- Pillar III -

Public disclosure

Data referring to 31 December 2021

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

Member of the Interbank Deposit Protection Fund

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1. Introduction

1.1 Background

On 1 January 2014, the new prudential supervisory provisions for banks and banking groups came into force in the countries of the European Union, which transpose the international regulatory framework for the strengthening of banks and banking systems defined in these countries. by the Basel Committee for Banking Supervision in December 2010 (so-called “Basel 3”).

The aforementioned provisions were introduced in the European Union:

- with Regulation (EU) 26.6.2013 n. 575 (“Capital Requirements Regulation” - CRR);
- with the Directive (EU) 26.6.2013 n. 36 ("Capital Requirements Directive" - CRD IV).

The CRR Regulation and the CRD IV Directive are accompanied by the provisions of a technical nature-application of the EBA ("European Banking Authority"), which take the form of as many delegated regulations issued by the European Commission:

1. regulatory technical standards (“Regulatory Technical Standard” - RTS);
2. implementing technical standards ("Implementing Technical Standard" - ITS).

The set of the CRR Regulation, the CRD IV Directive and the technical standards of the EBA / Commission European form the so-called "Single Rulebook", that is the single and harmonizing discipline that constitutes:

i) the unitary regulatory body of prudential supervisory provisions that must be applied by all EU banks and banking groups;

ii) the regulatory framework in which the so-called “Single Supervisory Mechanism” (“Single Supervisory Mechanism - SSM "), a banking supervision system composed of the ECB and the national supervisory authorities of EU countries.

The CRR Regulation lays down the rules on own funds, capital requirements on risks (so-called “first pillar "), large exposures, liquidity risk, financial leverage (" leverage ratio "), public disclosure (so-called "third pillar"). The CRD IV Directive contains the provisions on authorization to carry out banking activities, freedom of establishment and freedom to provide services, cooperation between supervisory authority, prudential control process (so-called "second pillar"), capital buffers (so-called capital "buffers"), administrative sanctions, corporate governance and remuneration policy.

The CRR Regulation, like all European Union regulations, has direct effect in the Member States and therefore it does not need to be implemented, with the exception of some national options

exercised by individual states members. Similarly, the technical provisions of the EBA, taking the form of delegated regulations of the

European Commission, are directly applicable in the Member States. The CRD IV Directive comes instead

transposed into national laws and requires the issuance of specific internal provisions of the States

members; at national level, the harmonized regulation was implemented by the Bank of Italy with the issue of circular no. 285 of 17.12.2013 "Supervisory provisions for banks", with which in particular:

- the national options envisaged by the CRR Regulation have been exercised;
- the secondary technical provisions of CRD IV have been incorporated.

The regulatory framework is completed with circular no. 286 of 17 December 2013 and subsequent updates

“Instructions for the compilation of prudential reports for banks and brokerage firms movable ".

As regards public disclosure (3rd pillar), the new prudential supervisory provisions establish, like the previous ones and in order to strengthen market discipline, that banks and banking groups are required to publish information capable of representing fully to the market itself their level of capital adequacy and their risk profile.

The aforementioned disclosure obligations are prescribed by the CRR Regulation, while the guidelines published by the EBA on 23.12.2014 provide information on the relevance, exclusivity, confidentiality and frequency of the information to be published. In particular, the latter must be published on the “internet” site of the banks or parent companies on an annual basis and together with the financial statements. Only for banks and banking groups of greater size and operational complexity is the publication of some information more frequently (quarterly or half-yearly) required.

In particular, the Disclosure to the Public is governed by EU Regulation no. 575/2013 (so-called CRR), Part Eight and Part Ten, Titles I, Chapter 3 and the regulatory or implementation technical standards issued by the European Commission.

On the mandate of art. 434 bis CRR II, in order to harmonize and standardize disclosure to the public at European level (providing common schemes and mapping with reports to facilitate their compilation), the EBA has developed ITS 2020/04, as a "single framework "Regulatory information for the disclosure, repealing the previous plurality of regulatory sources on the subject. This ITS was implemented by Reg. 2021/637 which “establishes technical implementation standards for the publication by entities of the information referred to in part eight, titles II and III, of Regulation (EU) no. 575/2013 of the European Parliament and of the Council and repealing the Implementing Regulation (EU) no. 1423/2013 of the Commission, the

Delegated Regulation (EU) 2015/1555 of the Commission, the Implementing Regulation (EU) 2016/200 of the Commission and the Delegated Regulation (EU) 2017/2295 of the Commission ". The effective date is June 28, 2021 and therefore applicable to the Bank of China Milan branch with reference to FY 2021.

