Edited transcript for DBS fourth-quarter results media briefing, 13 February 2020

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

Chng Sok Hui Good morning, everyone.

Overview. We achieved another record performance in 2019 as net profit rose 14% to $6.39 billion. Total income increased 10% to $14.5 billion from loan growth, a higher net interest margin and double-digit percentage growth in non-interest income. The broad-based business growth was achieved despite external headwinds prevailing throughout the year.

Expenses rose 8%. The positive jaw of two percentage points resulted in a one-percentage-point improvement in the cost-income ratio to 43%. This reflected gains in operating efficiency as well as the strong growth in non-interest income.

Return on equity rose from 12.1% a year ago to reach a new high of 13.2%.

For the fourth quarter, net profit also increased 14% from a year ago, to $1.51 billion. Total income rose 7% to $3.46 billion from loan growth and a 17% increase in fee income led by wealth management and investment banking.

The balance sheet remained healthy. The NPL rate was unchanged from the previous quarter at 1.5%. Specific allowances for the fourth quarter were at 21 basis points of loans, in line with recent quarters. Regulatory capital and liquidity ratios were all comfortably above regulatory requirements.

We are raising the quarterly dividend by 10%, from 30 cents per share to 33 cents. This brings the dividend for the financial year 2019 to $1.23 per share. Barring unforeseen circumstances, the annualised dividend going forward will rise to $1.32 per share.

Full year compared to a year ago. Full-year net profit rose 14% to a record $6.39 billion as total income grew 10% to a new high of $14.5 billion. This was from broad-based business momentum and despite external headwinds.

Net interest income increased 7% or $670 million to $9.63 billion. Net interest margin was four basis points higher at 1.89%. Loans grew 4% in constant-currency terms, or $15 billion, to $358 billion.

Net fee income increased 10% or $272 million to $3.05 billion. Wealth management fees led the way as demand for investment products accelerated in the second half.

Other non-interest income grew 29% or $419 million to $1.87 billion from higher trading income and gains from investment securities.

Expenses grew more slowly than income, rising 8% or $460 million to $6.26 billion. The positive jaw resulted in a one-percentage-point improvement in the cost-income ratio to 43%.

Profit before allowances increased 12% to $8.29 billion. Total allowances were 1% or $7 million lower at $703 million. Specific allowances were at 20 basis points of loans, little changed from 19 basis points a year ago.

Fourth quarter compared to a year ago. For the fourth quarter, net profit rose 14% from a year ago to $1.51 billion from broad-based business momentum.

Fourth-quarter total income rose 7% or $216 million to $3.46 billion. Net interest income rose 4% or $96 million to $2.43 billion as loans grew 4% or $15 billion to $358 billion. Net interest margin was one basis point lower at 1.86%.

Fee income increased 17% or $106 million to $741 million, led by an increase in wealth management fees due to buoyant investor sentiment. A significant number of transactions led to a near tripling of investment banking fees.

Other non-interest income rose 5% or $14 million to $294 million from higher gains on investment securities. Trading income was stable.

Expenses increased 7% or $99 million in line with income growth, to $1.60 billion. The cost-income ratio was unchanged at 46%.

Profit before allowances grew 7% to $1.86 billion. Total allowances were 40% or $83 million lower at $122 million due to lower specific allowances and a higher general allowance write-back.

Fourth quarter compared to previous quarter. Compared to the previous quarter, fourth-quarter net profit was 7% lower as total income fell 9% to $3.46 billion.

Net interest income was 1% or $34 million lower, as net interest margin declined four basis points to 1.86%.

Fee income fell 9% or $73 million from a seasonal decline in wealth management fees and from lower loan-related fees. This was moderated by higher fees from investment banking and transaction services.

Other non-interest income was 46% or $255 million lower from quieter markets at year-end.

Expenses declined 1% or $14 million and profit before allowances was 16% lower at $1.86 billion.

Allowances were 52% lower at $122 million.

Net interest income. Compared to the previous quarter, net interest income fell 1% to $2.43 billion. While loans rose 2% in constant-currency terms, the impact was offset by a four-basis-point decline in net interest margin to 1.86% due to lower interest rates.

For the full year, net interest margin was 1.89%, up four basis points from full-year 2018. Net interest margin was higher in first three quarters of 2019 than the year-ago period, and was stable in the fourth quarter.

Loans. Loans grew 2% or $7 billion in constant-currency terms during the quarter. The growth was broad-based.

Non-trade corporate loans grew $3 billion from broad-based growth led by commercial property in Singapore and Hong Kong. Trade loans also rose $4 billion. Consumer loans increased $1 billion from housing loans and other loans. Housing loans grew after declining for the previous three quarters.

For the full year, loans grew 4% or $15 billion from non-trade corporate loans and wealth management customer loans.

