中國銀行
BANK OF CHINA

Bank of China US Branches

Counterparty Credit Risk Management Program

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Program Owner	Market Risk Management Department
Contact Information	Jing Xi (JXI@BOCUSA.COM); Ping Deng (PDENG@BOCUSA.COM)
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Reviewed by		
Shurui Li **SVP, Head of Market Risk Management Department**	Signature	Date

Contents

1. Executive Summary

The Counterparty Credit Risk Management Program (the "Program") provides guidance for sound counterparty credit risk (CCR) management activities at Bank of China New York Branch and its satellite branches (collectively "BOC US Branches", "BOCNY" or "Branch").

1.1. Rationale

The purpose of this program is to fulfill roles and responsibilities through performing the key activities, identifying risks and ensuring the effectiveness of risk controls of the Branch's counterparty credit risk management.

1.2. Related Policies & Procedures

The related policies and procedures include but are not limited to:

- Regulations for Counterparty Credit Risk of Bank of China Limited
- Bank of China Limited Global Markets Business Risk Management Procedures
- Bank of China US Branches Policy on Policies and Procedures
- Bank of China US Branches Risk Governance Framework
- Bank of China US Branches Credit Risk Management Policy
- Bank of China US Branches Market Risk Management Policy
- Bank of China US Branches Liquidity Risk Management Policy
- New York Branch Credit Risk Management Procedure of Hedging Derivative Business for Clients
- Bank of China US Branches Loan Workout Procedure
- Procedures for Legal Agreements of Treasury Business of BOCNY

2. The Scope

This program outlines the key responsibilities of related departments, the essential principles, management framework and working processes, including the governance for identifying, measuring, monitoring and controlling the counterparty credit risk.

3. Roles & Responsibilities

3.1. Program Governance

MRD coordinates this program in collaboration with CBD, CBC, FID, TSD, LAB, CHB, QNB, MKD, MOD, OSD, LGO, ADC, CRM, ERM and CDO, according to the Bank's Policy on Policies & Procedures.

This program shall be periodically reviewed and updated at least every year or when necessary to reflect the changes in the related policies and procedures, and the risk management practice. The program and its material changes shall obtain the Bank's Market and Liquidity Risk Committee (MLRC) and Risk Management and Internal Control Committee (RMICC) approval.

3.2. Program Implementation

Employees from relevant client relationship departments, product departments, supporting departments and independent risk management departments are responsible for implementing this program. The implementation can be carried out in phases with thoughtful planning and effective monitoring of the progress.

The client relationship departments (CRDs) include Corporate Banking Department ("CBD"), Commodity Business Department ("CBC"), Financial Institution Department ("FID"), and corporate banking units in Chicago Branch ("CHB"), Los Angeles Branch ("LAB") and Queens Branch ("QNB"). The product departments [1]include Global Markets Department ("MKD") and Treasury Middle Office Department ("MOD"). Supporting departments include Operational Service Department ("OSD"), Legal Office ("LGO") and American Data Center ("ADC"). Moreover, Market Risk Management Department ("MRD"), Credit Risk Management Department ("CRM"), Enterprise Risk Management Department ("ERM") and Chief Data Office ("CDO") work as independent risk management departments for CCR management.

Client Relation Departments (CRDs): CBD, CBC, FID, CHB, LAB and QNB

- Conduct appropriateness assessment for corporates and financial institutions (FIs);
- Propose a list of Type I counterparties (corporate clients) with supporting materials to CRM and MRD for review, and submit to Executive Vice President ("EVP") in charge of CRDs for approval;
- Consult product departments before initiating the CCR limit of corporate customers/financial institutions, providing the rationale of limit setting based on historical limit usage and recommending a reasonable limit;
- Give notice to the corporate customer counterparty on the margin call, and forced liquidate in conjunction with product departments based on the result of transaction valuation;
- Take appropriate risk mitigation to structure relevant transactions with product departments;
- Negotiate and execute the transaction documentation; and
- Collect and transfer of transactions related non-performing assets.

Product Departments: MKD and MOD
Global Markets Department ("MKD")

- Assist the CRDs in initiating the application and annual review for CCR limit, providing relevant materials and estimating the limit size;
- Assist CRDs in conducting appropriateness assessment;
- Prepare materials and apply for exemption of margin call and forced liquidation;
- Collaborate with CRDs to jointly determine the margin level, early warning measures and forced liquidation;

[1] TSD will coordinate with MKD and CRDs for any trade service related hedging products.

