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Edited transcript of DBS first-quarter 2019 results media briefing, 29 April 2019

Edna Koh Good morning, everyone, and welcome to our first-quarter results briefing.

Chng Sok Hui Good morning, everyone.

Overview. First-quarter net profit rose 9% from a year ago to a record $1.65 billion as total income increased 6% to a new high of $3.55 billion. Healthy business momentum and net interest margin progression enabled earnings to surpass the year-ago record quarter. Compared to the previous quarter, a recovery in wealth management fee income and trading income boosted non-interest income. As a result, total income rose 9% and net profit increased 25%.

The cost-income ratio of 42% was stable from a year ago, when we had the benefit of a property disposal gain of $86 million.

Asset quality was benign. Non-performing assets were little changed from the previous quarter as new NPA formation remained low. Total allowances were half the level a year ago. Specific allowances declined to 15 basis points of loans. We also had a general allowance write-back of $100 million due to improved portfolio quality and better external credit conditions.

The balance sheet was strong, with CET-1, net stable funding ratio and liquidity coverage ratio all comfortably above regulatory requirements.

Return on equity was at 14%. This is higher than our short-term target of approaching 13% and was helped by general provision write-back. Nevertheless, the results demonstrate a sustained trend of ROE progression.

First quarter compared to a year ago. Compared to a year ago, total income rose 6% or $191 million to $3.55 billion. The growth was led by 9% or $182 million increase in net interest income to $2.31 billion. Net interest margin rose five basis points to 1.88% from higher interest rates in Singapore and Hong Kong. Loans grew 5% or $16 billion in constant-currency terms to $347 billion. The growth was led by non-trade corporate loans.

Non-interest income growth was subdued given the high base last year. Net fee income declined 2% or $14 million to $730 million. Wealth management, brokerage and investment banking fees collectively fell 12% due to unusually buoyant market sentiment in first-quarter 2018. The decline was offset by a 12% increase in card, transaction service and loan-related fees.

There was also a high base for other non-interest income because of an $86 million property gain last year. The property gain was more than offset by an increase in trading income and gains on investment securities, enabling other non-interest income to increase 5% or $23 million to $511 million.

Expenses rose in line with income, by 7% or $100 million to $1.50 billion. Profit before allowances increased 5% to $2.05 billion.

Total allowances fell $88 million to $76 million, which included the general allowance write-back of $100 million.

First quarter compared to previous quarter. Compared to the previous quarter, total income was 9% or $306 million higher as wealth management fee income and trading income recovered from a weak fourth quarter.

Net interest income rose 1% on a day-adjusted basis. Loans grew 1% as non-trade corporate loan growth was moderated by a decline in trade loans. Net interest margin rose one basis point.

Net fee income was 15% or $95 million higher. The growth was due to a 44% increase in wealth management fees and 20% rise in loan-related fees. Other non-interest income was 83% or $231 million higher as trading income doubled.

Expenses were stable. The positive jaw resulted in an 18% increase in profit before allowances.

Total allowances were two-fifths of the previous quarter.

Net interest income. Net interest income of $2.31 billion was 1% higher than the previous quarter on a day-adjusted basis. The reported net interest margin rose one basis point from the previous quarter to 1.88%.

Excluding Treasury Markets activities, net interest margin was five basis points higher, with Singapore principally accounting for the increase. The margin increase came from higher Sibor and Sor rates, the repricing of fixed-deposit-pegged housing loans as well as a shift from higher-cost to lower-cost US-dollar deposits.

The five-basis-point increase in the commercial book net interest margin was offset by a four-basis-point drag from Treasury Markets activities. While total Treasury Markets income was more than three times the weak fourth quarter, almost all of the first-quarter income was booked as non-interest income, resulting in a net interest margin drag.

For the full year, we are maintaining our guidance of mid-single-digit net interest margin increase. This is based on the repricing of FD-pegged and fixed-rate housing loans, and the progressive turnover of fixed-rate securities. There could be a modest upside if the recent increase in Sibor and Sor rates is sustained, and if the yield curve steepens.

