




Bank of China Combined US Operations Risk Management Framework

June 2021

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1. Introduction

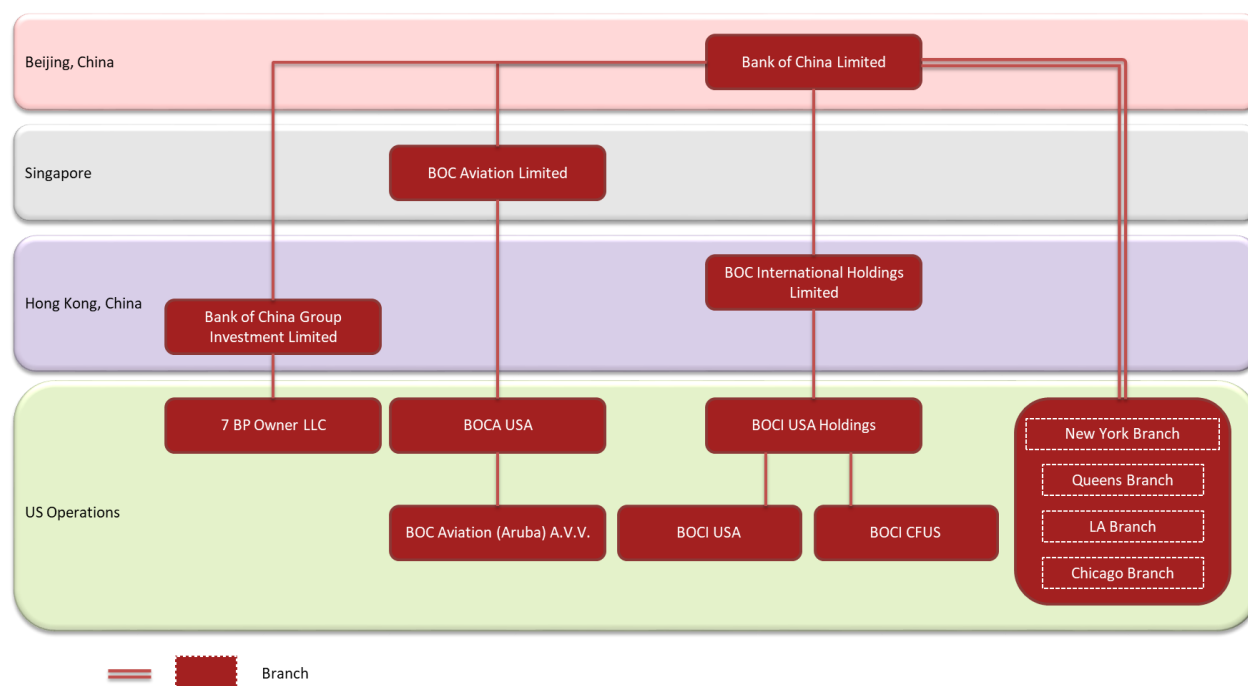
Bank of China Limited (“BOC”), an entity organized under the laws of the People’s Republic of China (“China”), provides a comprehensive range of financial services to customers across the globe. It is one of the largest banking groups in China and is China’s most international and diversified bank. BOC’s global operations include activities in the United States (“US”). For details on BOC’s activities in the US please refer to Section 1.1., *US Operations Executive Summary*.

1.1. US Operations Executive Summary

In the US, BOC conducts its activities through a network of branches and five (5) non-banking entities. These activities include a branch network which consists of four (4) federally licensed branches: Bank of China New York Branch (“NYB”), Bank of China Queens Branch (“QNB”), Bank of China Chicago Branch (“CHB”), and Bank of China Los Angeles Branch (“LAB”). Both NYB and QNB are federally insured branches, and all four (4) banking branches are licensed and regulated by the Office of the Comptroller of the Currency (“OCC”).

In addition to the above banking businesses, BOC is an indirect parent entity of the following operating subsidiaries engaged in non-banking business activities in the US: BOC Aviation (USA) Corporation (“BOCA USA”), BOC International (USA) Holdings Inc. (“BOCI USA Holdings”), BOC International (USA) Inc. (“BOCI USA”), BOCI Commodities & Futures (USA) LLC (“BOCI CFUS”), and 7BP Owner LLC (“7BP”).

Figure 1.1-1: BOC’s US Operations Illustration



NYB and Satellite Branches

BOC operates a network of branches that conducts banking activities in the US. BOC has four (4) federally licensed branches in the US: NYB, QNB, CHB, and LAB (collectively “BOC US Branches” or “BOCNY” or “Branch”). NYB is the largest of the branches and provides support to three (3) satellite Branches, which are comprised of QNB, CHB and LAB. Both NYB and QNB are federally insured branches, and all four (4) banking branches are licensed and regulated by the OCC. The branch network services

both personal and corporate customers. The activities conducted include holding insured and uninsured deposits, issuing corporate and personal loans, trade services, trade finance, international remittance, syndicated loans, and US dollar clearing. The branch network constitutes the majority of the BOC Group's activities in the US.

BOCA USA

BOCA USA is a wholly-owned subsidiary of BOC Aviation Limited, a Singapore-based indirect subsidiary of BOC, which is listed on the Hong Kong Stock Exchange. The principal business activities of both BOCA USA and its parent company are the acquisition, lease, management, and sale of commercial aircrafts. BOCA USA is incorporated in Nevada, with an office in New York City. More specifically, BOCA USA is used to book aircraft assets leased to US airlines and to a lesser extent, certain airlines in other parts of the world. A service agreement between BOCA USA and BOC Aviation Limited is in place where BOC Aviation Limited handles certain functions including risk management, treasury, accounting, legal, and other back-office activities on behalf of BOCA USA.

BOCI USA Holdings

BOCI USA Holdings is an indirect, wholly-owned subsidiary of BOC International Holdings Limited ("BOCI HK Holdings"), a Hong Kong-based company ultimately owned by BOC. BOCI USA Holdings wholly owns BOCI USA and BOCI CFUS. The primary purpose of the entity is to have a separate legal entity in the US that provides back office services and support functions to the investment banking activities of BOCI USA and BOCI CFUS. This structure allows the entities to operate more efficiently.

BOCI USA

BOCI USA is a Delaware-incorporated corporation that is a wholly-owned subsidiary of BOCI USA Holdings. BOCI USA is registered as a broker-dealer with the US Securities and Exchange Commission ("SEC") and is a member of the Financial Industry Regulatory Authority ("FINRA"). BOCI USA acts as a broker-dealer which executes transactions on an agency basis for institutional clients in US and foreign securities markets including Hong Kong and Mainland China. Given BOCI USA's agency business model, all transactions executed by BOCI USA are settled on a delivery-versus-payment or receive-versus-payment basis.

BOCI CFUS

BOCI CFUS is a Delaware limited liability company that is a wholly-owned subsidiary of BOCI USA Holdings. BOCI CFUS is registered as a futures commission merchant with the US Commodity Futures Trading Commission ("CFTC"), a member of the National Futures Association ("NFA") and a clearing member of the CME Group Inc., including the Chicago Mercantile Exchange Inc., Chicago Board of Trade Inc., Commodity Exchange Inc. and the New York Mercantile Exchange Inc. (collectively, "CME Group"). BOCI CFUS clears futures and options contracts for institutional clients in the futures and options markets listed with CME Group. As a clearing member of the CME Group, BOCI CFUS must also meet certain capital requirements and is responsible for the financial and performance of all transactions executed and cleared by BOCI CFUS on the CME Group markets.

