

United Overseas Bank Limited (Incorporated in Singapore) and its subsidiaries

31 December 2016

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Certain comparative figures have been restated to conform with the current year's presentation.

Certain figures in this section may not add up to the relevant totals due to rounding.

Amounts less than \$500,000 in absolute term are shown as "0".

"NM" denotes not meaningful.





United Overseas Bank Limited (Incorporated in Singapore)
and its subsidiaries

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Financial Report

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"NM" denotes not meaningful.

Management Discussion and Analysis

Overview

	2016	2015	+/(-) %
Selected income statement items (\$ million)			
Net interest income	4,991	4,926	1.3
Fee and commission income	1,931	1,883	2.5
Other non-interest income	1,140	1,238	(7.9)
Total income	8,061	8,048	0.2
Less: Total expenses	3,696	3,597	2.8
Operating profit	4,365	4,451	(1.9)
Less: Total allowance	594	672	(11.6)
Add: Share of profit of associates and joint ventures	6	90	(93.4)
Net profit before tax	3,777	3,869	(2.4)
Less: Tax and non-controlling interests	681	660	3.2
Net profit after tax ¹	3,096	3,209	(3.5)
Selected balance sheet items (\$ million)			
Net customer loans	221,734	203,611	8.9
Customer deposits	255,314	240,524	6.1
Total assets	340,028	316,011	7.6
Shareholders' equity ¹	32,873	30,768	6.8
Key financial ratios (%)			
Net interest margin	1.71	1.77	
Non-interest income/Total income	38.1	38.8	
Expense/Income ratio	45.9	44.7	
Overseas profit before tax contribution	37.4	38.9	
Credit costs (bp)			
Exclude general allowance	45	19	
Include general allowance	32	32	
Non-performing loans ratio ²	1.5	1.4	
Return on average total assets	0.95	1.03	
Return on average ordinary shareholders' equity ³	10.2	11.0	
Loan/Deposit ratio ⁴	86.8	84.7	
Liquidity coverage ratios (LCR) ⁵			
All-currency	154	143	
Singapore dollar	221	179	
Capital adequacy ratios			
Common Equity Tier 1	13.0	13.0	
Tier 1	13.1	13.0	
Total	16.2	15.6	
Leverage ratio ⁶	7.4	7.3	
Earnings per ordinary share (\$) ³			
Basic	1.86	1.94	
Diluted	1.85	1.93	
Net asset value (NAV) per ordinary share (\$) ⁷	18.82	17.84	
Revalued NAV per ordinary share (\$) ⁷	21.54	20.56	

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

2 Refers 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 dividend and capital securities distributions.

4 Refers 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% shall be maintained at all times with effect from 1 January 2015, with all-currency LCR increasing by 10% each year to 100% by 2019. Public disclosure required under MAS Notice 651 is available in the UOB website at www.UOBGroup.com/investor/financial/overview.html.

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.

Management Discussion and Analysis

Performance Review

The Group reported net earnings of \$3.10 billion for 2016, 3.5% lower than a year ago.

Net interest income increased 1.3% to \$4.99 billion, led by healthy loan growth in the consumer and non-bank financial institution customer segments. Net interest margin decreased 6 basis points to 1.71%.

Non-interest income declined 1.6% to \$3.07 billion. Trading and investment income fell 8.1% to \$877 million due to lower gains from sale of investment securities, partially offset by higher trading income. Fee and commission income increased 2.5% to \$1.93 billion, driven by higher credit card and fund management fees.

Total expenses rose 2.8% to \$3.70 billion from a year ago, largely from revenue and IT-related expenses. The Group was disciplined in managing total headcount and it continues to invest in technology and infrastructure to sharpen its capabilities. The expense-to-income ratio for the year was 45.9%.

Total credit costs on loans were maintained at 32 basis points for the year. Specific allowance on loans increased \$577 million to \$969 million primarily from non-performing loans (NPL) in oil and gas and shipping industries. Total allowance decreased 11.6% to \$594 million, due to lower specific allowance on other assets and a release in general allowance. The Group's general allowance remained strong at \$2.7 billion at the end of the year. The ratio of general allowance to gross loans stood at 1.2%.

Contribution from associated companies decreased to \$6 million due to investment losses in an associated company.

The Group continued to maintain a strong funding and capital position. Gross loans amounted to \$226 billion at end of the year, an increase of 8.8% year-on-year. Customer deposits grew 6.1% to \$255 billion, led mainly by growth in Singapore dollar and US dollar deposits. The Group's loan-to-deposit ratio remained healthy at 86.8%. While staying predominantly deposit-funded, the Group has also tapped alternative sources of funding to diversify funding mix and optimise overall funding costs. In 2016, the Group issued \$3.9 billion in debt and capital securities.

The average Singapore dollar and all-currency liquidity coverage ratios for the year were 221% and 154% respectively, well above the corresponding regulatory requirements of 100% and 70%.

NPL ratio was 1.5% as at 31 December 2016 while NPL coverage remained strong at 118.0%, or 262.4% after taking collateral into account.

Shareholders' equity increased by 6.8% from a year ago to \$32.9 billion as at 31 December 2016 due to retained earnings and strong shareholder take-up from the scrip dividend scheme. Return on equity was 10.2% for 2016.

As at 31 December 2016, the Group's Common Equity Tier 1 and Total CAR remained strong at 13.0% and 16.2% respectively. On a fully-loaded basis, the Common Equity Tier 1 CAR stood at 12.1%. The Group's leverage ratio was 7.4%, well above Basel's minimum requirement of 3%.

Net Interest Income

Net Interest Margin

	2016			2015		
	Average balance \$ million	Interest \$ million	Average rate %	Average balance \$ million	Interest \$ million	Average rate %
Interest Bearing Assets						
Customer loans	213,016	7,118	3.34	200,337	6,675	3.33
Interbank balances	49,656	637	1.28	52,318	627	1.20
Securities	29,135	536	1.84	25,441	524	2.06
Total	291,807	8,291	2.84	278,096	7,826	2.81
Interest Bearing Liabilities						
Customer deposits	252,293	2,878	1.14	239,674	2,559	1.07
Interbank balances/others	32,054	422	1.32	30,208	341	1.13
Total	284,347	3,300	1.16	269,882	2,900	1.07
Net interest margin ¹			1.71			1.77

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

Volume and Rate Analysis

	2016 vs 2015			2015 vs 2014		
	Volume change \$ million	Rate change \$ million	Net change \$ million	Volume change \$ million	Rate change \$ million	Net change \$ million
Interest Income						
Customer loans	422	21	443	296	465	762
Interbank balances	(32)	41	10	49	(114)	(65)
Securities	76	(64)	12	(37)	(22)	(60)
Total	467	(2)	464	308	329	637
Interest Expense						
Customer deposits	135	184	318	229	78	307
Interbank balances/others	28	54	82	(96)	57	(39)
Total	162	238	400	134	135	268
Net interest income	304	(240)	64	175	194	369

Net interest income increased 1.3% to \$4.99 billion, led by healthy loan growth in the consumer and non-bank financial institution customer segments. Net interest margin decreased 6 basis points to 1.71%.

Management Discussion and Analysis

Non-Interest Income

	2016 \$ million	2015 \$ million	+ / (-) %
Fee and Commission Income			
Credit card	368	345	6.8
Fund management	188	172	9.3
Wealth management	403	416	(3.1)
Loan-related ¹	482	498	(3.2)
Service charges	134	121	10.1
Trade-related ²	263	258	1.9
Others	93	74	26.0
	1,931	1,883	2.5
Other Non-Interest Income			
Net trading income	776	641	21.1
Net gain from investment securities	101	313	(67.9)
Dividend income	31	34	(10.6)
Rental income	118	117	0.9
Other income	114	132	(13.7)
	1,140	1,238	(7.9)
Total	3,071	3,122	(1.6)

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

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

Non-interest income declined 1.6% to \$3.07 billion. Trading and investment income fell 8.1% to \$877 million due to lower gains from sale of investment securities, partially offset by higher trading income. Fee and commission income increased 2.5% to \$1.93 billion, driven by higher credit card and fund management fees.

Operating Expenses

	2016	2015	+ /(-)
	\$ million	\$ million	%
Staff costs	2,050	2,064	(0.7)
Other Operating Expenses			
Revenue-related	826	796	3.8
Occupancy-related	324	311	4.1
IT-related	286	242	18.4
Others	210	184	14.0
	1,646	1,533	7.4
Total	3,696	3,597	2.8

Total expenses rose 2.8% to \$3.70 billion from a year ago, largely from revenue and IT-related expenses. The Group was disciplined in managing total headcount and it continues to invest in technology and infrastructure to sharpen its capabilities. The expense-to-income ratio for the year was 45.9%.

Allowance for Credit and Other Losses

	2016	2015	+ /(-)
	\$ million	\$ million	%
Specific Allowance on Loans¹			
Singapore	516	108	>100.0
Malaysia	57	33	74.0
Thailand	88	80	9.5
Indonesia	125	140	(10.7)
Greater China ²	168	40	>100.0
Others	15	(9)	>100.0
	969	392	>100.0
Specific Allowance on Securities and Others	22	84	(73.6)
General Allowance	(398)	196	(>100.0)
Total	594	672	(11.6)

1 Specific allowance on loans by geography is 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 Comprise China, Hong Kong and Taiwan.

Total credit costs on loans were maintained at 32 basis points for the year. Specific allowance on loans increased \$577 million to \$969 million primarily from the non-performing loans (NPL) in oil and gas and shipping industries. Total allowance decreased 11.6% to \$594 million, due to lower specific allowance on other assets and a release in general allowance. The Group's general allowance stood at \$2.7 billion at the end of the year. The ratio of general allowance to gross loans stood at 1.2%.

Management Discussion and Analysis

Customer Loans

	2016 \$ million	2015 \$ million
Gross customer loans	225,662	207,371
Less: Specific allowance	1,219	773
General allowance	2,709	2,987
Net customer loans	221,734	203,611
By Industry		
Transport, storage and communication	9,780	10,019
Building and construction	52,281	45,211
Manufacturing	15,747	15,803
Financial institutions, investment and holding companies	15,519	14,282
General commerce	30,269	28,302
Professionals and private individuals	26,950	25,950
Housing loans	61,451	56,385
Others	13,665	11,419
Total (gross)	225,662	207,371
By Currency		
Singapore dollar	112,160	108,323
US dollar	45,079	35,953
Malaysian ringgit	22,993	22,375
Thai baht	12,423	10,935
Indonesian rupiah	5,401	5,157
Others	27,606	24,628
Total (gross)	225,662	207,371
By Maturity		
Within 1 year	85,002	70,864
Over 1 year but within 3 years	43,665	40,335
Over 3 years but within 5 years	27,655	26,194
Over 5 years	69,340	69,979
Total (gross)	225,662	207,371
By Geography¹		
Singapore	125,529	116,087
Malaysia	25,767	24,605
Thailand	13,226	11,481
Indonesia	11,857	11,543
Greater China	27,232	25,217
Others	22,051	18,438
Total (gross)	225,662	207,371

¹ 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 registered a strong growth of 8.8% from a year ago to \$226 billion as at 31 December 2016.

Singapore, which accounted for 56% of Group loan base, registered 8.1% growth year-on-year to reach \$126 billion while loans outside Singapore grew 9.7%.

Non-Performing Assets

	2016 \$ million	2015 \$ million
Non-Performing Assets (NPA)		
Loans (NPL)	3,328	2,882
Debt securities and others	152	184
Total	3,480	3,066
By Grading		
Substandard	2,185	2,255
Doubtful	270	160
Loss	1,025	651
Total	3,480	3,066
By Security Coverage		
Secured by collateral type:		
Properties	1,177	1,145
Shares and debentures	39	26
Fixed deposits	11	6
Others ¹	613	520
	1,840	1,697
Unsecured	1,640	1,369
Total	3,480	3,066
By Ageing		
Current	343	462
Within 90 days	285	370
Over 90 to 180 days	646	417
Over 180 days	2,206	1,817
Total	3,480	3,066
Total Allowance		
Specific	1,322	934
General	2,724	3,074
Total	4,046	4,008
As a % of NPA	116.3%	130.7%
As a % of unsecured NPA	246.7%	292.8%

	2016		2015	
	NPL \$ million	NPL ratio %	NPL \$ million	NPL ratio %
NPL by Industry				
Transport, storage and communication	965	9.9	977	9.8
Building and construction	210	0.4	250	0.6
Manufacturing	316	2.0	287	1.8
Financial institutions, investment and holding companies	76	0.5	102	0.7
General commerce	451	1.5	388	1.4
Professionals and private individuals	284	1.1	287	1.1
Housing loans	618	1.0	550	1.0
Others	408	3.0	41	0.4
Total	3,328	1.5	2,882	1.4

¹ Comprise mainly of shipping vessels.

Management Discussion and Analysis

Non-Performing Assets (continued)

	NPL \$ million	NPL ratio %	Specific allowance \$ million	Total allowance	
				as a % of NPA/NPL %	as a % of unsecured NPA/NPL %
NPL by Geography¹					
Singapore					
2016	1,291	1.0	468	179.6	387.0
2015	1,116	1.0	258	220.3	646.8
Malaysia					
2016	487	1.9	82	103.7	376.9
2015	386	1.6	58	125.1	525.0
Thailand					
2016	360	2.7	134	106.4	267.8
2015	249	2.2	91	121.7	312.4
Indonesia					
2016	638	5.4	208	44.8	134.3
2015	569	4.9	175	39.9	110.2
Greater China					
2016	307	1.1	230	106.5	140.3
2015	218	0.9	97	87.2	131.0
Others					
2016	245	1.1	97	44.5	62.3
2015	344	1.9	94	28.8	36.5
Group NPL					
2016	3,328	1.5	1,219	118.0	262.4
2015	2,882	1.4	773	130.5	315.7
Debt securities and others					
2016	152		103	77.6	82.4
2015	184		161	134.8	139.3
Group NPA					
2016	3,480		1,322	116.3	246.7
2015	3,066		934	130.7	292.8

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).

Non-performing loans (NPL) ratio was 1.5% as at 31 December 2016 while NPL coverage remained strong at 118.0%, or 262.4% after taking collateral into account.

Group NPL increased 15.5% from a year ago to \$3.33 billion attributable to new NPLs from the oil and gas and shipping industries.

Customer Deposits

	2016 \$ million	2015 \$ million
By Product		
Fixed deposits	133,966	125,486
Savings deposits	61,951	55,966
Current accounts	51,690	51,221
Others	7,707	7,852
Total	255,314	240,524
By Maturity		
Within 1 year	249,750	234,414
Over 1 year but within 3 years	3,589	4,130
Over 3 years but within 5 years	978	723
Over 5 years	997	1,258
Total	255,314	240,524
By Currency		
Singapore dollar	122,736	115,650
US dollar	59,425	54,236
Malaysian ringgit	25,295	24,122
Thai baht	13,049	11,782
Indonesian rupiah	5,741	5,252
Others	29,068	29,483
Total	255,314	240,524
Group Loan/Deposit ratio (%)	86.8	84.7
SGD Loan/Deposit ratio (%)	89.7	91.7
USD Loan/Deposit ratio (%)	74.6	65.6

Customer deposits rose by 6.1% from a year ago to \$255 billion, led mainly by growth in Singapore dollar and US dollar deposits.

As at 31 December 2016, the Group's loan-to-deposit ratio and Singapore dollar loan-to-deposit ratio stayed healthy at 86.8% and 89.7% respectively.

Debts Issued

	2016 \$ million	2015 \$ million
Unsecured		
Subordinated debts	5,926	4,878
Commercial papers	14,364	9,666
Fixed and floating rate notes	3,408	3,785
Others	1,687	1,959
Secured		
Covered bonds	758	–
Total	26,143	20,288
Due within 1 year	16,172	12,143
Due after 1 year	9,971	8,146
Total	26,143	20,288

Management Discussion and Analysis

Shareholders' Equity

	2016 \$ million	2015 \$ million
Shareholders' equity	32,873	30,768
Add: Revaluation surplus	4,456	4,357
Shareholders' equity including revaluation surplus	37,329	35,126

Shareholders' equity rose 6.8% year-on-year to \$32.9 billion as at 31 December 2016 due to retained earnings and strong shareholder take-up from the scrip dividend scheme.

As at 31 December 2016, revaluation surplus of \$4.45 billion relating to the Group's properties, was not recognised in the financial statements.

Performance by Business Segment ¹

	GR \$ million	GWB \$ million	GM \$ million	Others \$ million	Total \$ million
2016					
Net interest income	2,435	2,445	126	(15)	4,991
Non-interest income	1,210	1,097	393	371	3,071
Operating income	3,645	3,542	519	355	8,061
Operating expenses	(1,824)	(795)	(291)	(786)	(3,696)
Allowance for credit and other losses	(189)	(827)	4	418	(594)
Share of profit of associates and joint ventures	–	2	–	4	6
Profit before tax	1,632	1,922	232	(9)	3,777
Tax					(669)
Profit for the financial year					3,108
2015					
Net interest income	2,157	2,332	230	207	4,926
Non-interest income	1,201	1,101	299	521	3,122
Operating income	3,358	3,433	529	728	8,048
Operating expenses	(1,785)	(773)	(249)	(790)	(3,597)
Allowance for credit and other losses	(176)	(270)	–	(226)	(672)
Share of profit of associates and joint ventures	–	(2)	–	92	90
Profit before tax	1,397	2,389	280	(197)	3,869
Tax					(649)
Profit for the financial year					3,220

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

Performance by Business Segment ¹ (Continued)

Segmental reporting is prepared based on the Group's internal organisational structure. The Banking Group is organised into three major business segments – Group Retail, Group Wholesale Banking and Global Markets. Others segment includes non-banking activities and corporate functions.

Due to business reorganisations during the year, Investment Management and Central Treasury (previously included in Global Markets and Investment Management) are now reported under the Others segment.

Comparative segment information for prior periods has been restated to be consistent with the current period's segment definition.

Group Retail (GR)

Profit before tax increased 17% to \$1,632 million. The double-digit growth was supported by higher net interest income on the back of healthy loan growth. Operating expenses grew 2% against last year, mainly from revenue-related expenses.

Group Wholesale Banking (GWB)

Operating income grew 3% to \$3,542 million, supported by higher net interest income from strong loan growth. Total expenses rose 3% to \$795 million on continued investment in product capabilities and hiring of new talents as the business expanded regionally. Profit before tax was \$1,922 million in 2016, 20% lower than a year ago due to higher allowances for credit and other losses, largely from shipping and oil and gas sectors.

Global Markets (GM)

Profit before tax declined 17% to \$232 million as compared to a year ago. Operating income decreased 2% to \$519 million as net interest income was affected by higher cost of funding, partly offset by higher income from market making activities. Total expenses increased 17%, mainly from higher revenue-related expenses and continued investments in staff and product capabilities.

Others

Others segment recorded a net loss of \$9 million in 2016, due to lower income from investments, central treasury activities and contribution from associates. This was offset by a write-back of general allowance for credit and other losses.



Management Discussion and Analysis

Performance by Geographical Segment ¹

	Total operating income		Profit before tax		Total assets	
	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million
Singapore	4,590	4,658	2,364	2,363	210,937	197,929
Malaysia	986	1,006	548	537	33,845	32,669
Thailand	830	790	193	175	18,031	16,643
Indonesia	476	410	71	61	9,840	8,550
Greater China	648	706	300	366	40,233	32,982
Others	531	478	301	367	22,991	23,094
	8,061	8,048	3,777	3,869	335,877	311,867
Intangible assets	–	–	–	–	4,151	4,144
Total	8,061	8,048	3,777	3,869	340,028	316,011

¹ Based on the location where the transactions and assets are booked. Information is stated after elimination of inter-segment transactions.

The Group's total operating income remained stable from a year ago at \$8.06 billion as regional countries continued to grow 0.9% year-on-year to \$2.94 billion.

Profit before tax for regional countries decreased 2.3% from a year ago mainly due to lower contributions from Greater China.

Capital Adequacy Ratios

The Group's CET1, Tier 1 and Total CAR as at 31 December 2016 were well above the regulatory minimum requirements.

Compared to a year ago, total capital increased mainly from retained earnings, issuance of shares pursuant to the scrip dividend scheme and issuance of capital instruments. RWA was higher at 31 December 2016 as a result of business and asset growth.

As at 31 December 2016, the Group's leverage ratio stood at 7.4%. The decrease was due to a higher asset base.

Directors' Statement

for the financial year ended 31 December 2016

The directors are pleased to present their statement to the members together with the audited financial statements of United Overseas Bank Limited (the Bank) and its subsidiaries (collectively, the Group) for the financial year ended 31 December 2016.

Opinion of the Directors

In the opinion of the directors,

- (a) the accompanying balance sheets, income statements, statements of comprehensive income, statements of changes in equity and consolidated cash flow statement together with the notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Bank and of the Group as at 31 December 2016, the results of the business and changes in equity of the Bank and the Group and cash flows of the Group for the financial year then ended; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Bank will be able to pay its debts as and when they fall due.

Directors

The directors of the Bank in office at the date of this report are:

Hsieh Fu Hua (*Chairman*)
Wee Cho Yaw (*Chairman Emeritus and Adviser*)
Wee Ee Cheong (*Deputy Chairman and Chief Executive Officer*)
Wong Meng Meng
Franklin Leo Lavin
Willie Cheng Jue Hiang
James Koh Cher Siang
Ong Yew Huat
Lim Hwee Hua

Arrangements to Enable Directors to Acquire Shares or Debentures

Neither at the end of nor at any time during the financial year was the Bank a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Bank to acquire benefits by means of the acquisition of shares or debentures of the Bank or any other body corporate.

Directors' Interests in Shares or Debentures

The following directors, who held office at the end of the financial year, had, according to the register of directors' shareholdings required to be kept under Section 164 of the Singapore Companies Act, Chapter 50, interests in shares and debentures of the Bank or its related corporations as stated below:

	Direct interest		Deemed interest	
	At 31.12.2016	At 1.1.2016 or date of appointment	At 31.12.2016	At 1.1.2016 or date of appointment
The Bank				
Ordinary shares				
Hsieh Fu Hua	–	–	25,811	25,000
Wee Cho Yaw	20,567,244	19,921,917	278,781,769	270,050,084
Wee Ee Cheong	3,297,243	3,125,918	166,690,461	161,463,970
Willie Cheng Jue Hiang	–	–	50,467	50,467
James Koh Cher Siang	3,900	3,900	–	–
United Overseas Insurance Limited				
Ordinary shares				
Wee Cho Yaw	38,100	38,100	–	–

There was no change in any of the above-mentioned interests between the end of the financial year and 21 January 2017.

Directors' Statement

for the financial year ended 31 December 2016

Directors' Contractual Benefits

Except as disclosed in the financial statements, since the end of the previous financial year, no director of the Bank has received or become entitled to receive a benefit by reason of a contract made by the Bank or a related corporation with the director, or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

Directors' Remuneration

The proposed annual fee structure for the Board for 2016 is set out below. The proposed directors' fees are subject to shareholders' approval at the forthcoming AGM.

Fee Structure	Chairman \$	Member \$
Basic Fee	700,000	90,000
Executive Committee *	–	–
Strategy Committee	85,000	55,000
Board Credit Committee	85,000	55,000
Board Risk Management Committee	85,000	55,000
Audit Committee	85,000	55,000
Nominating Committee	45,000	30,000
Remuneration Committee	45,000	30,000

* The Executive Committee was re-constituted into the Strategy Committee and Board Credit Committee on 15 February 2016.

Details of the proposed total fees and other remuneration paid/payable to the directors of the Bank for the financial year ended 31 December 2016 are as follows:

	Advisory fee \$'000	Directors' fees \$'000	Fees from subsidiaries ⁽⁴⁾ \$'000	Salary \$'000	Bonus \$'000	Benefits-in- kind and others ⁽³⁾ \$'000	Total \$'000
Hsieh Fu Hua	–	955	10	–	–	11	976
Wee Cho Yaw ⁽¹⁾	800	315	212	–	–	8	1,335
Wee Ee Cheong ⁽²⁾	–	–	–	1,200	7,200	22	8,422
Wong Meng Meng	–	175	3	–	–	–	178
Franklin Leo Lavin	–	175	5	–	–	–	180
Willie Cheng Jue Hiang	–	205	–	–	–	–	205
James Koh Cher Siang	–	245	–	–	–	–	245
Ong Yew Huat	–	285	64	–	–	–	349
Lim Hwee Hua	–	220	–	–	–	–	220

(1) The advisory fee of \$800,000 recommended by the Remuneration Committee for Dr Wee Cho Yaw is subject to shareholders' approval at the Annual General Meeting to be held on 20 April 2017.

(2) 60% of the variable pay to Mr Wee Ee Cheong will be deferred and vest over the next three years, subject to predetermined performance conditions. Of the deferred variable pay, 40% will be issued in deferred cash, while the remaining 60% will be in the form of share-linked performance units.

(3) Includes transport-related benefits and provision of drivers for Mr Hsieh Fu Hua, Dr Wee Cho Yaw and Mr Wee Ee Cheong.

(4) Fees from subsidiaries payable to Mr Wee Ee Cheong were paid to the Bank.

Share-Based Compensation Plans

The share-based compensation plans, which are administered by the Remuneration Committee, comprise the UOB Restricted Share Plan and UOB Share Appreciation Rights Plan. Details of these plans are found below and in Note 40 to the financial statements.

UOB Restricted Share Plan and UOB Share Appreciation Rights Plan (the Plans)

The Bank implemented the Plans on 28 September 2007, with a view to aligning the interests of participating employees with that of shareholders and the Group by fostering a culture of ownership and enhancing the competitiveness of the Group's remuneration for selected employees.

