
Media Release

OCBC Group Full Year 2016 Net Profit at S\$3.47 billion

Full Year earnings declined 11% mainly from increased allowances and lower contributions from insurance

Singapore, 14 February 2017 – Oversea-Chinese Banking Corporation Limited (“OCBC Bank”) reported a net profit after tax of S\$3.47 billion for the financial year ended 31 December 2016 (“FY16”). Against a strong prior year (“FY15”) performance, which included a substantial investment gain from insurance subsidiary Great Eastern Holdings (“GEH”), net profit after tax was 11% lower. The decline in earnings was also driven by a rise in net allowances and lower trading and insurance income, which more than offset the impact of strong wealth management fee income growth and increased contributions from our Indonesia and Hong Kong banking subsidiaries.

The full year earnings also included the one month consolidated results of the former wealth and investment management business of Barclays PLC in Singapore and Hong Kong (“Barclays WIM”) which was acquired by Bank of Singapore (“BOS”) at the end of November 2016. Assets under management (“AUM”) of US\$13 billion were transferred to BOS for a consideration of US\$228 million. The one month profit contribution was not material relative to the Group’s 2016 earnings.

The Group’s full year net interest income fell 3% from the previous year to S\$5.05 billion, mainly from a decline in average interest earning assets, led by a drop in interbank placements. Net interest margin of 1.67% was unchanged year-on-year.

Non-interest income of S\$3.44 billion was 3% lower as compared to a year ago. Fee and commission income was stable year-on-year at S\$1.64 billion, as higher wealth management fees were offset by lower income from brokerage and investment banking activities. Net trading income was 4% lower at S\$529 million from a year ago, largely due to a decline in non-customer flow income. Net realised gains from the sale of investment securities of S\$198 million were 3% below S\$204 million in the previous year, which included a S\$136 million realised pre-tax gain from the sale of an investment in GEH’s equity portfolio. GEH continued to report robust underlying insurance business growth; however, profit from life assurance of S\$499 million declined 21% as a result of higher costs associated with strong sales growth, a rise in medical claims and mark-to-market losses as result of interest rate movements in its Non-participating Fund.

Full year operating expenses for the Group were S\$3.79 billion, a modest increase of 3% from a year ago. The Group's cost-to-income ratio was 44.6% as compared to 42.0% in the previous year. Excluding the consolidation of Barclays WIM and the associated integration expenses, operating expenses were 2% higher than FY15, which reflected overall continued cost discipline and tightly controlled headcount growth. Allowances for loans and other assets of S\$726 million were higher than S\$488 million a year ago, mainly led by an increase in specific allowances for corporate accounts in the oil and gas support services sector which the Group has been closely monitoring.

The Group's share of results of associates in 2016 rose 13% to S\$396 million from S\$353 million a year ago, mainly due to higher contributions from associated companies Bank of Ningbo and AVIC Trust Co Limited.

The Group's return on equity was 10.0%, down from 12.3% in 2015 while earnings per share for the full year was 82.2 cents, as compared to 95.2 cents a year ago.

Fourth Quarter Performance

For the fourth quarter of 2016 ("4Q16"), net profit after tax was S\$789 million, an 18% decrease from the same quarter last year ("4Q15").

Net interest income was 7% lower at S\$1.25 billion, attributed mainly to lower net interest margin from the continued compression in customer loan yields. Non-interest income was down 4% against 4Q15 at S\$926 million, as fee income growth was more than offset by lower net trading income and life assurance profit. Operating expenses grew 1% to S\$981 million, primarily from costs associated with the consolidation of Barclays WIM. Excluding the consolidation costs, operating expenses fell 2% year-on-year from a reduction in personnel costs and business promotion expenses, and were up 1% against the prior quarter ("3Q16"). Net allowances for loans and other assets of S\$305 million for the quarter were 57% above S\$193 million in 4Q15.

As compared to 3Q16, net profit after tax for the quarter was down 16%, mainly from increased allowances, which more than offset an increase in net interest income.

Allowances and Asset Quality

The operating environment in 2016 continued to be challenging and the Group remained vigilant in closely monitoring the portfolio for early signs of weakness. While the overall credit quality of the portfolio remained sound, the uncertain outlook and depressed oil prices particularly impacted the oil and gas support services sector. The Group undertook steps to pro-actively classify several related accounts for close monitoring, and assisted customers to reschedule and restructure their loans.

