

Banks

Neutral (Maintained)

A Decent 1Q25 But Uncertainties Linger

Stocks Covered 3
 Rating (Buy/Neutral/Sell): 1 / 2 / 0
 Last 12m Earnings Revision Trend: Negative

- NEUTRAL, Top Pick: DBS.** Singapore banks under our coverage (SG Banks) kicked off the 2025 reporting season with a decent set of results, broadly meeting expectations despite sharply lower benchmark rates and a bump up in pre-emptive loan provisioning. Amid muted earnings and an uncertain macroeconomic outlook, dividends and capital returns will be key, and SG Banks remain committed to this. Our preference order is DBS>OCBC>UOB, with DBS as our Top Pick for its “in-the-bag” and attractive dividend yields. We prefer OCBC over UOB for its stronger asset quality metrics.
- 1Q25 results broadly met expectations.** SG Banks posted a 2% YoY drop in PATMI, weighed by a combination of higher loan impairment allowances due to pre-emptive provisioning (specific provision (SP) charge was mild) and a higher tax rate following the adoption of the global minimum tax rate. However, QoQ, sector PATMI rose 9% from a seasonally softer 4Q. DBS’ and OCBC’s results were in line but UOB’s appears to be tracking below expectations as its move to beef up LLC saw credit cost significantly exceed its earlier guidance. It remains to be seen if UOB was front loading its pre-emptive allowances.
- Pre-emptive loan allowances and higher tax rate dampened YoY growth.** Sector 1Q25 PIOP rose 4% YoY (+19% QoQ) on the back of stronger operating income and neutral jaws. Non-II (+9% YoY; +28% QoQ) was the key income driver for banks while NII rose by a decent 2% (-2% QoQ) with asset growth partly offset by NIM pressure. The above, however, were more than offset by a 67% YoY rise in loan allowances as banks booked in higher pre-emptive general allowances in lieu of the uncertain macroeconomic environment, coupled with a higher effective tax rate of 16.3% (4Q24: 10.7%; 1Q24: 14.3%). Sector PBT was flat YoY (+17% QoQ). Annualised loan and deposit growth were at a decent +4% and +7% while sector NIM eased 8bps YoY (-5bps QoQ), mainly due to OCBC’s NIM squeeze while the other two banks saw relatively resilient NIMs. Sector CIR was stable YoY at 39.3% (4Q24: 45.5%) while sector credit cost rose to 30bps from 19bps in 1Q24 (4Q24: 23bps). Sector NPL ratio was stable YoY at 1.2% (4Q24: 1.17%) while LLC improved to 117% from 114% in 4Q24 and 1Q24.
- Briefing highlights and outlook.** UOB notably suspended its 2025 guidance citing poor visibility, while DBS and OCBC broadly retained theirs. SG Banks were unanimous that the first order impact from the US tariff policy is manageable, given limited exposures to segments at risk, but the second order and spill over impact are still being assessed. Potential segments at risk include SME and unsecured consumer financing. April’s business momentum looks resilient, albeit potentially aided by front-loading activities. The impact from tariffs could be felt in 2H25, likely impacting operating income, eg loan growth and loans and wealth fees. Finally, while the outlook is uncertain, banks retained their dividend and capital return commitments.
- Earnings forecasts.** FY25F-27F sector PATMI tweaked lower by c.0.5% pa after we lowered UOB’s FY25F-27F PATMI by 2%, 2% and 2%. No changes to our numbers for OCBC and DBS. Following from that, we expect FY25 sector earnings to contract by 3% YoY on the back of a 1% YoY decline in PIOP due to NIM squeeze, a slight uptick in credit cost, and a higher effective tax rate. We expect FY26-27 PATMI to rebound with growth of 3-4% YoY, underpinned by stronger non-II. No changes to stock recommendations.

