

Pillar 3 disclosures

For the year ended 31 December 2023



Contents

Foreword	3
Key metrics and overview of risk-weighted exposure amounts	5
UK KM1 - Key metrics template	5
UK OV1 – Overview of risk-weighted exposure amounts	6
UK OVC – ICAAP	7
Risk management policies and objectives	8
UK OVA - Institution risk management approach	8
UK OVB – Disclosure on governance arrangements	11
Own funds	13
UK CC1 – Composition of regulatory own funds	13
UK CC2- Reconciliation of regulatory own funds to balance sheet in the audited financial statements	16
Credit risk	17
UK CRA – General qualitative information about credit risk	17
Counterparty credit risk	18
Standardised approach and internal model for market risk	21
UK MRA - Qualitative disclosure requirements related to market risk	21
Liquidity risk	26
Operational Risk	27
UK ORA - Qualitative information on operational risk	27
Remuneration	29
UK REMA - Remuneration policy	29
Analysis of 2023 remuneration	33
UK REM1 - Remuneration awarded for the financial year	33
UK REM2 - Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)	33
UK REM3 - Deferred remuneration	34
UK REM4 - Remuneration of 1 million EUR or more per year	35
Contact information	36

Foreword

Introduction

This document comprises the Pillar 3 disclosures for ICBC Standard Bank Plc Group (referred to herein as “ICBCS” or “the group”) as at 31 December 2023. The disclosures are prepared in accordance with the requirements under the Capital Requirements Regulation (Part Eight) and the Capital Requirements Directive, as implemented in the UK (UK CRR) and the Disclosure (CRR) Part of the PRA¹ Rulebook (PRA Rulebook)².

ICBCS is subject to regulation and supervision by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA), as a UK bank and UK consolidating parent entity.

ICBCS disclosure policy

The following sets out a summary of the policy applied to the ICBCS Pillar 3 Disclosures.

Basis of preparation

ICBCS, as a UK parent institution, is subject to the consolidated disclosure requirements under rule 2.4 of the PRA Rulebook. The information and disclosures presented in this document therefore specifically relate to ICBCS on a consolidated basis i.e. including all subsidiaries.

The group meets the criteria for being classified as an “other institution”³ under Article 433c of the PRA Rulebook. ICBCS has therefore availed the derogation under Article 433c(2) which applies to non-listed institutions in preparing the relevant quantitative and qualitative disclosures.

In satisfaction of certain disclosure requirements, reference has been made to the ICBCS Consolidated Annual Report (the Annual Report). As such, this document should be read in conjunction with the published Annual Report which is also available on the ICBCS website: www.icbcstandard.com. **References to ICBCS Consolidated Annual Report 2023 are shown in gold text.**

ICBCS is the primary risk-taking entity within the consolidated ICBCS Group. Separate individual disclosures for ICBCS have not been made on a standalone basis due to the immateriality of risks contained within the other entities in the ICBCS Group. The risk weighted assets of ICBCS Plc (on a solo basis) account for approximately 99% of the total RWAs of ICBCS Group as at 31 December 2023.

No Pillar 3 disclosure requirements have been excluded for confidentiality or proprietary reasons.

It is important to note that differences could exist between accounting disclosures published in accordance with International Financial Reporting Standards (IFRS) and Pillar 3 disclosures, which are provided in accordance with prudential requirements.

In this document, amounts have been produced on an actual basis but have been rounded to USD millions, which means that summations may show minor deviations. Unless otherwise stated, all amounts are in USD millions.

Frequency of disclosure

In accordance with Pillar 3 disclosure requirements under Article 433c(2) of the PRA Rulebook and ICBCS’s Pillar 3 Disclosure Policy, the group makes available its consolidated Pillar 3 disclosures on an annual basis.

Verification

The disclosures presented within this document have been verified and approved through internal governance procedures in line with the ICBCS Pillar 3 Disclosure Policy. This includes the review and approval of all disclosures by the ICBCS Board of Directors (the Board), following receipt of written attestations in respect of both the quantitative and qualitative disclosures from the most senior functional heads of the relevant areas within the group.

¹ Prudential Regulatory Authority (PRA)

² [Disclosure \(CRR\) - Prudential Regulation Authority \(prerulebook.co.uk\)](https://www.pra.gov.uk/disclosure-crr/)

³ “Other institutions” includes institutions that are non-listed and are defined as neither “Large” nor “Small and Non-Complex”.

The Pillar 3 disclosures are not subject to external audit. However, these disclosures have been subject to the group's internal controls and validation mechanisms, which aim to ensure the correctness of the information disclosed as well as compliance with applicable laws and regulations.

The Chief Finance Officer (CFO) and the Chief Risk Officer (CRO) have also attested that the 2023 Pillar 3 disclosures have been prepared in accordance with the group's formal policies, internal processes, systems and controls.

Regulatory update

The Basel Committee on Banking Supervision (Basel) completed the reforms to Basel III (Basel 3.1) in 2020. The UK adopted a two-stage approach to the implementation of the changes outlined under Basel 3.1. The amendments to UK's Capital Requirements Regulation (UK CRR II) implemented on 1 January 2022, represented the first tranche of changes to implement Basel 3.1.

In December 2023, the PRA published Part 1 of the "near final" rules on the UK's implementation of the second tranche of Basel 3.1. These rules update the capital requirements for market risk, credit valuation adjustments and operational risk. In addition, the "near final" rules also finalised an implementation date of 1 July 2025 for the second tranche.

The PRA's final proposals for Part 2 of this second tranche is due to be issued in Q2 2024. These will include revised requirements for credit risk and credit risk mitigation, as well as associated reporting and Pillar 3 disclosures.

ICBCS is currently assessing the impact of the new requirements, with the aim of ensuring these are fully embedded within the group's operating model prior to the go-live date of 1 July 2025.

ICBCS remains out of scope of the new binding leverage ratio requirement, which became effective in the UK from 1 January 2023 under the PRA Policy Statement 21/21 - "The UK leverage ratio framework"⁴. However, the firm continues to manage its leverage risk, ensuring that it maintains a leverage ratio of above 3.25%, whilst meeting the ratio requirement with at least 75% CET1.

⁴ [PS21/21- The UK leverage ratio framework](#)

Key metrics and overview of risk-weighted exposure amounts

UK KM1 - Key metrics template		2023	2022
Available own funds (amounts)			
1	Common Equity Tier 1 (CET1) capital	1,629.1	1,454.6
2	Tier 1 capital	1,789.1	1,614.6
3	Total capital	2,039.1	1,864.6
Risk-weighted exposure amounts			
4	Total risk-weighted exposure amount	9,653.2	9,251.0
Capital ratios (as a percentage of risk-weighted exposure amount)			
5	Common Equity Tier 1 ratio (%)	16.9%	15.7%
6	Tier 1 ratio (%)	18.5%	17.5%
7	Total capital ratio (%)	21.1%	20.2%
Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)			
UK 7a	Additional CET1 SREP requirements (%)	1.7%	1.9%
UK 7b	Additional AT1 SREP requirements (%)	0.6%	0.6%
UK 7c	Additional T2 SREP requirements (%)	0.8%	0.8%
UK 7d	Total SREP own funds requirements (%)	11.0%	11.3%
Combined buffer requirement (as a percentage of risk-weighted exposure amount)			
8	Capital conservation buffer (%)	2.5%	2.5%
UK 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0.0%	0.0%
9	Institution specific countercyclical capital buffer (%)	0.4%	0.2%
UK 9a	Systemic risk buffer (%)	0.0%	0.0%
10	Global Systemically Important Institution buffer (%)	0.0%	0.0%
UK 10a	Other Systemically Important Institution buffer	0.0%	0.0%
11	Combined buffer requirement (%)	2.9%	2.7%
UK 11a	Overall capital requirements (%)	13.9%	14.1%
12	CET1 available after meeting the total SREP own funds requirements (%)	10.7%	9.4%
Leverage ratio			
13	Total exposure measure excluding claims on central banks	23,301.0	20,958.2
14	Leverage ratio excluding claims on central banks (%)	7.7%	7.7%
Liquidity Coverage Ratio¹			
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	5,704.2	6,280.5
UK 16a	Cash outflows - Total weighted value	8,049.2	8,343.0
UK 16b	Cash inflows - Total weighted value	4,559.5	5,656.9
16	Total net cash outflows (adjusted value)	3,561.5	2,926.2
17	Liquidity coverage ratio (%)	165.3%	206.0%
Net Stable Funding Ratio²			
18	Total available stable funding	7,963.4	8,417.6
19	Total required stable funding	4,462.0	5,266.3
20	NSFR ratio (%)	183.3%	163.8%

1. Liquidity Coverage Ratio

- Liquidity balances are calculated as the simple averages of month end observations over the 12 months preceding the end of each year.

- Net cash outflows are calculated after adjusting for the 75% inflow cap where applicable.
- LCR ratio is calculated as the average of the ratios over the 12 months preceding the end of each year.

2. Net Stable Funding Ratio

- The net stable funding balances are calculated as the simple average of the four quarter ends preceding the end of each year.
- The NSFR ratio is calculated as the average of the ratios for the last four quarters.

3. Rows 14a-14e required under this template have not been disclosed as these are only applicable to LREQ firms.

The Total Capital Ratio increased from 20.2% to 21.1% in 2023 primarily as a result of strong 2023 results. **Details on page 9 of the IBCBS Consolidated Annual Report 2023.**

The leverage ratio remained at 7.7% in 2023, and was well above the binding regulatory minimum requirement of 3.25%. As explained above, whilst the Tier 1 capital rose due to the recognition of group profits in 2023, the leverage exposure measure rose at a similar rate.

The average liquidity coverage ratio decreased from 206.0% to 165.3% between 2022 and 2023, given the combined impact of reductions in High Quality Liquid Assets (HQLA) and an increase in adjusted net cash outflow.

The average net stable funding ratio increased from 163.8% in 2022 to 183.3% in 2023, primarily as a result of a larger relative reduction in average required stable funding than in average available stable funding.

UK OV1 – Overview of risk-weighted exposure amounts

		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		2023	2022	2023
1	Credit risk (excluding CCR)	2,692.2	1,770.9	210.6
2	Of which the standardised approach	2,692.2	1,770.9	210.6
3	Of which the foundation IRB (FIRB) approach	0.0	0.0	0.0
4	Of which slotting approach	0.0	0.0	0.0
UK 4a	Of which equities under the simple risk weighted approach	0.0	0.0	0.0
5	Of which the advanced IRB (AIRB) approach	0.0	0.0	0.0
6	Counterparty credit risk - CCR	2,109.9	1,854.0	168.8
7	Of which the standardised approach	1,551.8	1,381.7	124.1
8	Of which internal model method (IMM)	0.0	0.0	0.0
UK 8a	Of which exposures to a CCP	21.2	25.1	1.7
UK 8b	Of which credit valuation adjustment - CVA	219.9	243.4	17.6
9	Of which other CCR ¹	317.1	203.8	25.4
15	Settlement risk	0.1	24.9	0.0
16	Securitisation exposures in the non-trading book (after the cap)	0.0	0.0	0.0
17	Of which SEC-IRBA approach	0.0	0.0	0.0
18	Of which SEC-ERBA (including IAA)	0.0	0.0	0.0
19	Of which SEC-SA approach	0.0	0.0	0.0
UK 19a	Of which 1250%/ deduction	0.0	0.0	0.0
20	Position, foreign exchange and commodities risks (Market risk)	3,475.5	4,277.5	278.0
21	Of which the standardised approach	129.8	99.5	10.4
22	Of which IMA	3,345.7	4,177.9	267.7
UK 22a	Large exposures	0.0	0.0	0.0
23	Operational risk	1,375.5	1,323.7	110.0
UK 23a	Of which basic indicator approach	0.0	0.0	0.0
UK 23b	Of which standardised approach	1,375.5	1,323.7	110.0

UK 23c	Of which advanced measurement approach	0.0	0.0	0.0
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	5.4	1.5	0.4
29	Total	9,653.2	9,251.0	767.5

1. This comprises Securities Financing Transactions on which the exposure is calculated under the financial collateral comprehensive method (FCCM).

