Bank of China US Branches

Commercial Real Estate

Risk Management Policy

December 2020

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Title	BOC US Commercial Real Estate Risk Management Policy
Policy Owner	Credit Risk Management Department
Contact Information	Celia Yeh (tcyeh@bocusa.com) Ilir Telegrafi (itelegrafi@bocusa.com) Jianqiao Fan (jqfan@bocusa.com)
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Yong Ma **EVP, Chief Risk Officer**	Signature	9/22/2020 Date
Credit Risk Committee	See CRC meeting minutes dated 9/22/2020	

Reviewed by		
Lei Zhao **SVP, Head of Credit Risk Management Department**	Signature	9/21/2020 Date
George Moy **SVP, Deputy Head of Credit Risk Management Department**	Signature	9/21/2020 Date
Celia Yeh **VP, Credit Risk Management Department**	Signature	9/21/2020 Date

Prepared by		
Jianqiao Fan **Associate, Credit Risk Management Department**	Signature	9/20/2020 Date

Contents

1. Executive Summary

The Commercial Real Estate ("CRE") Risk Management Policy (the "Policy") provides a framework for safe and sound CRE risk management activities at Bank of China New York Branch and its satellite branches (collectively "BOC US Branches," "BOCNY," or "Branch") licensed by the Office of the Comptroller of the Currency ("OCC"):

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

This Policy outlines the organization's overall approach to CRE risk management, including the governance and activities in place to oversee, manage, and report on current and emerging CRE risk issues.

1.1. Rationale

The Policy sets forth the manner in which BOCNY will manage its CRE risk exposure as part of the overall credit risk management program. BOCNY's current risk appetite for credit risk is **"Moderate"**.

1.2. Related Policies

This Policy should be read in conjunction with other policies that guide credit risk management 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 Real Estate Appraisals Policy
- Bank of China US Branches Other Real Estate Owned Policy
- Bank of China US Branches Allowance for Loan and Lease Losses Policy
- Bank of China US Branches Commercial Real Estate Risk Management Procedure
- Bank of China US Branches Loan Workout Procedure
- Bank of China US Branches Credit Stress Testing Methodology
- Bank of China US Branches Allowance for Loan and Lease Losses Methodology
- Bank of China US Branches 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 as defined in the RGF. The scope of the Policy includes Commercial Real Estate ("CRE") credit exposure to all customers.

3. Roles and Responsibilities

The Policy establishes standards for BOCNY related to first, second, and third lines of defense responsibilities for credit risk management.

3.1. Policy Governance

Credit Risk Management Department ("CRM") is responsible for maintaining and updating the Policy. The Policy is reviewed and approved by Credit Risk Committee ("CRC"), Risk Management and Internal Control Committee ("RMICC") and US Risk and Management Committee ("USRMC") at least annually or more frequently if necessary. USRMC provides the final approval authority on the Policy.

3.1.1. US Risk and Management Committee ("USRMC")

The USRMC is the delegated committee of the BOC Board that reviews and approves the Branch's risk management policies; provides overall strategic oversight and direction, and has final approval on this Policy. USRMC supervises Senior Management to ensure sustainable and effective management of credit risk.

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

The RMICC provides oversight of the Branch's credit risk management framework. The RMICC is responsible for approving the Policy and the related risk policies, reviewing and discussing reports on credit risk management, assessing the comprehensiveness and effectiveness of BOCNY's credit risk management program, and the performance of its credit risk professionals.

3.1.3. Credit Risk Committee ("CRC")

The CRC reviews and monitors credit risk on a portfolio-wide basis and makes recommendations regarding strategy. The CRC oversees the overall asset quality, and makes recommendations regarding credit strategy, credit risk appetite, credit risk profile(s), credit portfolio(s) including credit risk limits and credit portfolio optimization decisions; and, as required, to suggest courses of action in response to portfolio performance, and market and regulatory conditions.

3.1.4. **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 the Policy.