- Execute banking book hedging transactions based on orders from TRY;
- Prepare and submit materials to enable global markets business' corporate clients being managed as FIs;
- Report defaults timely to CRM and MRD; and
- Assist CRDs in non-performing assets workout related with financial market business.

Treasury Middle Office Department ("MOD")

- Set up limits in Financial Market systems and monitor the limit occupation;
- Work with CRDs and MKD to propose a list of Type I counterparties (corporate clients) with supporting materials to CRM and MRD, and submit to EVP in charge of MOD for approval after obtained CRM's endorsement;
- Prepare materials and apply for exemption of margin call and forced liquidation;
- Collect, monitor, analyze, and report information at customer level with limit amounts, limit expiry dates, limit utilization, and default status in a timely manner to MRD and CRM on monthly basis;
- Monitor CCR credit limit occupation of FIs and corporate clients managed as FIs according to HO authorization and requirement;
- Prepare and submit materials to enable global markets business' corporate clients being managed as FIs;
- Maintain parameters of the financial market business risk weight in system; and
- Negotiate framework legal agreements.

Supporting Departments: OSD, LGO and ADC
Operational Service Department ("OSD")

- Produce daily collateral monitor report with collateral adequacy ratio and send results to MKD, MOD and MRD on daily basis;
- Calculate credit valuation adjustment (CVA) of corporate clients and corporate clients managed as FIs to be reflected in transaction revaluation on a monthly basis based on MRD's recommendation of CVA methodology.

Legal Office ("LGO")

- Provide legal support on transaction documentation, legal agreements and others upon deal initiation and exemption application.

American Data Center ("ADC")

- Provide technical support to CCR management functions in relevant systems.

Independent Risk Management Departments: MRD, CRM, ERM and CDO
Market Risk Management Department ("MRD")

- Lead and coordinate CCR management program draft, approval, update and its implementation;
- Define the coverage and calculation methodologies of the CCR limits usage;
- Review and approve ex ante exemption application for margin call and forced liquidation;

- Analyze and report CCR profile and management status;
- Report risk events to the Risk Management Department of the Head Office according to BOCNY major risk management requirements;
- Assist CRM in CCR limit review; and
- Recommend and periodically review CVA methodology.

Credit Risk Management Department ("CRM")

- Review the list of Type I counterparties (corporate customers) and submit to EVP in charge of CRM for approval;
- Review CCR limit and assist relevant committees in the approval;
- Conduct independent CCR assessment of new products.

Enterprise Risk Management Department ("ERM")

- Perform CCR related model validation if any.

Chief Data Office ("CDO")

- Ensure CCR management data quality in related systems;
- Review Data Movement Controls between related systems.

4. Program Instructions

4.1. Coverage

4.1.1. Counterparty

Counterparty risk is the probability that the other party in an investment, credit, or trading transaction may not fulfill its part of the deal and may default on the contractual obligations before the final settlement. Counterparties are either corporate clients or financial institutions.

4.1.1.1. Corporate Clients [2]

According to corporate customer risk profile and historical performance etc., corporate counterparties are classified into two types, Type I and Type II.

Type I counterparties must meet all the criteria below:

- BOC group's global strategic customers, Head Office or other branch's customer, or internally rated as RR3 and above;
- Comply with any regulatory or legal requirements related to derivative or other market transactions; Have professional knowledge of financial market, derivatives and associated risks; have experience on various derivative transactions; build a sound internal

[2] Following current lines of business, counterparties are deemed as financial institutions if client relationship is maintained with FID. The client relationship owner stays unchanged for categorized corporate clients managed as FIs.

management mechanism and have expertise in derivative transaction monitoring and management;

- Have strong tolerance of market risk, understand and accept gains and losses caused by derivative products valuation; have strong financial capacity to perform its obligations on derivatives;
- Monitor CCR exposure for all transactions on a daily basis;
- Classified as normal if customer risk classification is available and not on the list of enhanced management; and
- Have no history of credit default on any transactions (on loan, trade finance, derivatives transaction on behalf of customers, etc.) with BOCNY or other banks; have no negative records with regulatory agency (including the PBOC credit reference system, SAFE and customs).

Type II counterparties are corporate customers that do not satisfy the criteria for Type I, or those who are eligible for financial market business with BOCNY by paying full margin. If a transaction is done with a corporate customer counterparty in the form of full margin, the corporate customer shall pay an initial margin equal to at least 100% of credit risk equivalent of the transaction before the start of the transaction.

