# ICBC (London) plc and Industrial & Commercial Bank of China London Branch

# Remuneration Policy

Background
The Remuneration Policy ('the Policy') recognises the need to attract, motivate and retain high-calibre staff necessary to obtain business results. The Policy operates in the context of ICBC (London) plc and Industrial and Commercial Bank of China London Branch ('the Bank') business goals and the Bank's other people policies. The Policy applies equally to the Bank's expatriate employees on secondment from China and employees recruited in the UK. The Policy aims to ensure remuneration practices are fair and consistent with the Bank's view on equality and diversity. The Bank implements and maintains remuneration policies, procedures and practices that are consistent with and promote sound and effective risk management.

Under the PRA and FCA rules the Bank does not meet the criteria to be eligible for exemptions from some of the remuneration rules.. This is because at least one entity in the group (as defined in section 421 of the Financial Services and Markets Act 2000) is subject to the UK remuneration rules and has average total assets exceeding £13 billion over the previous four years. As a result, the Bank (both Subsidiary and Branch) must apply all the remuneration rules in relation to the performance year beginning on 1 January 2022 and subsequent years.

A Service Level Agreement (SLA) exists between the Subsidiary and the Branch and therefore remuneration management for the Branch is outsourced to the Subsidiary.
Scope
The policy applies to all staff and directors of ICBC (London) plc. Sections which apply only to certain categories of staff and/or directors are clearly marked. All staff are employed by the Subsidiary but perform a dual function for both the Subsidiary and Branch. It takes into consideration equal opportunities legislation and statutory duties.

Governance
The Bank is committed to high standards of corporate governance, business integrity and professionalism in all its activities.

In setting remuneration policy, the Board of Directors ('The Board') recognises its role in ensuring remuneration arrangements are structured in order to promote an effective risk management culture aligned with the Bank's business strategy, objectives and long terms interests. This is balanced with the need to recruit and motivate suitably experienced staff with competitive pay and benefits comparable to similar organisations in the marketplace and ensure the expatriate ("expat") remuneration package is in line with Head Office policy and also in accordance with local regulatory requirements.

The Board is responsible for approving and maintaining the Policy. The Board takes into account inputs from the Risk and ALM Department, Human Resources & Administration Department, Compliance & Legal, Internal Audit and Financial Control. As a result, these functions are involved in the design of the Policy. The Board will consider information affecting remuneration throughout the year and will ensure remuneration policies, practices and procedures are clear and documented, including the performance appraisal process and decisions. The Remuneration Committee will also advise the Board on remuneration matters.

Policy details

## *1. Material Risk Takers*

The rules on remuneration are to curb excessive risk taking, better align remuneration with performance and drive good behaviour and culture. They apply to Material Risk Takers (MRTs). An MRT is defined as a person “whose professional activities have a material impact on the firm’s risk profile”. The Bank ensures that all such staff are identified as MRTs by applying the qualitative and quantitative criteria set out by the regulators.

The Bank’s MRTs include, but are not limited to:

- the members of the Board;
- the members of the Executive Committee;
- staff exercising Senior Management Functions in accordance with the Senior Managers Regime; and
- staff with managerial responsibility for the Bank’s control functions.

The list of MRTs is reviewed at least annually by HR & Administration, and then submitted to the Remco, which recommends the draft final list for adoption by the Board.

The responsibilities of an MRT and the implications of this status are explained in annual training carried out by Compliance & Legal Department.

## *2. Senior Managers and Certification Staff*

The Bank will maintain a record of all employees who are covered by the Senior Managers and Certification Regime. This record is maintained by the HR & Administration Department. Certification Staff are issued with an annual Certificate to confirm their fitness, propriety and competence and are reminded of their obligations in maintaining this status. Individuals cannot continue to perform any certification function if they are not deemed to be fit and proper.

## *3. Risk Management and Risk Tolerance*

The Bank currently has a straight forward business model and as such the Policy aims to align the personal objectives of staff with the long term interests of the Bank, therefore promoting effective risk management that does not encourage risk taking beyond levels tolerated by the Bank. The Board works closely with the risk function of the Bank to evaluate the incentives created by remuneration decisions.

4. Supporting business strategy
The Policy is designed to be in line with business strategy, objectives and long term interests of the Bank. Staff carry out the type of business our strategy confirms the Bank should be engaged in. The Bank ensures the contribution of staff in achieving the strategic goals of the organisation is recognised.

5. Conflicts of interest
This Policy is intended to avoid conflicts of interests that could arise due to the structure of remuneration. Individuals are not present at discussions of their own remuneration. The section of this Policy on control functions sets out specific measures to avoid conflicts of interest in staff engaged in control functions.

