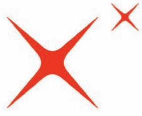

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Edited transcript of DBS first-quarter 2024 results media briefing, 2 May 2024

Edna Koh Welcome to DBS's first-quarter results briefing.

Chng Sok Hui Good morning.

Highlights. We achieved a new record performance in the first quarter with total income, net profit and ROE at new highs. Net profit rose 15% from a year ago to $2.96 billion and return on equity climbed to 19.4%.

Total income increased 13% to $5.56 billion, with commercial book total income increasing 14% to $5.31 billion. Net interest income grew 8%, lifted by higher net interest margin which rose eight basis points to 2.77% from higher interest rates, while loans grew 1%. Net fee income grew by 23% and crossed $1 billion for the first time, with the increase led by wealth management and loan fees. Treasury customer sales income also reached a new record.

Markets trading income recorded a good quarter at $246 million despite the higher funding cost, but nevertheless fell 9% from the high base in the previous year.

The strong growth in commercial book total income more than offset the decline in Markets trading income, propelling group total income to $5.56 billion, up 13% from a year ago and also a new high.

Expenses rose 10% to $2.08 billion and the cost-income ratio was little changed at 37%.

Compared to the previous quarter, net profit was 24% higher. Commercial book total income increased 9% led by growth in fee income and treasury customer sales while net interest margin was slightly higher. Markets trading income more than doubled from low fourth-quarter levels.

The balance sheet continued to be strong. The NPL ratio was unchanged from the previous quarter at 1.1%. Specific allowances remained low at 10 basis points of loans, similar to recent quarters. Allowance coverage was at 125% and at 223% after considering collateral.

Capital was healthy with CET-1 ratio at 14.7%. Liquidity was also healthy, with the NSFR and LCR well above regulatory requirements.

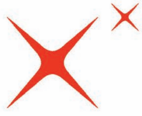
The Board declared a dividend of 54 cents per share over the enlarged post-bonus share base.

First-quarter performance. Compared to a year ago, net profit rose 15% to $2.96 billion as total income grew 13% to $5.56 billion.

Commercial book total income rose 14% or $644 million to $5.31 billion. The growth was broad-based. Citi Taiwan contributed four percentage points to the increase. In other words, the majority of the 14% growth was organic.

Net interest income grew 8% or $263 million from a higher net interest margin as well as loan growth.

Fee income grew 23% on $192 million on the back of strong wealth management and loan fees.



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Treasury customer sales and other non-interest income grew 44% or $189 million, led by an increase in treasury customer sales to a record. There was also a non-recurring gain of around $100 million on FX hedges we take for our overseas operations.

Moderating the increase in commercial book total income was a decline in Markets trading income of 9% or $23 million from the previous year's high base to $246 million. As we have guided previously, $246 million is a good quarter for Markets trading income especially in light of higher funding costs.

Expenses rose 10% or $197 million to $2.08 billion, with Citi Taiwan accounting for five percentage points.

Profit before allowances was 14% higher at $3.48 billion.

Total allowances fell 16%, or $26 million to $135 million.

Compared to the previous quarter, net profit rose 24% as total income grew 11% and expenses declined 6%. Citi Taiwan was included for the full period in both quarters.

Commercial book total income rose 9% or $417 million, with non-interest income driving the increase.

Net interest income was little changed. Net interest margin increased two basis points while loans grew 1%.

Fee income increased 20% or $176 million led by wealth management and loan fees.

Treasury customer sales and other non-interest income rose 59% or $231 million due to record treasury customer sales in a non-recurring gain on FX hedges.

Markets trading income more than doubled, rising $133 million from a low base in the fourth quarter.

Expenses fell 6% or $126 million. The previous quarter had included several non-recurring items.

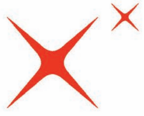
Profit before allowances was 24% higher.

Total allowances were little changed.

Reported net profit was 30% higher as there had been charges in the previous quarter of $100 million for CSR provision and $24 million for Citi Integration.

