Edited transcript of DBS third-quarter 2020 results media briefing, 5 November 2020

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

Chng Sok Hui Good morning everyone, thank you for joining us for our results briefing.

Overview. Third-quarter net profit was up 4% on quarter as the economy rebounded from circuit breakers imposed the quarter before.

Total income declined 4% to SGD 3.58 billion. Net interest income was 6% lower as loans were stable and net interest margin tightened nine basis points. The impact of lower interest rates was softened by a 17% rally in fee income as economic activity resumed. Trading income slowed from a record high in the previous quarter.

Total allowances in the first nine months quadrupled to SGD 2.49 billion from the same period the previous year. They included SGD 1.50 billion of general allowances to fortify the balance sheet against risks arising from the pandemic. The charges increased GP reserves by 60% from the end of last year to SGD 4.02 billion. General allowance reserves were SGD 1.2 billion above the amount eligible for consideration as Tier-2 capital. This high level of general allowance reserves cushions capital levels against credit losses should the economic environment deteriorate further.

The NPL ratio was 0.1 percentage point higher at 1.6% and NPA rose 3% over the quarter. Allowance coverage was 107%. After taking collateral into account, allowance coverage was 200%.

Liquidity remained ample as deposits grew 9% or SGD 38 billion from the start of the year in constant currency terms. High quality current and savings accounts grew SGD 70 billion over the same period, allowing more expensive fixed deposits to flow out. This improved the Casa ratio by ten percentage points to 69%. Third-quarter liquidity coverage ratio and net stable funding ratio were comfortably above regulatory requirements at 135% and 123% respectively.

The CET-1 ratio was 13.9%, also well above regulatory requirements and even above the group's target operating range of between 12.5% and 13.5%.

The Board declared a third quarter dividend of 18 cents per share, in line with MAS guidance.

Third-quarter performance. Third-quarter net profit increased 4% from the previous quarter to SGD 1.30 billion as allowance build up slowed and economic activity recovered. Profit before allowances declined 9% to SGD 2.04 billion. Total income was 4% lower at SGD 3.58 billion.

Net interest income fell 6% or SGD 132 million to SGD 2.17 billion as loans were stable and net interest margin continued to tighten. The lower net interest income was almost offset by a rebound in fee income as economic activity recovered. Fees rose 17% or SGD 117 million to SGD 798 million. Other income declined 18% or SGD 134 million to SGD 608 million as trading income fell from the record in the previous quarter.

Expenses increased 4% or SGD 56 million to SGD 1.54 billion from Covid-related support for staff and non-recurring occupancy costs.

General allowances of SGD 236 million were set aside during the quarter compared with SGD 560 million in the previous quarter. Specific allowances were 10% or SGD 29 million higher at SGD 318 million. This was 31 basis points of loans, in line with the first half.

Nine months performance. Profit before allowances for the nine months increased 5% from a year ago to a new high of SGD 6.75 billion. The record performance enabled significant general allowances of SGD 1.50 billion to be set aside. These were taken to fortify the balance sheet against risks arising from the pandemic.

Net interest income fell 3% or SGD 243 million to SGD 6.96 billion. Incremental income from loan growth of 5% was offset by a 23 basis-point decline in net interest margin. Fee income was stable at SGD 2.31 billion. Higher wealth management, brokerage and loan related fees were offset by lower cards and investment banking fees. Other non-interest income was 31% or SGD 489 million higher at SGD 2.06 billion. This was due to profits realised on investment securities, which had appreciated with lower interest rates.

Expenses fell 2% or SGD 80 million to SGD 4.58 billion largely due to job support grants. An increase in base salary costs from higher headcount was offset by lower bonus accruals and lower general expenses such as for travel and marketing.

General allowances of SGD 1.50 billion were significantly higher than in the same period last year as allowances were front loaded conservatively. Specific allowances increased SGD 428 million to SGD 990 million mainly due to the significant NPL in the first quarter.

Total allowances of SGD 2.49 billion were built up in the first nine months of 2020. This was against the guidance of SGD 3 billion to 5 billion over two years.

Nine-month net profit declined 24% from a year ago to SGD 3.71 billion. Return on equity for the nine months was 9.7%.

Net interest income. Third-quarter net interest income declined 6% from the previous quarter to SGD 2.17 billion. The decline was due to a nine basis-point fall in net interest margin to 1.53%. This occurred as the impact of interest rate cuts in the first-half were felt more fully.

Nine-month net interest income declined 3% from a year ago to SGD 6.96 billion. Net interest margin for the period fell 23 basis points to 1.67% from 1.90%. This more than offset the impact of a 5% rise in loans and a 12% growth in deposits from a year ago.