The information is both qualitative and quantitative and according to the principle of proportionality, the richness and degree of detail of the information must be calibrated on the organizational complexity and type of operations of the bank or banking group. In addition, some disclosure obligations also constitute a necessary condition for the recognition for prudential supervisory purposes (suitability disclosure requirements) of certain procedures or instruments contemplated by the provisions, such as the so-called "credit risk mitigation techniques" (credit risk mitigation tools) "Credit risk mitigation").

In this regard, a reconciliation table of the qualitative and quantitative information provided in this document with the relevant regulatory references (represented by the annexes to the aforementioned Regulation (EU) No. 2021/637 and the related articles of the CRR) is subsequently reported. , taking into account that the Parent Company is included among the "Other entities" pursuant to art. 433quater of the CRR and, as a non-listed entity, is subject to the disclosure obligations set out in the paragraph of the aforementioned art. 433quater.

The information to be published must be subjected to specific forms of control aimed at ensuring it

correctness, consistency and completeness, also in order to verify that the aforementioned information is in able to fully represent to the market the level of capital adequacy and the risk profile

of the bank or banking group. The controls to be carried out on the public disclosure process consist of:

i) line controls (first level controls);

ii) compliance checks (second level checks);

iii) internal audit controls (third level controls).

The qualitative and quantitative information published are organized in specific synoptic tables, each of which concerns a specific information area and allows to satisfy the needs of homogeneity, comparability and transparency of the data.

Disclosure to the public on exposures subject to measures applied in light of the Covid-19 crisis

The Bank of Italy, with a communication dated 30 June 2020, implemented the Authority's guidelines European Banking (EBA) relating to reporting and disclosure obligations to the public on exposures subject to measures applied in light of the Covid-19 crisis (EBA / GL / 2020/07) issued by the EBA on 2 June 2020 ("Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis ").

The guidelines require that information be provided on:

1) loans subject to "moratoriums" that fall within the scope of the Guidelines of the EBA on legislative and non-legislative moratoriums relating to loan payments applied in the light of the Covid-19 crisis (EBA / GL / 2020/02);

2) loans subject to forbearance measures applied following the Covid-19 crisis;

3) new loans guaranteed by the state or other public body.

In addition, on 11 August 2020 the EBA issued an amendment to the guidelines on uniform disclosure relating to the transitional provisions for the mitigation of the impact of IFRS 9 on own funds pursuant to art. 473-bis of CRR (EBA / GL / 2018/01), in order to ensure compliance with the "quick fixes" on CRR in response to the COVID-19 pandemic (so-called "quick-fix") introduced with the EU Regulation n. 873/2020. These amendments were applied with effect from 31 December 2020.

COVID - 19 emergency information and the Russian-Ukrainian conflict

With reference to the impacts on the overall risk profile of the branch and the related measures adopted in the face of the health emergency due to the spread of the COVID-19 virus which occurred starting in early 2020, and the Russian - Ukrainian conflict that exploded in the first quarter of 2022, please refer to the details in the financial statements at 31.12.2021.