Credit risk RWA increased during 2023 as a result of growth in structured and energy lending activity and recognition of a new Right of Use lease asset.

Counterparty risk RWA increased during 2023 as a result of an increase in securities financing transactions within the Treasury and Local Markets business and commodity derivatives exposures within the Precious Metals and Energy business.

Market risk RWA decreased during 2023 under the IMA approach, including reductions in issuer risk under IRC.

Operational risk RWA is calculated under The Standardised Approach (TSA). TSA is not a risk sensitive measure of operational risk and assumes that a group's operational risk exposures increase linearly in proportion to revenue. The measure uses an average gross income over the past three years. The operational risk RWA increased year-on-year on account of an increase in revenue in 2023 relative to 2020.

UK OVC – ICAAP

The Internal Capital Adequacy Assessment (ICAAP) document articulates the day to day capital management processes within the organisation and the internal assessment of the level of capital required to be held against all risks the group is, or may become, exposed to. The ICAAP determines the amount of capital the group needs to be able to execute its strategy and business plan over the four-year planning horizon. It incorporates the group's capital strategy, setting of the capital indicators in the Risk Appetite, assessment of the capital to be held for each major source of risk and analyses the impact of a number of severe stress scenarios over the four-year planning horizon.

This document is updated annually and forms the basis of the Supervisory Review and Evaluation Process (SREP) discussions with the PRA which lead to a final determination of the Total Capital Requirement (TCR). The PRA-prescribed TCR is a point in time assessment of the minimum amount of capital the PRA considers that an entity should hold. Subsequent to the most recent completed SREP, the group was set a Total Capital Requirement of 11.0% of which 6.2% must be met with CET1 capital.

The UK CRD IV capital requirements for ICBCS are calculated and disclosed in accordance with the risk-based approaches described in the table below.

Risk Type	Approach
Credit Risk	Standardised Approach
Counterparty Credit Risk (Derivatives)	Standardised Approach for Counterparty Credit Risk (SA-CCR)
Counterparty Credit Risk (SFT)	Financial Collateral Comprehensive Method (FCCM)
Operational Risk	The Standardised Approach (TSA)
Market Risk	Internal Model Approach (Value-at Risk) and Standardised Approach

Risk management policies and objectives

UK OVA - Institution risk management approach

The effective management of risk within the stated risk appetite is fundamental to the banking activities of the group. The group seeks to achieve a measured balance between risk and reward in the businesses as described below. In this regard, the group continues to build and enhance the risk management capabilities that assist in delivering growth plans in a controlled environment. Risk management is at the core of the operating and management structures of the group. Managing and controlling risks, and in particular avoiding undue concentrations of exposure, limiting potential losses from stress events, restricting significant positions in less quantifiable risk areas and constraining profit or loss volatility are essential elements of risk management and the control framework which serve to protect the group's reputation and business franchise.

Overall responsibility for risk management rests with the Board of Directors which approves the risk appetite statement. The Board delegates to management, in particular through the Chief Risk Officer (CRO) and the Head of Compliance, the responsibility for management of risk and compliance respectively, including the design, implementation and monitoring of plans and processes. The Board has delegated authority to the Board Risk Management Committee (BRMC) to provide independent and objective oversight of risk management and compliance across the group. Importantly, accountability for risk management resides at all levels across the organisation, as set out by the three lines of defence model.

The first line includes business segment unit management where the assessment, evaluation and measurement of risk are integrated into day-to-day business activities. The second line is represented by the risk management and compliance functions which are independent of line management within the business units. The third line consists of internal audit which provides an independent assessment on the adequacy and effectiveness of the group's overall system of internal control and risk governance structures. Frameworks, policies, and procedures are in place for each major risk type and set out minimum requirements for management of risk and promote consistency of risk management methods.

Risk approach

Strategy

Long term strategic opportunities are considered by Board as part of its annual strategic review and planning cycle. The Board sets the group's risk appetite statement and delegates to the Chief Executive and executive management team responsibility for pursuing business opportunities in line with the agreed business strategy within the risk appetite. Opportunities identified by executive management which are either extraordinary or outside of usual strategy and/or risk appetite are escalated to Board. New business opportunities are subject to rigorous internal governance and approval processes, and are supported by specialist executive sub-committees such as the New Products and Significant Transactions Approval Committee, Counterparty Risk Management Committee and the Transaction Acceptance Committee, with oversight from ExCo.

The Board has ultimate responsibility for oversight of risk and capital planning and liquidity management and also regulatory and legal compliance (including conduct risk). The Board delegates certain responsibilities to BRMC and Board Audit Committee (BAC).

Material risks

To deliver on the strategy, it is imperative that the group recognises the risks it faces. These risks are assessed and mapped to the Risk Taxonomy which defines risk types and sub-types to enable categorisation of identified risks.

Details of the principal risks to which the group is exposed are included on pages 138 - 142 of the ICBCS Consolidated Annual Report 2023.

Risk appetite

Risk appetite, in the context of the risk appetite statement (RAS), is an expression of the amount or type of risk the group is willing to take in pursuit of its financial and strategic objectives, reflecting its capacity to sustain losses and continue to meet its obligations as they fall due under both business as usual (BAU) and stressed conditions. The Board has developed a framework to articulate risk appetite throughout the group and to external stakeholders.

The approved risk appetite is embedded within processes, policies, and limits across the group. The combination of breach management processes and appropriate governance ensures an adequate and timely response if a particular risk is likely to increase beyond the risk appetite. The group optimises performance by allowing business units to operate within approved risk appetite and limits. The group's risk appetite will continue to evolve to reflect external market developments and composition of the group.

ICBCS's risk appetite is defined in relation to the following metrics: Earnings at Risk (EaR); Economic Capital (Ecap); regulatory capital; liquidity; leverage and unacceptable risk. The overall risk appetite is then cascaded through an allocation of EaR and Ecap to individual risk types. The Credit, Market and Operational Risk teams set limit structures for business units to adhere to in order to constrain risk to the agreed appetite. Each risk team produces its RAS metrics against which reporting is provided on a monthly basis to Risk Management Committee (RMC).

The risk appetite is reviewed and updated annually. Adherence to risk appetite is governed at the entity and risk type level. The entity level RAS including the individual risk type dashboards are monitored by RMC. Breaches of risk appetite would initially be escalated and remediated through either RMC or ALCO (depending on the metric), with notification of a breach also given to ExCo and BRMC.

The table below shows the metrics in support of the ICBCS Risk Appetite as at 31 December 2023.

Metrics	Definition	Measurement
Earnings at Risk	Represents a financial loss over a one-year horizon and provides a directly comparable metric across risk classes. Expresses the quantum of financial loss the group is likely to sustain at the 90th percentile, or 1-in-10 years	- Proportion of Available Financial Resources
Economic Capital	Represents a financial loss over a one-year horizon at a 99.9% confidence interval	- Economic capital adequacy ratio
Regulatory Capital	Represents the capital surplus over capital buffers measured at the CET1, Tier 1 and total capital levels (low point during the month)	- CET1/Tier 1/Total Capital surplus
Liquidity	Represents the short- and long-term liquidity resilience of the group (low point during the month)	- Liquidity headroom against the ILG and the Combined Internal stress test - NSFR headroom
Leverage	Represents the leverage ratio calculated as the Tier 1 capital divided by the exposure measure expressed as a percentage (low point during the month)	Leverage ratio
Unacceptable Risk	A statement that outlines the group will use it best endeavours to avoid exposure to risk events that could damage the group franchise	- Large exposure breach - Single large operational losses - Other breaches

The group also monitors additional metrics by individual risk type as shown in the table below:

Risk type	Example metrics
Credit Risk	Non-performing exposures Top corporate, sovereign and FI exposures
Market Risk	Management VaR Stressed VaR (SVaR) Max stress test
Operational Risk	YTD Operational Risk losses Expected loss
Liquidity Risk	One-week liquidity surplus forecast Two weeks/three-month NSFR surplus forecast
Interest Rate Risk in the Banking Book (IRRBB)	Economic value of Equity (EVE) Earnings-Adjusted Economic Value (EV) Net Interest Income (NII)

Stress testing

The group's stress testing framework supports the regular execution of stress tests at the business unit and legal entity levels. The overall stress testing programme, incorporating credit risk, market risk, operational risk, business risk, IRRBB and liquidity risk, is a key management tool facilitating a forward-looking perspective of risk in relation to business performance. Sustainability risk is a cross-cutting risk type and gets considered through the respective risk type processes.

Further details on the group's risk management framework and stress testing can be found on pages 136 - 137 of the ICBCS Consolidated Annual Report 2023.

Risk governance committees

The Board of ICBCS is responsible for the governance of risk management within ICBCS. The Board delegates independent and objective oversight of risk management to the BRMC. The governance committees within the risk management framework are shown below, as per **Figure 1**.

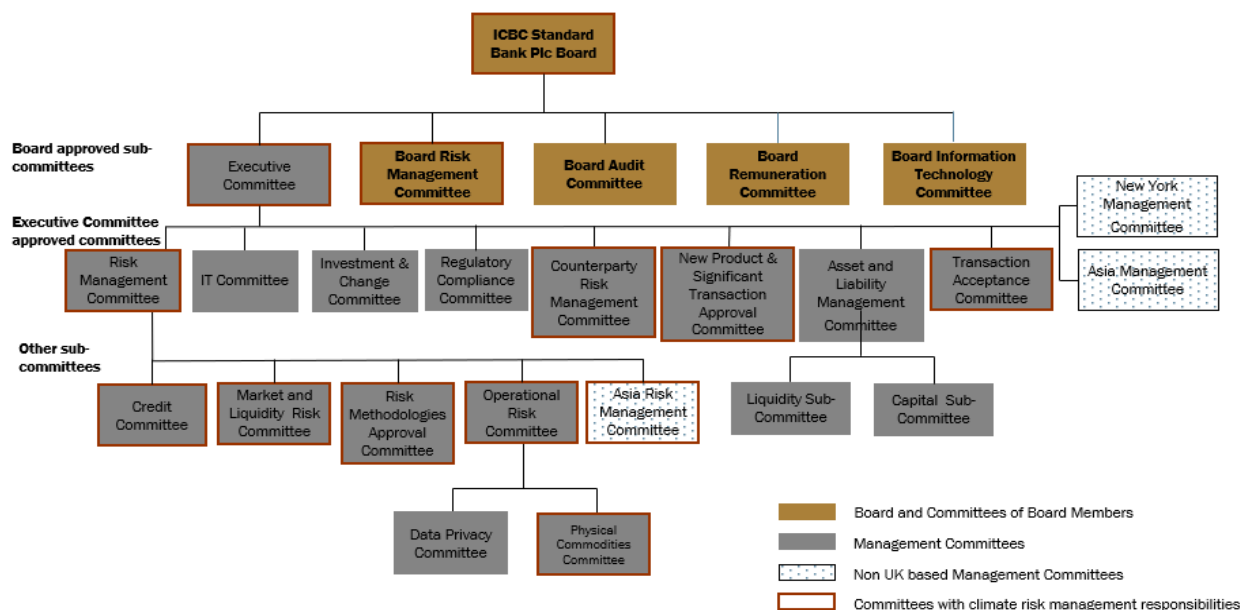


Figure 1: ICBCS governance structure

Committee responsibilities

The **ICBCS Board of Directors** (the Board) has the ultimate responsibility for the oversight of risk and capital management. The Board also ensures that the group complies with all regulatory requirements. The group, led by the Chairman, ensures that all directors commit sufficient time to perform their functions.