A considerably more flush balance sheet also contributed to the decline in net interest margin as excess deposits were deployed into low-risk liquid assets. Net interest margin is expected to stabilize between 1.45% and 1.50% in the coming year.

Loans. Net loans were stable in the third quarter at SGD 371 billion. Non-trade corporate loans fell SGD 2 billion on quarter. Healthy underlying momentum was masked by repayments as the economic environment stabilized and customers repaid SGD 3 billion of short-term loans drawn earlier in the year.

Singapore housing loans dipped as the circuit breaker in the second-quarter interrupted transactions. Third-quarter new bookings have rebounded strongly as social distancing measures eased. Trade loans were stable.

From end-2019 loans grew 3% or SGD 11 billion in constant currency terms.

Non-trade corporate loans grew 9% or SGD 18 billion. They included short-term facilities drawn by corporates at the onset of the pandemic. The increase was partially offset by trade loans, which were SGD 4 billion lower. Singapore housing loans were slightly lower.

Deposits. Deposits grew 1% from the previous quarter in constant currency terms to SGD 447 billion. Current and savings accounts continued to grow, rising 5% or SGD 16 billion to SGD 310 billion. The increase in low cost funding allowed SGD 13 billion of more expensive fixed deposits to flow out.

Since the end of 2019 deposits grew 9% or SGD 38 billion from flight-to-quality inflows at the onset of the pandemic. Casa increased 29% or SGD 70 billion and SGD 33 billion of more costly fixed deposits were allowed to run off.

Casa comprised 69% of deposits at the end of third-quarter, three percentage points more than the previous quarter and ten percentage points more than at the end of 2019.

The liquidity coverage ratio of 135% and net stable funding ratio of 123% were both above regulatory requirements.

Fee income. Fee income recovered in the third quarter as lockdowns imposed during the previous quarter were eased and economic activity resumed. Net fees rebounded 17% on quarter to SGD 798 million. This made it the third-highest quarter on record and in line with pre-Covid levels.

The chart breaks gross fees by product. Stronger market sentiment helped wealth management to its second-highest quarterly performance. Wealth management fees rose 25% to SGD 380 million as investors looked to investment products and insurance policies to improve returns in the low interest rate environment. Cards fees grew 22% from the previous quarter to SGD 160 million as lockdowns eased and consumer spending increased. However, they remained 21% lower than a year ago. Investment banking and loan-related fees were higher than the previous quarter.

Nine-month net fee income was unchanged at SGD 2.31 billion. Wealth management, brokerage and loan-related fees increased, but were offset by lower cards and investment banking fees.

Expenses. Nine-month expenses fell 2% to SGD 4.58 billion largely due to the job support scheme. An increase in staff costs from higher headcount and leave accruals was offset by lower bonus accruals and lower general expenses. With total income up 2% for the nine months the positive jaw of four percentage points improved the nine-month cost income ratio from 42% a year ago to 40%.

Third-quarter expenses rose 4% from the previous quarter to SGD 1.54 billion due to Covid-related support for staff as well as non-recurring occupancy costs.

Non-performing loans. Asset quality was in line with recent quarterly trends. Non-performing assets rose 3% from the previous quarter to SGD 6.52 billion as new NPA formation was moderated by repayments and write-offs. In the third quarter, there were a handful of episodic corporate new NPAs from Singapore and the region, and across various industries. We expect new NPA formation to trend up in the coming quarters as loan moratoriums taper off. The NPL rate of 1.6% was in line with previous quarters.

Specific allowances. Specific allowances in the third-quarter increased 10% to SGD 318 million. SP were 31 basis points of loans, in line with the first-half run rate of 30 basis points of loans. Specific allowances in the first nine months increased 76% to SGD 990 million, or 30 basis points of loans.

General allowances. General allowance reserves rose 6% during the quarter to SGD 4.02 billion. This was 60% higher than the end of 2019. We continue to adopt a conservative stance on provisioning. GP reserves exceed the MAS minimum requirement by 32%. General provision reserves are also SGD 1.2 billion higher than the amount eligible as tier-2 capital. This high level of general allowance reserves cushions capital levels against credit losses should the business environment deteriorate. Should the situation turn out to be more benign, we will be in a position to write back provisions.

As at 30 September 2020, total allowances reserves stood at SGD 7 billion. Allowance coverage as a percentage of NPA was 107%. As a percentage of net NPA after taking collateral into account, coverage was 200%.

