Edited transcript of DBS first-quarter 2022 results media briefing, 29 April 2022

Edna Koh Good morning and welcome to the briefing.

Chng Sok Hui Good morning, everyone.

Overview. We achieved strong first-quarter net profit of $1.80 billion. It was the second highest on record and was exceeded only by the exceptional first quarter last year. ROE was 13.1%.

Business momentum was healthy and broad-based. Loans grew 2% from the previous quarter, and fee income streams other than wealth management and investment banking were higher than a year ago. Net interest margin benefited from higher market rates, rising three basis points from the previous quarter. This was the first increase in three years. The performance was moderated by lower wealth management fees and Treasury Markets income from exceptional levels a year ago. As a result, total income fell 3% to $3.75 billion.

Expenses rose 4% from a year ago due to the mid-2021 salary increments. The cost-income ratio was 44%. Asset quality was stable, with the NPL ratio unchanged from the previous quarter at 1.3%. Specific allowances of 15 basis points were partially offset by a write-back of general allowances. Capital remained strong and liquidity ample. CET-1 was 14.0%, above the group's target operating range. The liquidity coverage ratio and net stable funding ratio were 138% and 122% respectively.

The Board declared a first-quarter dividend of 36 cents per share, unchanged from the previous quarter.

First-quarter performance. First-quarter net profit of $1.80 billion was 10% lower than the record quarter a year ago. Total income was 3% lower at $3.75 billion as higher net interest income was more than offset by declines in fee income and other non-interest income from their respective record levels a year ago. Net interest income rose 4% or $80 million to $2.19 billion. Higher loan volumes more than offset the impact of lower NIM.

Fees fell 7% or $62 million from the record a year ago to $891 million. Lower wealth management fees and lower investment banking fees more than offset higher loan-related, card and transaction service fees. Other income fell 16% or $125 million from the high base a year ago to $669 million as investment gains and trading income both declined.

Expenses were 4% or $57 million higher at $1.64 billion due to base salary increments carried out in mid-2021.

Credit upgrades and transfers to NPA resulted in a GP write-back of $112 million compared to a GP write-back of $190m a year ago. Specific allowances were $33 million lower at $167 million.

Compared to the previous quarter, net profit rose 30% from higher total income and lower expenses. Net interest income increased 2% or $47 million as loans grew 2% and NIM rose three basis points. On a day-adjusted basis, net interest income was 4% higher.

Fee income rose 9% or $76 million from higher loan-related fees. Other income increased 98% or $331 million from higher trading income and treasury customer activity.

Expenses fell 2% or $27 million as higher staff costs were more than offset by declines in other operating expenses.

Total allowances increased by $22 million to $55 million as a $100 million increase in specific allowances was partly offset by a $78 million increase in general allowance write-backs.

Net interest income. Net interest income was $2.19 billion, 4% higher than the previous quarter after adjusting for the shorter day count. Loans rose 2% in constant currency terms and net interest margin was up three basis points at 1.46% as interest rates began to rise. The higher net interest margin was the first quarterly increase in three years.

Compared to a year ago, net interest income rose 4%. Loan growth of 8% more than offset the impact of a three-basis-point decline in net interest margin. Net interest income will continue to benefit as interest rates rise in subsequent quarters, lifting the net interest margin.

Loans. Gross loans increased 2% or $8 billion in constant-currency terms over the quarter to $422 billion. Non-trade corporate loans rose 2% or $6 billion, faster than in recent quarters. The growth was led by Singapore and Hong Kong across a range of industries. Trade loans grew for the first time since mid-2021, rising 5% or $2 billion amidst rising commodity prices.

Housing loans were little changed as bookings fell due to the additional cooling measures in December. Wealth management loans were also little changed. Compared to a year ago, loans grew 8% led by non-trade corporate loans.

Deposits. Deposits increased 4% or $18 billion in constant-currency terms over the quarter to $520 billion. Current and savings accounts, or Casa, grew 3% or $11 billion to $392 billion. This takes the growth in Casa since the onset of the pandemic to $152 billion. The Casa ratio of 75% was similar to the previous quarter and 16 percentage points higher than before the pandemic. The higher Casa ratio has increased the interest rate sensitivity of our net interest income. We estimate that a 100 basis point increase in the US Fed Funds rate increases NII by between $1.8 billion and $2.0 billion.

