

NCB FINANCIAL GROUP LIMITED

NAME OF POLICY	Capital Management Policy
APPROVED BY	Board of Directors
DATE	June 16, 2021
ORIGINAL APPROVAL DATE	
REVIEW DATE(S)	

1. POLICY STATEMENT

This Capital Management Policy applies to NCB Financial Group Limited and its subsidiaries (hereinafter referred to as “the Group”) and considers capital planning, including capital allocation decisions. The Group considers it a priority to secure sufficient capital resources to preserve and strengthen its financial position and meet the minimum regulatory capital requirements.

2. REVIEW AND UPDATE OF THE POLICY

This Policy shall be reviewed at least annually by the Group Risk Committee and approved by the Board of Directors to ensure:

The Group Finance and Treasury & Correspondent Banking Divisions, directly or through NCBFG’s Asset and Liability Committee, is responsible for reviewing this Policy and any associated company policies and submitting it to the Group Risk Committee for recommendation to the Board of Directors for approval.

Amendments to this Policy shall take effect only on approval by the Board.

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NCB FINANCIAL GROUP LIMITED

CAPITAL MANAGEMENT POLICY

1. PURPOSE

This Capital Management Policy applies to NCB Financial Group Limited and its subsidiaries (hereinafter referred to as “the Group”) and considers capital planning, including capital allocation decisions. The Group considers it a priority to secure sufficient capital resources to preserve and strengthen its financial position and meet the minimum regulatory capital requirements.

Capital management is a key factor in determining the safety and soundness of a financial institution and therefore each regulated entity maintains a capital management programme to ensure it has adequate capital. The capital management should balance the needs of shareholders, investors, regulators and customers while bolstering the Group’s capacity to grow and execute its strategic objectives. Applicable regulations governing the Group outlines minimum capital and liquidity requirements, which serves to guide how capital is allocated and utilised.

This Capital Management Policy outlines the roles and responsibilities of the board and management in ensuring the capital required to support existing business, planned business growth and provide a safeguard against potential losses are retained while ensuring shareholder return is optimised. Capital not only provides the Group with the means to absorb losses and demonstrate resilience to the respective regulators, but is also a basis for confidence for customers, shareholders, creditors and other stakeholders.

2. STRATEGY

The Group’s capital management strategy is to ensure:

- (a) Regulatory capital requirements are met;
- (b) Adequate capital is retained in the Group and each individual entity for maintaining solvency and to support its current and future business activities;
- (c) Return on investment on any initiative is appropriate relative to the risk involved; and
- (d) Shareholder return is enhanced through distributions, in accordance with the Dividend Policy.

The Group will execute the capital management strategy through the Group and entity specific capital management plans, which are focused on maintaining adequate levels of capital, optimising the Group’s portfolio in accordance with balancing shareholder risk-return objectives and flexibility in responding to changing market conditions. These plans will outline details aimed at maintaining adequate levels of capital consistent with risk-based internal assessments and regulatory requirements.

The Consolidated Capital Management Plan will also reflect the expected capital requirements for each regulated entity under the Group based on our planned growth, activities and expected distributions and will be the means by which this Policy is operationalised.

3. GOVERNANCE, ROLES AND RESPONSIBILITIES

The Board of Directors of NCBFG supported by the Board for each subsidiary are responsible for ensuring, where appropriate, there is a capital management plan in place. In particular, the NCBFG Board is responsible for ensuring the capital levels are adequate to meet regulatory requirements in the various operating jurisdictions and there are processes and structures in place to ensure the ongoing compliance with these requirements. The NCBFG Board is also responsible for ensuring major strategic initiatives requiring the deployment of capital meet an appropriate rate of return.

These responsibilities are discharged through:

- (a) The Group Risk Committee, a Board Committee, which has responsibility for:
 - (i) Oversight of the capital management activities and the overall risk appetite of the Group; and
 - (ii) Recommending for Board approval any necessary actions pursuant to the policy.
- (b) The NCBFG Asset and Liability Committee, a management committee, which manages and monitors capital, reviews and recommends relevant policies for approval and ensures compliance with this capital management policy.

The NCBFG Asset and Liability Committee will report to the Group Risk Committee on capital management matters and decisions made with respect to capital management. The Group Risk Committee will report to the Board on capital management matters.

The NCBFG Asset and Liability Committee's membership is defined in its Charter. Its responsibilities include, but are not limited to:

- (a) Setting overall capital management principles in line with the Group's enterprise-wide risk framework;
- (b) Monitoring and reviewing capital levels in the Group;
- (c) Assessing risk adjusted performance and return on capital;
- (d) Performing scenarios, analyses and projections to determine expected future capital needs;
- (e) Recommending and taking action, where required, to ensure capital requirements are met;
- (f) Determining minimum capital standards by entity, consistent with regulatory guidelines;
- (g) Reviewing distributions; and
- (h) Ensuring compliance with this Policy.

The Group Internal Audit Division will be responsible for evaluating the quality, operations and effectiveness of the capital management programme of NCBFG.

The Capital Management Policy is the responsibility of the Group Chief Financial Officer and Deputy Chief Executive Officer, or his designate, and will be reviewed at least annually.

There are also a number of management committees across the Group, which support risk management oversight with respect to capital management, strategic risk, market and liquidity risk, and legal and regulatory risk. The relevant committees are responsible for ensuring compliance with the capital management principles consistent with the Group's enterprise-wide risk framework.

4. CAPITAL DEFINITION

For purposes of this policy, regulatory capital focuses on high quality capital capable of absorbing losses, but may also include subordinated debt and preference shares.

Capital is recognised under two distinct categories:

- Tier 1 Capital – this represents the highest quality form of regulatory capital given its ability to immediately absorb losses when they occur.
- Tier 2 Capital – this also represents the highest quality form of regulatory capital, as they will absorb losses after Tier 1 capital, but before creditors.

5. CAPITAL STANDARDS

The Group will at a minimum adhere to and maintain capital levels consistent with the standards required by each entity's primary regulator within the various jurisdictions.

6. MONITORING

At the Group and subsidiary level, there will be continuous monitoring and updating of the capital positions in order to ensure an appropriate balance between regulatory and commercial considerations.

7. GUIDELINES

7.1 Dividends

NCBFG will maintain a dividend policy to govern dividend payouts to ensure the organisation maintains adequate capital to meet its strategic objectives, while complying with regulatory and/or any other requirements. In determining whether a dividend should be paid, the organisation must ensure it is able to meet its capital needs and future growth while balancing the return to shareholders and investors. To support this, the Board determines and approves an appropriate dividend pay-out rate each year based on the profitability and the capital requirements of the Group. The Dividend Policy will remain consistent with the Capital Management Plan.

7.2 Stock Repurchases

Adequate capital to meet all upcoming strategic initiatives and all regulatory requirements must be met prior to any stock repurchases. Any strategies to repurchase shares will be thoroughly reviewed and recommended by the NCBFG Asset and Liability Committee and Group Risk Committee and then approved by the Board to ensure all capital requirements will be met before and after such transactions.

7.3 Capital Shortfall

In the event that NCBFG has identified a potential shortfall in capital or any regulatory requirements, all efforts will be made across the Group to address the shortfall.