Type I counterparties shall be subject to list-based management. The product departments shall assist CRDs to provide a list of existing customers with supporting materials that satisfy at least the second and third conditions above at the same time, and submit to the independent risk management departments for review. The list shall be approved by EVP in charge of CRDs, product departments and IRMs.

The product departments and CRDs will submit the list of new customers and existing customers who are no longer eligible as Type I counterparties for review each year. In addition, the risk management departments will report any changes or updates of the list of Type I counterparties to the Risk Management Department and the Global Markets Department of the Head Office in a timely basis.

If any customer fail to meet the criteria of Type I counterparties, the risk management departments shall notify the business departments to stop transactions.

BOCNY can take differentiated control measures in terms of initial margin deposit and warning/liquidation level setting. If counterparty classification is not implemented as mentioned above, corporate clients shall be treated as Type II counterparties by default and follow requirements on credit risk management of Type II counterparties.

Corporate clients who meet the following criteria at the same time can be categorized as FIs under this Program:

- Using SWIFT system to settle; and
- Being listed as any of the following: Fortune 500 Company, the Bank's "Strategic Key Client", "Head Office Level Client", NFC+ under EMIR; or entered Credit Support Annex, Global Master Repurchase Agreement or Master Repurchase Agreement (CSA/GMRA/MRA) with the Bank.

According to *Bank of China Limited Global Markets Business Risk Management Procedures*, after business and risk profile analysis, corporate clients can be managed as FIs with the approvals from EVP-in-charge of CRDs and product departments. Relevant materials should be submitted to MRD and MOD before entering into transactions.

4.1.1.2. Financial Institutions

Financial institution counterparties cover banking FIs and non-banking FIs, including but not limited to sovereign, financial sovereign and intra-group entities.

Intra-group entities include branches, subsidiaries and affiliated companies of Bank of China Limited. Affiliated companies apply same CCR management control measures as FIs [3].

4.1.2. **Product**[4]

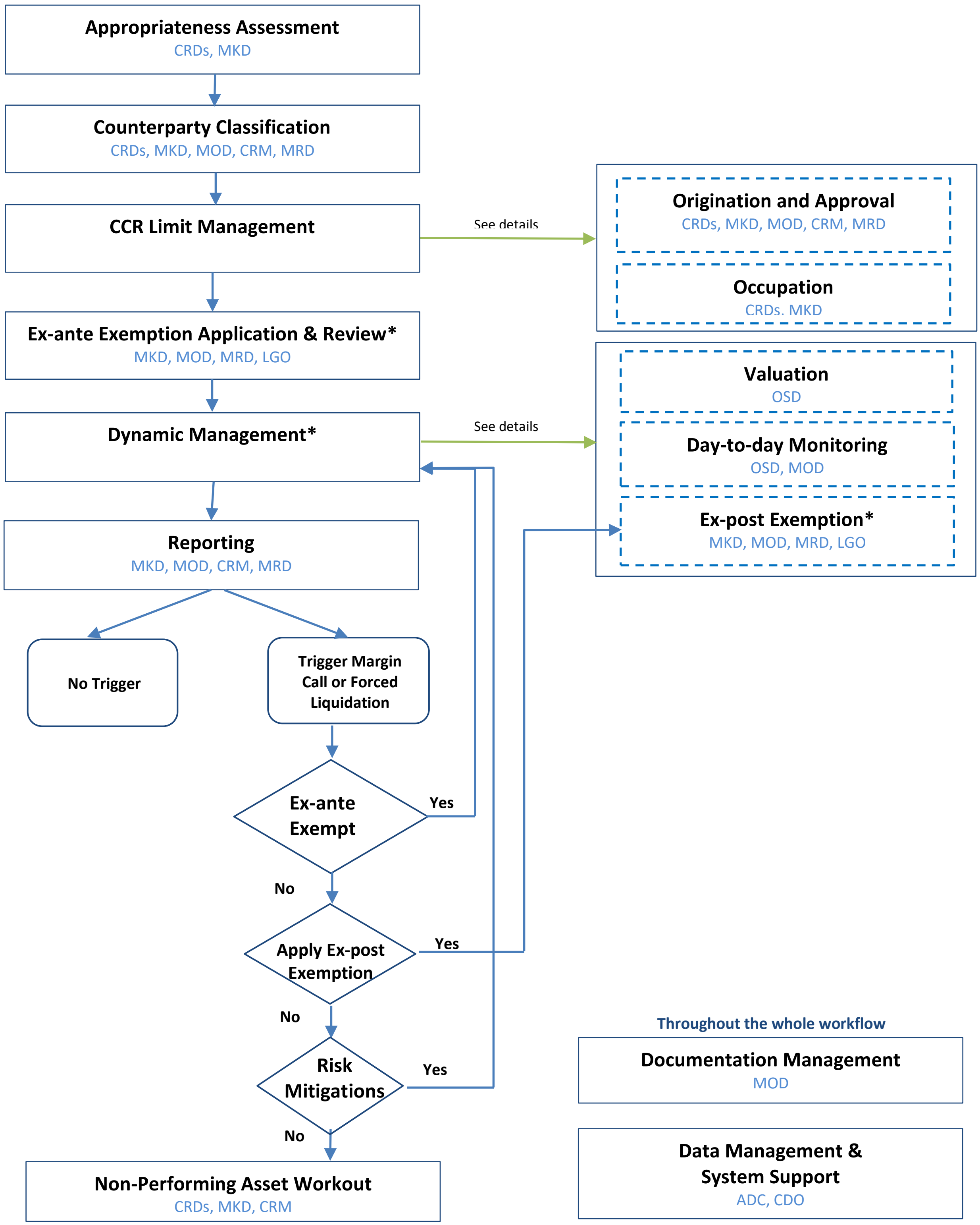
The program applies to the following products that involved counterparty credit risk management:

- **Over-the-counter (OTC) derivatives transactions:** including derivatives transactions BOCNY conducts with counterparties over-the-counter (OTC), such as forwards, swaps and options contracts based on exchange rate, interest rate, or commodities. Long-settlement transactions, bond spot trading (non-DVP) and corporate T+1 or T+2 spot transactions are deemed OTC derivatives for CCR management ;
- **Securities financing transactions (SFTs):** including repurchase/reverse repurchase and securities lending etc.;

[3] BOCNY shall closely monitor risk exposure of internal deals with BOC's other branches and subsidiaries, by measuring the branch's net Due-to/Due-from position between BOC's other branches and subsidiaries. Accordingly, the margin call and forced liquidation requirements are not required.

[4] Central counterparties (CCP) is within the CCR management scope even though BOCNY currently does not participate in any CCP transactions. MRD will update the program to strengthen CCR management of CCP when there is business needs.

4.2. Process Flowchart



*Only applicable to corporate clients or corporate clients management as FIs.

4.3. Appropriateness Assessment

Both corporate and financial institution clients are subject to transaction appropriateness assessment.

Prior to a deal, transactions with corporates should be thoroughly vetted for appropriateness in accordance with the following principles:

- **As needed.** Derivative transactions shall be conducted with corporate clients with genuine trading demand;
- **Matching.** Derivatives transactions shall be conducted with counterparties whose risk tolerance matches the level of risk in trading;
- **Full disclosure**. Product risks in derivatives transactions shall be fully disclosed to counterparties.

Transaction appropriateness assessment for corporate clients and corporate clients managed as FIs shall be completed before entering any relevant transactions by CRDs in conjunction with product departments.

Transaction appropriateness assessment for financial institutions should be done by FID upon the initiation of credit. The appropriateness assessment evaluates from both client and product levels. Through objective and proper evaluation methods, the product risk can be matched with client's risk tolerance. The appropriateness assessment result shall be a key consideration of reviewing CCR limit initiation and segmentation.

4.4. Counterparty Credit Limit Management

CCR limit shall be included in the total credit granted to the customer, subject to approval authority and approval process of total credit. However, CCR limit will be listed out separately from credit limit at origination.

4.4.1. Origination and Approval

To establish a CCR limit for corporate clients, customer manager from CRDs shall initiate with support of product departments and manage credit limit. In addition, CCR limit is under unified post-lending management. The credit agreements signed with corporate clients shall cover financial market business. If margin is deposited as a risk mitigation for treasury transactions, valid agreements or terms on pledge of margin shall be signed.

The counterparty credit risk limit for corporate clients can be subdivided into OTC derivatives and securities financing transactions. The limit is valid until the date that the annual review takes effect in the following year.

FI counterparties apply two sets of CCR credit limit, one designated from Head Office, the other approved by BOCNY. The setting of CCR credit limit approved by BOCNY shall be less than or equal to the set from Head Office. Credit limits to FI counterparties (including sovereign institutions, financial sovereign institutions, and corporate clients managed as FIs) for financial market business shall be included in the total credit management.

FID is responsible for initiating total credit by following relevant credit origination policies. After the credit authority completes the approval process, FID allocates CCR limit for financial market business based on risk management principles.