Capital. Our capital position continues to be strong. The Common Equity Tier-1 ratio rose 0.2 percentage points from the previous quarter to 13.9%. Profits continued to accrete and the risk-weighted asset base remained stable. The CET-1 ratio was above the group's target operating range and considerably above regulatory requirements. The leverage ratio of 6.9% was more than twice the regulatory minimum of 3%.

Dividends. The Board declared a dividend of SGD 18 cents per share for the third quarter. This aligns with MAS' guidance on 29th July for local banks to moderate dividends for the 2020 financial year. The scrip dividend scheme will be applicable to the third-quarter dividend. Scrip dividends will be issued at the average of the closing prices of 12 and 13 November 2020. Based on yesterday's closing share price, the annualised dividend yield is 3.3%.

In summary. Third-quarter performance reflected improving business momentum. Underlying loan growth was healthy and a rebound in fee income softened the impact of lower rates. We will remain vigilant around expenses and leverage digitalisation for efficiency. Our conservative move to front-load allowances this year has fortified the balance sheet. The long term growth story for Asia remains intact and the bank is well positioned with ample liquidity and healthy capital. We look forward to doing our part to support our customers and the community through this period.

Piyush Gupta Thank you, Sok Hui. I only have two slides.

Business outlook. I would like to underline what Sok Hui has said. Business momentum improved during the quarter as economies opened up around the region.

Underlying loan momentum continued to be good. The headline loan number was flat as companies that had drawn short-term facilities in the first half to create a liquidity cushion paid them down as they became more comfortable with the situation. We might see a bit more repayments in the fourth quarter. Even so, overall non-trade corporate loan growth for the year would be SGD 16 billion-17 billion, which is quite strong.

And fee momentum has been quite striking. Wealth management fees picked up well from the previous quarter across a diverse range of products. They included insurance, although it was still slower than last year because of the need for face-to-face consultation. Cards came back as well: although they are still 20% down from a year ago, the quarter-on-quarter gain was quite meaningful. We're seeing momentum likely to continue.

Our Casa balances grew SGD 70 billion this year, which is quite extraordinary. It was divided half and half between Singapore dollars and US dollars. So our investments over the years in cash management are paying off. SGD 15 billion of the growth was in the third quarter. The deposits are a double-edged sword because we have to put the excess liquidity in very low risk assets. While they're accretive to income and return on equity, they are a drag on NIM, but overall they're good business to do.

Looking forward, we're going to see a very strong rebound in nominal economic growth rates across Asia next year. The IMF forecasts world economic growth at 5.2% and Asia at 6.9%. For the countries that matter to us, China and India are projected at above 8%, Indonesia at 6%. Even the mature markets Singapore and Hong Kong are at between 3% and 5%. While the rates are from a low base this year, they are positive for business momentum. We think that mid-single-digit loan growth and double-digit growth in fee income next year are quite realistic.

The challenge next year will be NIM, even if market interest rates do not get much lower, because repricing will continue to filter into our loans. Our guidance is that NIM will probably wind up between 1.45% and 1.50%.

We are managing our costs. Our cost-income ratio this year will probably be 43%, flat to last year. We expect to hold expenses next year at the same levels as 2019. That requires us to continue to tighten our belts as well as make structural changes to our business.

Credit outlook. Our view on the portfolio is consistent with what we guided two quarters ago. We expect credit costs to be between SGD 3 billion and SGD 5 billion in 2020-21. You will see the economic situation get much worse next year. The reason is that moratoriums and the slew of government actions this year are masking problems in the underlying economy. It's quite instructive that in markets and segments where moratoriums do not apply, we are seeing some episodic corporate stress. So, for this quarter, we saw a couple of consumer good companies in China, a state-owned enterprise in Indonesia, and a shipping exposure related to a Singapore credit we had flagged in previous quarters. These exposures are not industry- or country-specific.

But with the amount of demand destruction this year, it is not unreasonable to expect some companies to experience stress. And you'll see it episodically. My expectation is that as government relief programmes wind down next year, NPA formation will increase. We currently have SGD 13.5 billion of SME loans under moratorium, although it's only 5% of our loans, proportionately smaller than other banks.

Still, it is SGD 13 billion of loans. And it's hard to say what will happen to these companies once the moratorium is over. You could make any case – whether it’s 10% or 15% or 20% that defaults. And what are recovery rates going to be? So a lot is speculative.

At this point in time, our guidance of SGD 3 billion to SGD 5 billion looks to be a fair range. It could be that we're being conservative. It's interesting to observe that several global banks were more sanguine in the third quarter about the credit environment. If that is the case, then we've just been more conservative and can next year write back the allowances we have taken. And if there is more stress next year, then having taken a lot of allowances early, we should be better able to negotiate the next few quarters.