3.2. First Line of Defense

The Business Units or front line units (“FLUs”) represent the first line of defense, which has varying degrees of responsibilities related to assessing, managing, monitoring, reporting, and escalating risks and issues related to the management of the commercial real estate portfolio. In addition, the FLUs are responsible for ensuring that proper controls, policies, and procedures are in place to minimize risk and that the Branch remains compliant with the applicable laws, regulations, and policies. The FLUs also prepare and submit reports to the second line of defense, or Independent Risk Management (“IRM”), on a periodic basis. Other responsibilities include, but are not limited to:

- *Identifying, Assessing and Managing Risks*: The FLUs are responsible for identifying, assessing, and managing the material credit risks associated with its activities
- *Escalation*: The FLUs are responsible for escalating exceptions and/or issues, including emerging credit risk issues
- *Risk Monitoring, Reporting and Breaches*: The FLUs are responsible for the ongoing monitoring of applicable credit risk limits and reporting breaches of risk tolerances, as defined in the RGF, to IRM, CRC and RMICC.

3.3. Second Line of Defense

Credit Risk Management Department (“CRM”) is responsible for developing and overseeing the credit risk management framework at BOCNY. This includes credit policies, underwriting guidelines, risk appetite (risk tolerance ranges/limits), and risk grading structure. Additional responsibilities include, but are not limited to:

- Establishing and maintaining credit policies and procedures;
- Monitoring, measuring, analyzing, and reporting on credit risk exposures against key risk limits and indicators;
- Ensuring transparency of material credit risks, which includes the escalation of risk concentrations to senior management, as well as the appropriate disclosure and reporting of credit risks to the risk committees and the Branch’s regulatory supervisors;
- Independently reviewing and challenging credits separate from FLUs approval;
- Establishing and maintaining the credit limit framework to evaluate and manage credit risk levels across the Branch.

3.4. Third Line of Defense (Internal Audit)

Per this Policy, in conjunction with the RGF, the Internal Audit Department ("IAD") represents the Third Line of Defense, which is responsible for independently assessing the CRE management program at the Branch and providing assurance to the CEO, Head Office Audit, and the USRMC. Please refer to the RGF for additional description of the roles and responsibilities of the IAD.

4. Policy Statement and Standards

Credit risk is one of the primary risk types at BOCNY. The Branch strives to mitigate credit risk through selecting the highest quality clients, maintaining high standards in credit underwriting, effective portfolio monitoring, and adhering to risk appetite standards and limit monitoring.

One of the key elements of the credit risk management framework is identifying, measuring, and monitoring CRE-related risk at the Branch. Related activities include identifying the geographic markets in which Branch lends, adhering to prudent underwriting standards, establishing concentration limits by geography and loan types, performing stress tests and sensitivity analysis, and managing risk through a robust review function.

4.1. Geographical Markets

The same rigorous underwriting requirements and standards apply to borrowers of all geographical markets. However, BOCNY focuses its lending activities in the "primary markets" where it has presence. These include the greater metropolitan areas of New York-Newark-Jersey City, Chicago-Naperville-Elgin, Los Angeles-Long Beach-Anaheim, San Francisco-Oakland-Hayward, and Houston-The Woodlands-Sugar Land.

BOCNY also extends their lending activities to cities or regions that are considered "secondary markets," where there are growing industries and customer relationships with the Branch. These secondary markets include major metropolitan cities such as Washington-Arlington-Alexandria, Miami-Fort Lauderdale-West Palm Beach, Boston-Cambridge-Newton, San Diego-Carlsbad, Seattle-Tacoma-Bellevue, and San Jose-Sunnyvale-Santa Clara.

From time to time, BOCNY may be requested by a borrower to make a loan out of its primary and secondary markets; these requests are considered "out of market." Such a request, including appropriate market analysis reports should be conducted.

The Branch will maintain an approved list of the primary and secondary markets as designated by the most recent metropolitan statistical area ("MSA") codes[1].

