Edited transcript of DBS second-quarter 2023 media briefing, 3 August 2023

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

Chng Sok Hui Thanks, Edna.

Highlights. We achieved another record performance in the second quarter and first half, with total income, net profit and ROE at new quarterly and half-yearly highs.

For the second quarter, net profit increased 48% from a year ago to $2.69 billion, while ROE rose to 19.2%. Total income grew 35% to exceed $5 billion for the first time. Commercial book net interest margin increased 96 basis points, including 12 basis points during the quarter. Fee income rose 7%, the first year-on-year increase in six quarters, led by wealth management and cards. Treasury customer and other income rose 21%. The stronger commercial book performance was partially offset by a 34% decline in Treasury Markets trading income due to higher funding costs.

The cost-to-income ratio improved six percentage points to 38%, unchanged from the previous quarter.

For the first half, net profit rose 45% to $5.26 billion with ROE at 18.9%. Total income grew 34% to $10 billion as increases in commercial bulk net interest margin, card fees as well as treasury customer and other income were moderated by lower Treasury Markets income.

Expenses of $3.81 billion was 15% higher than a year ago and stable from the previous half.

Asset quality continued to be resilient. The NPL ratio was unchanged from the previous quarter at 1.1% as new non-performing asset formation remained low and was offset by repayments and write-offs. Second quarter specific allowances were 10 basis points of loans, bringing the first half to eight basis points. Allowance coverage was high at 127% and at 224% after considering collateral.

Liquidity was ample with both the LCR and NSFR comfortably above regulatory requirements.

Capital remained healthy with CET1 at 14.1%. The Board declared a dividend of 48 cents for the second quarter, an increase of six cents from the previous payout. This brings the first half dividend to 90 cents per share.

Second-quarter performance. Compared to a year ago, second quarter commercial book total income increased 40% to $4.87 billion. The growth was broad-based.

Net interest income rose 54% or $1.26 billion to $3.58 billion. Net interest margin increased 96 basis points to 2.81% from higher interest rates. Loan and deposit volumes were generally a little changed in constant-currency terms, both from a year ago and over the first half.

Net fee income grew 7% or $55 million to $823 million, double-digit increases in wealth management, cards and loan-related fees were moderated by a decline in transaction service fees due to lower trade finance activities.

Treasury customer sales and other income increased 21% or $82 million to $464 million.

The increase in commercial book total income was partially offset by 34% or $93 million decline in Treasury Markets trading income to $177 million due to higher funding costs.

Expenses were 16% or $273 million higher at $1.93 billion. With total income growing 35%, there was a positive jaw of 19 percentage points, which resulted in a six percentage point improvement in the cost-to-income ratio to 38%. Specific allowances amounted to $114 million or 10 basis points of loans, which are $45 million higher than the $69 million or eight basis points a year ago.

There was a general allowance write-back of $42 million compared to a write-back of $23 million a year ago.

Integration costs of $60 million for Citi Taiwan were grouped during the quarter as a one-time item. Including the charge, net profit was $2.63 billion.

Compared to the previous quarter, second quarter net profit was 5% higher as total income rose 2%.

Commercial total income grew 4%. The increase was due to a 6% or $197 million increase in net interest income as net interest margin rose 12 basis points. Loans fell 1% in constant-currency terms from a decline in trade loans, while deposits fell 3% as Casa outflows were not replaced by fixed deposits.

Non-interest income was stable. Net fee income fell 3% or $28 million as higher wealth management fees and card fees were offset by decline in other activities. Treasury customer sales and other income was 7% or $32 million higher.

Expenses were in line with the previous quarter.

Specific allowances of $114 million or 10 basis points were $52 million higher than the $62 million or six basis points in the previous quarter. The general allowance write-back of $42 million during the quarter compared to a charge of $99 million in the previous quarter.

First-half performance. For the first half, commercial book total income rose 42% to $9.54 billion from broad-based growth.

Net interest income grew 61% or $2.64 billion to $6.97 billion as net interest margin improved 100 basis points to 2.75%.