Members of the Board are subject to additional rules dictated by the Senior Managers and Certification Regime (SMCR). ICBCS has adopted a framework to ensure compliance with the SMCR, and the firm remains compliant with these requirements.

The **Executive committee** (ExCo) is responsible for the day-to-day management of the group. Subject to the overall authority of the Board, the committee meets regularly to develop business strategy, monitor financial performance, and review the activities of its sub-committees.

The **Board Risk Management Committee** (BRMC) provides independent and objective oversight of risk management and compliance across the group. In particular, this includes the review and challenge of risk and compliance policies, the risk appetite and composition of the risk portfolio, and the risk-taking decisions of the group.

The **Board Audit Committee** (BAC) comprises of independent non-executive directors and monitors the processes for identifying, evaluating and managing risks and controls. In particular, this includes evaluating and assessing the adequacy and effectiveness of the established accounting, financial and other internal control systems.

The **Board Remuneration Committee** (RemCo) approves remuneration policy and long-term incentive schemes for staff, sets the remuneration of executive directors and other senior executives, and approves guidelines for the group's annual salary and incentive reviews.

The **Board IT Committee** assists the Board in discharging its duties relating to oversight at the strategic steering level, of the ICBCS IT environment.

The **Risk Management Committee** (RMC) has the primary responsibility to monitor and control Market Risk, Operational Risk, Credit Risk, IRRBB, and Liquidity Risk as well as oversee adherence of the group to the agreed risk appetite. The Committee also considers the impact of Sustainability Risk as a cross-cutting risk type.

The group's Sustainability Review can be found on pages 13 - 17 and 23 - 36 of the IBCBS Consolidated Annual Report 2023.

The **IT Committee** supports ExCo to oversee the IT function and ensure that it is aligned with the business strategy and able to achieve business goals. The committee plays a critical role in managing ICBCS's Run-The-Bank (RTB) priorities and utilising RTB IT resources to support the group's day-to-day operations.

The **Investment and Change Committee** (ICC) is responsible to allocate 'Change the Bank' (CTB) budget to projects and to have oversight of the projects that have CTB budget allocated to them.

The **Regulatory Compliance Committee** (RCC) exists to ensure that there is a complete and effective compliance governance and control framework in place in respect of the conduct of business of the group.

The **Counterparty Risk Management Committee** (CRMC) is responsible for ensuring that the group has appropriate controls in place to consider the acceptability of those Client and Third-Party relationships which present heightened financial crime and/or reputational risks to the group or its existing clients.

The **New Products and Significant Transactions Approval Committee** (NPSTAC) is intended to consider the appropriateness of New Products and Significant Transactions within the defined operational risk appetite and control environment of ICBCS.

The **Asset and Liability Committee** (ALCO) is a sub-committee of ExCo. It is the responsibility of ALCO and its sub-committees to provide oversight of the size and composition of the group's balance sheet and capital and liquidity processes. ALCO is also responsible for reviewing the current and forecast capital, liquidity, funding, large exposures, asset encumbrance, leverage and bank levy positions. The Capital Sub-Committee (CSC) and Liquidity Sub-Committee (LSC) are sub-committees of ALCO, and manage early signs of stress.

The **Transaction Acceptance Committee** (TAC) is responsible for the independent assessment and approval of all transactions referred to the Committee by the business prior to accepting a formal mandate from a client / issuer.

Climate risk governance

The climate-risk related responsibilities embedded within the above governance framework include setting and formulating the group's strategy in relation to climate risk, independent oversight of climate-related risk, monitoring adherence to the agreed risk appetite which includes the review of climate change scenarios and stress tests, and reputational risk implications that may manifest from a new product or transaction or counterparty.

Declaration from Board

For the period under review, the Directors are satisfied that the group's risk management processes operated effectively and that the group has managed its risk in support of its strategy.

UK OVB – Disclosure on governance arrangements

Number of directorships held by Directors of ICBCS at 31 December 2023		
Director's Name	Directorships within ICBCS Group of Companies (includes ICBC Standard Bank Plc)	External Directorships of other Commercial Companies*
Ms Isabella da Costa Mendes	1	3
Ms Judith Eden	1	2
Mr Andile Kenneth Fihla	1	1
Mr David Hodnett	1	1
Ms Fang Hu	1	1
Ms Yabing Hu	1	-
Mr Philip Hurley	1	-
Mr Binliang Jin	1	-
Mr Garry Jones	1	3
Mr Li Li	1	1
Mr Andrew Simmonds	1	2
Dr Shoujiang Wang	1	-
Dr Wenbin Wang	1	-

* Excludes charities, trusts, non-commercial purpose entities and organisations and other dormant companies. More than one directorship in the same corporate group of companies is disclosed as a single external directorship.

Board responsibility

The responsibilities of the ICBCS Board are detailed in the 'Committee responsibilities' section above.

Board recruitment

ICBCS has a majority shareholder, Industrial and Commercial Bank of China Limited (ICBC) and a minority shareholder, Standard Bank Group Limited (SBG). Certain directors may be appointed to the Board by the shareholders as ICBC Directors or Standard Bank Directors, respectively, based on the level of shareholding, as determined in the Shareholders' Agreement. All directors nominated by the shareholders to be appointed in such a way will be subject to any necessary internal review process (including review by the Remuneration Committee of knowledge, skills and experience, and screening as part of ICBCS's 'fit and proper' review procedures). Regulatory approvals will be sought, or notifications made in accordance with the SMCR Regime as required.

Candidates for independent non-executive director roles of ICBCS are sourced externally through the engagement of a specialist third party executive search consultancy. A role profile and person specification detailing the specific requirements including meeting attendance, time commitment and regulatory considerations will be drafted and approved. The Board will only engage executive search consultants who incorporate diversity best practice into search assignments.

All applicants are required to submit a CV detailing their skills and experience and demonstrate that they possess adequate knowledge to perform the required function. In addition, applicants need to prove a genuine understanding of the firm's activities and principal areas of risk. All candidates shall be evaluated in the same manner and must disclose whether any of their activities or directorships may lead to a conflict of interest. The group also ensures that the recruitment process is compliant with the SMCR.

The group adopts a fair and transparent selection process, led by the Chairman (or Senior Independent Director), whereby shortlisted independent non-executive director candidates are interviewed by current members of the Board including shareholder appointed and other independent non-executive directors.

Diversity and composition

The group has a Diversity Policy that recognises the importance of diversity and that it is a much wider issue than gender. It recognises and embraces the benefits of having a diverse Board and management body, and views the increasing of diversity at Board and executive management body level as an essential element in maintaining a competitive advantage. Diversity will continue to be an active consideration whenever changes to the Board and executive management body are contemplated.

The Board believes that its members should collectively possess the broad range of skills, expertise and industry knowledge, and business and other experience necessary for the effective oversight of the group. The Board and management body will include and make use of differences in the skills, regional and industry experience, background and other qualities of directors and members of the executive management body. These differences will be considered in determining the optimum composition of the Board and senior management team and where possible will be balanced appropriately.

All Board and executive management committee appointments are to be made on merit, in the context of the skills, experience, independence and knowledge which the Board and executive management as a whole requires to be effective.

The current members of the Board have a wide range of backgrounds and experience, with expertise across a number of areas including Banking, Finance and Risk Management. The members also possess a diverse range of geographical understanding including experience of operations in Asia, Europe and Africa. Several of the directors have a detailed knowledge and understanding of one or both of the company's ultimate parents ICBC and SBG, as well as a strong knowledge of the relevant legal and regulatory frameworks of China and South Africa gained in their roles as executives of ICBC or SBG respectively. The group's independent non-executive directors also have other general board-level experience, particularly within financial services.

The Chairman is responsible for leading the development of and monitoring the effective implementation of policies and procedures for the induction, training and professional development of all members of the Board. During the year, directors participated in various in person, virtual and online training and briefing sessions. Directors are also accountable for personal continued professional development planning, linked to their roles and specific portfolios.

Own funds

UK CC1 – Composition of regulatory own funds

		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation (Refer UK CC2)
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	1,083.5	
1a	of which: ordinary shares	1,083.5	4
2	Retained earnings	424.8	6
3	Accumulated other comprehensive income (and other reserves)	15.5	7
UK-3a	Funds for general banking risk	0.0	
4	Amount of qualifying items referred to in Article 484 (3) CRR and the related share premium accounts subject to phase out from CET1	0.0	
5	Minority interests (amount allowed in consolidated CET1)	0.0	
UK-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	187.1	8
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	1,710.9	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(19.3)	
8	Intangible assets (net of related tax liability) (negative amount)	(28.8)	2 ¹
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	(5.8)	1 ²
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	(21.5)	
12	Negative amounts resulting from the calculation of expected loss amounts	0.0	
13	Any increase in equity that results from securitised assets (negative amount)	0.0	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	(1.8)	
15	Defined-benefit pension fund assets (negative amount)	0.0	
16	Direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount)	0.0	
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0.0	
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0.0	
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0.0	
UK-20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	(6.0)	
UK-20b	of which: qualifying holdings outside the financial sector (negative amount)	0.0	
UK-20c	of which: securitisation positions (negative amount)	0.0	
UK-20d	of which: free deliveries (negative amount)	(6.0)	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	0.0	
22	Amount exceeding the 17.65% threshold (negative amount)	0.0	
23	of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	0.0	

