Management Discussion and Analysis

Overview

	2019	2018	+/(–) %
Selected income statement items ($ million)			
Net interest income	6,562	6,220	6
Net fee and commission income	2,032	1,967	3
Other non-interest income	1,435	930	54
Total income	10,030	9,116	10
Less: Total expenses	4,472	4,003	12
Operating profit	5,558	5,113	9
Less: Allowance for credit and other losses	435	393	11
Add: Share of profit of associates and joint ventures	51	106	(51)
Net profit before tax	5,174	4,826	7
Less: Tax and non-controlling interests	831	818	2
Net profit after tax [1]	4,343	4,008	8
Selected balance sheet items ($ million)			
Net customer loans	265,458	258,627	3
Customer deposits	310,726	293,186	6
Total assets	404,409	388,092	4
Shareholders' equity [1]	39,637	37,623	5
Key financial ratios (%)			
Net interest margin	1.78	1.82	
Non-interest income/Total income	34.6	31.8	
Cost/Income ratio	44.6	43.9	
Overseas profit before tax contribution	38.9	39.6	
Credit costs on loans (bp)			
Non-impaired	1	1	
Impaired	17	15	
Total	18	16	
Non-performing loans (NPL) ratio [2]	1.5	1.5	
Return on average ordinary shareholders' equity [3]	11.6	11.3	
Return on average total assets	1.08	1.07	
Return on average risk-weighted assets	1.90	1.93	
Loan/Deposit ratio [4]	85.4	88.2	
Liquidity coverage ratios (LCR) [5]			
All-currency	146	135	
Singapore Dollar	306	209	
Net stable funding ratio (NSFR) [6]	111	107	
Capital adequacy ratios			
Common Equity Tier 1	14.3	13.9	
Tier 1	15.4	14.9	
Total	17.4	17.0	
Leverage ratio [7]	7.7	7.6	
Earnings per ordinary share ($) [3]			
Basic	2.55	2.34	
Diluted	2.54	2.33	
Net asset value (NAV) per ordinary share ($) [8]	22.33	21.31	
Revalued NAV per ordinary share ($) [8]	25.40	24.19	

1 Relates to 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 perpetual capital securities distributions.
4 Refers to net customer loans and customer deposits.
5 Figures reported are based on average LCR for the respective periods. A minimum requirement of Singapore Dollar LCR of 100% and all-currency LCR of 100% shall be maintained at all times with effect from 1 January 2019 (2018: 90%). Public disclosure required under MAS Notice 651 is available in the UOB website at www.UOBgroup.com/investor-relations/financial/index.html.
6 NSFR is calculated based on MAS Notice 652 which requires a minimum ratio of 100% to be maintained. Public disclosure required under MAS Notice 653 is available in the UOB website at www.UOBgroup.com/investor-relations/financial/index.html.
7 Leverage ratio is calculated based on MAS Notice 637 which requires a minimum ratio of 3%.
8 Perpetual capital securities are excluded from the computation.

Performance Review

The Group achieved record net earnings of $4.34 billion, up 8% from a year ago.

Net interest income grew 6% to $6.56 billion, as the average gross loans for the year was 9% higher but was moderated by a 4-basis point drop in net interest margin arising from lower interest rates and increased competition.

Net fee and commission income increased 3% to $2.03 billion, led by double-digit growth in wealth management and credit cards, moderated by lower fund management fees. Other non-interest income rose 54% to $1.44 billion, with trading and investment income rising 72% to $1.12 billion from improved customer flows and higher gains from investment securities.

All business segments continued to deliver strong income growth. Group Retail income grew 9% to $4.30 billion, driven by higher net interest income from volume growth and improvement in deposit margin, coupled with strong contribution from the wealth management business. Group Wholesale Banking income grew 6% to $4.10 billion, benefitting from cash management, treasury and loan-related activities. Global Markets income increased 28% to $595 million, largely from higher trading and investment income.