[1] Sample MSA List: https://www2.census.gov/econ/susb/data/msa_codes_2012_to_2016.txt

4.2. Market Analysis

The purpose of the market analysis is to ensure that the Branch stakeholders, including loan officers, senior management, and the USRMC, are aware and knowledgeable of the market conditions in which BOCNY lends. The Branch will use the analyses to evaluate its CRE strategy and risk management practices and determine whether the existing policies are appropriate in guiding credit risk management based on current market conditions.

The Branch requires a market analysis/report for each of its primary and secondary markets, as defined in this Policy. This analysis will include current markets and property types, as well as prospective markets and property types that comprise the CRE lending activities at BOCNY. The Branch will also complete market analysis for loan requests that are considered “out of market,” as necessary.

The analysis should include important information related to the markets and property types, prepared and reviewed at least annually by the FLUs, updated more frequently as market conditions warrant. The FLUs should present the analysis to CRC, RMICC and the USRMC at the appropriate level of granularity for the audience. CRM should independently review and challenge the analysis.

4.3. BOCNY Risk Appetite and Credit Limit Management

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

BOCNY recognizes that lending activities may lead to certain concentrations in a variety of ways (e.g., property types and markets). BOCNY has established a series of concentration limits[2] to ensure BOCNY maintains a diversified portfolio, in line with its risk appetite statement.

KRI Level	KRI Name	Warning Line	Limit
Risk Appetite Statement (“RAS”)	Real Estate Industry Concentration	33%	35%
Non-RAS	Construction and Development Loans Concentration	28%	35%
Non-RAS	Property Type Concentration – **Hospitality**	12%	15%
Non-RAS	Property Type Concentration – **Industrial**	4%	5%

[2] The RAS KRI denominator is “Total Credit Exposure” and Non-RAS KRIs denominators are “total commitment to CRE loans”.

KRI Level	KRI Name	Warning Line	Limit
Non-RAS	Property Type Concentration - **Retail**	8%	10%
Non-RAS	Geographic Area Concentration - **Secondary Market**	12%	15%
Non-RAS	Geographic Area Concentration - **Out of Market**	4%	5%

Please refer to *BOC US Branches Key Risk Indicator Procedure* for the KRIs monitoring, reporting and escalation.

4.4. Underwriting Standards

The credit underwriting standards are underpinned by permitted loans and property types. Exceptions to the section 4.4.3 will be tracked as underwriting exceptions and reported to the risk related committees.

4.4.1. Permitted Loans

The Branch underwrites only first lien mortgage. CRE loans are required to be amortizing and be secured by the first lien mortgage. BOCNY does not provide junior secured loans such as second mortgage, subordinated note, or mezzanine loans. Interest only ("I/O") loans are on selective basis and construction and development loans are provided as an extension to the Branch's existing relationship or new customers within permitted property types and markets.

In order to meet the credit needs of its local community, consistent with the safe and sound operation of the bank, the Branch underwrites CRE loans for Community Reinvestment Act ("CRA") including I/O loans subject to the Branch's CRE underwriting standards. Given the community reinvestment nature of CRA loans, CRA loans that do not meet the criteria of I/O loans will not be deemed as exception.

Permitted geographic locations of CRA credits are limit to the following assessment areas which may be amended from time to time by regulators: Bergen NJ, Hudson NJ, Passaic NJ, Bronx NY, Kings NY, New York NY, Putnam NY, Queens NY, Richmond NY, Rockland NY, and Westchester NY.

