



Edited transcript for DBS fourth-quarter 2018 results conference call for buy and sell sides, 18 February 2019

Michael Sia Welcome to the fourth-quarter briefing.

Robert Kong (Citi) Could you elaborate on India. What are the number of branches, kiosks that you are talking about? What is the cost number you're thinking of building to? If you can comment on the number of customers (is it 2.3 million) as well? And relating to that, what do you think of introducing Digibank in Hong Kong?

Piyush Gupta On India, we currently have 12 branches. Our plan is to add another six branches in March and double them by year-end. Current regulations allow us to market digitally only in cities where we have a branch presence, so our branch expansion will enable us to market digitally in more cities. We will also open about 60 kiosks and 30 SME centres. We will pace out plans to learn how the strategy is working. If the results are positive, we will press on; otherwise we might slow down.

Our digibank performance in India has improved. We have consciously halved our customer acquisition from about 80,000 a month to 40,000 and improved customer quality. We're going create something in Hong Kong. There is an opportunity because there isn't a really good digital offering in the market. And even though there are strong entrants such as WeChat, they tend to focus narrowly on payments. We intend to upscale our mobile offering in Hong Kong time this year. The investment is not very big because we have already developed 80% of what we need for a digital bank.

Chng Sok Hui For India, the investments for subsidiarisation are around \$30 million, which after factoring in some income will result in an operating loss of \$13 million.

Nick Lord (Morgan Stanley) Can you talk about assets under management? Some of your European competitors saw outflows recently while yours were stable. Are there new flows and where are they coming from?

Piyush Gupta We got about \$4 billion of new money which made up for the reduction in asset values as markets fell.

Tan Su Shan That's about right. We tend to have a higher percentage of cash in client AUMs than some European banks. They tend to shift cash to us.

Nick Lord In terms of where the net new money is coming from, was it from existing clients, and if so is there a risk of reversal when markets recover?

Piyush Gupta We added 400 bankers last year to support bancassurance and wealth management. These bankers take time to get productive. They have started getting clients and bringing in some money. My expectation is that new money will continue to increase.



Melissa Kuang (Goldman Sachs) In terms of the headcount that you increased in 2018, are you planning to continue to add to the wealth business?

Tan Su Shan When the market was very good, we did not join in the hiring frenzy. We also had additional capacity from the ANZ bankers. That's also part of the success of ANZ.

Melissa Kuang Can you comment on wealth management activities in January?

Piyush Gupta Compared to the third and fourth quarters, momentum improved. However, wealth management activity in the first quarter last year was massive. So I don't think we will hit last year's first-quarter level.

Melissa Kuang Your guidance for ROE approaching 13% was based on further interest rate increases. If there are none, what will the outlook be?

Piyush Gupta If we don't get a rate increase, we will see over 12.1%, maybe 12.5%. When we talk about rate increases, we are assuming that any US Fed rate changes have a 50% pass-through to Sibor. If rates do not move, we should still get 4-5bp pick-up in NIM from the lagged repricing of part of the Singapore-dollar asset book. One other factor affecting NIM is Hibor, which has been behaving erratically. It declined at the beginning of this year and that would be a drag. If there is a pick-up in either of Sibor or Hibor, or if the Fed hikes in June, then it would be helpful.

Harsh Modi (JPM) Yields on your trade loans are higher than on non-trade loans. How is this so?

Piyush Gupta Trade loan yields are high because of the currency mix but margins are not. The yield number is misleading.

Harsh Modi When will you start making money in India?

Piyush Gupta The \$13m loss Sok Hui mentioned earlier is only for the subsidiarisation process, and it may start breaking even next year. In addition, we expect to continue losing money on digibank until 2020-21. But the core business is making money and will cover the short-term losses from subsidiarisation and digibank.

Harsh Modi Can you comment on the cost-income ratio target of 43% for 2019, which is a bit underwhelming?

Piyush Gupta We're still at 43% because we are investing in the India subsidiarisation. In our core business, we are seeing productivity gains equal to half a percentage point of the cost-income ratio.

Aakash Rawat (UBS) On the one hand, you said there is slowing growth momentum across the globe. But on the other, you said that it is possible to have another rate hike before the end of the year. What you are thinking behind that?



