

# Management Discussion and Analysis

## Overview

|  | 2016    | 2015    | +/(-) % |
|--|---------|---------|---------|
| <b>Selected income statement items (\$ million)</b>          |         |         |         |
| 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 <sup>1</sup>                            | 3,096   | 3,209   | (3.5)   |
| <b>Selected balance sheet items (\$ million)</b>             |         |         |         |
| 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 <sup>1</sup>                            | 32,873  | 30,768  | 6.8     |
| <b>Key financial ratios (%)</b>                              |         |         |         |
| 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 <sup>2</sup>                      | 1.5     | 1.4     |         |
| Return on average total assets                               | 0.95    | 1.03    |         |
| Return on average ordinary shareholders' equity <sup>3</sup> | 10.2    | 11.0    |         |
| Loan/Deposit ratio <sup>4</sup>                              | 86.8    | 84.7    |         |
| Liquidity coverage ratios (LCR) <sup>5</sup>                 |         |         |         |
| 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 <sup>6</sup>                                  | 7.4     | 7.3     |         |
| Earnings per ordinary share (\$) <sup>3</sup>                |         |         |         |
| Basic  | 1.86    | 1.94    |         |
| Diluted  | 1.85    | 1.93    |         |
| Net asset value (NAV) per ordinary share (\$) <sup>7</sup>   | 18.82   | 17.84   |         |
| Revalued NAV per ordinary share (\$) <sup>7</sup>            | 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](http://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.

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## 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<br>\$ million | Interest<br>\$ million | Average rate<br>% | Average balance<br>\$ million | Interest<br>\$ million | Average rate<br>% |
| <b>Interest Bearing Assets</b>          |                               |                        |                   |                               |                        |                   |
| 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              |
| <b>Total</b>                            | <b>291,807</b>                | <b>8,291</b>           | <b>2.84</b>       | <b>278,096</b>                | <b>7,826</b>           | <b>2.81</b>       |
| <b>Interest Bearing Liabilities</b>     |                               |                        |                   |                               |                        |                   |
| 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              |
| <b>Total</b>                            | <b>284,347</b>                | <b>3,300</b>           | <b>1.16</b>       | <b>269,882</b>                | <b>2,900</b>           | <b>1.07</b>       |
| <b>Net interest margin <sup>1</sup></b> |                               |                        | <b>1.71</b>       |                               |                        | <b>1.77</b>       |

<sup>1</sup> 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<br>\$ million | Rate change<br>\$ million | Net change<br>\$ million | Volume change<br>\$ million | Rate change<br>\$ million | Net change<br>\$ million |
| <b>Interest Income</b>     |                             |                           |                          |                             |                           |                          |
| Customer loans             | 422                         | 21                        | 443                      | 296                         | 465                       | 762                      |
| Interbank balances         | (32)                        | 41                        | 10                       | 49                          | (114)                     | (65)                     |
| Securities                 | 76                          | (64)                      | 12                       | (37)                        | (22)                      | (60)                     |
| <b>Total</b>               | <b>467</b>                  | <b>(2)</b>                | <b>464</b>               | <b>308</b>                  | <b>329</b>                | <b>637</b>               |
| <b>Interest Expense</b>    |                             |                           |                          |                             |                           |                          |
| Customer deposits          | 135                         | 184                       | 318                      | 229                         | 78                        | 307                      |
| Interbank balances/others  | 28                          | 54                        | 82                       | (96)                        | 57                        | (39)                     |
| <b>Total</b>               | <b>162</b>                  | <b>238</b>                | <b>400</b>               | <b>134</b>                  | <b>135</b>                | <b>268</b>               |
| <b>Net interest income</b> | <b>304</b>                  | <b>(240)</b>              | <b>64</b>                | <b>175</b>                  | <b>194</b>                | <b>369</b>               |

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<br>\$ million | 2015<br>\$ million | + /(-)<br>%  |
|-------------------------------------|--------------------|--------------------|--------------|
| <b>Fee and Commission Income</b>    |                    |                    |              |
| Credit card                         | 368                | 345                | 6.8          |
| Fund management                     | 188                | 172                | 9.3          |
| Wealth management                   | 403                | 416                | (3.1)        |
| Loan-related <sup>1</sup>           | 482                | 498                | (3.2)        |
| Service charges                     | 134                | 121                | 10.1         |
| Trade-related <sup>2</sup>          | 263                | 258                | 1.9          |
| Others                              | 93                 | 74                 | 26.0         |
|                                     | <b>1,931</b>       | <b>1,883</b>       | <b>2.5</b>   |
| <b>Other Non-Interest Income</b>    |                    |                    |              |
| 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)       |
|                                     | <b>1,140</b>       | <b>1,238</b>       | <b>(7.9)</b> |
| <b>Total</b>                        | <b>3,071</b>       | <b>3,122</b>       | <b>(1.6)</b> |

<sup>1</sup> Loan-related fees include fees earned from corporate finance activities.

