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**Edited transcript of DBS first-quarter 2023 results media briefing, 2 May 2023**

**Edna Koh** Welcome to DBS's first-quarter results media briefing.

**Chng Sok Hui** Good morning everyone.

Highlights. We achieved another record performance in the first quarter. Net profit rose 43% from a year ago to $2.57 billion. Return on equity reached a new high of 18.6%, more than a percentage point above the previous record of 17.2% in the previous quarter.

Total income increased 34% to $4.94 billion from a 66-basis point improvement in net interest margin as well as healthy business momentum. Loans grew 3% while fee income trends improved.

Commercial book total income rose 44% to $4.67 billion, while Treasury Markets trading income normalised to $269 million in line with guidance.

The cost-to-income ratio improved seven percentage points from a year ago to 38%.

Asset quality was healthy. Specific allowances were at six basis points of loans. General allowances of $99 million were taken as a prudent measure to strengthen general allowance reserves.

Compared to the previous quarter, net profit rose 10% as total income was 8% higher. Commercial book total income rose 6% from loan growth of 1%, a NIM increase of eight basis points, as well as fee income growth of 29%.

The balance sheet remained solid. Deposits were boosted by flight-to-safety inflows in March, including from wealth management net new money. Non-performing assets fell 3% from the previous quarter as new NPA formation remained low and was more than offset by repayments and write-offs. The CET-1 ratio was at 14.4%.

The board declared a dividend of 42 cents for the first quarter.

First-quarter performance. Compared to a year ago, Commercial book total income rose 44% to $4.67 billion. Net interest income grew 69% or $1.38 billion to $3.38 billion from loan growth and a net interest margin increase of 104 basis points. Net fee income fell 4% or $40 million to $851 million as higher card and investment banking fees were offset by declines in other activities. Other non-interest income increased 22% or $78 million to $432 million from higher treasury customer income.

Treasury markets trading income normalised to $269 million in line with guidance.

Expenses rose 14% or $238 million to $1.88 billion led by higher staff costs. The positive jaw of 20 percentage points resulted in a seven-percentage point improvement in the cost-income ratio to 38%.

Specific allowances fell $105 million to $62 million, or from 15 basis points of loans a year ago to six basis points as asset quality remained resilient. General allowances of $99 million were taken as a prudent measure to strengthen general allowance reserves. There had been a write-back of $112 million a year ago.

Compared to the previous quarter, Commercial book total income increased 6%. Net interest income fell 1% in nominal terms and rose 2% on a day-adjusted basis. Loans grew 1% while net interest margin increased eight basis points. Net fee income was 29% or $190 million higher, with the growth led by wealth management, investment banking, and loan related fees. Other non-interest income rose 35% or $112 million from higher treasury customer income.

Treasury Markets trading income was 32% or $65 million higher from the seasonally-lower fourth quarter.

Expenses fell 4% or $81 million due to non-recurring items in the previous quarter. Expenses were stable on an underlying basis.

General allowances of $99 million were taken compared to a write-back in the previous quarter. Specific allowances were unchanged at six basis points of loans.

Net interest income. Commercial book net interest income rose 2% on a day-adjusted basis from the previous quarter and 69% from a year ago to $3.38 billion.

Net interest margin rose eight basis points from the previous quarter and 104 basis points from a year ago to 2.69% as assets repriced with higher interest rates, partially offset by higher deposit costs.

Treasury markets net interest income was a negative $113 million. As explained in the previous quarter, this is due to net interest margin compression for its fixed income instruments as well as higher funding costs for its non-interest bearing and marked-to-market assets, which are generally offset in non-interest income. Therefore, Treasury Markets total income is a more accurate reflection of its performance. This quarter's $269 million was in line with our guidance of $275 million per quarter.

Combining the Commercial book and Treasury Markets, the group's net interest income grew 50% from a year ago to $3.27 billion while net interest margin rose 66 basis points to 2.12%. Compared to the previous quarter, the group’s net interest income grew 2% on a day-adjusted basis while net interest margin was seven basis points higher.