2. Table of reconciliation of the information published in accordance with the requests of the CRR / CRR II

ARTICLES CRR FROM REFERENCES	OBJECT OF THE INFORMATIVE	INFORMATION NATURE	REFERENCE TABLE / TEMPLATES	ARTICLE OF REGULATION 2021/637	ANNEX REGULATION 2021/637	Disclosure section to the public as at 31 December 2021
Art. 436 quater CRR	Scope of the application					Section 1
Art. 435 (1) Letter a), e) e f)	Information on risk management objectives and policies	QUALITATIVE	EU OVA table: management method of the institution's risk	Article 2	Annex III	Section 2
Art. 435 (1) e 451bis (4)	Liquidity Requirements Disclosure	QUALITATIVE	EU LIQA Table Liquidity risk management	Article7, Letter a)	Annex XIII	Section 3
Art. 435 (1) lettere a), b), d) e f)	Credit Quality Disclosure	QUALITATIVE	EU CRA Table - Generic qualitative information on credit risk	Article 8, comma 1, Letter a)	Annex XV	Section 4
Art. 435 (1) letter a), b), c) e d)	Disclosure on the use of the standardized method and internal models for market risk	QUALITATIVE	Tabella EU MRA - Requisiti di informativa qualitativa sul rischio di mercato	Article 15, comma 1, Letter a)	Annex XXIX	Section 4
Art. 435 (1), 446 e 454	Operational risk disclosure	QUALITATIVE	Table EU ORA - Qualitative disclosure of operational risk	Article 16	Annex XXXI	Section 4
Art. 435 (2)	Information on risk management objectives and policies	QUALITATIVE	EU OVB Table - Disclosure on governance systems	Article 2	Annex III	Section 5
Art. 437, Letter a), d), e) e f)	Own funds disclosure	QUANTITATIVE	EU CC1 - Composition of own funds	Article 4, letter a)	Annex VII	Section 6
Art. 437, letter a)	Own funds disclosure	QUANTITATIVE	EU CC2 - Reconciliation of own funds with the financial statements	Article 4, letter a)	Annex VII	Section 6
Art. 438, letter a) e c)	Disclosure of key indicators and representation of risk-weighted exposures	QUALITATIVE	EU OVC - Disclosure on ICAAP	Article 1, comma 3	Annex I	Section 7

Art. 438, letter d)	Disclosure of key indicators and representation of risk-weighted exposures	QUANTITATIVE	EU OV1 - Risk weighted exposure representation	Article 1, comma 2	Annex I	Section 7

3. Section 1: Scope

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.

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.

4. Section 2: Information on risk management objectives and policies

Table EU OVA: risk management method of the institution
Qualitative disclosure

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.

The branch'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.

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.

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.

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.

Credit risk measurement

The measurement of credit risk must be assessed by distinguishing between the measurement for regulatory purposes, identified in the measurement of the capital requirement against credit risk, and the measurement for management purposes, which identifies synthetic risk measures and more detailed indicators functional to the assessment, risks and the subsequent monitoring phase.

The measurement of the capital requirement is carried out in compliance with the reporting obligations by applying the standardized methodology as defined in the Supervisory provisions.

The measurement of credit risk for management purposes involves specific quantitative calculations regarding the evolution of loans to customers, the quality of credit, the performance of impaired positions, the relative degree of coverage, as well as the composition of loans by rating class.

The exposure to credit risk is also subjected, at least annually as part of the ICAAP process, to stress tests aimed at assessing the impacts on internal capital (and assets) of extreme but plausible values of risk factors.

During 2021, the Bank continued the strategy set in 2020 aimed at addressing the potential impacts related to the health emergency following the Covid-19 pandemic crisis.

The Bank continued with the analyzes focused on the economic sectors particularly impacted by the emergency health care and on the customer segments considered weaker or more exposed to the risk.

In order to reflect the risks and instabilities associated with the macroeconomic context in the course of 2021, the models of measurement of expected losses were constantly monitored and updated with forecasts

Starting from the second semester of 2021 in consideration of the general economic context which saw a significant recovery of infections and to the general uncertainty about the evolution of the pandemic accompanied by tensions on the prices of materials prime and to the upward inflation outlook, the "severe" scenario of the GDP variable (EU) was overweighted made available by the ECB.

A further evolution is planned for 2022 which will allow the sectors of economic activity to be incorporated into the satellite model.

Credit risk monitoring

Credit risk monitoring refers to the collection and structured organization of the results obtained from the measurement and assessment activity, as well as further quantitative and qualitative surveys that support the analysis of the exposure to the risks in question and the verification of compliance with the RAF indicators. It is distinguished in:

a) credit risk exposure analysis, which considers:

- the capital requirement;
- the nature and composition of the portfolio;
- the quality of the portfolio;
- the degree of coverage of loans;
- risk mitigation techniques.

