Bank of China US Branches

Leveraged Lending Credit Policy

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1. Executive Summary

The Bank of China US Branches Leveraged Lending Credit Policy ("Policy") is supported by the Leveraged Lending Credit Procedure ("Procedure") to apply safe and sound practices necessary to identify, evaluate, and monitor credit risks associated with leveraged lending activities conducted by Bank of China, New York Branch and its satellite branches (collectively "BOC US Branches," "BOCNY," or "Branch").

1.1 Rationale

This Policy adheres to BOCNY's standards for managing risks, including identifying, assessing, controlling, monitoring, reporting, and escalating risks as defined in the BOCNY Risk Governance Framework ("RGF") and the Bank of China US Branches Credit Risk Management Policy (the "Credit Policy"). The purpose of this Policy is to establish a risk framework for conducting business with Leveraged Borrowers, as defined herein. The Policy sets standards for identifying leveraged Borrowers, assigning roles and responsibilities, managing within BOCNY's risk appetite and limit framework, conducting underwriting and credit analysis, monitoring Borrowers, reporting on a portfolio basis, and conducting problem loan management.

1.2 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 Credit Underwriting Standards
- Bank of China US Branches Allowance for Loan and Lease Losses Policy
- Bank of China US Branches Leveraged Lending Credit Procedure
- Bank of China US Branches Credit Risk Management Procedure
- Bank of China US Branches Loan Workout Procedure
- Bank of China US Branches Allowance for Loan and Lease Losses Methodology
- Bank of China US Branches Key Risk Indicator Procedure

2. The Scope

This Policy is consistent with the Risk Governance Framework ("RGF") and adheres to the standards for managing risks, including identifying, assessing, controlling, monitoring, reporting, and escalating credit risk arising from leveraged lending activities.

The scope of the Policy includes leveraged lending credit exposure to all customers.

3. Roles & Responsibilities

3.1 Policy Governance

Risk Management and Internal Control Committee (“**RMICC”)**

As the risk management decision-making unit of the Branch, the RMICC is responsible for approving the Policy and assessing the comprehensiveness and effectiveness of BOCNY’s credit risk management program, including leveraged lending risk management framework. RMICC provides final approval on this Policy.

Credit Risk Committee (“CRC”)

The CRC reviews and monitors credit risk, including for leveraged lending activities, on a portfolio wide basis and makes recommendations regarding strategy. The CRC oversees the overall asset quality and 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.

Credit Approval Committee (“CAC”)

The CAC is a subcommittee of the CRC. The purposes of the CAC is to review and approve the individual credits and loans to support BOCNY’s business; oversee the problem credit workout process; maintain a safe and sound loan portfolio; and comply with regulatory standards and this Policy.

3.2 Policy Implementation

3.2.1. Overview of Credit Risk Organization

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”).

The IRM, CRM, is responsible for developing the leveraged lending credit risk framework of the Branch. This includes this Policy, underwriting guidelines, risk appetite (risk tolerance ranges/limits), and risk grading. The credit analysis function independently reviews and challenges transactions proposed by FLUs. The credit risk management function manages credit risk across the Branch for the leveraged lending portfolio.

3.2.2. First and Second Line of Defense

The FLUs include Corporate Banking Department (“CBD”), Commodity Business Center (“CBC”), Financial Institutions Department (“FID”), Trade Services Department (“TSD”), Banking Department (“BKD”), Chicago Branch (“CHB”), Los Angeles Branch (“LAB”) and Queens Branch (“QNB”).

