**Edited transcript for DBS second-quarter 2023 results briefing for buy and sell sides, 3 August 2023**

**Michael Sia** Welcome to the briefing for our second-quarter results.

**Jayden Vantarakis (Macquarie)** During the media briefing, you mentioned that fixed-rate mortgages are around 3.3-3.5%. As there is not much growth, do you think there is potential for competition to compress pricing? Second, you took a GP charge in the previous quarter, overruling the models. Can you share with us the logic around the GP write-back this quarter.

**Piyush Gupta** There is always potential for some NIM impact from loan pricing, which can be dealt with by not doing the marginal loans, like what we did with trade loans in the second quarter. The high-quality trade loan NIM came down to 10 basis points, which we did not feel was appropriate. For mortgages, 3.3-3.5% yields give us a NIM of around 50 basis points, which I think should be pretty much rock bottom.

Our GP is driven by a model that factors macroeconomic variables and our own portfolio. We look at the accounts we are concerned about and add up the GP required for them. The models are pretty robust. But from time to time, we ask if there is anything the model might not have factored adequately. During the first quarter, the models came in at a negative $100 million. When we did the review, I was concerned we could get a hard landing, and there was noise around commercial real estate. We did some stress testing and added $200 million to the model-driven number, giving us a net $100 million increase.

By the way, the quality of our portfolio has been improving quite materially. If you look at our Pillar 3 disclosures, the weighted probability of default has come down from 1.6% to 1.2% over the past three years as weaker names have either paid down or had their tenors reduced. That is why the GP models are throwing up lower numbers every quarter.

During the second quarter, we could not come up with anything the models could have missed, and so did not have any credible reason to add on overlays.

**Chng Sok Hui** The stress testing is reviewed by the auditors and the Audit Committee. The stress testing is quite rigorous.

**Jayden Vantarakis** Is it fair to say that the watch list has got better or is it that you are more comfortable with the macroeconomic backdrop?

**Piyush Gupta** The watch list has continued to shrink since the Covid period. In the past year, it has come down by around 10%. The bulk of the watch list is in what we call amber – the just-keeping-an-eye-on-it kind of stuff.

**Jayden Vantarakis** On the $60 million one-off charge for the Citi Taiwan integration, is this the only quarter we should see it? Can you update us on the operational or legal day one for the business.

**Chng Sok Hui** We expect to take about another $60 million in the second half.

**Piyush Gupta** August 12th is the actual cutover. As you can imagine, for the first two or three months, I expect to get thousands of calls from customers, so we are going to stay staffed up in our call centres etc. You should expect to see another $60 million of integration costs before it winds down.

We are in good shape in terms of the actual integration. While other banks had an arrangement for Citi to continue servicing their portfolios before integration, we decided we would put in the investments and figure out the integration process before consolidating the portfolio. We have already done four dress rehearsals so far. The last one was almost flawless. I am fairly confident we will not have a problem bringing the book on seamlessly. We seconded some people from Citi to understand what needs to be done.

The Citi book is also holding up consistent with our models. We have not seen any loss of business momentum or revenue. We should expect to see what we said before – $200 million-$250 million to the bottom line from next year. For this year, it will probably be about $50 million.

**Nick Lord (Morgan Stanley)** On the dividend, what is the baseline for 2024?

**Chng Sok Hui** Based on 48 cents per quarter, the minimum for 2024 would be $1.92 per share.

**Nick Lord** I guess increasing the dividend in second quarter tells us you have more confidence about earnings prospects for the full year. But I would be interested in how you think about confidence in future years when rates eventually turn. Can you just talk us through some of the levers that you can pull to defend ROE when that happens?

**Piyush Gupta** There are two different questions. First, can we defend a 19% ROE? The answer is probably not. The 19% does benefit from the extraordinarily high interest rates. Our medium-term guidance at the recent investor day was 15-17%, which we are pretty confident of based on our high-returns business, including cash management, wealth management and treasury customer sales, which are about 40% of the bank's income today, compared to 20% previously.

While the top line is solid, credit risk management has also improved quite materially over the years. You can see that through this cycle, we are at the low end of our historical NPA and SP ranges. We should be able to keep to a structurally better SP.

