



Bank of China (Canada)

BASEL PILLAR III DISCLOSURE 2024

AS AT DECEMBER 31, 2024

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1. Scope of Application

In this document, the Bank of China (Canada) (the "Bank") provides its Basel Pillar III disclosures, as required by the Office of the Superintendent of Financial Institutions Canada (OSFI).

The Bank is licensed to operate in Canada as a foreign bank subsidiary with full banking powers under the Bank Act. The Bank is a wholly owned subsidiary of Bank of China Limited (the "parent bank"). The Bank is domiciled in Canada and its registered office is located at 50 Minthorn Boulevard, Markham, Ontario, L3T 7X8, Canada.

2. Key Metrics

| | | Date | | | | |
|---|--|-----------|-----------|-----------|-----------|-----------|
| <i>(CAD in '000 except ratios)</i> | | 31-Dec-24 | 30-Sep-24 | 30-Jun-24 | 31-Mar-24 | 31-Dec-23 |
| Available capital (amounts) | | | | | | |
| 1 | Common Equity Tier 1 (CET1) | 785,903 | 780,878 | 773,878 | 779,081 | 769,651 |
| 2 | Tier 1 | 785,903 | 780,878 | 773,878 | 779,081 | 769,651 |
| 3 | Total capital | 814,415 | 815,297 | 803,637 | 805,956 | 793,873 |
| Risk-weighted assets (amounts) | | | | | | |
| 4 | Total risk-weighted assets (RWA) | 3,307,223 | 3,271,384 | 2,891,612 | 3,001,262 | 3,170,392 |
| 4a | Total risk-weighted assets (pre-floor) | 3,307,223 | 3,271,384 | 2,891,612 | 3,001,262 | 3,170,392 |
| Risk-based capital ratios as a percentage of RWA | | | | | | |
| 5 | CET1 ratio (%) | 23.76% | 23.87% | 26.76% | 25.96% | 24.28% |
| 5a | CET1 ratio (%) (pre-floor ratio) | 23.76% | 23.87% | 26.76% | 25.96% | 24.28% |
| 6 | Tier 1 ratio (%) | 23.76% | 23.87% | 26.76% | 25.96% | 24.28% |
| 6a | Tier 1 ratio (%) (pre-floor ratio) | 23.76% | 23.87% | 26.76% | 25.96% | 24.28% |
| 7 | Total capital ratio (%) | 24.62% | 24.92% | 27.79% | 26.85% | 25.04% |
| 7a | Total capital ratio (%) (pre-floor ratio) | 24.62% | 24.92% | 27.79% | 26.85% | 25.04% |
| Additional CET1 buffer requirements as a percentage of RWA | | | | | | |
| 8 | Capital conservation buffer requirement (2.5% from 2019) (%) | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% |
| 9 | Countercyclical buffer requirement (%) | 0 | 0 | 0 | 0 | 0 |
| 11 | Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10) | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% |
| 12 | CET1 available after meeting the bank's minimum capital requirements (%) | 19.26% | 19.37% | 22.26% | 21.46% | 19.78% |
| Basel III Leverage ratio | | | | | | |
| 13 | Total Basel III leverage ratio exposure measure | 4,260,514 | 4,570,079 | 4,305,730 | 4,054,035 | 4,651,570 |
| 14 | Basel III leverage ratio (row 2 / row 13) | 18.45% | 17.09% | 17.97% | 19.22% | 16.55% |

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3. Composition of Capital

| | Modified Capital Disclosure (CAD'000) | Dec 31, 2024 |
|---|--|---------------------|
| Common Equity Tier 1 capital: instruments and reserves | | All-in |
| 1 | Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus | 455,230 |
| 2 | Retained earnings | 330,731 |
| 3 | Accumulated other comprehensive income (and other reserves) | (58) |
| 4 | Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies) | NA |
| 5 | Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1) | NA |
| 6 | Common Equity Tier 1 capital before regulatory adjustments | 785,903 |
| Common Equity Tier 1 capital: regulatory adjustments | | |
| 28 | Total regulatory adjustments to Common Equity Tier 1 | NA |
| 29 | Common Equity Tier 1 capital (CET1) | 785,903 |
| Additional Tier 1 capital: instruments | | |
| 30 | Directly issued qualifying Additional Tier 1 instruments plus related stock surplus | NA |
| 31 | of which: classified as equity under applicable accounting standards | NA |
| 32 | of which: classified as liabilities under applicable accounting standards | NA |
| 33 | Directly issued capital instruments subject to phase out from Additional Tier 1 | NA |
| 34 | Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1) | NA |
| 35 | of which: instruments issued by subsidiaries subject to phase out | NA |
| 36 | Additional Tier 1 capital before regulatory adjustments | NA |
| Additional Tier 1 capital: regulatory adjustments | | |
| 43 | Total regulatory adjustments to Additional Tier 1 capital | NA |
| 44 | Additional Tier 1 capital (AT1) | NA |
| 45 | Tier 1 capital (T1 = CET1 + AT1) | 785,903 |
| Tier 2 capital: instruments and allowances | | |
| 46 | Directly issued qualifying Tier 2 instruments plus related stock surplus | - |
| 47 | Directly issued capital instruments subject to phase out from Tier 2 | NA |
| 48 | Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2) | NA |
| 49 | of which: instruments issued by subsidiaries subject to phase out | NA |
| 50 | Collective allowances | NA |
| 51 | Tier 2 capital before regulatory adjustments | - |
| Tier 2 capital: regulatory adjustments | | |