7BP

7BP is a New York Limited Liability Company. The entity is a subsidiary of Bank of China Group Investment Limited ("BOCGI"), a Hong Kong-based entity. The purpose of the entity is to own and manage a commercial real estate building in New York City located at 7 Bryant Park.

1.2. Purpose

This document defines BOC's approach to risk management and the framework within which risks are managed for its combined US operations ("CUSO"). This Risk Management Framework ("Framework"):

- Establishes common principles and standards for the management and control of all risks across the CUSO;
- Informs all entities within the CUSO of risk management expectations;
- Provides a Framework for all entities within the CUSO that outlines risk management processes;
- Provides clear accountability and responsibility for risk management; and
- Defines a risk appetite statement against which risks across the CUSO will be measured.

1.2.1. Incorporation of CUSO Policy into Entity Level Policies

The principles and standards set in the Framework apply to all entities within the CUSO. Entities within the CUSO are responsible for ensuring that their entity level principles and standards are consistent with the Framework and, if any issues of noncompliance are identified, ensuring that those issues are immediately remediated to comply with the Framework, including escalating to appropriate senior management. Additionally, any statement within another policy or procedure of the CUSO that is inconsistent with a statement in the Framework is considered invalid unless an exception is granted by the US Chief Risk Officer ("US CRO"). Please see Section 5 for details.

1.3. Scope

The scope of coverage of the Framework is the US operations of BOC. BOC's US operations consist of legal entities and branches based in the US, controlled or managed in the US, and the subsidiaries of such entities. Each entity within the CUSO is expected to adopt the Framework and related principles and standards.

1.4. Ownership of Policy

The Framework is owned by the US CRO. The daily oversight of the Framework is the responsibility of the US CRO. The USRMC is responsible for providing board level governance oversight on compliance with the Framework.

The US CRO Office, as part of Enterprise Risk Management Department ("ERM") of BOCNY, will assist the US CRO in the management of the Framework and is responsible for maintaining this Framework as the policy owner; however, ultimate ownership of the Framework resides with the US CRO.

1.5. Approval, Review, and Revisions

Any revision to the Framework must be reviewed by the US Risk Management Coordination Committee ("RMCC") (see section 2.4.1.1.) and approved by the US CRO and the USRMC. No revision to the Framework may be implemented until approved by both the US CRO and the USRMC.

1.6. Consequences of Non-Compliance with the Framework

All staff operating within the CUSO are expected to comply with the Framework. The failure of any officer or employee of the CUSO to comply with the Framework or any other related policy, procedure, or internal control may result in disciplinary action, up to and including dismissal.

Further, directors and employees covered in Figure 2.4-1 and Figure 2.5.1.2-1 of the Framework and the responsible parties listed in the USRMC Charter, who direct or approve any action which results in a violation of any applicable law, regulation or internal policy, procedure or control, or who knows or should have known of such action and does not promptly report it to his or her manager, the CRO or equivalent role of a US entity, or the US CRO, as appropriate, may be subject to disciplinary action, up to and including dismissal.

Finally, any employee of the CUSO who willfully violates any applicable law, regulation, or internal policy, procedure, or control may be disciplined up through, and including, dismissal. Additionally, the employee may be subject to civil penalties and/or criminal prosecution.

2. Risk Governance

2.1. Three Lines of Defense

A critical part of Bank of China's risk governance framework for its CUSO consists of the employment of the three lines of defense ("LOD") model. The model establishes three distinct lines of defense across the CUSO, each of which holds responsibility for risk management. The objective of the three LOD model is to ensure that a comprehensive and robust risk management framework is developed, implemented and maintained to oversee and aim to prevent unnecessary risks and deviations from established controls. The responsibility for each LOD at each entity within the CUSO might vary. Risk management for the CUSO is ultimately overseen by the US CRO, who heads the independent risk management function (or second LOD), and the USRMC.

2.1.1. First Line of Defense

The first LOD consists of any organizational unit that: (i) engages in activities designed to generate revenue for BOC or the CUSO; (ii) provides services, such as administration, finance, treasury, or human resources; or (iii) provides information technology, operations, servicing, processing, or other support to any organizational unit within the CUSO. The first LOD is responsible for directly assessing risk, controlling risk, and taking necessary risk mitigating actions.

As the first LOD, business units and other support functions have primary risk management responsibility for:

- Ensuring all material risks are identified, assessed, mitigated, and reported;
- Identifying key risk indicators ("KRI") and assessing periodically to ensure the accuracy of KRI measurement;
- Ensuring known risks are controlled within acceptable boundaries;
- Understanding the full scope of risks associated with its products and/or services;
- Ensuring compliance with all applicable laws, rules and regulations;
- Managing risks in accordance with the Framework as well as department / business unit, entity, and group level policies;
- Designing and implementing controls to mitigate risks;
- Coordinating with other LODs on risk concerns; and
- Escalating risk related concerns, as appropriate.

Managers and department or unit heads that are part of the first LOD must ensure that adequate measures are in place to fulfill the first LOD responsibilities. As the first LOD consists of risk taking functions, there is added importance for risk identification and a culture supporting communication and escalation. Management must ensure subordinate employees are actively involved in, and capable of, performing their roles and being proactive in ensuring the above responsibilities are fulfilled.

2.1.2. Second Line of Defense

The second LOD is comprised of the risk management activity owners and their respective functions. The second LOD must be independent of the first LOD. Each entity within the CUSO may have different functions responsible for this role. Furthermore, the US CRO, with assistance from the US CRO Office, oversees the fulfillment of second LOD responsibilities and performs second LOD functions for all the CUSO.

Second LOD functions are responsible for the following:

- Maintaining and overseeing an effective risk management framework;
- Monitoring and ensuring compliance with entity level, CUSO level, and group level policies;

- Maintaining a strong understanding of, and ensuring compliance with, applicable laws, rules and regulations;
- Assessing adherence with entity level, CUSO level, and group level risk appetite, strategy, and limits;
- Reporting and facilitating governance structure oversight;
- Identifying KRIs, conducting periodic assessments of KRIs and updating KRIs as appropriate;
- Establishing risk monitoring and information management systems; developing corresponding policies and procedures to ensure the accuracy and integrity of risk data/indicators; and reporting key risks to the US CRO (and escalating further if necessary);
- Challenging first LOD on the risks arising from business activities;
- Ensuring the effectiveness of and compliance with controls; and
- Monitoring and reporting internal and external events material to the CUSO and/or BOC Group, and, as appropriate, ensuring that necessary actions to mitigate risks to the entity are taken.

Departments or units and staff that are part of the second LOD must have the requisite stature, expertise, and management support to exercise the responsibilities outlined above. The department or unit heads must set the appropriate tone and expectations for their team, including fulfilling the second LOD responsibilities as well as promoting escalation of concerns.

Each department or unit that is part of the second LOD must remain independent from the first LOD in order to properly oversee and monitor risk.

In their oversight of the risk management framework and its effectiveness, the USRMC and the US CRO should ensure the availability of resources to address any emerging weaknesses or remediation needs relative to the risk control framework as they arise.

2.1.3. Third Line of Defense

The third LOD provides an independent assurance of compliance with policies and procedures. Functions that are part of the third LOD have no management responsibilities for conducting any of the activities they examine. The third LOD must be given unrestricted access to all records, information, personnel, and physical properties of the CUSO that are relevant to the audits and reviews it undertakes.