Net fee income was 1% or $15 million higher at $1.67 billion with a 4% year-on-year decline in the first quarter, offset by a 7% increase in the second quarter. Wealth management fees were stable as the decline in the first quarter was offset by an increase in the second quarter. Card fees and loan-related fees were higher, which were offset by lower transaction service fees due to trade finance.

Treasury customer and other income rose 22% or $160 million to $896 million. Treasury customer sales income reached a record.

Expenses rose 15% or $511 million to $3.81 billion. A significant part of the increase was due to headcount growth in second-half 2022. Compared to the previous half year, expenses were stable.

Specific allowances of $176 million or eight basis points of loans was $60 million lower than the $236 million or 11 basis points a year ago. General allowances of $57 million were taken compared to a write-back of $135 million a year ago.

Net interest income. Commercial book net interest margin expanded 12 basis points to 2.81% during the second quarter, as asset repricing continued to outpace rising deposit costs. As a result, commercial book net interest income rose 6% from the previous quarter to $3.58 billion.

Compared to a year ago, commercial book net interest income rose 54% as net interest margin increased 96 basis points.

Treasury Markets negative net interest income widened to $148 million from negative $113 million in the previous quarter as funding costs further rose.

Combining the commercial book and Treasury Markets, the Group's net interest income grew 5% to $3.43 billion and net interest margin rose four basis points to 2.16%. Compared to a year ago, net interest income was 40% higher, while net interest margin rose 58 basis points.

For the first half, commercial book net interest income increased 61% to $6.95 billion from a 100-basis-point improvement in net interest margin to 2.75%. The Group's total net interest income was 44% higher at $6.70 billion, as net interest margin rose 62 basis points to 2.14%.

Loans. Gross loans declined 1% or $5 billion in constant-currency terms during the quarter to $422 billion, most of the decline was due to a $4 billion contraction in trade loans as maturing exposures were not replaced due to a general market slowdown and unattractive pricing. Non-trade corporate loans fell slightly by $1 billion as a steep rise in Hibor and depreciation of the RMB accelerated repayments in Hong Kong, offsetting gains in other regions. Housing loans and wealth management loans were little changed.

Over the first six months, loans were stable as non-trade corporate loan growth of $3 billion was offset by the contraction in trade loans.

Deposits. Deposits fell 3% or $14 billion in constant-currency terms during the quarter to $520 billion.

Casa deposits declined as customers switched to higher-yielding instruments. The pace of Casa decline has slowed considerably from a peak of $32 billion in third quarter 2022 to $10 billion in the latest quarter. Fixed deposits were stable, given the bank's strong liquidity position. LCR was at 146% and NSFR at 116%, well above regulatory requirements.

Fee income. Second-quarter gross fee income of $999 million was higher from a year ago, the first year-on-year increase in six quarters.

Wealth management fees rose 12% to $377 million from higher bancassurance and investment product sales. Card fees increased by 17% to $237 million from higher spending, including for travel. Loan-related fees were 17% higher at $133 million. Offsetting these increases was a 5% decline in transaction service fees to $221 million due to lower trade finance activities. Investment banking was stable at $31 million.

For the first half, gross fee income was also higher than a year ago from cards and loan-related fees.

Expenses. First-half expenses rose 15% from a year ago to $3.81 billion. Contributing to the increase were the base effects of headcount growth in second half 2022. As such, first-half expenses were stable compared to $3.79 billion in the previous half.

For both the first half and second quarter, cost-to-income ratio improved six percentage points from a year ago to 38%.

CBG performance. CBG's first-half profit before allowances doubled from a year ago to a new high of $2.22 billion as total income grew 48% to $4.27 billion. Loan and deposit income increased 91% to $2.86 billion, driven mainly by a higher net interest margin. Investment product income rose 8% to $1.05 billion from higher sales of investment and bancassurance products. Card income was 16% lower at $313 million as higher card fees were more than offset by a lower net interest margin on outstanding balances.

Assets under management increased 9% from a year ago to $320 billion, with investments and deposits contributing equally to the increase. We had $6 billion of net new money inflows in the second quarter, bringing the amount to $12 billion for the first six months.

Sing-dollar savings deposits fell in line with the market. Our market share has been stable over the past 12 months and is currently at 54%. Our share for Singapore housing loans has also been stable at 29%.

