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Announcement

UOB Group Reports Full Year 2017 Earnings at S$3.39 billion

Performance backed by healthy growth momentum and strong balance sheet

Core dividends increased to 80 cents per annum

Singapore, 14 February 2018 – UOB Group ("Group") reported record net earnings of S$3.39 billion for the full year of 2017. This was 9% higher than a year ago, as total income rose 10% to S$8.85 billion, led by new highs in both net interest income and fee and commission income.

For the fourth quarter of 2017 ("4Q17"), the Group registered net earnings of S$855 million, 16% higher than the fourth quarter of 2016 ("4Q16") largely due to increase in net interest income, fee and commission income and net trading income. Compared with the third quarter of 2017 ("3Q17"), net earnings were down 3% mainly due to higher operating expenses.

In 4Q17, specific allowance rose to S$781 million as the residual vulnerable exposures in the oil and gas and shipping sectors were recognised as non-performing assets ("NPA") with collateral valuation marked down as part of our ongoing portfolio assessment, thereby reducing lingering credit risks to the Group. Total allowances were lower at S$140 million, as excess general allowance of S$641 million was reversed, factoring in allowance requirements under the Singapore Financial Reporting Standard (International) 9 Financial Instruments ("SFRS(I) 9").

Balance sheet strength remains strong, supported by a strong funding position and capital base. Year on year, deposits grew 7% to S$273 billion, while gross loans increased 5% to S$236 billion. The loan-to-deposit ratio stayed healthy at 85.1%. Higher retained earnings and our ongoing efforts to optimise risk-weighted assets supported our fully-loaded Common Equity Tier 1 Capital Adequacy Ratio ("CAR") rising from 12.1% to 14.7% from a year ago. Return on average risk-weighted assets improved from 1.51% to 1.63% over the same period.

As a reflection of the Bank's encouraging performance as well as strong capital position, the Board recommends a final dividend of 45 cents per ordinary share, and a special dividend of 20 cents, in appreciation for the support from our shareholders. Together with the interim dividend of 35 cents, the core dividend for the financial year ended 31 December 2017 amounts to 80 cents per ordinary share, an increase of 14% over 2016. Inclusive of the special dividend, this represents a 49% payout ratio. The scrip dividend scheme will be applied to the final and special dividends.

Full year 2017 earnings

The Group registered net earnings of S$3.39 billion, 9% higher than a year ago.

On the back of higher net interest margin and healthy loan growth of 5%, net interest income rose 11% to S$5.53 billion. Net interest margin increased six basis points to 1.77%, mainly attributed to higher yields from interbank balances and securities, a function of both our measured efforts in deploying excess funds into higher-yielding assets and a rising interest rate environment.

Fee and commission income registered a robust growth of 12% to S$2.16 billion. Wealth management fees grew strongly by 36% to S$547 million, driven by higher sales of treasury products and unit trusts. Fund management income increased 28% to S$239 million and credit card fees rose 10% to S$404 million. Higher net gains from the disposal of investment securities also contributed to the increase in other non-interest income to S$1.16 billion.

From a business segment perspective, Group Retail income rose 9% to S$3.99 billion driven by healthy loan growth and fee income growth from the wealth management and credit card businesses. Group Wholesale Banking income was stable, as volume growth was offset by tighter margins. Global Markets income fell 12% to S$486 million largely due to lower trading income.

Due to a combination of strong revenue momentum and continued cost discipline, the expense-to-income ratio declined slightly to 45.5%. Total expenses increased 9% over last year with higher staff costs, IT-related and revenue-related expenses, reflecting the Group's continual efforts in investing in talent, technology and infrastructure to enhance its product capabilities and services.

Specific allowance on loans and other assets increased 49% to S$1.48 billion, mainly from NPA in the oil and gas and shipping sectors. Specifically, a prudent decision was taken to accelerate the recognition of these residual vulnerable exposures as NPA in 4Q17, and further haircuts were applied on their collateral valuations. With a reversal of S$747 million of excess general allowance for the year, total allowances amounted to S$727 million.

Despite the reversal in general allowance, the Group continued to maintain a comfortable level of general allowance on loans of S$1.96 billion as at 31 December 2017. This amount adequately satisfies the 1% general allowance requirement by the MAS as well as the expected credit loss requirements under the SFRS(I) 9 which came into effect on 1 January 2018.

Contribution from associated companies rose from S$6 million to S$110 million, mainly due to investment losses in an associated company in the prior year.