Loans. Loans grew 1% or $4 billion in constant currency terms during the quarter. Non-trade corporate loans rose $4 billion led by Singapore real estate acquisition financing. Trade loans increased $1 billion. Consumer loans fell $1 billion due mainly to wealth management loans.

Deposits. Deposits rose 1% or $5 billion in constant currency terms during the quarter.

As in the past year, Casa deposits declined during the quarter as customers switched to higher yielding instruments such as T-bills and fixed deposits.

We saw flight-to-safety inflows of deposits and wealth management net new money in March because of market events. Net new money inflows almost doubled to $3.6 billion in March compared to a monthly average of $2 billion in 2022. For the first quarter, net new money inflows totalled at $6.2 billion.

Our liquidity remains strong with the LCR of 147% and NSFR of 118%, well above regulatory requirements.

Fee income. Gross fee income of $1.01 billion was slightly below a year ago. Wealth management fees fell 11% to $365 million. Transaction service fees of $230 million were 4% below the record a year ago but were in line with recent quarters. These declines were offset by 21% increase in card fees to $227 million. Fees from loan-related activities and investment banking were stable.

Compared to the previous quarter, gross fee income was one-fifth higher due partly to seasonal effects. Fees from wealth management, investment banking, and loan-related activities were higher. Card fees declined due to higher year-end spending in the fourth quarter.

Slide 9 shows the year-on-year percentage changes for total net fee income, as well as for the two major drivers of fee income over the past year, which are cards and wealth management.

Total net fee income fell 20% in January, continuing a trend of year-on-year declines in the first half and second half of 2022, when it fell 9% and 16% respectively. The declines reversed in February and March when total net fee income rose 9% and 1% respectively. As a result, total net fee income in the first quarter was 4% lower compared to a year ago at $851 million, as shown in an earlier slide.

Cards continued to grow strongly in the three months of the first quarter, sustaining the double-digit growth in the first half and second half of 2022. As shown in the previous slide, card fees for the first quarter rose 21% from a year ago to $227 million.

Wealth management, which is the largest component of fee income, fell 29% in January, in line with the declines in the first half and second half of 2022. The declines were due to base effect from the war in Ukraine and the subsequent concerns over inflation and the pace of interest rate increases, which affected wealth management activity. Wealth management fees were flat in February and March versus a year ago. As shown in the previous slide, wealth management fees for the first quarter fell 11% from a year ago to $365 million.

Expenses. The first-quarter cost-income ratio, which had been higher at 40% in recent years improved to 38%.

Compared to a year ago, expenses were 14% higher at $1.88 billion. The increase was led by higher staff costs.

Compared to the previous quarter, expenses fell 4%. We had taken non-recurring items in the fourth quarter including an accelerated depreciation for some fixed assets and a special award to staff. Expenses were stable on an underlying basis.

Non-performing assets. Asset quality remained resilient. Non-performing assets fell 3% from the previous quarter to $4.95 billion. New non-performing asset formation was offset by repayments and write-offs. The NPL ratio was unchanged at 1.1%.

Specific allowances. Specific allowances remained low in the first quarter at $62 million or six basis points of loans. They were stable from the previous quarter and two-fifths the level a year ago.

General allowances. Total allowance reserves stood at $6.27 billion, with $2.44 billion in specific allowance reserves and $3.83 billion in general allowance reserves.

During the quarter, general allowances of $99 million were taken as a prudent measure to strengthen reserves.

Allowance coverage rose to 127% and to 229% after considering collateral.

Other comprehensive income. Other comprehensive income (OCI) was positive in the first quarter, partially reversing the losses for full year 2022, with the changes due to cash flow hedges and fair value through other comprehensive income (FVOCI) debt instruments as interest rates eased.

OCI from cash flow hedges was $445 million. Cash flow hedges of $33 million or 6% of the Commercial book are used to transform floating-rate loans to fixed rate via interest rate swaps to stabilise net interest income. The swaps are marked-to-market while the loans are not. This accounting asymmetry creates artificial volatility to OCI which reverses over the life of the swaps. Cash flow hedge reserves do not affect capital adequacy computations.