Total CBG deposits were stable at $278 billion as the savings deposit decline was offset by fixed deposit growth.

IBG performance. Institutional Banking's first half total income rose 38% from a year ago to a new high of $4.69 billion. The growth was driven by cash management, which tripled to $2.13 billion due to higher interest rates. Cash management deposits fell 6% to $187 billion as higher-cost deposits were managed out.

The increase in cash management income was partially offset by an 11% decline in trade income to $345 million. Trade loans contracted amidst a general market slowdown and as maturing exposures were not replaced due to unattractive pricing. Trade finance fees also fell with reduced activity.

Other product categories were generally little changed.

TM performance. For the first half, treasury customer income rose 11% to a record $935 million, bolstered by higher sales to CBG customers as market sentiment improved, while IBG sales remained robust at year-ago levels.

Treasury Markets trading income was 36% lower at $446 million, reflecting a high year-ago base in the first quarter and the impact of higher funding costs. The decline was led by lower income from interest rate activities as spreads compressed.

Hong Kong. Hong Kong's first-half net profit rose 39% in constant-currency terms to $808 million as total income increased 25% to $1.57 billion.

Net interest income grew 43% to $1.04 billion as a 61-basis-point improvement in net interest margin to 1.79%, more than offset the impact of lower loan and deposit volumes. Thae NIM expansion was driven by Hibor increasing over 100 basis points during the second quarter. However, loan declined 13% from a year ago, impacted by a slowdown in trade, high interest rates and a widened rates differential with China. Deposits fell 14% in tandem with loans.

Non-interest income was little changed. Net fee income was stable at $350 million as higher income from wealth management product sales was offset by lower contributions from loan-related and trade finance activities. Other non-interest income fell 3% to $189 million due to lower treasury customer sales and trading gains.

Expenses rose 9% to $573 million led by higher staff costs. The cost-to-income ratio improved from 42% to 36%. Total allowances rose $2 million from a year ago to $45 million as higher specific allowances were partially offset by a larger general allowance write-back.

Non-performing assets. Asset quality continued to be resilient.

The NPL ratio was unchanged from the previous quarter at 1.1%, while non-performing assets were stable at $4.99 billion. New NPA formation remained low and was offset by repayments and write-offs during the quarter. Over the first six months, non-performing assets were 3% lower.

Specific allowances. Second quarter specific allowances remained low at $116 million or 10 basis points of lows.

First-half specific allowances amounted to $178 million or eight basis points of loans, 24% lower than the $235 million or 11 basis points a year ago.

General allowances. There was a general allowance write-back of $42 million in the second quarter due to transfers to non-performing assets and credit upgrades. This brought general allowance charges to $57 million for the first half.

Total allowance reserves stood at $6.33 billion, with $2.53 billion in specific allowance reserves an $3.80 billion in general allowance reserves.

Allowance coverage was at 127% and at 224% after considering collateral.

Capital adequacy. The CET1 ratio was at 14.1% per recent guidance. The leverage ratio of 6.5% was more than twice the regulatory minimum of 3%.

Dividends. At our Investor Day in May 2023, we said that baseline annual dividend stepped up would be sustained at 24 cents per year barring unforeseen circumstances. We also guided that there was a further upside of $3 billion or $1.20 over and above the 24 cents per year increase. This could be in further ordinary dividend step-up, special dividend or buyback. The pace of distribution would be dependent on business conditions and macroeconomic outlook.

Consistent with this guidance, and given the strong earnings prospects for the rest of the year, the Board declared a dividend of 48 cents per share for the second quarter. The dividend is six cents higher than the previous payout. This brings the first-half dividend to 90 cents per share.

Based on a quarterly dividend of 48 cents per share, the annualised dividend would be $1.92 per share, and based on yesterday's closing share price, the dividend yield would be 5.7%.

Summary. In summary, we achieved another record performance in the second quarter and the first half. Total income, net profit and ROE were at new quarterly and half-yearly highs.

The commercial book benefited from higher interest rates and broad-based growth in non-interest income, which was moderated by higher funding costs for Treasury Markets trading activities.

