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Top 3 Singapore banks

FY-2023 update

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Key highlights

1. The net revenues of the top 3 banks in Singapore grew by 19.2% from USD 29.7 billion in FY-2022 to USD 35.4 billion in FY-2023.
    a. The average net revenues increased from USD 9.9 billion to USD 11.8 billion.
    b. Net interest income increased by 22.2% from USD 20.1 billion to USD 24.5 billion.
    c. Non-interest income increased by 18.1% from USD 9.2 billion to USD 10.9 billion.
2. Fee income grew by 4.8% from USD 5.3 billion in FY-2022 to USD 5.5 billion in FY-2023.
    a. DBS reported the highest increase in its fee income at 9.5%.
3. Net profit increased by 24.3% from USD 13.8 billion in FY-2022 to 17.1 billion in FY-2023.
    a. All three banks reported double-digit growth in their net profits.
4. The average net interest margins increased by 34 basis points from 1.84% to 2.17%
5. The average non-performing loans declined by 12 basis points from 1.37% to 1.25%.
6. The average cost efficiency improved by 296 basis points from 42.79% to 39.83%.
7. The loan portfolio of the top 3 banks increased by 2.2% from USD 857.1 billion to USD 875.7 billion.
    a. On the other hand, deposits grew by 3% from USD 962.8 billion to USD 991.9 billion.