Total net allowances for loans and other assets were S\$726 million in FY16, as compared to S\$488 million a year ago. Net specific allowances for loans rose to S\$484 million from S\$232 million in FY15, mainly from the abovementioned oil and gas support services sector related accounts. Given the weaker operating outlook, portfolio allowances of S\$172 million were set aside. Nonetheless, the Group continued to retain a healthy coverage ratio, with total cumulative allowances covering 303% of unsecured non-performing assets (“NPAs”) and 100% of total NPAs.

As at 31 December 2016, the absolute NPAs were S\$2.89 billion, up from \$2.59 billion a quarter ago and S\$2.04 billion in FY15. New NPA formation was S\$2.29 billion, higher than S\$1.95 billion of the prior year, while net recoveries and upgrades of S\$1.16 billion were also above S\$0.96 billion a year ago. The year-on-year net increase in NPAs mainly comprised corporate accounts in the oil and gas support services sector, which drove the rise in the non-performing loans (“NPL”) ratio to 1.3%, from 1.2% the previous quarter, and 0.9% a year ago.

Funding and Capital Position

The Group continued to maintain a strong funding position and was well-capitalised. As at the end of 31 December 2016, customer loans of S\$220 billion were 5% (3%, excluding consolidation of Barclays WIM) above S\$211 billion of the previous year, driven by housing loans and other consumer-related loans, and loans to the building and construction sector. Customer deposits rose 6% to S\$261 billion, and represented 80% of the Group’s funding composition. The growth in deposits was driven by an 11% rise in current account and savings (“CASA”) deposits, and the CASA to total non-bank deposits ratio improved to 51.1% from 48.9% a year ago. The loans-to-deposit ratio was 82.9% as compared to 84.5% a year ago.

The Group’s average Singapore dollar and all-currency liquidity coverage ratios (excluding OCBC Wing Hang which will be included in due course) were 284% and 145% respectively for 4Q16, above the respective regulatory ratios of 100% and 70%.

The Group’s Common Equity Tier 1 capital adequacy ratio (“CAR”) as at 31 December 2016, was 14.7% and Tier 1 CAR and Total CAR were 15.1% and 17.1% respectively. Based on Basel III transitional arrangements, these ratios remained well above the respective regulatory minima of 6.5%, 8% and 10%. In addition to these minimum capital requirements, a capital conservation buffer (“CCB”) of 2.5% and countercyclical buffer of up to 2.5% will be phased in from 2016 to 2019. The CCB was 0.625% as at 1 January 2016, and will be increased by 0.625% each year to reach 2.5% on 1 January 2019. The Group’s leverage ratio of 8.2% was above the 3% minimum requirement as guided by the Basel Committee.

Subsidiaries' Results

GEH achieved strong growth in its underlying insurance business in 2016, as reflected by total weighted new sales growth of 11% and a 22% increase in new business embedded value ("NBEV"), with its NBEV margin improved to 43.6% from 39.5% in FY15. GEH's net profit after tax for the year was S\$589 million. This was lower than S\$785 million in FY15, which had included a post-tax gain from the sale of an equity investment of S\$120 million (the Group's share of net profit after tax and non-controlling interest was S\$105 million). The year-on-year decline in earnings was also attributed to a rise in costs linked to increased sales volumes, higher medical claims and mark-to-market losses in GEH's Non-participating Fund. GEH's net profit after tax contribution to the Group was S\$470 million, which represented 14% of the Group earnings in 2016.

OCBC Bank Malaysia's full-year net profit after tax of RM808 million (S\$270 million) declined 8%, from lower income and increased operating expenses, which was partially offset by a decline in net allowances. As at 31 December 2016, customer loans of RM69 billion (S\$22 billion) were 2% lower as compared to a year ago, while the NPL ratio was relatively stable at 2.2%. OCBC Bank Malaysia's contribution to the Group's 2016 earnings amounted to 8%.