The Remuneration Committee determines the number of Restricted Shares (RS) and Share Appreciation Rights (SAR) to be granted, the vesting period and the conditions for vesting. Since 2014, no SAR has been granted as an instrument for share-based compensation. Grants from prior years continue to vest in accordance with the vesting schedule.

RS represent UOB shares that are restricted by time and performance conditions as to when they vest. Upon vesting, participants will receive UOB shares represented by the RS.

SAR are rights which, upon exercise, confer the right to receive such number of UOB shares (or by exception, cash) equivalent to the difference between the prevailing market value and the grant value of the underlying UOB shares comprised in the SAR, divided by the prevailing market value of a UOB share. The grant value is determined with reference to the average of the closing prices of UOB shares over the three days preceding the grant date. Upon vesting of SAR, participants have up to six years from the date of grant to exercise their rights.

Grants made in 2013 are subject to the achievement of predetermined return on equity (ROE) targets as shown below. Half of the grants will vest after two years, and the remainder after three years from the dates of grant.

Percentage of ROE target achieved	Percentage of award to be vested
	2013 grant
≥ 115%	130%
≥ 110%	120%
≥ 105%	110%
≥ 100%	100%
≥ 95%	100%
≥ 90%	90%
≥ 85%	80%
≥ 80%	70%
< 80%	At the discretion of the Remuneration Committee

Thirty per cent of grants made in and after 2014 will vest after two years, subject to the achievement of two-year ROE targets. The remaining seventy per cent will vest after three years, subject to the achievement of the three-year ROE targets. The vesting levels are shown below.

Percentage of ROE target achieved	Percentage of award to be vested for grants made in and after 2014*
Stretch: 115%	130%
Target: 100%	100%
Threshold: 80%	70%
Below Threshold	At the discretion of the Remuneration Committee

* For intermediate ROE level achieved, the percentage of award to be vested will be interpolated.

Participating employees who leave the Group before the RS and SAR are vested will forfeit their rights unless otherwise decided by the Remuneration Committee.

As approved by shareholders at the Annual General Meeting on 21 April 2016, the Plans shall be in force for a further duration of ten years up to (and including) 6 August 2027. The Plans only allow the delivery of UOB ordinary shares held in treasury by the Bank.

Directors' Statement

for the financial year ended 31 December 2016

Audit Committee

The Audit Committee comprises three members, all of whom are non-executive and independent directors. The members of the Audit Committee are:

Willie Cheng Jue Hiang (*Chairman*)
James Koh Cher Siang
Ong Yew Huat

The Audit Committee has reviewed the financial statements, the internal and external audit plans and audit reports, the external auditor's evaluation of the system of internal accounting controls, the scope and results of the internal and external audit procedures, the adequacy of internal audit resources, the cost effectiveness, independence and objectivity of the external auditor, the significant findings of internal audit investigations and interested person transactions. The reviews were made with the internal and external auditors, the Chief Financial Officer and/or other senior management staff, as appropriate.

Auditor

The Audit Committee has nominated Ernst & Young LLP for re-appointment as auditor of the Bank and Ernst & Young LLP has expressed its willingness to be re-appointed.

On behalf of the Board of Directors,

Hsieh Fu Hua
Chairman

Wee Ee Cheong
Deputy Chairman and Chief Executive Officer

Singapore
16 February 2017

Independent Auditor's Report

for the financial year ended 31 December 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UNITED OVERSEAS BANK LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of United Overseas Bank Limited (the Bank) and its subsidiaries (collectively, the Group), set out on pages 157 to 244, which comprise the balance sheets of the Bank and the Group at 31 December 2016, the income statements, the statements of comprehensive income, and the statements of changes in equity of the Bank and the Group and consolidated cash flow statement of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the balance sheet, income statement, statement of comprehensive income and statement of changes in equity of the Bank, are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Act) and Financial Reporting Standards in Singapore (FRSs), including the modification of the requirements of FRS 39 Financial Instruments: Recognition and Measurement in respect of loan loss provisioning by Notice to Banks No. 612 "Credit Files, Grading and Provisioning" issued by the Monetary Authority of Singapore, so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Bank as at 31 December 2016 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group, and of the financial performance and changes in equity of the Bank for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (ACRA) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled our responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.



Independent Auditor's Report

for the financial year ended 31 December 2016

Areas of Focus	How Our Audit Addressed the Risk Factors
<p>Impairment of Loans to Customers <i>Refer to Notes 2r(i) and 25a to the consolidated financial statements on pages 160 and 186 respectively.</i></p> <p>The allowance for impairment of loans to customers is considered to be a matter of most significance as it requires the application of judgement and use of subjective assumptions by management. The Group records both general and specific allowances, in accordance with the transitional provision set out in the MAS Notice 612 requirements for the incorporation of historical loss data and qualitative factors on loan grading respectively.</p> <p>Loans to customers contributed to approximately 65% of the Group's total assets. The Group's loan portfolio comprises customers from the two business units, i.e. Group Wholesale Banking ("GWB") (57%/ \$128 billion) and Group Retail ("GR") (43%/ \$98 billion). The loan portfolio and characteristics of these two groups differ, therefore requiring a different approach in the assessment for specific allowances by management.</p> <p>GWB's loan portfolio consists of larger wholesale loans, requiring management to monitor the borrowers' repayment abilities individually based on their knowledge for any allowance for impairment.</p> <p>In comparison with GWB, GR's loan portfolio consists of smaller loan values and a greater number of customers. Loans are not monitored individually and are grouped by product into homogeneous portfolios. Portfolios are monitored through historical delinquency statistics, which drive the allowance for impairment assessment.</p>	<p>Our audit procedures include understanding and testing of the design and operating effectiveness of the key controls over the following:</p> <ul style="list-style-type: none"> the origination, approval and monitoring of loans; the identification and timeliness of identifying impairment indicators; and the governance process of loan downgrading, including the continuous re-assessment of the appropriateness of assumptions used in the impairment models. <p>Our testing of the design and operation of the controls provided a basis for us to continue with the planned nature, timing and extent of our detailed audit procedures.</p> <p>We have designed the following procedures for specific allowances in response to the risks specific to the business units.</p> <p><u>Group Wholesale Banking</u> We obtained an understanding of the Group Credit Policy and evaluated the processes for identifying impairment indicators and consequently, the grading of loans in accordance with the MAS Notice 612.</p> <p>We tested a sample of loans (including loans that had not been identified by management as potentially impaired) to form our own assessment as to whether impairment events had occurred and to assess whether impairments had been identified in a timely manner.</p> <p>We considered the magnitude of the credit exposures, macroeconomic factors and industry trends in our audit sampling, and extended our audit coverage over customers in sectors currently experiencing difficult economic and market conditions including the oil and gas, shipping and real estate sectors.</p> <p>For the selected non-performing loans ("NPLs"), we assessed management's forecast and inputs of recoverable cash flows, valuation of collaterals, estimates of recoverable amounts on default and other sources of repayment, and where possible, compared these key assumptions to external references such as ship and real estate valuations.</p>

Areas of Focus	How Our Audit Addressed the Risk Factors
<p>Impairment of Loans to Customers (continued)</p>	<p><u>Group Retail</u> For the major GR portfolios, we examined the appropriateness of the model parameters such as historical loss rates based on our industry knowledge and experience to evaluate whether they are in line with customer behavioural profiles.</p> <p>Where lending is secured by collateral, the allowance for impairment is determined based on the haircuts and fair values less cost to sell obtained by the Group. We examined, on a sample basis, the reasonableness of haircuts applied and the fair values less cost to sell based on our knowledge and experience of the local residential and economic conditions and asset price trends.</p> <p>With respect to the Group's general allowances, our procedures included the following:</p> <ul style="list-style-type: none"> • we re-computed management's calculation to assess that the Group maintained a minimum of 1% of general allowances on total credit exposure net of collateral and specific allowances in accordance with the transitional provision set out in MAS Notice 612; • we evaluated management's assessment on the relevance of the applied historical credit cycles and impact arising from forecasts of the prevailing market and economic conditions that the Group is most susceptible to; and • we performed scenario analyses based on historical and hypothetical scenarios we considered necessary to assess the adequacy of the general allowances in stressed conditions. <p>Overall, the results of our evaluation of the Group's allowance for impairment of loans are consistent with management's assessment.</p>
<p>Valuation of Illiquid or Complex Financial Instruments Refer to Notes 2r(ii) and 18b to the consolidated financial statements on pages 160 and 176 to 177 respectively.</p> <p>The valuation of the Group's financial instruments was a key area of focus of our audit due to the degree of complexity involved in valuing some of the instruments and the significance of the judgements and estimates made by management.</p> <p>In particular, the determination of Level 3 prices is considerably more subjective given the lack of availability of market-based data.</p> <p>At 31 December 2016, 4% (\$3 billion) of the Group's total financial instruments that were carried at fair value were classified as Level 3. The Level 3 instruments mainly comprised unquoted equity investments and funds, long dated equity derivatives and a small number of unquoted debt securities.</p>	<p>We assessed the key controls over the Group's valuation and model validation processes, including the measurement of valuation reserves and derivative valuation adjustments. Our testing of the design and operation of the controls provided a basis for us to continue with the planned nature, timing and extent of our detailed audit procedures.</p> <p>In addition, we evaluated the appropriateness of the valuation methodologies, particularly for material illiquid and complex financial instruments such as private equity investments and structured products.</p> <p>For a sample of financial instruments with significant unobservable valuation inputs, we involved our own internal valuation specialists to critically assess the valuation assumptions and inputs used by management, or perform an independent valuation by reference to alternative valuation methods used by other market participants and sensitivity analyses of key factors.</p> <p>The results of our independent analyses are consistent with management's analyses.</p>



Independent Auditor's Report

for the financial year ended 31 December 2016

Areas of Focus	How Our Audit Addressed the Risk Factors
<p>Impairment of Goodwill <i>Refer to Notes 2(iii) and 34b to the consolidated financial statements on pages 160 and 200 respectively.</i></p> <p>As at 31 December 2016, the goodwill balance was carried at \$4 billion which represents 1% of total assets, and 13% of total equity. The goodwill arose from the Group's acquisition of Overseas Union Bank ("OUB"), United Overseas Bank (Thai) Public Company Limited ("UOBT") and PT Bank UOB Indonesia ("UOBI") in prior years, and is allocated to the respective cash-generating units ("CGUs") defined by the Group's operating segments.</p> <p>We focused on this area because the impairment test relies on the calculation of the value-in-use ("VIU") of each CGU, which involves significant management judgment and assumptions about the future cash flows of the CGUs and the discount rates applied.</p>	<p>Our audit procedures focused on the assessment of key assumptions in forming the CGUs' VIU calculations, including the cash flow projections and discount rates that have been approved by management.</p> <p>We assessed the cash flow projections by reviewing the historical achievement of the projections and considered the reasons for significant deviations.</p> <p>We also evaluated the reasonableness of the VIU calculations by comparing the market-related assumptions which the outcome of the impairment test is most sensitive to, against externally available industry, economic and financial data, such as country Gross Domestic Product ("GDP") growth rates.</p> <p>Where we determined that a more appropriate assumption or input in a CGU's VIU calculation could be made, independent sensitivity analyses were performed for different scenarios to identify any CGUs with a risk of impairment.</p> <p>Our evaluation results are consistent with management's goodwill impairment testing results.</p>

Other Information

Management is responsible for the other information. The other information comprises the Directors' Statement (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the other sections of the annual report (Other Sections), which are expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Other Sections, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and take appropriate actions in accordance with SSAs.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.



Independent Auditor's Report

for the financial year ended 31 December 2016

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Bank and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Winston Ngan.

ERNST & YOUNG LLP
Public Accountants and Chartered Accountants
Singapore

16 February 2017

Income Statements

for the financial year ended 31 December 2016

	Note	The Group		The Bank	
		2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Interest income	3	8,290,547	7,826,114	5,101,698	4,552,840
Less: Interest expense	4	3,299,797	2,899,817	1,866,310	1,379,914
Net interest income		4,990,750	4,926,297	3,235,388	3,172,926
Fee and commission income	5	1,930,612	1,883,491	1,254,942	1,230,343
Dividend income		30,600	34,243	194,714	241,981
Rental income		118,478	117,461	102,422	100,054
Net trading income	6	776,085	640,808	642,026	532,584
Net gain from investment securities	7	100,589	313,378	80,236	278,914
Other income	8	114,142	132,203	136,990	150,425
Non-interest income		3,070,506	3,121,584	2,411,330	2,534,301
Total operating income		8,061,256	8,047,881	5,646,718	5,707,227
Less: Staff costs	9	2,050,014	2,064,048	1,171,070	1,183,463
Other operating expenses	10	1,646,484	1,532,915	1,079,869	1,015,984
Total operating expenses		3,696,498	3,596,963	2,250,939	2,199,447
Operating profit before allowance		4,364,758	4,450,918	3,395,779	3,507,780
Less: Allowance for credit and other losses	11	593,768	671,786	456,398	389,688
Operating profit after allowance		3,770,990	3,779,132	2,939,381	3,118,092
Share of profit of associates and joint ventures		5,929	89,576	–	–
Profit before tax		3,776,919	3,868,708	2,939,381	3,118,092
Less: Tax	12	668,969	648,681	454,556	438,652
Profit for the financial year		3,107,950	3,220,027	2,484,825	2,679,440
Attributable to:					
Equity holders of the Bank		3,096,289	3,208,899	2,484,825	2,679,440
Non-controlling interests		11,661	11,128	–	–
		3,107,950	3,220,027	2,484,825	2,679,440
Earnings per share (\$)	13				
Basic		1.86	1.94		
Diluted		1.85	1.93		

The accounting policies and explanatory notes form an integral part of the financial statements.

Statements of Comprehensive Income

for the financial year ended 31 December 2016

	The Group		The Bank	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Profit for the financial year	3,107,950	3,220,027	2,484,825	2,679,440
Other Comprehensive Income ⁽¹⁾				
Currency translation adjustments	108,745	(339,464)	7,708	8,601
Change in available-for-sale/other reserves				
Change in fair value	(227,542)	500,001	(241,252)	500,527
Transfer to income statement on disposal/impairment	(155,146)	(274,698)	(140,105)	(252,228)
Tax relating to available-for-sale	23,929	(722)	23,312	(5,306)
Change in shares of other comprehensive income of associates and joint ventures	(5,260)	10,427	–	–
Remeasurement of defined benefit obligation	3,706	(10,243)	–	–
Other comprehensive income for the financial year, net of tax	(251,568)	(114,699)	(350,337)	251,594
Total comprehensive income for the financial year, net of tax	2,856,382	3,105,328	2,134,488	2,931,034
Attributable to:				
Equity holders of the Bank	2,839,675	3,096,222	2,134,488	2,931,034
Non-controlling interests	16,707	9,106	–	–
	2,856,382	3,105,328	2,134,488	2,931,034

(1) Other Comprehensive Income will be reclassified subsequently to income statement when specific conditions are met, except for the remeasurement of defined benefit obligation.

The accounting policies and explanatory notes form an integral part of the financial statements.

Balance Sheets

as at 31 December 2016

	Note	The Group		The Bank	
		2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Equity					
Share capital and other capital	14	6,351,013	5,881,252	6,351,013	5,049,702
Retained earnings	15	17,333,616	15,463,194	13,030,819	11,734,720
Other reserves	16	9,188,560	9,423,960	9,625,481	9,971,362
Equity attributable to equity holders of the Bank		32,873,189	30,768,406	29,007,313	26,755,784
Non-controlling interests		168,599	155,367	–	–
Total equity		33,041,788	30,923,773	29,007,313	26,755,784
Liabilities					
Deposits and balances of:					
Banks		11,855,222	11,986,337	10,618,314	10,538,390
Customers	19	255,313,873	240,524,473	199,665,008	190,377,876
Subsidiaries		–	–	7,239,191	2,411,844
Bills and drafts payable		521,720	434,541	323,813	236,649
Derivative financial liabilities	36	6,837,108	5,969,076	5,961,059	5,427,808
Other liabilities	20	5,665,659	5,262,453	2,590,168	2,580,158
Tax payable		417,406	430,678	354,586	346,417
Deferred tax liabilities	21	231,908	191,586	89,214	101,096
Debts issued	22	26,142,949	20,288,288	25,014,644	20,210,640
Total liabilities		306,985,845	285,087,432	251,855,997	232,230,878
Total equity and liabilities		340,027,633	316,011,205	280,863,310	258,986,662
Assets					
Cash, balances and placements with central banks	23	24,322,115	32,305,515	16,572,831	24,248,826
Singapore Government treasury bills and securities		6,876,831	6,865,052	6,876,831	6,865,052
Other government treasury bills and securities		10,638,470	12,643,728	5,257,286	7,268,093
Trading securities	24	3,127,350	1,276,574	2,977,205	1,009,768
Placements and balances with banks		40,032,875	28,646,058	33,730,816	24,280,039
Loans to customers	25	221,733,669	203,610,907	172,655,915	158,230,240
Placements with and advances to subsidiaries		–	–	9,440,101	5,943,534
Derivative financial assets	36	6,981,546	6,422,161	6,184,579	5,695,663
Investment securities	27	11,639,689	10,562,494	10,991,626	9,857,070
Other assets	28	6,174,231	5,354,853	4,361,437	3,685,887
Deferred tax assets	21	251,094	227,035	42,375	65,853
Investment in associates and joint ventures	29	1,108,925	1,105,946	332,639	407,006
Investment in subsidiaries	30	–	–	5,785,706	5,841,051
Investment properties	32	1,104,910	1,108,450	1,161,937	1,174,084
Fixed assets	33	1,884,883	1,738,607	1,310,207	1,232,677
Intangible assets	34	4,151,045	4,143,825	3,181,819	3,181,819
Total assets		340,027,633	316,011,205	280,863,310	258,986,662

The accounting policies and explanatory notes form an integral part of the financial statements.

Statements of Changes in Equity

for the financial year ended 31 December 2016

	The Group					
	Attributable to equity holders of the Bank				Non-controlling interests	Total equity
	Share capital and other capital	Retained earnings	Other reserves	Total		
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
2016						
Balance at 1 January	5,881,252	15,463,194	9,423,960	30,768,406	155,367	30,923,773
Profit for the financial year	–	3,096,289	–	3,096,289	11,661	3,107,950
Other comprehensive income for the financial year	–	3,706	(260,320)	(256,614)	5,046	(251,568)
Total comprehensive income for the financial year	–	3,099,995	(260,320)	2,839,675	16,707	2,856,382
Transfers	–	(5,915)	5,915	–	–	–
Change in non-controlling interests	–	–	–	–	2,260	2,260
Dividends	–	(1,226,187)	–	(1,226,187)	(5,735)	(1,231,922)
Shares issued under scrip dividend scheme	533,094	–	–	533,094	–	533,094
Share-based compensation	–	–	41,260	41,260	–	41,260
Reclassification of share-based compensation reserves on expiry	–	2,529	(2,529)	–	–	–
Shares issued under share-based compensation plans	19,726	–	(19,726)	–	–	–
Perpetual capital securities issued	748,491	–	–	748,491	–	748,491
Redemption of preference shares	(831,550)	–	–	(831,550)	–	(831,550)
Balance at 31 December	6,351,013	17,333,616	9,188,560	32,873,189	168,599	33,041,788
2015						
Balance at 1 January	5,892,165	14,064,092	9,613,093	29,569,350	202,655	29,772,005
Profit for the financial year	–	3,208,899	–	3,208,899	11,128	3,220,027
Other comprehensive income for the financial year	–	(10,243)	(102,434)	(112,677)	(2,022)	(114,699)
Total comprehensive income for the financial year	–	3,198,656	(102,434)	3,096,222	9,106	3,105,328
Transfers	–	66,957	(66,957)	–	–	–
Change in non-controlling interests	–	–	(33,274)	(33,274)	(50,192)	(83,466)
Dividends	–	(1,866,864)	–	(1,866,864)	(6,202)	(1,873,066)
Shares re-purchased – held in treasury	(36,658)	–	–	(36,658)	–	(36,658)
Share-based compensation	–	–	39,630	39,630	–	39,630
Reclassification of share-based compensation reserves on expiry	–	353	(353)	–	–	–
Shares issued under share-based compensation plans	25,745	–	(25,745)	–	–	–
Balance at 31 December	5,881,252	15,463,194	9,423,960	30,768,406	155,367	30,923,773
	Note	14	15	16		

The accounting policies and explanatory notes form an integral part of the financial statements.

Statements of Changes in Equity

for the financial year ended 31 December 2016

	The Bank			
	Share capital and other capital \$'000	Retained earnings \$'000	Other reserves \$'000	Total equity \$'000
2016				
Balance at 1 January	5,049,702	11,734,720	9,971,362	26,755,784
Profit for the financial year	–	2,484,825	–	2,484,825
Other comprehensive income for the financial year	–	–	(350,337)	(350,337)
Total comprehensive income for the financial year	–	2,484,825	(350,337)	2,134,488
Transfers	–	14,549	(14,549)	–
Dividends	–	(1,205,804)	–	(1,205,804)
Shares issued under scrip dividend scheme	533,094	–	–	533,094
Share-based compensation	–	–	41,260	41,260
Reclassification of share-based compensation reserves on expiry	–	2,529	(2,529)	–
Shares issued under share-based compensation plans	19,726	–	(19,726)	–
Perpetual capital securities issued	748,491	–	–	748,491
Balance at 31 December	6,351,013	13,030,819	9,625,481	29,007,313
2015				
Balance at 1 January	5,060,615	10,808,566	9,780,486	25,649,667
Profit for the financial year	–	2,679,440	–	2,679,440
Other comprehensive income for the financial year	–	–	251,594	251,594
Total comprehensive income for the financial year	–	2,679,440	251,594	2,931,034
Transfers	–	74,250	(74,250)	–
Dividends	–	(1,827,889)	–	(1,827,889)
Shares re-purchased – held in treasury	(36,658)	–	–	(36,658)
Share-based compensation	–	–	39,630	39,630
Reclassification of share-based compensation reserves on expiry	–	353	(353)	–
Shares issued under share-based compensation plans	25,745	–	(25,745)	–
Balance at 31 December	5,049,702	11,734,720	9,971,362	26,755,784
	Note	14	15	16

The accounting policies and explanatory notes form an integral part of the financial statements.

Consolidated Cash Flow Statement

for the financial year ended 31 December 2016

	2016 \$'000	2015 \$'000
Cash flows from operating activities		
Profit for the financial year	3,107,950	3,220,027
Adjustments for:		
Allowance for credit and other losses	593,768	671,786
Share of profit of associates and joint ventures	(5,929)	(89,576)
Tax	668,969	648,681
Depreciation of assets	221,704	181,512
Net gain on disposal of assets	(191,887)	(341,505)
Share-based compensation	41,113	41,096
Operating profit before working capital changes	4,435,688	4,332,021
Change in working capital		
Deposits and balances of banks	(131,115)	759,990
Deposits and balances of customers	14,789,400	6,774,829
Bills and drafts payable	87,179	(516,186)
Other liabilities	1,582,084	1,354,539
Restricted balances with central banks	(843,644)	300,939
Government treasury bills and securities	1,996,646	(1,583,063)
Trading securities	(1,758,829)	(532,295)
Placements and balances with banks	(11,386,817)	45,993
Loans to customers	(18,815,376)	(8,363,812)
Investment securities	(1,307,107)	1,391,206
Other assets	(1,339,085)	(2,758,518)
Cash (used in)/generated from operations	(12,690,976)	1,205,643
Income tax paid	(622,507)	(544,546)
Net cash (used in)/provided by operating activities	(13,313,483)	661,097
Cash flows from investing activities		
Capital injection into associates and joint ventures	(33,990)	(3,534)
Acquisition of associates and joint ventures	(46,679)	(8,672)
Proceeds from disposal of associates and joint ventures	–	478
Distribution from associates and joint ventures	59,337	167,483
Acquisition of properties and other fixed assets	(382,854)	(691,981)
Proceeds from disposal of properties and other fixed assets	22,307	51,004
Change in non-controlling interests	–	1,685
Net cash used in investing activities	(381,879)	(483,537)
Cash flows from financing activities		
Perpetual capital securities issued	748,491	–
Redemption of preference shares	(689,375)	–
Issuance of debts issued	34,373,522	18,186,531
Redemption of debts issued	(28,694,101)	(19,258,435)
Shares re-purchased – held in treasury	–	(36,658)
Change in non-controlling interests	2,260	(85,150)
Dividends paid on ordinary shares	(912,472)	(1,442,024)
Dividends paid on preference shares	(19,552)	(40,548)
Distribution for perpetual capital securities	(80,703)	(65,400)
Dividends paid to non-controlling interests	(5,735)	(6,202)
Net cash provided by/(used in) financing activities	4,722,335	(2,747,886)
Currency translation adjustments	145,983	93,872
Net decrease in cash and cash equivalents	(8,827,044)	(2,476,454)
Cash and cash equivalents at beginning of the financial year	27,227,864	29,704,318
Cash and cash equivalents at end of the financial year (Note 39)	18,400,820	27,227,864

The accounting policies and explanatory notes form an integral part of the financial statements.

Notes to the Financial Statements

for the financial year ended 31 December 2016

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. Corporate Information

United Overseas Bank Limited (the Bank) is a limited liability company incorporated and domiciled in Singapore and listed on the Singapore Exchange. The registered office of the Bank is at 80 Raffles Place, UOB Plaza, Singapore 048624.

The Bank is principally engaged in the business of banking in all its aspects. The principal activities of its major subsidiaries are set out in Note 30b to the financial statements.

