# Financial Summary

The table below provides an overview of ICBC's 2022/23 financial performance relative to its *2022/23—2024/25 Service Plan*.

| ($ millions)[1,2] | 2022/23 Actual | 2022/23 Budget | 2022/23 Variance Better/ (Worse) | 2021/22 Actual |
|---|---|---|---|---|
| Premiums earned[3] | 5,290 | 5,253 | 37 | 4,784 |
| Service fees and other | 135 | 120 | 15 | 120 |
| **Total earned revenues** | **5,425** | **5,373** | **52** | **4,904** |
| Provision for claims occurring in the current year | 3,702 | 4,129 | 427 | 2,922 |
| Change in estimates for losses occurring in prior years | 419 | (107) | (526) | (430) |
| **Net claims incurred** | **4,121** | **4,022** | **(99)** | **2,492** |
| Claims service and loss management[4] | 481 | 532 | 51 | 504 |
| Insurance operations expenses[4] | 300 | 314 | 14 | 303 |
| Premium taxes and commissions[4] | 630 | 625 | (5) | 654 |
| **Total expenses** | **5,532** | **5,493** | **(39)** | **3,953** |
| **Underwriting (loss) income** | **(107)** | **(120)** | **13** | **951** |
| Investment and other income | 401 | 623 | (222) | 1,424 |
| **Income - insurance operations** | **294** | **503** | **(209)** | **2,375** |
| Non-insurance operations expenses[4] | 135 | 145 | 11 | 124 |
| Non-insurance commissions[4] | 36 | 39 | 2 | 37 |
| Non-insurance - other income | (9) | (8) | 1 | (9) |
| **Net income before impairment loss** | **132** | **327** | **(195)** | **2,223** |
| Impairment loss | (327) | - | (327) | (6) |
| **Net (loss) income** | **(195)** | **327** | **(522)** | **2,217** |
| | | | | |
| **At year end:** | | | | |
| Long-term debt | - | - | | - |
| Total liabilities | 18,427 | 18,552 | | 19,949 |
| Equity: | | | | |
| Retained earnings | 3,150 | 3,362 | | 3,348 |
| Other components of equity | 603 | 1,160 | | 361 |
| Non-controlling interest | 6 | 6 | | 6 |
| Total equity | **3,759** | **4,528** | | **3,715** |

| | 2022/23 Actual | 2022/23 Budget | 2021/22 Actual |
|---|---|---|---|
| **Capital Expenditures ($ millions)** | 41 | 60 | 54 |
| **Autoplan policies earned**[5] | 4,294,000 | | 4,217,000 |
| **Average premium ($)**[6] | 1,200 | | 1,199 |
| **Claims reported during the year**[7] | 1,067,000 | | 972,000 |

[1] Financial information for all years is prepared based on International Financial Reporting Standards (IFRS).
[2] Rounding may affect totals.
[3] Premiums earned are net of mid-term changes and cancellation refunds.
[4] See Note 19 of the consolidated financial statements for details of Operating Expenses by Nature.
[5] Annualized values have been used for policies with a term of less than 12 months. Autoplan policies earned include Basic, storage and temporary operating permit policies.
[6] Average premium is based on Autoplan premiums earned and is not denoted in the millions
[7] Claims reported represent the number of claims reported against purchased insurance coverages.

