Bank of China US Branches

Credit Risk Management Policy

April 2021

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Yong Ma **EVP, Chief Risk Officer**	Signature	4/28/2021 Date
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Reviewed by		
Lei Zhao **SVP, Head of Credit Risk Management Department**	Signature	4/25/2021 Date
George Moy **SVP, Deputy Head of Credit Risk Management Department**	Signature	4/25/2021 Date

Prepared by		
Celia Yeh **VP, Credit Risk Management Department**	Signature	4/25/2021 Date

Contents

1. Executive Summary

The Credit Risk Management Policy (the "Policy") provides a framework for safe and sound credit risk 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 credit risk management, including the governance and activities in place to oversee, manage, and report on current and emerging credit risk issues.

1.1. Purpose

The purpose of this Policy is to establish guidelines for underwriting, measuring, monitoring, and mitigating the credit risk of the Branch with the following objectives and principles:

- Establish the credit risk management framework;
- Meet U.S. regulatory requirements and guidelines at all times; and
- Comply with the requirements of the Bank of China Head Office ("HO") credit risk management related policies, if applicable to the Branch.

1.2. Rationale

This Policy adheres to the standards for managing risks, including identifying, assessing, controlling, monitoring, reporting, and escalating credit risk as defined in the BOC US Branches Risk Governance Framework ("RGF").

The Policy is to implement the Branch's business strategy and adhere to a moderate risk appetite through balancing risk and return from its current product lines and future areas of business, to provide oversight and guidance to the business units while at the same time maintaining a high quality credit portfolio.

1.3. Related Policies and Procedures

This Policy should be read in conjunction with other policies that guide activities at BOCNY. These policies include but are not limited to:

- Bank of China US Branches Risk Governance Framework
- Bank of China US Branches Credit Rating Policy
- Bank of China US Branches Credit Rating Procedure
- Bank of China US Branches Credit Underwriting Standards

- Bank of China US Branches Leveraged Lending Credit Policy
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- 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 applies to the Branch's all credit exposures, including investment securities, loans, interbank lending, contingent liabilities such as letter of credit, commitments and counterparty exposures; The BOC Group interbank exposures and US Treasury are excluded from the credit exposures.

3. Roles & Responsibilities

3.1. Policy Governance

Credit Risk Management Department ("CRM") is responsible for maintaining and updating the Policy. The Policy shall be reviewed and approved by CRC and RMICC every three (3) years or more frequently if necessary. RMICC provides the final approval authority on the Policy.

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

As the risk management decision-making unit of the Branch, the RMICC is responsible for approving the credit risk related policies, reviewing and discussing reports on credit risk management, assessing the comprehensiveness and effectiveness of BOCNY's credit risk management program, and overseeing the performance of its credit risk professionals.

3.1.2. Credit Risk Committee ("CRC")

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

3.1.3. 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, maintain a safe and sound loan portfolio, oversee workout process and comply with regulatory standards. The responsibilities of the CAC are to review and approve new credits and monitor individual credits; extension of existing credit limits; review the Watch List credits; approve Workout Plan and oversee its implementation; review and approve policy exceptions; approve credit classification change and rating overrides; and review and approve the specific reserve.

3.2. Policy Implementation

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

3.2.1. First and Second Line of Defense

FLUs include business departments and supporting departments: Banking Department ("BKD"), Corporate Banking Department ("CBD"), Commodity Business Center ("CBC"), Clearing Department ("CLD"), Financial Institutions Department ("FID"), Operation Service Department ("OSD"), Global Markets Department ("MKD"), Treasury Middle Office Department ("MOD"), Trade Services Department ("TSD"), Chicago Branch ("CHB"), Los Angeles Branch ("LAB") and Queens Branch ("QNB"). The FLUs are responsible for developing and implementing strategic and business plans that align with BOCNY's risk appetite, appropriately assessing and effectively managing credit risk associated with their activities.

The relationship management departments, including CBD, CBC, FID and Corporate Banking Units in CHB, LAB and QNB, are responsible for centralizing marketing, credit origination, credit approval and post loan monitoring. The product management departments, including TSD, MKD, MOD, CLD and Trade Services Units in CHB and LAB, support relationship management departments to complete the origination and post loan monitoring and management. The supporting department, OSD, is responsible for credit administration, loan processing and documentation.

