中國銀行
BANK OF CHINA

Bank of China US Branches
Risk Governance Framework

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1. Executive Summary

1.1. Introduction

Bank of China Limited ("BOC" or "Head Office") is organized under the laws of the People's Republic of China and maintains branches globally, including in the United States. BOC's US banking operations consist of 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"); and
- Los Angeles Branch ("LAB").

NYB and QNB are two of the few remaining grandfathered FDIC insured branches of foreign banks in the US. NYB and QNB were designated as wholesale banks under the Community Reinvestment Act of 1996. LAB is an uninsured, limited federally licensed branch. CHB is an uninsured federally licensed branch. In addition to US applicable laws and regulations, BOC US Branches also adhere to Head Office standards, guidance, policies and procedures.

BOCNY is subject to the OCC's OCC Guidelines Establishing Heightened Standards (12 CFR part 30 Appendix D) ("Heightened Standards"). This document uses the term "BOCNY" and that term should be understood to include its satellite branches.

The core businesses of BOCNY are:

- Corporate Banking, Trade Finance, and Financial Institution;
- Payment Settlement/Clearing Services; and
- Global Markets.

BOC US Branches' non-core business includes retail banking and residential mortgage lending. NYB provides retail banking. QNB accepts retail deposits and offers residential lending on a limited basis to employees of corporate account holders and personal account customers. CHB accepts initial deposits from US residents of over $250,000 and from non-US residents (no limit); and LAB accepts deposits that are incidental to international or foreign business[1].

The Branch is supervised and regulated by the following agencies:

[1] As a limited federal branch, LAB may accept deposits that an Edge Act corporation is authorized to accept (See 12 CFR § 211.6).

- The OCC, an independent bureau of the U.S. Department of the Treasury, acts as BOCNY's primary regulator;
- The Board of Governors of the Federal Reserve System ("FRB" or "Federal Reserve"), with the OCC, conducts annual Strength-of-Support Assessments of the Branch, and administers the *Prudential Standards for Large Bank Holding Companies, Savings and Loan Holding Companies, and Foreign Banking Organizations* ("EPS")[2] with respect to BOC's combined US operations, including BOC US Branches;
- The Consumer Financial Protection Bureau ("CFPB") conducts reviews and examinations of the BOCNY's activities that are within the scope of various consumer protection laws; and
- The Federal Deposit Insurance Corporation ("FDIC") insures the deposits of NYB and QNB and would serve as liquidator in the event of a branch failure.

The Branch benefits from the financial strength of BOC, including a source of funding as needed to support growth opportunities. Branch funding is primarily through BOC, corporate clients, and financial institutions. The Branch also leverages BOC's infrastructure through Service Level Agreements ("SLAs"), typically benefiting from the scale of BOC in the form of lower and more flexible costs than would otherwise be available through either performing the services directly in the Branch or outsourcing to third party vendors. For example, the America Data Center ("ADC"), which reports to BOC, currently provides Information Technology ("IT") support for all of the Americas through an SLA with BOCNY.

While BOCNY's existing portfolio of businesses provides a sound basis for growing a sustainable and stable stream of high quality earnings, the BOC Board of Directors, the BOC Risk Policy Committee, the BOC US Risk and Management Committee ("USRMC"), and BOCNY Executive Management Committee ("EMC") and Risk Management and Internal Control Committee ("RMICC") continue to evaluate the current risk profile, emerging risks, and opportunities to further diversify and grow BOCNY's institutional product offerings.

1.2. Purpose

Effective risk management is vital to the success of BOCNY. The BOCNY Risk Governance Framework ("RGF" or "Framework") establishes BOCNY's enterprise-wide risk management philosophy, principles, and practices that support risk identification, measurement, monitoring, control, escalation, and decision-making processes. BOCNY recognizes that risks are often interrelated and therefore should be managed branch-wide on both an aggregate and individual basis. BOCNY views risk in a broad context and considers the risk to earnings and liquidity in a stressed market environment as well as the risks to future earnings due to reputation damage.

The cornerstone of this Framework is BOCNY's Risk Appetite Statement ("RAS"). The RAS defines the risk categories involved in Branch business activities and includes Compliance Risk, Credit Risk, Interest Rate Risk, Liquidity Risk, Operational Risk, Price Risk, Reputation Risk, and Strategic Risk. The Branch maintains risk limits to support linkages between overall risk appetite, which is determined by the USRMC, and more granular risk-taking decisions and

[2] Code of Federal Regulations, Title 12, Part 252.

activities. The RAS is supported by a suite of quantitative metrics, i.e., Key Risk Indicators ("KRIs") that are used by the Branch to indicate the quantity, direction, and trending of a particular type of risk.

The Framework integrates the distinct roles of BOCNY's three lines of defense: Front Line Units (also referred to as "FLUs"), Independent Risk Management ("IRM" or the second line of defense) and Internal Audit ("IA" or the third line of defense), as defined in the Framework, into a holistic enterprise-wide structure.

This Framework has been developed in accordance with the OCC's Heightened Standards and is subject to ongoing review and modification, as risk practices, activities and systems evolve, and new risks are identified.

1.3. Rationale

Risk is an inherent part of BOCNY's business and activities. The Branch has policies and procedures in place to identify, measure, monitor, manage, and control the risks involved in the activities and support functions of each of its business segments.

The objectives of this Framework are to:

- Establish a consistent and integrated approach to risk management, including aggregating, monitoring, and managing the risks across the Branch;
- Formalize the governance structure for risk oversight by describing the role of the USRMC, the EMC, the RMICC, BOCNY's other management committees, the Chief Executive Officer ("CEO"), the Chief Risk Officer ("CRO"), and the three lines of defense; and
- Define the BOCNY RAS.

1.4. Related Policies

RGF is the highest governing policy for risk governance and risk management of BOCNY. All risk management policies are subordinated to RGF.

2. Scope

This Framework applies to all activities of BOC US Branches and to all Branch employees, as well as dual-hatted officers and employees of BOC affiliates acting on behalf of the Branch under SLAs.

3. Roles & Responsibilities

3.1. Policy Governance

Enterprise Risk Management Department ("ERM") is responsible for maintaining and updating the Framework. The Framework shall be reviewed and approved by RMICC and USRMC at least annually and whenever the Framework is revised, and USRMC is the final approval authority of the Framework.

3.2. Policy Implementation

Each committee, Executive Management and line of defense takes specific responsibilities in implementing the Framework. Section 6 and 8 lists their roles and responsibilities in detail.

4. Risk Management Components Overview

1. Risk Culture and Risk Management Philosophy**:** The cornerstone of BOCNY's Risk Culture and Risk Management Philosophy is the pursuit of acceptable risk-adjusted returns through prudent risk-taking that protects BOCNY's liquidity and operating effectiveness, and is implemented through the RGF. See Section 5, *Risk Culture and Risk Management Philosophy*.

2. Risk Governance Structure: Risk shall be monitored and managed on a branch-wide and business-specific basis, through the RGF. All major categories of risk to which the Branch is exposed are assessed and measured. See Section 6, *Risk Governance Structure.*

3. Risk Appetite Statement: The aggregate level and types of risk that the Branch is willing to accept in order to achieve its business objectives are established, communicated and monitored in accordance with the BOCNY RAS. The combination of qualitative risk components and quantitative metrics aims to ensure BOCNY's businesses are carried out in line with the risk appetite established by the USRMC, and to protect BOCNY's liquidity, earnings and reputation in both normal and stressed environments. See Section 7, *Risk Appetite Statement*.

4. The Lines of Defense: BOCNY's three lines of defense - its FLUs, IRM and IA - play an integral role in enabling the Branch to achieve the objectives of the Framework. See Section 8, *Lines of Defense*.

5. Comprehensive Risk Identification, Assessment and Issue Escalation: The Branch manages a process to identify, assess, and escalate all potentially material risks. Risk identification is an ongoing responsibility of all employees. Risk assessments performed by the three lines of defense, as well as formal risk identification processes such as the Risk and Control Assessment, new activity risk management process, and others aid in risk identification. See Section 9, *Risk Management Process*.

6. Risk Appetite Monitoring and Reporting: The RAS establishes a comprehensive approach for monitoring, reporting, and escalating the risks of the Branch and each of its FLUs on an on-going basis. This encompasses regular reporting and breach reporting to the RMICC and USRMC, as appropriate. See Section 9, *Risk Management Process*.

7. Risk Data Aggregation and Reporting: Risk data aggregation and reporting encompasses the governance and infrastructure to gather and process risk data in accordance with BOCNY's risk reporting requirements to enable the Branch to measure its risk profile against its risk appetite. The Branch must maintain an infrastructure to report key risk information to the RMICC and USRMC, as appropriate, on a timely basis, including during stress events and for ad hoc requests, to support decision making and strategic and financial planning. See Section 10, *Risk Data Aggregation and Reporting*.

8. Talent Management: BOCNY shall approve and adhere to a written talent management program that provides for development, recruitment, and succession planning for key personnel. The Branch shall also

establish and adhere to compensation and performance management programs that: ensure that the Chief Executive Officer and the three lines of defense adhere to this RGF; ensure that FLU compensation plans and decisions appropriately consider the level and severity of issues identified by IRM and IA; attract and retain talents necessary to implement and maintain the RGF; and prohibit any incentive-based compensation arrangement that encourages inappropriate risks by providing excessive compensation or that could lead to material financial loss. See Section 11, *Talent Management, Compensation and Performance Management Programs*.

5. Risk Culture and Risk Management Philosophy

BOCNY strives to maintain and cultivate a sound risk culture as a core part of its risk management. A sound risk culture bolsters effective risk management, promotes effective, appropriate risk taking and ensures that emerging risks or risk taking beyond our risk appetite are recognized, assessed, escalated, and addressed in a timely manner.

Sound risk culture is embedded in the Risk Management Philosophy and across all components of the RGF.

BOCNY's Risk Management Philosophy undergirds the following key principles:

Tone at the Top	Effective risk management practices help BOCNY better serve its customers, maintain and improve its position in the market, and protect its long-term safety, soundness, and reputation. The CEO is responsible for setting the tone at the top of a culture of compliance at the Branch. In addition, the CRO helps shape and reinforce the expectations of the USRMC, EMC, and RMICC for the conduct of business by providing independent oversight and providing credible challenge.
Integrity	Critical to BOCNY's approach to enterprise-wide risk management is acting with integrity, engaging in ethical business conduct, and complying with laws, rules, regulations and policies that reinforce such behaviors to ensure a safe and sound operation.
Comprehensiveness	A well-defined, comprehensive risk governance structure with appropriate risk management expertise, including a process for defining and communicating acceptable risk appetite across the Branch, the amount of risk that may be taken in each line of business and periodically assessing the efficacy of BOCNY's RGF.
Independence	Lines of reporting for IRM must be independent in regard to monitoring, identification, escalation, and mitigation of risk.
Accountability	The personnel management program must provide appropriate staffing levels and well-defined roles and responsibilities that establish clear accountability, and are supported by an appropriate compensation structure designed to motivate and retain talent and discourage imprudent risk taking.
Transparency	Sound risk culture that encourages reliable oversight programs including strong audit and risk management functions, open dialogue, willingness to provide credible challenge, escalation and reporting of risk to the USRMC, EMC, RMICC, and BOCNY's regulators, as well as external disclosures of risk matters.

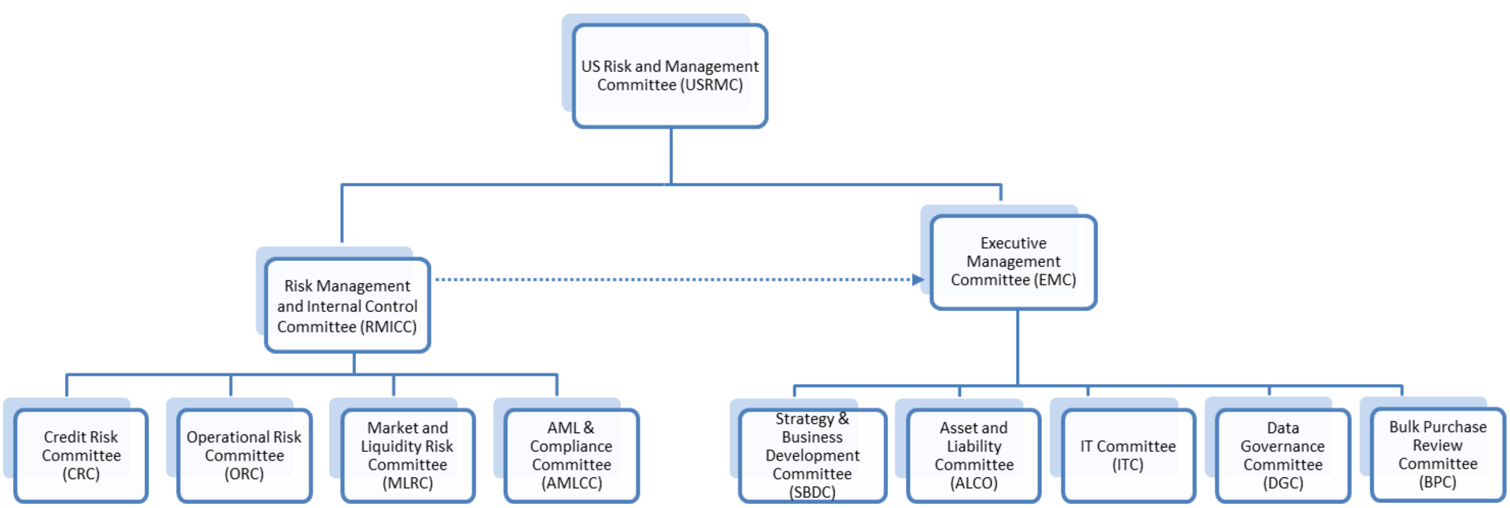
6. Risk Governance Structure

As a Federal Branch of a Foreign Banking Organization ("FBO"), BOCNY does not have its own Board of Directors or board committees. Therefore, as described below, the USRMC functions as the Board of Directors and board committees for purposes of the Heightened Standards. The USRMC is responsible for approving BOCNY's strategic direction, overseeing the Branch's compliance with safe and sound banking practices, and ensuring BOCNY maintains an effective risk management framework. In carrying out these responsibilities, the USRMC approves BOCNY's RGF, inclusive of the Branch's RAS. The USRMC also receives regular reports on the Branch's execution against the policies and KRIs delineated in the RAS. As described below, the USRMC is supported in these efforts by the EMC, the RMICC and a number of other committees.