Total expenses increased 12% to $4.47 billion as the Group prioritised strategic investments in talent and technology to serve customers better. Cost-to-income ratio for the year was higher at 44.6%.

Total allowances increased 11% to $435 million, mainly due to higher allowance on impaired assets. Asset quality remained sound with total credit costs for the full year at 18 basis points, 2 basis points higher than 2018.

Contribution from associated companies declined to $51 million, mainly due to reduced shareholdings.

Towards the end of 2019, the Group moderated loan origination in light of macro uncertainties. As a result, loans grew modestly by 3% year on year. The Group's funding position remained stable in 2019 with the full year Singapore Dollar and all-currency liquidity coverage ratios at 306% and 146% respectively, while the net stable funding ratio was 111% at 31 December 2019. Loan-to-deposit ratio was healthy at 85.4%.

Non-performing loan ratio remained at 1.5% as at 31 December 2019. Total allowances for non-impaired assets stood at $1.98 billion with a coverage for non-performing assets at 87%, or 202% after taking collateral into account.

With the Group's Common Equity Tier 1 ratio at 14.3% and with ample liquidity available, the Group is well-positioned to steer through macro uncertainties ahead and to drive growth when market sentiments improve.

Management Discussion and Analysis

Net Interest Income

Net Interest Margin

	2019			2018		
	Average balance $ million	Interest $ million	Average rate %	Average balance $ million	Interest $ million	Average rate %
Interest Bearing Assets						
Customer loans	267,424	10,108	3.78	245,138	8,844	3.61
Interbank balances	66,420	1,562	2.35	68,730	1,532	2.23
Securities	34,593	887	2.57	28,095	765	2.72
Total	368,436	12,557	3.41	341,962	11,141	3.26
Interest Bearing Liabilities						
Customer deposits	308,654	4,996	1.62	286,820	4,083	1.42
Interbank balances/others	42,956	998	2.32	40,067	838	2.09
Total	351,609	5,994	1.70	326,887	4,921	1.51
Net Interest Margin [1]			1.78			1.82

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

Volume and Rate Analysis

	2019 vs 2018			2018 vs 2017		
	Volume change $ million	Rate change $ million	Net change $ million	Volume change $ million	Rate change $ million	Net change $ million
Interest Income						
Customer loans	804	460	1,264	574	796	1,369
Interbank balances	(51)	81	30	167	368	535
Securities	177	(55)	122	58	102	160
Total	930	486	1,416	798	1,266	2,064
Interest Expense						
Customer deposits	311	603	914	254	810	1,065
Interbank balances/others	60	99	160	56	252	308
Total	371	702	1,073	310	1,062	1,373
Net Interest Income	558	(216)	342	488	204	692

Net interest income for the full year of 2019 grew 6% to $6.56 billion, as the average gross loans for the year was 9% higher but was moderated by a 4-basis point drop in net interest margin arising from lower interest rates and increased competition.

Non-Interest Income

	2019 $ million	2018 $ million	+/(–) %
Net Fee and Commission Income			
Credit card [1]	488	440	11
Fund management	236	261	(9)
Wealth management	641	543	18
Loan-related [2]	558	545	2
Service charges	156	154	1
Trade-related [3]	297	296	0
Others	37	63	(41)
	2,412	2,303	5
Less: Fee and commission expenses	380	336	13
	2,032	1,967	3
Other Non-Interest Income			
Net trading income	874	683	28
Net gain/(loss) from investment securities	242	(35)	>100
Dividend income	51	27	85
Rental income	110	119	(7)
Other income	158	136	16
	1,435	930	54
Total	3,467	2,896	20

1 Credit card fees are net of interchange fees paid.
2 Loan-related fees include fees earned from corporate finance activities.
3 Trade-related fees include trade, remittance and guarantees related fees.

Net fee and commission income increased 3% to $2.03 billion, led by double-digit growth in wealth management and credit cards, moderated by lower fund management fees. Other non-interest income rose 54% to $1.44 billion, with trading and investment income rising 72% to $1.12 billion from improved customer flows and higher gains from investment securities.

