

Announcement

UOB Group Reports a First Half Earnings High of S\$2.05 Billion

Record quarterly earnings exceed S\$1 billion, driven by healthy balance sheet growth

Singapore, 3 August 2018 – UOB Group (“Group”) achieved record net earnings of S\$2.05 billion for the first half of 2018 (“1H18”), up 24% from a year ago. Total income rose 10% to S\$4.57 billion, contributed by strong growth momentum in both net interest income and net fee and commission income, as well as lower allowances in a favourable operating environment.

Net earnings for the second quarter of 2018 (“2Q18”) rose to a new high of S\$1.08 billion, 28% higher than the second quarter of 2017 (“2Q17”) and 10% higher than the first quarter of 2018 (“1Q18”).

The Group’s funding position and capital base remained strong. Deposits and gross loans grew 11% and 10% year on year to S\$288 billion and S\$250 billion respectively, with the loan-to-deposit ratio at a healthy level of 85.7% as at 30 June 2018. The higher earnings, coupled with lower average risk-weighted assets (“RWA”) from proactive RWA management, also resulted in an improved return on RWA of 2.04% from 1.56% a year ago. Return on equity also increased to 11.6% from 10.2% over the same period a year ago.

UOB’s dividend policy aims to balance the Group’s capital needs and growth opportunities with rewarding shareholders. With the encouraging earnings performance achieved so far, the Board has declared an interim dividend of 50 cents per ordinary share. This underlines UOB’s commitment to a dividend payout ratio of 50%, subject to a minimum Common Equity Tier 1 Capital Adequacy Ratio (“CAR”) of 13.5% and sustainable financial performance. The scrip dividend scheme will be suspended.

First half 2018 earnings

The Group reported net earnings of S\$2.05 billion for 1H18, 24% higher than the same period a year ago.

The 13% year-on-year increase in net interest income to S\$3.01 billion was supported by an uplift in net interest margin and broad-based loan growth of 10%. Net interest margin improved 9 basis points to 1.83%, driven by an increase in net loan margin of 7 basis points amid a rising interest rate environment. Active balance sheet management was also a contributor, resulting in a higher blended interbank and securities margin by 24 basis points.

Net fee and commission income increased 15% to S\$1.02 billion as compared with the first half of last year, attributed to the strong performance in loan-related, wealth management, fund management and credit card fees. Other non-interest income decreased 12% to S\$546 million, mainly due to lower net trading income from fair value changes on hedges of structural positions in 1Q18 and lower net gains from investment securities.

All business segments achieved strong income growth in 1H18 as compared with a year ago. Total income for Group Retail rose 5% to S\$1.94 billion, mainly driven by double-digit growth in fee-based income from wealth management and credit cards. Group Wholesale Banking income grew 11% to S\$1.93 billion, led by volume growth and higher loan margin, coupled with increased contribution from fee income. Global Markets also delivered high single-digit growth of 9% to S\$271 million, attributable to higher trading income and favourable foreign exchange movements.

Total expenses increased 11% to S\$2.01 billion, driven by higher performance-related staff costs and planned IT-related investments as the Group continued to invest in talent and infrastructure to support its digitalisation initiatives and to enhance productivity, product capabilities and customer experience seamlessly across all touchpoints. The cost-to-income ratio for 1H18 rose marginally to 43.9%, reflecting the Group's discipline in cost management.

Total allowances decreased 54% to S\$170 million from a year ago, mainly due to the favourable operating environment resulting in a resilient loan portfolio, and lower residual risks from the oil and gas and shipping sectors as compared with prior periods. Credit costs on non-performing loans (“NPL”) for 1H18 were 11 basis points.

Second quarter 2018 earnings

2Q18 versus 2Q17

The Group reported net earnings of S\$1.08 billion in 2Q18, 28% higher as compared with the same quarter last year, attributed to strong overall operating income.

Net interest income grew 14% to S\$1.54 billion, supported by loan growth of 10% and an improvement in net interest margin by 8 basis points to 1.83%

Net fee and commission income rose 11% to S\$498 million, contributed by broad-based growth in loan-related, fund management, credit card and trade-related fees. Other non-interest income decreased by 3% to S\$302 million mainly due to lower net gain from investment securities.

Total expenses for the quarter increased 10% from a year ago to S\$1.02 billion, primarily from staff expenses and planned IT-related investments. The cost-to-income ratio for the quarter stood at 43.6%.