Piyush Gupta Based on the Fed's mandate of managing growth and inflation, there's no reason for it to halt rate hikes based on the strength of the US economy. But under Powell, perhaps because of his Wall Street background, the Fed also considers the impact of rate movements on financial markets and the global economy. So it's anybody's guess. It seems to be off the table. But if you just look at US economic data, the Fed might do one or even two rate hikes by the end of the year if financial markets stabilise.

Aakash Rawat On loan growth guidance, is housing driving the slowdown?

Piyush Gupta The slowdown is due to two things. The first is housing. We were expecting \$4 billion growth for the year; now it might not even reach \$2 billion. The second is trade. In the third quarter, we had let it run off by \$3 million. In the fourth quarter, pricing stabilised and we also booked some open-account trade transactions. If market conditions stay this way, we might be able to grow some trade loans or at least hold them flat. Our \$45 billion trade book can have potential swings of \$4 billion-\$5 billion, which can materially affect overall loan growth.

Aakash Rawat Where do you see risks to loan growth?

Piyush Gupta We lend for corporates' regional expansion and for working capital. We also lend for episodic business deals, which is quite strong across the region, including the recently-announced Capitaland and Keppel-M1 transactions, which also boost fee income in addition to loan growth.

Aakash Rawat Market RWA declined during the quarter and year. Is that likely to continue?

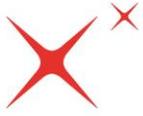
Chng Sok Hui There has been some model refinements based on more granular netting and clarity on interpreting the rules where we had been conservative. Given the size of the changes already I don't think further reductions are likely.

Diksha Gera (Bloomberg) How do you think elections in India, Indonesia and Thailand is affecting the pace of investments in those markets? With regards to Philippines, is there any plans to introduce the whole digital model there?

Piyush Gupta In India, I'm beginning to see a pick-up in sentiment, business activity and loan demand. I think the dislocation of NBFCs has also played a role in shifting demand back to the banking sector. Indonesia continues to be quite strong. We have seen reasonably good loan demand across the board. I'm less close to Thailand as we don't have an onshore operation.

Our approach is to launch a digital bank where we already have a licence and an existing capital base. So Hong Kong and Vietnam would make sense for us. We don't have a banking licence in the Philippines.

Diksha Gera Do you see greater regulatory scrutiny for fintech ventures?



Piyush Gupta First of all, there are more headwinds for fintechs venturing in overseas markets. Second, in the past year, particularly with all of the data privacy issues with Facebook, the regulators are more wary than before, even in China. As such, I think you will see some levelling of the playing field for banks. If you look at the payment services bill in Singapore which was just approved, there's a cap on the wallet size and throughput as well as the ability to lend. Thus there is only so much you can do with a wallet.

Harsh Modi NPL formation in the fourth quarter went up and allowances for new NPLs were also higher. On the flipside, recoveries were also good.

Piyush Gupta We recognised exposure to an oil trader that was in the news recently as an NPL, but a large part of it is secured on ships that can be sold. There was another NPL in China, which we were conservative about because, since we recognised it as an NPL, half of it has been repaid.

Chng Sok Hui Our general allowance ECL model is sensitive to cycles. The fourth-quarter outlook worsened, requiring a higher ECL. But we had also computed ECL based on the full amount of loans without taking into account that they amortise over time. The auditors insisted that we did a more accurate computation. The two effects offset each other.

Harsh Modi Does that mean your models will be more volatile?

Chng Sok Hui We have designed the models to be sensitive to our internal loan grading. If an exposure is downgraded, we will step up provisions significantly before it becomes an NPL. When it becomes an NPL, we can then release some general allowances to offset the specific allowances that need to be made, which is the intention of the allowance methodology.

Harsh Modi Let's say for the power sector, where say three years of pain are foreseen, have you already substantially provided for it?

Piyush Gupta Yes, that's exactly what it is. As we downgraded our power sector exposure over the past 12 months, the general allowance ECL related to that kept increasing.

Krishna Guha (Jefferies) Going back to loan growth, you talked about non-trade corporate loan growth and finding new customers in infrastructure. Are these loans for longer duration?

