# Capital Management

UOB's capital management objectives are to ensure that the Group maintains an optimal capital level that supports its businesses, strategic growth and investment opportunities, and to meet regulatory requirements. We also aim to sustain the strong credit ratings 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. The BRMC and management are updated on the Group's capital position every quarter, while the capital management and contingency capital plans are reviewed at least annually. Capital management actions are also 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 local regulatory requirements. Capital generated by the subsidiaries in excess of planned requirements is returned to the Bank by way of dividends. There was no impediment to the 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 2017, Singapore-incorporated D-SIBs are 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 percentage 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 percentage point per year, up to 1 January 2019. The CCyB is applied on a discretionary basis by banking supervisors in the respective jurisdictions.

Consistent with the Basel standard, the MAS has implemented a minimum leverage ratio requirement of 3 per cent for Singapore-incorporated banks with effect from 1 January 2018. This requirement is to be met with Tier 1 capital and applies at both Bank Solo and Group levels.

In December 2017, the Basel Committee announced the substantially finalised changes to the Basel III framework. The revisions seek to reduce excessive variability in the calculation of risk-weighted assets and to improve the comparability of banks' capital ratios by:

- constraining the use of internal ratings-based approaches;
- enhancing the risk sensitivity of standardised approaches for credit and operational risks; and
- creating a robust output floor based on revised standardised approaches.

The revised standards will take effect from 1 January 2022, with the output floor phased in over five years, and will reach full implemention by 1 January 2027. We continue to monitor the development and its impact arising therefrom.

# Capital Management

## Capital Position as at 31 December 2017

There are three categories of regulatory capital:

- CET1 Capital comprises paid-up ordinary share capital and disclosed reserves.
- Additional Tier 1 Capital comprises eligible non-cumulative non-convertible perpetual securities.
- Tier 2 Capital comprises subordinated notes and accounting provisions in excess of MAS Notice 637 expected loss.

As at 31 December 2017, the Group's CET1 CAR, Tier 1 CAR and Total CAR of 15.1 per cent, 16.2 per cent and 18.7 per cent were well above the regulatory minimum, while the Group's leverage ratio of 8.0 per cent exceeded the minimum 3 per cent regulatory requirement effective 1 January 2018.

The table below shows the consolidated capital position of the Group as at 31 December 2017 and 31 December 2016.

| | 2017 $ million | 2016 $ million |
|---|---|---|
| **Common Equity Tier 1 Capital** | | |
| Share capital | 4,792 | 4,257 |
| Disclosed reserves/others | 28,922 | 26,384 |
| Regulatory adjustments | (3,580) | (2,685) |
| **Common Equity Tier 1 Capital** | 30,134 | 27,956 |
| **Additional Tier 1 Capital** | | |
| Perpetual capital securities/others | 2,976 | 2,096 |
| Regulatory adjustments | (890) | (1,772) |
| **Tier 1 Capital** | 32,220 | 28,280 |
| **Tier 2 Capital** | | |
| Subordinated notes | 4,150 | 5,546 |
| Provisions/others | 983 | 1,122 |
| Regulatory adjustments | (5) | (22) |
| **Eligible Total Capital** | 37,348 | 34,926 |
| **Risk-Weighted Assets (RWA)** | | |
| Credit risk | 176,238 | 179,160 |
| Market risk | 9,424 | 23,138 |
| Operational risk | 13,819 | 13,261 |
| **Total RWA** | 199,481 | 215,559 |
| **Capital Adequacy Ratios (%)** | | |
| CET1 | 15.1 | 13.0 |
| Tier 1 | 16.2 | 13.1 |
| Total | 18.7 | 16.2 |
| Fully-loaded CET1 (fully phased-in per Basel III rules) | 14.7 | 12.1 |
| **Leverage Exposure** | 400,803 | 380,238 |
| **Leverage Ratio (%)** | 8.0 | 7.4 |

Our banking subsidiaries outside Singapore are also required to comply with the regulatory requirements in their respective countries of operation. As at 31 December 2017, the capital adequacy ratios of the Group's banking subsidiaries were above their respective local requirements.

| | 2017 | | | |
|---|---|---|---|---|
| | Total Risk-Weighted Assets | Capital Adequacy Ratios | | |
| | $ million | CET1 % | Tier 1 % | Total % |
| United Overseas Bank (Malaysia) Bhd | 17,869 | 14.4 | 14.4 | 17.6 |
| United Overseas Bank (Thai) Public Company Limited | 12,504 | 16.1 | 16.1 | 20.1 |
| PT Bank UOB Indonesia | 7,488 | 14.4 | 14.4 | 17.1 |
| United Overseas Bank (China) Limited | 8,297 | 16.5 | 16.5 | 17.3 |

Disclosures under MAS Notice 637 are published on our UOB website at www.UOBgroup.com/investor/financial/overview.html.