Bank of China US Branches

Credit Rating Policy

September 2020

Version	Date Changes Made	Author	Description of Changes
2020.v.01	September 2020	Celia Yeh	Policy Establishment

Identifying Information	
Title	BOC US Branches Credit Rating Policy
Procedure Owner	Credit Risk Management Department
Contact Information	Celia Yeh (tcyeh@bocusa.com)
Effective Date	1/27/2021
Location	Policy Library (Location: https://bocus-sites/pub/policy)
Document Type	Policy

Approved by		
Risk Management and Internal Control Committee	See RMICC meeting minutes dated 9/24/2020	
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1. Executive Summary

The Credit Rating Policy (the "Policy") provides a framework for an effective credit rating system 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")

This Policy outlines BOCNY's principles for credit ratings, to provide definitions, to describe key elements of the credit rating process and the governance of the risk parameters and rating methodologies.

1.1. Purpose

The purpose of the credit rating system is to objectively evaluate the overall quality of each credit, borrower and credit portfolios, to improve credit and portfolio management. The Policy describes the key elements of an effective internal process for rating credit risk.

1.2. Rationale

Accurate credit risk ratings are essential to effective credit risk management, loan pricing and loss allowance determination. The Branch established credit risk rating systems that produce accurate and timely risk ratings. The rating systems measure credit risk and differentiate individual credits and groups of credits by the risk they pose. This allows management to monitor changes and trends in risk levels.

The Branch developed robust risk rating processes in order to increase the precision and effectiveness of credit risk measurement and management. The systems enable the Branch implement advanced portfolio risk management practices and improve the processes for measuring credit risk.

1.3. Related Policies and Procedures

This Policy 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 Model Risk Management Policy
- Bank of China US Branches Loan Workout Procedure
- Bank of China US Branches Credit Stress Testing Methodology
- Bank of China US Branches Allowance for Loan and Lease Losses Methodology

- Bank of China US Branches North America Corporate and North America Leveraged Lending Scorecard Methodology
- Bank of China US Branches China Corporate and China Leveraged Lending Scorecard Methodology
- Bank of China US Branches Income Producing and Commercial Real Estate Construction Scorecard Methodology
- Bank of China US Branches Project Finance Scorecard Methodology

2. The Scope

This Policy applies to the Branch's all types of credit exposures, including investment securities, loans, contingent exposures such as letters of credit, unfunded commitments and counterparty credit exposures, such as derivatives, repurchase agreements (repos) and reverse repos. BOC Group interbank exposures and U.S. Treasury are exempt.

In principle, credit risk ratings are assigned to all borrowers, credit risk counterparties and all transactions incurring credit risk.

3. Roles & Responsibilities

3.1. Policy Governance

Credit Risk Management Department ("CRM") is responsible for maintaining and updating the Policy. The Policy shall be reviewed and approved by Credit Risk Committee ("CRC") and Risk Management and Internal Control Committee ("RMICC") every two (2) years or more frequently if necessary. RMICC provides the final approval authority on the Policy.

3.2. Policy Implementation

Credit risk management is facilitated through BOCNY's three lines of defense: Front Line Units ("FLUs"), Independent Risk Management ("IRM") and Internal Audit Department ("IAD").

FLUs include business departments and supporting departments: Banking Department ("BKD"), Corporate Banking Department ("CBD"), Commodity Business Center ("CBC"), Clearing Department ("CLD"), Financial Institutions Department ("FID"), Operation Services Department ("OSD"), Global Markets Department ("MKD"), Treasury Middle Office Department ("MOD"), Trade Services Department ("TSD"), Chicago Branch ("CHB"), Los Angeles Branch ("LAB") and Queens Branch ("QNB"). FLUs are responsible for proposing credit ratings at origination, monitoring the rating and ensuring accuracy and updating the rating timely.

CRM, as the second line of credit risk, provides review and credible challenge to the FLUs' risk rating proposals. CRM is responsible for developing the risk rating models, methodology and risk management framework.

IAD is responsible for independently evaluating and assessing the effectiveness of the control environment established by BOCNY management. IAD performs regular, independent reviews of activities conducted in accordance with the Risk Governance Framework, the Policy and related procedures.

