

Capital Management

UOB's capital management objective is to ensure that the Group maintains an optimal capital level that supports its businesses, as well as strategic growth and investment opportunities. It is also to meet regulatory requirements and to maintain the strong credit rating for which UOB is noted by our external stakeholders, including 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). This includes:

- setting capital targets for the Bank and its banking subsidiaries, for which anticipated regulatory changes and stakeholder expectations are taken into account;
- forecasting capital demand for material risks based on the Group's risk appetite. This is evaluated across all business segments and banking entities, with the Group's capital position projected before and after mitigating actions under adverse economic conditions; and
- determining capital issuance requirements and reviewing the maturity profile of existing capital securities.

Two committees oversee our capital planning and assessment process. The Board Risk Management Committee (BRMC) assists the Board to oversee the management of risks arising from the business of the Group while the Risk and Capital Committee manages the Group's ICAAP, overall risk profile and capital requirements. 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 Senior Management and/or the Board for approval.

The Bank is the primary equity capital provider to the Group's entities. Investments in the Group's entities are funded mainly by the Bank's retained earnings and capital issuances. The Group's banking subsidiaries manage their own capital positions to support planned business growth and to meet regulatory requirements within 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 one of the Domestic Systemically Important Banks (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 2016, Singapore-incorporated D-SIBs were required to maintain at Bank Solo and Group levels, 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. In addition, to ensure that banks build up adequate capital buffer outside periods of stress, a capital conservation buffer (CCB) of 2.5 per cent maintained in the form of CET1 capital was phased in at 0.625 per cent point each year from 1 January 2016, reaching 2.5 per cent by 1 January 2019. Including the full CCB requirement, the capital requirements will ultimately increase to 9 per cent, 10.5 per cent and 12.5 per cent respectively.

In line with Basel III, a countercyclical buffer (CCyB) of up to 2.5 per cent to be maintained in the form of CET1 capital was also phased in from 1 January 2016, capped at 0.625 per cent point per year, up to 1 January 2019. The CCyB is applied on a discretionary basis by banking supervisors in the respective jurisdictions.

As the regulatory landscape evolves, we continue to monitor and to evaluate the impact arising therefrom. In October 2016, revisions were made to the MAS Notice 637 to implement requirements consistent with the equivalent Basel standards. Amendments which were effective from 1 January 2017 will enhance the risk capture of banks' equity exposures and align the regulatory capital treatment of significant investments to the Basel framework. In addition, Pillar 3 disclosure requirements were revised to improve the comparability and consistency of disclosures on banks' capital adequacy.



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Capital Position as at 31 December 2016

There are three categories of regulatory capital:

- CET1 Capital comprises paid-up ordinary share capital, disclosed reserves and qualifying minority interest.
- Additional Tier 1 Capital comprises eligible non-cumulative non-convertible perpetual securities.
- Tier 2 Capital comprises subordinated notes and accounting provisions in excess of Basel expected loss.

As at 31 December 2016, the Group's CET1 CAR, Tier 1 CAR and Total CAR of 13.0 per cent, 13.1 per cent and 16.2 per cent were well above the regulatory minimum, while the Group's leverage ratio of 7.4 per cent exceeded 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 2016 and 31 December 2015.

	2016 \$ million	2015 \$ million
Common Equity Tier 1 Capital		
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
Additional Tier 1 Capital		
Perpetual capital securities/others	2,096	2,179
Regulatory adjustments - capped	(1,772)	(2,179)
Tier 1 Capital	28,280	26,018
Tier 2 Capital		
Subordinated notes	5,546	4,505
Provisions/others	1,122	1,028
Regulatory adjustments	(22)	(201)
Eligible Total Capital	34,926	31,350
Risk-Weighted Assets (RWA)		
Credit risk	179,160	166,377
Market risk	23,138	21,620
Operational risk	13,261	12,656
Total RWA	215,559	200,654
Capital Adequacy Ratios (%)		
CET1	13.0	13.0
Tier 1	13.1	13.0
Total	16.2	15.6
Fully-loaded CET1 (based on final rules effective 1 Jan 2018)	12.1	11.7
Leverage Exposure	380,238	355,932
Leverage Ratio (%)	7.4%	7.3

Our banking subsidiaries outside Singapore are also required to comply with the regulatory requirements in their respective countries of operation. As at 31 December 2016, the capital adequacy ratios of the Group's banking subsidiaries were above their respective local requirements.

	2016			
	Total Risk-Weighted Assets \$ million	Capital Adequacy Ratios		
		CET1 %	Tier 1 %	Total %
United Overseas Bank (Malaysia) Bhd	17,392	13.3	13.3	16.7
United Overseas Bank (Thai) Public Company Limited	11,560	16.0	16.0	18.3
PT Bank UOB Indonesia	8,149	14.3	14.3	16.4
United Overseas Bank (China) Limited	7,457	18.2	18.2	18.8

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