Management Discussion and Analysis

Operating Expenses

	2019 $ million	2018 $ million	+/(–) %
Staff Costs	2,716	2,447	11
Other Operating Expenses			
Revenue-related	688	592	16
Occupancy-related	334	321	4
IT-related	504	414	22
Others	230	228	1
	1,757	1,556	13
Total	4,472	4,003	12

Total expenses increased 12% to $4.47 billion as the Group prioritised strategic investments in talent and technology to serve customers better. Cost-to-income ratio for the year was higher at 44.6%.

Allowance for Credit and Other Losses

	2019 $ million	2018 $ million	+/(–) %
Allowance for Non-Impaired Assets	(19)	19	(>100)
Allowance for Impaired Assets			
Impaired Loans [1]			
Singapore	243	201	21
Malaysia	41	(21)	>100
Thailand	135	111	22
Indonesia	37	123	(70)
Greater China [2]	(2)	16	(>100)
Others	16	(54)	>100
	469	376	25
Impaired Securities and Others	(15)	(2)	(>100)
Total	435	393	11

1 Allowance for impaired loans by geography are classified according to where credit risks reside, largely represented by the borrower's country of incorporation/operation for non-individuals and residence for individuals.
2 Comprise Mainland China, Hong Kong SAR and Taiwan.

Total allowances for the full year of 2019 increased 11% to $435 million, mainly due to higher allowance on impaired assets. Asset quality remained sound with total credit costs for the full year at 18 basis points, 2 basis points higher than 2018.

Customer Loans

	2019 $ million	2018 $ million
Gross customer loans	**268,676**	261,707
Less: Allowance for non-impaired loans	**1,721**	1,571
Allowance for impaired loans	**1,498**	1,508
Net customer loans	**265,458**	258,627
By Industry		
Transport, storage and communication	**11,036**	10,185
Building and construction	**66,992**	63,139
Manufacturing	**19,380**	21,112
Financial institutions, investment and holding companies	**26,098**	23,199
General commerce	**32,713**	32,928
Professionals and private individuals	**29,458**	29,288
Housing loans	**68,586**	68,387
Others	**14,413**	13,469
Total (gross)	**268,676**	261,707
By Currency		
Singapore Dollar	**125,447**	123,347
US Dollar	**47,562**	50,674
Malaysian Ringgit	**26,167**	25,328
Thai Baht	**18,298**	15,600
Indonesian Rupiah	**5,681**	5,288
Others	**45,520**	41,471
Total (gross)	**268,676**	261,707
By Maturity		
Within 1 year	**103,112**	104,686
Over 1 year but within 3 years	**52,058**	48,826
Over 3 years but within 5 years	**33,494**	30,452
Over 5 years	**80,012**	77,744
Total (gross)	**268,676**	261,707
By Geography[1]		
Singapore	**138,666**	137,176
Malaysia	**29,554**	29,315
Thailand	**19,585**	16,813
Indonesia	**11,466**	11,289
Greater China	**41,423**	40,081
Others	**27,982**	27,033
Total (gross)	**268,676**	261,707

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.

As at 31 December 2019, gross loans rose 3% year on year to $269 billion, led by broad-based increase across most of the territories and industries.

Singapore loans grew 1% year on year to $139 billion, while overseas contributed a healthy growth of 4% from a year ago.

Non-Performing Assets

	2019 $ million	2018 $ million
Non-Performing Assets (NPA)		
Loans (NPL)	4,136	3,994
Debt securities and others	161	172
Total	4,297	4,166
By Grading		
Substandard	2,677	2,512
Doubtful	205	230
Loss	1,415	1,424
Total	4,297	4,166
By Security		
Secured by collateral type:		
Properties	2,003	1,897
Shares and debentures	–	6
Fixed deposits	66	13
Others [1]	386	453
	2,455	2,369
Unsecured	1,842	1,797
Total	4,297	4,166
By Ageing		
Current	1,055	885
Within 90 days	480	581
Over 90 to 180 days	386	379
Over 180 days	2,376	2,321
Total	4,297	4,166
Total Allowance		
Non-impaired	1,985	1,984
Impaired	1,626	1,651
Total	3,611	3,636

