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**Edited transcript for DBS third-quarter 2019 results media briefing, 11 November 2019**

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

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

Overview. We achieved a strong operating performance in the third quarter. Net profit rose 15% from a year ago to $1.63 billion. Total income rose 13% to $3.82 billion to a new high from loan growth, record fee income and higher trading gains. With expenses rising 9%, the cost-income ratio improved two percentage points to 42%. Profit before allowances increased 17% to $2.21 billion, which was also a new high.

The results included a one-time tax charge of $38 million as a recent cut in India's tax rate resulted in a revaluation of deferred tax assets. Excluding the charge, net profit rose 18%. The reduction in tax rates, from 35% to 25%, will be beneficial for future earnings. For the nine months, net profit rose 13% to $4.88 billion. Total income increased 12% to $11.1billion from broad-based business growth. The cost-income ratio improved one percentage point to 42%. Return on equity increased from 12.4% a year ago to 13.6%.

The balance sheet remained healthy. The NPL rate was stable from the previous quarter at 1.5%. Specific allowances for the third quarter were at 21 basis points of loans, in line with recent quarters. The CET-1, NSFR and LCR were all comfortably above regulatory requirements.

Third quarter performance compared to a year ago. Third-quarter total income rose 13% to $3.82 billion. The growth was broad-based. Net interest income increased 8% or $187 million to $2.46 billion. Net interest margin was four basis points higher at 1.90% while loans grew 4% or $13 billion in constant-currency terms to $353 billion.

Net fee income increased 17% or $119 million to $814 million. The growth was broad-based and led by wealth management, investment banking and cards.

Other non-interest income rose 35% or $142 million to $549 million. Trading income benefited from strong gains in interest rate activities. In addition, gains on investment securities doubled.

Expenses rose 9% or $133 million to $1.61 billion, resulting in a two-percentage-point improvement in the cost-income ratio to 42%.

Total allowances were 8% or $18 million higher at $254 million. General allowances of $61 million were taken this quarter compared to $9 million a year ago. The higher GP was partially offset by a reduction in specific allowances.

Excluding the one-time tax charge for India, net profit rose 18%.

Third quarter performance compared to the previous quarter. Compared to the previous quarter, net profit was 2% higher as total income rose 3%. Net interest income rose 1% or $31 million. Net interest margin was little changed.

Net fee income was 6% or $47 million higher from broad-based growth led by wealth management and loan-related fees.

Other non-interest income rose 7% or $36 million from higher trading income.

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Expenses rose 4% or $68 million. Profit before allowances rose 2% or $46 million.

General allowances and specific allowances were both little changed.

Excluding the one-time tax charge for India, net profit rose 4%.

Nine months performance. For the nine months, net profit was 13% higher, underpinned by broad-based growth in total income. Net interest income increased 9% or $574 million to $7.20 billion. Net interest margin was five basis points higher at 1.90%. Loans grew 4% or $13 billion in constant-currency terms.

Net fee income increased 8% or $166 million to $2.31 billion. Growth was broad-based with wealth management, cards and investment banking leading the increase.

Other non-interest income grew 35% or $405 million to $1.57 billion as trading income and gains from investment securities were higher.

Expenses rose less quickly than income, by 8% or $361 million to $4.66 billion. The positive jaw resulted in a one-percentage-point improvement in the cost-income ratio to 42%. Profit before allowances increased 14% to $6.43 billion.

Total allowances were 15% or $76 million higher at $581 million. Specific allowances were at 19 basis points of loans, little changed from 18 basis points a year ago.

Net interest income. Net interest income rose 1% from the previous quarter to $2.46 billion. Net interest margin was little changed at 1.90%. A decline in the underlying NIM, in line with lower interest rates, was offset by an improvement in the Treasury Markets NIM.

The nine-month NIM was also at 1.90%. We are now expecting full-year NIM to be around three basis points higher than the 1.85% for full-year 2018. This is below our earlier guidance of a mid-single-digit basis point increase, which was based on two US rate cuts this year rather than the three that have occurred.

