# 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<br>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.

| Areas of Focus | How Our Audit Addressed the Risk Factors |
|---|---|
| Impairment of Loans to Customers<br>*Refer to Notes 2r(i) and 25a to the consolidated financial statements on pages 160 and 186 respectively.*<br><br>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.<br><br>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.<br><br>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.<br><br>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. | Our audit procedures include understanding and testing of the design and operating effectiveness of the key controls over the following:<br><br>• the origination, approval and monitoring of loans;<br><br>• the identification and timeliness of identifying impairment indicators; and<br><br>• the governance process of loan downgrading, including the continuous re-assessment of the appropriateness of assumptions used in the impairment models.<br><br>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.<br><br>We have designed the following procedures for specific allowances in response to the risks specific to the business units.<br><br>Group Wholesale Banking<br>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.<br><br>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.<br><br>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.<br><br>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. |

| Areas of Focus | How Our Audit Addressed the Risk Factors |
|---|---|
| Impairment of Loans to Customers (continued) | Group Retail<br>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.<br><br>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.<br><br>With respect to the Group's general allowances, our procedures included the following:<br>• 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;<br>• 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<br>• we performed scenario analyses based on historical and hypothetical scenarios we considered necessary to assess the adequacy of the general allowances in stressed conditions.<br><br>Overall, the results of our evaluation of the Group's allowance for impairment of loans are consistent with management's assessment. |
| Valuation of Illiquid or Complex Financial Instruments<br>*Refer to Notes 2r(ii) and 18b to the consolidated financial statements on pages 160 and 176 to 177 respectively.*<br><br>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.<br><br>In particular, the determination of Level 3 prices is considerably more subjective given the lack of availability of market-based data.<br><br>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. | 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.<br><br>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.<br><br>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.<br><br>The results of our independent analyses are consistent with management's analyses. |

| Areas of Focus | How Our Audit Addressed the Risk Factors |
|---|---|
| Impairment of Goodwill<br>*Refer to Notes 2r(iii) and 34b to the consolidated financial statements on pages 160 and 200 respectively.*<br><br>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.<br><br>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. | 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.<br><br>We assessed the cash flow projections by reviewing the historical achievement of the projections and considered the reasons for significant deviations.<br><br>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.<br><br>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.<br><br>Our evaluation results are consistent with management's goodwill impairment testing results. |

## 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.

- 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 2016 $'000 | The Group 2015 $'000 | The Bank 2016 $'000 | The Bank 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 | 2015 | 2016 | 2015 |
| | $'000 | $'000 | $'000 | $'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

| | | The Group | | The Bank | |
|---|---|---|---|---|---|
| | | 2016 | 2015 | 2016 | 2015 |
| | Note | $'000 | $'000 | $'000 | $'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 | | | | | |
| | Share capital and other capital $'000 | Retained earnings $'000 | Other reserves $'000 | Total $'000 | Non-controlling interests $'000 | Total equity $'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

## 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.

## 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.

## 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.

## 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.

## 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 | 2015 | 2016 | 2015 |
| | $'000 | $'000 | $'000 | $'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 | 2015 | 2016 | 2015 |
| | $'000 | $'000 | $'000 | $'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 | 2015 | 2016 | 2015 |
| | $'000 | $'000 | $'000 | $'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 | 2015 | 2016 | 2015 |
| | $'000 | $'000 | $'000 | $'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 | 2015 | 2016 | 2015 |
| | $'000 | $'000 | $'000 | $'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 |

## 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 |

## 14. Share Capital and Other Capital

(a)

| | 2016 Number of shares '000 | 2016 Amount $'000 | 2015 Number of shares '000 | 2015 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.

## 15. Retained Earnings

(a)

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **$'000** | $'000 | **$'000** | $'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) |
| 80th 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 |

## 16. Other Reserves (continued)

(a) (continued)

| | The Bank | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Fair value reserve $'000 | Foreign currency translation reserve $'000 | Share-based compensation reserve $'000 | Merger reserve $'000 | Statutory reserve $'000 | General reserve $'000 | Others $'000 | Total $'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 | | | | |
|---|---|---|---|---|---|
| | 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 | 2,917,230 | – | 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 |

## 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 |

## 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 |

## 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 |

## 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 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Fair value gains or (losses) | | | | | | |
| | Balance at 1 January $'000 | Income statement $'000 | Other comprehensive income $'000 | Purchases $'000 | Settlements $'000 | Transfers in $'000 | Balance at 31 December $'000 | Unrealised gains included in income statement $'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 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Fair value gains or (losses) | | | | | | |
| | Balance at 1 January $'000 | Income statement $'000 | Other comprehensive income $'000 | Purchases $'000 | Settlements $'000 | Transfers in $'000 | Balance at 31 December $'000 | Unrealised gains included in income statement $'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.