BOCNY's governance structure is designed such that, at all levels within the organization, employees are expected to take appropriate actions within the context of transparent corporate objectives and a clearly stated risk appetite. Employees are delegated the appropriate authority to carry out these actions, and are held accountable for their decisions. Ownership, transparency, and accountability are the core risk tenets of BOCNY's corporate governance structure.

Figure 1 depicts the Board of Directors and management committees that oversee the Branch's risk management framework and the committees under the USRMC that assist in formulating the Branch's risk appetite and risk management policies. Execution of the Branch's risk management program is the responsibility of the Branch's three lines of defense, as described in Section 8*: Lines of Defense*.

<u>Figure 1: Board and Management Committee Oversight</u>



6.1. Risk Governance Roles and Responsibilities

6.1.1. COMMITTEES

USRMC

Heightened Standards impose a number of requirements on a banking entity's Board of Directors. As a federal branch of a FBO, BOCNY does not have a separate Board of Directors. As a FBO with more than $50 billion but less than $100 billion in combined US assets, BOC is also subject to the EPS regulations of the Federal Reserve. Therefore, BOC's Board of Directors has established the USRMC, which approves and periodically reviews the risk management policies of its combined US operations and oversees the risk management framework of such combined US operations.[3] The USRMC provides strategic oversight and direction to the Branch. This includes active oversight of management and implementation of a Branch culture of risk management and compliance with safe and sound banking practices, in compliance with both the letter and the spirit of the regulatory requirements that the Branch is subject to. Given the overlap between the responsibilities of the USRMC under EPS, and the responsibilities of a Board of Directors under the Heightened Standards, the Board of Directors of BOC has designated the USRMC to carry out the responsibilities of the Board of Directors for purposes of the application of Heightened Standards to the Branch.

The USRMC includes two independent members who are not affiliated with BOC or its affiliates and subsidiaries. All directors have received training on their fiduciary duties to the Branch. USRMC directors receive ongoing training and conduct annual self-assessments that include an evaluation of the USRMC's effectiveness.

The USRMC holds the Branch's FLUs accountable for appropriately assessing and effectively managing the risks associated with their activities. The USRMC does this by receiving regular risk and financial reports that include performance metrics against the Branch's RAS and Strategic Plan and assessment of the risk profile. This information allows the USRMC to challenge the Branch's FLUs and Executive Management on the stated anticipated and unanticipated changes to the Branch's risk profile, and review and respond to material issues escalated by the FLUs, IRM, and IA. The USRMC has delegated to IRM the responsibility for maintaining a comprehensive RGF that meets the OCC's Heightened Standards guidelines and is commensurate with the size, complexity, and risk profile of the Branch. In addition, the USRMC receives communications from IRM concerning significant instances where IRM's assessment of risk differs from that of a FLU or where a FLU is not adhering to the RGF.

In the strategic planning process, the USRMC evaluates management's submission of a comprehensive plan, evaluates the alignment of the strategy with BOCNY's RAS, provides feedback and direction, and reviews and approves the final plan. Thereafter, the USRMC receives regular reporting from management on efforts to

[3] Code of Federal Regulations, Title 12, Part 252.155(a)(1).

implement the plan that highlight variances, changes in risk profile, and progress toward achieving key strategic initiatives.

The USRMC regularly reviews, with BOCNY Executive Management, the Branch's financial performance, and risk profile. It reviews and approves BOCNY's RGF and provides oversight on the design and implementation of the RGF, inclusive of the Branch's RAS. In addition, it reviews and approves the update and submission of resolution plans required by the U.S regulators.

The USRMC reviews and approves IA's audit charter, audit plans and any significant changes thereto. In addition, the USRMC receives from IA written reports concerning IA's conclusions, material issues and recommendations from audit work carried out under the audit plan. The USRMC also receives communications from IA regarding significant instances where a FLU or IRM unit is not adhering to the RGF.

Finally, the USRMC approves the appointment and removal of the CEO, CRO, and Chief Audit Executive ("CAE") of the Branch.

<u>EMC</u>

The EMC is comprised of the:

- Chairman: President, USA and CEO;
- Executive Vice President ("EVP"), USA, CRO of BOCNY and CRO of Bank of China Group in USA ; and
- Other Executives.

The EMC provides direction on major corporate policies, including strategic, financial, infrastructure, regulatory and governance issues. It also allocates resources for strategic and operational processes and monitors progress on major initiatives and the implementation of the Strategic Plan. The EMC also oversees and participates in decision-making with respect to major issues affecting the operations of BOCNY. The EMC maintains ongoing communication with the Head Office, reports on matters of concern and oversees Branch activities to address Head Office standards and policies.

The EMC, along with the USRMC and RMICC, oversees the adherence of the Branch to BOCNY RAS limits and risk reduction steps to protect Branch earnings, liquidity, and operating efficiency.

There are five subcommittees under EMC. The responsibilities of EMC subcommittees are listed below.

Strategy and Business Development Committee ("SBDC"): SBDC is a Branch-level strategy and business development committee of BOCNY. SBDC is established in accordance with applicable US regulations, USRMC Charter, and guidance from BOC. SBDC is responsible for providing a high-level platform to constantly identify BOCNY's business drivers, discover the Bank's embedded strength, grasp the potential business opportunities and maximize the risk-adjusted returns. SBDC also reviews the Branch's business pipelines and business models. SBDC brainstorms new business development opportunities and cooperation synergies. SBDC reviews and recommends marketing, client, product, and geographic strategy. SBDC also reviews key business performance. SBDC discusses the 3-year Strategic Plan at least annually, on a rolling base.

Asset/Liability Management Committee ("ALCO"): The purpose of ALCO is to ensure that management is appropriately fulfilling first line of defense responsibilities of identifying, measuring, controlling, and monitoring the Bank's liquidity risk, interest rate risk and price risk in the banking book. ALCO is responsible for reviewing and directing the Bank's investment activities in the banking book.

IT Committee ("ITC"): ITC oversees the development and maintenance of BOCNY's IT Strategic Plan, ensuring IT implementation is aligned with BOCNY's IT strategy and business goals; oversees the adequacy and allocation of IT resources; reviews IT risk reports and FLU self-assessments, and supervises the accompanying remediation; evaluates the effectiveness of IT controls in place; and reports to the EMC on any other significant IT management areas.

Data Governance Committee ("DGC"): DGC is responsible for overseeing the execution of the Branch-wide data governance strategy and principles established by the EMC that are in alignment with overall data related business needs. The DGC members focus on resolving data related issues regarding policies and principles. The DGC is comprised of Department Heads from business functions, America Data Center ("ADC"), Internal Audit Department ("IAD") and the Chief Data Officer. This Committee serves as the leadership forum for Data Governance and is accountable for policy formulation, data strategy, data standards and oversight of the Data Governance program. The Committee reports directly to the EMC on the effectiveness of the data management program.

Bulk Purchase Review Committee ("BPC"): BPC oversees the establishment and maintenance of bulk purchase review principles and management framework, and provides guidance and oversight for the bulk purchase process to ensure the integrity, efficiency, economy and transparency of the procurement function. The Committee is responsible for reviewing and approving the selection of third party services with contract value equal to or over $50,000.

<u>RMICC</u>

The RMICC Chairman is the CRO of BOCNY (also the EVP, USA, and CRO of BOC Group in USA), and voting members are listed as follows.[4]

- President, USA and CEO
- Chief Compliance Officer
- Chief Data Officer
- Head of Credit Risk Management Department ("CRM")
- Head of Enterprise Risk Management Department ("ERM")
- Head of Legal and Compliance Department ("LCD")
- Head of Market Risk Management Department ("MRD")
- Head of Operational Risk Management Department ("ORD")

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[4] RMICC has representatives from all three lines of defense. CAE and Head of International Audit Department also observe the meeting as non-voting members.

The RMICC provides oversight of the Branch's risk management framework, including the strategies, policies, procedures, and systems, established by management to identify, assess, measure, and manage the risks facing the Branch. It aims to oversee the Branch's culture of risk management and compliance, and enhance management's understanding of the Branch's overall risk appetite and enterprise-wide risk management activities and effectiveness. The RMICC:

- Implements the instructions and decisions of the USRMC and EMC concerning risk strategy and appetite;
- Approves the written BOCNY risk governance framework and any significant changes to the framework prior to USRMC's approval, and monitors compliance with the framework;
- Oversees BOCNY's risk exposure against the approved risk appetite statement by monitoring the Branch's risk limits, and reviewing periodic risk management reports and risk assessment results;
- Oversees BOCNY's aggregate risk profile on an ongoing basis, and escalates material risks and significant instances to the CEO, EMC, and USRMC, as appropriate;
- Approves BOCNY's risk management and internal control priorities and relevant policies and procedures, and oversees the implementation effectiveness;
- Reviews BOCNY's business activities regularly and reviews/approves new activities sold/provided/managed by the Branch; and
- Conducts annual self-assessment to ensure the effectiveness and efficiency of the Committee.

RMICC subcommittees provide oversight of one or more risk types and report to the RMICC. These subcommittees are responsible for reviewing and approving the draft submission of management level risk frameworks and appetite statements within the authority provided by the RMICC.

The responsibilities of RMICC subcommittees are listed below.

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, 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, makes suggestions on the courses of action in response to portfolio performance, and market and regulatory conditions.

Operational Risk Committee ("ORC"): ORC is responsible for enterprise-wide coordination and oversight related to operational risk, recognizing that FLU management is responsible for executing operational risk management policies, and that second line risk management functions oversee the front line to do so. ORC is responsible for overseeing the effectiveness of operational, business continuity, IT, third party (vendor), new activities, information security, and model risk management.

Market and Liquidity Risk Committee ("MLRC"): MLRC reviews periodically (typically monthly) the Branch's interest rate and price risk (collectively "market risk") and liquidity risks in relation to the risk appetite, and provides its independent, comprehensive assessment to the RMICC concerning the effectiveness of market and liquidity risk management and compliance by BOCNY with requirements of the Head Office and US regulatory agencies. MLRC also recommends market risk and liquidity risk limits to RMICC for its approval and approves stress testing scenarios and assumptions. MLRC reviews/assesses all market and liquidity risk policies, at least annually, for appropriateness and alignment with laws and regulation as well as Head Office policies.

AML & Compliance Committee: The AML & Compliance Committee is the oversight and approval body for purposes of governing compliance functions and responsibilities. The Committee establishes and helps to maintain the Branch's compliance program. The AML & Compliance Committee oversees the identification of compliance risks and obligations by reviewing the applicable laws and regulations that govern the business activities of the entities and assessing the adequacy of controls to meet them. This Committee also controls risks arising from regulatory requirements by establishing controls that ensure the Branch has sufficient resources and is compliant with applicable laws and regulations. Moreover, the Committee monitors the effectiveness of the compliance program by requiring reports and mitigates compliance risk by establishing and reviewing compliance-related policies and procedures.

6.1.2. ROLES AND RESPONSIBILITIES OF EXECUTIVE MANAGEMENT

CEO

The CEO is accountable to the USRMC for all operations of BOCNY. The CEO provides overall direction and leadership in pursuit of the business strategy of BOCNY, setting the tone at the top for a culture of prudent risk management and compliance. The CEO oversees the design, promotion, delivery and quality of programs, products and services. The CEO also ensures that BOCNY's FLUs satisfy all regulatory requirements. The CEO is responsible for the development of the Strategic Plan, promoting the stature of the IRM and IA functions, holding the FLUs accountable for managing the risks associated with their activities, ensuring the FLUs adequately address audit and regulatory findings, responding to issues escalated by IRM, and resolving differences between IRM and the FLUs.

CRO

The CRO reports directly to the CEO, the Global CRO and USRMC. The CRO manages BOCNY's primary risk management functions. The CRO's direct functional responsibilities include CDO, ERM, LCD, MRD, ORD, and CRM. The CRO also shares responsibility with the CEO for strategic risk for the Branch and ensuring that effective controls are established to address the recognized risks.

The CRO also serves as Chairman of the RMICC. In this capacity, the CRO provides the USRMC, the EMC, and the Branch with an aggregated view of the risks related to BOCNY's business activities, ensuring that significant risks are effectively identified, evaluated, approved, measured and managed in accordance with BOCNY's RGF.

