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Edited transcript of DBS first-quarter 2025 conference call for buy and sell sides, 8 May 2025

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

Aakash Rawat (UBS) Thanks for the opportunity and congrats on a strong start. My first question is on first-order risks from tariffs. Can you help us quantify your exposure to clients that are heavily reliant on heavy US trade? And what is your loan exposure to the SME sector?

Tan Su Shan First-order impact is around 1-2% of our total loans. This relates to customers with large exposure to US trade, in autos, metals and mining, and consumer products. They are mainly large companies with strong financials, so I do not think there is going to be significant downside.

Our total SME exposure is about $12 billion and it is mostly in Singapore and Hong Kong. Both our SME and unsecured consumer books may be vulnerable to second-order impact due to lower consumer confidence, but we have been circumspect on these portfolios over the last few years, and they are small at $12 billion and $14 billion respectively.

Aakash Rawat On wealth management, how did AUM grow $6 billion while net new money was only around $3 billion?

Tan Su Shan The net new money that we disclose is only for the Private Bank (PB) and Treasures Private Client (TPC) segments. So, the higher end of the wealth segment. The net new money for these two segments was about $3 billion, which is lower than our usual run-rate as there was some transitory outflow of about $2 billion during the quarter, some of which came back in April. The AUM of $432 billion is for three segments—PB, TPC and Treasures. If you want to measure the profitability of the wealth business, it is better to look at all segments.

Aakash Rawat DBS has climbed up the ranks in terms of total AUM, are you setting a target to be number one or two in Asia, by AUM?

Tan Su Shan Yes, but the gap between us and number one and number two is quite high. It is good news as it means we have a lot of upside. Bear in mind that wealth fees are dependent on market sentiment and will move up and down with the markets, but the important thing to look for is consistent profitability and structural growth. We are already one of the most profitable private banks in the world in terms of cost-income ratio and productivity per RM. We also continue to invest in our people and in our platform in areas such as generative AI, a wealth copilot, and contextual nudges.

Aakash Rawat Regarding net interest margins, are you putting on new interest rate hedges to further delay the transmission of lower rates?

Tan Su Shan The interest rate curve is pretty flat at the moment, so it is not optimal to add significant new hedges. That said, markets change, and we regularly assess the interest rate environment. Note that we have already hedged a third of our commercial book.

Aakash Rawat The commercial book non-interest income guidance was lowered to mid-to high-single digit growth. Which parts are you most worried about? Is there concern on wealth management or loan related fees?

Tan Su Shan Wealth management fees are still growing in the teens and the performance will be dependent on market sentiment. If we see a complete meltdown in markets, then we have to be more circumspect. The loan fees were at a record high this quarter. While the pipeline remains good, it is also dependent on whether deals get cancelled or not. We also have a lot of Investment Banking deals in the pipeline which are market dependent.

Aakash Rawat Will you only writeback general allowances in extreme scenarios, and do you have sufficient reserves?

Tan Su Shan We assess our GP reserves every quarter. This quarter, we thought it would be prudent to add $200 million of general allowances because we saw what happened to the markets after 2nd April. As Sok Hui alluded to, we have $2.6 billion of GP overlays. If we get some lumpy SPs in the second half we could use it. I believe we are adequately provided for.

Aakash Rawat Can you provide any comments on your thinking around M&A?

Tan Su Shan We remain focused on three things: First, whether we can integrate it; second, whether the price is right; and third, whether it fits in with our strategy. All three have to make sense before we go ahead. We are not cavalier when it comes to deals.

Aakash Rawat For my last question, I just wanted to get your high-level thoughts on the diversification of trade currencies and reserve assets.

Tan Su Shan When customers start seeing volatility in interest rates and currencies, they start thinking about not being over reliant on any one currency. So there will be opportunities for us to support clients who are looking to diversify or are looking for alternative pathways. There will also be opportunities to support clients looking at hedging or rebalancing their investment portfolios. So, it is about staying resilient and preparing our clients for all scenarios.

