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 aim to sustain the strong credit ratings for which UOB is noted by our 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 (RCC), comprising senior management, manages the Group's ICAAP, overall risk profile and capital requirements. The BRMC and RCC are updated on the Group's capital position every quarter, while the capital management and contingency capital plans are reviewed annually. Capital management actions are also submitted to senior management and/or the Board for approval.

The Bank is the primary 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 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-SIBs) in Singapore, UOB is subject to stricter policy measures such as higher capital requirements imposed by the Monetary Authority of Singapore (MAS).

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. The Basel III transition period for regulatory adjustments ended on 1 January 2018, hence the CET1 CAR for 2018 is a fully-phased in ratio. In addition, 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 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.

In November 2018, the following amendments were made to MAS Notice 637 to implement the revised Basel standard for interest rate risk in the banking book (IRRBB) and the new Basel standard for total loss-absorbing capacity (TLAC) holdings:

- Amendments which relate to IRRBB set out Pillar 2 requirements for the identification, measurement, monitoring and control of IRRBB. These took effect from 31 December 2018; and
- The TLAC holdings standard set out the regulatory capital treatment of banks' investments in TLAC and *pari passu* instruments, and seek to limit the contagion within the financial system should a global systemically important bank enter into resolution. Amendments to MAS Notice 637 which relate to TLAC were effective from 1 January 2019.

We will continue to monitor the development on the finalised changes to the Basel III framework, to be implemented from January 2022, and the resulting impact.

Capital Position as at 31 December 2018

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; and
- Tier 2 capital comprises subordinated notes and accounting provisions in excess of MAS Notice 637 expected loss.

As at 31 December 2018, the Group's CET1 CAR, Tier 1 CAR and Total CAR of 13.9 per cent, 14.9 per cent and 17.0 per cent were well above the regulatory minimum, while the Group's leverage ratio of 7.6 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 2018 and 31 December 2017.

	2018 $ million	2017 $ million
Common Equity Tier 1 Capital		
Share capital	4,888	4,792
Disclosed reserves/others	30,445	28,922
Regulatory adjustments	(4,583)	(3,580)
Common Equity Tier 1 Capital	30,750	30,134
Additional Tier 1 Capital		
Perpetual capital securities/others	2,129	2,976
Regulatory adjustments	–	(890)
Tier 1 Capital	32,879	32,220
Tier 2 Capital		
Subordinated notes	4,186	4,150
Provisions/others	477	983
Regulatory adjustments	–	(5)
Eligible Total Capital	37,542	37,348
Risk-Weighted Assets (RWA)		
Credit risk	195,342	176,238
Market risk	10,344	9,424
Operational risk	14,882	13,819
Total RWA	220,568	199,481
Capital Adequacy Ratios (%)		
CET1	13.9	15.1
Tier 1	14.9	16.2
Total	17.0	18.7
Fully-loaded CET1 (fully phased-in per Basel III rules)	13.9	14.7
Leverage Exposure	434,732	400,803
Leverage Ratio (%)	7.6	8.0

Capital Management

Our banking subsidiaries outside Singapore are also required to comply with the regulatory requirements in their respective countries of operation. As at 31 December 2018, the capital adequacy ratios of the Group's significant banking subsidiaries were above their respective local requirements.

	2018			
	Total Risk- Weighted Assets $ million	Capital Adequacy Ratios		
		CET1 %	Tier 1 %	Total %
United Overseas Bank (Malaysia) Bhd	19,615	14.1	14.1	17.3
United Overseas Bank (Thai) Public Company Limited	13,173	16.8	16.8	19.2
PT Bank UOB Indonesia	8,118	13.1	13.1	15.3
United Overseas Bank (China) Limited	10,186	13.1	13.1	14.0

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