Top Picks

DBS (DBS SP) – BUY

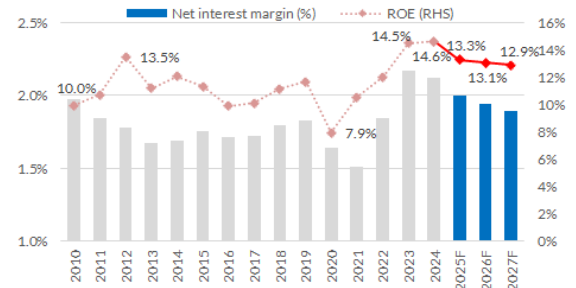
Target Price

SGD47.0

Analyst

Singapore Research
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Sector NIM vs ROE



Source: Company data, RHB

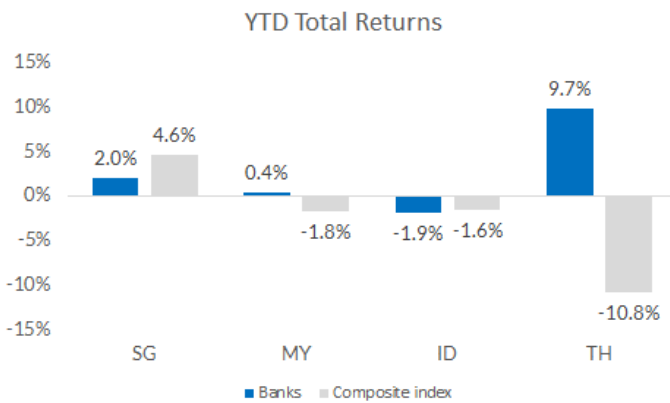
Company Name	Rating	Target (SGD)	% Upside (Downside)	P/E (x) Dec-25F	P/B (x) Dec-25F	ROAE (%) Dec-25F	Yield (%) Dec-25F
DBS	Buy	47.00	6.2	11.7	1.8	15.3	6.9
OCBC Bank	Neutral	17.50	8.2	9.7	1.2	12.2	6.1
United Overseas Bank	Neutral	37.50	6.3	9.8	1.1	11.8	5.8

Source: Company data, RHB

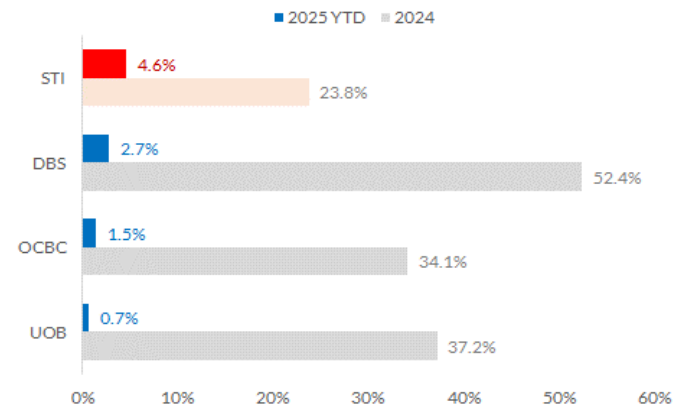
Share Price Performance

Figure 1: SG Banks' YTD total returns performance has been decent relative to regional peers ...

Figure 2: ... but domestically, banks have trailed the broader index



Source: Bloomberg, RHB



Source: Bloomberg, RHB

SG Banks posted a small positive total return YTD, which was slightly ahead of Malaysia and Indonesia peers, but lagged on the domestic front relative to the STI. In our view, SG Banks' relative regional outperformance has been aided by attractive dividend yields and the flight to quality to SGD assets. Domestically, we believe a combination of unexciting earnings prospects and concerns over the impact of the steep drop in the Singapore Overnight Rate Average (SORA) has dampened the attractiveness of banking stocks. These have been further compounded more recently by a cloudy macroeconomic outlook amid uncertainties as to how the US tariff policy situation plays out.

Among the SG Banks, DBS has outperformed on a total returns basis thanks to its attractive dividend yield. While we expect DBS to post a 5% YoY drop in PATMI this year, its ample stock of capital and profitability means that it can sustain its dividend and capital return policies. On the other hand, UOB has lagged peers. We believe this was mainly due to concerns over its ASEAN exposure and investors' concerns over ASEAN's macroeconomic outlook amid the US reciprocal tariffs.

