Media Release

OCBC Group Full Year 2017 Net Profit rose 19% to S$4.15 billion

Fourth quarter earnings of S$1.03 billion increased 31% from the previous year

Proposed final dividend of 19 cents, up from 18 cents a year ago

Singapore, 14 February 2018 – Oversea-Chinese Banking Corporation Limited ("OCBC Bank") reported a net profit after tax of S$4.15 billion for the financial year ended 31 December 2017 ("FY17"), an increase of 19% from S$3.47 billion a year ago ("FY16"). This is the first time OCBC Bank's reported net profit surpassed the S$4 billion mark. The strong performance was driven by sustained growth momentum across the Group's three business pillars: banking, wealth management and insurance businesses.

Total income rose 14% over the prior year to exceed S$9.6 billion.

Net interest income rose 7% from the previous year to S$5.42 billion on the back of strong asset growth. As at 31 December 2017, customer loans increased 8% to S$237 billion, underpinned by broad-based growth across key customer and geographical segments. Full year net interest margin ("NIM") of 1.65% declined 2 basis points from 1.67% a year ago, as lower loan yields more than offset higher gapping income from money market activities. Nevertheless, NIM had been rising for each consecutive quarter in 2017.

Non-interest income increased 23% to S$4.21 billion from S$3.44 billion a year ago. Fee and commission income climbed 19% to S$1.95 billion, lifted by a 45% increase in wealth management fee income. Investment banking, fund management and trade-related fees were also higher year-on-year. Net trading income, mainly comprising treasury-related income from customer flows, was S$515 million as compared to S$529 million a year ago, while net gains from the sale of investment securities more than doubled to S$431 million. Profit from life assurance of S$877 million was considerably higher than S$499 million in FY16, as Great Eastern Holdings achieved strong underlying business growth and higher investment income from realised gains and favourable market conditions.

Operating expenses of S$4.03 billion were 6% above the previous year, mainly attributed to higher staff costs and a rise in expenses to support the Group's business expansion. This included the full year cost impact from the consolidation of the former wealth and investment management business of Barclays PLC in Singapore and Hong Kong, which was acquired in November 2016. The Group's cost-to-income ratio improved to 41.9% from 44.6% in FY16. Net allowances for loans and other assets were S$671 million, 7% lower as compared to S$726 million a year ago.

The Group's share of results of associates for FY17 was S$389 million as compared to S$396 million the previous year.

For FY17, the Group's return on equity rose to 11.2% from 10.0% a year ago, while earnings per share increased to 97.6 cents from 82.2 cents.

Fourth Quarter Performance

Net profit after tax for the fourth quarter of 2017 ("4Q17") of S$1.03 billion was 31% above S$789 million a year ago ("4Q16").

Net interest income grew 14% to S$1.42 billion, contributed by an 11% rise in average interest earning assets and a 4 basis points increase in NIM to 1.67%. Non-interest income was 30% higher at S$1.21 billion. Fees and commissions increased 17%, led by higher income generated from wealth management and investment banking activities. Net gains from the sale of investment securities were higher at S$249 million, while net trading income was 19% lower at S$99 million for the quarter. Profit from life assurance climbed 80% year-on-year to S$259 million.

In November 2017, the Group completed the acquisition of National Australia Bank's private wealth business in Singapore and Hong Kong, which added S$2.06 billion in loans and S$2.42 billion in deposits to the OCBC franchise.

Operating expenses grew 9% to S$1.07 billion in line with increased business volumes. The cost-to-income ratio improved significantly from 45.1% a year ago to 40.6%, as a 21% growth in total income outpaced cost increase. Net allowances for loans and other assets were S$178 million as compared to S$305 million a year ago.

Against the previous quarter ("3Q17"), net profit after tax was 2% lower, as a 15% rise in operating profit was more than offset by lower contributions from the Group's associated companies.

Allowances and Asset Quality

Total net allowances for loans and other assets were 7% lower at S$671 million, as compared to S$726 million a year ago.

Despite the rise in oil prices reported towards the end of 2017, the charter rates and asset values of the offshore support services and vessels ("OSV") in the oil and gas industry continued to be depressed. Given the prolonged uncertainty and the lack of firm visibility in the OSV sector, the Group took a prudent stance to further downgrade its OSV exposures and made appropriate allowances. These significantly accounted for both the rise in non-performing loans ("NPLs") from S$2.78 billion a year ago to S$3.42 billion, and the majority of the S$1.41 billion in specific allowances made during the year. In 4Q17, the Group applied S$887 million of cumulative portfolio allowances to cater for additional specific allowances. The Group continued to maintain portfolio allowances at the prudent level of S$1.42 billion, which were sufficient to meet existing regulatory obligations. As at 31 December 2017, total allowances represented 313% of unsecured non-performing assets.

Apart from the OSV sector, the rest of the Group's loan portfolio remained sound. The overall NPL ratio remained low at 1.45%, being 0.19 percentage points higher than 1.26% a year ago.

From 1 January 2018, the Group is able to comply with the requirements of "Singapore Financial Reporting Standard (International) ("SFRS(I)") 9: Financial Instruments" and the revised MAS612 with the current level of total allowances. The Group will make the necessary disclosures from its first quarter 2018 results onwards.