Risk Appetite Framework

The development and establishment of an effective “Risk Appetite Framework” (RAF) is an interactive and evolutionary process that requires ongoing dialogue through the financial institutions to attain buy-in across the organization. The RAF sets the financial institution’s risk profile and forms part of the process of the development and implementation of the institution’s strategy, and determination of the risks undertaken in relation to the institution’s risk capacity. RAF has to be prepared following the Guidelines established by Bank of China Group (“Risk Appetite Statement of Bank of China Group”). For the purpose of this principals, the RAF does not include the process to establish the strategy, develop the business plan and the models and systems to measure and aggregate risk (as explained in the Basel Committee’s Principles for Sound Liquidity Risk Management and Supervision 2008

Http://www.bis.org/publ/bcbs144.htm and Principles for Effective Risk Data Aggregation and Risk Reporting 2013 Http://www.bis.org/publ/bcbs239.htm.

Financial Institutions that implement a RAF most effectively are those that incorporate the framework and communicate and promote the framework into the decision-making process and into the institution-wide risk management framework and communicate and promote the framework throughout the organization starting from the top. Implementing an effective RAF requires an appropriate combination of policies, procedure, controls, and systems to accomplish a set of objectives. The RAF should enable risk capacity, risk appetite, risk limits and risk profile to be considered for business lines and legal entities as relevant, and with the group context, considering relationship across legal entities. An effective and efficient RAF should be intricately linked to the development of information technology (IT) and Management Information Systems (MIS) in financial institutions, as per BCBS Principles for Effective Risk Data Aggregation and Risk Reporting.

The RAF of Bank of China Ltd. Milan Branch is a framework for determining the risk propension, which fixed ex ante the risk and return targets that BOCMI is willing to take and tolerate, to maintain prudential operation, to continue development and to realize the strategic objective, in line with the Bank of China Group strategy.

The risk appetite is an important component of the business and risk strategies of BOCMI and guides both management decision and operations activities.

Pursuant to the principles of “security, liquidity, profitability” and with the approach of stabilizing “risk, capital and income”, BOCMI is compliant with local legislation and with prudential manner to operate in Italy, as well as maintains adequate capital and enough liquidity.

The Risk Appetite Framework for the period 2022-2023 is currently under review and will be completed once the latest Risk Appetite Framework at group level will have been received.
During 2021-2022 has respected all the indicators of the RAF with the exceptions of the NSFR at 31/03/2021 at 109% below the internal threshold of 110%, the breach of the NSFR has been duly approved by senior management following the internal procedure.

Credit risk reporting and communication

The reporting and communication of credit risk refers to the preparation of the appropriate ones information to be transmitted to the corporate bodies and other functions regarding the risks assumed or assumable in the different segments, capturing, in an integrated logic, also the reciprocal interrelationships and with evolution of the external context.

Concentration risk

Concentration risk is the risk deriving from exposures to counterparties, including central counterparties, groups of connected counterparties (single-name concentration) and

counterparties operating in the same sector economic, in the same geographical region or carrying out the same business or dealing with the same goods concentration (geo-sectoral), as well as the application of credit risk mitigation techniques, including, in particular, the risks deriving from indirect exposures, such as, for example, towards individuals guarantee providers. The measurement system adopted by the Branch is aimed at assessing and, where possible, quantifying the impact of the concentration risk, on capital adequacy, on the liquidity position and on compliance with the prudential limits in this regard provided for by the provisions.

For the purpose of determining the internal capital against the concentration risk for individual counterparties

groups of connected customers, the Bank uses the regulatory algorithm of Granularity Adjustment.

In order to provide a quantitative assessment of the geo-sectorial concentration risk, the Bank uses the methodology developed in ABI by the "Laboratory for Geo-Sectoral ".

Interest rate risk on the banking book

The interest rate risk is generated by the mismatch of maturities and / or repricing between the assets and liabilities of the banking book. The banking book for supervisory purposes is defined as residual with respect to the trading book and therefore includes all the positions not included in the trading book for supervisory purposes. Therefore, the following are included in the banking book:

a) the assets and liabilities generated by treasury operations and therefore the interbank deposits given and received, repurchase agreements, etc. (interest rate risk of a discretionary nature);

b) the assets and liabilities generated by transactions with ordinary customers (retail and corporate); in this case the risk is strictly connected to the commercial policies of collection and use and therefore to the "structure" same as the balance sheet (interest rate risk of a structural nature);

The Group's interest rate risk management process, with reference to the banking book, consists of the stages illustrated below.

