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The Banking Academy

Tactical Leadership Workshop

Digital Banks –

Balance Sheet, Assets & Liabilities Management

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Introduction

Speaker:

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- Former Group Head of Market & Liquidity Risk, DBS (2002-2023)
- Adjunct Faculty, Singapore Management University
- N-Category Advisers Pte. Ltd.

Objectives:

Key differences between a digital bank vs traditional bank

- Business strategy and balance sheet
- Products
- Assets and liabilities management
- Liquidity risk management

What we do

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Traditional Bank and Nu/Virtual/Digital Bank

- Banks as key financial intermediaries to channel credits from funding sources to corporations and individuals

- Regulators request prudential compliance on governance, capital ratio, liquidity, etc to grant (category of banking) licenses

- Funding sources
  - Shareholders' fund, capital
  - Customers and counterparty deposit/borrowing
  - Wholesale funds from interbank markets and investors purchasing types of bank securities: Commercial papers, Certificate of Deposits, medium-term note, (approved) capital raising securities; covered bonds (secured); across the spectrum of seniority of debtors
  - Central bank discount window and professional repo market

- Uses
  - Lending to customers, corporates and individuals; secured or unsecured
  - Purchase assets of various industry sectors, ratings for regulatory compliance

Snapshots of Traditional Bank Balance Sheet

- DBS Group end of year 2023
- A universal bank has more business lines and range of products

Assets	Customer Loans
SGD 740 billion	SGD 416 billion
Liabilities	**Customer Deposits**
SGD 677 billion	SGD 535 billion
CAR – CET1	**CAR - Total**
14.6	16.1
Liquidity – LCR	**Liquidity - NSFR**
144%	118%
Performance – NIM	**Performance - CIR**
2.15%	39.9%

Source: DBS

Snapshots of Traditional Bank Balance Sheet

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- A universal bank has more business lines and range of products

Balance Sheet of DBS Bank (2023)

In $ millions	Note	2023
Assets		
Cash and balances with central banks	15	**50,213**
Government securities and treasury bills	16	**70,565**
Due from banks		**67,461**
Derivatives	36	**22,700**
Bank and corporate securities	17	**81,735**
Loans and advances to customers	18	**416,163**
Other assets	20	**17,975**
Associates and joint ventures	23	**2,487**
Investment in subsidiaries	22	**–**
Due from subsidiaries	22	**–**
Properties and other fixed assets	26	**3,689**
Goodwill and intangible assets	27	**6,313**
Total assets		**739,301**
Liabilities		
Due to banks		**46,704**
Deposits and balances from customers	28	**535,103**
Derivatives	36	**23,457**
Other liabilities	29	**22,392**
Due to subsidiaries		**–**
Other debt securities	30	**48,079**
Subordinated term debts	31	**1,319**
Total liabilities		**677,054**

Source: DBS

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Mandate and Objectives of Neo/Virtual/Digital Banks

- Emerging business model endorsed by banking regulators
- Key objectives: financial inclusion, use of technology, innovations, economic of scale; digital processes efficiency and streamlining
- Currently you find them in Hong Kong, Singapore, Philippines, Thailand, Malaysia, UK etc
- Directly compete with traditional banks in overlapping products and target customer group
- Quite a number have strong sponsors from FinTech shareholders or partners
- One thing to distinguish digital banks from traditional banks:
  - No physical branches
    - **Good:** bring down the costs
    - **Bad:** direct F2F contact with customers on KYC / onboarding / ongoing monitoring

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Virtual or digital banks across markets in Asia-Pacific (2024)

Source: TABInsights

Snapshots of Digital Bank Balance Sheet

- MariBank SG end of year 2023
- Started with retail customers then extends to Small & Medium Enterprises
- Simple balance sheet
- Assets – customer loans, no residential mortgages;
- Regulatory approvals for new products
- Liabilities – customer deposits
- CAR CET1 (634%) Total (634%)
- Liquidity
- Performance

Balance Sheet of MariBank (2023)

STATEMENT OF FINANCIAL POSITION As at 31 December	
S$'000	**2023**
Assets	
Cash and balances with central bank	**62,737**
Due from banks	**38,174**
Loans and advances to customers	**4,887**
Singapore government securities and treasury bills	**800,158**
Corporate securities	**21,779**
Intangible assets	**487**
Fixed assets and right-of-use assets	**5,670**
Amount due from related corporations	**9**
Other assets	**22,707**
Total assets	**956,608**
Liabilities	
Deposits and balances from customers	**503,797**
Amounts due to related corporations	**45,692**
Other liabilities	**11,291**
Total liabilities	**560,780**
Equity	
Share capital	**480,000**
Accumulated losses	**(97,979)**
Other reserves	**13,807**
Total equity	**395,828**
Total liabilities and equity	**956,608**

Source: MariBank

Comparison : Time/Fixed Deposit Rates

- Costs of fund
- Deposit acquisition costs

- Technology Infrastructure costs

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StashAway Create Account

Best HKD Time Deposit Interest Rates Offered by Virtual Banks

Bank	1 month	3 months	6 months	1
Fusion Bank	1.00%	3.60%	3.50%	3
WeLab Bank GoSave 2.0	2.00%	3.78%	3.00%	3
AirStar Bank	3.00%	3.20%	3.20%	3
ZA Bank	0.10%	2.21%	2.51%	3
Mox		3.50%	3.28%	2

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StashAway Create Account

Best HKD Time Deposit Interest Rates Offered by Traditional Banks

Bank	1 month	3 months	6 months
HSBC Premier		3.30%	3.10%
HSBC One		3.10%	2.90%
Bank of China		2.90%	2.80%
Standard Chartered		3.10%	3.10%
ICBC Asia	2.80%	3.40%	3.10%

Key Takeaway on Digital Bank Balance Sheets

- Good reference: HKMA Aug 2024 review of virtual banks in Hong Kong
- In developed market target customers well served by traditional banks
- Technology innovations on equal edge
- High cost of funds
- Still small %tage of market share in deposits
- Leverage on parent/partner ecosystem (e-commerce platform) and data
- New investors and/or capital injection come along with change of CEO

https://www.hkma.gov.hk/media/eng/doc/key-information/press-release/2024/20240806e3a1.pdf

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Question & Answer

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