

Remuneration

We attract, motivate and retain a highly-skilled workforce across our organisation worldwide, while also encouraging values-based behaviours that underpin our financial strength and reputation. Our meritocratic compensation practices support the Group's long-term business strategy and provide a total compensation that reflects fairly each employee's contribution and performance for the year and their upholding of the UOB values in their decision-making and actions.

Group Remuneration Policy

The UOB Group Remuneration Policy sets out the principles and philosophies that guide the design, operation and management of our remuneration programmes. They are designed to support the Group's business strategies and objectives and to comply with the principles and standards set by the Financial Stability Board and by the Monetary Authority of Singapore's (MAS) Guidelines on Corporate Governance for Financial Holding Companies, Banks, Direct Insurers, Reinsurers and Captive Insurers which are incorporated in Singapore.

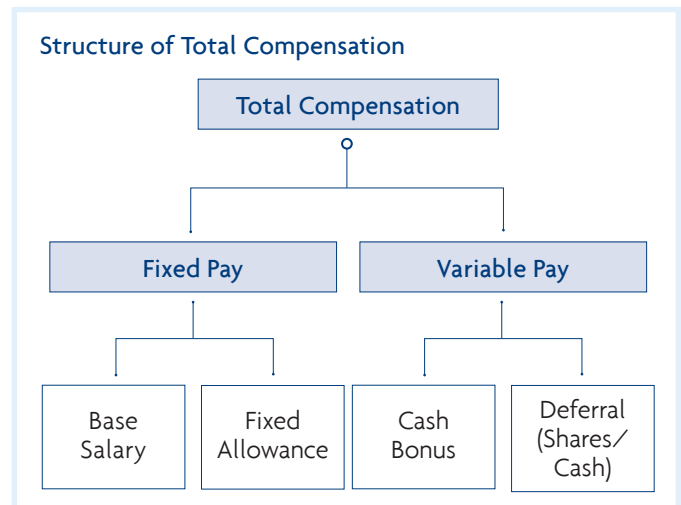
The policy covers the remuneration of directors and all employees, including Senior Management (SM) and Material Risk Takers (MRTs). SM is defined as the Group Chief Executive Officer and members of the Group Management Committee who have the authority and responsibility for their respective Group Functions. MRTs are 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, trading limits and trading sales budgets. The policy is reviewed by the Remuneration and Human Capital Committee (RHCC) regularly to ensure our compensation practices and programmes take into consideration regulatory requirements and are responsive to market developments.

Our Approach to Remuneration

The Group's compensation structure comprises 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 (cash bonus and deferrals in the form of cash or shares where applicable) rewards employees based on the performance of the Group and their business unit, as well as the employee's individual performance.

We consider holistically various factors to determine and to ensure fair compensation for every employee. These factors include:

- the market value of the employee's job (Pay for Position);



- the performance of the Group, the employee's business unit and the employee's individual achievement of performance targets (Pay for Performance);
- the employee's personal attributes such as skills and experience (Pay for Person); and
- How well the employee upholds our values (Living the UOB Values).

Pay for Position

The value of each position is benchmarked against comparable positions in the market. Results from salary surveys conducted by established external compensation consultants such as McLagan, Willis Towers Watson and Mercer, were used as market reference for our Group employees' salary benchmarking purposes. The consultants are independent and are not related to UOB or any of our directors.

Pay for Performance

With a Pay for Performance approach, the variable pay is differentiated to ensure employees are recognised, rewarded and motivated for their contributions. We aim to deliver a total compensation that is competitive for differentiated performance.

Remuneration

Pay for Person

An employee's personal attributes such as skills and experience determine how the employee is compensated. Employees who are highly competent and more experienced in their roles typically receive a higher base salary that is commensurate with those personal attributes.

Living the UOB Values

In addition to compensating employees appropriately for their position, contributions and attributes, we also take into consideration how consistently employees behave in respect of our UOB values.

Remuneration Governance

The RHCC determines the total compensation for the Group by considering various factors including the underlying business risks, business outlook, performance and investments in building infrastructure and capability. It seeks to ensure that the compensation for the Group creates long-term value and strengthens the franchise, and is aligned with shareholders' long-term interests. The Board Risk Management Committee (BRMC) also provides input to the RHCC, to ensure that remuneration and incentive practices adopted by the Group do not incentivise inappropriate risk-taking behaviours.

In 2018, the RHCC endorsed the engagement of an external management consulting firm, Oliver Wyman, to provide an independent review of the total compensation model. Following the review, the RHCC approved a revised variable pay deferral

policy for senior employees and MRTs aligned to that for the SM. Oliver Wyman and their consultants are independent and are not related to UOB or any of our directors.

