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Edited transcript of DBS third-quarter 2024 media briefing, 7 November 2024

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

Chng Sok Hui Thanks, Edna.

Highlights. We delivered a record performance for the third quarter with profit surpassing $3 billion for the first time. Net profit increased 15% from a year ago to $3.03 billion, as total income rose 11% to $5.75 billion. The growth was broad-based. Commercial book net interest income rose from balance sheet growth and a stable net interest margin. Net fee income increased to a new high, led by wealth management, while Treasury customer sales also grew. Markets trading income rose to the highest level in ten quarters.

Expenses increased 10%, with Citi Taiwan accounting for three percentage points of the increase. The cost-income ratio was 39%.

For the first nine months, net profit rose 11% to a record $8.79 billion, with ROE at 18.8%. Total income rose 11% to a new high of $16.8 billion from growth in both the commercial bulk and markets trading. The broad-based increase in commercial book was from higher net interest margin, balance sheet growth, as well as record fee income and treasury customer sales.

Asset quality was resilient. Non-performing assets declined 8% from the previous quarter as repayments, upgrades and write-offs more than offset new NPA formation. The NPL ratio fell from 1.1% to 1.0%. Specific allowances remain below the cycle average at 14 basis points of loans for the third quarter and 11 basis points for the nine months.

Capital was healthy. Based on the final Basel III reforms, the transitional CET-1 ratio was 17.2%, with the fully phased-in ratio at 15.2%.

The board announced a new $3 billion share buyback programme. The programme is underpinned by a strong capital position and is another affirmation of our commitment to capital management. The third quarter dividend was maintained at 54 cents per share.

Share buyback programme. Today we announced the establishment of a new $3 billion share buyback programme. Under the programme, shares will be purchased in the open market and canceled for the first time. The buybacks will be carried out at management's discretion and subject to market conditions. These purchases will be over and above the periodic buybacks we already carried out for employee share plans.

The programme will reduce our fully phased-in CET-1 ratio by around 0.8 percentage points when completed. At the same time, it will provide a permanent lift to earnings per share, in addition to raising ROE.

The programme is the latest in a series of capital management initiatives undertaken by the Board, which included a doubling of the ordinary dividend over the past five years, occasional special dividends, and the recent bonus issue that effectively raised dividends.

Our dividend policy remains unchanged – we will continue paying ordinary dividends that are sustainable and rise progressively with earnings.

Dividends continue to be the primary means of returning capital to shareholders. Since 2019, we have doubled ordinary dividends to an annualised $6 billion, reflecting the significant structural improvements our franchise has achieved.

The current dividend of 54 cents per quarter represents an annualised dividend yield of 5.5% based on yesterday's closing price. The buyback programme is another affirmation of our commitment to capital management. It is underpinned by our strong capital position and ongoing capital generation.

<u>Third-quarter year-on-year</u>. Compared to a year ago, net profit rose 15% and crossed $3 billion for the first time.

Commercial book total income increased 8%, or $396 million, to $5.42 billion. The growth was broad-based. Net interest income rose 3%, or $112 million, to $3.80 billion driven by balance sheet growth and a stable net interest margin of 2.83%. Net fee income rose 32%, or $266 million, to a record $1.11 billion led by wealth management, which grew 55%. Commercial book other non-interest income was 4% or $18 million higher at $517 million, with the increase driven by wealth management treasury customer sales.

Markets trading income doubled to $331 billion, the highest in ten quarters as FX, interest rate and equity derivative activities benefited from market volatility.

Expenses rose 10%, or $211 million to $2.25 billion, with Citi Taiwan accounting for three percentage points of the increase.

Profit before allowances grew 11% to $3.50 billion.

Specific allowances were $77 million lower at $120 million or 14 basis points of loans. General allowances of $10 million were taken.

<u>Third-quarter quarter-on-quarter</u>. Compared to the previous quarter, net profit grew 8% as total income rose 5%.

Commercial book total income increased 2%. Net interest income was 1%, or $27 million higher, as net interest margin was stable. Fee income grew 6% or $61 million, largely due to wealth management fees. Commercial book other non-interest income increased 8% or $39 million, contributed by higher Treasury customer sales.