Anand Swaminathan (BofA) For India or Indonesia, what would be the strategic need to do an M&A? How do you think about building versus buying?

Tan Su Shan It has to be something that is complementary and that does not come with a lot of issues to clean up, such as NPLs or archaic systems that are hard to integrate. In India, we are at a size, where we have got enough of the “buy” in our base, so if we were to buy anything else, it has to be accretive immediately and in forward-looking areas, for example wealth tech. Deals that bring us backwards are those where there is a lot of work to do and our teams will be very busy integrating and cleaning up messes. If it is something more traditional, it has to help us leapfrog. For example, LVB (Lakshmi Vilas Bank) was a game changer for us in terms of positioning and posturing in India.

Anand Swaminathan Given the uncertainty, any change in your thought process on capital management?

Tan Su Shan We do not see a need to change our capital management plan. What we committed to on the buyback and the Capital Return distribution over three years equates to about $8 billion which will be funded by our excess stock of capital. Meanwhile, the current 60 cents per quarter ordinary dividend is well supported by our earnings.

Chng Sok Hui If we can sustain ROE within the 15% to 17% range, I think we can afford to step up our ordinary dividend by 6 cents in the fourth quarter for the next couple of years.

Harsh Modi (JP Morgan) Where should we expect Casa and LDR to trend?

Tan Su Shan We expect Casa ratio to continue to trend upwards. It was a good first quarter for us and April is looking good as well. As rates come down, Casa goes up. It is also structural because of the work that we have done to get more deposits. On the LDR ratio, it depends on the quality of loans. We do not manage LDR, we manage for the quality and the ROE of our loans. We do not grow loans for the sake of it. We have done a lot of the heavy lifting in the first quarter on non-trade corporate loans but loan growth may be more muted in the second half if uncertainty persists. Trade loans will be down to pricing and supply chain pivots. If we are able to pivot to the higher-growth corridors then it could be resilient. Wealth loans depend on market sentiment. Mortgages are pretty flat, but we have done relatively well in the last few launches in Singapore. For SME and unsecured consumer loans, we have been circumspect.

Harsh Modi Should we expect a more significant weakness in NIM due to the sharp Sora decline?

Tan Su Shan Half of our SGD book is fixed so our Sora-linked book is not as high as you might think.

Chng Sok Hui Our SGD book is not just floating-rate loans, It includes loan substitutes, interest rate swaps and fixed-rate mortgages. For the SGD book of about $240 billion, half of that is already in fixed-rate assets. Within floating-rate assets, the amount linked to Sora is only about $30 billion. The other thing to note is that the decline in interest rates results in strong inflows of low-cost Casa which we can deploy profitably. This deployment will be net interest income accretive but might be NIM dilutive.

Harsh Modi Are your interest rate swaps in SGD or USD?

Chng Sok Hui We have both.

Jayden Vantarakis (Macquarie) You have earmarked $8 billion for capital return dividends and buybacks over the next three years. If you pursue M&A, would that require revisiting the plan, or is the $8 billion pre-committed with any M&A to be funded from earnings? How do you balance these competing capital uses?

Tan Su Shan The first quarter ordinary dividend payout ratio was about 60%. We are still accruing capital, which gives us capacity to fund any future M&A activity.

Chng Sok Hui Another point to note is that we are currently operating with a transitional CET1 CAR of 17.4%. This provides us with some buffer to undertake M&As, and over time, we will build capital through profit accretion, as Su Shan mentioned.

Jayden Vantarakis With overlays at $2.6 billion and total GPs around 1% of loans, do you see this as the right level, or could there be further increases next quarter? One of your peers also raised allowances but indicated more may be needed. How do you determine the appropriate provision level?