Key Highlights From 1Q25

1Q25 sector results – SG Banks broadly in line with expectations

Figure 3: SG Banks' 1Q25 results – off to a slow start on higher pre-emptive loan provisioning

PATMI (SGDm)	1Q24	4Q24	1Q25	QoQ (%)	YoY (%)	Comments
DBS	2,951	2,522	2,897	15	(2)	27%/26% of our/consensus FY25F PATMI
OCBC	1,982	1,687	1,883	12	(5)	25%/26% of our/consensus FY25F PATMI
UOB	1,487	1,523	1,490	(2)	0	25%/24% of our/consensus FY25F PATMI
Sector	6,420	5,732	6,270	9	(2)	

Source: Company data, RHB

As expected, SG Banks reported a sequentially stronger set of numbers, mainly due to a seasonally weaker 4Q reporting quarter, but YoY, it was a muted start to the year. Both DBS and OCBC reported results that were tracking expectations but UOB's earnings were a slight miss on the back of elevated credit cost due to pre-emptive provisioning.

1Q25 sector PATMI rose 9% QoQ but ticked 2% lower YoY. Although sector PIOP was up 4% YoY (+19% QoQ), sector bottomline growth was weighed by a combination of higher loan impairment allowances (+67% YoY) due to pre-emptive provisioning and a higher effective tax rate following the adoption of the global minimum tax rate.

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Among the banks, DBS chalked up the swiftest sequential PATMI growth thanks to a combination of higher non-II and lower opex. Meanwhile, UOB's YoY earnings trend was more resilient as stronger non-II and flattish opex helped cushion higher credit costs.

Guidance and outlook

Figure 4: 2025 guidance and outlook by SG Banks

	Loan growth			NIM			Credit costs (bps)			Fee income		
	FY24A	1Q25A	FY25 guidance	FY24A	1Q25A	FY25 guidance	FY24A	1Q25A	FY25 guidance	FY24A	1Q25A	FY25 guidance
DBS	+3% YoY	+3% YoY	Mid-single digit	2.13%	2.12%	c. Apr's NIM of 2.09% (from c. 2.1%)	13*	10*	17-20*	+24% YoY	+22% YoY	Mid-to high-single digits (from high single digit)
OCBC	+8% YoY	+7% YoY	Mid-single digit	2.20%	2.04%	c. 2.0%	19	24	20-25	n.a.	n.a.	n.a.
UOB [^]	+5% YoY	+6% YoY	High single digit	2.03%	2.0%	c. 2.0%	27	35	25-30	+7% YoY	+20% YoY	Double-digit growth

Note: *Refers to SP/loans

Note 2: [^] UOB suspended its FY25 guidance due to poor visibility ahead given the evolving situation on the US tariff policy

Source: Company data, RHB

UOB notably suspended its 2025 guidance, citing poor visibility ahead given the evolving situation on the US tariff policy. DBS broadly kept its outlook, albeit with some tweaks due to the uncertainties ahead, while OCBC maintained its guidance.

Key briefing highlights and outlook include:

- i. SG Banks think the first order impact should be manageable, pointing to limited exposures to segments and sectors that could be at risk. At this juncture, SG Banks are still in the midst of quantifying second order and spill over effects, but think the segments that could be vulnerable include SME and unsecured consumer financing;
- ii. April's business momentum appears to remain healthy although banks do not discount the possibility that this could have been aided by front-loading activities. On the whole, SG Banks think 2Q25 business activities should generally hold up, as it will take time for the impact from the uncertainties to filter through, but think the effects should start to be felt in 2H25;
- iii. Banks see operating income as a bigger near-term risk to earnings, eg loans growth and fees, including wealth management as well as loans/trade-related, rather than asset quality. In fact, OCBC thinks loan growth could be at greater risk to US tariffs than NIM, although we do note that OCBC had already suffered the sharpest NIM compression among peers. Hence, we would not be too surprised if its NIM compression ahead is milder, given its steps to protect NII;
- iv. The impact from US tariffs is not expected to be as severe as that of COVID-19, as this would lead to a slowdown in business activities vs a shutdown during the pandemic. All three banks made pre-emptive provisioning during the quarter and a comfortable GP/loans level appears to be around 0.9-1%. Both DBS and OCBC are comfortable with their GP/loans of 1.0% and 0.9% respectively while UOB plans to continue building up its GP proportion to 0.9% from the current 0.8%;
- v. Despite the uncertainties ahead, all three banks reaffirmed their dividend and capital return commitments.