Liquidity. Deposits rose 2% or $8 billion in constant-currency terms during the quarter to $404 billion. The increase was led by Sing dollar and US dollar Casa accounts. For the full year, deposits grew 3% or $13 billion. The deposit growth over both periods was in line with loan growth.

Our liquidity coverage ratio at 139% and the net stable funding ratio at 110% were above regulatory requirements.

Fee income. Compared to a year ago, fourth-quarter gross fee income rose 16% to $876 million.

Leading the increase were wealth management and investment banking. Wealth management fees increased 31% to $286 million from buoyant market sentiment, in contrast to the market sell-off the year before. Investment banking fees almost tripled to $80 million from a significant number of transactions. Transaction service fees were also higher, rising 8% to $200 million from higher cash management activities.

Compared to the previous quarter, gross fee income was 8% lower. Wealth management fees fell 20% due to lower year-end activity. Loan-related fees and brokerage commissions were also lower. Moderating these declines was a 45% increase in investment banking fees.

For the full year, gross fee income increased 10% to $3.57 billion from broad-based growth led by wealth management, cards and investment banking.

Expenses. For the full year, expenses rose 8%, less quickly than the 10% increase in total income. The positive jaw resulted in a one-percentage-point improvement in the cost-income ratio to 43%.

For the fourth quarter, expenses rose 7% from a year ago, in line with total income. Compared to the previous quarter, expenses were 1% lower as the third quarter had included $22 million in impairment for some computerisation investments.

Consumer Banking and Wealth Management. Full-year total income rose 11% to $6.30 billion.

The broad-based growth was from higher deposit margin, deposit volumes, wealth management product sales and card transactions.

Income for the Wealth Management customer segment rose 16% to $3.08 billion as assets under management expanded 11% to $245 billion. Income from the retail customer segment increased 8% to $3.22 billion.

We had a market share of 53% for Singapore-dollar savings deposits and 31% for Singapore housing loans, unchanged from the previous quarter.

Expenses rose 8% to $3.28 billion. The positive jaw resulted in a two-percentage-point improvement in the cost-income ratio to 52%.

Institutional Banking. Full-year total income rose 5% to $6.07 billion. The growth was due to cash management and investment banking.

Cash management deposits were little changed at $140 billion as some high-cost deposits had been managed out earlier in the year. Assets rose 6% to $278 billion from growth in non-trade loans.

Treasury Markets. Full-year interest and non-interest trading income rose 39% to $932 million. The quarterly average of $233 million was in line with our guidance of around $225 million a quarter.

The performance for all four quarters of the year were better than the corresponding period of the previous year, which had been affected by a flat yield curve and wider credit spreads. The second and fourth quarters of 2018 had been the two lowest on record.

Treasury customer income for the full year increased 7% to $1.28 billion. Both IBG and CBG contributed to the income growth.

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

In constant-currency terms, net profit rose 11% to a record $1.43 billion. Total income rose 9% to $2.93 billion. Both earnings and income were at new highs.

Net interest income rose 9% to $2.01 billion. Loans increased 5% from growth in non-trade corporate and consumer loans, which was partially offset by a decline in trade loans. Net interest margin rose six basis points to 2.07% from higher interest rates.

Fee income grew 7% to $667 million. Cash management, loan-related activities, investment banking and wealth management contributed to the increase. Other non-interest income increased 20% to $250 million from stronger trading income.

Expenses rose 4% to $1.11 billion, and the positive jaw of five percentage points resulted in a 13% increase in profit before allowances to $1.82 billion.

Total allowances rose 40% to $102 million. The increase was due fully to higher general allowances.

Non-performing loans. The NPL rate was unchanged from recent quarters at 1.5%. Non-performing assets fell 3% from the previous quarter to $5.77 billion as new NPA formation was more than offset by write-offs and recoveries. Currency effects also contributed to the decline.

The majority of new NPA formation during the quarter was from exposures that were fully secured.

Specific allowances. Specific allowances amounted to $199 million and 21 basis points of loans, in line with recent quarters.

General allowances. There was a general allowance write-back during the quarter of $77 million, which was the result of reclassifying general allowances to specific allowances for new non-performing loans.

Capital. The Common Equity Tier-1 ratio rose 0.3% points from the previous quarter to 14.1% from net profit accretion. The leverage ratio of 7.0% was more than twice the regulatory minimum of 3%.

Dividends. The Board proposed a final dividend of 33 cents per share for approval at the forthcoming annual general meeting. Barring unforeseen circumstances, the annualised dividend going forward will be $1.32 per share, an increase of 10%. The increase in the quarterly dividend is in line with our policy of paying sustainable dividends that rise progressively with earnings.

