Edited transcript of DBS first-quarter 2020 results media briefing, 30 April 2020

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

Piyush Gupta Good morning everybody and thanks for calling in. I will speak for a few minutes on the Covid-19 crisis and how we're navigating it. I will then pass on to Sok Hui go through the first quarter's performance. I will then provide commentary on the business and credit outlook, and dividends.

Let me start first by acknowledging this immense crisis. These are challenging times. It is a human tragedy, and our hearts go out to all the people who have been affected. We at DBS are trying to do our best, whether it is for our customers, our employees or the community at large. It is incumbent on us and all large corporations to help all stakeholders in these difficult times. I'll start off by recognising our own employees who have been truly heroic over the last six to eight weeks.

Operational resilience. Our business volumes have been very strong in the first quarter. This is contrary to many industry services sectors. Our corporate banking volumes were up 10% year-on-year, which represents our custody, cash management, trade finance, open account and trading volumes. This includes volume from all the Covid-19 relief measures. Consumer volumes were down slightly due to branch closures and reduced cash transactions. Our treasury volumes had a strong quarter, which was up 20% to 25%.

Although most of our staff were working from home, we had no loss of productivity. We are handling the higher volumes with no backlog and I'm really pleased about that. While some of our operations staff in Singapore still need to work in our offices and branches, this has been extremely well organised. Overall, remote working of our staff has been extremely smooth. We haven't missed a beat.

Our digital capability has served us very well even in the first few days of the crisis. Our teams were able to come up with some fairly nifty applications, which have proved to be very beneficial to customers. An example is in contact tracing. After we had our first Covid-19 case, we developed our own contact-tracing application within 24 hours, using artificial intelligence and data analytics. We were able, at any point in time, to identify the degrees of separation for staff who were working with the employee who was infected. This enabled us to identify and quarantine the right people. Similarly, we've created apps which use sensors to track flow loading at any point in time. This allowed us to know what the utilisation at any floor is at a point in time, which helps with social distancing.

Finally, we were doing all this while stepping up our cyber security framework. Obviously, when you have the majority of staff working remotely there is a higher level of risk. However, we've been able to handle an exponential increase in work from home volumes. We've also stepped up manual oversight; we have a tightened network command centre and have a review process on some operations. The key challenge for us is that this presents more of a psychological challenge than a physical one. However, we've been operationally resilient.

Telecommuting at scale. In addition to keeping operations going, we are also able to work with large groups of people and keep engagement going. We've done over 50 staff townhalls remotely, engaging over 20,000 staff. Like every other company, we're doing virtual meetings, and in April, we conducted more than 1.2 million virtual meetings, which represents a nine-fold increase.

We also ran over 30 virtual workshops. These are half- or full-day workshops with large numbers of staff and a lot of that is to support project activity. All of our staff learning and development activities are

also continuing at pace. We moved over 100 training courses online and conducted them over the last month with over 15,000 people.

Accelerated roll out of digital customer capabilities. In addition to our own resiliency, we've been very focused on making things easier for our customers. Over the last two months, we accelerated several rollouts which we initially planned to introduce through the course of this year. In some cases, we created shortcuts to add more capabilities which were not previously on the agenda. These include the capacity to open accounts remotely and at scale, particularly equity trading and migrant worker accounts. We opened more than 24,000 equity accounts in less than a month, which is more than 1.5 times the normal volume. We also opened more than 35,000 accounts remotely for migrant workers over less than two weeks when the workers were not allowed to leave their dormitories due to restrictions imposed by the government. This speaks volumes of our digital account opening capabilities.

We have also increased our capability to accept documentation through secure email. Additionally, all of our financial planning activities now occur online. We've created guided chatbots to handle all questions on the Covid-19 relief measures and also ensured that all applications for these measures can be made online in real time.

Significant uplift in digital activity. The impact of these activities is quite visible. For example, in equities trading, between the fourth quarter of last year and the first quarter of this year, our total volumes have more than doubled. Online equity trading fee income has gone up from $15 million in the fourth quarter of last year to $35 million in the first quarter, which reflects the amount of online activity. Foreign exchange volumes are up 23% year-on-year. Volumes for both PayLah! and PayNow are also up significantly. Corporate PayNow is up six times as more companies are accepting payments online. In all of these categories, our volumes and market shares are up. So, it's been quite helpful to our customers and our business volumes continue to be upheld.

