**Edited transcript of DBS third-quarter 2023 results media briefing, 6 November 2023**

**Edna Koh** Good morning and welcome to DBS's third-quarter financial results briefing.

**Chng Sok Hui** Good morning, everyone.

Highlights. We achieved record total income in the third quarter, and new highs for nine-month net profit and ROE.

For the third quarter, net profit increased 18% from a year ago to $2.63 billion while total income rose 16% to a new high of $5.19 billion. Growth in the commercial book was broad-based. Net interest margin expanded 52 basis points from higher rates while net fee income grew 9% year-on-year from an increase in wealth management, cards, and loan-related fees. Treasury customer sales and other income were up 8%. The growth in the commercial book was moderated by a 38% decline in Treasury markets income due to higher funding cost.

For the nine months, net profit grew 35% to a new high of $7.89 billion with ROE at a record 18.6%. Total income rose 27% to $15.2 billion as higher commercial book net interest margin and non-interest income were moderated by lower Treasury Markets income. The cost-income ratio improved four percentage points to 39%.

Asset quality remained healthy with the NPL ratio little changed from the previous quarter at 1.2%. Specific allowances rose to 18 basis points as allowances were prudently taken for exposures linked to a recent money laundering case in Singapore. Allowance coverage was high at 125% and 216% after considering collateral. Capital remained healthy with CET-1 unchanged from the previous quarter at 14.1%.

In August, Citi Taiwan was consolidated, making DBS the largest foreign bank by assets in Taiwan with leading positions in deposits, cards, and investments. The consolidation also added $10 billion to loans, $12 billion to deposits, 2.7 million in credit card accounts, and over $8 billion to investment assets under management.

For the third quarter, the Board declared a dividend of 48 cents.

Third-quarter performance. Compared to a year ago, third-quarter commercial book total income increased 19% to $5.03 billion.

Net interest income rose 23% or $695 million to $3.68 billion as net interest margin expanded 52 basis points to 2.82% from higher interest rates. Non-interest income growth was sustained. Fees grew 9% or $72 million to $843 million, while other non-interest income was 8% or $37 million higher at $499 million.

The increase in the commercial book was partially offset by a 38% or $103 million decline in Treasury Markets income to $166 million, due to higher funding cost.

Expenses rose 12% or $213 million to $2.04 billion from higher staff costs and the consolidation of Citi Taiwan. Underlying expenses were 10% higher ex-Citi. The cost-income ratio was little changed at 39%.

Specific allowances rose from a low base to $197 million or 18 basis points of loans. General allowances of $18 million were taken compared to $153 million taken a year ago.

Compared to the previous quarter, commercial book net interest income rose 3% or $103 million from an increase in commercial book interest-bearing assets and a one basis-point expansion in net interest margin. Loans grew 1% or $5 billion in constant currency terms to $420 billion due to Citi Taiwan while underlying loans were 1% lower. Deposits grew 2% to $531 billion from Citi Taiwan, while underlying deposits were unchanged.

Non-interest income growth was broad-based. Net fee income was up 2% or $20 million while other non-interest income rose 8% or $35 million from an increase in treasury customer sales.

Expenses rose 6% or $107 million. Excluding Citi Taiwan, underlying expenses grew 4% from higher staff costs.

Specific allowance rose $83 million. General allowances of $18 million were taken compared to a write-back of $42 million in the previous quarter.

Nine-month performance. For the nine months, net profit rose 35% to a new high of $7.89 billion, with ROE at a record 18.6%.

Commercial book total income rose 33% to $14.6 billion. Net interest income rose 46% or $3.34 billion to $10.6 billion from an 83 basis-point expansion in net interest margin. Net fee income rose 4% or $87 million to $2.52 billion as growth in the second and third quarters more than offset a decline in the first quarter. Other non-interest income rose 16% or $197 million to $1.4 billion as treasury customer sales rose to a record.