Markets trading income rose 77%, or 144 million.

Expenses increased 4% or $77 million from higher staff and computerisation costs.

Profit before allowances grew 6%.

Total allowances were 12% or $18 million lower.

Nine-month. For the nine months, net profit rose 11% to a new high of $8.79 billion, with ROE at 18.8%.

Commercial book total income grew 10%. Net interest income increased 5% or $563 million to $11.2 billion from a four-basis-point expansion in net interest margin to 2.81% and balance sheet growth. Fee income rose 27% or $683 million, to a record $3.20 billion led by higher wealth management, card and loan-related fees. Commercial book other non-interest income was 16% or $221 million higher, with the increase led by record treasury customer sales.

Markets trading income grew 25%, or $152 million to $764 million, with all of the increase occurring in the third quarter.

Expenses rose 11%, or $649 million to $6.50 billion, with Citi Taiwan accounting for four percentage points of the increase. The cost-income ratio was stable at 39%.

Profit before allowances was 10% higher at $10.3 billion.

Specific allowances remained low at $330 million and was stable compared to a year ago at 11 basis points. General allowances of $83 million were taken.

Net interest income. Compared to the previous quarter, commercial book net interest income increased 1% to $3.80 billion. Net interest margin was stable at 2.83%, helped by the repricing of fixed-rate assets. Compared to a year ago, commercial book net interest income rose 3% driven by balance sheet growth.

Combining the commercial book and markets trading, the Group's net interest income was little changed from the previous quarter at $3.60 billion, while net interest margin declined three basis points to 2.11%. The lower net interest margin was due to market trading's deployment into products with inherent accounting asymmetry. Compared to a year ago, Group net interest income rose 3% driven by balance sheet growth.

For the nine months, commercial book net interest income increased 5% from a four-basis-point expansion in net interest margin and balance sheet growth. Group net interest income was also 5% higher.

Loans. During the quarter, gross loans rose $3 billion or 1% in constant-currency terms to $424 billion, led by a $2 billion increase in trade loans. Non-trade corporate loans and consumer loans were also slightly higher.

Over the nine months, loans grew $8 billion or 2%, led by trade loans and non-trade corporate loans.

Deposits. During the quarter, total deposits grew $10 billion or 2% in constant currency terms to $545 billion from foreign-currency Casa inflows, some of which were transitory.

SGD Casa movements stabilised during the quarter and over the nine months, in contrast to a $19 billion outflow in the previous year.

For the nine months, total deposits rose $19 billion or 4% with all of the increase due to fixed deposits.

Liquidity was ample, with LCR of 144% and NSFR of 115%, well above regulatory requirements.

Fee income. Third-quarter gross fee income rose 4% from the previous quarter to a record $1.32 billion driven by wealth management.

Wealth management fees rose 18% to $609 million from broad-based growth in investment products and bancassurance, underpinned by strong investor sentiment. Investment banking fees were also higher, rising 63% to $31 million from increased debt capital market income. Transaction service fees were stable at $227 million, while card fees and loan-related fees were lower than their previous-quarter records at $302 million and $146 million, respectively.

Compared to a year ago, third-quarter gross fee income increased 25% led by a 55% increase in wealth management. Card fees, investment banking fees and loan-related fees also contributed to the growth. Excluding Citi Taiwan, gross fee income rose 20%, led by a 46% increase in wealth management.

For the nine months, gross fee income grew 26% to $3.85 billion, driven by increases in wealth management, cards and loan-related fees. Excluding Citi Taiwan, gross fee income rose 18%.

Commercial book non-interest income. For the third quarter, commercial book non-interest income, which is boxed up in red, rose 21% from a year ago and 7% from the previous quarter to $1.63 billion, benefiting from strong wealth management momentum. Fee income was at a record, while treasury customer sales were higher than both comparative periods.

For the nine months, commercial book non-interest income rose 23% from a year ago to $4.82 billion. The growth was led by record fee income and treasury customer sales.

