Media Release

OCBC Group Reported Second Quarter 2017 Net Profit of S$1.08 billion

Second quarter earnings grew 22% year-on-year and 11% from the previous quarter

Half year net profit up 18% year-on-year to S$2.06 billion

Singapore, 27 July 2017 – Oversea-Chinese Banking Corporation Limited ("OCBC Bank") reported a net profit after tax of S$1.08 billion for the second quarter of 2017 ("2Q17"), an increase of 22% from S$885 million ("2Q16") a year ago, and 11% above S$973 million in the previous quarter ("1Q17"). The Group's banking, wealth management and insurance operations delivered a strong year-on-year performance, driven by growth in net interest income, fees and commissions, net trading income and profit from life assurance.

Net interest income rose 7% to S$1.35 billion in 2Q17 from S$1.26 billion a year ago, largely driven by strong lending growth across the Group's corporate and consumer businesses. Customer loans growth was broad-based and rose 11% from the previous year. Net interest margin ("NIM") for the quarter was 1.65%, as compared to 1.68% a year ago and up from 1.62% the previous quarter. The 3 basis points year-on-year decline in NIM was mainly from a fall in loan yields, partly offset by higher gapping income and a drop in funding costs.

Non-interest income rose 34% to S$1.05 billion from S$788 million a year ago. Fees and commissions climbed 18% to S$492 million from higher income associated with loan and trade-related activities, wealth and fund management, credit card and brokerage. In particular, wealth management fee income rose 45% year-on-year, partly attributable to the inclusion of the former wealth and investment management business of Barclays PLC in Singapore and Hong Kong ("Barclays WIM") acquired in November 2016. Net trading income, comprising predominantly treasury-related income from customer flows, grew 14% year-on-year to S$140 million, while net realised gains from the sale of investment securities was 23% higher at S$54 million. Profit from life assurance was significantly higher at S$240 million, as compared with S$108 million in the preceding year, driven by higher operating profit and positive performance from Great Eastern Holdings' ("GEH") investment portfolio as a result of narrowing of credit spreads and gains from favourable interest rate movements. Total weighted new sales and new business embedded value at GEH increased 6% and 17% year-on-year respectively, reflecting strong underlying business growth.

The Group's share of results of associates also rose 17% to S$119 million from S$103 million in 2Q16.

Operating expenses for the quarter were up 6% at S$992 million from S$932 million a year ago, partly attributable to an increase in staff costs associated with the inclusion of Barclays WIM. The cost-to-income ratio improved to 41.4% from 45.5% in 2Q16. Allowances for loans and other assets were S$169 million, higher as compared to S$88 million a year ago, but flat on a quarter-on-quarter basis.

Against the previous quarter, the Group’s net profit after tax grew 11%. Net interest income increased 6%, underpinned by 3% growth in average assets and a 3 basis points improvement in net interest margin from higher gapping income and an increase in the average loans-to-deposits ratio (“LDR”). Non-interest income rose 8% mainly from higher fee income and profit from life assurance. Operating expenses were well-controlled, rising 2% against 1Q17. Net allowances for loans and other assets were relatively unchanged from the previous quarter.

First Half Performance

Net profit after tax for the first half of 2017 (“1H17”) of S$2.06 billion was 18% above S$1.74 billion a year ago (“1H16”).

Net interest income rose 2% to S$2.62 billion, as average asset volumes grew 7%, more than offsetting a 7 basis points decline in net interest margin. Non-interest income of S$2.03 billion was up 32% year-on-year. Fee and commission income increased 23% to S$973 million, led by higher income generated from wealth management, fund management and investment banking activities. Net trading income grew 22% to S$298 million, attributable to an increase in customer flows. Net gains from the sale of investment securities were 16% higher at S$119 million while profit from life assurance of S$416 million in 1H17 more than doubled from S$191 million a year ago.

Overall wealth management income, comprising income from insurance, private banking, asset management, stockbroking and other wealth management products, grew 51% to S$1.51 billion, from S$1.00 billion a year ago. As a proportion of the Group’s total income, wealth management contributed 33%, higher as compared with 24% in 1H16. OCBC’s private banking business continued to achieve strong growth, as reflected by an increase in assets under management to US$89 billion (S$123 billion) as at 30 June 2017, up 47% from US$61 billion (S$82 billion) the previous year, partly contributed by the acquisition of Barclays WIM.

The Group’s operating expenses were 6% higher at S$1.97 billion, mainly from staff-related costs, including those associated with the consolidation of Barclays WIM. Net allowances for loans and other assets of S$337 million were higher than S$255 million set aside a year ago.

Income from associates of S$233 million in 1H17 rose 12% from S$209 million a year ago.

Annualised return on equity for 1H17 was 11.4%, higher than 10.3% a year ago. Annualised earnings per share amounted to 97.7 cents, as compared to 83.5 cents a year ago.

Allowances and Asset Quality

Total net allowances for loans and other assets for 2Q17 were S$169 million, flat as compared to S$168 million the previous quarter but higher than S$88 million a year ago. Specific provisions for loans, net of recoveries and write-backs of S$105 million were slightly below S$108 million a quarter ago and represented an annualised 19 basis points of loans. General provisions of S$59 million were set aside in line with loan growth.

As at 30 June 2017, the level of total non-performing assets ("NPAs") of S$2.92 billion was relatively stable against S$2.87 billion in 1Q17. Compared to S$2.49 billion a year ago, the increase was mainly attributable to the downgrade of corporate accounts in the oil and gas support services sector which remained under stress. The overall non-performing loans ratio of 1.3% was unchanged from a quarter ago. Healthy coverage ratios were maintained, with total cumulative allowances covering 304% of unsecured NPAs and 101% of total NPAs at the end of 2Q17.

Funding and Capital Position

The Group maintained its strong funding and capital position as at 30 June 2017. Customer loans were up 11% to S$229 billion, while customer deposits rose 7% year-on-year to S$264 billion. The increase in deposits was driven by an 11% rise in current account and savings ("CASA") deposits, which made up 50.9% of total non-bank deposits, higher than 49.3% a year ago. The LDR was 85.2% as compared to 82.2% the previous year.

For 2Q17, the average Singapore dollar and all-currency liquidity coverage ratios for the Group (excluding OCBC Wing Hang Hong Kong, OCBC Wing Hang Macau and OCBC Yangon which will be included in due course) were 260% and 144% respectively, higher as compared to 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 30 June 2017, were 13.0%, 13.9% and 16.1% respectively. Based on Basel III transitional arrangements, these ratios were 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 1.25% as at 1 January 2017, and will be increased by 0.625% each year to reach 2.5% on 1 January 2019. The Group's leverage ratio of 7.8% was better than the 3% minimum requirement as guided by the Basel Committee.

Interim Dividend

An interim dividend of 18 cents per share has been declared for the first half of 2017, unchanged from the 18 cents interim dividend declared a year ago. The Scrip Dividend Scheme will not be applicable to the interim dividend. The interim dividend payout will amount to approximately S$753 million, representing 37% of the Group's 1H17 net profit after tax.

CEO's Comments

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

"Strong business momentum was achieved across all three business pillars – banking, wealth management and insurance. Income growth was broad-based, lending activities were up, AUM continued to rise, and underlying insurance business growth continued. OCBC Group maintained its healthy capital, funding and liquidity positions, and the overall loan portfolio remained sound, with the NPL ratio stable over the last three quarters.

Stronger consumer sentiments were noted in key economies, but overall economic growth in the region is expected to only be moderate and event risks remain. We will pursue prudent business growth, focusing on our key markets and core business lines."

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