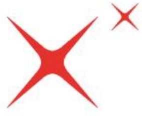
Loans. We had loan growth of $3 billion or 1% in constant-currency terms during the quarter.

Non-trade corporate loans rose 3% or $5 billion. The increase was for working capital and deal-related activities and led by Singapore and Hong Kong corporates across a range of industries.

Consumer loans increased 1% or $1 billion. Housing loans declined $0.6 billion as new bookings and disbursements in Singapore fell in line with an ongoing slowdown in the residential property market. Our market share for housing loans in Singapore as at February was unchanged from the previous quarter at 31%. The decline in housing loans was more than offset by an increase in non-housing consumer loans.

Trade loans fell 4% or $2 billion during the quarter due to a general slowdown in regional trade volumes.

Loan growth for the past 12 months was 5% or $16 billion in constant-currency terms. The growth was predominantly in non-trade corporate loans.



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We are maintaining our guidance of mid-single-digit loan growth for the full year.

Liquidity. Deposits rose 1% or $2 billion in constant-currency terms during the quarter to $395 billion. Similar to market trends, the increase was in fixed deposits. The growth in deposits was in line with loan growth and the loan-deposit ratio was unchanged at 88%. Our share of Singapore-dollar savings account was unchanged from the previous quarter at 52%.

Our liquidity ratios remained well above regulatory requirements. The liquidity coverage ratio was at 137%, while the net stable funding ratio was at 111%.

Fee income. Gross fee income was $851 million, unchanged from a year ago.

Buoyant market conditions a year ago resulted in a high base for market-related activities. A large part of the decline was in brokerage and investment banking fees, which collectively fell 41% or $36 million to $51 million. Wealth management fees declined 5% or $16 million to $315 million, with a 13% decline in fees on investment products such as unit trusts moderated by a 9% increase in insurance income.

These declines were offset by increases in annuity activities. Card fees rose 21% to $189 million from higher transactions across the region. Transaction service fees grew 6% to $188 million as both trade finance and cash management fees increased. Loan-related fees were 9% higher at $108 million.

Compared to the previous quarter, total gross fee income rose 13%. The increase was led by a 44% increase in wealth management fees as financial markets recovered. Loan-related fees also increased, by 20%. Offsetting these increases was a 6% decline in card fees due to seasonal factors. Investment banking and brokerage fees were also lower.

Consumer Banking and Wealth Management. Consumer Banking and Wealth Management's total income rose 15% from a year ago to a new high of $1.56 billion.

Loan and deposit income grew 28% to $925 million as net interest margin improved due to higher interest rates. Card income grew 7% to $200 million from higher transactions across the region. Investment product sales income fell 3% to $421 million as a high base for unit trust and structured product income was moderated by higher insurance income.

Income for the Wealth Management customer segment rose 15% to a new high of $760 million as assets under management expanded 11% to $230 billion.

Income from the Retail customer segment also increased 15%, to $797 million. Singapore-dollar savings deposit fell 1% to $116 billion, in line with market trends. Our market shares for both Singapore-dollar savings deposits and Singapore housing loans were maintained from a year ago, at 52% and 31% respectively.

Institutional Banking. Institutional Banking's total income rose 10% to 1.50 billion.

Cash management income grew 45% to $497 million due to new customer mandates and a higher net interest margin. Deposits fell 1% to $133 billion as those with the highest costs were managed out. They were replaced with lower-cost deposits from other sources.

Loan income rose 3% to $670 million from growth in non-trade loans.

Expenses grew 7% to $472 million. The positive jaw of three percentage points resulted in a one-percentage-point improvement in the cost-income ratio to 31%. Profit before allowances was 12% higher at $1.03 billion.

Treasury Markets. Treasury Markets interest and non-interest trading income rose 18% from a year ago to $293 million. It was three times the record low of $92 million in the previous quarter. The increase was broad-based and led by gains in interest rate and credit activities.

