Edited transcript for DBS first-quarter 2019 results conference call for buy and sell sides, 29 April 2019

Michael Sia Hello, everybody, and welcome to the DBS first quarter briefing session for the buy and sell sides.

Aakash Rawat (UBS) First, you're definitely sounding more comfortable with the macro environment, but the guidance on loan growth this year hasn't changed. Is there upside risk? Second, brokerage and investment banking were still weak in the first quarter. Do you see any improvement for the rest of the year?

Piyush Gupta The general outlook is a bit more sanguine than it was three months ago. But we're keeping guidance for loans. While the non-trade corporate loan pipeline is strong, the Singapore property outlook is more subdued than I had thought. I expect trade loans to be flat, but I'm not entirely sure what impact US-China trade tensions will have. When you blend these three components – growth in non-trade corporate loans, negative on housing loans and uncertainty on trade – we are comfortable with keeping to the mid-single-digit guidance.

Capital markets had a weak start to the year but from February to late April they began opening up, certainly debt capital markets. The equity capital market pipeline is robust but hasn't started hitting the market yet.

Aakash Rawat On credit costs, you said the $100 million GP write-back was due to macro assumption changes and a reduction in Stage 2 exposures. Are you in a position to say whether the reduction was driven by specific sectors or big accounts, or was it broad-based?

Chng Sok Hui Of the $100 million write-back, $22 million was transferred to specific allowances as some Stage 2 exposures became NPLs during the quarter. For the remaining $78 million, slightly more than half came from a reduction in exposures to Stage 2 names or taking more collateral from them. There were no particular sectors driving the reduction. The other half of the $78 million was due to a more benign credit environment as expectations for interest rate increases softened, which meant a better environment for borrowers. At the same time, jitters over US-China trade tensions eased. So our ECL model did what it was expected to do.

Aakash Rawat How often is the model updated?

Piyush Gupta Every month. It's a third-party model which is also used by other banks.

Melissa Kuang (GS) You mentioned that you still have several quarters of margin expansion because of housing-loan repricing. But foreign banks have become more aggressive in their pricing, about 40 basis points below what you're offering. Would you have to cave in at some point or do you think you can maintain pricing?

Piyush Gupta For the time being we've been able to hold market share. If we start losing share, of course we'll revisit pricing. To put things into perspective, Sibor-pegged loans are up by about a percentage point over the past year, while our fixed-deposit-based loans are up about 80 basis points. A majority of our housing loans is pegged to FDs and hence cheaper than banks offering Sibor-based loans, assuming credit spreads are unchanged. We also launched a well-received product with a fixed rate for the first year and a floating rate with caps in the second. The short answer is we'll obviously watch the space.

Melissa Kuang Do you think that your NIM can trend up this year and then for next year it will depend on what the Fed does?

Piyush Gupta Partly what the Fed does but it really depends on what happens to Sibor and Sor, because even without Fed rate changes, Sibor and Sor can move up or down.

Melissa Kuang On credit costs, you mentioned that SP might be below cycle-average. Are you looking at the lower end of the 20-25 basis points?

Piyush Gupta Yes.

Robert Kong (Citi) First, could you give some colour on the Hong Kong outlook? NIM was off very slightly and net interest income was down, but Hibor has been moving up since early March. And if China data continue to be stronger, they should be positive for your business. Second, on dividends, if ROE improves you will be generating more capital than you can use; assuming 5% loan, RWA growth will remain relatively low. How do you think about improving ROE, generating too much capital and raising dividends?

Piyush Gupta We just doubled dividends last year and have no immediate intention to revisit the amount. But our dividend policy is intact – we are committed to paying sustainable dividends that increase over time. The CET-1 looks high right now but once we pay out 90 cents in May, it'll get back closer to our target range. Nevertheless, there is no reason for us to continue building up capital, so we'll revisit the dividend at some point in time.