The Bank’s Conflicts of Interest Policy recognises that the activities of the Bank expose the Bank and its staff to potential and actual conflicts of interest. It sets out the types of conflicts of interest that may arise throughout the business, how staff can identify them, the controls and arrangements in place to minimise them, and procedures for managing conflicts.

6. The Board
The Board has delegated remuneration oversight to the Remuneration Committee (“Remco”) who will review the general principles of this Policy on an annual basis and is responsible for its implementation. The Policy and its implementation are also subject to an annual independent review by Internal Audit, who will provide a summary of their report to the Remco. The Remco exercises competent and independent judgement on remuneration policies and the incentives created for managing risk, capital and liquidity and will integrate the Parent’s governance process as appropriate. The Remco oversees the remuneration of individuals identified as Material Risk Takers.

7. Control functions
The Bank will ensure all staff engaged in control functions i.e. Compliance and Legal, Risk & ALM, Internal Audit and Financial Control, are independent from the business units they oversee; they have appropriate authority and are remunerated in accordance with the achievements of the objectives linked to their functions. The remuneration of the Heads of those departments is directly overseen by the Board and the Remco, in line with its Terms of Reference.

The Bank's Control Functions contribute to the development of policies and procedures that govern remuneration to ensure that due regard is paid to managing conflicts of interest and management of risk within the business. These factors must also be considered when remunerating staff and senior management.

The performance of both ICBC London Branch and ICBC (London) plc are built into the assessment and incentive mechanisms for both senior management and all staff.

8. Remuneration and capital
The Bank will ensure that total variable remuneration does not limit the firm's ability to strengthen its capital base.

9. Profit based measurement and risk adjustment
Assessments of financial performance used to calculate variable remuneration should not be based principally on profits but should also reflect the Treating Customers Fairly (TCF) principles and conduct risks. This will be based on the individual performance targets set for the Subsidiary and the Branch. Therefore, failure to meet the targets of one entity will impact the final variable remuneration given as a whole. Variable remuneration will be contracted where negative financial performance of the Bank occurs or if TCF and conduct principles and compliance with policy have not been met.

During 2021, the Bank developed the 'Risk-Adjusted Remuneration Guidelines', which refer to the processes used to reduce (or increase) current year awards. The purpose of developing the guidelines was to strengthen and make more transparent the current practice of adjusting variable remuneration (such as bonuses) to promote sound and effective risk management in the Bank. By aligning risk and individual reward more clearly, the Bank seeks to discourage excessive risk-taking and short-termism and also encourage more effective and forward-looking risk management, support and incentivise positive behaviours and promote a strong and healthy conduct culture in the Bank. This approach is in line with both regulatory expectations and market practice.

The guidelines are provided to all staff as part of the annual appraisal process. As part of the appraisal process, control departments will input their own assessments on departments and staff against the guidelines and advise HR & Admin and the Chief Risk Officer (CRO). A report by the CRO will form a key part of the risk adjustment process. The CRO will make an assessment of different risks for any potential adjustments to the bonus pool, individuals and impact on capital. The CRO report will be considered by the Board's Remuneration Committee.
10. Pension policy
The Bank operates a Defined Contribution Group Personal Pension scheme with fixed monthly employer contribution with the facility for employee contributions. The London Group Personal Pension scheme is not applicable to expatriates. No discretionary pension benefits are paid to staff.

12. Personal investment strategies
Employees must not use hedging strategies or remuneration or liability related insurance to undermine the risk alignment effects imbedded in the Banks remuneration arrangements. Employees are advised of their obligations through various policies that are communicated on commencing and during employment such as the Staff Handbook and conduct risk policies. The consequences of non-compliance are also communicated through the Staff Handbook and Contract of Employment.

13. Avoidance of the remuneration regulations
Variable remuneration will not be paid through vehicles or methods that facilitate the avoidance of applicable remuneration regulations.

14. Remuneration structures
The Bank ensures that the structure of an employee's remuneration is consistent with and promotes effective risk management and staff are rewarded adequately according to competitive market levels.

**The remainder of this section applies only to those employees of the Bank who have been identified as MRTs for the relevant performance year.**

**Fixed and variable remuneration**

The Bank ensures that the fixed and variable components of remuneration are appropriately balanced. It sets the fixed component to represent a sufficiently high proportion of the total remuneration to allow the operation of a fully flexible policy on variable remuneration components, including the possibility of paying no variable remuneration.

