中國銀行
BANK OF CHINA

Bank of China US Branches

Credit Underwriting Standards

December 2020

Version	Date Changes Made	Author	Description of Changes
2017.v.01	April 2017	Brooke Wang	Standards Establishment
2018.v.01	April 2018	Celia Yeh	Annual Update
2018.v.02	July 2018	Celia Yeh	Update according to the Leveraged Lending Credit Policy and Procedure
2018.v.03	December 2018	Celia Yeh	Update Aircraft Finance and Project Management standards
2019.v.01	August 2019	Celia Yeh / Stancy Ng	Update CRE standards; add Subscription Finance and Asset Light Commodity Trader standards
2020.v.01	March 2020	Celia Yeh / Stancy Ng	Update Accounts Receivable Purchases and Accounts Payable Financing standards
2020.v.02	November 2020	Michael Karno/ Stancy Ng/Arturo Reyes/ Chenlu Yu/ Marco Zurmuehle	Updated minimum requirements for Cross-Border Financing, FI Loans, Project Finance, Public Finance, Subscription Finance, , and SME Merchant Invoice Financing ("eMChain") Facility

Identifying Information	
Title	BOC US Branches Credit Underwriting Standards
Document Owner	Credit Risk Management Department
Contact Information	Celia Yeh (tcyeh@bocusa.com)
Effective Date	12/16/2020
Location	Policy Library (Location: https://bocus-sites/pub/policy)
Document Type	Policy

Approved by	
Risk Management and Internal Control Committee	See 11/10/2020 and 12/16/2020 RMICC meeting minutes
Yong Ma **EVP, Chief Risk Officer**	Signature: [signature] Date: 11/24/2020
Credit Risk Committee	See 10/29/2020 and 11/24/2020 CRC meeting minutes

Reviewed by		
Lei Zhao **SVP, Head of Credit Risk Management Department**	Signature	11/23/2020 Date
George Moy **SVP, Deputy Head of Credit Risk Management Department**	Signature	11/23/2020 Date
Celia Yeh **VP, Credit Risk Management Department**	Signature	11/23/2020 Date

Prepared by		
Chenlu Yu **Credit Risk Management Department**	Signature	11/20/2020 Date

Contents

1. Executive Summary 6
1.1. Rationale 6
1.2. Related Policies & Procedures 6
2. Purpose and Scope 6
3. Roles and Responsibilities 7
3.1. Policy Governance 7
3.1.1. Risk Management and Internal Control Committee (“RMICC”) 7
3.1.2. Credit Risk Committee (“CRC”) 7
3.1.3. Credit Approval Committee (“CAC”) 7
3.2. Policy Implementation 7
4. Minimum Underwriting Standards 8
4.1. Commercial and Industrial (“C&I”) 8
4.1.1. General C&I 8
4.1.2. Leveraged Lending 8
4.1.3. Cross-Border Financing 9
4.1.4. Public Finance Working Capital Loan 10
4.1.5. Accounts Receivable Purchases / Accounts Payable Financing 12
4.1.6. Asset Light Commodity Trader 13
4.1.7. Aircraft and Ship Finance 13
4.1.8. Aircraft Leasing Finance 14
4.1.9. Project Finance 14
4.1.10. SME Merchant Invoice Financing (“eMChain”) Facility 15
4.1.11. Asset Backed Loan (“ABL”) 16
4.2. Commercial Real Estate (“CRE”) 16
4.3. Subscription Finance 17
4.4. Financial Institutions 18
4.5. Financial Institution Loans 19
4.6. Retail 20
5. Policy Assurance Methods 21

5.1. Implementation Plan 21
5.2. Awareness Methods 21
5.3. Training Methods 21
5.4. Policy Adherence Monitoring 21
5.5. Update Requirements 21
5.6. Consequences of Violating the Policy 22
5.7. Exceptions & Exemptions 22
6. Reference Information 22
6.1. Applicable Regulations and Supervisory Guidance 22
6.2. Glossary 24

1. Executive Summary

The Credit Underwriting Standards (the "Standards") provides a framework for safe and sound credit risk activities at Bank of China New York Branch and its satellite branches (collectively "BOC US Branches," "BOCNY," or "Branch") licensed by the Office of the Comptroller of the Currency ("OCC"):

- New York Branch ("NYB")
- Queens Branch ("QNB")
- Chicago Branch ("CHB")
- Los Angeles Branch ("LAB")

1.1. Rationale

The Standards is to implement the Branch's business strategy and adhere to a moderate risk appetite through balancing risk and return from its product lines across different areas of business, to provide the guidance to the business units for originating deals and maintaining a high quality credit portfolio.

1.2. Related Policies & Procedures

The Standards should be read in conjunction with other policies that guide activities at BOCNY. These policies include but are not limited to:

- Bank of China US Branches Risk Governance Framework
- Bank of China US Branches Credit Risk Management Policy
- Bank of China US Branches Commercial Real Estate Risk Management Policy
- Bank of China US Branches Leveraged Lending Credit Policy
- Bank of China US Branches Leveraged Lending Credit Procedure
- Bank of China US Branches Credit Risk Management Procedure
- Bank of China US Branches Commercial Real Estate Risk Management Procedure

2. Purpose and Scope

The Standards is to set forth minimum underwriting standards for credit origination, and to outline responsibilities of related first, second and third lines of defense for implementation.

This Standards applies to the Branch's all credit exposures, including funded loans, letter of credit, unfunded commitment, and committed overdraft limit; The Branch's inter-branch and US Treasury are excluded from the credit exposures.