The third LOD is generally comprised of the internal audit department or equivalent independent unit. Each entity within the CUSO has its own internal audit function that reviews the activities within that entity. The third LOD's responsibilities include reviewing and providing assurance of compliance with the Framework.

The findings from reviews conducted by the third LOD must be reported to all relevant management and governance bodies. The findings should be reviewed and necessary actions to mitigate any deficiencies should be promptly implemented.

2.2. Risk Culture

BOC, including the CUSO, highly values risk management and requires all employees within the organization to contribute to managing risk. A strong risk management culture helps reinforce and strengthen the CUSO by ensuring that every individual and function within the CUSO considers the potential risks associated with an action and/or decision. The Framework intends to set a CUSO-wide tone from the top to reinforce the importance of and expectations relating to risk management.

Effective risk management allows BOC to better serve its customers, improve its position in the market, protect its reputation, and manage the impact of internal and external factors.

The management of risk is the responsibility of all employees. The USRMC and senior management within the CUSO expect all employees to exhibit behaviors that maintain a strong risk culture, and will assess all behaviors to ensure they are in compliance with the risk management expectations of BOC and the CUSO. To that end, to ensure each employee understands and fulfills the risk management responsibilities, risk management is and must remain a factor in each employee's annual review.

The USRMC and senior management of the CUSO support and expect each staff member to raise any risk-related concerns to an appropriate supervisor. If action is not taken by the supervisor or if the employee does not feel comfortable raising a risk-related issue with the supervisor, mechanisms that allow the employee to raise the issue to any member of senior management or directly to the US CRO Office should be in place. Both senior management and the US CRO Office have an obligation to review any issue and take appropriate action as necessary. The raising of a risk management concern may not result in any adverse action against the employee, including retaliation, and rather, should be supported and reflected positively in the employee's annual performance review.

2.3. Employee Compensation and Performance Review Considerations

A strong risk management culture helps to reinforce the "tone at the top" philosophy set by the USRMC, US CRO, and entity level senior management. Risk management is the responsibility of all employees across the CUSO, and each entity is responsible for assessing employee risk behavior as part of the overall performance and compensation programs, thereby creating accountability for adherence to the principles and standards prescribed herein and in other entity level risk management policies and procedures.

Each entity within the CUSO must include in their entity level performance management and compensation program, at a minimum:

- Clear communication of expectations from the US CRO and entity level senior management for compliance with the Framework, including the CUSO level and entity level Risk Appetite Statements if applicable;
- A training program to ensure entity level senior management and employees are apprised of the risk management responsibilities associated with their position and function;
- Performance objectives that are established and approved by entity level senior management at the beginning of each performance year that incorporate risk management elements to encourage adherence to the Framework;
- A written and documented performance evaluation process, completed by supervisors, to ensure that employees understand: (i) the risk management and compliance responsibilities relevant to their position and function, (ii) their performance against these prescribed responsibilities, and (iii) the impact that input from the independent risk management and internal audit functions have on the employee's performance evaluation scorecard;
- Appropriate, weighted input from the independent risk management and internal audit functions when reviewing the activities of the front line units to achieve balanced risk taking and reward incentives, including prohibiting any incentive-based payment arrangements that encourages inappropriate risks by providing excessive compensation or that could lead to material financial losses on both a short term and long term; and
- Additional requirements set forth by other regulatory rules or guidelines relevant to the specific entity, such as the requirement for BOCNY to be in compliance with OCC 2014-21224 (OCC

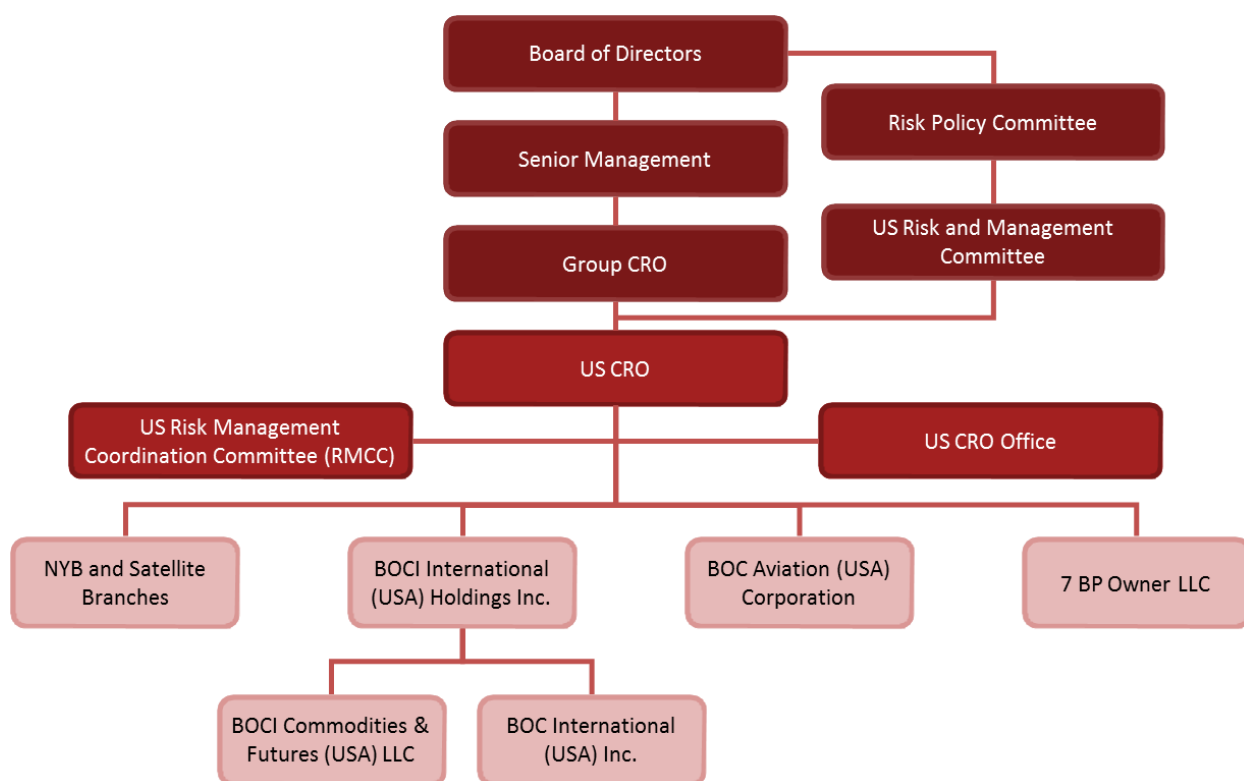
Guidelines Establishing Heightened Standards for Certain Large Insured National Banks, Insured Federal Savings Associations, and Insured Federal Branches; Integration of Regulations; Final Rule).

The US CRO is responsible for ensuring entity level performance management and compensation program for each entity have adequately included risk management components as part of the annual performance review.

2.4. Governance Structure and Committee Oversight

BOC has established a comprehensive governance structure for risk management that is designed to provide both regional and global accountability. The governance structure is commensurate with the risk profile, structure, complexity, activities and size of the CUSO. The governance structure provides clear responsibility and accountability for risk monitoring and issue escalation. The figure below outlines the governance and oversight structure for risk management. Additional sections below provide details on the responsibilities of each function. In addition to the CUSO level governance structure, each entity has additional management, Boards, and/or board level committees that supervise the entity's operations.

