- Pillar III -

Public disclosure

Data referring to 31 December 2020

Bank of China LTD Milan Branch

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1556092 Own funds as at 31/12/2020 €200,000,677

Member of the Interbank Deposit Protection Fund

Contents

1. Introduction

1.1 Background

This Pillar III disclosures document is prepared in accordance with the Basel III framework and Capital Requirements Regulation and Capital Requirement Directive IV ("CRR" and "CRD", collectively "CRD IV") which came into force on 1 January 2014. The dispositions issued by the Bank of Italy in order to implement and facilitate the application of the new regulations have been added to the Community legislation, as well as for the purpose of carrying out an overall revision and simplification of the banking supervisory discipline, by means of the following circulars:

- Circular n. 285 of 17th December 2013 *"Prudential Supervisory Provisions for Banks"* and following updates;
- Circular n.286 of 17th December 2013 *"Instructions for completing the prudential reporting by banks and securities firms"* and following updates;
- Circular n.154 of 22nd November 1991 *"Supervisory reporting of credit and financial institutions. Detection schemes and instructions for the forwarding of information flows"* and following updates.

In particular, Bank of Italy Circular no. 285 of 17th December 2013 "Prudential Supervisory Provisions for Banks", incorporates the rules of CRD IV, indicates the modalities of exercise of the national discretions, attributed by the European Community discipline to national authorities. Circular no. 285 outlines a complete regulatory framework; furthermore, it integrated the directives of the community provisions, in order to facilitate their use from the operators.

In December 2016, an EBA document containing the guidelines for drafting the Public Disclosure was published, as dictated by the Basel Committee in the document "Revised Pillar 3 disclosure requirements" and in accordance with Part Eight of the CRR Regulation. In December 2018, the EBA, at the conclusion of the public consultation process launched in April, published the final version of the document "Guidelines on disclosures of nonperforming and forborne exposures" applicable from 31 December 2019. In addition, during 2019 the EBA launched a consultation on implementing Technical Standards for the compilation of the information to the public, in order to promote a comprehensive and comprehensive vision of transparency for the benefit of market discipline.

Under the Basel III framework there are three central elements or “Pillars”:

i) Pillar I – Minimum Capital requirement, with defined rules for the calculation of credit risk, counterparty credit risk, market, and operational risk.

ii) Pillar II –Supervisory Review Process, under which supervisors take a view on whether an institution should hold additional capital against risks that are not fully captured under Pillar I. The institution’s internal model and assessment support this process. Details of the assessment process are contained in the Bank’s “Internal Capital Adequacy Assessment Process” (“ICAAP”), elements of which are disclosed within this document.

iii) Pillar III – External communication of risk and capital information which complements Pillar I, Pillar II and allows market player to assess the Bank’s capital adequacy.

Together with Bank of China Milan Branch 2020 Annual Report, the 2020 Pillar III provides information on the Bank’s material risks as part of the Pillar III framework. The disclosures are based upon the Bank’s financial position as at 31 December 2020. They provide details on its risk profile, including breakdown by costumer categories and risk classes, which form the basis for the calculation of the capital requirement.

The report is updated and published every year.

1.2 Ownership

Bank of China Milan Branch ("the Bank", "the Branch") is an Italian bank authorized and regulated by Bank of Italy. It is a Tier-1 branch of and wholly owned by Bank of China Ltd ("BOC"), registered in Beijing China. In order to carry out the Branch's business plan, it has received during 2019 from our Head Office a Euro 132 million Capital Increase, thanks to this Capital Increase, own funds reached Euro 200 million.

1.3 Business Activity

Bank of China Milan Branch engages the following activities:

a. Retail Banking: bank account services, deposit, remittance service.

b. Wholesale Banking: Deposit, trade finance, international settlement, letter of guarantee, syndicated and bilateral loan, foreign exchange products.

1.4 Document Governance

This document has been reviewed and approved through a formal governance procedure for being published on Bank of China website (www.bankofchina.com/it). Unless otherwise indicated, information contained within this document has not been subject to external audit but has been reviewed and approved by the Senior Management.