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| | | |
|--|--|-----------|
| 57 | Total regulatory adjustments to Tier 2 capital | 28,512 |
| 58 | Tier 2 capital (T2) | 28,512 |
| 59 | Total capital (TC = T1 + T2) | 814,415 |
| 60 | Total risk-weighted assets | 3,307,223 |
| 60a | Common Equity Tier 1 (CET1) Capital RWA | NA |
| 60b | Tier 1 Capital RWA | NA |
| 60c | Total Capital RWA | NA |
| Capital ratios | | |
| 61 | Common Equity Tier 1 (as percentage of risk-weighted assets) | 23.76% |
| 62 | Tier 1 (as percentage of risk-weighted assets) | 23.76% |
| 63 | Total capital (as percentage of risk-weighted assets) | 24.62% |
| OSFI all-in target | | |
| 69 | Common Equity Tier 1 capital all-in target ratio | 7% |
| 70 | Tier 1 capital all-in target ratio | 8.50% |
| 71 | Total capital all-in target ratio | 10.50% |
| Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022) | | |
| 80 | Current cap on CET1 instruments subject to phase out arrangements | NA |
| 81 | Amounts excluded from CET1 due to cap (excess over cap after redemptions and maturities) | NA |
| 82 | Current cap on AT1 instruments subject to phase out arrangements | NA |
| 83 | Amounts excluded from AT1 due to cap (excess over cap after redemptions and maturities) | NA |
| 84 | Current cap on T2 instruments subject to phase out arrangements | NA |
| 85 | Amounts excluded from T2 due to cap (excess over cap after redemptions and maturities) | NA |

4. Capital Management

The Bank's objectives when managing capital are as follows:

- To comply with the capital requirements set by OSFI;
- To safeguard the Bank's ability to continue as a going concern and at the same time provide reasonable returns to the sole shareholder; and
- To maintain a strong capital base to support future business development.

The Bank has established a policy on capital management. The Board of Directors and management regularly review the Bank's capital structure on the basis of its capital adequacy ratio. The process of allocating capital to specific operations and activities is undertaken by the Bank's Asset and Liability Management Committee.

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Capital adequacy of the Bank is measured pursuant to the guidelines issued by OSFI, based on standards established by the Bank for International Settlements. OSFI establishes risk-based capital targets for financial institutions. These targets are currently an “all-in” tier 1 capital ratio of 8.5% and a total capital ratio of 10.5%.

(a) Capital structure

Tier 1, Tier 2 and total regulatory capital

Tier 1 capital represents the permanent forms of capital and primarily includes common shares and retained earnings of the Bank. Tier 2 capital represents stage 1 and stage 2 ECL add back. Total regulatory capital includes Tier 1 and Tier 2 capital, net of certain deductions.

| | December 31, 2024 | December 31, 2023 |
|---|--------------------------|-------------------|
| | \$ | \$ |
| Paid-up common share capital | 455,230 | 455,230 |
| Retained earnings | 330,731 | 314,740 |
| Remove computer software intangible amt | - 231 - | 331 |
| Accumulated other comprehensive income/(loss) | 173 | 11 |
| Tier 1 capital | 785,903 | 769,650 |
| Tier 2 capital | 28,512 | 28,513 |
| Total Regulatory Capital | 814,415 | 798,163 |

Note: Tier 1 Capital as presented in this disclosure excludes computer software intangible amount in accordance with OSFI's guideline, whereas it is included in Tier 1 Capital as presented in the financial statements.

(b) Capital adequacy ratio

| | December 31, 2024 | December 31, 2023 |
|--|------------------------------|----------------------|
| | % | % |
| Tier 1 capital adequacy ratio | 23.76 | 24.28 |
| Tier 2 capital adequacy ratio | 0.86 | 0.76 |
| Total regulatory capital adequacy ratio | 24.62 | 25.04 |

Capital adequacy ratio as at December 31, 2024 was calculated in accordance with the Guideline - Capital Adequacy Requirement issued by OSFI. The Bank has adopted the Standardized Approach for the calculation of the risk weighted assets for credit risk and the Basic Indicator Approach for the calculation of operational risk.