Key Role & Responsibility	First Line of Defense/ Line of Business	Second Line of Defense (CRM)
Credit Risk Policy & Framework	• Ensure that each line of business is conducted in line with leveraged lending credit risk policies and procedures. • Ensure that credit risk arising from its activities are identified, measured and managed, monitored and reported consistent with the BOCNY's leveraged lending credit risk appetite • Ensure business strategies align with leveraged lending credit risk appetite	• CRM is responsible for developing BOCNY's leveraged lending credit risk framework. This includes credit policies, underwriting guidelines, risk appetite (risk tolerance ranges/limits), and risk grading structure. • Establish and maintain leveraged lending credit risk policies and procedures. • Establish underwriting standards for leveraged lending • Independently monitor, track, and report on leveraged lending credit risk policy and risk acceptance criteria exceptions.
Credit Limit Management	• Propose credit limits and develop underwriting standards for leveraged lending • Adhere to the credit limits and underwriting standards for leveraged lending established by CRM	• Develop and establish credit limit framework for leveraged lending • Maintain the credit limit framework, including monitoring credit risk appetite usage/utilization for leveraged lending
Credit Underwriting & Transaction Approval and Monitoring	• Identify transactions and Borrowers that meet the leveraged lending definition in the leveraged lending policy • Analyze loan origination and approve leveraged loans and Borrowers • Recommend proposed credit risk ratings and credit limits to CRM for leveraged Borrowers • For leveraged transactions and Borrowers: - Develop assumptions for base and downside projections and for a stress case that breaks covenants - Analyze capacity to repay and de-lever consistent with Guidance - Complete Enterprise Valuation analyses - Conduct appropriate due diligence on leveraged transactions and Borrowers - Develop leveraged transaction structures, negotiate terms and	• Confirm the identification of transactions and Borrowers that meet the leveraged lending definition and exercise final discretion in the identification • Independently assess the credit worthiness of BOCNY leveraged Borrowers at origination • Review/challenge internal credit risk ratings for leveraged loans and Borrowers • For leveraged transactions and Borrowers: - Provide input and confirm assumptions for base and downside projections and stress case - Confirm capacity to repay and de-lever analysis - Perform an independent validation of Enterprise Valuation analyses and cash flow projections • Independently review and challenge FLU's due diligence and assumptions of leveraged loans and Borrowers

Key Role & Responsibility	First Line of Defense/ Line of Business	Second Line of Defense (CRM)
	conditions, and create documentation - Perform quarterly ongoing monitoring and assessment of leveraged Borrowers	• Independently review and challenge FLU's credit worthiness analysis of BOCNY leveraged Borrowers on an ongoing basis, including reviewing the quarterly reviews prepared by FLUs on leveraged Borrowers
Portfolio Management	• Review and manage portfolio risk relative to the leveraged lending Risk Appetite Statement • Perform ongoing reporting on leveraged portfolio	• Monitor, measure, analyze, and report on credit risk exposures against key risk limits and indicators for leveraged lending
Credit Stress Testing	• Work with the CRM and perform stress tests on portfolio of leveraged Borrowers	• Work with FLU to monitor risk exposures and performing stress tests to identify, analyze, and control credit risk concentrations within the leveraged lending portfolio
Problem Asset Management/ALLL	• Manage problem loan in workout status within the leveraged lending portfolio in coordination with CRM	• Work with FLU to manage problem loan in workout status within the leveraged lending portfolio • Evaluate the adequacy of the allowance for potential credit losses for the leveraged lending portfolio

3.2.3. Third Line of Defense

IAD is responsible for independently evaluating and assessing the effectiveness of the control environment established by BOCNY management, including management of leveraged lending. IAD performs regular, independent reviews of activities conducted in accordance with the RGF, the Credit Risk Management Policy, the Leveraged Lending Credit Policy, and related procedures.

4. Policy Statement and Standards

4.1 BOCNY Definition of Leveraged Borrower

This Policy establishes a formal definition for leveraged lending to ensure consistent application and a consistent approach across all BOCNY business units. The definition of Leveraged Borrower takes into account all debt in the capital structure. A determination is made by the first and second lines of defense (1) at the time a transaction is originated and (2) at the time of material amendments[1] or restructuring, and (3) at the modification, extension or refinancing of one or more loans as to whether or not the Borrower should be classified as a Leveraged Borrower. This determination requires the application of objective criteria as well as a degree of judgment. The first line of defense determines whether a Borrower

[1] Material amendments generally include amendments that: (i) loosen or eliminate a financial covenant; (ii) change collateral terms; (iii) amend the repayment terms and/or final maturity; (iv) material pricing concessions; or other amendments determined by CRM to be material.

meets the Leveraged Borrower definition, which is confirmed by the second line of defense. CRM, as the second line of defense, has the final discretion in determining whether a loan meets the Leveraged Borrower definition, which includes agreeing to the classification of any loan or sector as an exclusion, as defined below.

Leveraged Borrowers include the following components:

1. Borrower with a ratio of total debt-to-earnings before interest, taxes, depreciation, and amortization ("EBITDA") (Total Committed Debt[2]/EBITDA) exceeding 4.0x, ("Leverage Test").
2. Borrower is recognized in the debt markets as a Leveraged Borrower, relying on publicly available information sources, e.g., Bloomberg or Thomson Reuters.