Loans. Loans were unchanged in constant-currency terms during the quarter. Non-trade corporate loans grew $2 billion from broad-based growth led by commercial property in Singapore and Hong Kong. Non-housing consumer loans grew $1 billion from loans to wealth management customers.

These increases were offset by declines in housing loans and trade loans. Housing loans fell half a billion. While drawdowns in the third quarter were higher than in the first two quarters of the year, the impact was more than offset by repayments. The decline in housing loans was in line with the market.

Trade loans fell $2 billion due to declines in Hong Kong.

For the year to date, overall loans grew 2% or $7 billion in constant-currency terms. Non-trade corporate loans and non-housing consumer loans grew 5% or $12 billion, but this was partially offset by a 3% or $4 billion decline in trade loans and housing loans.

For the fourth quarter, we expect sustained non-trade corporate loan growth, trade loans to grow again and housing loans to post a slight increase. This is likely to bring full-year loan growth to 4%, in line with our mid-single-digit growth loan guidance.

Deposits. Deposits rose 1% or $5 billion in constant-currency terms during the quarter to $400 billion. Other funding rose $4 billion from growth in commercial papers.

Our liquidity coverage ratio at 131% and the net stable funding ratio at 110% were above regulatory requirements.

Fee income. Third-quarter gross fee income rose 16% from a year ago and 6% from the previous quarter to $951 million. The growth was broad-based.

Wealth management fees increased 22% from a year ago and 8% from the previous quarter to $357 million from higher investment product sales. Bancassurance income was also higher than the previous quarter.

Card fees grew 9% from a year ago and 2% from the previous quarter to $202 million from higher activities across the region.

Transaction service fees grew 7% from a year ago and 4% from the previous quarter to $190 million as cash management and trade finance fees were both higher.

Loan-related fees were also higher than a year ago and the previous quarter at $117 million as there were more major transactions during the quarter.

Investment banking fees more than doubled from a year ago to $55 million from higher debt and equity capital market activities.

For the first nine months, gross fee income increased 8% to $2.70 billion from growth in all segments except brokerage, which had a high year-ago base.

Expenses. Expenses rose less quickly than total income for the third quarter and the nine months. The positive jaw resulted in a cost-income ratio of 42% for both periods, which was one to two percentage points better than the respective year-ago periods.

For the third quarter, expenses rose 9% from a year ago to $1.61 billion. The expenses included $22 million in impairment for some computerisation investments. We regularly review the usefulness of past investments in an environment of rapidly-changing technology to ensure their fair value is reflected in our financial statements. We will continue to invest prudently to grow our franchise and strengthen our lead in digital capabilities.

Consumer Banking and Wealth Management. Consumer Banking and Wealth Management's nine-month total income rose 14% to $4.79 billion. The increase was across all products.

Loan and deposit income grew 18% to $2.82 billion from a higher net interest margin. Investment product income rose 9% to $1.32 billion from higher insurance and investment product sales. Card income grew 5% to $597 million from higher transactions across the region.

Income for the wealth management customer segment rose 16% to $2.36 billion as assets under management expanded 9% to $241 billion.

Income from the retail customer segment increased 12% to $2.43 billion. We had a market share of 53% for Singapore-dollar savings deposits and 31% for Singapore housing loans, both unchanged from the previous quarter.

Expenses rose 10% to $2.44 billion. The positive jaw resulted in a two-percentage-point improvement in the cost-income ratio to 51%.

Institutional Banking. Institutional Banking's nine-month total income rose 7% to $4.58 billion.

The growth was led by cash management, which grew 24% to $1.50 billion. Cash management deposits were little changed at $140 billion as some high-cost deposits had been managed out earlier in the year and replaced with other sources of funding. During the third quarter, cash management deposits increased $8 billion.

Assets rose 5% to $274 billion as non-trade loan growth was moderated by a decline in trade assets.

Treasury Markets. Treasury Markets' nine-month interest and non-interest trading income rose 35% from a year ago to $785 million. The performance in the first and third quarters was stronger than last year's average quarter run-rate of $200 million. The results for all three quarters of this year were better than the corresponding quarter last year. For the third quarter, the strong performance was primarily due to interest rate activities.