2. Risk Management Framework

The Bank's risk management objectives are to identify and evaluate the risk that the Bank faces, draft, and update and interpret the Risk Appetite Framework, following the direction of the Branch's Senior Management, and ensure that the business profile and strategy are consistent with it, optimize risk return decision while establishing strong and independent review process ensuring that the business growth plans are properly supported by effective risk infrastructure, and managing the risk profile to ensure that specific financial deliverables remain achievable under a range of adverse business conditions.

The key risks that Bank of China Milan Branch faces in its operations include Financial Risk (Credit, Market and Liquidity), Compliance risk, Operational Risk, Interest Rate Risk on Banking Books, Country risk. These risks are evaluated and managed through the Bank's risk management framework, which is implemented through a "Three Lines of Defence Model", and clearly defines the responsibilities and accountabilities for monitoring and complying with the policies and procedures of the Bank.

The business units, as the first line of defence, are responsible for the day-to-day management of risks in their business, with Risk Management Department and Legal and Compliance Department being the second line oversight functions that provide challenge to ensure the first line is operating within the Bank's risk appetite and are in full compliance with regulatory requirements. Internal Audit represents the third line of defence, providing independent assurance over the adequacy and effectiveness of risk control across the Bank.

Risk policies including the Risk Management Framework and the risk appetite framework are regularly reviewed and updated to reflect the latest risk strategies approved by the Senior Management Office. Risk exposure is monitored continually against approved risk appetite limits, which include both quantitative and qualitative measures, and risk protection is supported by appropriate early warning indicators and escalation processes under the Three Lines of Defence.

As required by the Bank of Italy, the Bank has in place both Internal Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Adequacy Assessment Process (ILAAP) documents. These processes give assurance that the Bank has both sufficient capital and liquidity to continue to operate. Under the guidelines provided in these documents, the Bank has monitored its liquidity and capital positions throughout the year, performing internal assessment through stress testing.

2.1 Corporate & Risk Governance

The Senior Management of Bank of China Milan Branch is committed to ensure its robust, comprehensive procedures and controls throughout the business. Senior Management maintains a close "hands on" approach to all aspects of the business on a day-to-day basis.

Senior Management through several Committee and sub-committee, which include the Asset and Liabilities Committee (ALCO) actively manage risk through daily, weekly, and monthly monitoring. The Risk Management Department works closely with Financial and Operations Department, Corporate department, and Treasury functions to ensure full adherence to financial risk polices approved by the Senior Management.

External and Internal Audit ensure the effectiveness of internal controls including financial management and regulatory compliance.

2.2 Risk Policies

Bank of China Milan Branch maintains comprehensive risk policies that set out objectives, strategies and process to manage the risks that the Bank faces. The policies are updated periodically, with the direct involvement of the Senior Management to reflect the changes in the business environment and the Bank's approved risk strategies. Under the risk management framework, the Bank has adopted a prudent risk management approach that is articulated through a number of quantitative and qualitative limits including limits on capital utilization, credit risk, market risk, operational risk and liquidity risk as well as establishing a threshold of materiality for reporting of actual and potential risk event.

The Bank manages its individual and overall risk position within its stated. Credits to customers can be classified as A, B, C, D, and there are 27 basic credit classifications between AAA, and D grade.

3. Key Risk

Credit risk is the risk that obligors or counterparties are unable to meet their financial obligations to the Bank as they fall due. Credit risk arises principally from lending, trading and investment activities involving on and off-balance sheet instruments. The Bank manages its credit risk during the course of transaction initiation to final maturity through a well-defined credit approval process and comprehensive post execution credit monitoring. The Bank's strategy is to adopt a prudent approach to credit exposure by investing or lending only to obligor's counterparties with sound credit rating and amounts and maturities that are commensurate with the assessed credit risk. Credit limits are managed at both individual obligor and connected group levels and are further controlled by limits at country risk level.

Day to day management of credit risk is performed by the front office as the first line of defence. Their responsibilities include appraisal of client's credit quality and evaluation of transaction risk. Risk management department performs independent review of proposals and makes a formal recommendation to the Credit Committee including any recommendations for additional credit protection or conditions. The Bank's credit policies require periodic and on-going review of the credit worthiness of obligors or counterparties, country risk and rating developments using rating models that has been reviewed and validated internally.