3. Roles and Responsibilities

3.1. Policy Governance

3.1.1. Risk Management and Internal Control Committee ("RMICC")

As the risk management decision-making unit of the Branch, the RMICC is responsible for approving the credit risk related policies, reviewing and discussing reports on credit risk management, assessing the comprehensiveness and effectiveness of BOCNY's credit risk management program, and overseeing the performance of its credit risk professionals. RMICC provides final approval on the Standards.

3.1.2. Credit Risk Committee ("CRC")

The CRC reviews and monitors credit risk on a portfolio wide basis and approve credit risk policies and procedures. The CRC is authorized to make recommendations regarding credit strategy, credit risk appetite, credit risk profile(s), credit portfolio(s) including credit risk limits and credit portfolio optimization decisions; and, as required, to suggest courses of action in response to portfolio performance, and market and regulatory conditions.

3.1.3. Credit Approval Committee ("CAC")

The CAC is a subcommittee of the CRC. The purposes of the CAC is to support BOCNY's business strategy ; implement the Standards and related credit risk policies and procedures requirement; maintain a safe and sound loan portfolio; and comply with applicable regulatory standards.

3.2. Policy Implementation

Adhere to the Standards is facilitated through the Branch's three lines of defense.

The relevant First Line Units (FLUs) including Corporate Banking Department ("CBD"), Trade Service Department ("TSD"), Commodity Business Center ("CBC"), Banking Department ("BKD"), Financial Institutions Department ("FID"), Global Markets Department ("MKD"), Treasury Middle Office ("MOD"), Clearing Department ("CLD"), CHB, LAB and QNB should adhere to the Standards, ensure credit proposals meet the required criteria, and portfolio concentrations are within the limits.

Credit Risk Management Department ("CRM"), acts as the second line of defense, is responsible for the establishment, maintenance, review, and update of the Standards. CRM independently reviews, challenges, and ensures the FLUs to adhere to the Standards.

Internal Audit Department ("IAD") is responsible for independently evaluating and assessing the effectiveness of the control environment established by the Branch's management, and the implementation of the Standards. These include performing regular, independent reviews of activities conducted in accordance with the RGF, the Standards, and related policies and procedures.

4. Minimum Underwriting Standards

The risk appetite of the Branch is "Moderate".

The Branch targets Fortune 500 companies, Fortune 1000 U.S. companies, major real estate development companies, China "Going Global Companies", and China-US trade companies. The Branch targets investment grade borrowers or borrowers that are non-rated by U.S. rating agencies but have investment grade characteristics. BOCNY will not originate Non-Pass transactions. The Branch's business primarily covers the following types of credits.

4.1. Commercial and Industrial ("C&I")

4.1.1. General C&I

The Branch originate general C& I loans are mainly general corporate lending and trade finance.

The Branch will underwrite C&I loans that meets the following criteria:

- Tenor: <=5 years; and
- Total Funded Debt to EBITDA[2]: <=6.0x; and
- Interest Coverage Ratio: >=1.75x.

4.1.2. Leveraged Lending

BOCNY strives to mitigate leveraged credit risk through selecting the highest quality clients. Borrower should demonstrate the capacity to repay and de-lever to a sustainable level over a reasonable amount of time ("Repayment Metric"). The entirety of the capital structure of a Leveraged Obligor should be considered when assessing a loan facility, and the credit application should reflect sound financial analysis.

The BOCNY Leveraged Borrower definition considers a combination of multiple components, with the primary driver being the "Total Committed Debt/EBITDA >4.0x". Any borrower having total leverage greater than the ratio would typically be considered a Leveraged Borrower.

The followings are the minimum underwriting standards:

- Tenor: Revolver <=5 years, Term Loan <=7 years;
- Total Funded Debt/EBITDA <= 6.0x ("Leverage Metric") unless otherwise specified in a sector Risk Acceptance Criteria ("RAC");
- Borrower should demonstrate the capacity to repay in the base case at least 50% of total funded debt, or 100% repayment of senior funded debt over a 5-to-7 year period unless otherwise specified in a sector RAC;

[2] For the definition of Total Debt and EBITDA, please refer to *Leveraged Lending Credit Policy and Procedure*.

- Pro Forma EBITDA Adjustments <=25% of Total Adjusted EBITDA;
- Documentation must include at least one covenant;
- Risk mitigation requirements;

For the full detailed Standards, Exclusions, Non-Pass definition and RAC, please refers to the *BOC US Branches Leveraged Lending Credit Policy* and *BOC US Branches Leveraged Lending Credit Procedure*.

4.1.3. **Cross-Border Financing**

Cross-Border Financing transactions are transactions through which BOCNY provides financing to mostly US-based subsidiaries of Chinese parent companies, who provide support to their subsidiaries either directly through guarantees, letters of comfort or intercompany loans, or indirectly through a BOC domestic branch undertaking the credit risk via credit allocation or SBLC.

Cross-Border Financings include term loans and revolving credit facilities for working capital or general corporate purposes, as well as financings whose purpose is a cross-border acquisition ('Cross-Border M&A').

BOCNY is selective in Cross-Border Financings with requirements placed on both the borrowers as well as the support-providing parents in China.

All Cross-Border Financings require a rigorous credit analysis of both the borrower as well as the support-providing parent. The analysis should clearly identify the purpose of the financing and the primary and secondary repayment source. The analysis shall include an analysis of the capital structure of the borrower, identify any legal or structural subordination of BOCNY's loan to other debt of the borrower or its operating subsidiary and include an analysis of the borrower's repayment capacity. The size of working capital facilities should be commensurate with the borrower's working capital needs and well justified and supported in the CRR.