Covid-19 support measures. We have also announced how we are helping our stakeholders. For our employees, we recently said that there will be no retrenchments and that salaries will not be cut. We will also be judiciously hiring – We are continuously hiring graduates, interns and trainees, albeit in a measured way. We've created medical tele-consultation capabilities for all our staff, so that they don't need to step out of their house to get ordinary consultation. We've also launched a wellness campaign we called Together to keep spirits up through a series or programmes aimed at physical, emotional, mental and psychological well-being.

On the consumer front, in terms of the government packages, we approved close to 8,000 principal and interest deferral for mortgages. This represents $4.7 billion of outstanding loans. We launched free Covid-19 insurance coverage with our partner Chubb till the end of April and so far we have been able to insure about 1.2 million customers and families.

On the corporate side, we approved over 1,800 loan moratoriums representing about $3.4 billion in total loans outstanding. We have also availed $3.2 billion in loan facilities to Singapore SMEs under government relief programmes.

For the community, we launched a new fund called the DBS Stronger Together Fund, donating $10.5 million in aid to the elderly and underprivileged communities. This stretches across the region in our six main markets, providing test kits and medical facilities in each one of those markets. In conclusion, we do believe that we have a role to play, and we have been very focused on trying to do that. At the same

time, we have been making sure that we continue to run a resilient business and be there for our customers in this critical period.

With that, let me pass on to Sok Hui, who will take you through the results for the quarter.

Chng Sok Hui Thank you Piyush and good morning, everyone.

Highlights. The Group achieved a strong first-quarter as total income rose 13% or $475 million from a year ago to cross $4 billion for the first time. Net interest income, fee income and other non-interest income all recorded increases year-on-year, growing by 7%, 14% and 39% respectively. Net interest margin was stable on quarter at 1.86%.

Expenses were well-managed, declining by 3% from the previous quarter. Cost-to-income ratio improved to 39%.

Operating profit before allowances rose 20% from a year ago to a new high of $2.5 billion, which allowed us to pre-emptively set aside $700 million of general allowances to fortify our balance sheet against risks arising from the ongoing Covid-19 pandemic. The charge increased the amount of general provision reserves by 29% to $3.23 billion, or 1.08% of assets under regulatory definition. With the build-up of general provisions, first quarter net profit declined 29% to $1.17 billion.

The NPL rate rose to 1.6% from 1.5% the previous quarter. Allowance coverage of NPL was at 92%, and allowance coverage of unsecured NPL was at 173%.

Liquidity is healthy. Deposits recorded their highest quarterly increase of $30 billion, rising 7%. The loan-deposit ratio declined from 89% in the previous quarter to 83%. Both the liquidity coverage ratio of 133% and the net stable funding ratio of 112% were well above regulatory requirements.

The Common Equity Tier-1 ratio of 13.9% was above the group's target operating range of 12.5% to 13.5%, and well above regulatory requirements of 9.1%.

First quarter compared to a year ago. Total income grew 13% from a year ago to cross $4 billion for the first time. Business momentum was healthy. Net interest income rose 7% or $172 million from a year ago to $2.48 billion on the back of broad-based growth in non-trade corporate loans and stable margins. Fee income rose 14% or $102 million from a year ago to a new high of $832 million. The growth was led by a 28% growth in wealth management fees, a 17% rise in loan-related fees, and a 64% increase in investment banking fees as clients stepped up debt issuances. Other non-interest income rose 39% from gains on investment securities and from strong treasury and markets activity as customers put on more hedges and structured trades.

Expenses were well managed, rising 4% from a year ago. Profit before allowances grew 20% from a year ago to $2.47 billion. Total allowances of $1.09 billion were taken to accelerate the build-up of reserves and add resilience to the balance sheet. Two-thirds of the amount or $700 million were for general allowances. The remaining $383 million was for specific allowances. More than half of the increase in specific allowances was for a new non-performing loan during the quarter.

Net interest income. Net interest income increased 7% from a year ago and 2% from the previous quarter to $2.48 billion. Loans grew 1% in constant-currency terms from the previous quarter.

Net interest margin was stable from the previous quarter at 1.86%. Although the US Federal Reserve cut policy rates to near-zero in March, Libor was resilient due to stressed funding market conditions. This served to buffer net interest margin. We expect net interest margin to come under some pressure in subsequent quarters as rates decline in line with globally accommodative monetary policy and improved funding conditions.