On the dividend, we said during the investor day we are pretty confident we can increase it by $0.24 a year. But on top of that, we have another $3 billion or $1.20 per share of excess capital that we can return over the next few years, either through buybacks, special dividends or stepping up the ordinary dividend.

**Nick Lord** Are you now more confident of the 15-17% range or could you be higher than that?

**Piyush Gupta** We are confident about the 15-17% range. I am not sure about much higher. We are more confident of the economic outlook and the likelihood of a softer landing, which goes back to the question on GP.

**Harsh Modi (JP Morgan)** Of the 23% of the commercial book that has yet to be repriced, is it about half that gets repriced this year? How much is the spread pickup?

**Piyush Gupta** Half of it gets repriced in the next 18 months. The yield pickup is about 2% for this portion.

**Harsh Modi** What drove the RWA increase during the quarter and how do we see risk density going forward?

**Chng Sok Hui** The operational risk charge MAS imposed was effective May 5th. The operational risk multiplier was increased from 1.5 to 1.8 times, which had an impact of 0.3 percentage points on CET-1. This brought the CET-1 ratio from 14.4% in the previous quarter to 14.1%. We then had net profit accretion offset by dividend payout and growth in credit and market RWA.

**Piyush Gupta** The market RWA increase was due to more risk-taking positions in the past quarter as rates are topping out. We are not going very long on the curve because I still think that part might have scope to move upward. But we found opportunities in the belly of the curve.

**Chng Sok Hui** If you look forward, the Citi Taiwan integration will have an impact of about 0.5 percentage points. But there will be offsets and as best as we can estimate, CET-1 should be stable around 14% in the third quarter.

**Melissa Kuang (Goldman Sachs)** You previously said NIM would peak in 1Q and now you are saying there is upside. Do you think the peak will be in 3Q or 4Q, or beyond?

**Piyush Gupta** I think the peak will be this year based on one more Fed hike. While there is additional benefit from lagged asset repricing, it will be offset by albeit slower deposit repricing. So we might have some NIM upside between now and year-end, but I doubt it will continue into next year.

**Melissa Kuang** On dividends, how would you release the $3 billion of additional capital?

**Piyush Gupta** The board will evaluate the options every quarter. It is a little harder for us to go down the buyback route, but we do look at it. So it is really between a special dividend and a step-up in our ordinary dividend. Between the two, our preference is ordinary dividends as long as we are confident we can sustain the level.

**Melissa Kuang** In thinking about the route you mentioned of five years of annual $0.24 step-ups, are we eventually looking at a payout ratio of 65-70% when you reach a capital-neutral point.

**Piyush Gupta** If we just project the numbers and assume no attractive inorganic opportunities, we can quite easily work towards a payout ratio in the 60% range.

**Melissa Kuang** On the balance sheet, you had quite a jump in interbank deposits and derivative this quarter. Are they for your treasury business?

**Piyush Gupta** Yes, it is all for the treasury business.

**Aakash Rawat (UBS)** Is the NIM upside from the June exit NIM of 2.20%?

**Piyush Gupta** No, the upside is from the average NIM of 2.16% for the second quarter.

**Aakash Rawat** On deposit repricing, Casa is still flowing out. What is the risk that the pressure accelerates in the second half as rates go up and stay high?

**Piyush Gupta** Deposit pricing differs by segment. Institutional deposit reprices 100%. Repricing on other deposits such as cash management and consumer is far more contained. A lot of the price-sensitive deposits have already been repriced or have moved out, so I don't see an acceleration in repricing.

**Aakash Rawat** On wealth management inflows, nobody wants to get hot money, but how do you determine which part is sticky and which part is hot?

**Piyush Gupta** It goes back to how well you can manage the client relationship. When someone puts money into a family office in Singapore, they deposit it into a bank to earn a 3.5-4%, return, or they buy a property, or they create a portfolio. If they brought money from wherever it was into Singapore, why would they then take it out? Over several months, they start building a portfolio and allocate how much goes into equity and into fixed income. This is not new. It is exactly how the business happens.

**Aakash Rawat** On wealth management, one difference in your trends compared to for example UOB, which reported a few days ago, was that yours improved from the previous quarter. Do you have any insights into what drove this?