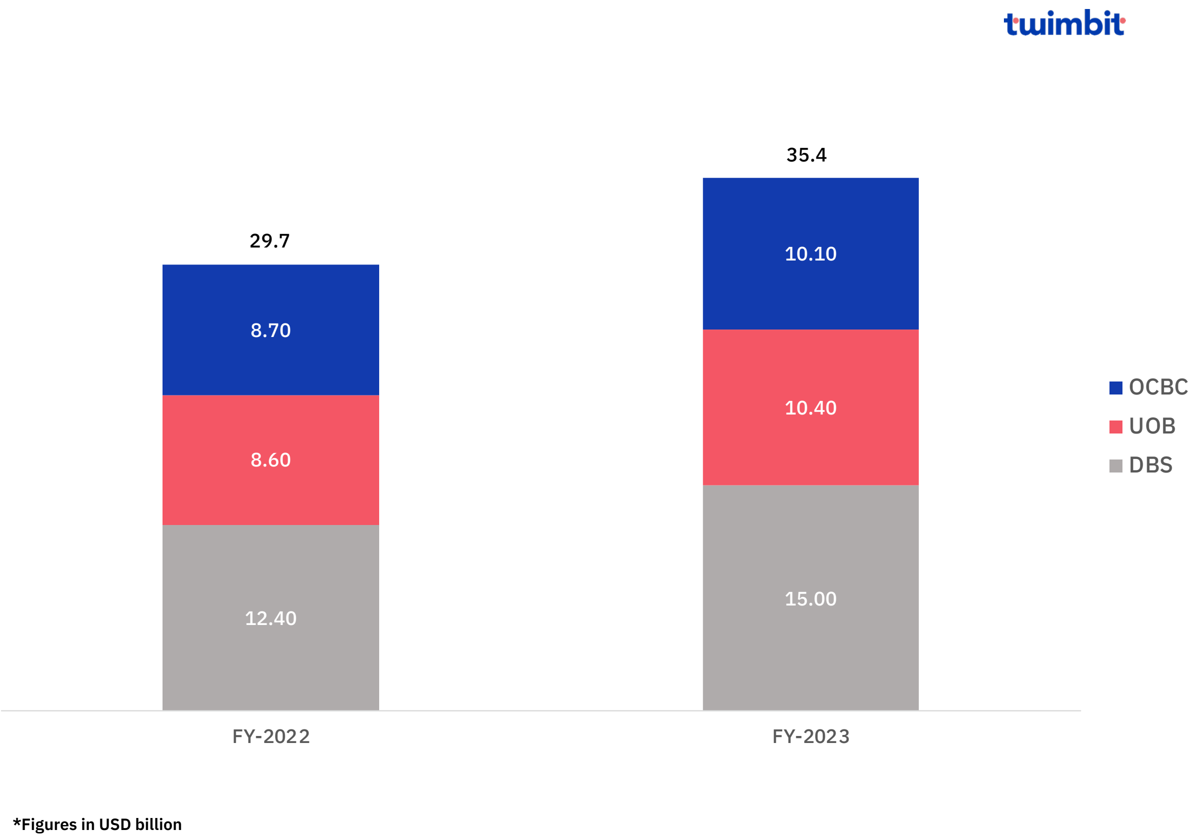
Revenue highlights

Net revenues for the top 3 banks in Singapore grew by 19.2% YoY

Aggregated net revenues increased from USD 29.7 billion in FY-2022 to USD 35.4 billion in FY-2023 (Exhibit 1).

- 22.2% increase in net interest income from USD 20.1 billion to USD 24.5 billion
- 18.1% increase in non-interest income from USD 9.2 billion to USD 10.9 billion

Exhibit 1: Net revenues of the top 3 Singapore Banks



Source: Bank financials, Twimbit analysis

<u>DBS</u>

- 21% YoY (year-on-year) increase in net revenues from USD 12.4 billion in FY-2022 to USD 15 billion in FY-2023
- Second-highest growth in net interest income at 24.7%, from USD 8.1 billion to USD 10.2 billion
    - Commercial book income increased by 33.3% from USD 7.98 billion to USD 10.64 billion
