FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

IMPORTANT

The following financial information contains only a summary of the information in the financial statements of the Bank and the Group for the financial year ended 31 December 2020 (the full financial statements) and the Directors' Statement of the Bank. The financial information does not contain sufficient information to allow for a full understanding of the results and state of affairs of the Bank and of the Group. For further information, the full audited financial statements, the Independent Auditor's Report on the full audited financial statements and the Directors' Statement (including the list of directors) should be consulted. These are available on the Bank's website at www.UOBgroup.com/investor-relations/financial/group-annual-reports.html

INCOME STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

In $ millions	The Group 2020	The Group 2019	The Bank 2020	The Bank 2019
Interest income	9,623	12,557	6,218	8,829
Less: Interest expense	3,588	5,994	2,286	4,293
Net interest income	6,035	6,563	3,932	4,536
Net fee and commission income	1,997	2,032	1,412	1,392
Dividend income	50	51	316	289
Rental income	106	110	80	95
Net trading income	594	874	358	622
Net gain from investment securities	286	242	129	143
Other income	108	158	235	193
Non-interest income	3,141	3,467	2,530	2,734
Total operating income	9,176	10,030	6,462	7,270
Less: Staff costs	2,501	2,716	1,528	1,644
Other operating expenses	1,683	1,756	1,088	1,135
Total operating expenses	4,184	4,472	2,616	2,779
Operating profit before allowance	4,992	5,558	3,846	4,491
Less: Allowance for credit and other losses	1,554	435	899	174
Operating profit after allowance	3,438	5,123	2,947	4,317
Share of profit of associates and joint ventures	98	51	–	–
Profit before tax	3,536	5,174	2,947	4,317
Less: Tax	606	812	424	587
Profit for the financial year	2,930	4,362	2,523	3,730
Attributable to:				
Equity holders of the Bank	2,915	4,343	2,523	3,730
Non-controlling interests	15	19	–	–
	2,930	4,362	2,523	3,730
Earnings per share ($)				
Basic	1.69	2.55		
Diluted	1.68	2.54		

STATEMENTS OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

In $ millions	The Group 2020	The Group 2019	The Bank 2020	The Bank 2019
Profit for the financial year	2,930	4,362	2,523	3,730
Other comprehensive income that will not be reclassified to income statement				
Net gain/(loss) on equity instruments at fair value through other comprehensive income	1	(845)	(16)	(870)
Fair value changes on financial liabilities designated at fair value due to the Bank's own credit risk	(4)	(62)	(4)	(62)
Remeasurement of defined benefit obligation	(1)	#	#	#
Related tax on items at fair value through other comprehensive income	#	(14)	2	(11)
	(4)	(921)	(18)	(943)
Other comprehensive income that may be subsequently reclassified to income statement				
Currency translation adjustments	(22)	146	15	(11)
Debt instruments at fair value through other comprehensive income				
Change in fair value	384	446	295	338
Transfer to income statement on disposal	(109)	(117)	(98)	(104)
Changes in allowance for expected credit losses	7	(52)	10	(55)
Related tax	(22)	38	(5)	61
	238	461	217	229
Change in share of other comprehensive income of associates and joint ventures	(6)	9	–	–
Other comprehensive income for the financial year, net of tax	228	(451)	199	(714)
Total comprehensive income for the financial year, net of tax	3,158	3,911	2,722	3,016
Attributable to:				
Equity holders of the Bank	3,143	3,885	2,722	3,016
Non-controlling interests	15	26	–	–
	3,158	3,911	2,722	3,016