# Basic and Optional Comparative Summary Table

| ($ millions)[1] | Basic - Actual vs. Prior Year | | | Optional - Actual vs. Prior Year | | |
|---|---|---|---|---|---|---|
| | 2022/23 Actual | 2021/22 Actual | Better/ (Worse) Variance | 2022/23 Actual | 2021/22 Actual | Better/ (Worse) Variance |
| Premiums earned[2] | 3,184 | 2,754 | 430 | 2,106 | 2,030 | 76 |
| Service fees and other | 81 | 74 | 7 | 54 | 46 | 8 |
| **Total earned revenues** | **3,265** | **2,828** | **437** | **2,160** | **2,076** | **84** |
| Provision for claims occurring in the current year | 2,160 | 1,849 | (311) | 1,542 | 1,073 | (469) |
| Change in estimates for losses occurring in prior years | (64) | (156) | (92) | 483 | (274) | (757) |
| **Net claims incurred** | **2,096** | **1,693** | **(403)** | **2,025** | **799** | **(1,226)** |
| Claims service and loss management | 315 | 331 | 16 | 166 | 173 | 7 |
| Insurance operations expenses | 138 | 138 | - | 162 | 165 | 3 |
| Premium taxes and commissions | 214 | 194 | (20) | 416 | 460 | 44 |
| **Total expenses** | **2,763** | **2,356** | **(407)** | **2,769** | **1,597** | **(1,172)** |
| Underwriting income (loss) | 502 | 472 | 30 | (609) | 479 | (1,088) |
| Investment and other income | 265 | 986 | (721) | 136 | 438 | (302) |
| **Income (loss) - insurance operations** | **767** | **1,458** | **(691)** | **(473)** | **917** | **(1,390)** |
| Non-insurance operations expenses | 135 | 124 | (11) | - | - | - |

| ($ millions)[1] | Basic - Actual vs. Prior Year | | | Optional - Actual vs. Prior Year | | |
|---|---|---|---|---|---|---|
| | 2022/23 Actual | 2021/22 Actual | Better/ (Worse) Variance | 2022/23 Actual | 2021/22 Actual | Better/ (Worse) Variance |
| Non-insurance commissions | 36 | 37 | 1 | - | - | - |
| Non-insurance - other income | (9) | (9) | - | - | - | - |
| **Net income (loss) before impairment loss** | **605** | **1,306** | **(701)** | **(473)** | **917** | **(1,390)** |
| Impairment loss | (216) | (4) | (212) | (111) | (2) | (109) |
| **Net income (loss)** | **389** | **1,302** | **(913)** | **(584)** | **915** | **(1,499)** |
| | | | | | | |
| **At year end:** [3] | | | | | | |
| Liabilities: | | | | | | |
| Unearned premiums | 1,520 | 1,488 | | 1,062 | 955 | |
| Provisions for unpaid claims | 8,995 | 9,748 | | 4,038 | 3,956 | |
| | | | | | | |
| Equity: | | | | | | |
| - Retained earnings | 2,409 | 2,022 | | 741 | 1,326 | |
| - Other components of equity | 408 | 248 | | 195 | 113 | |
| - Non-controlling interest | 4 | 4 | | 2 | 2 | |
| **Total equity** | **2,821** | **2,274** | | **938** | **1,441** | |

[1] Rounding may affect totals.
[2] Premiums earned are net of mid-term changes and cancellation refunds.
[3] Balances presented at year end as of March 31, 2023 and March 31, 2022, respectively.

# Variance and Trend Analysis

## Premiums earned

Premiums earned totalled $5,290 million in 2022/23, which was $506 million higher compared to 2021/22. The year-over-year improvement is primarily due to the Relief Rebate of $396 million paid to customers last fiscal year, as well as increases in rate and penetration on Optional coverages during this fiscal year.

Premiums earned was consistent with budget.

## Service fees and other

Service fees and other are primarily comprised of interest and other fees received from policyholders who have chosen to finance their insurance premiums over the policy period.

Service fees and other income totalled $135 million in 2022/23, which was higher than last year and budget by $15 million primarily due to the higher financing fee that followed the increase in interest rates throughout this fiscal year.

## Claims costs

The cost of claims, also referred to as claims-incurred costs, is affected by the growth in the number of policies, the likelihood of having a claim (frequency) and the average expected costs to settle those claims (severity). Factors influencing frequency include driving and claimant behaviour, driver experience, weather, pandemic events, the effectiveness of road safety and loss management programs, and the increasing number of new vehicles with advanced safety features. Factors influencing severity include legal representation, litigation, settlement awards, legal fees, medical inflation, vehicle parts and repair inflation, and various investigative costs.