25	of which: deferred tax assets arising from temporary differences	0.0	
UK-25a	Losses for the current financial year (negative amount)	0.0	
UK-25b	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)	0.0	
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)	0.0	
27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)	1.4	
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(81.9)	
29	Common Equity Tier 1 (CET1) capital	1,629.1	
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	160.0	5
31	of which: classified as equity under applicable accounting standards	160.0	
32	of which: classified as liabilities under applicable accounting standards	0.0	
33	Amount of qualifying items referred to in Article 484 (4) CRR and the related share premium accounts subject to phase out from AT1 as described in Article 486(3) CRR	0.0	
UK-33a	Amount of qualifying items referred to in Article 494a(1) CRR subject to phase out from AT1	0.0	
UK-33b	Amount of qualifying items referred to in Article 494b (1) CRR subject to phase out from AT1	0.0	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	0.0	
35	of which: instruments issued by subsidiaries subject to phase out	0.0	
36	Additional Tier 1 (AT1) capital before regulatory adjustments	160.0	
37	Direct, indirect and synthetic holdings by an institution of own AT1 instruments (negative amount)	0.0	
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0.0	
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0.0	
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	0.0	
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)	0.0	
42a	Other regulatory adjustments to AT1 capital	0.0	
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	0.0	
44	Additional Tier 1 (AT1) capital	160.0	
45	Tier 1 capital (T1 = CET1 + AT1)	1,789.1	
Tier 2 (T2) capital: instruments			
46	Capital instruments and the related share premium accounts	250.0	3 ³
47	Amount of qualifying items referred to in Article 484 (5) CRR and the related share premium accounts subject to phase out from T2 as described in Article 486(4) CRR	0.0	
UK-47a	Amount of qualifying items referred to in Article 494a (2) CRR subject to phase out from T2	0.0	
UK-47b	Amount of qualifying items referred to in Article 494b (2) CRR subject to phase out from T2	0.0	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	0.0	
49	of which: instruments issued by subsidiaries subject to phase out	0.0	
50	Credit risk adjustments	0.0	
51	Tier 2 (T2) capital before regulatory adjustments	250.0	

Tier 2 (T2) capital: regulatory adjustments		
52	Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans (negative amount)	0.0
53	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0.0
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0.0
55	Direct, indirect and synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	0.0
UK-56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)	0.0
UK-56b	Other regulatory adjustments to T2 capital	0.0
57	Total regulatory adjustments to Tier 2 (T2) capital	0.0
58	Tier 2 (T2) capital	250.0
59	Total capital (TC = T1 + T2)	2,039.1
60	Total risk exposure amount	9,653.2
Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	16.9%
62	Tier 1 (as a percentage of total risk exposure amount)	18.5%
63	Total capital (as a percentage of total risk exposure amount)	21.1%
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	9.1%
65	of which: capital conservation buffer requirement	2.5%
66	of which: countercyclical buffer requirement	0.4%
67	of which: systemic risk buffer requirement	0.0%
UK-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.0%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	10.7%
Amounts below the thresholds for deduction (before risk weighting)		
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	0.0
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	0.0
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	2.2
		1 ²
Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	0.0
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	57.2
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	0.0
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	0.0
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	0.0
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0.0
82	Current cap on AT1 instruments subject to phase out arrangements	0.0

83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0.0
84	Current cap on T2 instruments subject to phase out arrangements	0.0
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	0.0

1. Included as part of Other Assets in the CC2.
2. Rows 10 and 75 together make up the Deferred Tax Asset line on CC2.
3. The CC1 reflects the total value of the subordinated debt issuance - the Balance Sheet value is lower as part of the issuance is hedged for interest rate risk and then fair valued.

UK CC2- Reconciliation of regulatory own funds to balance sheet in the audited financial statements

	Balance sheet as in published financial statements 2023	Reference utilised in UK CC1
Cash and balances with central banks	2,635.9	
Due from banks and other financial institutions	2,248.4	
Financial assets held for trading	1,278.5	
Non-trading financial assets at fair value through profit or loss	2,856.6	
Derivative financial assets	3,383.2	
Reverse repurchase agreements	2,936.0	
Loans and advances to customers	771.3	
Financial investments	2,052.8	
Property and equipment	66.9	
Current tax assets	11.8	
Deferred tax assets	8.0	1
Other assets	4,997.7	2
I. Total Assets	23,247.1	
Financial liabilities held for trading	1,634.7	
Non-trading financial liabilities at fair value through profit or loss	3,744.0	
Derivative financial liabilities	3,782.3	
Due to banks and other financial institutions	6,553.2	
Repurchase agreements	853.1	
Due to customers	1,077.1	
Current tax liabilities	2.4	
Subordinated debt	247.6	3
Other liabilities	3,481.8	
II. Total Liabilities	21,376.2	
Share capital	1,083.5	4
Other Equity Instruments	160.0	5
Reserves	627.4	
Prior Year Retained Earnings	424.8	6
Other Comprehensive Income Reserves	15.5	7
Current Year Profit	187.1	8
III. Total Shareholders' Equity	1,870.9	
Total Liabilities and Equity	23,247.1	

Note: ICBCS has the same statutory and regulatory scope of consolidation hence a single view is provided above.

Credit risk

Credit Risk is the risk of loss arising out of failure of counterparties to meet their financial or contractual obligations when due.

UK CRA – General qualitative information about credit risk

ICBCS's business model involves trading in Fixed Income and Currencies (FIC) and Commodities products and markets which results in it taking credit risk exposure to many of the counterparties it deals with.

Credit Risk is composed of Counterparty Risk, Concentration Risk, Country Risk, Equity Risk and Credit Insurance Risk.

- Counterparty risk is the risk of loss to the group arising from a counterparty being unwilling or unable to meet its financial or contractual obligations when due. Counterparty risk is explained in further detail on page 18.
- Concentration Risk is the risk of loss to the group resulting from an excessive concentration of exposure, to a single counterparty or counterparty segment, an industry, a country or geography. This concentration typically exists when a number of counterparties are engaged in similar activities and have similar characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions
- Country risk is the uncertainty that obligors (including the relevant sovereign, and ICBCS branches and subsidiaries in a country) may not be able to fulfil their obligations to the group outside the host country because of political or economic conditions in the host country. This includes group equity investments and physical inventories owned by the group in a host country. It will also incorporate risk where an obligor may be able to properly fulfil an obligation but chooses not to.
- Equity Risk is the risk of loss arising from a decline in the value of any equity instrument held, whether caused by deterioration in the performance, net asset, or enterprise value of the issuing entity, or by a decline in the market price of the instrument itself.
- Credit Insurance Risk is the risk of non-payment or partial non-payment by a provider of credit insurance due to incorrect insurance documentation or an insurer otherwise declining to make a payment under the terms of an insurance policy. This risk is distinct from the risk of the insurer being unable to pay, which is captured under Credit Risk.

The credit assessment process, leading to the establishment of credit risk appetite results in the setting of credit limits. This is achieved through an internal counterparty rating process (with quantitative and qualitative inputs) in conjunction with a credit assessment. The governance for approval of the credit limits is determined by the group's Credit Delegated Authority framework, which determines, based on counterparty rating and limit amount, whether the limits are approved at credit committee or under personal delegated authority (which is done on a 'four-eyes' basis by at least two credit managers).

Approach to managing credit risk

ICBCS's credit risk arises mainly from derivative contracts entered into with clients and market counterparties, commodity leasing and financing transactions related to commodities and securities.

The group manages credit risk through:

- maintaining a strong culture of responsible risk taking and a robust risk policy and control framework
- identifying, assessing and measuring credit risk clearly and accurately across ICBCS, from the level of individual facilities up to the total portfolio
- continual monitoring of underlying counterparty performance and news flows and adjusting appetite where appropriate
- monitoring credit risk relative to limits
- ensuring that there is expert scrutiny and independent approval of credit risks and their mitigation
- performing portfolio and counterparty stress tests

First line responsibility for credit risk management resides with the business lines, which is in turn supported by the Risk function.

Credit facilities granted by one Group entity to another (i.e. intragroup transactions) are required to be treated on an arms-length basis, and the credit risk is to be treated substantially in the same way as for any external counterparty. Intragroup transactions therefore follow the same credit process as other counterparties in terms of rating, credit analysis, limit setting,

monitoring etc. ICBCS may have a larger credit risk appetite for its shareholders, which may lead to a level of concentration. This is particularly relevant for ICBC, though this is mitigated to an extent due to the credit quality of ICBC group and the legal documentation that the transactions are executed under, in conjunction with the level of deposits/funding received from ICBC.

Governance committees

The Credit Committee is convened as a sub-committee of the RMC with a mandate to:

- Exercise responsibility for the independent assessment, approval, review, and monitoring of credit and country risk limits and exposures relating to the ICBCS business under a Delegated Authority framework
- Ensure that the origination and management of credit and country exposure (including structured transactions) in the portfolio is in line with the credit policy and any other guidance given to it by RMC from time to time
- Monitor and review Non-Performing Loan (NPL) and watchlist exposures
- Review and approve counterparty trading documentation (e.g. ISDA Master Agreements, Global Master Repurchase Agreements, etc.) and legal opinions on netting, collateral and other forms of credit risk mitigation
- Approve any underwriting commitments related to primary markets transactions
- Escalate matters to RMC as appropriate, including breaches of risk appetite and proposed corrective actions

Scope of credit risk reporting and governance

The group uses third party software to monitor and measure credit risk limits and exposures.

Credit risk reports are produced on a monthly basis for RMC and Portfolio Credit Committee. Reports are also provided to BRMC on a quarterly basis. Additional reporting is provided on an ad-hoc basis as requested by either internal or external stakeholders.

Reporting to Board will include an analysis of counterparty exposures by sector, region and ratings. Additional reports provide an overview of significant exposures by economic group across both Financial Institutions and Corporates.

Ad-hoc reporting can include granular analysis of specific counterparties or sectors, excesses, products and risk mitigation measures.

Counterparty credit risk

Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. Such transactions relate to contracts for financial instruments and may include derivative and repo contracts relating to commodities and securities. The amounts at risk reflect the aggregate replacement costs that would be incurred in the event that the counterparties default on their obligations.

The extent to which ICBCS is exposed to counterparty credit risk is informed by the ability to net mark to market exposures across a portfolio of trades, take collateral and call for margin under eligible trading documentation.

Counterparty risk has the following five core components:

- Primary Risk - which is the exposure at default (EAD) arising from lending, leasing and related debt product activities
- Pre-settlement Risk - which is the EAD arising from unsettled forward and derivative transactions, arising from the default of the counterparty to the transaction and measured as the potential cost of replacing the transaction at current market rates
- Issuer Risk - which is the EAD arising from credit and equity products capable of being traded, including their underwriting.
- Settlement Risk - which is the risk of loss from the failure of a transaction settlement, where value is exchanged, such that the counter value is not received in whole or part. It also includes the risk of loss to the group in case of transactions that remain unsettled after their due delivery dates.
- Contingent Counterparty Risk – which is the risk that approved credit risk mitigation techniques applied prove to be less effective than expected. Exit, Gap and Wrong Way Risk (WWR) are components of Contingent Counterparty Risk although Gap Risk is largely a “hybrid” between Market and Credit risk.
 - Exit Risk – which is estimated exposure relating to title-based commodity inventory financing/repo facilities, where ICBCS calculates what it might cost it to sell/liquidate a physical commodity (that it has title to and control of) in the

scenario that the counterparty that is due to buy it back from ICBCS at a future date fails to do so. Stressed Exit Risk (in relation to physical commodities) recognises low probability events or tail event risks, but nevertheless plausible risks, that exist over and above what is accounted for in the base Exit Risk calculation and could result in a more complex and protracted realisation of the commodity.

- Gap Risk – which is the risk of a shortfall due to a dislocation of the collateral value in the event of a sudden unexpected change in its price. This arises where the value of recourse to the counterparty is deemed low or zero because a) there is no legal recourse, b) the collateral represents all or a significant portion of the counterparty value (e.g. an SPV whose only assets are the collateral) or c) there is deemed to be a significant correlation between the value of recourse to the counterparty and the underlying collateral.
- Wrong Way Risk - which is the risk that arises due to positive correlation between counterparty credit exposure and adverse credit quality. WWR is present where the risk of default by the counterparty increases as the group's credit exposure to the counterparty increases or as the value of the collateral held by the group decreases.