The CRO works closely with the BOCNY's risk professionals to coordinate risk management standards and controls. The CRO ensures that BOCNY has independent oversight and governance around the risk(s) incurred within BOCNY.

Other Executives

Other Executives provide oversight and leadership of the day-to-day operations and oversee, analyze, measure, monitor and report on BOCNY's risk exposure. Other Executives also oversee the Branch's overall governance framework, processes, communications and controls.

7. Risk Appetite Statement

This Risk Appetite Statement represents the aggregate level and types of risk that BOCNY is willing to accept in pursuit of its strategic objectives and business plan, taking into account the safety and soundness, financial condition and market perception of the Branch. The Branch recognizes that it is not possible or necessarily desirable to eliminate some of the risks inherent in its activities. Acceptance of some risk is often necessary to foster innovation within business practices. This RAS therefore facilitates all risk-taking and risk mitigation activity within the Branch. This RAS has been designed, as has the Framework as a whole, to be consistent with and complementary to the risk governance principles applicable to BOCNY's operations and with aspects of the Federal Reserve's EPS standards applicable to certain operations conducted by the Branch.

7.1. Risk Appetite Components

Risk appetite is articulated through the BOCNY RAS, which acts as a key bridge between the BOC business strategy in US and its management of risk, by setting the tone for US strategic planning processes, and is periodically updated to align with changes to the US strategy.

The RAS includes both qualitative and quantitative components. The qualitative components describe the conservative risk culture and how BOCNY assesses and accepts risks, including those that may be difficult to quantify, and BOCNY's risk tolerances. Quantitative components are comprised of KRIs that facilitate ongoing monitoring of risk levels and trends against the risk appetite.

KRIs can reflect BOCNY's safety and soundness, financial condition, and market perception. BOCNY sets thresholds at levels that provide appropriate triggers designed to provide management, the RMICC, and the USRMC with time to take appropriate actions to reduce risk before adverse developments in BOCNY's risk profile jeopardize the adequacy of its financial condition, operational effectiveness, or compromise compliance with U.S. regulatory requirements. Management recognizes that risk levels can escalate quickly through environmental or other factors, in which case management, working closely with the FLUs and IRM, will take appropriate corrective actions. Such actions may include, but are not limited to, hedging, asset sales, and cessation of activities.

BOCNY does not intend for its RAS to remain static, but to be revised according to the business strategy, operations, and feedback through its monitoring. This RAS is reviewed and revised at least annually by the USRMC and may be updated more frequently, if needed, based on material changes in BOCNY's business activities or operating environment.

The RAS defines and includes the Branch's major risks. As described further in section 8: *Lines of Defense*, the FLUs are responsible for appropriately assessing and effectively managing these risks in their activities, and IRM oversees all of BOCNY's risk-taking activities. Figure 2 sets forth the allocation of major risks among the specific IRM departments.

The RAS is communicated and reinforced on an ongoing basis throughout the Branch. FLUs monitor compliance with KRIs applicable to their business at appropriate frequencies. IRM communicates the branch-wide risk appetite to various FLUs and monitors BOCNY's risk profile against the RAS and related KRIs and reports on the results to the

USRMC at least quarterly. IA monitors risk reports as part of its audit planning processes. For more details on risk appetite monitoring, see Section 9.4: *Risk Monitoring and Reporting*.

Figure 2: Risk Types

No.	Risk Types	Independent Risk Management
1	Compliance Risk	LCD
2	Credit Risk	CRM
3	Interest Rate Risk	MRD
4	Liquidity Risk	MRD
5	Operational Risk	ORD
6	Price Risk	MRD
7	Reputation Risk	ERM
8	Strategic Risk	ERM

BOCNY maintains a comprehensive suite of KRIs to support its RAS. KRIs are based on BOCNY's experience with meaningful types and levels of risk indicators and form the basis for monitoring its risk taking activity.

KRIs are reviewed and recalibrated through discussions and coordination among FLUs, IRM, the RMICC, the EMC, and the USRMC. These reviews take into account projected business growth, as well as any changes in the strategy, risk profile, or regulatory environment that might affect the overall risk appetite of the Branch.

7.2. Branch-Wide Risk Appetite Statement

BOCNY's overall risk appetite is **moderate**, balancing risk and return, while conducting business in a matter that is rational, stable and prudent. BOCNY seeks to remain a conservative lender; taking risks it understands in markets, industries, and products where it has a competitive advantage. As a general matter of policy, BOCNY will not accept customers, engage in products or services, use distribution channels, or deal with geographies or jurisdictions for which the level of risk, after applying appropriate controls, is greater than moderate. BOCNY's risk appetite for the specific risk types is indicated in Figure 3.

Figure 3: Risk Appetite for Each Risk Type

No.	Risk Type	Risk Appetite
1	Compliance Risk	Low
2	Credit Risk	Moderate
3	Interest Rate Risk	Moderate
4	Liquidity Risk	Low
5	Operational Risk	Moderate
6	Price Risk	Low
7	Reputation Risk	Low
8	Strategic Risk	Moderate

7.2.1. COMPLIANCE RISK

BOCNY is committed to complying with the letter, spirit and intent of all applicable laws and regulations and has a low risk appetite for compliance and financial crime related risks. BOCNY acknowledges the inherent risk of its business, and recognizes that clients and other third parties may attempt to utilize products and services BOCNY offers for financial crime and other criminal purposes. To mitigate such risks, BOCNY follows strict and transparent standards, continuously assesses the risks and strives to maintain robust and effective risk-based compliance programs to prevent, to the maximum extent feasible, BOCNY being used to facilitate criminal activities. As such, BOCNY has a low risk appetite for compliance and financial crime related risks.

Branch-Wide Compliance Risk KRIs and Limits[5]

[5] On a go-forward basis, the creation of potential new KRIs and limits will be phased in, as deemed necessary. For new KRIs and limits, a trend analysis and written rationale will be required before factoring into the process.

No.	KRI Name	Warning Line	Limit
1	Quarterly Percentage Change of Initial SARs Filed	+/-20%	+/-25%
2	Quarterly Percentage Change in High Risk Customers	+/- 1%	+/- 2%
3	Number of Report on Blocked/Rejected Transaction by Downstream Banks	0	0
4	Number of Late Regulatory Filings and Information Sharing	0	0
5	Number of Consumer Complaints Received through Regulatory Agencies.	N/A[6]	
6	Number of Compliance Past Due and High-Risk Internal Findings, including audit and testing issues	N/A[7]	

7.2.2. CREDIT RISK

BOCNY's credit risk principally arises in corporate lending, trade finance, financial institutions, and bond investments.

BOCNY's credit risk appetite is moderate. Credit risk is accepted in support of 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. The Branch generates credit risk from commercial loans through syndication or bilateral lending that encompasses commercial real estate mortgage, trade finance, financial institution counterparty risk, bond investment and to a lesser extent retail mortgages. Retail mortgages are extended on an accommodation basis out of QNB. At all times BOCNY seeks to maintain a safe and sound credit portfolio.

In addition, BOC, as a global institution with branches and subsidiaries in all parts of China and the world, seeks to capitalize on China's growth and serve its global customer base. BOCNY manages its credit risk in a disciplined manner and seeks to operate in a prudent manner, preserve a positive market perception, and achieve an optimal risk-adjusted return. The Branch targets clients of Fortune Global 500, US Fortune 1000, major real estate development companies, Chinese "Going Global Customers" and Sino-US trade customers. BOCNY targets investment grade borrowers or borrowers that are non-rated with investment grade characteristics. The Branch is also highly selective in commercial real estate lending that focuses on gateway cities, prime location, reputable sponsorship and strong tenancy.

BOCNY also seeks opportunities in bond investment including government bond, international financial organization, corporate and financial institution issuers bonds and other authorized products that are only limited to investment grade.

[6] 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 warning line and limit.
[7] 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 warning line and limit.

BOCNY seeks to achieve the following in managing credit risk:

- Credit risk is managed on a proactive basis, with credit losses remaining within established tolerance levels;
- Concentration risk should be well-understood with credit risk appropriately distributed across portfolios, geographies, industries, and other relevant dimensions of concentration;
- Growth in credit portfolios should be within BOCNY's overall strategy, in areas and products where we have expertise;
- New areas of business are well defined and confined to markets and customers the Branch understands and manages through limit restrictions;
- Portfolio quality should be maintained through a conservative approach to credit selection, underwriting, proactive post-loan monitoring and loss mitigation.

BOCNY's risk appetite for credit risk is proactively monitored to ensure adherence to the stated credit risk appetite statement. BOCNY uses KRIs to indicate the quantity, direction and trend of the credit risk in its businesses and monitors credit exceptions to ensure lines of business are operating within policy parameters. Asset quality is closely monitored to ensure BOCNY is taking risk in line with these objectives. In addition, concentrations are measured, monitored, and reported to ensure concentrations remain commensurate with the desired diversification, risk and complexity set forth in this RAS.

Branch-Wide Credit Risk KRIs and Limits

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%
11	Underwriting Exceptions Ratio	15%	18%

No.	KRI Name	Warning Line	Limit
12	Total Number of Annual Reviews Past Due over 90 Days	0	0

7.2.3. INTEREST RATE RISK

The interest rate risk appetite for BOCNY's balance sheet is moderate and consistent with BOCNY's business development strategies and the overall market risk level. Interest rate risk arises from the assets, liabilities and off balance sheet exposures of BOCNY. The Branch acknowledges that significant interest rate risk can arise from BOCNY's fixed rate lending exposures, investments and funding positions.

The Branch follows the principles of "integrated, comprehensive and timely" in its interest rate risk management. "Integrated" means that interest rate risk management is subject to BOCNY's coordinated management and centralized control. "Comprehensive" means that any material interest rate risk event should be reported to TRY and MRD, and if necessary, hedged to manage the exposure. "Timely" means that internal positions and external conditions are monitored on a continuous basis in order to respond as quickly as possible to a risk event.

The two KRIs used to measure interest rate risk are Net Interest Income ("NII") and Economic Value of Equity ("EVE") sensitivity to a 200 bps shock. The Branch is not separately capitalized and so the level of equity is relatively low compared to the size of the Branch's balance sheet. Hence, the EVE exposure and the volatility of its sensitivity are relatively larger than banks which have a significant shareholders' equity base.

Branch-Wide Interest Rate Risk KRIs and Limits

No.	KRI Name	Warning Line	Limit
1	Net Interest Income at Risk (+/- 200 bp instantaneous shock)	15%	20%
2	Economic Value at Risk (+ 200 bp instantaneous and parallel shock)	$280MM	$350MM

7.2.4. LIQUIDITY RISK

BOCNY's liquidity risk appetite is low. BOC implements an enterprise level Liquidity Risk Management Policy, which governs the liquidity risk practices at the enterprise level. In addition, BOCNY is encompassed in a Liquidity Risk Management Framework that covers the combined US operations. BOCNY liquidity is governed at a managerial level by ALCO. ALCO ensures that the Branch proactively manages its liquidity exposure and the buffer used to cover the exposure.

BOCNY adopts a conservative position on its portfolio of liquid assets. It is predominantly held in cash or cash-like instruments.

BOCNY intends through its low liquidity risk appetite to:

- Maintain sufficient liquid assets to cover the projected net stressed cash-flow need of the U.S. branches over the first 14 days of a stress test with a 30-day planning horizon;
- Maintain additional liquid assets to also cover the net stressed cash-flow needs for the other U.S. domiciled entities as part of the Enhanced Prudential Standards requirement;
- Undertake stress tests for 30-day, 90-day and 1-year planning horizons to understand longer term liquidity risk exposure;
- Diversify its funding sources by instrument type, counterparties, counterparty type, secured and unsecured funding (where applicable);
- Limit off-balance sheet exposure and other exposure that could create a funding need during a liquidity stress event; and
- Establish and regularly test the Contingency Funding Plan ("CFP") to operationally manage a liquidity crisis.

The Branch, through TRY, will monitor cash flow needs for its daily operations, to determine its liquidity gap position. TRY monitors liquidity KRIs and undertakes the suite of stress scenarios. Results are reported monthly to ALCO as part of the monthly ALCO compliance package and MLRC reporting.

The Branch, through TRY, actively manages the portfolio of highly liquid assets and Bank of China's account with the Federal Reserve. TRY maintains BOCNY CFP, which is approved by ALCO at least annually.

IRM provides independent oversight to the liquidity risk management framework and challenges/verifies assumptions made in the stress testing models.

Branch-Wide Liquidity Risk KRIs and Limits

No.	KRI Name	Warning Line	Limit
1	Cumulative Gap Ratio (ratio of assets to liabilities maturing within 90 days)	40%	25%
2	Cushion Above the Monthly Stress Test Defined Buffer	10%	5%
3	Single Third Party Provider Funding Concentration as a Percentage of Total Assets Limit – Excluding China Development Bank and People's Bank of China	10%	15%
4	Ratio of Highly Liquid Assets to Buffer Portfolio Size	90%	85%
5	Ratio of Brokered Deposits to Total Deposits	25%	30%

7.2.5. OPERATIONAL RISK

BOCNY's appetite for operational risk is moderate, and the Branch will not accept operational risk where controls are not sufficient to produce a moderate level of residual risk. Operational risk is inherent in all of the Branch's products and services, activities, processes, staff and systems. However, the Branch seeks to minimize risk from the impact of operational failures within all business lines by monitoring against quantitative thresholds that are regularly identified and reviewed with ORC and the RMICC. Qualitative measures, where practical, are also relied upon to minimize risk. This includes but is not limited to the following activities:

- Updating branch-wide policies and procedures on a timely basis;
- Establishing branch-wide risk awareness that everyone in the Branch is responsible for operational risk, and training the first line of defense in operational risk self-assessment processes;
- Optimizing operational risk management tools, including control testing, continuously to efficiently identify, monitor, evaluate, report, mitigate and manage operational risk; and
- Implementing data governance controls and processes resulting in the creation of policies and processes to enable governance of key components such as data quality, data dictionary, data ownership, data access, data lineage, data lifecycle, data sharing, information security and cyber security.