## 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 |

## 21. Deferred Tax

Deferred tax comprises the following:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | $'000 | $'000 | $'000 | $'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 | 2015 | 2016 | 2015 |
| | $'000 | $'000 | $'000 | $'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 | 2015 | 2016 | 2015 |
| | $'000 | $'000 | $'000 | $'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 |

## 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.

## 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 |

## 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** | 2015 | **2016** | 2015 |
| | **$'000** | $'000 | **$'000** | $'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** | 2015 | **2016** | 2015 |
| | **$'000** | $'000 | **$'000** | $'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 |

## 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 | 2015 | 2016 | 2015 |
| | $'000 | $'000 | $'000 | $'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 | 2015 | 2016 | 2015 |
| | $'000 | $'000 | $'000 | $'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 | 2015 | 2016 | 2015 |
| | $'000 | $'000 | $'000 | $'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 |

## 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 |

## 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 |

## 32. Investment Properties

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | $'000 | $'000 | $'000 | $'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.

## 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 |

## 36. Financial Derivatives (continued)

(a) (continued)

| | 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 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.

## 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<br>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.

## 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 '000 | 2015 '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 '000 | 2015 '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 '000 | 2015 '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:

| | Restricted shares | | | |
|---|---|---|---|---|
| | **2016** | **2016** | 2015 | 2015 |
| **Year granted** | **1st grant** | **2nd grant** | 1st grant | 2nd 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.

## 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 | 2015 | 2016 | 2015 |
| | | $ million | $ million | $ million | $ 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.

## 42. Segment Information (continued)

(a) Operating Segments (continued)

Selected Income Statement Items

| | The Group | | | | |
|---|---|---|---|---|---|
| | GR<br>$ million | GWB<br>$ million | GM<br>$ million | Others<br>$ million | Total<br>$ 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<br>$ million | GWB<br>$ million | GM<br>$ million | Others<br>$ million | Total<br>$ 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**<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 |
| | **8,061** | 8,048 | **3,777** | 3,869 | **340,028** | 316,011 |

## 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.

## 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 | | | | |
|---|---|---|---|---|---|
| | Loans to customers (gross) | Government treasury bills and securities | Placements and balances with banks | Debt securities | Total |
| | $ million | $ million | $ million | $ million | $ 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
for the financial year ended 31 December 2016

## 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 |

## 43. Financial Risk Management (continued)

(a) Credit Risk (continued)

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

| | The Group | | | |
|---|---|---|---|---|
| | < 30 days<br>$ million | 30 - 59 days<br>$ million | 60 - 90 days<br>$ million | Total<br>$ 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 |

## 43. Financial Risk Management (continued)

(a) Credit Risk (continued)

(vi) Ageing Analysis of Non-Performing Assets

| | The Group | | | | | |
|---|---|---|---|---|---|---|
| | Current $ million | < 90 days $ million | 90 - 180 days $ million | > 180 days $ million | Total $ million | Specific allowance $ 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 | | | | | |
|---|---|---|---|---|---|---|
| | Current<br>$ million | < 90 days<br>$ million | 90 - 180 days<br>$ million | > 180 days<br>$ million | Total<br>$ million | Specific allowance<br>$ 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.

## 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 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Singapore dollar $ million | US dollar $ million | Malaysian ringgit $ million | Thai baht $ million | Indonesian rupiah $ million | Others $ million | Total $ 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) | |

## 43. Financial Risk Management (continued)

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

(i) (continued)

| | The Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | Singapore dollar<br>$ million | US dollar<br>$ million | Malaysian ringgit<br>$ million | Thai baht<br>$ million | Indonesian rupiah<br>$ million | Others<br>$ million | Total<br>$ 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 |

## 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 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | Total $ 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) | |

## 43. Financial Risk Management (continued)

(d) Liquidity Risk (continued)

(i) (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 | Over 1 to 3 years $ million | Over 3 years $ million | No specific maturity $ million | Total $ 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.

## 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.

# Notes to the Financial Statements
for the financial year ended 31 December 2016

## 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.