Total allowances halved to S\$90 million in 2Q18 as the prior year’s higher allowances were mainly driven by specific allowance set aside for NPLs from the oil and gas and shipping sectors.

2Q18 versus 1Q18

Compared with the previous quarter, net earnings for the quarter were 10% higher at S\$1.08 billion, led by healthy growth in net interest income and other non-interest income.

Net interest income grew 5% to S\$1.54 billion. Given the Bank's strong capital and liquidity position, the Group priced competitively for growth resulting in loans increasing 4% and a marginal decline of 1 basis point in net interest margin to 1.83% for the quarter.

Net fee and commission income decreased 4% to S\$498 million as the growth in credit card and loan-related fees was offset by lower wealth management fees. Other non-interest income rose 24% compared with last quarter, mainly from higher net trading income.

Total expenses increased 4% to S\$1.02 billion in tandem with income growth, mainly from higher staff and IT-related expenses. The cost-to-income ratio improved to 43.6% due to higher operating income recorded for the quarter.

Total allowances increased to S\$90 million for the quarter largely driven by higher allowances for non-impaired assets on the back of a higher quarterly loan growth.

Strong balance sheet and capital position

The Group continued to maintain a strong funding position with a healthy loan-to-deposit ratio of 85.7%. Customer deposits and gross loans both grew strongly to S\$288 billion and S\$250 billion respectively as at 30 June 2018.

Total allowances as at 30 June 2018 decreased 3% to S\$3.93 billion as compared with a year ago mainly due to the reversal of excess general allowance in the last quarter of 2017. The quarter-on-quarter increase of 1% was mainly from allowances for non-impaired assets on a higher asset base. Total allowances for non-impaired assets stood at S\$2 billion as at 30 June 2018. This amount is above the Minimum Regulatory Loss Allowance under the revised MAS Notice 612 Credit Files, Grading and Provisioning. The coverage for non-performing assets remained stable at 89%, or 190% after taking collateral into account, with the NPL ratio steady at 1.7% as at 30 June 2018.

The average Singapore dollar and all-currency liquidity coverage ratios for 2Q18 were 206% and 142% respectively, well above the corresponding regulatory requirements of 100% and 90%.

The net stable funding ratio was 110% as at 30 June 2018, above the minimum requirement of 100%.

Shareholders' equity increased 9% from a year ago to S\$37.7 billion from higher retained earnings, the issuance of US\$650 million perpetual capital securities and scrip dividend participation.

As at 30 June 2018, the Group's Common Equity Tier 1 CAR increased to 14.5% from 13.8% a year ago primarily due to higher retained earnings. The Group's leverage ratio of 7.7% was more than double the regulatory minimum requirement of 3%.

CEO's statement

Mr Wee Ee Cheong, UOB's Deputy Chairman and Chief Executive Officer, said, "Testament to our focus on generating sustainable growth, our second quarter results are built on the healthy growth momentum in the first quarter. Such discipline supports our ability to reward shareholders with an increase in interim dividend per ordinary share to 50 cents.

"In the face of rising uncertainty globally, our stable asset quality, robust capitalisation and diversified funding base put us in a strong position to drive future growth. We will remain vigilant, nimble and continue to invest in capabilities to serve our customers' evolving needs. As a long-term player, we remain steadfast in augmenting our regional footprint to extend our reach to a wider group of customers and to tap the region's connectivity potential."

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About United Overseas Bank Limited

United Overseas Bank Limited (UOB) is a leading bank in Asia with a global network of more than 500 offices in 19 countries and territories in Asia Pacific, Europe and North America. Since its incorporation in 1935, UOB has grown organically and through a series of strategic acquisitions. UOB is rated among the world's top banks: Aa1 by Moody's and AA- by Standard & Poor's and Fitch Ratings respectively. In Asia, UOB operates through its head office in Singapore and banking subsidiaries in China, Indonesia, Malaysia and Thailand, as well as branches and representative offices across the region.

Over more than eight decades, generations of UOB employees have carried through the entrepreneurial spirit, the focus on long-term value creation and an unwavering commitment to do what is right for our customers and our colleagues.

We believe in being a responsible financial services provider and we are committed to making a difference in the lives of our stakeholders and in the communities in which we operate. Just as we are dedicated to helping our customers manage their finances wisely and to grow their businesses, UOB is steadfast in our support of social development, particularly in the areas of art, children and education.

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