Edited transcript of DBS second-quarter 2024 conference call for buy and sell sides, 7 August 2024

Nicholas Teh Welcome to the call. We can go straight to Q&A.

Jayden Vantakaris (Macquarie) Piyush, congratulations on an excellent tenure as CEO, and looking forward to the transition. On the balance sheet, you mentioned there were $190 billion of fixed-rate assets, which helped reduced the NIM sensitivity. Are hedges part of the amount?

Chng Sok Hui Yes, hedges are part of the $190 billion or 35% of our commercial book.

Jayden Vantakaris On fees, wealth management has been very strong but investment banking has been quite weak for some time. How important is having a vibrant securities market here in making investment banking a bigger part of the bank? By extension, does it impact the wealth business as well?

Piyush Gupta Honestly, I don't think investment banking is a big fee pool in Asia at the best of times. In recent years we have made $200 million to $300 million on investment banking fees, which is 1-2% of our total income base of $20 billion. If the market was more vibrant, we could make a bit more but it will not be huge. The reality is that Asian capital markets are competitive. The wallet size in the US can get you 3-5% on equity underwriting fees, whereas in Asia you get paid 1% split between five to ten underwriters, so it is not lucrative. I am overstating the case – it is not that it does not make any difference at all, but there is only so much upside.

In the secondary market, where there is a range of products you can offer to wealth customers, you can get around that. A lot of our customers are buying outside our region, in China, Japan, the US.

Nick Lord (Morgan Stanley) Congratulations, Piyush, on a fantastic term as CEO. Thank you for the value you have delivered to investors during that time. Just back on the hedging, is there further upside beyond the $40 billion that is repriced this year if we have 100-150 basis points of US rate cuts over the next 18 months?

Piyush Gupta Of the $40 billion, $27 billion matured in the first half, so there is $13 billion in the second half. We got a 180 basis point lift in the first half, and we are projecting only 100 basis points for the second half. For next year, we expect to get some pick-up in the first half but little pick-up in the second half, which could in fact see a drag depending on where rates are. So we should get a $70 million to $80 million lift to income next year – not huge but still positive.

Our average duration is three-and-a-half years, comprising fixed-rate mortgages, hedges and long-term fixed rate bonds.

Nick Lord On Hong Kong property, are the couple of assets in difficulty due to higher interest rates and lower vacancies? Would you expect any relief as interest rates fall?

Piyush Gupta I am hoping that as rates come off the worst will be behind us because what is causing developers' inability to service loans is the high rates. We should see some improvement in that portfolio as rates come off.

We have been adding general allowances when we see a deterioration in an exposure but if the borrower does not pay the ultimate action is to foreclose and sell the property. The question then is how much of a haircut is needed to sell the property. Our loan-to-values are conservative and we could well stomach a 30-50% drop in property values without having to take significant write-offs.

Tan Yong Hong (Citi) Does the latest NIM sensitivity refer to the group or the commercial book? What assumptions are you using, such as for the pass-through?

Piyush Gupta The NIM sensitivity of $4 million for one basis point of US Fed funds rate is for the group. It includes the benefit that Markets trading will get from lower funding costs, the hedges we have put on, and the fixed-rate assets we have. It also includes the migration we have had from Casa to fixed deposits. The sensitivity covers up to the middle of next year. As fixed-rate assets roll off or the Casa ratio changes beyond that, the sensitivity could change.

Tan Yong Hong The commercial book NIM expansion appears to have come from the Others business segment (on page 14 of the performance summary). What goes into the segment?

Chng Sok Hui The Others segment comprises a few activities, including shareholders' funds deployment, the duration portfolio and structural FX positions.

Tan Yong Hong Loan growth appears to have been driven by wealth management lending. What is the collateral and is the recent market volatility a cause of concern?

Piyush Gupta Wealth management lending has not gone up for the past several quarters. If anything, private banking clients have been paying down leverage. We generally have not done a lot of property-based lending. Most of the collateral is based on a loan-to-value of financial securities.