2. Summary of Significant Accounting Policies

(a) Basis of Preparation

The financial statements of the Bank and its subsidiaries (collectively, the Group) have been prepared in accordance with Singapore Financial Reporting Standards (FRS) as required by the Singapore Companies Act, with modification to FRS 39 Financial Instruments: Recognition and Measurement in respect of loan loss provisioning, as provided in the Monetary Authority of Singapore (MAS) Notice 612 Credit Files, Grading and Provisioning.

Except as otherwise stated, the financial statements have been prepared under the historical cost convention and are presented to the nearest thousand in Singapore dollars.

(b) Changes in Accounting Policies

(i) Changes During the Financial Year

The Group adopted the following revised FRS during the financial year which had no significant effect on the financial statements of the Group.

- Amendments to FRS 1: Disclosure Initiative
- Amendments to FRS 16 and FRS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to FRS 27: Equity Method in Separate Financial Statements
- Amendments to FRS 110, FRS 112 and FRS 28: Investment Entities: Applying the Consolidation Exception
- Amendments to FRS 111: Accounting for Acquisitions of Interests in Joint Operations

Other than the above, the accounting policies applied by the Group in the financial year were consistent with those adopted in the previous financial year.

(ii) Changes Subsequent to the Financial Year

The following new/revised FRS that are in issue will apply to the Group for the financial years as indicated:

Effective for financial year beginning on or after 1 January 2017:

- Amendments to FRS 7: Disclosure Initiative
- Amendments to FRS 12: Recognition of Deferred Tax Assets for Unrealised Losses

Effective for financial year beginning on or after 1 January 2018:

- FRS 109 Financial Instruments
- FRS 115 Revenue from Contracts with Customers
- INT FRS 122 Foreign Currency Transactions and Advance Consideration
- Amendments to FRS 40: Transfers of Investment Property
- Amendments to FRS 102: Classification and Measurement of Share-based Payment Transactions
- Amendments to FRS 104: Applying FRS 109 Financial Instruments with FRS 104 Insurance Contracts

Effective for financial year beginning on or after 1 January 2019:

- FRS 116 Leases

Notes to the Financial Statements

for the financial year ended 31 December 2016

2. Summary of Significant Accounting Policies (continued)

(b) Changes in Accounting Policies (continued)

(ii) *Changes Subsequent to the Financial Year (continued)*

Effective for financial year beginning on or after a date to be determined:

- Amendments to FRS 110 and FRS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The implications and impact of adopting the above changes are as follows:

FRS 109 Financial Instruments

The Group set up a project team comprising representatives from business, finance, risk, technology and operations in 2014 to drive the implementation of FRS 109.

Under FRS 109, debt assets are classified and measured based on their business models and cash flow characteristics. Non-trading equity assets are classified as fair value through profit or loss unless they are elected at inception to be at fair value through other comprehensive income with only dividend income recognised in profit or loss. For financial liabilities designated to be measured at fair value through profit or loss, changes in fair value that are attributable to own credit risk are taken to other comprehensive income. If it is assessed at inception that this would create accounting mismatch, such fair value changes are taken to profit or loss. Classification and measurement of the Group's financial instruments are expected to remain substantially unchanged under FRS 109.

FRS 109 requires credit loss allowance to be on an expected loss basis, point-in-time, forward-looking and probability-weighted. Where there is no significant increase in credit risk since initial recognition, expected credit loss (ECL) representing possible default for the next 12 months is required, otherwise, lifetime ECL is required. Lifetime ECL is also required for purchased or originated credit-impaired assets. Profit or loss is expected to be more volatile with the point-in-time ECL requirement. The Group will leverage the existing credit risk models and systems with necessary modifications to comply with FRS 109 ECL requirements. The impact of ECL on the Group's financial statements is subject to further review and assessment. The Group expects its current credit loss allowance, determined based on FRS 39 with modification as provided in the MAS Notice 612, to be sufficient to meet FRS 109 ECL requirements.

Hedge accounting is more closely aligned with risk management under FRS 109. The 80% to 125% bright-line hedge effectiveness requirement is removed and the hedge ratio can be rebalanced without terminating a hedging relationship. The changes are not expected to have significant impact on the Group's financial statements.

FRS 115 Revenue from Contracts with Customers

FRS 115 requires revenue to be recognised when control of a good or service is transferred. Control is transferred when the transferee is able to direct the use of, and obtain substantially all of the remaining benefits from, the good or service. The amount of revenue recognised represents the consideration to which an entity expects to be entitled in exchange for the good or service transferred. Subject to meeting the specified criteria, costs of obtaining and fulfilling a contract are recognised as assets and amortised over the contractual terms. Adoption of the Standard is not expected to have a significant impact on the Group's financial statements.

FRS 116 Leases

FRS 116 introduces a single lessee accounting model. A lessee is required to recognise a right-of-use asset (representing its right to use the underlying leased asset) and a lease liability (representing its obligation to make lease payments) for all leases unless they are short-term or of low value. Lessor accounting remains substantially unchanged and a lessor continues to account for its leases as operating leases or finance leases accordingly. Adoption of the Standard is not expected to have a significant impact on the Group's financial statements.

2. Summary of Significant Accounting Policies (continued)

(b) Changes in Accounting Policies (continued)

(ii) *Changes Subsequent to the Financial Year (continued)*

Others

Application of the other FRS as listed above is not expected to have a significant impact on the Group's financial statements.

(c) Interests in Other Entities

(i) *Subsidiaries*

Subsidiaries are entities over which the Group has control. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Acquisition of subsidiaries is accounted for using the acquisition method. Consideration for the acquisition includes fair value of the assets transferred, liabilities incurred, equity interests issued, contingent consideration and existing equity interest in the acquiree. Identifiable assets acquired and liabilities and contingent liabilities assumed are, with limited exceptions, measured at their fair values at the acquisition date. Non-controlling interests are measured at fair value or the proportionate share of the acquiree's net identifiable assets at the acquisition date, determined on a case by case basis. Acquisition-related costs are expensed off when incurred. Goodwill is determined and accounted for in accordance with Note 2h(i).

Subsidiaries are consolidated from the date the Group obtains control until the date such control ceases. Intra-group balances and income and expenses are eliminated on consolidation. Adjustments are made to align the accounting policies of the subsidiaries to those of the Group. The portion of profit or loss and net assets of subsidiaries that belong to the non-controlling interests is disclosed separately in the consolidated financial statements. Gain or loss arising from changes of the Bank's interest in subsidiaries is recognised in the income statement if they result in loss of control of the subsidiaries, otherwise, in equity.

In the Bank's separate financial statements, investment in subsidiaries is stated at cost less allowance for impairment, if any, determined on an individual basis.

(ii) *Associates and Joint Ventures*

Associates are entities in which the Group has significant influence but not control or joint control. This generally coincides with the Group having 20% or more of the voting power of the investees. Joint ventures are entities in which the Group and its joint venturers have joint control and rights to the net assets of the investees.

The Group's investment in associates and joint ventures is accounted for using the equity method from the date the Group obtains significant influence or joint control over the entities until the date such significant influence or joint control ceases. Unrealised gains on transactions with associates and joint ventures are eliminated to the extent of the Group's interest in the entities. Unrealised losses are also eliminated unless they relate to impairment of the assets transferred. Adjustments are made to align the accounting policies of the associates and joint ventures to those of the Group.

Under the equity method, the Group's investment in associates and joint ventures is carried in the balance sheet at cost (including goodwill on acquisition), plus post-acquisition changes in the Group's share of net assets of the associates and joint ventures, less allowance for impairment, if any, determined on an individual basis. The Group recognises its share of the results of operations and changes in other comprehensive income of the associates and joint ventures in the consolidated income statement and in equity respectively. Where the share of losses of an associate or joint venture exceeds the Group's interest in the associate or joint venture, such excess is not recognised in the consolidated income statement.

Notes to the Financial Statements

for the financial year ended 31 December 2016

2. Summary of Significant Accounting Policies (continued)

(c) Interests in Other Entities (continued)

(ii) *Associates and Joint Ventures (continued)*

Upon loss of significant influence over the associates or joint control over the joint ventures, any resulting gain or loss is recognised in the income statement and the related share of reserves is accounted for in the same manner as if the associates or joint ventures have directly disposed of the related assets and liabilities. Any retained investment is measured at its fair value.

In the Bank's separate financial statements, investment in associates and joint ventures is stated at cost less allowance for impairment, if any, determined on an individual basis.

(iii) *Joint Operations*

Joint operations are arrangements over which the Group and its joint operators have joint control and rights to the assets, and obligations for the liabilities, relating to the arrangements.

The Bank and the Group account for joint operations by taking their share of the relevant assets, liabilities, income and expenses accordingly.

(d) Financial Assets and Financial Liabilities

(i) *Classification*

Financial assets and financial liabilities are classified as follows:

At Fair Value Through Profit or Loss

Financial instruments are classified as fair value through profit or loss if they are held for trading or designated as such upon initial recognition.

Financial instruments are classified as held for trading if they are acquired for short-term profit taking.

Financial instruments may be designated as fair value through profit or loss if they meet the following criteria:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities on a different basis;
- the assets and liabilities are managed on a fair value basis in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative that would otherwise require bifurcation.

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the intention and ability to hold the assets till maturity.

Loans and Receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Available-for-sale

Non-derivative financial assets that are not classified into any of the preceding categories are classified in this category.

Non-trading Liabilities

Non-derivative financial liabilities that are not held for active trading or designated as fair value through profit or loss are classified as non-trading liabilities.

2. Summary of Significant Accounting Policies (continued)

(d) Financial Assets and Financial Liabilities (continued)

(ii) *Measurement*

Initial Measurement

Financial instruments are recognised initially at their fair value which is generally the transaction price. Directly attributable transaction costs are included as part of the initial cost for financial instruments that are not measured at fair value through profit or loss.

Subsequent Measurement

Financial instruments classified as held for trading or designated as fair value through profit or loss are measured at fair value with fair value changes recognised in the income statement.

Available-for-sale financial assets are measured at fair value with fair value changes taken to the fair value reserve, and subsequently to the income statement upon disposal or impairment of the assets.

All other financial instruments are measured at amortised cost using the effective interest method less allowance for impairment.

Interest and dividend income on all non-derivative financial instruments at fair value through profit or loss are recognised separately from fair value changes.

Fair Value Determination

Fair values of financial assets and financial liabilities with active markets are determined based on the market bid and ask prices respectively at the balance sheet date. For financial instruments with no active markets, fair values are established using valuation techniques such as making reference to recent transactions or other comparable financial instruments, discounted cash flow method and option pricing models. Valuation inputs include spot and forward prices, volatilities, correlations and credit spreads.

(iii) *Recognition and Derecognition*

Financial instruments are recognised when the Group becomes a party to the contractual provisions of the instruments. All regular way purchases and sales of financial assets that require delivery within the period generally established by regulation or market convention are recognised on the settlement date.

Financial instruments are derecognised when the contractual rights to cash flows and risks and rewards associated with the instruments are substantially transferred, cancelled or expired. On derecognition, the difference between the carrying amount of the instruments and the consideration received/paid, less the accumulated gain or loss that has been recognised in equity are taken to the income statement.

(iv) *Offsetting*

Financial assets and financial liabilities are offset and presented net in the balance sheet if there is a current, unconditional and legally enforceable right and intention to settle them simultaneously or on a net basis.

(v) *Total Allowance*

Specific Allowance

Financial assets, other than those measured at fair value through profit or loss, are subject to impairment review at each balance sheet date. Allowance for impairment is recognised when there is objective evidence such as significant financial difficulty of the issuer/obligor, significant or prolonged decline in market prices and adverse economic indicators that the recoverable amount of an asset is below its carrying amount.

Financial assets that are individually significant are assessed individually. Those not individually significant are grouped based on similar credit risks and assessed on a portfolio basis.

Notes to the Financial Statements

for the financial year ended 31 December 2016

2. Summary of Significant Accounting Policies (continued)

(d) Financial Assets and Financial Liabilities (continued)

(v) *Total Allowance (continued)*

For financial assets carried at amortised cost, allowance for impairment is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The loss is recognised in the income statement.

For available-for-sale financial assets, allowance for impairment is determined as the difference between the assets' cost and the current fair value, less any allowance for impairment previously recognised in the income statement. The loss is transferred from the fair value reserve to the income statement. For available-for-sale equity instruments, subsequent recovery of the allowance for impairment is written back to the fair value reserve.

Financial assets are written off when all avenues of recovery have been exhausted.

General Allowance

General allowance is made for estimated losses inherent in but not currently identifiable to individual financial assets. The allowance is made based on management's experience and judgement and taking into account country and portfolio risks. The Group maintains general allowance of at least 1% of its credit exposure net of collateral and specific allowance in accordance with the transitional provision set out in MAS Notice 612.

(e) Financial Derivatives

Financial derivatives are recognised and measured at fair value initially and subsequently. Derivatives with positive and negative fair values are presented under assets and liabilities in the balance sheet respectively. Fair value changes of derivatives are recognised in the income statement unless they are designated as hedging instruments and accounted for in accordance with Note 2f.

Financial derivatives embedded in non-derivative host contracts are bifurcated and accounted for separately if their economic characteristics and risks are not closely related to those of the host contracts and the combined contracts are not carried at fair value through profit or loss.

(f) Hedge Accounting

(i) *Fair Value Hedge*

Fair value changes of the hedging instrument are recognised in the income statement. Fair value changes of the hedged item attributable to the hedged risk are taken to the income statement with a corresponding adjustment made to the carrying amount of the hedged item. The adjustment is amortised over the expected life of the hedged item when the hedge is terminated.

(ii) *Cash Flow Hedge*

Fair value changes of the hedging instrument relating to the effective portion of the hedge are taken to the hedge reserve under equity while those relating to the ineffective portion are recognised in the income statement. The amount in the hedge reserve is transferred to the income statement (a) at the same time as the cash flow of the hedged item is recognised in the income statement and (b) immediately when the forecasted hedged item is no longer expected to occur.

(iii) *Hedge of Net Investment in a Foreign Operation*

Fair value changes of the hedging instrument relating to the effective portion of the hedge are taken to the foreign currency translation reserve under equity while those relating to the ineffective portion are recognised in the income statement. The amount taken to the reserve is transferred to the income statement upon disposal of the foreign operation.

2. Summary of Significant Accounting Policies (continued)

(g) Investment Properties and Fixed Assets

Investment properties and fixed assets are stated at cost less accumulated depreciation and impairment allowance.

Investment properties are properties held for rental income and/or capital appreciation while owner-occupied properties are those for office use.

Freehold land and leasehold land with remaining leases of 100 years or more are not depreciated. Other leasehold land is depreciated on a straight-line basis over the lease period. Buildings are depreciated on a straight-line basis over 50 years or the lease period, whichever is shorter. Other fixed assets are depreciated on a straight-line basis over their expected useful lives of three to ten years. The expected useful life, depreciation method and residual value of investment properties and fixed assets are reviewed annually.

Investment properties and fixed assets are reviewed for impairment when events or changes in circumstances indicate that their recoverable amounts, being the higher of fair value less cost to sell and value in use, may be below their carrying amounts.

Investment properties and fixed assets are derecognised upon disposal and the resulting gain or loss is recognised in the income statement.

(h) Intangible Assets

(i) Goodwill

Goodwill in a business combination represents the excess of (a) the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previously held equity interest in the acquiree over (b) the net fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed. Where (b) exceeds (a) and the measurement of all amounts has been reviewed, the gain is recognised in the income statement. Goodwill is measured at cost less accumulated impairment allowance, if any.

Goodwill is reviewed for impairment annually or more frequently if the circumstances indicate that its carrying amount may be impaired. At the date of acquisition, goodwill is allocated to the cash-generating units (CGU) expected to benefit from the synergies of the business combination. The Group's CGU correspond with the operating segments reported in Note 42a. Where the recoverable amount, being the higher of fair value less cost to sell and value in use, of a CGU is below its carrying amount, the impairment allowance is recognised in the income statement and subsequent reversal is not allowed.

(ii) Other Intangible Assets

Other intangible assets acquired are measured at cost on initial recognition. Subsequent to initial recognition, they are measured at cost less accumulated amortisation and impairment allowance, if any.

Intangible assets with finite useful lives are amortised on a straight-line basis over their estimated useful lives and assessed for impairment whenever there is an indication of impairment. The amortisation charges are recognised in the income statement. The useful life and amortisation method are reviewed annually.

Intangible assets with indefinite useful lives are not amortised but reviewed for impairment annually or more frequently if the circumstances indicate that the recoverable amounts, being the higher of fair value less cost to sell and value in use, may be below their carrying amounts.

Notes to the Financial Statements

for the financial year ended 31 December 2016

2. Summary of Significant Accounting Policies (continued)

(i) Foreign Currencies

(i) *Foreign Currency Transactions*

On initial recognition, transactions in foreign currencies are recorded in the respective functional currencies of the Bank and its subsidiaries at the exchange rate ruling at the transaction date. Subsequent to initial recognition, monetary assets and monetary liabilities denominated in foreign currencies are translated at the closing rate of exchange ruling at the balance sheet date. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value is determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at balance sheet date are recognised in the income statement. Exchange differences arising from monetary items that form part of the net investment in foreign operations, or on foreign currency borrowings that provide a hedge against a net investment in a foreign operation, are recognised initially in the foreign currency translation reserve in the consolidated balance sheet, and subsequently in the consolidated income statement on disposal of the foreign operation.

(ii) *Foreign Operations*

Revenue and expenses of foreign operations are translated into Singapore dollars at the weighted average exchange rate for the financial year which approximates the exchange rate at the transaction date. Foreign operations' assets and liabilities are translated at the exchange rate ruling at the balance sheet date. All resultant exchange differences are recognised in the foreign currency translation reserve, and subsequently to the consolidated income statement upon disposal of the foreign operations. In the case of a partial disposal without loss of control of a subsidiary, the proportionate share of the accumulated exchange differences are not recognised in the income statement but re-attributed to the non-controlling interests. For partial disposal of an associate or joint venture, the proportionate share of the accumulated exchange differences is reclassified to income statement.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are recorded in the functional currency of the foreign operations and translated at the exchange rate ruling at the balance sheet date. For acquisitions prior to 1 January 2005, goodwill and fair value adjustments were recorded in Singapore dollars at the exchange rate prevailing at the date of acquisition.

(j) Tax

(i) *Current Tax*

Current tax is measured at the amount expected to be recovered from or paid to the tax authorities. The tax rate and tax law applied are those that have been enacted or substantively enacted by the balance sheet date.

(ii) *Deferred Tax*

Deferred tax is provided on temporary differences between the tax bases and carrying amounts of assets and liabilities. Deferred tax is measured at the tax rate that is expected to apply when the assets are realised or the liabilities are settled, based on the tax rate and tax law that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is not provided for temporary differences arising from (a) initial recognition of goodwill, (b) initial recognition of an asset or liability that is not a business combination and that does not affect accounting or taxable profit at the time of the transaction and (c) taxable temporary differences related to investments in subsidiaries, associates and joint ventures where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. Where gains and losses are recognised directly in equity, the related deferred tax is also taken to equity.

2. Summary of Significant Accounting Policies (continued)

(j) Tax (continued)

(iii) *Offsetting*

Current and deferred tax assets are offset with current and deferred tax liabilities respectively if (a) there is a legally enforceable right and intention to settle them simultaneously or on a net basis, (b) they are of the same tax reporting entity or group and (c) they relate to the same tax authority.

(k) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and an outflow of resources to settle the obligation is probable and can be reliably estimated. At each balance sheet date, provisions are reviewed and adjusted to reflect the current best estimate. When an outflow of resources to settle the obligation is no longer probable, the provision is reversed.

(l) Undrawn Credit Facilities

Undrawn credit facilities (both revocable and irrevocable) are recorded under commitments and the amount is adjusted for subsequent drawdowns.

(m) Contingent Liabilities

Contracts on financial and performance guarantees and letters of credit are recorded under contingent liabilities. These liabilities are recognised initially at their fair value which is generally the fees received. The fees are amortised over the contractual terms. Subsequent to initial recognition, the liabilities are measured at the higher of their carrying amount and the estimated expenditure required to settle the obligations.

(n) Revenue Recognition

Interest income is recognised using the effective interest method.

Dividend income is recognised when the right to receive it is established.

Fee and commission income is recognised when services are rendered. For services that are provided over a period of time, fee and commission income is recognised over the service period.

Rental income is recognised on a time proportion basis.

(o) Employee Compensation/Benefits

Base pay, cash bonuses, allowance, commissions and defined contributions under regulations are recognised in the income statement when incurred. Leave entitlements are recognised when they accrue to employees based on contractual terms of employment.

Cost of share-based compensation, being the fair value of the equity instrument at grant date, is expensed to the income statement over the vesting period with a corresponding adjustment to the share-based compensation reserve. The cost is reviewed and adjusted accordingly at each balance sheet date to reflect the number of equity instruments expected to vest ultimately.

(p) Dividend Payment

Dividends are accounted for as an appropriation of retained earnings. Interim dividends on ordinary shares and dividends on preference shares are recorded when declared payable while final dividends on ordinary shares are recognised upon approval of equity holders.

(q) Treasury Shares

Ordinary shares reacquired are accounted for as treasury shares. Consideration paid, including directly attributable costs, is presented as a deduction from equity. Subsequent cancellation, sale or reissuance of treasury shares is recognised as changes in equity.

Notes to the Financial Statements

for the financial year ended 31 December 2016

2. Summary of Significant Accounting Policies (continued)

(r) Critical Accounting Estimates and Judgements

Preparation of the financial statements involves making certain assumptions and estimates. This often requires management's judgement for the appropriate policies, assumptions, inputs and methodologies to be used. As judgements are made based on information available at the time the financial statements are prepared, the ultimate results could differ from those disclosed in the statements due to subsequent changes in the information. The following provides a brief description of the Group's critical accounting estimates that involve management's judgement.

(i) Allowance for Impairment of Financial Assets

Allowance for impairment of financial assets is determined in accordance with Note 2d(v). Identifying and providing for specific allowance require management's experience and significant judgement. The process involves assessing various factors such as economic outlook, business prospects, timing and amount of future cash flows and liquidation proceeds from collateral.

General allowance is determined based on management's assessment of the country and portfolio risk, historical loss experiences and economic indicators.

(ii) Fair Valuation of Financial Instruments

Fair value of financial instruments is determined in accordance with Notes 2d(ii) and 18a. Valuation of financial instruments that are not quoted in the market or with complex structures requires considerable management judgement in selecting the appropriate valuation models and data inputs.

(iii) Goodwill

Goodwill is reviewed for impairment in accordance with Notes 2h(i) and 34b. The process requires management's assessment of key factors such as future economic growth, business forecasts and discount rates.

(iv) Income Taxes

Income taxes are provided in accordance with Note 2j. The Group is subject to income taxes in various jurisdictions. Provision for these taxes involves interpretation of the tax regulations on certain transactions and computations. In cases of uncertainty, provision is estimated based on the technical merits of the situation.

3. Interest Income

	The Group		The Bank	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Loans to customers	7,117,745	6,674,520	4,356,079	3,843,519
Placements and balances with banks	636,824	627,274	369,945	358,928
Government treasury bills and securities	277,956	256,072	136,993	108,740
Trading and investment securities	258,022	268,248	238,681	241,653
	8,290,547	7,826,114	5,101,698	4,552,840
Of which, interest income on:				
Impaired financial assets	15,140	18,943	12,626	16,762
Financial assets at fair value through profit or loss	69,139	113,646	42,448	69,005

4. Interest Expense

	The Group		The Bank	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Deposits of customers	2,877,570	2,559,276	1,489,019	1,045,454
Deposits and balances of banks and debts issued	422,227	340,541	377,291	334,460
	3,299,797	2,899,817	1,866,310	1,379,914
Of which, interest expense on financial liabilities at fair value through profit or loss	22,844	44,193	20,038	13,793

5. Fee and Commission Income

	The Group		The Bank	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Credit card ⁽¹⁾	367,856	344,564	264,123	244,116
Fund management	187,623	171,701	3,089	3,722
Wealth management	402,930	415,646	309,317	306,399
Loan-related ⁽²⁾	481,792	497,561	382,779	405,240
Service charges	133,707	121,488	102,169	87,026
Trade-related ⁽³⁾	263,426	258,482	165,716	164,528
Others	93,278	74,049	27,749	19,312
	1,930,612	1,883,491	1,254,942	1,230,343
Of which, fee and commission from:				
Financial assets not measured at fair value through profit or loss	395,171	409,551	319,002	334,705
Provision of trust and other fiduciary services	11,554	10,641	9,435	9,166

(1) Credit card fees are net of interchange fees paid.

(2) Loan-related fees includes fees earned from corporate finance activities.

(3) Trade-related fees includes trade, remittance and guarantees related fees.