OCI from FVOCI debt securities was $292 million as bond prices improved.

The remaining OCI items recorded a loss of $223 million. They mainly reflect the impact of foreign exchange translation from investments in overseas branches and subsidiaries.

Fixed-income investment portfolio. Our fixed-income investment portfolios amounted to $104 billion, divided almost equally between FVOCI and held-to-collect, which are accounted for at amortised cost.

Government securities accounted for $51 billion or half of the portfolio. Singapore and US government securities amounted to $28 billion with the remainder spread among the other major markets we operate in as well as Japan.

Supranational and other bank securities accounted for $16 billion of the investment portfolio. The remaining $37 billion is in the bonds of our corporate customers, which we are familiar with. These bonds are supplementary exposures to our loans to them.

The weighted duration of the investment portfolio is short. It was under two years for the FVOCI portfolio and 3.6 years for the held-to-collect portfolio.

Of the total portfolio of $104 billion, $87 billion are High Quality Liquid Assets as defined under Basel rules.

Capital adequacy. The group's CET-1 ratio declined 0.2 percentage points from the previous quarter to 14.4%. Profit accretion was offset by fourth quarter ordinary and special dividends of 92 cents per share, as well as higher risk weighted assets. The CET-1 ratio of 14.4% remained above our operating target range of between 12.5% to 13.5%, while the leverage ratio of 6.4% was more than twice the regulatory minimum of 3%.

Dividends. The board declared a dividend of 42 cents per share for the first quarter, unchanged from the previous quarter. Barring unforeseen circumstances, the annualised ordinary dividend is $1.68 per share.

<u>Summary</u>. Our record performance, including achieving an ROE of 18.6%, reflects the structural improvements we have made from our ongoing digital transformation as well as the benefit of higher interest rates.

Our ability to sustain business momentum as well as customers' trust during a quarter marked by market stress are the result of our solid capital position, prudent risk management, diversified business lines, and nimble execution underpinned by an ongoing digital transformation.

Our business pipelines are healthy and asset quality resilient.

Our multi-faceted franchise strengths will enable us to continue supporting our customers and delivering shareholder returns.

**Piyush Gupta** Thank you Sok Hui.

<u>Business momentum</u>. Our return on equity was 18.6% for the first quarter. As Sok Hui mentioned, we took a general allowance charge of $99 million this quarter. Our underlying models would have required us to write back $100 million, so we actually added GP overlays of close to $200 million in general allowances. Assuming that we had not taken that discretionary provisioning, our return on equity would have been close to 19%.

Business momentum for the quarter was healthy. The corporate loan portfolio did well. While the loan growth led by Singapore real estate acquisition financing was noteworthy, we also saw growth in sectors such as commodities and TMT. There was also a growth of $1 billion in trade loans during the quarter.

Fee income was also pleasing. January was softer year-on-year because of base effects from the war in Ukraine a year ago. Fee income was up year-on-year in February and March, reversing declines over the past year. Net new money inflows continue to be strong. We had inflows of $24 billion last year. For the first quarter this year, net new money inflows totalled $6.2 billion.

Expenses were well-managed and were stable quarter-on-quarter on an underlying basis. There was a year-on-year base effect. We did some salary adjustments in the middle of last year, so for the first half of this year the growth will be higher than the second half.

Asset quality remained resilient. Specific allowances were six basis points of loans. NPLs came down by about $200 million and the NPL ratio of 1.1% remained unchanged from last quarter. That is because of low new NPA formation and repayments. Nevertheless, we added about $200 million in GP overlays because the high interest environment is unprecedented. We are being abundantly cautious in case there is some stress in the later part of the year. There is nothing we are seeing right now.