Net interest income. Compared to the previous quarter, commercial book net interest income was stable at $3.65 billion. Net interest margin improved by two basis points to 2.77%, with higher asset yields from fixed asset repricing moderated by lower Hibor. Deposit costs increased at a slower pace compared to previous quarters as the rate of Casa outflows decelerated.

Compared to a year ago, commercial book net interest income rose 8%, driven by an eight-basis-points expansion in net interest margin and the consolidation of Citi Taiwan.



Markets trading net interest income was a negative $142 million. We took advantage of opportunities to deploy funds into high-quality assets, which was accretive to net interest income but dilutive to net interest margin.

This quarter, we also reclassified income from perpetual securities – which have stated coupons akin to conventional bonds – from non-interest income to net interest income, to align the income from these securities with their associated funding costs. The reclassification, applied prospectively, added $56 million to this quarter's Markets trading net interest income, with a corresponding reduction in Markets trading non-interest income. The comparative amounts for each of the previous four quarters were $59 million-$60 million and remain classified as non-interest income. The contribution from these perpetual securities is expected to be stable going forward.

Combining commercial book and Markets trading, the group's net interest income grew 2% from the previous quarter to $3.51 billion, while net interest margin rose one basis point to 2.14%. Excluding a 1.6-basis-point impact from reclassifying perpetuals income in Markets trading, net interest margin was stable. Compared to a year ago, net interest income grew 7% with net interest margin improving by two basis points.

Loans. Loans grew 1% or $6 billion in constant-currency terms during the quarter to $431 billion. Non-trade corporate loans rose 3% or $7 billion, with the growth broad-based across sectors. Trade loans and consumer loans were little changed.

Deposits. Deposits increased by 1% or $7 billion on a constant-currency basis this quarter, driven by growth in fixed deposits. Casa outflows slowed from the previous year. LCR of 144% and NSFR of 116% remained well above regulatory requirements.

Fee income. Compared to a year ago, gross fee income rose 26% to $1.27 billion as momentum was sustained.

Excluding Citi Taiwan, which had been consolidated in third-quarter 2023, gross fee income grew 17% in the first quarter, unchanged from the 17% in the fourth quarter and faster than the 11% in the third quarter.

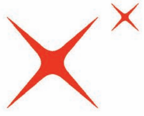
The first quarter growth was led by wealth management fees, which rose 47% to $536 million. Excluding Citi, the growth was 35% as stronger market sentiment and sustained net new money inflows boosted sales in a wide range of investment products. Bancassurance sales were also higher.

Card fees grew 33% to $301 million from higher customer spending as well as Citi, which accounted for two-thirds of the increase.

Loan-related fees were also higher, rising 30% to $185 million.

Transaction service fees were stable at $231 million. Investment banking fees declined 59% to $18 million from lower capital market activities.

Compared to the previous quarter, gross fee income rose 19%. Leading the increase was a 45% rise in wealth management fees from a continued strengthening of market sentiment and from seasonal factors. Loan-related fees and transaction service fees were also higher.



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Commercial book non-interest income. Commercial book non-interest income, as seen in the red box, rose 30% from a year ago and 32% from the previous quarter to $1.66 billion. The increases were due mainly to fee income and treasury customer sales, which both reached new highs. There was also a non-recurring gain of around $100 million on FX hedges we take for our overseas operations.

The commercial book counted for 81% of total non-interest income in the first quarter.

After the reclassification of Markets trading perpetual securities out of non-interest income to net interest income, Markets trading non-interest income was at $388 million in the first quarter, exceeding the levels in the previous year and previous quarter.

Combining commercial book and Markets trading, total non-interest income rose 23% from a year ago and 30% from the previous quarter to $2.05 billion.

Expenses. Compared to a year ago, expenses rose 10% to $2.08 billion with Citi Taiwan accounting for five percentage points of the increase. The cost-income ratio of 37% was stable. Compared to the previous quarter, which had included non-recurring items, expenses fell 6%.

Non-performing assets. Asset quality remained resilient in the first quarter.

Non-performing assets rose 3% from the previous quarter to $5.22 billion. New non-performing asset formation was partially offset by repayments and write offs. The NPL ratio was unchanged at 1.1%.