The cost of claims incurred accounts for about two-thirds of ICBC's total costs. Claims-incurred costs are comprised of the expected costs to settle claims for all crashes that have occurred during the fiscal period, regardless of when the crash was reported to ICBC, and the change in estimates for losses that occurred in prior periods. Claims-incurred costs include payments made to settle claims, adjusters' case reserves and actuarial estimates of the additional costs that will be paid on current claims and future claims.

Estimating how much claims will cost in the future involves predicting the future behaviour of incurred claims, taking into consideration the following: changes to the insurance product, closure rates, payment patterns and inflation, consistency of ICBC's claims-handling procedures, the legal representation status of claims and historical delays in claims reporting.

In general, the more time required to settle a group of claims, the less certain their estimates will be. Adjustments to the prior periods' claims reserves are due to the re-estimation of future payments for claims incurred in prior periods that are in progress and for those that are not yet reported. As time passes, more claims are paid and more information becomes available, refining the estimate of the remaining future claims payments.

The provision for claims occurring in the current year, or current-year claims costs, is reflective of claims under Enhanced Care. Estimated changes for losses that occurred in prior periods reflect a combination of claims under Enhanced Care from May 1, 2021 onward, claims under the minor injury cap product from April 1, 2019 to April 30, 2021, and claims under the pre-April 1, 2019 legal-based product.

Early experience shows that Enhanced Care is on track to deliver the expected savings of $1.5 billion annually. However, the majority of claims costs remains unpaid and so there is a high level of uncertainty in the claims cost estimates. One of the key uncertainties is inflation. Inflationary pressures are expected to increase health-care costs, wage loss payments and vehicle repair costs, all of which creates upward impacts on claims costs.

Overall, 2022/23 net claims-incurred costs of $4,121 million were $1,629 million higher than the claims costs incurred in 2021/22. The major contributing factors were higher costs on material damage claims from inflationary pressures on vehicle values and repair costs, and an unfavourable adjustment to account for the higher than expected future costs from large and complex bodily injury claims under the pre-April 1, 2019 legal-based product. These unfavourable costs were partially offset by an increase in the discount rate.

Net claims-incurred costs were also $99 million higher than the budgeted $4,022 million. The higher claims costs were mainly due to the unfavourable difference of $526 million in prior years' claims adjustments from higher material damage costs, and an unfavourable adjustment to bodily injury claims under the pre-April 1, 2019 legal-based product, as discussed above. Current year claim costs have a favourable difference of $427 million, mainly due to lower claim frequencies and a higher discount rate.

| $ millions | 2018/19 Actual | 2019/20 Actual | 2020/21 Actual | 2021/22 Actual | 2022/23 Actual |
|---|---|---|---|---|---|
| **Net Claims-Incurred Costs** | **6,529** | **5,908** | **3,341** | **2,492** | **4,121** |
| **Injury** | **4,854** | **4,327** | **2,002** | **824** | **1,633** |
| Current year claims | 3,498 | 2,986 | 2,110 | 1,482 | 1,266 |
| Prior years adjustments | 1,225 | 1,216 | (357) | (385) | 298 |
| Change in claims handling costs reserves | 131 | 125 | 249 | (273) | 69 |
| **Material Damage and Other** | **1,675** | **1,581** | **1,339** | **1,668** | **2,488** |
| Current year claims | 1,668 | 1,614 | 1,346 | 1,718 | 2,361 |
| Prior years adjustments | (4) | (36) | (10) | (45) | 121 |
| Change in claims handling costs reserves | 11 | 3 | 3 | (5) | 6 |

**Data Source**: ICBC financial systems

## Injury claims

Current year injury claims, comprised of bodily injury claims and accident benefit claims, account for approximately 35 percent of current year claims-incurred costs in 2022/23. Injury claims include amounts for medical costs and future care, past and future wage loss, and external claims handling expenses. Injury claims in the Enhanced Care system include compensation for permanent impairments. Overall, the total cost of current-year injury claims has decreased in 2022/23 compared to 2021/22 primarily due to a higher discount rate that is applied to future claim payments.