As the second line of credit risk, CRM works with FLUs to establish and maintain appropriate risk tolerance limits, guidelines, polices and procedures, provides credible challenge to the FLUs. CRM is responsible for developing the credit risk management framework of the Branch, including this Policy, underwriting guidelines, risk appetite (risk tolerance ranges/limits), and risk grading.

Key Roles & Responsibilities	First Line of Defense	Second Line of Defense
Credit Risk Management Policy & Framework	• Ensure that each line of business is conducted in line with RGF and credit risk management policies. • Develop procedures and adhere to the credit risk	• Establish and maintain credit risk management policies and procedures. • Independently monitor, track and report on credit risk

Key Roles & Responsibilities	First Line of Defense	Second Line of Defense
	management policies and procedures. • Monitor and track exceptions to credit risk management policies and report to CRM and risk committees.	management policies and risk acceptance criteria exceptions.
Risk Appetite	• Ensures that credit risk arising from its activities are identified, measured and managed, monitored and reported consistent with the BOCNY's credit risk appetite. • Propose credit limits and develop underwriting standards. • Adhere to the credit limits and underwriting standards established by the IRM.	• Develop credit risk appetite and credit limit framework. • Establish credit limits and underwriting standards.
Credit Underwriting & Transaction Approval and Monitoring	• Conduct appropriate due diligence on borrowers and transactions. • Develop transaction structure, negotiate terms and conditions, and create documentation. • Recommend proposed internal credit risk rating and credit limits. • Analyze and approve the origination of credits. • Perform ongoing monitoring and assessment on borrower and portfolio risk.	• Independently review and challenge credits. • Review/challenge internal credit risk ratings. • Independently assess the credit worthiness of borrowers/counterparties at origination and on an ongoing basis.
Post Loan Monitoring	• Monitor customer's credit risk profile and covenants compliance • Conduct timely annual/quarterly review	• Independent review and challenge the monitoring process • Conduct sample testing

Key Roles & Responsibilities	First Line of Defense	Second Line of Defense
	• Conduct self-assessment and testing • Ensure credit filing is complete and accurate	
Portfolio Management	• Review and manage portfolio risk relative to the Risk Appetite Statement and Strategic Plan. • Perform ongoing reporting on portfolio risk.	• Maintain the credit limit framework to evaluate and manage credit risk levels across the Branch. • Monitor, measure, analyze, and report on credit risk exposures against key risk limits and indicators. • Ensure transparency of material credit risks, which includes escalation and reporting of risk concentrations and material credit risks to senior management and to risk committees.
Credit Stress Testing	• Work with the IRM and perform stress tests at individual transaction and/or portfolio level.	• Establish credit stress testing framework and methodology. • Work with FLUs to monitor risk exposures and perform stress tests at aggregated level to identify, analyze and control credit risk concentrations.
Problem Asset Management/Allowance for Loan and Leases ("ALLL")	• Manage problem assets in workout status in coordination with the IRM. • Calculate, monitor and report the ALLL in accordance with the ALLL methodology established by IRM.	• Review and challenge FLUs to manage problem assets in workout status. • Establish the ALLL methodology and evaluate the adequacy of the allowance for probable credit losses.

3.2.2. Third Line of Defense

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

4. Policy Statement and Standards

4.1. BOCNY Risk Appetite and Credit Limit Management

The risk appetite of the Branch is “Moderate”. Credit risk is accepted in support the BOCNY’s business strategy with the objective of balancing risk and return from its main product lines that largely confines and targets investment grade credit profile borrowers across all its product lines.

BOCNY’s primary credit business lines include the Corporate Banking, Financial Institutions, Trade Finance and Commodity Business.. The credit products include loans, letters of credit, trade products, and overdraft facilities. Residential mortgages are extended on an accommodation basis. BOCNY also seeks opportunities in bond investment including government bond, international financial organization, corporate and financial institution issuers bonds that are only limited to investment grade.