Due to the nature of the trades, only $12 million of the $293 million in Treasury Markets income was classified as net interest income. The remaining $281 million was classified as non-interest income. This boosted trading income and resulted in a drag to net interest income and the reported net interest margin.

Treasury customer income recovered from the weakness in the previous quarter. The $312 million was in line with the first three quarters of last year.

Business momentum. This chart shows the income growth of the three business units over the year-ago period. The momentum from previous quarters was maintained, with the growth of $383 million being faster than most quarters of last year.

Treasury Markets recovered from a generally weak performance last year. The growth for CBG/WM and IBG was led by net interest income and non-market related non-interest income.

Expenses. Expenses grew 9% from a year ago to $1.50 billion. The increase was in line with total income growth, resulting in the cost-income ratio being stable from a year ago at 42%.

We continue to target productivity gains from digitalisation and cost management initiatives and expect the cost-income ratio to progressively improve over time.

Hong Kong. Hong Kong had recorded a property gain of $86 million in first-quarter 2018. This chart excludes the property gain to show the underlying performance.

Hong Kong achieved a record quarter as earnings rose 3% in constant-currency terms to $370 million. Total income rose 9% to $707 million, also a new high.

The increase in total income was led by a 15% increase in net interest income to $476 million. Loans grew 8% from non-trade loans to large corporate customers, while deposits rose 5%. Net interest margin increased 18 basis points to 2.05%. Higher interest rates resulted in a faster repricing of loans than deposits, of which 57% were low-cost current and savings deposits.

Fee income fell 8% to $157 million as a decline in wealth management fee from a high base was moderated by an increase in cash management fees. Other non-interest income increased 8% to $74 million from higher trading income.

Expenses rose less than income, by 5% to 252 million, and the positive jaw resulted in a 10% increase in profit before allowances to $455 million.

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Total allowances amounted to $6 million as specific allowance charges were partially offset by a general allowance write-back. There had been a total allowance write-back of $18 million a year ago.

Non-performing loans. Non-performing assets were stable from the previous quarter at $5.6 billion. New NPA formation remained low at $109 million. The NPL rate was stable at 1.5%.

Specific allowances. Specific allowances for loans declined to 15 basis points or $130 million, lower than the general range in recent quarters. We also took $43 million mainly for contingent items.

General allowances. The Expected Credit Loss for Stage 1 and 2 – or general allowances – fell by $101 million during the quarter to $2.47 billion. There was a decline in lower-quality exposures in our portfolio during the quarter, which reduced the amount of Expected Credit Loss required. At the same time, there was an improvement in external credit conditions based on the models we use for computing expected credit losses.

Regulatory Loss Allowance Reserves, which are required by MAS if the Expected Credit Loss for Stage 1 and 2 falls short of the 1% requirement, increased by $103 million to $479 million. The amount was transferred from retained earnings.

Capital. Our capital ratios remained strong. The Common Equity Tier-1 ratio rose 0.2 percentage points from the previous quarter to 14.1% as retained earnings during the quarter more than offset the impact of a $7 billion increase in risk-weighted assets to $297 billion. After the payment of the 2018 final dividend, which was approved by the AGM last Thursday, the CET-1 ratio will be closer to our target range of 12.5% to 13.5%.

Our leverage ratio of 7.3% was more than twice the regulatory minimum of 3%.

Dividends. The Board declared that from this financial year onwards, we will pay dividends four times a year instead of two times. This is to provide shareholders with more regular income streams.

For the first quarter, the Board has declared a payout of 30 cents per share. This is consistent with the full-year dividend of $1.20 per share for financial year 2018. The first-quarter dividend is scheduled to be paid on 31 May.

The fourth-quarter 2018 dividend of 60 cents per share will be paid on 17 May.

Our policy of paying sustainable dividends that progressively rise in line with earnings remains unchanged.

In summary. We achieved record earnings and sustained ROE progression during the quarter. The performance demonstrates the continued improvement in the profitability of our franchise as a result of digitalisation, a shift towards higher-returns businesses and more nimble execution.