4. Policy Statement and Standards

4.1. Overview of BOCNY Credit Rating System

The Branch developed an internal rating systems, which assign a rating to the general creditworthiness of the obligor and a grade to each facility. BOCNY's risk rating framework adopts a balanced approach to assessing credit risk. It evaluates both quantitative and qualitative risk factors to arrive at a final rating grade.

BOCNY built a set of obligor and facility scorecards. The obligor scorecards will output a grade as well as a probability of default ("PD") for each of the obligors. The facility scorecards will output a facility grade as well as a loss given default ("LGD") for each of the facilities.

4.2. Risk Rating Philosophy

The Branch's credit rating systems that rate obligors based on their ability to perform over a wide range of economic, business, and industry conditions. The Branch seeks to remove cyclical volatility from the estimation of default risk, by assessing obligors' performance across the economic cycle (i.e. through-the-cycle).

The systems tend to have ratings that migrate more slowly as conditions change. Actual default rates in each grade diverge from the PD estimate for the grade, with actual default rates relatively higher at weak points in the cycle and relatively lower at strong points.

BOCNY uses external data in quantification of risk parameters due to insufficient data and limited default history. BOCNY performs applicability analysis to confirm that the external datasets for each statistical model used contain sufficient observations of borrowers and loans similar to those in BOCNY's portfolio. For more information, please refer to scorecard methodology document listed in Section 1.3.

4.3. Obligor Risk Rating - Probability of Default ("PD")

Obligor risk is driven mainly by the level and stability of the borrower's cash flows and the strength of the borrower's balance sheet. As a general rule, obligor rating is an evaluation of creditworthiness (projected debt-service capacity, or the possibility of default) of an obligor in one year. PD ratings assigned to project finance, commercial real estate and property finance (i.e. aircraft finance) are based on the cash flow generated from the pledged collaterals.

4.3.1. PD Scorecards

BONCY developed a set of PD scorecards to rank obligors' credit worthiness. The scorecards generate PD rate and corresponding PD grade (please refer to Section 4.3.3 PD rating scale) of an obligor. These scorecards cover the majority of BOCNY's portfolio.

4.3.1.1. Non-Financial Obligors

BOCNY developed 7 PD scorecards to cover commercial and industrial ("C&I"), commercial real estate ("CRE"), property finance (i.e. aircraft and ship finance) and project finance.

- North Americas Corporates
- North Americas Leveraged Corporates
- China Corporates
- China Leveraged Corporates
- Income Producing Commercial Real Estate ("IPCRE")
- CRE Construction
- Project Finance

The scorecards integrate qualitative and quantitative risk factors to enable more effective risk management. Each PD scorecard is based on a statistical model and include a qualitative overlay to capture credit relevant factors that are not included in the statistical model.

4.3.1.2. Sovereign and Financial Institutions

BOCNY uses 8 PD scorecards developed by BOC Head Office ("HO") to cover sovereign/municipality and financial institutions.

- Sovereign and Municipality
- Commercial Banks
- Investment Banks
- Securities Companies
- Other Financial Institutions
- Insurance Companies
- Asset Management
- Central Counterparty ("CCP")

For low-default portfolio segments with little available data, these scorecards are based on factors and weights that are selected primarily by expert judgment, without estimating a statistical model.

4.3.2. Default Definition

The default definition under the risk rating systems is in line with the definition set by Basel Accord and BOC Group. A default shall be considered to have occurred with regard to a particular obligor when either or both of the following have taken place:

- The obligor is more than 90 days past due on principal or interest on any material obligation to the Branch. For overdrafts, days past due commence once an obligor has breached an advised limit[1], has been advised a limit smaller than current outstanding, or has drawn credit without authorization and the underlying amount is material;
- The Branch determines that the obligor is unlikely to pay its obligations to the Branch in full, without recourse to actions by the Branch such as the realization of collateral;

If an obligor meets the definition of a default then it is assigned a PD Grade of 27 (see section 4.3.3).

[1] An advised limit comprises any credit limit determined by the Branch and about which the obligor has been informed by the Branch.