Treasury customer income for the nine months increased 5% to $987 million. Both IBG and CBG contributed to the income growth.

Hong Kong nine-month performance. Hong Kong had recorded a property gain of $86 million in 2018. This chart excludes the property gain to show the underlying performance. Hong Kong's nine-month net profit rose 13% in constant-currency terms to a record $1.09 billion. Total income rose 11% to $2.22 billion.

Net interest income rose 12% or $190 million to $1.52 billion. Loans grew 5% as a 9% increase in non-trade corporate and consumer loans was partially offset by a decline in trade loans. Net interest margin increased 12 basis points to 2.09% as loans were repriced with higher interest rates.

Fee income grew 4% or $29 million to $498 million. Growth in cash management, bancassurance and loan-related fees were offset by declines in wealth management investment sales due to a high year-ago base and in trade finance. Other non-interest income increased 24% or $39 million to $198 million from stronger trading income and treasury customer flows.

Expenses rose 4% or $44 million to $827 million, and the positive jaw resulted in a 16% increase in profit before allowances to $1.39 billion.

Total allowances doubled to $82 million as both specific allowances and general allowances were higher.

Hong Kong third quarter performance. Hong Kong's performance remained healthy in the third quarter as business momentum was sustained. In particular, compared to the previous quarter and a year ago, non-trade loans grew 4% and 9% respectively in constant-currency terms, while fee income rose 4% and 17%. Compared to a year ago, total income rose 11% to $756 million. Net interest income increased 6% to $525 million. Overall loans grew 5% as a 9% increase in non-trade loans was moderated by a decline in trade loans in line with lower trade activity. Net interest margin was three basis points higher at 2.09%.

Fee income rose 17% to $175 million from broad-based growth led by wealth management, cash management and loan-related activities. Other non-interest income increased 55% to $56 million as treasury customer income and trading gains were both higher.

Expenses were stable at $299 million, which resulted in a 20% increase in profit before allowances to $457 million.

Compared to the previous quarter, total income was little changed. While loans and fee income continued to grow, the increase in business activity was offset by a lower interest margin due to softer interest rates and by a decline in trading income. As a result, profit before allowances was 5% lower.

Total allowances of $59 million for the quarter were more than double the previous quarter and a year ago. The increase was due fully to general allowances, which amounted to $49 million, as we set aside more GP reserves due to the ongoing economic uncertainty. Specific allowances of $10 million were lower than the previous quarter and a year ago.

With the higher GP, net profit rose 14% from a year ago to $334 million. It was 15% below the previous quarter.

Non-performing loans. The NPL rate was unchanged from the previous quarter at 1.5%. Non-performing assets rose 2% to $5.9 billion, with currency effects accounting for the majority of the increase.

New NPA formation was higher than recent quarters due to an exposure in the transport sector. The increase was offset by write-offs and recoveries.

Specific allowances. Specific allowances amounted to $197 million and 21 basis points of loans, in line with recent quarters.

General allowances. We took a general allowance charge of $61 million during the quarter as a prudent measure given the ongoing political and economic uncertainty. After taking into account translation effects, total general allowances rose by $69 million during the quarter to $2.59 billion.

Capital. The Common Equity Tier-1 ratio rose 0.2% points from the previous quarter to 13.8% from net profit accretion. The leverage ratio of 7.0% was more than twice the regulatory minimum of 3%.

Dividend. The Board declared a third-quarter dividend of 30 cents, unchanged from the previous quarter. Based on Friday’s closing share price, the dividend yield is 4.5%.

In summary. We delivered record earnings in the nine months. For the third quarter, total income and profit before allowances were at new highs. The performance demonstrate the resilience of our transformed franchise, nimble execution and the strength of our balance sheet.

The healthy business growth, together with the improved profitability of our franchise, resulted in an increase in nine-month ROE from 12.4% a year ago to 13.6%.

We remain well placed to deliver healthy shareholder returns despite the ongoing political and macroeconomic headwinds.