Sector Earnings Forecasts

During the reporting quarter, we lowered our FY25F-27F PATMI for UOB by 2% pa, mainly after raising our credit cost assumptions. Forecasts for DBS and OCBC were retained and hence, the impact to sector earnings was a minor c.0.5% pa downgrade to FY25F-27F bottomline.

We continue to expect FY25 sector earnings to contract by 3% YoY on the back of a 1% YoY decline in PIOP due to a NIM squeeze, slight uptick in credit cost, and higher effective tax rate. We forecast a rebound in PATMI growth to +3-4% YoY in FY26-27 underpinned by stronger non-II.

Upside risks to earnings would be:

- i. Better-than-expected NIM if US Federal Funds Rate (FFR) cuts turn out to be milder than expected;
- ii. Elevated non-II (robust wealth activities and treasury flows); and
- iii. Lower-than-expected credit costs.

Downside risks could come from NIM, loan growth, weaker-than-expected other non-II, especially on the treasury and markets front, as well as higher-than-expected credit cost.

Figure 5: SG Banks – sector earnings and key assumptions

(SGDm)	2023	2024	2025F	2026F	2027F
NII	32,966	33,853	33,604	33,922	34,292
NII growth (%)	22.2%	2.7%	-0.7%	0.9%	1.1%
Loan growth (%)	0.5%	5.2%	4.3%	4.3%	4.7%
NIM (%)	2.17%	2.12%	2.00%	1.94%	1.89%
Fee income	7,405	8,533	8,890	9,716	10,628
Other income	7,230	8,678	8,544	8,913	9,326
Non-II	14,635	17,211	17,434	18,629	19,954
Non-II growth (%)	18.1%	17.6%	1.3%	6.9%	7.1%
Total operating income	47,601	51,064	51,038	52,550	54,247
Operating income growth (%)	20.9%	7.3%	-0.1%	3.0%	3.2%
Non-II/Total income (%)	30.7%	33.7%	34.2%	35.4%	36.8%
Opex	(19,731)	(21,070)	(21,232)	(21,811)	(22,478)
Opex growth (%)	14.7%	6.8%	0.8%	2.7%	3.1%
CIR (%)	41.5%	41.3%	41.6%	41.5%	41.4%
PIOP	27,870	29,994	29,805	30,739	31,769
PIOP growth (%)	25.8%	7.6%	-0.6%	3.1%	3.3%
Loan impairment charges	(2,036)	(2,098)	(2,432)	(2,562)	(2,548)
Other impairment charges	(344)	(250)	(129)	(128)	(128)
Total impairment charges	(2,380)	(2,348)	(2,561)	(2,690)	(2,676)
Credit charge-off (bps)	20	20	22	22	21
GIL ratio (%)	1.19%	1.17%	1.13%	1.11%	1.08%
Loan loss coverage (%)	117.3%	113.9%	119.2%	118.0%	117.3%
Associates & others	1,260	1,365	1,481	1,577	1,681
Pre-tax profit	26,750	29,011	28,725	29,626	30,774
Taxation	(3,797)	(3,914)	(4,380)	(4,519)	(4,696)
Minority interests	(159)	(176)	(168)	(170)	(171)
Net profit	22,794	24,921	24,177	24,937	25,907
Net profit growth (%)	24.6%	9.3%	-3.0%	3.1%	3.9%