Business momentum was healthy during the quarter. In addition, non-interest income recovered from the previous quarter's weakness to levels more in line with earlier periods. Our pipeline for non-trade corporate loans and for investment banking mandates is strong.

Asset quality continues to be benign. Compared to six months ago, the outlook has improved.

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We remain well-placed to continue capitalising on the region's long-term growth prospects and delivering healthy shareholder returns.

Piyush Gupta Thanks, Sok Hui. I'll make a few observations and then we'll go into Q&A.

First, business momentum is relatively strong. It's consistent with what you're seeing in the macroeconomic data. China's GDP growth for the first quarter came in at 6.4%, which was stronger than expected. The US's GDP growth came in stronger than expected as well. While PMIs were slower in the fourth quarter last year and early this year, March's PMIs have generally been on the upswing across the region.

You can see that in the underlying nature of our business. Our non-trade corporate loans grew about $7 billion; net of repayments, we effectively had a $4 billion pick-up. That's very healthy and consistent with the pace we have seen on a sustained basis.

Outside of the lending book, non-interest income has also been quite robust. Wealth management bounced back after a weak fourth quarter. Capital markets have been slow in the first quarter, but they are improving; debt capital markets in the past two weeks have been much stronger.

By and large, I'm relatively sanguine about business momentum, with one caveat on the Singapore housing market. For the first time in a long while, we saw a reduction in our housing loan book in the first quarter. Bookings have continued to be soft and the amount of refinancing transactions in the market has been very low, they're about half of what they were a year ago.

I had earlier guided that our housing loans would grow between $1.5 billion and $2 billion this year, now I don't think we'll get more than $1 billion to $1.5 billion because we do have to make up for the reductions in the first quarter and then grow for the remainder of the year. There is some decent pipeline of primary transactions, so I do think we'll wind up with a positive number. Excluding that, business momentum continues to be generally robust across the region.

Second, as Sok Hui showed, our commercial bank NIM has been quite strong. It grew steadily from 2.00% a year ago to 2.15%. Even during the quarter, it's up by five basis points. I saw some analyst comments that net interest income growth was subdued. Part of that can be explained by a change in accounting standards. SFRS(I) 16 led to a one basis point drag on the NIM. Excluding that, not only would our commercial banks' NIM be a basis point more, the total NIM would also have been another basis point higher at 1.89%. The underlying NIM therefore was indeed very strong.

What's interesting though is that Treasury Markets' NIM has been coming down as the yield curve has been flattening over the course of last year, which dampened their ability to run carry trades, i.e. to make money on gapping. But in this quarter, we ended up putting on a lot of trades that benefited from a decline in credit spreads and a rebound in equity prices. These gains were reflected in the non-interest income line rather than the net interest income line.

Going forward, NIM should continue to be strong. Sibor and Sor rates are up more than one percentage point over the year. On the one hand, there might be some scope for those rates to ease a bit from current levels, but on the other, Treasury Markets NIM has bottomed out. On balance, our original guidance of mid-single digit NIM increase will be maintained; we might even actually achieve five or six basis points, rather than four or five basis points this year.

Third, our expenses have been well controlled as our cost-income ratio is back to 42%. Obviously, that has been held by the strong income line. Overall, our expense growth has been well managed at 7%.

Finally, a quick note on the credit environment. From our standpoint, it is looking very benign. Sok Hui pointed out that new NPA formation is low, we are not seeing too much weakness in the portfolio. Most of the SP we took were for existing NPLs as we bumped up provisions to be conservative. At this stage, I think we have more than adequately provided for our NPLs. We may even get recoveries over the next year or two.