The strong commercial book performance was partially offset by a 37% or $358 million decline in Treasury Markets income to $612 million due to higher funding cost. This view of Treasury Markets which combines net interest income and non-interest income is the most relevant measure of Treasury Markets performance as there are offsets between net interest income and non-interest income due to accounting asymmetry, for example in equity and FX swap products.

Expenses rose 14% or $724 million to $5.85 billion due to higher staff costs. With total income growing 27%, there was positive jaw of 13 percentage points which resulted in cost to income ratio improving by four percentage points to 39%.

Specific allowances rose $112 million to $373 million or 11 basis points of loans, while $75 million of general allowances were taken compared to $18 million a year ago.

Net interest income. Commercial book net interest income rose 3% to $3.68 billion compared to the previous quarter as net interest margin was one basis-point higher and commercial book interest bearing assets grew 1% or $7 billion due to Citi Taiwan. Compared to a year ago, commercial book net interest income rose 23% and net interest margin expanded 52 basis points to 2.82%.

Combining the commercial book and Treasury Markets, Group net interest income rose 2% from the previous quarter. Net interest margin expanded by a faster three basis points to 2.19%. Half of the expansion was driven by the commercial book. The other half was due to a decline in Treasury Markets assets which reduced the drag on Group net interest margin. Compared to a year ago, net interest income rose 16% as net interest margin expanded 29 basis points.

For the nine months, commercial book net interest income increased 46% to $10.6 billion from an 83 basis-point improvement in net interest margin to 2.77%. Group net interest income was 33% higher at $10.2 billion as net interest margin rose 51 basis points to 2.16%.

Treasury Markets net interest income was negative for the third quarter and nine months. As mentioned earlier, this has to be viewed together with non-interest income to provide a relevant measure on Treasury Markets performance.

Loans. During the quarter, loans grew 1% or $5 billion in constant-currency terms from the consolidation of Citi Taiwan which added $10 billion of loans. Trade loans contracted due to unattractive pricing while non-trade corporate loans were lower due to higher repayments. Consumer loans were also lower by $1 billion.

Over the nine months, loans declined $5 billion excluding Citi Taiwan as growth in non-trade corporate loans was more than offset by a contraction in trade loans.

Deposits. During the quarter, deposits grew 2% or $12 billion in constant-currency terms from the consolidation of Citi Taiwan. Excluding Citi Taiwan, underlying deposits were unchanged as Casa outflows were replaced by fixed deposits.

Liquidity was ample with LCR of 138% and NSFR of 117%, well above regulatory requirements.

Fee income. Third-quarter gross fee income of $1.05 billion was higher than a year ago and the previous quarter.

Wealth management fees increased 22% from a year ago to $393 million from higher bancassurance and investment product sales. Card fees grew 21% to $269 million from higher spending as well as the integration of Citi Taiwan. Loan-related fees rose 12% to $137 million. Transaction fees were little changed at $228 million while investment banking fees fell 16% to $21 million on slower capital market activities.

For the nine months, gross fee income of $3.06 billion was higher due to a growth in cards, wealth management and loan-related fees.

Non-interest income. We have introduced a new slide which provides a clearer view of Group non-interest income. The commercial book non-interest income accounts for the majority of Group non-interest income and is highlighted in the red box. It comprises net fee income and other non-interest income, which are customer driven.

For the third quarter, commercial book non-interest income rose 9% from a year ago, and 4% from the previous quarter to $1.34 billion from sustained recovery in net fee income and growth in treasury customer sales. For the nine months, commercial book non-interest income increased 8% to $3.91 billion.

Treasury Markets non-interest income is highlighted by the black box and for the nine months, is up 69% from a year ago to $1.05 billion. As indicated earlier, the strong increase from a year ago reflects the offset against the decline in net interest income from accounting asymmetry.

The best way to look at a bank's performance is through the lens of the commercial book, and at net interest income and non-interest income in aggregate for Treasury Markets. Commercial book non-interest income accounted for about 80% of total non-interest income in the third quarter and the nine-months period.