Funding, Liquidity and Capital Position

The Group's funding, liquidity and capital position continued to be resilient. Customer loans of S$237 billion were up 8% from S$220 billion the previous year, driven by growth across the corporate and consumer segments. Customer deposits rose 8% to S$284 billion, underpinned by 4% growth in current account and savings account ("CASA") deposits, which made up 49.2% of total deposits. As at 31 December 2017, the loans-to-deposits ratio was 82.5%, relatively unchanged from 82.9% a year ago.

The Group's average Singapore dollar and all-currency liquidity coverage ratios (excluding OCBC Wing Hang Hong Kong, OCBC Wing Hang Macao and OCBC Yangon which will be included in due course) were 254% and 159% respectively for 4Q17, well above the respective regulatory ratios of 100% and 80%.

The Group's Common Equity Tier 1 capital adequacy ratio ("CAR"), Tier 1 CAR and Total CAR as at 31 December 2017 were 13.9%, 14.9% and 17.2% respectively. Based on Basel III transitional arrangements, these ratios remained well above the respective regulatory minima of 6.5%, 8% and 10%. The Group's CET1 CAR, based on Basel III rules which will be effective from 1 January 2018, improved to 13.1% from 12.0% in the previous quarter. In addition to these minimum capital requirements, a Capital Conservation Buffer ("CCB") of 2.5% and Countercyclical Buffer of up to 2.5% are being phased in from 2016 to 2019. The CCB was 1.25% as at 1 January 2017, and would be increased by 0.625% each year to reach 2.5% on 1 January 2019. The Group's leverage ratio of 7.3% was above the 3% minimum regulatory requirement.

Subsidiaries' Full Year Results

Great Eastern Holdings achieved a net profit after tax of S$1.16 billion for the year, significantly above S$589 million in FY16. Its robust year-on-year performance was driven by higher operating profit from its insurance business and strong performance in its investment portfolio as a result of favourable market conditions. Total weighted new sales and new business embedded value grew 23% and 17% respectively from a year ago. Great Eastern Holdings' contribution to the Group's net profit, after deducting amortisation of intangible assets and non-controlling interests, rose from S$470 million to S$968 million, contributing 23% of the Group's earnings.

OCBC Bank Malaysia reported a 17% rise in FY17 net profit after tax of RM949 million (S$305 million), underpinned by a rise in net interest income and non-interest income, and from a decline in allowances. As at 31 December 2017, customer loans were RM68 billion (S$22 billion) while customer deposits were RM74 billion (S$24 billion). Asset quality remained healthy, with the NPL ratio down at 2.1% from 2.2% a year ago.

OCBC NISP's net profit after tax rose 22% to IDR2,176 billion (S$224 million), driven by broad-based income growth which more than offset a rise in operating expenses. Customer loans were up 14% over the previous year at IDR106 trillion (S$10 billion), while the NPL ratio was lower at 1.8%. As at 31 December 2017, customer deposits of IDR113 trillion (S$11 billion) were 10% higher than a year ago.

OCBC Wing Hang's full year net profit after tax was 18% higher at HK$2.41 billion (S$425 million), driven by increases in both net interest and non-interest income. Customer loans rose 11% to HK$180 billion (S$31 billion) and the NPL ratio improved to 0.5% from 0.9% a year ago, while deposits increased 15% to HK$222 billion (S$38 billion).

Bank of Singapore's assets under management as at 31 December 2017 increased 25% to US$99 billion (S$132 billion) from US$79 billion (S$115 billion) a year ago, driven by sustained net new money inflows and improved market valuations. Its earnings asset base, which included secured loans, likewise rose 25% to US$121 billion (S$161 billion) from US$97 billion (S$140 billion) the previous year.

The Group's FY17 wealth management income, comprising income from insurance, private banking, asset management, stockbroking and other wealth management products, rose 43% to a new high of S$3.25 billion. As a proportion of the Group's total income, wealth management income contributed 34%, as compared to 27% in FY16.

Final Dividend

The Board has proposed a final tax-exempt dividend of 19 cents per share, an increase from 18 cents per share the previous year, bringing the FY17 total dividend to 37 cents per share, up from 36 cents in FY16. The Scrip Dividend Scheme will not be applicable to the final dividend. The estimated total dividend payout will amount to S$1.55 billion, an increase of 2.86% over the prior year and representing 37% of the Group's core underlying net profit in 2017.

CEO's Comments

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

"Our 2017 results again underscored the solid fundamentals and continued strength of our diversified franchise. Sustained growth momentum across our banking, wealth management and insurance business lines delivered record earnings. Loan growth was broad-based, fee income climbed and insurance sales rose strongly, and we further strengthened our capital, liquidity and funding position.

Given the continued weakness observed in the OSV sector of the oil and gas industry, we prudently made additional specific allowances to reflect the challenging operating conditions and the uncertain market outlook. Apart from the stress in the offshore oil and gas support services portfolio, the credit quality of the overall loan portfolio remained sound.

Sentiments in the region have on the whole been lifted by strong economic indicators and improved business confidence, which have spurred renewed optimism in our key markets. However, there continued to be geo-political events and financial market volatilities that we would need to remain watchful of. Against this generally positive market outlook, we will continue to drive growth across our diversified business lines, invest in our franchise and are well-placed to deliver sustainable performance to our shareholders and customers."

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 600 branches and representative offices in 18 countries and regions. These include over 330 branches and offices in Indonesia under subsidiary Bank OCBC NISP, and more than 100 branches and offices in Hong Kong, China and Macao 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