Specific allowances. Specific allowances remained low at $115 million or 10 basis points of loans, in line with recent quarters.

General allowances. Total allowance reserves stood at $6.53 billion, with $2.60 billion in specific allowance reserves and $3.93 billion in general allowance reserves.

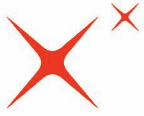
Allowance coverage stood at 125% and at 223% considering collateral.

Capital adequacy. The CET-1 ratio rose 0.1 percentage points from the previous quarter to 14.7% as profit accretion was partially offset by higher risk-weighted assets. The leverage ratio of 6.5% was more than twice the regulatory minimum of 3%.

Dividends. The Board declared a dividend of 54 cents per share for the first quarter over the enlarged post-bonus share base. In other words, shareholders received 10% more dividend for first quarter 2024 compared with fourth quarter 2023.

This morning, our market capitalisation crossed $100 billion, the first time a Singapore-listed company has done so. Based on Tuesday’s closing share price and assuming that dividends are held at 54 cents per quarter, the annualised dividend yield is 6.2%.

For the year to date up to Tuesday's closing share price, we delivered total shareholder returns, comprising share price gains and the already-paid fourth quarter 2023 dividend, of 17%.



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Summary. In summary, we achieved record quarterly results with total income, net profit and ROE all at new highs. The year started with broad-based business momentum as loans grew and both fee income and treasury customer sales reached new highs.

While geopolitical tensions persist, macroeconomic conditions remain resilient, which have tempered Fed rate cut expectations. Against this backdrop, our franchise is well positioned to deliver strong earnings and shareholder returns in the coming year.

Piyush Gupta Thank you, Sok Hui.

It was obviously a very strong quarter, exceptional by any measure.

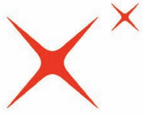
Loan growth was more robust than we expected, it was broad-based with a chunk of it in Singapore and India. We were able to leverage the GIFT City branch across the public, energy and auto sectors. Some of the Singapore growth was from government land sales and property, but a chunk was from the commodity complex, both softs and energy traders. There were still headwinds in Hong Kong because loans continued shifting to the mainland. The Singapore mortgage book was affected by soft market sentiment, with some launches planned for this year being deferred. In addition, we were maintaining price discipline. Our mortgage book therefore came off a bit and is likely continue doing so through the first half of the year. Putting all of that together, loan growth of $6 billion during the quarter was robust.

Our NIM, the commercial book was slightly better than we expected. It went up two basis points from fixed-rate repricing despite Hibor coming down by 50-60 basis points during the quarter. We had guided earlier we have $40 billion of fixed-rate loans getting repriced this year, of which $16 billion occurred in the first quarter. We got a better yield than we originally forecasted. Casa repricing was also better than forecast.

For the Markets business, we found opportunities to do the carry trade – taking in money and placing it out with good yields in short-dated paper or with central banks. It is accretive to net interest income although detrimental to NIM. So Markets NIM came off a bit. Due to the reclassifications that Sok Hui explained, the reported NIM looked okay. When you put all of that together, group NIM was flat for the quarter. We continue to think our original NIM guidance of a slight decline from last year's exit NIM is intact.

Fees were particularly pleasing. Wealth management was up 47%, and 35% excluding Citi. The year-ago base was low because of Credit Suisse and SVB. But even when compared with first quarter of 2022, for example, we still grew 20% in wealth management fees. Customers were increasingly putting money to work, with investment products reaching 55% of AUM compared with 50% a year ago. Net new money continued to do well, with inflows similar to those over the past few quarters. For cards, transactions went up across our markets. The 33% growth in card fees was flattered by Citi. If it was backed out, the growth was 12%, still robust.

Treasury customer sales hit a new high. Other non-interest income, as Sok Hui pointed out, included a non-recurring gain of about $100 million from hedges we take for our overseas operations. We are going to adjust the accounting for these hedges so to remove the noise going forward. After taking that out, non-interest income growth was still strong and broad-based.



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Our cost-income ratio was at 37% with expense growth at 5% excluding Citi, which means expenses were relatively well managed.