Expenses. For the third quarter, expenses grew 6% to $2.04 billion from the previous quarter driven by higher staff costs. Underlying expenses excluding Citi Taiwan grew 4%. Compared to the previous year, expenses were 12% higher while underlying expenses grew 10%. Cost-income ratio was little changed at 39%.

For the nine months, expenses grew 14% due to higher staff cost while the cost-income ratio improved four percentage points to 39%.

Non-performing assets. Non-performing assets rose 6% or $313 million from the previous quarter to $5.30 billion. The increase was due fully to the integration of Citi Taiwan. Underlying non-performing assets were little changed with new non-performing asset formation in line with recent quarters.

The NPL ratio rose slightly from the previous quarter to 1.2%. Excluding Citi Taiwan, the NPL ratio was unchanged at 1.1%.

Specific allowances. Third-quarter specific allowances of $196 million or 18 basis points of loans were higher than the low levels in recent quarters. The increase of $80 million during the quarter was due entirely to the allowances that were prudently taken for exposures linked to a recent money laundering case in Singapore. Excluding the specific allowances taken for exposures linked to a recent money laundering case in Singapore, underlying specific allowances were flat compared to the second quarter.

For the nine months, specific allowances rose three basis points to 11 basis points of loans or $374 million.

General allowances. Total allowance reserves stood at $6.63 billion, with $2.72 billion in specific allowance reserves and $3.91 billion in general allowance reserves.

We added to general allowance reserves through prudent overlays given macroeconomic uncertainties. As at 30th September 2023, modelled overlays stood at $2.2 billion out of the total general allowance reserves of $3.91 billion.

Allowance coverage stood at 125% and at 216% after considering collateral.

Capital adequacy. The Common Equity Tier-1 ratio of 14.1% was unchanged from the previous quarter as the impact of Citi Taiwan integration was offset by profit accretion and a decline in risk-weighted assets. The leverage ratio of 6.4% was twice the regulatory minimum of 3%.

Dividends. The Board declared a quarterly dividend of 48 cents per share for the third quarter, bringing the dividend for nine months to $1.38 per share.

Based on last Friday's closing share price and assuming that dividends are held at 48 cents per quarter, the annualised dividend yield is 5.8%.

In summary. We achieved record total income in the third quarter, and new highs for nine-month net profit and ROE. Net interest margin continued to expand from higher rates, and growth in commercial book non-interest income was sustained.

The successful integration of Citi Taiwan progresses our strategy of building meaningful scale in our growth markets.

As we enter the coming year, higher-for-longer rates will be net beneficial to earnings, while our solid balance sheet with ample liquidity, prudent general allowance reserves and healthy capital ratios will provide us with strong buffers against macro uncertainties.

**Piyush Gupta** Thanks, Sok Hui.

It has been a challenging quarter from a technology standpoint, and therefore it is refreshing that the business itself has been quite robust during the quarter. The total income growth of 16% reflects a solid increase not just on NIM but also fee activity. I had guided earlier that we should see high-single-digit growth in fee income and it is coming through.

The overall NIM was up three basis points during the quarter, half from the commercial book and half from a lower negative drag on Treasury Markets because its book shrank. I do think, though, that NIM probably peaked during the quarter. I do not see more Fed rate hikes and therefore NIM will be unlikely to go up further from here.

The challenge was loans. At the beginning of the year, I had thought we might be able to get mid-single-digit growth. By the middle of the year, I said it would be low-single-digits. As it turned out, loan growth has been even more subdued. Loans declined during the quarter. It was partly of our own volition because we were not getting the right pricing on trade loans and so let them run off. For other loans, many borrowers paid down their loans if they had the ability to.

Fee income growth of 9% year-on-year was solid. It was broad-based – we had 22% growth in wealth management; and 21% growth in cards including Citi Taiwan and 12% excluding.

The cost-income ratio continued to be well-managed at 39%.

Asset quality was good. Sok Hui pointed out we had taken some provisions for a recent money laundering case. It is public knowledge we filed charges for properties against companies associated with the case. We do not have any idea about the outcome of the case, so we chose to be conservative and provide fully for our exposure.