4.3.3. PD Rating Scale

The Branch classifies its obligor ratings into 27 grades.

PD Grade		PD Floor	PD Cap	Mid-Point PD
1	AAA1	0.000%	0.015%	0.008%
2	AAA2	0.015%	0.025%	0.020%
3	AAA3	0.025%	0.035%	0.030%
4	AAA4	0.035%	0.045%	0.040%
5	AAA5	0.045%	0.060%	0.053%
6	AAA6	0.060%	0.080%	0.070%
7	AAA7	0.080%	0.110%	0.095%
8	AA1	0.110%	0.188%	0.149%
9	AA2	0.188%	0.271%	0.230%
10	AA3	0.271%	0.450%	0.361%
11	A1	0.450%	0.590%	0.520%
12	A2	0.590%	0.770%	0.680%
13	A3	0.770%	1.020%	0.895%
14	A4	1.020%	1.340%	1.180%
15	BBB1	1.340%	1.760%	1.550%
16	BBB2	1.760%	2.320%	2.040%
17	BBB3	2.320%	3.060%	2.690%
18	BB1	3.060%	4.020%	3.540%
19	BB2	4.020%	5.300%	4.660%
20	B1	5.300%	6.970%	6.135%
21	B2	6.970%	9.170%	8.070%
22	CCC1	9.170%	12.080%	10.625%
23	CCC2	12.080%	15.900%	13.990%
24	CC1	15.900%	20.920%	18.410%
25	CC2	20.920%	27.500%	24.210%
26	C	27.500%	100.000%	63.750%
27	D	100.000%	100.000%	100.000%

4.3.4. Relationship Between PD Scale and Regulatory Classification

The Branch maps 27 grades PD to the regulatory credit classifications – Pass, Special Mention, Substandard, Doubtful and Loss.

PD Grade		Classification
1 -10	AAA1 – AA3	**Pass** - Investment Grade
11-18	A1 – BB1	**Pass** - Below Investment Grade
19	BB2	**Pass** - Watch
20 - 21	B1 – B2	**Special Mention**
22 - 25	CCC1 – CC2	**Substandard**
26	C	**Doubtful**
27	D	**Loss** / Default

The table above provides an initial mapping of the PD grades to a corresponding regulatory credit classification. The final determination of the regulatory classification for each borrower/facility is subject to the regulatory guidance[2] and should not be automatically assigned according to this table.

The final regulatory credit classification can be modified based on additional justification including risk mitigants (e.g. collateral) and does not need to align with the mapping in the PD rating scale. For those obligors with PD 20 to 27 which map to the non-Pass (Special Mention, Substandard, Doubtful and Loss) regulatory credit classification, the final regulatory classification should only be modified within the non-Pass category with the PD remaining unchanged. The exception to this rule is if an obligor with PD 20 to PD 27 is fully secured by sufficient cash, liquid or readily marketable collateral with reasonable controls in place. Only in this case, the obligor's final regulatory classification can be modified from non-Pass to Pass with the PD remaining unchanged.

BOCNY underwrites Pass credits with sufficient primary source of repayment. The minimum acceptable credit profile of a credit should be equal or better than PD Grade of 19.

4.3.5. PD Scorecard Framework

The PD scorecard framework consists of two parts, including preliminary rating generated by the PD scorecards and adjusted rating after model overlays applied.

The preliminary rating is the direct output of the PD scorecards. For the majority of obligor types, the preliminary PD risk rating is driven by both quantitative (financial) and qualitative (non-financial) factors provided. Based on a combination of financial and non-financial scores, a preliminary model rating is generated.

The additional overlays use a structured mechanism to capture factors not considered in the preliminary rating. The overlays include implied support framework, government support framework, warning signals and other adjustment factors. These adjustments are based on certain conditions described in the below sections being met.

