Remuneration

Group Remuneration Policy

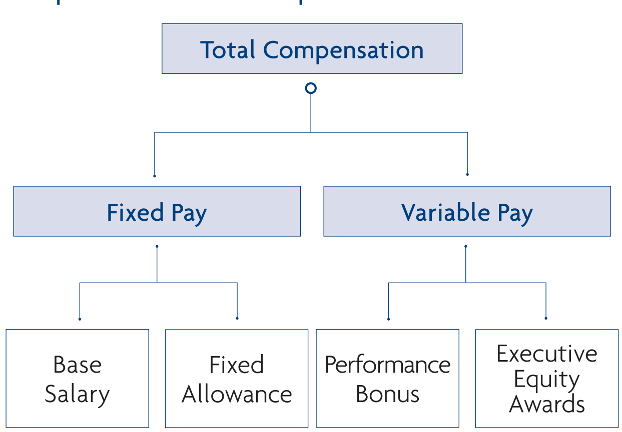
The UOB Group Remuneration Policy is applicable Group-wide and includes all overseas subsidiaries and overseas branches within the Group. It sets out the principles and philosophies that guide the design, operation and management of our remuneration programmes. The objective is to ensure we attract, motivate and retain a highly-skilled workforce across the organisation worldwide, while also encouraging values-based behaviours that underpin the long-term financial strength and reputation 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 by the Financial Stability Board and the 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 Executives (SE) and Material Risk Takers (MRT). SEs are the Group Chief Executive Officer and senior corporate Managing Directors. 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 and trading limits. The policy is reviewed by the Remuneration Committee (RC) regularly to ensure our compensation practices and programmes take into consideration regulatory requirements and are responsive to market developments.

Our Approach to Remuneration

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.

The Group's compensation 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 (performance bonus and executive equity awards where applicable) rewards employees based on the performance of the Group and the employee's individual performance.

Components of Total Compensation



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. Results from salary surveys conducted by established external compensation consultants 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 Person

An employee's personal attributes such as skills, experience and competency determine how the employee is compensated. Employees who are highly competent and more experienced in their roles typically receive a higher base salary that commensurates with those personal attributes. We also take into consideration how an employee behaves in relation to the UOB values.

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.

Variable Pay – Performance Bonus

Determining the Performance Bonus Pool

Under the Group's total compensation framework, the total compensation paid to employees is set as a function of the net profit before tax. The performance bonus pool is then determined by the productivity levels achieved based on the performance of the Group's balanced scorecard. In 2017, the Group Balanced Scorecard was more closely aligned to the Group's strategic priorities, including the usage of risk-weighted metrics. Performance is measured in terms of financial outcomes, business drivers, and risk and reputation. Key business drivers include productivity, capital efficiency, the Group's regionalisation strategy, liquidity and the quality of our assets. For the SEs, the performance bonus pool is set as a function of net profit before tax and risk-weighted metrics, in line with the Group Balanced Scorecard.

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The usage of risk-weighted metrics further emphasises UOB's prudent capital usage and risk management across the Group. 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 bonuses for the year as it deems fit.

Group Balanced Scorecard

Financial Outcomes	Business Drivers
Profitability	Productivity
	Capital Efficiency
	Regionalisation
	Liquidity
	Asset Quality
Risk and Reputation	Risk Appetite Statement Outcomes

Allocating and Distributing the Performance Bonus Pool
The Group's performance bonus 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 performance bonus 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 performance bonuses. Conversely, performance bonuses are not awarded to employees who do not meet the performance expectations for the year.

Variable Pay – Executive Equity Awards

The Executive Equity Plan (EEP) forms the Group's long-term compensation component which is forward looking, with rewards based on the Group's future performance. The EEP 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
- deliver compensation that drives the long-term performance of the Group.

EEP awards are delivered 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. During the year, we reviewed and revised the performance conditions of the EEP awards. From 2017, EEP awards granted are subject to the performance of the Group's two-year and three-year Average Return on Equity (ROE) against the corresponding two-year and three-year Average Cost of Equity (COE) hurdles respectively. For each vesting tranche of the EEP awards, 100 per cent of the tranche will vest if the Average ROE is equal to or above the corresponding Average COE. If the Average ROE is below the corresponding Average COE, the percentage of each tranche of EEP awards to be vested will be determined at the sole discretion of the RC.

