

# Remuneration

## Group Remuneration Policy

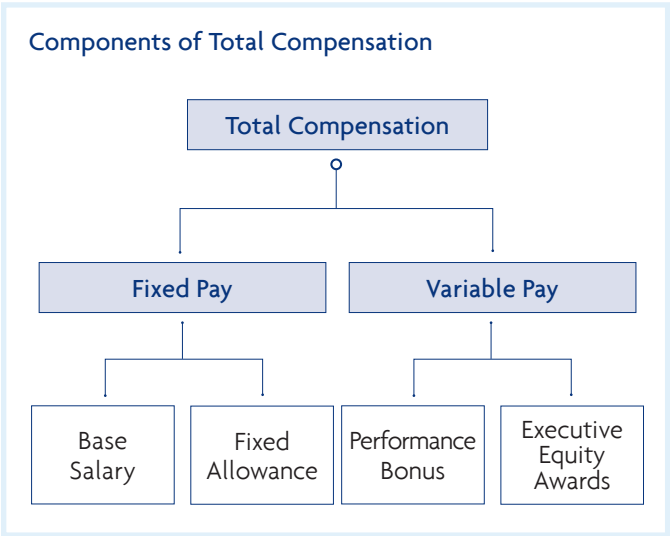
The UOB Group Remuneration Policy applies to the Bank, all subsidiaries and overseas branches within the Group and guides the design, operation and management of our remuneration programmes. The policy sets out the principles and philosophies that we adopt to attract, to motivate and to retain a highly-skilled workforce across our Group worldwide, while encouraging behaviours that strengthen the long-term financial strength of the Group. Our remuneration programmes are designed to support the Group’s business strategies and objectives and to comply with the principles and standards set out by the Financial Stability Board. The policy covers the remuneration of directors and employees. The employees include Senior Executives (SEs) and Material Risk Takers (MRTs). SEs refer to the Group Chief Executive Officer and senior corporate Managing Directors. MRTs refer to employees with significant organisational responsibilities that have a material impact on the Group’s performance and risk profile, and employees with high risk mandates in the form of risk-weighted assets and trading limits.

The Remuneration Committee (RC) conducts regular reviews of the remuneration policy to ensure that compensation practices and programmes are consistent with regulatory requirements and are responsive to market developments.

## Our Approach to Remuneration

We apply a meritocratic approach to ensure that the remuneration framework supports the Group’s long-term business strategy, and delivers a total compensation that fairly reflects each employee’s contribution and performance.

The Group’s compensation is made up of two main components, namely fixed pay and variable pay. Fixed pay consists of a base salary and fixed allowances that are pegged to the market value of the job. Variable pay rewards employees based on the performance of the Group and the employee’s individual performance.



We take a holistic view of various factors to determine and to ensure that an employee’s total compensation is fair. These factors include:

- the market value of the employee’s job (Pay for Position);
- the employee’s personal attributes such as experience, competencies and behaviours that uphold the UOB values (Pay for Person); and
- the performance of the Group and the employee’s individual achievement of performance targets (Pay for Performance).

### Pay for Position

The value of each position is benchmarked against comparable positions in the market. We engage the services of independent remuneration consultants to establish the market pay levels of each position. This sets an anchor to ensure that pay levels in the Group are competitive with other companies of comparable size and nature of business in the markets in which we operate.

In 2016, we used salary surveys conducted by external compensation consultants, such as McLagan and Willis Towers Watson, as reference for employee salary benchmarking purposes. The consultants are independent and not related to us or any of our directors.

### Pay for Person

An employee’s personal attributes such as skills, experience and competency determine how the employee is compensated relative to the anchor. Typically, an employee who is highly competent and experienced in the role receives a higher base salary that commensurates with those personal attributes. How an employee behaves in respect to our UOB values is also factored in the pay decisions.

### Pay for Performance

The differentiation of variable pay ensures that employees can be recognised, rewarded and motivated for their contributions. With Pay for Performance, we aim to deliver a total compensation for high-performing employees that is above market levels.