[2] Please refer to OCC Controller's Handbooks – Rating Credit Risk and Commercial Real Estate Lending

4.3.5.1. Implied Support Framework (“ISF”)

BOCNY developed the ISF to assign ratings to obligors that benefit from implied support from a corporate parent or affiliate. The ISF assigns support recipients a rating one (1) to three (3) notches below that of the support provider, contingent on the user being able to demonstrate that the support provider is both willing and able to support the recipient. The magnitude of the notching adjustment depends on the strength of the evidence for the implied support. The obligor’s adjusted rating after applying ISF is capped at seven (7) ratings notches above the obligor’s standalone rating. The exception to the notch cap if all criteria are met: a) the parent support provider is US based, is a market leader, and is externally rated investment grade; and b) the obligor is demonstrated to be integral to the parent’s operations. In this case, subject to CRM approval, the obligor may have a final adjusted rating that is aligned closer to the parent’s final rating.

A scorecard is established under the framework and consists of ability factors and willingness factors. The scorecard views likelihood as the product of the ability and willingness of the provider to support the recipient. Ability factors are further broken out into factors that measure the financial ability and the legal ability of the provider to support the recipient. In order to recognize support from a provider, the FLUs must have evidence of the provider’s financial ability, legal ability, and willingness to provide support.

Ability to Provide Support X **Willingness** to Provide Support = **Likelihood** of Support

Ability to support incorporates considerations of:

- Financial ability to support assessed via the rating of the support provider
- Legal ability to support assessed based on considerations such as regulations, country of domicile, etc.

Willingness to support incorporates considerations of:

- The recipient’s contribution to the provider’s core business
- The recipient’s strategic importance
- History of ownership
- Reputation
- General level of integration

- The multiplicative approach results in no likelihood of support if either the ability or the willingness score is 0
- Likelihood determines final rating of the support recipient based on notching from the conservative starting point

If an obligor has multiple providers, or has indirect support providers with multiple layers of ownership, the ISF only can be applied once, by selecting the strongest provider or the ultimate parent of the support provider.

4.3.5.2. Government Support Framework (“GSF”)

BOCNY’s GSF allows for an adjustment to incorporate the likelihood of a firm receiving extraordinary support from the government in the country where the firm is domiciled. Extraordinary support represents the likelihood that, in the event that the firm experiences distress, the government will provide financial support to help it avoid a default on its debt obligations. Where a firm is likely to receive this type of support, the GSF adjusts the firm's standalone rating to incorporate the likelihood of the government intervening to prevent a default.

Within this framework, a firm's rating can be uplifted based on an evaluation of the likelihood of support:

- Government's Ability: rating of the government that would provide extraordinary support.
- Government's Willingness to Support: this factor is based on assessing government's degree of ownership/control over the firm and the firm's importance to the government.

For C&I entities, the standalone rating can be adjusted up to nine (9) notches.

ISF and GSF cannot be applied at the same time for an obligor rating. If an obligor is owned by a support provider that is owned or controlled by the government, the ISF is applied for the obligor and GSF is applied for the support provider. The support provider's standalone rating is uplifted through GSF, and then GSF-uplifted support provider final rating is used to determine the obligor's uplift through the ISF.

4.3.5.3. Warning Signals and Other Adjustment Factors

Warning signals are any observed factors that do not occur often but once happening, will deliver material negative impact on the credit standing of an obligor. These factors can be used to identify potential high-risk profile obligor and improve risk sensitivity of the PD scorecards. The adjustment can be made either by setting up PD rating cap or downward adjusting the PD grade one (1) to five (5) notches for each signal.

The warning signals and adjustment factors are as below:

- Past due payment
- Regulatory Rating and External Rating Change
- Quality of Financial Statement
- Breach of covenants or Violation of Contracts
- Litigation/Regulatory Concern/ Negative News
- Default indications or other factors

4.3.6. PD Substitution

Eligible guarantees are recognized through PD substitution — that is, through assigning the guarantor's rating to the guarantee recipient.

PD substitution can be applied only if a guarantor has the unconditional and irrevocable obligation to pay or perform on a full and timely basis without the ability to raise defenses to its liability. A set of core principles addressed by guarantees that achieve full credit substitution of the guarantor if all conditions below are satisfied:

- The guarantee states that it is irrevocable and unconditional, pays without recourse to any defenses;
- The guarantee promises full and timely payment of the underlying obligation;
- The guarantor waives all defenses;
- The term of the guarantee extends as long as the term of the underlying obligation;
- The guarantee is enforceable against the guarantor; the guarantee is governed by the law of a jurisdiction that is hospitable to the enforcement of guarantees; and
- The guarantee covers payment, not merely collection;

FLUs must provide guarantee letter as evidence to support all above conditions are met. CRM has discretionary decision to determine if the PD can be adjusted. If the guarantee is provided in a form of Letter of Credit ("L/C"), the risk rating can be substituted by the L/C issuer's rating[3].