3.1 Credit Risk Exposure

Credit risk exposure (Counterparty Risk) arises primarily from lending, trade finance and bond investments. Credit exposure includes all loans, claims, and credit commitments including trade finance and contingent liabilities arising from on and off-balance sheet transactions with clients. Credit risk may be mitigated through appropriate documentation containing covenants or other clauses that act as early warning triggers or protections, and by the use of collateral, third parties guarantees or insurance policies.

Currency Euro\000

Exposure classes	Nominal value	RWA
Cash	801.74	-
Deposits and Placements to Central Bank	228,585.06	-
Deposits and Placements to affiliated company	41,856.13	8,371.23
Loan to Corporate	1,128,752.76	651,453.94
Trade Finance	-	-
Loan to Individual	7,773.55	2,724.62
Bond Investment	188,688.28	-
Foreign Exchange Transaction	0.02	0.02
Receivable and Advance	627.90	627.90
Deferred Expense	38.78	38.78
Fixed Assets	1,169.38	1,169.38
Fees Receivables	202.94	202.94
Equity investment	9,671.23	9,671.23
Deferred Income Tax Assets	7,524.87	3,669.26
Interest Receivable	3,979.42	3,979.42
Total	**1,619,672.07**	**681,908.73**

Row Labels	Nominal Value	RWA
Full Risk	**0**	**0**
Acceptance drafts under L/C	0	0
Medium Risk	**371,425**	**144,940**
Corporate loan commitment	371,425	144,940
L/C issued	0	0
Medium/Low Risk	**106,996**	**72,982**
FITD Impegni	257	51,405
Currency Receivable	1,695	21
Letters of guarantee issued not for financing	105,044	21,557
Grand Total	**478,422**	**217,922**

<u>Structures responsible for the measurement and management</u>: consistent with the management principles of credit risk established by the Basel Committee and with the supervisory regulations, the strategic body shall review regularly through adequate documents the Bank's strategy and policies related to credit risk. The effective credit risk management thereafter leads to grant loans, investment in financial instruments or opening positions in derivatives.

As for loans to customers (including derivative positions), the first level control will be first given to the Relationship Managers. They carry out the first line of controls on timely manner and should timely detect any abnormalities. They perform the periodic renewal of exposures also taking advantage of the support of simplified or automated procedures. It is up to the Senior Management overseeing the activities of dedicated technical structures.

The Risk Management carries out second-level controls or specific risk control (as defined by the supervisory regulations on internal controls) technical trend of single positions, identified by taking samples or based on precise risk indicators and the evolution of the creditworthiness of each class.

The function also performs second level controls on aggregate risk and identifies the methods for measuring the credit risk.

3.2 Credit Risk Mitigation

Credit decisions are made based upon an evaluation of the standalone creditworthiness of the obligors or counterparties and the amount and maturity of proposed transactions; however, risk mitigation mechanisms are employed to minimize credit risk in the event of credit quality deterioration. These include, but are not limited to credit support with Head Office and with third parties, collateral and financial and non-financial guarantees.

3.3 Past due loans & impairments

Bank of China Milan Branch has established mechanisms for identifying and reporting past due and impaired assets.

As at 31 December 2020 the gross value of the past due & impaired exposure is Euro 22.4 mm, and it subdivided into: two retail loans for a total gross amount of Euro 0.44 mm (net amount Euro 0.13 mm); and one corporate costumers for a total gross amount of Euro 22.24 mm (net amount Euro 0.046 mm)

4. Market risk

The exposure to market risk is calculated using the standard method, with details for each risk mentioned in the provisions of art.92, par.3, letters b) and c) of Regulation (EU) n.575 / 2013. At 31 December 2020 the Branch doesn't have any exposure in gold, thus possessing only currency exposures. The exposures in foreign currency are as follows:

Asset-Liability (A)		Unsettled (B)	Tot –Original currency	Conversion in Euro
AUD	-5,707.07	-	-5,707.07	-3,590.25
CHF	-	-	-	-
CNH	-	-	-	-
CNY	69,994,427.09	-70,007,999.50	-13,572.41	-1,691.79
GBP	-5,737.94	-12	-5,749.94	-6,395.72
HKD	-46,728.39	-	-46,728.39	-4,911.43
JPY	-1,387,394.00	-	-1,387,394.00	-10,968.74
SEK	-	-	-	-
SGD	-1,615.48	-	-1,615.48	-996.1
USD	886,953.82	73,093.27	960,047.09	782,371.18

According to article 351 of CRR 575/2013, if the sum of the net position of a total exchange institution and the net position in gold, according to the procedure under article 352, exceeds 2% of the total funds own, the institution is required to calculate and allocate enough funds to cover the foreign exchange risk. The own funds requirement for exchange rate risk is equal to the total net sum of the currencies multiplied by 8%.