<sup>2</sup> 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   | %          |
| <b>Staff costs</b>              | 2,050        | 2,064        | (0.7)      |
| <b>Other Operating Expenses</b> |              |              |            |
| 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        |
| <b>Total</b>                    | <b>3,696</b> | <b>3,597</b> | <b>2.8</b> |

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 | %             |
| <b>Specific Allowance on Loans<sup>1</sup></b>     |            |            |               |
| Singapore  | 516        | 108        | >100.0        |
| Malaysia   | 57         | 33         | 74.0          |
| Thailand   | 88         | 80         | 9.5           |
| Indonesia  | 125        | 140        | (10.7)        |
| Greater China <sup>2</sup>                         | 168        | 40         | >100.0        |
| Others   | 15         | (9)        | >100.0        |
|  | 969        | 392        | >100.0        |
| <b>Specific Allowance on Securities and Others</b> | 22         | 84         | (73.6)        |
| <b>General Allowance</b>                           | (398)      | 196        | (>100.0)      |
| <b>Total</b>                                       | <b>594</b> | <b>672</b> | <b>(11.6)</b> |

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<br>\$ million | 2015<br>\$ million |
|--|--------------------|--------------------|
| Gross customer loans                                     | 225,662            | 207,371            |
| Less: Specific allowance                                 | 1,219              | 773                |
| General allowance  | 2,709              | 2,987              |
| <b>Net customer loans</b>                                | <b>221,734</b>     | <b>203,611</b>     |
| <b>By Industry</b>                                       |                    |                    |
| 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             |
| <b>Total (gross)</b>                                     | <b>225,662</b>     | <b>207,371</b>     |
| <b>By Currency</b>                                       |                    |                    |
| 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             |
| <b>Total (gross)</b>                                     | <b>225,662</b>     | <b>207,371</b>     |
| <b>By Maturity</b>                                       |                    |                    |
| 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             |
| <b>Total (gross)</b>                                     | <b>225,662</b>     | <b>207,371</b>     |
| <b>By Geography<sup>1</sup></b>                          |                    |                    |
| 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             |
| <b>Total (gross)</b>                                     | <b>225,662</b>     | <b>207,371</b>     |

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

|  | 2016              |                | 2015              |                |
|--|-------------------|----------------|-------------------|----------------|
|  | NPL<br>\$ million | NPL ratio<br>% | NPL<br>\$ million | NPL ratio<br>% |
| <b>NPL by Industry</b>                                   |                   |                |                   |                |
| 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            |
| <b>Total</b>   | <b>3,328</b>      | <b>1.5</b>     | <b>2,882</b>      | <b>1.4</b>     |

<sup>1</sup> Comprise mainly of shipping vessels.

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## Non-Performing Assets (continued)

|                                     | NPL<br>\$ million | NPL<br>ratio<br>% | Specific<br>allowance<br>\$ million | Total allowance           |  |
|-------------------------------------|-------------------|-------------------|-------------------------------------|---------------------------|--|
|                                     |                   |                   |                                     | as a % of<br>NPA/NPL<br>% | as a % of<br>unsecured<br>NPA/NPL<br>% |
| <b>NPL by Geography<sup>1</sup></b> |                   |                   |                                     |                           |  |
| 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                                  |

<sup>1</sup> 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<br>\$ million | 2015<br>\$ million |
|---------------------------------|--------------------|--------------------|
| <b>By Product</b>               |                    |                    |
| Fixed deposits                  | 133,966            | 125,486            |
| Savings deposits                | 61,951             | 55,966             |
| Current accounts                | 51,690             | 51,221             |
| Others                          | 7,707              | 7,852              |
| <b>Total</b>                    | <b>255,314</b>     | <b>240,524</b>     |
| <b>By Maturity</b>              |                    |                    |
| 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              |
| <b>Total</b>                    | <b>255,314</b>     | <b>240,524</b>     |
| <b>By Currency</b>              |                    |                    |
| 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             |
| <b>Total</b>                    | <b>255,314</b>     | <b>240,524</b>     |
| 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<br>\$ million | 2015<br>\$ million |
|-------------------------------|--------------------|--------------------|
| <b>Unsecured</b>              |                    |                    |
| 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              |
| <b>Secured</b>                |                    |                    |
| Covered bonds                 | 758                | –                  |
| <b>Total</b>                  | <b>26,143</b>      | <b>20,288</b>      |
| Due within 1 year             | 16,172             | 12,143             |
| Due after 1 year              | 9,971              | 8,146              |
| <b>Total</b>                  | <b>26,143</b>      | <b>20,288</b>      |

# Management Discussion and Analysis

## Shareholders' Equity

|   | 2016<br>\$ million | 2015<br>\$ million |
|---|--------------------|--------------------|
| Shareholders' equity                                      | 32,873             | 30,768             |
| Add: Revaluation surplus                                  | 4,456              | 4,357              |
| <b>Shareholders' equity including revaluation surplus</b> | <b>37,329</b>      | <b>35,126</b>      |

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 <sup>1</sup>

|  | GR<br>\$ million | GWB<br>\$ million | GM<br>\$ million | Others<br>\$ million | Total<br>\$ million |
|--|------------------|-------------------|------------------|----------------------|---------------------|
| <b>2016</b>                                      |                  |                   |                  |                      |                     |
| 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)               |
| <b>Profit for the financial year</b>             |                  |                   |                  |                      | <b>3,108</b>        |
| <b>2015</b>                                      |                  |                   |                  |                      |                     |
| 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)               |
| <b>Profit for the financial year</b>             |                  |                   |                  |                      | <b>3,220</b>        |

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

## Performance by Business Segment <sup>1</sup> (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 <sup>1</sup>

|                   | Total operating income |                    | Profit before tax  |                    | Total assets       |                    |
|-------------------|------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|                   | 2016<br>\$ million     | 2015<br>\$ million | 2016<br>\$ million | 2015<br>\$ million | 2016<br>\$ million | 2015<br>\$ 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              |
| <b>Total</b>      | <b>8,061</b>           | <b>8,048</b>       | <b>3,777</b>       | <b>3,869</b>       | <b>340,028</b>     | <b>316,011</b>     |

<sup>1</sup> 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.