- The commercial book accounts for 79% of non-interest income and consists of the bank's fee and other non-interest income, barring treasury market income
    - Treasury income accounts for 21% of non-interest income
    - Treasury income grew by 43.8% from USD 0.7 billion to USD 1 billion

UOB

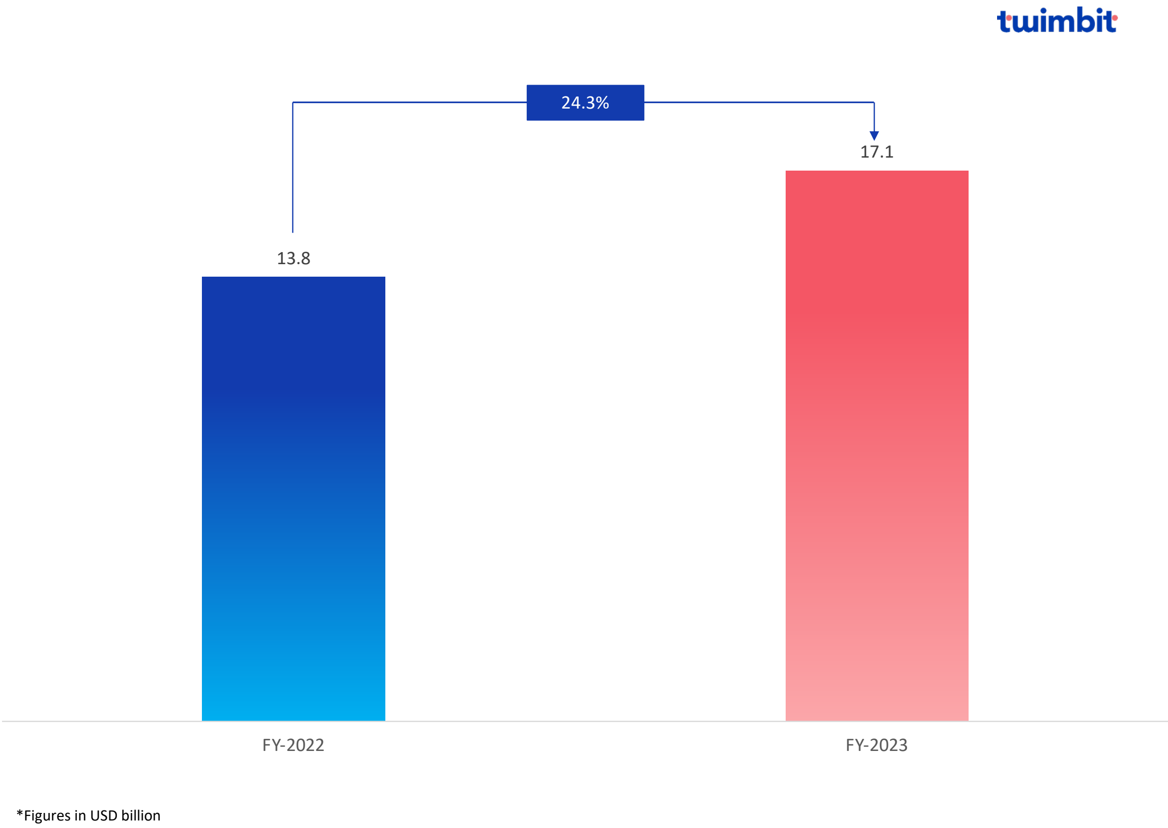
- 20.2% YoY increase in net revenues from USD 8.6 billion in FY-2022 to USD 10.4 billion in FY-2023
- Lowest growth in net interest income at 16%, from USD 6.2 billion to USD 7.2 billion
    - Income from loans grew by 14.2% from USD 5.32 billion to USD 6.07 billion
    - Income from interbank and securities grew by 27.1% from 0.9 billion to USD 1.1 billion
- Highest growth in non-interest income at 31.1%, from USD 2.4 billion to USD 3.2 billion
    - Net trading income grew by 50.4% from USD 0.8 billion to USD 1.2 billion