BOCNY targets Fortune Global 500 companies, Fortune 1000 U.S. companies, major real estate development companies, China “Going Global Customers” and China-US trade customers. The Branch is also highly selective in commercial real estate lending that focuses in gateway cities, prime location, reputable sponsorship and strong tenancy.

Quantitative components of Risk Appetite Statement are comprised of key risk indicators (“KRIs”) that facilitate ongoing monitoring of risk levels and trends against the risk appetite. The Branch uses KRIs and sets limits for measuring and monitoring trend in credit risks and concentrations.

No.	KRI Name	Warning Line	Limit
1	90+ Days Past Due and Non-Accrual Loan to Total Loan Ratio	0.2%	1.0%
2	Criticized Loan Commitment to Total Loan Commitment Ratio	5.0%	6.0%
3	Quarterly Downgrades from Pass to Criticized Loan to Total Loan Commitment Ratio	3%	4%
4	Country Concentration Limit (Maximum exposure to any country outside China and US)	5%	6%
5	Country Concentration Limit – Exposure to China	40%	45%
6	Industry Concentration Limit (Maximum exposure to single industry/Total credit exposure) Except Real Estate and Financial Industry	15%	20%
7	Real Estate Industry Concentration Limit	33%	35%
8	Financial Industry Concentration Limit	25%	30%
9	Leveraged Lending Concentration	23%	25%
10	Single Obligor Limit (Maximum exposure to one entity or a group of borrowing entities)	5%	10%

No.	KRI Name	Warning Line	Limit
11	Underwriting Exceptions Ratio	15%	18%
12	Total Number of Annual Reviews Past Due over 90 Days	0	0

The Branch manages credit portfolios by monitoring concentrations in country, industry, single obligor and asset quality. For more details please refer to *Bank of China US Branches Risk Governance Framework* and *Bank of China US Branches Key Risk Indicator Procedure Appendix – KRI Inventory*.

4.2. Credit Origination

BOCNY does not originate Non-Pass[1] transactions. Exceptions to originating Non-Pass transactions may be made for existing Non-Pass loans in which proposed restructurings may remain Non-Pass but improve the overall credit profile.

Criteria in loan structuring must meet minimum underwriting standards described in the *Bank of China US Branches Credit Underwriting Standards*. Any breach of the minimum standards constitutes underwriting exceptions. For Commercial Real Estate ("CRE") and Leveraged Lending detailed underwriting standards, please refer to *Bank of China US Branches Commercial Real Estate Risk Management Policy* and *Bank of China US Branches Leveraged Lending Credit Policy*.

4.2.1. Credit Evaluation

Effective underwriting and management of credit risk is dependent on the quality of analysis and due diligence employed during the approval process as well as ongoing monitoring over the life of the transaction. Underwriting diligence requires an assessment of the primary repayment source, other repayment sources and credit mitigants such as collaterals and guarantees. FLUs should provide in-depth analysis include comprehensive assessment of financial, business, industry and management risks. Credit analysis requirements include risk grade determinations, borrower assessment, facility assessment, and credit risk mitigation such as collateral or guarantees.

When a borrower relies on parent support or a third-party guarantee, the parent or guarantor's financial analysis must be provided. The demonstrated support by way of a guarantee from the parent company or a third party or the sovereign support as well as the economic incentive, capacity, and stated intent to continue to support the transaction or borrower need to be evaluated and documented.

4.2.2. Financial Statement Requirement

The borrower's financial statement must be provided at origination. The analysis assessing borrower's credit worthiness should always contain the most recent audited financial statement of the borrower.

[1] Non-Pass transactions are defined as transactions with a U.S. regulatory rating of Special Mention, Substandard, Doubtful and Loss.

Financial statements of guarantors as of most recent fiscal year end are required during the underwriting, and full analysis is required.

4.2.3. Eligible Collateral

BOCNY takes various forms of collateral depending on the business being conducted. The collateral types that potentially qualify as secondary sources of repayment for underwriting purposes are limited to cash and cash equivalents, receivables, inventory, property, plant and equipment, aircraft, vessels, real estates or any collateral specified in the *Bank of China US Branches Credit Underwriting Standards*. Borrowing base lending is limited to facilities agented by reputable third party. The collateral in such transactions include but are not limited to, receivables and inventory for which the advance rates are determined and approved on a case-by-case basis in accordance to market practice. For specific minimum requirement for advance rate, please refer to *Bank of China US Branches Credit Underwriting Standards*.