6. Net Trading Income

	The Group		The Bank	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Net gain/(loss) from:				
Foreign exchange	513,365	627,232	380,595	506,108
Interest rate and others	182,965	48,297	169,543	17,651
Financial assets designated as fair value through profit or loss	(2,574)	(9,288)	520	5,620
Financial liabilities designated as fair value through profit or loss	82,329	(25,433)	91,368	3,205
	776,085	640,808	642,026	532,584

Notes to the Financial Statements

for the financial year ended 31 December 2016

7. Net Gain from Investment Securities

	The Group		The Bank	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Available-for-sale	99,769	303,850	72,624	266,454
Loans and receivables	820	9,528	7,612	12,460
	100,589	313,378	80,236	278,914

8. Other Income

	The Group		The Bank	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Net gain/(loss) from:				
Disposal of investment properties	8,131	18,850	8,548	18,850
Disposal of fixed assets	3,352	8,925	839	8,894
Disposal/liquidation of subsidiaries/associates/ joint ventures	(1,879)	5,904	(25)	5,442
Others	104,538	98,524	127,628	117,239
	114,142	132,203	136,990	150,425

9. Staff Costs

	The Group		The Bank	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Salaries, bonus and allowance	1,648,664	1,666,055	938,001	947,541
Employer's contribution to defined contribution plans	150,072	144,709	86,576	82,769
Share-based compensation	41,113	41,096	32,562	30,047
Others	210,165	212,188	113,931	123,106
	2,050,014	2,064,048	1,171,070	1,183,463
Of which, the Bank's directors' remuneration	8,422	9,223	8,422	9,223

10. Other Operating Expenses

	The Group		The Bank	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Revenue-related	826,380	795,799	450,133	446,331
Occupancy-related	323,819	310,945	207,468	205,642
IT-related	286,424	242,008	309,837	267,470
Others	209,861	184,163	112,431	96,541
	1,646,484	1,532,915	1,079,869	1,015,984

Of which:

Advisory/Directors' fees	4,711	4,346	3,375	3,095
Depreciation of assets	221,704	181,512	143,335	117,709
Rental expenses	134,406	133,742	93,000	90,140
Auditors' remuneration paid/payable to:				
Auditors of the Bank	2,703	2,593	1,933	1,900
Affiliates of auditors of the Bank	2,204	2,018	695	558
Other auditors	232	284	78	161
Non-audit fees paid/payable to:				
Auditors of the Bank	376	207	345	207
Affiliates of auditors of the Bank	1,248	250	214	123
Other auditors	17	135	17	57
Expenses on investment properties	54,621	51,849	41,719	37,790
Fee expenses arising from financial liabilities not at fair value through profit or loss	31,119	88,733	31,050	14,338

11. Allowance for Credit and Other Losses

	The Group		The Bank	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Specific allowance on/(write-back) of:				
Loans (Note 25d)	969,123	391,604	736,333	156,727
Investments	6,215	68,781	113,664	137,664
Other assets	16,040	15,534	12,999	(1,253)
General allowance	(397,610)	195,867	(406,598)	96,550
	593,768	671,786	456,398	389,688

Included in the allowance for credit and other losses is the following:

Bad debts written off	343,052	156,987	185,639	51,705
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Notes to the Financial Statements

for the financial year ended 31 December 2016

12. Tax

Tax charge to the income statements comprises the following:

	The Group		The Bank	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
On profit of the financial year				
Current tax	633,151	629,220	439,673	418,052
Deferred tax	33,630	26,246	35,091	38,711
	666,781	655,466	474,764	456,763
(Over)/under-provision of prior year tax				
Current tax	(22,413)	(33,484)	(21,072)	(25,466)
Deferred tax	6,375	6,772	864	7,355
Share of tax of associates and joint ventures	18,226	19,927	–	–
	668,969	648,681	454,556	438,652

Tax charge on profit for the financial year differs from the theoretical amount computed using Singapore corporate tax rate due to the following factors:

	The Group		The Bank	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Operating profit after allowance	3,770,990	3,779,132	2,939,381	3,118,092
Prima facie tax calculated at tax rate of 17% (2015: 17%)	641,068	642,452	499,695	530,076
Effect of:				
Income taxed at concessionary rates	(57,246)	(48,293)	(56,517)	(47,492)
Different tax rates in other countries	127,952	117,161	71,529	58,015
Income not subject to tax	(64,743)	(84,486)	(76,190)	(92,334)
Expenses not deductible for tax	22,602	47,582	38,650	31,315
Others	(2,852)	(18,950)	(2,403)	(22,817)
Tax expense on profit of the financial year	666,781	655,466	474,764	456,763

13. Earnings Per Share

Basic and diluted earnings per share (EPS) are determined as follows:

	The Group	
	2016	2015
Profit attributable to equity holders of the Bank (\$'000)	3,096,289	3,208,899
Dividends on preference shares (\$'000)	(8,347)	(39,936)
Distribution of perpetual capital securities (\$'000)	(84,089)	(65,400)
Adjusted profit (\$'000)	3,003,853	3,103,563
Weighted average number of ordinary shares ('000)		
In issue	1,616,629	1,602,343
Adjustment for potential ordinary shares under share-based compensation plans	6,144	4,398
Diluted	1,622,773	1,606,741
EPS (\$)		
Basic	1.86	1.94
Diluted	1.85	1.93

Notes to the Financial Statements

for the financial year ended 31 December 2016

14. Share Capital and Other Capital

(a)

	2016		2015	
	Number of shares '000	Amount \$'000	Number of shares '000	Amount \$'000
Ordinary shares				
Balance at 1 January	1,614,544	3,944,232	1,614,544	3,944,232
Shares issued under scrip dividend scheme	32,422	533,094	–	–
Balance at 31 December	1,646,966	4,477,326	1,614,544	3,944,232
Treasury shares				
Balance at 1 January	(12,281)	(240,523)	(11,857)	(229,610)
Shares re-purchased – held in treasury	–	–	(1,740)	(36,658)
Shares issued under share-based compensation plans	1,007	19,726	1,316	25,745
Balance at 31 December	(11,274)	(220,797)	(12,281)	(240,523)
Ordinary share capital	1,635,692	4,256,529	1,602,263	3,703,709
4.90% non-cumulative non-convertible perpetual capital securities issued on 23 July 2013	–	847,441	–	847,441
4.75% non-cumulative non-convertible perpetual capital securities issued on 19 November 2013	–	498,552	–	498,552
4.00% non-cumulative non-convertible perpetual capital securities issued on 18 May 2016	–	748,491	–	–
Share capital and other capital of the Bank	–	6,351,013	–	5,049,702
Non-cumulative non-convertible guaranteed SPV-A preference shares at 1 January and 31 December	–	–	5	831,550
Share capital and other capital of the Group		6,351,013		5,881,252

14. Share Capital and Other Capital (continued)

- (b) The ordinary shares have no par value and are fully paid. The holders of ordinary shares (excluding treasury shares) have unrestricted rights to dividends, return of capital and voting.
- (c) During the financial year, the Bank issued 1,007,000 (2015: 1,316,000) treasury shares to participants of the share-based compensation plans.
- (d) The 4.90% non-cumulative non-convertible perpetual capital securities were issued by the Bank on 23 July 2013. The capital securities are perpetual securities but may be redeemed at the option of the Bank on 23 July 2018 or any distribution payment date thereafter or upon the occurrence of a tax event or certain redemption events. The principal of the capital securities can be written down in full or in part upon notification of non-viability by the MAS.

The capital securities bear a fixed distribution rate of 4.90% per annum, subject to a reset on 23 July 2018 (and every five years thereafter) to a rate equal to the prevailing five-year SGD SOR plus the initial margin of 3.195%. Distributions are payable semi-annually on 23 January and 23 July of each year, unless cancelled by the Bank at its sole discretion or unless the Bank has no obligation to pay the distributions.

The capital securities constitute direct, unsecured and subordinated obligations of the Bank and rank *pari passu* without preference among themselves.

- (e) The 4.75% non-cumulative non-convertible perpetual capital securities were issued by the Bank on 19 November 2013. The capital securities are perpetual securities but may be redeemed at the option of the Bank on 19 November 2019 or any distribution payment date thereafter or upon the occurrence of a tax event or certain redemption events. The principal of the capital securities can be written down in full or in part upon notification of non-viability by the MAS.

The capital securities bear a fixed distribution rate of 4.75% per annum, subject to a reset on 19 November 2019 (and every six years thereafter) to a rate equal to the prevailing six-year SGD SOR plus the initial margin of 2.92%. Distributions are payable semi-annually on 19 May and 19 November of each year, unless cancelled by the Bank at its sole discretion or unless the Bank has no obligation to pay the distributions.

The capital securities constitute direct, unsecured and subordinated obligations of the Bank and rank *pari passu* without preference among themselves.

- (f) The 4.00% non-cumulative non-convertible perpetual capital securities were issued by the Bank on 18 May 2016. The capital securities are perpetual securities but may be redeemed at the option of the Bank on 18 May 2021 or any distribution payment date thereafter or upon the occurrence of a tax event or certain redemption events. The principal of the capital securities can be written down in full or in part upon notification of non-viability by the MAS.

The capital securities bear a fixed distribution rate of 4% per annum, subject to a reset on 18 May 2021 (and every five years thereafter) to a rate equal to the prevailing five-year SGD SOR plus the initial margin of 2.035%. Distributions are payable semi-annually on 18 May and 18 November of each year, unless cancelled by the Bank at its sole discretion or unless the Bank has no obligation to pay the distributions.

The capital securities constitute direct, unsecured and subordinated obligations of the Bank and rank *pari passu* without preference among themselves.

Notes to the Financial Statements

for the financial year ended 31 December 2016

15. Retained Earnings

(a)

	The Group		The Bank	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Balance at 1 January	15,463,194	14,064,092	11,734,720	10,808,566
Profit for the financial year attributable to equity holders of the Bank	3,096,289	3,208,899	2,484,825	2,679,440
Remeasurement of defined benefit obligation	3,706	(10,243)	–	–
Transfer (to)/from other reserves	(5,915)	66,957	14,549	74,250
Reclassification of share-based compensation reserves on expiry	2,529	353	2,529	353
Dividends				
Ordinary shares				
Final dividend of 35 cents one-tier tax-exempt (2015: 50 cents one-tier tax-exempt and special dividend of 5 cents one-tier tax-exempt) per share paid in respect of prior financial year	(562,552)	(881,227)	(562,552)	(881,227)
Interim dividend of 35 cents one-tier tax-exempt (2015: 35 cents one-tier tax-exempt) per share paid in respect of the financial year	(562,549)	(560,797)	(562,549)	(560,797)
80 th Anniversary dividend of 20 cents one-tier tax-exempt per share accrued in respect of the financial year	–	(320,465)	–	(320,465)
Semi-annual dividend at 5.796% per annum on non-cumulative non-convertible guaranteed SPV-A preference shares	(20,383)	(38,975)	–	–
4.90% non-cumulative non-convertible perpetual capital securities issued on 23 July 2013	(41,764)	(41,650)	(41,764)	(41,650)
4.75% non-cumulative non-convertible perpetual capital securities issued on 19 November 2013	(23,815)	(23,750)	(23,815)	(23,750)
4.00% non-cumulative non-convertible perpetual capital securities issued on 18 May 2016	(15,124)	–	(15,124)	–
	(1,226,187)	(1,866,864)	(1,205,804)	(1,827,889)
Balance at 31 December	17,333,616	15,463,194	13,030,819	11,734,720

- (b) The retained earnings are distributable reserves except for an amount of \$485,252,000 (2015: \$528,996,000), being the Group's share of revenue reserves of associates and joint ventures which is distributable only upon realisation by way of dividend from or disposal of investment in the associates and joint ventures.
- (c) In respect of the financial year ended 31 December 2016, the directors have proposed a final one-tier tax-exempt dividend of 35 cents per ordinary share amounting to a total dividend of \$572,492,000. The proposed dividend will be accounted for in Year 2017 financial statements upon approval of the equity holders of the Bank.

16. Other Reserves

(a)

	The Group								
	Fair value reserve \$'000	Foreign currency translation reserve \$'000	Share-based compensation reserve \$'000	Merger reserve \$'000	Statutory reserve \$'000	General reserve \$'000	Share of reserves of associates and joint ventures \$'000	Others \$'000	Total \$'000
2016									
Balance at 1 January	1,237,166	(1,437,706)	61,806	3,077,432	494,804	6,224,138	92,208	(325,888)	9,423,960
Other comprehensive income for the financial year	(362,233)	107,867	–	–	–	–	(5,047)	(907)	(260,320)
Transfers	–	–	–	(9,281)	41,288	(25,170)	–	(922)	5,915
Share-based compensation	–	–	41,260	–	–	–	–	–	41,260
Reclassification of share-based compensation reserves on expiry	–	–	(2,529)	–	–	–	–	–	(2,529)
Shares issued under share-based compensation plans	–	–	(22,746)	–	–	–	–	3,020	(19,726)
Balance at 31 December	874,933	(1,329,839)	77,791	3,068,151	536,092	6,198,968	87,161	(324,697)	9,188,560
2015									
Balance at 1 January	1,014,629	(1,097,227)	45,699	3,151,682	3,293,891	3,416,316	77,565	(289,462)	9,613,093
Other comprehensive income for the financial year	222,495	(340,479)	–	–	–	–	14,643	907	(102,434)
Transfers	–	–	–	(74,250)	(2,799,087)	2,807,822	–	(1,442)	(66,957)
Share-based compensation	–	–	39,630	–	–	–	–	–	39,630
Reclassification of share-based compensation reserves on expiry	–	–	(353)	–	–	–	–	–	(353)
Shares issued under share-based compensation plans	–	–	(23,170)	–	–	–	–	(2,575)	(25,745)
Change in non-controlling interests	42	–	–	–	–	–	–	(33,316)	(33,274)
Balance at 31 December	1,237,166	(1,437,706)	61,806	3,077,432	494,804	6,224,138	92,208	(325,888)	9,423,960

Notes to the Financial Statements

for the financial year ended 31 December 2016

16. Other Reserves (continued)

(a) (continued)

	The Bank							
	Fair value reserve	Foreign currency translation reserve	Share-based compensation reserve	Merger reserve	Statutory reserve	General reserve	Others	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2016								
Balance at 1 January	1,242,199	(59,238)	61,806	3,077,432	–	5,683,421	(34,258)	9,971,362
Other comprehensive income for the financial year	(357,386)	7,049	–	–	–	–	–	(350,337)
Transfers	–	–	–	(9,281)	–	(5,268)	–	(14,549)
Share-based compensation	–	–	41,260	–	–	–	–	41,260
Reclassification of share-based compensation reserves on expiry	–	–	(2,529)	–	–	–	–	(2,529)
Shares issued under share-based compensation plans	–	–	(22,746)	–	–	–	3,020	(19,726)
Balance at 31 December	884,813	(52,189)	77,791	3,068,151	–	5,678,153	(31,238)	9,625,481
2015								
Balance at 1 January	999,137	(67,770)	45,699	3,151,682	2,752,922	2,930,499	(31,683)	9,780,486
Other comprehensive income for the financial year	243,062	8,532	–	–	–	–	–	251,594
Transfers	–	–	–	(74,250)	(2,752,922)	2,752,922	–	(74,250)
Share-based compensation	–	–	39,630	–	–	–	–	39,630
Reclassification of share-based compensation reserves on expiry	–	–	(353)	–	–	–	–	(353)
Shares issued under share-based compensation plans	–	–	(23,170)	–	–	–	(2,575)	(25,745)
Balance at 31 December	1,242,199	(59,238)	61,806	3,077,432	–	5,683,421	(34,258)	9,971,362

- (b) Fair value reserve contains cumulative fair value changes of outstanding available-for-sale financial assets.
- (c) Foreign currency translation reserve represents differences arising from the use of year end exchange rates versus historical rates in translating the net assets of foreign operations, net of the effective portion of the fair value changes of related hedging instruments.
- (d) Share-based compensation reserve reflects the Bank's and the Group's commitments under the share-based compensation plans.
- (e) Merger reserve represents the premium on shares issued in connection with the acquisition of Overseas Union Bank Limited.
- (f) Statutory reserve is maintained in accordance with the provisions of applicable laws and regulations. This reserve is non-distributable unless otherwise approved by the relevant authorities.
- (g) General reserve has not been earmarked for any specific purpose.
- (h) Share of reserves of associates and joint ventures comprises the Group's share of associates' and joint ventures' post-acquisition revenue reserve at 1 January 1998 and other reserves, adjusted for goodwill arising from acquisition of associates and joint ventures prior to 1 January 2001. These reserves are non-distributable until they are realised by way of dividend from or disposal of investment in the associates and joint ventures.

The Group's share of profit of associates and joint ventures is included in retained earnings with effect from 1 January 1998.

16. Other Reserves (continued)

- (i) Other reserves include amounts transferred from retained earnings pertaining to gains on sale of investments by certain subsidiaries in accordance with their memorandums and articles of association, bonus shares issued by subsidiaries, gains and losses on issue of treasury shares under the share-based compensation plans, cash flow hedge reserve, as well as the difference between consideration paid and interest acquired from non-controlling interests of subsidiaries.

17. Classification of Financial Assets and Financial Liabilities

(a)

	The Group				Total \$'000
	Held for trading \$'000	Designated as fair value through profit or loss \$'000	Available-for-sale \$'000	Loans and receivables/ amortised cost \$'000	
2016					
Cash, balances and placements with central banks	2,917,230	–	3,060,256	18,344,629	24,322,115
Singapore Government treasury bills and securities	230,163	–	6,646,668	–	6,876,831
Other government treasury bills and securities	2,175,889	–	8,462,581	–	10,638,470
Trading securities	3,127,350	–	–	–	3,127,350
Placements and balances with banks	8,384,373	235,462	1,639,745	29,773,295	40,032,875
Loans to customers	2,392,124	–	–	219,341,545	221,733,669
Derivative financial assets	6,981,546	–	–	–	6,981,546
Investment securities					
Debt	–	–	8,357,029	421,911	8,778,940
Equity	–	–	2,860,749	–	2,860,749
Other assets	923,949	27,514	3,430	4,938,578	5,893,471
Total financial assets	27,132,624	262,976	31,030,458	272,819,958	331,246,016
Non-financial assets					8,781,617
Total assets					340,027,633
Deposits and balances of banks and customers	165,710	1,782,578	–	265,220,807	267,169,095
Bills and drafts payable	–	–	–	521,720	521,720
Derivative financial liabilities	6,837,108	–	–	–	6,837,108
Other liabilities	730,492	–	–	4,614,562	5,345,054
Debts issued	–	1,274,228	–	24,868,721	26,142,949
Total financial liabilities	7,733,310	3,056,806	–	295,225,810	306,015,926
Non-financial liabilities					969,919
Total liabilities					306,985,845

Notes to the Financial Statements

for the financial year ended 31 December 2016

17. Classification of Financial Assets and Financial Liabilities (continued)

(a) (continued)

	The Group				
	Held for trading \$'000	Designated as fair value through profit or loss \$'000	Available-for-sale \$'000	Loans and receivables/ amortised cost \$'000	Total \$'000
2015					
Cash, balances and placements with central banks	3,215,243	–	7,081,490	22,008,782	32,305,515
Singapore Government treasury bills and securities	186,243	–	6,678,809	–	6,865,052
Other government treasury bills and securities	3,242,377	–	9,401,351	–	12,643,728
Trading securities	1,276,574	–	–	–	1,276,574
Placements and balances with banks	4,475,059	371,373	733,188	23,066,438	28,646,058
Loans to customers	332,199	–	–	203,278,708	203,610,907
Derivative financial assets	6,422,161	–	–	–	6,422,161
Investment securities					
Debt	–	109,120	6,832,168	370,108	7,311,396
Equity	–	–	3,251,098	–	3,251,098
Other assets	659,316	29,846	4,978	4,341,535	5,035,675
Total financial assets	19,809,172	510,339	33,983,082	253,065,571	307,368,164
Non-financial assets					8,643,041
Total assets					316,011,205
Deposits and balances of banks and customers	790,171	2,782,365	–	248,938,274	252,510,810
Bills and drafts payable	–	–	–	434,541	434,541
Derivative financial liabilities	5,969,076	–	–	–	5,969,076
Other liabilities	987,156	–	–	3,945,729	4,932,885
Debts issued	–	908,103	–	19,380,185	20,288,288
Total financial liabilities	7,746,403	3,690,468	–	272,698,729	284,135,600
Non-financial liabilities					951,832
Total liabilities					285,087,432

17. Classification of Financial Assets and Financial Liabilities (continued)

(a) (continued)

	The Bank				
	Held for trading \$'000	Designated as fair value through profit or loss \$'000	Available-for-sale \$'000	Loans and receivables/ amortised cost \$'000	Total \$'000
2016					
Cash, balances and placements with central banks	2,826,801	–	2,525,955	11,220,075	16,572,831
Singapore Government treasury bills and securities	230,163	–	6,646,668	–	6,876,831
Other government treasury bills and securities	2,004,005	–	3,253,281	–	5,257,286
Trading securities	2,977,205	–	–	–	2,977,205
Placements and balances with banks	8,148,752	235,462	1,003,337	24,343,265	33,730,816
Loans to customers	2,392,124	–	–	170,263,791	172,655,915
Placements with and advances to subsidiaries	608,142	–	–	8,831,959	9,440,101
Derivative financial assets	6,184,579	–	–	–	6,184,579
Investment securities					
Debt	–	–	7,621,107	828,658	8,449,765
Equity	–	–	2,541,861	–	2,541,861
Other assets	878,167	–	1,537	3,392,284	4,271,988
Total financial assets	26,249,938	235,462	23,593,746	218,880,032	268,959,178
Non-financial assets					11,904,132
Total assets					280,863,310
Deposits and balances of banks, customers and subsidiaries	165,803	1,554,217	–	215,802,493	217,522,513
Bills and drafts payable	–	–	–	323,813	323,813
Derivative financial liabilities	5,961,059	–	–	–	5,961,059
Other liabilities	684,745	–	–	1,746,596	2,431,341
Debts issued	–	1,274,228	–	23,740,416	25,014,644
Total financial liabilities	6,811,607	2,828,445	–	241,613,318	251,253,370
Non-financial liabilities					602,627
Total liabilities					251,855,997

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for the financial year ended 31 December 2016

17. Classification of Financial Assets and Financial Liabilities (continued)

(a) (continued)

	The Bank				
	Held for trading \$'000	Designated as fair value through profit or loss \$'000	Available-for-sale \$'000	Loans and receivables/ amortised cost \$'000	Total \$'000
2015					
Cash, balances and placements with central banks	3,007,916	–	6,698,602	14,542,308	24,248,826
Singapore Government treasury bills and securities	186,243	–	6,678,809	–	6,865,052
Other government treasury bills and securities	2,666,408	–	4,601,685	–	7,268,093
Trading securities	1,009,768	–	–	–	1,009,768
Placements and balances with banks	3,643,286	356,314	428,550	19,851,889	24,280,039
Loans to customers	332,199	–	–	157,898,041	158,230,240
Placements with and advances to subsidiaries	1,093,428	–	–	4,850,106	5,943,534
Derivative financial assets	5,695,663	–	–	–	5,695,663
Investment securities					
Debt	–	–	6,150,164	834,667	6,984,831
Equity	–	–	2,872,239	–	2,872,239
Other assets	801,556	–	2,755	2,847,257	3,651,568
Total financial assets	18,436,467	356,314	27,432,804	200,824,268	247,049,853
Non-financial assets					11,936,809
Total assets					258,986,662
Deposits and balances of banks, customers and subsidiaries	791,463	2,045,715	–	200,490,932	203,328,110
Bills and drafts payable	–	–	–	236,649	236,649
Derivative financial liabilities	5,427,808	–	–	–	5,427,808
Other liabilities	876,144	–	–	1,551,046	2,427,190
Debts issued	–	908,103	–	19,302,537	20,210,640
Total financial liabilities	7,095,415	2,953,818	–	221,581,164	231,630,397
Non-financial liabilities					600,481
Total liabilities					232,230,878

(b) Certain financial derivatives were designated as hedging instruments for fair value hedges as set out in Note 37a.

(c) For the financial instruments designated as fair value through profit or loss, the amounts payable at maturity are as follows:

	The Group		The Bank	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Financial liabilities				
Deposits and balances of banks, customers and subsidiaries	1,814,373	2,846,757	1,583,595	2,105,444
Debts issued	1,382,086	875,191	1,382,086	875,191
	3,196,459	3,721,948	2,965,681	2,980,635

18. Fair Values of the Financial Instruments

- (a) The valuation process adopted by the Group is governed by the valuation, market data, and reserves policies. These policies set the methodologies and controls for the valuation of financial assets and liabilities where mark-to-market or mark-to-model is required. The valuation process incorporating the market rates, the methodologies and models, including the analysis of the valuation is regularly reviewed by Group Risk Management. Processes and controls are also subject to periodic reviews by internal auditors.

The valuation inputs are independently verified by checking against information from market sources. These are applicable to products or instruments with liquid markets or those traded in an exchange. Where market prices are not liquid, additional techniques will be used such as historical estimation or available proxies as additional reasonableness checks. Where products or instruments are complex, the Group utilises approved valuation models. All valuation models are independently validated by Group Risk Management.

When unobservable inputs are used in the valuation models for Level 3 financial assets or liabilities, apart from utilising market proxies, other valuation techniques such as cash flow, profit and loss or net asset value in financial statements are used as a reasonableness check.

The valuation process is supplemented by valuation reserves to adjust for valuation uncertainties. Valuation reserve methodologies and adjustments are discussed and approved by Group Asset and Liability Committee (ALCO) or Group Investment Committee.

The valuation adjustments or reserves set aside include bid/offer rate adjustments for long or short positions, illiquidity adjustments for less liquid instruments or where proxies are utilised, concentration adjustments for larger positions, model or parameter adjustments where complex models or estimated parameters are utilised, and other adjustments such as day 1 profit or loss for transactions that are longer term.

For financial instruments carried at cost or amortised cost, their fair values are determined as follows:

- For cash, balances, placements and deposits of central banks, banks and subsidiaries, deposits of customers with short-term or no stated maturity, as well as interest and other short-term receivables and payables, fair values are expected to approximate the carrying amounts;
- For loans and deposits of customers, non-subordinated debts issued and investment debt securities, fair values are estimated based on independent broker quotes or using the discounted cash flow method; and
- For subordinated notes issued, fair values are determined based on quoted market prices.

Except for the following items, fair values of the financial instruments carried at cost or amortised cost were assessed to be not materially different from their carrying amounts.