Harsh Modi (JPM) Piyush, many congratulations and thanks a lot for the amazing value creation over the past 15 years. On NIM, how does the $4 million sensitivity evolve over the next couple of years?

Piyush Gupta It will depend on how rates go. We could have earned 5% or 5.5% in short-term assets today, but we have given up some earnings by locking them in fixed rates at 4.5%. Doing so protects us for the next two to three years when interest rates go down. When the fixed-rate assets roll over, we will be subject to whatever assets are available at the time. We have modelled the sensitivity until June next year. Beyond that we will have to take a look again, but it should not be very different.

Harsh Modi I am asking because there is a structural interest rate sensitivity for the bank. Has the organization's duration and sensitivity changed from the high rate sensitivity in the past or is the reduction temporary?

Piyush Gupta The shift from Casa to FD has lowered the interest rate sensitivity. When liabilities are in Casa, the impact of rate movements accrues to the bank, but the massive conversion to FD in recent years has reduced the sensitivity. Therefore, if rates go down, the NIM compression is less. But in the longer term, I think money will flow back from FD to Casa, and our interest rate sensitivity will go back up.

Beyond that, it is also a management choice of how much to lock in and how much to let float. If we have a large Casa pool and we are happy to ride the market, we will have high rate sensitivity.

Harsh Modi On capital and payout, profit before allowances seems to be doing well and asset quality okay. In addition, there is the impact of Basel III. Is an elevated payout ratio for next three to five years possible in theory and what is the board's thinking?

Piyush Gupta It is not only possible in theory but also in practice. I said before we recognise we have too much capital even before factoring the Basel transition. Ignoring the transition impact, we still have $5 billion to $7 billion that we can pay out. We have spent a lot of time looking at it and have some specific ideas. Like I said at the media briefing, today is Su Shan's first day as deputy CEO. We need her to get comfortable with the capital plans before we announce anything.

Harsh Mod To close out the matter, is there any franchise or geography that you can add inorganically or is there no need? Are you considering anything larger than a few hundred million dollars?

Piyush Gupta I have always said that we are open to bolt-on acquisitions in countries that make strategic sense. The biggest deal we have done so far is Citi Taiwan. If we do look at something, it would be that kind of deal. One country we have talked about in the past is Malaysia but we have not got access because of government-to-government constraints. If something is available and they change their mind, then we will look at it. I have been saying this for many years but nothing has happened.

Harsh Modi Is there anything you could guide us on as we prepare for the transition, in terms of how the bank is run?

Piyush Gupta When we speak to external audiences, the thing I worry about most is the impression we have group speak because from top to bottom we use the same language, focus, agenda and priorities. We sit together for a few hours every week to discuss what we want to do and where we want to go. There is a lot of agreement in thinking and views. What we have built has not been just my agenda, it has been a common agenda, so I would be surprised if there was some fundamental and difference in strategy or way of working. Stylistically, of course, there will be differences.

Akash Rawat (UBS) I do want to express my admiration, Piyush, for your incredible leadership over the past so many years, not just from me but I think almost every banking analyst on this call. It has been exceptional journey learning from you and seeing you transform DBS and the banking industry. All the very best to you and a big, big thank you. I am sure your next chapter will be equally remarkable.

I think about the four Cs that Su Shan talked about. As you can imagine, the one C that investors would immediately focus on will be continuity. Can you tell us something that investors can take comfort from that there will be continuity on the capital plan and there will not be a U-turn in six months' time?

Piyush Gupta You have got to start with the board. Capital management is not a management decision. The board drives this. I, of course, express management's views to the board but it is the board's call where we put our capital to work. Keeping away from major M&A

and other markets is a board-driven agenda. I do not see it changing because the board is not changing. That is the first comfort level you should take.

Second, Su Shan is not new to the team. We have worked together for more than 10 years. She has run the private bank, CBG and then IBG. I give guidance and advice, but it is ultimately the business heads that run the businesses. What we have achieved in each of them is a reflection of their thinking, which are consistent with my thinking. The fact that we have continuity in the management team is also what you should take comfort from. It is not any individual decision that drives these things.