The fixed components of remuneration, where applicable, are base salary, housing allowance and non-cash benefits, including pension, private medical insurance, life insurance and other benefits in kind. Fixed remuneration is determined on the basis of the role and position of the individual employee, including professional experience, responsibility, job complexity and local market conditions. The Bank's gender neutral remuneration practices means diverse workers receive equal pay for equal work. The value of work is evidenced in job descriptions. The variable component of remuneration is in the form of an annual discretionary bonus and, to the extent granted, any guaranteed variable remuneration, buy-outs, retention awards or severance pay. The annual discretionary bonus is performance related and is based on a combination of the assessment of the performance of the individual, the business unit concerned and the overall results of the Bank.

The ratio of variable to fixed pay does not exceed 1:1 ('bonus cap') and applies to all MRTs.

**Pay-out process: retained shares/instruments and deferral**

In line with the PRA and FCA remuneration rules, variable remuneration awarded to MRTs is subject to additional requirements around the pay-out process. However, these requirements do not apply to any MRT whose variable remuneration is £44,000 or less *and* represents 33% or less of their total remuneration.

*Deferral*

In accordance with the rules, an MRT's variable remuneration will be divided into an upfront portion and a deferred portion. 40% of an MRT's variable remuneration will be deferred, and 60% paid out upfront at the time of award.
By way of exception to this, 60% of the MRT's variable remuneration will be deferred and 40% paid out upfront where:

- an MRT earns variable remuneration of £500,000 or more (and any other amount which the Board deems to be a particularly high amount of variable remuneration); or
- the MRT is an executive director of the Board where the firm is significant in terms of size, internal organisation and nature, scope and complexity of its activities.

*Shares or other instruments*

50% of the variable remuneration of an MRT must be paid out in shares or certain other types of instruments, as defined in the relevant rules. The Bank intends to satisfy this requirement by creating a phantom share plan. The phantom shares will follow the price movement of the shares of the Industrial and Commercial Bank of China Limited. MRTs in scope of the pay-out process will receive 50% of their variable remuneration in phantom shares, and the remaining 50% in cash.

In all instances, 50% of the deferred portion and 50% of the upfront portion will be paid out in phantom shares, and the remaining 50% in cash.

In line with the regulatory requirements, the deferral period is 4, 5 or 7 years, dependent on the following factors:

- the role of the MRT within the Bank;
- whether the MRT's total remuneration is more than £500,000; and
- whether the MRT's variable remuneration represents more than 33% of their total remuneration.

The applicable deferral periods are set out in Annex 1. The Bank will communicate to each MRT which deferral period applies to the deferred portion of their variable remuneration.

Where the deferral period is 4 or 5 years, the deferred portion of the variable remuneration will vest on a pro rata basis. This means that where the deferral period is 4 years, 25% of the deferred portion will vest after each year of deferral; where the deferral period is 5 years, 20% of the deferred portion will vest after each year of deferral.

Where the deferral period is 7 years, no part of the deferred portion will vest until 3 years after the award. Thereafter, vesting will be on a pro rata basis. This means that 20% of the deferred portion will vest at the end of the third and each subsequent year.

No interest (in relation to the deferred cash portion) and no dividends (in relation to the deferred phantom shares portion) will be paid to MRTs.

*Retention period*

In addition to the deferral period, the awards of phantom shares are subject to a retention period of 1 year. During this retention period, an MRT cannot exercise their right to receive cash payment for the phantom shares. In relation to the upfront portion of the phantom shares, the retention period begins at the date of the award. In relation to the deferred portion, the retention period begins at the point of vesting.

HR & Admin will establish the necessary systems and processes for maintaining records on deferrals, vesting and retention periods.

**Performance adjustment: malus and clawback**

Performance adjustment refers to the downward adjustment of variable remuneration to take account of risks that have subsequently crystallised, and includes the use of current year adjustments, malus and clawback. Each constitutes a distinct form of performance adjustment:

- A current year adjustment refers to an adjustment made to the current year bonus that has not yet been paid to an individual.
- Malus refers to the reduction, cancellation and/or forfeiture of an award of deferred variable remuneration where the award has not yet vested.
- Clawback refers to the recovery of some or all of the value of an award of variable remuneration where the award has already vested or been delivered to the recipient.

Variable remuneration, including the deferred portion, may be paid or vest only if it is sustainable according to the financial situation of the Bank as a whole, and justified on the basis of the performance of the Bank, the business unit and the individual MRT concerned. This means that all variable remuneration awarded to all MRTs must be made on terms which allow the Bank to apply current year adjustments, malus and clawback, regardless of the level of the assets of the Subsidiary or Branch or the earnings of individual MRTs. The Bank has developed 'Risk-Adjusted Remuneration Guidelines', which detail the processes used to reduce (or increase) current year awards for all staff, including MRTs (see section 9 above), as part of the Bank's ex ante risk adjustment processes.