Finally, on asset quality, the NPL rate of 1.1% was unchanged. NPA formation was a little higher than recent quarters, but the increase was quite idiosyncratic with no systemic trends.

Some quick comments on our tech. As you know, MAS has decided not to extend the six-month pause on non-essential activities as they noted we have made substantive progress on the issue. I am quite pleased with the multi-pronged progress made over the past six months on improving service availability, providing alternative channels for payments and inquiries, enabling a quicker recovery of services, and ensuring greater transaction certainty for payers and recipients. While we have done a lot of the heavy lifting, in truth we still have more work to do. Through the balance of this year, there are still areas that are work in process.

We have found new opportunities to simplify our systems architecture. We have realised we need to build deeper engineering skills and centres of excellence in some critical third-party technologies. We are doing so by hiring people and training people, and it will obviously take time. We have figured we can improve change management and the use of AI, especially Gen AI. Finally, we have more to do at improving our monitoring so that we can pick up issues quickly. While we have very good dashboards, we are building more detail and granularity into them.

In terms of the outlook, geopolitics is still uncertain. But macroeconomic conditions seem quite resilient. Growth rates in Asia are quite stable. PMIs have been positive for several months across many countries. Consumer demand is generally holding up. Even though the strong dollar means depreciation for other currencies, it does not look like it should cause too much worry.

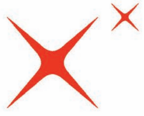
Against this backdrop, our interest income should be modestly better than in 2023. When we factored in five interest rate cuts and guided for net interest income to be flat previously, two of those cuts were assumed to be at the tail-end of the year and so did not have any material impact. We are currently forecasting two rate cuts, so we will get some tailwinds compared to our previous guidance, probably by $100 million.

We had guided for non-interest income to grow by double-digit percentages. I now think we will get mid- to high-teens because the first quarter was already very strong and we are seeing continued momentum in wealth management, treasury customers sales.

As such, total income could be one or two percentage points above our previous guidance of mid-single-digit percentage growth. For the cost-income ratio, we have not changed the guidance. We had said it would be in the low-40% range. A lot will depend on income rather than cost. The high-single-digit growth projection is still intact.

On specific allowances, we have kept guidance to 17-20 basis points because of the uncertainty. Given that rates are going to be higher, we are keeping an eye on the unsecured consumer and SME books. It would not be unreasonable to assume that, at some stage, overall allowances will go back towards long-term averages. Having said that, we are not seeing any obvious signs of stress.

We previously guided that we would be able to protect last year's $10 billion net profit number. At this stage, I think it is reasonable to assume we should be able to beat it.



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Prisca Ang (Straits Times) On non-interest income, you previously guided for double-digit growth but now you are guiding for mid- to high-teens. Could you give more colour why?

Piyush Gupta I mentioned in my comments that wealth management has been particularly strong. Even excluding Citi, the growth was 35%. As we go into the second quarter, momentum continues to look relatively good. We have also been getting a lot of net new money - $24 billion each in 2022 and 2023, with the run-rate being maintained in the first quarter. A lot of the net new money comes as fixed deposits, and when market conditions improve, customers put the money to work. We saw that in the first quarter. That is what is driving the strong wealth management fee income growth. Cards also continue to be relatively robust with double-digit growth.

Our loan syndication fees were also strong in the first quarter, with a 30% growth, although it tends to be a bit choppy. The only question for now is investment banking, which had one of the poorest quarters in several years. ECM was moribund, and while DCM had some issuances for Singapore, they were slow for China and G3.

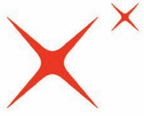
Goola Warden (The Edge) I have some nitty-gritty questions. First, will you be able to protect yields in your securities book since short-term yields are coming off. Second, SP was lower than the previous quarter but higher than a year ago. Was the increase due to Singapore or elsewhere? Could you give us an update on your CRE portfolio in Hong Kong and the US? Third, what was the rise in RWA due to? Finally, what are the sales margins on your bancassurance products and how long more does the agreement with Manulife run.