**Piyush Gupta** It was about the same level quarter-on-quarter. I had assumed it would be even stronger in the second quarter because of China's re-opening, but the market rebound did not happen until recently. Therefore the money that got put to work was slower than I expected. But I do think that it is coming through now.

**Aakash Rawat** On asset quality, could you give us an update on the commercial real estate exposure in the US. You've already talked about the exposure last quarter. And then the same thing for the Hong Kong CRE space because office vacancies in the central area have remained high.

**Piyush Gupta** The assessment has not changed much. We obviously stress tested the commercial real estate portfolio, which is what prompted us to take the GP overlay in the first quarter. We are not seeing any incremental stress in the second quarter. Our US book is quite small. The Hong Kong book is really to the big developers and they are very solid.

**Aakash Rawat** On the dividend policy, the step-up happened in the second quarter. Is it fair to say you are not changing your policy to raising dividend in the second quarter and then keeping it the same for the rest of the year?

**Piyush Gupta** We are not changing the policy, but we would look for opportunities to pay back the excess $1.20 per share over the next two or three years. So it could mean step-ups in the ordinary dividend that is not at year-end,

**Aakash Rawat** You talked about BEPS taxation impact at the Investor Day. Do you have any more details to share on that?

**Chng Sok Hui** As best as we can figure out, it will take effect in 2025, and we will work with IRAS to see how we can mitigate some of the impact.

**Piyush Gupta** Our average tax rate is about 13.5%. If you look at the argy-bargy around the world, everybody is finding a way to not get to the 15% level. So let's watch and see what the effective tax rate winds up at.

**Aakash Rawat** All the geographies you operate in have higher than 15%. So how does it at the group level it come down to below 15%?

**Chng Sok Hui** It is mainly in Singapore where our tax rate is lower.

**Neel Sinha (CLSA)** On loan growth, where are the pressure points? Is it Hong Kong because of the higher rate environment than you initially assumed? Is it the mortgage market in Singapore? Second, on Citi Taiwan, what would the NIM impact be? Third, could you provide an update Lakshmi Vilas Bank, whether you have pressed on the pedal to grow the franchise.

**Piyush Gupta** On loan growth, it is all of the above. In the second quarter, the trade book shrank by $4 billion due to a general slowdown and low pricing. For the non-trade book, we got $3-$4 billion of loan growth everywhere else, but lost $3 billion from the shift from Hong Kong to China. In Singapore, mortgages will be slower than we expected. I was hoping they would grow about $1 billion this year, but we will probably wind up at $500 million-750 million. My estimate now is that we should have about $5 billion of overall loan growth in the second half, resulting in 1-2% of loan growth for the full year.

On NIM, Citi Taiwan will lift NIM by about one basis point because it is a small portion of our book.

Lakshmi Vilas is doing well. The integration has been done and we are beginning to put our foot on the pedal. We're getting growth across the board.

**Neel Sinha** What is its cost-income ratio now? I remember it was close to 100% when you bought it.

**Piyush Gupta** We have stopped tracking the LVB franchise separately but it is profitable by itself.

**Tan Yong Hong (Citi)** My first question is on residual capital. Would you still be comfortable with a, say, 70% payout ratio when the Fed or asset quality reverses? Or are you keeping some of the $3 billion of excess capital for these events?

**Piyush Gupta** If you are asking whether we would be confident of a 70% payout, I don't know because we don't look at the payout ratio as our principal driver. But if you do the maths and work backwards, you do get a number in the 60s. And so we would be comfortable with that. But the key driver of our dividend policy is to pay sustainable dividends that grow in line with our business.

**Tan Yong Hong** Could you provide an update on how much of your commercial book is hedged? I think the last update was 6%. Should we expect it to be reduced as we get to year-end and beyond?

**Piyush Gupta** As hedges roll off, we recreate some of them. Based on where the yield curve and pricing are, we will continue to hedge some of them back.

**Weldon Sng (HSBC)** On the dividend, $0.42 in the first quarter and then three quarters of $0.48 would only arrive at $1.86, which is less than a 50% payout this year. Is this the ratio you are looking at?

**Piyush Gupta** We have already said that we would review this every quarter.

**Operator** Thank you, we have now come to the end of the Q&A session.