

Third Quarter 2020 Results Update

Net Profit up 41% QoQ to S\$1.03 billion on lower allowances

Singapore, 5 November 2020 – Oversea-Chinese Banking Corporation Limited (“OCBC Bank”) reported its financial results for the third quarter of 2020 (“3Q20”). Group net profit for 3Q20 of S\$1.03 billion was 41% higher as compared to S\$730 million in the previous quarter (“2Q20”), largely driven by a fall in allowances.

Third Quarter 2020 Performance

S\$ million	3Q20	2Q20	QoQ (%)	3Q19	YoY (%)
Net interest income	1,421	1,483	(4)	1,600	(11)
Non-interest income	1,118	1,142	(2)	1,055	6
<i>of which: Fees and commissions</i>	501	440	14	550	(9)
<i>Trading income</i>	255	325	(21)	182	40
Total income	2,539	2,625	(3)	2,655	(4)
Operating expenses	(1,098)	(1,107)	(1)	(1,132)	(3)
Associates	153	163	(5)	156	(2)
Operating profit before allowances	1,594	1,681	(5)	1,679	(5)
Allowances	(350)	(750)	(53)	(323)	8
Group net profit	1,028	730	41	1,172	(12)
Group Return on Equity (“ROE”)	8.7%	6.2%		11.4%	
Group Return on Tangible Equity (“ROTE”)	10.0%	7.2%		13.2%	

Quarter-on-Quarter Performance

- The Group’s operating profit before allowances was S\$1.59 billion, down 5% QoQ, as lower net interest income and trading income more than offset increases in fee-based income.
- Total income declined 3% QoQ to S\$2.54 billion.
 - Net interest income was 4% lower at S\$1.42 billion, as a result of lower market rates which drove a 6 basis points contraction in net interest margin (“NIM”).
 - Net fee income rose 14% to S\$501 million from broad-based fee growth, which benefitted from a pick-up in customer activities following the phased re-opening of the economy.

Wealth management fees rose to the pre-COVID-19 levels of the previous year, rising 24% QoQ and 4% YoY to S\$252 million.

As at 30 September 2020, assets under management at our private banking subsidiary Bank of Singapore, grew 3% QoQ and 5% YoY to US\$116 billion (S\$159 billion), underpinned by net new money inflows and better market valuations.

- Great Eastern Holdings' ("GEH") total weighted new sales ("TWNS") rose 51% QoQ to S\$433 million, supported by improved sales both in Singapore and Malaysia. New Business Embedded Value ("NBEV") was 47% higher at S\$160 million, while the NBEV margin was 37.0%. Profit contribution from GEH to the Group was S\$241 million, as compared to S\$250 million in the last quarter.
 - Trading income was 21% lower QoQ at S\$255 million, largely from a decline in treasury income and lower mark-to-market gains in GEH's investment portfolio. However, customer-flow income rose 4% QoQ and 14% YoY to a new high of S\$173 million. Net gains from the sale of investment securities were S\$35 million as compared to S\$55 million a year ago.
- Operating expenses remained well-controlled and were 1% lower QoQ at S\$1.10 billion, with the cost-to-income ratio at 43.2%.
 - Net allowances of S\$350 million were set aside in 3Q20, as compared to S\$750 million in the previous quarter (*see further analysis below*).

Year-on-Year Performance

- Against the previous year, operating profit before allowances in 3Q20 was 5% lower.
- Total income declined 4% from a year ago.
 - Net interest income fell 11% YoY. The Group's NIM fell 23 basis points YoY amid a sustained low interest rate environment.
 - Non-interest income rose 6% YoY, led by higher trading income and insurance profit.
- Operating expenses fell 3% YoY as staff compensation and other discretionary expenses were tightly controlled.
- Allowances for the quarter were 8% higher than a year ago.