Tan Su Shan We stress test our portfolios, including for both first-order and second-order impacts from tariffs, and we assess our general allowances against those results. As mentioned earlier, we believe most of the potential impact from tariffs would arise from second-order effects. That said, we have been cautious with our mid-cap, SME, and consumer unsecured exposures, so I believe our current level of allowances is sufficient. However, there are things we cannot predict—accidents, fraud, or black swan events. If such events occur, resulting in unexpected and outsized bankruptcies, the $2.6 billion GP overlay would then come into play.

Chng Sok Hui General allowances at 100 basis points of loans is a good level. The peer bank you mentioned is increasing from 80-plus to 90 basis points, and they will need to continue building that up over time. We are not in that situation. Our NPA coverage ratio stands at 137%, an increase of eight percentage points over the quarter. If we factor in collateral—or total allowances divided by NPA net of collateral using estimated sale values—the ratio rises to 230%. So, I believe we are in a robust position. Short of an unexpected shock, I would say our current level of allowances is adequate.

Jayden Vantarakis Yes, I suppose it comes down to a relative positioning at this stage. My final question is on trade finance. During the commentary, you mentioned looking at green zones and potential opportunities arising from the realignment of trade. Are you already seeing such proposals coming through from clients, or is it more a matter of being prepared to act when opportunities arise?

Tan Su Shan Clients are looking for new avenues for growth. As mentioned earlier, this includes trade flows from Northeast Asia to India, Asia to the Middle East, and China to the Middle East. Beyond trade, they are also investing in emerging industries such as new technologies, AI, generative AI, humanoid robots, drones, and others. We are leveraging our industry knowledge in these growth areas, and our trade teams are focused on developing the new corridors. Some of this activity is driven by tariffs, while other shifts are more structural. The quality of loan book growth is important to us, and we invest in franchise growth where we see long-term structural opportunities.

Melissa Kuang (Goldman Sachs) You built up general allowances during Covid, did not release them, and have since added more. Are you assuming that conditions could be worse than Covid? Just trying to understand the context.

Chng Sok Hui During the Covid period, we significantly increased our general allowances, taking $1.8 billion during that time alone. It was a substantial buffer, and we had said we would monitor for signs of recovery, such as the reopening of airports. In the end, we did not release those allowances as there were new sources of macroeconomic stress, such as with the outbreak of the Ukraine war. We continually update our stress tests to reflect the latest macroeconomic environment. This time, we added another $200 million as an additional buffer. We apply fairly stressed assumptions in our models. I would say that current economist projections—on lower GDP growth, higher unemployment—are well within the bounds of what we factor into our stress scenarios. So this is a prudent step, and we will continue to assess and adjust as needed going forward.

Tan Su Shan The other point to note is that over the past few years, we have already been reducing our China asset book, given that the slowdown there began some time ago. Our exposure in ASEAN is also relatively small. So overall, we are quite comfortable with our exposures. That said, we are not complacent.

Melissa Kuang You mentioned continued capital generation at current payout levels, so you are likely to have excess capital beyond the $8 billion already allocated. With MAS also potentially releasing the operational risk RWA charge, how should we think about further capital actions? Is there scope to do more—like HSBC—via additional buybacks or special dividends?

Chng Sok Hui I believe HSBC runs quarterly programmes. They announce them alongside their results and indicate the amount they plan to execute over the next six months. In our case, we stated from the outset that our $3 billion buyback programme would be carried out over two to three years, as we want the flexibility to spread execution over time. We are in the market most of the time, but we scale back when the share price is elevated and step up purchases when there is a correction. That is the approach we are taking with our buyback programme.

Melissa Kuang Does that mean you would only consider more buybacks after the current programme is completed?

Chng Sok Hui Correct.

Nick Lord (Morgan Stanley) You have shared the private banking net new money, but is it possible to provide the net new money for the broader wealth business? Also, could you comment on the percentage of invested assets within your total AUM and whether you are seeing any shifts in product or investment preferences among your clients?