Fourth quarter 2017 earnings

4Q17 versus 4Q16

The Group reported net earnings of S$855 million in 4Q17, 16% higher from a year ago, led by healthy growth in net interest income, fee and commission income and net trading income. The increase was partly offset by higher operating expenses and allowances.

Net interest income rose 15% to S$1.46 billion, contributed by higher net interest margin and loan growth. Net interest margin improved 12 basis points to 1.81%, attributed to active balance sheet management and a rising interest rate environment.

Non-interest income increased 12% to S$846 million. Fee and commission income grew 10% to S$585 million, as a result of strong growth in the wealth management, fund management and credit card businesses. Trading and investment income increased 18% to S$198 million contributed mainly by higher net trading income.

Total expenses increased 15% from a year ago to S$1.10 billion due to higher performance-related staff costs, IT-related and revenue-related expenses. The expense-to-income ratio increased slightly to 47.8%.

Specific allowance on loans and other assets increased to S$781 million as a result of portfolio and collateral valuation review mentioned above. With a reversal of S$641 million of excess general allowance on loans, total allowances amounted to S$140 million for this quarter.

4Q17 versus 3Q17

Compared with the previous quarter, net earnings were 3% lower at S$855 million.

Net interest income grew 4% to S$1.46 billion, driven by higher asset volumes coupled with a net interest margin increase of two basis points to 1.81%.

Non-interest income increased 2% to S$846 million. Fee and commission income rose 6% to S$585 million largely on higher loan-related and credit card fees. This was partly offset by lower net gains from disposal of investment securities.

Total expenses increased 13% to S$1.10 billion due to higher performance-related staff costs, and year-end seasonal revenue-related and professional fees expenses, resulting in an increase in the expense-to-income ratio to 47.8% this quarter.

Total allowances were 36% lower this quarter at S$140 million compared with the last quarter. Specific allowance on loans and other assets increased to S$781 million largely from NPA in oil and gas and shipping sectors, while the general allowance reversal increased to S$641 million.

Strong balance sheet and capital position

Due to the one-off accelerated recognition of NPA on oil and gas and shipping exposures, the Group's NPA increased 26% year-on-year and 12% from the previous quarter to S$4.39 billion. Consequently, non-performing loans ("NPL") ratio stood at 1.8% as at 31 December 2017, while NPL coverage remained strong at 91%, or 195% after taking collateral into account.

The Group continued to maintain a strong funding position with a healthy loan-to-deposit ratio at 85.1%. Gross loans increased to S$236 billion at 31 December 2017, with a year-on-year increase of 5% that was broad-based across most territories and industries. Customer deposits grew 7% from a year ago to S$273 billion, led by growth in US dollar deposits.

During the year, the Group issued S$4.13 billion in debt and perpetual capital securities to diversify its funding mix and refinance its debts due for redemption. The issuance of perpetual capital securities for the year received overwhelming demand from a diverse base of investors, a testament to investors' confidence in the Group's strong balance sheet and financial standing.

The average Singapore dollar and all-currency liquidity coverage ratios during 4Q17 were 170% and 135% respectively, well above the corresponding regulatory requirements of 100% and 80%.

Shareholders' equity increased 12% from a year ago and 5% quarter on quarter to S$36.9 billion due to higher retained earnings, issuance of US$650 million perpetual capital securities and shareholders' participation in the scrip dividend scheme.

As at 31 December 2017, the Group's Common Equity Tier 1 and Total CAR remained strong at 15.1% and 18.7% respectively. On a fully-loaded basis, the Common Equity Tier 1 CAR rose to 14.7% from 12.1% a year ago. The Group's leverage ratio was 8.0%, well above Basel's minimum requirement of 3%.

CEO's statement

Mr Wee Ee Cheong, UOB's Deputy Chairman and Chief Executive Officer, said, "We are pleased to have ended 2017 with record profits, as our core businesses drove both net interest income and fees to new highs.

“Despite headwinds in the last couple of years, particularly in the oil and gas sector, our balance sheet remains strong, with robust capitalisation and reserves buffer as well as ample liquidity. Coupled with our steady earnings growth momentum, we are able to reward our shareholders with an increase in core dividend to 80 cents per ordinary share, and a special dividend of 20 cents for 2017.

“With the improving outlook across the region, our customers are stepping up on their regional expansion plans and expect further growth in their personal wealth. With our strong fundamentals, extensive regional network and expanded capabilities, we are well positioned to help our customers seize such opportunities as we continue to invest for the future to generate sustainable returns for all our stakeholders.”

– Ends –

About United Overseas Bank

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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