- Senior Management Office : Bears final responsibility in relation to the exposure and level to interest rate risk in the banking book. Appoints the Asset & Liability Management Committee to improve policies relating to the interest rate risk management, and the departments to perform their respective functions.
- Asset & Liability Management Committee: Reviews the interest risk exposure in case of breaching risk limits and stress test reports and reviews the Corporate & Finance (Treasury) Department and the functional departments to execute risk hedging measures and remedial actions to reduce the interest risk exposure.

• Risk Management & Internal Control Committee: Approves the interest rate risk appetite and the risk limit proposed by the Financial & Operation Department.

Three lines of defense model for interest rate risk management in the banking book: In line with the local regulatory authorities, the Branch has established a model of the three lines of defense for interest rate risk management in the banking book. The first line of defense belongs to every functional department, in particular to the Financial & Operation Department which is the main office for its measurement. The second line of defense is led by the Risk Management Department and supported by the other departments. The third line of defense is assigned to the Audit Function.

Risk Map

The "Risk Map" is shared with the aim of developing a common functional language to bring all the risks to which the branch is exposed to predefined categories, the model of which constitutes the support for the activities of the control functions and other control levers, as well as the basis of reporting to the corporate bodies. The shared taxonomy of business risks is based on the model provided for by the Bank of Italy Circular no. 285/2013, implemented by the branch within the RAF Regulation and customized for the purposes of managing the internal process of determining the current and prospective capital adequacy (Internal Capital Adequacy Assessment Process - ICAAP) and liquidity (Internal Liquidity Adequacy Assessment Process - ILAAP). In this context, on the basis of the branch's operations, the current and future risks to which it is exposed have been identified, distinguishing them into quantifiable and non-quantifiable.

The responsibility for the maintenance and updating of the risk map over time is entrusted to the Risk Management Function, which promotes the process of identifying and updating the taxonomy of risks in light of the evolution of the reference regulatory and operational context. The evolutionary need for the risk map can be identified by the Risk Management Function, or reported to it by the other internal control functions, by the other control levers.

The updated risk map is subjected to the approval of the Risk Management Internal control Committee and subsequently disseminated within the company organization.

Pillar	Type of risk	Risk Description
I Pillar	CREDIT AND COUNTERPARTY RISK	The credit risk expresses the possibility that an unexpected change in the creditworthiness of a counterparty, against which there is an exposure, a corresponding unexpected change i n the market value of the credit position. It also includes the case of counterparty risk, i.e. the risk that the counterparty could default before the final settlement of certain transactions involving unlisted derivatives object, repurchase agreements or transactions with long-term settlement.
	MARKET RISK	Market risk is the risk of changes in the market value of a security or portfolio of securities associated with unexpected changes in market conditions (stock prices, interest rates, exchange rates and the volatility of these variables).
	OPERATIONAL RISK	Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. This type of risk, among others, losses from fraud, human error, interruptions, system unavailability, breach of contract, and natural disasters.