Figure 2.4-1: US Governance Structure



2.4.1. Management Level Committee

2.4.1.1 US Risk Management Coordination Committee

The US Risk Management Coordination Committee ("RMCC") is responsible for the risk stewardship of the CUSO. The RMCC, assisting the US CRO in overseeing risk governance and regulatory compliance implementation activities of the CUSO, meets at least quarterly. The RMCC aims to establish a forum for the CUSO to discuss, share and report information regarding their risk management activities and major

risk issues. Additionally, the RMCC is responsible for periodically reviewing the CUSO-level framework, risk appetite, and policies and procedures.

The RMCC is comprised of the US CRO and other risk officers in the CUSO. Please refer to the *US Risk Management Coordination Committee Charter* for further details.

2.4.2. Board Level Committees

BOC considers risk management an integral responsibility and strives to set the importance of the function from the top with adequate governance oversight. BOC has established multiple board level committees both at the global and regional (US) level. The governance structure for risk management is designed to ensure clear global and regional accountability that is commensurate with the risk profile, structure, complexity, activities, and size of the global operations and the CUSO.

The board level oversight structure, when combined with management level oversight, provides for clear lines of accountability within the CUSO and ultimately through the global organization for monitoring risk and escalating any issues.

Board level risk oversight is provided by three committees: (i) the US Risk and Management Committee, which provides oversight at the CUSO level, (ii) the Global Risk Policy Committee (“RPC”), which provides risk specific oversight for the global operations, and (iii) the BOC Board of Directors, which provides oversight over the global operations of BOC.

2.4.2.1. Board of Directors

The BOC Board of Directors (“Board of Directors”) is the most senior and decision-making governance body of BOC. The Board of Directors is responsible for oversight of all the operations of BOC. The Board of Directors shall exercise its functions and powers in accordance with the Company Law of the People’s Republic of China, the Securities Law of the People’s Republic of China, Bank of China Limited Articles of Association, Bank of China Limited Procedural Rules for Board of Directors and other relevant laws, regulations and regulatory mandates. Please refer to the *Bank of China Limited Procedural Rules for Board of Directors* for further details.

The RPC (see section 2.4.2.2.) and USRMC are responsible for reporting and escalating any information related to the CUSO that requires the Board of Directors’ attention.

2.4.2.2. Risk Policy Committee

The Risk Policy Committee (“RPC”) is a sub-committee of the BOC Board of Directors. The RPC is responsible for risk oversight for BOC. The main responsibilities of the RPC include reviewing risk management strategy, major risk management policies, procedures and systems, and monitoring implementation; reviewing BOC’s major risk activities; reviewing BOC’s risk management situation, regularly assessing the performance of risk management and internal control by the senior management, departments, and institutions of BOC; and supervising the status of BOC’s compliance with laws and regulations. Please refer to the *Rules of Procedure of Risk Policy Committee of the Board of Bank of China Limited* for further details.

The USRMC, as a sub-committee of the RPC, is responsible for making determinations as to when and if certain risk related information at the CUSO level should be reported to the RPC.

2.4.2.3. US Risk and Management Committee

The USRMC is a board-level sub-committee of the RPC, which is a sub-committee of the Board of Directors. The USRMC is established in accordance with: (i) the requirements of the *Prudential Standards for Large Bank Holding Companies, Savings and Loan Holding Companies, and Foreign Banking Organizations, Final Rule* (“EPS Rule”) issued by the Federal Reserve, requiring a board-level

committee to oversee all risks arising from the operations that constitute the CUSO of BOC; and (ii) pursuant to delegation from the Board of Directors, the USRMC is also assigned the responsibilities of the Board of Directors and Committees of the Board for purposes of the implementation of the OCC Guidelines Establishing Heightened Standards for BOCNY. The USRMC is the primary board-level committee responsible for all risk-related matters related to the CUSO.

The USRMC shall consist of three (3) to five (5) board members, including at least two (2) independent directors. For purposes of the USRMC, an independent director, as defined in the EPS Rule, is a director who: (A) is not an officer or employee of the foreign banking organization or its affiliates and has not been an officer or employee of the foreign banking organization or its affiliates during the previous three (3) years; (B) is not a member of the immediate family, as defined in of the Federal Reserve Board's Regulation Y, of a person who is, or has been within the last three (3) years, an executive officer, as defined in of the Federal Reserve Board's Regulation O, of the foreign banking organization or its affiliates; and (C) qualifies as an independent director under the listing standards of a national securities exchange, as demonstrated to the satisfaction of the OCC. Additionally, at least one (1) of the directors on the USRMC must have experience in identifying, assessing, and managing risk exposures of large, complex financial firms.

The USRMC shall periodically review the extent to which it is fulfilling the mandates and responsibilities of the USRMC as set out in the USRMC Charter and as required by applicable law and regulation. Please refer to the *US Risk and Management Committee Charter* for further details.

2.5. Functional Roles and Responsibilities

2.5.1. US Chief Risk Officer

The US CRO role was established for the purpose of designating a single person who will be responsible for risk management oversight over the CUSO. The US CRO must be employed in the US by a US entity, and must have experience in identifying, assessing, and managing risk exposures of large, complex financial firms. The US CRO is responsible for managing and monitoring the risks of the CUSO. The US CRO is further responsible for implementing the policies in the Framework. The US CRO has risk oversight responsibilities over all operations within the US. The US CRO Office, which is discussed further in section 2.5.2., *US Chief Risk Officer Office*, assists the US CRO in fulfilling the risk oversight responsibilities. The US CRO's risk oversight responsibilities include but are not limited to:

Risk Oversight

- Overseeing the establishment and revisions of KRIs and the limits;
- Overseeing the quantitative analysis supporting the risk appetite statement;
- Reviewing any new product or business line offered within the CUSO;
- Reviewing independent review reports for risk management functions;
- Overseeing the effort to remediate any risk management deficiencies;
- Reviewing risk assessment results and audit issues as well as other relevant materials to oversee the management and testing processes of risk controls;
- Reviewing and verifying that each entity within the CUSO includes risk management as a component of the entities performance review criteria;

Policies and Procedures

- Reviewing and approving strategies, policies, and procedures managing the risk of the CUSO as well as ensuring compliance with the overall risk tolerances;

- Approving the revisions to the Framework;
- Overseeing the implementation of the policies of the Framework;
- Overseeing the establishment of risk monitoring and information management systems, and the development of corresponding policies and procedures;

Regulatory

- Responding to relevant regulatory inquiries;
- Remaining abreast of regulatory requirements and ensuring the CUSO's relevant compliance;