The BOCNY Leveraged Borrower definition considers a combination of these components, with the primary driver being the Leverage Test. Any borrower having total leverage greater than the ratio in Component 1 above would typically be considered a Leveraged Borrower except:

- Exclusions, as defined in section 4.2, are sectors/loans/borrowers that are excluded from the definition. These are where the underlying operations are out of scope for leveraged lending or where the credit underwriting decision is reliant on collateral rather than the Borrower's cash flow; or
- Risk Acceptance Criteria ("RACs") are described in section 4.3. These are identified sectors where risk characteristics accommodate higher levels of leverage than Total Debt/EBITDA of 4.0x or the appropriate measure of leverage for the respective sector;
- Borrowers that exhibit a significant deterioration in financial performance after loan inception ("Fallen Angels") and subsequently become leveraged, are not considered a Leveraged Borrower until the credit is modified, extended or refinanced.

In cases where there is a parent or a third-party guarantee or support, the Leverage Test still applies to the stand-alone borrower entity.

BOCNY investment grade codes (Internal Rating Scale 1, 2, or 3) or external ratings are not factors that are considered in determining whether a borrower is defined as a Leveraged Borrower.

Total Committed Debt is calculated on a gross committed basis, which encompasses the entire debt structure of the Borrower and includes all amounts available to be drawn.[3] In addition, drawn amounts on uncommitted facilities should be included in the calculation of committed debt. Total Committed Debt is gross and does not apply cash as a debt reduction.

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[2] As defined in the Section 4.1.2.1 of *Bank of China Branches Leveraged Lending Credit Procedure*

[3] Committed loan facilities whose purpose is limited to the backstopping of U.S. issued commercial paper programs only, , may be excluded in the calculation of leverage. In addition, direct-pay letters of credit back up facilities supporting international commercial paper issuers may also be excluded from debt.

For purposes of the Leverage Test, EBITDA adjustment may be applied if each is reasonable, sustainable; justified by the FLUs and approved by CRM. EBITDA adjustments can include (1) non-cash charges and non-recurring items ("Base Adjusted EBITDA") as well as (2) pro-forma adjustments (e.g., acquisition synergies) ("Pro Forma EBITDA Adjustments"). EBITDA adjusted for (1) and (2) above is defined as Total Adjusted EBITDA.

Pro Forma EBITDA Adjustments in excess of 25% of Total Adjusted EBITDA may cause an underwriting exception (See Section 4.5. Underwriting Standards).

4.2 Exclusions

Certain sectors are considered exclusions to the leveraged loan definition, as their underlying operations are out of scope for leveraged lending. These sectors include:

- Public Finance, including Municipalities and Sovereigns;
- Regulated Financial Institutions;
- Subscription Finance;
- Asset Light Commodity Traders[4]; and
- Non-Bank Financial Institutions[5] .

In addition, certain loans/sectors qualify for exclusions because they are secured by tangible collateral, where the underwriting of these loans is reliant on collateral valuation and not on enterprise valuation or the cash flow of the Borrower. These are characterized as highly secured debt loans or sectors where lending occurs only on a highly secured basis. For BOCNY, these exclusions include:

- Non-regulated financial institutions (counterparty exposure or loan (e.g., security lending)) where exposure is collateralized by marketable securities subject to daily margining;
- Commercial Real Estate activities secured by real property, including construction and land loans appropriately secured by the underlying assets;
- Financings structured for the purpose of funding specifically identified aircraft, shipping vessels or equipment and is collateralized by the specific assets;
- Project finance provides debt to fund a specific project, which is secured by a specific set of pledged assets and cash flows with limited recourse to corporate sponsors/owners. Repayment is from the cash flow generated by the underlying project assets;
- Traditional trade finance activities and transactional financing[6];
- Receivables purchase or securitization facilities collateralized by receivables, rental streams, financial contracts, or other cash generative assets; or

[4] As defined in Section 4.2.5 Supporting Material for Asset Light Trader of *Leveraged Lending Credit Procedure*.
[5] As defined in Section 4.2.6 Supporting Material for Non-Bank Financial Institutions of *Leveraged Lending Credit Procedure*
[6] Rationale described in Section 4.2.4 Supporting Material for Transactional Finance of *Leveraged Lending Credit Procedure*. Pertain to activities where the BOCNY finances a specific asset with a fully perfected security interest and the conversion of that asset to cash is expected to repay the facility.