Business Continuity Management ("BCM")

Based on the Branch's business model, there may be significant exposure to the risk arising from ineffective and inadequate planning, testing or implementation for the recovery of business operations in the event of a severe declared disaster. BCM encompasses planning for the recovery of business operations, and has oversight on ADC's disaster recovery efforts of technology environments and data. BCM efforts protect the Branch's reputation and brand name by ensuring that business continuity-related risk is effectively identified, assessed, managed, monitored and reported. All departments participate in BCM and each business maintains a business continuity plan consistent with the branch-wide Business Continuity Management Program. In addition, each satellite branch location (QNB, LAB, and CHB) is covered by plans developed to mitigate and manage BCM risk.

IT Risk

Technology risk is an increasingly important component of operational risk. Much of the responsibility for executing risk management activities falls to ADC. ADC provides IT services as well as IT related disaster recovery planning. The Branch is committed to managing IT risk to achieve a secure and resilient infrastructure that supports both internal and external clients. As part of this effort, the Branch is proactively engaged in collecting viable intelligence on emerging threats and implementing strong detective and preventive controls utilizing the latest technologies and industry-proven tools and techniques. The Branch maintains a robust information security incident response plan in an effort to mitigate the risk posed by internal and external threats and maintains cyber security insurance to limit the financial impact of a material breach.

Third Party Risk Management

Third party risk management is another significant component of operational risk. The Branch's third party risk management program, managed by ORD, is designed to maintain structure and consistency over the risk assessment and due diligence, contract negotiation, ongoing monitoring and termination processes for third party service providers who provide services to support the Branch's operations. The use of service providers to help the Branch achieve strategic goals does not diminish the responsibility of management to ensure that third party activity is conducted in a safe and sound manner and in compliance with applicable state and federal laws and regulations. In effect, the controls and information security requirements must be, at minimum, equivalent to those that would be in place if the activity were performed internally.

New Activity Risk Management

Comprehensive risk assessments of products are required when new activities are to be launched or piloted or when existing activities are undergoing material modifications or their process procedures require change that may impact any risk control. This ensures that all risks are fully understood, and the Branch is operationally ready to conduct the business upon launch (including booking, valuation, reporting, risk management and various other regulatory compliance, e.g., AML, requirements). Upon completion of IRM's risk assessments, a completed package containing the FLU's plan and assessment along with IRM's assessment goes to ORC and RMICC for approval and results are reported to USRMC. Any new activities that may have significant impact on liquidity risk profile of the Branches must be approved by CRO and reported to the USRMC.

Data Governance and Information Security

Key cross business functions such as data quality, information security and cybersecurity require the implementation of data risk related controls. The establishment of these controls enables the organization to make data driven decisions and reduce data related risks while achieving operational efficiency and compliance. The risk is managed by defining and implementing policies and standards to enable governance of key data risk components such as data quality, data dictionary, data ownership, data access, data lineage, data lifecycle, data sharing, information security and cyber security.

Model Risk Management

BOCNY manages model risk across the Branch using a comprehensive, consistent and effective approach, enabling the Branch to achieve its strategic priorities in line with the USRMC approved risk appetite. BOCNY utilizes various models to support the quantification of risks, analysis of business strategies, and management of trading activity. These models are subject to BOCNY Model Risk Management framework which provides guidance for model risk governance, model inventory management, model development, implementation, monitoring, use, and independent model validation.

Branch-Wide Operational Risk KRIs and Limits

No.	KRI Name	Warning Line	Limit
1	Total Dollar Amount of Operational Risk Related Loss Every Quarter	$10,000	$100,000
2	Number of Models in Production without Any Model Risk Controls in Place	0	0
3	HR – Employee Turnover Rate	15%	18%
4	Number of High Importance Information Security Incidents in a Year	1	2
5	Number of Low Importance Information Security Incidents in a Year	4	8
6	Number of Critical Applications' Outages Exceeding Their Respective Recovery Time Objectives (RTOs)	0	0
7	Number of Critical Third Parties with Past Due Annual Monitoring	1	2

No.	KRI Name	Warning Line	Limit
8	Number of Critical and High Risk Patches Not Installed on Critical Systems within the Required Timeframe	1	2
9	Percentage of Critical Network Devices with Critical or High Risk Patches Not Installed within the Required Timeframe	>5%	>10%

7.2.6. PRICE RISK

BOCNY has a low appetite for price risk and does not engage in proprietary trading. The majority of price risk exposures arise from facilitating customer transactions in interest rate derivatives and foreign exchange.

Price risk manifests from assets or liabilities that are exposed to interest rates, credit spread, and foreign exchange rates. BOCNY does not engage in equity trading or commodity trading. Though BOCNY is involved in precious metals business, its exposure is usually kept at zero. Market risk is monitored on a regular basis and trading positions are marked-to-market daily by FLUs and IRM.

The Branch arranges the foreign currency funds to minimize potential mismatch of currencies. Other price risk mitigation specific to individual FLUs include permissible instruments, maximum tenor, and stop loss triggers. Only those products that can be independently priced and properly evaluated are permitted to be traded.

The classification of trading book and banking book is an important prerequisite of market risk management. The trading book includes those financial instruments and commodity positions held for the purpose of trading or hedging the risk of other trading businesses. Trading purpose means holding financial instruments or positions intentionally for short-term resale, and/or to benefit from actual or expected short-term price movements, or for locking in trading profits. Any business of BOCNY not classified as trading shall be classified and managed in the banking book.

Branch-Wide Price Risk KRIs and Limits

No.	KRI Name	Warning Line	Limit
1	Consolidated View (Trading Book and Banking Book) of Price Risk - Total fair value assets as a percent of total assets	20%	25%
2	Price Risk in the Trading Book Daily VaR Covering the Trading Book	$120, 000	$150, 000
3	Foreign Exchange Exposure (Trading Book and Banking Book)	$6,000,000	$8,000,000

7.2.7. REPUTATION RISK

BOCNY's low appetite for reputation risk is reflected in and enforced through various processes for identifying and vetting clients or business practices that may present significant reputation risk. These include, but are not limited to governance processes around strategic planning, new activity approval, third party risk management and transaction screening of business lines. The Branch provides ongoing communication of reputation risk efforts to clients, media, stakeholder organizations, regulators, and investors.

The Branch further mitigates reputation risk via the Branch's compensation programs, which are discussed more fully in Section 11, *Talent Management, Compensation and Performance Management Programs*.

As the Branch grows to achieve longer-term goals, it will closely monitor potential changes in the levels and trend of reputation risk.

Branch-Wide Reputation Risk KRIs and Limits

No.	KRI Name	Warning Line	Limit
1	Major Negative News Reports (#) - Number of quarterly negative news reports on Bank of China, its customers, stakeholders and vendors	1	5
2	Number of Open Regulatory Issues Outstanding	N/A[8]	
3	Customer Complaints -- Number of quarterly complaints received by BOCNY	10	20

7.2.8. STRATEGIC RISK

The Branch has an overall moderate strategic risk appetite. Growth of the Branch's business will only occur in a way that supports long-term goals and does not compromise the Branches' ability to manage risk. The Branch is prepared to refrain from businesses and activities that do not conform to risk principles set forth in the Framework with the proper risk mitigation.

The Branch mitigates strategic risk by effectively executing the Strategic Plan and monitoring and adapting to external environment. The Branch also reviews and updates its strategic plans annually to adapt to observed changes to: the external operating environment; the banking and financial services industry; the requirements of the Branch's regulators; the Branch's operational capabilities; as well as the customer behaviors. The Branch takes precautions to ensure that strategic initiatives are aligned to the Branch's strategy that is in line with the stated risk appetite.

The Branch proactively tracks progress on the Strategic Plan, and monitors and mitigates emerging risks to ensure that:

- The Branch's operation is safe and sound;
- The plan is being executed in a timely and effective manner; and
- Appropriate levels of management are engaged on emerging risks and mitigating efforts.

Branch-Wide Strategic Risk KRIs and Limits

[8] 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 warning line and limit.

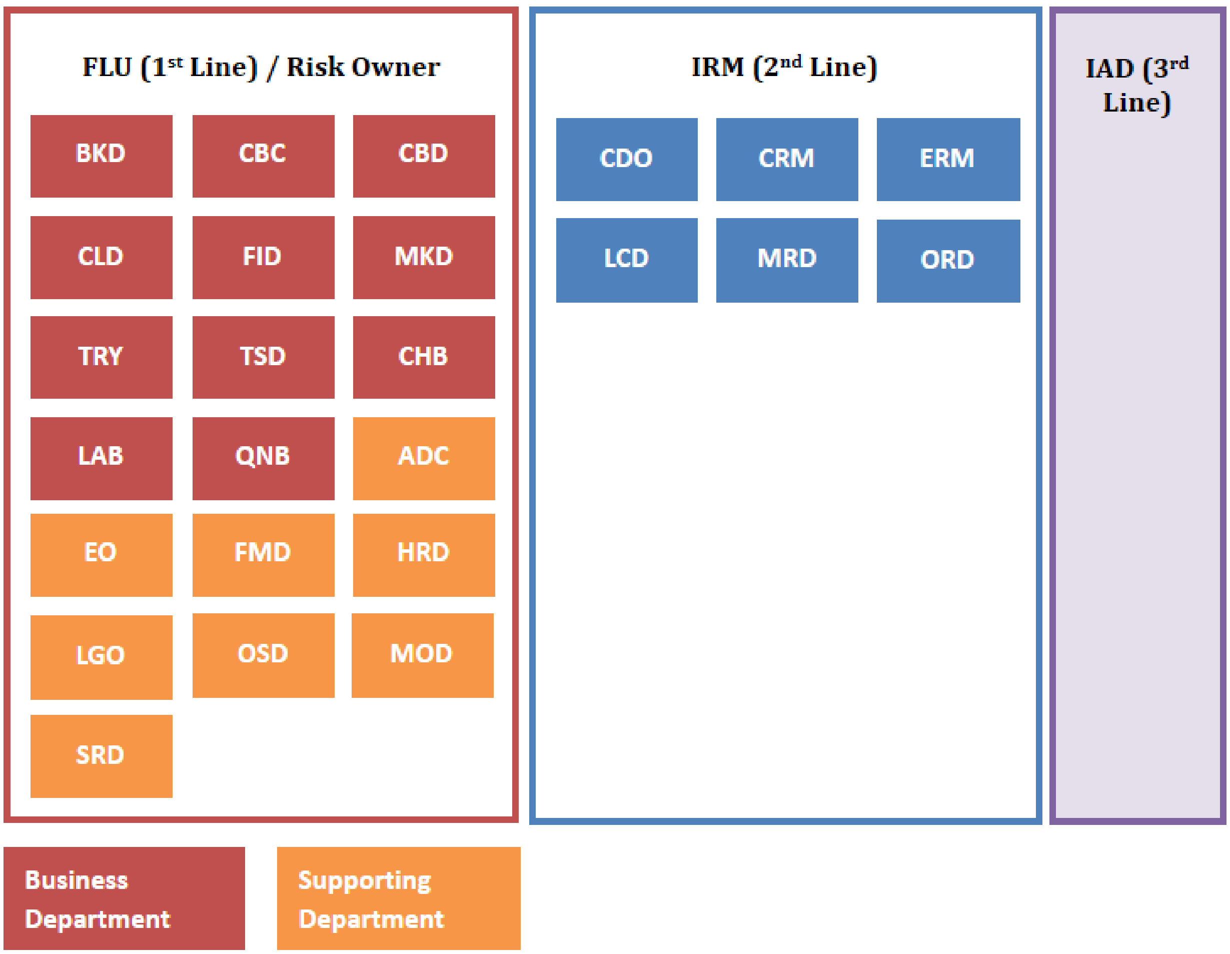
No.	KRIs	Warning Line	Limit
1	Deviation from Planned Loan Asset Size (%) (Actual Loan Asset – Planned Loan Asset)/Plan Loan Asset	+/- 20%	+/- 30%
2	ROA (%) (net income / average asset size)	<0.35%	<0.3%

8. Lines of Defense

Risk management is facilitated through BOCNY's three lines of defense: FLUs (first line), IRM (second line), and IA (third line). The first line of defense operates within a defined and transparent risk-taking environment and is responsible and accountable for the risks that arise from FLU activities; the second line of defense provides review and independent challenge for the execution of risk management by the first line. The third line of defense provides independent assurance for the first and second line activities.

Figure 4 identifies the specific units in each of BOCNY's three lines of defense.

Figure 4: BOCNY Three Lines of Defense[9]



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[9] Please see Section 14.3 for the full spell of department names.