At the end of 2020, the net position on the overall change is less than 2% of total own funds of the Branch, which is why, no capital has been implemented for the foreign exchange risk.

<u>Structures responsible for the measurement and management</u>: Market risk management function includes trading desk, middle office function as well as risk management function as second defence line. The functions mentioned above monitor market risk through limit monitoring of indicators such as P&L, VaR, FX exposure and report to the Branch, European middle office as well as Head Office level based on risk management function and level of significance of events.

5. Liquidity Risk

The Bank defines liquidity risk as the risk that it is unable to meet its own financial obligations as they fall due. The Bank maintains its liquidity resources under the requirement of the minimum LCR requirement of 100% for the year 2020. During the 2020 the Bank has always respect the regulatory indicator. The Bank’s liquidity resources consist of High Quality Liquid Assets (“HQLA”) and other liquid marketable securities, which can be utilized if there is risk that the Bank cannot meet its liabilities from cash balance. The Bank manages liquidity risk by holding unencumbered HQLA to cover total net cash outflows under stress scenario. Key liquidity ratios of the Bank at 31 December 2020 are as follows:

	Euro
HIGH QUALITY LIQUID ASSETS	407,142,714.10
In which: Cash	801,738.10
Exposure to Bank of Italy	217,688,430.70
USD Bond	45,060,688.18
Euro Bond	143,591,857.12
Outflow	298,349,260.84
Inflow	39,230,096.34
LCR – Liquidity Coverage Ratio	**157%**

The Bank has a governance structure that ensures that its liquidity position is kept under close review, under the oversight of the Asset and Liabilities Committee. It has put in place a series of quantitative limits to ensure the exposure remains within its risk appetite. The liquidity position is reported on a daily basis.

<u>Structures responsible for the measurement and management</u>: Governance structure of liquidity risk management consists of three levels, which include the Senior Management Office, Asset & Liability Management Committee ("ALCO") and functional departments of the Branch.

- Senior Management Office shall bear ultimate liabilities for the Bank's liquidity risk management and perform the following functions:

1. Examine and approve and deliberate on, once every year, the tolerable liquidity risk, liquidity risk management strategy and important policies and procedures;
2. Supervise the Senior Management to effectively manage and control liquidity risk;
3. Pay attention to liquidity risk, regularly review liquidity risk reports, and timely understand liquidity risk level, management and major changes;
4. Examine and approve the disclosure of liquidity risk information and ensure the authenticity and accuracy of information disclosure.

- The Senior Management Office may empower the ALCO to perform the following functions:

1. Formulate, review, and supervise the implementation of liquidity risk management strategy, policy and procedures;
2. Review periodically liquidity situation;
3. Pay attention continuously to liquidity risk, acquire liquidity risk and stress test reports, and understand timely liquidity risks' significant change and conversion.

In accordance with local regulatory authorities, the Bank established system of the three control's levels of liquidity risk management. The first control's level remains to every functional departments, including the Financial & Operating Dept. which is the main office for measure of this field. The second control's level is assigned to the Risk Management Dept. by the ALCO, which shall organize to implement the related function with another department. The third control's level is assigned to the Internal Audit.

6. Operational Risk

Operational risk is the risk of loss stemming from inadequate or failed internal processes, people, and systems or from external events. Operational risk includes legal risks but excludes reputational risk and is embedded in all banking products and activities. It has always existed in banking, and non-banking, organizations but it has acquired a greater relevance given the increased complexity and globalization of the financial system and the recent materialization of unprecedented extremely large losses.

