**Banking Book Foreign Currency Exposure Management Procedure**

**Sept 2021**

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1. Executive Summary

This procedure is created to facilitate the foreign exchange exposure management on the banking book at Bank of China USA (“the Bank” or “BOCNY”). The goal is to control foreign currency exposure risk on the banking book and minimize the potential negative impact on the earnings.

* 1. Rationale

In principle, the Bank should not keep banking book foreign currency exposure according to Head Office requirement. Except for particular reason, banking book foreign currency exposure should be exchanged to functional currency (USD for the Bank) in time. Banking book foreign currency exposure mainly comes from Foreign Currency Profit and Loss (“FX P/L”).

This procedure outlines the roles and responsibilities of Treasury (“TRY”) and relevant departments and operational procedure to support the banking book foreign exchange exposure management process.

* 1. Related Policies & Procedures

Related policies and procedures include the BOCNY Risk Governance Framework, BOCNY Market Risk Management Policy, and Head Office’s Foreign Currency Risk Management Policy.

1. The Scope

The scope of the procedure applies to Business departments/Branches, TRY, and MKD. The procedure focuses on the foreign exchange exposure reporting and controlling process to ensure better control FX exposure risk on the banking book and minimize the potential negative impact on the earnings.

1. Roles & Responsibilities
   1. Procedure Governance

The risk governance framework and the market risk policy lay out the governance structure for banking book Foreign currency risk management including roles and responsibilities, the risk appetite statement, the lines of defense, the risk management process and the governance and communication of policies and procedures. TRY is responsible for the setup and interpretation of this procedure. EVP in Charge approves the procedure.

* 1. Procedure Implementation

Business departments/Branches is responsible for the notification of expected large FX exposure to TRY. TRY is responsible of exposure measurement and reporting. MKD is responsible for the FX trade execution.

1. Procedure Instructions
   1. Business Departments/Branches

Business departments/Branches shall inform TRY at least one day in advance if relevant business is expected to incur FX exposure (such as Foreign Currency Exchange and FX P/L) with amount equivalent of USD THREE million or more either on one time basis or monthly accumulation. Granting sufficient time for the Bank to square excessive (long or short) position is critical to keep the FX exposure within the Head Office limit.

* 1. Treasury (TRY)

TRY measures, monitors, and reports foreign exposure condition of the Bank on a monthly basis. TRY provides MKD with FX exposures for execution on monthly basis.

When the Bank’s FX exposure exceeds the equivalent of USD THREE million at month-end, TRY shall initiate the request to square the FX position and provide MKD with the relevant exposures on ad hoc basis.

* 1. Global Markets Department (MKD)

MKD shall square the FX exchange transaction in a timely manner upon receiving TRY’s requests. MKD shall notify TRY the details after any hedging FX exchange transaction related to banking book exposure is done.

1. Update Requirements

Following Policy on Policies & Procedures of ORD, this procedure will be reviewed periodically for potential updates or approvals at least every three (3) years or more frequently to address potential trigger events.

Trigger events may include but not limited to new or updated policies the procedure supports, methodology or product coverage change, regulatory examination findings, audit findings, system or process changes, merger or divestiture or other major business event.

1. Procedure Assurance Methods

This procedure is distributed to relevant department for awareness and execution. This procedure will be reviewed at least annually and on an as needed basis, considering regulatory changes, industry best practice, and operational feedbacks from relevant departments.