Criteria for Vesting of EEP Awards

Tranche	Performance Condition
Year 1	No vesting
Year 2	30 per cent of awards to vest, subject to two-year Average ROE performance (if it equals or is above two-year Average COE)
	At RC's discretion should the two-year Average ROE fall below two-year Average COE
Year 3	70 per cent of awards to vest, subject to three-year Average ROE performance (if it equals or is above three-year Average COE)
	At RC's discretion should the three-year Average ROE fall below three-year Average COE

Remuneration Governance

The RC 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 value and strengthens the franchise, and is aligned with shareholders' long-term interests. The Board Risk Management Committee (BRMC) also provides input to the RC, to ensure that remuneration and incentive practices adopted by the Group do not incentivise inappropriate risk-taking behaviours.

In 2017, the RC endorsed the engagement of two external management consulting firms, Aon Hewitt McLagan and Oliver Wyman, to provide independent reviews of the compensation model for our SEs. Following the review, the RC approved the implementation of the risk-weighted metrics in the computation of the performance bonus pool for the SEs from 2017 onwards. This change is in alignment with the revised Group Balanced Scorecard. The new compensation model continues to strengthen our SEs' alignment with the performance of the Group and with the long-term interests of our shareholders. Additionally, Aon Hewitt McLagan was also engaged to review the market relevance of the directors' remuneration. Aon Hewitt McLagan, Oliver Wyman and their consultants are independent and are not related to UOB or any of our directors.

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

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. The performance bonuses for control functions are capped at no more than 10 per cent variance year on year to strengthen further the independence of these control functions. 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 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 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.

Deferral Guidelines

The deferral guidelines apply consistently to all employees, including the same vesting conditions for deferred compensation applied on 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 SEs 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	Clawback of Paid Compensation
• Material Misconduct	• Gross Misconduct
• Material Restatement of Financial Results	• Financial Misstatements
• Bank-wide Losses	• Material Risks
	• Malfeasance or Fraud

The RC reserves the discretionary powers regarding the enforcement of malus and the clawback of any paid compensation.

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Remuneration Outcomes in 2017

The Group reported an improvement in the balanced scorecard rating for 2017, resulting in an increase in the net earnings compared with 2016. This is attributable to broad-based improvements across most business segments. We experienced a double-digit growth in regional profitability as the Group continues to sharpen the focus on franchise building. The Group's cost-to-income ratio was stable despite continued investments in talent acquisition, technology and infrastructure to enhance product and service capabilities. Overall, the balance sheet remained strong, supported by higher return on risk-weighted assets, stable funding position and growth in our capital base.

The Group continues to maintain a strong focus on managing risk and reputation, while building talent bench strength. The RC considered both the Group's overall performance and the Group's Risk Appetite Statement outcomes when determining the Group's compensation.

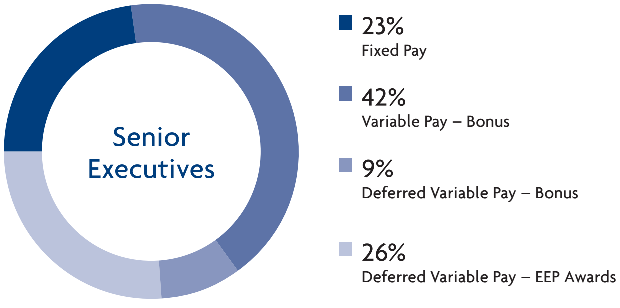
Senior Executives and Material Risk Takers

While the Monetary Authority of Singapore's Guidelines recommend the disclosure of the total amounts of guaranteed bonuses, sign-on awards and severance payments of the SEs and MRTs, and the disclosure of the remuneration of the top five non-director executives, the Bank believes that it is neither to our advantage nor in our best interest to do so especially, given the highly competitive market for talent.

Guaranteed Bonuses, Sign-On Awards and Severance Payments

Category of Remuneration	SEs	MRTs
Number of guaranteed bonuses	0	3
Number of sign-on awards	0	9
Number of severance payments	0	2
Total amounts of above payments made for the financial year ($'000)	**0**	**1,937**
Number of employees	13	165
Number of employees that received variable pay	13	160

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



Breakdown of Long-term Remuneration Awards

Category of remuneration	SEs %	MRTs %
Change in deferred remuneration paid out in current financial year	8	47
Change in amount of outstanding deferred remuneration from previous financial year	24	46
Outstanding deferred remuneration (breakdown)		
Cash	15	–
Shares and share-linked instruments	85	100
Other forms of remuneration	–	–
Total	**100**	**100**
Outstanding deferred remuneration (performance adjustments)		
Of which exposed to ex-post adjustments	100	100
Reductions in current year due to ex-post adjustments (explicit[1])	–	–
Reductions in current year due to ex-post adjustments (implicit[2])	–	–
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.