Source: Company data, RHB

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Valuations

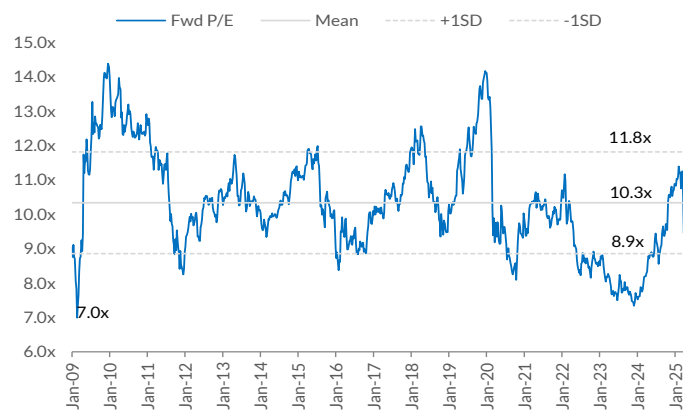
Figure 6: Summary of SG Banks' valuations

	Rec	Price	TP	Mkt cap	EPS chg (%)		P/E(x)		P/BV(x)		ROE (%)		Div yield (%)	
		(SGD/s)	(SGD/s)	(SGDm)	FY25F	FY26F	FY25F	FY26F	FY25F	FY26F	FY25F	FY26F	FY25F	FY26F
DBS	Buy	44.25	47.00	125.85	(4.8)	3.4	11.7	11.3	1.76	1.68	15.3	15.2	6.9	6.1
OCBC	Neutral	16.18	17.50	72.73	(1.9)	1.4	9.7	9.6	1.17	1.11	12.2	11.8	6.2	5.5
UOB	Neutral	35.27	37.50	59.04	(0.9)	4.8	9.8	9.4	1.14	1.07	11.8	11.7	5.8	5.3
Sector Avg					(3.1)	3.2	10.7	10.4	1.45	1.38	13.6	13.4	6.5	5.8

Note: *Inclusive of capital return and special DPS

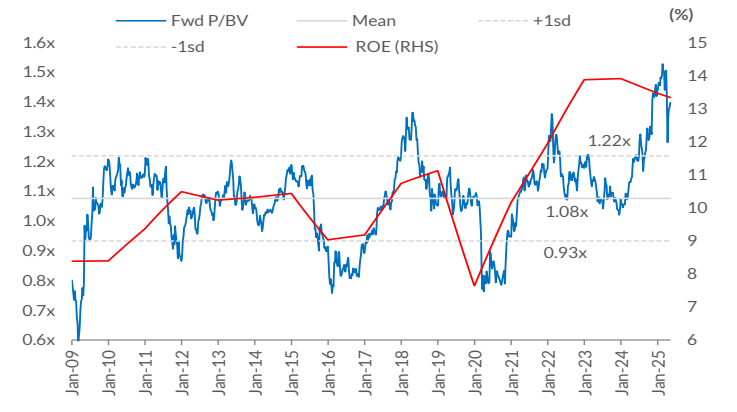
Source: Bloomberg, RHB

Figure 7: SG Banks' 12-month forward P/E



Source: Bloomberg, RHB

Figure 8: SG Banks' 12-month forward P/BV vs ROE



Source: Bloomberg, RHB

Key Trends In 1Q25

PIOP – Operating income growth and cost-control drive PIOP

Figure 9: PIOP – Non-II off to a bright start

PIOP (SGDm)	1Q24	4Q24	1Q25	QoQ (%)	YoY (%)
DBS	3,473	3,010	3,691	23	6
OCBC	2,280	1,856	2,240	21	(2)
UOB	1,952	1,883	2,098	11	7
Sector	7,705	6,749	8,029	19	4

Source: Company data, RHB

PIOP rose 4% YoY (+19% QoQ) on the back of stronger operating income and neutral jaws. Non-II (+9% YoY; +28% QoQ) was the key driver for operating income while NII rose by a decent 2% (-2% QoQ) with asset growth partly offset by NIM pressure. The strong QoQ PIOP growth was due to seasonality, where 4Q non-II tends to be softer (eg lower fees from slower wealth management activities) while opex is elevated due to higher staff costs, among others.