Loans. Loans grew $3 billion from the previous quarter to $375 billion. Non-trade corporate loans grew 5% or $10 billion. Growth was led by drawdowns in Singapore and Hong Kong for capex and acquisition financing, as well as liquidity management. Trade loans and wealth management customer loans declined from the previous quarter. Loan pipeline remains healthy and we expect further drawdown of non-trade corporate loans in the next quarter.

Liquidity. Liquidity remained healthy. Deposits recorded the highest quarterly increase, rising 7% or $30 billion in constant-currency terms to $445 billion. The majority of the growth was from corporate customers. We benefited from a flight to quality, and our strong deposit franchise enabled us to weather the stressed market conditions in the second half of March when wholesale markets were not functioning well. As you can see from the chart on slide 6, wholesale funding declined $6 billion during the quarter. We also hold high quality liquid assets of $92 billion (per Basel definition) which further strengthens our liquidity position. The loan-deposit ratio declined from 89% in the previous quarter to 83%. Both the liquidity coverage ratio of 133% and net stable funding ratio of 112% were well above regulatory requirements.

Expenses. Expenses rose 4% from a year ago to $1.56 billion. Compared to the previous quarter they fell 3% from lower general expenses and staff costs. There was a positive jaw of nine percentage points compared to a year ago and 19 percentage points compared to the previous quarter. The cost-income ratio improved to 39%. We will continue to exercise strong discipline in our cost management.

Non-performing loans. Non-performing assets rose 14% from the previous quarter to $6.59 billion. Two percentage points of the increase were due to currency effects. An oil trader accounted for a large portion of new NPA. As mentioned earlier, more than half of the fresh specific allowances taken in the quarter were connected to this name. The NPL rate rose from 1.5% in the previous quarter to 1.6%.

Specific allowances. Specific allowances amounted to $383 million. More than half of the specific provision charge was due to a single name which became non-performing during the quarter. Credit costs were 35 basis points of loans for the quarter. This was 15 basis points higher than the 20 basis points recorded for 2019.

General allowances. $703 million of general allowances were taken in anticipation of a deeper and more prolonged economic impact from the pandemic. The charge increased general allowance reserves by 29% to $3.23 billion, or 1.08% of total assets under regulatory definition. As this exceeded the minimum 1% regulatory requirement, regulatory loss allowance reserves are no longer needed.

A portion of the general allowance reserve was not admitted as Tier 2 capital as we had exceeded the cap under Basel rules. These indicators point to a conservative and prudent level of general provision reserves as we enter uncertain times. The total allowance charge of $1.1 billion in the first quarter was 6.2 times the quarterly average for 2019. Including specific allowances, total allowance reserves increased 21% to $6.08 billion and allowance coverage of NPL was at 92%. Allowance coverage on unsecured NPL was 173% after taking collateral valued at $3.08 billion into account.

Capital.The Common Equity Tier-1 ratio declined 0.2 percentage points from the previous quarter to 13.9%. The ratio was above the group's target operating range and well above regulatory requirements. The leverage ratio of 6.9% was more than twice the regulatory minimum of 3%.

Dividends. The Board declared a quarterly dividend of 33 cents per share, unchanged from the previous quarter. Based on yesterday's closing share price, the annualised dividend yield is 6.9%. The first quarter interim dividend of 33 cents will be paid together with the fourth quarter's final dividend of 33 cents. In total, 66 cents will be paid to shareholders on 26 May 2020.

In summary. Our record operating performance in the first quarter reflects resilience of our franchise and disciplined cost management. Allowances have been pre-emptively set aside to cater for risks arising from the uncertain pandemic outlook. We start from a position of considerable strength. Our digital investments over the past decade have strengthened the resilience of the franchise. Our capital, funding and liquidity remain strong, and we are well-positioned to support our customers in uncertain markets. I hand you now back to Piyush for the next section.

Piyush Gupta: Thanks, Sok Hui.

Business outlook. The strong first quarter has given us a head start for the year. Income is up by about $500 million over the previous year and that is quite helpful. At this point in time, we think that our overall income for the year could be flat at around last year's level, which means that over the next three quarters, we will likely see a slowdown. However, that's not unexpected because we experienced a very strong January and February in the first quarter, and we only saw a slowdown in March.

We're guiding for full-year profit before allowances to also be at last year's level. We therefore are able to hold expenses tight at last year's level also.