Profitability

Net profit for the top 3 banks in Singapore grew by 24.3% YoY

Aggregated net profits grew from USD 13.8 billion in FY-2022 to USD 17.1 billion in FY-2023 (Exhibit 2). Aside from the net interest income growth, the fee income increase by 4.8% also played a vital role in its overall net profit growth.

Exhibit 2: Aggregated net profits of the top 3 Singapore Banks



Source: Bank financials, Twimbit analysis

DBS

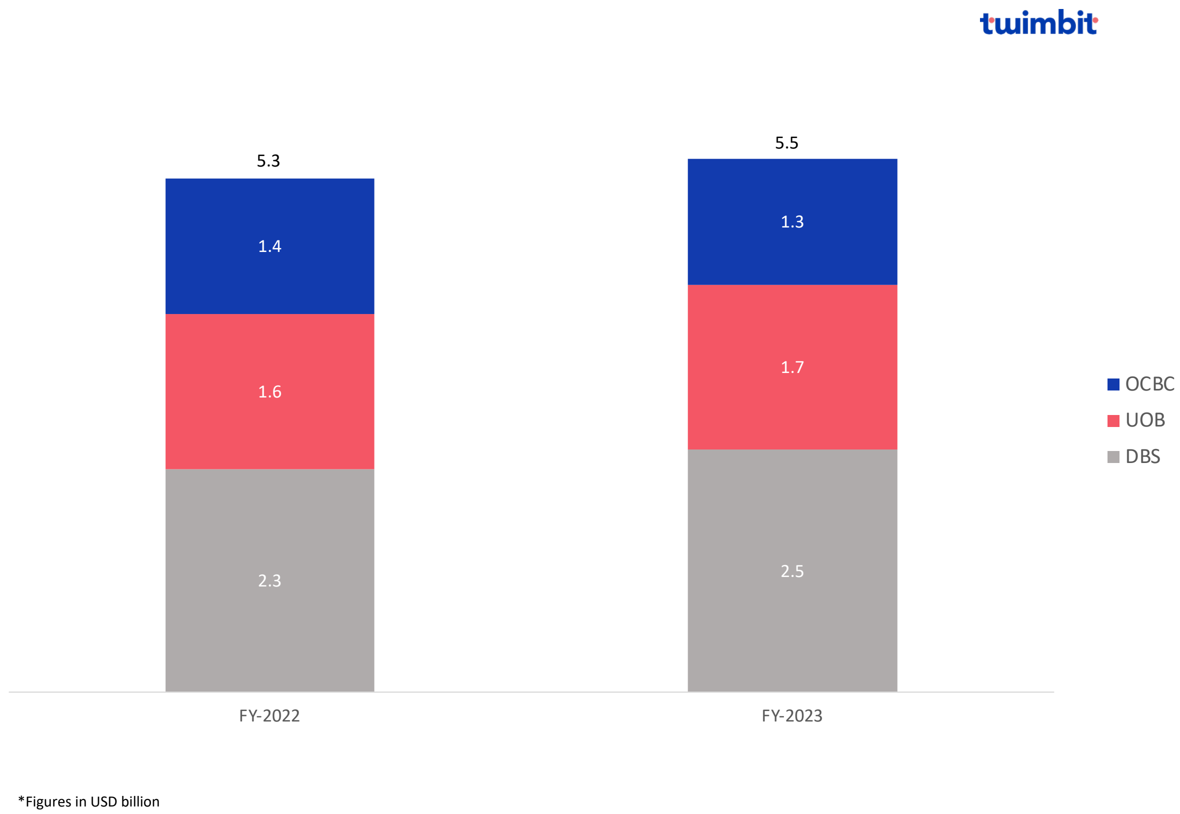
- 25.5% YoY increase in net profits from USD 6.1 billion in FY-2022 to USD 7.7 billion in FY-2023
- 24.7% increase in net interest income from USD 8.1 billion to USD 10.2 billion
- 17.6% increase in the non-interest income from USD 4.1 billion to USD 4.9 billion

Similarly, UOB reported an increase of 24.9% from USD 3.4 billion to USD 4.3 billion, while OCBC reported an increase of 22.1% from USD 4.3 billion to USD 5.2 billion.

Fee-based income

Fee income for the top 3 banks in Singapore grew by 4.8%

Fee income grew from USD 5.3 billion in FY-2022 to USD 5.5 billion in FY-2023 (Exhibit 3).
Exhibit 3: Fee incomes of the top 3 Singapore Banks



Source: Bank financials, Twimbit analysis

DBS

DBS reported the highest growth of 9.5%, from USD 2.3 billion in FY-2022 to USD 2.5 billion in FY-2023, primarily due to:

- 21.7% increase in income from cards from USD 639 million to USD 777 million
- 20.7% increase in loan-related income from USD 342 million to USD 413 million

- 13.2% increase in wealth management income from USD 990 million to USD 1.1 billion

OCBC

OCBC reported a decline of 2.5% from USD 1.4 billion in FY-2022 to USD 1.3 billion in FY-2023, primarily due to a decline in its:

- Brokerage income by 27.2% from USD 77 million to USD 56 million
- Fund management income by 10.1% from USD 89 million to USD 80 million
- Investment banking fees by 10% from USD 74 million to USD 67 million
- Wealth management income by 2.5% from USD 684 million to USD 667 million