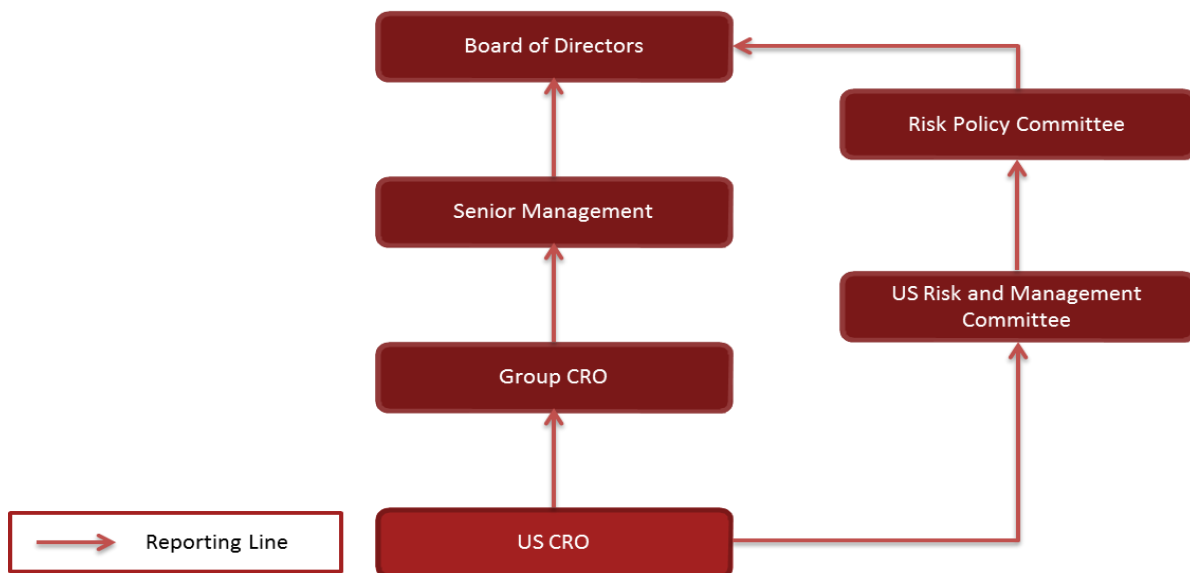
Reporting

- Reporting directly to, and providing risk related information to, the USRMC and the Global CRO;
- Consulting with head office functions on CUSO risk management;
- Preparing, with the assistance of the US CRO Office, materials for the USRMC and the Global CRO; and
- Escalating issues and other matters that the US CRO determines as necessary to the Global CRO and the USRMC.

2.5.1.1. US CRO Reporting Line and Evaluation

The US CRO has a dual direct reporting line to the USRMC as well as to the Global CRO. Both the USRMC and Global CRO must periodically review the US CRO's fulfillment of his/her responsibilities, including his/her oversight over the CUSO compliance with the EPS Rule.

Figure 2.5.1.1-1: US CRO Reporting Line



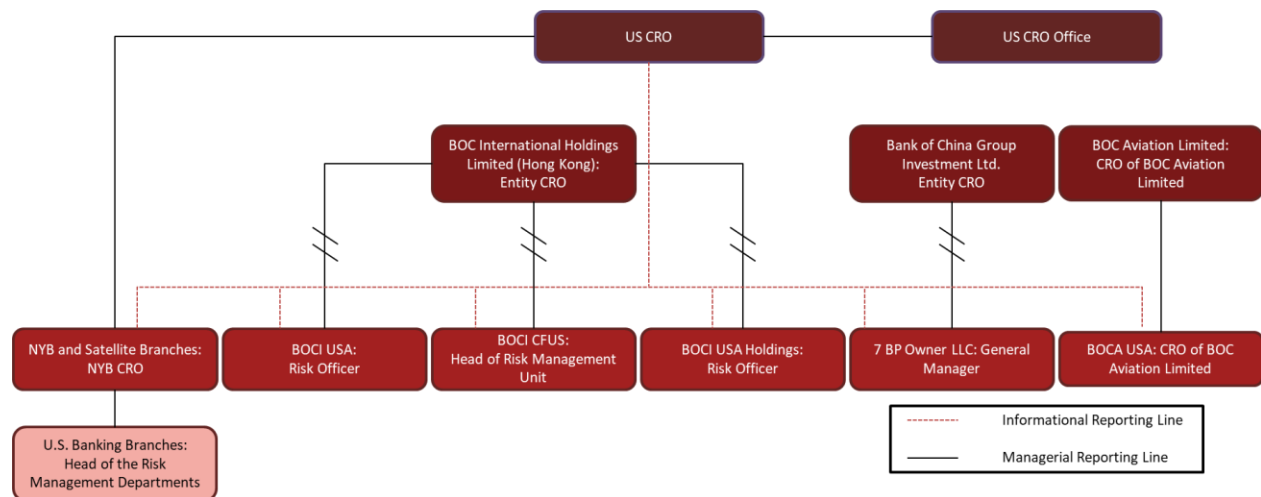
2.5.1.2. Reporting Line to US Chief Risk Officer

Each entity within the CUSO must designate an employee that will have a dual reporting line within that entity as well as to the US CRO with respect to CUSO matters. The reporting line between such employee of each entity and the US CRO is an informational reporting line. The informational reporting line shall not entail a change in the managerial reporting line, including with respect to the employee performance and compensation decisions. However, the US CRO shall play a role in the annual review of that employee by providing feedback on the performance of the employee to his/her manager within his/her managerial reporting line. Alternatively, a managerial reporting line is a hard and direct

reporting line. The managerial reporting line involves a direct supervisor/subordinate relationship. A managerial reporting line generally provides to a manager oversight of performance management, compensation decisions, and the authority to direct the activities of the subordinate.

The figure below outlines the positions at each entity that shall report to the US CRO.

Figure 2.5.1.2-1: Reporting Line to the US CRO



In order for the US CRO to effectively execute his/her responsibilities, each of the employees identified above with an informational reporting line to the US CRO is responsible for reporting all relevant risk related information from his/her designated entity to the US CRO on an ongoing basis. Relevant risk related information include, but are not limited to, material changes to the entity's risk profile, and audit issues related to risk management deficiencies (if any).

For any new product or business lines offered by any entity with the CUSO, each entity within the CUSO should promptly notify the US CRO of its intention to launch a new product or business line. The notification should provide the US CRO with sufficient time to review the proposed product or business line, including for the purposes of permitting the US CRO to assess and provide feedback to the entity about the potential impact the product or business line may have on the risk profile of BOC and/or any entity within the CUSO, and, if applicable, recommending that regulatory approval from a banking or other regulator be sought in advance of the product or business line launch.

As part of that informational reporting line, the US CRO must have certain oversight responsibility and input into the annual performance reviews for each of the employees identified above. Outlined below are the suggested expectations of each employee with an information reporting line to the US CRO, as well as how he/she will be reviewed by the US CRO. The below list outlines the expectations of an informational reporting line; however, the specific expectations of each employee will be jointly decided by the US CRO and the entity that the employee has a managerial reporting line to.

1. At the beginning of each performance year, the employee that reports to the US CRO should have a meeting to discuss and document expectations and goals for the upcoming year. Formal expectations must be set in that meeting. The expectations must be measurable and employee's performance against the set expectations must be periodically assessed against the predetermined metrics over the course of the year. Additionally, the US CRO should, in that meeting, make clear his/her expectations from a risk perspective for the CUSO for the upcoming

year and make clear how those expectations impact the respective entity that the employee is a part of.

2. The employee, with an informational reporting line to the US CRO, is responsible for ensuring that all relevant information from the entity they represent is provided to the US CRO in a timely manner. Risk-related information from entities within the CUSO must be provided on an ongoing basis. At times the appropriate action may be to copy the US CRO on emails or reports that the employee is escalating through their respective entity. At other times the employee may need to directly report information to the US CRO. To ensure that all relevant risk related information is reported to the US CRO, with respect to the entity level policies (or Group level policies, where applicable), and procedures should be amended to require that when risk information is reported up through the organization, such information is additionally reported to the US CRO.
3. At least quarterly, the employee should meet (in person or by call) with the US CRO to discuss the ongoing operations at the entity, as well as to measure compliance with the goals set by the US CRO and reviewed by the employee at the beginning of the performance year. Furthermore, at those meetings the US CRO should provide insight into the CUSO's risk profile and make clear what, if any, actions are needed by the respective entity to align with the CUSO's expectations.
4. At the end of each performance year, the employee should conduct a self-assessment to assess their individual fulfillment of the goals set at the beginning of the year. That self-assessment should identify strengths and weaknesses, as well as identify areas of and mechanisms for improvement. Moreover, the self-assessment should include an area that allows the employee to raise concerns about both specific risks as well as ways to improve risk oversight.
5. Lastly, the direct supervisor who conducts the annual performance review for the employee within the entity should consult with the US CRO on the employee's performance in his or her role as an informational report to the US CRO. The US CRO is expected to provide feedback on the employees' fulfillment of their informational reporting line responsibilities during that year. The information provided by the US CRO should be considered in the development of the employee's annual performance review by their direct managerial supervisor who is responsible for conducting the employee's annual performance review.