Asset Quality and Allowances

S\$ million	Sep 2020	Jun 2020	Sep 2019	QoQ	YoY
Non-performing assets (NPAs)	4,255	4,351	4,190	-2%	+2%
Non-performing loan (NPL) ratio	1.6%	1.6%	1.6%	-	-
Total NPA coverage	109%	101%	78%	+8ppt	+31ppt
Credit costs (bps)	3Q20	2Q20	3Q19	9M20	9M19
Impaired loans	20	66	35	41	27
Total loans	47	97	24	77	25

- Total NPAs were S\$4.25 billion as at 30 September 2020, 2% below the S\$4.35 billion a quarter ago as recoveries, upgrades and write-offs more than offset new NPA formation.
 - New NPA formation in 3Q20 was S\$270 million, lower than the S\$496 million a quarter ago.
 - 3Q20 saw recoveries and upgrades of S\$200 million and write-offs of S\$91 million.
 - The NPL ratio was unchanged at 1.6% from the previous quarter and a year ago.
- NPA coverage ratios were further increased from the previous quarter and a year ago. Coverage for total NPAs was 109%.
- Total allowances for 3Q20 were S\$350 million, 53% lower from the previous quarter. 3Q20 allowances comprised:
 - S\$148 million in allowances for impaired loans, mainly for corporate loans. These were not concentrated in any particular geography or sector.
 - S\$202 million in allowances for non-impaired assets (ECL stage 1 and 2). This included a S\$150 million management overlay above the ECL model requirements on a forward-looking basis.

On a year-to-date basis, a total of S\$450 million in management overlay has been set aside to prudently take into account the uncertain outlook.

Strong Funding, Liquidity and Capital Position

S\$ billion	Sep 2020	Jun 2020	Sep 2019	QoQ	YoY
Loans	269	268	263	+0.3%	+2%
Deposits	307	310	300	-1%	+3%
<i>of which: CASA deposits</i>	182	175	141	+4%	+29%
CASA ratio	59.2%	56.7%	47.1%		
All-currency LCR	136%	139%	152%		
CET1 CAR	14.4%	14.2%	14.4%		
Leverage ratio	7.6%	7.4%	7.6%		

- As at 30 September 2020, customer loans were S\$269 billion, up 1% QoQ and 2% YoY in constant currency terms. The QoQ growth was mainly coming from Singapore, and lending to our network customers in Australia and the United Kingdom.
- In constant currency terms, customer deposits of S\$307 billion were stable QoQ and up 3% YoY.
 - CASA deposits grew 4% QoQ to a record high of S\$182 billion, driving the CASA ratio to a new peak of close to 60%. The Group continued to optimise its funding position by running down higher-cost term deposits.
- The loans-to-deposits ratio was 86.2%, slightly above the 85.4% in the previous quarter.
- The Group's CET1 CAR was 14.4%, further increased from the 14.2% as at 30 June 2020. For 9M20, the average all-currency liquidity coverage ratio for the Group was 136%, while the net stable funding ratio was 122%. The leverage ratio was higher at 7.6%. These regulatory ratios were all above their respective regulatory requirements.

Message from Group CEO, *Samuel Tsien*

“While 3Q20 saw a recovery from the trough of the previous quarter, we may not have seen the full extent of the lagging economic impact of the crisis yet, which will have more visibility next year. In the meantime, we are proactively following and responding to the government relief programme exits in all markets.

With the outlook still uncertain, it is most important that we continue to strengthen our capital and balance sheet. This will position us well for the crisis and enable us to emerge well-prepared for new opportunities when the market recovers. We have set aside prudent levels of allowances including management overlays on top of the ECL model requirements on a forward-looking basis. We will stay vigilant in managing the credit portfolio and are working closely with our customers to ensure a smooth and disciplined transition out of the moratorium programmes. While cost has been tightly managed, the Group will continue to invest in digital transformation to boost customer engagement, increase productivity and achieve greater cost efficiencies.

Our performance this quarter reflected the robustness of our customer franchise and diversified business model. While our net interest income is impacted by lower market rates, our banking and wealth management businesses saw strong QoQ fee-based growth, and our insurance franchise reported strong sales and NBEV growth. We remain focused on generating long-term sustainable value for our shareholders, protecting our franchise and supporting our customers and employees through this crisis.”