Piyush Gupta We are not adding a lot of new large-corporate customers, so that's not the reason for the loan growth. For infrastructure projects, we do take loan tenure exposures up to 10 years. Otherwise, our loan book is three to five years.

Krishna Guha On Treasury Markets, do you expect the fourth quarter to be the bottom?

Piyush Gupta We originally estimated this business could generate \$1.2 billion annually in total income. But it has been shrinking, to \$1 billion then \$800 million and now \$600 million. Some of the decline is deliberate because we exited some activities that became unprofitable



due to the additional capital required by regulatory changes. For other parts such as high-frequency and machine trading, there is accrual income that makes it more stable.

Krishna Guha There was a 40bp improvement in CET1. Are you thinking of increasing dividends?

Piyush Gupta We think about it periodically. We spent a lot of time on it when we increased it to \$1.20 per share last year. We want to have consistent, steadily-increasing dividends over time. That's what our dividend policy is about.

Chng Sok Hui The impact of the final dividend payout has not been reflected in the fourth-quarter CET1. The 60-cent payout will reduce CET1 by 0.5%pt.

Aakash Rawat What is the funding cost outlook for this year?

Piyush Gupta The US dollar market is flushed in liquidity right now, so that's helpful. Having said that, in the US dollar as well as Sing dollar books, people have been moving from Casa deposits to fixed deposits in a rising rate environment to get yield. Because we rely more on fixed deposits for US dollar funding, there will be higher costs for us, which have been factored into our NIM guidance. In the Sing dollar book, our Casa deposits were flat last year, in line with the market, and all the growth came from fixed deposits. The government's Singapore Savings Bonds are also taking liquidity out of the system. So there will continue to be a pick-up in the cost of funds for Sing dollar too.

Diksha Gera Will you be able to sustain the housing loan rate increase made in January?

Piyush Gupta We already carried out three rounds of FHR repricing last year and one in January this year. We will be able to do even more. If we look at the yield for the housing loan portfolio, Sibor-linked loans are being priced at 2.5% while the administered-rate FHR loans are 50bp lower. FHR loans comprise 50% of our portfolio, with 20% being Sibor-linked and the remainder fixed-rate loans.

Aakash Rawat Why do people keep money in Casa deposits when there are so many alternatives?

Piyush Gupta A large part of current accounts are from corporates' regional treasury centres. People with regional businesses will need the money for operating purposes in the current account.

Harsh Modi What is the duration of the fixed deposits that you got in the fourth quarter?

Piyush Gupta There is a spectrum but not over a year. Long-term funding is usually from money market.



Asheefa Sarangi (CLSA) A couple of questions. First, you had guided that the underlying run-rate of Treasury Markets' income would be about \$250 million per quarter, \$1 billion per year. Based on your 2019 guidance for a high-single-digit growth in total income, it appears that you're expecting a recovery in Treasury Markets to more than \$250 million per quarter. How should we think about that line item? Second, someone has asked about the market risk-weights, but there's also been a contraction in credit risk-weights. With CET1 at 13.9%, it is way above the mid-point of your 12.5-13.5% target range. Even if you haven't really given much thought to the 2019 dividend, based on your growth guidance for the year, would it be reasonable to assume that you would consider sitting at 13.9% CET1 and match dividend per share growth to earnings growth?

Piyush Gupta First, if we assumed \$1 billion in Treasury Markets income, it would be a 50% growth from the weak base in 2018, resulting in overall growth of more than high-single-digit. So it is actually the reverse. To get high-single digits overall income growth, you have to assume Treasury Markets achieves less than \$1 billion in income. Because of structural changes I am not sure we can get \$250 million a quarter any more. We're looking at low-double-digit growth instead for 2019.

To your second question, the CET1 of 13.9% will fall after we pay the final dividend. Nevertheless, the general thrust of your question is correct. If we continue to accrete capital over the next few quarters and can't use it, we will revisit our capital ratios and dividend pay-out.

Chng Sok Hui The slight decline in credit RWA during the quarter was due to higher-quality loans booked and lower equity risk during the quarter.