So, what are the pressure points? The obvious pressure point is interest rates. First-quarter NIM has been surprisingly resilient and does not fully reflect the impact of the rate cuts in March. The Fed cut interest rates by 150 basis points between 3rd March and 15th March, which lasted for only three or four weeks of the quarter. Also, as Sok Hui pointed out, international funding conditions through the end of March were very tight, and Libor stayed very strong. The Libor-OIS spread went up to as much as 140 basis points through the end of March.

Credit spreads have also held up over this period because of the uncertainty. However, the exit NIM through the end of March was already at around 170 basis points. Therefore, we will see some impact on interest income. We think NIM is going to be slightly volatile, partly because there are loan programs in place for SMEs which provide good returns because they are extensively guaranteed by the government but are lower-yielding. There is also uncertainty on the levels of interest rates such as Libor, Sibor and Sor so it's hard to give specific NIM guidance. On the other hand, we think that the total impact of interest income is likely to be in the region of $500 million or $600 million for rest of the year.

Despite the headwinds, business volumes have been holding up. The first quarter was particularly strong for non-trade loans, which grew $10 billion on quarter. This was largely from supporting the continued business activities of customers, while a small portion of that was from customers drawing down on revolvers and committed facilities for liquidity purposes.

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The loan pipeline in the second quarter looks resilient. Some demand is coming from acquisition and development activity in the real estate industry. Business activity in the TMT space continues to be very robust as companies support remote working activity. Data centre as well as storage business activity is also strong.

In a regional context, Taiwan is not missing a beat, while business volumes in China are holding up as economic activity revived over the past few weeks. We are also providing up to $3 billion worth of incremental relief programs to support SMEs in the region, and that helped the loan book as well. Finally, our loan book will also be supported by restructuring activity. For example, we played a part in helping to arrange a restructuring package for Singapore Airlines, which is backed by Temasek Holdings and the Singapore government.

Trade loans, however, have been impacted. Trade volumes are down 10% and this showed up in our trade loans in the first quarter. This trend will likely continue in the coming quarters. Projections from WTO are estimating a reduction in trade volumes of up to 30%. However, the net interest impact on us is insignificant because the margins on trade loans are quite small.

On housing and consumer loans, we expect to see some declines. Housing loans in the first quarter grew by about $300 million. The first quarter was actually one of our strongest quarters for new bookings in a long time, with $3.5 billion of new bookings. But with the circuit breaker in place in Singapore, new bookings are down by about half in April. Over the year, we expect mortgage loan volumes to be flattish.

For other consumer loans, we saw some reduction in margin loans to wealth management customers amounting to a few billion in the first quarter. However, we think that this sector will continue to be resilient as activity continues to be robust in April.

We had massive inflow of deposits in the first quarter. This is continuing into the second quarter. This reflects not only people leaving money with us, but also our digital capabilities such as account opening and online trading activity as customers sell investments and deposit the proceeds with us. This will likely continue to be strong.

Fee income will likely be lower this year because the first quarter benefited from a very strong wealth management segment. We had about $100 million of incremental fees from wealth management. Our loan and bond issuance fees also held up. However, I don't see wealth management fee income staying at these levels in the coming quarters.

However, we do have diversified fee income sources. In the investment banking segment, we are observing that the markets are beginning to open up. We've done a slew of new issuances recently. Investment-grade issuances globally through April have been 50% higher than last year and we are holding our market share. Our league table positions have actually improved over this four-month period.

The big upside in the first quarter was from the non-interest income category. This is from three sources. First, our customers have been a lot more active in risk management, both on the corporate and the consumer sides, and that helped our sales activity. Second, the trading business has been able to do well in this volatile environment. Third, we have a sizable portfolio of investment securities and with the collapse in interest rates, a lot of those investments are in the money. We were able to monetise some of that, and that opportunity will continue to exist for the rest of the year.

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The outlook for 2021 will be more challenging. The business outlook for next year is unclear. While we are going to see further impact on our earnings from low interest rates, we do see a pickup in economic activity from the low levels this year, although there is more uncertainty involved in this projection.

We have some flexibility on expenses and we are quite deliberate and thoughtful on this. We don't want to retrench or cut employees' salaries in these difficult times. However, we have become more judicious in our hiring. To the extent that we do have some turnover, we'll be careful about replacements and incremental hiring. We've been able to cut back in a lot of discretionary staff expenses such as travel and have also prioritised some investments. While we won't cut base salaries, variable compensation such as bonuses are aligned to earnings, and will mirror the fall in earnings.

