ICBC SYDNEY BRANCH

CPS 511 Remuneration Disclosures
1 January 2024 to 31 December 2024

1. Overview and Purpose

Under APRA Prudential Standard CPS 511 Remuneration (**CPS 511**), ICBC Sydney Branch (**ICBCS**) is required annually to disclose information on its remuneration framework and practices. This document sets out the disclosures for ICBCS, which is classified as a non-significant financial institution (**non-SFI**) under CPS 511, in respect of the period 1 January 2024 to 31 December 2024 (the **financial year**).

2. Governance of the remuneration framework

The Senior Officer Outside Australia (**SOOA**) of ICBCS is ultimately responsible for the remuneration framework and its effective application in ICBCS. The SOOA reviews and approves ICBCS' Remuneration Policy on an annual basis, oversees its implementation and effectiveness and approves variable remuneration outcomes for persons in specified roles, as follows:

(i) individually for senior managers (excluding the SOOA);

(ii) on a cohort basis for highly-paid material risk takers, other material risk takers and risk and financial control personnel.

The SOOA is supported in his role relating to ICBCS' remuneration framework by local management. This includes receiving advice from the Chief Risk Officer particularly in relation to the assessment of performance which feeds into remuneration outcomes.

3. Design and structure of the remuneration framework

ICBCS' remuneration framework is designed to encourage employee behaviour that supports ICBCS' long term financial soundness and the risk management framework of the branch. The objectives of the framework are to:

(a) appropriately compensate employees for the services they provide to ICBCS;

(b) attract and retain employees with the skills required to effectively manage the operations and growth of the business;

(c) motivate employees to perform in the best interests of ICBCS;

(d) promote a sound risk culture of ICBCS;

(e) ensure a level of equity and consistency in remuneration outcomes; and

(f) comply with applicable remuneration laws, regulations and prudential standards.

Scope of remuneration framework

ICBC, Sydney Branch's remuneration framework covers all ICBCS staff (including expatriate staff), including individuals who hold a specified role as follows:

(a) senior managers: those who have or exercise any of senior management responsibilities (within the meaning of APRA Prudential Standards) for ICBCS;

(b) material risk-takers: those whose activities have a material potential impact on ICBCS' risk profile, risk performance and long-term soundness;

(c) highly-paid material risk-takers: individuals whose activities cause them to be a material risk-takers and their total fixed remuneration (which includes salary, superannuation, allowances and benefits) plus actual variable remuneration is equal to or greater than 1 million AUD in a financial year of ICBCS; and

(d) risk and financial control personnel: those whose primary function includes risk management, compliance, internal audit and financial control.

Compensation structure

ICBCS' remuneration comprises elements of fixed remuneration, benefits and performance-based (risk related) remuneration.

<u>Fixed remuneration and benefits</u>

The fixed remuneration component includes base salary and superannuation. It may also include essential work-related benefits such as mobile phones, laptops and in certain cases, company cars.

<u>Variable remuneration aligned to performance</u>

Variable remuneration is an eligible person’s total remuneration that is conditional on the achievement of objectives. For certain employees, a proportion of total remuneration is payable as cash on the basis of performance in achieving defined business targets and risk outcomes.

The performance appraisal model and process is designed to promote ICBCS’ risk-oriented culture and include measures and adjustments for:

(a) the outcomes of business activities (individual and/or departments);

(b) the risks related to business activities, where relevant; and

(c) the time necessary for the outcomes of business activities to be reliably measured.

The remuneration of risk, financial control, compliance and internal audit staff, including performance-based components if any, is structured so as to maintain the independence of these staff in carrying out their functions.

4. Consequence management

A documented consequence management process outlines ICBCS' approach to identifying, assessing, and managing the consequences of non-compliance, poor performance, or misconduct in accordance with the principles set forth under CPS 511 and the Financial Accountability Regime (**FAR**). The objective is to ensure accountability and alignment of behaviour with ICBCS' risk management framework and long-term sustainability. This process forms part of ICBCS' remuneration framework and aligns with the Branch’s business plan and strategic objectives, promotes effective management of both financial and non-financial risks and supports the prevention and mitigation of conduct risk.

The key principles underpinning ICBCS' consequence management framework are:

(a) Accountability: Clear assignment of responsibility for actions and decisions.

(b) Fairness: Consistent and unbiased application of the process.

(c) Transparency: Documentation and communication of decisions and actions.

(d) Proportionality: Consequences commensurate with the severity of the incident or behaviour.

Any downward adjustments to variable remuneration are required to be proportionate to the severity of a risk and conduct outcome. If an Accountable Person of ICBCS fails to comply with the accountability obligations under the former Banking Executive Accountability Regime (**BEAR**) or current FAR (as applicable), the person's variable remuneration will be reduced by an amount that is proportionate to the failure. A reduction of variable remuneration may be a reduction to zero.