All malus and clawback adjustments are made at the discretion of the Bank's Board, following recommendations made by the Remuneration Committee, and with appropriate input from the Bank's Compliance & Legal, Risk & ALM, Internal Audit, Financial Control, and HR & Administration Departments. The Bank has developed 'Guidelines on the Application of Malus and Clawback', which support and inform decisions relating to the application of malus and clawback. The guidelines set out the factors and information that the Board will take into account in determining whether a malus or clawback trigger event has occurred, guidance around the quantification of adjustments, and the process for determining adjustments.

The circumstances in which the Board may determine that malus and/or clawback should be applied may vary, but will at a minimum always include where the Board determines that the MRT:

- participated in, or was responsible for, conduct which resulted in significant losses to the Subsidiary or Branch; or
- failed to meet appropriate standards of fitness and propriety.

The Board may apply clawback for such period as it determines is appropriate, having regard to the 'Guidelines on the Application of Malus and Clawback'. In line with the regulatory requirements, this period shall be at least 1 or 7 years from the date the variable remuneration is awarded for the upfront (non-deferred) portion. Where the MRT is subject to deferral, the clawback period in respect of the deferred portion shall be at least 5, 6 or 7 years from the date of award. The minimum periods applicable are dependent on the following factors:

- the role of the MRT within the Bank;
- whether the MRT's total remuneration is more than £500,000; and
- whether the MRT's variable remuneration represents more than 33% of their total remuneration.

The minimum clawback periods are set out in Annex 2. The Bank will communicate to each MRT the minimum clawback period which applies to the upfront and, where applicable, the deferred portion of their variable remuneration.

Where the MRT is subject to deferral, the Board may apply malus as well as or instead of clawback. It may apply malus at any time from the date the variable remuneration is awarded until the end of the retention period,

**Guaranteed variable remuneration, buy-outs, retention awards and severance pay**

If the Bank awards to an MRT any guaranteed variable remuneration, including buy-outs of deferred remuneration awarded by previous employers, or makes any retention awards to MRTs, they will be consistent with the applicable regulatory requirements. In particular, they will only be awarded in exceptional circumstances.

To the extent any severance pay is awarded to MRTs, it will reflect the performance achieved over time and be designed in a way that does not reward failure.

In respect of MRTs, guaranteed variable remuneration, buy-outs, retention awards and severance pay are subject to the same pay-out process and performance adjustment (malus and clawback) requirements as are applicable to other forms of variable remuneration such as the annual discretionary bonus.

## 15. Personal Objectives and Performance Assessment

When setting personal objectives line managers must work in conjunction with Senior Management to ensure that in particular sales targets are not overly aggressive that will encourage the behaviour of the individual not to follow the TCF principles and manners of good conduct. Targets set should also include an assessment of other behaviours such as the management of risks, compliance with policy and that TCF/conduct principles have been applied.

Individual performance is assessed formally on an annual basis and takes account of the results of 360 degree feedback, performance against the Bank's competencies, achievement of objectives, ongoing fitness and propriety and completion of mandatory training. The performance rating scale is expressed in terms of Significantly Excelling, Excelling, Achieving, Developing and Underperforming. An individual's overall assessment will therefore reflect good and poor conduct. The overall assessment will also inform decisions made on their fixed and variable remuneration.

When assessing individual performance, financial and non-financial criteria are taken into account. Non financial performance metrics form a significant part of the performance assessment process and includes effective adherence to effective risk management and compliance with the regulatory system. Behaviours that pose a risk to the Banks values/goals can override assessments of financial performance. The assessment of performance considers longer term performance and considers the underlying business cycle and risks of the firm and that TCF/conduct principles have been applied.

The annual KPI framework sets out a balanced approach towards expected levels of performance:

- Financial KPIs – Profitability, Sustainability, Risk Control
- Non Financial KPIs – Strategy, transformation and Compliance and AML Management

The annual assessment of whether departmental KPIs have been met, and which therefore determines remuneration decisions, provides the opportunity for Compliance & Legal, Internal Audit and Risk & ALM departments to influence this assessment. These departments use data from their regular audit processes, which are embedded into the Bank's compliance and risk management culture, to assess the performance of departments in these areas. Any negative assessments will result in points being deducted from a department's score against achievement of KPIs.

The Bank's compliance, internal audit and risk management monitoring activities are overseen by various committees, members of which include Board representatives. As a result, those involved in promoting sound and effective risk management are also involved in remuneration decisions.

16. Disclosure
The Bank is required to make certain public disclosures about remuneration. The Bank will do this with its annual Pillar 3 disclosures.

## *17. Audit and Review*

Internal audit must review the Policy and procedures surrounding Remuneration annually.