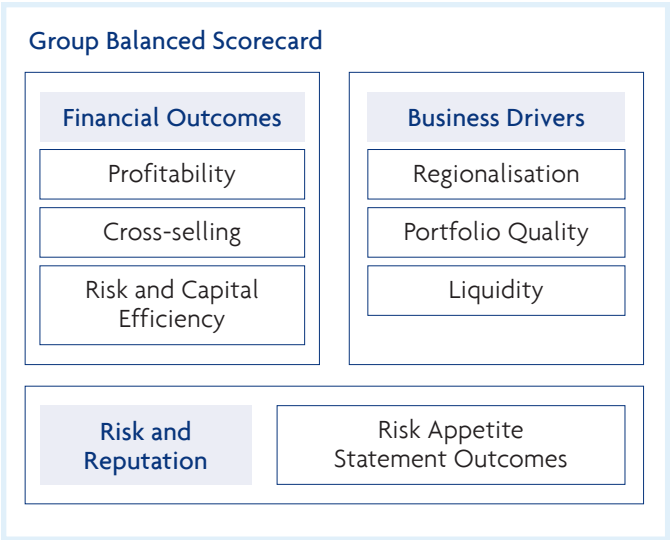
### Variable Pay – Performance Bonus

#### Determining the Performance Bonus Pool

The total compensation paid to employees is set as a function of the net profit before tax under the Group’s total compensation framework. The performance bonus pool is then determined based on the productivity levels achieved. For SEs, the performance bonus pool is set as a function of both net profit before tax and economic profit.

The performance bonus pool derived is then moderated by the performance of the Group’s balanced scorecard, under which we measure performance on financial outcomes, business drivers, and risk and reputation. Financial outcomes include metrics on profitability, risk and capital efficiency, and cross-selling. Business drivers focus on the Group’s regionalisation strategy,

liquidity and the quality of our portfolio. Risk and reputation are dependent on the outcomes under the Group Risk Appetite Statement, as assessed by the Board Risk Management Committee. Depending on the severity of breaches under the Group Risk Appetite Statement, the RC may reduce the performance bonus pool for the year as it deems fit.



**Allocating and Distributing the Performance Bonus Pool**  
 The Group's performance bonus pool is allocated to business units based on the productivity and balanced scorecard achievements of each business unit, which are cascaded from the Group's balanced scorecard. Country heads are consulted for the performance bonus pools allocated to the business units in each country.

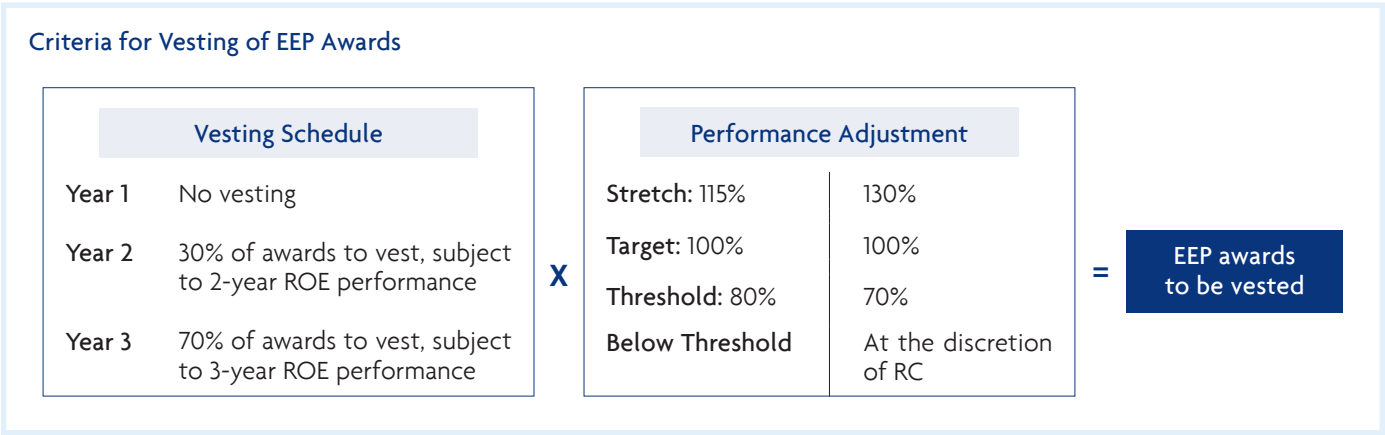
The performance bonus of each employee is then distributed from the performance bonus pool available to the business unit, depending on their individual performance. The individual performance of each employee is assessed based on a mix of performance objectives and competency behaviours. This balances the quantitative achievement of key performance indicators with the behaviours that each employee is expected to display in achieving their objectives. Employees who have exceeded performance expectations are awarded higher performance bonuses. Conversely, performance bonuses are not awarded to employees who do not meet performance expectations for the year.