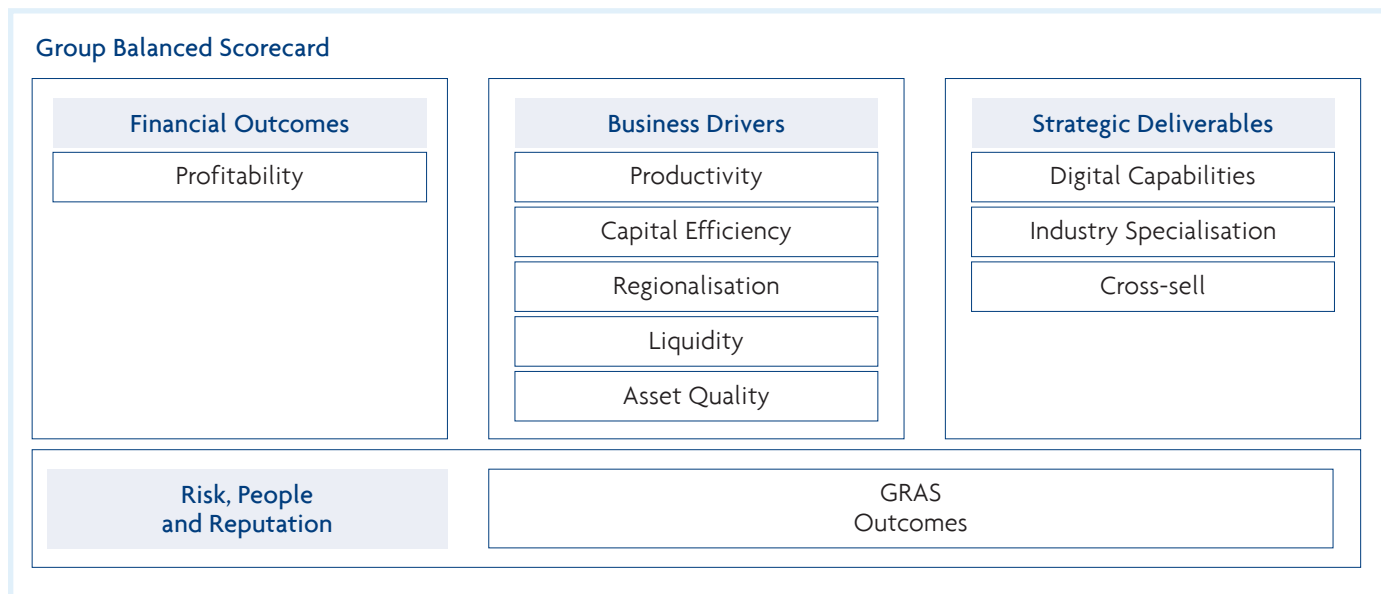
Details of the composition of the RHCC and a summary of its key roles and responsibilities can be found in the Corporate Governance section of this report.

Variable Pay

Determining the Variable Pay Pool

Under the Group's total compensation framework, the total compensation paid to employees is set as a percentage of net profit before tax. The variable pay pool is then determined by the productivity levels achieved based on the performance of the Group's Balanced Scorecard. The Group Balanced Scorecard included metrics for financial outcomes, business drivers, strategic deliverables, risk, people and reputation. For the SM, the variable pay pool is set as a function of net profit before tax and risk-weighted metrics, in line with the Group Balanced Scorecard.

The usage of risk-weighted metrics further emphasises UOB's prudent capital usage and risk management across the Group. Risk, people and reputation are dependent on the outcomes under the Group Risk Appetite Statement (GRAS), as assessed by the BRMC. Depending on the severity of breaches under the GRAS, the RHCC may reduce the variable pay for the year as it deems fit.



Allocating and Distributing the Variable Pay Pool

The Group's variable pay pool allocation to each business unit takes into account the productivity and Balanced Scorecard achievements of each business unit, which are cascaded from the Group's Balanced Scorecard, to ensure alignment of performance objectives across the Group. Country heads are consulted for the variable pay pools allocated to the business units in each country.

Business unit heads reward each employee for his/her individual performance. Employees are assessed based on performance objectives, competency behaviours and behaviours with respect to the UOB values. This balances the quantitative achievement of key performance indicators with the behaviours that each employee is expected to display in achieving his/her objectives. Employees who have exceeded performance expectations are awarded higher variable pay. Conversely, variable pay is not awarded to employees who do not meet the performance expectations for the year.

Control Functions

Employees in control functions, namely Risk Management, Audit, Credit and Compliance, are compensated independently from the performance of any business lines or business units that they oversee. This is to avoid any potential conflict of interest. The compensation of the control function employees 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 further the independence of these control functions, the variable pay for control functions is managed within a guided variance of not more than 10 per cent from the target variable pay. The BRMC and the Audit Committee approve the remuneration for the Chief Risk Officer and the Head of Group Audit respectively.