- Asset backed loans (“ABL”) where the facilities are subject to monitoring through borrowing base reporting and when ABLs are the dominant source (defined as greater than 60% of the total committed debt of the borrower) of ongoing funding for a borrower.
- Fully (100%) cash collateralized transactions where BOCNY has a control agreement over cash account. Similarly, letters of credit fully secured by cash collateral may also be an acceptable exclusion from Leveraged Borrower definition.
- eMChain finance transactions as defined in section 4.1.10 in the Credit Underwriting Standards where repayment is reliant on the buyers’ ability to make payment on the eligible invoices to repay amounts drawn under such facilities.

Borrowers with both (1) bank debt that relies on cash flow for repayment and (2) highly secured loan facilities are not designated as leveraged if the highly secured portion represents greater than 60% of the total committed debt.

4.3 Risk Acceptance Criteria

BOCNY has identified certain sectors where higher leverage levels than levels established in the Leverage Test are normally acceptable levels. In these cases, BOCNY has developed Risk Acceptance Criteria (“RAC”) that (1) support and provide the rationale for higher leverage levels, (2) establish sector-specific acceptable leveraged levels for defining Leveraged Borrowers, and (3) present underwriting standards specific to the sector; (4) define Non-Pass threshold levels.

RACs that establish different/higher leveraged criteria and Non-Pass thresholds for specific sectors are approved by Credit Risk Committee (“CRC”) and Risk Management and Internal Control Committee (“RMICC”).

RAC sectors include:

- Regulated Utilities;
- Midstream Energy;
- Leasing Companies;
- Captive Finance Companies; and
- Other sectors to be added, as determined by CRM and FLU, and approved by CRC and RMICC.

Please refer to the Leveraged Lending Credit Procedure Appendix A for the RAC sector standards.

4.4 BOCNY Risk Appetite and Credit Limit Management

BOCNY targets Fortune Global 500 companies, Fortune 1000 U.S. companies, China “Going Global Customers”, and China-US trade customers. BOCNY strives to mitigate leveraged credit risk through selecting the high quality clients and by adhering to the principles of a sound leveraged credit risk framework, including maintaining high standards in credit underwriting, effective portfolio monitoring, and adhering to risk appetite standards and limit monitoring.

4.4.1. BOCNY Leveraged Lending Risk Appetite

As described in the RGF and the Credit Policy, BOCNY's credit risk appetite is moderate, balancing risk and return while conducting business in a manner that is rational, stable, and prudent. These principles apply to leveraged lending activities. Exposure to Leveraged Borrowers arises primarily through general corporate lending.

BOCNY will not originate Non-Pass transactions. The Branch may originate Non-Pass Borrower only when the there is a strong parent or third party guarantee, and the guarantor demonstrates repayment capacity.

Leveraged Borrowers are generally considered Non-Pass if leverage, Total Funded Debt[6]/EBITDA, is in excess of 6.0x ("Leverage Metric") unless the Borrower under BOCNY Base Case projections shows capacity to repay 50% of the total funded debt (including requested incremental debt and less deductions for Readily Marketable Inventories[7]) or 100% of senior funded debt over 5-to-7 years ("Repayment Test"). If the Borrower exceeds the Leverage Metric but meets the Repayment Test, the Leveraged Borrower would be considered Pass (may or may not be underwriting exceptions, subject to the Section 4.5 requirement).

In the event that a Borrower or facility is supported by a parent or a third party guarantee, the parent or guarantor must then meet the repayment requirement (Repayment Test) as applied to the Leveraged Borrower. In the case that a Leveraged Borrower is guaranteed by an entity that qualifies as one of the 4 Sector Exclusions under Section 4.2 of this Policy, the facility is analyzed based on the Borrower's ability to meet the underwriting standards in the Section 4.5. In the case of a failure of the Borrower to meet the underwriting standards, the FLUs can analyze and assess the guarantor as a Pass transaction according to the applicable underwriting standards for such entity. In any event, the Borrower will remain a Leveraged Borrower and subject to the leveraged lending monitoring requirements.

Sectors under a RAC have alternative measures for Non-Pass levels.

4.4.2. BOCNY Leveraged Borrower Limit

All limits are set in accordance with the BOCNY Leveraged Lending Risk Appetite. BOCNY manages leveraged lending exposure by establishing limit on total leveraged lending loan portfolio.