The Bank measured operational risk and capital charge following the basic indicator approach according to Part III, Title III, Chapter II of Regulation CRR/575 of European Parliament and of the council. The procedures are as below:

a. Under the basic indicator approach, the own fund requirement for operational risk is equal to 15% of the average over three years of relevant indicators listed in Article 316 of the same regulation.
b. The Bank calculated the average over three years of the relevant indicator on the basis of the last three twelve-monthly observations at the end of the financial year.
c. The exposure of operational risk was calculated by multiplying the result of the above paragraphs by 12.5 (Article 94(4)(b)).

The relevant indicator of each year is the sum of the elements listed in the table below:

Relevant indicators
Interest receivable and similar income
Interest payable and similar charges
Income from shares and other variables/fixed-yield securities
Commissions/fees receivable
Commissions/fees payable
Net profit or net loss on financial operations
Other operating income

Fund requirement for Operational Risk

Currency: Euro

Relevant Indicators	
2018	15,690,942.00
2019	18,820,537.51
2020	19,148,557.00
Average	17,886,678.84
Capital	2,683,001.83
RWA	33,537,522.82

The effective management of operational risk is a fundamental element of the Bank's risk management. The Bank manages these risks through appropriate risk controls and loss mitigation actions. These actions include a balance of policies, procedures, internal controls, contractual business continuity arrangements, training, and risk monitoring and reporting. The Legal and Compliance Department conducts operational risk assessments periodically and the assessment results are reported to the Senior Management. In the light of the current high-profile data breaches, Bank of China Milan Branch has taken steps to isolate valuable data and core systems from the Internet. Bank of China Milan Branch takes cyber security seriously and adopts effective guidelines and plants to meet internal and regulatory cyber security requirements and minimize cyber risk.

<u>Structures responsible for the measurement and management:</u> the Bank has adopted the "basic indicator approach" approach for calculating the capital requirement for operational risk according to Article 316 the Regulation (UE) 575/2013 (15% of the average gross income of the last three financial years). Legal and Compliance manages and coordinate the whole process,

Risk Management calculates the capital requirement according to the figures provided by Financial & Operation Department.

7. Exposure to interest rate risk (art.448 CRR)

As prescribed by Circular n.285/2013 of Bank of Italy (Title III, Chapter I, Annex C) and according to EBA/GL/2018/02, the Bank measures its exposure to interest rate risk through the use of the simplified methodology. The stress test methodology is based on the evaluation of the impact of EBA six interest rate shock scenarios over the portfolio sensitive to interest rate:

- Short rate up
- Short rate down
- Long rate up
- Long rate down
- Steepening
- Flattening

Stress test interest rate risk Stress Economic Value perspective

Currency: Euro/000

	TOTAL	EUR_BOI	USD_BOI	OTHER_BOI
Short Rate Shock Up	**985.66**	1,201.16	(431.00)	(258.52)
Short Rate Shock Down	**2.23**	(2.71)	3.58	1.40
Long Rate Shock Up	**(418.66)**	(344.49)	(492.83)	(54.73)
Long Rate Shock Down	**2.23**	(2.71)	3.58	1.40
Steepening	**(57.84)**	(55.51)	(60.18)	(1.01)
Flattening	**1,143.07**	1,167.62	(49.10)	1,413.66

As the table above shows, the results from the application of Long rate Shock up scenario (-418.66) are worse than standard +/-200 shock (-200.26). Hence, the Bank will consider an add-on of 218.40 (418.66 – 200.26). Considering the results above, a change in the economic value of approximately Euro 0.418 million corresponds to less than 1% of Tier 1 (largely bellow 15%).

Structures responsible for the measurement and management:

- Senior Management Office[1]: Assume final responsibility for the interest rate risk exposure and interest rate risk level under the banking book. Urge the Asset & Liability Management Committee to improve policies relating to interest rate risk management, and urge departments concerned to perform respective functions.
- Asset & Liability Management Committee: Approve the interest rate risk management limit proposed by the Financial and Operation Department. Review the report in excess

of the risk limit, and authorize the Treasury Department and the business department to execute risk hedging measures and remedial measures to reduce the risk.

- Risk Management & Internal Control Committee: Set the risk orientation and interest rate risk appetite. Review and approve the management policy for interest rate risk adopted by the Asset & Liability Management Committee.

