Capital Management

Our Capital Management objective

The UOB Group seeks to maintain an optimal level of capital to support our business growth strategies and investment opportunities, and to meet regulatory requirements. We aim to maintain the strong credit ratings for which UOB is recognised by our stakeholders, including our depositors and investors. We also seek to maintain an efficient capital structure, keeping our overall cost of capital low, and to deliver sustainable dividend returns to our shareholders.

Our Approach

We adopt a proactive approach in the management of our capital position over the medium term through the Group's Internal Capital Adequacy Assessment Process (ICAAP). This comprehensive assessment includes:

- setting capital targets for the Group, taking into account foreseeable regulatory changes and stakeholder expectations;
- forecasting capital consumption for material risks based on the Group's risk appetite. This forecast is evaluated across all business segments and banking entities against the projected capital levels, taking into consideration the impact of mitigating actions under adverse economic conditions; and
- determining capital issuance requirements and reviewing the maturity profile of existing capital securities.

Our capital planning and assessment process is governed by two committees. The Board Risk Management Committee (BRMC) assists the Board in the oversight of the management of risks arising from the businesses of the Group, while the Risk and Capital Committee (RCC), comprising senior management, manages the Group's ICAAP, overall risk profile and capital adequacy. The BRMC and RCC are kept apprised of the Group's capital positions quarterly, while the capital management and contingency capital plans are reviewed annually. Material capital management decisions are also approved by the Board.

The Bank is the primary provider of capital to the Group's entities. Investments in the Group's entities are substantially funded by the Bank's internally generated capital – retained earnings and externally-raised capital issuances. Our banking subsidiaries outside Singapore are expected to manage their own capital positions to support planned business growth and to comply with the regulatory requirements in their respective countries of operation. 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 payment of dividends by subsidiaries during the year.

Regulatory Requirements

UOB is one of the Domestic Systemically Important Banks (D-SIBs) in Singapore and is subject to stricter regulatory measures imposed by the Monetary Authority of Singapore (MAS).

As a D-SIB, UOB is required to maintain, at a minimum, Common Equity Tier 1 (CET 1), Tier 1 and Total Capital Adequacy Ratio (CAR) of 6.5 per cent, 8 per cent and 10 per cent respectively at the Bank and Group levels.

The CAR requirements include the following capital-related buffers:

- Capital conservation buffer (CCB) of 2.5 per cent, to be maintained in the form of CET 1 capital. This is to ensure that an adequate capital buffer is accumulated outside periods of stress. Taking into account the full CCB requirement, the regulatory CET 1, Tier 1 and Total CAR will increase to 9 per cent, 10.5 per cent and 12.5 per cent respectively.
- Counter-cyclical buffer (CCyB) of up to 2.5 per cent, to be maintained in the form of CET 1 capital. The CCyB is applied on a discretionary basis by banking regulators in the respective jurisdictions to limit excessive credit growth in their economies. Where UOB has credit exposures to the private sectors of these countries, UOB will be subjected to the CCyB requirements.

In 2019, the Basel Committee issued its final reformed Basel III frameworks to be implemented from 1 January 2022. We are monitoring the adoption of the reformed Basel III requirements for implementation in Singapore.

Capital position as at 31 December 2019

As at 31 December 2019, the Group's CARs were well above regulatory minimum at:

- CET 1 – 14.3 per cent;
- Tier 1 – 15.4 per cent; and
- Total – 17.4 per cent,

while the Group's leverage ratio of 7.7 per cent exceeded the minimum regulatory requirement of 3 per cent.

Capital Management

The table below shows the consolidated capital position of the Group as at 31 December 2019 and 31 December 2018.

	2019 $ million	2018 $ million
Common Equity Tier 1 Capital		
Share capital	4,949	4,888
Disclosed reserves/others	32,012	30,445
Regulatory adjustments	(4,595)	(4,583)
Common Equity Tier 1 Capital	32,366	30,750
Additional Tier 1 Capital		
Perpetual capital securities/others	2,379	2,129
Tier 1 Capital	34,745	32,879
Tier 2 Capital		
Subordinated notes	3,969	4,186
Provisions/others	638	477
Eligible Total Capital	39,352	37,542
Risk-Weighted Assets (RWA)		
Credit risk	200,419	195,342
Market risk	9,959	10,344
Operational risk	15,940	14,882
Total RWA	226,318	220,568
Capital Adequacy Ratios (%)		
CET 1	14.3	13.9
Tier 1	15.4	14.9
Total	17.4	17.0
Leverage Exposure	452,859	434,732
Leverage Ratio (%)	7.7	7.6

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