Each person in the positions identified above is responsible for ensuring that the entity is providing the US CRO with the information necessary for the US CRO to fulfill the obligations of the position. Moreover, the employee will act as a liaison between the respective entity and the US CRO, and will be responsible for ensuring that the US CRO has the requisite information needed for effective risk oversight.

The US CRO shall have unrestricted access to any information related to his responsibilities from entities within the CUSO.

2.5.1.3. Oversight of Combined US Operations Compliance with the Liquidity Risk Management Policy

The CUSO Liquidity Risk Management Framework is maintained by the BOCNY Market Risk Management Department ("MRD"), which is also responsible for ensuring the CUSO remained within the permitted liquidity risk appetite. The US CRO and the USRMC have primary oversight over compliance with the CUSO Liquidity Risk Management Framework. Please refer to the *CUSO Liquidity Risk Management Framework* for further details.

2.5.1.4. Additional Roles Outside of US CRO Responsibilities

The US CRO may be permitted to have multiple roles within the organization. However, if the US CRO is tasked with multiple roles, a review of the US CRO's capabilities and capacities must be conducted prior to taking on a new role, and assessed periodically while he/she is conducting multiple roles, to ensure that the US CRO has the bandwidth and knowledge to fulfill the obligations required of the multiple roles. Additionally, the multiple roles must not create a conflict for the US CRO to remain independent from front line activities.

In the event that the US CRO has multiple roles, the person in the US CRO position may report to additional roles and bodies in addition to the Global CRO and the USRMC. However, the US CRO must report to the Global CRO and the USRMC for oversight of his/her responsibilities as the US CRO. Additionally, the US CRO must receive compensation and other incentives consistent with providing an objective assessment of the risks taken by the CUSO, and the compensation for the US CRO must be independently reviewed to ensure such consistency. Lastly, the portion of the US CRO's annual performance review and compensation changes that are based on the US CRO role must be clearly outlined and documented.

2.5.2. US CRO Office

The US CRO Office is tasked with the responsibility of assisting the US CRO in fulfilling his/her obligations. The US CRO Office's staff takes directions from the US CRO. Their responsibilities include:

- Assisting the US CRO in overseeing compliance with the Framework;
- Acting as a liaison among BOC head office, entities within the CUSO and their parent companies for risk-related matters;
- Facilitating the US CRO's review of new businesses and product lines of the entities within the CUSO;
- Researching regulations and industry best practices for the US CRO;
- Assisting the US CRO in the preparation of materials for the USRMC and the Global CRO;
- Developing and monitoring the implementation of policies and procedures relating to enterprise risk management for the CUSO; and
- Requesting annual internal audit schedules and quarterly update of audits (if any) relevant to the scope of the US CRO's responsibilities.

3. Components of the Risk Management Program

CUSO maintains a systematic approach to risk management. The program includes the components identified in the below sections.

3.1. Proper Risk Identification and Assessment

Risk identification is a critical component of the CUSO's overall Framework; it enables the CUSO to better understand its risk profile, allocate risk management resources, and implement its risk management strategies effectively. Risk identification focuses on recognizing existing risks and identifying new risks that may arise. Risk identification is a continuous process that requires considerations of both quantitative and qualitative factors from a transactional level to a BOC-wide level.

3.2. Timely Risk Measurement

Accurate and timely measurement of risk is a critical component of effective risk management. The CUSO has established risk measurement tools that reflect the complexity of their operations and levels of risk assumed. Risk measurement is conducted by both processes and systems that assist in the identification and reporting of risk management deficiencies and emerging risks. BOC, including the CUSO, periodically verifies the comprehensiveness and effectiveness of the measurement tools it uses. The US CRO is responsible for periodically assessing the comprehensiveness and effectiveness of measurement tools at the CUSO level, and reporting any issues to the USRMC.

3.3. Establishment and Communication of Risk Measurements

CUSO level risk measurements are established and reviewed at least quarterly by the US CRO and the USRMC. The responsibilities and authorities of risk measurements are communicated through policies, standards, and procedures.

3.4. Regular Monitoring of Risk Levels

Regular monitoring of risk levels is conducted to ensure timely review of risk positions and exceptions. Reviews include the use of risk measurement indicators, monitoring risk limits, and reviewing adherence with risk appetite tolerances. The US CRO is responsible for the monitoring of risk levels. Furthermore, the USRMC is provided with risk reports to enable them to be appropriately informed and to make decisions and take any needed actions.

3.5. Risk Issue Escalation

Employees are encouraged to raise issues to their supervisor, management-level employee within the CUSO, the US CRO Office, and/or the US CRO. Issue escalation should include an explanation of the issues and the reason for escalation, and the proposed remediation actions to address the issue, if applicable.

Any Individual who receiving the reporting of such issues has the obligation to investigate and further escalate the issue, if needed. Additionally, the individual is responsible for notifying the US CRO Office with relevant information. Identified issues are tracked centrally by the US CRO Office.

3.6. Preventative, Detective, and Corrective Measures

The USRMC and the US CRO oversee a system of internal controls that includes preventative, detective, and corrective measures.

Preventative measures are those that help preventing breaches of limits from occurring, which include but are not limited to:

- Policies and procedures that specify and communicate risk limits, risk tolerances, and other performance indicators; and
- Procedures that define the work to be done, how it should be done, and who should execute the work.

Detective measures are those that identify or notify BOC, and specifically those providing management and oversight over the CUSO, of undesirable events, such as deliberate or accidental errors or violations of law. Detective measures include but are not limited to:

- Audits, self-assessments, and/or other operations reviews;
- Active board and management oversight from the USRMC and the US CRO;
- Risk monitoring and management information systems;
- KRIs; and
- Early warning indicators.

Corrective measures prescribe actions to be taken in the event excesses, errors, or violations are found. Corrective measures may address specific issues or conditions that allowed for the issue to occur.

Corrective measures include but are not limited to:

- Remediation plans that assign responsibilities for correction to a specific individual or group, with a timeline for remediating deficiencies;
- Quality assurance or control processes to identify and correct conditions that led to the error or violation; and
- Information systems that proactively identify issues so they can be corrected before causing harm to BOC.

4. Risk Appetite Statement

4.1. Risk Appetite Statement

4.1.1. CUSO Risk Appetite Statement

The CUSO Risk Appetite Statement sets out the overall risk appetite for CUSO. The overall CUSO risk appetite is moderate. All entities within the CUSO should conduct business in a matter that is rational, stable and prudent, balancing risk and return¹. The Risk Appetite Statement is approved by the USRMC at least annually, and must also be approved prior to the implementation of any change to the CUSO Risk Appetite Statement.

The CUSO Risk Appetite Statement governs all operations within the CUSO. Each new product or business line must be evaluated to determine its conformity with and impact on the CUSO Risk Appetite Statement set by the USRMC.