| $ millions | 2018/19 Actual | 2019/20 Actual | 2020/21 Actual | 2021/22 Actual | 2022/23 Actual |
|---|---|---|---|---|---|
| **Current Year Injury Claims Incurred (major categories)** | **3,498** | **2,986** | **2,110** | **1,482** | **1,266** |
| Bodily Injury | 3,162 | 2,420 | 1,728 | 223 | 116 |
| Accident & Death Benefits | 336 | 566 | 382 | 1,259 | 1,150 |

**Data Source**: ICBC financial systems

## Material damage (non-injury) claims

Current year material damage claims account for approximately 65 percent of current year claims-incurred costs in 2022/23. Material damage claims are largely categorized into Basic vehicle damage and property damage, collision, comprehensive and windshield claims. Overall, the total cost of current-year material damage claims was higher than 2021/22 as a result of increasing costs to repair or replace damaged vehicles, as well as an increase in claim frequency which continues to return to a more normal level from the low in 2020/21.

| $ millions | 2018/19 Actual | 2019/20 Actual | 2020/21 Actual | 2021/22 Actual | 2022/23 Actual |
|---|---|---|---|---|---|
| **Current Year Material Damage Claims Incurred (major categories)** | **1,668** | **1,614** | **1,346** | **1,718** | **2,361** |
| Basic vehicle damage and property damage | 643 | 611 | 455 | 626 | 863 |
| Collision | 612 | 583 | 492 | 677 | 999 |
| Comprehensive | 195 | 202 | 196 | 239 | 300 |
| Windshield | 98 | 99 | 101 | 126 | 155 |
| Other | 120 | 119 | 102 | 50 | 44 |

**Data Source**: ICBC financial systems

## Provision for unpaid claims

The provision for unpaid claims is the largest liability on the consolidated statement of financial position. It is an estimate of future claims payments relating to claims that have already occurred. The adequacy of this unpaid claims liability is reviewed and adjusted periodically throughout the fiscal year based on revised actuarial estimates, which include a provision for adverse deviations (see note 2d to the consolidated financial statements).

The provision for unpaid claims as of March 31, 2023 was $13.0 billion. However, estimates for future payments can change significantly due to the time frame in which certain types of claims are settled, which can be over a number of years. The provision for unpaid bodily injury and accident benefits claims account for approximately 93 percent of total unpaid claims costs. As illustrated in the tables below for claims occurring under the Enhanced Care model, only a small percentage of bodily injury and accident benefits claims costs are paid and known in the first year of the claim's occurrence, with a greater portion of the costs being an estimate of claims costs payable in future years.

| | End of Year 1 | End of Year 2 | End of Year 3 | End of Year 4 | End of Year 5 | End of Year 6 |
|---|---|---|---|---|---|---|
| **Breakdown of Bodily Injury Costs (%) (typical accident year)** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** |
| Paid | 3% | 17% | 33% | 47% | 65% | 77% |
| Unpaid | 97% | 83% | 67% | 53% | 35% | 23% |

**Data Source**: ICBC financial systems

| | End of Year 1 | End of Year 2 | End of Year 3 | End of Year 4 | End of Year 5 | End of Year 6 |
|---|---|---|---|---|---|---|
| **Breakdown of Enhanced Accident Benefits Costs (%) (typical accident year)** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** |
| Paid | 15% | 31% | 38% | 43% | 47% | 50% |
| Unpaid | 85% | 69% | 62% | 57% | 53% | 50% |

**Data Source**: ICBC financial systems

ICBC commissions an external actuary to provide an independent assessment of the provision for unpaid claims. As part of the annual audit of the financial results, the external auditor's actuary also reviews the adequacy of the unpaid claims reserves in the context of providing their opinion on the consolidated financial statements.