8.1. Front Line

A fundamental imperative of BOCNY's risk culture is that FLUs own the risk and are accountable for identifying, measuring, monitoring, managing, and reporting the risks associated with their activities. Risk awareness and a sense of accountability for decisions must be woven throughout the culture of the organization.

Risk awareness and accountability is enhanced and facilitated by the Quality Control Unit ("QCU") that is being established within each BOCNY FLU. The major responsibilities of QCUs include but are not limited to the following: assisting in identification, assessment, monitoring and reporting of risk issues and KRIs; assisting in business process review and revision; advising and coordinating new activity assessment, etc. Managers of FLUs, assisted by their QCUs, are empowered to adopt business-level strategies and accept related risks, subject to BOCNY's overall Strategic Plan, RAS and risk management policies.

The Branch relies upon the experience and expertise of its management team and staff to recognize profitable opportunities while avoiding events that create unacceptable loss and/or unacceptable volatility in earnings. BOCNY succeeds when it can maximize its ability to better identify such opportunities and use it as a competitive advantage. A strong, pervasive risk management culture emphasizes accountability and informs risk-taking at every level of decision making, down to the transactional level, coupled with early detection and communication of emerging risks by line officers.

8.1.1. GENERAL ROLES AND RESPONSIBILITIES FOR ALL FRONT LINE UNITS

FLUs are responsible and are held accountable by the CEO, CRO and the USRMC for appropriately assessing and effectively managing the risks associated with their activities. In fulfilling this responsibility, each FLU:

- Promotes risk culture that encourages an informed, measured, disciplined and balanced approach to risk-taking;
- Evaluates, through the risk assessment processes described in Section 9 the material risks associated with its activities;
- Establishes and adheres to a set of written procedures that ensures that risks arising from its activities are effectively identified, measured, monitored, managed and reported, consistent with BOCNY's RAS, concentration risk limits, processes established within the RGF, and supporting standards and policies established by IRM;
- Establishes and adheres to policies and procedures that ensure compliance with applicable laws and regulatory standards;
- Adopts, maintains, and provides feedback to IRM to continuously improve risk identification and assessment approaches including policies, standards, processes, taxonomies and rating scales;
- Sponsors new activities through the established New Product Policy;
- Develops business plans, including the identification of target clients;
- Incorporates the effect of changes in economic and market conditions, legislative and regulatory rulemaking, and competition on the Branch in its business strategy and risk-taking decisions;
- Provides input on liquidity stress scenario development;

- Monitors and reports on its performance against strategic and financial plans;
- Monitors and reports on its controls to identify gaps and prevent, correct and detect issues;
- Identifies related action plans to close gaps identified by monitoring, as appropriate;
- Conducts due diligence on new client relationships prior to onboarding;
- Performs ongoing monitoring of clients and third parties' risk taking activities and controls;
- Recruits, trains, and retains talent and maintains staffing levels required to carry out its roles and responsibilities effectively as detailed in Section 11; and
- Adheres to compensation and performance management programs that comply with guidelines detailed in Section 11.

Additionally, certain supporting departments, e.g. LGO, bear oversight responsibilities on all three lines of defense due to the nature of their work.

8.1.2. RISK SPECIFIC ROLES AND RESPONSIBILITIES FOR FRONT LINE UNITS

Compliance Risk

FLUs are primarily accountable and responsible for the compliance risk within their units, including compliance risk arising from fiduciary activities. They are responsible for establishing appropriate systems of controls to comply with the letter, spirit and intent of all applicable laws and regulations. Responsibilities include:

- Conducting compliance risk assessments;
- Operating within Compliance Risk Appetite and risk tolerance as outlined within the Compliance and Financial Crime Risk Appetite Statement;
- Notifying IRM on issues identified through monitoring and testing, emerging compliance risks, changes in the business related to products, vendors or systems, and resolution of audit and examination exceptions;
- Conducting due diligence of new client relationships and conducting ongoing client risk assessment, monitoring and testing;
- Performing ongoing monitoring and testing (assurance) of compliance with applicable laws and regulatory standards;
- Addressing regulatory changes that are communicated by LCD and ensuring the regulatory change is implemented timely;
- Implementing effective controls; and
- Escalating exceptions and/or issues, including emerging risk issues to IRM.

Credit Risk

FLUs are responsible for developing and implementing strategic, business and product plans that align with BOCNY's risk appetite and are in coordination with the risk management groups. FLUs' relationship managers and account officers broadly market and underwrite customers that meet business plan objectives, credit risk management policies and underwriting standards. These groups then manage the credit relationship in accordance with sound business practices and acceptable risk parameters. The account officers, relationship managers and other supporting FLUs' additional responsibilities include:

- Proposing credit risk limits and developing underwriting standards;
- Developing procedures adhering to credit risk management policies, credit risk limits and underwriting standards established by IRM;
- Performing due diligence, structuring transactions, negotiating terms and conditions, drafting documentation, data input, and collateral management;
- Analyzing and approving the origination of loans;
- Assigning internal credit risk ratings;
- Performing ongoing monitoring, assessment, and reporting on customer and portfolio risk to relevant risk committees; and
- Reviewing and managing portfolio risk relative to RAS and Strategic Plan.

Liquidity Risk

FLUs are responsible for developing and maintaining procedures that describe their practices for liquidity management, establishing triggers to identify when TRY and MKD should be notified by the FLUs of pending new business in accordance with the established triggers. Additional responsibilities include:

<u>TRY</u>

- Developing procedures adhering to liquidity risk management policy;
- Obtaining on- and off-balance sheet data for stress testing;
- Performing stress tests under different scenarios, calculating stress test results, interpreting stress test results and presenting critical messages to Executive Management, documenting all the assumptions, scenarios and processes regarding stress testing, and regularly revisiting assumptions and scenarios based on changes in balance sheet portfolios and products;
- Developing short-term and long-term cash flow reporting, interpreting and presenting the cash flow projection result to the relevant departments, and documenting cash flow projection procedure;
- Reporting stress test results and buffer calculation to the ALCO, and providing analysis of the balance sheet, in order to propose the asset-liability structure change to the ALCO when necessary;
- Reporting related indicators such as cumulative maturity gap ratio;
- Projecting and monitoring the balance with the Federal Reserve Bank daily, and managing a portfolio of high quality liquid assets of investment securities;
- Developing and maintaining the Contingency Funding Plan with detailed warning indicators, procedures and action plans, and conducting test regularly;
- Providing funding plan and investment guidelines based on the prevailing market conditions, the Branch's asset and liability structure, regulatory and internal risk management; and delegating transaction execution responsibility to MKD.

<u>MKD</u>

- Conducting market and internal funding transactions based on TRY's guideline which aims to provide sufficient funding for other FLUs and regulatory requirements; conducting bond investment and interbank lending transactions with surplus funds to increase asset yield, in accordance with TRY's guideline which is tailored for the Branch's overall liquidity situation and compliance with the liquidity risk management rules and risk limits.

Other FLUs

- Complying with liquidity management related policies and procedures; and conducting timely monitoring and forecast of large-amount fund flow; and reporting the large expected cash flows to TRY;
- Coordinating with TRY and MKD to manage and invest the Branch's liquidity (e.g., participation in ALCO or other means); and
- Reporting to TRY and MKD pending new business transactions in accordance with the established notification triggers.

Market Risk (Interest Rate Risk and Price Risk)

The core functions of MKD, CBD, TSD and other FLUs generate market risks (e.g., price and interest rate risk). The responsibilities for the departments include:

MKD

- Proposing market risk limits for the trading book and the investment portfolio under banking book to IRM;
- Adhering to limits established by IRM;
- Monitoring the interest rate risk and exchange rate risk of the trading book and the investment portfolio under banking book according to the risk management policies of the Branch; and
- Executing hedging decisions made by ALCO.

MOD

- Coordinating with MKD in proposing market risk limits for the trading book and the investment portfolio;
- Monitoring and reporting on the interest rate risk and price risk of the trading book and the investment portfolio against the established KRIs and limits; and
- Investigating and reporting on related limit breaches and recommending remedial actions.

TRY

- Evaluating the sensitivity of assets and liabilities with respect to changes in interest rates;
- Developing procedures adhering to the interest rate risk and price risk management policies;
- Performing analysis of NII and EVE and their sensitivities under different scenarios;
- Documenting all the key assumptions underlying the analyses and regularly revisiting the assumptions and the scenarios based on changes in balance sheet portfolios and market conditions;
- Documenting procedures for the analyses performed and reporting changes in key assumptions and scenarios and interest rate and price risk analyses to ALCO and the MLRC;

- Recommending IRR management actions (e.g. balance sheet hedges) to ALCO for review and approval;
- Reporting Branch level exposure to ALCO and MLRC; and
- Monitoring IRR limits set by ALCO and Head Office.

<u>Other FLUs</u>

- Coordinating with MKD and TRY to manage interest rate risk and price risk exposure in their business lines; and
- Providing related information to TRY for banking book hedging on a timely basis.

Operational Risk

The FLUs are responsible for ensuring that the integrity of their internal control frameworks is consistent with Branch standards. They are responsible for identifying, assessing, measuring, controlling, monitoring, reporting, and escalating risks and issues. All departments are responsible for ensuring proper controls through testing, policies, and procedures that are in place to minimize operational risk and remain compliant with the applicable laws, rules, regulations, and IRM's risk policies. FLUs will prepare and submit requested documents, data, risk assessments, and the department's policies and procedures to IRM on a periodic basis. FLUs own the management of operational risk within the department and the obligation to operate within the approved operational risk appetite. The FLUs shall conduct operational risk assessments, take corrective action to remediate deficiencies, and report operational risk events in a timely manner. Detailed responsibilities include:

- Adherence to all policies and procedures in regards to operational, third party, business continuity management, new activities, IT, model, information security, product;
- Identifying and assessing key operational risks;
- Implementing effective controls;
- Escalating exceptions and/or issues, including emerging risk issues to IRM;
- Monitoring, testing and reporting on the operational risk profile, including control effectiveness, to the IRM;
- Ongoing monitoring of applicable limits against the KRIs and reporting breaches of risk indicators to IRM;
- Reviewing and reporting on internal and external loss data, business environment and internal control factors to IRM;
- Monitoring issues and actions to ensure remediation is conducted in a comprehensive and timely manner;
- Performing ongoing monitoring and testing of controls and reporting results to IRM;
- Performing skill set and staffing level assessment across the Branch to determine if the appropriate grade and number of staff exist in each function;
- Complying with IT-related risk management policies;
- Engaging with IRM to communicate new initiatives, obtain information on the inherent IT and information security risk of these activities, and identify ways to mitigate the risks;
- Engaging with IRM to proactively maintain, update, and challenge its own ability to continue business, including dependent processes from other departments, throughout isolated incidents and severe declared disasters. This is to be done through frequent reviews and updates of its Business Continuity Plan components; and

- Being responsible for the third party risk management activities within the lifecycle (risk assessment and due diligence, contract negotiation, ongoing monitoring, and termination) as third party risk owners

Reputation Risk

FLUs as risk owners are responsible and accountable for managing reputation risks associated with business activities and are expected to consider the impact of business activities on the market's or the public's perception of the Branch, evaluate the nature of, amount of, and the ability to minimize exposure from litigation, monetary penalties, violations of laws/regulations, and customer complaints; and promote an ethical and sound risk culture. EO, as the leading FLU to manage reputation risk, promotes reputation risk due diligence in the execution of business activities that generate exposure. Such business activities include strategic planning, third party risk management, business transactions and other initiatives. EO also serves as a subject matter expert in reputation risk management, reports reputation risk issues to IRM in a timely manner, and develops and enhances procedures to provide guidance on incident response plan, escalation process and communication strategies.

Strategic Risk

FLUs are responsible for the strategic risk associated with their respective activities. Department heads from business lines are responsible for:

- Striving to implement BOCNY's Strategic Plan and its departmental business plans;
- Monitoring business performance against departmental and branch-wide strategic plans, and considering external factors' impact on the business performance. External factors include (but not limited to) industry competition, changes in economic and market conditions, and changes in the regulatory environment;
- Evaluating the new business initiatives on annual rolling base;
- Contributing to the development of BOCNY's Strategic Plan by providing their own individual three-year business plans on annual rolling base; and
- Planning FLU's line portfolio mixes based on product, region, and customer demographics.

SRD plays a key role in the risk-based strategic planning process, including by:

- Leading, pursuant to the delegation by the CEO, the process of strategic planning;
- Compiling the Strategic Plan, by integrating the CEO's guidance, CRO's approval on risk appetites, inputs from business lines and challenges from IRM and IA.
- Conducting thorough SWOT analysis to facilitate the strategic planning; and
- Conducting strategic review to evaluate the effectiveness of the strategic plan's implementation and driving updates as needed.

The Strategic Plan is subject to the final approval of the USRMC.

8.2. Independent Risk Management

8.2.1. GENERAL IRM ROLE AND RESPONSIBILITIES

BOCNY's second line of defense is comprised of risk management units with expertise in a specific risk type. These risk management units work with FLUs to establish and maintain appropriate risk tolerance limits/guidelines, policies, and procedures with monitoring, measurement and reporting systems to provide tools to facilitate risk management activities.