Let me now touch on technology. Both internal and external reviews point to four areas we need to do better in.

The first area is change management. Several of the digital disruptions boiled down to either software bugs in third-party vendor systems or were mistakes by our own people. It is hard to figure why there are more bugs now than in the past.

The key issue for us is to improve the quality of change management. That means tightening the processes and quality assurance for every software before it is incorporated. We need to do more comprehensive chaos testing and production assurance testing. Today, when we get a new system, we test it, but it is not easy to do so in a live environment. One of the things we will do is create a very-close-to-live environment, which we should have by year-end. We can then do more comprehensive testing of anything we bring on board.

As you know, we have a microservice architecture, which means taking a lot of different systems and packaging them together. It is the architecture most tech companies have. But one challenge it poses is the butterfly effect – a bug in one part of that ecosystem could result in problems elsewhere. More comprehensive production assurance testing should help. We started the process a few months ago and it will take till year-end to get fully up. Once we have that, I am confident we can do a much better job in the change management process.

The second area we need to do better in is system recovery. While change management is about minimising the challenges we have, system recovery is about how quickly we can recover when challenges arise. The recent incidents showed we are not as quick as we need to be in terms of recovery.

The issue is two-fold. First, for some systems, while we have the ability to troubleshoot, we rely on external partners if the bugs are deeply embedded inside the system. We need to acquire more engineering capability to deal with such problems on our own. We are in the process of getting the talent, which will take a bit of time.

The second issue has to do with the system architecture. We have an active-active or self-healing system, where we build redundancy for recovery to happen by itself. This means an application is run on multiple machines and multiple data centres, so that if one machine goes down, the back-up systems can pick up the load without human intervention.

One of our learnings is that because the underlying systems connecting everything have data replication, one bug can affect all the machines, servers and data centres. The solution involves improving what is called a passive recovery. For critical applications, we are working to build more warm standbys, hot standbys and passive recovery. Again, work which has been ongoing for a few months, and we should be able to create to make a far more robust recovery pathway by the end of the first quarter.

There are two other areas we need to do better in. Incident management, which we can improve communications in, and technology risk governance, which includes beefing up second- and third-line capabilities. We are hiring new talent, which will be on board in the next few months.

We have set ourselves new targets for service availability and recovery on top of what MAS requires. MAS regulations specify uptime and delivery for individual technology systems. However, because most services – for example, payments – rely on several types of technology, we now want to focus on all the systems required for an individual service. So if the payments system goes down, we should be able provide an alternative pathway quickly for payments to resume. In this case, we have three channels – PayLah, on the mobile and through the web browser. We are going to decouple the three so that if one goes down the other channels can be brought back up. The work is also going to take a few months but we are hopeful it can be completed within six months.

As I said before, we are not proud of the disruptions. Our customers expect and deserve better. At the same time, we are fairly confident that the issues are fixable and we will get to a much better level of stability and resilience as we go forward.

Finally, I want to talk about 2024. In past years, I would try to give specific guidance at this point about the following year. It is a little trickier this year because of the uncertainty surrounding a number of factors.

The US economy has been far more robust than anybody expected. I think rates are going to stay higher for longer, but with them where they are, a slowdown can be expected in the West. For China, I think we could have seen the bottom. The measures since July should put a floor under the property market. Nevertheless, the recovery will be a little patchy, but I do not think it will get much worse. The Asean region and India are doing well. We have to keep an eye on geopolitics, especially the impact on oil prices. Because of the Middle East conflict, I am hearing binary views on oil. Since there is so much uncertainty, we will reserve giving more specific guidance until the next quarter. But I can offer some high-level guidance.

On interest rates, I do not foresee any cuts in the first half of next year. At the same time, based on the latest data, I do not foresee any more rate hikes. We could get two or three rate cuts in the second half, but I am not confident because an event risk in the Middle East could prompt a bigger set of cuts.