In considering proportionality, the following assessment tools are applied:

(a) Root Cause Analysis: to identify underlying factors causing or contributing to the incident or behaviour.

(b) Impact Analysis: to determine the severity of the issue by assessing:

(i) financial, customer, operational, reputational and compliance impacts; and

(ii) alignment with ICBCS' risk appetite and ethical standards.

(c) Accountability Assessment: to determine the individual's contribution to the circumstances which led to the adverse outcome.

The combination of impact and accountability will determine baseline consequences.

In determining consequences, ICBCS has discretion to take into account any mitigating factors and relevant contextual factors, including for example consequences applied for employees who have engaged in similar conduct, the duration of non-compliance, whether the employee had received relevant training or coaching and if so, the currency of that training / coaching, whether non-compliance was indicative of inadequate controls and/or supervision and, if so, the extent to which the employee was responsible for that inadequate control and/or supervision and any involvement, encouragement or sanction by other people.

Financial consequences

The SOOA can apply the following variable remuneration adjustment tools:

(a) in-period adjustment: an adjustment made to variable remuneration during the period set for measuring the performance under a variable remuneration arrangement;

(b) malus: an adjustment to reduce the value of all or part of deferred variable remuneration before it has vested;

(c) clawback: the recovery of an amount corresponding to some or all variable remuneration subject to recovery that has been paid or vested to a person.

Other examples of financial consequences include:

(a) no fixed pay increase: No increase to the base salary will be considered at the yearly remuneration review; and

(b) removal from plan: This could involve removal from a variable remuneration plan (including any incentive plans, retention or bonus awards) permanently or no variable reward for a defined period (subject to the review of the SOOA).

A downward adjustment may be applied to the current year's variable remuneration, deferred variable reward (including in respect of one or more previous years' variable remuneration) and/or, in respect of Accountable Persons who have not complied with their accountability obligations under BEAR or FAR (as applicable), to variable remuneration that has been paid or has vested. ICBCS ensures that the amount of any reduction is not paid or transferred to the individual.

Non-financial consequences

Examples of non-financial consequences include:

(a) informal counselling or coaching;

(b) mandatory training;

(c) formal performance management and written warning; or

(d) termination or demotion.

The above consequences are applied where no variable remuneration is offered to ensure risk management outcomes are assessed and consequence management is applied in the event of a material breach or misconduct.

5. Deferral arrangements

A portion of variation remuneration for certain employees is deferred in accordance with the requirements set out in (as applicable):

(i) BEAR, contained in Part IIAA of the *Banking Act 1959* (Cth), as in force immediately before 15 March 2024;

(ii) FAR, set out in the *Financial Accountability Regime Act 2023* (Cth) (FAR Act); and

(iii) CPS 511.

Deferral under BEAR

Under BEAR, the variable remuneration of Accountable Persons of ICBCS is subject to a minimum deferral of the lesser of 40% of the Accountable Person's variable remuneration for the relevant Financial Year or 20% (for medium ADIs) of the Accountable Person's total remuneration for the relevant Financial Year. If the amount to be deferred under the BEAR for a relevant financial year is less than $50,000, it need not be deferred.

Under BEAR, the minimum deferral period is 4 years or a shorter period approved by APRA. Generally, remuneration deferred under the BEAR will continue to be subject to the BEAR obligations until the period of deferral ends.

Deferral under FAR

In accordance with FAR, ICBCS defers 40% of Accountable Persons' variable remuneration for a minimum of 4 years (subject to certain exceptions, such as the death, serious incapacity, serious disability or serious illness of an Accountable Person).

The deferred remuneration obligations in FAR apply to variable remuneration of Accountable Persons of ICBCS where:

(a) the variable remuneration relates wholly or partly to the responsibilities that cause the person to be an Accountable Person; and

(b) the minimum deferral period under FAR starts on a date on or after 1 January 2025.

If the amount to be deferred under the FAR for a relevant financial year is less than $50,000, it need not be deferred.

Deferral under CPS 511

In accordance with CPS 511, for highly-paid material risk-takers who are not senior managers, at least 40 per cent of that person's total variable remuneration is deferred over a minimum deferral period of four years, vesting no faster than on a pro-rata basis and only after two years.

The deferral period includes the period over which performance is assessed and includes any required service, retention and holding periods.

Deferral requirements under CPS 511 do not apply in respect of any person with deferred variable remuneration of less than AUD $50,000 in a financial year.

In the 2024 year, the above deferral obligations did not apply to ICBCS.