Sebastian Paredes One-month Hibor decreased substantially at the beginning of the year, dropping to even below 1% before recovering to 1.7%. The average rate fell from 1.6% in the fourth quarter to 1.3% in the first quarter, so it had a negative impact on NIM. But it was mitigated by an improvement in our loan NIM from 1.19% to 1.25%. In addition, in the past three months there has been a substantial shift from Casa to fixed deposits for the industry. In our case, our Casa ratio fell from 60% to 57%. We're still okay, but it's been more difficult to drive Casa growth compared to previous years.

In terms of real economy, we're tracking China. The economy has been a bit stagnant due to the trade war. But in the past month there has been a substantial increase in property transactions. It looks like both equities and property are coming back on track.

Conrad Werner (Macquarie) At the media briefing you said that only a small amount of this quarter's Treasury Markets income was booked as net interest income. What were the reasons?

Chng Sok Hui The Treasury Markets business doesn't think in terms of interest income or non-interest income – which are accounting constructs – when they make a trade. They look at it in terms of economic value. For example, if a trade involves swaps, what would normally be classified as net interest income appears under trading income. So it's best to look at total income. That's why we disclose the commercial (ex-Treasury Markets) NIM to show the underlying trend.

Conrad Werner On the change to quarterly from semi-annual dividends, what was the thought process?

Chng Sok Hui The dividend has become lumpy at $1.20 per share. The final dividend requires AGM approval, resulting in a payment only in May the following year. Quarterly payments enable shareholders to get a larger portion of the annual payout earlier.

Piyush Gupta In addition, paying out dividends as earnings are created every quarter results in a less volatile CET-1. Paying dividends twice a year means capital gets built up before being paid out in lumpy amounts, resulting in questions during the interim why CET-1 is so high.

Harsh Modi (JPM) Excluding Treasury Markets, NIM increased 15 basis points in the past few quarters while overall NIM increased five basis points. I understand that gapping has gone down and as a result you're not making interest income from Treasury Markets. Are you at a low watermark on gapping and will improvements in the ex-TM NIM get reflected in your overall NIM?

Piyush Gupta Yes, although it doesn't mean we'll see a significant pick-up in overall NIM. We're still guiding for a full-year increase of five basis points or, if we're fortunate, six basis points from last year.

Harsh Modi That's exactly what I'm trying to understand. The entire movement in Sor and Sibor over the past two quarters would suggest that you have a much higher upside. And could you explain how you're thinking about asset yields and cost of funds?

Piyush Gupta There has been a shift from Casa to FD in Singapore, Hong Kong and elsewhere. System Casa has been flattish in most markets as customers shift funds into FD, changing banks' funding profile. Nevertheless, I expect most of the shift is behind us because rates are not expected to go up further.

For loans, if rates do not go up for the rest of the year and even start trending down, loan yields for Sibor- and Sor-pegged loans would stagnate or fall. Only increases in fixed-rate and fixed-deposit-pegged loan yields would flow through for the year. Putting together these moving parts, an increase of five to six basis points for the year is our best guess.

Harsh Modi On Treaury Markets income, which is kind of getting booked as non-interest income, how should we think about its sustainability? I'm trying to figure out if we should pay a multiple for it.

Piyush Gupta As I've indicated before, $200 million a quarter is what we should be expecting on average. The fourth quarter of last year was really poor, in fact the worst quarter on record. The first quarter this year was very strong, we made $290 million. I think $200 million a quarter is a reasonable number.

Marc Tan (KGI) Some European banks have reported lower wealth management income even though net new money continued to grow. Do you think this trend will continue? Will you be adding more headcount in wealth management?

Piyush Gupta The slower wealth management fee income compared to first quarter last year, which was a bumper quarter, is purely a base effect. Our wealth management fee income this quarter of $315 million compares favourably with the second, third and fourth quarters of last year. We are projecting double-digit growth this year because the back-end of last year was so low. Due to base-year effects, the growth will show up in the later part of this year.

We're continuing to add headcount because wealth management continues to be a very attractive growth opportunity for us.

