**Edited transcript of DBS fourth-quarter 2024 conference call for buy and sell sides, 10 February 2025**

**Nicholas Teh** Welcome to the call. We have some people who are here physically, some people on the line. We will start with the questions in the room.

**Aakash Rawat (UBS)** Once again, Piyush, thank you very much for exceptional leadership. I personally have learned a lot, a lot from you. First question, will you be involved with DBS in any sort of capacity when you retire.

**Piyush Gupta** No, zero.

**Aakash Rawat** I think one of the things investors worry about is what is going to happen to your holdings of DBS shares. Can you comment on that?

**Piyush Gupta** You have got to be pragmatic. A large part of my net worth is in one stock, and I need to diversify. On the other hand, how many other options are there to get a 6-7% dividend yield in an appreciating currency and with a consistent record of TSR growth? The truth is I cannot think of a better investment, but I also need to think about diversifying over time.

**Aakash Rawat** So you will not be selling 100% of your holdings.

**Piyush Gupta** That's correct, I am very bullish about DBS's prospects.

**Aakash Rawat** On net interest margin, we understand the sensitivity to rate cuts and how NIM can be more resilient. But there will be rising sensitivity as the hedges roll off.

**Piyush Gupta** We put on more hedges in the fourth quarter. For the year, we put on $68 billion of fixed-rate assets instead of the $60 billion we were planning to, so we now have a $200 billion fixed-rate book. But we have about $50 billion that will roll off this year. In the current environment, it is unlikely that we will put a lot more duration because you do not get a yield pick-up for it.

We said we have a sensitivity of $4 million per basis point of US Fed Funds rate at this stage. The sensitivity will start increasing as the fixed-rate book rolls off. It will also depend on how much Casa deposits flow back – the greater the inflow, the higher the sensitivity. I think we could wind up at $6 million-7 million per basis point of US Fed Funds rate by year-end.

**Aakash Rawat** Which brings me to the next question. Your guidance for net interest income was stable at the previous quarter's briefing and has now changed to slightly up, but it did not have any impact on your profit guidance. So in your mind it is not a very material change.

**Piyush Gupta** We previously assumed rate cuts of 100 basis points, 25 a quarter, now we are assuming 25 basis points each in September and November. Then there would be some negative impact to loan growth and wealth management fees. So the overall impact would be $50 million-100 million.

**Aakash Rawat** The next question is on asset quality. You took higher SP this quarter.

**Piyush Gupta** We did not take higher SP this quarter. SP charges for new NPA were in line with previous quarters but we had lower recoveries this quarter, so the net SP was higher. We have some meaningful recoveries in the pipeline, but they did not flow in during the fourth quarter.

**Aakash Rawat** In terms of NPA, there were some increases in Hong Kong in the performance summary.

**Piyush Gupta** The NPA increase this quarter is due partly to exchange rates. Also, the increase in the performance summary is half-on-half data. We had two cases in Hong Kong and China, and both were third-quarter events.

There was an idiosyncratic case of an auto distributor in China that misstated its financial accounts. The case was reflected in SP but not in NPA because we wrote it off right away in the third quarter.

The other case was a Hong Kong real estate watchlist exposure that we took into NPA. The good news is that in the recent quarters, we have closed out two transactions so far and recovered our loans because the LTVs were good and we could exit at market clearing prices.

**Aakash Rawat** If rates continue to remain high for longer, or if the outlook shifts to one rate cut this year, do you see incremental stress on the Hong Kong book?

**Tan Su Shan** Hong Kong SMEs will have some stress, but we have been reducing our exposure. While four rate cuts so far have provided some relief, we need to remain cautious.

**Piyush Gupta** It has surprised me is that we have not seen more defaults. While delinquencies in consumer unsecured and SME have gone up in the past year, they are still lower than previous highs when Covid first hit or during Sars. If rates go up, could NPA go up? Yes, it could. The good thing is we have been prudent with GP. We have hung on to our $2.4 billion GP overlay put on during Covid, whereas other banks have reversed it. And our books in these segments are not big.

**Tan Su Shan** As I said, we are comfortable but not complacent. The work we have done around risk management, coming up with credit scoring that is pre-emptive and predictive, and strengthening our collections process, will be helpful.