Among the SG Banks, UOB posted the strongest YoY PIOP growth thanks to opex dipping 1% YoY (-1% QoQ), which reflects the bulk of the Citibank integration expenses having rolled off the books. Meanwhile, OCBC reported a 2% YoY drop in PIOP as NIM squeeze pressured NII and income growth, coupled with negative jaws.

Asset growth helped cushion NIM pressure

Figure 10: NII not as bad as feared

NII (SGDm)	1Q24	4Q24	1Q25	QoQ (%)	YoY (%)
DBS	3,505	3,728	3,681	(1)	5
OCBC	2,437	2,455	2,345	(4)	(4)
UOB	2,362	2,451	2,409	(2)	2
Sector	8,304	8,634	8,435	(2)	2

Source: Company data, RHB

1Q25 sector NII was not as bad as feared, rising 2% YoY but down 2% QoQ. Sector total assets rose 6% YoY (+1% QoQ), with loans up 5% YoY (+1% QoQ) but we estimate NIM slipped 8bps YoY and 4bps QoQ due to lower benchmark rates and efforts by OCBC to frontload its high quality asset build in anticipation of US FFR cuts ahead.

DBS reported the strongest YoY growth and most resilient QoQ trend thanks to +7% YoY/+2% QoQ asset growth while its NIM held up reasonably well. OCBC reported the weakest NII trend due to NIM pressure.

Figure 11: DBS' and UOB's NIMs were surprisingly resilient but OCBC took a different route

NIM	1Q24	4Q24	1Q25	QoQ (bps)	YoY (bps)
DBS	2.14	2.15	2.12	(3)	(2)
OCBC	2.27	2.15	2.04	(11)	(23)
UOB	2.02	2.00	2.00	0	(2)
Sector	2.14	2.11	2.06	(4)	(8)

Source: Company data, RHB

Sector NIM slipped 8bps YoY and 4bps QoQ, albeit mainly dragged by the 23bps YoY (-11bps QoQ) NIM squeeze reported by OCBC. One of the reasons OCBC attributed to the sharp NIM squeeze was its strategic decision to build up high quality but lower yielding assets in order to help protect NII ahead of US FFR cuts. Its 1Q25 NIM of 2.04%, while down 16bps YoY vs 2.2% in 2024, is still higher than its unchanged guidance of 2.0%, which suggest that its NIMs could be relatively more stable ahead.

As for peers, a combination of hedges put on, good CASA momentum and liquidity management, ie higher LDR, appear to have helped with NIM resiliency. This was notwithstanding the c.50bps decline in the 3-month compounded SORA during the quarter.

Figure 12: Loan growth had a decent start but banks unsure on its sustainability

Gross loans (SGDbn)	1Q24	4Q24	1Q25	QoQ (%)	YoY (%)
DBS	431	437	442	1	3
OCBC	301	319	322	1	7
UOB	323	338	341	1	6
Sector	1,055	1,094	1,105	1	5

Source: Company data, RHB

Sector loan growth kicked off 2025 on a decent note, rising 4% on an annualised basis. Growth drivers were non-trade corporate loans and mortgages, while by geography, Singapore was the main loan growth driver for UOB, Singapore and rest of the world for OCBC, and broad-based for DBS.

Going forward, while loan pipelines should be supportive of 2Q25 loan growth, growth visibility into 2H25 is clouded by the range of outcomes from US tariff negotiations. As mentioned above, OCBC sees a bigger risk to loan growth vs NIM ahead, while if loan demand pans out weaker than expected, DBS intends to redeploy its liquidity into high-quality assets.

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Figure 13: Liquidity still ample

Deposits (SGDbn)	1Q24	4Q24	1Q25	QoQ (%)	YoY (%)
DBS	547	562	576	2	5
OCBC	370	391	403	3	9
UOB	388	404	401	(1)	3
Sector	1,306	1,356	1,380	2	6

Source: Company data, RHB

SG Banks remained liquid, with annualised deposit growth of 7% outpacing that of loans. Continued new money inflow, coupled with the flight to safety were among reasons provided for the healthy deposit growth. Sector LDR ticked lower to 79% as compared to 79.6% in 4Q24 (1Q24: 79.7%).