Piyush Gupta In the securities book, we are giving up short-term gains to protect yields over a two- to three-year period. We are adding a bit of duration. If we wanted to put all our money in the short term, we could redeploy assets maturing at 2.5% yield into US-dollar yields of 5.3-5.4% and Sing-dollar yields of 4.5-4.6%. We instead give up 30-40 basis points to get two- to three-year duration. So our rollover yield pick-up is north of 2%, which I do not see as a problem. Later in the year, the yield pick-up will be lower as the assets maturing then are better priced than 2.5%. But there is no question that as the $40 billion reprices, we will get a yield pick-up in that order of magnitude.

On SP, I do not think that is the right way to think about it. We have already guided that our through-cycle SP is at 17-20 basis points. In the past, we used to guide it at 20-25 basis points. I will take 10 basis points any time of the day. It is just a fantastically low credit cost.

On CRE, it has not changed very much from the previous quarter. We are watching it very closely, particularly Hong Kong. We explained in the previous quarter that our Hong Kong CRE exposure was about $18 billion including mixed-use, retail and office. The bulk of it is to the very top end of the market. We have stress tested that portfolio assuming a 50% drop in prices from where they now are and assuming no income accretion. We are not seeing pressure with that book.

Chng Sok Hui On RWA, the Pillar 3 disclosure is posted on our website. Of the total RWA growth, $7 billion came from credit risk, $0.8 billion from market risk and $1.5 billion from operational risk. For credit risk, loan growth contributed an increase of $5.8 billion, foreign exchange translation an increase of $2.3 billion, and asset quality improvement a reduction of $1.8 billion. The operational risk increase was mainly a function of our income growth. The market risk growth was due to more market risk assets.



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Piyush Gupta On banca, I do not have the margin off the top of my head. The number will depend on the product mix, and on how much is divided between annuity earnings and upfront payments. The Manulife deal has several more years to run. We are only half-way through it.

Goola Warden Why did DBS not want to keep its insurance manufacturing business? I know the decision was taken before you were CEO.

Piyush Gupta I can tell you why because I would have done the same. I just think that you have choices to make. There are challenges to being a financial conglomerate. We not only got out of insurance but also asset management. Manufacturing insurance requires a very different skill set. If you are doing both manufacturing and distribution, you still have to run two separate businesses with no obvious synergy between the two. The focus on the banking business has proven to be beneficial for us. Being just a distributor of insurance has proven to be very good for us.

Goola Warden Do you get more margins as a distributor? Isn't there less cost in manufacturing that would make things work out better?

Piyush Gupta You can make a good ROE on the insurance business, but then you could also go into the jam-making business and say it is a great business as well. We have to pick and choose the businesses we want to be in based on our core competencies and where we can bring the greatest value for the shareholder. For us, focusing on banking, including the distribution of wealth management and insurance products, has been a better use of both our capital and our management capabilities.

Chanyaporn Chanjaroen (Bloomberg) I have three questions. First, when do you expect to deliver the remaining tech remediation so that MAS can remove the additional capital charges? And when will your new CIO start? Second, how much net new money inflows did you have this quarter? Third, many firms are positive on wealth management in India. Are you also interested in expanding there?

Piyush Gupta The new CIO comes in on 10 May, in another week or so. In terms of our tech requirements, we are about 90% done but we have a long tail. We also need to tighten up a bit more in some of our overseas locations. If I had to the guess the time needed, it is going to be most of this year. On the removal of the capital charges, it is MAS that decides, not us. I think they will evaluate us on an ongoing basis and, at some stage, I guess they will get more comfortable about where we are in this process.

Our net new money was $6 billion during the quarter, similar to the past several quarters.

On India wealth management, we have also been dialling up the business, including for the Indian diaspora through family offices in Singapore and elsewhere. For the domestic wealth management business in India, it is not obvious to me how profitable it is likely to be. Frankly, the only country in the world where domestic wealth management is clearly profitable in the US. And in most of the countries in the world, just a domestic franchise creating local products for local customers tends to be very hard to make profitable at scale. So what we are doing in India is what we are doing in every other market, which is scaling up in the mass affluent space, which we are well equipped for through the LVB branch network and our digital offerings. We are getting some traction with that.

Edna Koh Thank you everyone.