**Aakash Rawat** Wealth management fees are up 40% year-on-year. The net new money of $21 billion for the year probably means $5 billion for the fourth quarter?

**Piyush Gupta** $6 billion. January was also strong.

**Aakash Rawat** Markets were very buoyant in the fourth quarter, so a 15% drop quarter-on-quarter in wealth management fees surprised some investors. Did it surprise you as well?

**Chng Sok Hui** It is seasonal. You always see a drop in the fourth quarter. It was actually a pretty strong fourth quarter.

**Piyush Gupta** New money is still coming in, people are still investing and activity has been strong. People go off on holiday in the second half of December. I tell our traders they only work 11 months a year because they shut their books in December. The same psychology applies to all of us as individuals. Most people tune out by mid-December and come back in January.

**Aakash Rawat** Su Shan talked about transformative technologies such as GenAI. Given that DeepSeek is so relevant right now, has anything changed in terms of your thinking or projections?

**Tan Su Shan** For sure, there are cost saves from my tech colleagues. We are doing a lot of work to see how we can optimise technology. I have challenged our teams to come up with vertical and horizontal use cases where they can use GenAI to get higher efficiency, capacity and top-line growth through new ways of doing business, organising, interacting with the client.

**Piyush Gupta** The significance is not DeepSeek itself but the democratisation of AI. Within a week of DeepSeek, ChatGPT came up with its next version. The fact that it can be done faster and more cheaply will democratise GenAI even more than we had expected.

But you have to do it right, otherwise you can run massive risk with this. We have spent a lot of time building models, making sure they are appropriate, ensuring checks and balances. We have a robust way of applying GenAI. Su Shan has an ambitious programme for rethinking many of our operating models.

**Nick Lord (Morgan Stanley)** To echo what everybody has said, thank you for all your assistance over the past many years. I have a few questions. On Hong Kong loan growth, you are down 6%, more than the system. Can you explain why that is happening. Regarding the properties you sold, what sort of buyers were they. And could you give us some colour on how we should be thinking about wealth management this year. Given the volatility and uncertainty, and that rates are not coming down as quickly as previously thought, what would it mean for net new money inflows and the pace they switch into investments.

**Tan Su Shan** For Hong Kong, we have been circumspect about commercial real estate for a while. We have been pivoting to outbound flows, where there is structural growth, and to wealth management.

**Piyush Gupta** The big difference between us and the system is mortgages. Sebastian took us out of the mortgage business a decade ago.

On the property sales, we sold one as a quasi refi to one of the big banks and another to a private equity property fund. The Chinese are willing to buy at the right price. A few Chinese SOEs have put in bids.

**Tan Su Shan** On the outlook for wealth management, the team has done a great job in getting net new money and bedding it down into stickier structures such as trusts and estate planning, with the rest invested according to the client risk profile.

We have a wealth continuum ranging from the very high end to the low end. The growth is in the internationalisation of the middle segment. We need to harness that growth potential by doing better onboarding and cross-border activity. The ultra-high family offices have growth potential as well, and we have started doing things such as VCC structures, trusts, advisory and estate planning. There is a lot of wealth transfer happening now, which creates opportunities. The next generation might want a new bank or have more private equity. That is where our one-bank approach can come in. Unlike most pure private banks, we have a strong business bank, commercial bank and corporate bank.

**Piyush Gupta** I think wealth management has been the hardest number to budget for this year. We have budgeted for mid-teens growth. We could hit the ball out of the park but one of the biggest risks is the uncertainty that Trump creates. A lot of the wealth business is driven by sentiment. If there is anxiety, people could suddenly stop putting money to work and you hit a wall. It is a high-beta business. Our annuity portion is about 15% of the business, the other 85% depends on sentiment. If animal spirits stay unleashed as they are now, we could do a lot.

**Tan Su Shan** We are trying to get more on annuity and hopefully less volatility. It is a long-term conversation with families – put some into strategic asset allocation and have some in tactical positions such as structured products. It is a balance between having steady recurring income and a tactical position to trade the market volatility.

**Jayden Vantakaris (Macquarie)** First, on NIM, MAS has eased the slope, which should be positive for Sora. Has that been factored into your guidance and do you have any thoughts on the impact? Second, although Su Shan said no comment at the media briefing, I was wondering what an onshore bank in Malaysia would bring compared to being an offshore bank, which you already have. How would any acquisition fit into your capital management?