Approach to managing counterparty credit risk

The group's exposure to counterparty risk is affected by the nature of the underlying trades, the creditworthiness of the counterparty, and any netting and collateral arrangements.

Counterparty credit risk considers any potential future exposure and is recognised on a net basis where netting agreements are in place and are legally recognised, or otherwise on a gross basis. Exposures are generally marked-to-market daily. Cash or near cash collateral is recognised where agreements are in place and legally recognised.

The International Organization of Securities Commissions (IOSCO) rules mandate eligible counterparties to bilaterally exchange initial margin (IM), equivalent to 10 day 99th percentile exposure on OTC derivatives, via a bankruptcy remote clearer to offset counterparty credit exposure.

The group's daily IM requirement calculation is based on the industry standard ISDA SIMM model. The group has been granted internal model approval by the Federal Reserve Board following an assessment of the model implementation, general industry participation and the overarching model control framework. The group has operational IM CSA agreements with a number of eligible counterparties. The group also has IM threshold monitoring agreements (the pre-IM CSA negotiation phase) in place where the daily calculated IM is below the threshold utilisation level of 75%. Any IM received / posted under this framework forms part of the daily credit risk limit management.

• Internal credit limits

Counterparty credit risk exposures are subject to explicit credit limits which are formulated and approved for each counterparty and economic group, with specific reference to its credit rating and other existing credit exposures.

The maximum credit risk appetite for counterparties is determined through a combination of credit quality (expressed as an internal credit rating) and nature of exposure, taking account of risk mitigants. Internal credit ratings are mapped to internally modelled probabilities of default (PDs).

Additionally, a number of product specific, obligor quality limit guidelines and counterparty specific policies also serve to determine risk management and credit limit setting. Credit limits are established through the group's credit approval framework on the basis of the projected maximum potential future exposure of anticipated derivative transaction volumes, generally based on 95th percentile assumptions. Counterparty stress testing can also inform credit limit appetite levels.

Credit limits consider the type of documentation held for netting or collateral management purposes. Outstanding exposures are calculated on a potential future exposure basis, based on transaction characteristics and documentation.

• Securing collateral and establishing credit reserves

Collateral, guarantees, derivatives and on- and off-balance sheet netting are widely used to mitigate credit and counterparty credit risk. The ICBCS credit policy outlines risk mitigants that may be applied to minimise risk and that may be considered as part of the credit process.

Collateral arrangements are typically governed by industry standard agreements (such as Global Master Repurchase Agreements and Credit Support Annexes to ISDA Master Agreements). Internal policies require that appropriate documentation is put in place for all clients prior to trading.

Guarantees and related legal contracts are often required, particularly in support of credit extension to groups of companies and weaker counterparties. Guarantor counterparties include banks, parent companies, shareholders and associated counterparties. Creditworthiness is established for the guarantor as for other counterparty credit approvals.

Reverse repurchase agreements are underpinned by the assets being financed, which are mostly liquid and tradeable financial instruments and commodities.

For derivative transactions, the group typically uses ISDA agreements, with a credit support annexure, where collateral support is considered necessary. Other credit protection terms may be stipulated, such as limitations on the amount of unsecured credit exposure acceptable, collateralisation if mark-to-market credit exposure exceeds acceptable limits, and termination of the contract if certain credit events occur, for example, downgrade of the counterparty's public credit rating.

For certain derivative transactions which meet eligibility for clearing at a Central Counterparty (CCP), the transactions are cleared with the CCP and the counterparty credit risk is replaced by an exposure against the CCP.

The management of concentration risk is outlined in credit policies, incorporating guideline limit frameworks at both a risk-weighted and notional level. Such guidelines are calibrated to the firm's available financial resources and exist to manage counterparty concentrations. Requests for limits to exceed the guidelines are only considered at Credit Committee.

Furthermore, sector concentrations are managed against a portion of the firm's overall Ecap and EaR amounts. Sector concentrations are monitored each month at RMC and provide a view as to which sectors the firm's financial resources are being utilised.

- **Wrong Way Risk**

WWR is addressed by taking into consideration the high correlation between the default event and exposure to the counterparty when calculating the potential exposure and security margin requirements on these transactions. Where appropriate, consideration is given to factors which may mitigate the high degree of correlation.

As a general principle, credit risk exposures whether in the Banking or Trading Book should ideally be right way risk and significant WWR exposures should be avoided where possible. It is acknowledged that WWR may be inherent in certain forms of transactions/products, and franchise or relationship considerations may require an element of business with a particular counterparty to carry some degree of WWR. This is in line with the group's business strategy and is monitored through the WWR framework and reporting.

WWR is managed both at an individual obligor level and at an aggregate country and portfolio level given the potential for positive correlation between defaults by obligors in the same country or sector. Exceptions to these general principles may be considered where warranted, but should be subject to appropriately rigorous policy application and oversight, with due regard for capital and risk appetite constraints at a legal entity and portfolio level.

Specific Wrong Way Risk (SWWR) occurs where there is a direct or very strong positive correlation between a counterparty exposure and the probability of default of the counterparty as a result of a direct legal or economic group relationship. The group has limited appetite for SWWR and such risk will only be considered under exceptional circumstances and in conjunction with assessing and recognising the associated risks.

Any credit risk mitigation received is specifically assessed to ensure that it does not exhibit material positive correlation between the collateral and the borrower. Where such correlation is considered to be material, the benefits of such mitigation are not recognised for capital purposes. This assessment of materiality is undertaken at the Credit Committee, as part of transaction approval. Material correlations also inform credit risk appetite for a transaction.

General Wrong Way Risk (GWWR) occurs where there is a positive correlation between the counterparty exposure and the probability of default of the counterparty, arising from macro factors rather than a direct relationship.

A correlation status of High, Medium or Low GWWR is assigned to a transaction based on variables that consider aspects such as sector, geography and currency. Aggregate High, Medium and Low WWR exposures arising from OTC Derivatives are managed and monitored under the approved WWR framework.

Standardised approach and internal model for market risk

Market risk can be defined as the risk of losses in on- and off-balance sheet positions arising from adverse movements in market prices. Market risk exposures include currency exchange rates, interest rates, commodity prices, credit spreads, recovery rates, correlations and implied volatilities.

Within ICBCS, market risks can be categorised as:

- Market risks arising from trading activity in financial instruments and commodities
- Non-traded market risks arising from interest rate risk positions held in the banking book - measured under the IRRBB framework
- Issuer risks in credit and equity instruments held in the banking book
- Foreign currency risk in the banking book

UK MRA - Qualitative disclosure requirements related to market risk

Management's strategic objectives for undertaking trading activity

The group specialises in global markets traded products including commodities, fixed income and currencies, with a focus on emerging and frontier market jurisdictions spanning Asia, Africa, Central and Eastern Europe, the Middle East and Latin America. It also provides specialised financing solutions to clients that leverage global markets capabilities and experience.

In alignment with the group's strategy, ICBCS offers its clients an extensive spectrum of traded financial market and commodity assets, and risk management products. The business originates exposures directly from clients and through its market-making activities, which are subsequently risk managed and traded with other market participants and clients through the group's distribution network.

The Commodities business provides trading, sales, working capital solutions and structuring expertise through its Metals and Energy teams. The group is one of four members of London Precious Metals Clearing Limited, offering vaulting and clearing services for clients, including safe custody for physical bullion at its own vault in London and at market recognised vaults globally.

The Fixed Income and Currencies (FIC) business offers a comprehensive set of foreign exchange, money markets, interest rate and credit, and structured lending products. The FIC business also provides flow structured products to global clients for their investment activities and delivers solutions for global corporates, banks and sovereigns for their financing, treasury and liability management requirements.

Market risk strategies and processes

The Market Risk team follows a framework based on the regulatory principles in UK CRD IV, the associated PRA supervisory guidance and the group's IMA permission letter.

The group provides an annual attestation to the PRA confirming compliance with the UK CRR rules. The group's market risk control frameworks are outlined in the following six market risk policies. These policies define the key processes undertaken by the Market Risk team and are subject to annual review and approval and noted by RMC. They include;

- The Market Risk Policy
- VaR Policy
- Stress Testing Policy
- Commodity Inventory Risk Policy
- Issuer Risk Policy
- Aged Inventory Policy

Processes implemented to identify, measure, monitor and control the group's market risk

The Market Risk Policy is the core policy defining the risk and associated processes to identify, measure monitor and control the group's market risks. The policy references other market risk owned policies to ensure consistent application and risk

control across position risk, VaR and SVaR. The policies ensure all risk applications are attested via key controls such as stop loss, back-testing and risk appetite measures.

Approach to managing market risk in the trading book

The Market Risk team is independent of trading operations and accountable to the CRO.

The team submits all market risk appetite recommendations to RMC prior to Board approval. The two key market risk measures owned by Board are the EaR and Ecap. Both these risk appetite metrics are supported by Market Risk Level 1 limits which are approved by RMC and Board. The Level 1 limits consist of key portfolio risk measures including Management VaR and SVaR as well as the stress scenario loss exposure limit. The Market Risk team operate additional controls on the firms traded risk by setting concentration limits such as delta, notional, sensitivity, and greek limits. All such portfolio, concentration and issuer limits at business function levels are categorised as Level 2 limits and are formally approved at Market and Liquidity Risk Committee (MLRC).

The Market Risk team is responsible for identifying, measuring, managing, monitoring and reporting market risk. These controls and responsibilities are outlined in the Market Risk Policy which explains key market risk definitions, associated risk appetite metrics, governance and roles and responsibilities of the Market Risk team. The policy also details the key market risk management controls and processes, reporting, excess management and escalation. All market risk exposures and limits are reported and managed daily in accordance with the Market Risk Policy.

Model permissions

The group requires specific permission from the PRA in order to use internal models for the determination of market risk regulatory capital requirements.

The scope of the group's model permission includes the calculation of VaR and SVaR for foreign exchange, commodities, credit trading and interest rate risk trading businesses, covering most products in named trading locations. In addition, the group calculates an Incremental Risk Charge (IRC) as part of the model permission to determine issuer risk regulatory capital relating to credit trading positions.

Model validation

The models used to determine VaR and SVaR as well as add-ons for Risks not in VaR (RNiV) and IRC are subject to review and validation by Model Validation team, which is independent from both, the Market Risk team and the model developers.

This validation includes:

- an evaluation of the theoretical soundness and adequacy of the model for its intended use
- the verification of the calculation methodologies incorporated in the model
- implementation of the model

These models are regularly reviewed to ensure they remain appropriate in the context of variations in the composition of the trading portfolio and changes in market conditions.

All changes to the models are approved at Risk Methodologies Approval Committee (RMAC).

Measurement

The key market risk measures include portfolio limit measures of VaR, SVaR and the stress scenario losses for internal portfolio risk management. The VaR and SVaR are also used to determine the market risk capital requirement of the group. Supplementing the key portfolio measures are the concentration limits mentioned above. All approved linear and non-linear products (the latter typically related to options products) are assessed and applied where applicable against the market risk portfolio, concentration and issuer limit framework.