	2019		2018	
	NPL $ million	NPL ratio %	NPL $ million	NPL ratio %
NPL by Industry				
Transport, storage and communication	650	5.9	813	8.0
Building and construction	618	0.9	497	0.8
Manufacturing	712	3.7	709	3.4
Financial institutions, investment and holding companies	39	0.1	41	0.2
General commerce	658	2.0	511	1.6
Professionals and private individuals	309	1.0	320	1.1
Housing loans	776	1.1	739	1.1
Others	374	2.6	364	2.7
Total	4,136	1.5	3,994	1.5

1 Comprise mainly of marine vessels.

Non-Performing Assets (continued)

	NPL/NPA $ million	NPL ratio %	Allowance for impaired assets $ million	Allowance for impaired assets as a % of NPL/NPA %
NPL by Geography [1]				
Singapore				
2019	**2,183**	**1.6**	**823**	**38**
2018	2,085	1.5	818	39
Malaysia				
2019	**612**	**2.1**	**174**	**28**
2018	558	1.9	161	29
Thailand				
2019	**550**	**2.8**	**200**	**36**
2018	456	2.7	153	34
Indonesia				
2019	**463**	**4.0**	**178**	**38**
2018	545	4.8	221	41
Greater China				
2019	**101**	**0.2**	**24**	**24**
2018	120	0.3	53	44
Others				
2019	**227**	**0.8**	**99**	**44**
2018	230	0.9	102	44
Group NPL				
2019	**4,136**	**1.5**	**1,498**	**36**
2018	3,994	1.5	1,508	38
Group NPA				
2019	**4,297**		**1,626**	**38**
2018	4,166		1,651	40

	Total allowances as a % of NPA[2] %	Total allowances as a % of unsecured NPA[2] %
Group		
2019	**87**	**202**
2018	87	202

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.
2 Includes regulatory loss allowance reserves (RLAR) as part of total allowances.

The Group's overall loan portfolio remained sound.

NPL ratio was stable at 1.5% as at 31 December 2019. The coverage for non-performing assets remained adequate at 87%, or 202% after taking collateral into account.

Customer Deposits

	2019 $ million	2018 $ million
By Product		
Fixed deposits	**155,768**	150,071
Savings deposits	**78,411**	71,601
Current accounts	**62,779**	58,858
Others	**13,769**	12,656
Total	**310,726**	293,186
By Maturity		
Within 1 year	**307,222**	289,448
Over 1 year but within 3 years	**2,603**	2,085
Over 3 years but within 5 years	**538**	833
Over 5 years	**363**	819
Total	**310,726**	293,186
By Currency		
Singapore Dollar	**140,167**	130,981
US Dollar	**76,511**	71,704
Malaysian Ringgit	**28,327**	28,312
Thai Baht	**20,610**	17,148
Indonesian Rupiah	**5,698**	5,148
Others	**39,413**	39,894
Total	**310,726**	293,186
Group Loan/Deposit ratio (%)	**85.4**	88.2
Singapore Dollar Loan/Deposit ratio (%)	**88.7**	93.5
US Dollar Loan/Deposit ratio (%)	**61.2**	69.5

Customer deposits were $311 billion as at 31 December 2019, an increase of 6% from a year ago led by higher fixed deposits and savings deposits.

As at 31 December 2019, the Group's loan-to-deposit ratio and Singapore Dollar loan-to-deposit ratio remained healthy at 85.4% and 88.7% respectively.