The following factors should be analyzed thoroughly for reasonableness when reviewing the CCR limit:

- Whether the type and term of transactions under the limit are commensurate with the business background and the main business of the customer;
- Whether the size of requested transactions and rolling basis are commensurate with the business size, historical business volume and growth rate of the customer;
- Whether changes in credit limit are commensurate with historical credit limits of the customer.

The annual review of CCR limit shall conform to BOCNY rules for annual review of total credit.

4.4.2. **Occupation**

4.4.2.1. OTC derivative transaction

When a corporate customer conducts an OTC derivatives transaction, the initial limit of CCR shall be occupied in accordance with the following equation:

$E + G = Q = V * I$

Where,

E: the amount of CCR limit occupied by the transaction;

G: the amount of low credit risk limit[5] occupied by the transaction;

Q: credit risk equivalent of transaction;

V: contract amount; and

[5] Referenced to relevant Head Office policy, low credit risk limit is collateralized by sufficient cash or cash equivalent margin.

I: risk weight of product.

For details of risk weight, please refer to *Risk Weight List for Risk Exposure Measurement of Treasury Transactions* of the Head Office. Risk weights of new products and upgraded products of BOCNY shall be reported to the Risk Management Department of the Head Office for approval.

When a corporate customer conducts an OTC derivatives transaction, the limit shall be occupied by CCR limit or Counterparty OTC limit of low credit risk limit. The Type II corporate customer with any credit rating lower than RR4 shall not occupy full amount of CCR limit. Instead, it shall use Low credit risk limit that is equal to at least 20% of credit risk equivalent of the transaction before occupying the CCR limit. If a transaction is done with a corporate customer counterparty in the form of full margin, the corporate customer shall pay an initial margin equal to at least 100% of credit risk equivalent of the transaction before the start of the transaction.

When BOCNY conducts T+1/T+2 FX spot with corporate customers, eligible customers can be exempted from CCR limit utilization, and the relevant CCR exposure shall be included into the stop-loss limit management of BOCNY. Specific exemption criteria and management requirements shall be in accordance with related policies and procedures from Head Office.

When a FI (including sovereign institutions, financial sovereign institutions and corporate clients managed as FIs) conducts an OTC derivative transaction, its risk exposure should fully occupy the credit limit. Risk exposure is calculated using the current exposure method in accordance with regulatory requirements, i.e., risk exposure = MTM + Add-on.

Where,

MTM refers to the higher of replacement cost of mark-to-market value and zero;

Add-on means additional factors that reflect potential exposures in the residual maturity. Add-on equal to the notional of derivative instrument multiplied by relevant additional coefficient. For detailed information of derivative additional coefficients, please see the table below.

Remaining maturity	Interest rate (%)	Exchange rate and gold (%)	Equity (%)	Precious metals, excluding gold (%)	Other commodities (%)
Up to 1 year	0.0	1.0	6.0	7.0	10.0
More than 1 year, up to 5 years	0.5	5.0	8.0	7.0	12.0
Over 5 years	1.5	7.5	10.0	8.0	15.0

4.4.2.2. Securities Financing Transactions

Bonds are eligible as financial collateral for SFTs. Bond eligibility criteria is in accord to BOCNY treasury business authorization from Head Office. The collateral of reverse repo only accepts U.S. treasuries, which include bills, notes and bonds.

Mitigated exposure of a SFT for FIs is measured using the Comprehensive Approach defined by Basel Committee. The specific equation is as follows:

$$E^* = \max\{0, [E \times (1 + H_e) - C \times (1 - H_c - H_{fx})]\}$$

Where,

E: unmitigated exposure of securities financing transaction;

E*: mitigated exposure of securities financing transaction;

H_e: discount rate of exposure;

C: present value of financial collateral;

H_C: discount rate of financial collateral;

H_{fx}: haircut for currency mismatch between the financial collateral and the exposure.

Mitigated exposure of repurchase/reverse repurchase and securities lending & borrowing shall occupy the CCR limit on a 1:1 basis. The counterparty that has no CCR limit shall provide full collateralization for SFTs.

H_e and H_C discount rates shall be determined in accordance with the *Administrative Measures for Collateral of Financial Institution Financial Markets Business of Bank of China Limited*. If there is currency mismatch, H_{fx} deems as 8%. Initial discount rate of standardized bond repurchases can be subject to the regulatory requirements.

4.5. Ex ante Exemption

Exemptions of margin call and forced liquidation only applies to corporate clients.

According to the Head Office requirement, transactions that meet the following exemption conditions at the same time can be exempted from additional requirements for margin requirements, early warning and forced liquidation requirements. Before entering the derivative transaction, MKD and MOD need to prepare materials and apply for exemption.