4.4.1.1. Construction and Development

Construction and development loans should achieve a level of pre-leasing or pre-sale before completion. Further, the projects should meet the following selectivity criteria:

- Prime property location (as supported by the market, demographic, and site analyses);
- Reputable institutional, high net worth individuals or families, or public entity sponsorship;
- Pre-leasing commitments or sale contract with deposit;

- Refinancing - particular care should be exercised to assess and quantify the potential income stream after completion to maximize refinancing opportunities;
- Collateral valuation to afford full loan recovery if collateral had to be foreclosed or liquidated;
- Tenor, Loan-to-Cost ("LTC") and Loan-to-Value ("LTV") requirements as outlined in the Section 4.4.3;
- Completion guarantee from sponsors;
- Appropriate level of debt service and contingent reserve; and
- Performance and payment bonds or appropriate surety which may include subcontractor default insurance ("SDI" or "Subguard") insurance or other acceptable alternatives.

4.4.1.2. **Interest Only ("I/O")**

Interest only loans for stabilized CRE properties may be provided if the loan meets the requirements set forth below. The Branch will underwrite or participate in stabilized I/O loans (excluding I/O loans for construction/development/transitional purpose) that meet all the following criteria:

- Institutional grade property at prime location;
- Long term leases anchored by credit or institutional tenants or high rental demand for multi-family or high occupancy trend for hotels;
- Lease expiration of major or anchor tenants should be beyond our loan maturity, including maturity extension option to minimize rollover risk of significant tenants; and
- Institutional sponsor or non-institutional sponsor with reputable track record and creditworthiness.

4.4.2. **Permitted Property Type**

These property types are established to target at high quality properties in prime locations that should have Class A or institutional grade standards and have stabilized rent rolls with majority of leases expiring after maturity of the loan or steady occupancy. For hotels and multifamily, stable cash flow should be evidenced by a track record of steady occupancy through various economic cycles.

The property types approved for consideration under this Policy are:

- Hospitality;
- Office;
- Mixed-Use;
- Multifamily for Rentals;
- Condo for Sale;
- Retail; and
- Industrial.

4.4.3. Loan Terms and Limits (Minimum Underwriting Standards)

The Branch underwrites loans within defined limit for DSCR, LTV and loan term summarized as below table.

Property Type	Min. DSCR[3]	Min. (achieved) Occupancy[4]	Max. Term (Years)	Max. LTV	Max. LTV for I/O Loans		
					Term <= 5 Years	Structured Term[5]	Straight Term >5 Years and <= 7 Years
Office	1.25x	85%	7	65%	65%	60%	55%
Multifamily Rentals	1.25x	90%	7	70%	70%	65%	60%
Mixed-Use	1.25x	85%	7	65%	65%	60%	55%
Condo for Sale[6]	-	-	3	65%	65%	N/A	N/A
Hospitality	1.50x	75%	5	50%	50%	N/A	N/A
Retail	1.25x	85%	7	65%	65%	N/A	N/A
Industrial	1.25x	90%	7	65%	65%	60%	55%

Tenor

Tenor beyond the maximum requirement is deemed as exception and extension is subject to performance test on a case-by-case basis.

General construction and development loan tenor is up to 5 years and will be reviewed on case-by-case basis. For large and complex construction and development loans, the loan tenor can be up to 7 years, with initial tenor of 5 years and maximum of two 1-year extension options.

DSCR

The DSCR, which is based on an amortization schedule of maximum 25 years, should be no less than 1.25x for non-hotel and 1.50x for hotel loan.

Debt Yield

Debt Yield when used should always be supported by DSCR based on maximum 25 years amortization.

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

Value Add/Transitional Loans

Transitional loans are underwritten for financing properties undergoing lease-up, renovation or adaptive reuse prior to achieving stabilization. Tenor is limited to 5 years; Debt Yield and DSCR must meet the Policy requirement at stabilization.

LTV and LTC

The LTV should be no more than 65% for non-hotel and 50% for hotel. Multifamily for rental (excluding Condo for sale) can have LTV up to 70%. The Loan-to-Cost (LTC) for construction and development loan is up to 50% to 65%: 50% non-institutional sponsor, 60% with institutional sponsor of investment grade, and 65% with principal guarantee from institutional sponsor of investment grade characteristics. As a Branch policy, the internal LTV limits will be less than the supervisory LTV guidelines[7].