Financial Highlights (unaudited)

S\$ million	9M20	9M19	+ / (-)	3Q20	2Q20	+ / (-)	3Q19	+ / (-)
			%			%		%
Selected Income Statement Items								
Net interest income	4,530	4,722	(4)	1,421	1,483	(4)	1,600	(11)
Non-interest income	2,421	2,559	(5)	854	860	–	851	–
Income from life and general insurance	703	668	5	264	282	(7)	204	29
Total income	7,654	7,949	(4)	2,539	2,625	(3)	2,655	(4)
Operating expenses	(3,314)	(3,378)	(2)	(1,098)	(1,107)	(1)	(1,132)	(3)
Operating profit before allowances and amortisation	4,340	4,571	(5)	1,441	1,518	(5)	1,523	(5)
Amortisation of intangible assets	(78)	(77)	2	(26)	(27)	(2)	(26)	–
Allowances for loans and other assets ^{1/}	(1,758)	(683)	158	(350)	(750)	(53)	(323)	8
Operating profit after allowances and amortisation	2,504	3,811	(34)	1,065	741	44	1,174	(9)
Share of results of associates, net of tax	481	472	2	153	163	(5)	156	(2)
Profit before income tax	2,985	4,283	(30)	1,218	904	35	1,330	(8)
Net profit attributable to shareholders	2,455	3,627	(32)	1,028	730	41	1,172	(12)
Cash basis net profit attributable to shareholders	2,533	3,704	(32)	1,054	757	39	1,198	(12)
Selected Balance Sheet Items								
Ordinary equity	47,049	44,398	6	47,049	46,384	1	44,398	6
Equity attributable to equity holders of the Bank	48,249	45,898	5	48,249	47,884	1	45,898	5
Total assets	508,940	483,500	5	508,940	510,002	–	483,500	5
Assets excluding life insurance fund investment assets	416,651	399,121	4	416,651	419,264	(1)	399,121	4
Net customer loans ^{2/}	264,881	260,449	2	264,881	264,391	–	260,449	2
Deposits of non-bank customers	307,407	299,706	3	307,407	309,731	(1)	299,706	3
Selected Changes in Equity Items								
Total comprehensive income, net of tax	2,832	4,349	(35)	858	1,196	(28)	1,278	(33)
Dividends and distributions	(1,993)	(2,117)	(6)	(730)	(1,233)	(41)	(1,109)	(34)
Key Financial Ratios (%)								
Return on equity ^{1/}	7.0	11.6		8.7	6.2		11.4	
Return on assets ^{1/}	0.78	1.27		0.98	0.70		1.26	
Net interest margin	1.63	1.77		1.54	1.60		1.77	
Non-interest income to total income	40.8	40.6		44.0	43.5		39.7	
Cost-to-income	43.3	42.5		43.2	42.2		42.6	
Loans-to-deposits	86.2	86.8		86.2	85.4		86.8	
NPL ratio	1.6	1.6		1.6	1.6		1.6	
Common Equity Tier 1 capital adequacy ratio	14.4	14.4		14.4	14.2		14.4	
Tier 1 capital adequacy ratio	15.0	15.1		15.0	14.9		15.1	
Total capital adequacy ratio	17.1	17.0		17.1	16.4		17.0	
Leverage ratio	7.6	7.6		7.6	7.4		7.6	
Singapore dollar liquidity coverage ratio	287	271		271	284		297	
All-currency liquidity coverage ratio	136	152		128	127		154	
Net stable funding ratio	122	110		122	119		110	
Earnings per share (S\$) ^{1/}								
Basic earnings	0.73	1.15		0.92	0.65		1.15	
Diluted earnings	0.73	1.15		0.92	0.65		1.15	
Net asset value per share (S\$)	10.52	10.08		10.52	10.53		10.08	

Notes:

- 9M19 and 3Q19 allowances included one-off items. Key ratios were computed excluding one-off items.
- Comparative figures have been restated to conform with current period's presentation.
- For notes on the computation of the above ratios, information can be found in the Group Financial Report disclosed on a half-yearly basis.

Further Information

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OCBC Financial Results

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