Oversea-Chinese Banking Corp (OCBC SP)

2Q26: Momentous Blockbuster Results

Highlights

- 2Q26 results demonstrate OCBC's consistency in execution, as it delivered rapid growth in wealth management, trading income and insurance.
- NPL formation was manageable at S$300m in 2Q26. Among Singapore banks, OCBC has the highest loan-loss coverage of 163%.
- 2Q26 is the second consecutive quarter of sterling financial performance. Maintain BUY. Target price: S$33.35.

Analysis

- Oversea-Chinese Banking Corp (OCBC) reported a record quarterly net profit of S$2,221m for 2Q26 (+22% yoy, +12% qoq), well above our forecast of S$1,947m. Earnings were driven by strong growth in non-interest income, particularly wealth management, trading income and insurance.
- **Volume growth offset negative impact from NIM compression.** Net interest margin (NIM) declined 22bp yoy and 6bp qoq to 1.70% in 2Q26 due to downward repricing of loans and higher wholesale funding costs. Net interest income still increased 2% qoq to S$2,264m as average interest-earning assets expanded 5% qoq, supported by growth in customer loans and deployment of excess deposits into high-quality liquid assets. Loan growth of 12% yoy and 5% qoq was driven technology, media & telecommunications (TMT), digital infrastructure, energy, power & utilities and transport sectors.
- **Fee income was lifted by record wealth management activities.** Net fee income grew 28% yoy and 10% qoq to a record S$739m. Wealth management fees increased 39% yoy to a new quarterly high of S$470m, supported by broad-based customer flows across various investment products. AUM expanded 13% yoy to a record S$350b, driven by strong net new money inflows. Loan-related fees grew 15% yoy.
- **Trading income surged on customer flow and investment performance.** Net trading income jumped 85% yoy and 60% qoq to a record S$695m. Customer flow income grew strongly across both wealth and corporate segments, reflecting robust treasury product demand and hedging activities. Non-customer flow income was driven by investment gains from Great Eastern following the rebound in equity markets during 2Q26.

Key Financials

Year to 31 Dec (S$m)	2024	2025	2026F	2027F	2028F
Net interest income	9,755	9,150	9,169	9,744	10,301
Non-interest income	4,718	5,464	6,506	6,519	6,868
Net profit (rep./act.)	7,587	7,422	8,053	8,373	8,849
Net profit (adj.)	7,587	7,422	8,053	8,373	8,849
EPS (S$ cent)	167	164	178	186	197
PE (x)	18.1	18.5	17.0	16.3	15.4
P/B (x)	2.4	2.3	2.1	2.0	1.9
Dividend yield (%)	3.3	3.3	3.1	3.2	3.3
Net int margin (%)	2.2	1.9	1.7	1.7	1.7
Cost/income (%)	40.1	40.4	40.6	41.6	41.6
Loan loss cover (%)	158.9	151.5	163.5	170.4	177.5
Consensus net profit	-	-	7,745	8,305	8,886
UOBKH/Consensus (x)	-	-	1.04	1.01	1.00

Source: Oversea-Chinese Banking Corp, Bloomberg, UOB Kay Hian

Analyst(s)

Jonathan Koh, CFA, MSc Econ
jonathankoh@uobkh.com
+65 6590 6620

BUY (Maintained)

Share Price	S$30.30
Target Price	S$33.35
Upside	10.1%
Previous TP	S$31.60

Stock Data

Sector	Financials
Bloomberg ticker	OCBC SP
Shares issued (m)	4,490.0
Market cap (S$m)	136,047.1
Market cap (US$m)	106,154.1
3-mth avg daily t'over (US$m)	134.6

Price Performance (%)

52-week high/low				S$30.50/S$16.19
1mth	3mth	6mth	1yr	YTD
15.0	38.5	42.7	77.3	53.3

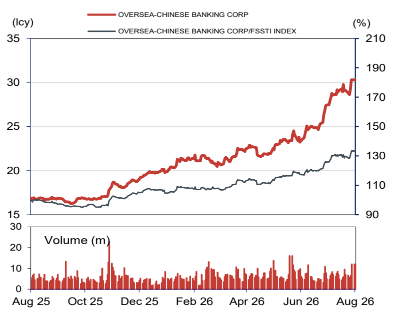
Major Shareholders (%)

Selat P/L	14.4
Lee Foundation	5.1

Balance Sheet Metrics

FY26 NAV/Share (S$)	14.12
FY26 CET-1 CAR (%)	14.3

Price Chart



Source: Bloomberg

Company Description

OCBC has a longstanding presence in Singapore and Malaysia and entered the Indonesian market through the acquisition of Bank NISP in 2004. It strengthened its presence in Greater China through the acquisition of Wing Hang Bank in 2014. OCBC owns 93% of life insurer Great Eastern and has a 20% stake in Bank of Ningbo.