Notably, CASA growth was also healthy, with sector CASA deposits up 11% YoY (+3% QoQ) with all three banks reporting growth. One of the reasons provided for the strong CASA growth was falling FD rates, which led to depositors switching to CASA.

As such, sector CASA ratio ticked higher to 52.3% from 51.8% in 4Q24 (1Q24: 49.9%). As at end-1Q25, DBS' CASA ratio was 80bps higher QoQ at 52.6% (1Q24: 51.2%), OCBC's CASA mix was broadly stable QoQ at 48.9% (1Q24: 47.3%), while UOB's CASA proportion rose to 55.1% from 54.6% in 4Q24 (1Q24: 50.6%).

Non-II off to a good start

Figure 14: Fees did well while trading and investment strengthened QoQ

Non-II (SGDm)	1Q24	4Q24	1Q25	QoQ (%)	YoY (%)
DBS	2,052	1,777	2,224	25	8
OCBC	1,189	961	1,310	36	10
UOB	1,161	1,010	1,248	24	7
Sector	4,402	3,748	4,782	28	9

Source: Company data, RHB

Sector non-II rose 9% YoY led by higher fees (+20% YoY) but trading and investment was down 5% YoY. QoQ, non-II jumped 28%, albeit due to seasonality. Fees rose 23% QoQ while trading and investment was up 22% QoQ.

Figure 15: Fee income - Loan-related and wealth management drove fees

Fee income (SGDm)	1Q24	4Q24	1Q25	QoQ (%)	YoY (%)
DBS	1,043	968	1,275	32	22
OCBC	479	517	546	6	14
UOB	580	567	694	22	20
Sector	2,102	2,052	2,515	23	20

Source: Company data, RHB

1Q25 sector fee income was up by a robust 20% YoY (+23% QoQ), with loans/trade-related and wealth management fees as the key drivers. One of the banks had pointed to a number of deals together with a chunky deal that boosted 1Q25 loan fee income. DBS posted the strongest YoY and QoQ fee income growth due to the earlier-mentioned reasons, while OCBC's fee income rise was more modest as both loans and wealth management fees increased by a relatively slower pace.

Operating income was decent, given the falling benchmark rates

Figure 16: Operating income - lifted by DBS

Operating income (SGDm)	1Q24	4Q24	1Q25	QoQ (%)	YoY (%)
DBS	5,557	5,505	5,905	7	6
OCBC	3,626	3,416	3,655	7	1
UOB	3,523	3,461	3,657	6	4
Sector	12,706	12,382	13,217	7	4

Source: Company data, RHB

YoY, thanks to non-II, the sector's operating income growth was at a decent +4% YoY/+7% QoQ.

Opex - Neutral jaws YoY

Figure 17: Opex - under control so far

Opex (SGDm)	1Q24	4Q24	1Q25	QoQ (%)	YoY (%)
DBS	2,084	2,495	2,214	(11)	6
OCBC	1,346	1,560	1,415	(9)	5
UOB	1,571	1,578	1,559	(1)	(1)
Sector	5,001	5,633	5,188	(8)	4

Source: Company data, RHB

Sector opex was generally under control, up 4% YoY (-8% QoQ). DBS reported the steepest QoQ drop in the absence of higher staff expenses and its CSR commitment costs, while UOB's YoY opex was down 1% as costs related to the Citibank integration started to roll-off substantially since 3Q24.

With sector operating income rising by a similar pace YoY, sector CIR held steady at 39.3% but was down from 45.5% in 4Q24.

Figure 18: SG Banks' CIR stable YoY on neutral jaws

CIR (%)	1Q24	4Q24	1Q25	ppts (%)	ppts (%)
DBS	37.5	45.3	37.5	(7.8)	(0.0)
OCBC	37.1	45.7	38.7	(7.0)	1.6
UOB	44.6	45.6	42.6	(3.0)	(2.0)
Sector	39.4	45.5	39.3	(6.2)	(0.1)

Source: Company data, RHB

Asset quality generally steady but banks bulked up on provision buffers

Figure 19: SP charge overall benign...