ICBC earns investment income on funds set aside for unpaid claims from the premiums that are collected for the related policies. Investment income is earned until the claims are ultimately paid. In accordance with accepted actuarial practice in Canada, ICBC reports the provision for unpaid claims on a discounted basis to reflect the time value of money. The discounted amount takes into account the expected timing of future payments related to unpaid claims (see note 15 to the consolidated financial statements). The discount rate is based on the expected return of ICBC's current investment portfolio. An increase in the discount rate applied to claims costs will reduce the unpaid claims balance while a decrease in the discount rate will increase the unpaid claims balance. As of March 31, 2023, the discount rate of 4.7 percent increased by 106 basis points from the prior period's discount rate of 3.7 percent, resulting in a decrease to the unpaid claims balance.

## Road safety and loss management

In 2022/23, ICBC invested $49 million in road safety initiatives and loss management programs, which include auto crime and fraud prevention, investigation and detection to help reduce claims costs.

Using a safe systems approach, ICBC targets its road safety investments on the major risks that impact customers and costs, including distractions, high-risk driving, impaired driving and vulnerable road users. Over the past year, ICBC worked with partners throughout the province to deliver road safety programs that help protect customers from risks on the road by reducing the frequency and impact of crashes and crime.

ICBC continued to support enhanced enforcement initiatives through a funding agreement with the Ministry of Public Safety and Solicitor General. In 2022/23, ICBC invested approximately $24 million in enhanced enforcement such as CounterAttack, distracted driving, speed enforcement and seat belt checks. ICBC also invested in public education, awareness and community initiatives to help change problematic driver behaviours. It combats fraud through deterrence, detection, enforcement and prevention efforts, and continues work to ensure fraudulent claims are detected in a timely manner and managed appropriately. ICBC works collaboratively between all business areas that identify and investigate fraudulent claims to reduce overall claims costs.

## Operating expenses

Operating expenses include employee compensation and other expenses required to operate the insurance and non-insurance businesses (which consist of expenses for administering driver licenses, vehicle registration and licensing) with the exception of claims payments, commissions and premium taxes. In 2022/23, ICBC continued to focus on prudent management of administration costs by seeking to improve and simplify business processes, while ensuring it is adequately staffed to maintain appropriate service levels and manage claims.

In 2022/23, operating expenses decreased to $916 million compared to $931 million in 2021/22. This is mainly due to lower pension and post-retirement benefit expenses from a higher discount rate compared to prior year and to lower project costs related to Enhanced Care. The decrease in operating expenses is partially offset by a provision for a retroactive compensation increase for unionized employees per the 2022-2025 Collective Agreement.

Operating expenses in 2022/23 were lower than budgeted due to lower pension and post-retirement benefit expenses, as explained above, and fewer full-time equivalents (FTEs) and related costs. Fewer overall FTEs were mainly the result of recruitment challenges and delays in hiring. Additionally, projects and related sustainment costs were also lower than budgeted due to cost delays and project deferrals.

Included in total operating expenses is $135 million in non-insurance operating expenses, funded from Basic insurance premiums. These non-insurance operating expenses include driver licensing, vehicle registration and licensing, violation ticket issuance and government fine collections. These services are not typically provided by other insurance carriers in Canada.

| $ millions | 2021/22 Actual | 2022/23 Budget | 2022/23 Actual |
|---|---|---|---|
| **Operating Expenses** | **931** | **991** | **916** |
| Claims related costs | 504 | 532 | 481 |
| Insurance | 303 | 314 | 300 |
| Non-Insurance | 124 | 145 | 135 |

| $ millions | 2021/22 Actual | 2022/23 Budget | 2022/23 Actual |
|---|---|---|---|
| **Operating Expenses by Nature** | **931** | **991** | **916** |
| Employee benefit expense | 598 | 630 | 586 |
| Professional, administrative and other | 206 | 232 | 206 |
| Depreciation & amortization | 93 | 96 | 93 |
| Road improvements and other traffic safety programs | 34 | 33 | 31 |

## Acquisition costs

Acquisition costs represent the amounts paid to brokers and appointed agents for the sale of ICBC's insurance products and the administration of driver and vehicle licensing transactions. Acquisition costs also include premium taxes (4.4 percent of premiums) collected and paid to the provincial government.