Where BOCNY places heavy reliance on the parent's creditworthiness, the credit analysis shall also include an analysis of the parent's ability and willingness to support the borrower and provide evidence of past support. The analysis of the provider's ability to support should take into consideration the provider's access to capital markets outside of China, as well as its international presence and experience with China's capital controls.

Structural or legal subordination should be avoided to the extent possible or mitigated through use of structural elements, such as a pledge on assets, upstream guarantees, limitations on operating subsidiary debt, negative pledge clauses, financial covenants at borrower or parent level, and subordination agreements for intercompany debt etc.

The following are the minimum underwriting standards:

- Tenor:<=7 years;

- Borrower to provide annual financial statements audited in accordance with US GAAP, IFRS, Chinese Accounting Standards or Hong Kong GAAP and at least semi-annual unaudited financial statements;
- Parent/support provider to provide annual financial statements audited in accordance with widely accepted accounting principles globally, such as US GAAP, IFRS, Chinese Accounting Standards or Hong Kong GAAP and at least semi-annual unaudited financial statements;
- Cross-Border M&A: Minimum of 20% equity and analysis of capacity to repay at least 50% of funded debt from cash flows/dividends of the acquisition target over 7 years;
- Short-term working capital facilities that are commensurate with borrower's working capital needs generally require a clean-up period of at least 2 weeks every 12 months. The clean-up period can be waived by CRM for borrowers whose parent's willingness and ability to support has been sufficiently demonstrated.
- For fully or partially unsecured facilities, the documentation shall include at least one financial covenant at the borrower level. If repayment is heavily reliant on parent capital support, an additional financial covenant at parent level should be considered. How to calculate covenant compliance should be defined in the credit agreement.
- If the borrower is a Leveraged Obligor as per Leveraged Lending Credit Policy, the underwriting standards for Leveraged Lending apply in addition to the above. If the borrower is not leveraged as per policy the General C&I underwriting standards apply in addition to the above.

4.1.4. **Public Finance Working Capital Loan**

BOCNY engages in public finance transactions where BOCNY lends to state or municipal governments in tax-secured transactions or their affiliated entities in revenue-secured (e.g. fee or fare-based) transactions.

The minimum underwriting standards for all public finance transactions are:

- Tenor: Revolver <= 5 years, Term Loan <= 5 years;
- Highest external rating not lower than BBB from S&P, Baa2 from Moody's, or BBB from Fitch at origination;
- Reporting: budget and financial reports at least annually.

For all public finance transactions, BOCNY should target facilities that are secured and the most senior in ranking. BOCNY may selectively participate in subordinated facilities with strong risk mitigants.

<u>State and Municipal Tax-Secured Transactions</u>

State and municipal public finance transactions are tax-secured, where the facility's security is based on the government's ability to collect taxes from its residents through property taxes and other taxable activities.

For state governments, BOCNY targets borrowers with the following criteria:

- Strong and well-diversified taxable base;
- Strong financial planning policies and practices;

- Strong governance with respect to management and finance;
- A good track record of balanced budgets or demonstrated ability to manage budget deficits with or without federal support;

For municipal governments, BOCNY targets borrowers with the following criteria:

- Strong and well-diversified taxable base;
- Stable economy: minimum Median Family Income ("MFI") relative to US median of 50%;
- Net Direct Debt / Full Value (Tax Base) of 10% or lower[31];
- Strong governance with respect to management and finance;
- A good track record of balanced budgets or demonstrated ability to manage budget deficits with or without federal /state support;
- Minimum population size of the Metropolitan Statistical Area (MSA) is 2,000,000;

Some municipality debts may carry guarantees from insurance companies as a credit enhancement, which may serve as a risk mitigation factor in the underwriting criteria.

The credit proposal should include analysis on, including but not limited to, the strength and diversity of the economy, legal structure of the government, management capability as reflected in historical operating results, the ability to maintain balanced budget and meet future obligations, and financial leverage.

<u>Government Affiliated Revenue-Secured Transactions</u>

Revenue-secured transactions to other government affiliated entities are secured by non-tax fees, fares, or rates paid by users of its operating assets or system.

BOCNY will selectively finance revenue secured transactions to government affiliates with investment grade credit ratings. Obligors should be located in areas with diverse and growing economies, exhibit fiscal responsibility, have adequate liquidity, and demonstrated prior access to capital markets. Obligors in this category provide services in the education, healthcare, housing, transportation, and utilities sectors and sector specific analysis will be required.

The following are the minimum underwriting standards:

- MSA population: >= 2,000,000; and
- Annual Debt Service Coverage Ratio of 1.1x (1.0x for the transportation sector[2]).

The terms of the credit agreement should encompass security, drawdowns, and limitations regarding cross-default, incremental debt or additional bonds test, mandatory prepayment based on proceeds from capital markets issuances, and alternative sources of repayment. In principle, BOCNY should lend to facilities that are senior and secured by collateral and/or revenue.

---

[1] Net Direct Debt represents General Obligation Debt minus all self-supporting debt (e.g. water, sewer, airports)

[2] DSCR under 1.0x is acceptable if enterprise risk profile (i.e. industry risk, economic fundamentals, market position, and management and governance) is very strong

4.1.5. **Accounts Receivable Purchases / Accounts Payable Financing**

Accounts Receivable Purchase is a trade finance product in which BOCNY provides liquidity to a seller of goods by purchasing its Accounts Receivable ("A/R"), which are typically short-term in nature. The A/R must be derived from the seller's normal operations. A/R purchase transactions can be underwritten on a pooled or single-buyer basis. A/R purchase transactions may be done on a disclosed basis or on a silent basis.

