OCBC Bank

Media Release

OCBC Group Full Year 2018 Net Profit Grew 11% to a Record S$4.49 billion

Fourth quarter earnings from banking operations rose 22%

Proposed final dividend of 23 cents per share, up 15% from 2018 interim dividend of 20 cents

Singapore, 22 February 2019 – Oversea-Chinese Banking Corporation Limited ("OCBC Bank") reported a net profit after tax of S$4.49 billion for the financial year ended 31 December 2018 ("FY18"), up 11% from S$4.05 billion a year ago ("FY17"). This was driven by record earnings from the Group's banking operations which rose 22% year-on-year, led by income growth, disciplined cost control and lower allowances. The Group's FY18 return on equity increased to 11.5% from 11.0% a year ago.

The Group's total income climbed to a new high of S$9.70 billion from S$9.53 billion in the previous year.

Net interest income increased 9% year-on-year to S$5.89 billion from S$5.42 billion in FY17, underpinned by loan growth and a rise in net interest margin ("NIM"). Customer loans grew 9% to S$258 billion across all key markets. FY18 NIM improved by 5 basis points to 1.70% from higher margins in Singapore, Malaysia and Greater China.

Non-interest income of S$3.81 billion declined 7% from the previous year, mainly attributed to lower investment income from Great Eastern Holdings ("GEH"), even though non-interest income from banking operations rose 4% year-on-year. The Group's net fees and commissions grew 4% to S$2.03 billion, led by higher wealth management, credit card, loan and trade-related fees. FY18 wealth management fee income was up 5% at S$958 million, despite slower fourth quarter performance as a result of weak investment sentiments during the quarter. Net trading income was 1% lower from a year ago at S$508 million, while income from life and general insurance was little changed at S$911 million. Net gains from sale of investment securities were significantly lower at S$16 million as compared to S$431 million a year ago, as substantially higher gains were realised from the divestment of investment securities by GEH in the prior year.

Operating expenses were S$4.21 billion in FY18 and 4% above a year ago, with the cost-to-income ratio ("CIR") at 43.4%. Allowances for loans and other assets of S$288 million were below S$671 million a year ago.

The Group's share of results of associates rose 17% to S$455 million from S$389 million a year ago.

Earnings per share increased to S$1.06 from S$0.95 in FY17.

Fourth Quarter Performance

For the fourth quarter of 2018 ("4Q18"), net profit after tax from banking operations grew 22% from a year ago ("4Q17") to S$817 million. However, the Group's overall net profit was 11% lower at S$926 million due to a decline in earnings contribution from GEH.

The Group's net interest income rose 7% to S$1.52 billion from S$1.42 billion in 4Q17. This was driven by loan growth and a 5 basis points rise in NIM to 1.72%. Non-interest income fell 32% to S$830 million, led by a drop in investment and insurance income from GEH. Net fees and commissions also declined 4% from a year ago to S$474 million. Higher credit card, loan and trade-related fees were more than offset by a fall in wealth management fees attributable to subdued investment sentiments in the current market environment. Nonetheless, Bank of Singapore continued to report strong net new money inflows, which increased private banking assets under management ("AUM") to US$102 billion (S$139 billion) as at 31 December 2018, up 3% from a year ago. 4Q18 net trading income was lower at S$9 million as compared to S$99 million a year ago, largely attributable to unrealised mark-to-market losses in GEH's investment portfolio as a result of unfvourable market conditions. Excluding GEH, trading income from banking operations was 5% higher year-on-year.

Operating expenses for 4Q18 of S$1.08 billion were unchanged from the previous year, as costs were tightly-controlled. Allowances of S$205 million for the quarter were 14% higher than S$178 million in 4Q17.

As compared to the previous quarter ("3Q18"), the Group's net profit after tax was down 26% as higher net interest income was offset by a fall in non-interest income and increased allowances.

Allowances and Asset Quality

Net allowances for loans and other assets for FY18 were S$288 million, significantly lower than the S$671 million in FY17. 4Q18 allowances of S$205 million were up 14% year-on-year, mainly from allowances made for loans in the general commerce sector and for previously identified groups in the oil and gas support vessels and services sector.

Overall asset quality of the loan portfolio continued to be healthy. As at 31 December 2018, total non-performing assets were S$3.94 billion, higher than S$3.59 billion a quarter ago, with the increase coming mainly from the general commerce sector. The non-performing loans ratio of 1.5% was flat as compared to the prior year and higher than 1.4% reported in the previous quarter.

Funding and Capital Position

The Group maintained its strong funding and capital position. Customer loans grew 9% year-on-year to S$258 billion while customer deposits were up 4% at S$295 billion, with current account and savings ("CASA") deposits representing 46.4% of total non-bank deposits. The Group's loans-to-deposits ratio was 86.4% as compared to 82.5% a year ago.