Credit outlook. Our consumer loans of $114 billion comprise about 30% of our overall loan book, while SME loans of $39 billion comprise about 10%. I focus on these two segments as they tend to be more vulnerable in a weak economic environment. The rest of our loans are to large corporates. Out of the large corporate segment, we've identified eight industries which are likely to be impacted in this crisis. The total loan outstanding for these industries is $46 billion, of which about $5 billion comprise of Singapore Inc companies which we think will be relatively resilient.

We certainly expect credit costs to rise. The damage from the pandemic to the global economy has been large. First-quarter GDP growth from China fell 6.8% year-on-year, while the US fell 4.8%. We estimate our credit costs over a two-year period. This is because of the relief packages we have in place, which presents uncertainty on whether credit deterioration will occur this year or in 2021. As customers which have applied for relief are not servicing principal or interest payments on mortgages this year, there will be less loan delinquency and NPL. Similarly, principal deferment for a large part of secured SME loans will reduce NPL formation. After the loan moratoriums end, we expect to see some of these loans turn bad. We estimate credit costs to be in the $3 billion to $5 billion range, which is between 80 and 130 basis points.

We used two methodologies to estimate this. We did a top-down view analysing portfolio migration using macroeconomic and other variables. We also did a bottom-up analysis, which involves stress-testing individual customers within each sector to identify vulnerable names. We looked at two scenarios. The first is the base scenario, which assumes that the lockdowns continue in most of the world until the end of June and we subsequently see a progressive opening up. This will imply a gradual recovery towards the second half of the year and muted growth for next year. This scenario also assumes a 20% correction in stock market prices around the world.

The second scenario is a more severe one. This assumes that lockdowns continue well into the third quarter and a recovery occurs only at the end of the year, while economic activity next year will still be materially lower than last year's levels. This scenario also assumes the stock markets will decline to about 50% of last year's level.

Our credit cost estimates are comparable to the 2002-03 recession and the 2008-09 GFC even though the current crisis is more severe than the past two crises. This is because the nature of our exposure has changed materially. In 2008-09, a large part of our credit costs came from our exposure outside Asia where we participated in large syndicated loans which went bad. Adjusting for that, we would have experienced far lower credit costs.

In 2002-03, our consumer loan portfolio was a lot more vulnerable and we were heavily impacted by very large bankruptcies in Hong Kong. At the time, we extended mortgages at more than 100% loan-to-

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value. Furthermore, rules around unsecured consumer credit were not as strict as credit bureaus were not as well-developed. While I acknowledge that there could be tail risks which we have not accounted for, overall, I think that we will witness credit costs similar to the past crises after adjusting for the nature of our current loan exposure.

Consumer loans. The mortgage loan book is at $75 billion. We expect minimal losses in this segment and not more than the 2008-09 crisis. Regulations on LTV and debt servicing ratios have been very prudent. The average LTV ratio is at around 55% in Singapore and 32% in Hong Kong. It would take a sizable collapse in property prices to put households in negative equity. Additionally, the majority of property loans are for owner-occupation and not for investment, which gives a degree of resilience to our housing loan portfolio. Over the past eight years, there have been no losses in our mortgage portfolio. We are projecting some losses going forward, but this is not significant.

Our unsecured credit loan portfolio is small, at $11 billion which comprises 3% of our total loan book. Hence, it does not have a large impact on our performance. By contrast, US banks have significantly larger credit card portfolios. This segment is typically the most vulnerable and is responsible for a large part of provisions set aside by the US banks in the first quarter. Singapore comprises more than half of our unsecured loans and over the past four years, MAS has been tightening the unsecured credit limit. The balance-to-income ratio was brought down to 12 times from 24 times, which means that the riskier segments of the market no longer exist in our books. Hong Kong has been under stress for the last 12 to 18 months and we have taken provisions for that.

We are projecting an increase in provisions of between three and four times the normal levels. When you add them together, credit costs will not be more than $0.5 billion to $1 billion, which is manageable.