**Piyush Gupta** Thanks, Sok Hui. I will make a couple of comments.

Our flat third-quarter loan growth reflects a couple of different things. One, the global slowdown had some impact, mostly on trade loans. Two, non-trade loans in the second and third quarters grew but there was some deferment due to macro uncertainty. Thus, we expect the fourth quarter to be stronger.

Three, on country-specific factors: In Singapore, we were surprised that the mortgage market continued to decline. Our original estimate was that it would start increasing in the third quarter. The building and construction segment improved, but resale activities continued to be vulnerable. We continue to see the same decline as we had in the first two quarters. So, it's a Singapore-specific situation. These three factors resulted in flat loan growth in constant-currency terms for the quarter.

There has been a lot of concern over Hong Kong, but our third-quarter performance there was remarkably resilient. There was some marginal slowdown in trade. How much of that was due to the Hong Kong situation or because of the China-US uncertainties is hard to call. Hong Kong net profit is down on quarter because we took a general allowance to be prudent. Other than that, the performance held up well. Last week, we launched a new digibank offering in Hong Kong. It is a complete virtual bank targeted at the affluent market. Early responses are good. So, we are upbeat about the possibilities for Hong Kong as we go forward.

A couple of other positives to point out. One is that the US economy has been remarkably resilient. There was originally concern of a recession next year, but at this point, it does not appear so. Consumer demand is strong, delinquencies are low. I think the low unemployment is helping.

The other positive is the atmosphere around the China-US trade deal. It is not just the trade itself, but the overall sentiment it creates. If a deal is announced, whatever the form, I think that would be generally beneficial for animal spirits around the region.

Treasury markets trading has been coming in nicely. Our third-quarter performance was similar to the strong results from US banks such as JP Morgan and Morgan Stanley. I had earlier guided, based on last years' experience, that we expected Treasury income to average $200 million a quarter. Based on what we are seeing so far, we might wind up closer to SGD 225 million a quarter. That is a positive upside to our business.

We should wind up with about 4% loan growth this year. Our non-trade corporate loan pipeline for the fourth quarter is strong. Housing loans could be down this year but we should be able to get back some growth next year. If we get a flat to somewhat higher mortgage book next year, it will help overall loan growth next year to keep pace with this year. So overall, there is still a reasonable amount of activity we can tap on: in the property and real estate space, M&A and corporate finance.

On NIM, we had based our guidance for this year of mid-single-digit NIM growth on two US rate cuts. There were three. As a consequence, we will probably wind up with about three basis points of NIM expansion this year. Next year, we expect NIM to decline about seven basis points, assuming one rate cut in the middle of the year.

Our fee income has been strong. The momentum is good and broad-based, from wealth management, cards, loans and cash management. We think we can get double-digit growth, but if you factor in the NIM headwind, we will probably see total income growth in the low-single-digit next year.

We do have some latitude to manage expenses more efficiently. Over the past decade, our expense growth has ranged between 2-3% to 10-11%. It shows we can pace investments and tighten our belt if needed. But fundamentally, we will manage for efficiency while not compromising on our investment agenda. We still need to continue investing to play the long game.

On credits costs, I guided that we will come in lower this year than the 25 basis points average we previously guided. From what we can see, our credit costs are going to stay around 20 basis points instead. The portfolio is in good shape and we are not seeing pick-up in delinquencies.

So all in all, given the global environment and the interest rates headwind, we are still quite optimistic that we should be able to continue to deliver decent performance into next year.

**Mok Fei Fei (CNA)** First, what are your expectations for the fourth quarter of the Singapore mortgage loan market? Second, you said that you put in more allowances as a prudent measure. Specifically, which units or areas of concern is that because of? Finally, can you confirm or deny that you are making a bid for Indonesia's Bank Permata?

**Piyush Gupta** On mortgages, primary market transactions picked up during the third quarter. Our total volume of business in this segment was strong. The problem is that drawdowns happen over three years or so, so they do not show up in our book right away. Resale activity is picking up. Second quarter was marginally higher than the first; and third quarter was marginally higher than the second, but still substantially away from before the tightening measures.