Three levels of defence model for interest rate risk management in banking book: According to local regulatory authorities, the Bank established a model of the three levels of defence for interest rate risk management in banking book. The first level remains to every functional department, in particular to the Financial & Operation Department which is the main office for its measurement. The second level of defence is assigned to the Risk Management Department by the Asset & Liability Management Committee to verify the methodologies and control the risk limits. The third level of defence is assigned to the Internal Audit, which control all the functions.

[1] Composed of General Manager and 2 Assistant General Managers

8. Counter-cyclical Capital buffer

The Counter-cyclical Capital Buffer refers to the own funds that an institution is required to maintain in accordance with Article 130 under CRDIV for relevant credit exposure to certain jurisdictions. As at 31 December 2020, the counter-cyclical Specific coefficient was 0.00% hence zero own fund allocation, the surplus of CET1 capital in current year is sufficient enough to cover such capital buffer equal to zero.

9. Compliance Risk

Compliance risk is the failure to comply with laws (Legal Risk), regulations, internal policies & procedures, or industry standards of best practice, which may results in legal or regulatory sanctions, financial loss or reputational damage to the Bank. Compliance risk is wide ranging and evident in all of the Bank's activities. A key area of compliance risk for the Bank is Anti-Money Laundering and Combating Terrorist Financing (AML/CTF). This risk is increased by the nature of the Bank's business of providing cross border Trade Finance services to wholesale clients based in high-risk jurisdictions. Responsibility for compliance rests with all employees, and the Head of Legal and Compliance Department is responsible for monitoring compliance and regulatory risk on a day-to-day basis.

10. Residual, Strategic and Reputational risk

Residual risk is the risk that the established methods of mitigating the credit risk used by the Bank prove less effective than expected.

Strategic risk is the risk that business strategy, operations or conduct of a firm may produce poor outcomes for customers, resulting in fines, redress costs, and /or damage awards arising from regulatory intervention, or other remediation expenses. Strategic Risk within the Bank can arise as a result of an over aggressive strategy, poor control of sales and marketing activities or failure to comply with all regulatory and internal clients client management requirement.

The reputational risk is the current or prospective risk to earnings or capital arising from a negative perception of the Bank by customers, counterparties, bank shareholders, investors or supervisory authorities.

Structures responsible for the measurement and management: regarding this risks the Bank has set specific monitoring tools in organizational and monitoring systems that the Risk Management Department presides, with the support of other organizational units of the Bank, to mitigate this type of risk.

With regards to reputational risk the assessment of the negative perception of the Bank's risk by external parties is part of the activities falling within the company's control system. The current regulation assigns to the Control function to ensure, among other things, compliance with legal requirements, the adequacy of the organizational and accounting structures of the Bank and on the functionality of the overall internal control system. The Bank also assigned to the Legal & Compliance Department the responsible for overseeing compliance with the law. In its assessment, the control body should also take into account the "impact on reputational and safeguarding the public trust." The control body uses, in order to carry out its tasks, the facilities and the Bank's internal control functions.

11. Stress Testing and Scenario Analysis

Part of the Bank's obligation under the overall Pillar I and Pillar II rule is to identify the major source of risk and carry out stress tests and scenario analysis that carry out stress test and scenario analysis that are appropriate to the nature, scale and complexity of the Bank's business. A scenario stress test involves simulations moves in a number of risk factors, where the Bank believes that an event may occur in the foreseeable future. A stress test scenario can be based on a significant market event experienced in the past (an historical Scenario) or on a plausible market event that has not yet happened.

12. Capital Management

The management of capital adequacy takes the form of a set of policies that define the size and the optimal combination of the various capitalization instruments, in order to ensure that capital is in line with the risk profile assumed and in particular with the supervisory requirements. The internal capital to hedge the undertaken risks with current or future operations, are determined as part of the self-assessment process of capital adequacy known as ICAAP (Internal Capital Adequacy Assessment Process). The total internal capital is calculated as the sum of the internal capital associated with the individual risks according to the so-called "building block". This approach characterizes smaller banks such as the Bank of China Milan Branch.

For risks subject to capital requirements (credit, market and operational risk, known as "first pillar risks"), internal capital corresponds to the capital requirement itself.

For concentration risk of and interest risk (second pillar measurable risks) a risk amount is calculated applying the methodologies proposed by the Bank of Italy in Circular n.285/2013.