IRM's duties and responsibilities contain a number of activities that apply to all risk categories. The following list of activities represents many of the responsibilities performed by IRM teams. Further risk-specific activities are included in the discussion of each risk type. IRM:

- Takes primary responsibility and is held accountable by the CEO and CRO and USRMC for designing a comprehensive written RGF, inclusive of a RAS;
- Ensures maintenance of a strong risk culture through articulation of a RAS, risk management communications, and risk management policies, procedures, standards and related documents;
- Identifies and assesses on an ongoing basis, BOCNY's material aggregate risks through risk processes described in Section 9;
- Challenges the FLUs' risk assessments and controls;
- Establishes and adheres to risk policies that include risk limits and provide for aggregate risks in the Branch to be effectively identified, measured, monitored and controlled, consistent with BOCNY's RAS and other policies established as part of the RGF;
- Independently monitors, tracks, tests, and reports on all risk categories;
- Monitors risk against the Strategic Plan and reports to the USRMC on results;
- Establishes and adheres to procedures and processes to maintain compliance with the above-described policies;
- Identifies and communicates to the CEO, CRO and the USRMC material risks and significant instances where IRM's assessment of risk differs from that of a FLU, and material instances where a FLU is not adhering to the RGF;
- Identifies and communicates to the USRMC material risks and significant instances where IRM's assessment of risk differs from the CEO, and material instances where the CEO is not adhering to the RGF;
- Works with the FLUs to establish risk parameters in support of BOCNY's Strategic Plan;
- Ensures that BOCNY's Strategic Plan is aligned with the RAS;
- Establishes appropriate risk management processes for new activity development and effectively measure, monitor, and control the risks associated with new activities;
- Ensures the quality, integrity, timeliness, and relevance of risk reports provided to the USRMC;
- Leads the development, implementation, review and update of the Resolution Plans;
- Develops, attracts, and retains talent and maintains staffing levels required to carry out its role and responsibilities effectively as detailed in Section 11; and

- Adheres to compensation and performance management programs that comply with guidelines detailed in Section 11.

8.2.2. RISK SPECIFIC ROLES AND RESPONSIBILITIES FOR IRM

Compliance Risk Management

LCD is charged with administering BOCNY compliance program. This includes providing substantive and actionable guidance to the business units on the establishment and maintenance of their compliance processes and internal controls – as well as keeping Executive Management and the USRMC informed regarding BOCNY's overall compliance risk profile, the effectiveness of the compliance program, and any material compliance issues or emerging compliance risks. Reporting is provided no less than quarterly to the CRO, CCO, RMICC and the USRMC. Additional responsibilities include:

- Preparing an Annual Compliance Plan;
- Reviewing and challenging compliance policies and procedures established by the FLUs;
- Challenging FLU compliance risk assessments;
- Independently monitoring, testing and reporting on compliance risks;
- Monitoring compliance risk against the risk appetite and Strategic Plan;
- Specifying compliance training requirements; and
- Advising on implementation of regulatory change.

Credit Risk Management

CRM is responsible for developing and overseeing BOCNY's credit risk management framework. This includes credit risk management policies, underwriting standards, risk appetite (risk tolerance ranges/limits), and risk grading structure. Additional responsibilities include:

- Establishing and maintaining credit risk management policies and procedures;
- Monitoring, measuring, analyzing, and reporting on aggregated credit risk exposures against key risk limits and indicators;
- Ensuring transparency of material credit risks, which includes the escalation of risk concentrations to Executive Management, as well as the appropriate disclosure and reporting of credit risks to the risk committees and the Branch's regulatory supervisors;
- Working with the FLUs to monitor risk exposures and performing portfolio stress tests to identify, analyze and control credit risk concentrations arising in BOCNY lending and trading activities;
- Independently reviewing and approving credits separate from FLUs' approval;
- Reviewing/affirming internal credit risk ratings;
- Independently assessing the creditworthiness of BOCNY counterparties and borrowers;
- Establishing and maintaining the credit risk limit framework to evaluate and manage credit risk levels across the Branch;
- Evaluating the adequacy of the allowance for credit losses;

- Independently monitoring, tracking, and reporting on credit risk management policies and risk acceptance criteria exceptions; and
- Working with FLUs to manage problem assets in workout status.

Liquidity Risk Management

MRD is responsible for developing and overseeing BOCNY's liquidity risk management framework, which includes all liquidity risk policies and risk appetite (risk tolerance ranges/limits). Additional responsibilities include:

- Establishing policy and procedure and setting risk limits;
- Maintaining and annually updating the liquidity risk management framework, ensuring the framework is updated for current practices for approval by the USRMC;
- Proposing the liquidity risk KRIs and limits, aligned with the Branch-defined risk appetite and suitable for the size and complexity of the organization for approval by the USRMC;
- Analyzing any new activity introduced in the BOCNY that may impact the liquidity risk exposure assessment;
- Independently ensuring that TRY fully captures all known liquidity risk exposures;
- Proactively analyzing the potential impact of regulatory or market change that may alter the BOCNY's liquidity risk profile; and
- Independently assessing any liquidity actions proposed by TRY to support the CRO as a non-voting member of ALCO.

Market Risk (Price Risk and Interest Rate Risk) Management

<u>MRD's responsibilities include:</u>

- Establishing and maintaining the market risk management policy and procedures;
- Establishing market risk KRIs (exposure limits, sensitivities, VaR, stress test and etc.);
- Identifying and communicating key market risks and event risks across all business areas and asset classes to Executive Management;
- Analyzing any new activity introduced in the BOCNY that may impact the market risk exposure assessment; and
- Creating and delivering reports designed to articulate key market risks and the aggregate market risk profile to RMICC and Executive Management.

Operational Risk Management

ORD is responsible for the design, implementation, and oversight of BOCNY operational risk management framework. Components of the framework include operational risk assessment and identification systems, Loss Data Collection, Control Testing, Issue Rectification and other related processes. ORD is expected to assess, communicate, document and monitor the inherent and residual risks and controls of new activities. ORD also provides oversight for the following risk areas:

- Third Party Risk Management;

- Business Continuity Management;
- New Activity Risk Management;
- IT Risk Management; and
- Information and Cyber Security

ERM provides oversight on model risk management.

Chief Data Office (CDO)

CDO is responsible for establishing a sustainable and scalable enterprise capability to manage data as a strategic business asset and to instill confidence in BOCNY data through governance in support of business and functional areas. This includes the following:

- Establishing a flexible governing body by providing central data governance leadership with virtual members residing within the business and IT;
- Defining policies, standards and processes to enable governance of key components such as data quality, data dictionary, data ownership, data access, data lineage, data lifecycle and data sharing;
- Providing input to and driving BOCNY's enterprise data strategy across all business lines and other support functions;
- Facilitating and managing the resolution of data issues (i.e. data definition, data quality, data structure, etc.); and
- Monitoring the enterprise-wide compliance with data governance policies, standards and programs through measurable and actionable metrics.

Reputation Risk Management

ERM takes a key role in the assessment and management of reputation risk. ERM works with FLUs to establish and maintain appropriate policies, procedures, guidelines, and limits to monitor and report risks. Besides the general responsibilities of IRM, ERM also looks across all risk types to determine if in aggregate the risk levels could have an impact on the reputation risk profile of BOCNY. ERM's responsibilities include but not limited to:

- Establishing and maintaining the branch-wide reputation risk management policy and second line of defense procedures to oversee the relevant risk taking activities of the Branch;
- Establishing and monitoring reputation risk KRIs; and
- Identifying and reporting key reputation risks to Executive Management.

Strategic Risk Management

ERM takes a key role in the assessment and management of strategic risk. ERM works with FLUs to monitor and report strategic risks. Besides the general responsibilities of IRM, ERM also looks across all risk types to determine if in aggregate the risk levels could have an impact on the strategic risk profile of BOCNY. ERM's responsibilities include but not limited to:

- Establishing and maintaining the branch-wide strategic risk management policy and second line of defense procedures to oversee the relevant risk taking activities of the Branch;
- Establishing and monitoring strategic risk KRIs;
- Providing input to, and reviewing the Strategic Plan to ensure alignment with risk appetite and comprehensiveness of the assessment of risks that could impact the bank during the period covered by the Strategic Plan; and
- Assessing the effectiveness of FLUs' methods of communicating, implementing and modifying the Strategic Plan consistent with the RAS.

8.3. Internal Audit

The third line of defense for the Branch is IAD. In the context of Heightened Standards, IA is responsible for independently assessing BOCNY's RGF and providing assurance to the CEO, Head Office Audit, and the USRMC.

IA's responsibilities include:

- Establishing and adhering to an audit plan and processes for independently assessing the RGF on at least an annual basis;
- Performing independent evaluation of the adequacy of the RGF relative to Heightened Standards;
- Maintaining a complete and current inventory of all material businesses, product lines, services and functions and assessing the risks associated with each, including emerging risks;
- Evaluating adequacy of and compliance with policies, procedures, and processes established by FLUs and IRM;
- Establishing an IA quality assurance program;
- Reporting in writing, conclusions, issues and recommendations to the CEO, Head Office Audit, and USRMC, including root causes analysis and effectiveness of FLUs and IRM in issue remediation;
- Identifying and communicating to the CEO, Head Office Audit, and USRMC significant instances where FLUs and IRM are not adhering to the RGF; and
- Developing, attracting, and retaining talent and maintaining appropriate staffing levels, and establishing and adhering to talent management processes and compensation and performance management programs, consistent with Section 11 of the RGF.

9. Risk Management Process

BOCNY's risk management processes represent the methodology used to operationalize the RGF including the Risk Appetite Statement. These processes enable the Branch to review risks in a comprehensive manner across all risk types and FLUs. BOCNY relies on systems and analytics to support these risk management processes. Components of these processes are described in detail below.

9.1. Risk Identification

Risk identification is the process of identifying, capturing and determining applicability of risks arising from both internal and external factors. Risk identification incorporates the impact of regulatory requirements as well as recent or expected changes in BOCNY's business activities. Risks are analyzed through a range of quantitative and qualitative approaches to identify the top risks within the recognized risk categories as well as idiosyncratic and emerging risks. Risks that may be immaterial individually, but are material in aggregate at the Branch level or business division level, are also identified. The risk identification process includes, but is not limited to, risks that are included in BOCNY's Risk Appetite Statement.

Risk identification should be a continual process and should occur at the transaction, portfolio, and enterprise levels. Formal risk identification processes include various risk assessment processes and other relevant risk management activities, for example:

- Enterprise Risk Assessment (ERA)
- Compliance risk assessments, including self-reporting during the regular course of business
- Risk Control Self-Assessments (RCSA)
- New activity risk management process
- Applicable stress testing processes

BOCNY's risk identification is performed by conducting various risk management activities that occur throughout the year. Risk identification is an ongoing responsibility of FLUs, IRM, and IA, operating in their distinct capacities as three lines of defense.

9.2. Risk Measurement and Assessment

Accurate and timely measurement of risks is essential to effective risk management. Risk assessments are conducted to determine the quantitative and/or qualitative value of risk related to a specific activity, situation or recognized threat. The Branch performs risk assessments not only to identify risks (both current and emerging), but also measure the risks, determine trends, and potentially adjust BOCNY's risk appetite.

Through the risk assessment processes, FLUs evaluate the material risks associated with their activities in pursuit of BOCNY's strategic objectives and business plans. FLUs may evaluate how the existing risk profile of their business will change based on the Strategic Plan and how this will compare with the risk capacity of the business. FLUs also use risk assessments to determine whether actions need to be taken to strengthen controls or reduce inherent risk.

Enterprise Risk Assessments are fully updated on an annual basis in the first quarter of every year, and then quarterly updated by reviewing for changes in risk levels, control environment and trends. Material changes to BOCNY's business activities, operating environment, or risk profile will be documented and reported to the USRMC and RMICC.

FLUs, IRM and IA coordinate closely to complete risk assessments of each business within the Branch as follows:

- FLUs evaluate the risks associated with their activities and report those risks against the risk tolerance levels and KRIs in the RAS.
- IRM functions challenge the FLU risk self-assessments for their individual lines of business and also complete overall risk assessments that identify and assess the material risks across the Branch on an aggregate basis.
- IA provides independent review through applicable audit activities.

Conclusions of ERA process are presented to the USRMC and RMICC.

In addition to the ERA process described here, the Branch also conducts various other, more specialized risk assessments as listed in the Risk Identification section above. Such risk assessments are conducted in accordance with established policies and procedures and also contribute to the formulation of BOCNY's RAS.

The standards against which those risk assessments are conducted include methodologies developed internally by the Branch, processes based on regulations or regulatory guidance, processes required by BOCNY's regulators, and standards and processes developed by third party standard setting bodies for particular activities and areas of risk. Thus, for example, BOCNY's BSA/AML risk assessment process is framed on requirements of the FFIEC BSA/AML Examination Manual.

9.3. Risk Controls

Internal controls include systems used to manage and monitor risks, policies, standards and procedures, segregation of duties, and self-assessment. Management anticipates and responds to key aspects of risk by utilizing consistent processes and applying relevant internal controls. Management has developed appropriate tools to document key risks, processes to determine how those risks will be managed, and has identified controls corresponding to those identified key risks. The risk identification and management process is grounded on a framework of policies addressing areas of risk and documenting expected risk management activities by FLUs and IRM. These policies are implemented through a system of implementing procedures. Both the policies and the procedures are aligned with appropriate elements of the RGF.