**Piyush Gupta** We have assumed a 65% pass-through from the US Fed rate to the Sing dollar, but we have not calibrated for MAS policy because the pass-through goes up and down. If it turns out that Sora is higher, there could be upside. If you look at Hibor, which should typically be 80-90 basis points off the US Fed rate, it climbed massively a few months ago and then collapsed, so the swings can be quite volatile.

Since the beginning of my tenure, I have spoken about the three-and-a-half countries that interest me – China, India, Indonesia and half in Malaysia. While Malaysia may not be big enough to matter in some ways, it has always been of interest because of its contiguity to Singapore. However, due to government-to-government issues, we have not been able to get a look into the country.

The Johor special economic zone makes Malaysia even more interesting. There is an opportunity for companies to leverage Johor for supply chains. We are seeing our data centre, tech and other Singapore-based clients saying Johor could be used for something or other.

We cannot do ringgit business today. We can do US dollar lending, which, due to the nature of the business, is to large clients, but we cannot participate in local-currency deposit taking or lending. If there is a lot more local-currency activity from Johor, we could participate in that.

From both capital and P&L perspectives, any acquisition would not be that material in the short term – it could add $70 million-80 million to the P&L – so it would be interesting, not imperative. The capital surplus of $8 billion we mentioned has already factored in several hundred millions for M&A, so we have enough firepower to do both.

**Harsh Modi (JP Morgan)** You have been growing your own timber at low cost in the private bank but at some point the cost advantage would probably go away as competitors poach your people.

**Piyush Gupta** I am confident we can hold the cost-income ratio at 50%, which is across all three customer segments – PB, private client and affluent. The nature of the costs varies. In PB, we pay more for bankers and RMs, while at the bottom end, we spend more on technology and branches. When you balance it out, it is 50% for all three segments, which we have been able to maintain for about the past decade. We can continue to do that. The wealth continuum not only helps us with clients but also with RMs as it enables us to groom them into higher customer segments.

In addition, we do not pay over the top, which we make no secret of. So why do RMs prefer to stay? Our platform makes it easier for them to do their job. They might get a higher commission rate elsewhere, but because the franchise comes together at DBS – we can offer investment bank and consumer bank services, we can offer leverage because we are not constrained by capital – they can get more business volumes done. Net-net, they probably make more money at DBS than at other banks.

Our wealth business has an ROE of 60%. If you look at the trajectory, there is massive growth in wealth in the region, so you can get double-digit growth just by holding market share. Last year, we added 100 RMs, and new RMs typically take three years to reach peak production. In year one, they are still settling in and make less than $1 million in revenue. In year two, they get a substantial client list and get closer to $2 million. By year three, they start contributing $3.5 million-4 million.

**Harsh Modi** On asset quality, how many Hong Kong property exposures did you sell.

**Piyush Gupta** Two or three. It is not that easy when everybody is in the same boat and lining up to sell. Most developers are not willing to drop prices unless their back is to the wall. Everybody is holding out thinking rates will come down, but I think there could be a change this year because rates do not drop as expected.

**Harsh Modi** With the capital return dividend, together with the ordinary dividend, you will be paying $3 per share annually. On top of that, you are buying back $3 billion of shares. However, you would still be accreting capital. So how do I square that?

**Piyush Gupta** All I can say is that you are a greedy analyst. We announced a $3 billion share buyback last quarter and we now plan to return another $5 billion, starting with the Capital Return dividend. You should be happy. Instead, after returning $8 billion of capital, you ask why can't you do more?

**Harsh Modi** I am absolutely happy. What I am trying to understand is that even after this, you would still be generating excess capital from your annual net profit generation of $11 billion.

**Piyush Gupta** We will see at the end of three years, if it turns out we have accreted more capital or if capital requirements drop, we can take another look then.

**Harsh Modi** On the pace of the share buyback, is it more like $1 billion per year or is it more closer to $2 billion to $3 billion?

**Chng Sok Hui** We calibrate it against a model based on standard deviations. If prices are high, we are going to do less.

**Melissa Kuang (Goldman Sachs**) Thank you, Piyush, for all you have done. I speak not only as an analyst but also as a citizen of Singapore. I have a few questions. Is the $0.24 step-up in ordinary dividend going to happen until the payout ratio hits 70%.

