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Announcement

UOB reports S$1.56 billion in net profit for first half of 2020; maintains strong balance sheet amid challenging economic conditions

Sets aside S$379 million allowance in second quarter in view of COVID-19 impact

Singapore, 6 August 2020 - UOB Group ("Group") reported net earnings of S$1.56 billion for the first half of 2020 ("1H20"), 30% lower than a year ago. Net earnings for the second quarter of 2020 ("2Q20") stood at S$703 million, 18% and 40% lower than the first quarter of 2020 ("1Q20") and the second quarter of 2019 ("2Q19") respectively. The performance was impacted by declining margins and pre-emptive credit provisioning as the effects of the pandemic rippled through the global economy.

The Group continued to strengthen its balance sheet proactively with S$379 million of allowance for non-impaired assets set aside in 2Q20 amid sustained weakness in macroeconomic conditions. With its Common Equity Tier 1 (CET1) ratio still strong at 14.0% and ample liquidity support, the Group is well-positioned to navigate the uncertainties ahead.

The Board declared an interim dividend of 39 cents per ordinary share with an option for scrip dividend. This is in line with the Monetary Authority of Singapore's call for banks to cap the total dividends per share (DPS) at 60% of the prior year's DPS and to make available the option to receive dividends in scrip. The Group remains well-capitalised and well-funded, with a strong capacity to support customers and to provide returns to shareholders.

Mr. Wee Ee Cheong, UOB's Deputy Chairman and Chief Executive Officer, said, "Over the last few months, the COVID-19 pandemic has upended the way we live and work, with businesses and individuals having to deal with unprecedented challenges. With the global economy moving into the deepest recession in recent history, our financial performance for the first half of the year has not been immune to the impact . However, UOB entered this crisis from a position of strength, having built our resilience through weathering past storms, be they economic, man-made or natural disasters. We maintain prudence and discipline in our risk management and will continue to strengthen our provision coverage.

"We are steadfast in seeing our customers, colleagues and communities through these challenging times with COVID-19 remaining a threat and uncertainty persisting. Across the region, the Group has supported more than one million individual and business customers with loan moratoria and other relief measures that amount to about 16% of our total loans. Our strong balance sheet, robust capital and liquidity positions equip us well to navigate the uncertain macro environment ahead and in sharpening our service and digital capabilities. These include the recent expansion of our mobile-only digital bank, TMRW, to Indonesia, to serve the needs of the young and digitally-savvy population there. We remain confident of Asia's fundamental strengths and prospects and uphold our long-term commitment to building a sustainable franchise in the region."

Financial Performance

1H20 versus 1H19

The Group reported net earnings of S$1.56 billion, 30% lower than a year ago ("1H19"), as more allowance for non-impaired assets was set aside in anticipation of further deterioration in the macroeconomic outlook due to the pandemic.

Net interest income decreased 6% year-on-year to S$3.05 billion, driven by declining margins alongside concerted interest rate cuts across the regional markets as policy-setters attempted to cushion economic headwinds and to protect the productive capacity of their economies.

Net fee and commission income was 4% lower at S$960 million, mainly due to reduced consumer spending on credit cards and slower loan disbursement fees that resulted from the economic contraction. This was partially offset by higher wealth management and fund management fees, largely in the first quarter of 2020.

Other non-interest income dropped 12% to S$657 million. Trading and investment income declined 11% to S$517 million due to lower net trading income, partially offset by higher gains from investment securities.

On business segments' performance, Group Retail's income was marginally lower at S$2.06 billion as the impact from margin compression was partly moderated by healthy volume growth and higher wealth fees. Assets under management expanded by 9% to S$129 billion, of which 60% was from overseas customers across the Group's network in Southeast Asia. Group Wholesale Banking's income was relatively stable at S$2.05 billion, with cross-border income easing marginally in line with slower business activity across the region. Global Markets performed better as income benefitted from the sharp downward movement in interest rates during the early part of this year.

Total expenses decreased 3% to S$2.13 billion from lower staff costs and reduced discretionary spend. The cost-to-income ratio for 1H20 was higher at 45.6% on the back of declining operating income.

Total allowance increased to S$682 million in 1H20 from S$144 million a year ago when the credit environment was fairly benign. Given the significantly weakened macroeconomic outlook as a result of COVID-19, additional allowance was set aside pre-emptively for non-impaired assets. The allowance on impaired assets was also higher, largely from a few major customers in Singapore. These brought the total credit costs on loan for the half year to 52 basis points, 39 basis points higher than 1H19.

2Q20 versus 2Q19

2Q20 net earnings of S$703 million was 40% lower than the same quarter last year, mainly due to lower margins and higher credit costs.

Net interest income decreased 12% to S$1.46 billion, as margin compression offset the loan growth of 3%. Net fee and commission income was 15% lower at S$445 million, as movement restrictions across the region weighed on customer activities. Trading and investment income declined to S$294 million from S$311 million a year ago, largely due to lower net trading income.

Total operating expenses decreased 8% to S$1.04 billion in line with lower income. The cost-to-income ratio for the quarter was 46.0%.

Total allowance rose to S$396 million from S$51 million a year ago, as additional allowance was set aside for non-impaired assets which brought total credit costs for the quarter to 67 basis points.

2Q20 versus 1Q20

Compared with the previous quarter, net profit for 2Q20 was 18% lower.

Net interest income decreased 9% from declining margins across the regional markets. Net fee and commission income fell 14% to S$445 million, mainly due to lower credit card and wealth management fees. Other non-interest income increased 20% to S$359 million, mainly from higher trading and investment income as financial markets gradually recovered from the early shocks of COVID-19, unwinding some unrealised losses from the previous quarter.

In tandem with lower operating income, total operating expenses decreased 4%, mainly from the drop in staff costs, occupancy-related expenses and discretionary spend.

Total allowance increased 39% to S$396 million, largely due to higher allowance on non-impaired assets.

Asset Quality

The Group's non-performing loan (NPL) ratio stood at 1.6% for 2Q20, unchanged from last quarter as NPL formation was low this quarter. A further S$379 million in allowance for non-impaired assets was taken in 2Q20, strengthening the non-performing assets coverage to 96% or 230% after taking collaterals into account.

Capital, Funding and Liquidity Positions

The Group's liquidity and funding positions remained robust with this quarter's average all-currency liquidity coverage ratio (LCR) at 136% and net stable funding ratio (NSFR) at 119%, well above the minimum regulatory requirements. The loan-to-deposit ratio (LDR) was stable at 85.8%.

Coupled with the strong CET1 ratio of 14.0%, the Group is well-equipped to support its customers through the challenging times.

- Ends -

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 both S&P Global Ratings and Fitch Ratings. In Asia, UOB operates through its head office in Singapore and banking subsidiaries in China, Indonesia, Malaysia, Thailand and Vietnam, 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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