On general allowances, we incorporated some management overlay on account of the global synchronised slowdown in the second quarter. For the third quarter, it was principally because of Hong Kong.

And on Bank Permata, as we have said before, we do not confirm or deny specific transactions.

**Ishika Murkujee (Bloomberg)** First, what's going to drive your low-single-digit 2020 earnings? Second, DBS has fared well in Hong Kong so far, but allowances in the nine months have more than doubled. What's your forecast for loan growth and net profit in Hong Kong next year? Third, in a recent interview, you mentioned a guide of 5% of your market cap for acquisitions. Could you tell us more about what types of acquisitions and which regions?

**Piyush Gupta** Our total income growth over the past decade has averaged 8-9%. We have had periods where we had been able to drive double-digit income growth, while some periods were lower. Next year is going to be weaker because of lower interest rates.

What are the drivers of the growth? As mentioned before, our loan book should continue to grow 4%. Our fee and commission income will grow in double digits as the momentum in most fee components is strong. Against these positives is the NIM reduction.

Our Hong Kong business should track the overall bank. Hong Kong will continue to benefit from China-related and capital markets activities. One of the uncertainties in Hong Kong is the flow of Chinese travellers into Hong Kong. If that slows to a trickle, there will be headwinds because it will impact credit card spending and wealth activity. But we think there are opportunities in Hong Kong. As Hong Kong integrates into and leverages on the Greater Bay Area, there will be new sources of growth.

On M&A, our stance has not changed. We have consistently said that three conditions must apply. One, it has to make strategic sense. It must be in a market and lines of business we have an interest to grow in. Second, it must make economic sense and be accretive in a reasonable period of time. Third, we must have the management bandwidth to integrate it without distracting us from our key digital agenda. This means deals that are roughly within 5% of our market cap.

I have used the ANZ example a few times now. We acquired a business across five markets and it was accretive within a year. One of our learnings from that is if you get a customer business and overlay it with digital, you can drive value very quickly, principally because you do not pay for the cost of customer acquisition. The customers are there, you just need to transform the customer experience.

**Annabelle Liang (Citywire)** What is your outlook for the wealth management business in the fourth quarter and 2020?

**Piyush Gupta** The wealth management business continues to do very well. We have all benefited because Asia continues to create a lot of wealth. Even if Asia grows around 6%, the number of millionaires will keep expanding. If you can maintain market share you can get close to double-digit growth. If you can grow market share, you can get even better than that. The momentum is quite strong and it's across the board

**Goola Warden (The Edge)** Could you give us an update on digibank and how it is doing in Indonesia? The second question is on Indonesia's move to IFRS 9 next year since one of your peers took additional general allowances for Indonesia.

**Piyush Gupta** Digibank is doing well in Indonesia and India. We have got very good traction and momentum this year. As I have indicated before, Indonesia's digibank did better than India from day one because we adopted a slightly different strategy – we were more targeted on the customer. This year, we expect the Indonesian consumer business to be marginally profitable.

In India, it has also improved, but we have had to pivot. We were originally trying to acquire all kinds of customers, adding 100,000 a month. In the last couple of years, we changed the strategy to mimic Indonesia and scaled down customer acquisition to about 40,000 to 50,000 a month. However, the new customers are of much better quality. It is beginning to track more like Indonesia. Also, we use our newly-acquired subsidiary license to add more points of presence, so it is becoming a more phygital. It's around 80-90% of where we want it to be, so I am quite encouraged.

We have launched a lending product in both markets and it has been well received. As we have always indicated before, we expect the digital offerings to take a period of time before they breakeven.

**Chng Sok Hui** We implemented IFRS 9 group-wide on 1 January 2018. Regardless of whether a particular country we operate it had adopted IFRS 9, we applied the IFRS 9 methodology to our exposure in it. On 1 January 2020, when our Indonesia subsidiary adopts IFRS 9 into its local accounts, there will be no impact at the Group level, because we had already taken the full impact on 1 January 2018 for the entire Group.

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