Bank OCBC NISP posted another year of robust growth. Net profit after tax of IDR1,790 billion (S\$186 million) was 19% higher than the previous year, driven by broad-based income growth. Total customer loans were up 9% over the previous year at IDR93 trillion (S\$10 billion), while the NPL ratio was 1.9%. As a proportion of the Group's overall earnings, Bank OCBC NISP represented 4% of the overall net profit after tax.

OCBC Wing Hang's full year net profit after tax contribution to the Group was HK\$1.77 billion (S\$315 million) which was 2% higher than 2015 and accounted for 9% of the Group's net profit after tax. As at 31 December 2016, customer loans rose 6% to HK\$163 billion (S\$30 billion), while the NPL ratio stood at 0.9%.

As at 31 December 2016, BOS' AUM were US\$79 billion (S\$115 billion), which included the AUM transferred from Barclays WIM of US\$13 billion. Against the AUM of US\$55 billion (S\$77 billion) from a year ago, this represented an increase of 45%. BOS' earning asset base, which are secured and included loans from Barclays WIM, rose 43% to US\$97 billion (S\$140 billion) from US\$68 billion (S\$96 billion) the previous year.

The Group's FY16 wealth management income, comprising income from insurance, private banking, asset management, stockbroking and other wealth management products, was S\$2.27 billion and represented 27% of the Group's total income in 2016.

Final Dividend

The Board has proposed a final tax-exempt dividend of 18 cents per share, bringing the FY16 total dividend to 36 cents per share, unchanged from 36 cents in FY15. The Scrip Dividend Scheme will not be applicable to the final dividend. The estimated total dividend payout will amount to S\$1.51 billion, representing 43% of the Group's core underlying net profit in 2016.

CEO's Comments

Commenting on the Group's performance and outlook, CEO Samuel Tsien said:

"Despite difficult business conditions that prevailed throughout the year, the Group delivered a resilient performance. Our results were underscored by the strength of our well-diversified franchise that continues to drive consistent and balanced long-term growth. The Barclays Wealth acquisition further strengthened our wealth management presence, a franchise which continued to perform well. Great Eastern achieved strong underlying new sales and net embedded value growth, while our Indonesian and Hong Kong banking operations also reported higher contributions to the Group.

The overall quality of our portfolio remained sound. Against the weak operating environment, however, there continued to be stresses in parts of the portfolio, particularly within the oil & gas support services sector which drove increases in non-performing loans and allowances. We shall remain vigilant and will continue to help our clients in the impacted sectors to de-leverage and restructure their debts while being prudent in our risk management processes. At the same time, we have tightly controlled our cost base and further strengthened our strong liquidity and capital positions.

Looking ahead, while the headwinds facing the broad economy are likely to persist, we are confident that we are well-positioned to support our valued customers through this difficult period and capture new opportunities as they arise across our franchise."

About OCBC Bank

OCBC Bank is the longest established Singapore bank, formed in 1932 from the merger of three local banks, the oldest of which was founded in 1912. It is now the second largest financial services group in Southeast Asia by assets and one of the world's most highly-rated banks, with an Aa1 rating from Moody's. Recognised for its financial strength and stability, OCBC Bank is consistently ranked among the World's Top 50 Safest Banks by Global Finance and has been named Best Managed Bank in Singapore and the Asia Pacific by The Asian Banker.

OCBC Bank and its subsidiaries offer a broad array of commercial banking, specialist financial and wealth management services, ranging from consumer, corporate, investment, private and transaction banking to treasury, insurance, asset management and stockbroking services.

OCBC Bank's key markets are Singapore, Malaysia, Indonesia and Greater China. It has more than 610 branches and representative offices in 18 countries and regions. These include the 340 branches and offices in Indonesia under subsidiary Bank OCBC NISP, and over 100 branches and offices in Hong Kong, China and Macau under OCBC Wing Hang.

OCBC Bank's private banking services are provided by its wholly-owned subsidiary Bank of Singapore, which operates on a unique open-architecture product platform to source for the best-in-class products to meet its clients' goals.

OCBC Bank's insurance subsidiary, Great Eastern Holdings, is the oldest and most established life insurance group in Singapore and Malaysia. Its asset management subsidiary, Lion Global Investors, is one of the largest private sector asset management companies in Southeast Asia.

For more information, please visit www.ocbc.com