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(c) Minimum capital requirement for principal risks:

| | December 31, 2024 | December 31, 2023 |
|------------------------------|----------------------|----------------------|
| | \$ | \$ |
| Credit risk | | |
| Bank | 42,184 | 37,883 |
| Corporate | 224,232 | 228,729 |
| Residential mortgages | 54,930 | 43,003 |
| Other retail | 5,686 | 4,821 |
| Operational risk | 20,226 | 18,455 |

(d) Leverage ratio

The Guidelines for Banks issued by OSFI prescribes another limit on the leverage ratio. The leverage ratio is defined as the capital measure divided by the exposure measure, with this ratio expressed as a percentage. It can be summarized as a measure of Tier 1 capital as a proportion of total adjusted assets.

Beginning in Q1 2015, institutions are expected to maintain a leverage ratio that meets or exceeds 3% at all times. OSFI has prescribed an authorized leverage ratio of 4% to the Bank. To ensure that the reported leverage ratio remains above 4% throughout the normal course of business, the Bank set up its internal target leverage ratio higher than OSFI requires for, including an appropriate operating buffer.

| Leverage Ratio Disclosure Q4 2024 and Q3 2024 on an "all-in" basis (CAD in '000 except ratios) | | Dec 31, 2024 | Sep 30, 2024 |
|---|--|--------------|--------------|
| On-balance sheet exposures | | | |
| 1 | On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral) | 3,849,554 | 4,144,986 |
| 4 | (Asset amounts deducted in determining Basel III "all-in" Tier 1 capital) | -231 | -261 |
| 5 | Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2) | 3,849,323 | 4,144,724 |
| Derivative exposure | | | |
| 6 | Replacement cost associated with all derivative transactions | - | - |
| 7 | Add-on amounts for PFE associated with all derivative transactions | 7 | 51 |
| 8 | (Exempted CCP-leg of client cleared trade exposures) | N/A | N/A |
| 9 | Adjusted effective notional amount of written credit derivatives | N/A | N/A |
| 10 | (Adjusted effective notional offsets and add-on deductions for written credit derivatives) | N/A | N/A |
| 11 | Total derivative exposures (sum of lines 6 to 10) | 7 | 51 |
| Securities financing transaction exposures | | | |

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| | | | |
|----|---|-----------|-----------|
| 12 | Gross SFT assets recognized for accounting purposes (with no recognition of netting), after adjusting for sale accounting transactions. | N/A | N/A |
| 13 | (Netted amounts of cash payables and cash receivables of gross SFT assets) | N/A | N/A |
| 14 | Counterparty credit risk (CCR) exposure for SFTs | N/A | N/A |
| 15 | Agent transaction exposure | N/A | N/A |
| 16 | Total securities financing transaction exposures (sum of lines 12 to 15) | 0 | 0 |
| | Other off-balance sheet exposures | | |
| 17 | Off-balance sheet exposure at gross notional amount | 972,654 | 997,417 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | -561,469 | -572,113 |
| 19 | Off-balance sheet items (sum of lines 17 and 18) | 411,185 | 425,304 |
| | Capital and Total Exposures | | |
| 20 | Tier 1 capital | 785,903 | 780,878 |
| 21 | Total Exposures (sum of lines 5, 11, 16 and 19) | 4,260,515 | 4,570,079 |
| | Leverage Ratios | | |
| 22 | Basel III leverage ratio | 18.45% | 17.09% |

5. Risk management framework

The Board of Directors of the Bank has established a risk management system and policies to identify, analyze, monitor and control various types of risks that the Bank faces in its operations. The risk management policies covering credit risk, market risk, operational risk, and liquidity and funding risk of the Bank are reviewed regularly by the Risk Management Committee, the Assets and Liability Management Committee, the Risk Policy Committee and the Audit Committee. At a higher level, board of directors has ultimate responsibility for overseeing that all material risks are consistent with the strategic objectives, risk appetite statement and approved policies.

(a) Credit risk

Credit risk arises from the possibility that a customer or counterparty in a transaction may default. Such risk may arise from customer risks from loans and advances, issuer risks from securities purchased and counterparty risks from inter-bank deposit placements.