<u>Outlook</u>. Overall business momentum for the rest of the year looks healthy. I think there is a 50-50 chance that the US escapes a recession. A couple of quarters ago, a recession seemed to be a certainty. Closer to home, we think a growth of 4.5-5% is likely for China. Hong Kong is seeing the positive impact of a rebound and is likely to see a growth of 3.5-4%. India and Indonesia could see a growth of about 5.5% and 5% respectively. Singapore is looking soft but likely to escape a

recession. As such, I think the corporate loan book is going to be fine. Our loan pipelines are healthy. Trade loans are episodic so it is difficult to forecast where that might wind up.

There may be a moderation in the consumer segment. I was hoping to get about $2 billion of growth in the mortgage book this year. We might not be able to get to that number due to the latest tightening measures. It is still early to call. Housing loan bookings recovered in recent months to $1 billion a month, so we were quite optimistic. The majority of our transactions are to first-time Singaporean home buyers which will not be impacted by the new measures, so hopefully there will not be too huge an impact.

We might also see some headwinds in wealth management margin financing. In a high interest rate environment, people would rather put their money to work than borrow from the bank, so we might see some challenges in trying to grow that part of the book. Due to the uncertainty, our current loan growth guidance is 3-5%. It is still kind of hard to say. We could be at the top end or a tad lower.

I was hoping to see a double-digit fee income growth, but now think that we might miss that by a little. Due to the market turmoil in March, wealth management growth rates might not come through at the level which we previously expected. Investment banking was good early in the quarter but slowed in March and April again due to the market turmoil. Nevertheless, some pockets remain strong. Total card spending is one-third more than pre-pandemic levels, and so fee income from cards is growing nicely. Travel continues to pick up. Pre-pandemic travel spend was about 15% of total card spend but was still 12% in the first quarter, so there is still further upside.

We faced asset repricing pressure as Hibor came off. Hibor normally tracks the Fed funds rate closely because of the fixed exchange rate between the US dollar and the Hong Kong dollar. This quarter, Hibor is 50-60 basis points below because there is a lot of liquidity in the Hong Kong market. This is partly because people have switched to cheaper China onshore borrowing. The lower Hibor resulted in a net interest margin drag of 3-4 basis points for us. This implies that our group net interest margin of 2.12% would have been 2.15-2.16% if not for the Hibor drag.

Overall deposit repricing continues. The bulk of deposits have repriced and the rest will reprice over this year. On the assets side, about 22% of our Commercial book’s interest-bearing assets have yet to reprice and we expect a large portion to do so this year next. This will cushion net interest margin pressures from the deposit repricing. I think that net interest margin has likely peaked, but the net interest margin decline will probably be gradual. Net interest margin for the last three months was flat in the 2.11-2.12% range. Average net interest margin for the year will likely be around 2.05-2.10%.

We are maintaining our full-year cost guidance of 9-10% growth. The cost-income ratio should be below 40%.

On asset quality, we are maintaining the SP guidance of 10-15 basis points of loans for 2023. We are currently not seeing any signs of stress and specific allowances were only six basis points of loans in the first quarter. Due to the high interest rate environment and slowing economies, specific allowances might pick up in the second half.

Finally, we think that a full-year return on equity of above 17% is likely. I will take questions now.

**Chanyaporn Chanjaroen (Bloomberg)** I have several questions. First, how much net new money inflows did you get from Credit Suisse in recent months? Did DBS sell Credit Suisse's AT1 bonds? Could you provide a number on your clients' loss from these bonds? Additionally, are there any updates on the investigation of the digital outage in March? Lastly, are you seeing challenges arising from the banking crisis in US?

**Piyush Gupta** It is hard to estimate net new money inflows from Credit Suisse. We have been beneficiaries of net new money inflows over the past year. Some of these inflows were from North Asia and some from other banks, including the troubled banks in the US as well as Credit Suisse. It is hard to unravel how much comes from where.

We have a total of about $300 billion of assets under management. Half of them are in deposits while the other half are in investments. Of the $150 billion in investments, Credit Suisse's AT1 bonds amount to $150 million. They form a small percentage of the total investment portfolio of our clients.