4.2.4. Transactional Stress Testing

Transactional stress testing is required and analysis should be reflected in the credit application. At least two scenarios - base case, downside case and/or worst case should be provided.

The financial projections and underlying assumptions should relate to the key risks identified in the credit application. All scenarios should be clearly documented and justified, including a discussion of the underlying assumptions, adjustments and observed outcomes.

4.2.5. Risk Rating

All credit exposure must be rated at credit origination. The Branch developed a credit rating framework, which assigns a rating to the general creditworthiness of the obligor and a grade to each facility. BOCNY built a set of obligor and facility scorecards. The obligor scorecards will output a grade as well as a probability of default ("PD") for each of the obligors. The facility scorecards will output a facility grade as well as a loss given default ("LGD") for each of the facilities.

All risk ratings must be reviewed and updated at least annually or more frequently when it is necessary. The FLUs must ensure the rating is timely updated to reflect the most recent financial status.

For certain portfolios are not covered by the 27-grade PD models, the 8-grade internal risk rating (please refer to the appendix A) can be applied before the Branch full transition to the new rating methodology.

4.2.5.1. Rating Sacle

The Branch classifies its obligor ratings into 27 grades and facility ratings into the 7 grades. For any transactions except derivatives exposures, an obligor standalone PD (1-27), an adjusted PD (1-27), facility LGD (A-G) and regulatory credit classification must be assigned. The adjusted PD is the final PD for credit decision making.

4.2.5.2. Credit Classification

The Branch maps 27 grades adjusted/final PD to the regulatory credit classifications – Pass, Special, Mention, Substandard, Doubtful and Loss. The PD grade 1 to 19 is defined as Pass. The final determination of the regulatory classification for each customer/facility is subject to the regulatory guidance. For more information please refer to *Bank of China US Branches Credit Rating Policy* and *BOC US Branches Credit Rating Procedure*.

4.3. Credit Approval

4.3.1. Approval Requirements

The following items must be reviewed and approved by CAC and Chief Risk Officer ("CRO"):

- New credit limits, increases, refinancing or the extension of existing credit limits, except residential mortgages;
- Risk related decisions to the exposure regarding relevant changes of risk, including but not limited to material amendment and/or waivers, change of terms and conditions[2], and any important change materially increasing the risk profile;
- Rating overrides and regulatory credit classification change;
- Policy and/or underwriting standards exceptions;
- Workout Plan and any changes of the Plan;
- The (update) assessment result of individual impairment provision for non-performing loans and troubled debt restructuring ("TDR").

4.3.2. Credit Approval Authority

BOC Head Office ("HO") has delegated separate lending authority to the CRO of BOCNY. Credit decisions are made by lending authority holders. The detailed credit authorities are described in the *Branch CRO Credit Approval Authority Memo* issued by BOC HO (please refer to the Appendix B). HO has the ultimate credit approval authority for the amount exceeding the delegated approval authority.

For residential mortgage, the Executive Vice President ("EVP") in charge of QNB has the lending authority to approve residential mortgage loans up to $800,000 under Income Verification Program, and $1,500,000 for an aggregate of two mortgage loans to the same borrower under Income Verification Program, provided that one of the mortgaged properties must be used as the borrower's primary residence.

[2] Including but not limited to changes in amortization, documentation, collateral arrangements or deemed "material" change by CRM.

The Chief Executive Officer ("CEO") can endorse or reject a credit that has been approved by CAC and the CRO. The CEO does not have authority to overturn a veto by the CRO, but may recommend the CRO reconsider the credit request.

4.4. Credit Monitoring

The credit risk monitoring function is an integral part of managing credit risk. The purpose of the credit risk monitoring process is to proactively manage BOCNY's credit portfolio after the loan has closed to detect emerging risks in the portfolio.

All obligors must be reviewed by FLUs at least annually and leveraged obligors must be reviewed on quarterly basis. The annual review for each obligor should contain updates on the obligor, support provider (if applying implied support framework in the rating process) and guarantor's financials, analysis on the actual performance versus projection provided at origination, collaterals, covenant testing and rating change if necessary. For quarterly review requirement of leveraged obligor please refer to *BOC US Branches Leveraged Lending Credit Policy* and *BOC US Branches Leveraged Lending Credit Procedure*.

