Independent Auditor's Report

for the financial year ended 31 December 2015

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 135 to 220 which comprise the balance sheets of the Bank and the Group at 31 December 2015, 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 2015 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.

<table>
<tr><th>Areas of focus</th><th>How our audit addressed the risk factors</th></tr>
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Allowance for impairment of loans to customers
Refer to Notes 2r(i) and 25a to the consolidated financial statements on pages 150 and 176 respectively.

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 of loans to customers, in accordance to the transitional provision set out in MAS Notice 612 requirements for the incorporation of historical loss data and qualitative factors on loan grading respectively.

Loans to customers contributed to 64% of the Group's total assets. The Group's gross loan portfolio comprises clients from the two business units, i.e. Group Wholesale Banking (GWB) (56%/$116 billion) and Group Retail (GR) (44%/$91 billion). The loan portfolio and characteristics of these two groups differ, therefore requiring a different approach in the assessment for specific allowances by management.

GWB's loan portfolio consists of large wholesale loans, requiring management to monitor the borrowers' repayment abilities individually based on their knowledge for any allowance for impairment.

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, for the allowance for impairment assessment.

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Our audit procedures include understanding and testing of the design and operating effectiveness of the key controls over the following:

- the data interface between systems from the approval to recording and monitoring of loans
- the identification and timeliness of identifying impairment indicators
- the governance process of loan downgrading, including the continuous re-assessment of the appropriateness of assumptions used in the impairment models

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.

Our procedures to assess management's provision for specific allowances, in response to the risks specific to the business units included the following:

<u>Group Wholesale Banking</u>
We obtained an understanding of the Group Credit Policy and evaluated the processes for identifying impairment indicators and consequently, the grading of loans for compliance on the classification according to MAS Notice 612.

We assessed the Group's credit review process on the credit worthiness of selected customers. We selected a sample of loans considering country risks, industry trends/macroeconomic factors, e.g. commodity crisis, lacklustre property market, etc. In particular, we focused on the shipping, real estate, and oil and gas portfolios.

For the selected non-performing loans, we assessed management's forecast of recoverable cash flows, valuation of collaterals, estimates of recovery on default and other sources of repayment. We evaluated the consistency of key assumptions applied, benchmarking these to our own understanding of the relevant industries and business environments, to assess the validity of the collateral valuations. We re-computed management's calculation of the specific allowances to check the accuracy of data captured in the accounting records.

Additionally, we selected samples of performing loans and assessed that the borrowers did not exhibit any definable weaknesses that may jeopardise the repayment abilities.

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Areas of focus	How our audit addressed the risk factors
Allowance for impairment of loans to customers (continued)	Group Retail The allowance for impairment process is based on projection of losses, with historical delinquency statistics of each portfolio. Our testing included both the secured and non-secured lending portfolios. For the secured lending portfolio, 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 economic conditions, asset price trends, etc. For the non-secured lending portfolio, we examined the appropriateness of the model parameters such as historical loss rates based on our industry knowledge and experience, to assess that they are in line with customer behavioural profiles. With respect to the Group's general allowances, our procedures included the following: • we re-computed management's calculation to assess that the Group maintained a minimum of 1% of general allowances on total credit exposure net of collateral and specific allowances in accordance with the transitional provision set out in MAS Notice 612 • we evaluated management's assessment on the relevance of the applied historical credit cycles and impact arising from forecasts of the prevailing market and economic conditions discussed above, which the Group is most susceptible to Overall, the results of our evaluation of the Group's allowance for impairment of loans are consistent with management's assessment. We have also assessed the adequacy of the Group's disclosure on the allowance for impairment of loans and the related credit risk in Note 25(a) and Note 43(a) to the financial statements.
Valuation of illiquid or complex financial instruments *Refer to Notes 2r(ii) and 18b to the consolidated financial statements on pages 150 and 166 to 167 respectively.* 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. In particular, the determination of Level 3 prices is considerably more subjective given the lack of availability of market-based data. At 31 December 2015, 5% ($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 of 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. 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. 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 analysis of key factors. The results of our independent analyses are consistent with those of management's analyses. We also considered whether the financial statement disclosures appropriately reflect the Group's exposure to financial instrument valuation risk. For example, we assessed the Group's fair value hierarchy policy against the requirements of FRS 113 Fair Value Measurement, and tested the liquidity of the prices for selected Level 2 and 3 instruments to evaluate whether they were categorised in the appropriate level.

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for the financial year ended 31 December 2015

Areas of focus	How our audit addressed the risk factors
Impairment of goodwill *Refer to Notes 2r(iii) and 34 to the consolidated financial statements on pages 150 and 190 respectively.* As at 31 December 2015, 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. We focused on goodwill impairment due to the impairment testing of cash generating units (CGUs) relying on estimates of value-in-use (VIU) based on estimated future cash flows. The cash flow projection involved significant management judgment, and is based on assumptions that are affected by expected future market and economic conditions.	Our audit procedures focused on the assessment of key assumptions in forming the CGUs' VIU calculation, including the cash flow projections and discount rates. We assessed assumptions used in cash flow projections which the outcome of the impairment test is most sensitive to, and evaluated the reasonableness of these assumptions made by management by comparing it to externally available industry, economic and financial data. We stress-tested the cash flow projections. These cash flow projections have been approved by management. Furthermore, we evaluated management's budgeting process by comparing the actual results to previously forecasted results. Our evaluation results are consistent with management's goodwill impairment testing results. We also assessed the appropriateness of the financial statement disclosures concerning those key assumptions to which the outcome of the impairment test is most sensitive.

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.

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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 2016