The loan-deposit ratio declined one percentage point to 80%. Surplus deposits continued to be deployed to high quality liquid assets. Liquidity was ample with the liquidity coverage ratio at 138% and the net stable funding ratio at 122%.

Fee income. Gross fee income fell 6% from the record a year ago to $1.02 billion. Wealth management fees fell 21% to $408 million from the exceptional levels a year ago due to weaker market sentiment. Lower investment product sales were moderated by an increase in bancassurance sales. Investment banking fees were also lower, by 12% to $43 million, as fixed income activity fell.

Other fee income activities were higher. Loan-related fees grew 21% to $144 million. Card fees rose 11% to $187 million as debit and credit card spending exceeded pre-pandemic levels and travel picked up. Transaction service fees grew 4% to a new high of $240 million, led by cash management fees.

Compared to the previous quarter, gross fee income rose 7% due mainly to higher fees from loan-related activities.

Expenses. Expenses rose 4% from a year ago to $1.64 billion. The increase was due to base salary increments carried out in the middle of last year. Compared to the previous quarter, expenses were 2% lower as higher staff costs were more than offset by lower non-staff expenses. The cost-income ratio was 44% for the quarter.

Non-performing loans. Credit quality remained healthy. Non-performing assets rose 2% to $5.98 billion. New non-performing asset formation, which included a significant exposure this quarter, were offset by repayments. The NPL ratio was unchanged at 1.3%.

Specific allowances. Specific allowances amounted to $167 million or 15 basis points of loans, similar to recent quarters when significant repayments were excluded.

General allowances. Total allowance reserves stood at $6.81 billion, with $3.06 billion in specific allowance reserves and $3.75 billion in general allowance reserves. During the quarter, there was a general allowance write-back of $112 million from credit upgrades and transfers to NPA. GP overlays were maintained. General allowance reserves remained prudent. The reserves exceeded the MAS requirement by $0.2 billion and were $1.0 billion above Tier-2 eligibility. Allowance coverage was at 114%, and at 193% when collateral was considered.

Capital. Capital remained strong. The Common Equity Tier-1 ratio declined 0.4 percentage points from the previous quarter to 14.0%. The CET-1 ratio included a temporary 0.4 percentage point impact from the digital disruption in November 2021 that had been announced previously. The CET-1 ratio was above the group's target operating range of between 12.5% and 13.5%. The leverage ratio of 6.3% was more than twice the regulatory requirement of 3%.

Dividends. The Board declared a dividend of 36 cents per share for the first quarter, unchanged from the previous quarter. Based on yesterday's closing share price and assuming that dividends are held at 36 cents per quarter, the annualised dividend yield is 4.4%.

In summary. We had a strong start to the year. This was underpinned by strong and broad-based business growth, cost discipline and robust asset quality. Our capital and liquidity positions remain strong, and the general allowance overlays we had built up in prior periods were maintained.

Looking ahead, geopolitical developments in recent weeks have created macroeconomic headwinds and financial market volatility. We have stress tested our portfolio, and we expect asset quality to remain resilient.

While there are revenue risks to certain activities such as wealth management, our overall business pipeline continues to be healthy and will provide sufficient opportunities for growth. We will also benefit significantly from interest rate increases in the coming quarters.

Piyush Gupta Thank you, Sok Hui.

I have just two slides. I don't need to point out that the world has changed dramatically in the past three months. The war in Ukraine has caused a massive slowdown. The World Bank and IMF have downgraded their growth forecasts by close to a percentage point. Inflation is coming through, particularly in the commodities complex, with potential downstream effects. Supply chain disruptions from the war are adding to earlier disruptions. While most of the world is opening up, lockdowns in China and some issues in Hong Kong persist.

The first-order impact of the war in Ukraine for most of east Asia and certainly for us is minimal. There is a second-order impact that comes principally through the commodities complex. Oil, gas and metals prices are up. Food prices are up. They are likely to create idiosyncratic risks in banking. For customers across the spectrum, you never know who might stub their toes.

There is also a third-order risk that is likely to flow through but hard to understand and model right now, and that's the macroeconomic flow-through. The sales outlook for companies will be affected since as prices go up volumes come down. What happens to profit margins? So far, we are finding that, in many sectors, companies have been able to push prices through, particularly in food and agriculture, and in industries with inelastic demand. But I don't think that's going to be the case everywhere. You will probably see margins freeze in some industries. Debt servicing is going to start creating its own set of headwinds. And as I mentioned before, that's likely to be more acute for small and medium enterprises than for large companies.