Combining commercial book and markets trading, total non-interest income for the third quarter grew 28% from a year ago and 14% from the previous quarter to $2.16 billion. For the nine months, it was 23% higher than a year ago at $6.10 billion.

Wealth management. The strong wealth management performance was a highlight this quarter. Over the previous few quarters, Wealth Management segment income had been growing at a rate of around 20% year-on-year driven by accelerating growth in non-interest income, which rose to 52% this quarter. The momentum was sustained by record fees from investment products and bancassurance, as well as higher wealth management treasury customer sales.

Assets under management reached a new high of $401 billion, growing 15% in constant-currency terms, with net new money inflows of $6 billion during the quarter. The strong investor sentiment continued to fuel the conversion of deposits to investments, and the proportion of assets under management in investments reached 56%.

Expenses. Third-quarter expenses were 4% higher at $2.25 billion than the previous quarter from higher staff and computerisation costs. Compared to the previous year, expenses grew 10%, with Citi Taiwan accounting for three percentage points of the increase.

For the nine months, expenses rose 11% to $6.50 billion, with Citi Taiwan accounting for four percentage points of the increase.

Both the third-quarter and nine-month cost-income ratios were stable at 39%.

Non-performing assets. Non-performing assets declined 8% or $397 million from the previous quarter to $4.68 billion, contributed by the repayment of a few new NPAs recognized in the first quarter. Higher repayments, upgrades, and write-offs more than offset new NPA formation, which included two lumpy cases.

The NPL ratio fell from 1.1% to 1.0%.

Specific allowances. Third-quarter specific allowances amounted to $120 million or 14 basis points of loans. Allowances for new NPLs were mostly offset by writebacks for settlements and recoveries, reflecting the NPA movements in the previous slide.

For the nine months, specific allowances remained low at $332 million or 11 basis points of loans.

General allowances. Total allowance reserves stood at $6.32 billion, with $2.37 billion in specific allowance reserves and $3.96 billion in general allowance reserves. GP overlays were little changed a little at $2.3 billion.

Allowance coverage stood at 135% and at 242% after considering collateral.

Capital. Final Basel III reforms took effect in Singapore on 1 July 2024.

Under transitional arrangements, our CET-1 ratio was 17.2%. The transitional rules benefited our CET-1 ratio by two percentage points, primarily due to lower corporate LGD, removal of the IRB scalar, and a reduction in operational risk RWA.

The pro-forma CET-1 ratio on a fully phased-in basis was 15.2%. There was an increase from the previous quarter due to profit accretion and FVOCI gains.

As mentioned earlier, the share buyback programme we announced this morning will reduce our fully-phased in CET-1 ratio by 0.8 percentage points. In other words, upon completion of the buyback programme, the fully-phased in CET-1 ratio will be reduced from 15.2% to 14.4%, which is above our management operating range.

Dividends. The board declared a quarterly dividend of 54 cents per share for the third quarter, bring the dividend for the nine months to $1.62 per share.

In summary. We achieved another record performance in the third quarter and nine months. Commercial book net interest margin was supported by the reduced interest rate sensitivity of our balance sheet, while wealth management drove fee income to a new high.

The new buyback programme we announced today is underpinned by our strong capital position and ongoing earnings generation. It is another affirmation of our commitment to capital management.

With our reduced sensitivity to interest rates, high general allowance reserves and strong capital position, we remain well positioned to continue delivering healthy shareholder returns. I will now pass you to our CEO, Piyush.

Piyush Gupta Thank you, Sok Hui.

Net interest income for the quarter was stable, reflecting balance sheet growth. Group NIM was down a little bit, although the underlying, commercial book NIM was flat at 2.83%, which therefore has not reflected the recent interest rate cuts. The commercial book NIM will start declining slowly but, on the other hand, the NIM drag in the trading portfolio will reverse as well.

The decline in group NIM this quarter, by three basis points to 2.11%, was due to the deployment to trading products with accounting asymmetry. We make money in the non-interest income line while the funding cost goes into the net interest income line. It results in the anomaly in group NIM.