The Risk Policy Committee reviews and the Board of Directors approves credit risk management policy to establish delegated lending authorities, portfolio quality, credit extension criteria, credit monitoring process, concentration limit, risk rating system, credit recovery and provisioning, and account officer responsibilities. Management ensures that credit risk is managed and controlled within the policy to permit sound and prudent management and control of existing and potential credit risk exposure. The policy is reviewed and enhanced on an on-going basis to cater for market changes, statutory requirements and best practice credit risk management processes. An overview of Credit Risk Management is as follows:

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| | |
|---|---|
| Risk Management Overview | Credit risk management Strategy & Policy; Loan classification and write-off policy; Provision & Loss strategy and execution; Credit risk mitigation strategy and execution; Authority limits delegation & monitoring external regulator management; |
| Policy & Program Development | Establish Policies, Practices and control mechanism to manage both financial and non-financial risk; Develop Risk Tolerance Limits; Regulatory Initiatives, Risk Initiatives; |
| Credit Assessment & Adjudication | Conduct credit quality reviews and approvals within delegated limits from CEO; Develop risk assessment and measurement system; Product policy analysis and validation; Write-off and loss analysis; Portfolio reviews; |
| Portfolio Monitoring Oversight & Reporting | Monitoring positions against approved risk tolerance limits; Portfolio Limits, Concentrations and quality monitoring; Reporting results of risk monitoring to Senior Management, the Board, Parent Bank and Regulator; |
| Transaction/Limit Monitoring | Exception / over limit adjudications; Specific provision & write-off approval; Monitoring, Compliance and limit Management; Executive and staff loan approvals and reviews; |
| Special Loan Supervision | Problem Account Management; |
| Management Committee Representation | Department Head and selected staff members of Risk Management Dept. will participate in Risk Management Committee and Credit Review Committee of the Bank; |
| Loan Administration | Ensure the credit management requirement under the approved credits to be setup, conducted and fulfilled during credit granting review; |

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| | |
|--|---|
| | As an additional control for the bank processes to ensure adherence to credit management policies, procedures and processes; Ensure consistency in the work undertaken and reviewed. |
|--|---|

In evaluating the credit risk associated with an individual customer or counterparty, financial strength and repayment ability are always the primary considerations. Credit risk may be mitigated by obtaining collateral, such as cash deposits, properties and guarantees, from the customers or counterparties. During the years ended December 31, 2024 and 2023, the Bank had not used any credit derivatives to mitigate credit or concentration risks.

The Bank undertakes an on-going credit analysis and monitoring at several levels and establishes a system to promote early detection of customer, industry, or product exposures that require special monitoring. The overall portfolio risk, individual impaired loans and potential impaired loans are monitored on a regular basis.

The Risk Policy Committee of the Board of Directors and management meet regularly to review and deal with significant issues relating to credit risk exposures.

Based on the Bank's internal risk rating system, the credit exposure can be classified as "Pass", "Special Mention", "Substandard", "Doubtful" and "Loss". "Pass" means the borrowers can honor the terms of the credit agreements, and there is no reason to doubt their ability to repay principal and interest on loans in full and on a timely basis. "Special Mention" means the borrowers has the capability to meet its financial commitment, but adverse business, financial, or economic condition will likely impair their capacity or willingness. "Substandard", "Doubtful" and "Loss" means the borrowers cannot repay loan principal and interest in full and significant losses will be incurred.

The Bank's loan loss impairment methodology is consistent with guidance as defined in IFRS 9, under which the Bank records the allowance for ECL for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The ECL allowance is based on the credit losses expected to arise over the life of the asset (the "lifetime expected credit loss" or "LTECL"), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss ("12mECL"). Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Bank groups its loans into Stage 1, Stage 2 and Stage 3, as described below:

- Stage 1: When loans are first recognized, the Bank recognizes an allowance based on 12-month ECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired. The Bank records an allowance for the LTECLs.

The Bank calculates ECLs based on a probability-weighted estimation of credit loss to measure the expected cash shortfalls, discounted at an approximation to the effective interest rate. A cash shortfall is the difference

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between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The ECL calculations are outlined below and the key elements are, as follows:

- The Probability of Default (“PD”) is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio.
- The Exposure at Default (“EAD”) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- The Loss Given Default (“LGD”) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

Pursuant to IFRS 9 requirements, ECL should be measured for different periods depending on credit risk changes following initial recognition of financial instruments. ECL should be calculated in three model stages:

- If the credit risk on a financial asset has not increased significantly since initial booking, then the 12mECL shall be recognized and calculated using the ECL Stage 1 model;
- If the credit risk on a financial asset has increased significantly since initial recognition there is no objective evidence of impairment, the lifetime ECL shall be recognized calculated using the ECL Stage 2 model; and
- If there is any objective evidence of impairment of a financial asset at the reporting lifetime, then ECL shall be recognized and calculated using the ECL Stage 3 model.