Variable Pay Deferrals

The Group's variable pay deferral policy applies to senior employees and MRTs. 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.

Under the variable pay deferral policy, variable pay 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.

Variable pay deferrals are either in the form of deferred cash or shares under the Executive Equity Plan (EEP) and will vest over three years.

Executive Equity Plan

The EEP forms the Group's long-term compensation component for senior employees which is essential in 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
- better risk alignment with the Group over the longer term.

Deferral Guidelines

The deferral guidelines apply consistently to all senior employees and MRTs as well as retiring, retired and retrenched employees. There is no accelerated payment of deferred compensation for employees leaving the Group other than in exceptional cases, such as death in service. There is also no special retirement plan, golden parachute or special severance package for SM and MRTs. Employees who resign or whose services 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

- Material Misconduct
- Material Restatement of Financial Results
- Bank-wide Losses

Clawback of Paid Compensation

- Gross Misconduct
- Financial Misstatements
- Material Risks
- Malfeasance or Fraud

The RHCC reserves the discretionary powers to enforce *malus* and the clawback of any paid compensation.

Remuneration

Remuneration Outcomes in 2018

The Group registered strong performance in 2018, reflecting double-digit growth in net earnings. This was supported by higher net interest margin on the back of rising interest rates, and healthy loan growth across our client franchise. There was broad-based growth for business segments while regional markets delivered stronger contribution notably in Thailand, Indonesia and Greater China. The cost-to-income ratio was relatively stable as the Group remains disciplined while investing in talent development, regional connectivity and digital capabilities. Credit costs eased as new non-performing loans formation declined amid an improved credit environment. Balance sheet strength was supported by the Group's stable capital and funding base, while return on risk-weighted assets improved.

The RHCC considered both the Group's overall performance and the GRAS outcomes when determining the Group's compensation.

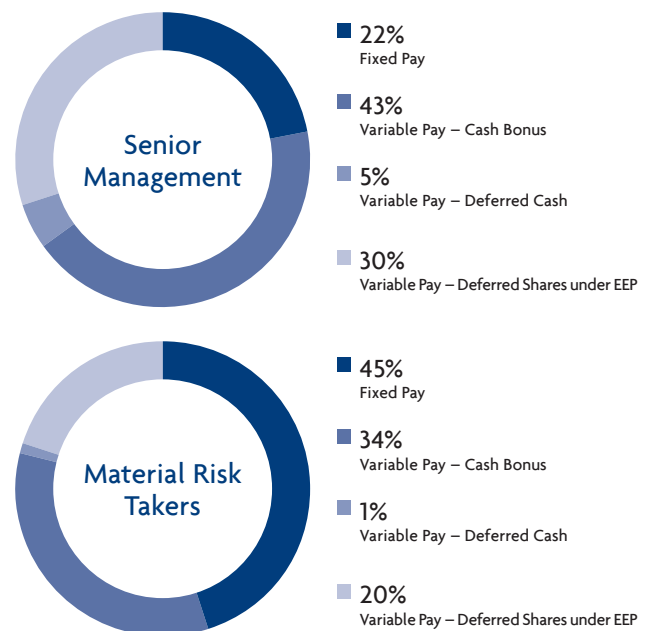
Senior Management and Material Risk Takers

While the MAS Guidelines recommend the disclosure of the remuneration of the top five non-director executives, the Bank believes that it would be disadvantageous for us to do so given the highly competitive market for talent as most banks in Singapore are not listed on the Singapore Exchange and are therefore not required to disclose such information.

Guaranteed Bonuses, Sign-On Awards and Severance Payments

Category of Remuneration	SM	MRTs
Number of guaranteed bonuses	0	1
Number of sign-on awards	0	13
Number of severance payments	0	0
Total amounts of above payments made for the financial year (\$'000)	0	2,602
Number of employees	15	193
Number of employees that received variable pay	15	190

Breakdown of 2018 Remuneration Awarded to SM and MRTs



Breakdown of deferred remuneration

Deferred and retained remuneration	Total outstanding deferred remuneration	of which: total outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustments	Total amendments during the year due to ex post explicit adjustments ⁽¹⁾	Total amendments during the year due to ex post implicit adjustments ⁽²⁾	Total deferred remuneration paid out in the financial year
Senior management	100%	100%	0%	0%	33%
Cash	17%	17%	0%	0%	8%
Shares and share-linked instruments	83%	83%	0%	0%	25%
Other forms of remuneration	0%	0%	0%	0%	0%
Other material risk-takers	100%	100%	0%	0%	28%
Cash	0%	0%	0%	0%	0%
Shares and share-linked instruments	100%	100%	0%	0%	28%
Other forms of remuneration	0%	0%	0%	0%	0%

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

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