Accounts Payable Financing is a term used for A/R purchase transactions that are buyer-led, i.e. the buyer asks banks to purchase from the former's suppliers receivables due.

The minimum underwriting standards for single-buyer transactions are:

1. Facility Tenor: <= 1 year for uncommitted facilities; <= 2 years for committed facilities; and
2. Transaction Completion: underlying goods / services must have been shipped / rendered as evidenced by the sellers' Representation and Warranty in the AR Purchase Agreement; and
3. Invoice Restrictions: 1) no provisional invoices; and 2) no past due invoices; and
4. UCC Filing: filing on assignment of receivables from seller. Such filing can be done by the BOCNY, leading agent or seller; and
5. The buyer or its credit support provider have positive consolidated net working capital or the buyer's credit rating is investment grade; and
6. Maximum Seller's Remittance Period: seller must maintain monthly remittance schedule and turn over collected funds within 60 days at the latest. Maximum Seller's Remittance Period does not apply for Account Payable Financing.

For a buyer that cannot furnish its own financial statements but whose financials are consolidated into a company that publishes consolidated financial statements (the "Parent"), condition #5 above may be tested based on the Parent even if the Parent does not explicitly guarantee the buyer's obligations under the A/R A/P facility if one of the conditions is met:

1) the Parent provides a Letter of Comfort or similar document evidencing its intent to support the buyer in maintaining sound financing standing; or

2) the buyer:

    a) is wholly owned by the Parent, or is identified by the Parent as a significant, material, or principal subsidiary of the Parent in the latter's or SEC filings; and/or

    b) performs a strategic function and is integral to parent's business operations and / or supply chain management, as evidenced by qualitative and quantitative factors such as the buyer being a major revenue contributor or procurement entity, or playing a key part in the Parent's core business such as the provision of geographic coverage or being a key cash management hub.

The determination of whether there is sufficient qualitative and quantitative support to underwrite the subsidiary based on the above criteria (2a or 2b) is at CRM's discretion.

BOCNY may provide financing to the buyer to pay the sellers through short-term uncommitted revolving lines. These are considered to be loans subject to general C&I underwriting standards in Section 4.1.1.

4.1.6. **Asset Light Commodity Trader**

Asset Light Commodity Traders are defined as commodity traders (have a primary activity in buying and selling of commodities not intended for internal processing (apart from storage and transportation) into more value-added products) who have PP&E and other similar long term assets comprising less than 20% of the borrower's total assets. These traders typically fund purchases of working assets with bank debt or other financing arrangements and repay such obligations with proceeds from the conversion of those assets. Loan structures are limited to facilities that will be repaid through asset conversion. For transaction types for which financial covenants are a normal part of the documentation, the covenants should reflect the primary source of repayment. Covenant examples include, but are not limited to, the following: (1) Maximum Total Liabilities / Tangible Net Worth, (2) Minimum interest coverage ratio, (3) Minimum Net Working Capital covenant, and (4) Minimum Tangible Net Worth covenant.

The following are the minimum underwriting standards:

- Tenor: <=5 years; and
- Total Liability to Tangible Net Worth: <=8.0x;

BOCNY may underwrite a transaction with a Borrower with Liability to Tangible Net Worth Ratio > 8.0x and <= 12.0x by taking an underwriting exception.

If BONCY underwrites an Asset Light Commodity Trader on the basis of support provided by the parent or an affiliate, the minimum underwriting standards to be applied at the support provider level. In the event that a Borrower relies on the parent or guarantor who is also an Asset Light Commodity Trader, the above standards will apply to such parent or guarantor.

4.1.7. **Aircraft and Ship Finance**

For aircraft finance, the Branch targets at national flagship carriers and selective state-owned carries. BOCNY prefers single-aisle aircraft and considers jumbo aircraft. In principle, loans shall not be granted to the purchase of second-hand aircraft.

For ship finance, BOCNY is selective about ship types such as tanker, container, and dry bulk; sponsorship includes state owned or/and top tier companies.

The followings are the minimum underwriting standards:

- Tenor: <=12 years; and
- Loan to Value: <=85% for aircraft, <=70% for ship, and <=75% for ship with insurance from "A" or above rating sovereign agencies or insurance companies; and
- DSCR: >=1.20x.

4.1.8. **Aircraft Leasing Finance**

BOCNY targets at national flagship carriers and selective state-owned carriers as lessee. BOCNY prefers brand new single-aisle aircraft and considers jumbo aircraft.

The followings are the minimum underwriting standards:

- Tenor: <=12 years; and
- Loan to Value: <=85%[4]; and
- DSCR: >=1.05x.

4.1.9. **Project Finance**

BOCNY is selective in project finance with requirements including institutional sponsorship, investment grade or credit institutional off-takers and minimum sponsor's equity. In general, project financings are secured and lenders only have recourse to a specific set of pledged assets and cash flows with limited or no recourse to corporate guarantees. Most project finance obligors are related to power, energy, infrastructure, and industrial projects.

The followings are the minimum underwriting standards:

- Tenor: <=10 years; and
- Main source of projected internal debt service (after completion) are future cash flows from the underlying project and/or integrated assets; and
- DSCR: (after completion) >=1.0x; and
- Loan to Cost: <=80%; and
- Escrow account to be held at agent bank or BOCNY; and
- Completion guarantee; and
- Offtake agreement.

