

Management Discussion and Analysis

Overview

	2015	2014	+ / (-) %
Selected income statement items (\$ million)			
Net interest income	4,926	4,558	8.1
Fee and commission income	1,883	1,749	7.7
Other non-interest income	1,238	1,151	7.6
Total income	8,048	7,457	7.9
Less: Total expenses	3,597	3,146	14.3
Operating profit	4,451	4,311	3.2
Less: Total allowances	672	635	5.7
Add: Share of profit of associates and joint ventures	90	149	(40.0)
Net profit before tax	3,869	3,825	1.1
Less: Tax and non-controlling interests	660	576	14.6
Net profit after tax ¹	3,209	3,249	(1.2)
Selected balance sheet items (\$ million)			
Net customer loans	203,611	195,903	3.9
Customer deposits	240,524	233,750	2.9
Total assets	316,011	306,736	3.0
Shareholders' equity ¹	30,768	29,569	4.1
Key financial ratios (%)			
Net interest margin	1.77	1.71	
Non-interest income/Total income	38.8	38.9	
Expense/Income ratio	44.7	42.2	
Overseas profit before tax contribution	38.9	38.7	
Loan charge off rate (bp)			
Exclude general allowances	19	12	
Include general allowances	32	32	
Non-performing loans ratio ²	1.4	1.2	
Return on average total assets	1.03	1.10	
Return on average ordinary shareholders' equity ³	11.0	12.3	
Loan/Deposit ratio ⁴	84.7	83.8	
Liquidity coverage ratios (LCR) ⁵			
All-currency	143	NA	
Singapore dollar	179	NA	
Capital adequacy ratios			
Common Equity Tier 1	13.0	13.9	
Tier 1	13.0	13.9	
Total	15.6	16.9	
Leverage ratio ⁶	7.3	NA	
Earnings per ordinary share (\$) ³			
Basic	1.94	1.98	
Diluted	1.93	1.97	
Net asset value (NAV) per ordinary share (\$) ⁷	17.84	17.09	
Revalued NAV per ordinary share (\$) ⁷	20.56	19.73	

1 Relate to amount attributable to equity holders of the Bank.

2 Refer to non-performing loans as a percentage of gross customer loans.

3 Calculated based on profit attributable to equity holders of the Bank net of preference share dividends and capital securities distributions.

4 Refer to net customer loans and customer deposits.

5 Figures reported are based on average LCR for the respective period. A minimum requirement of Singapore dollar LCR of 100% and all-currency LCR of 60% is required to be maintained at all times with effect from 1 January 2015, with all-currency LCR increasing by 10% each year to 100% by 2019.

6 Leverage ratio is calculated based on the revised MAS Notice 637 which took effect from 1 January 2015. A minimum requirement of 3% is applied during the parallel run period from 1 January 2013 to 1 January 2017.

7 Preference shares and capital securities are excluded from the computation.

Performance Review

The Group reported a net profit after tax of \$3.21 billion for 2015, a marginal decline of 1.2% from a year ago as prior year results included a higher write-back of tax provisions. Total income grew 7.9% to reach \$8.05 billion, led by strong client franchise income and higher gains on sale of investment securities.

Net interest income grew 8.1% to \$4.93 billion on the back of healthy loan growth and improved net interest margin. Net interest margin increased 6 basis points to 1.77%, benefiting from rising interest rates in Singapore.

Non-interest income rose 7.7% to \$3.12 billion in 2015. Fee income grew 7.7% to \$1.88 billion with credit card, fund management and wealth management activities registering steady growth. Trading and investment income increased 16.8% to \$954 million on higher gains on sale of securities as well as healthy growth in treasury customer income.

Total expenses increased 14.3% to \$3.60 billion on higher staff costs, revenue and IT-related expenses as the Group continued to invest in people and technology capabilities. The increase was also partly due to a prior year bonus adjustment and a one-off expenditure of \$67 million incurred for Singapore's Golden Jubilee (SG50) and UOB's 80th anniversary (UOB80) commemorative events and the launch of a group-wide brand campaign. Expense-to-income ratio was 44.7%, or 43.4% on a normalised basis.

Total allowances were higher at \$672 million, while total loan charge off rate remained at 32 basis points. Specific allowances on loans increased 64.4% to \$392 million mainly from non-performing loans (NPL) accounts in Singapore, Indonesia and Greater China. The Group provided general allowances of \$196 million during the year and the general allowances coverage ratio remained strong at 1.4% of the loan book as at 31 December 2015.

Contribution from associates' profits of \$90 million in 2015 was 40.0% lower mainly due to a non-recurring gain from the disposal of associates in 2014.