9.4. Risk Monitoring and Reporting

The Risk Appetite Statement establishes a comprehensive approach to review, monitor, assess and report on the risk profile of the Branch on an on-going basis. This encompasses regular reporting to the USRMC.

The FLUs and IRM inform Branch employees about BOCNY's RAS after the annual USRMC approval.

The Branch utilizes KRIs as the basis for monitoring actual risk taking activities and providing early signal of increasing risk exposures across the eight risk areas of the Branch. The Branch maintains two levels of KRIs. The first-level KRIs are the most critical branch-level aggregated KRIs contained in the RAS ("RAS KRIs"). The second-level KRIs include other aggregated KRIs and department-level and business-line KRIs ("Non-RAS KRIs"). The Branch follows a list of guiding principles to govern KRI creation and warning line and limit setting. All KRIs are included in KRI Inventory.

9.4.1. MONITORING

Monitoring is an ongoing review of recognized risks and/or controls at a set frequency. The scope and frequency of monitoring depends upon the result of relevant risk assessments, as well as on specific business risk operations and activities. Adequate monitoring enables the Branch to understand its risk profile across risk types, groups, and lines of business. It also helps the Branch ascertain how particular risks may be evolving or changing in reaction to controls and the impact of emerging risks.

BOCNY has established quantitative measurements and qualitative assessments that enable a comparison of BOCNY's current risk profile and risk tolerance. Refer to Section 8*: Lines of Defense* for further details on monitoring activity.

FLUs

- Monitor their risks against applicable KRIs and risk events.

IRM

- Monitors BOCNY's aggregate risk profile against the RAS;
- Independently monitors FLU usage against KRIs and against escalation thresholds; and
- Engages in ongoing communication with FLUs regarding adherence to KRI limits.

9.4.2. REGULAR REPORTING

Risk data and analysis are reported at and across multiple levels of the Branch, and to various audiences, through periodic and ad hoc reports. It also includes backward-looking, current, and forward-looking risk management information. The goal of effective risk reporting is to provide actionable information that informs daily business decisions, prompts responses to key current and emerging issues, and ensures that the USRMC, Executive Management including the CEO and CRO, and the RMICC maintain a comprehensive view of key risk profiles.

FLUs prepare and submit reports to IRM on a periodic basis. These reports contain information about performance relative to FLU-specific KRIs. In turn, IRM prepares and submits reports on risk data and analysis to the USRMC and other appropriate committees at least quarterly. IRM's reports include but are not limited to:

- Performance relative to the RAS;
- An aggregated view of risk across multiple dimensions (e.g., business, group, risk type, regulation, and concentrations); and

- Current or evolving risk management issues that the CRO believes should be communicated to the CEO and otherwise escalated.

Both the FLUs and IRM provide specific reports to the RMICC, USRMC and EMC, as needed, and IRM prepares external summary reports to regulators such as the OCC, upon request. Refer to Section 8*: Lines of Defense* for further details on reporting responsibilities.

9.4.3. BREACH REPORTING

FLUs and IRM, in accordance with their respective responsibilities, identify and report any breaches of the Risk Appetite Statement.

Upon breaching the warning line of a KRI, relevant parties including the pertinent FLU and IRM should discuss the root cause, evaluate its potential long-term impact and determine remediating actions (if needed). Close monitoring is required to prevent limit breach. Relevant communications (e.g., emails, meeting minutes) should be documented for record keeping and future reference purposes.

The escalation thresholds are the limit for each KRI. Exceeding a limit reflects a level of risk exposure that is outside of the Branch's risk tolerance.

In the case of a limit breach of RAS KRIs, the KRI owner should first notify relevant parties regarding the basic information of the breach within 2 business days after the breach is identified. Limit breaches must trigger timely actions. The KRI owner is also responsible for working with the relevant IRM and FLUs to provide a written explanation of the breach. The written explanation should be provided to USRMC Secretariat within 15 business days after the breach is identified, unless exceptional approval is granted for additional time. Relevant RMICC subcommittees and RMICC should also be notified.

The written explanation should include the following information:

- The cause of the breach;
- What actions, if any, are being planned to return to compliance, including who is responsible and a timeline for completion of such actions; and
- The risk concerns that the breach may have caused, including addressing the magnitude, frequency, and recurrence of breaches.

The CRO and EVP-in-Charge of relevant departments are responsible for overseeing actions to remediate the breach and to address control weaknesses, positions or practices that constitute the root cause of the breach.

The Branch will inform the OCC of a limit breach if it jeopardizes the safety or soundness of BOCNY. Material limit breaches must be escalated to the EMC as the governing authority to decide whether to report the breaches to the OCC.

9.5. Testing and Validation

Through testing and validation activities, BOCNY assesses the effectiveness of controls within the Branch. This stage in the risk management process is designed to provide reasonable assurance that controls are designed and operating effectively to mitigate risks and/or meet regulatory requirements, that the standards for quality assurance and self-testing activities are understood and accepted, and that on an ongoing basis, risk taking and exposures are monitored and issues and breaches of risk tolerance are escalated and remediated in a timely and effective fashion.

FLUs are required to develop and/or follow standards and processes for assessments and conduct testing in line with BOCNY's testing standards and define and implement plans to strengthen FLU risk management programs. IRM reviews the FLU testing practices for adherence to BOCNY's standards and overall effectiveness, and develops and implements testing plans to review FLU practices. IA independently evaluates the FLUs' quality control processes and the sufficiency of IRM's oversight and review. IA also independently evaluates the effectiveness and timelines of the FLUs' and IRM's remediation of control deficiencies.

9.6. Risk Issue Escalation

The Branch manages risks through internal controls, risk limits and policies and procedures, as well as other risk mitigation methods. Risk management actions are designed to address both known risks as well as emerging risks. Early escalation of issues is encouraged in order to resolve such issues more easily.

Employees are encouraged to raise issues with their department heads. Identified issues are captured and tracked in the Branch's system. FLUs are responsible for assessing risks and escalating issues to the appropriate level based on the type and severity. FLUs are responsible for implementing remediation actions to address control weaknesses and positions or practices that expose the Branch to risk that is outside defined risk appetite and tolerances.

Policies and decision matrices cannot account for every possible situation. Therefore, candid and timely discussions between team members across the three lines of defense are needed when determining appropriate action to address risk issues. Issue escalation includes:

- Explaining escalated issues and the reason for escalation;
- Proposing remediation actions to address control weaknesses and positions or practices that expose the Branch to excessive risk (e.g., outside defined risk appetite and limits); and
- Assessing vulnerabilities and potential weaknesses that could develop in their units and alerting the CRO and relevant IRM leads.

10. Risk Data Aggregation and Reporting

Risk data aggregation and reporting encompasses the governance and infrastructure to capture and aggregate risk data in accordance with BOCNY's risk reporting requirements to enable the Branch to measure and report on its risk profile, including risk data and reporting of material risks, concentrations, and emerging risks. Key risk information, including during stress events and for ad hoc requests, is reported to FLU management by the FLU and to IRM by the FLU management. IRM also escalates key risk information to the RMICC and USRMC to support decision-making and strategic and financial planning.

BOCNY's reporting capabilities enable a comprehensive assessment of risk exposures at the consolidated Branch level and FLUs' level, as appropriate. Risk data reporting includes the creation of reports to provide early warning of any potential breaches of risk limits that may exceed BOCNY's risk appetite and support flexible stress testing. The Branch maintains appropriate governance over data quality, availability and confidentiality, including escalation to Executive Management and the RMICC of any material limitations in risk data aggregation and reporting.

10.1. Risk Data Control and Integrity

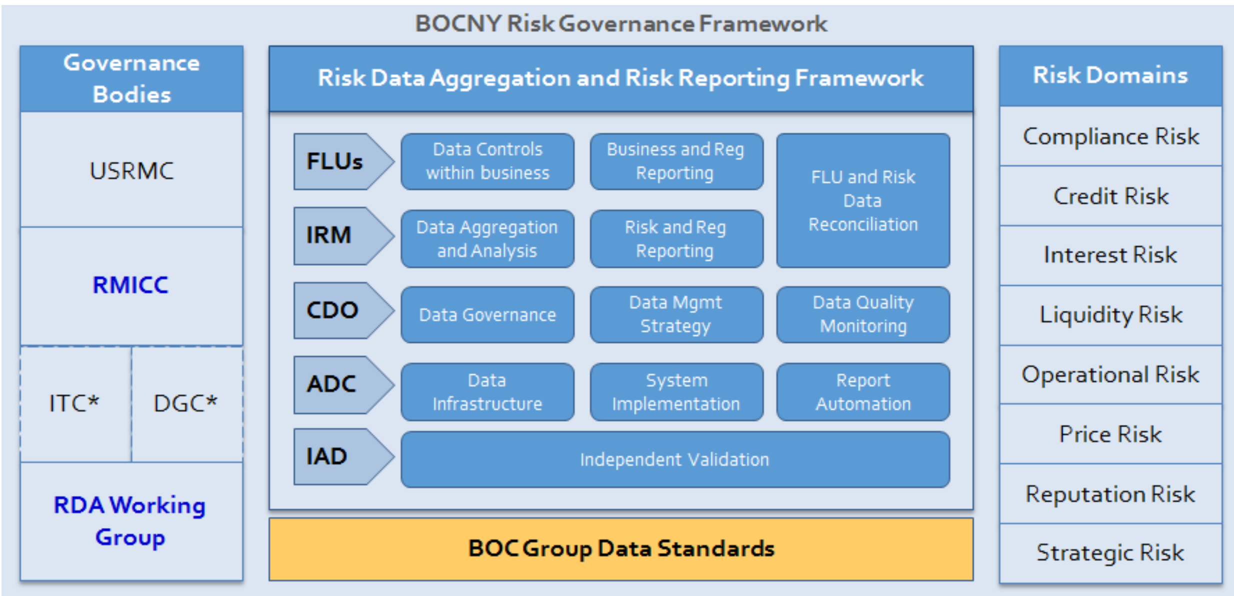
The Branch maintains an RDA program to support the management of risk data, including:

- Development of BOCNY's risk data aggregation capabilities and risk reporting practices;
- Development of the risk aggregation framework, which includes agreed upon service level standards for both outsourced and in-house risk data-related processes, and reflects BOCNY's policies on data confidentiality, integrity, availability and risk management;
- Recommendations provided to enhance the infrastructure for reporting key information, particularly that used by the Board and Executive Management to identify, monitor and manage risks;
- Establishment of data taxonomies and architecture across the BOCNY, which includes metadata as well as use of single identifiers and/or unified naming conventions for data including legal entities, counterparties, customers and accounts;
- Development of roles and responsibilities as they relate to the ownership and quality of risk data and information for both the business and IT functions;
- The ability to aggregate material risk exposures and identify concentrations quickly and accurately across business lines;
- Risk reporting capabilities that include clear and concise reporting to provide early warnings of potential breaches of established risk limits; and
- Accurate and reliable risk data to meet normal and stress/crisis reporting requirements.

10.2. Governance Structure

RDA program is subject to strong governance arrangements consistent with the Principles and guidance established by the Basel Committee and China Banking and Insurance Regulatory Commission (CBIRC). A robust RDA governance structure, with the BOC group data standards as a foundation, is an integral part of the overall risk governance framework and critical to enhance effective risk management and achieve full compliance with regulatory requirements. USRMC bears the final approval authority of Risk Data Aggregation and Risk Reporting Framework. RMICC oversees the implementation of the RDA program. The RDA working group drives the agenda of the RDA program, with members from FLUs (including ADC) and IRM. ERM leads the overall coordination of the program with ADC and CDO as key partners. As appropriate, any data or IT specific issues may be discussed at DGC and/or ITC, respectively, before escalation to RMICC.

Figure 5: Governance Structure of the RDA Program



* As appropriate, IT or data issues can be discussed at ITC or DGC respectively before RMICC escalation.

10.3. Control Standards

Key risk aggregation data are subject to several controls, including: self-assessments, attestations, independent validation, reconciliation and internal audit reviews, and are managed in accordance with Head Office data management policies. These data principles extend to material acquisitions and new initiatives.

In addition to the aforementioned, the FLUs and IRM maintain a control environment that is effective and comprehensive in coverage. This control environment includes the following key components, which are implemented and maintained by the respective business process and technology owners:

- Deployment of strong data governance controls that are consistent with other principles and guidance established across BOCNY;
- Implementation of consistent business process and data flow documentation, including reconciliation, adjustment, and exception management processes;
- Institution of ongoing data quality monitoring for completeness and accuracy, timeliness, and adherence to issue escalation protocols;

- Attestation by BOCNY business and IT owners, in partnership with risk managers, that there are adequate controls throughout the lifecycle of the data and for all aspects of the technology infrastructure;
- Establishment of quality assurance review of key system outputs and reports on a regular basis;
- Regular production of accurate and precise risk management reports to ensure the USRMC and EMC can rely with confidence on the aggregated information to make critical decisions about risk.
- Execution of future periodic attestations (e.g., general ledger balance signoffs, VaR signoffs), and independent valuation;
- Utilization of End User Computing ("EUC") control requirements; and
- Introduction of additional controls as deemed appropriate by IRM or supporting functions (e.g. training).

The control environment is subject to periodic control assessments including self-assessments, independent validations and internal audit reviews.