When you put all of these together, it's quite clear the outlook over the next year is going to be difficult to forecast. It’s something to keep a careful eye on. Fortunately for us, our own portfolio continues to remain quite resilient. We have been doing a lot of stress tests. We have stress tested the entire commodities complex, our property portfolio, the consumer manufacturers and so on. We are seeing no immediate areas of concern in our portfolio. While SMEs are likely to face pain, we have a portfolio that was well-tested in the past few years by earlier challengers. And our SME portfolio is well secured. Our retail portfolio is also very secured since most of it is housing loans. The non-secured book is quite small. We are really seeing no material impact from the China lockdown due to the high-quality nature of our exposure. We have very little in the consumer complex, which is downstream.

Nevertheless, we will be cautious about releasing more general allowances given all the uncertainties. We built up a good buffer of GP over the past few years. Because we are going to benefit from interest rate tailwinds, we can afford to take a more cautious view on GP release without impacting the bottom line.

As Sok Hui pointed out, our business had a very strong first quarter despite the gloom. Loan growth of 2% was led by broad-based corporate loans across countries and industries. It was in property, it was in TMT, it was in energy. Our corporate loan pipelines are still robust. I think we are in good shape to do 3-4% growth in the first half of the year.

But the second half of the year remains to be seen. One of the areas that is not growing as expected is housing loans. The tightening measures in Singapore in December have slowed growth. While we could get some growth this year, it would be nowhere near what we originally thought.

The fee outlook is mixed. Cards are benefiting as credit and debit card spending has exceeded 2019 levels. Travel spending is coming back although it is still much lower than 2019. But as borders reopen further, travel should further boost card fee income. Transaction banking fee income is doing well. Our cash management and payments volumes are up around 15% from last year. I think they should continue to do well.

There are two uncertainties. One is wealth management. Wealth management was down 20% from a year ago. Of course, first quarter last year was exceptional. As we go into the second quarter, we are tracking closer to last year. But relative overall to last year, wealth management could prove to be a bit of headwind. The other is investment banking. Fixed income was slow in the first quarter. There was some pick-up in the last two weeks of March but for the whole quarter it was slow. ECL was also slow. Issuance out of Singapore and Hong Kong was down some 75-80%. So overall, the environment for investment banking continues to be somewhat challenging.

What really outperformed was Treasury Markets, which continued to have a very robust quarter. It wasn't as strong as first quarter last year, which was exceptional. We benefited from market volatility across the desks, interest rates in particular but also credit and FX. We have benefited from a robust flow business due to digital connectivity into customers. The customer flow has allowed us to position our books better.

The big upside for us is the sensitivity to interest rates. We continue to validate our sensitivity models and it seems to us that SGD 18 million-20 million per basis point of USD rates is robust. We said the eight rate cuts in 2020 cost us SGD 2.8 billion in net interest income, so it is not illogical to assume that we would grow that income back. Faster rate increases will obviously benefit us even faster.

Finally on expenses, we continue to be thoughtful. Wage inflation in particular is coming through. We have been thoughtful to ensure we are investing sensibly for the future, while keeping an eye on what needs to be done in the short term.

I will stop here and take questions.

Takashi Nakano (Nikkei) You have a number of digital projects such as Digital Exchange and Climate Impact X. How are they growing? Are there any new digital businesses?

Piyush Gupta We have been very focused on building out our new digital businesses over the past year. We launched the DBS Digital Exchange, a carbon exchange named Climate Impact X, and a blockchain-based settlement system called Partior. We also recently launched FIX Marketplace, a fully digital fixed income execution platform that facilitates bond issuance for corporate clients. Apart from that, we are also looking at monetising some of our software capabilities which we have built over the years. These businesses are still relatively small. It will take some time before they become profitable.

For the Digital Exchange, assets under custody have grown to just under $1 billion. But trading volumes fell in the first quarter. This mirrors what we saw in the wealth management space where activity was lower. However, we are looking to extend online cryptocurrency trading to our customers who are accredited investors later this year. So trading volumes are expected to pick up over the course of the year. We are also doing asset tokenisation and digital assets listings. We executed one transaction last year and we have a few more transactions in the pipeline for various asset classes. So you should expect to hear more from us in this space.