Another point on allowances that Sok Hui pointed out is the ECL or general allowances. In the past, general provisioning was simpler as we applied one percentage point to the asset base. Under current accounting standards, we can't do that anymore. We now have Stage 1 and Stage 2 ECLs. Stage 1 allowances are set aside for the normal performing portfolio. Stage 2 allowances are applied to weaker loans in the performing portfolio. Our total ECL for Stage 1 and Stage 2 came down by $100 million in part due to a reduction in Stage 2 exposures. We have been able to get some repayments, and in some cases, we got more collateral. As such, the amount we had to set aside for Stage 2 fell.

The other thing under ECL is that we have to make a prediction of economic cycles and how the bank's portfolio will perform based on that. We use a model, which among many other factors, considers the general credit environment. The credit environment was far more pessimistic in the fourth quarter last year than that it was in the first quarter this year, so that gave us a lift as well.

Nevertheless, just to be abundantly careful, we had our external auditors benchmark our ECL, and it's quite clear that our ECL is one of the most conservative in the world, if you were to compare our ECL as a percentage of our total assets or our RWA. Overall, the credit environment is looking good, and I don't anticipate a significant deterioration.

In terms of outlook for 2019, it is not too dissimilar from the outlook we gave at the beginning of this year. The macroeconomic situation has somewhat stabilised. China's fiscal and monetary stimulus has stabilised and put a bit of a cushion to the overall macroeconomic situation.

Our guidance on mid-single-digit loan growth is in place and our NIM will continue to progress. As we've indicated before, the benefit of all the rate increases from last year has not completely flowed through our portfolio, which will happen this year.

As business momentum is good, the high-single-digit top line growth should be attainable.

We have guided for cost-income ratio to be at 43%, which is still our target.

For SP, we indicated earlier that it should be around through-cycle average because we were not sure how bad the credit situation in China could be. Currently, I think it will get below the through-cycle average. This will provide another factor to for ROE to improve from last year. Sok Hui said this quarter's 14% was unusual partly due to strong trading gains and the GP writeback, so I don't think we'll get 14%, but our guidance on approaching 13% is intact and we should be able to deliver.

Happy to take questions.

Chanyaporn Chanjaroen (Bloomberg) On Singapore housing, there was a published report recently saying that Singapore home purchases were up 16% in the first quarter from a year ago, but you mentioned that mortgage-related transactions were lower.

Piyush Gupta According to central bank data, our market share as at end-February was holding flat, so we're obviously not missing out on anything.

Seow Li Sen (Business Times) Could you please elaborate on the housing loan book? You said you saw a shrinkage. What do you mean by shrinkage?

Piyush Gupta Our actual housing loans fell by about half a billion dollars, hence there's a reduction in the book as people are paying down the loans and new bookings are not coming in. I do expect bookings to go up on a full-year basis because the pipeline is looking better for the next three quarters.

Anushman Daga (Reuters) You said not much has changed from when you gave the outlook last year and at the start of the year, but what's the major risk? Is there any risk apart from the property market that you mentioned? Is there any other risk to your forecast and to the business pipeline?

Piyush Gupta The major risk is the steep collapse in the interest rate environment. If it turns out that the Fed starts cutting rates this year as they become more dovish, this sentiment may spill over to the region, which would have a detrimental impact on our NIMs. However, I don't foresee that happening: the Fed is more likely to hold the rates and a rate cut may not happen until 2020.

Anushman Daga In terms of the US-China trade war, you earlier also said there's not too much of an impact, but to keep monitoring it. Any comments on that?

Piyush Gupta I said that in the short term, we are probably unlikely to see any significant reduction in trade volumes and shift in supply chains as it is not that easy to move supply chains around.

For the medium term, you'll start seeing some of the supply chain shifting, and that is indeed the case. Many clients are looking at putting their next investment into other countries. But as we have forecasted, much of that investment is conducted in the region. People are looking at Thailand, Malaysia, Vietnam, Indonesia and India. These are the five countries I'm hearing a lot of next new investment flowing into. This plays to our strengths as it allows us to intermediate some of these businesses. In some cases, it is even better if they were in China. So, we don't anticipate an issue from that.