Krishna Guha (Jefferies) First, what was the contingent item you took specific allowances for during the quarter? Second, how are loan spreads, because compared to the movements in Sor and Sibor, the increase in your loan yields seems to suggest that spreads have come down.

Michael Sia The loan yields that we publish are for the whole book across various currencies. Singapore-dollar loans account for only two-fifths of the total.

Piyush Gupta We've been able to hold credit spreads except for trade loans which tightened over the past year, although they have begun to inch up. On the SP for contingent items, it's for a performance bond related to a large obligor in Singapore, which most people would know the name of. We were being conservative in providing for it.

Aakash Rawat On page 9 of the performance summary, depreciation has gone from $87 million to $145 million this quarter. And it says that it includes charges for right-of-use assets of $58 million. Should we base future projections on this number? Second, on the balance sheet, property and other fixed assets have gone from $1.45 billion in the fourth quarter to $3.26 billion this quarter. What is the reason for that increase?

Chng Sok Hui The two questions are related to the implementation of SFRS(I) 16 on 1 January 2019. Lease payments that we currently make – such as for our office premises and data centres – have to be capitalised. The result is that $2 billion is capitalised in assets and liabilities. Because they are characterised as fixed assets, what had been rental expenses are now classified as depreciation charges. And as fixed assets have to be funded, interest expenses are incurred, which resulted in a one-basis-point impact to this quarter's NIM. Therefore, if not for SFRS(I) 16, the overall NIM would have increased two basis points instead of one. Page 2 of the performance summary explains the impact of SFRS(I) 16.

Anand Swaminathan (BAML) First, on wealth management, has there been any change in clients' risk appetite? Second, any updates on India?

Piyush Gupta Generally speaking, there has been no substantive change in risk appetites. What clients invest in depends on the environment – sometimes they prefer equity, at other times fixed income. There is a glacial shift towards portfolio management, but the impact is marginal.

On India, we launched our wholly-owned subsidy on 1 March. We have opened nine new branches and four or five kiosks since then as part of a plan to grow by 70-80 outlets by year-end. The early results have been promising. We're getting digibank customer acquisitions from more cities. We are beginning to get more SME and wealth management accounts. While our agenda is principally digital, our bet is that points of physical presence improve our brand resonance and allow us to cover last-mile activities.

Diksha Gera (Bloomberg) First, you've built a decent US-dollar liability base. How do you see that shaping up? Are you able to get more deposits from multinationals and is it more in Singapore or Hong Kong? Second, what are your thoughts about the opening up of the China bond market?

Piyush Gupta We've been very pleased with our cash management franchise. From practically nowhere we are now a very credible player, partly because we've got a wholly-digital proposition which most incumbents do not have at this point in time. We've been able to make headway with Western multinationals, which used to be hard for us to penetrate. Some surveys clearly put us in the top-five in cash management. Euromoney conducted a poll last year of some 25,000 customers. We were rated number one in the world for customer service. So we're confident of maintaining a positive trajectory for our US-dollar liability base.

Over the past few years, our US-dollar loans have grown much faster than the Sing-dollar book. And that's because we've been financing Singapore, Hong Kong and Chinese corporates' outbound business. So our US-dollar liability base is one of the reasons we are credible and relevant to customers.

The other thing we do is, in limited amounts, we swap US-dollar funding to into domestic markets depending on risk appetites and needs, for example when Treasury Market swaps US dollars to fund local-currency activities, which we talked about earlier.

Diksha Gera How do you compare in the digital offering of cash management with other regional and the global banks?

Piyush Gupta It's hard for us to say. Most third-party observers such as Greenwich and Euromoney suggest that the digital solutions we have are quite differentiated. Our API platforms have enabled us to win a large number of western multinational mandates across very diverse industries. Our innovation hub in Singapore held 78 workshops last year, most of them with western corporates who came to craft solutions for their transactional requirements. And several of them suggested to us that we were able to work with them on solutions that they don't get from other banks. I don't have better evidence. But anecdotally I would suggest that our digital offerings are competitive.

Michael Sia Thank you. See you next quarter.