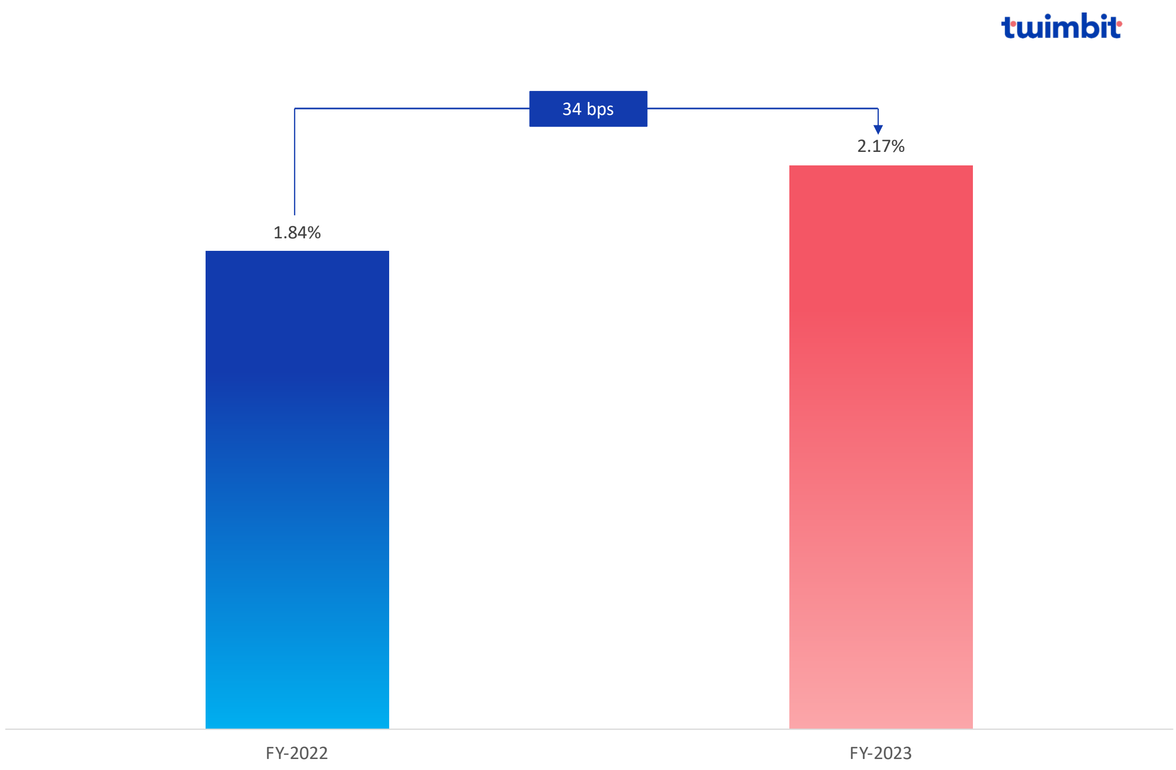
This decline was offset by a 38.9% increase in trade-related income from USD 147 million to USD 205 million and a 15% increase in loan-related income from USD 134 million to USD 154 million.

Net interest margins (NIM)

NIM for the top 3 banks in Singapore increased by 34 basis points

The average NIM increased from 1.84 in FY-2022 to 2.17% in FY-2023 (Exhibit 4).

Exhibit 4: Average NIM of the top 3 Singapore Banks



Source: Bank financials, Twimbit analysis

A heightened interest rate environment primarily drove this increase. However, the NIM is projected to stabilize in 2024 as the US Federal Reserve plans to implement rate reductions. These reductions aim to alleviate inflation concerns, consequently reducing the cost of borrowing.