- The product type is limited to derivative transactions and for the purpose of hedging FX and interest rate risk;

- The hedging relationship between the derivative transaction and the Bank's loan will continue to be valid during the term. The interest rate and payment frequency of the derivative transaction match the same of the loan; the notional amount of the derivative transaction does not exceed the loan amount (for syndicated transaction, the loan amount means the congregate syndicated credit facility principal amount, and for bilateral loan, the loan amount refers to the Bank loan amount); the term of the derivative transaction does not exceed the loan term;
- The legal agreements contain the terms of “cross-default/collateralization” and “Pari Passu”; and
- Loans and derivative transactions during the lifetime shall be subject to overall monitoring and management, and the same collateral conditions shall apply.

The exemption materials are confirmed and signed off by the heads of MKD and MOD, and submitted to MRD, and MRD will review and decide whether the exemption is granted. The exemption process follows *New York Branch Credit Risk Management Procedure of Hedging Derivative Business for Clients*.

4.6. Dynamic management

4.6.1. Valuation of transaction

During the term of transaction, OSD is responsible for acquiring the result of transaction valuation from relevant system, preparing and sending the notice of valuation to the corporate customers and corporate clients managed as FIs independently on monthly basis.

OSD implements CVA calculation based on MRD’s recommendation of CVA methodology to calculate transaction revaluation for corporate clients and corporate clients managed as FIs.

4.6.2. Day-to-day Monitoring

The product departments are responsible for day-to-day monitoring and management of credit limits. During the term of transaction, OSD is responsible for preparing collateral monitor report which includes information of margin, collateral adequacy ratio, and providing to the product departments on daily basis.

4.6.2.1. Dynamic management of corporate clients

Corporate clients are in scope of BOCNY dynamic management, except for clients who have ex ante exemption.

When the collateral adequacy ratio of a transaction with a corporate client is lower than the warning line, OSD shall prepare and issue a Notice to CRDs, and CRDs shall notify the customer of paying additional collateral under low credit risk limit. The product departments shall assist CRDs in taking timely risk control measures, including but not limited to assessing causes for risk profile changes, evaluating market trend and impact, and sending risk alerts to counterparties. CRDs will work with the client to bring the collateral adequacy ratio to the warning line or above within two business days.

When the collateral adequacy ratio is lower than the liquidation line, there shall be no new transactions immediately until the collateral adequacy ratio is above the liquidation line. At the same time, OSD shall prepare and issue a Notice to CRDs, and CRDs shall notify the customer of paying additional collateral under low credit risk limit. If the corporate customer fails to add the collateral under low credit risk limit, CRDs will send the forced liquidation notice to the customer, while the product departments will force the liquidation.

Transaction's collateral adequacy ratio is monitored on customer level and calculated by the following formula.

Collateral adequacy ratio = (CCR limit for OTC derivatives + Counterparty OTC limit of Low credit risk limit – total absolute value of estimated losses of counterparty) ÷ (CCR limit for OTC derivatives + Counterparty OTC limit of Low credit risk limit)

The margin level should be determined based on market volatility, credit analysis and the relationship with the client.

The warning line and liquidation line for Type I counterparties are 30% and 10%, respectively; while the warning line and liquidation line for Type II counterparties are 50% and 20%, respectively.

4.6.2.2. Dynamic management of FIs

Dynamic management of FIs including early warning and forced liquidation management is in scope of Head Office's CCR management. BOCNY follows Head Office authorizations.

During the term of transaction, CCR of FIs (including sovereign institutions and financial sovereign institutions) shall be monitored on customer legal entity level.

For corporate clients managed as FIs, BOCNY follows *Bank of China Limited Global Markets Business Risk Management Procedures*. MOD monitors CCR credit limit occupation of the corporate clients managed as FIs.

For a corporate client managed as FI, when the collateral adequacy ratio is lower than the warning line, there shall be no new transactions immediately. Depending on market fluctuations and actual business needs, timely control measures such as limit adjustments shall be taken to reduce current exposures usage ratio to bring the collateral adequacy ratio above the warning line. When the collateral adequacy ratio is lower than the liquidation line, CRDs and product departments shall take measures to bring exposure below the CCR limit within 1 month if counterparty's exposure is less than or equal to 110% the CCR limit; or within 1 week if counterparty's exposure is more than 110% of its CCR limit.

4.6.3. Ex post Exemption

After margin call or forced liquidation is triggered, CRDs and product departments shall adequately communicated with the client, risk departments and Head Office (if necessary). Then together with LGO, CRDs and product departments raise requests to clients in order to meet exemption initiation requirements mentioned above by adding terms from exemption conditions to legal documents.