SP/loans (bps)	1Q24	4Q24	1Q25	QoQ (bps)	YoY (bps)
DBS	11	21	11	(10)	0
OCBC	24	20	12	(8)	(12)
UOB	20	52	18	(34)	(1)
Sector	17	31	13	(17)	(4)

Source: Company data, RHB

Figure 20: ... but rise in total credit cost was due to higher general provisions

Total credit cost (bps)	1Q24	4Q24	1Q25	QoQ (bps)	YoY (bps)
DBS	13	19	30	10	17
OCBC	23	27	26	(0)	4
UOB	23	25	34	9	11
Sector	19	23	30	7	11

Source: Company data, RHB

Figure 21: Gross NPLs – Uptick reported by UOB due to one Hong Kong property account

Gross NPLs (SGDm)	1Q24	4Q24	1Q25	QoQ (%)	YoY (%)
DBS	4,741	4,780	4,862	2	3
OCBC	3,040	2,827	2,916	3	(4)
UOB	4,848	5,164	5,458	6	13
Sector	12,629	12,771	13,236	4	5

Source: Company data, RHB

Figure 22: Sector NPL ratio broadly stable QoQ at 1.2%

Gross NPL ratio (%)	1Q24	4Q24	1Q25	QoQ (bps)	YoY (bps)
DBS	1.10	1.09	1.10	1	0
OCBC	1.01	0.89	0.91	2	(10)
UOB	1.50	1.53	1.60	7	10
Sector	1.20	1.17	1.20	3	0

Source: Company data, RHB

Figure 23: LLC – Loan provision buffers saw NPA coverage rise

NPA coverage (%)	1Q24	4Q24	1Q25	QoQ (ppts)	YoY (ppts)
DBS	125.0	129.3	136.8	7.5	11.8
OCBC	131.0	143.0	147.1	4.1	16.1
UOB	91.3	84.2	83.0	(1.2)	(8.3)
Sector	113.6	114.4	117.1	2.8	3.5

Source: Company data, RHB

Sector gross NPL ticked up 4% QoQ (+5% YoY) with the sequential rise mainly due to UOB. UOB downgraded a Hong Kong property loan during the quarter but as the loan had been fully provided for previously, there was no impact to credit cost (sector SP charge was lower at 13bps vs 4Q24: 31bps and 17bps in 1Q24). Sector gross NPL ratio was also stable YoY at 1.2% (4Q24: 1.17%).

Nevertheless, in lieu of the uncertainties ahead, banks took the opportunity to build up general provisions, resulting in the rise in total credit cost to 30bps in 1Q25 from 23bps/19bps in 4Q24/1Q24. As highlighted above, both DBS and OCBC are comfortable with their stock of general provisions while UOB intends to build up its allowance coverage further by raising its general allowance and regulatory loss allowance reserve to 0.9% of loans from the current 0.8%. The timeframe to complete this is uncertain, but if UOB decides to bump up its reserve within FY25, there is a risk its total credit cost could come in higher than the earlier guided 25-30bps. As for the other banks, there were no changes to their respective credit cost guidance.

Banks reaffirmed dividend and capital return plans despite uncertainties ahead

Figure 24: Capital ratios stable sequentially

CET-1 ratio (%)	1Q24	4Q24*	1Q25*	QoQ (ppts)	YoY (ppts)
DBS	14.7	15.1	15.2	0.1	0.5
OCBC	16.2	15.3	15.5	0.2	(0.7)
UOB	13.9	15.4	15.4	0.0	1.5

Note: *Fully phased-in CET-1 ratio under Basel III reforms

Source: Company data, RHB

All three banks kept their dividend and capital return plans, pointing to healthy capital levels, especially on a phased-in basis. DBS, which has a more aggressive 24 SG cents step up in absolute annual DPS vs the more conventional payout target, thinks it can sustain this commitment as long as it achieves an ROE of 15-17%, which our forecasts suggest is achievable.

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