4.4.1. Post Loan Monitoring

The monitoring of the credit quality of an obligor is to ensure the risk appetite of the Branch is continuously aligned to the actual credit standing. In addition, post loan monitoring is used to identify potential weaknesses that could impair loan quality and recommend remediation actions, as necessary. FLUs are responsible for monitoring the customer's credit risk on a timely manner. The relationship management departments have major responsibilities to monitor customer's credit risk. The product management departments are responsible for transaction monitoring and supporting relationship management departments to complete the post loan monitoring. The CRM has an independent review and challenge responsibility.

The core components of the post loan monitoring consist of:

- Conducting timely and complete annual/quarterly reviews;
- Ensuring approval terms and conditions are met;
- Monitoring and reporting negative news of obligors/guarantors;
- Ensuring an obligor (support provider and guarantor if applicable) is in compliance with financial and all other covenants; and
- Ensuring the credit filling and documentation is complete and accurate.

The FLUs shall establish self-assessment and testing methodology and are required to conduct self-assessment and testing at least on a semi-annually basis. FLUs also track the numbers of expired document as key risk indicators and ensure operating within the limit. OSD provides monthly expired document and accountability report to the CRC, RMICC and USRMC. CRM conducts sample testing semi-annually and testing result shall be reported to CRC and escalates to higher level risk committee if necessary.

4.4.2. Portfolio Monitoring

Portfolio management is an integral part of the credit process whereby the FLUs and CRM have the joint responsibility of maintaining the credit quality of BOCNY's portfolio through active portfolio monitoring. FLUs and CRM should monitor credit portfolio and report to CRC, including but not limited to deal pipelines, asset quality of the portfolio, portfolio concentrations and BOCNY's portfolio in the context of its KRIs. FLUs and CRM work together to perform stress testing of BOCNY's credit portfolio to estimate potential credit losses.

4.4.3. Collateral Management

Collateral management is carried out by the FLUs in accordance with established FLUs policy and procedure. FLUs are responsible for collateral management, including creating and maintaining their own policies and procedures related thereto. The FLUs must ensure that the underlying documentation for the collateral provides BOCNY appropriate rights over the collateral or other forms of credit enhancement including the right to liquidate, retain, or take legal possession of it in a timely manner in the event of default by the counterparty. In addition, FLUs must review the collateral value at least once a year in the annual review and conduct periodical revaluation if necessary.

4.5. Reporting

BOCNY utilizes reports to track the credit exposures. FLU has primary responsibility for aggregating the line of business reporting and CRM is responsible for consolidating and aggregating all credit exposure of the Branch. FLUs and CRM are both responsible for ensuring data quality, completeness and timeliness in credit risk reports.

To ensure the efficient management, control, and monitoring of the credit risk, the FLUs and CRM prepare reports on a regular basis. For the list of reports and reporting requirement please refer to *BOC US Branches Credit Risk Management Procedure*.

4.6. Portfolio Stress Testing

BOCNY conducts credit stress testing by performing forward looking assessment of the potential impact of various stress scenarios and events on the credit portfolio to better understand the range of potential risk exposures. Stress testing aims to identify potential causes or conditions that can lead to increased expected and unexpected losses. In order to assess the impact of severe macroeconomic or market events on the Branch's overall credit portfolio, credit stress testing is applied both at transaction and portfolio level.

CRM develops credit stress testing methodology and executes credit stress testing on the Branch's credit portfolios and performs it in an integrated way periodically. The credit portfolio stress testing results are reported to the governing committees on an annual basis. For more details, please refer to *Bank of China US Branch Credit Stress Testing Methodology*.

4.7. Problem Credit Management

FLUs and CRM work jointly to monitor loan portfolio for loans showing signs of financial deterioration and reporting their findings to CAC accordingly.

