OCBC Bank

Media Release

OCBC Group Second Quarter 2018 Net Profit Up 16% Year-on-Year to a Record S$1.21 billion

Half year net profit grew 22% to a new high of S$2.32 billion

Singapore, 6 August 2018 – Oversea-Chinese Banking Corporation Limited ("OCBC Bank") reported a net profit after tax of S$1.21 billion for the second quarter of 2018 ("2Q18"), climbing 16% from S$1.04 billion a year ago ("2Q17"), and 9% from S$1.11 billion in the previous quarter ("1Q18"). The strong results, which boosted 2Q18 return on equity to 12.6% from 11.4% a year ago, were driven by robust performance across each of the Group's banking, wealth management and insurance businesses.

Strong loan growth and higher net interest margin ("NIM") drove 2Q18 net interest income to a new high of S$1.45 billion, which was 8% above S$1.35 billion a year ago. Average customer loans grew 11%, driven by broad-based growth across most industries and geographical segments. NIM expanded 2 basis points to 1.67% from 1.65% a year ago, boosted by higher asset yields in Singapore and Malaysia which saw higher NIMs in both markets, more than offsetting higher funding costs in the rising interest rate environment.

Non-interest income in the second quarter was S$1.02 billion, an increase of 2% year-on-year. Led by growth in wealth management, trade-related and investment banking fees, income from fees and commissions rose 5% to S$518 million. Net trading income, mainly comprising treasury-related income from customer flows, increased 37% to S$192 million. Net realised gains from the sale of investment securities were lower at S$2 million as compared to S$54 million in 2Q17. Profit from life assurance was S$191 million against S$195 million a year ago. Great Eastern Holdings' ("GEH") total weighted new sales grew 28% to S$327 million, driven by higher sales in Singapore, and new business embedded value was up 8% to S$140 million.

Operating expenses increased 4% to S$1.04 billion from S$993 million in 2Q17, reflecting an increase in staff costs, along with higher technology-related expenses as the Group continued to drive its digitalisation strategy. Allowances for loans and other assets were S$21 million as compared to S$169 million a year ago.

The Group's share of results of associates was S$112 million in 2Q18.

As compared to the previous quarter, the Group's net profit after tax grew 9%. Income growth was broad-based: net interest income increased 2% quarter-on-quarter, and non-interest income was up 12%, led by higher insurance and trading income. Fee income decreased 3% from the previous quarter, mainly from a fall in wealth management fees, reflecting lower client activity in a generally "risk-off" market environment. However, our private banking arm, Bank of Singapore, continued to report strong net new money inflows in 2Q18. The cost-to-income ratio ("CIR") improved to 41.9% from 44.2% in 1Q18, driven by the 6% increase in total income while operating expenses remained well-managed and were flat quarter-on-quarter. Allowances of S$21 million were higher than the low base of S$12 million in the previous quarter.

First Half Performance

The Group reported net profit after tax for the first half of 2018 ("1H18") of S$2.32 billion, which was 22% higher than S$1.90 billion a year ago ("1H17").

Net interest income increased 9% to S$2.87 billion from S$2.62 billion in 1H17. This was driven by a 7% rise in average asset volumes and a 3 basis points increase in NIM as asset yields outpaced a rise in funding costs. Non-interest income was up 5% at S$1.94 billion. Fee and commission income rose 8% to S$1.05 billion, with broad-based fee growth led by wealth management, fund management and trade-related activities. Net trading income of S$286 million was down 4% from S$298 million a year ago. Net gains from the sale of investment securities were S$10 million as compared to S$119 million in 1H17. Profit from life assurance rose 46% year-on-year to S$357 million.