Key control measures that support the exposure and limit framework include portfolio stress loss testing, back-testing of the VaR model and stop loss reporting at Level 1 and 2.

• VaR, SVaR and Risks not in VaR

The VaR methodology is a historical simulation approach based on a full revaluation of all traded risk for both internal management and the regulatory capital calculations. The VaR is a historically simulated measure based on the most recent one-year business trading horizon (251 business days), with a holding period of one day and a confidence level of 99%. SVaR uses a similar methodology, but is stress based with the assessment horizon being based on a longer historical period, and with the assumption of a 10-day holding period and a 99% confidence interval.

Where the group has received internal model approval, the market risk regulatory capital requirement is based on VaR and SVaR, both of which use a confidence level of 99% and a 10-day holding period.

An important part of the VaR model framework is the identification and inclusion of key risk factors that are not captured in the VaR calculations. These omissions from the VaR calculations are termed as RNiVs. The Market Risk and Risk Methodology and Analytics teams identify and implement RNiVs as part of the market risk regulatory capital framework through capital add-ons which are regularly reviewed as per the VaR Policy. Market risk regulatory capital is based on VaR, SVaR, RNiVs and IRC.

- **Incremental Risk Charge (IRC)**

IRC is the estimated loss in value of unsecuritised traded credit positions due to the default or credit migration of issuers of financial instruments over a one-year time horizon. As required by the market risk regulatory capital rules, this measure is calculated at a confidence level of 99.9% over a one-year time horizon. It uses a multi-factor model assuming a constant level of risk.

The model incorporates issuer-specific concentration, credit quality, liquidity horizons and correlation of default and migration risk. The liquidity horizon is determined by an assessment of the length of time it would take to hedge or unwind the exposures in stressed market conditions and is floored at a prescribed regulatory minimum.

- **Stop-losses**

The stop loss is a key control designed to contain losses at the group, business and individual trader levels. The control mitigates trading loss behaviour by engaging trading management intervention at predetermined trading loss tolerance levels. As defined in the market risk policy, all stop loss reporting, excess management and escalation are managed by the market risk team on a daily basis.

- **Portfolio stress tests**

Stress testing is a vital control that measures the maximum potential loss that occurs to the trading portfolio when shocks are applied to all risk factors in the portfolio under a set of prescribed scenarios. The deliberate shocking of the portfolio is to determine where the portfolio is most vulnerable under extreme but plausible market moves (“tail events”). Typically, stress testing considers longer holding periods for position exit and a wider time horizon for assessing applicable tail event moves on the portfolio. Stress tests comprise all individual market risk factors being shocked and then aggregated under prescribed scenarios to determine a stress loss as defined in the Market Risk Stress Policy.

- **Backtesting**

Backtesting is a key control on the regulatory VaR model to attest to the statistical integrity of the calculations and ensure the appropriateness of models when performing under the Internal Model Approach for the group’s capital measure. Backtesting takes the daily predicted result of the VaR at a 99% confidence and compares the result to its respective daily hypothetical and actual profit and loss results. Provided the daily P&L results do not exceed the VaR measure’s exception tolerances of the model over a rolling one-year period, the model is deemed appropriate. Backtesting breaches that exceed the model tolerance limits may lead to a capital multiplier (scalars) or model revocation. Five or more loss exceptions would result in an increase in the multiplier.

- **Inclusion in the trading book**

The group employs internal policies and controls in relation to activities which are defined as forming part of the “trading book” for regulatory capital purposes. The controls include the determination of whether a position or instrument forms part of the trading or banking book.

When deciding whether a book is trading or banking book eligible, consideration is given to the underlying nature of and rationale for the trades booked in it. The Finance team is responsible for maintaining the relevant book structure.

Transfers between the regulatory trading and banking books are generally prohibited. However, in exceptional circumstances and subject to a clear justification and rationale, transfers may be approved by the ALCO.

Approach to managing non-traded market risk

The primary traded risks within the banking book include interest rate risk, credit spread, equity and foreign exchange risk. All traded risks in the banking book are managed under the IRRBB framework.

a) Approach to managing IRRBB

The group's Market and Liquidity Risk team monitors banking book interest rate risk operating under the oversight of MLRC and RMC with guidance provided by ALCO when required. IRRBB management by Treasury Markets and Treasury Capital Management (TCM) team is achieved through available hedging techniques including changing the composition of assets and liabilities, and/or by using interest rate derivatives or by a hedging programme as instructed by ALCO.

Measurement

In considering IRRBB, the group uses the internal model for Earnings Adjusted Economic Value of Equity (EV) measure to quantify the potential loss of earnings. The group has moved away from an Economic Value of Equity (EVE) approach for internal IRRBB management to an Earnings-adjusted Economic Value of Equity model following investment in a new equity structural hedge programme by ICBCS in 2023. The group has executed an equity structural hedge to reduce the economic impact of volatility of short-term interest rate movements on equity positions on the balance sheet that do not re-price with market rates. This hedge entails the systematic management of a portfolio of fixed rate assets.

Both the EVE and EV are measured at a confidence interval of 99.9% and scaled down to a confidence interval of 90% to translate into EaR.

The group currently uses the following measures for earnings and economic value, for the purpose of IRRBB:

- **Economic Value of Equity:** Measures changes in the net present value of the group's equity to changes in market rates. It considers the adverse impact of a parallel +/- 200bps shock of the interest rate curve and the six other prescribed shock scenarios⁵. The EVE model also includes a risk add-on for model limitations. EVE is used by ICBCS for the regulatory Supervisor Outlier Test assessment.
- **Earnings-adjusted Economic Value Measure:** This metric is derived from principles of the EVE metric with specific adjustments for the equity structural hedge (i.e. the fixed rate assets that form part of this hedge are excluded). EV is used by ICBCS for IRRBB risk appetite management and monitoring.
- **Net Interest Income or Earnings:** Measures changes in expected potential future profitability within a given time horizon resulting from interest rate movements. It is calculated as the maximum NII volatility at a given confidence level for a one-year timeframe arising from a 200bps shock up/down and the six prescribed shocks. The results of the NII model are only used for risk monitoring purposes.

The results obtained assist in evaluating the interest rate risk run by the group. Desired changes to a particular interest rate risk profile are achieved through restructuring of the balance sheet and, where appropriate, the use of derivative instruments, such as interest rate swaps.

The group utilises the EV metric to derive risk appetite limits and the resultant Ecap charge for IRRBB. This is done by using the worst of the shocks described above, including an add-on for any non-modelled IRRBB risks and an add-on for quantified Credit Spread Risk in the Banking Book (CSRBB).

The limits are reviewed annually as part of the overall RAS review for the group.

Supervisory outlier tests

In addition to monitoring compliance to the IRRBB Ecap and EaR RAS limits, the group monitors its compliance to the supervisory outlier tests using the EVE metric which compares the worst of the six prescribed shock scenarios described above (plus any add on for non-modelled risks) to 15% of Tier 1 capital.

The internal risk appetite limits are set conservatively to ensure surplus headroom before reaching supervisory outlier test limits.

Limit breaches and governance

RMC monitors and reviews exposures of IRRBB and adherence to the agreed ICBCS risk appetite. ALCO is the first line of defence committee with oversight of management processes to optimise the group's deployment of balance sheet in relation to IRRBB and Liquidity Risk. Breaches of risk appetite are required to be escalated to ALCO and RMC by Market and Liquidity Risk function. Any breaches of regulatory supervisory outlier limits require notification to the PRA.

⁵ Parallel up, Parallel down, Flatteners – short rates up and long rates down, Steepener – short rates down long rates up, Short rates up, Short rates down

b) Approach to managing equity risk in the banking book

The group holds limited equity positions in the banking book for the purpose of being members of certain financial infrastructure. Listed and unlisted investments are approved by the Credit Committee, in accordance with the delegated authority limits. Periodic reviews and reassessments are undertaken on the performance of the investment.

All instances of banking book equity risk are notionally regarded as presenting credit risk for management purposes. All origination, rating, approval, exposure monitoring and annual review of such equity investments will therefore be managed under the scope of the Credit Risk Policy.

Equity securities are measured at Fair Value through P&L (FVPL) and classified as non-trading financial assets at FVPL. Subsequent to initial recognition, the fair values are re-measured and gains and losses arising from changes therein are recognised in non-interest revenue. Fair value is based on available market prices or where no prices are available, appropriate valuation methodologies are applied.

c) Approach to managing foreign currency risk in the banking book

The group's policy is not to hold material open currency exposures in respect of the banking book. Gains or losses on derivatives that have been designated in terms of cash flow hedging relationships, primarily the cost and quanto stock unit plan hedges are reported directly in equity and recycled to profit or loss at the time of the incurrence of the underlying income statement cashflow or accrual, with all other gains and losses on derivatives being reported in profit or loss.

ExCo manages hedging of the group's capital resources where these are denominated in a currency other than USD (non-USD capital resources are immaterial); and cost base where the costs are incurred in currencies other than USD, with a view to reducing volatility over a one-year planning horizon in the group's available financial resources and earnings.

In executing these hedging strategies, there is an approved policy which ExCo follow. The execution under the policy considers the cost, effectiveness and the accounting impact of the proposed execution, as well as the economic rationale. ExCo and ALCO may delegate the execution of transactions within scope of the hedging policy, where appropriate.

ALCO monitors all capital hedges whilst ExCo monitors cost hedges which have been executed, and reviews the effectiveness of such hedges in achieving the stated objectives.

Market risk governance

MLRC is responsible for monitoring and controlling market risk for the group, and overseeing adherence to the agreed risk appetite. MLRC is a sub-committee of RMC.

Key responsibilities of this committee include:

- Oversight of the agreed market risk appetite
- Monitoring and reviewing the market and liquidity risk profile and establishing an appropriate control framework to manage market and liquidity risk across the group in line with the agreed risk appetite
- Recommending level 1 limits (legal entity or business unit level) across the group, to be ratified by RMC and approved by Board
- Developing, managing and implementing a framework of sub-limits (level 2 limits)
- Monitoring VaR, SVaR, Ecap and stress testing exposures against limits across the group
- Reviewing all market risk, IRRBB and liquidity risk policies/frameworks and mandates (at least annually)
- Monitor market risk IMA regulatory capital usage across ICBCS
- Reviewing the RNIv's and approve thresholds around materiality

Scope of market risk reporting and governance

The group uses internal software (Vespa) to monitor and measure VaR and SVaR. Market risk reports are produced on a daily basis for internal monitoring and on a monthly basis for RMC and MLRC. Quarterly reports are produced for BRMC. Additional reporting is provided on an ad-hoc basis as requested by either internal or external stakeholders.

Standard reporting to relevant fora covers 99% VaR utilisation, SVaR, backtesting, limit breaches, stress testing (macroeconomic and point of weakness scenarios), P&L analysis and regulatory capital requirements.

Liquidity risk

Approach to managing liquidity risk

Liquidity risk means the risk that a firm, although solvent, does not have available sufficient financial resources to enable it to meet its obligations as they fall due. Funding risk means that a firm does not have stable sources of funding in the medium and long term to enable it to meet its financial obligations as they fall due, either at all or only at excessive cost.