In its ECL models, the Bank relies on a broad range of forward-looking information as macroeconomic inputs, making forward-looking adjustments to its ECL calculation to reflect the impact of future macroeconomic changes on ECL, which is achieved by using the Merton model to make forward-looking adjustments to PD. The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

As at the following reporting dates, the Bank’s exposure to credit risk is as follows (in CAD’000):

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| | December 31, 2024 | December 31, 2023 |
|-------------------------------|-------------------|-------------------|
| | | \$ |
| Commerical loans | | |
| Neither past due nor impaired | 1,258,557 | 1,403,735 |
| Past due but not impaired | - | - |
| Impaired | 29,946 | 12,484 |
| | 1,288,503 | 1,416,219 |
| Mortgages | | |
| Neither past due nor impaired | 1,107,754 | 1,483,507 |
| Past due but not impaired | - | - |
| Impaired | 66,334 | 2,593 |
| | 1,174,088 | 1,486,100 |
| Other loans | | |
| Neither past due nor impaired | 2,675 | 9,190 |
| Past due but not impaired | - | - |
| Impaired | - | - |
| | 2,675 | 9,190 |

The credit quality of the portfolio of loans and advances assessed by reference to the Bank's internal credit risk rating system is as follows:

| As at December 31, 2024 (in CAD'000) | | | | | |
|--------------------------------------|------------------|----------------|---------------|------------------|------------------|
| | | | | 2024 | 2023 |
| | 12-month ECL's | Lifetime ECL's | | | |
| | Stage 1 | Stage 2 | Stage 3 | Total | Total |
| | \$ | \$ | \$ | \$ | \$ |
| Pass | 2,289,696 | - | - | 2,289,696 | 2,871,001 |
| Special-mention | - | 79,052 | - | 79,052 | 25,246 |
| Substandard | - | - | 84,980 | 84,980 | 2665 |
| Doubtful | - | - | 853 | 853 | 3 |
| Loss | - | - | 10685 | 10,685 | 12,594 |
| | 2,289,696 | 79,052 | 96,518 | 2,465,266 | 2,911,509 |

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4. Risk management framework (continued)

(a) Credit Risk (continued)

Loans and advances to customers by industry are as follows (in CAD'000):

| | December 31, 2024 | December 31, 2023 |
|---|----------------------|----------------------|
| | \$ | \$ |
| Commercial and other loans | | |
| Financial institutions | 96,048 | 64,677 |
| Manufacturing | 62,854 | 93,934 |
| Service | 95,130 | 98,151 |
| Transportation | 206,273 | 268,120 |
| Trading | 20,713 | 55,513 |
| Real estate | 778,091 | 788,924 |
| Agriculture | 29,394 | - |
| Other | 2,675 | 56,090 |
| | 1,291,178 | 1,425,409 |
| Mortgages | 1,174,088 | 1,486,100 |
| | 2,465,266 | 2,911,509 |
| Less: allowance for expected credit losses | (72,003) | (34,295) |
| Total, net of allowance for expected credit losses | 2,393,263 | 2,877,214 |

Loans and advances to customers by geographic location are as follows (in CAD'000):

| | December 31, 2024 | | | | | | | |
|-----------------------|--------------------------|---------------------------------------|----------------------------------|-----------------|----------------------|-----------------|--|-----------------|
| | Gross portfolio \$ | Net portfolio ⁽¹⁾ \$ | Gross impaired loans \$ | Stage 1 \$ | Expected credit loss | | | Total \$ |
| | | | | | Stage 2 \$ | Stage 3 \$ | | |
| Canada | | | | | | | | |
| Commercial loans | 986,776 | 955,348 | 29,946 | (4,836) | (3,831) | (22,761) | | (31,428) |
| Commercial mortgages | 280,777 | 260,550 | 59,460 | (827) | - | (19,400) | | (20,227) |
| Residential mortgages | 893,311 | 874,241 | 6,874 | (11,356) | (3,815) | (3,899) | | (19,070) |
| Other loans | 1,982 | 1,779 | - | (203) | - | - | | (203) |
| | 2,162,846 | 2,091,918 | 96,280 | (17,222) | (7,646) | (46,060) | | (70,928) |
| International | | | | | | | | |
| Commercial loans | 301,727 | 300,787 | - | (940) | - | - | | (940) |
| Other loans | 693 | 558 | - | (135) | - | - | | (135) |
| | 302,420 | 301,345 | - | (1,075) | - | - | | (1,075) |
| Total | 2,465,266 | 2,393,263 | 96,280 | (18,297) | (7,646) | (46,060) | | (72,003) |

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(1) Net portfolio equals Gross portfolio net of the Expected credit loss.