The CUSO Risk Appetite Statement includes both quantitative and qualitative measures. Quantitative risk measures are those that can be translated into quantitative metrics, such as KRIs that can be aggregated or broken down to enable monitoring. Qualitative measures are statements which articulate the rationale for a defined risk profile.

The CUSO Risk Appetite Statement incorporates KRIs at the BOC Group level, CUSO level, and BOC entity level.

4.1.2. BOC Group Risk Appetite Statement

The CUSO adheres to the risk appetite set by BOC for the BOC Group.

The Group actively supports the national strategy, undertakes the social responsibility, and is dedicated to building a world-class bank in the new era. Following moderate risk appetite, in line with the principle of "rational, robust and prudent" as well as "security, liquidity and profitability", BOC Group operates in a legal, compliant and prudential manner, maintains reasonable capital adequacy level and sufficient liquidity, effectively balances "risk, capital and income", strives to achieve a satisfactory return to shareholders and ensure zero systematic risks. The Group plays overall advantages, identifies, assesses and manages risk from a global perspective, captures and seizes development opportunities, creates values through professional, effective risk management, and supports the business strategy.

The risks taken by the Group mainly include credit risk, market risk, operational risk, compliance risk, liquidity risk, country risk, counterparty credit risk, credit concentration risk, interest rate risk in the banking book, strategic risk, reputation risk, money laundering risk and IT risk. The Group establishes the comprehensive risk management system suitable with the business strategy and global systematic importance statue, improves governance, perfects mechanisms, optimizes operation processes, develops risk management technologies and tools, identifies, measures, reports, controls and mitigates all material risks in time, builds the economic capital management system step by step, and controls the risk level within the scope set by the risk appetite.

Under the uniform risk appetite, the Group implements differential professional management on different types of risks: Establish the concept of "seeking profit by capital", optimize asset structure, save capital, and increase the risk-adjusted return; carry out macroeconomic policies of the government, provide credit support for industries "going global", technology upgrade and people's life areas, and exert rigorous control over credit extension to industries with high energy consumption, high pollution

¹ While the overall CUSO risk appetite is moderate, it should be noted that some of the risk appetites by risk types may be less than moderate. See section 4.2. However, the overall risk appetite established for all entities within the CUSO shall not exceed a moderate level.

and overcapacity. The Group adapts to the trend of interest and exchange rate liberalization, enhances the interest rate pricing capacity, and implements the prudential investment strategy. The Group bears the operational risk and IT risk to the extent of appropriate risk tolerance, and guarantees sustainable, prudential, safe business operation. The Group enhances forward-looking risk management, reasonably arranges fund positions upon the principle of ensuring payment, effectively controls term mismatch, optimizes the contingency response mechanism and ensures liquidity safety. The Group optimizes the control mechanism for legal & compliance risk, strategic risk, and reputation risk. The Group establishes an appropriate risk culture involving all.

4.2. Risk Appetite Statement by Risk Types

Risk exposures are managed via the risk categories below. Risk identification and risk management are structured around these risk types. Each of the risks identified below is overseen, monitored, and managed at both the entity level and the CUSO level.

4.2.1. Credit Risk

Credit risk arises from the potential that a borrower, customer or counterparty will fail to perform an obligation.

The CUSO lends money to individuals and businesses, clears clients' futures and options transactions, and/or enters into leases with businesses for economically sound purposes in accordance with entity level policies and procedures. Credit risk arises from a number of areas including loans, letters of credit, unfunded loan commitments, lines of credit, and trading activities. Each entity within the CUSO has separate credit policies and monitors risk based on those credit policies and the entity's specific activities. In addition to entity level policies and oversight, credit risk is overseen at a CUSO level to ensure activities are in conformity with the CUSO risk appetite statement.

The table below identifies the CUSO-related KRIs used to monitor credit risk.

Table 4.2.1-1: Credit Risk Key Risk Indicators

	KRI Name	Applicable Entities	KRI Description	Limit
1	90+ Days Past Due and Non-Accrual Loan to Total Loan Ratio	BOCNY	Ratio of non-performing loan balance to total customer loan balance	1%
2	Country Concentration Limit	BOCNY	Maximum exposure to any country outside China and US	6%
3	Single Obligor Limit	BOCNY	Maximum exposure to one entity or a group of borrowing entities	10%
4	Year-to-date Percentage of Receivables Collected	BOCA USA	Year-to-date [Collected revenue (lease+ maintenance reserve) + cash recovery from previous years] / Total contracted receivables	95%
5	Market Exposure Limit	BOCI CFUS	Client portfolio stress test results on movement of market prices in a quarter	\$75,000,000
6	Loss Incurred at BOCI CFUS from an Client Failing to Fulfill a Margin Call, or Perform any Obligation When Due	BOCI CFUS	Number of delayed margin calls exceeding permitted margin call grace period in a quarter (excludes technical reasons for delay)	5

4.2.2. Market Risk

Market risk encompasses the risk of financial loss resulting from movements in market prices. Market risk is evaluated on a number of factors including:

- The sensitivity of the CUSO earnings or economic value to adverse changes in interest rates, foreign exchange rates, commodity prices, or equity;
- The ability of management to identify, measure, monitor, and control exposure to market risk given the institution's size, complexity, and risk profile;
- The nature and complexity of interest rate risk exposure arising from non-trading positions; and
- The nature and complexity of market risk exposure arising from trading and foreign operations.

The CUSO has exposure to market risk as part of its underwriting, lending, collateral management, and ongoing business operations. The risk from these activities should be constantly monitored and periodically reviewed to determine whether hedging activities should be undertaken.

The table below identifies the CUSO-related KRIs used to monitor market risk.

Table 4.2.2-1: Market Risk Key Risk Indicators

	KRI Name	Applicable Entities	KRI Description	Limit
1	Daily Value at Risk ("VAR") Limit	BOCNY	The possible loss expected for all trading books at a given point of time with 99% confidence level	\$150,000
2	Foreign Exchange Exposure of Total Assets	CUSO except BOCA USA and 7BP	Foreign exchange exposure to month end total assets	0.15%
3	Net Interest Income at Risk	BOCNY	Net interest income at risk (+/- 200 bp instantaneous shock)	20%
4	Economic Value at Risk	BOCNY	Economic value at risk (+ 200 bp instantaneous and parallel shock)	\$350MM

4.2.3. Operational Risk

Operational risk arises from the potential that inadequate information systems, operational problems, breach in internal controls, fraud, or unforeseen catastrophes will result in unexpected losses.

In order to manage operational risks, the entities within the CUSO have developed internal controls. Responsibilities for monitoring operational risk are embedded in the entity level business activities. Independent testing and monitoring activities further validate operations risk performance and controls.

The table below identifies the CUSO-related KRIs used to monitor operational risk.

Table 4.2.3-1: Operational Risk Key Risk Indicators

	KRI Name	Applicable Entities	KRI Description	Limit
1	Operational Risk Loss Ratio	CUSO	Ratio of loss caused by operational risk events to the average value of net interest income and non-interest income in the last three years	0.06%
2	Number of High Importance Information Security Incidents	CUSO	Number of high importance information security incidents at level 3 or above in a year	3

4.2.4. Liquidity Risk

Liquidity risk is the risk to the CUSO's financial condition or safety and soundness arising from its inability (whether real or perceived) to meet its contractual obligations. Furthermore, liquidity risk is the

risk to the CUSO’s capacity to meet its cash and collateral obligations without incurring unacceptable losses. Adequate liquidity is dependent upon the CUSO’s ability to efficiently meet both expected and unexpected cash flows and collateral needs without adversely affecting either daily operations or the financial condition of the CUSO.