Tax expense increased 15.7% to \$649 million, mainly due to a lower write-back of prior years' provisions.

Gross loans grew 4.0% year-on-year to \$207 billion as at 31 December 2015. In constant currency terms, the underlying loan growth was 5.4%.

The Group's liquidity position remained strong with customer deposits increasing 2.9% from a year ago to \$241 billion as at 31 December 2015, contributed mainly by growth in Singapore dollar and US dollar deposits. The Group's loan-to-deposit ratio stayed healthy at 84.7% as at 31 December 2015. The quarter-average Singapore dollar and all-currency liquidity coverage ratios were 217% and 142% respectively, well above the regulatory requirements of 100% and 60%.

Group NPL ratio remained stable at 1.4% as at 31 December 2015 while NPL coverage was 130.5%, and 315.7% after taking collateral into account.

Shareholders' equity increased 4.1% from a year ago to \$30.8 billion as at 31 December 2015, largely contributed by net profits and improved valuations on available-for-sale investments. Return on equity was 11.0% for 2015.

As at 31 December 2015, the Group's strong capital position remained well above the MAS minimum requirements with Common Equity Tier 1 and Total CAR at 13.0% and 15.6% respectively. The Group's leverage ratio stood at 7.3% as at 31 December 2015, well above the minimum requirement of 3%.

Management Discussion and Analysis

Net Interest Income

Net Interest Margin

	2015			2014		
	Average balance \$ million	Interest \$ million	Average rate %	Average balance \$ million	Interest \$ million	Average rate %
Interest Bearing Assets						
Customer loans	200,337	6,675	3.33	190,773	5,913	3.10
Interbank balances	52,318	627	1.20	48,851	693	1.42
Securities	25,441	524	2.06	27,176	584	2.15
Total	278,096	7,826	2.81	266,801	7,189	2.69
Interest Bearing Liabilities						
Customer deposits	239,674	2,559	1.07	217,548	2,252	1.04
Interbank balances/others	30,208	341	1.13	40,438	380	0.94
Total	269,882	2,900	1.07	257,986	2,632	1.02
Net interest margin¹			1.77			1.71

¹ Net interest margin represents net interest income as a percentage of total interest bearing assets.

Volume and Rate Analysis

	2015 vs 2014			2014 vs 2013		
	Volume change \$ million	Rate change \$ million	Net change \$ million	Volume change \$ million	Rate change \$ million	Net change \$ million
Interest Income						
Customer loans	296	465	762	690	(74)	616
Interbank balances	49	(114)	(65)	121	(83)	38
Securities	(37)	(22)	(60)	(50)	77	27
Total	308	329	637	761	(80)	681
Interest Expense						
Customer deposits	229	78	307	169	42	212
Interbank balances/others	(96)	57	(39)	103	(72)	32
Total	134	135	268	273	(29)	243
Net interest income	175	194	369	489	(51)	438

Net interest income grew 8.1% to a new high of \$4.93 billion in 2015, led by healthy loan growth across various geographies and industries. Net interest margin widened 6 basis points to 1.77%, benefiting from rising interest rates in Singapore.

Non-Interest Income

	2015 \$ million	2014 \$ million	+ / (-) %
Fee and Commission Income			
Credit card	345	281	22.8
Fund management	172	156	10.4
Wealth management	416	377	10.1
Loan-related ¹	498	490	1.5
Service charges	121	113	7.7
Trade-related ²	258	273	(5.4)
Others	74	59	25.2
	1,883	1,749	7.7
Other Non-Interest Income			
Net trading income	641	599	7.0
Net gain from investment securities	313	218	43.7
Dividend income	34	48	(28.7)
Rental income	117	115	1.8
Other income	132	170	(22.4)
	1,238	1,151	7.6
Total	3,122	2,900	7.7

1 Loan-related fees include fees earned from corporate finance activities.

2 Trade-related fees include trade, remittance and guarantees related fees.

Fee and commission income grew 7.7% year-on-year to \$1.88 billion with broad-based growth across most businesses. Trading and investment income increased 16.8% to \$954 million, contributed mainly by higher gains on sale of securities as well as healthy growth in treasury customer income. Consequently, non-interest income rose 7.7% to \$3.12 billion in 2015.