ICBCS's risk appetite statement covers:

- liquidity risk via the Internal Liquidity Guidance (ILG) and Combined Internal Stress Test short term liquidity resilience metrics
- the funding risk via the long-term liquidity resilience metric, the net stable funding ratio

ICBCS seeks to minimise liquidity and funding risk by aligning the tenor of assets and liabilities. In addition, a significant portion of funding is taken from ICBC under a 370-day notice structure.

In addition, ICBCS incorporates the following policies, methodologies and processes into its liquidity risk management and monitoring framework:

- Cash flow management and forecasting - daily monitoring of the funding and liquidity position supplemented by active monitoring of the group's forecasted liquidity position to ensure sufficient LAB headroom is maintained
- Liquid Asset Investment Policy (LAIP) - defines the asset classes that can be included in the LAB and the procedures for controlling and monitoring it
- Risk Appetite Statement (RAS) and Framework (RAF) - establishes the liquidity risk appetite, ensuring alignment to the wider group strategy, resource availability and business requirements
- Liquidity Limit/EWI Monitoring Policy - uses group specific and macroeconomic indicators to alert senior management to potential liquidity deficiencies. It also details the escalation procedures to be followed in the event of EWI triggers and RAS limit breaches to maximize time available to execute appropriate mitigating actions
- Liquidity Stress Testing Policy - helps the group understand potential vulnerabilities to severe but plausible stress events across all applicable liquidity risk drivers, and assist the group in determining its management actions
- Funds Transfer Pricing (FTP) and the Contingent Liquidity Charge (CLC) mechanism - sets out the methodology used by the group to recharge the cost of funding to the business, based on the desks' funding and contingency liquidity requirements
- Recovery Plan - establishes a framework to respond to liquidity stress events and, includes a suite of recovery options and roles and responsibilities for their execution
- Funding Plan - articulates the group's funding strategy over the four-year planning horizon, while ensuring alignment with the overall budget process and RAS

Liquidity risk governance

MLRC is also responsible for monitoring and controlling liquidity risk for the group, and overseeing adherence to the agreed risk appetite. The key responsibilities of the MLRC are outlined in the market risk section above.

Operational Risk

Operational risk is defined as the risk of loss suffered as a result of the inadequacy of, or a failure in, internal processes, people and/or systems or from external events.

UK ORA - Qualitative information on operational risk

Objectives of operational risk management framework

- Aims to keep the group's Operational Risk profile within appetite e.g. through:
 - Learning lessons from losses, gains and near misses
 - Assessing the group's risk profile via Risk and Control Self-Assessments (RCSAs)
 - Undertaking scenario analysis to assess the group's exposure to remote risks
 - Escalating adverse trends in key indicators (Key Risk and Control Indicators)
 - Monitoring the status of key controls
 - Conducting assurance reviews
 - Tracking the progress of remedial actions
- Supports the group to grow quickly but safely, through independent review of new products and significant transactions, review of Change The Bank initiatives and governance of ongoing Run The Bank programmes
- Optimises the group's operational risk capital requirements through control enhancements and, where applicable, the transfer of risk via insurance
- Meets the expectations of key stakeholders (e.g. the group's customers, and shareholders as well as its regulators in different jurisdictions) regarding the group's management of operational risk and operational resilience

Approach to managing operational risk

The group has developed an Operational Risk Management framework intended to keep the firm within appetite. The framework comprises:

- A formal risk appetite for operational risk that primarily comprises financial measures and which continues to be expanded in respect of non-financial measures
- Common taxonomies for event / risks, causes and impacts / effects
- Operational risk incident / near miss and loss and gain data capture, including root cause analysis
- Review of external events (the group subscribes to IBM FIRST's Risk Case studies service), in order to learn lessons
- A portfolio of Key Risk and Control Indicators which are tracked against thresholds
- Key control attestations and monitoring
- Risk and Control Self-Assessments to identify and assess the group's inherent and residual risks
- Tracking of remedial actions
- Scenario analysis, to assess the group's exposure to "severe but plausible" events
- Operational risk capital modelling to support Pillar 2A and 2B assessments
- Purchase of insurance to transfer specific operational risks
- Targeted assurance reviews and post execution reviews of significant transactions
- Induction and awareness training

The Operational Risk Management function is independent from business line management and is part of the second line of defence i.e. it reports directly to the CRO. In addition to the management of operational risk, the function is also responsible for:

- Business Continuity Management (BCM): Setting the framework for managing threats to the group's operational resilience and ensuring that detailed Business Continuity Plans are regularly updated and tested

- CISO / DP06: Setting risk appetite for Information and Cyber Security, and monitoring and overseeing compliance as well as setting and maintaining the group's overall Data Privacy Framework
- New Product and Structured Transaction Approval: Managing the approval process
- Physical Commodities Risk Assurance: Setting the risk management framework associated with physical commodities. The function is based in Singapore and Shanghai, and its activities include the daily monitoring of exposures against limits, and the periodic inspection of storage facilities and inventory
- Insurance: The group buys insurance to mitigate operational risk through a variety of policies. Cover is reviewed on an annual basis. Ensuring that appropriate insurance, for specific risks, is in place, is the responsibility of the relevant business units. The group's Insurance Forum provides independent oversight and challenge.

Operational risk governance and control

The Operational Risk Committee is responsible for monitoring and reviewing exposures to operational risk and for providing focused and corrective oversight of Operational Risk Management across ICBCS, in line with agreed risk appetite.

Key responsibilities of the Operational Risk Committee include:

- Proposing changes to operational risk appetite for approval by RMC
- Ensuring that the policies, frameworks and methodologies owned by the Operational Risk function are fit for purpose and adequately embedded in the ICBCS legal entity and across international locations
- Promoting a robust control and Operational Risk Management culture via the three lines of defence model
- Reporting potential breaches of operational risk appetite
- Monitoring key metrics and controls and ensuring appropriate levels of quality control are applied by support functions
- Reviewing the outputs of assurance reviews
- Reviewing the impact of new products on support function capacity
- Reviewing the effectiveness of business support areas and infrastructure groups regularly
- Reviewing the outputs of scenario analyses, for the purpose of managing Operational Resilience, and assessing operational risk capital requirements
- Ensuring that an effective Business Continuity Planning process is in place for all business units in all locations

Scope of operational risk reporting and governance

The Operational Risk function uses an in-house developed Operational Risk Management system to record operational risk loss events and near misses, key risk and control indicators, and risk and control self-assessments. This system is also used to manage attestations on the operation of key controls, and to monitor remedial actions where deficiencies are identified. Operational risk reporting is provided to the Operational Risk Committee and RMC on a monthly basis and to BRMC on a quarterly basis.

All operational incidents are evaluated and escalation within the group reflects this evaluation.

⁶ Chief Information Security Officer / Data Protection Officer

Remuneration

UK REMA - Remuneration policy

Management bodies with oversight of remuneration

The governance of remuneration including policies, structures and practices is delegated to the ICBCS Remuneration Committee. There are no sub-committees of RemCo.

RemCo includes representatives from BAC and BRMC who bring their relevant expertise to the process. RemCo is comprised of executives who have experience in evaluating risk and requirements of the group to operate commercially and sustainably in a competitive environment. Members of RemCo attend the ICBCS Board meetings where results are summarised and shared with the Board. This communication plus the membership of the committees ensures that ICBCS's RemCo can arrive at a decision on the discretionary incentive pool after full consideration of the risk profile of the group.

The RemCo is comprised of Non-Executive Directors and members of the committee during 2023 were as follows:

RemCo as at 31 December 2023

Mr G Jones	Member throughout 2023
Ms J Eden	Member throughout 2023
Mr A Simmonds	Member throughout 2023
Mr L Li	Member throughout 2023
Mr K Fihla	Member throughout 2023
Mr R Han	Ceased to be a member on 2 May 2023
Ms F Hu	Appointed as a member on 2 May 2023

During 2023, the Committee met five times and considered the following principal matters:

- Remuneration philosophy including fixed pay ratios and strategic performance goals (balanced scorecard, weightings and metrics)
- Approval of senior executive appointments
- Determination of bonus pools based on group performance within the context of control management and sustainability, adjusted appropriately for risk assumed
- Bonus and salary awards for key executives
- Review of the group's policies in relation to performance and risk adjustment at both an overall pool and individual level
- Approval of remuneration and terms of service that fall within the Committee's mandate
- Review of the approach to external remuneration market data, covering a review of methodology including peer group analysis and market positioning
- Review of the share-linked instrument component of the annual bonus scheme (for Material Risk Takers - MRTs)

ICBCS is a "Proportionality Level 2 Firm" for the purposes of the Remuneration part of the PRA Rulebook and SYSC 19D of the FCA Handbook. RemCo has access to advisors to support it in its work when needed.

The remuneration policy is compliant with the UK PRA and FCA remuneration expectations in relation to the qualitative and quantitative tests for identification of MRTs and deferral of variable remuneration. No material changes were made to the Remuneration Policy or the Risk Adjustment Policy in 2023.

RemCo mandate

RemCo approves the remuneration policy and long-term incentive schemes for staff, sets the remuneration of executive directors and other senior executives, and approves guidelines for the group's annual salary and incentive reviews. The committee also acts in an advisory capacity to review and provide feedback to shareholders on proposed candidates for director appointments, including consideration of knowledge, skills and experience.

Additional details on remuneration policy and governance are included on pages 46 - 47 of the ICBCS Consolidated Annual Report 2023.

Material Risk Takers

Identification of MRTs is based on the definition provided in the MRT Regulation, as defined in Rule 3.1 of the Remuneration Part of the PRA Rulebook and is based on a combination of qualitative and quantitative criteria as noted in the Rulebook. Broadly the roles classified as MRTs include:

- Senior leadership (including Supervision, Management and Governance)
- Members of committees managing risk
- Individuals with management responsibility reporting directly to the head of a “material” business unit or to the respective heads of Risk, Compliance and Internal Audit
- Other designated roles

Design and structure of the remuneration system for identified staff

The remuneration policy for ICBCS Group (reviewed and approved by the RemCo annually) is designed to be both competitive and compliant with regulatory requirements and ensure that an assessment of risk is a key element of the policy and process. The compensation structure as a whole is designed to be globally consistent and reflective of local market pay and the role and experience of the individual. It is also designed to have transparency for the individual and is linked to business, team and individual performance.

The group’s remuneration philosophy adopts the principle that an individual’s compensation should be determined based on a number of factors. These include individual performance (comprising financial and non-financial measures), the overall performance of the employee’s business unit and the overall performance of ICBCS Group.

A strategic focus of the remuneration philosophy is to implement designs and practices that only reward value delivered on a pay for performance basis within the context of control management and sustainability, adjusted appropriately for risk assumed. Additionally, it should offer competitive remuneration in the global marketplace for skills and seek to reward all its employees in a manner that is fair, both to the individual and to shareholders, while avoiding a bonus-centric culture that distorts motivations and may encourage excessive risk-taking. A final vital component of the remuneration strategy is that scheme designs and performance evaluation processes must recognise strong and sustained performance within teams whilst being forward looking to motivate for business plan delivery.

The reward framework comprises the following key elements:

- Base salary
- Employee benefits
- Annual discretionary incentive (including both cash and deferred elements)

These three elements are managed together to ensure that total reward is appropriate and aligned with the group’s business objectives, strategy and risk appetite.