Our consumer moratoriums were unchanged at SGD 5.7 billion. They are mostly Singapore housing loans. I'm comfortable with that book. We also have disbursed SGD 4 billion of government risk-share loans, which will have manageable losses.

So overall, I don't think anybody can really forecast what's going to happen on credit costs over the next 18 months. So we have taken a conservative stance to make sure we're well prepared for any eventuality.

Chanyaporn Chanjaroen (Bloomberg) I have three questions. First , do you see a full restoration of dividends next year? Second, how are you looking to grow your wealth management business? Do you expect consolidation in the industry? And are you open to an acquisition? Third, what does the Ant listing debacle mean to the company's financial services aspirations, including its application for a digital bank licence in Singapore?

Piyush Gupta On dividends, until first quarter next year, we will be guided by MAS guidelines. Beyond that we will have a conversation with them. Central banks in other parts of the world continue to be somewhat conservative regarding bank dividends or share buybacks. These conversations will come to a head over the next few months. I'm certain our regulator will keep an eye on what is happening in other parts of the world.

That aside, I do think that without any guidance we could start taking dividends back to where they were. Depending on the macroeconomic environment, it may not be in one fell swoop. We've said before we have the capacity to pay more dividends than what we are paying now. We'll eventually go back to our normal dividend policy of paying sustainable dividends over time.

On wealth management, there are two parts to what we're doing. First, we have had some success at democratising wealth management, which means making our products available to lower market segments, even below the mass affluent. We've started seeing meaningful success in Singapore with our robot-assisted portfolios, regular savings plans and budgeting tools. Over one million customers have downloaded the budgeting tools this year. And we're going to continue offering wealth management solutions to the mass market.

Second, at the top end of the market, we continue to do well. We are at the top end in the region in terms of AUM growth. We've benefited from the increasing opportunities in North Asia, South Asia and Southeast Asia. I think that the region and Singapore are likely to benefit from a safe haven status as uncertainty around the world continues. We're seeing more interest from potential clients in the western hemisphere. We are always open to acquisitions. We have the capacity to take on bolt-on acquisitions if the right deals were to come along.

With regard to Ant, first of all, as joint book runner on the deal, the fees disappeared overnight. Joking aside, my sense is that the Ant IPO will be back in the market over the next few months. They need to reconstruct their business model. I don't think it'll have any material bearing on their business agenda in the other parts of the world. Ant's biggest market, domestic China, will continue to be there. While they continue to seek opportunities in Southeast Asia and elsewhere, it's not the principal focus. With respect to their aspirations for a licence in Singapore, it's not for me to comment. It's between them and the regulator. But I have to say that they have a credible platform and will continue to be a credible competitor wherever they operate.

Alice So (Asian Private Banker) Can you discuss this quarter's trends for the transaction, advisory and discretionary portfolio management parts of the wealth management business? And how is the business in Hong Kong?

Piyush Gupta This quarter's data are not materially different from past quarters. Asian customers mostly do transactions so a large part of our income still comes from commissions on trades. Having said that, our DPM assets under management continue to increase and the advisory business is booming. But they are still only about 10% of the overall wealth management business. I don't think the proportion is going to change materially over the next few years. On Hong Kong we are not seeing flight of money out and the business is doing well.

Rebecca Isjwara (S&P Global) On new NPA formation, what was the increase in the third quarter?

Piyush Gupta It was from a handful of diverse clients – some consumer goods companies in China, a state-owned enterprise in Indonesia, and the shipping arm of a previously-flagged credit in Singapore. There was no one big item. We've taken specific allowances on some while others are well secured.

Vivien Shiao (Business Times) I have two questions. First, with the expectation of a strong economic rebound next year, can we say that the worst is over for DBS? Second, how do you expect the US presidential election results to impact DBS?

Piyush Gupta On the first question, the worst of income headwinds is not over because NIM will continue to slide a bit more. As a consequence, there will be further headwinds for net interest income next year and we're going to have to rely on fee income and other income to make up for it. However, on credit costs, our aim is to reach the lower end of our SGD 3 billion-5 billion range this year. And, with a little bit of luck, we won't have to take a lot next year. If that is the case, it should more than compensate for any challenges we might have in operating profits due to the interest rate environment.

On the US elections, if it is still Trump then nothing changes. You will have the current situation of a Democrat House and a Republican Senate and administration. If it is Biden, I think you will see some change in dealing with China. The Democrats will try and follow more conventional diplomatic engagement and build a coalition with other countries. Now there might not be much change in substance but the rhetoric will be milder, which will help reduce anxiety.

Edna Koh Thank you for joining us.