Consistent with the recognition of premium revenue earned over the duration of the policy, premium acquisition costs are deferred and amortized as expense on a similar basis. When future claims and related expenses, after consideration of investment income, are expected to exceed unearned premiums, the deferred premiums acquisition costs (DPAC) are written down and a premium deficiency liability is recognized. Conversely, where there has been a previous premium deficiency, a positive adjustment is made to eliminate the premium deficiency when unearned premiums are expected to exceed future claims and related expenses. As of March 31, 2023, the corporate DPAC asset was $307 million (see notes 19 and 20 in the accompanying consolidated financial statements).

Acquisition costs (including non-insurance commissions) of $666 million were lower than the prior year. This was mainly due to the higher Optional commission expense in 2021/22 where the Optional revenues generated from the pre-Enhanced Care product were higher during part of the year. Acquisition costs were consistent with budget.

## Investments

ICBC has an investment portfolio with a carrying value of $19.5 billion, which represented 88 percent of the corporation's total assets as of March 31, 2023.

Funds available for investment purposes come primarily from the premiums collected and set aside for unpaid claims. ICBC maintains an investment portfolio with significant allocation to high-quality fixed income securities.

As of March 31, 2023, 54 percent of the carrying value of the portfolio took the form of corporate and government bonds, bond funds, money market securities and mortgage instruments, while 46 percent of the portfolio was invested in equity and alternative investments such as real estate, mezzanine debt and private assets.

## Investment income and impairment loss

In 2022/23, total investment income was $74 million, which was significantly lower than the investment income in the prior year. Throughout this fiscal year, high inflation continued to pose challenges and the associated rise in interest rates resulted in a sharp decline in both equity and fixed income asset prices. There were bond losses from regular trading activities, and lower than expected dividend income from equities driven by the persistence of weaker financial markets, resulting in some investment funds not being able to provide capital distributions to their investors. In addition, there was a material prolonged impairment loss recognized from the depreciation of bond and equity funds. Overall, these results equated to an accounting investment return of 0.4 percent in 2022/23 (compared to 7.0 percent in 2021/22) based on the average investment balance during the period on a cost basis.

Investment income was lower than budgeted primarily due to reasons discussed previously.

| $ millions | 2021/22 Actual | 2022/23 Budget | 2022/23 Actual |
|---|---|---|---|
| **Total Investment Income** | **1,418** | **623** | **74** |
| **Investment Income** | **1,424** | **623** | **401** |
| Interest, dividends & other income | 1,069 | 498 | 714 |
| Gains (losses) on investments | 355 | 125 | (313) |
| **Impairment Loss** | **(6)** | **-** | **(327)** |

## Equity

As of March 31, 2023, ICBC's total equity was $3,759 million, which is a slight improvement from an equity of $3,715 million as of March 31, 2022. This is primarily due to the change in unrealized gains and losses from our financial investments in other components of equity partially offset by the net loss. Equity has historically helped to absorb significant unexpected increases in claims costs and volatility in the financial markets.

As of March 31, 2023, ICBC had a net unrealized gain of $106 million in other components of equity that comprised of $366 million in unrealized gains and $260 million in unrealized losses. The unrealized gains and losses included in other components of equity reflect the changes in fair value for bonds and equities and the realization of gains and losses during the year.

The adequacy of equity or capital base is an important factor in assessing the financial stability of an insurance company and is closely monitored by regulators. For federally regulated insurance companies, the common industry method used to measure financial stability is the Minimum Capital Test (MCT) ratio, an Office of the Superintendent of Financial Institutions (OSFI) risk-based capital adequacy framework, which assesses assets, policy liabilities and other potential liabilities to determine appropriate capital levels. Although ICBC is not federally regulated, legislation and regulation, prior to fiscal 2021, required ICBC to use the OSFI MCT framework to set capital targets. During fiscal 2021, the government passed legislation to remove ICBC's requirements to set the Optional insurance management target and to transfer excess Optional capital to government, thereby retaining capital for the benefit of customers. As such, ICBC is only required to set the Basic insurance capital target using OSFI's MCT framework.