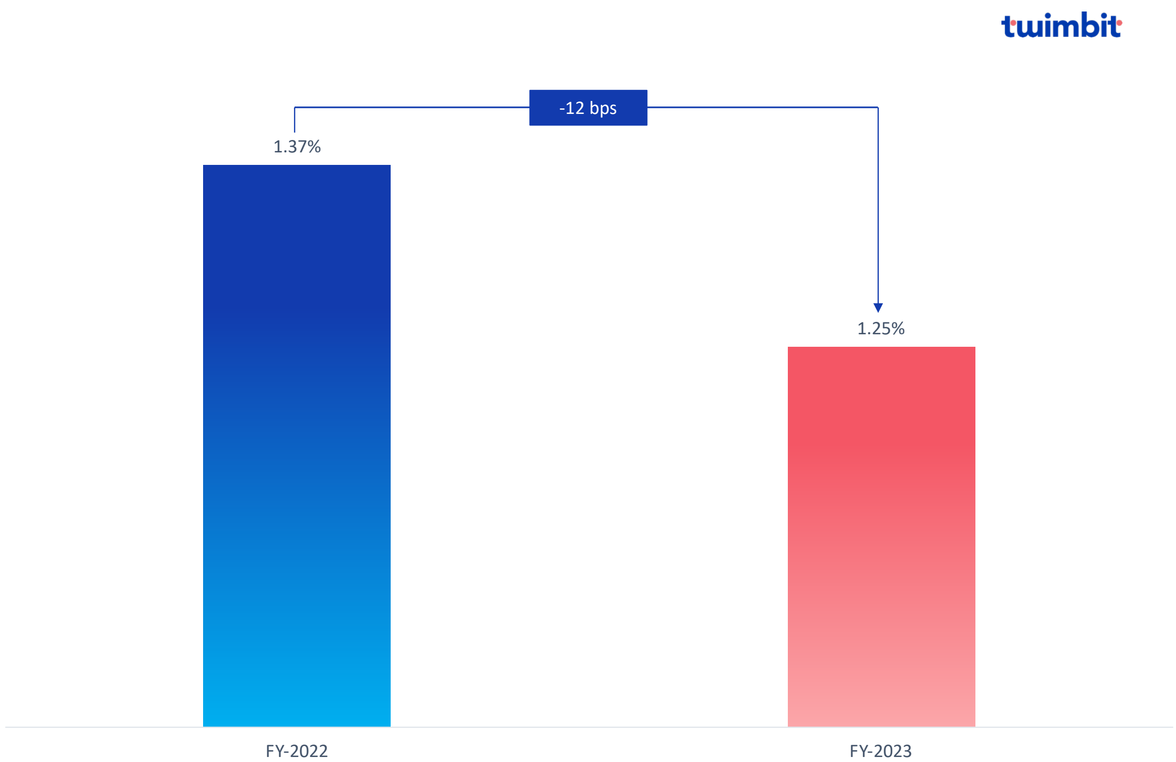
As the top 3 banks in Singapore align their loan rates with the targeted projections set by the US Federal Reserve, this will result in sluggish loan income growth in the upcoming year.

Non-performing loans (NPL)

NPL for the top 3 banks in Singapore fell by 12 basis points

The average NPL declined from 1.37% in FY-2022 to 1.25% in FY-2023 (Exhibit 5).

Exhibit 5: Average NPL of the top 3 Singapore banks



Source: Bank financials, Twimbit analysis

All 3 banks reported a decline in their NPLs.

- NPL for DBS declined by 10 bps to 1.13%
- NPL for UOB declined by 2 bps to 1.58%
- NPL for OCBC declined by 23 bps to 1.05%