**Piyush Gupta** I did not give a 70% guidance. I said the payout ratio will rise as we increase the dividend by $0.24 a year, which we have the capacity to do for a couple of years, but I will leave it to the team to figure out how much more they can do beyond that.

**Melissa Kuang** We still have the MAS operational risk charge. When it is released does it give you more firepower for capital returns, or is it for inorganic growth? On ROE, 15-17% was your long-term target. With rates higher for longer, does it change? On NIM, what was the exit number? The Sora pass-through has been more than 65%. What is the hedging policy on the Sing dollar book? You also mentioned that further management changes will shortly be announced. Just checking if Sok Hui will still be here.

**Tan Su Shan** We could not lock up Piyush, so we are locking up Sok Hui!

**Chng Sok Hui** On ROE, you have to factor in the global minimum tax rate effective this coming year, which will cost $400 million.

**Tan Su Shan** It also depends on the continued growth of wealth management. There will be market swings, but the key is getting constant net new money and getting good RMs to stay. Get the high ROE business churning well and you will get an increasing sticky base come what may.

**Piyush Gupta** The ROE of 15-17% assumes a long-term interest rate of 3%. If rates stay higher, ROE will tend towards 17%. Interest rates are the single biggest variable.

The operational risk charge amounts to about $1.5 billion of capital, which we have not factored into our assumptions for capital returns.

The January NIM was 2.12%, which is around where the outlook for the coming year should be.

**Tan Yong Hong (Citi)** Does the 15-17% ROE target, which was given two years ago, include the capital return you announced today?

**Chng Sok Hui** When we announced the target at the investor day in May 2023, we said that, in addition to interest rates of at least 3%, we would also have to carry out capital returns, since excess capital would be a drag on ROE.

**Tan Yong Hong** Can the negative net interest income in markets trading become positive?

**Piyush Gupta** Markets trading used to make money on net interest income, and it is only in the past two years that it has been negative because of higher funding costs. The negative amount was reduced in the fourth quarter, so it is not impossible it breaks even.

**Chng Sok Hui** A large part of the negative net interest income comes from the cost of funding equity structures, which do not generate interest income. The income we get from selling these products to customers appears in other non-interest income.

**Tan Yong Hong** How does one calculate the $400 million impact due to the global minimum tax rate?

**Chng Sok Hui** From the Singapore geographical accounts, take the difference between this year's tax rate and 15%. It is $400 million.

**Piyush Gupta** Our tax rates are already more than 15% in other regions.

**Weldon Sng (HSBC)** You said you preferred not to extend duration because the yield curve is flat, but since you are looking at two rate cuts, I was wondering whether it would still make sense to extend it.

**Piyush Gupta** Rates move around and we take an opportunistic approach to getting yield pick-up from duration. There are some assets where you could also get credit spread pick-up. It is not that we will not do anything, but it will not be as systematic as we have been.

**Weldon Sng** Operating expenses for the full year were a bit higher than consensus estimates. I was just wondering what growth you are budgeting for this year.

**Chng Sok Hui** We are budgeting for mid-single-digit growth.

**Piyush Gupta** Expenses were higher last year because we target the cost-income ratio, which came in at 39.9% even after expenses to pay a special bonus to staff and some fixed-asset impairments to give Su Shan a clean sheet to work from.

**Weldon Sng** On Malaysia, could you not grow organically, or do you have to take a minority stake in an existing bank?

**Piyush Gupta** Nothing is cast in stone. In general, building a new bank is very hard. We could do it but we would have to be very focused. They asked whether we could do something only within the Johor economic zone, we could do that. It depends on what the regulations turn out to be.

**Tan Su Shan** The ball is in their court.

**Harsh Modi** If the Temasek stake starts hitting 30% as you buy back shares, what are the options available?

**Piyush Gupta** Right now, over and above the $3 billion programme we announced, we still have headroom for another $3 billion before the 30% limit is hit. If and when the limit is hit, Temasek could apply for a whitewash, but I think they would be very careful about looking for special waivers, but technically it could be done. Another option is they can keep trimming their stake that creates more headroom.

**Nicholas Teh** That is all. Thank you.