Edited transcript of DBS second-quarter 2021 results media briefing, 5 August 2021

Edna Koh Good morning everyone, and welcome to DBS's second-quarter financial results briefing.

Chng Sok Hui Good morning.

Overview. We achieved a record first-half performance as net profit rose 54% from a year ago to $3.71 billion. Return on equity rose from 9.5% a year ago to 14.0%. First and second quarter net profit were the two highest on record.

Business momentum accelerated in the first half mitigating the impact of lower interest rates. Loans grew 6%, deposits 3% and fee income rose 20% with the first and second quarters the two highest on record. Both treasury customer flows and treasury markets income also reached new highs.

Underlying expenses were stable and the cost-income ratio was 42%.

Asset quality was resilient with the NPL rate at 1.5%. New NPA formation fell to pre-pandemic levels and was significantly offset by repayments. Specific provisions declined 46% from a year ago to 18 basis points. There was a general allowance write back of $275 million while overlays were maintained. General provision reserves remain prudent at $4.05 billion. They were $0.8 billion above MAS minimum requirements and $1.2 billion above Basel Tier-two eligibility. Total allowance coverage was 109%, or 199% after taking collateral into account.

Liquidity was ample with Casa accounting for all the deposit growth over the past year. The Casa ratio rose 10 percentage points to 76%. The liquidity coverage ratio and the net stable funding ratio were at 136% and 127% respectively. Capital was healthy with the CET-1 ratio rising to 14.5%, well above the group's target operating range. The leverage ratio of 6.8% was more than twice the regulatory requirement of 3%.

With the full lifting of regulatory restrictions imposed a year ago, the Board declared a second-quarter dividend of 33 cents per share. The scrip dividend scheme has been suspended.

First-half performance. First-half net profit rose 54% from a year ago to a record $3.71 billion. Total income was 4% lower at $7.44 billion as strong growth in business volume was more than offset by the impact of lower interest rates and lower gains from investments. Asset quality was resilient and total allowances declined by $1.85 billion from the $1.94 billion set aside in first-half 2020 to $89 million this half-year.

Net interest income fell 12% of $589 million to $4.20 billion as 7% loan growth was more than offset by a 27 basis points fall in net interest margin due to lower interest rates.

Fee income rose 20% or $308 million to a new high of $1.82 billion. All activities delivered strong performances with wealth management and transaction services rising to a record. Other income declined 2% or $28 million to $1.43 billion as record trading income offset lower investment gains due to favourable market conditions a year ago.

Expenses were 3% or $91 million higher at $3.13 billion due to the erstwhile Lakshmi Vilas Bank. Underlying expenses were stable.

Asset quality was resilient. There was a general allowance write back of $275 million from repayments of weaker exposures and credit upgrades. This compared to the $1.26 billion set aside a year ago. Specific provisions were $308 million lower at $364 million.

Second-quarter performance. Second-quarter net profit declined 15% to $1.70 billion from the previous quarter's record. Total income was 7% lower at $3.59 billion as both fee income and trading income declined from their first-quarter highs. Profit before allowances fell 10% to $2.05 billion.

Net interest income was 1% or $18 million lower at $2.09 billion as 3% loan growth was offset by a four basis-point decline in net interest margin to 1.45%. Fee income was $868 million, 9% or $85 million lower than the previous quarter's record. The decline was due to a moderation in wealth management fees from exceptional levels a quarter ago. Other income declined 20% or $162 million to $632 million as trading income fell from the previous quarter's high.

Expenses were 3% or $44 million lower at $1.54 billion. There was a smaller write-back of GP this quarter, of $85 million compared with $190 million in the previous quarter. Specific provisions was $36 million lower at $164 million.

Net interest income. First-half net interest income was 12% lower than a year ago at $4.20 billion. Strong loan and deposit growth mitigated a 27 basis point decline in net interest margin to 1.47%. The fall in NIM was due to interest rates that remained low following steep cuts by central banks post the onset of the pandemic in March 2020.

Second-quarter net interest income was 1% below the previous quarter at $2.09 billion. Higher loan and deposit volumes offset the impact of a lower net interest margin. NIM fell four basis points to 1.45% due to an increased deployment of surplus deposits at lower yields as well as lower market interest rates.

Loans. Gross loans amounted to $403 billion. Growth accelerated from 1% in the previous half to 6% in the first-half, with a 3% increase in each of the first and second quarters. Non-trade corporate loans were $7 billion higher in first-half led by drawdowns in Singapore and Greater China. Trade loans increased $6 billion with the rebound in regional trade. Housing loans rose $2 billion as bookings continued to be strong, while wealth management loans were also higher on buoyant investor sentiment. Second-quarter growth was led by trade and non-trade corporate loans. Housing loan and wealth management loan growth were sustained at the previous quarter's level.