For the geo-sector risk calculation, Bank of China Milan Branch uses the ABI "Laboratory for the risk of geo-sectorial concentration" methodology.

For other non-measurable second-pillar risks, qualitative assessments are carried out and appropriate organizational monitoring framework are adopted.

The Bank respects the limits required by the new Basel 3 regulations regarding capital ratios. The legislation introduced by the Bank of Italy with Circular n.285/2013 foresees the following minimum coefficients:

- CET 1 capital ratio equal to 4.50%;
- Tier 1 capital ratio equal to 6.00%;
- Total capital ratio of 8.00%.

Currently Bank of China Ltd. Milan Branch has not yet received 2020 SREP, according to the communication from Bank of Italy dated December 2018 regarding decision on capital requirement specifically for Bank of China Ltd. Milan Branch, the minimum capital ratios suggested in the next year from the last SREP requirement are the following:

Capital Ratio 2020				
Item	**Minimum**	**SREP requirements**	**Conservational Buffer**	**Capital Requirement**
CET 1	4.50%	1.26%	2.5%	8.26%
TIER 1	6%	1.69%	2.5%	10.19%
CAR	8%	2.25%	2.5%	12.75%

Bank of China Milan Branch's investment policies are aimed at maintaining a constant balance between economic investment, financial investments and asset size, with the final aim of minimizing the cost of capital for use.

Euro/000

Pr.	Risk Type	2020
1	Pillar I Risk	**Internal Capital**
2	Credit Risk	67,878
3	Counterparty Risk	**Part of credit risk**
4	Market Risk	-
5	Operational Risk	2,683
6	**Total Pillar I internal Capital**	**70,561**
7	**Total Pillar II Internal Capital**	**79,895**
8	Total Supervisory Capital	280,331
9	CET1 Capital	190,331
10	TIER 1 Capital	220,331
11	**Total Used Capital**	**150,456**
12	**Total Capital Excess**	**129,875**

13. Own Funds

Own Funds (also referred to as capital resources) relates to the type and level of regulatory capital that is held to enable the Bank to absorb losses. The Bank is required to hold own funds in sufficient quantity and quality in accordance with CRD IV which sets out the characteristics and conditions for own funds. The Own Funds of Bank of China Ltd. Milan Branch consists of two capital levels (class 1 and class 2), the latter consists in a subordinated loan from Head Office. There are no elements to provide information on innovative or hybrid capital instruments, prudential filters or subordinated liabilities.

The primary capital of class 1, which represents the set of the equity components of higher quality, consists of the following elements:

- equity
- retained earnings
- capital
- valuation reserves
- prudential filters

- deductions (in particular these last one are composed of the following items:
    - interim losses
    - goodwill and other intangible assets
    - shares indirectly and/or synthetically held
    - repurchase commitments
    - significant shares
    - non-equity investments in other financial sector entities also indirectly and/or synthetically held
    - deferred tax assets
    - exposures to securitizations
    - and other exposures weighting at 1,250% and deducted from primary capital

Currency Euro/000

	31.12.2020	**31.12.2019**
A. Primary Capital of Tier 1 (Common Equity Tier 1 – CET1)	**195,196**	**202,118**
Of which instruments of CET 1 object of transitory disposition		
B. Prudential filter of CET 1		
C. CET 1 before the elements to be deducted and the transitory disposition (A +/- B)	**195,196**	**202,118**
D. Element to be deducted to CET 1	**- 4,864**	**- 1,683**
E. Transitional Regime – Impact on CET1 (+/-)		
F. Common Equity Tier 1 – CET1 (C - D +/-E)	**190,332**	**200,435**
G. Additional Tier 1 – AT1 with deductions due to transitional Regime	**30,000**	**30,000**
of which AT1 Instruments of transitional dispositions		
H. Elements to be deducted to AT1		
I. Transitional Regime – Impact on AT1 (+/-)		
L. Additional Tier 1 – AT1 (G - H +/- I)	**30,000**	**30,000**
M. Tier 2 before the elements to be deducted and the transitory disposition	**60,000**	**60,000**
Of which Tier 2 Instruments of transtional dispositions		
N. Elements to be deducted to Tier 2		
O. Transitional Regime – Impact on T2 (+/-)		
P. Tier 2 –T2 (M - N +/- O)	**60,000**	**60,000**
Q. Total own funds	**280,332**	**290,435**