What is interesting to point out is that the exit group NIM in September was 2.15%. October NIM was also around those levels. It reflected the fact that the accounting asymmetry was strongest in the early part of the third quarter and declined as market interest rates came down.

On fee income, which Sok Hui pointed was at a record, the big driver was wealth management, which has continued to be very strong. The flows have been diversified across north Asia, south-east Asia, the Middle East and Europe with clients continuing to put more money to work. The percentage of investments of total AUM rose to 56%. Clients were also doing activities that give us better yield.

Trading had a fantastic quarter. If you remember, our markets trading income guidance of $275 million a quarter several years ago was progressively reduced to as low as $230 million a quarter. It was $330 million this quarter, the highest in ten quarters. We benefited across many asset classes – equity, derivatives, interest rates, FX.

The cost-income ratio was stable at 39%. Our nine-month expense growth was 11% and ex-Citi Taiwan it was 7%. We previously guided for full-year expense growth to be 9-10%, which I think we will still achieve because fourth-quarter expenses last year were particularly high.

Asset quality continued to be resilient. The NPL ratio came down to 1.0%. I want to point out two things. One, we saw an increase in new NPA formation from two lumpy cases. Both were in China. One was an auto sector client with some misstatement of audited financials, so it was idiosyncratic and we have pretty much written it off. The other was due to a prudential classification of a borrower that has not defaulted but might face repayment stresses in coming quarters. The loan-to-value is low and we did not have to take any allowances for it.

At the same time, I want to point out we are seeing very strong repayments and recoveries as well as some write-offs. They are coming from three categories in this quarter.

The first was recoveries in oil and gas, reflecting our prudence in NPL recognition and the SP we took. The second was recoveries from the recent money-laundering cases in Singapore. As I had indicated last quarter, we have been able to sell most of the properties that we financed. The third was the property cases in Hong Kong and China we had recognised at the beginning of the year. We have been able to either sell or refinance the assets, and so have been able to reverse the NPL within a year. Again, it reflects the fact that our LTVs are generally low.

Finally, on the share buyback programme, we do not have a specific time frame for completing it. It might take a couple of years to execute because we are going to wait for the right opportunities. I am sure there are questions on whether, given that our share price is so high, it is a good time to do share buybacks.

If you have a strong belief in the fundamentals of the business, any time is a good time. I am struck by the fact that companies such as JP Morgan and Apple continue to do share buybacks even at high valuations. Nevertheless, we will be thoughtful about the time to exercise the buyback.

The important thing is that the buyback reflects our continued commitment to capital management. We recognise that we still have a lot of capital and need to use every opportunity we have to return capital to shareholders.

For next year, we think that, notwithstanding the interest rate reductions, we should be able to hold net interest income at around 2024 levels.

By the way, these slides were made before the results of yesterday's US election (in which Trump won) and before the change in market pricing on interest rate cuts. Our assumptions are based on a total reduction of two percentage points by the end of next year. We have assumed one percentage point this year, of which 50 basis points have already been done, and four more cuts next year. The market is now obviously pricing in fewer cuts, which means interest income might be slightly better than guided.

But even with eight interest rate cuts, we think we might be able to hold net interest income. Group NIM will probably trend down a few basis points. Commercial book NIM will be down but offset by market trading NIM, which will benefit from lower funding costs.

Non-interest income is expected to grow in high single digits, again powered by wealth management and treasury customer sales, both of which continue to be quite robust.

If you add them together, we think total income will be up in the low single digits. It is a good outcome considering the loss of $500 million to $600 million of net interest income due to lower rates.

Our cost-income ratio is expected to be in the low-40% range, which is still efficient. Cost growth might be in the mid-single digits.

On SP, we are modeling in our long-term through-cycle assumption of 17-20 basis points, even though we are still not seeing any meaningful signs of stress in the large-corporate portfolio and the small increases in delinquencies in consumer and SME portfolios are beginning to stabilise. We are just being prudent in modelling 17-20 basis points.