Based on the newly negotiated and executed legal documents as well as client relationship considerations, the product departments and CRDs are responsible for preparing ex post exemption proposal materials for margin call and forced liquidation exemption application checklist, then submitting to CAC for approval. MRD coordinates and oversees the overall process.

4.7. Reporting

For timely identification of risk points, a day-to-day CCR reporting mechanism shall be established. Specific reporting requirements are as follows:

4.7.1. Regular reporting

OSD shall report collateral monitor report for corporate client and corporate clients managed as FIs. Then notify CRDs and the product departments of transactions with breaches of waring line, forced liquidations to the MKD, MOD, MRD and CRM on daily basis.

MOD shall report CCR limit usage, risk profile, mitigations and transaction details to MRD and CRM at least monthly (within the first five working days of each month). MOD and MKD shall also report any changes of framework legal agreements to MRD.

MRD shall report BOCNY CCR exposure analysis and summary to the senior management monthly, within the first five working days of each month.

4.7.2. Ad Hoc reporting

Intercommunication must be established among CRDs, product departments and risk departments. CRM shall share the information to MRD if CRM identifies any abnormal activities when conducting periodical reviews. Similarly, any major market volatilities or emerging risk issues shall be immediately reported by MKD to MRD and CRM.

BOCNY shall establish a major risk early warning mechanism. Any major risk event shall be reported to CRM and MRD immediately. MRD, on behalf of BOCNY, shall report risk event to the Risk Management Department of the Head Office within two working days of occurrence. Major risk events include but are not limited to the following circumstances:

- MKD shall report the transactions with corporate customers that are Type I counterparties suffering a total loss of more than RMB100 million; and those with corporate customers that are Type II counterparties suffering a total loss of more than RMB 30 million (no offsetting against profitable transactions);[6]

- MKD shall report the collateral adequacy ratio for corporate customer transactions falling below the warning line for five working days consecutively; and

- CRDs shall report the customer potential risk of default when it is estimated to result in a loss, including rating downgrade or negative outlook, margin account freeze by competent authority and other events that meet requirements of the Head Office for major credit risk events.

To effectively prevent any potential material loss of counterparties, BOCNY shall design reasonable stress scenarios according to market movements, customers and business concentration levels and conduct stress testing regularly. Stress test results shall be analyzed to identify vulnerabilities that may result in a material adverse impact. An emergency response mechanism shall be established.

4.8. Non-performing Assets Workout

In the case of any counterparty default of OTC derivatives and SFTs, the process of non-performing assets collection and transfer shall be in accordance with *Bank of China US Branches Loan Workout Procedure* and the default terms of relevant agreements between counterparty and BOCNY.

4.9. Documentation Management

Documentation management is one of risk mitigations. BOCNY shall apply netting arrangement in the agreements at best efforts. Except for spot transactions, all derivative transactions entered for corporate clients shall sign framework legal agreements such as ISDA, GMRA/MRA to reflect netting arrangement, warning line, margin call and forced liquidation level.[7] For details, please refer to *Procedures for Legal Agreements of Treasury Business of BOCNY.*

[6] Head Office Requirement.

[7] If ex-ante exemption is obtained, margin call and forced liquidation provisions will not be required.

For those counterparties who signed CSA (including mandatory margin agreement) or GMRA/MRA, values of eligible collaterals (only cash and U.S. Treasuries) received by BOCNY shall be deducted from counterparty's credit risk exposure.

All CCR documentation should be uploaded to Laserfiche and should meet the bank's record retention policy requirement.

4.10. Management Information System

BOCNY shall leverage relevant system's capacity to enhance automation. At the same time, BOCNY shall ensure accuracy and completeness of positions, valuation results and limit information of financial market business in the information system related to CCR management.

If OTC derivative is for hedging purpose has hedged loan, the linkage relationship shall be booked in the system.

BOCNY shall push forward with the development of the agreement management system and enhance the electronic agreement management level.

4.11. Wrong-Way Risks

There are two type of wrong-way risks: general and specific. General wrong-way risk arises when the probability of default of counterparties is positively correlated with general market risk factors. Specific wrong-way risk arises when the exposure to a particular counterparty is positively correlated with the probability of default of the counterparty itself because of the transaction structure or the nature of the transaction or with the counterparty.