Debts Issued

	2019 $ million	2018 $ million
Unsecured		
Subordinated debts	**5,121**	5,062
Commercial papers	**8,729**	13,974
Fixed and floating rate notes	**4,853**	5,586
Others	**1,497**	1,583
Secured		
Covered bonds	**5,009**	4,401
Total	**25,209**	30,606
Due within 1 year	**10,759**	15,680
Due after 1 year	**14,450**	14,926
Total	**25,209**	30,606

Shareholders' Equity

	2019 $ million	2018 $ million
Shareholders' equity	39,637	37,623
Add: Revaluation surplus	5,112	4,802
Shareholders' equity including revaluation surplus	44,748	42,425

Shareholders' equity increased 5% year on year to $39.6 billion mainly driven by higher retained earnings.

As at 31 December 2019, the revaluation surplus of $5.11 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
2019					
Net interest income	2,973	2,977	95	517	6,562
Non-interest income	1,325	1,121	500	521	3,467
Operating income	4,298	4,098	595	1,039	10,030
Operating expenses	(2,097)	(1,031)	(278)	(1,066)	(4,472)
Allowance for credit and other losses	(192)	(285)	(4)	46	(435)
Share of profit of associates and joint ventures	–	5	–	46	51
Profit before tax	2,009	2,787	313	65	5,174
Tax					(813)
Profit for the financial year					4,362
2018					
Net interest income	2,721	2,832	126	541	6,220
Non-interest income	1,231	1,052	340	273	2,896
Operating income	3,952	3,884	466	814	9,116
Operating expenses	(1,919)	(900)	(244)	(940)	(4,003)
Allowance for credit and other losses	(192)	(178)	(2)	(21)	(393)
Share of profit of associates and joint ventures	–	14	–	92	106
Profit before tax	1,841	2,820	220	(55)	4,826
Tax					(805)
Profit for the financial year					4,021

1 Comparative segment information for prior year has been adjusted for changes in organisational structure and management reporting methodology.

Business segment performance reporting is prepared based on the Group's internal organisation structure and the methodologies adopted in the management reporting framework. Business segments' results include all applicable revenue, expenses, internal fund transfer price and cost allocations associated with the activities of the business. Transactions between business segments are operated on an arm's length basis in a manner similar to third party transactions and they are eliminated on consolidation.

The Banking Group is organised into three major business segments – Group Retail, Group Wholesale Banking and Global Markets. Others includes non-banking activities and corporate functions.

Group Retail (GR)

Compared to a year ago, profit before tax grew 9% to $2.01 billion. Total income increased 9% to $4.30 billion driven by net interest income from healthy volume growth and deposit margin improvement, coupled with strong contribution from wealth management. Expenses were higher by 9% at $2.10 billion from continued investments in staff and digital capabilities for franchise growth, while allowance for credit and other losses was stable.

Management Discussion and Analysis

Group Wholesale Banking (GWB)

Operating profit grew 3% to $3.07 billion compared to a year ago. Income grew 6% to $4.10 billion supported by higher net interest income from franchise volume growth and non-interest income grew 7% led by treasury, loan-related fees and investment banking. Expenses were higher at $1.03 billion mainly from investments in headcount and technology to support strategic business initiatives. Profit before tax was relatively flat at $2.79 billion as allowance for credit and other losses increased.

Global Markets (GM)

Profit before tax rose 43% to $313 million from a year ago. Total income registered strong growth of 28% to $595 million mainly from higher trading and investment income. Expenses increased 14% to $278 million from investments in technology and staff.

Others

Profit before tax increased to $65 million from a loss of $55 million a year ago, supported by higher income from dividend, investment securities, central treasury activities and write-back of allowances. This was partially offset by higher operating expenses and reduced shareholding in an associated company.