| | December 31, 2023 | | | | | | |
|-----------------------|-------------------|------------------------------|----------------------|--------------------------------------|----------------|-----------------|-----------------|
| | Gross portfolio | Net portfolio ⁽¹⁾ | Gross impaired loans | Allowance for expected credit losses | | | Total |
| | \$ | \$ | \$ | Stage 1 | Stage 2 | Stage 3 | \$ |
| Canada | | | | | | | |
| Commercial loans | 1,177,149 | 1,158,645 | 12,484 | (6,327) | (583) | (11,594) | (18,504) |
| Commercial mortgages | 319,066 | 316,932 | - | (2,134) | - | - | (2,134) |
| Residential mortgages | 1,167,034 | 1,159,461 | 2,593 | (9,147) | (731) | (1,842) | (11,720) |
| Other loans | 8,467 | 4,316 | - | (4) | - | - | (4) |
| | <u>2,671,716</u> | <u>2,639,354</u> | <u>15,077</u> | <u>(17,612)</u> | <u>(1,314)</u> | <u>(13,436)</u> | <u>(32,362)</u> |
| International | | | | | | | |
| Commercial loans | 239,070 | 237,195 | - | (1,875) | - | - | (1,875) |
| Other loans | 723 | 665 | - | (58) | - | - | (58) |
| | <u>239,793</u> | <u>237,860</u> | <u>-</u> | <u>(1,933)</u> | <u>-</u> | <u>-</u> | <u>(1,933)</u> |
| Total | <u>2,911,509</u> | <u>2,877,214</u> | <u>15,077</u> | <u>(19,545)</u> | <u>(1,314)</u> | <u>(13,436)</u> | <u>(34,295)</u> |

(1) Net portfolio equals Gross portfolio net of the expected credit losses.

Control and audit functions are also established that are independent of the business units whose activities they review, and whose role includes ensuring that all of the components of the risk management framework are effective and being implemented on a day to day basis including auditing credit files ensuring limits and control are in observed.

There are several departments and positions assigned with risk control functions. The Compliance, AML & Operational Risk Department (CAOD) is responsible for corporate governance, regulatory compliance management, privacy risk, anti-money laundering and anti-terrorist financing, legal risk. The department collaborate on credit risk matter related to compliance and AML to ensure all AML and compliance elements are covered while on boarding of new customers and on an ongoing basis for existing customers/clients. Both the Financial Management Department (FMD) and the Risk Management Department (RMD) work closely for liquidity risk and market risk.

Reporting on key elements of the Risk Management Framework, including the use of risk appetite dashboards to monitor risk metrics and KRIs against defined appetite and tolerance levels, takes place through BOCC established governance structure. Regular reporting about key risk limits and concentration is provided to the Senior Management and the Board.

Aggregate measures of risk across products and businesses are used to ensure compliance with policies, limits, and guidelines. They also provide a clear statement of the amounts, types, and sensitivities of the various risks in the Bank's portfolios. The reports are provided to the Senior Management and the Board on a regular basis. The Senior Management and the Board use this information to understand the Bank's risk profile and the performance of the portfolios.

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(b) Market risk

Market risk is the potential for adverse changes in the value of the Bank's assets and liabilities resulting from changes in market variables such as interest rates, foreign exchange rates, equity and commodity prices and their implied volatilities. The two primary types of market risk applicable to the Bank are: (i) interest rate risk and (ii) foreign exchange risk.

The Risk Policy Committee reviews, and the Board of Directors approves, the Bank's policy on market risk management to monitor and control its market risk exposures within acceptable parameters, while optimizing the return on risk. The Assets and Liability Management Committee, which is responsible for the ongoing general market risk management, meets regularly to review and deal with issues in response to the changing market conditions.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to interest rate risk when asset and liability principal and interest cash flows have different interest payment or maturity dates. These are called mismatched positions. An interest sensitive asset or liability is re-priced when interest rates change or when there is cash flow from final maturity, normal amortization and when customers exercise prepayment. The Bank's exposure to interest rate risk depends on the size and direction of interest rate changes, and on the size and maturity of the mismatched positions.

Interest rate risk in banking book is measured in two dimensions, earnings-based net interest income impact ("NII") and economic value analysis ("EVE"). NII reflects short to medium term interest rate risk, where the bank evaluates the potential impact on net interest income over a 12-month period due to the re-pricing risk, caused by maturity gap and repricing gap, assuming a 200 basis points change in market interest rate. The NII indicator is calculated by net interest income change under 200 basis points shock divided by the average interest earning assets in past twelve months. EVE reflects medium to long-term interest rate risk, where the bank analyzes the interest rate risk by comparing the changes in economics value with the interest earning assets under various interest rate shock scenarios. The EVE indicator is calculated by economic value impact under 200 bps shock divided by current interest earning asset. The bank utilizes NII and EVE indicators to monitor and manage interest rate risk in banking book.