Akash Rawat On the same topic, given the strong results, capital generation and CET-1, what was the thinking behind not increasing the payout in the second quarter or paying a special dividend?

Piyush Gupta It was simple. We were announcing Su Shan's appointment today, and I wanted to make sure that she had chance to think about issues that have a longer-term impact. I do not want a situation where, as we have seen elsewhere, the previous CEO stripped the place clean and left the successor with a larder that was bare. I want to make sure the new CEO has every opportunity to influence what she thinks is the right thing to do for the future. To make such announcements without consulting with her would be inappropriate.

Akash Rawat On the cost of funds, there was a change of 15 basis points from the previous half year, in contrast to two basis points for UOB. Could you explain what drove the increase? At the same time, your asset yields were increasing faster than peers.

Chng Sok Hui The cost of funds reflects the actual market rate. I think UOB paid more in the past to secure Casa accounts, and they recently said they were cutting them. That is my guess.

Akash Rawat What drove the increase for asset yields?

Piyush Gupta We will do some homework and let you know.

[Post-meeting note: The increase was driven by fixed-rate asset repricing and a change in the currency mix.]

Akash Rawat What drove the increase in wealth management fees, which was stronger than expected given that your first-quarter number was already pretty strong. Was it net new money inflows or a shift from cash to investments?

Piyush Gupta It was both. New money inflows continued to be strong, in line with recent quarters, although more flowed out than usual as some clients bought real estate or transferred money to other private banks paying higher interest rates. There continued to be a shift from cash to investments, of one percentage point from the previous quarter. In addition, customers were adding tenor and buying higher-margin products such as structured products.

Akash Rawat How has July-August been so far?

Piyush Gupta July has been in line with the second-quarter trend. August is still too early to say.

Akash Rawat Based on earlier disclosure, investments are around 55% of AUM. What was the peak?

Piyush Gupta The current percentage is the historical peak for the whole wealth management business. However, the percentage varies across the private bank, private client and Treasures customer segments.

Akash Rawat On the Hong Kong CRE portfolio, you said that you could afford to have prices falling 30-50%. Does that mean that the LTV is roughly 50%?

Piyush Gupta It is less than 50%. For example, one of the NPLs we recognised had an LTV of less than 30%, which is why I think we will recover our money.

Tejkiran Kannaluri (White Oak Capital) I wanted to understand how you would think about taking deposits and deploying them in liquid assets versus not taking the deposits and reducing the cost of funds. What is more beneficial for the bank? Do you sometimes end up taking deposits at higher cost than you want in order to maintain the client relationship and customer-level profitability?

Piyush Gupta There are two issues. First, if we can deploy deposits at a positive spread and with high ROE, we will always take it up. A large chunk of excess deposits is placed with the central bank at an 80-100 basis point spread with zero risk weights. That kind of money we will always do. In other cases, we can make an even larger spread by swapping the money into a different currency, but some country and one-way risk is involved. For such trades, there is a limit to how much we want to do.

The trade-off we are willing to take is the dilution on NIM. The 80 basis points we make is less than our group NIM of around 2%, but the ROE is fantastic and there is no risk to the trade.

Second, on client considerations. For private banking clients, it is common practice to pay high interest rates in the hope that the deposits will be converted to investments. A lot of our competitors do that. In contrast, we tend to make sure we make money on the deposits first and then again when they are converted to investment. For large corporate clients, we do pay high rates selectively to preserve the relationship but it is not usual. The business has what we call a relationship pot, which is a finite sum of money, say $5 million or $10 million, to use for such activities, which is small.

Tejkiran Kannaluri On wealth management AUM and income size, have you done any study to understand where Singapore stands compared to other financial centres such as Dubai?

Piyush Gupta There are a couple of third-party benchmarks we rely on. We have not done any of our own. We also use anecdotal evidence. Within Asia, Singapore is starting to get a disproportionate share of money flows. Of the 1,000 family offices that have opened in Singapore, we have a 50% market share, so we know we are punching above our weight.

Nicholas Teh Thanks everyone for dialing in and we will see you next quarter.