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UOB Q2 profit up 1% to $1.43 billion; bank sees falling interest rates benefiting Asia

UOB said Asia will benefit as interest rates gradually ease, spurring growth and leading to a further pickup in commercial activities. ST PHOTO: KUA CHEE SIONG

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SINGAPORE – UOB's earnings rose slightly year on year in the second quarter as its fee income picked up pace, although this was dampened by a lower margin from interest rates.

The net profit of Singapore's third-largest bank rose to $1.43 billion in the second quarter, up from $1.42 billion a year ago, it said on Aug 1.

UOB's core net profit, which excluded costs from the integration of Citigroup's regional consumer units it had acquired, fell 1 per cent from $1.51 billion to $1.49 billion. That is higher than the $1.47 billion average estimate of three analysts surveyed by Bloomberg.

The board declared an interim dividend of 88 cents per share, representing a payout ratio of 51 per cent.

UOB's chief executive officer Wee Ee Cheong said Asia will benefit as interest rates gradually ease, spurring growth and leading to a further pickup in commercial activities.

"Closer to home, Asean continues to be resilient, supported by robust economic fundamentals and supply chain diversification, which has resulted in a steady inflow of foreign direct investments into the region," he told a media briefing on Aug 1.

UOB's second-quarter net interest income dropped 1 per cent to $2.4 billion, following a seven basis point moderation in net interest margin. Loans grew by 2 per cent, or $5 billion, from the second quarter and 3 per cent from a year ago. This was driven by wholesale trade and retail mortgage loans.

Mortgage sales volume rose 42 per cent quarter on quarter. Mr Wee said: "The primary market is slow but we are focusing on the secondary market and trying to retain as many mortgages as possible when people want to do their refinancing."

Current and savings account (Casa) deposits, a cheap source of funds for banks, also expanded. UOB's Casa ratio rose to 51.5 per cent, up from 50.6 per cent as at March and 47.6 per cent a year ago.

UOB kept its forecasts for loans and fees unchanged from the previous quarter. It expects low single-digit loan growth and double-digit fee growth in 2024.

Second-quarter net fee income grew 18 per cent year on year to $618 million as loan-related and wealth management fees rebounded from a year ago, driven by a pickup in lending activities and improved market sentiment.

Mr Wee said wealth management fees had their strongest quarter in three years, as more fixed deposits were converted to investments in products such as bonds, structured products and unit trusts. "Wealth sales are also growing steadily through our digital channels."

UOB saw net new money inflows of $3 billion in the second quarter. This brought the bank's total assets under management (AUM) to $182 billion, up 10 per cent from a year ago.

The bank earlier in 2024 said it is planning to double private wealth AUM over the next couple of years.

Mr Wee said Asean has a growing affluent and high-net-worth sector, which benefits UOB as it has most of its franchises in the region.

The lender is also actively looking at opportunities in North Asia, he added. Its business is relatively smaller in this region, which includes mainland China, Hong Kong and Taiwan.

Giving an update on the bank's acquisition of Citigroup's consumer units in four Asean markets, completed in 2023, Mr Wee said one-off integration costs will be halved starting from the next quarter.

"Going forward, we will focus on extracting both revenue and cost synergies from this portfolio, along with the other tech and system capabilities that we have built over the past few years," he said.

The bank has integrated Citi's units in Malaysia, Indonesia and Thailand. It is on track to do the same in Vietnam by 2025, with UOB expecting integration costs of $30 million to $40 million in the coming quarters.

UOB group chief financial officer Lee Wai Fai said UOB hopes to cross-sell its products like current and savings accounts, and wealth products, to Citi's customers, and has already seen good momentum in this.

In the second quarter, UOB's customer-related treasury income grew 19 per cent to $216 million from retail bond sales and strong hedging demands. Other trading and investment income declined on lower swap gains and valuation on investments.

Total credit costs on loans improved to 24 basis points, from 30 basis points last year, when there was a specific allowance on a major Thailand corporate account.

Asset quality remained stable, with the bank's non-performing loans ratio improving to 1.5 per cent, from 1.6 per cent a year ago. The formation of new non-performing assets was more than offset by recoveries and write-offs, said the bank.

Its core net profit for the first half of 2024 was stable at $3.1 billion, down 1 per cent from the first half of 2023. After accounting for one-off expenses from the Citi integration, net profit was flat at $2.9 billion.

Asked whether he will retire soon, Mr Wee, who is 71, said: "No one is indispensable. The succession planning is in place... We need to energise the organisation. What we want is stability, progressive wisdom – that, to me, is important."

Mr Wee said the bank is introducing several new executives at its Corporate Day event in Kuala Lumpur in August. "These are the potential future leaders of the bank.

"We don't want surprises. We want them to grow together with us. We have a combination of the old guard and the new guard. That's the only practical way to move."

UOB is the first of Singapore's Big Three banks to report second-quarter earnings. OCBC Bank will post its results on Aug 2 while DBS Bank will report on Aug 7.

UOB shares closed down 1 per cent to $32.04. DBS declined 1.7 per cent to $35.98, while OCBC dipped 0.2 per cent to $14.82.