Deposits. Deposits rose 9% in constant currency terms from a year ago to $483 billion. Three percentage points or $14 billion of the growth was over the first half. The growth continued to be led by Casa, which enabled more expensive fixed deposits to be released. Casa rose $26 billion in the first half while fixed deposits fell $13 billion. The Casa ratio was 76%, up three percentage points from end-2020 and ten percentage points from a year ago. Faster loan growth than deposit growth resulted in a loan-deposit ratio of 82%, up two percentage points from end-2020.

Fee income. First-half gross fees rose 19% from a year ago to a new high of $2.08 billion. Both the first and second quarters were the highest on record. Wealth management fees in the first six months grew 27% to a new high of $945 million. While market conditions continue to be the major driver of wealth management, the business has also grown structurally due to three factors. First, we have expanded our reach to the retail segment. Secondly, our digital platforms have enabled us to capture more customer flows. Third, we have grown annuity income streams by focusing on a range of core investment products. Insurance fees were also higher as they recovered to pre-pandemic levels. Card fees rose 10% to $334 million as consumer spending recovered from a year ago with growth led by online transactions. Travel spending continued to remain low. Investment banking fees increased 81% to $114 million from a recovery in equity transactions and record fixed income fees. Transaction services fees grew 10% to $454 million from higher trade and cash management activities. Loan-related fees rose 2% to $230 million.

Second-quarter gross fee income grew 26% from the previous year. All activities rose by double-digit percentages as financial market activity and consumer spending recovered from the trough a year ago. The growth was led by a 31% rise in wealth management fees, a more than doubling in investment banking fees and a 26% increase in card fees.

Gross fee income was 9% lower than the previous quarter as wealth management fees moderated from the first quarter's exceptional levels. Investment banking fees were higher while transaction service fees and card fees were little changed. Loan-related fees declined modestly.

Expenses. First-half expenses were 3% higher than a year ago at $3.13 billion. Excluding the erstwhile Lakshmi Vilas Bank, underlying expenses were stable. Staff costs increased as the business environment improved but were offset by lower occupancy and computerisation costs. The cost income ratio was 42%.

Consumer Banking and Wealth Management. First-half income declined 12% from a year ago to $2.71 billion. Income from loans and deposits fell 35% to $1.13 billion as the impact of a lower net interest margin was moderated by higher volumes. The decline in income from loans and deposits was partially offset by a 20% rise in investment product income to $1.16 billion and an 8% increase in card income to $378 million. Assets under management increased 13% to $285 billion. We maintained our domestic market share for savings deposits and housing loans at 52% and 31% respectively.

Institutional Banking. First-half income was stable from a year ago at $3.00 billion. Cash management fell 42% to $424 million as the impact of lower interest rates was moderated by volume growth. The decline was offset by increases in other products, led by double-digit growth in loans and investment banking. GTS deposits grew 12% to $177 billion.

Treasury and markets. First-half Treasury Markets income and treasury customer income were both at record levels. Treasury Markets income increased 31% to $934 million from strong performances in equity and credit trading. Customer income was 13% higher at $913 million with Consumer Banking and Institutional Banking each accounting for half the amount.

Second-quarter Treasury Markets income was $360 million. It was 28% lower than a year ago and down 37% from the previous quarter, which were the two strongest quarters on record. Customer income was 10% higher than a year ago and 13% lower than the previous record quarter.

Hong Kong. First-half net profit rose 8% in constant currency terms to $617 million. Total income declined 5% to $1.26 billion as the impact of lower interest rates was moderated by higher fee income and loan growth. Asset quality was resilient with allowances falling 82% or $130 million to

$27 million due to lower general allowances. Net interest income declined 19% to $690 million. Net interest margin fell 44 basis points to 1.30% due to lower interest rates but was moderated by a 4% loan growth.

Fee income grew 28% to $395 million. All activities grew by double digit percentages led by investment products, bancassurance and cash management. Other non-interest income rose 12% to $171 million from treasury customers sales. Expenses were a little change at $491 million and the cost-income ratio was 39%. There was a general allowance write-back of $18 million compared to the $124 million that was set aside a year ago. Specific allowances were $12 million higher at $45 million.

Non-performing loans. Asset quality was resilient as the economic environment improved. First-half new non-performing asset formation declined to pre-pandemic levels and was significantly offset by repayments. As a result, the NPL rate improved from 1.6% six months ago to 1.5%.

Specific allowances. The resilient asset quality resulted in first-half specific allowances declining 46% from a year ago to pre-pandemic levels. SP charges amounted to $363 million or 18 basis points of loans. Second-quarter specific allowances were $164 million or 14 basis points of loans. They were 18% lower than in the first quarter and 43% lower than a year ago.