- **Insurance becomes a substantial growth driver.** Income from life and general insurance increased 68% yoy to S$382m in 2Q26, benefitting from stronger underlying insurance performance and higher investment returns. Profit contribution from Great Eastern increased 44% yoy during 1H26.
- Income from Bank of Ningbo grew 24% yoy to S$325m in 2Q26.
- **Operating efficiency improved despite ongoing investments.** Operating expenses rose 13% yoy and 5% qoq to S$1,575m, reflecting higher performance-linked remuneration and continued investments in technology and talent. Nevertheless, cost-to-income ratio improved to 37.8%, compared with 39.1% a year ago and 39.3% in 1Q26.
- **Asset quality remained resilient.** NPL formation was S$300m during 2Q26, mainly related to downgrades of two Greater China corporate real estate accounts under special mention. NPL ratio was unchanged at 0.9%. Total allowances declined 28% qoq to S$156m, resulting in credit costs of 14bp vs 23bp in 1Q26. Loan-loss coverage remained strong at 163%.
- **Higher dividend and commitment to capital return.** OCBC declared an interim dividend of 47 S cents per share, up 15% yoy, representing a 50% payout ratio. Management reaffirmed its commitment to complete the remaining S$2.5b capital return programme by Dec 26.

Valuation/Recommendation

- **Guidance for 2026.** Management guided high single-digit to low double-digit loan growth for 2026 (previous: mid-single-digit). It expects a slight decline in net interest income (previous: slight to moderate decline) and low double-digit growth for non-interest income. Overall, total income is expected to grow (previous: stable or growing). Cost-to-income ratio is expected to come in at low 40%. Credit costs should be 20-25bp (2025: 17bp). Dividend payout ratio is set at 50% on a full-year basis.
- **Maintain BUY.** Our target price of S$33.35 is based on 2.22x 2027F P/B, derived from the Gordon Growth Model (ROE: 12.8%, COE: 6.95%, growth: 2.2%).

Earnings Revision/Risk

- We raise our net profit forecast by 5.4% for 2026 and 4.7% for 2027 due to higher contributions from insurance and higher net trading income.

2Q26 Results

Profit & Loss (S$m)	2Q26	2Q25	yoy % Chg	UOBKH Estimate	Deviation (%)
Net Interest Income	2,264	2,283	-0.8	2,245	0.8
Fees & Commissions	739	580	27.4	691	7.0
Insurance	382	226	69.0	350	9.1
Net Trading Income	695	375	85.3	400	73.8
Other Non-Interest Income	90	83	8.4	60	50.0
Total Income	4,170	3,547	17.6	3,746	11.3
Operating Expenses	(1,579)	(1,395)	13.2	(1,522)	3.7
PPOP	2,591	2,152	20.4	2,224	16.5
Provisions	(156)	(114)	36.8	(176)	-11.2
Associates	325	263	23.6	284	14.4
PBT	2,760	2,301	19.9	2,332	18.3
Net Profit	2,221	1,816	22.3	1,947	14.1
EPS (S cents)	49.0	40.0	22.5	43.1	13.7
DPS (S cents)	47.0	41.0	14.6	43.0	9.3
BVPS (S$)	13.73	12.92	6.3	13.66	0.5
Financial Ratios (%)	2Q26	2Q25	yoy Chg (ppt)	1Q26	qoq Chg (ppt)
NIM	1.70	1.92	-0.22	1.76	-0.06
Loan Growth, yoy	12.3	6.8	5.5	7.8	4.5
Deposit Growth, yoy	12.8	10.0	2.7	10.2	2.6
Loan/Deposit Ratio	78.4	78.7	-0.3	77.2	1.2
Cost/Income Ratio	37.8	39.1	-1.3	39.3	-1.5
ROE	14.4	12.3	2.1	13.0	1.4
NPL Ratio	0.9	0.9	0.0	0.9	0.0
Credit Costs (bp)	14	12	2	23	-9

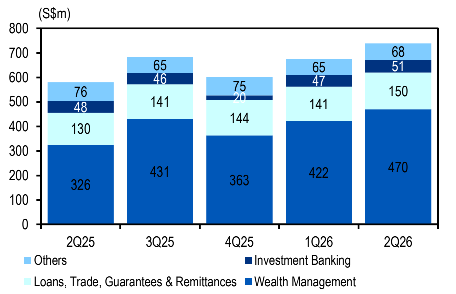
Source: UOB, UOB Kay Hian

Key Assumptions

(S$m)	2024	2025	2026F	2027F	2028F
Net Interest Income	9,755	9,150	9,169	9,744	10,301
Non-Interest Income	4,718	5,464	6,506	6,519	6,868
Total Income	14,473	14,614	15,676	16,263	17,170
Pre-Provision Operating Profit	8,672	8,710	9,317	9,497	10,028
Net Profit (S$m)	7,587	7,422	8,053	8,373	8,849
% Chg	8.1	(2.2)	8.5	4.0	5.7
Loan Growth (%)	7.6	6.9	9.0	4.4	4.4
NIM (%)	2.20	1.92	1.71	1.71	1.73
Fees, % Chg	9.2	22.4	15.6	9.7	8.8
NPL Ratio (%)	0.89	0.95	0.87	0.88	0.89
Credit Costs (bp)	22.4	20.1	20.8	20.1	20.1