The longer-term issue is obviously on how much the tension goes beyond trade and if it winds up creating other cold war-like conflicts between a China world vs a non-China world. From the nature of the dialogue and conversations going on between China and US, it doesn't seem to be headed that way as the dialogue seems to be productive.

Seow Li Sen Can you elaborate on the NIM? You said that there is scope for Sibor and Sor to come down over the year. Yet you're still expecting NIM to go up slightly.

Piyush Gupta Like I said, only about 40% to 45% of our loan book reprices immediately. So, if your loan is linked to Sibor, any changes to Sibor changes the loan price immediately. Another

45% of the book reprices over time. Hence, there's a lag effect of the increase of rate on our loan book. About 60% of all rates increases go through in the first year while 40% of rate increases go through in year two and three. The full impact of the seven rate hikes from the Fed since 2017 and the 1% increase in Sibor since last year has not flowed through to our book yet and will only flow through in the course of the next few quarters.

Seow Li Sen So, you expect NIM to go up from 1.88% to how much?

Piyush Gupta We've given guidance earlier that we expect to be able to get about five basis points. Our average NIM last year was 1.85%. So, we are expecting NIM to be around 1.90% for this year.

Jaime Lee (Business Times) Can I get a sense of your strategy in terms of wealth management? Particularly in capturing the Chinese wealth, as a lot of the money flow goes through Hong Kong due to a higher number of IPOs and it is where the Chinese offshore wealth is situated. What does this mean for Singapore as an offshore wealth booking centre? Not just for the Chinese wealth, but also for Asean wealth? For instance, wealth in Indonesia is also coming up. I think there are more initiative to keep domestic wealth within the country. So how does that affect your strategy?

Piyush Gupta We find that Singapore is a preferred centre for anybody who wants to manage their wealth internationally. We are not really seeing what you are suggesting, that people increasingly stop using Singapore and go to other locations for wealth management.

I think the strengths and advantages of Singapore are quite consistent: stable country, "AAA"-rated, rule of law and established financial system. We continue to see a lot of inflows into the region from North Asia, including Hong Kong itself. We see that Singapore continues to attract money.

DBS is quite disciplined, partly because of our own business agenda and partly due to the regulated supervision. We are quite disciplined about the nature and type of money we accept. If we weren't as judicious, you would see even more inflows into Singapore.

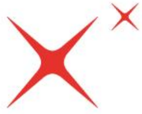
Chanyaporn Chanjaroen Your AUM went up 11% to $230 million. Could you share that out of the 11%, where is the majority of the AUM coming from?

Piyush Gupta The majority of the AUM lift for us and other banks was not much on new money, but more on the revaluation of assets. As prices went up, so do assets under management. Our growth in new money was broad-based from all segments, i.e. from high net worth to mass market. We continue to get new money from North Asia, Southeast Asia, and from international markets. So, it's very diversified.

Chanyaporn Chanjaroen Do you have a breakdown of the new money?

Piyush Gupta No. However, our total net new money for the quarter is about a billion dollars.

Goola Warden (The Edge) The $100 million write back was because of the way you calculated the ECL Stage 1 and 2? It wasn't from a specific company? And another point is that because of the way you've classified your non-interest income, all the gains from gapping in TM went into non-interest income?



Piyush Gupta Nothing specific. That’s right.

Chanyaporn Chanjaroen So last year, what was the growth in the Singapore mortgage book? Because this year, you expect a maximum of $1.5 billion.

Piyush Gupta It was under $2 billion. The year before that, our growth was about $4 billion. So last year’s growth was halved to about $2 billion. This year, if it comes in at $1 billion to $1.5 billion, it will be approximately half of last year’s growth again.

Chanyaporn Chanjaroen Is it the lowest?

Piyush Gupta It's certainly the lowest in the number of years. A negative quarter is a first time in many years.

Chanyaporn Chanjaroen Do you attribute it to the property cooling measures in 2018?

Piyush Gupta Of course.

Edna Koh That's all the questions we have for this quarter. Thank you for coming today.