As at the following reporting date, the before-tax impact on the net interest income over the next 12 months due to an immediate 200 basis point change in interest rates is as follows:

| | December 31, 2024 | December 31, 2023 |
|--|----------------------|----------------------|
| | \$ | \$ |
| 200 basis points increase in interest rates | 22,823 | 17,149 |
| 200 basis points decrease in interest rates | (22,823) | (17,149) |

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As at December 31, 2024, the financial assets and liabilities of the Bank based on the earlier of their contractual re-pricing or maturity date are presented below.

| | Floating rate \$ | Within 3 months \$ | Over 3 months to 1 year \$ | Over 1 year to 5 years \$ | Over 5 years \$ | Non-rate sensitive \$ | Total \$ |
|-------------------------------------|------------------------|--------------------------|-------------------------------------|---------------------------------|-----------------------|-----------------------------|------------------|
| Assets | | | | | | | |
| Cash and cash equivalents | 520,327 | 725,634 | - | - | - | 3,495 | 1,249,456 |
| Securities | - | 39,991 | 114,474 | - | - | 108 | 154,573 |
| Loans and advances | 1,460,317 | 665,814 | 97,528 | 164,655 | - | 76,952 | 2,465,266 |
| Expected credit losses | - | - | - | - | - | (72,893) | (72,893) |
| Other assets (1) | - | - | - | - | - | 53,152 | 53,152 |
| Total assets | 1,980,644 | 1,431,439 | 212,002 | 164,655 | - | 60,814 | 3,849,554 |
| Liabilities and equity | | | | | | | |
| Deposits from customers | | | | | | | |
| Demand and notice | 501,733 | - | - | - | - | - | 501,733 |
| Fixed term | 317,178 | 540,154 | 851,306 | 1,418 | - | - | 1,710,056 |
| Bank Depository Note | - | 127,492 | 19,714 | - | - | - | 147,206 |
| Deposits from banks | 169,393 | 461,752 | - | - | - | - | 631,145 |
| Other liabilities (2) | - | - | - | - | - | 73,280 | 73,280 |
| Equity | - | - | - | - | - | 786,134 | 786,134 |
| Total liabilities and equity | 988,304 | 1,129,398 | 871,020 | 1,418 | - | 859,414 | 3,849,554 |
| Total gap – 2024 | 992,340 | 302,041 | (659,018) | 163,237 | - | (798,600) | - |
| Total gap – 2023 | 773,662 | 192,705 | (454,856) | 296,002 | 20,426 | (827,939) | - |

(1) Other assets include ROU, property and equipment, deferred income tax assets, derivatives, and other assets.

(2) Other liabilities include cheques and other items in transit, income taxes payable, derivatives, and other liabilities.

(ii) Foreign exchange risk

Foreign exchange risk is the risk of loss due to the changes in the foreign exchange rates. The Bank's foreign exchange market activities are to cover customers' needs and foreign currency positions in the non-trading book. During the years ended December 31, 2024 and 2023, the Bank did not speculate on foreign exchange movements or maintain large open positions in foreign currencies.

The Bank does not have significant risk in foreign exchange as it is not involved in speculative trading activities. The Bank covers or hedges its currency exposure using foreign currency forward contracts. There is no significant foreign exchange exposure incurred in foreign currency deposit and loan transactions.

(c) Liquidity and funding risk

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Liquidity and funding risk arises when the Bank encounters difficulty in meeting obligations from its financial liabilities.

The Risk Policy Committee reviews and the Board of Directors approve the policies for liquidity and funding risk management. The Asset and Liability Management Committee of the Bank meets regularly to review and deal with liquidity management issues in response to changing market conditions.

The Bank's liquidity risk management policy and control procedures are designed to ensure that an effective liquidity contingency planning and liquefiable assets exist at all times to permit uninterrupted daily operations. The Bank's liquidity position is monitored daily and liquidity stress testing is conducted regularly under a variety of scenarios covering both normal and more severe market conditions.

(d) Counterparty credit risk

Counterparty credit risk is the risk that the counterparty to a derivative transaction could default before the final settlement of the transaction's cash flows. An economic loss would occur if the transactions or portfolio of transactions with the counterparty has a positive economic value to the Bank at the time of default. In the normal course of business, the Bank has foreign exchange transactions with positive values and there is a risk that the counterparties might default. The Bank has established limits governing its foreign exchange activities with banks and customers; and, most importantly, it does not speculate on foreign exchange trading. To quantify settlement and counterparty risk, the Bank has adopted the 'current exposure method' to measure it and calculate the capital requirement for it.

6. Remuneration Policy

The Bank's remuneration policy applies to all its employees in Canada. The primary objectives of the Bank's remuneration policy are to compensate its employees in such a manner that it can attract, retain and motivate them, while at the same time enable the Bank implement and achieve its business targets and strategies.

The Bank has implemented a fair and balanced remuneration package that reflects the values of the business units and each individual employee. The package is comprised of the following components:

- Base salary
- Incentive pay
- Other benefits

The base salary, which is a fixed remuneration, represents approximately 80% to 90% of the total remuneration. The Bank aims at being competitive in determining the base salary of different positions.