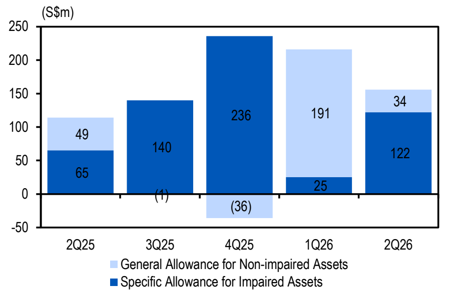
Source: UOB Kay Hian

Fee Income – Segmental Breakdown



Source: OCBC

Total Allowance



Source: OCBC

Profit & loss

Year to 31 Dec (S$m)	2025	2026F	2027F	2028F
Interest income	20,076	19,728	20,877	21,829
Interest expense	(10,926)	(10,559)	(11,133)	(11,527)
Net interest income	9,150	9,169	9,744	10,301
Fees & commissions	2,411	2,788	3,059	3,328
Other income	3,053	3,718	3,460	3,540
Non-interest income	5,464	6,506	6,519	6,868
Total income	14,614	15,676	16,263	17,170
Staff costs	(3,907)	(4,252)	(4,451)	(4,699)
Other operating expense	(1,997)	(2,106)	(2,315)	(2,443)
Pre-provision profit	8,710	9,317	9,497	10,028
Loan loss provision	(665)	(742)	(764)	(798)
Other provisions	0	0	0	0
Associated companies	1,077	1,220	1,281	1,345
Pre-tax profit	9,122	9,795	10,015	10,575
Tax	(1,560)	(1,588)	(1,502)	(1,586)
Minorities	(140)	(154)	(140)	(140)
Net profit	7,422	8,053	8,373	8,849
Net profit (adj.)	7,422	8,053	8,373	8,849

Balance Sheet

Year to 31 Dec (S$m)	2025	2026F	2027F	2028F
Cash with central bank	30,756	29,071	30,552	32,109
Govt treasury bills & securities	66,404	79,019	83,045	87,275
Interbank loans	37,942	46,426	48,311	50,272
Customer loans	336,692	367,044	383,112	399,889
Investment securities	53,267	65,124	68,442	71,929
Derivative receivables	13,035	16,728	17,581	18,476
Associates & JVs	8,799	9,881	10,521	11,194
Fixed assets (incl. prop.)	4,713	4,903	4,903	4,903
Other assets	124,080	126,991	131,404	136,097
Total assets	675,688	745,187	777,871	812,145
Interbank deposits	15,280	29,523	30,721	31,969
Customer deposits	428,286	468,146	487,155	506,935
Derivative payables	14,078	15,877	16,685	17,535
Debt equivalents	139,881	148,832	154,543	160,545
Other liabilities	14,593	16,160	18,026	19,987
Total liabilities	612,118	678,538	707,131	736,972
Shareholders' funds	62,444	65,483	69,525	73,910
Minority interest - accumulated	1,126	1,167	1,214	1,264
Total equity & liabilities	675,688	745,187	777,871	812,145

Operating Ratios

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Capital Adequacy				
Tier-1 CAR	17.6	16.8	17.1	17.4
Total CAR	19.4	18.7	18.9	19.2
Total assets/equity (x)	10.8	11.4	11.2	11.0
Tangible assets/tangible common equity (x)	9.7	10.3	10.1	9.8
Asset Quality				
NPL ratio	0.9	0.9	0.9	0.9
Loan loss coverage	151.5	163.5	170.4	177.5
Loan loss reserve/gross loans	1.3	1.3	1.4	1.5
Increase in NPLs	14.2	(0.3)	6.2	5.8
Credit cost (bp)	20.1	20.8	20.1	20.1
Liquidity				
Loan/deposit ratio	79.6	79.4	79.7	80.1
Liquid assets/short-term liabilities	30.5	31.0	31.3	31.5
Liquid assets/total assets	23.9	24.4	24.5	24.7

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Growth				
Net interest income, yoy chg	(6.2)	0.2	6.3	5.7
Fees & commissions, yoy chg	22.4	15.6	9.7	8.8
Pre-provision profit, yoy chg	0.4	7.0	1.9	5.6
Net profit, yoy chg	(2.2)	8.5	4.0	5.7
Net profit (adj.), yoy chg	(2.2)	8.5	4.0	5.7
Customer loans, yoy chg	6.9	9.0	4.4	4.4
Customer deposits, yoy chg	9.6	9.3	4.1	4.1
Profitability				
Net interest margin	1.9	1.7	1.7	1.7
Cost/income ratio	40.4	40.6	41.6	41.6
Adjusted ROA	1.4	1.3	1.4	1.4
Reported ROE	12.2	12.6	12.7	13.0
Adjusted ROE	12.2	12.6	12.7	13.0
Valuation				
P/BV (x)	2.3	2.1	2.0	1.9
P/NTA (x)	2.4	2.3	2.2	2.0
Adjusted P/E (x)	18.5	17.0	16.3	15.4
Dividend Yield	3.3	3.1	3.2	3.3
Payout ratio	60.5	52.7	51.7	50.9