	The Group		The Bank	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
2016				
Investment debt securities	421,911	421,911	828,658	828,658
Debts issued	24,868,721	24,894,546	23,740,416	23,771,294
2015				
Investment debt securities	370,108	369,722	834,667	834,281
Debts issued	19,380,185	19,511,918	19,302,537	19,431,685

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18. Fair Values of the Financial Instruments (continued)

(b) The Group classifies financial instruments carried at fair value by level following the fair value measurement hierarchy:

- Level 1 - Unadjusted quoted prices in active markets for identical financial instruments
- Level 2 - Inputs other than quoted prices that are observable either directly or indirectly
- Level 3 - Inputs that are not based on observable market data

	The Group					
	2016			2015		
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Cash, balances and placements with central banks	-	5,977,486	-	-	10,296,733	-
Singapore Government treasury bills and securities	6,876,831	-	-	6,865,052	-	-
Other government treasury bills and securities	7,789,805	2,848,665	-	9,682,068	2,961,660	-
Trading securities	2,989,805	-	137,545	1,128,147	-	148,427
Placements and balances with banks	-	10,259,580	-	-	5,579,620	-
Loans to customers	-	2,392,124	-	-	332,199	-
Derivative financial assets	76,076	6,748,172	157,298	12,567	6,228,247	181,347
Investment securities						
Debt	7,016,828	922,357	417,844	6,124,975	504,261	312,052
Equity	774,891	-	2,085,858	851,537	-	2,399,561
Other assets	953,369	1,524	-	677,718	16,422	-
	26,477,605	29,149,908	2,798,545	25,342,064	25,919,142	3,041,387
Total financial assets carried at fair value			58,426,058			54,302,593
Deposits and balances of banks and customers	-	1,948,288	-	-	3,572,536	-
Derivative financial liabilities	88,683	6,595,805	152,620	97,758	5,689,971	181,347
Other liabilities	62,321	668,171	-	305,924	681,232	-
Debts issued	-	1,274,228	-	-	908,103	-
	151,004	10,486,492	152,620	403,682	10,851,842	181,347
Total financial liabilities carried at fair value			10,790,116			11,436,871

18. Fair Values of the Financial Instruments (continued)

(b) (continued)

	The Bank					
	2016			2015		
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Cash, balances and placements with central banks	-	5,352,756	-	-	9,706,518	-
Singapore Government treasury bills and securities	6,876,831	-	-	6,865,052	-	-
Other government treasury bills and securities	5,257,286	-	-	7,268,093	-	-
Trading securities	2,977,205	-	-	1,009,768	-	-
Placements and balances with banks	-	9,387,551	-	-	4,428,150	-
Loans to customers	-	2,392,124	-	-	332,199	-
Placements with and advances to subsidiaries	107,958	500,184	-	1,093,428	-	-
Derivative financial assets	75,718	5,966,193	142,668	27,784	5,486,532	181,347
Investment securities						
Debt	6,332,405	886,870	401,832	5,352,448	491,421	306,295
Equity	664,621	-	1,877,240	701,532	-	2,170,707
Other assets	874,561	5,143	-	801,879	2,432	-
	23,166,585	24,490,821	2,421,740	23,119,984	20,447,252	2,658,349
Total financial assets carried at fair value			50,079,146			46,225,585
Deposits and balances of banks, customers and subsidiaries	-	1,720,020	-	-	2,837,178	-
Derivative financial liabilities	88,347	5,732,749	139,963	97,567	5,148,894	181,347
Other liabilities	62,324	622,421	-	305,883	570,261	-
Debts issued	-	1,274,228	-	-	908,103	-
	150,671	9,349,418	139,963	403,450	9,464,436	181,347
Total financial liabilities carried at fair value			9,640,052			10,049,233

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18. Fair Values of the Financial Instruments (continued)

(c) The following table presents the changes in Level 3 instruments for the financial year ended:

	The Group						Balance at 31 December \$'000	Unrealised gains included in income statement \$'000
	Balance at 1 January \$'000	Income statement \$'000	Other comprehensive income \$'000	Purchases \$'000	Settlements \$'000	Transfers in \$'000		
2016								
Assets								
Trading securities	148,427	5,802	–	38,474	(55,158)	–	137,545	5,802
Derivative financial assets	181,347	(79,381)	–	–	–	55,332 ⁽¹⁾	157,298	(79,381)
Investment securities-debt	312,052	1,309	1,371	167,635	(99,737)	35,214 ⁽²⁾	417,844	2,434
Investment securities-equity	2,399,561	64,452	(266,004)	165,771	(277,922)	–	2,085,858	–
Liabilities								
Derivative financial liabilities	181,347	(79,381)	–	–	–	50,654 ⁽¹⁾	152,620	(79,381)
2015								
Assets								
Trading securities	–	–	–	148,427	–	–	148,427	–
Derivative financial assets	199,086	(17,739)	–	–	–	–	181,347	(17,739)
Investment securities-debt	906	–	(3,632)	102,250	(906)	213,434 ⁽²⁾	312,052	–
Investment securities-equity	2,071,038	(102,149)	467,114	359,586	(396,028)	–	2,399,561	–
Liabilities								
Derivative financial liabilities	199,086	(17,739)	–	–	–	–	181,347	(17,739)

(1) Derivative financial assets and liabilities were transferred from Level 2 to Level 3 during the year due to increased contribution of unobservable inputs to their valuation.

(2) Financial assets transferred from Level 2 to Level 3 relate primarily to corporate securities as liquidity for these securities reduced significantly during the year.

18. Fair Values of the Financial Instruments (continued)

(c) (continued)

	The Bank							Unrealised gains included in income statement \$'000
	Fair value gains or (losses)			Purchases \$'000	Settlements \$'000	Transfers in \$'000	Balance at 31 December \$'000	
	Balance at 1 January \$'000	Income statement \$'000	Other comprehensive income \$'000					
2016								
Assets								
Derivative financial assets	181,347	(79,381)	–	–	–	40,702 ⁽¹⁾	142,668	(79,381)
Investment securities-debt	306,295	1,309	1,395	165,635	(99,737)	26,935 ⁽²⁾	401,832	2,434
Investment securities-equity	2,170,707	63,504	(278,725)	107,991	(186,237)	–	1,877,240	–
Liabilities								
Derivative financial liabilities	181,347	(79,381)	–	–	–	37,997 ⁽¹⁾	139,963	(79,381)
2015								
Assets								
Derivative financial assets	199,086	(17,739)	–	–	–	–	181,347	(17,739)
Investment securities-debt	906	–	(3,639)	96,500	(906)	213,434 ⁽²⁾	306,295	–
Investment securities-equity	1,821,509	(67,516)	478,715	311,937	(373,938)	–	2,170,707	–
Liabilities								
Derivative financial liabilities	199,086	(17,739)	–	–	–	–	181,347	(17,739)

(1) Derivative financial assets and liabilities were transferred from Level 2 to Level 3 during the year due to increased contribution of unobservable inputs to their valuation.

(2) Financial assets transferred from Level 2 to Level 3 relate primarily to corporate securities as liquidity for these securities reduced significantly during the year.

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18. Fair Values of the Financial Instruments (continued)

- (d) Effect of changes in significant unobservable inputs to reflect reasonably possible alternatives.

As at 31 December 2016, financial instruments measured with valuation techniques using significant unobservable inputs (Level 3) included unquoted equity investments and funds, unquoted debt securities, and long dated equity derivatives, summarised as follows:

	Classification	Valuation technique	Unobservable inputs
2016			
Assets			
Trading securities	FVPL ⁽¹⁾	Net Asset Value and comparatives	Financial ratios multiples
Derivative financial assets	FVPL ⁽¹⁾	Option Pricing Model	Standard deviation
Investment securities-debt	AFS ⁽²⁾	Discounted Cash Flow	Credit spreads
Investment securities-equity	AFS ⁽²⁾	Multiples and Net Asset Value	Net asset value, earnings and financial ratios multiples
Liabilities			
Derivative financial liabilities	FVPL ⁽¹⁾	Option Pricing Model	Standard deviation

(1) Financial instruments classified as fair value through profit or loss.

(2) Financial instruments classified as available-for-sale.

There are limited inter-relationships between unobservable inputs as financial instruments are usually categorised into Level 3 because of a single unobservable input.

In estimating significance, the Group performed sensitivity analyses based on methodologies applied for fair value adjustments. These adjustments reflect the values which the Group estimates to be appropriate to reflect uncertainties in the inputs used (e.g. based on stress-testing methodologies on the unobservable input). The methodologies used can be statistical or based on other relevant approved techniques.

The movement in fair value arising from reasonably possible changes to the significant unobservable input is assessed as not significant.

19. Deposits and Balances of Customers

	The Group		The Bank	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Fixed deposits	133,966,257	125,485,520	100,047,401	94,289,545
Savings deposits	61,951,429	55,966,078	49,587,318	45,020,974
Current accounts	51,689,604	51,221,174	43,856,680	44,346,319
Others	7,706,583	7,851,701	6,173,609	6,721,038
	255,313,873	240,524,473	199,665,008	190,377,876

20. Other Liabilities

	The Group		The Bank	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Accrued interest payable	849,209	699,525	503,450	386,526
Accrued operating expenses	735,357	714,535	417,351	395,505
Sundry creditors	3,332,705	2,930,517	1,140,546	1,184,912
Others	748,388	917,876	528,821	613,215
	5,665,659	5,262,453	2,590,168	2,580,158

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21. Deferred Tax

Deferred tax comprises the following:

	The Group		The Bank	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Deferred tax liabilities on:				
Unrealised gain on available-for-sale financial assets	71,110	97,403	57,832	81,144
Accelerated tax depreciation	116,405	100,877	105,427	90,754
Unrealised gain on financial instruments fair value through profit or loss	129,455	70,444	2,520	1,175
Fair value of depreciable assets acquired in business combination	27,008	27,527	27,008	27,527
Others	1,160	4,107	707	734
	345,138	300,358	193,494	201,334
Amount offset against deferred tax assets	(113,230)	(108,772)	(104,280)	(100,238)
	231,908	191,586	89,214	101,096
Deferred tax assets on:				
Unrealised loss on available-for-sale financial assets	38	–	–	–
Allowance for impairment	136,133	155,399	101,623	112,137
Tax losses	12,583	15,653	6,412	15,178
Unrealised loss on financial instruments fair value through profit or loss	124,723	70,122	89	421
Others	90,847	94,633	38,531	38,355
	364,324	335,807	146,655	166,091
Amount offset against deferred tax liabilities	(113,230)	(108,772)	(104,280)	(100,238)
	251,094	227,035	42,375	65,853
Net deferred tax assets/(liabilities)	19,186	35,449	(46,839)	(35,243)

Movements in the deferred tax during the financial year are as follows:

	The Group		The Bank	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Balance at 1 January	35,449	71,147	(35,243)	18,548
Effect of change in tax rate	(979)	–	–	–
Currency translation adjustments	1,426	(2,959)	1,047	(2,419)
Charge to income statement	(38,989)	(33,018)	(35,955)	(46,066)
Credit/(charge) to equity	22,279	279	23,312	(5,306)
Balance at 31 December	19,186	35,449	(46,839)	(35,243)

The Group has not recognised deferred tax assets in respect of tax losses of \$39,308,000 (2015: \$27,111,000) which can be carried forward to offset against future taxable income, subject to meeting certain statutory requirements of the relevant tax authorities. These tax losses have no expiry date except for an amount of \$10,456,000 (2015: \$1,602,000) which will expire between the years 2017 and 2019 (2015: 2017 and 2018).

22. Debts Issued

(a)

	The Group		The Bank	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Subordinated notes				
S\$1 billion 3.45% subordinated notes due 2021 callable in 2016	–	1,000,531	–	1,000,531
S\$1.2 billion 3.15% subordinated notes due 2022 callable in 2017	1,196,879	1,180,456	1,196,879	1,180,456
S\$500 million 3.50% subordinated notes due 2026 callable in 2020	495,279	484,657	495,279	484,657
US\$800 million 3.75% subordinated notes due 2024 callable in 2019	1,161,421	1,137,721	1,161,421	1,137,721
US\$500 million 2.875% subordinated notes due 2022 callable in 2017	720,764	701,930	720,764	701,930
US\$500 million 5.796% subordinated notes due 2055 callable in 2016	–	–	–	706,950
US\$700 million 3.50% subordinated notes due 2026 callable in 2021	992,514	–	992,514	–
HK\$700 million 3.19% subordinated notes due 2028 callable in 2023	120,824	–	120,824	–
US\$600 million 2.88% subordinated notes due 2027 callable in 2022	857,906	–	857,906	–
RM1 billion 4.65% subordinated notes due 2025 callable in 2020	323,652	329,222	–	–
IDR433 billion 11.35% subordinated notes due 2021	46,138	43,800	–	–
IDR100 billion 9.40% subordinated notes due 2023	10,579	–	–	–
	5,925,956	4,878,317	5,545,587	5,212,245
Of which, fair value hedge (gain)/loss	(34,239)	(21,611)	(35,459)	(21,522)
Other debts issued				
Interest rate-linked notes	1,274,228	984,453	1,274,228	984,453
Equity-linked notes	392,874	939,562	392,874	939,562
Floating rate notes	675,137	1,326,010	675,137	1,326,010
Fixed rate notes	2,733,179	2,459,141	2,003,408	2,071,072
Commercial papers	14,363,726	9,665,511	14,363,726	9,665,511
Covered Bonds	757,834	–	757,834	–
Others	20,015	35,294	1,850	11,787
	20,216,993	15,409,971	19,469,057	14,998,395
Of which, fair value hedge (gain)/loss	8,859	15,056	8,859	15,056
Total debts issued	26,142,949	20,288,288	25,014,644	20,210,640

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for the financial year ended 31 December 2016

22. Debts Issued (continued)

(b) Subordinated Notes

- (i) The S\$1.2 billion 3.15% subordinated notes were issued by the Bank at par on 11 July 2012 and will mature on 11 July 2022. The notes may be redeemed at par at the option of the Bank, in whole but not in part, on 11 July 2017 or any subsequent interest payment date, or on any date in the event of certain changes in the tax laws of Singapore, subject to the prior approval of the MAS and certain other conditions. Interest is payable semi-annually at a fixed rate of 3.15% per annum up to and including 10 July 2017. From and including 11 July 2017, the interest rate shall be reset to a fixed rate equal to the prevailing 5-year Singapore Dollar Interest Rate Swap Offer Rate on 11 July 2017 plus 2.115%.
- (ii) The S\$500 million 3.50% subordinated notes were issued by the Bank at par on 22 May 2014 and will mature on 22 May 2026. The notes may be redeemed at par at the option of the Bank, in whole but not in part, on 22 May 2020, or at the occurrence of a tax event or change of qualification event, subject to the prior approval of the MAS and other redemption conditions. Interest is payable semi-annually at a fixed rate of 3.50% per annum up to but excluding 22 May 2020. From and including 22 May 2020, the interest rate shall be reset to a fixed rate equal to the prevailing Singapore 6-year Swap Offer Rate on 22 May 2020 plus 1.607%. As a Basel III capital instrument, the subordinated notes can be written off in whole or in part if the Bank was determined by the MAS to be non-viable.
- (iii) The US\$800 million 3.75% subordinated notes were issued by the Bank at 99.357 on 19 March 2014 and will mature on 19 September 2024. The notes may be redeemed at par at the option of the Bank, in whole but not in part, on 19 September 2019, or at the occurrence of a tax event or change of qualification event, subject to the prior approval of the MAS and other redemption conditions. Interest is payable semi-annually at a fixed rate of 3.75% per annum up to but excluding 19 September 2019. From and including 19 September 2019, the interest rate shall be reset to a fixed rate equal to the prevailing United States Dollar 5-year Mid Swap Rate on 19 September 2019 plus 1.995%. As a Basel III capital instrument, the subordinated notes can be written off in whole or in part if the Bank was determined by the MAS to be non-viable.
- (iv) The US\$500 million 2.875% subordinated notes were issued by the Bank at 99.575 on 17 October 2012 and will mature on 17 October 2022. The notes may be redeemed at par at the option of the Bank, in whole but not in part, on 17 October 2017 or any subsequent interest payment date, or on any date in the event of certain changes in the tax laws of Singapore, subject to the prior approval of the MAS and certain other conditions. Interest is payable semi-annually at a fixed rate of 2.875% per annum up to and excluding 17 October 2017. From and including 17 October 2017, the interest rate shall be reset to a fixed rate equal to the prevailing 5-year U.S. Treasury Rate on 17 October 2017 plus initial spread of 2.30%.
- (v) A first tranche of US\$500 million 3.50% subordinated notes were issued by the Bank at 99.574 on 16 March 2016 and will mature on 16 September 2026. The Bank subsequently issued a second tranche of US\$200 million on 24 March 2016 at 100.019 (plus 8 days of accrued interest from and including 16 March 2016 to but excluding 24 March 2016). The notes may be redeemed at par at the option of the Bank, in whole but not in part, on 16 September 2021, or at the occurrence of a tax event or change of qualification event, subject to the prior approval of the MAS and other redemption conditions. Interest is payable semi-annually at a fixed rate of 3.50% per annum up to but excluding 16 September 2021. From and including 16 September 2021, the interest rate shall be reset to a fixed rate equal to the prevailing United States Dollar 5-year Mid Swap Rate on 16 September 2021 plus 2.236%. As a Basel III capital instrument, the subordinated notes can be written off in whole or in part if the Bank was determined by the MAS to be non-viable.
- (vi) The HK\$700 million 3.19% subordinated notes were issued by the Bank at par on 26 August 2016 and will mature on 26 August 2028. The notes may be redeemed at par at the option of the Bank, in whole but not in part, on 26 August 2023, or at the occurrence of a tax event or change of qualification event, subject to the prior approval of the MAS and other redemption conditions. Interest is payable quarterly at a fixed rate of 3.19% per annum up to but excluding 26 August 2023. From and including 26 August 2023, the interest rate shall be reset to a fixed rate equal to the prevailing 5-year HKD Swap Rate plus 1.95%. As a Basel III capital instrument, the subordinated notes can be written off in whole or in part if the Bank was determined by the MAS to be non-viable.

22. Debts Issued (continued)

(b) Subordinated Notes (continued)

- (vii) The US\$600 million 2.88% subordinated notes were issued by the Bank at par on 8 September 2016 and will mature on 8 March 2027. The notes may be redeemed at par at the option of the Bank, in whole but not in part, on 8 March 2022, or at the occurrence of a tax event or change of qualification event, subject to the prior approval of the MAS and other redemption conditions. Interest is payable semi-annually at a fixed rate of 2.88% per annum up to but excluding 8 March 2022. From and including 8 March 2022, the interest rate shall be reset to a fixed rate equal to the prevailing United States Dollar 5-year Mid Swap Rate plus 1.654%. As a Basel III capital instrument, the subordinated notes can be written off in whole or in part if the Bank was determined by the MAS to be non-viable.
- (viii) The RM1 billion 4.65% subordinated notes were issued by United Overseas Bank (Malaysia) Bhd (UOBM) on 8 May 2015 and will mature on 8 May 2025. The notes may be redeemed at par at the option of UOBM, in whole but not in part, on 8 May 2020 or at any interest payment date thereafter. Interest is payable semi-annually at 4.65% per annum.
- (ix) The IDR433 billion 11.35% subordinated notes were issued by PT Bank UOB Indonesia on 28 May 2014 and will mature on 28 May 2021. Interest is payable quarterly at a fixed rate of 11.35% per annum.
- (x) The IDR100 billion 9.40% subordinated notes were issued by PT Bank UOB Indonesia on 25 November 2016 and will mature on 25 November 2023. Interest is payable quarterly at a fixed rate of 9.40% per annum.

(c) Other Debts Issued

- (i) The interest rate-linked notes, with embedded interest rate derivatives, were issued at par with maturities ranging from 19 July 2031 to 29 November 2046. The periodic payouts and redemptions of the notes are linked to the interest rate indices.
- (ii) The equity-linked notes, with embedded equity derivatives, were issued at par with maturities ranging from 2 January 2017 to 9 March 2018. The periodic payments and payouts of the notes at maturity are linked to the closing value of certain underlying equities or equity indices.
- (iii) The floating rate notes comprise mainly notes issued at par with maturities ranging from 11 September 2018 to 2 September 2020. Interest is payable quarterly at a floating rate.
- (iv) The fixed rate notes comprise mainly notes issued by the Bank with maturities ranging from 7 March 2017 to 25 November 2021. Interest is payable semi-annually and quarterly at a fixed rate as follows:

Currency notes	Interest rate
USD	2.25% to 2.50% per annum
HKD	2.2% per annum
IDR	7.2% to 9.6% per annum
THB	1.85% to 3.24% per annum

- (v) The commercial papers were issued by the Bank between 13 July 2016 and 30 December 2016 and mature between 6 January 2017 and 12 June 2017. Interest rates of the papers ranged from 0.66% to 1.22% per annum (2015: 0.34% to 0.72% per annum).
- (vi) The EUR500 million fixed rate covered bonds were issued by the Bank on 9 March 2016 at 99.653 and will mature on 9 March 2021. Interest is payable annually at a fixed rate of 0.25% per annum.
- (vii) Others comprise mainly foreign exchange-linked notes issued by the Bank with maturities ranging from 6 November 2017 to 22 May 2018.

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for the financial year ended 31 December 2016

23. Cash, Balances and Placements with Central Banks

	The Group		The Bank	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Cash on hand	2,242,035	1,762,169	1,943,585	1,472,083
Balances with central banks				
Restricted balances	5,921,295	5,077,651	3,928,475	3,518,466
Non-restricted balances	16,158,785	25,465,695	10,700,771	19,258,277
	24,322,115	32,305,515	16,572,831	24,248,826

24. Trading Securities

	The Group		The Bank	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Quoted securities				
Debt	863,204	701,080	850,604	582,701
Equity	7,724	40,757	7,724	40,757
Unquoted securities				
Debt	2,118,877	386,310	2,118,877	386,310
Equity	137,545	148,427	–	–
	3,127,350	1,276,574	2,977,205	1,009,768

25. Loans to Customers

(a)

	The Group		The Bank	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Loans to customers (gross)	225,661,673	207,370,928	175,406,818	160,930,679
Specific allowance (Note 25d)	(1,218,549)	(773,143)	(877,467)	(493,600)
General allowance (Note 25d)	(2,709,455)	(2,986,878)	(1,873,436)	(2,206,839)
Loans to customers (net)	221,733,669	203,610,907	172,655,915	158,230,240
Comprising:				
Trade bills	2,684,036	2,210,033	949,079	467,406
Advances to customers	219,049,633	201,400,874	171,706,836	157,762,834
	221,733,669	203,610,907	172,655,915	158,230,240

25. Loans to Customers (continued)

(b) Gross Loans to Customers Analysed by Industry

	The Group		The Bank	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Transport, storage and communication	9,780,593	10,018,888	8,355,588	8,781,547
Building and construction	52,280,920	45,210,695	46,215,499	39,590,701
Manufacturing	15,746,676	15,803,499	9,530,979	9,222,510
Financial institutions, investment and holding companies	15,518,601	14,281,925	12,719,024	12,646,080
General commerce	30,268,903	28,302,469	22,955,434	20,792,664
Professionals and private individuals	26,950,561	25,949,643	18,611,861	18,201,657
Housing loans	61,450,730	56,385,159	45,489,585	41,962,230
Others	13,664,689	11,418,650	11,528,848	9,733,290
	225,661,673	207,370,928	175,406,818	160,930,679

(c) Gross Loans to Customers Analysed by Currency

	The Group		The Bank	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Singapore dollar	112,160,101	108,323,053	111,870,338	108,006,885
US dollar	45,079,346	35,953,348	40,329,012	32,367,774
Malaysian ringgit	22,992,853	22,375,222	–	–
Thai baht	12,422,864	10,934,725	100	170
Indonesian rupiah	5,401,006	5,156,845	–	–
Others	27,605,503	24,627,735	23,207,368	20,555,850
	225,661,673	207,370,928	175,406,818	160,930,679

Notes to the Financial Statements

for the financial year ended 31 December 2016

25. Loans to Customers (continued)

(d) Movements of Allowance for Impairment on Loans

	2016		2015	
	Specific allowance \$'000	General allowance \$'000	Specific allowance \$'000	General allowance \$'000
The Group				
Balance at 1 January	773,143	2,986,878	656,977	2,783,080
Currency translation adjustments	25,026	(914)	(6,294)	(60,066)
Net write-off	(555,262)	–	(259,007)	–
Bad debts recovery	(78,544)	–	(83,476)	–
Allowance/(write-back) for loans	1,047,667	(276,509)	475,080	263,864
Net charge/(write-back) to income statement (Note 11)	969,123	(276,509)	391,604	263,864
Interest on impaired financial assets	6,519	–	(10,137)	–
Balance at 31 December	1,218,549	2,709,455	773,143	2,986,878
The Bank				
Balance at 1 January	493,600	2,206,839	374,437	2,041,443
Currency translation adjustments	20,208	1,095	11,035	848
Net write-off	(381,786)	–	(37,804)	–
Bad debts recovery	(24,285)	–	(35,668)	–
Allowance/(write-back) for loans	760,618	(334,498)	192,395	164,548
Net charge/(write-back) to income statement (Note 11)	736,333	(334,498)	156,727	164,548
Interest on impaired financial assets	9,112	–	(10,795)	–
Balance at 31 December	877,467	1,873,436	493,600	2,206,839

26. Financial Assets Transferred

The Group transfers financial assets to third parties in the ordinary course of business. Transferred assets where the Group retains substantially all the risks and rewards of the transferred assets continue to be recognised on the Group's balance sheet.