The incentive pay is applied to motivate employees and increase their productivity. Employees with satisfactory performance are generally eligible. The amount of incentive pay is determined according to the performance of each individual employee measured by a number of criteria that are communicated to the employees in advance. The Bank has established certain risk control measures to prevent employees from taking excessive risks in attempting to achieve targets; and, the Bank can at its sole discretion adjust the incentive pay structure from time to time in order to minimize risk taking.

Other benefits are non-cash rewards to employees and include some special awards to employees who have demonstrated outstanding performance either at work or in internal competitions organized by the Bank.

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The Bank conducts annual review on the remuneration package to ensure its competitiveness and that it matches with the Bank's overall business strategy.

7. Key Management Compensation

Key management comprises the members of the Board of Directors, President & CEO, EVP, SVP and CCO of the Bank.

Key management personnel compensation for the year ended December 31, 2024 comprised salaries and other short-term benefits in the amount of \$2,579 (2023 - \$2,611). The Bank does not provide long-term benefits or non-cash benefits to any of the key management personnel.

8. General Qualitative Information on Operational Risk Framework – ORA

Operational risk at the Bank is defined in accordance with the seven operational loss event categories outlined by the Basel Committee: internal fraud, external fraud, employment practices and workplace safety, clients, products and business practices, damage to physical assets, business disruption and system failures, and execution, delivery, and process management.

The Bank commits to maintaining an effective and resilient operational risk management framework enabling it to swiftly response to operational risk factors and events.

(a) Operational Risk Framework

The Bank's Operational Risk Management Framework ("the Framework") supports a comprehensive approach to identifying, assessing, mitigating, monitoring and reporting operational risks. The Framework incorporates the following key elements:

- Fostering a comprehensive operational risk culture.
- Establishing a clear risk governance structure.
- Risk identification and assessment.
- Risk measurement using qualitative and quantitative methods.
- Continuous monitoring and reporting.

Board-approved policies, guidelines, and procedures related to operational resilience, internal controls, anti-money laundering, and cybersecurity are central to the Bank's risk management efforts. Additionally, the Bank has detailed procedure manuals governing business unit activities, governance functions, and audit processes, which are subject to regular review and updates.

(b) Organizational Structure of Operational Risk Management

The Bank's operational risk management structure is based on the three lines of defense model:

- First Line of Defense: Business Units are responsible for managing operational risks in their areas, ensuring adherence to policies and procedures.
- Second Line of Defense: The Operational Risk Management, Compliance, and other functional units oversee risk management activities and provide effective challenge and guidance. They also develop operational risk policies, monitor risk metrics, and report on operational risks to Senior Management.

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- Third Line of Defense: The Internal Audit function independently reviews and validates the effectiveness of the operational risk framework and its implementation.

The Board of Directors is ultimately responsible for overseeing the operational risk management framework, while Senior Management is responsible for reviewing significant operational risk matters and ensuring that risks are managed effectively across the organization.

(c) Operational Risk Measurement System

The Bank uses a combination of quantitative and qualitative methodologies to measure operational risks:

- Quantitative Methods: These include the calculation of operational risk capital using the Simplified Standardized Approach and the tracking of KRIs such as operational loss events, cyber security breaches, regulatory penalties, and customer complaints.
- Qualitative Methods: Business Impact Assessments and Risk and Control Self-Assessments (RCSA) are conducted by each business unit annually. These assessments identify critical operations, key risks, and the sufficiency of existing controls. Where controls are insufficient, remediation plans are developed and prioritized based on risk.

(d) Operational Risk Reporting Framework

The Bank's operational risk reporting framework ensures that key operational risks are communicated to the Board of Directors and Senior Management on a regular basis. The reporting framework includes operational risk capital metrics, risk appetite adherence, and key risk exposures.

A well-defined escalation process is in place to ensure that significant risks are promptly identified and addressed. This includes early warning mechanisms and a tiered risk appetite limit structure, which allows for proactive management of emerging risks.

(e) Risk Mitigation and Transfer

The Bank employs a variety of risk mitigation and transfer mechanisms to manage operational risks:

- Operational Risk Policies: The Bank has a comprehensive set of operational risk policies aimed at mitigating identified operational risk to help reduce the likelihood and impact of operational risk events.
- Business Continuity Plans and Incident Responses: The Bank maintains business continuity plans (BCPs) to ensure operational resilience in the event of a disruption. The BCPs are reviewed and tested annually under the guidance of Operational Risk Management.
- Insurance: The Bank uses insurance as a risk transfer mechanism to cover certain operational risks.
- Capital Reserves: In extreme cases, the Bank's strong capital position allows it to absorb significant operational losses.