4.7.1. Trouble Debt Restructuring ("TDR")

FLUs are responsible for identifying TDR in a credit applications when renewing, extending, or modifying existing criticized loans. For more information please refer to *BOC US Branches Loan Workout Procedure* and regulatory guidance. An analysis of all facts and circumstances associated with the loan must be completed to determine whether a renewal or extension is a TDR.

Renewals, extensions, or modifications deemed to be TDRs must be evaluated for the appropriate impairment measurement under ASC Subtopic 310–10 to ensure that the allowance for loan and lease losses (ALLL) and accrual status are appropriate. For the detail instruction, please refer to *Bank of China US Branches Allowance for Loan and Lease Losses Policy*.

4.7.2. Non-Performing Loan Management

A formal default and acceleration of repayment of the loan will be issued when a monetary default occurs. FLUs must inform CRM and OSD once any technical or monetary default occurs in timeliness manner. Defaults should be reviewed and reported to CAC and other committees as appropriate.

BOCNY manages problem loans through loan workouts. BOCNY establishes a prudent loan workout program to protect the Branch when the problem loans enter workout, to achieve maximizing the recovery and minimizing the risk on each troubled loan. More details can be found in *Bank of China US Branches Loan Workout Procedure*.

4.8. Reserve for Credit Losses

Allowance for Loan and Lease Losses ("ALLL") represents the management's best estimate of probable loss inherent in the portfolio. Attribution of the allowance is made for analytical purpose only, and the entire allowance is available to absorb probable loan losses inherent in the overall portfolio. The amount of ALLL is composed of both quantitative and qualitative factors, as determined within management judgment that affect loss estimates.

The Branch reviews and adjusts loan loss reserve amount monthly to reflect expected losses from credit exposures, whether on-or off-balance sheet, in all business lines of the Branch. More details please refer to *BOC US Branches Allowance for Loan and Lease Losses Policy* and *BOC US Branches Allowance for Loan and Lease Losses Methodology.*

4.9. Loan Review

BOCNY engages an external loan review specialist to review the Branch's loan portfolio at least semi-annually, as management deems appropriate. The reviews should cover all segments of the loan portfolio that pose significant credit risk or concentrations. The RMICC approves the loan review scope on an annual basis or whenever significant interim changes are made in order to adequately assess the quality of the credit portfolio.

The loan review evaluates the Branch's credit quality, reasonableness of assumptions, creditworthiness of guarantors or sponsors, sufficiency of credit and collateral documentation, proper lien perfection, proper approvals consistent with internal policies, adherence to loan agreement covenants, adequacy of, and compliance with, internal policies and procedures, laws and regulations, the appropriateness of credit loss estimation; the accuracy of risk ratings and the appropriateness and timeliness of the identification of problem loans by loan officers.

The loan review report results should be reported to CRC, RMICC and USRMC. CRM should work with FLUs to propose remediation plans with time frames for the findings identified by loan review. Any deficiencies and weaknesses that remain unresolved beyond the scheduled time frames for correction will be reported to CRC or higher level risk committee if necessary.

In the case where the risk rating differences between BONCY and loan review, BONCY may seek arbitration by an independent party or require default to the assigned classification or risk rating that indicates lower credit quality.

4.10. Legal Lending Limit

Legal lending limit regulation (12 CFR 32) prevents bank to have excessive loans to single borrower. A bank's total outstanding loans and extensions of credit to one borrower may not exceed 15% of the bank's capital and surplus.

The capital stock and surplus of a US Branch of a foreign bank is determined by reference to the capital of the foreign bank as calculated under its home country capital standards. This means that BOC Group's capital stock and surplus under HO's capital standards is used for calculating these regulatory limits. BOCNY uses more conservative approach to monitor the limits mentioned above by calculating Common Equity Tier 1 capital of BOC Group as proxy of capital stock and surplus.

5. Policy Assurance Methods

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

5.1. Awareness Methods

The Policy will be distributed to key stakeholders via email on an annual basis with key changes summarized. Each recipient will attest to his or her understanding of the Policy using an email response, which will be documented by the CRM and maintained by the LCD. The Policy will also be available in the BOCNY's Policy Library.

5.2. Training Methods

The CRO is responsible for establishing an environment where credit risk professionals have sufficient training and technical expertise. CRM, in partnership with Human Resources Department ("HRD"), will provide training on this Policy or as the CRM determines is necessary to promote full understanding of the Policy.