Any types of guarantees that do not meet criteria described above will not benefit obligor's PD rating, the credit enhancement only can be applied to LGD (please refer to Section 4.4).

4.3.7. Country Risk Ceiling

The country risk broadly refers to risks affecting a given country that arise from political, institutional, financial and economic factors either within that country or externally. The country risk ceilings determine the maximum credit rating achievable for an obligor or for a structured finance transaction whose cash flows are generated in a particular country. They allow ratings to capture the risk of operating in a country by taking account of unavoidable political, institutional, financial and economic factors that affect all obligors and transactions predominantly based in each country.

For obligors (or guarantors applied for PD substitution) located outside of United States, the final PD grade should be capped by the country risk rating.

4.3.8. Overrides of PD Grade

Overrides of PD grade are permissible in certain limited cases where the rating produced by the scorecards does not reflect additional information that is considered important in maintaining risk rating accuracy. A rating override is an upward or downward adjustment to a scorecard rating based on documented criteria that are not incorporated in the underlying rating scorecard. Overrides may be permitted to adjust the rating at discretion and in accordance with the Policy (Please refer to Section 4.5).

4.4. Facility Risk Grade – Loss Given Default ("LGD")

The facility rating considers the loss protection afforded by assigned collateral and other elements of the loan structure in addition to the obligor's creditworthiness. Facility risk is primarily driven by the extent, quality, and value volatility of the collateral securing the loan as well as of the borrower's general assets

[3] L/C issued by BOC branches is not applicable.

and the seniority of the debt. LGD Scorecard integrates qualitative and quantitative risk factors to enable more effective risk management.

BONCY developed a set of LGD scorecards:

- CRE LGD
- Project Finance LGD
- General LGD

The Branch classifies its facility ratings into the 7 grades.

LGD Grade	LGD Floor	LGD Cap	Assigned LGD
A	0%	10%	5%
B	10%	20%	15%
C	20%	30%	25%
D	30%	40%	35%
E	40%	50%	45%
F	50%	70%	60%
G	70%	100%	85%

Any guarantee that do not meet criteria as Section 4.3.6 is considered as credit enhancement and applied in the LGD scorecard. Standby letters of credit, repurchase arrangements or other similar arrangements (e.g. credit allocation) provided by BOC Group are not qualified for credit enhancement.

No override is permissible for LGD grade and should be approved as an exception, please refer to the Section 4.5.

4.5. Override Policy

A rating override is an upward or downward adjustment to a scorecard final rating based on documented criteria that are not incorporated in the underlying rating scorecard. Overrides are permissible in certain limited cases where the final rating produced by the scorecard does not reflect additional information that is considered important in maintaining rating accuracy. The Branch may override the rating based on expert judgment. Rationales for overrides must be well documented to ensure that they are not "double counting" factors that are already incorporated in the underlying rating methodology.

4.5.1. Override Principles

The following principles apply to override use:

- Overrides are to be used sparingly and on an exception basis;
- Overrides are applied as rating notch adjustments to the PD rating, based on the PD Rating scale;

- Overrides can be bi-directional (i.e. upgrades or downgrades);
- Overrides incorporate the use of expert judgment in determining ratings;
- PD override can be bi-directional for PD 1 to 19 (equivalent to regulatory classification Pass). For PD 20 to 27 (equivalent to regulatory classification non-Pass), PD override is allowed only within the range of PD 20 to 27;
- Overrides based on collateral coverage may be permitted on an exception basis.

4.5.2. Override Rationale

The FLUs must document the rationale for any override to a final rating in a manner that describes the factors that support an override. CRM reviews and provides challenge to the rationale for override, tracks overrides and reports to relevant credit risk committees.