Management Discussion and Analysis

Operating Expenses

	2015 \$ million	2014 \$ million	+ / (-) %
Staff costs	2,064	1,825	13.1
Other Operating Expenses			
Revenue-related	796	672	18.3
Occupancy-related	311	287	8.3
IT-related	242	199	21.6
Others	184	163	13.2
	1,533	1,321	16.0
Total	3,597	3,146	14.3

Total expenses increased 14.3% to \$3.60 billion from a year ago. In 2015, the Group incurred one-off expenses amounting to \$67 million for SG50 and UOB80 commemorative events as well as the launch of a group-wide brand campaign. Excluding these expenses, total expenses increased 12.2% from 2014 to \$3.53 billion as the Group continued to invest in talent and technology capabilities to deepen its franchise. Staff expenses, normalised for an adjustment for prior year bonus, would show an increase of 7.0% from 2014 while total expenses would increase 9.0%. Expense-to-income ratio would have been 43.4% when normalised for these items.

Allowances for Credit and Other Losses

	2015 \$ million	2014 \$ million	+ / (-) %
Specific Allowances on Loans¹			
Singapore	108	53	>100.0
Malaysia	33	28	18.6
Thailand	80	73	10.1
Indonesia	140	49	>100.0
Greater China ²	40	6	>100.0
Others	(9)	29	(>100.0)
	392	238	64.4
Specific allowances on securities and others	84	63	33.4
General allowances	196	334	(41.3)
Total	672	635	5.7

¹ Specific allowances on loans by geography are classified according to where credit risks reside, largely represented by the borrower's country of incorporation/operation (for non-individuals) and residence (for individuals).

² Comprises China, Hong Kong and Taiwan.

Total allowances increased 5.7% from a year ago to \$672 million in 2015 with total loan charge off rate stable at 32 basis points. Specific allowances on loans rose \$153 million to \$392 million mainly from new non-performing loans accounts in Singapore, Indonesia and Greater China. The Group provided general allowances of \$196 million during the year. This increased total general allowance balances to \$3 billion, translating to a strong general allowance coverage ratio of 1.4% of the loan book as at 31 December 2015.

Customer Loans

	2015 \$ million	2014 \$ million
Gross customer loans	207,371	199,343
Less: Specific allowances	773	657
General allowances	2,987	2,783
Net customer loans	203,611	195,903
By Industry¹		
Transport, storage and communication	10,019	10,014
Building and construction	45,211	38,672
Manufacturing	15,803	17,139
Financial institutions	14,282	16,039
General commerce	28,302	27,119
Professionals and private individuals	25,950	26,008
Housing loans	56,385	54,711
Others	11,419	9,641
Total (gross)	207,371	199,343
By Currency		
Singapore dollar	108,323	106,785
US dollar	35,953	33,471
Malaysian ringgit	22,375	24,364
Thai baht	10,935	10,155
Indonesian rupiah	5,157	4,777
Others	24,628	19,791
Total (gross)	207,371	199,343
By Maturity		
Within 1 year	70,864	66,066
Over 1 year but within 3 years	40,335	39,220
Over 3 years but within 5 years	26,194	24,341
Over 5 years	69,979	69,715
Total (gross)	207,371	199,343
By Geography²		
Singapore	116,087	109,700
Malaysia	24,605	25,768
Thailand	11,481	10,836
Indonesia	11,543	11,100
Greater China	25,217	25,308
Others	18,438	16,631
Total (gross)	207,371	199,343

1 Certain loans to investment holding companies were reclassified in order to more accurately align to Singapore Standard Industrial Classification (SSIC) guidelines. Prior year comparatives were restated accordingly.

2 Loans by geography are classified according to where credit risks reside, largely represented by the borrower's country of incorporation/operation (for non-individuals) and residence (for individuals).

Gross customer loans grew 4.0% year-on-year to \$207 billion as at 31 December 2015. In constant currency terms, the underlying loan growth was 5.4% across various industries and geographies.

In Singapore, the customer loan base rose 5.8% from a year ago to \$116 billion as at 31 December 2015. Excluding currency effects, regional countries continued to contribute a strong growth year on year.

Management Discussion and Analysis

Non-Performing Assets

	2015 \$ million	2014 \$ million
Non-Performing Assets (NPA)		
Loans (NPL)	2,882	2,358
Debt securities and others	184	230
Total	3,066	2,588
By Grading		
Substandard	2,255	1,855
Doubtful	160	197
Loss	651	536
Total	3,066	2,588
By Security Coverage		
Secured	1,697	1,387
Unsecured	1,369	1,201
Total	3,066	2,588
By Ageing		
Current	462	536
Within 90 days	370	152
Over 90 to 180 days	417	319
Over 180 days	1,817	1,581
Total	3,066	2,588
Total Allowances		
Specific	934	819
General	3,074	2,910
Total	4,008	3,729
As a % of NPA	130.7%	144.1%
As a % of unsecured NPA	292.8%	310.5%