5.3. Policy Adherence Monitoring

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

5.4. Update Requirements

Along with the requirement for an annual/periodic update, CRM is responsible for taking a proactive role in ensuring this policy remains relevant and comprehensive. CRM is responsible for monitor internal and external circumstances to determine if and when a policy update may be required in accordance with the Branch's Policy on Policies and Procedures.

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

5.5. Consequences of Violating the Policy

Failure to comply with this Policy will be escalated to the CRO and in certain circumstances to the USRMC, which will consider appropriate remedial action. Violations of the Policy are grounds for disciplinary action, adapted to the circumstances of the particular violation and having as a primary objective furtherance of BOCNY's interest in preventing violations and making clear that violations are neither tolerated nor condoned.

5.6. Exceptions & Exemptions

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

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

- The nature of the exception requested (i.e. approval exception)
- The individual or group that is requesting the exception
- Incremental risk exposure (in frequency and amount when applicable)
- The time period during which the exception is effective
- The business reasons for granting the exception
- Mitigating factors
- Planned remediation and closure of the exception, if an effective period is provided

Responsibility for tracking policy exceptions is the responsibility of the business unit requesting the exception. Exceptions to the Policy will be aggregated and monitored by CRM.

6. Reference Information

6.1. Glossary

Term	Definition
ALLL	Allowance for Loan and Lease Losses
BOCNY	Bank of China New York Branch and its satellite branches
CAC	Credit Approval Committee
CBC	Commodity Business Center
CBD	Corporate Banking Department
CHB	Bank of China Chicago Branch
CRM	Credit Risk Management Department
CLD	Clearing Department
CRC	Credit Risk Committee
CRO	Chief Risk Officer
CRR	Credit Recommendation Report

Term	Definition
FID	Financial Institutions Department
FLU	First Line Unit
HO	Head Office
HRD	Human Resource Department
IAD	Internal Audit Department
IRM	Independent Risk Management
KRI	Key Risk Indicator
LAB	Bank of China Los Angeles Branch
LCD	Legal & Compliance Department
MKD	Global Markets Department
MOD	Middle Office Department
OSD	Operational Service Department
QNB	Bank of China Queens Branch
RGF	Risk Governance Framework
TSD	Trade Services Department

Appendix A

Rating Sacle of Non-Financial Institutions

The Branch classifies its Non-Financial Institution credit into the eighth grades 1 to 8. BOCNY underwrites "Pass" credits with sufficient primary source of repayment and, under certain circumstances, with strong secondary source of repayment acting as credit enhancement. Pass rating maps to internal credit rating 1 to 4. The minimum acceptable credit profile of a credit should have credit rating equivalent to long-term Moody's or Standard & Poor's ("S&P") credit rating Ba or BB, and sufficient cash flow to cover future debt service requirement.

Internal Rating	Regulatory Classification	Description	Equivalent to External Rating
1	Pass	**Minimal Risk**: Financial ability highly flexible, no reliance on bank loans, easy access to capital markets. **C&I criteria**: Total Funded Debt/EBITDA <=1.4x; Interest Coverage Ratio >=6.5x **CRE mortgage criteria**: LTV <=50%; DSCR >= 1.40x	S&P: AA- Moody's: Aa3 or better
2		**Better Than Average**: Low to moderate reliance on bank loans, easy access to capital markets. **C&I criteria**: Total Funded Debt/EBITDA <=2.5x, Interest Coverage Ratio >=2.5x **CRE mortgage criteria**: LTV <=55%; DSCR > =1.35x	S&P: A- Moody's: A3 or better
3		**Average Risk**: Moderate reliance on debt. **C&I criteria**: Total Funded Debt/EBITDA <=3.5x, Interest Coverage Ratio >=2.5x **CRE mortgage criteria**: LTV <=60%; DSCR >=1.30x	S&P: BBB- Moody's: Baa3 or better
4		**Acceptable Risk**: Heavy reliance on debt, but cash flow sufficient to cover debt service, and fair value of assets sufficient to cover debt. **C&I criteria**: Total Funded Debt/EBITDA <=4.5x, Interest Coverage Ratio >=1.75x **CRE mortgage criteria**: LTV <=65% (multifamily for rental up to 70%); DSCR >= 1.25x (Hotel minimum 1.50x)	S&P: BB, Moody's: Ba or better
5	Special Mention	**Potential Weakness**: asset has potential weaknesses that deserve management's close attention. If left uncorrected, may result in deterioration of the repayment.	S&P: B- Moody's: B3 or better