II Pillar	**INTEREST RATE RISK**	The risk of interest rate on the bank's portfolio is the risk arising from potential changes in interest rates and is based on assets other than those held for trading and liabilities.
	LIQUIDITY RISK	Liquidity risk is the risk of not being able to meet its payment obligations due to the inability to procure funds in the market (funding liquidity risk) is to dispose of its assets (market liquidity risk).
	CONCENTRATION RISK	Risk arising from exposures to counterparties, including central counterparties, groups of connected counterparties, and counterparties operating in the same economic sector, in the same geographic region or from the same activity or the same merchandise, as well as by the application of technical of the credit risk mitigation, including, in particular, the risks related to indirect exposures, such as, for example, against individual providers of guarantees.
	RESIDUAL RISK	The risk that the established methods of mitigating the credit risk used by the bank prove less effective than expected.
	SECURITIZATION RISK	The risk that the economic substance of a securitization is not fully reflected in the assessment decisions and risk management.
	REPUTATIONAL RISK	The reputation 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.
	STRATEGIC RISK	Strategic risk is the current or future risk of a decline in profits or capital arising from changes in the operating environment or incorrect business decisions, inadequate implementation of decisions, lack of responsiveness to changes in the competitive environment.
	COUNTRY RISK	The country risk is the risk of losses caused by events that occur in a country other than Italy. The country risk concept is wider than that of sovereign risk as it relates to all exposures regardless of the nature of the parties, be they individuals, companies, banks or governments.
	TRANSFER RISK	The transfer risk is the risk that a bank, exposed against a person who borrows in a currency other than that in which perceives its main sources of income, realized losses due to the difficulties of the debtor to convert their Currency in the currency of denomination of the exposure.
	BASE RISK	The baseline risk, in the context of market risk, is the risk of losses caused by changes misaligned values of offsetting positions, similar but not identical. In view of this particular risk attention must be paid by banks, calculating the capital requirement for position risk according to the standardized methodology, offset positions in one or more equity securities included in an equity index with one or more locations in the future / other derivatives related to such index or offset opposite positions in stock index futures which are not identical as regards the deadline, the composition or both.
	THE RISK OF EXCESSIVE FINANCIAL LEVERAGE	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.
	RISK OF COMPLIANCE	Is the risk of incurring legal or administrative sanctions, or significant financial losses or reputational damage as a result of violations of mandatory rules (laws, regulations);
	RISK OF ANTI-MONEY LAUNDERING	it means the risk that the Bank may be involved, even unintentionally, in transactions designed to money laundering or terrorist financing.
	IT RISK	"IT risk : the risk of current or potential losses due to the inadequacy or failure of hardware and software of technical infrastructures that could compromise the availability, integrity, accessibility and security of such infrastructures and data
	CONDUCT RISK	Conduct risk: in the context of operational risk, it represents the current or prospective risk of losses resulting from an inappropriate offer of financial services and the resulting legal costs including cases of intentionally inappropriate or negligent conduct.

5. Section 3: Disclosure on liquidity requirements.

EU LIQA table: liquidity risk management

Management of liquidity

Management policies

The objectives of liquidity risk management are to:

- Ensure at all times an adequate correspondence between incoming cash flow and outgoing cash flow, thus guaranteeing the Bank's technical solvency;
- Coordinate the issuance by the Bank of short-term, medium-term and long term financing instruments;

- Optimize the cost of refinancing, balancing the trade-off between liquidity and profitability

Operational risk management

The operational management of liquidity is coordinated by the parent company and takes place in a centralized manner while allowing, within the framework of appropriate exceptions that part of the management takes place in a decentralized manner at the level of the single entity of the group.

The Branch adopting internally the policy "Liquidity Risk Management Policy of Bank of China Ltd. Milan Branch" has identified a governance structure which includes the Asset and Liability Management Committee ("ALCO").

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

- it is responsible for supervising the Asset and Liability Management Committee (ALCO) to implement liquidity risk management policy and procedures;
- supervise all departments to perform related functions;
- pay attention to liquidity risk, timely understand liquidity risk level and management status and its major changes.

ALCO is empowered to perform the following functions:, pre-warning indicators and stress test reports; reviewing risk hedging strategies and remedial measures to reduce risks; and ensuring that the liquidity status of the Branch is in line with the regulatory authorities and the Head Office requirements

- For reviewing and revising liquidity risk management policies Review periodically liquidity situation;
- For reviewing events that exceed risk limits, pre-warning indicators and stress test reports;
- For reviewing risk hedging strategies and remedial measures to reduce risks;
- For ensuring that the liquidity status of the Branch is in line with the regulatory authorities and the Head Office requirements

The Risk Management and Internal Control Committee is responsible for reviewing the Branch's liquidity risk appetite formulated by the Financial Operation Department.

In compliance to the requirement stipulated in the Circular 285/2013, and the adoption of "Liquidity Risk Management Policy of Bank of China Ltd. Milan Branch" the Branch has identified a control and management mechanism based on the "three-level system of liquidity management".

The first levels of liquidity management are:

Financial and Operation Department lead the liquidity risk management of the Branch, include: draft liquidity risk management policy; establish the liquidity risk limit indicator system in accordance with internal and external regulatory requirements; lead the relevant departments of the Branch to update the measurement tool of liquidity risk indicators, sets up the LCR tool to daily measure and report the Branch's liquidity risk to the ALCO when the pre-warning indicators do not meet the requirements; draw up liquidity contingency plan for H.O.; participate in the assessment of liquidity risk arising from introduction of new products with relevant departments and make relevant recommendations; submit information on liquidity risk management to the Head Office and local regulatory authorities.