Base salaries are set by reference to market rates and reviewed, although not necessarily changed, annually. Increases are typically to ensure appropriate pay positioning relative to the market range and remuneration of others doing the same or similar role.

Benefits are designed to be market competitive and assist employees in making appropriate health and lifestyle decisions and in managing personal risk. It is important that these elements of “fixed” pay are market competitive to attract and retain employees in the long-term interests of the business.

Annual discretionary incentive awards (both cash and deferred) are based on an individual’s performance and contribution – both, what is delivered, and, how it is delivered. Discretionary incentives are awarded for delivering against agreed objectives (both financial and non-financial), and recognising when employees go above and beyond the call of duty in terms of efforts and/or results. Awards whilst primarily recognising past performance should also be forward looking and motivate for business plan delivery and retention. Discretionary incentive awards are based on the performance of the group, business unit, team and individual.

Funding for discretionary incentive awards is determined annually following consideration of risk-adjusted results. The group does not operate any desk based or business unit formulae-based compensation plans and all discretionary incentives are funded from centrally determined pools for each of the business units and supporting functions (following consideration of risk-adjustment).

When measuring performance for the purpose of setting a firm’s incentive pool, the group considers adjustments for all types of current and future risks including non-financial risk such as reputation, conduct, client outcomes, values and strategy. The

group has a clear and verifiable mechanism for measuring performance and risk adjustment in the context of the incentive pool through a detailed risk waterfall process considering risk adjustment for financial performance, non-financial risks and downward adjustment for ex-post risk. In addition to its Incentive Pool Risk Adjustment process, there is a rigorous individual risk adjustment policy approach which ensures individual awards are risk adjusted where required either “in-year” or through malus and clawback mechanisms.

Staff in internal control functions are remunerated independently of the businesses they oversee and have a reduced financial weighting relative to the rest of the Back Office divisions to ensure appropriate segregation and independence from the business units that they monitor.

Only in exceptional circumstance may the group consider offering a guaranteed bonus in order to recruit a new hire. If guaranteed variable remuneration was offered it would apply to the first year only and be supported by market data and evidence from the previous employer. Any guaranteed incentives will always be subject to the applicable deferral rules and never higher than the incentive received in the prior year. No multi-year guaranteed minimum bonus arrangements are permitted.

Any severance payments are awarded in line with good practice within the remuneration regulations.

Performance adjustment may be applied to all elements of variable remuneration. The purpose is to maintain the alignment between risk, performance and reward so that variable remuneration is paid or vests only if it is sustainable, considering the financial situation of the group, and justified on the basis of the performance of the group, the business unit and the individual concerned.

Performance adjustments should be reviewed in the context of the group’s culture and values. This is a RemCo responsibility, with due consideration of reported metrics relating to risk and conduct adjustment. The group has Risk Adjustment Policies which cover both ex-ante (risks that have not yet crystallised) and ex-post (after the event) risk adjustments.

Fixed and variable remuneration ratios

Variable pay is limited to 200% of fixed remuneration, upon shareholder approval for increasing the ratio from 100% to 200% with control functions having a 1:1 ratio.

Variable pay opportunities are reviewed regularly to ensure that the fixed and variable components are appropriately balanced and that the fixed portion represents a sufficiently high proportion of total remuneration to allow the operation of a fully flexible policy on variable remuneration components including the possibility to pay no variable remuneration. Fixed pay is set at a sufficiently high level so as to discourage inappropriate risk-taking.

Linking performance to remuneration

Each individual will have an annual appraisal and development review as part of the group’s Performance Management (PM) programme. The PM review involves the evaluation and assessment of priorities and individual goals according to agreed criteria and Key Performance Indicators (both financial and non-financial as applicable). Individual performance outcomes (as assessed in the PM review) provide input into decisions regarding setting compensation levels and overall annual reward.

Performance of the group and the business unit determine the size of the incentive pools which are calculated by reference to the following measures:

- Profitability: split by business units and legal entities over the past three years
- Balanced Scorecard: results which include financial and non-financial metrics relating to:
 - Financial: increased revenues, cost management and quality of earnings
 - Risk and Control: maintain regulatory compliance and manage risk within agreed parameters
 - People, Conduct and Culture: monitored against the group’s culture and engagement frameworks
 - Specialisation: demonstrating strategic value through sustainable product offering
 - Integration: deliver on strategic integration priorities
 - Simplification: driving operational efficiencies and effective change management

Adjusting variable remuneration

Where performance does not meet the targets set in the balanced scorecard or is otherwise considered to be unsatisfactory, then awards may be scaled back, including to zero in line with the group's Risk Adjustment Policies. All variable pay is subject to a thorough risk assessment in advance of the payment or vesting of any awards. Awards can be scaled back at the RemCo's discretion by way of, ex ante adjustments, in-year adjustments and for previously granted awards by way of malus and/or clawback.

Remuneration adjustment for long-term performance

Employees identified as MRTs as described above, are subject to deferral conditions for any discretionary incentive awarded. The percentage deferred is 40% or 60% (60% where variable pay is at least GBP 500,000), with a vesting period of 4, 5 or 7 years. 50% of both deferred and non-deferred variable remuneration is awarded in notional share linked instruments and subject to a 12-month retention period. For non-MRTs, a proportion of the incentive may be deferred (delivered as deferred cash), with a vesting period of 3 years increasing on a marginal basis from 30% at USD 180,000 to 45% deferral for the highest awards.

All elements of variable remuneration for MRTs are subject to performance adjustment and/or clawback for the entire amount. The group's approach to performance adjustment for MRTs and other staff members ensures that variable remuneration, including any deferred portion, should be paid or vest only if sustainable, considering the financial situation of the group and justified on the basis of the performance of the group, the business unit and the individual concerned. Discretionary incentive awards may be considered for risk and performance adjustment. In case of an Adjustment Event, this could include malus during the vesting period of a deferred portion of an award and, for MRTs, clawback after vesting of any portion of an award. Where appropriate (and subject to US tax laws, where applicable) payment or vesting of an award (or any part of an award) may also be delayed for as long as Remco considers necessary or desirable (for example, if Remco considers that malus and/or clawback may apply but a decision has not yet been reached). After affirmation of an Adjustment Event, Remco will identify any impacted individuals before considering the size of any potential adjustment on an individual basis and which awards (if any) should be impacted based on the type and date of the award.

There are no specific shareholding requirements on identified staff.

Derogation per Article 94(3) CRD in accordance with Article 450(1)(k) of CRR

This derogation was not applied to any individual in respect of 2023.

Analysis of 2023 remuneration

The table below shows the analysis of remuneration awarded, split between the fixed and variable amounts.

		Management Body		Other senior management	Other identified staff
		Supervisory function	Management function		
Fixed remuneration	Number of identified staff	10	4	6	37
	Total fixed remuneration	0.7	2.4	2.8	16.7
	Of which: cash-based	0.7	2.4	2.8	16.7
	(Not applicable in the UK)				
	Of which: shares or equivalent	0.0	0.0	0.0	0.0
	Of which: share-linked instruments	0.0	0.0	0.0	0.0
	Of which: other instruments	0.0	0.0	0.0	0.0
	(Not applicable in the UK)				
	Of which: other forms	0.0	0.0	0.0	0.0
	(Not applicable in the UK)				
Variable remuneration	Number of identified staff	10	4	6	37
	Total variable remuneration	0.0	1.4	2.6	18.9
	Of which: cash-based	0.0	0.7	1.3	9.4
	Of which: deferred	0.0	0.3	0.6	4.9
	Of which: shares or equivalent ownership interests	0.0	0.0	0.0	0.0
	Of which: deferred	0.0	0.0	0.0	0.0
	Of which: share-linked instruments or equivalent non-cash instruments	0.0	0.7	1.3	9.4
	Of which: deferred	0.0	0.3	0.6	4.9
	Of which: other instruments	0.0	0.0	0.0	0.0
	Of which: deferred	0.0	0.0	0.0	0.0
	Of which: other forms	0.0	0.0	0.0	0.0
	Of which: deferred	0.0	0.0	0.0	0.0
	Total remuneration	0.7	3.8	5.5	35.6

UK REM2 - Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)

	Management Body		Other senior management	Other identified staff
	Supervisory function	Management function		
Guaranteed variable remuneration awards				
Guaranteed variable remuneration awards - Number of identified staff	0	0	0	0
Guaranteed variable remuneration awards -Total amount	0.0	0.0	0.0	0.0
Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap	0.0	0.0	0.0	0.0
Severance payments awarded in previous periods, that have been paid out during the financial year				
Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff	0	0	0	0
Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount	0.0	0.0	0.0	0.0
Severance payments awarded during the financial year				
Severance payments awarded during the financial year - Number of identified staff	0	0	0	1
Severance payments awarded during the financial year - Total amount	0.0	0.0	0.0	1.1
Of which paid during the financial year	0.0	0.0	0.0	0.6
Of which deferred	0.0	0.0	0.0	0.5
Of which severance payments paid during the financial year, that are not taken into account in the bonus cap	0.0	0.0	0.0	0.0
Of which highest payment that has been awarded to a single person	0.0	0.0	0.0	1.1

UK REM3 - Deferred remuneration

Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e. changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
MB Supervisory function	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash-based	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares or equivalent ownership interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Share-linked instruments or equivalent non-cash instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other forms	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
MB Management function	2.9	0.5	2.5	0.0	0.0	0.0	0.5	0.4
Cash-based	1.3	0.1	1.2	0.0	0.0	0.0	0.1	0.0
Shares or equivalent ownership interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Share-linked instruments or equivalent non-cash instruments	1.6	0.4	1.2	0.0	0.0	0.0	0.4	0.4
Other instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other forms	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other senior management	4.3	1.0	3.4	0.0	0.0	0.0	0.9	0.8
Cash-based	1.9	0.2	1.7	0.0	0.0	0.0	0.2	0
Shares or equivalent ownership interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Share-linked instruments or equivalent non-cash instruments	2.5	0.8	1.7	0.0	0.0	0.0	0.7	0.8
Other instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other forms	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other identified staff	33.2	10.1	23.1	0.0	0.0	0.0	10.1	2.4
Cash-based	14.4	2.9	11.5	0.0	0.0	0.0	2.9	0
Shares or equivalent ownership interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Share-linked instruments or equivalent non-cash instruments	18.9	7.2	11.6	0.0	0.0	0.0	7.2	2.4
Other instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other forms	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total amount	40.5	11.5	28.9	0.0	0.0	0.0	11.5	3.6

The UK CRR requires the disclosure of the total remuneration over EUR 1m paid to MRTs by band (in EUR). Of the 57 MRTs, 14 MRTs received total remuneration of over EUR 1m. The breakdown is shown below.

UK REM4 - Remuneration of 1 million EUR or more per year	
Identified staff that are high earners as set out in Article 450(i) CRR	
1 000 000 to below 1 500 000	9
1 500 000 to below 2 000 000	4
2 000 000 to below 2 500 000	0
2 500 000 to below 3 000 000	1
3 000 000 to below 3 500 000	0
3 500 000 to below 4 000 000	0
4 000 000 to below 4 500 000	0
4 500 000 to below 5 000 000	0
5 000 000 to below 6 000 000	0
6 000 000 to below 7 000 000	0
7 000 000 to below 8 000 000	0

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