If the loan is associated with an interest rate swap ("IRS"), the IRS credit limit shall be included in the LTV calculation.

If there are junior loans (at other institutions) to the Branch's first mortgage loan position, sum of all the loans should not exceed an LTV of 85% and an interest only DSCR should not be less than 1.05x. In many instances, DSCR and LTV to the Branch's first mortgage will have sufficient coverage to be in compliance with the Policy; however, it is prudent to maintain that the sum of all the loans do not exceed the above stated coverage.

DSCR Maintenance

DSCR Maintenance during life of loan should be established to ensure a manageable cash flow profile to facilitate and minimize refinancing risk. The DSCR Maintenance should be equal to 1.25x for non-hotel and 1.50x for hotel based on maximum 25 year amortization.

In the event cash flow is insufficient to meet DSCR of 1.25x or 1.50x, an escrow reserve in the amount sufficient to restore DSCR of 1.25x or 1.50x should be deposited and maintained with the Branch for a period of one year or less (to be determined on a case-by-case basis), such that the borrower can demonstrate sustainable DSCR.

4.4.4. **Initial Investment and Maintenance of Hard Equity**

In addition to the LTV assessment, the borrower's initial investment which represents the borrower's permanent equity in the property versus from a LTV perspective where the property value may fluctuate due to market condition is more indicative of the borrower's stake or equity in the property than a stand-alone LTV measure. To ensure borrower's equity stay permanent during the loan term, maintenance of hard equity should be determined and required.

[7] Supervisory LTV Limit (Less than or Equal to): Commercial, multifamily, and other nonresidential loans: 80%; Land Development or Improved Lots 75%; Improved Property – Commercial, Multifamily, and other Nonresidential: 85%

In many cases the borrower is a Single Purpose Vehicle ("SPV"), its net worth is the initial equity invested to purchase the property. The Branch prefers to have borrower's equity at a minimum of 30%. If this minimum is not met, the Branch can consider the borrower's parent company's financial strength and guarantee provided. Alternatively, the borrower's equity may be augmented by mezzanine loan to which the Branch as first mortgage lender has additional protection.

4.4.4.1. **Acquisitions (Stabilized and Pre-stabilized Properties including Construction and Development Properties)**

Initial Investment - the borrower's initial equity should be a minimum of 30% of the purchase price.

Hard Equity Maintenance – can be the initial equity of the purchase price or in the event the borrower during the first 2 years owning the subject property had total renovation costs that exceeded the amount of the purchase price, the hard equity will be determined by taking the sum of the purchase price and total renovation costs.

Implied Equity – in cases where the borrower had purchased land or property at a lower cost than prevailing market value, the implied equity should not be treated as a substitute or increase the value of the hard equity.

4.4.4.2. **Refinance Transactions**

The requirement of hard equity should apply at a lower and acceptable level than for acquisition loan. For cases where the cost base is low and arriving at required hard equity may not be documentable but supported by valuation, these will be treated case-by-case basis as policy compliant provided the loan meets the Interest Only criteria in the Section 4.4.1.2 of the Policy.

Cash-out-loan refinancing comprising significant cash out should not be strongly influenced by valuation that yields a low LTV as a factor to support the cash out. The level of cash out and the resultant hard equity remaining in the property are to be clearly disclosed in underwriting. In determining the level of appropriate cash out, the underwriting should assess whether the property has steady cash flow during life of the loan evidenced by long term leases and stable occupancy and maintenance of hard equity will not fall below requirement. For avoidance of doubt, implied equity is not a substitute for hard equity maintenance. In addition, purpose and usage of the cash out proceeds should be fully disclosed in the underwriting.

4.4.5. **Guarantor Net Worth and Liquidity**

In certain instances, the Branch may require financial covenants for the guarantor to maintain minimum level of net worth and liquidity, which is to be determined on a case-by-case basis. If the full recourse or principal guarantee is unavailable, the Branch will document the reason for accepting a standard carveout guarantee or not requiring a guarantee. The Branch will obtain and analyze the financial statements of guarantors to assess their financial strength at least annually, as appropriate.