Performance by Geographical Segment [1]

	Singapore $ million	Malaysia $ million	Thailand $ million	Indonesia $ million	Greater China $ million	Others $ million	Total $ million
2019							
Net interest income	3,752	738	762	327	455	528	6,562
Non-interest income	2,004	346	295	158	482	182	3,467
Operating income	5,756	1,084	1,057	485	937	711	10,030
Operating expenses	(2,480)	(435)	(651)	(348)	(401)	(157)	(4,472)
Allowance for credit and other losses	(167)	(80)	(135)	(53)	(9)	9	(435)
Share of profit of associates and joint ventures	52	0	–	–	(0)	(1)	51
Profit before tax	3,161	569	271	84	527	562	5,174
Total assets before intangible assets	235,477	41,352	25,462	9,840	54,907	33,223	400,261
Intangible assets	3,182	–	729	237	–	–	4,148
Total assets	238,659	41,352	26,191	10,077	54,907	33,223	404,409
2018							
Net interest income	3,552	738	708	318	421	483	6,220
Non-interest income	1,570	330	256	125	443	172	2,896
Operating income	5,122	1,068	964	443	864	655	9,116
Operating expenses	(2,189)	(407)	(571)	(312)	(381)	(143)	(4,003)
Allowance for credit and other losses	(83)	(61)	(111)	(55)	(68)	(15)	(393)
Share of profit of associates and joint ventures	66	0	–	–	29	11	106
Profit before tax	2,916	600	282	76	444	508	4,826
Total assets before intangible assets	228,478	40,620	21,946	9,256	55,021	28,633	383,954
Intangible assets	3,182	–	725	231	–	–	4,138
Total assets	231,660	40,620	22,671	9,487	55,021	28,633	388,092

1 Geographical segment performance reporting is prepared based on the location where the transactions or assets are booked. The information is stated after elimination of inter-segment transactions.

Singapore

Profit before tax grew 8% to $3.16 billion against the previous year on the back of strong income growth. Net interest income rose 6% to $3.75 billion from loan growth. Non-interest income increased 28% to $2.00 billion from higher treasury and investment income. This was partly offset by higher expenses from continued investments in people and technology for franchise growth.

Malaysia

Compared to a year ago, profit before tax declined 5% to $569 million due to unfavourable foreign exchange translation, coupled with higher expenses and allowance for credit losses. Total income was relatively flat as net interest income from asset growth was offset by decline in net interest margin following reduction in policy rate. Non-interest income grew 5% to $346 million supported by higher profit on trading and government securities.

Thailand

Profit before tax for 2019 was 4% lower at $271 million. Performance was supported by strong improvement in franchise income of 10% to $1.06 billion, driven by double-digit loan growth, broad-based increase in fee and treasury income. Expenses increased 14% to $651 million, largely from staff expenses and investments in digital bank. Allowance for credit and other losses was $23 million higher at $135 million.

Indonesia

Profit before tax rose 10% to $84 million in 2019. Income grew 9% to $485 million led by loan growth, treasury income as well as increased fee from wealth and credit card. This was partly offset by higher staff, technology and revenue-related expenses, while credit costs were broadly stable.

Greater China

Profit before tax registered strong growth of 19% to $527 million, driven by broad-based increase in income and lower credit costs. This was partly offset by higher staff expenses and reduced interest in an associated company.

Others

Profit before tax for 2019 grew by 11% to $562 million, largely contributed by higher income coupled with write-back of allowances. This was partly offset by higher expenses and lower contribution from associated companies.

Capital Adequacy and Leverage Ratios

	2019 $ million	2018 $ million
Common Equity Tier 1 capital (CET1)	**32,366**	30,750
Additional Tier 1 capital	**2,379**	2,129
Tier 1 capital	**34,745**	32,879
Tier 2 capital	**4,607**	4,663
Eligible total capital	**39,352**	37,542
Risk-Weighted Assets (RWA)	**226,318**	220,568
Capital Adequacy Ratios (CAR)		
CET1	**14.3%**	13.9%
Tier 1	**15.4%**	14.9%
Total	**17.4%**	17.0%
Leverage ratio	**7.7%**	7.6%

The Group's CET1, Tier 1 and Total CAR as at 31 December 2019 were well above the regulatory minimum requirements.

Year on year, total capital was higher mainly from retained earnings and issuance net of redemption of perpetual capital securities. RWA was higher largely due to asset growth.

As at 31 December 2019, the Group's leverage ratio was 7.7%, comfortably above the regulatory minimum requirement of 3%.