A direct guarantee provided by investment grade or credit institutional sponsor may be accepted in lieu of completion guarantee or off-take agreement on case-by-case basis, where an off-take agreement is not typically obtainable due to the nature of the product. In the case of U.S. or Canadian non-energy/power infrastructure projects that provide an essential service and have limited alternatives, strong evidence of the project's sustainable revenues may be considered in lieu of an offtake agreement on a case-by-case basis.

---

[4] If the loan to aircraft purchase price or the LTV exceeds 85%, the loan must be approved by Head Office.

4.1.10. SME Merchant Invoice Financing ("eMChain") Facility

An eMChain facility is an uncommitted, secured revolving recourse facility provided to eligible U.S. suppliers ("Sellers," each a "Seller") that sell goods to eligible U.S. buyers ("Buyers," each a "Buyer"). The purpose of the facility is to provide liquidity to Sellers during the invoice collection period. Advances are made against Eligible Invoices[5] of approved Buyers who are subject to separate credit review and limit approval. Typically, the proceeds from the collection[6] on Eligible Invoices are indirectly assigned to BOCNY under certain agreements between the Seller and a factor, and amongst BOCNY, the Seller, and the factor. BOCNY's interest in such proceeds serves as security for the eMChain facility, which security is an integral part of the product design. In cases where a factor is not part of the transaction structure, BOCNY must obtain interest in the proceeds via other means, such as direct assignment from the Borrower.

Given the structure of eMChain facilities, there is reliance on the Buyers' ability to make payment on the Eligible Invoices to repay amounts drawn under such facilities. However, to the extent that the facility structure does not eliminate BOCNY's exposure to the Seller arising from dilution (returns, allowances, disputes, bad debts, and other credit offsets), the Seller remains the ultimate credit base for the facility.

The minimum underwriting standards for eMChain facilities are:

- The Seller and Buyer must meet the eligibility criteria below
- The tenor of the facility must be <= 1 year
- Advance rates are capped at 80% of the invoice amount

Seller Eligibility: Sellers must meet the following standards:

- Registered and located in the U.S.
- At least 3 years of continuous operation
- Provide tax returns for the past 3 years with at least 1 profitable year
- Have transaction and payment history with Buyers in last 12 months
- Positive tangible net worth
- Previous dilution rate below 35%

Buyer Eligibility: Buyers must meet the following standards:

- Rated at least BB+/Ba1 by S&P/Moody's, or the equivalent of such ratings based on CRM's analysis
- Not related to the Sellers (not affiliates, subsidiaries or controlled by the same persons)
- Registered and located in the U.S.

---

[5] Invoice Eligibility is as per definitions contained in the SME Merchant Invoice Financing New Product Manual (f/k/a SME Supply Chain Financing New Product Manual.) The eligibility criteria are not specified here as Underwriting Standards, as it is not contemplated that BOCNY would fund against ineligible invoices by taking underwriting exceptions.

[6] Seller will be required to open operating account with BOCNY and use this BOCNY account to receive payment from the Buyer.

4.1.11. **Asset Backed Loan ("ABL")**

ABL facilities are fully collateralized credit facilities; primary source of repayment is the conversion of the collateral to cash; loan advances are limited to a percentage of eligible collateral (the "borrowing base facility" collateralized by inventory and/or receivables); and subject to strong controls and close monitoring (e.g., field audits).

The followings are the minimum underwriting standards:

- Tenor: <=3 years; and
- Total Liability to Tangible Net Worth : <=8.0x.

4.2. Commercial Real Estate ("CRE")

BOCNY targets borrowers such as major real estate development companies that are of investment grade or non-rated borrowers with investment grade characteristics. The Branch is highly selective in CRE lending and focuses its activities in properties in prime locations within major U.S. metropolitan cities with reputable sponsorship and strong tenancy.

CRE loans are required to be amortizing and be secured by the first lien mortgage. BOCNY does not provide junior secured loans such as second mortgage, subordinated note, or mezzanine loans. Interest only loans may be provided if the loan meets the requirements set forth below.

The Branch will underwrite CRE loans with minimum standards summarized as below table:

Property Type	Min. DSCR[7]	Min. (achieved) Min. Occupancy[8]	Max. Term (Years)	Max. LTV	Max. LTV for I/O Loans		
					Term <= 5 Years	Structured Term[9]	Straight Term >5 Years and <= 7 Years
Office	1.25x	85%	7	65%	65%	60%	55%
Multifamily Rentals	1.25x	90%	7	70%	70%	65%	60%
Mixed-Use	1.25x	85%	7	65%	65%	60%	55%
Condo for Sale[10]	-	-	3	65%	65%	N/A	N/A
Hospitality	1.50x	75%	5	50%	50%	N/A	N/A

[7] Based on maximum amortization schedule of 25 years.
[8] If the minimum (achieved) occupancy level is not met, so long as DSCR/Debt Yield meets or exceeds the stipulated minimum (achieved) occupancy levels, loan will not be counted as an exception to the Policy.
[9] Structured term is defined as initial term <= 5 years, and final term <=7 years with extension option(s).
[10] As known as "Inventory" which are completed residential condominium units for sale.

Retail	1.25x	85%	7	65%	65%	N/A	N/A
Industrial	1.25x	90%	7	65%	65%	60%	55%

For full detailed standards, please refer to *BOC US Branches Commercial Real Estate Risk Management Policy*.

4.3. Subscription Finance

A subscription financing facility is a loan facility, typically in the form of a revolving credit line, provided to a fund secured by the unfunded capital commitments of the fund's investors. A lender's obligation to make a loan under the facility is generally contingent upon the fund's compliance with a borrowing base test, which requires the outstanding indebtedness under the facility to not exceed the facility's borrowing base of eligible collateral net of haircuts.