### Variable pay – Executive Equity Awards

The Executive Equity Plan (EEP) forms the Group's long-term compensation component that is forward-looking, with rewards based on the Group's future performance. We believe that the EEP is essential to meeting the following objectives:

- align the long-term interests of senior employees with those of shareholders;
- retain key employees of the Group whose contributions are essential to the long-term growth and profitability of the Group;
- attract potential employees with the relevant skills to contribute to the Group and to create value for shareholders; and
- deliver compensation in a manner that drives the long-term performance of the Group.

EEP awards are made in the form of performance-based restricted shares that vest over a period of three years, contingent on the Group meeting long-term performance targets. EEP awards made in 2016 are subject to the following vesting criteria:



# Remuneration

## Remuneration Governance

The RC comprises three independent and non-executive directors. In determining the total compensation for the Group, the RC takes into account various factors including the underlying business risks, business outlook, performance and investments in building infrastructure and capability to ensure that the compensation for the Group strengthens the franchise and is aligned appropriately with shareholders' interests.

The RC also seeks inputs from the Board Risk Management Committee (BRMC) to ensure that remuneration and incentive practices adopted by the Group do not create incentives for excessive or inappropriate risk-taking behaviours.

Details of the composition of the RC and a summary of its key roles and responsibilities can be found in the Corporate Governance section of this report.

## Control Functions

To avoid conflict of interest, UOB compensates employees in control functions, namely Risk Management, Audit, Credit and Compliance, independently of the performance of any business lines of business units that they oversee. Compensation for employees in control functions is determined based on the overall performance of the Group, the achievement of operational key performance indicators of the control function and the performance of the individual employee. To strengthen the independence of control functions, performance bonuses for control functions are capped at no more than 10 per cent variance year on year.

In addition, the remuneration for the Chief Risk Officer and the Head of Group Audit is approved by the BRMC and the Audit Committee respectively.

## Variable Pay Deferrals

The Group's variable pay deferral policy applies to all employees regardless of role or seniority, with a specific focus on the variable pay for SEs, MRTs and other employees who receive a high variable pay. The objective of the deferral policy is to align compensation payment schedules with the time horizon of risks and to encourage employees to focus on delivering sustainable long-term performance. Variable pay deferral in the Group comprises two main elements – the awards made under the EEP and bonus deferrals.

## Executive Equity Awards

The EEP awards form a major component of the Group's deferred variable pay. We believe that it is necessary for senior employees to have a material portion of their total compensation aligned with the long-term interests of shareholders.

## Deferred Bonus

Under the variable pay deferral policy, all variable pay, including performance bonus and EEP awards, is subject to deferral ranging from 20 per cent to 60 per cent, with the proportion of deferral increasing with the amount of variable pay received. Where the quantum of variable pay deferral exceeds the EEP awards granted, the excess will be deferred in the form of cash bonus deferrals. Deferred bonus will vest equally over three years, at a rate of 1/3 per year.

## Deferral Guidelines

There is no accelerated payment of deferred compensation for employees leaving the Group other than in exceptional cases, such as death in service. Retiring and retired employees are subject to the same vesting conditions for their deferred compensation as employees in service. There is no special retirement plan, golden parachute or special severance package for SEs and MRTs. Employees who resign or are terminated will forfeit any unvested deferrals. In addition, the vesting of deferred compensation is subject to the following deferral guidelines:

| Guidelines on Treatment of Deferred Variable Pay   |  |
|--|--|
| Malus of Unvested Compensation   | Clawback of Paid Compensation  |
| <ul style="list-style-type: none"><li>• Material Misconduct</li><li>• Material Restatement of Financial Results</li><li>• Bank-wide Losses</li></ul> | <ul style="list-style-type: none"><li>• Gross Misconduct</li><li>• Financial Misstatements</li><li>• Material Risks</li><li>• Malfeasance or Fraud</li></ul> |

## Remuneration Outcomes in 2016

For 2016, the Group reported net earnings of \$3.10 billion for 2016, 3.5 per cent lower than 2015. Net interest income increased 1.3 per cent, led by healthy loan growth in the consumer and non-bank financial institution customer segments. Fee income and loans grew despite a subdued growth environment with total income holding steady at \$8.06 billion. The Group's liquidity and funding position remained strong with the loan-to-deposit ratio at 86.8 per cent as at 31 December 2016. Gross loans grew 8.8 per cent over the year while deposits increased by 6.1 per cent. Our performance reflects the resilience of the Group's core businesses in a slowing economic environment.