(a) Assets Pledged or Transferred

Assets transferred under repurchase agreements are conducted under terms and conditions that are usual market practice. The counterparty is typically allowed to sell or re-pledge the securities but has an obligation to return them. Assets pledged or transferred are summarised in the table below:

	The Group		The Bank	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Assets pledged and transferred				
Singapore Government treasury bills and securities	533,952	123,025	533,952	123,025
Other government treasury bills and securities	740,999	931,616	740,999	463,220
Placements and balances with banks				
Negotiable certificates of deposit	180,921	11,356	180,921	11,356
Investment securities	211,980	86,202	211,980	86,202
	1,667,852	1,152,199	1,667,852	683,803

The amount of the associated liabilities approximates the carrying amount of the assets pledged.

(b) Collateral Received

For reverse repurchase agreements (reverse repo) where the Group receives assets as collateral is as follows:

	The Group		The Bank	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Assets received for reverse repo transactions, at fair value	8,990,963	5,757,701	7,502,696	3,315,153
Of which, sold or repledged	37,086	392,734	37,086	392,734

Notes to the Financial Statements

for the financial year ended 31 December 2016

26. Financial Assets Transferred (continued)

(c) Repo and Reverse Repo Transactions Subject to Netting Agreements

The Bank and the Group enter into global master repurchase agreements with counterparties where it is appropriate and practicable to mitigate counterparty credit risk. Such agreements allow the Bank and the Group to settle outstanding amounts with the counterparty on a net basis in the event of default. These agreements also allow the Bank and the Group to further reduce its credit risk by requiring periodic mark-to-market of outstanding positions and posting of collateral when pre-established thresholds are exceeded. The counterparty that receives non-cash collateral is typically allowed to sell or re-pledge such collateral in accordance with the terms of these agreements.

The table below shows the Bank's and the Group's repo and reverse repo transactions that are not offset in the balance sheet but are subject to enforceable netting agreements:

	2016		2015	
	Reverse repo \$'000	Repo \$'000	Reverse repo \$'000	Repo \$'000
The Group				
Gross/net carrying amount on the balance sheet ⁽¹⁾	8,348,247	1,672,875	5,443,392	1,525,531
Amount not subject to netting agreements	–	–	–	–
Amount subject to netting agreements	8,348,247	1,672,875	5,443,392	1,525,531
Amount nettable ⁽²⁾	(218,695)	(218,695)	(262,355)	(262,355)
Financial collateral	(7,725,218)	(1,423,301)	(3,525,967)	(1,006,080)
Net amounts	404,334	30,879	1,655,070	257,096
The Bank				
Gross/net carrying amount on the balance sheet ⁽¹⁾	6,777,306	1,672,875	3,006,688	1,063,241
Amount not subject to netting agreements	–	–	–	–
Amount subject to netting agreements	6,777,306	1,672,875	3,006,688	1,063,241
Amount nettable ⁽²⁾	(218,696)	(218,696)	(262,355)	(262,355)
Financial collateral	(6,505,304)	(1,423,300)	(2,730,671)	(543,790)
Net amounts	53,306	30,879	13,662	257,096

(1) No amount met the offsetting criteria as at the balance sheet date.

The gross/net carrying amount of reverse repo is presented under "Cash, balances and placements with central banks", "Placements and balances with banks", and "Loans to customers" while repo is under "Deposits and balances of Banks and Customers" on the balance sheet.

(2) Amount that could be netted under the netting agreements.

(d) Covered Bonds

Pursuant to the Bank's US\$8 billion Global Covered Bond Programme, selected pools of residential mortgages that were originated by the Bank have been assigned to a bankruptcy-remote structured entity, Glacier Eighty Pte Ltd. These residential mortgages continue to be recognised on the Bank's balance sheet as the Bank remains exposed to the risks and rewards associated with them.

As at 31 December 2016, there was one covered bond in issue of EUR500 million (2015: Nil), while the carrying value of assets assigned was \$4,032 million (2015: Nil).

27. Investment Securities

(a)

	The Group		The Bank	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Quoted securities				
Debt	6,750,255	5,989,852	6,465,576	5,533,198
Equity	806,416	894,367	694,609	731,156
Unquoted securities				
Debt	2,097,693	1,462,282	2,040,313	1,579,212
Equity	2,138,236	2,453,822	1,926,010	2,214,678
Allowance for impairment (Note 31)	(152,911)	(237,829)	(134,882)	(201,174)
	11,639,689	10,562,494	10,991,626	9,857,070

(b) Investment Securities Analysed by Industry

	The Group		The Bank	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Transport, storage and communication	1,458,574	1,010,440	1,449,116	999,756
Building and construction	293,386	560,442	242,979	499,642
Manufacturing	2,303,073	1,469,108	2,278,320	1,429,307
Financial institutions, investment and holding companies	4,032,807	4,147,070	3,586,759	3,704,918
General commerce	1,113,798	773,097	1,018,998	664,195
Others	2,438,051	2,602,337	2,415,454	2,559,252
	11,639,689	10,562,494	10,991,626	9,857,070

28. Other Assets

	The Group		The Bank	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Interest receivable	813,092	822,664	549,905	562,069
Sundry debtors	3,059,350	3,082,514	1,783,845	2,048,073
Foreclosed properties	94,410	91,927	–	–
Others	2,353,750	1,622,419	2,042,804	1,090,430
Allowance for impairment (Note 31)	(146,371)	(264,671)	(15,117)	(14,685)
	6,174,231	5,354,853	4,361,437	3,685,887

Notes to the Financial Statements

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29. Investment in Associates and Joint Ventures

(a)

	The Group		The Bank	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Material associates:				
UOB-Kay Hian Holdings Limited	534,882	534,236	66,889	66,889
Network for Electronic Transfers (Singapore) Pte Ltd	65,873	63,314	7,399	7,399
	600,755	597,550	74,288	74,288
Other associates/joint ventures	526,213	526,575	395,289	369,393
	1,126,968	1,124,125	469,577	443,681
Allowance for impairment (Note 31)	(18,043)	(18,179)	(136,938)	(36,675)
	1,108,925	1,105,946	332,639	407,006
Market value of quoted equity securities at 31 December	396,400	440,271	396,400	440,271

Name of associate	Principal activities	Country of incorporation	Effective equity interest of the Group	
			2016 %	2015 %
Quoted				
UOB-Kay Hian Holdings Limited	Stockbroking	Singapore	40	41
Unquoted				
Network for Electronic Transfers (Singapore) Pte Ltd	Electronic funds transfer	Singapore	33	33

(b) Aggregate information about the Group's investments in associates that are not individually material are as follows:

	The Group	
	2016 \$'000	2015 \$'000
(Loss)/profit for the financial year	(43,176)	28,764
Other comprehensive income	(198)	1,684
Total comprehensive income	(43,374)	30,448

29. Investment in Associates and Joint Ventures (continued)

- (c) The summarised financial information in respect of UOB-Kay Hian Holdings Limited and Network for Electronic Transfers (Singapore) Pte Ltd, based on their FRS financial statements and a reconciliation with the carrying amount of the investment in the consolidated financial statements are as follows:

Summarised Statements of Comprehensive Income

	UOB-Kay Hian Holdings Limited		Network for Electronic Transfers (Singapore) Pte Ltd	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Operating income	319,519	382,466	161,959	155,543
Profit for the financial year	54,450	77,364	27,080	28,698
Other comprehensive income	(12,838)	26,400	897	5,237
Total comprehensive income	41,612	103,764	27,977	33,935

Summarised Balance Sheets

	UOB-Kay Hian Holdings Limited		Network for Electronic Transfers (Singapore) Pte Ltd	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Current assets	3,720,552	3,583,780	361,122	339,901
Non-current assets	124,800	284,482	53,390	53,953
Total assets	3,845,352	3,868,262	414,512	393,854
Current liabilities	2,506,856	2,550,026	208,609	196,486
Non-current liabilities	1,163	2,022	8,283	7,426
Total liabilities	2,508,019	2,552,048	216,892	203,912
Net assets	1,337,333	1,316,214	197,620	189,942
Proportion of the Group's ownership	40%	41%	33%	33%
Group's share of net assets	534,897	534,153	65,873	63,314
Other adjustments	(15)	83	-	-
Carrying amount of the investment	534,882	534,236	65,873	63,314

Dividends of \$14,101,000 (2015: \$15,127,000) and \$6,766,000 (2015: \$2,817,000) were received from UOB-Kay Hian Holdings Limited and Network for Electronic Transfers (Singapore) Pte Ltd respectively.

Notes to the Financial Statements

for the financial year ended 31 December 2016

30. Investment in Subsidiaries

(a)

	The Bank	
	2016	2015
	\$'000	\$'000
Quoted equity securities	45,024	45,024
Unquoted equity securities	6,104,378	6,150,641
	6,149,402	6,195,665
Allowance for impairment (Note 31)	(363,696)	(354,614)
	5,785,706	5,841,051
Market value of quoted equity securities at 31 December	167,111	166,397

(b) Major subsidiaries of the Group as at the balance sheet date are as follows:

Name of subsidiary	Country of incorporation	Effective equity interest of the Group	
		2016 %	2015 %
Commercial Banking			
Far Eastern Bank Limited	Singapore	100	100
United Overseas Bank (Malaysia) Bhd	Malaysia	100	100
United Overseas Bank (Thai) Public Company Limited	Thailand	99.7	99.7
PT Bank UOB Indonesia	Indonesia	99	99
United Overseas Bank (China) Limited	China	100	100
Money Market			
UOB Australia Limited	Australia	100	100
Insurance			
United Overseas Insurance Limited	Singapore	58	58
Investment			
UOB Capital Management Pte Ltd	Singapore	100	100
UOB International Investment Private Limited	Singapore	100	100
UOB Property Investments Pte. Ltd.	Singapore	100	100
UOB Property Investments China Pte Ltd	Singapore	100	100
UOB Venture Management (Shanghai) Co., Ltd ⁽¹⁾	China	100	100
UOB Holdings (USA) Inc. ⁽²⁾	United States	100	100
Investment Management			
UOB Asset Management Ltd	Singapore	100	100
UOB Asset Management (Malaysia) Berhad	Malaysia	70	70
UOB Asset Management (Thailand) Co., Ltd.	Thailand	100	100
UOB Venture Management Private Limited	Singapore	100	100
UOB Global Capital LLC ⁽¹⁾	United States	70	70
UOB Asia Investment Partners Pte Ltd	Singapore	100	100

30. Investment in Subsidiaries (continued)

(b) (continued)

Name of subsidiary	Country of incorporation	Effective equity interest of the Group	
		2016 %	2015 %
Bullion, Brokerage and Clearing			
UOB Bullion and Futures Limited	Singapore	100	100
Property			
Industrial & Commercial Property (S) Pte Ltd	Singapore	100	100
PT UOB Property	Indonesia	100	100
UOB Realty (USA) Ltd Partnership ⁽²⁾	United States	100	100
Travel			
UOB Travel Planners Pte Ltd	Singapore	100	100

Notes:

Except as indicated, all subsidiaries incorporated in Singapore are audited by Ernst & Young LLP, Singapore and those incorporated overseas are audited by member firms of Ernst & Young Global Limited.

(1) Audited by other auditors.

(2) Not required to be audited.

(c) Interest in Subsidiaries with Material Non-Controlling Interest (NCI)

The Group has the following subsidiaries that have NCI that are material to the Group:

Name of subsidiary	Principal place of business	Proportion of ownership interest held by NCI %	Profit allocated to NCI during the reporting period \$'000	Accumulated NCI at the end of reporting period \$'000	Dividends paid to NCI \$'000
2016					
United Overseas Insurance Limited	Singapore	42	9,625	139,306	4,326
2015					
United Overseas Insurance Limited	Singapore	42	9,311	129,628	4,326

Notes to the Financial Statements

for the financial year ended 31 December 2016

30. Investment in Subsidiaries (continued)

- (d) Summarised Financial Information about Subsidiaries with Material NCI
Summarised financial information including goodwill on acquisition and consolidation adjustments but before intercompany eliminations of subsidiaries with material NCI are as follows:

Summarised Statements of Comprehensive Income

	United Overseas Insurance Limited	
	2016 \$'000	2015 \$'000
Operating income	44,020	44,813
Profit before tax	27,159	26,572
Tax	4,028	4,195
Profit for the financial year	23,131	22,377
Other comprehensive income	10,524	(3,271)
Total comprehensive income	33,655	19,106

Summarised Balance Sheets

	United Overseas Insurance Limited	
	2016 \$'000	2015 \$'000
Total assets	599,408	558,633
Total liabilities	264,630	247,114
Net assets	334,778	311,519

Other Summarised Information

	United Overseas Insurance Limited	
	2016 \$'000	2015 \$'000
Net cash flows from operations	15,091	5,098
Acquisition of property, plant and equipment	54	98

- (e) Consolidated Structured Entities
The Group has established a US\$8 billion Global Covered Bond Programme to augment its funding programmes. Under the Programme, the Company may from time to time issue covered bonds (the Covered Bonds). The payments of interest and principal under the Covered Bonds are guaranteed by the Covered Bond Guarantor (the CBG), Glacier Eighty Pte Ltd. The Covered Bonds issued under the Programme will be backed by a portfolio of Singapore home loans transferred by the Company to the CBG when certain conditions are met.

30. Investment in Subsidiaries (continued)

(f) Interests in Unconsolidated Structured Entities

As at 31 December 2016, the Group had interests in certain investment funds where the Group was the fund manager and the investors had no or limited removal rights over the fund manager. These funds were primarily financed by the investors. The table below summarises the Group's involvement in the funds.

	The Group	
	2016	2015
	\$ million	\$ million
Total assets of structured entities ⁽¹⁾	14,662	11,229
Maximum exposure to loss - Investment in funds	253	357
Fee income	121	106
Net gain from investment securities	13	81

(1) Based on the latest available financial reports of the structured entities.

31. Movements of Allowance for Impairment on Investments and Other Assets

	Investments		Other assets	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
The Group				
Balance at 1 January	256,008	288,443	264,671	261,636
Currency translation adjustments	1,366	(1,819)	1,452	(2,819)
Write-off/disposal	(20,535)	(31,400)	(11,823)	(2,584)
Net (write-back)/charge to income statement	(65,885)	784	(107,929)	8,438
Balance at 31 December	170,954	256,008	146,371	264,671
	Investment securities	Investment in associates and joint ventures	Investment in subsidiaries	Other assets
	\$'000	\$'000	\$'000	\$'000
The Bank				
2016				
Balance at 1 January	201,174	36,675	354,614	14,685
Currency translation adjustments	1,684	-	4	27
Write-off/disposal	(199)	-	-	(94)
Net (write-back)/charge to income statement	(67,777)	100,263	9,078	499
Balance at 31 December	134,882	136,938	363,696	15,117
2015				
Balance at 1 January	237,333	21,520	313,794	14,775
Currency translation adjustments	1,176	-	11	6
Write-off/disposal	(18,341)	-	(32,697)	(1,485)
Net (write-back)/charge to income statement	(18,994)	15,155	73,506	1,389
Balance at 31 December	201,174	36,675	354,614	14,685

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32. Investment Properties

	The Group		The Bank	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Balance at 1 January	1,108,450	960,292	1,174,084	1,229,216
Currency translation adjustments	(6,443)	19,765	211	(285)
Additions	50,530	178,688	–	–
Disposals	(709)	(5,100)	(709)	(5,100)
Depreciation charge	(23,193)	(18,398)	(16,340)	(16,187)
Transfers	(23,725)	(26,797)	4,691	(33,560)
Balance at 31 December	1,104,910	1,108,450	1,161,937	1,174,084
Represented by:				
Cost	1,409,834	1,388,887	1,399,932	1,396,407
Accumulated depreciation	(304,924)	(280,437)	(237,995)	(222,323)
Net carrying amount	1,104,910	1,108,450	1,161,937	1,174,084
Freehold property	393,329	404,464	753,294	758,304
Leasehold property	711,581	703,986	408,643	415,780
	1,104,910	1,108,450	1,161,937	1,174,084

Market values of the investment properties of the Bank and the Group as at 31 December 2016 were estimated to be \$2,690 million and \$3,348 million (2015: \$2,691 million and \$3,252 million) respectively. The valuations were performed by external and internal valuers with professional qualifications and experience, taking into account market prices and rentals of comparable properties using a market comparison approach or using a combination of comparable sales and investment approaches.

Market values for properties under Level 2 of the fair value hierarchy are determined based on market comparison approach using comparable price transactions as significant observable inputs. Market values for properties under Level 3 of the fair value hierarchy are determined using a combination of market comparison and investment methods. The key unobservable inputs used in these valuations are the capitalisation rates and rental yields.

33. Fixed Assets

	2016			2015		
	Owner-occupied properties \$'000	Others \$'000	Total \$'000	Owner-occupied properties \$'000	Others \$'000	Total \$'000
The Group						
Balance at 1 January	927,030	811,577	1,738,607	710,004	718,131	1,428,135
Currency translation adjustments	(4,491)	3,346	(1,145)	(36,955)	(11,230)	(48,185)
Additions	9,391	322,932	332,323	255,526	257,767	513,293
Disposals	(2,856)	(7,260)	(10,116)	(13,860)	(4,269)	(18,129)
Depreciation charge	(21,271)	(177,240)	(198,511)	(14,292)	(148,822)	(163,114)
Write-back of impairment	–	–	–	(190)	–	(190)
Transfers	23,725	–	23,725	26,797	–	26,797
Balance at 31 December	931,528	953,355	1,884,883	927,030	811,577	1,738,607
Represented by:						
Cost	1,214,850	2,234,253	3,449,103	1,189,116	1,966,909	3,156,025
Accumulated depreciation	(283,067)	(1,280,898)	(1,563,965)	(261,826)	(1,155,332)	(1,417,158)
Allowance for impairment	(255)	–	(255)	(260)	–	(260)
Net carrying amount	931,528	953,355	1,884,883	927,030	811,577	1,738,607
Freehold property	452,423			472,708		
Leasehold property	479,105			454,322		
	931,528			927,030		
The Bank						
Balance at 1 January	692,453	540,224	1,232,677	681,071	465,383	1,146,454
Currency translation adjustments	74	55	129	132	623	755
Additions	–	212,426	212,426	–	169,594	169,594
Disposals	(2,057)	(1,282)	(3,339)	(12,706)	(3,458)	(16,164)
Depreciation charge	(9,858)	(117,137)	(126,995)	(9,604)	(91,918)	(101,522)
Transfers	(4,691)	–	(4,691)	33,560	–	33,560
Balance at 31 December	675,921	634,286	1,310,207	692,453	540,224	1,232,677
Represented by:						
Cost	821,257	1,420,736	2,241,993	828,548	1,228,365	2,056,913
Accumulated depreciation	(145,336)	(786,450)	(931,786)	(136,095)	(688,141)	(824,236)
Net carrying amount	675,921	634,286	1,310,207	692,453	540,224	1,232,677
Freehold property	580,879			592,915		
Leasehold property	95,042			99,538		
	675,921			692,453		

Market values of the owner-occupied properties of the Bank and the Group as at 31 December 2016 were estimated to be \$1,884 million and \$3,137 million (2015: \$1,887 million and \$3,137 million) respectively. The valuations were performed by external and internal valuers with professional qualifications and experience, taking into account market prices and rentals of comparable properties using a market comparison approach or using a combination of comparable sales and investment approaches.

Market values for properties under Level 2 of the fair value hierarchy are determined based on market comparison approach using comparable price transactions as significant observable inputs. Market values for properties under Level 3 of the fair value hierarchy are determined using a combination of market comparison and investment methods. The key unobservable inputs used in these valuations are the capitalisation rates and rental yields.

Others comprise mainly computer equipment, application software and furniture and fittings.

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34. Intangible Assets

(a)

	Goodwill	
	2016 \$'000	2015 \$'000
The Group		
Balance at 1 January	4,143,825	4,149,280
Currency translation adjustments	7,220	(5,455)
Balance at 31 December	4,151,045	4,143,825
Represented by:		
Cost	4,151,045	4,143,825
Accumulated impairment	–	–
Net carrying amount	4,151,045	4,143,825

- (b) Goodwill is allocated on the date of acquisition to the reportable operating segments expected to benefit from the synergies of a business combination. The recoverable amount of the operating segments is based on their value in use, computed by discounting the expected future cash flows of the segments. The key assumptions in computing the value in use include the discount rates and growth rates applied. Discount rates are estimated based on current market assessments of time value of money and risks specific to the Group as a whole and to individual countries such as Thailand and Indonesia. The growth rates used do not exceed the historical long-term average growth rate of the major countries. Cash flow projections are based on the most recent five-year financial forecasts provided by key business segments and approved by management. These cash flows are derived based on the outlook of macro-economic conditions from external sources, in particular, interest rates and foreign currency, taking into account management's past experience on the impact of such changes to the cash flows of the Group. Long-term growth rate is imputed on fifth-year cash flow and then discounted to determine the terminal value. Key assumptions are as follows:

	Discount rate		Growth rate	
	2016	2015	2016	2015
Singapore	10.50	7.33	2.38	2.59
Thailand	12.00	11.80	3.10	3.32
Indonesia	12.75	12.70	5.58	5.63

Impairment is recognised in the income statement when the carrying amount of an operating segment exceeds its recoverable amount. Management believes that any reasonably possible change in the key assumptions would not cause the carrying amount of the operating segments to exceed their recoverable amount.

35. Contingent Liabilities

In the normal course of business, the Bank and the Group conduct businesses involving guarantees, performance bonds and indemnities. The bulk of these liabilities are backed by the corresponding obligations of the customers. No assets of the Bank and the Group were pledged as security for these contingent liabilities at the balance sheet date.

	The Group		The Bank	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Direct credit substitutes	5,226,349	4,914,684	3,155,996	3,066,545
Transaction-related contingencies	9,361,937	8,007,937	6,133,042	5,382,592
Trade-related contingencies	10,010,868	6,085,317	8,259,873	4,856,136
Others	17,510	18,304	1,179	1,218
	24,616,664	19,026,242	17,550,090	13,306,491

36. Financial Derivatives

Financial derivatives, such as forwards, swaps, futures and options, are instruments whose values change in response to the change in prices of the underlying instruments.

In the normal course of business, the Bank and the Group transact in customised derivatives to meet specific needs of their customers. The Bank and the Group also transact in these derivatives for proprietary trading purposes, as well as to manage their assets, liabilities and structural positions. Risks associated with the use of derivatives and policies for managing these risks are set out in Note 43.

- (a) The table below shows the Bank's and the Group's financial derivatives and their fair values at the balance sheet date. These amounts do not necessarily represent future cash flows and amounts at risk of the derivatives.

	2016			2015		
	Contract/ notional amount \$'000	Positive fair value \$'000	Negative fair value \$'000	Contract/ notional amount \$'000	Positive fair value \$'000	Negative fair value \$'000
The Group						
Foreign exchange contracts						
Forwards	48,811,188	984,186	1,038,627	38,697,181	919,044	654,629
Swaps	186,619,939	2,387,083	1,971,593	166,100,766	1,586,750	1,264,271
Options purchased	10,534,271	182,131	–	8,751,550	152,323	–
Options written	13,122,827	–	224,038	18,630,354	–	157,126
Interest rate contracts						
Swaps	533,198,638	2,977,150	3,225,694	425,260,412	3,133,133	3,263,844
Futures	1,267,163	1,154	2,903	388,256	253	136
Options purchased	695,377	4,987	–	783,388	4,820	–
Options written	752,119	–	4,923	1,303,002	–	8,660
Equity-related contracts						
Swaps	512,863	17,875	16,747	1,075,974	58,754	64,083
Options purchased	5,130,036	139,445	–	5,302,111	324,623	–
Options written	5,932,079	–	135,892	5,888,554	–	324,541
Credit-related contracts						
Swaps	1,187,594	31,416	13,881	1,041,943	10,988	6,588
Others						
Forwards	889,816	7,634	7,262	1,287,996	4,950	4,834
Swaps	3,612,048	172,938	109,615	1,766,722	213,613	122,302
Futures	2,262,598	74,777	85,748	1,120,047	12,267	97,573
Options purchased	85,735	770	–	42,727	643	–
Options written	35,500	–	185	34,310	–	489
	814,649,791	6,981,546	6,837,108	677,475,293	6,422,161	5,969,076

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36. Financial Derivatives (continued)

(a) (continued)

	2016			2015		
	Contract/ notional amount	Positive fair value	Negative fair value	Contract/ notional amount	Positive fair value	Negative fair value
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
The Bank						
Foreign exchange contracts						
Forwards	44,415,096	544,775	631,013	32,898,659	557,332	355,173
Swaps	145,370,380	2,297,201	1,850,786	132,022,997	1,416,629	1,108,871
Options purchased	7,643,433	163,881	–	7,528,395	125,535	–
Options written	8,905,657	–	147,561	7,205,110	–	308,006
Interest rate contracts						
Swaps	498,163,783	2,755,677	2,980,221	389,215,206	3,017,945	3,097,180
Futures	985,109	1,074	2,898	63,172	148	136
Options purchased	695,377	4,987	–	783,388	4,820	–
Options written	752,119	–	4,923	1,303,002	–	8,660
Equity-related contracts						
Swaps	445,659	4,001	3,719	653,529	3,187	7,368
Options purchased	5,103,435	138,690	–	5,274,495	324,602	–
Options written	5,904,768	–	136,263	5,861,464	–	324,477
Credit-related contracts						
Swaps	1,187,594	31,416	13,881	1,041,943	10,988	6,588
Others						
Forwards	581,694	6,906	6,816	1,132,060	4,831	4,813
Swaps	3,389,082	161,244	97,376	1,751,489	217,154	108,921
Futures	2,024,052	74,499	85,417	1,030,383	12,258	97,381
Options purchased	46,647	228	–	1,379	234	–
Options written	3,257	–	185	1,379	–	234
	725,617,142	6,184,579	5,961,059	587,768,050	5,695,663	5,427,808

36. Financial Derivatives (continued)

(b) Financial Derivatives Subject to Netting Agreements

The Bank and the Group enter into derivative master netting agreements (including the International Swaps and Derivatives Association Master Agreement) with counterparties where it is appropriate and practicable to mitigate counterparty credit risk. Such agreements allow the Bank and the Group to settle outstanding derivative contracts' amounts with the counterparty on a net basis in the event of default. These agreements also allow the Bank and the Group to further reduce their credit risk by requiring periodic mark-to-market of outstanding positions and posting of collateral when pre-established thresholds are exceeded. The counterparty that receives non-cash collateral is typically allowed to sell or re-pledge such collateral in accordance with the terms of these agreements.