The average Singapore dollar and all-currency liquidity coverage ratios for the Group in 4Q18 were 265% and 156% respectively, while the net stable funding ratio was 109%.

The Group's Common Equity Tier 1 capital adequacy ratio ("CAR"), Tier 1 CAR and Total CAR as at 31 December 2018 were 14.0%, 14.8% and 16.4% respectively. The Group's leverage ratio was 7.2% as at 31 December 2018.

These regulatory ratios were all above their respective regulatory requirements.

Subsidiaries' Full Year Performance

Great Eastern Holdings' net profit after tax was S$741 million for the year, 29% lower than S$1.04 billion in FY17. Although operating profit from its underlying insurance business grew year-on-year, this was more than offset by unrealised mark-to-market losses in its investment portfolio and the absence of substantial gains from the sale of investment securities that were realised a year ago. GEH's contribution to the Group's net profit, after deducting amortisation of intangible assets and non-controlling interests, was S$604 million, representing 13% of the Group's earnings, as compared to 21% in the prior year. Total weighted new sales and new business embedded value ("NBEV") were S$1.24 billion and S$528 million respectively in FY18, while NBEV margin rose to 42.7% from 41.4% a year ago. Embedded value, a measure of the economic value of the existing business of a life insurance company, rose 0.4% year-on-year to S$13.44 billion.

Both OCBC Wing Hang and Bank OCBC NISP reported record net profit after tax in local currency terms in FY18. OCBC Wing Hang's net profit increased 15% from a year ago to HK$2.76 billion (S$475 million), driven by broad-based income growth. Its customer loans rose 8% to HK$193 billion (S$34 billion) while deposits were relatively stable at HK$222 billion (S$39 billion). Bank OCBC NISP reported a 21% rise in full year net profit of IDR2.64 trillion (S$251 million), backed by strong net interest income growth and lower allowances. Customer loans and deposits both grew 11% year-on-year to IDR118 trillion (S$11 billion) and IDR126 trillion (S$12 billion) respectively.

OCBC Bank Malaysia's FY18 net profit after tax fell 14% to RM814 million (S$272 million), as net interest income growth was offset by a decline in other income segments, while allowances were higher than the previous year. Customer loans were up 2% year-on-year at RM69 billion (S$23 billion) and deposits rose 3% to RM76 billion (S$25 billion).

As at 31 December 2018, Bank of Singapore's AUM grew 3% to US$102 billion (S$139 billion) from US$99 billion (S$132 billion) a year ago, driven by sustained net new money inflows. Including secured loans, its earnings asset base grew 4% to US$125 billion (S$171 billion) from US$121 billion (S$161 billion) in the previous year.

The Group's overall wealth management-related income – comprising income from insurance, private banking, asset management, stockbroking and other wealth management products – was S$2.84 billion in FY18 and represented 29% of the Group's total income.

Final Dividend

Supported by record earnings and a strong capital position, the Board has proposed a final tax-exempt dividend of 23 cents per share, representing an increase of 21% from the final dividend of 19 cents a year ago and a 15% rise from the interim dividend of 20 cents. Together with the interim dividend of 20 cents per share, this will bring the FY18 total dividend to 43 cents, up 16% or 6 cents, from 37 cents per share in FY17. To continue to provide our shareholders with the option of reinvesting in OCBC Bank, the Scrip Dividend Scheme will be applicable to the final dividend. The estimated total dividend payout will amount to S$1.82 billion, an increase of 17% from FY17. This represents a dividend payout ratio of 40% of the Group's core net profit in FY18.

CEO's Comments

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

"Despite the market uncertainties and challenging investment environment particularly impacting the investment portfolio in our insurance business in the last quarter of the year, we are pleased to have delivered strong results for 2018. Our record earnings demonstrate the strength and resilience of our diversified business and the depth of our customer relationships. Backed by sustained earnings growth from banking operations and our strong capital position, we are delighted to reward our shareholders for their support by raising the total dividend by 16% or 6 cents from a year ago to 43 cents per share in 2018.

Looking ahead, global economic growth is expected to slow on concerns of continued trade and geopolitical tensions, subdued market and investment sentiments and rising policy risks in the advanced economies. In spite of the uncertain outlook, we are confident that our focused strategy, strong capital and funding base, and disciplined cost control will allow us to continue to prudently expand our franchise in our key markets and support our 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 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 570 branches and representative offices in 19 countries and regions. These include over 300 branches and offices in Indonesia under subsidiary Bank OCBC NISP, and more than 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