I expect full-year NIM this year to probably wind up around 2.16%. For next year, full-year NIM should be at similar levels, maybe slightly off. Net interest income will be flattish or slightly up from loan growth even if NIM is slightly down. Our model shows that a marginal NIM decline will be compensated for by a pick-up in loan growth, counterbalancing the impact on net interest income. So it is safe to assume that net interest income will be stable, and rise modestly when Citi Taiwan is included.

On fee income and overall non-interest income, I think we will get double-digit growth. Momentum is good for wealth management and cards. If capital markets are constructive, we should get some pick-up in investment banking.

Overall, we could get mid-single-digit total income growth – 2-3% organically and another 2%-3% from Citi Taiwan. We will see high-single-digit expense growth – 5-6% organically and another 3% from Citi Taiwan. This means profit before allowances should be up.

For total allowances, while we are not seeing any major stress in any portfolio, we figure that we could revert to the mean, so 17-20 basis points would be a good estimate of allowances. If it becomes much more than that, we have enough GP cushion to offset the difference. On the other hand, if the world stays the way it is, total allowances could be lower than 17-20 basis points.

When you put all of that together, I think we will wind up holding net profits around this year's level, which we are fairly confident will cross $10 billion. That is a good way to start thinking about the future at this point in time. Let me stop here and take questions.

**Chanyaporn Chanjaroen (Bloomberg)** I have three questions. Is the NIM forecast for next year based on 2.19% in the third quarter? On the AML exposure, could you elaborate on what the charges are? Regarding the digital outage and MAS penalty, what impact do you see on your operations and the projects you have with other parties, as well as on management compensation?

**Piyush Gupta** The NIM guidance is based on the full-year 2023 projection of 2.16%, not the third-quarter's 2.19%. But it all depends on what happens to rates. If they are not cut, we will have some tailwinds for NIM, but offset by some headwinds for loan growth.

A bank files a charge to give notice that it has provided a loan against a particular property, so that the public can see whether the property is unencumbered or not. It is a standard practice in banking. The provisions we took against the exposure were just a tad bit below the exposures of $100 million mentioned in the charges.

On the outages, we are going to focus our energies on building resilience in the areas I spoke about. We do not currently have any M&A or new business venture plans. We also have not closed any branches or ATMs in the past three years. We did close several in the early days of the pandemic, but we subsequently added back some. So there will not be any real direct impact in these areas.

What will have an impact is the deferral of new product and service launches currently in the pipeline. Since we will be focusing on building resiliency, we would have had to divert resources from product development anyway. The MAS directive gives us a six-month window to consolidate, which is actually a good thing. By strengthening resiliency and our underbelly over the next six months, we will be able to subsequently speed up the delivery of products and services.

On compensation, it is something the board decides, not management. Being close-knit, the senior management team has agreed to take collective accountability for the disruptions. The cuts will be announced in the annual report at the end of the first quarter, so it will be visible at that time.

**Chanyaporn Chanjaroen** On the money laundering case, did DBS file suspicious transaction reports?

**Piyush Gupta** Yes, we did.

**Felicia Tan (The Edge)** Is DBS considering taking its tech 100% in-house, considering that the recent outage was caused by an external vendor. What was the rationale for the bank to outsource its data centres?

**Piyush Gupta** Almost every big company in the world outsources its data centres because of the complexity involved. With an increasing focus on green data centres and resilient design, it has become even harder for individual companies to operate them. The biggest data centre operators around the world are specialised, such as Singtel, ST Telemedia and Equinix, which is the world's biggest and operates 250 data centres globally. Data centres are classified as tier one, two, three, three-plus or four. The data centre in question is three-plus, which is the highest tier in Singapore. When you operate your own data centres, it is very hard to achieve that level of resiliency. We got out of running our own data centres 15 years ago.

**Prisca Ang (Straits Times)** Ravi Menon, the managing director of MAS, said over the weekend that there were some deep-seated issues that needed to be resolved. What are the biggest deep-seated issues that you have identified?