Override reasons should be objectively verifiable but should not duplicate factors that are already incorporated in the applicable scorecard. Prior to considering or applying an override, the FLUs must consider whether the scorecard is applicable to the borrower and facility being rated. Concerns regarding the applicability of the scorecard should be escalated to CRM as needed.

Overrides may be made only to the PD rating. In documenting the rationale for the rating override, the FLUs shall clearly indicate how the proposed override affects the probability of default of an obligor. On an exception basis, where the rating is primarily dependent on collateral, the override rationale shall be based on considerations that are not already incorporated in the scorecard.

4.5.3. Impermissible Uses of Overrides

Overrides shall not be used in the following situations:

- Manage a rating assessment to a pre-determined final rating for pricing or marketing purposes.
- Manage portfolio concentrations risks that would otherwise breach portfolio concentration limits.
- An insufficient rationale is provided.
- Overrides that adjust the PD rating shall not incorporate any consideration of collateral or other factors used to determine the LGD.
- Overrides that adjust the LGD rating shall not incorporate factors already used to determine the PD rating.
- Simultaneous overrides of both PD and LGD are not permitted.
- Adjust an obligor with PD20 to PD27 (equivalent to non-Pass regulatory credit classification) to PD19 or better (equivalent to Pass regulatory credit classification).
- Adjust an obligor’s (with PD20 to PD27) regulatory credit classification from non-Pass to Pass unless it is fully secured by sufficient cash, liquid or readily marketable collateral with reasonable controls in place.

- Overrides shall not exceed the limits set by the Policy Section 4.5.4

4.5.4. Override Monitoring

FLUs and CRM will monitor and review the incidence of ratings overrides in the Credit Recommendation Report ("CRR") and Risk Evaluation Summary ("RES") respectively, report on the extent and impact of the adjustments in its quarterly and annual reviews. The RES will include assessment of the quality of supporting rationales for ratings overrides.

The Credit Approval Committee ("CAC") minutes will track the original rating before adjustment for override as well as the final approval rating after the override adjustment for capture in the Branch's information systems.

The upward PD override should be limited to 5% of total numbers of customer rated by the scorecards in Section 4.3.1. PD overrides that exceed 10% of total numbers of customer rated by the scorecards in Section 4.3.1 will trigger reviews of the methodology or use of scorecards. CRM's credit risk report will include assessments of the PD override ratio and LGD override approved on exception basis. Regulatory classification changes within the non-Pass rating category are not considered as overrides.

Loan Review will provide an independent assessment of the trends and nature of internal ratings overrides as part of its review process.

4.6. Rating Process

All obligors and all transactions must be rated at credit origination except the exemptions described in Section 4.6.4.

4.6.1. Rating Assignment

FLUs are responsible for providing all required information in scorecard. For qualitative factors FLUs are required to provide narratives and evidence to support the rating.

FLUs must ensure the rating is timely updated to reflect the most recent financial status. In assigning the credit rating, all relevant available information must be taken into account concerning the obligor and the facility. When adjusting for risk factors, information must be current and must consider future economic changes. Furthermore, the less information the Branch has, a more conservative rating grades shall be assigned.

FLUs proposed ratings should at least include obligor's standalone PD, support provider's PD (if any), obligor's adjusted PD, final PD (after applying the PD scorecard overlay described in Section 4.3.5), LGD and regulatory credit classifications.

4.6.2. Rating Approval Authority

CRM is responsible to conduct independent reviews and provide challenges to FLU's rating proposal, including credit process assessment and data quality. CRM has authority to approve final PD and LGD. For PD rating changes that will result in a regulatory classification change, both the PD ratings and the regulatory classification change will be approved by CAC.

Any override as described in Section 4.5 requires approval from CAC.

4.6.3. Rating Review and Update

All risk ratings shall be reviewed and updated at least annually or more frequently to ensure that risk ratings are accurate and up-to-date. For leveraged lending, problem loans, TDR, must be reviewed on a quarterly basis.

FLUs are responsible for monitor their portfolio on a day to day basis, to identify events which may have a mid-cycle rating implication and for maintaining up-to-date and accurate rating. FLUs should make best efforts toward the early detection of latent problems. When any change in the creditworthiness of an obligor is observed, the rating must be promptly reviewed and adjusted as necessary.