SME loans. Our SME loan portfolio is at $39 billion, with 90% from Singapore and Hong Kong and predominantly secured against property. Our assumption is that property prices generally hold up, and the tail risk is that there is a collapse in property prices of more than 50%. If this occurs, then we could see more pressure in this segment than what our models are showing. However, we have been tightening our lending to this segment over the last few years. Only 10% of our exposure is in vulnerable sectors such as hospitality and retail. The Hong Kong portfolio has been under stressed conditions over the last 12 to 18 months and we have provisioned for that. Our bottom-up stress testing of this sector tells us that we could see provisions going up by between three and four times and even in the stressed case, they stay a tad under $1 billion.

Large corporate loans. We identified eight industries that are more vulnerable in this crisis, which includes oil and gas, aviation and shipping. We also included those in the tourism sector such as cruise ship, gaming, as well as the retail and hospitality industries. Our total loans to this segment are $46 billion, of which half is in oil and gas. For each industry that we stress-test, we are taking idiosyncratic stressed conditions unique to that industry. For example in oil and gas, the stressed conditions assumes $20 oil prices over the course of this year. For aviation, we assumed that there will be no revenues over the next 12 months. We've also assumed that companies have a fixed cost structure and no flexibility in expenses. We then identified the impact on Ebitda, cash flow and liquidity and which names are likely to be more vulnerable and go under. In doing so, we have identified about 20% of our portfolio which need to be closely monitored.

Oil and gas. Loans to upstream producers are about $7 billion. These are mostly to oil majors and state-owned companies. In the processors category, there are two main segments: refiners and storage companies. Companies in the storage segment are benefiting significantly from the fall in oil

demand as storage prices increased exponentially. In the refining sector, margins are under some pressure. However, our exposures to the oil majors or large integrated operators with diversified income mean that this part of our portfolio will remain quite resilient.

Loans to traders are at $5 billion, half of which are secured against bank letters of credit. We already recognised one loan as non-performing and it is a name that everybody knows. This is an aberration in our loan book. From what we know, there has been an accounting fraud which goes back several years. The balance of loans to this segment are to global traders or to state-owned companies, and they are tightly structured.

For support services, our exposure to the Singapore offshore marine sector has been reduced from $8 billion in 2017 to about $4 billion, of which $3 billion is non-performing. This sector will likely come under more pressure at current oil prices and although we were conservative in our recognition of our losses in 2017, we might still have to take more provisions.

<u>Aviation.</u> Outstanding loans are $6 billion. In assessing the loan performance of this industry, we made assumptions on the degree of government support in each aviation category and the liquidity for each company. Our underlying assumption is that governments follow through with the support packages, which presents a tail risk. Fifteen percent of the loan book is to Singapore Inc companies, which includes the airport. Thirty-five percent are to national flag carriers and another 35% are to bank-related and international leasing companies. A number of these are Chinese bank-owned. The remaining exposure is to aircraft manufacturers.

Summing up our exposures across the consumer, SME and large corporate space, we have a range of credit cost estimates which we think is realistic and this could be anywhere between $3 billion and $5 billion over the next two years.

<u>Balance sheet.</u> We have entered this crisis with a very strong balance sheet. Our core equity Tier-1 capital is at 13.9%. We have set aside total general allowances of $3.2 billion, with over $1 billion comprising of management overlays. This is a cushion we've built up and will continue build up as a buffer for uncertain times. Our liquidity position is also very strong.

<u>Dividend.</u> Taking into account our current projection on earnings capacity, the potential stress scenarios and the strong nature of our balance sheet, the Board decided to hold the dividend at 33 cents for this quarter. If the increase in credit costs falls within the range that we project, our capital ratios will not fall significantly below our operating range.

I would like to emphasise that there are tail risks to our projections. Hence, we will continue to keep a watchful eye on our financial performance every quarter. Fortunately, since we pay a quarterly dividend, it gives us the capacity to be nimble. There is uncertainty around how long this pandemic could last and how this will change consumer behaviour. There is also uncertainty around the impact of the government measures, and we will monitor the situation carefully every quarter.

Jamie Lee (Business Times) I have two questions. First, in estimating credit costs for large corporates, does it take into account the impact from landlords providing rental relief to their tenants, and how do you assess the extent of this impact? The second question is on your oil and gas portfolio. In 2017, the collateral was written down to scrap value. Could you give some colour on the collateral values that you assume in the current crisis, and the potential further markdowns that you are likely to take?