4.5. Other Requirements

Environmental Requirements
BOCNY should assess the extent to which additional investigation is required to properly qualify the potential environment risk by interviewing the borrower, checking previous violations or public records on the property past and current use. The Branch also requires a Phase 1 environment report in the ordered appraisals. Should the report indicates environmental issues or potential for higher environment risk and/or recommends further investigation, such investigation will be required including ordering a Phase 2 environmental report prior to continuance with the loan approval process.

Catastrophic Risk Insurance
All properties located in designated Special Flood Hazard Area ("SFHA") should carry flood hazard insurance covering up to the loan amount or the value of the property minus the value of the land, whichever is lower. For every CRE loan, the Branch will determine whether the property is located in a SFHA by collecting a Flood Hazard Determination form issued by the Federal Emergency Management Agency ("FEMA") and obtained through an approved third party vendor.

If the Branch determines that a building securing a loan is located in a SFHA, BOCNY will deliver a written notice to the borrower containing a warning that the building will be located in a flood hazard area, a description of the flood insurance requirements, a statement that coverage is available, and a statement that federal disaster relief assistance may be available. The Branch may require from time-to-time flood insurance on properties located in flood zone or to the extent that such property neighbors an SFHA boundary or is subject to flooding due to storm water.

Earthquake Insurance
For all the properties located in State of California or other earthquake prone areas, a Probable Maximum Loss ("PML") report prepared by a reputable engineering firm is mandatory for all facility size above $10 million. Scenario Upper Loss ("SUL") in a PML report above 20% industry standard will require mandatory earthquake insurance coverage. An updated PML is to be ordered during the loan term when an earthquake above Richter scale of 6 occurs, and/or at management discretion.

Escrow Account Requirements
To ensure funds are available at the time payments are due, all customers should maintain escrow accounts for real estate tax and insurance payments for 2 months of payments at BOCNY. This requirement may be waived for publicly traded or credit institutional borrowers.

Cash Management Account is recommended to be maintained at the Branch or at the control of the Branch if maintained other than Bank of China, from which borrower will make or sweep its operating cash to the account.

4.6. Collateral Valuation

The *BOC US Branches Real Estate Appraisals Policy* provides detailed descriptions of the appraisal and valuation requirements for all CRE loan types, including how an appraisal is ordered, reviewed and under what conditions and frequency a new appraisal is required.

4.7. Stress Testing and Sensitivity Analysis

BOCNY undertakes transactional stress testing. Transaction sensitivity analysis is to include stress testing of a base case, downside case and worst case. For detailed guidance please refer to *BOC US Branches Commercial Real Estate Risk Management Procedure*.

In addition to the transactional stress testing, the CRE 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. For more information please refer to *BOC US Branches Credit Stress Testing Methodology*.

4.8. Credit Risk Monitoring

The purpose of the credit risk review process is to proactively manage the CRE loan portfolio after the loan has closed and booked to detect emerging risks in the CRE portfolio. This review is conducted by the FLUs and reviewed by CRM.

4.8.1. **Portfolio Management and Monitoring**

BOCNY utilizes reports to track the CRE loan 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 periodic reporting that includes:

- CRE loan portfolio analysis (may include but not limited to portfolio composition, trending, etc.);
- CRE market analysis described in the Section 4.2;
- Pipeline of prospective CRE lending; and
- Adherence to the CRE KRI limits.

The portfolio report should be provided to CRC on a monthly basis, and the quarterly reporting package will be submitted to RMICC and USRMC for review.

4.8.2. Post Loan Monitoring

Post Loan Monitoring is used to ensure the quality of the underwriting standards is maintained and the loan continues to perform. In addition, the post loan monitoring is used to identify potential weaknesses that could impair loan quality and recommend remediation actions, as necessary. All loans are required to undergo post loan monitoring at least annually. Certain borrowers or publicly held borrowers have periodic compliance reporting requirements; these loans are reviewed more frequently to support these reporting requirements.