11. Talent Management, Compensation and Performance Management Programs

The Branch strives to attract, retain and develop top talent by conforming and adhering to talent management, compensation and performance management programs established by BOC, as appropriate for the Branch. All three lines of defense establish and follow specific talent management processes, including adhering to compensation and performance management programs that support and reinforce this RGF.

11.1. Talent Management

The USRMC has the responsibility to approve the appointment and removal of the Branch's CEO, CRO, and CAE with the skills and abilities to carry out their roles and responsibilities within this RGF. The USRMC also reviews and approves a written talent management program that provides for development, recruitment, and succession planning of the CEO, CRO, CAE, their direct reports, and other potential successors. The USRMC also requires the Branch's Executive Management to assign individuals specific responsibilities within the talent management program, and holds those individuals accountable for the program's effectiveness.

Each of the three lines of defense is responsible for developing, attracting, and retaining talent and maintaining staffing levels required to effectively carry out its respective roles and responsibilities. This includes hiring of professionals who are skilled across all dimensions of risk management and managing BOCNY's major risks, as well as emerging and cross-functional risks.

11.1.1. RECRUITMENT

Management, with the support of the Human Resources Department ("HRD"), should ensure that talent acquisition programs effectively attract and help retain the appropriate quality and quantity of staff. These programs are designed to align with the size and complexity of the Branch's operations and practices, and ensure the Branch has sufficient staff with the required competencies, including the knowledge, skills and abilities, to meet business needs and manage risks.

Staffing analyses are prepared for purposes of establishing appropriate staffing levels required to maintain and implement an effective RGF and build the Branch's business in line with the Strategic Plan. The staffing plans developed from the analyses are implemented through sourcing and selection of talent. In order to source and hire the right talent, the Branch is committed to utilizing effective resources both internally and externally. For example, this includes leveraging the expertise of staffing firms or the BOC global recruitment resources as well as internal talent resources. Recruitment processes are a collaborative effort shared by Head Office Human Resources, BOCNY Executive Management, HRD, BOCNY's departments and other branches. These best practices will ensure that the Branch hires qualified talent with the necessary competencies to meet business objectives and identify, measure, monitor and control relevant risks.

11.1.2. TALENT DEVELOPMENT

BOCNY has established a series of policies and procedures to enhance the development of its employees.

The Branch is committed to improving the assessment of internal development and promotion opportunities to ensure that all the employees are motivated and the talents are nurtured and retained. The Branch provides different training, including mandatory training, specified business line training, online compliance training, and outside conferences. Training supports business development plans and further enhances the development of employee career paths.

Specific policies and procedures are also established to govern the design and implementation of a development point system to encourage non-executive local employees to, among other goals, make contributions to the Branch, pursue education and learning opportunities including internal training and external degrees and certificates, and comply with Branch requirements. The development point system can be used in conjunction with other HR management policies such as salary adjustment, promotion, internal recruitment, succession planning, etc. as appropriate.

11.1.3. SUCCESSION PLANNING

The Branch is committed to establishing and maintaining a process for the orderly and smooth transition of critical management positions and for the promotion of talent development and retention. Robust succession planning processes enhance the overall Talent Management Program, align with and further the Branch's Strategic Plan and effectively mitigate risk by complying with applicable rules and regulations. The scope of the Branch's Succession Plan includes the Branch's CEO, CRO and CAE, and their direct reports and potential successors, as well as other critical positions. Head Office is responsible for preparing and executing Executive Management Succession Plans and the Branch is responsible for preparing and executing the Non-Executive Management Succession Plans. Final approval rests with the USRMC.

11.2. Compensation and Performance Management Programs

Compensation and performance management programs established for the Branch are designed to:

- Attract and retain the talent needed to design, implement, and maintain an effective risk governance framework;
- Ensure the CEO, FLUs, IRM and IA adhere to an effective risk governance framework;
- Ensure FLU compensation plans and decisions appropriately consider the level and severity of issues and concerns identified by IRM and IA, as well as the timeliness of corrective action to resolve such issues and concerns.

11.2.1. COMPENSATION

BOCNY has established formal policies and procedures that govern the recommendation and implementation of the Bonus and Salary Adjustment Program. Employees are compensated based on their contribution to the Branch through the balance of generating profits and mitigating risks. Bonus and salary increases are discretionary and will vary depending on the performance of the Branch, departments, and individual employees. BOCNY's compensation programs prohibit any incentive-based payment arrangement, or any feature of such arrangement, that encourages inappropriate risk-taking, or could lead to a material financial loss.

11.2.2. PERFORMANCE MANAGEMENT

BOCNY has established and adheres to formal policies and procedures that govern the performance management process to:

- Evaluate work performance of departments, sub-branches and employees truthfully and objectively;
- Address risk management and compliance requirements with all applicable rules and regulations and adherence to the RGF; and
- Achieve a balance between risk and reward.

The performance mechanism has been established to ensure front line appropriately considers the level and severity of issues and concerns identified by IRM and IA as well as the timeliness of corrective action to resolve such issues and concerns; and to prohibit arrangements that encourage inappropriate risks.

12. Policy, Standards and Procedures Governance

A policy governing enterprise-wide policies, standards, and procedures ("Policy on Policies and Procedures") establishes the rules of policy and procedure creation at BOCNY, ensuring central control of management policies and procedures, setting expectations and standards, as well as defining ownership/accountability responsibilities for policies and procedures. BOCNY policies, standards and procedures shall:

- Identify the need for or updates to new and existing policies, standards and procedures;
- Develop and implement new policies, standards or procedures (e.g., communication, training);
- Formalize the review, update and approval process of all Branch policies; and
- Retain change control history and, as appropriate, rescind policies, standards or procedures no longer applicable.

The Policy on Policies and Procedures defines what constitutes the various levels of official Branch policies, standards and procedures and establishes a clear framework for writing, approving, implementing and communicating. The Policy establishes consistent methodology, guidelines and rules that can be applied across the Branch, in support of Branch goals, compliance with regulatory, legal and Head Office guidance, providing direction for personnel responsible for policy and procedure oversight/management.

13. Policy Assurance Methods

13.1. Related Procedures

- Bank of China US Branches Key Risk Indicator Procedure
- Bank of China US Branches Risk Assessment Procedure

13.2. Awareness Methods

This RGF is saved in BOCNY Policy Library: https://bocus-sites/pub/policy.

Branch employees are initially made aware of this Framework via formal communications and training. Ongoing communication of the Framework will be accomplished via email or on-line annually after the annual approval of the Framework by the USRMC.

13.3. Policy Adherence Monitoring

Department heads of FLUs and IRM are responsible for ensuring Framework adherence through monitoring the completeness of reporting and the execution of the roles and responsibilities of their employees defined in this Framework.

During the RGF annual review process, every department is required to attest the implementation of applicable RGF functions, processes and controls and its ongoing compliance.

13.4. Update Requirements

The USRMC approves the Framework at least annually or more frequently, as necessary, in the event that there are material changes in BOCNY business model, strategy, risk profile, or market conditions.

This Framework may be amended by the USRMC, and may be amended by the CEO and the CRO, subject to any delegation standards set by the USRMC.

13.5. Consequences of Violating the Risk Governance Framework

Failure to comply with this Framework may subject employees to a range of disciplinary actions, up to and including termination of employment.

13.6. Exceptions and Exemptions

Exceptions to this Framework may arise from time to time. FLUs are responsible for identifying exceptions and alerting the CRO and relevant risk function heads in accordance with established escalation processes. See Section 9.6 *Risk Issue Escalation* and Section 9.4.3, *Breach Reporting*. Department heads of IRM are responsible for identifying and reporting any exceptions to the Framework to the CRO for appropriate escalation**.**

14. Reference Information

14.1. External Regulations

Below is a list of the applicable regulations. Please note that this list is not designed to be exhaustive or comprehensive.

- Office of the Comptroller of the Currency, *Large Bank Supervision: Comptroller's Handbook*, (Jan. 2010, Updated Dec. 2015)
- Office of the Comptroller of the Currency, *OCC Guidelines Establishing Heightened Standards for Certain Large Insured National Banks, Insured Federal Savings Associations, and Insured Federal Branches; Integration of Regulations (Final Rule)*

14.2. Glossary

Term	Definition
Compliance Risk	The risk to current or projected financial condition and resilience arising from violations of laws or regulations, or from nonconformance with prescribed practices, internal policies and procedures, or ethical standards. This risk exposes a bank to fines, civil money penalties, payment of damages, and the voiding of contracts. Compliance risk can result in diminished reputation, limited business opportunities, and lessened expansion potential.
Credit Risk	The risk to current or projected financial condition and resilience arising from an obligor's failure to meet the terms of any contract with the bank or otherwise perform as agreed. Credit risk is found in all activities in which settlement or repayment depends on counterparty, issuer, or borrower performance. Credit risk exists any time bank funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet.
Interest Rate Risk	The risk to current or projected financial condition and resilience arising from movements in interest rates. Interest rate risk results from differences between the timing of rate changes and the timing of cash flows (repricing risk); from changing rate relationships among different yield curves affecting bank activities (basis risk); from changing rate relationships across the spectrum of maturities (yield curve risk); and from interest-related options embedded in bank products (options risk).
Liquidity Risk	The risk to current or projected financial condition and resilience arising from an inability to meet obligations when they come due. Liquidity risk includes the inability to access funding sources or manage fluctuations in funding levels. Liquidity risk also results from a bank's failure to recognize or address changes in market conditions that affect its ability to liquidate assets quickly and with minimal loss in value.
Operational Risk	The risk to current or projected financial condition and resilience arising from inadequate or failed internal processes, models or systems, human errors or misconduct, or adverse external events. Operational losses result from internal fraud; external fraud; inadequate or inappropriate employment practices and workplace safety; failure to meet professional obligations involving clients, products, and business practices; damage to physical assets; business disruption and systems failures; and failures in execution, delivery, and process management. Operational losses do not include opportunity costs, forgone revenue, or costs related to risk management and control enhancements implemented to prevent future operational losses.
Price Risk	The risk to current or projected financial condition and resilience arising from changes in the value of either trading portfolios or other obligations that are entered into as part of distributing risk. These portfolios typically are subject to daily price movements and are accounted for primarily on a mark-to-market basis. This risk occurs most significantly from market-making, dealing, and position-taking in interest rate, foreign exchange, equity, commodities, and credit markets.

Reputation Risk	The risk to current or projected financial condition and resilience arising from negative public opinion. This risk may impair a bank's competitiveness by affecting its ability to establish new relationships or services or continue servicing existing relationships. Reputation risk is inherent in all bank activities and requires management to exercise an abundance of caution in dealing with stakeholders, such as customers, counterparties, correspondents, investors, regulators, employees, and the community.
Strategic Risk	The risk to current or projected financial condition and resilience arising from adverse business decisions, poor implementation of business decisions, or lack of responsiveness to changes in the banking industry and operating environment. This risk is a function of a bank's strategic goals, business strategies, resources, and quality of implementation. The resources needed to carry out business strategies are both tangible and intangible. They include communication channels, operating systems, delivery networks, and managerial capacities and capabilities.

14.3. Acronyms

Acronym	Definition
ADC	America Data Center
ALCO	Asset/Liability Management Committee
BCM	Business Continuity Management
BKD	Banking Department
BOC	Bank of China Limited
BOCNY	Bank of China New York
CAE	Chief Audit Executive
CBC	Commodity Business Center
CBRC	China Banking Regulatory Commission
CBD	Corporate Banking Department
CDO	Chief Data Office
CEO	Chief Executive Officer
CFPB	Consumer Financial Protection Bureau
CHB	Bank of China Chicago Branch
CLD	Clearing Department
CLO	Chief Lending Officer
COO	Chief Operating Officer
CRC	Credit Risk Committee
CRE	Commercial Real Estate
CRM	Credit Risk Management Department
CRO	Chief Risk Officer
DGC	Data Governance Committee
EMC	Executive Management Committee

EO	Executive Office
ERA	Enterprise Risk Assessment
ERM	Enterprise Risk Management Department
EUC	End User Computing
FBO	Foreign Banking Organization
FDIC	Federal Deposit Insurance Corporation
FDPA	Flood Disaster Protection Act
FID	Financial Institutions Department
FLU	Front Line Unit
FMD	Financial Management Department
FRB	Board of Governors of the Federal Reserve System
HRD	Human Resources Department
IA	Internal Audit
IAD	Internal Audit Department
IRM	Independent Risk Management
IT	Information Technology
ITC	IT Committee
KRI	Key Risk Indicator
LAB	Bank of China Los Angeles Branch
LCD	Legal and Compliance Department
LDC	Loss Data Collection
LGO	Legal Office
MKD	Global Markets Department
MLRC	Market and Liquidity Risk Committee
MOD	Treasury Middle Office Department

MRD	Market Risk Management Department
OCC	Office of the Comptroller of the Currency
ORC	Operational Risk Committee
ORD	Operational Risk Management Department
OSD	Operation Services Department
QCU	Quality Control Unit
QNB	Bank of China Queens Branch
RAS	Risk Appetite Statement
RCSA	Risk and Control Self-Assessment
RGF	Risk Governance Framework
RMICC	Risk Management and Internal Control Committee
SAR	Suspicious Activity Report
SBDC	Strategic and Business Development Committee
SLA	Service Level Agreement
SRD	Strategy and Research Department
TRY	Treasury
TSD	Trade Services Department
USRMC	US Risk and Management Committee