Based on yesterday's closing share price, the annualised dividend yield is 5.2%.

In summary. We achieved another year of record performance in 2019. The results were achieved despite the macroeconomic headwinds and geopolitical uncertainty that pervaded the year.

Return on equity rose to a new high of 13.2%. The results demonstrate the improved profitability and quality of our franchise.

The near-term outlook has been clouded by the coronavirus outbreak. We will weather the uncertainty with nimble execution supported by a strong balance sheet with ample capital and liquidity.

Piyush Gupta Thanks, Sok Hui. We are extremely pleased with our 2019 performance. Our 10% top line growth was very strong. Cost-income ratio showed a full one percentage point improvement to 43% and the NPL rate was stable at 1.5%. SP was also stable from the previous year at 20 basis points of loans. The 14% profit growth was very strong as well.

We are very pleased to achieve an ROE of 13.2% because we've finally hit the aspirational ROE target of 13%. We're also recommending an increase in the dividend per share by 10% to an annualised $1.32. Over the decade, we have been able to deliver a net profit CAGR of 13%. More importantly, we have been able to structurally change the shape of our income and earnings profile.

We are also happy with the 10% growth in net fee income for 2019. Wealth management, cash management and treasury customer flows comprise 40% of the bank's income, which used to be less than 20% a decade ago. These businesses have low capital requirements and provide high returns, and we are pleased to see that momentum from these segments continues to come through in the fourth-quarter as well.

Wealth management business momentum continues to be strong. Our total wealth management income went up by 16% to over $3 billion for the year, five times growth over the decade. Our AUM grew 11% for the year, which includes net new money as well as higher market valuations. Our cash management business registered good growth as well, up 14% for the year and just short of $2 billion, representing eight times growth over the decade. Our SME business, notwithstanding the environment, was quite decent and we continue to grow it sustainably. This segment registered 6% growth over the year and now contributes more than $2 billion to our total income.

The non-trade corporate loan book grew 6% and we achieved an overall loan growth of 4% for the year. The momentum and pipeline for non-trade loan continues to look good as we go into 2020.

In Singapore, there is a degree of resilience both in the housing loan as well as savings portfolio. We grew market share in recent years and we have been able to hold our market share in recent quarters despite the shrinking market.

Next, on the coronavirus situation. As a recap, China and Hong Kong have been under the highest alert level of red for a period of time. In Singapore, we are at DORSCON orange. However, we've been taking the same kinds of precautions in Singapore as we have in China and Hong Kong. We have implemented split teams in our operations and allowed people to work from home. As we speak, about one-third of our employees in Singapore and Hong Kong are working from home and that number is about two-thirds in China.

Because of our technology investments and digital capabilities, there has been minimal service disruption. Staff welfare is a priority and we spent a lot of time in the last few weeks ensuring that there are adequate supplies of protective equipment. We have sent masks, hand sanitisers and thermometers to affected locations and we are well-prepared.

We are also trying to see what more we can do to support our customers and the community at large. For our customers who are financially strained, we plan to offer a six-month moratorium on principal repayments, which is available for all SME property loans in Singapore and Hong Kong, as well as for all housing loans for retail customers in Singapore. This is assuming you have a good credit record, and you need help with liquidity. We are also looking at announcing additional measures which address firms' working capital needs.

We will also introduce community support measures for retail customers, which plays to our digital capabilities. For families with children studying in primary and secondary schools, we will offer unlimited free online lessons through our partner 88Tuition, which extends until 30 April. We think that this is a good measure which will help keep students engaged in their studies without exposing them to undue risks.

We will also partner with ComfortDelgro to offer discounted taxi fares for people willing to use cashless payment. This is to facilitate contact tracing as cashless payment leaves a digital trail.

Next, on our outlook for 2020. Before Covid-19 broke out in mid-January, economic momentum was picking up and our growth was on track based on our guidance provided in November. We tried to estimate what the impact of Covid-19 might be on that outlook. Our base case is that this will impact us for one quarter, much like SARS did in 2003. This assumes that the spread of the virus is controlled and dies down as we approach the summer months. Based on that, a bottoms-up approach suggests that income may come off by around $100 million-$150 million, or about 1% of our current total income. If the outbreak becomes longer than that, we may have a 2% headwind.

Where does the top line headwind come from? Wealth management fees will likely be impacted as sentiment weakens. We are also seeing some signs of a slowdown in retail sales, which will affect our cards segment. Interestingly, online spending is picking up, but overall we think that there will still be a drag. We also see an impact on treasury sales, particularly from SMEs. However, the interest rate environment is such that a lot of our large corporate customers are keen on doing interest rate hedging, which will mitigate the impact. The large corporate customers have been quite resilient.