Internal Rating	Regulatory Classification	Description	Equivalent to External Rating
6	Substandard	**Well defined weakness:** a substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any.	S&P: CCC- Moody's: Caa3 or better
7	Doubtful	**Collection in full highly improbable**: asset has weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.	S&P: CC Moody's: Ca or better
8	Loss	**Non-bankable asset**; uncollectible and of such little value that their continuance as bankable asset is not warranted.	Default

Rating Scale of Financial Institutions

Based upon Moody's or S&P long term debt rating, the Branch classifies its Financial Institution ("FI") credit into the eighth grades A to H. Each grade corresponds to the minimum external rating and capital benchmarks for that grade:

Rating	Regulatory Classification	Minimum External Rating	Capital Benchmarks	
			Tier 1 Risk-Based Capital Ratio	Total Risk-Based Capital Ratio
A	Pass	S&P: AA- Moody's: Aa3 or better	12%	14%
B		S&P: A- Moody's: A3 or better	10%	12%
C		S&P: BBB- Moody's: Baa3 or better	8%	10%
D		S&P: BB Moody's: Ba or better	6%	8%
E	Special Mention	S&P: B- Moody's: B3 or better	4%	6%
F	Substandard	S&P: CCC- Moody's: Caa3 or better	Significantly Undercapitalized	
G	Doubtful	S&P: CC Moody's: Ca or better	Critically Undercapitalized	
H	Loss	Default	Bankruptcy has been filed	

In addition to capital benchmarks, FLUs must adhere to the following rating principle and guideline when evaluating FI customers.

- Borrower ratings are capped at the sovereign rating which it domiciles.
- All three rating criteria (Minimum External Rating, Tier 1 RBC Ratio, Total RBC Ratio) are considered concurrently, and must meet all minimum standards to assign the corresponding internal rating.
- Policy banks and state-owned financial entities will be assigned their respective sovereign rating.
- Branches of a bank holding company can be assigned as parent's credit rating.
- Internal rating for insurance company and central clearing parties will be determined based on external rating.

Guarantees for Credit Substitution

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

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

FLUs must provide supporting document, including but not limited to legal opinions, draft credit agreement and/or guarantee letter and CRM has discretionary decision to determine if the risk rating can be adjusted if the principles above are partially satisfied. If the guarantee is provided in a form of Letter of Credit ("L/C"), the risk rating can be substituted by the L/C issuer's rating[1].

Implied Sovereign Support

Considering that BOCNY supports Bank of China's global strategy, informal or implied guarantees from China government (sovereign) may be recognized as credit risk mitigant.

FLUs should analyze the relationship between an obligor and the state ownership to evaluate sovereign's willingness to provide support. The analysis should reference any precedent in which the sovereign supported the obligor and assess whether the precedent would likely apply to the obligor, and also

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

consider whether changes in the political environment or economic conditions could affect the sovereign's ability or willingness to support the obligor.

If government direct ownership is at least 51%, or implicit government support can be evidenced and approved by CRM on case-by-case basis, the risk rating may be determined based on the value of the support.

If an obligor is dependent on sovereign's support, the support must be evaluated and documented with the economic incentive, capacity, and stated intent to continue to support the obligor.

BANK OF CHINA

Appendix B

CRO Approval Authority

Unit: $million

CRO	**Customer Rating**	**Single Obligor**			**Approval Authority for Single Group Customers**
		Approval Authority for Single Obligor	**Each M&A Transaction**	**Each Private Equity / Fund / Subscription Finance Transaction**	
Yong Ma	Investment Grade	200	140	140	600
	Non-Investment Grade and Non-rated	100	70	70	300

For detailed information, please refer to BOC US Branches Credit Risk Management Procedure and CRO Approval Authority execution document issued from Head Office.