BOCNY shall fully identify potential general wrong-way risk and take timely control measures during CCR management processes, including product design and risk assessment. In principle, financial market business that poses a specific wrong-way risk shall not be conducted. If any specific wrong-way risk exists, additional risk management measures shall be in place.

5. Program Assurance Methods

5.1. Awareness Methods

This program will be distributed to key stakeholders via email on an annual basis with key changes summarized. MRD will also provide program training to key stakeholders. The program will also be available in BOCNY's Policy Library.

5.2. Training Methods

Individual is provided with training materials on the requirements and the scope of the program. The training includes departmental level training and bank-wide training provided by MRD. Such training program can also be combined with review and update of the program.

5.3. Program Adherence Monitoring

Each applicable department head is responsible for monitoring and assessing the compliance of their procedures with this program.

5.4. Update Requirements

MRD will review the program at least every year or when necessary to enhance the process based on business needs with the help of key stakeholders. By leveraging relative departments' recommendations, MRD will list out the suggested changes in the program for management and committee approvals.

5.5. Consequences of Violating the Program

The potential consequences of violating this program includes but not limit to oral warnings, performance rating downgrade and escalation to the CRO and executive management.

5.6. Exceptions & Exemptions

Exceptions and exemptions to this program must be justified in writing, presented to MRD, and approved by RMICC. 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 program 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

6. Reference Information

6.1. External Regulations

1. Standardized Approach for Counterparty Credit Risk: Final Rule, OCC Bulletin 2020-7
2. Margin and Capital Requirements for Covered Swap Entities: Interim Final Rule, OCC
3. Counterparty Credit Risk Management: Interagency Supervisory Guidance, OCC Bulletin 2011-30
4. Risk Management: Risk Management of Financial Derivatives and Bank Trading Activities, OCC 1999

6.2. Glossary

Term	Definition
ADC	America Data Center
BOCNY	BOCNY Bank of China New York Branch and its satellite branches
CBC	Commodity Business Department
CBD	Corporate Banking Department
CDO	Chief Data Office
CHB	Chicago Branch
CRDs	Client Relationship Departments
CRM	Credit Risk Management Department
CSA	Credit Support Annex
CVA	Credit Valuation Adjustment
ERM	Enterprise Risk Management Department
FID	Financial Institution Department
GMRA	Global Master Repurchase Agreement
IRM	Independent Risk Management
LAB	Los Angeles Branch
LGO	Legal Office
MKD	Global Markets Department
MOD	Treasury Middle Office Department
MRA	Master Repurchase Agreement
MRD	Market Risk Management Department
OSD	Operation Services Department
OTC	Over-the-Counter
QNB	Queens Branch
SFTs	Securities Financing Transactions
TRY	Treasury Department
TSD	Trade Service Department

6.3. Appendix

Application Form for Global Markets Business Corporate Client Managed as Financial Institution

<table>
<tr><td>Request Dept.</td><td>MKD</td><td>Date of Submission</td><td></td></tr>
<tr><td>Signature of Department Head</td><td></td><td>Handled by</td><td></td></tr>
<tr><td colspan="4">Client Details</td></tr>
<tr><td>Filled by Client Account Officer</td><td></td><td>Branch</td><td></td></tr>
<tr><td>Client Name</td><td colspan="3">(It should be the accurate full name of the counterparty and it should be the same name with CDD and CRR.)</td></tr>
<tr><td colspan="3">Whether Client uses SWIFT to settle: (if “No”, the form will not be approved)</td><td><u>Yes</u> or <u>No</u></td></tr>
<tr><td colspan="4">Whether Client is: (if all “No”, the form will not be approved)</td></tr>
<tr><td colspan="3">Fortune 500 Company</td><td><u>Yes</u> or <u>No</u></td></tr>
<tr><td colspan="3">Bank’s “Strategic Key Client”</td><td><u>Yes</u> or <u>No</u></td></tr>
<tr><td colspan="3">“Head Office Level Client”</td><td><u>Yes</u> or <u>No</u></td></tr>
<tr><td colspan="3">NFC+ under EMIR</td><td><u>Yes</u> or <u>No</u></td></tr>
<tr><td colspan="3">Entered CSA/GMRA/MRA with the Bank</td><td><u>Yes</u> or <u>No</u></td></tr>
<tr><td>Client Relation Department Head</td><td>Signature:</td><td>Middle Office Department Head</td><td>Signature:</td></tr>
<tr><td colspan="2">EVP in charge of Client Relationship Department</td><td colspan="2">Signature:</td></tr>
<tr><td colspan="2">EVP in charge of Global Markets Department</td><td colspan="2">Signature:</td></tr>
</table>