Tan Su Shan Our total wealth AUM has grown nicely and now stands at $432 billion, up by $6 billion from the previous quarter. Of that, 56% is invested. The first quarter saw a healthy mix, and what was particularly pleasing was the strong take-up in bancassurance. When clients buy bancassurance products, it typically reflects long-term, sticky relationships. Investment products sales were broad-based, with strong interest in equity structures and some discretionary third-party funds. As I mentioned earlier, customer treasury sales also hit a record high.

As for where we see trends, wealth fees are heavily dependent on markets, investor sentiment, and consumer confidence. April was a bit more muted, but we are seeing small recovery in May.

So, the first quarter was excellent. There could be some pause in activity depending on how the next couple of months play out. But, given the structural momentum in our wealth business, we expect year-on-year growth in wealth fees to remain in the teens—low to mid to high depending on market conditions.

Nick Lord On deposits, you have spoken quite a bit about the Sing dollar book. I wanted to ask about your foreign currency deposit book. What trends are you seeing in this space? Are you expecting any shift in client preferences around holding US dollar deposits if tariffs continue to escalate?

Tan Su Shan Deposit growth was across all major currencies—not just Singapore dollars, but also US dollars and Hong Kong dollars. As rates come down, I expect Casa growth to continue. There is also an element of flight to safety. Being a safe Singaporean bank with high credit ratings is a real advantage in times of stress. So, as I have been telling the team, we should stay focused on growing Casa.

Nick Lord Are you seeing a pickup in US dollar Casa from MNCs? I am trying to get a sense of what different customers are doing and the trend in money flows.

Tan Su Shan From our vantage point in Asia, we are seeing a broader trend where many clients are starting to reassess their currency exposure. Diversification is becoming a very natural conversation. Asian clients holding multiple currencies—both in the wealth and corporate segments—tend to be more cautious about being overly concentrated in US dollars and are more likely to diversify. In contrast, for Western MNCs, my sense is they remain largely dollar-based. The foreign currency portion of our corporate CASA book grew by $2–3 billion this quarter.

Tan Yong Hong (Citi) If loan demand weakens and you grow non-loan assets instead, how would that affect your NIM, net interest income, and capital position over time, given that these assets have a different risk profile compared to loans?

Chng Sok Hui If we continue to see more Casa inflows, our NIM—which was 2.09% in April—may come down slightly, as we might not be able to deploy at a 2% margin. That said, it would still be net interest income accretive. We view the slight decline in NIM as an acceptable trade-off, as taking in more low-cost deposits is beneficial for the business. The excess deposits would generally be deployed into safe assets, such as government securities. These assets have good ROEs as they do not consume much capital.

Tan Yong Hong What are the risk weights on these assets?

Chng Sok Hui It depends on the type of asset, but these generally carry low risk weights. There may be a small charge for duration or other factors, but overall, the risk weights are low.

Tan Yong Hong So your RWA density could decline over time?

Chng Sok Hui Yes, it could.

Tan Yong Hong Has the recent market volatility changed your view on pursuing inorganic growth? How much excess capital do you have available for acquisitions, after accounting for capital distributions to shareholders and organic growth needs?

Chng Sok Hui If you compare our fully phased-in CET1 ratio of 15.2% to the upper end of our target range—near 13.5%, which we aim to maintain in this environment—it shows we have excess capital that has already been earmarked for return to shareholders. While our dividend payout ratio is still at 60% to 70%, we also could continue building capital over time. And, as I mentioned earlier, we have time, as our transitional CET1 ratio—which is the regulatory measure we need to comply with—currently stands at 17.4%.

Tan Su Shan As for whether recent market volatility has changed our stance or strategy on M&A—the short answer is no. M&A decisions are long-term in nature. We remain focused on being an Asian bank that is future-forward, digitally enabled, and transformative. We will continue to evaluate opportunities that align with our strategy, are appropriately priced, and where we have the capacity to onboard and integrate the target. These criteria have not changed. While pricing may shift with market conditions, our underlying approach does not.

Tan Yong Hong So, potentially, your view on pricing has shifted in this environment. Thank you.

Nicholas Teh That is all the time we have. Thank you and we will speak to you again next quarter.