Interim review of risk ratings are required in the following situations:

- Transformational M&A transaction affecting the Obligor
- Occurrence of warning signals listed in the Section 4.3.5.3
- Obligor or guarantor's external rating (if any) change
- Breach of covenants
- Payment past due after grace period
- Material loan modification
- Negative news including events that have negative impact on obligors' credit profile
- Obligor's actual financial performance have significant deviation from the projection
- Rating variance identified by Loan Review, auditors and/or regulators
- Request at CRM's discretion

4.6.4. Rating Process Exemption and Exceptions

Smaller and performing credits which tend to pose less risk may be exempted from the rating process and excluded from periodic rating reviews. In the case of credits to individuals (e.g. residential mortgage) or substantially identical entities of which the core entity is an individual (e.g. micro or small business) and the total commitment amount provided by the Branch is less than USD 1 million are exempted for rating process. However the obligors are required to obtain PD grades based on expert judgement.

The PD Grade 19 is assigned to an obligor that is not able to provide applicable financials with reasonable justifications provided by FLUs and agreed by CRM.

For new products under the pilot program, or there is no appropriate scorecard to cover the obligor and/or facility, CRM should provide guidance to FLUs either select a proxy scorecard or assign ratings based on expert judgement. The scorecard selection and exert judgement rating assignment rationale must be supported by document.

4.6.5. Scorecard Review and Validation

CRM examines rating methodology, validations and analysis on rating overrides on regular basis. The scorecards should be reviewed and validated at least annually in accordance to BOC US Branches Model Risk Management Policy.

5. Policy Assurance Methods

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

5.1. Awareness Methods

The Policy 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 Policy using an email response, which will be documented by the CRM and maintained by the Operational Risk Department. The Policy will also be available in the BOCNY's Policy Library.

5.2. 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 this Policy or as the CRM determines is necessary to promote full understanding of the Policy.

5.3. Policy Adherence Monitoring

Each applicable department head is responsible for monitoring and assessing the compliance of its procedures with this Policy. IAD will also perform periodic monitoring of compliance through its annual testing program.

5.4. Update Requirements

The Policy is required to update every two (2) years. CRM is responsible for taking a proactive role in ensuring this policy remains relevant and comprehensive. CRM is responsible for monitor internal and external circumstances to determine if and when a policy update may be required in accordance with the Branch's Policy on Policies and Procedures.

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

5.5. Consequences of Violating the Policy

Failure to comply with this Policy will be escalated to the CRO and in certain circumstances to the USRMC, which will consider appropriate remedial action. Violations of the Policy 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.

5.6. Exceptions & Exemptions

Exceptions to this Policy must be justified in writing, presented to CRM and CAC, the approval of CRO is required. The decision to grant a policy exception should be documented along with a discussion of the business reasons for the exception.

Documentation on requests and approvals for exceptions to the Policy must include, at a minimum:

- The nature of the exception requested (i.e. approval exception)
- 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
- Planned remediation and closure of the exception, if an effective period is provided

Responsibility for tracking policy exceptions is the responsibility of the business unit requesting the exception. Exceptions to the Policy will then be aggregated by CRM and levels and trends of exceptions will be reported to the CRC and RMICC on a quarterly basis.

6. Reference Information

6.1. Glossary

Term	Definition
BOCNY	Bank of China New York Branch and its satellite branches
CAC	Credit Approval Committee
CBC	Commodity Business Center
CBD	Corporate Banking Department
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
FID	Financial Institutions Department
FLU	First Line Unit
GSF	Government Support Framework
HO	Head Office
HRD	Human Resource Department
IAD	Internal Audit Department
IRM	Independent Risk Management
LAB	Bank of China Los Angeles Branch
LGD	Loss Given Default
ISF	Implied Support Framework
MKD	Global Markets Department
MOD	Treasury Middle Office Department

Term	Definition
OSD	Operational Services Department
PD	Probability of Default
QNB	Bank of China Queens Branch
RGF	Risk Governance Framework
RMD	Risk Management Department
TSD	Trade Services Department