	2015		2014	
	NPL \$ million	NPL ratio %	NPL \$ million	NPL ratio %
NPL by Industry¹				
Transport, storage and communication	977	9.8	714	7.1
Building and construction	250	0.6	226	0.6
Manufacturing	287	1.8	280	1.6
Financial institutions	102	0.7	109	0.7
General commerce	388	1.4	265	1.0
Professionals and private individuals	287	1.1	209	0.8
Housing loans	550	1.0	507	0.9
Others	41	0.4	48	0.5
Total	2,882	1.4	2,358	1.2

¹ Certain loans to investment holding companies were reclassified in order to more accurately align to Singapore Standard Industrial Classification (SSIC) guidelines. Prior year comparatives were restated accordingly.

Non-Performing Assets (continued)

	NPL \$ million	NPL ratio %	Total allowances	
			as a % of NPL %	as a % of unsecured NPL %
NPL by Geography¹				
Singapore				
2015	1,116	1.0	220.3	646.8
2014	864	0.8	249.9	817.8
Malaysia				
2015	386	1.6	125.1	525.0
2014	386	1.5	135.0	505.8
Thailand				
2015	249	2.2	121.7	312.4
2014	267	2.5	121.3	241.8
Indonesia				
2015	569	4.9	39.9	110.2
2014	298	2.7	55.4	150.0
Greater China				
2015	218	0.9	87.2	131.0
2014	124	0.5	109.7	191.5
Others				
2015	344	1.9	28.8	36.5
2014	419	2.5	32.2	45.0
Group				
2015	2,882	1.4	130.5	315.7
2014	2,358	1.2	145.9	350.3

¹ Non-performing loans by geography are classified according to where credit risks reside, largely represented by the borrower's country of incorporation/operation (for non-individuals) and residence (for individuals).

NPL ratio rose to 1.4%, an increase of 0.2% point from a year ago but NPL coverage stayed healthy at 130.5%, and 315.7% after taking collateral into account.

Group NPL increased 22.2% from a year ago to \$2.88 billion. The transportation sector, particularly the shipping industry, remains under stress with several new large NPL, mainly in Indonesia. Increase in NPL from Singapore and Greater China were mainly in the manufacturing and general commerce industries.

Management Discussion and Analysis

Customer Deposits

	2015 \$ million	2014 \$ million
By Product		
Fixed deposits	125,486	129,787
Savings deposits	55,966	51,654
Current accounts	51,221	45,482
Others	7,852	6,827
Total	240,524	233,750
By Maturity		
Within 1 year	234,414	226,593
Over 1 year but within 3 years	4,130	5,521
Over 3 years but within 5 years	723	646
Over 5 years	1,258	989
Total	240,524	233,750
By Currency		
Singapore dollar	115,650	112,608
US dollar	54,236	49,068
Malaysian ringgit	24,122	27,199
Thai baht	11,782	10,970
Indonesian rupiah	5,252	4,822
Others	29,483	29,082
Total	240,524	233,750
Group Loan/Deposit ratio (%)	84.7	83.8
Singapore dollar Loan/Deposit ratio (%)	91.7	93.0
US dollar Loan/Deposit ratio (%)	65.6	67.7

Customer deposits continued to grow with an increase of 2.9% from a year ago to \$241 billion, mainly contributed by Singapore dollar and US dollar deposits.

As at 31 December 2015, the Group's loan-to-deposit ratio and Singapore dollar loan-to-deposit ratio remained healthy at 84.7% and 91.7% respectively.

Debts Issued (Unsecured)

	2015 \$ million	2014 \$ million
Subordinated debts	4,878	4,640
Commercial papers	9,666	10,502
Fixed and floating rate notes	3,785	4,211
Others	1,959	1,601
Total	20,288	20,953
Due within one year	12,143	12,393
Due after one year	8,146	8,560
Total	20,288	20,953

Shareholders' Equity

	2015 \$ million	2014 \$ million
Shareholders' equity	30,768	29,569
Add: Revaluation surplus	4,357	4,224
Shareholders' equity including revaluation surplus	<u>35,126</u>	<u>33,793</u>

Shareholders' equity rose 4.1% from a year ago to \$30.8 billion as at 31 December 2015, largely led by higher net profits and improved valuations on the available-for-sale investments.

As at 31 December 2015, a revaluation surplus of \$4.36 billion relating to the Group's properties, is not recognised in the financial statements.