On credit costs, we have been evaluating the impact on various industries and how this would impact our loan portfolio. First, the supply chain manufacturing sector is going to be affected as some customers are now operating below full capacity. Firms are leveraging on their inventory stock to fulfil customer orders as they assess the impact on demand for their products. Also, not all foreign workers have returned to work due to the current situation. However, we don't see a complete displacement of demand and our assessment is that it would take up to four months to return to full capacity. As these are generally large manufacturers, we think that they have the ability to see through this temporary under-utilisation and the banking system will provide liquidity support.

The second sector which is of greater concern is consumer services. As the travel and tourism industry is affected, the revenue loss is permanent. Our total portfolio across Singapore, Hong Kong and China is about $20 billion, and the majority is from Singapore. Ninety percent of this portfolio comprises large corporates, which are fairly resilient. While they are likely to see revenue shortfalls this year, they have the capacity to withstand a few months of weaker cash flows, and we believe that banks will continue to support them. The remaining 10% of the book are more vulnerable and could see further stress this year. As these firms were already experiencing strain from the situation in Hong Kong last year, we have been judiciously managing the portfolio and have taken necessary allowances.

We also considered the downstream impact on other sectors. The domestic construction industry could face difficulties in completing projects due to manpower shortages as not all workers from China have returned. The shipping industry is another segment to watch as cargo deliveries get delayed. Also, oil prices have rebounded, which could add further stress. Our portfolio is quite robust as these exposures are to the larger companies, which are able to withstand these headwinds.

On the consumer side, the impact will mostly be from our unsecured portfolio. However, this is not a large portfolio for us, about $8 billion across the region. Singapore and Hong Kong exposures make up about $5 billion to $6 billion. We expect delinquencies to increase, and our assessment is that it could go up by two or three times. Credit costs would thus be around $40 million to $50 million, which is not large.

Collectively, our stress testing suggests that we will likely see a 4-5 basis point increase in credit costs for the year. Even if it was double that, it would imply an incremental credit cost of $250 million to $300 million. The general allowances that we have built up over the past year have been robust. We had put aside a cushion for the US-China trade issues and for the situation in Hong Kong. They are large enough to absorb the increase in credit costs and hence the impact is unlikely flow through the P&L.

Anabelle Liang (Citywire) On the increase in wealth management income for the year, can you give some colour on what sort of investment products customers were looking at?

Piyush Gupta The growth in wealth management was very broad-based. There was demand from structured products such as equity-linked notes. We also saw an increase in unit trust and bancassurance sales.

Angela Teng (CNA) Your outlook for 2020 is focused on the near-term. Is it because of the coronavirus situation?

Piyush Gupta Yes. We were on track to meet our guidance before Covid-19 broke out. Now, we think that the virus outbreak will have some impact on revenues as retail spending falls. There will also be some pick up in credit costs, but think we think that we have ample general allowances to cushion the impact.

Leslie Shaffer (DealStreetAsia) Can you give an update on digibank in India and Indonesia, both in terms of sign-ups and profitability? Also, has DBS delayed closing deals due to the coronavirus situation?

Piyush Gupta On digibank India and Indonesia, both are tracking to our revised business model. As I've indicated before, digibank Indonesia is doing better because we were more targeted in customer acquisition from the outset and margins are much better compared to

India. While we're still making a loss, we see a pathway to profitability. We were recently able to launch unsecured lending digitally as well, and that's been quite helpful.

As for India, we pivoted our customer acquisition strategy early last year to focus on quality over quantity. We reduced customer onboarding from about 100,000 new customers monthly to about 40,000 a month. The new customers are of much better quality and are driving cash flow profitability in about a couple of years from onboarding. The overall digibank India business will continue to be a loss-making business for the next few years before it breaks even.

On your second question, we are still able to execute deals despite the coronavirus situation. We were recently able to do a large primary placement even with our bankers working remotely. The issue was 4.8 times over-subscribed so it indicates that the market is still receptive given the right deals. Fixed income deals are particularly attractive given the prevailing low interest rate environment. However, deals from China might be slower.

Tom King (The Asset) Do you expect to see insurance sales grow given Covid-19?

Piyush Gupta We have not seen any evidence of this so far. We are looking to launch two insurance products with our partner Manulife which covers Covid-19, but this is more towards community service as opposed to a business proposition.

Chanyaporn Chanjaroen (Bloomberg) What measures will you have in place should Covid-19 last beyond summer?

Piyush Gupta Our current measures will be maintained if this carries on. We are confident that we can keep the bank running with as much as 60% of our employees working from home. That gives us a degree of resiliency and allows us to continue serving our customers. Meanwhile, we are taking adequate precautions for our staff to ensure that they are well taken care of even for those who continue to come into office.

Edna Koh Thank you, everyone for your questions and see you next quarter.