To support the credit risk review process, the FLUs are responsible for obtaining information from the borrower. This information should cover financials, rent roll, guarantor assessment, required compliance certificate site visit report and collateral valuation. Rent roll analysis should be performed upon receipt and reported to CRM prior to annual review if there is any meaningful deterioration.

Each Construction and Development loan should be reviewed quarterly by FLUs with respect to the project's progress to budget and cost contingency levels.

For loans with an interest rate hedge, the hedge transaction shall be included in the scope of the annual review by both FLUs and CRM.

4.9. Problem Credit Management

BOCNY manages problem credits for CRE in a manner consistent with the *BOC US Branches Credit Risk Management Policy*, including the estimate for Allowance for Loan and Lease Losses ("ALLL") set forth in the *BOC US Branches ALLL Policy* and *Loan Workout Procedure*. Given the higher level of risk for CRE 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.

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 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 Human Resources Department ("HRD"), will provide training on this Policy and their application annually or as the Head of CRM determines is necessary to promote full understanding of the Policy.

5.4. Policy Adherence Monitoring

Each department head is responsible for monitoring and assessing the compliance of its procedures with this Policy. This Policy provides for the regular reporting of key risk indicators, as outlined in the Risk Governance Framework. Internal Audit will also perform audit on credit risk management according to its audit plan.

5.5. Update Requirements

The Policy will be updated annually, and CRM is responsible for taking a proactive role in ensuring this Policy remains relevant and comprehensive. It is therefore the responsibility of CRM to 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 and key stakeholders within CRM 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, subcommittee 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

The exception approval process contained in this Policy aligns with the requirements described in the Branch's Policy on Policies and Procedures. Exceptions to this Policy should be justified in writing, be presented to CAC and approved by the CRO. The decision to grant a policy exception should be documented along with a discussion of the business reasons for the exception.

Documentation on requests and approvals for exceptions to this Policy should 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
- Planned remediation and closure of the exception, if an effective period is provided

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

6. Reference Information

6.1. External Regulations

- OCC Guidelines Establishing Heightened Standards (12 CFR part 30)
- OCC Commercial Real Estate Lending Handbook (August 2013)
- Interagency Policy Statement on Prudent Commercial Real Estate Loan Workouts (October 2009)
- Interagency Policy Statement on the Allowance for Loan and Lease Losses

6.2. Glossary

Term	Definition
ALLL	Allowance for Loan and Lease Losses
CHB	Chicago Branch
CRC	Credit Risk Committee
CRE	Commercial Real Estate
CRO	Chief Risk Officer
DSCR	Debt Service Coverage Ratio
FEMA	Federal Emergency Management Agency
FLU	Front Line Unit
HRD	Human Resource Department
IAD	Internal Audit Department
I/O	Interest Only
IRM	Independent Risk Management
LAB	Los Angeles Branch

CAC	Credit Approval Committee
LTC	Loan-to-Cost
LTV	Loan-to-Value
NOI	Net Operating Income
NYB	New York Branch
PML	Probable Maximum Loss
QNB	Queens Branch
RAS	Risk Appetite Statement
RGF	Risk Governance Framework
CRM	Credit Risk Management Department
RMICC	Risk Management and Internal Control Committee
SFHA	Special Flood Hazard Area
SPV	Special Purpose Vehicle
Stabilized Property	As defined in the OCC CRE Handbook: "The prospective market value 'as stabilized' reflects the property's market value as of the time the property is projected to achieve stabilized occupancy. For an income-producing property, stabilized occupancy is the occupancy level that a property is expected to achieve after the property is exposed to the market for lease over a reasonable period of time and at comparable terms and conditions to other similar properties."
SUL	Scenario Upper Loss
USRMC	US Risk and Management Committee