KRI Level	KRI Name	Limit
Risk Appetite Statement ("RAS")	Total Leveraged Lending Commitment to Total Credit Exposure Ratio	25%
Non-RAS	Leveraged Lending Non-Investment Grade and Non-Rated Commitment to Total Credit Exposure Ratio	15%

[7] As defined in Section 4.4.1.1 Leverage Metric of *Leveraged Lending Credit Procedure.*

Non-RAS	Non-Investment Grade and Non-Rated Single Borrower Concentration in Leveraged Lending Portfolio	Lower of USD 300 million or 5%
Non-RAS	Non-Investment Grade and Non-Rated Underwriting Exceptions Ratio in Leveraged Lending Portfolio	10%

Note: The Non-RAS KRI Limits are not applicable to exposure for obligors who are supported by parent with China sovereign state controlled ownership.

Credit limits currently managed under the RGF include leveraged lending activities. In addition, existing limit on underwriting exceptions as defined in the RGF includes exceptions under this Policy.

4.5 Underwriting Standards

BOCNY maintains a disciplined and focused approach to originating and underwriting loans to Leveraged Borrowers. Underwriting standards should be clear and measurable and apply to Leveraged Borrowers and/or transactions.

The entirety of the capital structure of a Leveraged Borrower should be considered when assessing a loan facility, and the Credit Recommendation Report ("CRR") should (1) reflect sound financial analysis, including Enterprise Valuation or collateral valuation, if appropriate, and (2) assign a credit rating.

Underwriting Standards include:

- Borrower with Total funded Debt/EBITDA not to exceed 6.0x ("Leverage Metric");
- Borrowers should demonstrate the capacity to repay and de-lever to a sustainable level over a reasonable amount of time ("Repayment Metric"). Unless otherwise specified in a sector RAC, Borrowers 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.
- EBITDA Adjustments must be reasonable, sustainable, substantiated, and approved by CRM. Pro Forma EBITDA Adjustments should not exceed 25% of Total Adjusted EBITDA.
- Maximum tenor of leveraged transaction is 5 years for Revolving Credit and 7 years for Term Loan facilities.
- Documentation must include at least one covenant.
- Risk mitigation requirements including collateral or third party guarantees with risk controls in place, such as collateral types, loan-to-value guidelines, appropriate valuation methodologies, or acceptable financial condition of the guarantor. If a Leveraged Borrower is dependent on a parent or guarantor, the support must be demonstrated. In general, any form of support needs to be evaluated and approved by CRM.

Weak underwritings (as defined below) have certain exceptions to the underwriting standards that are still considered acceptable and are therefore Pass transactions. The CRR must document and justify the support of weak underwritings.

Underwriting exceptions that indicate weak underwritings are defined as:

- Leveraged Borrower and guarantor (if applicable) fails any two of the underwriting standards (apart from the Repayment Metric test); or
- Leveraged Borrower and guarantor fails the Leverage Metric (higher than 6.0x) and the repayment capacity is between 50% and 65% of total funded debt over a 5-to-7 year period;

Underwriting Exceptions/Weak Underwriting are tracked and recorded against the existing limit for underwriting exceptions as defined in the RGF and Section 4.4.2.

Non-Pass transactions are defined as:

- Leveraged Borrower fails the Repayment Metric (less than 50%) and, if applicable, guarantor also fails the Repayment Metric (less than 50%).

Considering that BOCNY supports Bank of China's global strategy, for a Non-Pass Borrower with the state-owned or implicit government support parent company, the Branch may consider underwriting the facility if government direct ownership is at least 51%, or implicit government support can be evidenced and approved by CRM. In addition, supporting justification for a Borrower's relationship with BOC, repayment history, and liquidity access must be provided and documented in the CRR, and will be determined as Pass with exception.

In addition to the Leverage Lending underwriting standards, Obligors determined as Cross Border Financings, are subject to the minimum underwriting standards for Cross Border Financing (as defined in section 4.1.3 of the Credit Underwriting Standards).

4.6 Credit Analysis

Effective underwriting and management of Leveraged Borrower risk is dependent on the quality of analysis and due diligence employed during the approval process as well as ongoing monitoring over the life of the transaction. The initial extension of credit requires the submission of a CRR that includes a comprehensive assessment of financial, business, industry, and management risks. Credit analysis requirements include risk grade determinations, Borrower assessment, facility assessment, and credit risk mitigation (such as collateral or guarantees).

Full details on the credit analysis are covered in Leverage Lending Credit Procedure. Key aspects include:

- Leverage, for purposes of the leveraged lending definition, should be determined on the basis of the standalone Borrower entity. When a Borrower relies on parent or a third-party guarantee, the guarantor's financial analysis, leverage and repayment capacity must be provided in the CRR. The demonstrated support by way of a guarantee from the parent company or a third party or the sovereign support as well as the economic incentive, capacity, and stated intent to continue to support the transaction or borrower need to be evaluated and documented.