Goola Warden (The Edge) I have a few questions. First, has there been any change to your guidance on credit costs? Second, are there signs of customers switching to fixed deposits and what impact would it have? Finally, and this is what your peers said this morning, was there any impact from higher interest rates on the valuation of your high-quality liquid assets (HQLA), and how would it be treated?

Piyush Gupta In terms of credit costs, there's no change in our specific allowance guidance. I used to guide in the past it should be 20-25 basis points. But in recent years we have got a lot more confident about both our portfolio and our processes, and therefore 15-20 basis points is now more likely. I had guided earlier that whatever SP we take this year would be offset by general allowance write-backs. So total allowances could be like last year, close to zero. At this time, however, we will be more thoughtful about whether to release the GP. As we are getting interest rate tailwinds, we might hang on to our built-up GP for longer. Outside of that, our credit guidance hasn't changed. Like I said, our stress testing is not showing imminent issues in our portfolio.

We are not seeing any material Casa outflows into fixed deposits. In our modelling, we have assumed outflows will happen since people will switch from Casa to fixed deposit as rates rise, but we are not seeing them yet.

Like other banks, we hold a bond portfolio. When rates rise, the portfolio gets marked down. But the accounting does not mark it down through the profit and loss, it goes directly to equity. You can see our shareholder funds are down about SGD 1 billion.

Chng Sok Hui A large part of our HQLA is held in the investment book because we have to hold them through the course of time. As such they are held under fair value to other comprehensive income or FVOCI, rather than directly marked to the profit and loss account.

Goola Warden One last question on the investment banking outlook. What's the pipeline like? Is there any impact from the China problems or other areas?

Piyush Gupta Our pipeline is very strong for both fixed income and ECM. There are a lot of companies that continue to access the public market. The question is whether markets are open and investors willing to do issuances. If we get a market window in which investor appetite picks up, we can launch some of these.

Anshuman Daga (Reuters) Specifically for the wealth management business, do you see more pain in the next few quarters?

Piyush Gupta The first quarter last year was just off the charts, and therefore it's down about 20% this year. It's early days, but as we go into the second quarter I think we are closer to last year. It would also depend on market sentiment. The underlying business remains strong. Our AUM is up SGD 2 billion and our net new money is also up. There is a reasonable amount of dry powder in the system, so if market confidence improves, we will get growth back in the business.

Anshuman Daga Are clients deleveraging, or is the bank doing it as tech and other shares collapse?

Piyush Gupta It is mostly client driven. We are quite conservative in offering leverage. The clients are being more careful given the volatility in the markets.

Carly Lau (Asian Private Banker) I also have a question on wealth management. Would you be able to share more colour on the performance this quarter? And with the reopening in Singapore and Southeast Asia, do you expect client activity will pick up in the second half?

Piyush Gupta I will just repeat what I said. The year-on-year comparison for first quarter was unusual because first quarter last year was great. Our AUM is up. How wealth management performs will depend on market sentiment.

Prisca Ang (The Straits Times) Do you intend to reinstate rates on the multiplier account in the current interest rate environment?

Piyush Gupta I haven't given it too much thought to it, but as interest rates go up, they become reflected in the pricing of our loans and deposits. At this time though, because we are sitting on so much Casa, we will be quite thoughtful about what deposit products we increase rates on.

Rebecca Isjwara (S&P Global Market Intelligence) You said that the interest rates would impact your net interest margin quite well. Could you talk more about it?

Piyush Gupta All of our SGD loans and 80% of our USD loans are funded by Casa deposits. When rates go up, the yield on these loans go up, while our deposit cost increases lag. If rate hikes happen earlier, then the NIM increases more quickly. But eventually over two years, you will see the full impact on NIM.

Faris Mokhtar (Bloomberg) There's been much interest in cryptocurrency and Singapore's stance on it. You mentioned before you were looking to extend crypto trading to retail clients by end-2022. But then at the recent AGM you said it probably would not happen in the near future.

Piyush Gupta We won't do any retail crypto in Singapore this year. What we will do is get our crypto offering available on mobile banking. We have a very large affluent customer base, so we can continue scaling this business. For retail customers, it is taking a bit longer than I expected to put the technology and processes in place. Also, the regulators are not that comfortable. So I figure if we get to retail, it's unlikely to be this year. We will start getting our arms around it at the earliest next year.

Edna Koh It looks like we don't have any more questions. Let's draw this to a close.