Capital Management

UOB's capital management objective is to ensure that the Group maintains an optimal capital level that is adequate to support business growth and strategic investment opportunities. It is also to meet regulatory requirements and maintain the strong credit rating for which UOB is noted by our external stakeholders who include our depositors and investors. We also seek to be efficient in our capital mix, to keep our overall cost of capital low, and to deliver sustainable returns in the form of dividends to our shareholders.

Our Approach

We actively monitor and manage the Group's capital position over the medium term through the Group's Internal Capital Adequacy Assessment Process (ICAAP), which includes:

- setting capital targets for the Bank and its banking subsidiaries. As part of this we take into account anticipated future regulatory changes and stakeholder expectations;
- forecasting capital demand for material risks based on the Group's risk appetite. This is evaluated across all business segments and banking entities and includes the Group's capital position before and after mitigation actions under adverse economic conditions; and
- determining the capital issuance requirements and capital securities maturity profile.

Two committees oversee our capital planning and assessment process. The Board Risk Management Committee (BRMC) assists the Board with the management of risks arising from the business of the Group while the Risk and Capital Committee manages the Group's ICAAP and overall risk profile and capital requirements of the Group. Each quarter, the BRMC and Senior Management are updated on the Group's capital position. The capital management plan, the contingency capital plan, as well as any capital management actions, are submitted to the senior management team and/or the Board for approval.

The Bank is the primary equity capital provider to the Group's entities. The investments made in Group entities are funded mainly by the Bank's own retained earnings and capital issuance. The Group's banking subsidiaries manage their own capital to support their planned business growth and to meet regulatory requirements within the context of the Group's capital plan. Capital generated by subsidiaries in excess of planned requirements is returned to the Bank by way of dividends. There was no impediment to subsidiaries paying their dividends during the year.

Regulatory Updates

As a Domestic Systemically Important Bank (D-SIB) in Singapore, UOB is subject to stricter policy measures such as higher capital requirements imposed by the Monetary Authority of Singapore (MAS).

For the year of 2015, we were required to maintain minimum Common Equity Tier 1 (CET1), Tier 1 and Total Capital Adequacy Ratio (CAR) of 6.5 per cent, 8 per cent and 10 per cent respectively at Bank and Group levels. The capital requirements will increase progressively over time to 9 per cent, 10.5 per cent and 12.5 per cent by 1 January 2019.

In line with Basel III, the capital conservation buffer (CCB) and countercyclical buffer (CCyB) will be phased-in from 1 January 2016 to 1 January 2019. The CCB ensures banks build up capital outside periods of stress, so that the buffer may be drawn down when losses are incurred. The CCyB is not an ongoing requirement but only applied on a discretionary basis by the relevant banking supervisors. Both buffers are to be maintained in the form of CET1 capital.

The regulatory frameworks are still evolving. In October 2015, the MAS released a Consultative Paper on proposed amendments to MAS Notice 637 to implement revisions to the Basel III Capital Framework. The proposed amendments are intended to enhance the risk capture of banks' equity exposures and counterparty credit risk exposures. In addition, the revised Pillar 3 disclosure requirements aim to improve the consistency and comparability of banks' disclosures on risk-weighted assets. We conduct regular reviews of the regulatory landscape and anticipate possible implications in relation to the management of capital, risks, funding and liquidity.

Capital Management

Capital position as at 31 December 2015

There are three categories of regulatory capital:

- CET1 Capital is the highest form of capital and comprises paid-up ordinary share capital, disclosed reserves and qualifying minority interest.
- Additional Tier 1 (AT1) Capital comprises eligible non-cumulative non-convertible perpetual securities, and ineligible preference shares subject to partial recognition under Basel III transitional rules.
- Tier 2 Capital comprises subordinated notes and accounting provisions in excess of Basel expected loss.

The Group's CET1 CAR, Tier 1 CAR and Total CAR as at 31 December 2015 were comfortably above the regulatory minimum of 6.5 per cent, 8 per cent and 10 per cent respectively. The Group's leverage ratio also well exceeds the minimum 3 per cent applied during the Basel parallel run period from 1 January 2013 to 1 January 2017.

The table below shows the consolidated capital position of the Group as at 31 December 2015 and 31 December 2014.

	2015 $ million	2014 $ million
Common Equity Tier 1 Capital		
Share capital	3,704	3,715
Disclosed reserves/others	24,762	23,590
Regulatory adjustments	(2,448)	(2,408)
Common Equity Tier 1 Capital	26,018	24,897
Additional Tier 1 Capital		
Preference shares/others	2,179	2,180
Regulatory adjustments - capped	(2,179)	(2,180)
Tier 1 Capital	26,018	24,897
Tier 2 Capital		
Subordinated notes	4,505	4,405
Provisions/others	1,028	918
Regulatory adjustments	(201)	(12)
Eligible Total Capital	31,350	30,208
Risk-Weighted Assets (RWA)		
Credit risk	166,377	148,627
Market risk	21,620	18,295
Operational risk	12,656	11,870
Total RWA	200,654	178,792
Capital Adequacy Ratios (%)		
CET1	13.0	13.9
Tier 1	13.0	13.9
Total	15.6	16.9
Proforma CET1 (based on final rules effective 1 Jan 2018)	11.7	12.6
Leverage Exposure	355,932	NA
Leverage Ratio (%)	7.3	NA

Our banking subsidiaries outside Singapore are also required to comply with the regulatory requirements in their respective countries of operation. As at 31 December 2015, the capital adequacy ratios of the major banking subsidiaries were above their respective local requirements.

	2015			
	Total Risk-Weighted Assets $ million	Capital Adequacy Ratios		
		CET1 %	Tier 1 %	Total %
United Overseas Bank (Malaysia) Bhd	17,477	12.3	12.3	15.5
United Overseas Bank (Thai) Public Company Limited	10,349	16.2	16.2	18.8
PT Bank UOB Indonesia	7,472	13.9	13.9	16.2
United Overseas Bank (China) Limited	6,259	22.9	22.9	23.5

More information on regulatory disclosure is available on the UOB website at www.UOBGroup.com/investor/financial/overview.html.