While there is some uncertainty, our prospects for the rest of the year are anchored on a franchise with a proven ability to capture business opportunities.

At the same time, our long-standing prudence in building general allowance reserves and maintaining strong capital ratios will position us well to withstand headwinds.

Piyush Gupta Thanks, Sok Hui.

As Sok Hui pointed out, our ROE topped 19% and that is a record. There are very few banks in the world that are able to get such ROEs, which speak not just to our profitability but also our capital management.

Total income hit $5 billion for the quarter, which is also a record. More important is that it was broad-based. Obviously interest rate hikes help. But despite the interest rate hikes the balance sheet has been robust. So our strategy to grow the liability book over the past several years, including in a zero-interest-rate environment, is paying off. That clearly speaks to our cash management, our wealth management, our digital retail. All of them are anchored on harnessing low-cost deposits, and that is coming good at this time.

NIM rose to 2.16%, which is a bit of a surprise because we guided last quarter that NIM had probably topped out. Now the surprise really came from a couple of things, which I am going to get into in the next slide.

Fee income was up 7% year-on-year. Cards were strong at 17%. Wealth management was strong – first-quarter it was down 11%, second-quarter it was up 12%. Since the end of the quarter, as you saw, animal spirits were back and the markets have been doing well.

Costs were well contained. Our year-on-year cost growth was high because of headcount growth in the second half of last year. We added almost 1,000 people to manage the Citi Taiwan integration. If you look at half-on-half, costs were flat.

Asset quality has been very good. Our new NPA formation was probably one of the lowest it has been. We are not seeing any NPA stress. And therefore SPs are also very low.

Finally, our dividend. At the investor day in May, we said that we would increase the dividend by 24 cents per share a year. But we also guided that we had surplus capital of $1.20 per share to return to shareholders over the next couple of years. Given the prospects for the year, the Board voted to start doing that.

How are things looking like? First, the macroeconomic and business outlook are a little slower, particularly the China rebound. It was stronger in the first quarter and became more tepid in the second quarter. Now whether the new policy actions add some momentum in the second half is anybody's guess. I do not have a strong view.

The slowdown in the second quarter meant that our guidance on loan growth has to be tapered. In the second quarter, loan growth was negative, for the first half we are at zero. Our pipelines through the second half of the year are looking reasonable, so I think for the full year we could still get low-single-digit loan growth, but it will not be the earlier guidance of 3-5%.

The slower growth is not just due to the macro slowdown. It has to do with loans shifting from Hong Kong to mainland China. There is a rate differential between borrowing in renminbi and in dollars as China onshore rates are substantially lower. The second reason is that the renminbi has been depreciating. Between first and second quarter, it depreciated from 6.8 to 7.3 to the dollar. If you are a borrower, you would want to borrow in a depreciating currency. So it is a mix of both the general slowdown and a shift to the mainland. We saw this impact mostly in trade loans, which shrank $4 billion for the quarter.

On NIM, the effect was the reverse. There were three things that drove NIM to be better than forecast. First, contrary to our expectation that rates had topped out, the Fed has hiked them. More materially, Hibor has moved up. Normally, it tracks US rates closely. But through the end of last year and early this year, there was a lot of liquidity in Hong Kong, and Hibor was almost 200 basis points lower than US rates. We had assumed Hibor would not correct back up. So it improved NIM but also drove loans from Hong Kong to China.

Second, as we indicated before, we have a chunk of our commercial book that reprices over time. About 23% of it will reprice through the second half of this year, 2024 and then beyond that. So we still have support from the repricing of that book.

Finally, deposit repricing pressure has been relatively contained. The Casa outflow has come down from $32 billion earlier to only $10 billion this quarter. Because the Casa outflow is being contained and we are not getting loan growth, we have not had to bid for higher-cost fixed deposits.

There is upside bias to NIM. Our exit NIM for June and July was 2.20%, higher than the quarter’s 2.16%.

We are also tapering the guidance for fee income a little. I had said high-single-digit growth previously on the assumption that, after taking into account a year-on-year decline in the first quarter, we would get double-digit growth for the remaining three quarters. We got 7% growth in the second quarter, which is good, but it was not double-digit. I still think we could get double-digit growth at the tail-end of the year, but the math will not add up to high-single-digit for the full year.