Amount less than $500,000

BALANCE SHEETS AS AT 31 DECEMBER 2020

In $ millions	The Group 2020	The Group 2019	The Bank 2020	The Bank 2019
Equity				
Share capital and other capital	7,420	7,325	7,420	7,325
Retained earnings	24,109	23,404	17,510	17,197
Other reserves	9,372	8,907	9,786	9,351
Equity attributable to equity holders of the Bank	40,901	39,636	34,716	33,873
Non-controlling interests	230	228	–	–
Total equity	41,131	39,864	34,716	33,873
Liabilities				
Deposits and balances of:				
Banks	15,977	15,302	14,257	13,404
Customers	324,598	310,726	251,111	241,462
Subsidiaries	–	–	14,216	13,419
Bills and drafts payable	792	646	613	465
Derivative financial liabilities	11,519	6,695	8,741	5,695
Other liabilities	7,379	5,179	5,954	3,667
Tax payable	374	489	278	410
Deferred tax liabilities	436	299	263	202
Debts issued	29,608	25,209	28,086	23,557
Total liabilities	390,683	364,545	323,519	302,281
Total equity and liabilities	431,814	404,409	358,235	336,154
Assets				
Cash, balances and placements with central banks	36,798	25,864	31,452	22,319
Singapore government treasury bills and securities	8,103	6,199	8,103	6,199
Other government treasury bills and securities	13,890	15,166	3,796	5,120
Trading securities	4,215	2,789	3,523	2,506
Placements and balances with banks	40,284	52,840	30,409	42,456
Loans to customers	277,201	265,458	216,629	205,229
Placements with and advances to subsidiaries	–	–	21,023	17,971
Derivative financial assets	11,368	6,408	8,719	5,394
Investment securities	25,217	15,454	18,158	12,723
Other assets	5,033	4,906	3,428	3,528
Deferred tax assets	429	300	109	96
Investment in associates and joint ventures	1,210	1,182	325	350
Investment in subsidiaries	–	–	6,199	6,005
Investment properties	964	936	979	970
Fixed assets	2,959	2,759	2,201	2,106
Intangible assets	4,143	4,148	3,182	3,182
Total assets	431,814	404,409	358,235	336,154

CAPITAL ADEQUACY RATIOS

The Group is subject to the Basel III capital adequacy standards, as prescribed in the MAS Notice 637.

In $ millions	The Group 2020	The Group 2019
Common Equity Tier 1 capital (CET1)	33,231	32,366
Additional Tier 1 capital	2,379	2,379
Tier 1 capital	35,610	34,745
Tier 2 capital	5,780	4,607
Eligible total capital	41,390	39,352
Risk-weighted assets (RWA)	225,441	226,318
Capital adequacy ratios (CAR) (%)		
CET1	14.7	14.3
Tier 1	15.8	15.4
Total	18.4	17.4