The Group's overall wealth management-related income, comprising income from insurance, private banking, asset management, stockbroking and other wealth management products, made up 31% of the Group's total income and grew to S$1.49 billion, 11% higher than S$1.34 billion a year ago. Assets under management ("AUM") in Bank of Singapore rose to US$102 billion (S$139 billion) as at 30 June 2018, up 14% from US$89 billion (S$123 billion) a year ago. On a quarter-on-quarter basis, AUM was unchanged, as net new money inflows which continued to be strong were offset by a reduction in the value of AUM due to lower market valuation.

Operating expenses increased 5% to S$2.07 billion while CIR improved to 43.0% from 44.0% in 1H17. Net allowances for loans and other assets were S$33 million, significantly lower as compared to S$337 million a year ago.

Share of profits from associates was S$237 million in 1H18, slightly above S$233 million in the previous year.

Annualised return on equity for 1H18 rose to 12.2%, from 10.5% a year ago. Annualised earnings per share was higher at 111.4 cents, as compared to 90.3 cents in 1H17.

Allowances and Asset Quality

Total allowances for loans and other assets in 2Q18 were S$21 million. This was S$9 million higher quarter-on-quarter but significantly lower than S$169 million a year ago when allowances were set aside for corporate accounts in the oil and gas support vessels and services sector.

The asset quality of the loan portfolio was stable. Total non-performing assets of S$3.51 billion as at 30 June 2018 were slightly higher than S$3.45 billion in the previous quarter, and the non-performing loans ratio remained stable quarter-on-quarter at 1.4%.

Funding and Capital Position

The Group maintained its strong funding and capital position. Customer loans grew 10% year-on-year to S$252 billion across the Group's corporate and consumer businesses. Customer deposits similarly were up 10% to S$290 billion, supported by a 3% increase in current account and savings ("CASA") deposits. As at 30 June 2018, CASA deposits represented 47.7% of total non-bank deposits, up from 47.1% in the previous quarter. The loans-to-deposits ratio stood at 85.9%.

For 2Q18, the average Singapore dollar and all-currency liquidity coverage ratios for the Group were 249% and 138% respectively, well above the respective regulatory ratios of 100% and 90%. The net stable funding ratio of 108% was higher than the minimum regulatory requirement of 100%.

Based on Basel III rules which came into full effect on 1 January 2018, the Group's Common Equity Tier 1 capital adequacy ratio ("CAR"), Tier 1 CAR and Total CAR as at 30 June 2018, were 13.2%, 14.3% and 15.9% respectively. 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% are being phased in from 2016 and will be fully implemented in 2019. The CCB requirement was 1.875% as at 1 January 2018, and will be increased by 0.625% to reach 2.5% on 1 January 2019. The Group's leverage ratio of 7.0% was better than the 3% minimum regulatory requirement.

Interim Dividend

An interim dividend of 20 cents per share has been declared for the first half of 2018, 2 cents higher than the 18 cents interim dividend declared a year ago. The interim dividend payout will amount to approximately S$837 million, representing 36% of the Group's 1H18 net profit after tax.

The Scrip Dividend Scheme will be applicable to the interim dividend, giving shareholders the option to receive the dividend in the form of shares. The issue price of the shares will be set at a 10% discount to the average of the daily volume weighted average prices during the price determination period from 15 August to 17 August 2018, both dates inclusive.

CEO's Comments

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

"Our record quarterly performance reflects the resilience and strong foundation for growth of our diversified banking, wealth management and insurance franchise. Yearly and quarterly revenue growth was driven by increases in both net interest and non-interest income. 2Q18 net interest income rose from a year ago, driven by robust loan growth and improved asset yields in both the Singapore and Malaysia markets. Non-interest income growth was broad-based, led by higher fees, trading income and insurance income. Operating expenses were well-managed and credit costs remained low.

The operating environment is increasingly challenging and we are watchful of the severe implications to the global economy and financial markets from the escalating trade and political tensions. With our strong and diversified franchise, capital and balance sheet, we are well-positioned and committed to supporting our customers and pursuing long-term sustainable and stable growth for our shareholders."

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 580 branches and representative offices in 18 countries and regions. These include over 310 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.