As of March 31, 2023, ICBC's corporate MCT level of 102 percent was slightly higher than the prior year primarily due to the improvement in equity, as explained previously. However, the MCT level is still lower than the approved management targets mainly due to cumulative net losses from fiscal years prior to 2020/21. For further information on the Basic insurance and Optional insurance capital framework, please refer to notes 10, 22 and 24 in the accompanying consolidated financial statements.

## Basic and Optional insurance operations

ICBC operates as an integrated company providing Basic and Optional insurance products and services. Integrated operations provide benefits to ICBC's customers, such as ease of service and savings achieved through economies of scale.

The majority of premium revenues and claims costs are specifically identifiable as Basic or Optional; however, certain costs are not tracked separately. For those costs that are not specifically identified as Basic or Optional, a financial allocation methodology, as approved by the British Columbia Utilities Commission (BCUC), is used to allocate costs between these two lines of business. Detailed financial information on Basic and Optional lines of business is included in note 24 in the accompanying consolidated financial statements. The following paragraphs provide a high-level summary of results for Basic and Optional lines of business, while the balance of the annual report discusses results of integrated operations.

The Basic insurance business this fiscal year recorded a net income of $389 million. The Basic net income was lower than in the prior year mainly due to lower investment income and higher claims costs, which were partially offset by higher premiums earned.

The Optional insurance business this fiscal year recorded a net loss of $584 million, which was lower than the prior year for reasons stated above for the Basic insurance business.

# Risks and Uncertainties

ICBC has adopted an enterprise risk management approach to properly oversee its risk exposure, reduce possible negative outcomes and contribute to the sound execution of its mandate by delivering strategic priorities and quality of business operations across the organization. ICBC considers the potential impact of significant risks on its reputation, stakeholder relationships, financial detriment and compliance with legal requirements.

The company employs an Enterprise Risk Management Framework ("the Framework") to manage significant risk management activities. The Framework includes risk assessment procedures, roles and responsibilities of senior leaders and all employees in assessing and managing risk, as well as effective governance tools for risk information reporting and communication across the organization. To establish a clear and structured framework for proficient risk management, ICBC has implemented an activity-based model known as Three Lines of Defense. The first line of defense includes the company's operational functions, whereby managers and staff own and manage risks within their respective areas. The second line of defense includes the enterprise risk management function, which develops risk management policies, standards and procedures and supports the first line by reviewing, challenging and providing recommendations to ensure that significant risks are being managed adequately. The third line of defense includes the internal audit function, which provides independent assurance of the entire risk management process.

The Framework is supported by risk and control assessment processes that allow ICBC to focus on risks where the adverse impact on ICBC is determined to be significant. The risk and control assessment activities are comprised of risk identification, risk analysis and risk treatment. Risks are identified through a standard risk taxonomy to ensure a comprehensive review of all potential risk areas. All identified key risks are analyzed utilizing ICBC's Risk Prioritization Matrix which determines the level of both inherent risk and residual risk, considering impacts from stakeholders, financial, reputational and legal perspectives. The process of risk treatment includes the formulation of risk mitigations and risk escalation or acceptance to ensure appropriate actions are taken to manage risk exposure within approved risk appetite.

The Framework provides risk visibility through various risk management process, including:

- Top 10 & Emerging Risks process, which allows ICBC to proactively monitor the changing landscape of risk themes that are materializing at ICBC often with increasing velocity.

- Significant Incident Management process to detect, analyze and resolve the underlying cause and impact of operational events where a significant impact may have materialized.

The output of our risk management activities are assessed, summarized and reviewed as a quarterly risk report with the Executive Leadership and provided to the Board of Directors.