General allowances. General allowances reserves of $4.05 billion remained prudent. They included GP overlays built up in prior periods which were maintained. The GP reserves were $0.8 billion above MAS's minimum requirement and $1.2 billion above Tier-2 eligibility. Allowance coverage was at 109%, or at 199% when collateral was considered.

Capital. Capital continued to be healthy. The Common Equity Tier-1 ratio rose 0.6 percentage points from end-2020 to 14.5%. Profit accretion and a methodology refinement for market RWA were partially offset by an increase in credit RWA. The CET-1 ratio was above the group's target operating range of between 12.5% and 13.5%. The leverage ratio of 6.8% was more than twice the regulatory requirement of 3%.

Dividends. The Board declared a dividend of 33 cents per share for the second quarter and the scrip dividend scheme has been suspended. With the full lifting of regulatory restrictions imposed a year ago, the dividend has reverted to its pre-pandemic level. Based on yesterday's closing share price and assuming that dividends are held at 33 cents per quarter, the annualised dividend yield is 4.3%.

In summary. We achieved an exceptional first half comprising the two highest quarters on record. Strong business momentum was sustained in the second quarter and the pipeline remains healthy. Asset quality has been better than expected. New NPA formation was at pre-pandemic levels and was significantly offset by repayments. Specific allowances were also at pre-pandemic levels, having almost halved from the previous year. The balance sheet remains prudently fortified with $4 billion of general allowance reserves, well in excess of requirements. Our capital and liquidity are also strong. While risks remain, we expect business momentum to be sustained in the coming quarters. We are well positioned to support customers and deliver shareholder returns.

Piyush Gupta Thank you, Sok Hui. Business momentum for the first half was extraordinarily strong, with the second quarter continuing to be as strong as the first quarter.

Loan growth of 3% in each quarter was more than what we expected and was diversified. For non-trade corporate loans, the growth was across property, TMT, and energy in particular renewables and sustainable loans. Geographically, the growth was from Greater China to Singapore and Southeast Asia.

Also pleasing was the record fee income, and growth was also broad-based. The growth in wealth management reflected not just more favourable markets but also the digitalisation of our business. The growth in transaction services also reflected the digitisation we've done for trade and the API linkages we have with customers. Card gross fees have recovered to just 10% below pre-pandemic levels and will recover fully as travel returns. Investment banking was also strong, with both ECM and DCM contributing. DCM benefited from large issuances around the region.

Treasury Markets were also extraordinarily strong, not just trading but also customer flows, which also reflected the digitalisation of the business. The second quarter was slower than the first quarter, which had been off the charts.

Looking forward, we continue to see robust business pipelines. We're raising full-year loan growth guidance to the high-single-digits. We grew 6% in the first half and will see 3% in the second half. The first half had $6 billion of trade loan growth due partly to higher commodity prices. It's unlikely trade loans will grow as much in the second half. Singapore housing loans grew $2 billion in the first half and could slow down to $1 billion in the second half, even though bookings were $4 billion each. We expect non-trade corporate loans to continue growing at the same rate of $7 billion in the second half.

We are guiding for fee income to grow in the mid-teens. We entered the third quarter with sustained momentum across various categories.

Expenses continued to be stable when we exclude the Lakshmi Vilas Bank amalgamation. Again, the digitalisation we've done over the years is helping us manage costs.

The credit cost outlook offers another upside. NPA formation has been at pre-pandemic levels, and they are one-sies and two-sies. We saw a couple of names, which were not large, in the auto-related sectors in China, the garment sector, and the building and construction sector in Singapore, but nothing systemic. The good news is that we have been getting repayments that largely offset the new NPA formation. The repayments have also contributed to lower allowances.

We had been guiding for total allowances to be less than $1 billion. Now we're expecting the amount to less than $0.5 billion. It was less than $100 million in the first half, and we are hedging our bets a little for the second half because of uncertainty from the impact of the delta variant and the expiry of loan moratoriums.

Looking beneath the macroeconomic uncertainty, the portfolio is quite healthy. We're not seeing signs of weakness. Loan moratoriums are down to 10% of where we started, with Singapore housing loans falling from $5 billion to $0.5 billion, Singapore SME loans from $5 billion to $0.4 billion, and Hong Kong corporates and SMEs from $6.6 billion to $1.4 billion. Moreover, the delinquency rates for those that have come off moratorium are generally low. Taiwan is the only country where we are currently seeing a pick-up in consumer delinquencies. Indonesia is holding well but might weaken towards year-end.

