the signal can drop. A desktop was needed as backup, but we did not immediately put the same functionality and so have to go back and keep improving.

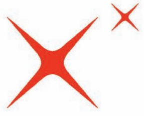
One of the things we have been working hard on is adding artificial intelligence and Gen AI into our offerings. They have been very constructive. In Singapore, for example, we do 30 million nudges a year using AI. In other markets we are still building the AI capability.

Chanyaporn Chanjaroen (Bloomberg) The CET-1 ratio is still quite elevated. What capital returns do you have in mind?

Piyush Gupta As Sok Hui pointed out, we have been quite generous in our capital and our dividend distribution already. The dividend for the first half was 32% higher than last year and the dividend yield is great at 6.6%. Still, it is true that our capital adequacy remains high. We have some fairly well-developed plans how to return capital, but it is only fair that Su Shan gets an opportunity to weigh in on it. Today is her first day on the job.

Chanyaporn Chanjaroen So you won't do a Noel Quinn and declare a share buyback?

Piyush Gupta I didn’t say what we will do and will not do, just not today.



Siti Rahil Dollah (Kyodo News) It is good to hear about the strong performance in wealth management. Can you give us a sense of how you balance the need for anti-money-laundering safeguards and staying attractive to your clients?

Piyush Gupta Trillions of dollars money flow around the world, and so you have to start with the assumption you will never get zero anti-money laundering. I would say it is like crime. No matter how good a country is, you will still have police and the courts because people commit crimes. In the same way, you will have people who try to commit money laundering and some people will get away with it. You start with that understanding.

We have been very focused on ensuring the quality of the money and the people that come in. In addition to manual checks, we increasingly use data and artificial intelligence to scroll all the universes to see if somebody has got a record. We look at the nature of the transactions that flow through and then we do post-transaction surveillance. What money flows through an account, does it then go up, does it go down?

We focus the bulk of this effort on large-value clients, the private bank. We are much more buttoned up over there. For low-value clients, we have 18 million customers, so if somebody opens a credit card account, opens a small account, you cannot do the same degree of diligence, at least in the past. If you look at the recent case involving several China nationals, many of them opened accounts in the retail bank, the small value accounts. So sometimes those kinds of accounts slip through the system.

What we are trying to do is use the same data and AI to tighten up that process as well. That is the only way it can be done. You cannot physically do it because it will require thousands of people to look at every transaction, so you have to rely on technology and AI to pick up these behaviour patterns. We continue to do that, refining the rules and getting the balance right. We will continue to be an attractive wealth centre while keeping out the bad guys as far as possible.

Edna Koh Thank you, everyone, for joining us.