Performance by Operating Segment ^{1,2}

	GR \$ million	GWB \$ million	GMIM \$ million	Others \$ million	Elimination \$ million	Total \$ million
2015						
Net interest income	2,157	2,337	123	309	–	4,926
Non-interest income	1,201	1,070	676	365	(190)	3,122
Operating income	3,358	3,407	799	674	(190)	8,048
Operating expenses	(1,785)	(746)	(457)	(799)	190	(3,597)
Allowances for credit and other losses	(176)	(269)	(11)	(216)	–	(672)
Share of profit of associates and joint ventures	–	–	18	72	–	90
Profit before tax	<u>1,397</u>	<u>2,392</u>	<u>349</u>	<u>(269)</u>	<u>–</u>	<u>3,869</u>
Tax						(649)
Profit for the financial year						<u>3,220</u>
2014						
Net interest income	1,856	2,020	367	314	–	4,557
Non-interest income	1,161	1,003	582	326	(172)	2,900
Operating income	3,017	3,023	949	640	(172)	7,457
Operating expenses	(1,632)	(674)	(413)	(599)	172	(3,146)
Allowances for credit and other losses	(139)	(131)	(59)	(306)	–	(635)
Share of profit of associates and joint ventures	–	–	36	113	–	149
Profit before tax	<u>1,246</u>	<u>2,218</u>	<u>513</u>	<u>(152)</u>	<u>–</u>	<u>3,825</u>
Tax						(561)
Profit for the financial year						<u>3,264</u>

1 Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

2 Long Term Investment has been reclassified from Others to GMIM and prior year comparatives have been restated accordingly.

Management Discussion and Analysis

Performance by Operating Segment ^{1,2} (continued)

The Group is organised to be segment-led across key markets. Global segment heads are responsible for driving business, with decision-making balanced with a geographical perspective. The following represent the key customer segments:

Group Retail (GR)

Segment profit increased 12.1% to \$1.40 billion in 2015, mainly driven by higher net interest income as well as higher non-interest income from wealth management and credit card products. The increase was partly offset by higher business volume-related operating expenses.

Group Wholesale Banking (GWB)

Segment profit grew 7.8% to \$2.39 billion in 2015, contributed by higher net interest income and increased cross-sell income from global markets products and transaction banking. Revenue growth was partly offset by higher allowances and higher operating expenses. Increased operating expenses primarily resulted from the continued investment in product capabilities and hiring of new talents as the business expanded regionally.

Global Markets and Investment Management (GMIM)

Segment profit decreased 32.0% to \$349 million in 2015, mainly due to lower income from market making and banking book/central treasury activities.

Others

This segment recorded a higher loss of \$269 million in 2015, mainly due to lower share of associates' profit and higher operating expenses from SG50 and UOB80 commemorative events, brand campaign and adjustment for prior year bonus; partially offset by lower allowances for credit and other losses.

Performance by Geographical Segment ¹

	Total operating income		Profit before tax		Total assets	
	2015	2014	2015	2014	2015	2014
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
Singapore	4,658	4,313	2,363	2,345	197,929	187,529
Malaysia	1,006	1,047	537	593	32,669	37,269
Thailand	790	691	175	159	16,643	15,915
Indonesia	410	410	61	99	8,550	8,143
Greater China	706	587	366	305	32,982	31,977
Others	478	409	367	324	23,094	21,754
	8,048	7,457	3,869	3,825	311,867	302,587
Intangible assets	–	–	–	–	4,144	4,149
Total	8,048	7,457	3,869	3,825	316,011	306,736

¹ Based on the location where the transactions and assets are booked, which approximates that based on the location of the customers and assets. Information is stated after elimination of inter-segment transactions.

In 2015, the Group's total operating income rose 7.9% from a year ago to \$8.05 billion. Singapore grew 8.0% driven by strong net interest income and fees. Regional growth was higher at 6.5% largely led by Thailand and Greater China. At the pre-tax profit level, the Group increased 1.1% to \$3.87 billion in 2015. Overseas contributed 38.9% of the Group's pre-tax profit due to core income growth.

Capital Adequacy and Leverage Ratios

As at 31 December 2015, the Group's strong capital position remained well above the MAS minimum requirements with Common Equity Tier 1 and Total CAR at 13.0% and 15.6% respectively. The Group's leverage ratio stood at 7.3% as at 31 December 2015, well above Basel's minimum requirement of 3%.

Compared with a year ago, capital ratios were lower mainly due to increased risk-weighted assets resulting from asset growth, coupled with the revised recognition of undrawn credit facilities following MAS' clarification on the definition of loan commitments effective 31 December 2015, partially offset by higher retained earnings.