- Base Case and at least one Downside Case must be provided in the CRR. Financial projections should be performed for each Borrower. The financial projections and underlying assumptions should be clearly documented and assessed. Assumptions should relate to the key risks identified in the CRR. All scenarios should be clearly documented and justified, including a discussion of the underlying assumptions, any assumed synergies, EBITDA adjustments, and observed outcomes.
- Enterprise Valuation ("EV") – The EV analysis is required for all Leveraged Borrower and Income Valuation Approach (Discounted Cash Flow) is preferred. BOCNY needs to assess: which valuation method to use depending on the nature of the facility, the transaction, and the Borrower. A consistent and thoughtful approach to measuring EV is expected, with justification evident for method used and conclusions made. In addition, a stressed analysis should be performed on the EV to reflect business conditions more adverse than the base case scenario. If an EV is not performed the justification for not assessing the EV should be documented. The FLU performs the EV exercise, subject to independent review and validation by CRM[8]; and
- Collateral valuation assessment and third party guarantees analyzed as risk mitigating factors.

4.7 Credit Monitoring Standards

In addition to the annual review, all Leveraged Borrowers are reviewed by FLUs at least quarterly. The reports for each borrower should contain static data, financial update and financial summary. In general, the reports should contain comments that are more detailed if the Borrower trends are negative or deteriorating. The detailed level of reporting should be commensurate with the Borrower's risk rating with any deficiency in analysis to be remediated by the next quarterly/annual review.

4.8 Portfolio and Pipeline Management Reporting

BOCNY utilizes reports to track the leveraged lending book of direct and indirect exposures (including commitments and outstanding) and pipeline (including pending commitments (approved, not closed).

FLU has primary responsibility for aggregating the line of business reporting in order to monitor the usage and availability under the credit limit, as well as providing monthly reporting that includes:

- Leveraged loan list (by borrower);
- Pipeline of prospective leveraged lending; and
- Adherence to the leveraged lending limits.

The portfolio report should be provided to CRC, RMICC and USRMC.

[8] For more details on EV and valuation methods, please refer to *Leveraged Lending Credit Procedure*.

The leveraged portfolio is subject to annual stress tests as part of the overall stress testing process to quantify the potential impact of changing economic or markets conditions on BOCNY asset quality or on other relevant measures as determined by CRM.

4.9 Problem Credit Management

BOCNY manages problem credits for leveraged lending in a manner consistent with the Credit Policy, including the estimate for Allowance for Loan and Lease Losses ("ALLL") set forth in the ALLL Policy and Loan Workout Procedure. Given the higher level of risk for leveraged lending activities, an increased focus on timely problem loan management is expected, to include activities such as assigning nonaccrual status or identifying performance deterioration to Non-Pass ratings levels.

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 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 LCD. The Policy will also be available in the BOCNY's Policy Library.

5.3 Training Methods

The CRO is responsible for establishing an environment where the three lines of defense have sufficient awareness, training, and technical expertise to fulfill the requirements of this Policy. CRM, in partnership with the Human Resources Department ("HRD"), will provide training on this Policy.

5.4 Policy Adherence Monitoring

Each applicable department head is responsible for monitoring and assessing the compliance of it procedures with this Policy. Internal Audit Department ("IAD") 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 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.

5.6 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.

5.7 Exceptions & Exemptions

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

Documentation of requests and approvals for exceptions to the Policy 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.

Responsibility for tracking policy exceptions rests with the business unit requesting the exception. Exceptions to the Policy will then be aggregated by the CRM, and levels and trends of exceptions will be reported to the CRC, RMICC and USRMC.

6. Reference Information

6.1 External Regulations

- Interagency Guidance on Leveraged Lending (SR 13-03)
- FAQ for Implementing March 2013 Interagency Guidance on Leveraged Lending (Nov. 2014)

6.2 Glossary

Term	Definition
ALLL	Allowance for Loan and Lease Losses
BOCNY	Bank of China New York Branch
CRR	Credit Recommendation Report
CRC	Credit Risk Committee
CRO	Chief Risk Officer
EBITDA	Earnings before Interest, Tax, Depreciation and Amortization
EV	Enterprise Valuation
FLU	Front Line Unit
IAD	Internal Audit Department
RAC	Risk Acceptance Criteria
RAS	Risk Appetite Statement
RGF	Risk Governance Framework
CRM	Credit Risk Management Department
RMICC	Risk Management and Internal Control Committee
USRMC	US Risk Management Committee