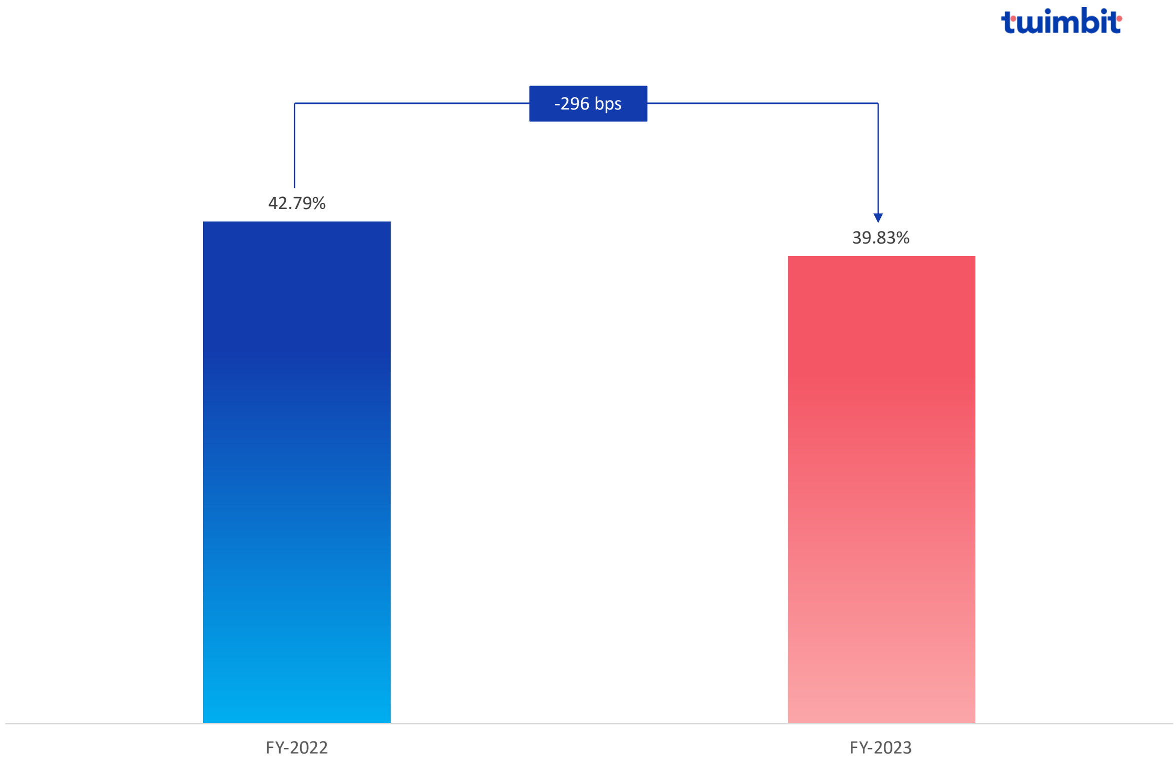
As of Q4-2023, the transport and storage sector had the highest NPL among major banks in Singapore at 7.31%, followed by the construction sector with an NPL of 6.47%.

Cost efficiency (CE)

Cost efficiency for the top 3 banks in Singapore improved by 296 basis points

The CE ratio significantly improved from 42.79% in FY-2022 to 39.83% in FY-2023.

Exhibit 6: Average CE ratio of the top 3 Singapore banks



Source: Bank financials, Twimbit analysis

Singapore banks are among Asia Pacific's most efficient, behind Chinese and South Korean banks. All 3 banks reported improved cost efficiency between FY-2022 and FY-2023, staying well below the threshold value of 50%.

The improvement in cost efficiency is primarily due to a 19.2% growth in net revenues and a lower growth of 12.5% in operating expenses.