Subscription financing facilities are generally arranged during the start-up stage of a fund. Therefore, the fund itself is not expected to have meaningful funded equity or earnings and may not have financial statements at the time of facility origination. The primary source of repayment of the facility is the investors' contractual obligations to fund capital calls.

The minimum underwriting standards are:

- Commitment funds (i.e. not open-ended); and
- Tenor <= 5 years inclusive of any extensions at the borrower's option; and
- Pledge of unfunded capital commitment under borrowing base structure; and
- Diversified investor base specified in loan documents or fund's organizational documents; or stand-alone credit limits for the concentrated investors are required.
- Operating History >= 5 years

The minimum underwriting standards that are specific to the borrowing base structure are:

- Minimum "Vetted Investor Borrowing Base Contribution Ratio" of 50%, representing the minimum aggregate contributions to the borrowing base from Eligible LPs (defined as investors that are included in the borrowing base) that meet one or more of the following criteria: a) the investor carries a public credit rating of no less BBB- by S&P, Baa3 by Moody's, or BBB- by Fitch; b) the investor has an "implied rating" that meets the requirement specified in (a) above via sponsorship from a rated entity; or c) there is sufficient information for BOCNY to perform a credit analysis on the investor, and such analysis indicates the investor to be high quality as determined by CRM at its sole discretion.
- Maximum advance rates:
    1. 95% - applicable to any Eligible LP designated as a Rated Included Investor[11] (or similar terminology) by the Agent

[11] A Rated Included Investor designation is given to investors that have actual external credit ratings assigned by rating agencies deemed to be acceptable by the agent (generally limited to S&P and Moody's). Per industry practice, only investment grade investors receive such a designation.

2. 90% - applicable to any Eligible LP designated as an Unrated Included Investor[12] (or similar terminology) by the Agent
3. 65% - applicable to any Eligible LP that does not meet the definitions under 1 or 2

- If the weighted average rating of the investors in the borrowing base is lower than the Moody's equivalent of Baa1, a Minimum Overcollateralization ratio of 1.25x applies. The ratio is calculated at time of underwriting (origination/refi/extension), measured as the ratio of total remaining unfunded capital commitments of all investors (including those LPs that are not eligible to be included in the borrowing base) to facility availability at the hypothetical "breakeven point" at which sufficient capital has been called to cause the value of the net borrowing base to equal to/exceed the maximum size of the facility after giving effect to any accordion/expansion feature.
- The weighted average rating of the investors that comprise the borrowing base shall be calculated in accordance with the methodology prescribed in BOCNY's Credit Risk Policies and Procedures that is used to calculate the transaction risk rating.
- For any borrowing base, maximum concentration ratio of 20% for single investor, unless a full financial analysis is provided for each investor whose unfunded commitments represent more than 20% of total unfunded commitments in the borrowing base. Such full financial analysis must be tabled at CAC, either in conjunction with the CRR requesting approval for the subscription finance facility or separately, so that CAC can approve exposure to such investor in the requisite amount and tenor.
- For any borrowing base consisting of 4 or fewer investors, a full financial analysis will be required for each investor with the following carve-out: A financial analysis will not be required for the investor representing the smallest commitment if: 1) such investor's commitment represents no more than 10% of the total commitments of all investors; 2) the investor has an actual or implied rating of single A (i.e. the lowest of ratings from S&P, Moody's and Fitch for the investor or sponsor to be no less than A-, A1, and A-, respectively); and 3) whose default by itself would not cause the borrowing base to be under-collateralized.

4.4. Financial Institutions

The types of credit product provided to FI customers from the Branch include, but not limited to: trade service transactions including agency business and settlement; correspondent bank's account overdraft; treasury business such as interbank lending, foreign exchange and bond investment, and etc.

The minimum underwriting standards are:

[12] An Unrated Included Investor is an investor that has been vetted by the Agent and determined by the Agent to be a high quality investor. While such designation may be made based on the sole discretion of the Agent, the Agent generally ascribes the designation based on verifiable attributes such as NAV size, actuarial funding ratio (in the case of pension funds), unrestricted net assets and/or liquidity ratio (in case of endowments and foundations), and/or high quality sponsorship. Investors with this designation are usually large pension funds, endowments or foundations. Note that not all transactions have an Unrated Included Investor designation. For deals that have large numbers of investors, the Agent may choose not to incorporate this designation given the additional due diligence requirements. In such cases, the high quality investors that would otherwise qualify for higher advance rates would be bucketed with other unrated investors and receive lower advance rates.

- Tier 1 Risk-Based Capital Ratio >= 6% and Total Risk-Based Capital Ratio >= 8%; and
- Minimum External Rating BB- above[13].

4.5. Financial Institution Loans

FI loans are term loan or revolvers made to financial institutions. The product is approved for banks, bank holding companies, insurance companies, and insurance holding companies only.

The minimum underwriting standards for all FI loan transactions are:

- Tenor: <=5 Years
- Sovereign Risk Rating of Risk Country[14]: S&P A-, or equivalent from Moody's or Fitch in case S&P rating is not available; and
- For names rated by S&P, Moody's, or Fitch[15] – minimum rating BBB+ from S&P, Baa1 from Moody's, or BBB+ from Fitch

<u>Banks and Bank Holding Companies</u>

The following additional minimum underwriting standards are applicable to banks and bank holding companies:

- Tier 1 Capital Ratio >= 8%; and
- Total Capital Ratio >= 10%

<u>Insurance Companies and Insurance Holding Companies</u>

The additional underwriting standards for insurance companies include a minimum capital adequacy ratio, a maximum financial leverage ratio and a minimum fixed charge ratio.