The table below shows the Bank's and the Group's financial derivatives that are not offset in the balance sheet but are subject to enforceable netting agreements.

	2016		2015	
	Positive fair value \$'000	Negative fair value \$'000	Positive fair value \$'000	Negative fair value \$'000
The Group				
Gross/net carrying amount on the balance sheet ⁽¹⁾	6,981,546	6,837,108	6,422,161	5,969,076
Amount not subject to netting agreements	(404,179)	(406,328)	(580,970)	(508,483)
Amount subject to netting agreements	6,577,367	6,430,780	5,841,191	5,460,593
Amount nettable ⁽²⁾	(4,286,387)	(4,286,387)	(4,187,476)	(4,187,476)
Financial collateral	(393,919)	(968,620)	(169,699)	(608,175)
Net amounts	1,897,061	1,175,773	1,484,016	664,942
The Bank				
Gross/net carrying amount on the balance sheet ⁽¹⁾	6,184,579	5,961,059	5,695,663	5,427,808
Amount not subject to netting agreements	(262,437)	(278,085)	(292,275)	(249,559)
Amount subject to netting agreements	5,922,142	5,682,974	5,403,388	5,178,249
Amount nettable ⁽²⁾	(4,169,592)	(4,169,592)	(4,087,567)	(4,087,567)
Financial collateral	(358,285)	(660,376)	(104,571)	(329,214)
Net amounts	1,394,265	853,006	1,211,250	761,468

(1) No amount met the offsetting criteria as at the balance sheet date.

(2) Amount that could be netted under the netting agreements.

37. Hedge Accounting

(a) Fair Value Hedges

Interest rate swaps were contracted to hedge certain of the Group's loans, debt investments and debts issued against interest rate risk. As at 31 December 2016, the cumulative net fair value of the swaps was a gain of \$5 million (2015: loss of \$55 million) at the Bank and a gain of \$5 million (2015: loss of \$53 million) at the Group. During the financial year, fair value gains of \$58 million (2015: gains of \$30 million) and fair value gains of \$59 million (2015: gains of \$31 million) on the swaps were recognised in the Bank's and the Group's income statements respectively.

As at 31 December 2016, customer deposits of \$497 million (2015: \$582 million) were designated to hedge the foreign exchange risk arising from certain of the Bank's available-for-sale equity securities. During the financial year, foreign exchange losses of \$4 million (2015: losses of \$31 million) on the deposits were recognised in the Bank's and the Group's income statements respectively. These were offset by equal amounts of foreign exchange gain (2015: gain) on the hedged items.

The ineffectiveness arising from these hedges was insignificant.

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37. Hedge Accounting (continued)

- (b) **Cash Flow Hedges**
Designation of cross currency swaps to hedge the foreign exchange rate risk arising from certain customer deposits had been revoked as at 31 December 2016. During the financial year, a net loss of \$34 million (2015: gain of \$34 million) was recognised in the cash flow hedge reserve and a loss of \$33 million (2015: gain of \$33 million) was reclassified from the reserve to income statement.
- (c) **Hedges of Net Investment in Foreign Operations**
As at 31 December 2016, customer deposits of \$2,189 million (2015: \$2,487 million) were designated to hedge foreign exchange risk arising from the Group's foreign operations. Designation of cross currency swaps under Note 37b (2015: Note 37b) to hedge foreign exchange risk arising from the Group's foreign operation had been revoked as at 31 December 2016. During the financial year, foreign exchange losses of \$2 million (2015: gains of \$3 million) arising from hedge ineffectiveness were recognised in the Group's income statements.

38. Commitments

(a)

	The Group		The Bank	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Undrawn credit facilities	132,341,650	137,164,948	112,764,992	108,313,092
Spot/forward contracts	845,156	2,932,294	917,491	3,075,406
Capital commitments	142,597	190,325	71,224	74,652
Operating lease commitments	127,861	147,335	69,861	82,477
Others	2,890,382	2,877,135	2,427,930	2,349,830
	136,347,646	143,312,037	116,251,498	113,895,457

(b) **Operating Lease Commitments**

The Group leases out investment properties typically on 3 year leases based on market rental rates. These leases contain options to renew at prevailing market rates.

The aggregate minimum lease payments under non-cancellable operating leases at the balance sheet date are as follows:

	The Group		The Bank	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Minimum lease payable				
Within 1 year	48,540	57,599	21,561	25,933
Over 1 to 5 years	75,393	80,177	44,654	47,399
Over 5 years	3,928	9,559	3,646	9,145
	127,861	147,335	69,861	82,477
Minimum lease receivable				
Within 1 year	111,395	110,157	93,019	91,587
Over 1 to 5 years	200,387	202,353	170,924	166,270
Over 5 years	11,316	17,915	8,186	13,992
	323,098	330,425	272,129	271,849

39. Cash and Cash Equivalents

Cash equivalents are highly liquid assets that are subject to an insignificant risk of changes in value and are readily convertible into known amounts of cash. Cash and cash equivalents in the consolidated cash flow statement comprise the following:

	The Group	
	2016	2015
	\$'000	\$'000
Cash on hand	2,242,035	1,762,169
Non-restricted balances with central banks	16,158,785	25,465,695
	18,400,820	27,227,864

40. Share-Based Compensation Plans

Share-based compensation plans of the Group comprise the UOB Restricted Share Plan and UOB Share Appreciation Rights Plan.

Restricted Shares (RS) represent UOB shares that are restricted by time and performance conditions as to when they vest. Upon vesting, participants will receive UOB shares represented by the RS.

Share Appreciation Rights (SAR) are rights, which upon exercise, confer the right to receive such number of UOB shares (or by exception, cash) equivalent to the difference between the prevailing market value and the grant value of the underlying UOB shares comprised in the SAR, divided by the prevailing market value of a UOB share. The grant value is determined with reference to the average of the closing prices of UOB shares over the three days preceding the grant date. Upon vesting of SAR, participants have up to six years from the date of grant to exercise their rights.

Grants made in 2013 are subject to the achievement of predetermined return on equity (ROE) targets as shown below. Half of the grants will vest after two years, and the remainder after three years from the dates of grant.

Percentage of ROE target achieved	Percentage of award to be vested
	2013 grant
≥ 115%	130%
≥ 110%	120%
≥ 105%	110%
≥ 100%	100%
≥ 95%	100%
≥ 90%	90%
≥ 85%	80%
≥ 80%	70%
< 80%	At the discretion of the Remuneration Committee

Thirty per cent of grants made in and after 2014 will vest after two years, subject to the achievement of two-year ROE targets. The remaining seventy per cent will vest after three years, subject to the achievement of the three-year ROE targets. The vesting levels are shown below.

Percentage of ROE target achieved	Percentage of award to be vested for grants made in and after 2014*
Stretch: 115%	130%
Target: 100%	100%
Threshold: 80%	70%
Below Threshold	At the discretion of the Remuneration Committee

* For intermediate ROE levels achieved, the percentage of award to be vested will be interpolated.

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40. Share-Based Compensation Plans (continued)

Participating employees who leave the Group before the RS and SAR are vested will forfeit their rights unless otherwise decided by the Remuneration Committee.

As approved by shareholders at the Annual General Meeting on 21 April 2016, the Plans shall be in force for a further duration of ten years up to (and including) 6 August 2027. The Plans only allow the delivery of UOB ordinary shares held in treasury by the Bank.

Movements and outstanding balances of these plans are as follows:

UOB Restricted Share Plan and UOB Share Appreciation Rights Plan

	The Group and The Bank	
	Restricted shares	
	2016	2015
	'000	'000
Balance at 1 January	4,086	3,211
Granted	2,800	1,949
Forfeited/cancelled	(205)	(200)
Vested	(873)	(874)
Balance at 31 December	5,808	4,086

	Share appreciation rights	
	2016	2015
	'000	'000
Balance at 1 January	1,946	5,835
Forfeited/cancelled	(209)	(208)
Vested	(1,737)	(3,681)
Balance at 31 December	–	1,946

	Exercisable rights	
	2016	2015
	'000	'000
Balance at 1 January	6,408	4,654
Vested	1,737	3,681
Forfeited/lapsed	(46)	(40)
Exercised	(1,583)	(1,887)
Balance at 31 December	6,516	6,408

40. Share-Based Compensation Plans (continued)

Year granted	Expiry date	Fair value per grant at grant date \$	Number of outstanding grants	
			2016 '000	2015 '000
Restricted shares				
2013	13 Dec 2015 and 13 Dec 2016	18.96	–	445
2014	19 Sep 2016 and 19 Sep 2017	20.70	1,194	1,739
2015	4 May 2017 and 4 May 2018	22.57 and 18.83	1,859	1,902
2016	3 May 2018 and 3 May 2019	17.06 and 17.24	2,755	–
			5,808	4,086
Share appreciation rights				
2013	13 Dec 2019	2.87	–	1,946
			–	1,946

Fair values of the restricted shares were estimated at the grant date using the Trinomial valuation methodology. Since 2014, no share appreciation right has been granted as an instrument for share-based compensation. The key assumptions were as follows:

Year granted	Restricted shares			
	2016 1 st grant	2016 2 nd grant	2015 1 st grant	2015 2 nd grant
Exercise price (\$)	Not applicable			
Expected volatility (%) ⁽¹⁾	16.29	16.96	17.48	16.18
Risk-free interest rate (%)	1.02 – 1.20	0.88 – 0.93	1.09 – 1.30	1.25 – 1.35
Contractual life (years)	2 and 3	2 and 3	2 and 3	2 and 3
Expected dividend yield (%)	Management's forecast in line with dividend policy			

(1) Based on past three years' historical volatility.

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41. Related Party Transactions

Related parties cover the Group's subsidiaries, associates, joint ventures and their subsidiaries, and key management personnel and their related parties.

Key management personnel refers to the Bank's directors and members of its Management Executive Committee.

All related party transactions of the Group were done in the ordinary course of business and at arm's length. In addition to the information disclosed elsewhere in the financial statements, other related party transactions that may be of interest are as follows:

	The Group		The Bank	
	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million
(a) Interest income				
Subsidiaries	–	–	146	68
Associates and joint ventures	8	6	8	6
Interest expense				
Subsidiaries	–	–	121	17
Associates and joint ventures	5	3	3	2
Dividend income				
Subsidiaries	–	–	147	197
Associates and joint ventures	–	–	23	27
Rental income				
Subsidiaries	–	–	5	5
Rental and other expenses				
Subsidiaries	–	–	140	140
Associates and joint ventures	8	9	4	5
Fee and commission and other income				
Subsidiaries	–	–	120	95
Associates and joint ventures	7	8	3	5
Placements, securities, loans and advances				
Subsidiaries	–	–	9,847	6,408
Associates and joint ventures	489	625	489	624
Deposits				
Subsidiaries	–	–	7,239	2,412
Associates and joint ventures	967	606	894	575
Off-balance sheet credit facilities ⁽¹⁾				
Subsidiaries	–	–	327	270
Associates and joint ventures	23	22	23	22

41. Related Party Transactions (continued)

	The Group		The Bank	
	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million
(b) Compensation of key management personnel				
Short-term employee benefits	13	16	13	16
Long-term employee benefits	5	5	5	5
Share-based payment	3	4	3	4
Others	*	1	*	1
	21	26	21	26

(1) Includes guarantees issued of the Group \$23 million (2015: \$22 million) and the Bank \$256 million (2015: \$249 million).

* Less than \$500,000.

42. Segment Information

- (a) Operating segments
Segmental reporting is prepared based on the Group's internal organisational structure. The Banking Group is organised into three major business segments – Group Retail, Group Wholesale Banking and Global Markets. Others segment includes non-banking activities and corporate functions.

Due to business reorganisations during the year, Investment Management and Central Treasury (previously included in Global Markets and Investment Management) are now reported under the Others segment.

Comparative segment information for prior periods had been restated to be consistent with the current period's segment definition.

Group Retail (GR)

GR segment covers personal and small enterprise customers.

Customers have access to a diverse range of products and services, including deposits, insurance, card, wealth management, investment, loan and trade financing products which are available across the Group's global branch network.

Group Wholesale Banking (GWB)

GWB encompasses corporate and institutional client segments which include medium and large enterprises, local corporations, multi-national corporations, financial institutions, government-linked entities, financial sponsors and property funds.

GWB provides customers with a broad range of products and services, including financing, trade services, cash management, capital markets solutions and advisory, treasury products and bank notes.

Global Markets (GM)

GM provides a comprehensive suite of treasury products and services across multi-asset classes which include foreign exchange, interest rate, credit, commodities, equities and structured investment products to help customers manage market risks and volatility. GM also engages in market making activities and management of funding and liquidity.

Income from products and services offered to customers of Group Retail and Group Wholesale Banking are reflected in the respective client segments.

Others

Others segment includes corporate support functions and decisions not attributable to business segments mentioned above and other activities, which comprises property, insurance and investment management.

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for the financial year ended 31 December 2016

42. Segment Information (continued)

(a) Operating Segments (continued)

Selected Income Statement Items

	The Group				
	GR \$ million	GWB \$ million	GM \$ million	Others \$ million	Total \$ million
2016					
Net interest income	2,435	2,445	126	(15)	4,991
Non-interest income	1,210	1,097	393	371	3,071
Operating income	3,645	3,542	519	355	8,061
Operating expenses	(1,824)	(795)	(291)	(786)	(3,696)
Allowance for credit and other losses	(189)	(827)	4	418	(594)
Share of profit of associates and joint ventures	–	2	–	4	6
Profit before tax	1,632	1,922	232	(9)	3,777
Tax					(669)
Profit for the financial year					3,108
Other information					
Capital expenditure	28	27	13	315	383
Depreciation of assets	16	9	5	192	222
2015					
Net interest income	2,157	2,332	230	207	4,926
Non-interest income	1,201	1,101	299	521	3,122
Operating income	3,358	3,433	529	728	8,048
Operating expenses	(1,785)	(773)	(249)	(790)	(3,597)
Allowance for credit and other losses	(176)	(270)	–	(226)	(672)
Share of profit of associates and joint ventures	–	(2)	–	92	90
Profit before tax	1,397	2,389	280	(197)	3,869
Tax					(649)
Profit for the financial year					3,220
Other information					
Capital expenditure	27	24	20	621	692
Depreciation of assets	12	7	4	159	182

42. Segment Information (continued)

(a) Operating Segments (continued)

Selected Balance Sheet Items

	The Group				
	GR \$ million	GWB \$ million	GM \$ million	Others \$ million	Total \$ million
2016					
Segment assets	97,713	153,301	44,515	39,239	334,768
Intangible assets – goodwill	1,319	2,090	661	81	4,151
Investment in associates and joint ventures	–	80	–	1,029	1,109
Total assets	99,032	155,471	45,176	40,349	340,028
Segment liabilities	127,070	127,524	33,577	18,815	306,986
Other information					
Gross customer loans	97,511	128,015	128	8	225,662
Non-performing assets	1,059	2,400	16	5	3,480
2015					
Segment assets	90,971	135,115	45,723	38,952	310,761
Intangible assets – goodwill	1,317	2,087	660	80	4,144
Investment in associates and joint ventures	–	7	–	1,099	1,106
Total assets	92,288	137,209	46,383	40,131	316,011
Segment liabilities	116,121	125,232	25,487	18,247	285,087
Other information					
Gross customer loans	90,840	116,476	46	9	207,371
Non-performing assets	936	2,046	16	68	3,066

Note:

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

(b) Geographical Segments

The following geographical segment information is based on the location where the transactions and assets are booked, which approximates the location of the customers and assets. The information is stated after elimination of inter-segment transactions.

	The Group					
	Total operating income		Profit before tax		Total assets	
	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million
Singapore	4,590	4,658	2,364	2,363	210,937	197,929
Malaysia	986	1,006	548	537	33,845	32,669
Thailand	830	790	193	175	18,031	16,643
Indonesia	476	410	71	61	9,840	8,550
Greater China	648	706	300	366	40,233	32,982
Others	531	478	301	367	22,991	23,094
	8,061	8,048	3,777	3,869	335,877	311,867
Intangible assets	–	–	–	–	4,151	4,144
	8,061	8,048	3,777	3,869	340,028	316,011

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43. Financial Risk Management

The Group's business activities involve the use of financial instruments, including derivatives. These activities expose the Group to a variety of financial risks, mainly credit risk, foreign exchange risk, interest rate risk, equity risk and liquidity risk.

The Group's financial risks are centrally managed by the various specialist committees within the authority delegated by the Board of Directors. These various specialist committees formulate, review and approve policies and limits to monitor and manage risk exposures under their respective supervision. The major policy decisions and proposals approved by these committees are subject to further review by the Group Board Risk Management Committee.

The Group Risk Management Sector assumes the independent oversight of risks undertaken by the Group, and takes the lead in the formulation and approval of risk policies, controls and processes. The Group Market Risk Management and Group Product Control and Governance within the Risk Management Sector monitor Global Markets and Investment Management's compliance with trading policies and limits. This is further enhanced by the periodic risk assessment audit carried out by Group Audit.

The main financial risks that the Group is exposed to and how they are managed is set out below:

(a) Credit Risk

Credit risk is the risk of loss arising from any failure by a borrower or counterparty to fulfil its financial obligations when such obligations fall due.

The Group Credit Committee is delegated the authority by the Board of Directors to oversee all credit matters. It maintains oversight on the effectiveness of the Group's credit and country risk management structure including framework, people, processes, information, infrastructure, methodologies and systems.

Credit risk exposures are managed through a robust credit underwriting, structuring and monitoring process. The process includes monthly review of all non-performing and special mention loans, ensuring credit quality and the timely recognition of asset impairment. In addition, credit review and audit are performed regularly to manage proactively any delinquency, minimise undesirable concentrations, maximise recoveries, and ensure compliance with credit policies and procedures. Past due amounts and credit limit excesses are tracked and analysed by business and product lines.

Country risk arises where the Group is unable to receive payments from customers as a result of political or economic events in the country. These events include political and social unrest, nationalisation and expropriation of assets, government repudiation of external indebtedness, and currency depreciation or devaluation.

43. Financial Risk Management (continued)

(a) Credit Risk (continued)

(i) Credit Exposure

The Group's maximum exposure to credit risk of on-balance sheet and off-balance sheet financial instruments, before taking into account any collateral held, other credit enhancements and netting arrangements, is shown in the table below:

	The Group			
	Average ⁽¹⁾ 2016 \$ million	Average ⁽¹⁾ 2015 \$ million	2016 \$ million	2015 \$ million
Balances and placements with central banks	26,550	37,614	22,080	30,543
Singapore Government treasury bills and securities	6,667	6,853	6,877	6,865
Other government treasury bills and securities	11,759	10,553	10,638	12,644
Trading debt securities	2,763	1,164	2,982	1,087
Placements and balances with banks	35,096	27,110	40,033	28,646
Loans to customers	212,305	200,433	221,734	203,611
Derivative financial assets	6,195	6,843	6,982	6,422
Investment debt securities	8,468	7,374	8,779	7,312
Others	5,041	2,719	3,872	3,905
	314,844	300,663	323,977	301,035
Contingent liabilities	21,845	19,154	24,599	19,008
Commitments (excluding operating lease and capital commitments)	136,431	133,927	136,077	142,974
	473,120	453,744	484,653	463,017

(1) Average balances are computed based on quarter-end exposure.

As a fundamental credit principle, the Group generally does not grant credit facilities solely on the basis of the collateral provided. All credit facilities are granted based on the credit standing of the borrower, source of repayment and debt servicing ability.

Collateral is taken whenever possible to mitigate the credit risk assumed. The value of the collateral is monitored periodically. The frequency of valuation depends on the type, liquidity and volatility of the collateral value. The main types of collateral taken by the Group are cash, marketable securities, real estate, equipment, inventory and receivables. Policies and processes are in place to monitor collateral concentration.

In extending credit facilities to small- and medium-enterprises, personal guarantees are often taken as a form of moral support to ensure moral commitment from the principal shareholders and directors.

Corporate guarantees are often obtained when the borrower's credit worthiness is not sufficient to justify an extension of credit.

Exposures arising from foreign exchange, derivatives and securities financing transactions are typically mitigated through agreements such as the International Swaps and Derivatives Association (ISDA) Master Agreements, the Credit Support Annex (CSA) and the Global Master Repurchase Agreements (GMRA). Such agreements help to minimise credit exposure by allowing the Group to offset what is owed to a counterparty against what is due from that counterparty in the event of a default.

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43. Financial Risk Management (continued)

(a) Credit Risk (continued)

(ii) Major On-Balance Sheet Credit Exposures

The exposures are determined based on country of incorporation/operation for non-individuals and residence for individuals.

	The Group				Total \$ million
	Loans to customers (gross) \$ million	Government treasury bills and securities \$ million	Placements and balances with banks \$ million	Debt securities \$ million	
Analysed by geography					
2016					
Singapore	125,529	6,877	1,326	1,851	135,583
Malaysia	25,767	1,265	1,955	1,402	30,389
Thailand	13,226	2,970	1,285	37	17,518
Indonesia	11,857	875	1,860	25	14,617
Greater China	27,232	1,932	18,007	990	48,161
Others	22,051	3,596	15,600	7,456	48,703
Total	225,662	17,515	40,033	11,761	294,971
2015					
Singapore	116,087	6,865	761	2,245	125,958
Malaysia	24,605	1,264	2,375	1,056	29,300
Thailand	11,481	2,962	258	70	14,771
Indonesia	11,543	849	770	21	13,183
Greater China	25,217	1,923	12,175	1,314	40,629
Others	18,438	5,646	12,307	3,693	40,084
Total	207,371	19,509	28,646	8,399	263,925

43. Financial Risk Management (continued)

(a) Credit Risk (continued)

(ii) (continued)

	The Group				
	Loans to customers (gross) \$ million	Government treasury bills and securities \$ million	Placements and balances with banks \$ million	Debt securities \$ million	Total \$ million
Analysed by industry					
2016					
Transport, storage and communication	9,780	–	–	1,501	11,281
Building and construction	52,281	–	–	359	52,640
Manufacturing	15,747	–	–	2,153	17,900
Financial institutions, investment and holding companies	15,519	–	40,033	4,229	59,781
General commerce	30,269	–	–	1,017	31,286
Professionals and private individuals	26,950	–	–	–	26,950
Housing loans	61,451	–	–	–	61,451
Government	–	17,515	–	–	17,515
Others	13,665	–	–	2,502	16,167
Total	225,662	17,515	40,033	11,761	294,971
2015					
Transport, storage and communication	10,019	–	–	1,001	11,020
Building and construction	45,211	–	–	367	45,578
Manufacturing	15,803	–	–	1,493	17,296
Financial institutions, investment and holding companies	14,282	–	28,646	2,478	45,406
General commerce	28,302	–	–	665	28,967
Professionals and private individuals	25,950	–	–	–	25,950
Housing loans	56,385	–	–	–	56,385
Government	–	19,509	–	–	19,509
Others	11,419	–	–	2,395	13,814
Total	207,371	19,509	28,646	8,399	263,925

Notes to the Financial Statements

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43. Financial Risk Management (continued)

(a) Credit Risk (continued)

(iii) Major Off-Balance Sheet Credit Exposures

The exposures are determined based on country of incorporation/operation for non-individuals and residence for individuals.

	The Group			
	2016		2015	
	Contingent liabilities \$ million	Commitments ⁽¹⁾ \$ million	Contingent liabilities \$ million	Commitments ⁽¹⁾ \$ million
Analysed by geography				
Singapore	11,806	71,928	7,313	82,238
Malaysia	2,691	12,097	2,753	11,120
Thailand	1,206	10,120	1,201	9,077
Indonesia	1,140	5,542	572	5,120
Greater China	3,534	22,733	2,487	23,572
Others	4,222	13,657	4,682	11,847
Total	24,599	136,077	19,008	142,974
Analysed by industry				
Transport, storage and communication	817	4,381	639	4,415
Building and construction	6,660	23,886	5,904	21,083
Manufacturing	2,347	18,999	1,670	18,786
Financial institutions, investment and holding companies	4,186	12,637	3,242	13,808
General commerce	8,765	41,904	5,379	48,274
Professionals and private individuals	138	19,776	230	19,676
Housing loans	–	4,441	–	5,645
Others	1,686	10,053	1,944	11,287
Total	24,599	136,077	19,008	142,974

(1) Excluding operating lease and capital commitments.