On the digital outage, it is too early to say. The problem appears to be software bugs in our access control server system. It was different from the previous incident because of the various measures we took over the past 16 months. During most of the day, 50% of customers could access online services. A two-hour downtime was required to activate backup servers and restore full access for our customers. A special board committee has been established to oversee the investigation. We have also engaged external experts with deep experience in overseeing large-scale IT systems and operations to work with the committee. We should be able to get some insights from the committee's report in the next couple of months.

On the US banking crisis, we have not seen too much of a direct impact anywhere in the world. Dollar liquidity is still quite ample. I think the fundamental challenges relate to interest rate risk management. SVB was impacted by the long duration of their bond book. That does not apply to us. As Sok Hui mentioned earlier, the weighted duration of our fixed-income investment portfolio remains short. It is also not a large part of our book.

**Yantoultra Ngui (Reuters)** Why do you expect net interest margin to gradually decline going forward? Additionally, what are the lessons we can learn from the collapse of First Republic Bank?

**Piyush Gupta** The reason why we separated Treasury Markets from the Commercial book in our disclosures is to highlight that our Commercial book net interest margin remains robust and continues to grow. In a high interest rate environment, net interest income booked under Treasury Markets suffers due to higher funding costs for trading non-interest bearing assets as well as net interest margin compression for its fixed income instruments. The returns are shown in the non-interest income line instead, which is why Sok Hui mentioned that we should look at total Treasury Markets income. We are guiding for total Treasury Markets' income to be $275 per quarter. Treasury Markets is about 19% of the group's assets, so the drag from Treasury Markets on our overall net interest margin is not immaterial.

We think that the rate hike cycle will be pretty much done after one more rate hike. We do not expect a reduction in interest rates this year. However, our deposits will continue to reprice. Last year, about $90 billion of our deposits repriced. Another $30 billion-40 billion of deposits will reprice over the rest of this year. This means that the cost of funds will gradually increase, whereas what we charge for floating-rate loans is pretty much toppish at this point. That will put some downward pressure on net interest margin. The mitigating factor is that a portion of our assets will only reprice this year and next.

First Republic Bank was impacted by the long duration of their loan book. They had non-amortising interest-only mortgages which were 15-20 years in tenor. When you have these long-duration assets which cannot be repriced together with increasing funding costs, the economic value of the book starts to suffer. In our case, the duration of our book remains short and is under three years.

**Goola Warden (The Edge)** Sok Hui mentioned last quarter that there are plans to redeem AT1 instruments as the bank transitions to Basel IV. Will this affect your dividend payout? Additionally, could you share about your LTVs in the commercial property sector outside of Singapore? Finally, are you seeing any competition from the new digital banks?

**Chng Sok Hui** We have $2.4 billion of AT1 capital instruments. Our Tier-1 ratio goes up by about two percentage points under Basel IV, which should be sufficient to cover AT1 instruments that mature. It does not affect the final CET-1 ratio and dividend payout.

**Piyush Gupta** About 90% of our commercial real estate exposure is booked in Singapore and Hong Kong. I am not worried about the exposure in Singapore. The majority of our exposure in Hong Kong is to reputable conglomerates, so I am not worried about that either. The remainder of our commercial real estate exposure includes some in the US, UK, and China. They are again to investment-grade borrowers. By and large, the LTVs of our commercial property book are low in the 40-50% range. Our stress tests covered the entire portfolio including S-Reits. We identified no major concern.

On competition from digital banks, we are not seeing any material impact from them in Singapore. Many people have opened accounts with them, but the outflow of funds from incumbent banks is not large. If you look at countries like the UK where digital banks have been operating for about a decade, the impact of digital banks on the incumbent banking system has been marginal at best. The market shares of high street banks have not budged. Similarly in China where large digital banks like Ant operate, the market shares of policy banks and joint-stock banks have not changed materially. It will likely take a long period before you start seeing significant impact.

**Goola Warden** Some Reits have unsecured debt. Does this type of debt rank pari passu with equity?

**Piyush Gupta** I am unsure of the specific details, but equity generally ranks last.

**Edna Koh** Thank you everyone.