- U.S. based operating insurance companies – These companies are regulated by the insurance departments of the states in which they are based. The National Association of Insurance Commissioners require such companies to calculate and report a risk based metric ("Risk Based Capital Ratio" or "RBC Ratio") that takes into the account of their respective sizes and risk profiles.

  The applicable additional underwriting standards for these companies are:

  1. Risk Based Capital Ratio >=250%;
  2. Financial Leverage Ratio <=35%, unless its lowest external rating is not below A- from S&P, A3 from Moody's, or A- from Fitch; and

---

[13] If a financial institution is non-rated, then this metric is not applicable.
[14] As determined by CRM. Risk country is the company's country of domicile or country in which the majority of the FI's operating assets are located.
[15] For names not rated by S&P, Moody's, or Fitch, BOCNY will target credits that display characteristics that are consistent with, or superior to, high triple-B ratings.

3. Fixed Charge Ratio >= 3.5x

- Insurance holding companies and non U.S. based insurers – Non RBC ratios are proposed for insurance holding companies and non-U.S. insurers as capital adequacy measures, as a RBC ratio or equivalent may not be available under the applicable regulatory regimes.

  The applicable additional underwriting standards for these companies are:

  1. Capital Adequacy Metrics:
     1) Life: Total Insurance Liabilities to Equity Capital <= 24.0x
     2) Other:

Company Type	Maximum Net Written Premium to Surplus / Capital
Non-Life	<= 2.4x
Reinsurance - Blended	<= 2.0x
Reinsurance – Property & Casualty	<= 1.1x

  2. Financial Leverage Ratio <=35%, unless its lowest external rating is not below A- from S&P, A3 from Moody's, or A- from Fitch; and
  3. Fixed Charge Ratio >= 3.5x

4.6. Retail

The Branch's primary retail business is residential mortgage. As a designated wholesale bank, the Branch is only allowed to provide residential mortgages to employees, high net worth individuals and individuals who have relationship with the Branch.

The minimum underwriting standards are as below:

<table>
<tr><th>Criteria
Mortgage Types</th><th>Max. LTV</th><th>Max. Loan Tenor (Years)</th><th>Max. Mortgage to Income Ratio</th><th>Max. Total Debt to Income Ratio</th></tr>
<tr><td>Conforming[16]</td><td rowspan="2">Primary Occupied (income verification): 80%
Second Home (income verification): 75%</td><td rowspan="2">30</td><td>33%</td><td>38%</td></tr>
<tr><td>Non-Conforming[16]</td><td>38%</td><td>40%</td></tr>
</table>

[16] Conforming refers to mortgages that conform to specific guidelines set by the Federal National Mortgage Association; Non-Conforming refers to mortgages that do not conform to those guidelines. For the details, please refer to: https://www.fanniemae.com/singlefamily/loan-limits

5. Policy Assurance Methods

5.1. Implementation Plan

Policy implementation is the responsibility of the first, second, and third lines of defense as outlined in the Policy Governance section and the RGF.

5.2. Awareness Methods

The Standards will be distributed to key stakeholders via email on an annual basis with key changes summarized. Each recipient will attest to his or her understanding of the Standards using an email response, which will be documented by the CRM and maintained by the LCD. The Standards will also be available in the BOCNY's Policy Library.

5.3. Training Methods

The CRO is responsible for establishing an environment where credit risk professionals have sufficient training and technical expertise. CRM, in partnership with Human Resources Department ("HRD"), will provide training on the Standards and their application annually or as the Head of CRM determines is necessary to promote full understanding of the Standards.

5.4. Policy Adherence Monitoring

Each applicable department head is responsible for monitoring and assessing the compliance of its procedures with the Standards. The Standards provides for the regular reporting of risk metrics, as outlined in the Risk Governance Framework. Internal Audit Department will also perform periodic monitoring of compliance through its annual testing program.

5.5. Update Requirements

Along with the requirement for an every two years update, CRM is responsible for taking a proactive role in ensuring the Standards remains relevant and comprehensive. CRM responsible for monitor internal and external circumstances to determine if and when a policy update may be required in accordance with the Bank's Policy on Policies and Procedures.

CRM should communicate with counterparts to ensure that the Standards appropriately considers emerging risks in other risk disciplines, which may impact the Standards. This communication may take place through attendance at working groups, subcommittee meetings, and through other informal means of communication.

5.6. Consequences of Violating the Policy

Failure to comply with the Standards will be escalated to the CRO and in certain circumstances to the RMICC, which will consider appropriate remedial action. Violations of the Standards are grounds for disciplinary action, adapted to the circumstances of the particular violation and having as a primary objective furtherance of BOCNY's interest in preventing violations and making clear that violations are neither tolerated nor condoned.

5.7. Exceptions & Exemptions

All credits must be originated with the minimum underwriting standards. Any exceptions must be supported by thorough analysis and documented in the CRR, RES, and CAC meeting minutes. Documentation on requests and approvals for exceptions to the Standards must include, at a minimum:

- The nature of the exception requested (i.e. underwriting exception, approval exception, other types of exceptions);
- The individual or group that is requesting the exception;
- Incremental risk exposure (in frequency and amount when applicable);
- The time period during which the exception is effective;
- The business reasons for granting the exception;
- Mitigating factors; and
- Planned remediation and closure of the exception, if an effective period is provided.

Both FLUs and CRM are responsible for tracking the exceptions and reporting to related risk committees. Exceptions to the Standards will then be aggregated by CRM and levels and trends of exceptions will be reported to the RMICC and USRMC on a quarterly basis.