14. Remuneration policies (Article 450 CRR)

The informations shown in the table below are related to the Bank of Italy disposition "Disposizioni in materia di politiche e prassi di remunerazione e incentivazione nelle banche e nei gruppi bancari" (hereinafter just "Provvedimento"), to the circular 285 of bank of Italy of the 17 December 2013 and the related subsequent amendment and to the EU regulation n° 604 of 4 March 2013 related to the identification of the most relevant staff.

Role	Number of Beneficiary fixed remuneration	Amount of the fixed remuneration, gross of tax and social security taxes	Amount of variable remuneration, gross of tax and social security taxes	Number of Beneficiary variable remuneration
Senior Management	3	€ 689,202.66	€ 395,455.12	4[1]
Control Functions[2]	3	€ 405,711.42	€101,927.25	5[3]

Senior Management Office is designated and detached by the Head Office, this includes in addition to the General Manager, two employees detached to the management of the Branch by the Head Office. Bank of China Milan Branch's remuneration is based on competitive market rate salaries that compensate employees fairly in terms of skills offered and responsibility undertaken.

The fixed remuneration is defined based on the position and the role in the Bank. The annual variable component is linked to an annual performance management system of the Bank which provides for the assessment of qualitative and quantitative criteria according to the guidelines of the Head Office.

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[1] Including previous General Manager deferred payment of Variable Remuneration
[2] Including the Responsible of Risk Management, Assistant General Manager.
[3] Including previous two Assistant General Manager deferred payment of Variable Remuneration

15. Financial Leverage (Article 451 CRR)

The risk of excessive leverage is covered in Part One - Title III - Chapter 1 - Appendix A of the Bank of Italy Circular no. 285 of 17.12.2013, as well as by Part Second, Cap 12 of the Bank of Italy Circular no. 285. The risk of excessive leverage is the risk that a very high level of debt compared to the supply of equity makes the Bank vulnerable, making it necessary to take corrective measures to its business plan, including the sale of assets with accounting for losses that could result in adjustments also on the remaining activities.

The calculation method is ruled by Article 429 of the CRR 575. The Leverage ratio is controlled periodically in order to monitor the limit set by the supervisory regulations. At 31 December 2020 the ratio was 11%

16. Adequacy of risk management measures and overall risk profile

With reference to the provisions of article 435 - paragraph 1, in letters e) and f) of European Regulation no. 575/2013, we present a summary of the adequacy of the risk management measures and the overall risk profile in line with the company strategy.

Adequacy of risk management measures:

The set of risk management tools (systems, processes and models) is periodically assessed and subjected to verification, for the related areas of competence, by the Risk Management Dept. and the Internal Audit; any modification that have been done, according to the requirements of the regulations in force, are regularly brought to the attention of the competent of the Senior Management.

Overall risk profile and consistency with the company strategy:

The Bank adopts the Bank of China Group’s risk appetite, establishing the methods of fitting with the internal rules among the group strategy, the strategic planning processes and the ICAAP, as required by the entry into force of the provisions contained in the 15th update of Bank of Italy Circular n.263/2006 subsequently implemented by the Bank of Italy Circular n.285/2013 and subsequent updates.

The risk appetite is expressed in terms of capital adequacy, liquidity and expressive measures of capital at risk or economic capital through indicators representative of regulatory constraints and risk profile defined in accordance with the process of verification of capital adequacy and the processes risk management.

17. Statements of the General Manager

The General Manager, Mr. Jiang Xu, on behalf of Bank of China Ltd Milan Branch, in compliance with art. 435 paragraph 1 letters e) and f) of European Regulation 575/2013 (CRR) states that:

- The risk management systems put in place by Bank of China Milan Branch and described in the document "Pillar III - Disclosure as at 31.12.2020" are in line with the profile and strategy of Bank of China Milan Branch.

- The aforementioned documents show the Bank's risk profiles that are consistent with the strategy of the Bank itself and the Head Office.

Milan,

Mr. Jiang Xu
General Manager
Bank of China Ltd. Milan Branch