On the regional front, cross-selling saw broad-based growth across most businesses as the Group sharpened its focus on unlocking the value of its franchise. The Group also continued to maintain a strong focus on managing its risk and reputation, while building its talent bench strength across the region. Income in our key regional subsidiaries, a strategic imperative, showed good traction and recorded a 4 per cent growth year on year.

Total operating expenses rose 2.8 per cent from 2015, largely from revenue and IT-related expenses. The Group was disciplined in managing total headcount and we continue to invest in technology and infrastructure to sharpen our capabilities.

Outcomes of the Group's Risk Appetite Statement, together with the overall performance of the Group, were considered by the RC in determining the Group's compensation for 2016.

### Senior Executives and Material Risk Takers

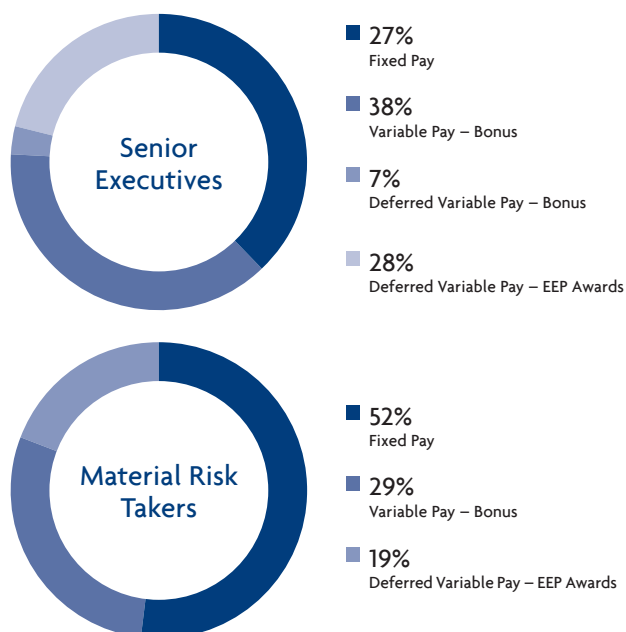
While the Monetary Authority of Singapore's Guidelines recommend the disclosure of the remuneration of the top five non-director executives, the Bank believes that it is neither in our advantage nor in our best interest to do so especially given the highly competitive market for talent. Hence, the breakdown of remuneration awarded has been reflected in percentages.

The following tables show the breakdown of remuneration for SEs, including the top five non-director executives and MRTs for the year ended 31 December 2016.

### Guaranteed Bonuses, Sign-On Awards and Severance Payments

| Category of Remuneration  | SEs      | MRTs         |
|---|----------|--------------|
| Number of guaranteed bonuses  | 0        | 5            |
| Number of sign-on awards  | 0        | 5            |
| Number of severance payments  | 0        | 0            |
| <b>Total amounts of above payments made for the financial year (\$'000)</b> | <b>0</b> | <b>2,215</b> |
| Number of employees   | 13       | 183          |
| Number of employees that received variable pay                              | 13       | 183          |

### Breakdown of Remuneration Awarded to SEs and MRTs in the Current Financial Year



# Remuneration

## Breakdown of Long-term Remuneration Awards

| Category of remuneration   | SEs<br>%   | MRTs<br>%  |
|--|------------|------------|
| Change in deferred remuneration paid out in current financial year                 | (14)       | (16)       |
| Change in amount of outstanding deferred remuneration from previous financial year | (24)       | (17)       |
| Outstanding deferred remuneration (breakdown)                                      |            |            |
| Cash   | 21         | 1          |
| Shares and share-linked instruments  | 79         | 99         |
| Other forms of remuneration  | –          | –          |
| <b>Total</b>   | <b>100</b> | <b>100</b> |
| Outstanding deferred remuneration (performance adjustments)                        |            |            |
| Of which exposed to ex-post adjustments  | 100        | 100        |
| Reductions in current year due to ex-post adjustments (explicit <sup>1</sup> )     | –          | –          |
| Reductions in current year due to ex-post adjustments (implicit <sup>2</sup> )     | –          | –          |
| Outstanding retained remuneration (performance adjustments)                        |            |            |
| Of which exposed to ex-post adjustments  | –          | –          |
| Reductions in current year due to ex-post adjustments (explicit)                   | –          | –          |
| Reductions in current year due to ex-post adjustments (implicit)                   | –          | –          |

1 Examples of explicit ex-post adjustments include malus, clawbacks or similar reversals or downward revaluations of awards.

2 Examples of implicit ex-post adjustments include fluctuations in the value of the shares or performance units.