6. Reference Information

6.1. Applicable Regulations and Supervisory Guidance

	Regulation and Supervisory Guidance for Credit Risk Management
FRB	Board of Governors of the Federal Reserve System, *FRB Examination Supervisory Manual for U.S. Branches and Agencies of Foreign Banking Organization Section 3000.1 – Risk Management,* September1997, available at*:* https://www.federalreserve.gov/boarddocs/supmanual/us_branches/usb_p3.pdf
FRB	Board of Governors of the Federal Reserve System, Guide to the Federal Reserve's Payment System Risk Policy on intraday, Credit July 12, 2012, available at: https://www.federalreserve.gov/paymentsystems/files/psr_guide.pdf

	Regulation and Supervisory Guidance for Credit Risk Management
OCC	*Risk Management Guidance*, August 4, 2014 http://www.occ.gov/news-issuances/bulletins/2014/bulletin-2014-37.html
OCC	*Accounts Receivable and Inventory Financing, March 2000* https://www.occ.treas.gov/publications/publications-by-type/comptrollers-handbook/accts-rec-inventory-financing/pub-ch-accts-rec-inventory-financing.pdf
OCC	*Commercial Loans,* Narrative – March 1990, Procedures – March 1998 https://www.occ.treas.gov/publications/publications-by-type/comptrollers-handbook/commercial-loans/pub-ch-commercial-loans.pdf
OCC	*Concentrations of Credit,* December 2011 https://www.occ.gov/publications/publications-by-type/comptrollers-handbook/Concentration-HB-Final.pdf
OCC	*Commercial Real Estate Lending,* August 2013 https://www.occ.gov/publications/publications-by-type/comptrollers-handbook/cre.pdf
OCC	*Due from Banks,* Narrative-March 1990, Procedures-March 1998 https://www.occ.treas.gov/publications/publications-by-type/comptrollers-handbook/due-from-banks/pub-ch-due-from-banks.pdf
OCC	*Investment Securities, Narrative and Procedures – March 1990* https://www.occ.treas.gov/publications/publications-by-type/comptrollers-handbook/investment-securities/pub-ch-investment-securities.pdf
OCC	*Rating Credit Risk,* April 2011 http://www.occ.treas.gov/publications/publications-by-type/comptrollers-handbook/rcr.pdf
OCC	*Large Bank Supervision,* January 2010 http://www.occ.gov/publications/publications-by-type/comptrollers-handbook/pub-ch-ep-lbs.pdf
OCC	*Loan Portfolio Management,* April 1998 https://www.occ.gov/publications/publications-by-type/comptrollers-handbook/lpm.pdf
OCC	*Oil and Gas Exploration and Production Lending, March 2016* https://www.occ.treas.gov/publications/publications-by-type/comptrollers-handbook/oil-gas-exploration-prod-lending/pub-ch-oil-and-gas.pdf
OCC	*Residential Real Estate, June 2015* https://www.occ.treas.gov/publications/publications-by-type/comptrollers-handbook/residential-real-estate-lending/pub-ch-residential-real-estate.pdf
OCC	*Country Risk Management,* February 2016

	Regulation and Supervisory Guidance for Credit Risk Management
	http://www.occ.treas.gov/publications/publications-by-type/comptrollers-handbook/pub-ch-crm.pdf
OCC	*Trade Finance and Services,* April 2015 http://www.occ.treas.gov/publications/publications-by-type/comptrollers-handbook/pub-ch-a-tfs.pdf
OCC	*Credit Underwriting Standards and Portfolio Credit Risk Management*, 1997 http://www.occ.gov/static/news-issuances/memos-advisory-letters/1997/advisory-letter-1997-3.pdf
OCC/FRB/ FDIC	*Interagency Guidance on Leveraged Lending*, March 2013 https://www.federalreserve.gov/bankinforeg/srletters/sr1303a1.pdf
OCC/FRB/ FDIC	*Interagency Supervisory Guidance on Counterparty Credit Risk Management*, June 2011 https://www.fdic.gov/news/news/press/2011/pr11113a.pdf
OCC/FRB/ FDIC	*Statement on Prudent Risk Management for Commercial Real Estate Lending,* December 18,2015 https://www.occ.gov/news-issuances/news-releases/2015/nr-ia-2015-163a.pdf
OCC/FRB/ FDIC	*Interagency Policy Statement on the Allowance for Loan and Lease Losses*, December, 2006 https://www.federalreserve.gov/boarddocs/srletters/2006/SR0617a1.pdf

6.2. Glossary

Abbreviation	Name
BOC	Bank of China Limited
BOCNY	Bank of China New York Branch and its satellite branches
CAC	Credit Approval Committee
CBD	Corporate Banking Department
CBC	Commodity Business Center
CHB	Bank of China Chicago Branch
CLD	Clearing Department
CRC	Credit Risk Committee
CRM	Credit Risk Management Department
CRO	Chief Risk Officer
CRR	Credit Recommendation Report
DSCR	Debt Service Coverage Ratio
FID	Financial Institutions Department
FLU	First Line Unit
HRD	Human Resource Department
IAD	Internal Audit Department
IRM	Independent Risk Management
LAB	Bank of China Los Angeles Branch

Abbreviation	Name
LTV	Loan to Value
MKD	Global Markets Department
MOD	Treasury Middle Office Department
MRD	Market Risk Department
NYB	Bank of China New York Branch
QNB	Bank of China Queens Branch
RES	Risk Evaluation Summary
RGF	Risk Governance Framework
RMICC	Risk Management and Internal Control Committee
TSD	Trade Services Department
USRMC	US Risk and Management Committee