One of the good things is that wealth management is coming back quite nicely. It was minus 11% year-on-year in the first quarter and plus 12% in the second quarter. And the recovery does not reflect the market pick-up in the past few weeks. Our net new money continued to be strong, and was $6 billion in each of the first and second quarters. The inflows are half in deposits and half in investments, which means we have the opportunity to convert the deposits into investment income. So prospects for wealth management are good.

Prospects for cards are also good. Consumption spending is good. Travel as a percentage of card spending is still only 13%, compared to 15% previously. There is an opportunity to get more juice as the travel market continues to improve.

The area with some headwinds is Treasury Markets. We record Treasury Markets as a composite of net interest income on the assets we hold and non-interest gains. As funding cost goes up with rates, there is a net interest income drag on the assets we hold. This quarter it caused net interest income to be a negative $150 million. Until rates start correcting, we are more likely to do $230 million in Treasury Markets income a quarter as opposed to the $275 million we had previously guided. The flip to that is if the rate stabilise and come off, there will be more value in the franchise.

Expense growth will be around 10% for the full year and the cost-income ratio below 40%. Half-on-half expenses were flattish.

Specific allowances will be at the low end of the 10-15 basis points we had guided. We only had eight basis points in the first half. The portfolio is looking resilient. We are not seeing any signs of stress in the portfolio.

When you put all of it together, we think we will have a record year if the second half is consistent with what I have said. We have already earned over $5 billion in the first half.

Prisca Ang (Straits Times) Two questions. First, what is the new guidance on NIM. Second, what is the outlook for Casa deposits given the recent moves allowing digital banks to raise the amount of deposits they can take?

Piyush Gupta I have said there is upside bias to NIM. June and July exit NIM were at 2.20%. So there is upside of a couple of basis points from the second quarter. I am not able to fine-tune it further at this stage.

I have said before that digital banks' market shares, whether it is in the UK or Hong Kong, tend to be small and it takes a long time for them to impact the system. They will see some inflows as they raise deposit rates, but in the overall scheme of things the numbers are not going to materially change market shares. The question then is how fast they want to compete for marginal deposits. As we said, we do not need to compete for higher-cost fixed deposits. Loans are not growing, our LDR is only 80%, our LCR is really strong. If we choose not to compete for marginal fixed deposits, it will not have a material impact on us.

Chanyaporn Chanjaroen (Bloomberg) Is the net new money of $12 billion in Sing dollars or in USD?

Piyush Gupta We count our AUMs in Sing dollars.

Chanyaporn Chanjaroen Is DBS the unnamed bank that kept the $650 million in deposits [from former F1 head Bernie Ecclestone], and if so what measures have you taken since?

Piyush Gupta First of all, it is not DBS.

Anshuman Daga (Reuters) Could you clarify why the slide said fee income rose the first time in six quarters because it went down on the quarter.

Piyush Gupta The increase is on a year-on-year basis.

Anshuman Daga How are you seeing overall momentum?

Piyush Gupta I think it is going to be quite robust. Card fees will continue to grow with travel spending. Wealth grew 12%, and with the market pick-up in the past few weeks I am quite bullish. Investment banking was flat. Capital markets are still a little uncertain. We have a healthy deal pipeline. Our league table positions for the first half were strong. If the market opens up we will do well. The one thing that was slow was transaction banking. It had to do with trade. We think we will get some growth in the second half.

Anshuman Daga How does the net new money of $12 billion in the first half compare with previous periods?

Piyush Gupta It is about the same.

Anshuman Daga What about the source of the money? You said earlier it was broad-based.

Piyush Gupta It continues to be broad-based. We have been getting North Asia, Southeast Asia, Middle East quite consistently.

Anshuman Daga And with the UBS taking over Credit Suisse, you had mentioned you got some flows from that. What is the trend?

Piyush Gupta UBS taking over Credit Suisse has stabilised the entity. On the one hand it has reduced the uncertainty for some customers, but on the other there are customers who were using two providers and are now down to one and who do not like the concentration. They want to have a couple of banks to deal with.