43. Financial Risk Management (continued)

(a) Credit Risk (continued)

(iv) Credit Quality of Gross Loans and Debt Securities

Gross loans are graded in accordance with MAS Notice 612 as follows:

	The Group	
	2016	2015
	\$ million	\$ million
Pass	218,995	203,217
Special mention	3,339	1,272
Substandard	2,132	2,237
Doubtful	241	141
Loss	955	504
	225,662	207,371

Credit quality of Government treasury bills and securities and debt securities

The table below presents an analysis of Government treasury bills and securities and debt securities that are neither past due nor impaired for the Group by rating agency designation as at 31 December:

	The Group					
	2016			2015		
	Singapore Government treasury bills and securities	Other government treasury bills and securities	Debt securities	Singapore Government treasury bills and securities	Other government treasury bills and securities	Debt securities
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
External rating:						
Investment grade (AAA to BBB-)	6,877	10,617	10,522	6,865	12,556	6,982
Non-investment grade (BB+ to C)	–	3	32	–	66	222
Unrated	–	18	1,207	–	22	1,195
Total	6,877	10,638	11,761	6,865	12,644	8,399

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43. Financial Risk Management (continued)

(a) Credit Risk (continued)

(v) Ageing Analysis of Past Due but Not Impaired Loans

	The Group			
	< 30 days \$ million	30 - 59 days \$ million	60 - 90 days \$ million	Total \$ million
Analysed by geography ⁽¹⁾				
2016				
Singapore	1,571	639	386	2,596
Malaysia	741	196	83	1,020
Thailand	469	83	40	592
Indonesia	58	71	70	199
Greater China	32	16	14	62
Others	208	38	19	265
Total	3,079	1,043	612	4,734
2015				
Singapore	1,946	957	56	2,959
Malaysia	629	279	161	1,069
Thailand	516	81	27	624
Indonesia	117	54	42	213
Greater China	18	20	1	39
Others	76	25	7	108
Total	3,302	1,416	294	5,012

(1) By borrower's country of incorporation/operation (for non-individuals) and residence (for individuals).

43. Financial Risk Management (continued)

(a) Credit Risk (continued)

(v) Ageing Analysis of Past Due but Not Impaired Loans (continued)

	The Group			
	< 30 days \$ million	30 - 59 days \$ million	60 - 90 days \$ million	Total \$ million
Analysed by industry				
2016				
Transport, storage and communication	163	15	29	207
Building and construction	585	101	33	719
Manufacturing	247	52	32	331
Financial institutions, investment and holding companies	75	6	1	82
General commerce	780	104	83	967
Professionals and private individuals	475	256	149	880
Housing loans	600	478	281	1,359
Others	154	31	4	189
Total	3,079	1,043	612	4,734
2015				
Transport, storage and communication	236	11	13	260
Building and construction	575	84	58	717
Manufacturing	339	46	3	388
Financial institutions, investment and holding companies	110	6	30	146
General commerce	881	185	38	1,104
Professionals and private individuals	572	329	59	960
Housing loans	501	736	92	1,329
Others	88	19	1	108
Total	3,302	1,416	294	5,012

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for the financial year ended 31 December 2016

43. Financial Risk Management (continued)

(a) Credit Risk (continued)

(vi) Ageing Analysis of Non-Performing Assets

	The Group					Specific allowance \$ million
	Current \$ million	< 90 days \$ million	90 - 180 days \$ million	> 180 days \$ million	Total \$ million	
Analysed by geography ⁽¹⁾						
2016						
Singapore	155	76	291	769	1,291	468
Malaysia	38	46	58	345	487	82
Thailand	30	44	53	233	360	134
Indonesia	25	103	53	457	638	208
Greater China	18	7	124	158	307	230
Others	12	4	35	194	245	97
Non-performing loans	278	280	614	2,156	3,328	1,219
Debt securities, contingent items and others	65	5	32	50	152	103
Total	343	285	646	2,206	3,480	1,322
2015						
Singapore	324	77	176	539	1,116	258
Malaysia	16	35	63	272	386	58
Thailand	14	23	44	168	249	91
Indonesia	7	201	82	279	569	175
Greater China	37	32	47	102	218	97
Others	12	2	2	328	344	94
Non-performing loans	410	370	414	1,688	2,882	773
Debt securities, contingent items and others	52	*	3	129	184	161
Total	462	370	417	1,817	3,066	934

(1) By borrower's country of incorporation/operation (for non-individuals) and residence (for individuals).

* Less than \$500,000.

43. Financial Risk Management (continued)

(a) Credit Risk (continued)

(vi) Ageing Analysis of Non-Performing Assets (continued)

	The Group					Specific allowance \$ million
	Current \$ million	< 90 days \$ million	90 - 180 days \$ million	> 180 days \$ million	Total \$ million	
Analysed by industry						
2016						
Transport, storage and communication	117	15	201	632	965	337
Building and construction	30	7	31	142	210	74
Manufacturing	6	19	39	252	316	162
Financial institutions, investment and holding companies	2	6	2	66	76	2
General commerce	28	20	35	368	451	189
Professionals and private individuals	56	59	45	124	284	70
Housing loans	20	74	81	443	618	100
Others	19	80	180	129	408	285
Non-performing loans	278	280	614	2,156	3,328	1,219
Debt securities, contingent items and others	65	5	32	50	152	103
Total	343	285	646	2,206	3,480	1,322
2015						
Transport, storage and communication	135	174	56	612	977	321
Building and construction	45	22	49	134	250	56
Manufacturing	94	24	11	158	287	103
Financial institutions, investment and holding companies	27	1	–	74	102	7
General commerce	19	68	106	195	388	128
Professionals and private individuals	67	30	70	120	287	71
Housing loans	12	42	113	383	550	79
Others	11	9	9	12	41	8
Non-performing loans	410	370	414	1,688	2,882	773
Debt securities, contingent items and others	52	*	3	129	184	161
Total	462	370	417	1,817	3,066	934

* Less than \$500,000.

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43. Financial Risk Management (continued)

(a) Credit Risk (continued)

(vii) Security Coverage of Non-Performing Assets

	The Group	
	2016	2015
	\$ million	\$ million
Non-performing assets secured by:		
Properties	1,177	1,145
Marketable securities, fixed deposits and others	663	552
Unsecured non-performing assets	1,640	1,369
	3,480	3,066

(viii) Repossessed Collateral during the Financial Year

	The Group	
	2016	2015
	\$ million	\$ million
Properties	5	4

Repossessed collaterals are disposed of in an orderly manner in accordance with target prices set. Proceeds from sale of collateral are used to reduce the outstanding loans.

(b) Foreign Exchange Risk and Equity Risk

Foreign exchange risk is the risk to earnings and economic value of foreign currency assets, liabilities and financial derivatives caused by fluctuations in foreign exchange rates.

The Group's foreign exchange exposures comprise trading and banking (non-trading and structural) foreign exchange exposures. Non-trading foreign exchange exposures are principally derived from investments and funding activities and customer businesses. Structural foreign currency exposures are represented by the net asset values of overseas branches and subsidiaries, share of the net asset values of overseas associates and joint ventures, intangible assets attributable to overseas subsidiaries, and long-term investment in overseas properties used for banking purposes, which are strategic in nature. The Group utilises foreign currency contracts and foreign exchange derivatives to hedge its foreign exchange exposures.

Foreign exchange risk is managed through policies and market risk limits approved by the Group Asset and Liability Committee (ALCO). The limits are independently monitored by Group Market Risk Management and Group Product Control and Governance.

At 31 December 2016, banking book foreign currency Value-at-Risk (VaR) inclusive of structural foreign currency VaR was \$72.9 million (2015: \$68.5 million).

Equity price risk in the banking book arises from equity investments held for long-term strategic reasons. At the end of the reporting period, if these equity prices had been 1% higher/lower with all other variables held constant, the Group's other comprehensive income would have been \$30 million (2015: \$32 million) higher/lower as a result of an increase/decrease in the fair value of equity investments classified as available-for-sale.

43. Financial Risk Management (continued)

(b) Foreign Exchange Risk and Equity Risk (continued)

- (i) The following table sets out the Group's assets, liabilities and financial derivatives by currency as at the balance sheet date. The off-balance sheet gap represents the net contract or notional amount of derivatives which are used principally to reduce the Group's exposure to foreign exchange risk.

	The Group						Total \$ million
	Singapore dollar \$ million	US dollar \$ million	Malaysian ringgit \$ million	Thai baht \$ million	Indonesian rupiah \$ million	Others \$ million	
2016							
Cash, balances and placements with central banks	9,097	1,942	4,405	405	1,276	7,197	24,322
Securities	8,793	10,074	1,756	2,995	529	8,135	32,282
Placements and balances with banks	850	29,673	740	1,165	193	7,412	40,033
Loans to customers	110,097	44,360	22,498	12,044	5,263	27,472	221,734
Investment in associates and joint ventures	884	158	4	–	–	63	1,109
Intangible assets	3,168	–	–	737	246	–	4,151
Derivative financial assets	2,754	2,025	206	372	(3)	1,628	6,982
Others	2,823	2,055	386	286	210	3,655	9,415
Total assets	138,466	90,287	29,995	18,004	7,714	55,562	340,028
Deposits and balances of customers	122,736	59,425	25,295	13,049	5,741	29,068	255,314
Deposits and balances of banks, and bills and drafts payable	1,963	5,462	191	406	5	4,350	12,377
Debts issued	1,852	21,750	324	523	282	1,412	26,143
Derivative financial liabilities	2,724	1,870	185	254	(3)	1,807	6,837
Others	1,919	2,713	616	282	95	690	6,315
Total liabilities	131,194	91,220	26,611	14,514	6,120	37,327	306,986
On-balance sheet open position	7,272	(933)	3,384	3,490	1,594	18,235	
Off-balance sheet open position	10,912	12,459	(798)	(877)	(82)	(21,614)	
Net open position	18,184	11,526	2,586	2,613	1,512	(3,379)	

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for the financial year ended 31 December 2016

43. Financial Risk Management (continued)

(b) Foreign Exchange Risk and Equity Risk (continued)

(i) (continued)

	The Group						
	Singapore dollar \$ million	US dollar \$ million	Malaysian ringgit \$ million	Thai baht \$ million	Indonesian rupiah \$ million	Others \$ million	Total \$ million
2015							
Cash, balances and placements with central banks	13,381	4,370	4,206	1,639	914	7,796	32,306
Securities	9,638	8,014	1,515	2,989	510	8,682	31,348
Placements and balances with banks	738	21,613	1,232	176	62	4,825	28,646
Loans to customers	106,001	35,560	21,891	10,636	5,053	24,470	203,611
Investment in associates and joint ventures	778	292	4	–	–	32	1,106
Intangible assets	3,168	–	–	736	240	–	4,144
Derivative financial assets	1,788	2,707	274	273	(37)	1,417	6,422
Others	4,082	601	434	541	272	2,498	8,428
Total assets	139,574	73,157	29,556	16,990	7,014	49,720	316,011
Deposits and balances of customers	115,650	54,236	24,122	11,782	5,252	29,482	240,524
Deposits and balances of banks, and bills and drafts payable	1,539	2,716	213	1,009	36	6,908	12,421
Debts issued	3,125	15,409	329	259	197	969	20,288
Derivative financial liabilities	1,671	2,765	70	236	9	1,218	5,969
Others	2,264	2,047	761	269	100	444	5,885
Total liabilities	124,249	77,173	25,495	13,555	5,594	39,021	285,087
On-balance sheet open position	15,325	(4,016)	4,061	3,435	1,420	10,699	
Off-balance sheet open position	2,945	19,195	(1,460)	(985)	50	(19,745)	
Net open position	18,270	15,179	2,601	2,450	1,470	(9,046)	

43. Financial Risk Management (continued)

(b) Foreign Exchange Risk and Equity Risk (continued)

(ii) Structural currency exposures of the Group as at the balance sheet date were as follows:

	The Group		
	Total \$ million	Hedged \$ million	Unhedged \$ million
2016			
Chinese renminbi	1,978	–	1,978
Indonesian rupiah	1,318	–	1,318
Malaysian ringgit	2,755	–	2,755
Thai baht	2,678	–	2,678
US dollar	1,859	1,859	–
Others	1,787	1,081	706
	12,375	2,940	9,435
2015			
Chinese renminbi	2,039	440	1,599
Indonesian rupiah	1,198	–	1,198
Malaysian ringgit	2,574	–	2,574
Thai baht	2,458	–	2,458
US dollar	1,653	1,653	–
Others	1,677	1,064	613
	11,599	3,157	8,442

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43. Financial Risk Management (continued)

(c) Banking Book Interest Rate Risk

Interest rate risk is the impact to earnings and economic value of the Group due to fluctuations in interest rates. Interest rate exposure arises from differences in the maturity and repricing dates of assets, liabilities and off-balance sheet items. These mismatches are actively monitored and managed as part of the overall interest rate risk management process which is conducted in accordance with the Group's policies as approved by the ALCO.

The economic value of equity (EVE) sensitivity at 100 and 200 basis points parallel interest rate shocks were negative \$210 million and \$372 million (2015: negative \$251 million and \$462 million) respectively, computed based on the worst case of upward and downward parallel shifts of each yield curve. EVE is the present value of assets less present value of liabilities of the Group. The repricing profile of loans is generally based on the earliest possible repricing dates, taking into account the notice period to be served to the customers. Loan prepayment is estimated based on past statistics and trends where possible and material. Behavioural assumptions based on historical trends are applied, where appropriate, for deposits that do not have maturity dates. There may be some differences in the assumptions across geographical locations due to variation in local conditions.

(d) Liquidity Risk

Liquidity risk is the risk that the Group is unable to meet its financial obligations as and when they fall due, such as upon maturity of deposits and draw-down of loans.

The Group manages liquidity risk in accordance with the liquidity framework approved by the ALCO. This framework comprises policies, controls and limits. These controls and policies include setting of cash flow mismatch limits, monitoring of liquidity early warning indicators, stress-test analysis of cash flows in liquidity crisis scenarios and establishment of a comprehensive contingency funding plan. The Group is also required by the respective local regulators to maintain a certain percentage of its liability base in the form of cash and other liquid assets as a buffer against unforeseen liquidity requirements. The main objectives are honouring all cash outflow commitments on an on-going basis, satisfying statutory liquidity and reserve requirements, and avoiding raising funds at market premiums or through forced sale of assets.

(i) The following table shows the cash flow analysis of the Group's assets and liabilities by remaining contractual maturities on an undiscounted basis. Actual maturity dates may differ from contractual maturity dates due to behavioural patterns such as prepayment of loans. In particular, the Group has a significant amount of "core deposits" of customers which are contractually at call (included in the "Up to 7 days" time band) but historically have been a stable source of long-term funding for the Group.

43. Financial Risk Management (continued)

(d) Liquidity Risk (continued)

(i) (continued)

	The Group							Total \$ million
	Up to 7 days \$ million	Over 7 days to 1 month \$ million	Over 1 to 3 months \$ million	Over 3 to 12 months \$ million	Over 1 to 3 years \$ million	Over 3 years \$ million	No specific maturity \$ million	
2016								
Cash, balances and placements with central banks	9,731	3,027	1,966	3,111	–	2,559	3,944	24,338
Securities	432	1,259	3,644	6,471	8,138	10,786	4,192	34,922
Placements and balances with banks	10,942	9,694	9,915	5,780	2,134	2,382	(661)	40,186
Loans to customers	11,225	29,465	14,601	32,393	52,331	119,802	(865)	258,952
Investment in associates and joint ventures	–	–	–	–	–	–	1,109	1,109
Intangible assets	–	–	–	–	–	–	4,151	4,151
Derivative financial assets	–	–	–	–	–	–	6,982	6,982
Others	488	83	106	147	3	6,498	2,093	9,418
Total assets	32,818	43,528	30,232	47,902	62,606	142,027	20,945	380,058
Deposits and balances of customers	122,723	35,393	33,382	52,008	8,239	3,262	1,761	256,768
Deposits and balances of banks, and bills and drafts payable	6,774	2,655	2,566	305	–	–	93	12,393
Debts issued	515	2,731	8,772	6,664	2,477	6,392	(170)	27,381
Derivative financial liabilities	–	–	–	–	–	–	6,837	6,837
Others	1,163	884	670	661	86	860	1,991	6,315
Total liabilities	131,175	41,663	45,390	59,638	10,802	10,514	10,512	309,694
Equity attributable to:								
Equity holders of the Bank	108	21	–	74	1,499	8,458	23,002	33,162
Non-controlling interests	–	–	–	–	–	2	167	169
Total equity	108	21	–	74	1,499	8,460	23,169	33,331
Net on-balance sheet position	(98,465)	1,844	(15,158)	(11,810)	50,305	123,053	(12,736)	
Net off-balance sheet position	(55,775)	(181)	(961)	64	(1,174)	(3,819)	(1,275)	
Net maturity mismatch	(154,240)	1,663	(16,119)	(11,746)	49,131	119,234	(14,011)	

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for the financial year ended 31 December 2016

43. Financial Risk Management (continued)

(d) Liquidity Risk (continued)

(i) (continued)

	The Group							Total \$ million
	Up to 7 days \$ million	Over 7 days to 1 month \$ million	Over 1 to 3 months \$ million	Over 3 to 12 months \$ million	Over 1 to 3 years \$ million	Over 3 years \$ million	No specific maturity \$ million	
2015								
Cash, balances and placements with central banks	13,779	4,517	3,686	4,613	–	2,185	3,531	32,311
Securities	564	351	3,149	7,480	9,369	8,870	3,505	33,288
Placements and balances with banks	8,442	6,523	6,313	5,722	542	1,081	67	28,690
Loans to customers	6,906	14,613	16,024	26,938	47,431	115,127	1,189	228,228
Investment in associates and joint ventures	–	–	–	–	–	–	1,106	1,106
Intangible assets	–	–	–	–	–	–	4,144	4,144
Derivative financial assets	–	–	–	–	–	–	6,422	6,422
Others	835	445	655	49	16	3,651	3,006	8,657
Total assets	30,526	26,449	29,827	44,802	57,358	130,914	22,970	342,846
Deposits and balances of customers	123,758	33,278	32,517	43,344	4,140	4,146	(56)	241,127
Deposits and balances of banks, and bills and drafts payable	5,310	1,710	3,679	1,683	38	–	13	12,433
Debts issued	907	1,555	7,446	4,174	3,020	3,962	(15)	21,049
Derivative financial liabilities	–	–	–	–	–	–	5,969	5,969
Others	1,773	388	905	245	178	994	1,872	6,355
Total liabilities	131,748	36,931	44,547	49,446	7,376	9,102	7,783	286,933
Equity attributable to:								
Equity holders of the Bank	–	21	–	45	981	7,911	22,031	30,989
Non-controlling interests	–	–	–	–	–	2	154	156
Total equity	–	21	–	45	981	7,913	22,185	31,145
Net on-balance sheet position	(101,222)	(10,503)	(14,720)	(4,689)	49,001	113,899	(6,998)	
Net off-balance sheet position	(31,622)	1,650	(1,115)	(3,894)	(95)	(1,264)	(8,395)	
Net maturity mismatch	(132,844)	(8,853)	(15,835)	(8,583)	48,906	112,635	(15,393)	

The Group is subject to liquidity requirements to support calls under outstanding contingent liabilities and undrawn credit facility commitments as disclosed in Notes 35 and 38a. These have been incorporated in the net off-balance sheet position for financial years ended 31 December 2016 and 2015. The total outstanding contractual amounts of these items do not represent future cash requirements since the Group expects many of these contingent liabilities and commitments (such as direct credit substitutes and undrawn credit facilities) to expire without being called or drawn upon, and many of the contingent liabilities (such as letters of credit) are reimbursable by customers. The behavioural adjustments based on historical trends are disclosed in Note 43d(ii).

43. Financial Risk Management (continued)

(d) Liquidity Risk (continued)

- (ii) The following table shows the cash flow analysis of the Group's assets and liabilities for a one-year period, with behavioural adjustments on significant balance sheet items on an undiscounted basis. The maturity profile for loans and deposits that do not have maturity dates, and fixed deposits that are frequently rolled over, is estimated based on past statistics and historical trends. Other balance sheet items such as credit cards are generally estimated based on the behavioural patterns of the customers. There may be some differences in the assumptions across geographical locations due to variations in local conditions.

	The Group			
	Up to 7 days \$ million	Over 7 days to 1 month \$ million	Over 1 to 3 months \$ million	Over 3 to 12 months \$ million
2016				
Cash, balances and placements with central banks	9,861	3,017	1,869	3,088
Securities	532	1,309	3,644	6,413
Placements and balances with banks	10,945	9,704	9,929	5,791
Loans to customers	10,837	30,714	16,275	36,915
Others	488	83	106	147
Total assets	32,663	44,827	31,823	52,354
Deposits and balances of customers ⁽¹⁾	19,394	27,640	12,766	8,299
Deposits and balances of banks, and bills and drafts payable	6,709	2,720	2,566	305
Debts issued	515	2,731	8,772	6,664
Others	1,163	884	670	661
Total liabilities	27,781	33,975	24,774	15,929
Equity attributable to:				
Equity holders of the Bank	108	21	–	74
Non-controlling interests	–	–	–	–
Total equity	108	21	–	74
Net on-balance sheet position	4,774	10,831	7,049	36,351
Net off-balance sheet position	(19,263)	(5,767)	(4,586)	(4,404)
Net maturity mismatch	(14,489)	5,064	2,463	31,947

(1) Excludes interest cash flows which are negligible within the time horizon against which the Group manages its liquidity risk.

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for the financial year ended 31 December 2016

43. Financial Risk Management (continued)

(d) Liquidity Risk (continued)

(ii) (continued)

	The Group			
	Up to 7 days \$ million	Over 7 days to 1 month \$ million	Over 1 to 3 months \$ million	Over 3 to 12 months \$ million
2015				
Cash, balances and placements with central banks	13,780	4,517	3,685	4,613
Securities	667	443	3,067	7,463
Placements and balances with banks	8,445	6,534	6,336	5,752
Loans to customers	7,292	15,971	17,649	31,046
Others	838	453	655	49
Total assets	31,022	27,918	31,392	48,923
Deposits and balances of customers ⁽¹⁾	22,393	23,791	10,992	4,956
Deposits and balances of banks, and bills and drafts payable	5,262	1,758	3,679	1,683
Debts issued	907	1,555	7,446	4,174
Others	1,424	563	858	158
Total liabilities	29,986	27,667	22,975	10,971
Equity attributable to:				
Equity holders of the Bank	–	21	–	45
Non-controlling interests	–	–	–	–
Total equity	–	21	–	45
Net on-balance sheet position	1,036	230	8,417	37,907
Net off-balance sheet position	(3,380)	(2,025)	(4,361)	(8,576)
Net maturity mismatch	(2,344)	(1,795)	4,056	29,331

(1) Excludes interest cash flows which are negligible within the time horizon against which the Group manages its liquidity risk.

43. Financial Risk Management (continued)

(e) Value-At-Risk

The Group adopts a daily VaR to estimate market risk within a 99% confidence interval using the historical simulation method for its trading book. This methodology does not make assumptions on the distribution of returns and the correlations between risk classes. The method assumes that possible future changes in market rates may be implied by observed historical market movements. The level of VaR is dependent on the exposures, as well as market prices and volatilities. The Group computes market risk based on historical simulation VaR. This entails the estimation of tail loss based on the most recent historical data, which may not always reflect the extreme loss event. The Group runs market risk stress to complement the market risk historical simulation VaR.

The table below shows the trading book VaR profile by risk classes.

	The Group			
	Year end \$ million	High \$ million	Low \$ million	Average \$ million
2016				
Interest rate	3.35	15.42	2.67	6.90
Foreign exchange	6.99	11.99	1.61	5.18
Equity	3.46	4.38	0.03	3.42
Commodity	0.24	1.38	0.17	0.48
Specific risk ⁽¹⁾	0.40	1.05	0.12	0.37
Total VaR	9.90	19.69	5.73	11.52
2015				
Interest rate	5.04	7.51	1.98	4.64
Foreign exchange	5.34	6.81	0.95	3.43
Equity	3.48	3.48	0.02	0.08
Commodity	0.81	1.25	0.21	0.67
Specific risk ⁽¹⁾	0.24	0.76	0.15	0.37
Total VaR	8.34	11.72	3.31	7.84

(1) Specific risk encompasses specific equity market risk and specific credit market risk. It is computed from the residual volatility implied from the movement of individual assets and their corresponding indices.

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44. Capital Management

The Group's capital management objective is to maintain an optimal capital level and mix that supports its businesses as well as strategic growth and investment opportunities, while meeting regulatory requirements and maintaining a strong credit rating. The Group, including UOB Bank and its overseas banking entities, have complied with all externally-imposed regulatory capital requirements throughout the financial year.

The Group is subject to the Basel III capital adequacy standards, as prescribed in the MAS Notice 637. The Group's Common Equity Tier 1 capital comprises mainly paid up ordinary share capital, disclosed reserves and qualifying minority interest. Additional Tier 1 capital includes eligible non-cumulative non-convertible perpetual securities and preference shares (subject to partial recognition under Basel III transitional rules), while Tier 2 capital comprises subordinated notes and excess of accounting provisions over Basel expected loss. Risk-weighted assets include both on-balance sheet and off-balance sheet exposures adjusted for credit, market and operational risks.

	The Group	
	2016	2015
	\$ million	\$ million
Share capital	4,257	3,704
Disclosed reserves/others	26,384	24,762
Regulatory adjustments	(2,685)	(2,448)
Common Equity Tier 1 capital	27,956	26,018
Preference shares/others	2,096	2,179
Regulatory adjustments – capped	(1,772)	(2,179)
Additional Tier 1 capital	324	–
Tier 1 capital	28,280	26,018
Subordinated notes	5,546	4,505
Provisions/others	1,122	1,028
Regulatory adjustments	(22)	(201)
Tier 2 capital	6,646	5,332
Eligible total capital	34,926	31,350
Risk-weighted assets	215,559	200,654
Capital adequacy ratios (%)		
Common Equity Tier 1	13.0	13.0
Tier 1	13.1	13.0
Total	16.2	15.6

45. Authorisation of Financial Statements

The financial statements were authorised for issue by the Board of Directors on 16 February 2017.