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 125# to 218, which comprise the balance sheets of the Bank and the Group as at 31 December 2020, 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 Singapore Financial Reporting Standards (International) (SFRS(I)s) 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 2020 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, including any commentary on the findings or outcome of our procedures, 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*
Expected credit losses *Refer to Notes 2(d)(vi), 3(a)(i), 3(b), 12, 21(b), 25, 27(b), 28(d), 30(b) and 31 to the consolidated financial statements.* The Group follows SFRS(I) 9 Financial Instruments requirements to calculate the expected credit loss (ECL) for its credit exposures. The credit exposures are categorised into non-impaired credit exposures and impaired credit exposures. a) *Non-impaired credit exposures* The ECL calculation on non-impaired credit exposures involves significant judgements and estimates. Areas where we have identified with greater levels of management judgement are: • the economic scenarios used and the probability weightage applied to them to measure ECLs on a forward-looking basis, reflecting management's view of potential future economic environment, specifically the COVID-19 pandemic economic impact; • the significant increase in credit risk (SICR) criteria; • the model assumptions; and • the adjustments to the model-driven ECL results to address model limitations or emerging trends.	a) *Non-impaired credit exposures* We assessed the design and evaluated the operating effectiveness of the key controls over the Group's ECL on non-impaired credit exposures computation processes with a focus on: • the completeness and accuracy of data inputs into the ECL calculation system; • the validation of models; • the selection and implementation of economic scenarios and probabilities, with the consideration of the COVID-19 impact; • the staging of credit exposures based on the Group's SICR criteria; and • the governance over post model adjustments. We involved our internal modelling specialists to assist us in performing the following procedures on a sampling basis: • independently reviewed the model validation results; • assessed the reasonableness of the probabilities of default (PD), loss given default (LGD) and exposure at default (EAD) models by performing sensitivity analyses, benchmarking or back-testing; • checked the reasonableness of the PD, LGD and EAD used in the computations to derive the ECL amount; and • reviewed the Group's assessment of its SICR criteria. We also reviewed the Group's approach for the selection of economic scenario to assess the reasonableness of the economic scenarios and corresponding weightages applied by the Group, as well as inspected the Group's SFRS(I) 9 Working Group decisions to assess the appropriateness of management's rationale over the post model adjustments and performed a recalculation, where applicable.
b) *Impaired credit exposures* As at 31 December 2020, the Stage 3 ECL for impaired credit exposures of the Group was $1,692 million, out of which 79% pertained to the Group Wholesale Banking (GWB) portfolio. We focused on the Stage 3 ECL for the GWB portfolio as the identification and estimation of impairment within this portfolio can be inherently subjective and requires significant judgements.	b) *Impaired credit exposures* We assessed the design and evaluated the operating effectiveness of the key controls over the Stage 3 ECL estimation process for the GWB portfolio. These controls included: • collateral valuation and monitoring; • identification of impairment indicators; • MAS Notice 612 credit grading; and • oversight of Group Credit Committee. We considered the magnitude of the credit exposures, macroeconomic factors, industry trends and latest developments in relation to COVID-19 pandemic in our audit sampling to focus on customers that are assessed to be of higher risk. With the increase in credit risk resulting from the COVID-19 pandemic, we performed additional procedures as outlined below: • reviewed the COVID-19 rating guidance for the approval of government backed loans, special relief loans and debt moratoriums by the front office; and • assessed, as part of our credit reviews of selected borrowers, the appropriateness of the Group's consideration of government measures, reliefs and other qualitative assumptions to determine the credit gradings. For our selected sample of impaired loans, we performed the following procedures: • assessed management's forecast of recoverable cash flows, including the basis for the amounts and timing of recoveries. Where possible, we compared key assumptions to external evidence, e.g. independent valuation reports of the collaterals; • considered and corroborated the borrowers' latest developments through adverse news search and/or publicly available information; • checked that underlying data was accurate by agreeing to source documents such as loan agreements; and • tested the calculations. Overall, the results of our evaluation of the Group's ECL were within a reasonable range of expectations.
Valuation of illiquid or complex financial instruments *Refer to Notes 2(d)(ii), 3(a)(ii) and 19(b) to the consolidated financial statements.* At 31 December 2020, 6% ($5 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, callable interest rate swaps and unquoted debt securities. The valuation of Level 3 financial instruments was a key area of focus of our audit as the determination of Level 3 prices is considerably more subjective given the lack of availability of market-based data. The valuation techniques used could involve the exercise of judgement and the use of assumptions and estimates.	We assessed the design and evaluated the operating effectiveness of the key controls over the Group's Level 3 financial instruments valuation processes. These controls included: • model validation and approval; • observability, completeness and accuracy of pricing inputs; and • independent price verification. In addition, with the assistance of our internal valuation specialists, we assessed the reasonableness of the valuation methodologies, assumptions and inputs used by management for a sample of financial instruments with significant unobservable inputs. The results of our assessment of the Group's valuation of illiquid or complex financial instruments were within the range of expected outcomes.
Impairment of goodwill *Refer to Notes 2(i), 3(a)(iii) and 37 to the consolidated financial statements.* As at 31 December 2020, the Group's balance sheet included goodwill of $4 billion. The goodwill is allocated to the respective cash-generating units (CGUs) defined by the Group's operating segments. This was a key area of focus for our audit because the goodwill impairment test relies on the calculation of the value-in-use (VIU) of each CGU, which involves significant management judgement and assumptions about the future cash flows of the CGUs and the discount rates applied.	We focused on CGUs with a low headroom or significantly reduced headroom. Our work included the following: • reviewed the appropriateness of the CGU segmentation; • evaluated the forecasting process by reviewing historical achievement of projections; • assessed the reasonableness of key assumptions used in the forecasts, including management's consideration of the impact of the COVID-19 pandemic and continued uncertainty of the macroeconomic environment; • compared the long-term growth rates and discount rates used by management to our ranges, which were determined using external market data and calculations performed by our internal valuation specialists; and • performed sensitivity analyses to determine the impact of a reasonably possible change in the key assumptions to the VIU calculations to identify any CGU with a risk of impairment. Based on the results of our audit procedures, the assumptions used by management in its goodwill impairment tests were within a reasonable range of expectations.

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 SFRS(I)s, 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 Wilson Woo Siew Wah.

ERNST & YOUNG LLP
Public Accountants and Chartered Accountants
Singapore

24 February 2021

The page numbers are as stated in the Independent Auditor's Report dated 24 February 2021 in the UOB Annual Report 2020.

大華銀行