The CUSO has a Liquidity Risk Management Framework to address liquidity risk at the CUSO level. The Liquidity Risk Management Framework addresses topics including: roles and responsibilities relating to liquidity risk management, liquidity risk limits, strategy, identification, monitoring, and management of liquidity risk.

The table below identifies the CUSO-related KRIs used to monitor liquidity risk.

Table 4.2.4-1: Liquidity Risk Key Risk Indicators

	KRI Name	Applicable Entities ²	KRI Description	Limit
1	Cushion Above the Monthly EPS Mandated CUSO Stress Test Buffer	CUSO	Buffer as defined by liquidity risk stress scenario applied to the current portfolio.	> 5%
2	Ratio of Highly Liquid Assets to Buffer Portfolio Size	CUSO	Proportion of highly liquid assets within the buffer portfolio.	> 85%
3	Cumulative Gap Ratio	BOCNY	Ratio of assets to liabilities maturing within 90 days	> 25%
4	Single Third Party Provider Funding Concentration as a Percentage of Total Assets -Excluding China Development Bank and People’s Bank of China	BOCNY	Single third party provider funding concentration as a percentage of total assets	15%
5	Ratio of Brokered Deposits to Total Deposits	BOCNY	Ratio of brokered deposits to total deposits	30%

4.2.5. Reputation Risk

Reputation risk is the potential that materially negative publicity regarding an institution’s business practices, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions.

The CUSO strives to maintain a “best in class” reputation for integrity, fairness, transparency, and ethical behavior. The safe and sound risk culture set by the USRMC and is communicated throughout the CUSO is in place to promote a strong reputation of the CUSO. The CUSO strives to promote proactive identification of practices that have the potential to exposure the CUSO to reputation, legal or compliance risks. Furthermore, the CUSO strives to remain abreast and in compliance with all regulations and laws to ensure the CUSO have a positive reputation.

The table below identifies the CUSO-related KRIs used to monitor reputation risk.

Table 4.2.5-1: Reputation Risk Key Risk Indicators

² The Treasury Function of the BOCNY is responsible for running and managing the EPS mandated stress limits as well as maintaining the ratio of highly liquid assets to buffer portfolio size.

	KRI Name	Applicable Entities	KRI Description	Limit
1	Major Negative News Reports	CUSO	Number of quarterly materially negative news reports published in the US on Bank of China, and its subsidiaries and their customers, stakeholders and vendors that are unpleasant, depressing or harmful which constitute bad publicity to the Bank	5
2	High Risk Open Regulatory Issues	CUSO	Number of high risk open regulatory issues in every quarter. High risk being needing an extension of due date, past due, repeat criticism, reopened, and if total is excessive	N/A ³
3	Customer Complaints	CUSO	Number of customer complaints received in a quarter	25

4.2.6. Compliance Risk

Compliance risk is the risk of regulatory sanctions, financial loss, or loss to reputation a financial organization may suffer as a result of its failure to comply with all applicable laws and rules.

The CUSO is committed to complying with the letter, spirit and intent of all applicable laws and regulations. Accordingly, the CUSO has a low risk appetite for compliance and financial crime related risks.

The table below identifies the CUSO-related KRIs used to monitor compliance risk.

Table 4.2.6-1: Compliance Risk Key Risk Indicators

	KRI Name	Applicable Entities	KRI Description	Limit
1	Percentage Change in Suspicious Activity Reports (SARs)	CUSO except BOCA USA and 7BP	Quarterly percentage change of initial SARs when a suspect is known in 30 days, or within 60 days when a suspect is not known	+/- 25%
2	Percentage Change in High Risk Customers	CUSO except BOCA USA and 7BP	Quarterly percentage change in high risk customers	+/- 2%
3	Number of Past Due and High risk Internal Findings Outstanding	CUSO	Number of past due and high risk internal findings for remediation/enhancement/action ⁴	N/A ³
4	Number of Consumer Complaints	CUSO except BOCA USA and 7BP	Number of consumer complaints filed with the respective Regulatory Agency with oversight authority over the specific CUSO entity. Reported on a quarterly basis.	N/A ³

4.2.7. Strategic Risk

Strategic risk is a risk that results from the pursuit of an unsuccessful business plan, including the substandard execution of a decision, failure to respond to changes in the business environment, and inadequate resource allocation. Management of strategic risk also includes consideration of concentration risk of any business, fixed to floating expense ratios for each business, and earning volatility of each business.

³ The KRI is created for monitoring purpose to ensure awareness from the Board and management. Given the nature of the metrics, it is not appropriate to define limit.

⁴ BOCNY's input to the KRI value includes all compliance related issues where BOCNY Legal and Compliance Department has oversight, including both audit and compliance testing issues.

The business units within the CUSO should pursue only those opportunities and transactions that are consistent with the principles identified in the CUSO Risk Appetite Statement, strategic plan, and other policies issued by BOC and the CUSO.

The table below identifies the CUSO-related KRIs used to monitor strategic risk.

Table 4.2.7-1: Strategic Risk Key Risk Indicators

	KRI Name	Applicable Entities	KRI Description	Limit
1	Return on Asset (%)	CUSO	(annualized net income / average asset size) for each quarter	< 0.3%

5. Exceptions

Any exception to this Framework must be formally requested, and approved by the US CRO in writing with a stated end date for the exception. Exceptions must be reviewed periodically by the US CRO to ensure they remain appropriate. Any exceptions to this Framework approved by the US CRO must be reported to the USRMC in the next scheduled meeting. The USRMC has the authority to revoke any exception.

6. Appendix

6.1. Glossary

Table 6.1-1: Glossary

Abbreviation	Name
Board of Directors	Bank of China Limited Board of Directors
BOC	Bank of China Limited
BOCA USA	BOC Aviation (USA) Corporation
BOCI USA	BOC International (USA) Inc.
BOCI CFUS	BOCI Commodities & Futures (USA) LLC
BOCI USA Holdings	BOC International (USA) Holdings Inc.
BOCNY	Bank of China US Branches
CHB	Bank of China Chicago Branch
LAB	Bank of China Los Angeles Branch
NYB	Bank of China New York Branch
QNB	Bank of China Queens Brach
CFTC	Commodities and Futures Trading Commission
CME	Chicago Mercantile Exchange
USRMC	US Risk and Management Committee
CRO	Chief Risk Officer
CUSO	Bank of China Limited's Combined US Operations
EPS Rule	Federal Reserve's Prudential Standards for Large Bank Holding Companies, Savings and Loan Holding Companies, and Foreign Banking Organizations, Final Rule
ERM	BOCNY Enterprise Risk Management Department
FCM	Futures and Commodities Merchant
Federal Reserve	Federal Reserve System
FINRA	Financial Industry Regulatory Authority
HO	Bank of China Limited Head Office
KRI	Key Risk Indicator
LOD	Line of Defense
MRD	BOCNY Market Risk Management Department
NFA	National Futures Association
NPL	Non-performing Loan
OCC	Office of Comptroller of the Currency
RMCC	US Risk Management Coordination Committee
RPC	Risk Policy Committee
SEC	Securities and Exchange Commission
US	United States
US CRO	US Chief Risk Officer
VaR	Value at Risk

6.2. Related Policies

CUSO Liquidity Risk Management Framework