Kevin Kwek (Bernstein) Four questions. First, on Treasury Markets, are you doing anything to reduce its operating costs? Second, on credit costs, which looks stable currently, how bad could it be in a bearish scenario? Third, on wealth management, AUM grew 7% over the year while Asia-Pac generally tends to grow at 10% or higher. Over the next one or two years, are you expecting the growth to come down? Fourth, on Hong Kong, could you give some colour on what drove the strong performance in 2018 and can we expect more of the same going forward?

Piyush Gupta On Treasury Markets, we've already been managing down the cost. We're trying to digitise our interaction with customers and market counterparties. Increasingly, we are moving to electronic marketplaces so we'll put in more digital algorithmic models. We're beginning to use these models to drive efficiency in the trading process. While there are opportunities to lower structural costs, it will not be massive. We can't take out 30% of the cost base because we have a physical network, equipment and so on. We are taking action to drive the cost-income-ratio down, but we need revenues to get back to the \$750 million-800 million level.



On the cost of credit, we have stress-tested our portfolio for China deleveraging, currency weakness in the rupiah and rupee, and for property price declines in Hong Kong and Singapore. We are not seeing any significant stress in the portfolio, but there could be idiosyncratic risks. On a sectoral basis, the greatest weakness is the power sector in Singapore. But we have taken steps to refinance and restructure the portfolio. On SMEs, which are the canary in the mine when something goes wrong, we have focused on building and construction and on retail, which we're concerned about, and we have a good handle on things. While things can go wrong and they have in the past, as best as we can say, we're not seeing many challenges on credit costs.

On wealth management, the AUM growth in 2018 was affected by the drop in equity markets in the fourth quarter. AUM didn't decline during the quarter because we got new money to compensate for the fall in markets. I think it's reasonable to assume that we can get underlying double-digit AUM growth in the region. We're also building our presence outside Asia. We've hired a senior banker in Dubai and we are increasingly sourcing clients from Africa, the Middle East, eastern Europe and so on.

On Hong Kong, growth is diversified. The SME franchise is doing well. In the past two years, the gains in cash management have been coming in nicely. The China outbound-business is largely booked in Hong Kong. Like other banks, we have increasingly focused on China companies based in the Greater Bay Area, which has been positive. Finally, the wealth management business also expanded, particularly after we integrated Soc-Gen and ANZ. So, it's very broad-based.

Thilan Wickramasinghe (Maybank) Over the next two or three years, what enhanced ESG disclosures will there be.

Piyush Gupta We will be having a separate sustainability report this year independent of the annual report. We've already started picking a lot of the stuff that all the global banks have. We're trying to dimension externalities.

Conrad Werner (Macquarie) Was there any seasonality to the fourth-quarter cost-to-income ratio of 46%? Could we think of that as the high-water mark?

Piyush Gupta The high cost-income ratio was due to weakness in Treasury Markets income, and there were expenses we couldn't reduce in the short term.

Conrad Werner For the overall guidance, will you say it is conservative and it is not pricing in any rate hikes? What are the upside and downside risks?

Piyush Gupta We see a slowing environment. While we are expecting SP to be at the through-cycle average of 25-27bp of loans, there are uncertainties.



Harsh Modi In 2020-2021, if growth is in the mid-single-digit, will you think of increasing the dividend pay-out?

Piyush Gupta I think we will get 7-8% growth rate for our underlying business. The key factor is what happens with the growth markets – India, Indonesia and China, which can add a couple of percentage points of growth. We are scaling up in China from the Greater Bay Area et cetera, so we are confident there. For Indonesia and India, it remains to be seen but returns have improved.

Harsh Modi But are these markets significant enough to make a meaningful difference to the group's overall growth?

Piyush Gupta The margins in these markets are better than our existing business, so they can make a difference.

Harsh Modi Is there any gap which you need to fill inorganically? Is there anything transformational you would consider?

Piyush Gupta It's going to be opportunistic. For India, Indonesia and even China, if we can find a portfolio to bulk up, we would do that. We already have a good and broad franchise, so we seeking opportunities to scale rather than a major transformation. If we find the opportunity to bulk up in these countries, we'll look at it.

Michael Sia All right, thank you everybody.