**Piyush Gupta** Of the four area I mentioned, the change management process would account for the bulk of our problems because the disruptions were mostly caused by bugs, either third-party or our own. So to me the big issue is having good change control since the more systems there are in the architecture, the greater the potential for bugs. To get high resiliency, it is necessary to get the appropriate discipline and rigour to test well before going into production.

The second area is recovery. We need to improve the depth of our engineering talent because the bugs that happened were deeply embedded. Having to go back to the vendor to put a team together to figure what the problem was took time. We also have to add some passive recovery processes in critical areas.

**Yantoultra Ngui (Reuters)** Can you share your views on ROE expectations for next year, and on the impact of geopolitical tensions in the Middle East on business and wealth flows in the region?

**Piyush Gupta** On ROE, we have guided that it should be able to stick to north of 17%.

On Middle East tensions, our direct exposure to the region is quite limited. We have some facilities to UAE and Qatari banks, which I do not expect anything to happen to. The indirect impact though can be a bit more concerning if the conflict widens and the oil price gets out of hand. If it gets to $150, for example, many countries in the region will start having challenges with their trade deficit, which would then result in a further economy economic slowdown and currency volatility.

**Anshuman Daga (Breakingviews)** Can you elaborate on your exposure of $100 million to the money laundering case in Singapore. How do you see it affecting wealth flows into Singapore and the region?

**Piyush Gupta** Most of the exposures were for property. Some of the individuals involved had retail consumer accounts with us, which they then used to finance property purchases.

In terms of total wealth flows, I do not see the case having a material impact. While we will continue to tighten processes, Singapore already has a very robust money laundering regime, even if people get through the system from time to time. Net new money flows continued to be robust through the third quarter and continue to be fairly solid into October as well. Like other banks, we will continue to see what tweaks can be made to tighten the system further. But it has to be done carefully so that we do not wind up rejecting legitimate customers. I do not expect any tightening steps to have a material impact on wealth flows.

**Anshuman Daga** What is the reason for not expecting a big impact?

**Piyush Gupta** Most of the money coming to Singapore is legitimate. Think about just how much money has come into Singapore in the past two or three years – the illegitimate money is only a small fraction of the total. So if you assume the people laundering money avoid Singapore, it is decimals of a percent of the money that comes into Singapore.

**Anshuman Daga** Loan growth has been a bit of a disappointment. How do you see it shaping up with the economy going through a tough time? Could you provide some colour on the sectors you expect loan growth in?

**Piyush Gupta** We are seeing loan growth in a mix of sectors – property, energy, commodities. But because rates are so high, borrowers who can access money – either through equity or their own cash flows or tightening their working capital – are paying down, offsetting the loan growth. When one is borrowing at 6%, the quicker one can repay, the better. The other reason is that, particularly for trade but also at the margins for housing loans, there has been a compression in spreads. There is no point keeping loans if you cannot make a decent spread on them.

The bottoms-up loan growth forecast from the businesses is 5-6%, but when I take a top-down view, we might wind up with only 2-3%. I will have a firmer view next quarter.

**Goola Warden (The Edge)** Is the repricing of the loan book at higher yields completed? There has been some pressure on housing loans, so do you expect lower yields on the overall book in 2024? Do you expect the cost of funds also to come down?

**Piyush Gupta** The short answer is no. We have another $100 billion of loans which have yet to be repriced, of which $10 billion gets repriced in the fourth quarter, $40 billion next year and the remaining $50 billion of loans subsequently. The loans getting repriced are projected to give a lift of between 1.8% and 2%. It is also true that the through-the-door pricing on housing loans has been coming down, putting some offsetting pressure on NIM.

**Goola Warden** There has been some concern over commercial real estate in the US. We also talked about China. Have they been covered by GP overlays?

**Piyush Gupta** Yes, they are all covered. We do not have a big commercial real estate book in the West, but in our GP overlay this quarter we took some more for commercial real estate.

**Edna Koh** Thank you for joining us and see you next quarter.