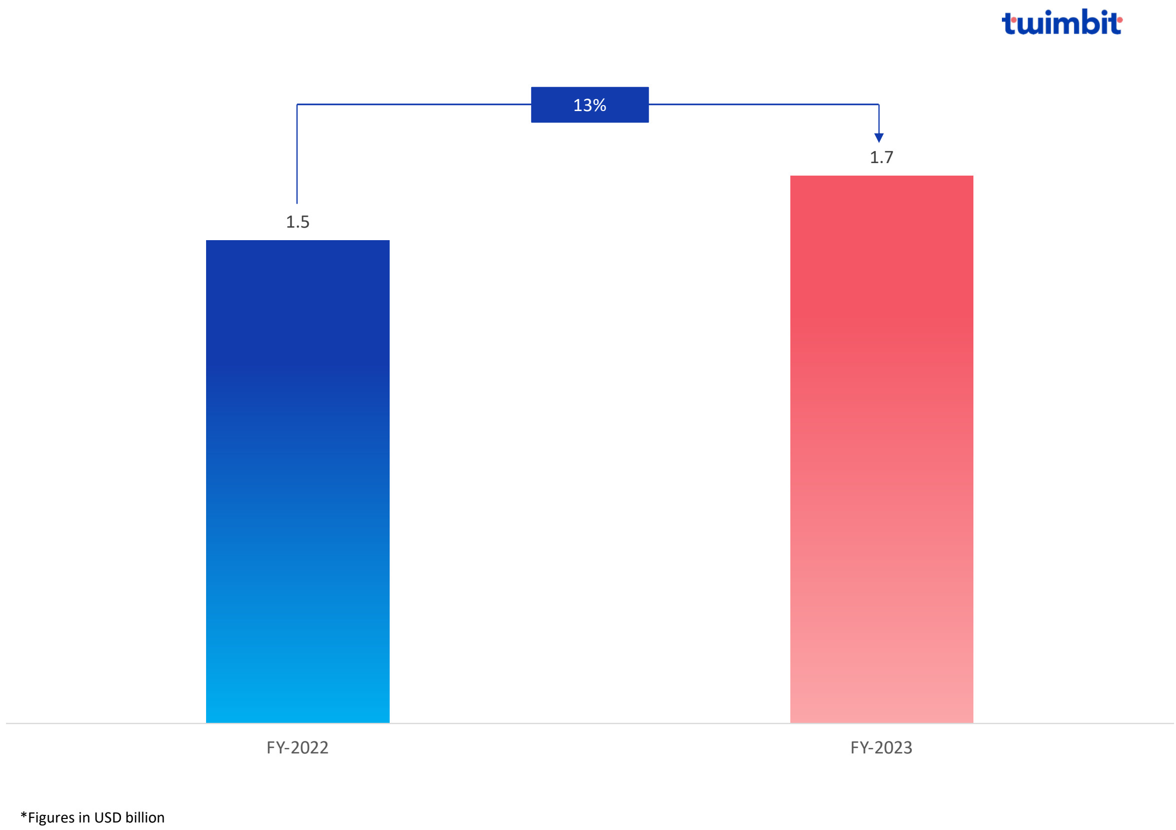
ICT spend

ICT spending for the top 3 banks in Singapore increased by 13%

The ICT spending for Singapore banks increased from USD 1.5 billion in FY-2022 to USD 1.7 billion in FY-2023 (Exhibit 7). The average ICT spend to revenue stood at 7% in FY-2023, down from 7.4% in FY-2022.

1. Average ICT spending increased to USD 0.8 billion.
2. UOB reported a 30.6% increase in ICT spending from USD 573 million to USD 749 million.

Exhibit 7: Aggregated ICT spending of the top Singapore banks



Source: Bank financials, Twimbit analysis

Outlook for 2024

Singapore's net interest margins are expected to peak at 2% to 2.2% in 2024, boosting local banks' lending spreads amid higher interest rates. However, challenges like increased borrowing costs and macro headwinds may impact bank performance. Despite potential backsliding in NPL ratios, they are expected to remain manageable below 2%. Maintaining strong performance could be difficult with plateauing interest rates and a weak outlook for new loans. In contrast, signals of rate cuts from the US Federal Reserve may further affect profitability growth.

Research methodology and assumptions

- Data collection has been done based on secondary research about the information provided by the respective banks through their investor presentation and quarterly financial statements. Twimbit follows the calendar year approach for the analysis in this report (meaning Q1 is equivalent to the period of January to March of the year).
- For fair representation and analysis, we have considered a constant currency rate for conversion from local currency to USD value. The USD conversion rate is the average calculated value from January to December 2023. The current conversion rate is 1 USD = 0.7446629 SGD.
- The report analyses net revenue, net profit and fee income, net interest margin, non-performing loan and cost efficiency for the top 3 banks.
- The revenue figures for all the banks analyzed are net of interest and non-interest expenses.
- The fee income is net of all fee-related expenses.
- ICT spending figures exclude figures for OCBC as they were not available at the time of creating the report.