Issuer: United Overseas Bank Limited
Security: United Overseas Bank Limited

Meeting details:
Date: 20 April 2017
Time: 15:00H
Venue: Marina Bay Sands Expo and Convention Centre, Level 3, Heliconia Main Ballroom, 10 Bayfront Avenue, Singapore 018956

Company Description
United Overseas Bank Limited provides financial products and services. The company's Group Retail segment provides home loans, credit/debit cards, vehicle loans, overdraft facilities, and deposit accounts; and investment and asset management, and estate planning services to high net worth individuals and investors. This segment also offers wealth management and financial advisory services; financial services to customers to manage their finances and investments; and products and services to small enterprises. Its Group Wholesale segment provides credit and financing, cash management and liquidity, and trade finance and supply chain management solutions, as well as global markets solutions in fixed income, currencies, and commodities. This segment also manages and underwrites initial public offerings, secondary equity placements, rights issues, and equity-linked issues, as well as provides corporate advisory services in mergers and acquisitions, corporate restructurings, and other corporate actions. In addition, it arranges and/or underwrites financing for clients, including acquisition financing, leveraged buy-out financing, and general corporate financing; and manages bonds and other debt securities issuances. The company's Global Markets segment offers foreign exchange, interest rates, credit, and equity and commodity assets; and investment management services in retail unit trusts, exchange-traded and private equity funds, fund of funds, and customized portfolio management services. Its Other Financial Services segment provides investment management, and venture capital and private equity investment services. The company has a network of approximately 500 offices in 19 countries and territories in the Asia Pacific, North America, and Western Europe. The company was formerly known as United Chinese Bank and changed its name to United Overseas Bank Limited in 1965. United Overseas Bank Limited was founded in 1935 and is headquartered in Singapore.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=U11)

Q1. In the Chairman's Statement (page 8 of the annual report), it was disclosed that a decision was made to expand the size of the board up to 12 directors and the company is in the process of recruiting new directors. The Executive Committee was also re-constituted into the Strategy Committee and Board Credit Committee on 15 February 2016.

a) **Can the board help shareholders understand if this re-organisation of the board is a prelude to a shift in the group's strategy?**

b) **What are the considerations that led to the decision to increase the board to 12 directors?**

c) **What are the experiences and skills that the board is looking to add to the current board?**

d) **With the re-constitution of the Executive Committee into the Strategy Committee and the Board Credit Committee, and with the potential expansion of the board, how would this further enhance the board's decision making?**

e) **What is the Board's policy on gender diversity? Is the Board looking to increase gender diversity? Currently there is only one female board member out of 9.**

Q2. The group's core businesses delivered stable results in a period of uncertainty and upheaval. The group reported net earnings of $3.10 billion for the full year of 2016, 3.5% lower than a year ago. The operating and financial figures show that the bank has been trying hard to overcome the slowing operating environment and by leveraging the bank's strengths. Some of the key figures from the Financial Highlights section (pages 20 to 22) include:

- Customer deposits at $255 billion
- Loan/Deposit ratio of 86.8%
- Total assets at $340 billion
- Return on equity of 10.2%
- Return on assets of 0.95%

The first three measures are at the highest in 5 years and the last two measures are at their lowest levels in 5 years. Net interest margin has also hovered between 1.71% to 1.77% from 2013 to 2016. It appears that the bank has performed well and had to fully leverage its strengths to maintain profitability.

a) **Can management elaborate further on the organic growth opportunities? How well positioned is the bank to capitalise on the region's growth? What are management's targets for the near-term?**

b) **What will be the impact of higher interest rates (in the US) on the bank's margins? How sensitive is the bank's net interest margin to such changes?**

In the Chairman Emeritus' Statement (page 7), it was also said that:

> *Management spent 2016 strengthening the Bank's infrastructure to build capabilities for the future. We will keep assessing opportunities and exploring new business models, while prudently managing risks.*

c) **Can management elaborate further on what kind of opportunities would be attractive to the group, given the group's existing network and risk appetite?**

Q3. The growth in the group's expense to income ratio has slowed down and the expense-to-income ratio for 2016 was 45.9%. The trend in the expense-to-income ratio and the IT-related operating expenses are shown in the table below.

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Expense/Income ratio	41.0%	43.0%	42.3%	43.1%	42.2%	44.7%	45.9%
IT-related operating expenses ($ million)	173	150	171	160	199	242	286

The bank has also showcased many new initiatives that are leading the industry, such as instant credit card issuance (the first in the world), contactless ATM cash withdrawals (the first in Southeast Asia), and smartphone as security token (the first in Singapore). In the 2014 Annual Report, the CEO had said that the group's long-term target for the cost-to-income will be around 40 per cent as the group looks to enhance productivity and improve efficiencies across the various business lines and network.

a) **What are the challenges that have led to the sustained increases in the expense-to-income ratio?** For 2016, staff costs were well managed but other components of expenses have increased.

b) **What is the group's overall strategy in its investment in IT/technology? Has the group invested to innovate and automate processes so that cost of banking is reduced? When will the investment cycle be over and when will the improved efficiency be seen?**

c) **Is management still committed to a long-term target of 40% for the expense-to-income ratio? Is the mid-40% the "new normal" for banking in the competitive and constantly changing landscape?**

d) **On the opportunities presented by disruptive financial technology (Fintech), how does the group ensure that it is ready to seize the opportunities that may arise from changing consumer behaviour or new business models?**