Dexter Low (Bloomberg) First, there was a report about how UK banks were passing a quarter of rate hikes to consumers. Do you see that in Singapore as well? Second, how do you see the impact of the slowdown in China? Finally, Temasek said last month they are trying to engage more of their portfolio companies on restructuring their businesses. Have you had any conversations with them on changes in strategy?

Piyush Gupta We have had no discussions with Temasek on the need to restructure DBS for performance. I think Temasek is quite happy with our performance. We stand out as a high-performing part of their portfolio.

On your first question, deposit rates paid by Singapore banks are reasonable. It is worth noting that despite current interest rates, our NIM has not reached the historical high of more than 2.20%. At the same time, housing loan rates in the Singapore market, not just us, are around 3.3-3.5%, only marginally above the cost of fixed deposits. So it is not just deposits but loans. We are under-pricing mortgages to make it easier for the market.

On China, all of Asia – and Singapore is not excluded – slows down when China slows down. Intra-Asia activity is material to our business. There are swings and roundabouts, and two positives from that. First, the geopolitics of China-plus-one help the region, including Singapore. There is a flow of investments into the region that we are able to capitalise on. Second, individuals and companies are bringing wealth management AUMs into and opening up treasury centres and operations in Singapore. It is not just Western companies but also China companies doing China plus one. We benefit from that.

Yantoultra Ngui (Reuters) You mentioned that DBS is likely to have a record year. What are the factors supporting this and do you see the momentum carrying into next year?

Piyush Gupta The biggest part is interest rates. DBS continues to be very highly correlated to interest rate cycles. Even though we manage our duration and interest hedges sensibly, we do benefit from interest rate hikes. But two other parts are important.

The first are the PQ variables. Interest rates are the price, but you have to have a Q, a quantity to apply the interest rates to. Our focus on digitisation, cash management and wealth management over the past several years are really paying off. We plugged our APIs into 1,000 companies. Our volume of payments and transactional activity has gone through the roof. We also have a large low-cost deposit base that benefits from high interest rates. In private banking, we were not in the top 30 a decade ago. Today, we are number three in Asia in terms of AUMs, a substantial chunk of which is in deposits that benefit from interest rate hikes. So the nature of our franchise, what we built in the liability book, really benefits from a high interest rate environment.

The second is the very solid non-interest income businesses we have built. You can see that in fee income, which we get from wealth management, credit cards, payments and trade. A decade ago, our Treasury Markets business was 75% prop and 25% customer. Today, more than half is customer-driven. I said earlier that Treasury Markets trading income is affected by high interest rates. But the overall business is being powered by customer sales activity. So there are many engines of growth.

Anshuman Daga MAS has been taking measures to streamline the flow of money into family offices. What do you think is the impact of this? Second, for the bank, what are the risk factors?

Piyush Gupta Having a regulated family office architecture is helpful for Singapore. We want to make sure the money coming in is clean money. The last thing we want is a reputation as a haven for hot money.

I am not seeing any significant new risk factors at this point. The China property market is a challenge, but we have known that for two or three years and we have been ahead of the curve on that. As we are concerned about how high rates could go, we have stressed our portfolio all the way up to 7%, but I do not think we will get much beyond 5.50-5.75%. You might have expected to see dollar liquidity challenges at these rate levels, as you have seen in past taper tantrums, so we have stressed for that repeatedly. But the market is very liquid, which reflects the money printing by the Fed.

Geopolitics remains an uncertainty. Something can come out of nowhere, so we keep a close eye on that. In the big picture, sustainability and social issues are still there, but they are not cyclical issues.

Dexter Low In terms of the wealth inflows into Singapore, are you satisfied with the money they are putting into investments, or are they just parking money with you?

Piyush Gupta You have to understand that everybody, including existing customers, invests in upcycles. So the notion that money coming in and lying in a bank deposit is a bad thing is misleading. You do not put your money to work in a down market. That is what everybody does. When I say that there is upside in this, it is because half the money that comes in has been in deposits. Typically, you would expect 80% of the money to be invested. As the market start turning around, the money will go into investments.

Edna Koh Thank you, everyone, for coming. We will see you next quarter.