Let me finish by commenting on the new initiatives we've launched. In the middle of last year, we took a view that the interest rate environment is going to be a headwind for the next two to three years. So in addition to growing non-interest income in our core business we sought new incremental sources of growth. We acquired stakes in banks in India and China, and launched a securities joint venture in China. We also launched new digital initiatives. I think we will have an incremental $350 million-$400 million of income from these activities next year, which should be $200 million-$250 million more than this year. It should help cover some of the interest income shortfall we have seen over the past 12 to 18 months. If we continue to get meaningful traction, there could be upside in the numbers.

I will now open the floor to questions.

Rebecca Isjwara (S&P Global Marketing Intelligence) I have two questions. First, could you elaborate on the decline in performance in the second quarter from the first quarter. Second, do you expect net interest margin to stabilise or keep trending lower?

Piyush Gupta The first quarter was extraordinarily strong, just off the charts. And it was a global phenomenon that trading and wealth management were very strong. As you can see from other banks' second-quarter results, the trading results were hard to replicate. Although trading and wealth management fell, they were still significantly higher than recent average levels.

In addition, even though pressure on net interest margin is levelling off, it fell another four basis points in the second quarter. I think there is still some scope for NIM to continue coming down for the rest of the year due to the surplus deposits we are getting. We're placing $30 billion with central banks. The yield on it varies and was lower in the second quarter. Even though it's a drag on NIM the income is ROE accretive as there is zero risk weighting on central bank assets.

Chanyaporn Chanjaroen (Bloomberg) I have three questions. First, when do you expect business travel to start picking up? Second, for the projected $350 million in income from new initiatives, which business will be the biggest contributor? Third, are you close to concluding the transaction on Citi's consumer assets and what is your budget for it?

Piyush Gupta I'm not an epidemiologist or a policy maker, so I am not sure I can offer much insights. But travel is gradually opening up in several countries as vaccination rates go up. There might be further opening in the fourth quarter, although I think the bulk of it will only happen next year.

On the revenue from new initiatives, we expect to see meaningful numbers from the retail wealth and funding initiatives. The Digital Exchange, Partior or Climate Impact X are in their early days and will take some time to show meaningful numbers.

The Citi transaction process is underway and there is little we can say at this time. We have always been very mindful that acquisitions are earnings accretive within a reasonable period of time. Our CET-1 of 14.5% gives some cushion without having to raise capital.

Chanyaporn Chanjaroen In dollar terms, is the surplus capital more than $1 billion?

Piyush Gupta The surplus is even more than that. If a deal is earnings accretive, we can put more than $1 billion to work. We paid around $1 billion for our stake in Shenzhen Rural Commercial Bank.

Chris Wright (Euromoney) Two questions from me. First, your asset quality has been very much in line with the rest of the world – of reversing provisions and a strong credit outlook, which looks great. Yet we see Indonesia and Malaysia in the worst condition of the pandemic today, Vietnam experiencing lockdowns for the first time and India in terrible suffering. Can both positions be simultaneously correct? Second, are you able to indicate which geographies you have engaged Citi on?

Piyush Gupta The answer to your first question is obvious. The impact of the pandemic is on health systems and consumer demand in sectors that are not large relative to the overall economy. Recent data on PMI, retail spending and GDP all indicate growth. The increase in virus cases does not impact 90% of economic activity around the region. The F&B and tourism sectors tend to suffer but our exposure to them is small. Most of our exposure is in manufacturing, exports, TMT and property, which are doing well.

The Citi assets of interest to us are in countries we have a presence in, such as India, Indonesia and Taiwan.

Anshuman Daga (Reuters) First, is DBS benefiting compared to other banks because it has less exposure to Malaysia and Thailand than to Hong Kong and China? Second, do you expect interest rates to remain low?

Piyush Gupta I think there is more impact from the business mix than geography. So while our asset quality in Indonesia is a little weaker than in Singapore or Hong Kong, the bigger question is the size of the consumer and SME portfolio compared to large corporate portfolio, particularly if there is unsecured consumer and SME lending. Our exposure to the SME and consumer segments excluding Singapore housing loans is not large. Other banks in the region have larger exposures in Southeast Asia as well as larger SME portfolios.

On interest rates, it's hard to call. My own take had been that interest rate hikes would start only towards end-2023, but now it seems it could be earlier. We have to see whether recent inflation is transient to decide how quickly central banks need to start acting. I do think that tapering would happen first. But it's hard to call.

Anshuman Daga There has been record fund raising in Southeast Asia. When you talk to corporates, do you expect activity to continue?

Piyush Gupta We're seeing more issuances. Some are driven by record low interest rates. Some are for working capital rather than investment. But I think an investment cycle is returning and there will be new fundraising and capital market activity is going to remain fairly solid. With the tensions between China and the US, there will be more listings in Hong Kong and China. That will help overall sentiment as well.

Edna Koh Thank you everyone and see you next quarter.