And as Sok Hui pointed out, we do have well over $2 billion in GP overlays, so we do have the potential for GP writebacks if SP turns out to be worse.

When you put all of that together, we think next year's pre-tax profits will be around this year's levels.

There could be some upside to the overall guidance from a few factors. First, if rates do not come off as much as forecast, there would be upside. Second, if Casa outflows stabilise and subsequently return to net inflows – and we are already beginning to see a reversal from recent years' trend of Casa outflows to T-bills - it will help net interest income. Third, for the $55 billion of fixed-rate assets that reprice next year, with the way yield curves have been moving in the last 24-48 hours, we might be able to replace them at better rates than assumed.

Net profit, though, is likely to be lower because of the implementation of the global minimum tax rate of 15%. The impact to DBS is $400 million.

Edna Koh Thank you, Piyush. We will now take questions from the media.

Goola Warden (The Edge) Let me start with interest rates because yields have just shot through the roof. If the Fed stops lowering or starts raising interest rates, how will it also affect your customers? Loan growth has been minimal. The second question is on dividends and the rationale for the share buybacks, given that you could have given the $3 billion as a special dividend? The third is on your GP model assumptions if there is a trade war.

Piyush Gupta On interest rates, if there are fewer cuts because a Trump administration would be more inflationary from immigration policies, tariffs and deficit spending, it will obvious help our NIM. It will also help our fixed-rate asset repricing, which we are currently assuming will have minimal benefit next year. On the other hand, higher rates could have an impact on global growth. We have not forecasted very strong loan growth for next year in any case – just 4-5%. It is possible that loan growth becomes a bit less.

In general, the sensitivity shows that we benefit more from interest rates than what we give up in the balance sheet, so a higher interest rate environment is better for earnings.

As regards a special dividend versus buyback. We still have a lot of capital to return. Based on the final CET-1 ratio, we have anything from another $3 billion to $5 billion to return. Based on the transitional ratio, we might a bit more. We are going to have to use all three tools – ordinary dividend step-ups, special dividends as well as buybacks – to the extent that we can. It is not a question of doing one over the other. We even used a bonus issue recently as a means to increase ordinary dividends.

It is very hard to tell what happens with regard to tariffs. Trump has said 10% or 20% tariffs across the board, 60% on China. I find it hard to believe that he will follow through on that policy. A better thing to do is to wait and see what the actual policy is.

Goola Warden I have a question for Su Shan. Would a lower profit next affect your ordinary dividends?

Tan Su Shan Given our strong capital position and also some tailwinds if rates go up, we will continue on the path of paying more. The more we make, the more we can pay our shareholders. We will stick to that philosophy and to the expanded toolkit we have. We have to be active in capital management.

With the Trump administration, we will probably see more volatility in interest rates and FX. That creates both opportunities and potential challenges. But as Piyush said, if rates go up, we will see loan growth maybe a bit muted but we will have tailwinds in net interest income.

Chng Sok Hui Our payout ratio is currently 50%. Even with a slight decline net profit from the new tax regime, we will be okay to continue with a dividend step-up.

Felicia Tan (The Edge) The first question is on Hong Kong. What is your outlook there and what are your credit costs? Second, can you give us an idea of your funding costs and the transitory deposits during the quarter? Finally, is the strong markets trading income sustainable?

Piyush Gupta The Hong Kong market continues to be slow due to the impact from China even though there have been some mainland policy measures and the Hong Kong property sector. Hong Kong is the area where we are seeing loan growth challenges. Nevertheless, our credit portfolio has continued to be very resilient. We have ring-fenced our issues.

Tan Su Shan We have been conservative in Hong Kong. We decreased our SME loan book in the past few years. We have also been conservative in real estate, with most of it is to large, blue-chip players. Where we have seen strong growth is in wealth management. Both the stock connect and bond connect have been opportunities for wealth management. That has helped with the slowdown in corporates.

Piyush Gupta On credit, we are not seeing signs of stress. I said last quarter delinquency was picking up a bit in the SME book but it was not very big. In the unsecured consumer book, we have tightened up. Delinquencies this quarter stabilised. They are still inching up a tad in India but it is a small portfolio. We have already talked about our real estate and commercial real estate. We are not seeing sectoral problems elsewhere.