Piyush Gupta Our stress tests consider the rental reliefs provided to their tenants, which affect their revenues. Estimating credit costs is more of an art rather than a science, and we go through every name in our portfolio to figure out how much revenue they forego in doing so, as well as the expenses they continue to incur. We also look at the liquidity and the refinancing needs of each company. Based on these estimates, we make a projection on whether they will likely default or not.

On your second question, if we asses that a company will likely go into liquidation, we mark collateral down to scrap value. If a company is assessed to be able to restructure its business, or that they are able to find a buyer, then we take liquidation value. Currently, there are some companies which are restructuring but may be unable to find buyers, and so we might have to mark collateral down from liquidation to scrap value and set aside more provisions, but this is not going to be large. The difference between liquidation and scrap value is about 10% or 15%.

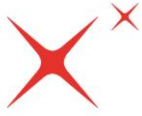
Annabel Liang (Citywire) My question is specific to your wealth management business. Can you share some observations of client behaviour in the first quarter and if are they gravitating towards particular products?

Piyush Gupta Our wealth management business in the first quarter was very strong because of three reasons. First, as markets were declining many clients were moving into cash by selling their positions. Second, many were also using the opportunity to reposition their portfolios by investing in products such as discretionary managed portfolios and structured products. Third, activity was strong because with people unable to leave their homes due to government restrictions, online trading activity picked up. However, activity has been slower in April and we may continue to see this over the near-term before activity recovers.

Chanyaporn Chanjaroen (Bloomberg) I have two questions. First, when do you see a return to normalcy in Singapore? Second, how does your current oil and gas exposure of $23 billion compare to the levels over the last few years? Have you been trimming exposure to this sector and what level do you see that going forward?

Piyush Gupta On your first question, frankly, your guess is as good as mine. I take some encouragement that North Asia is opening up. Domestic activity in Taiwan has completely recovered. Business volumes in China are back at 80% to 90% of pre-crisis levels. Hong Kong and Korea have also opened up. Assuming that this is sustained and we don't see a second wave of infections, I think Singapore could see a gradual opening up in the third quarter which is our base case scenario. Now, this is assuming that the current situation in the workers' dormitories here is brought under control. However, we might see a resurgence of infection towards the end of the year, so there is a lot of uncertainty on when normalcy will return.

On your second question, our exposures to the oil and gas industry have gone up over the last three to four years but the nature of exposures has changed. We had a larger exposure to the offshore marine support services sector and we brought that down sharply. However, our exposures to state-owned or the oil majors have increased. Our overall loan book for this industry has gone up from around $18 billion in 2016-17 to $23 billion now. The increased exposure is to high-quality clients which we also provide a whole range of services. Our exposure going forward depends on what happens to the industry. If we project oil prices to hover at around $15 to $20, capacity will be reduced and we may witness loan demand from the energy sector shifting away from oil and gas companies. The good news is that we've been increasing our exposure to the renewable energy sector. Last year, we did almost



$2.5 billion to $3 billion of renewable energy financing and we continue to increase that, and this might be a good replacement opportunity.

Stefania Palma (Financial Times) As a consequence of the oil price fall, is the bank planning to cut back on exposure to the oil and gas industry in the next few months and manage the existing exposures by adjusting risk pricing and requiring more collateral from the borrowers in the sector? Are you looking at prioritising larger oil and gas borrowers and move away from the smaller players?

Piyush Gupta A part of our exposure is in trade finance and with the fall in oil prices, the amount of business that needs financing will be reduced as working capital requirements decrease. As I've mention earlier, the nature of our book has changed in recent years and the bulk of our current exposure is to high-end producers and processors, which are oil majors and state-owned companies, and we are not cutting back on our exposure to any of these names. In fact, we are happy to support high-end customers who we think are going to be survivors from this crisis. However, we are a lot more disciplined on the documentation for trade finance and ensuring that we tighten up due diligence on traders.

Takashi Nakano (Nikkei) As some global banks are reducing dividends to retain capital, are you considering the same?

Piyush Gupta Our dividend policy has been to distribute sustainable dividends and grow them in line with earnings. We have been conservative in our dividend policy, which gives us some headroom in a downturn so that it can be maintained. We are also conscious that we have a large number of retail shareholders in Singapore, and similar to Hong Kong, these people rely on our dividends to finance part of their retirement. Nevertheless, we will remain prudent and will continue to monitor the situation. If it worsens, then we might revisit our quarterly dividend amount.

Edna Koh That's all the time we have today. Thank you everyone for joining us and see you next quarter.