On transitory deposits, they happen all the time as large corporates or government entities bring in money. The money this quarter came from asset sales and IPO proceeds. The key takeaway is that after two years of Casa outflows or repricing, Casa has stabilised and started coming in after accounting for T-bill reinvestments. It has a positive implication for net interest income going forward.

Finally, on markets trading, when there is a strong quarter like this, some of it would be from catching market moves appropriately. There was volatility this quarter on rates, equities and FX, which we were able to position in. Going forward, I would still think of $250 million in this environment as the business-as-usual number.

Chanyaporn Chanjaroen (Bloomberg) Could you talk a bit more about the business in China? On the excess capital that you estimate to be $3 billion to $5 billion, would acquisitions be on the cards?

Tan Su Shan On China, we have been de-risking for the past few years. We reduced our real estate exposure there. Where we found opportunities was in helping Chinese enterprises go out

– the outbound trade and investment flows into Southeast Asia and other parts of the world, going upstream and downstream in places such as Indonesia and Vietnam. We have increased our coverage of Chinese enterprises, including SOEs as well as in the bigger POEs in tech, data centers, metals and mining, and the upstream EV construct.

Piyush Gupta While the overall business environment in the country has not been great, the outbound business is going to hold up. Under a Trump administration, the main thing to watch out for is legal and regulatory risk from sanctions and other policies.

On M&A, our policy is unchanged. Our interest is in the countries that matter to us – India, Indonesia, China, Taiwan, and maybe Malaysia if the current government is more forthcoming. It has to be a bolt-on acquisition in specific lines of business we are interested in. The acquisition must make economic sense – valuations matter a lot to us. We also have to have the bandwidth to be able to integrate it and get value from it.

If something comes up that is consistent with these criteria, we would look at it. But our base case is we still need to return a lot of capital as it is unlikely we are going to use a lot of it for M&A.

Goola Warden One more question. There has been a rise in private credit. Is there any risk that in the next four or five years that the intermediary functions of banks could decline?

Piyush Gupta The total private credit market in the US is growing. It is about US$2 trillion. But in Asia, it is not huge – less than US$100 billion. Of course, there is always a risk that you squeeze everything out of the regulated banking sector and move it all to the non-regulated or private credit sector.

I have been in this industry for 40 years. Forty years ago, everybody said the big risk was that everybody will go to the capital markets and there would not be any role for banks. Forty years later, people still use banks as an intermediary. While there could be greater participation in private credit, it might be a bit of a stretch to assume the demise of the formal banking sector in the foreseeable future.

Anshuman Daga (Reuters) For wealth management, can you give some color on any changes to what is driving the momentum.

Piyush Gupta Flows continue to be diversified. People assume it is a lot of China money. It is not true. Our platform continues to benefit from flows from southeast Asia and south Asia as well.

The big drift shift, as I told you last quarter, is going to be as people take more risk. When money first moved in, it was in deposits. Then over a few quarters, it progressively shifted into investments. This quarter, the proportion of investments to total AUM went up by another percentage point. It obviously helps our fee income.

The other thing is that people are shifting their choice of asset class. Previously, people were just buying treasuries. In the past few quarters, they have been putting money in structured products with underlying equity. As people move to slightly more risky assets, it improves our yield.

Tan Nai Lun (Business Times) I want to check on mortgage rates because it seems foreign banks in Singapore have cut theirs to below local banks'. Is there any attempt by DBS to match or is there a reason these foreign banks have lower rates than local banks?

Piyush Gupta We think some of their market pricing is not entirely sensible. When funding costs – fixed deposit costs – are higher than mortgage pricing, it is kind of illogical. We are not leading the price down on mortgages. We are taking tactical steps from time to time to hold market position but certainly not leading the price down. It would be interesting to see what the competitive response is if rates move up in response to Trump's election win.

Edna Koh Thank you everyone for joining today's media briefing.