Corporate Finance Department (Treasury) is an important operating department for liquidity management of the Branch, it is responsible for planning and intraday liquidity risk management, and preventing payment risks; manage the high-quality liquid assets of the Branch, maintaining a reasonable size and structure of high-quality liquid assets, ensure that it can meet liquidity needs in a timely manner under stress scenarios; according to the financing strategy of the Branch, it is responsible for market-based financing and financing channel management, closely monitoring the foreign currency transaction volume and price changes in major financial markets, and regularly assessing our Branch's foreign currency market financing and asset liquidity capabilities; in case of contingency plan triggers, complete market operations under the authorizations of the Senior Management Office and the Asset and Liability Management Committee.

Business Department and Rome Branch are responsible for timely monitoring and forecasting large-value fund flow of the accounts under the institution, Corporate Finance Department is responsible for timely monitoring and forecasting the changes in the large deposit and loan funds of customers; Corporate Finance Department, Business Department, Rome Branch, etc. are responsible for improving new product development management procedures and predicting the demand for liquidity of new products.

The second level control functions are managed by:

Risk Management Department has to executive the second control's level required by local regulatory authorities. According to the measurement results and cash flow monitoring and analysis results by the first level of defense, it is responsible for assessing the liquidity risk level of the Branch and reporting regularly, responsibility should cover the following points:

(1) Executive the second level of defense required by local regulatory authorities. In accordance with regulatory requirements, takes the lead to organize and implement the Branch's liquidity

risk stress testing regularly, and submit the test results and management recommendations to the ALCO; monitor the warning limit of liquidity risk; periodically verify the measuring tool and the quality of the data used in the risk measurement methodology; evaluate the adequacy of the level of liquidity reserves and its price, give suggestions on whether to increase liquidity reserves; responsible for checking the liquidity risk pre-warning indicators on a daily basis; responsible for evaluating the potential risks of m/l term liquidity and report to the Senior Management Office of the Branch.

(2) Evaluate liquidity crisis' impacts on credit business and jointly formulate the credit adjustment plan with the Corporate Finance Department and other departments.

(3) Pay attention to the impact of credit risk and market risk on the management of liquidity risk and reminding other risk points that may cause liquidity risk.

Legal and Compliance Department: pay attention to the impact of operational risk on liquidity risk and point out the other risks that may trigger liquidity risk; pay attention to the updates of local regulatory laws, and promptly notifying all departments.

The third level of control functions

The Internal Audit, as requested by Bank of Italy Circular 285/2013, is responsible for conducting, on yearly basis, a separate independent audit activity/project on the Internal Liquidity Adequacy Assessment Process (ILAAP) of the Branch, in order to verify the methodology and rationality of the liquidity risk management process. The final Audit report on ILAAP shall be submitted directly to the Senior Management Office (SMO) who shall urge the relevant branch's departments to take any eventual rectification measures in time for each audit issues/problems detected. Finally the Audit report on ILAAP shall be sent to the local banking Supervisory Authority (Bank of Italy) by the date requested by the authority itself.

Financial & Operation Department, with the help of IT department, has developed measuring instruments for the daily calculation of LCR in September 2015. From 1 January 2021 to 31 December 2021, the LCR has been always above the minimum LCR requirement of 100%, and also always above the internal threshold of 110%.

At 31 December 2021, the LCR was 254%.

Financial & Operation Department, with the help of IT department, has developed measuring instruments for the daily calculation of NSFR in 2021.

In the 2021, the NSFR it has been always above the minimum NSFR requirement of 100%.

At 31 December 2021, the NSFR was 108,05%.

In addition to the monitoring system, the Branch's Head Office has developed an automatic system to monthly monitor oversea branches' situation of liquidity (including LCR and NSFR) according to the Chinese regulations.

Stress hypothesis

Stress tests, in general, are quantitative and qualitative techniques functional to the assessment of the Group's vulnerability to exceptional but plausible events. They are expressed in evaluating the potential effects of significant changes in one or more risk factors, considered individually (sensitivity analysis) or of joint movements of a set of risk factors in the hypothesis of adverse scenarios (scenario analysis). The results of the stress tests provide support:

• to verify the branch's ability to deal with unforeseen crisis situations in the very short term and, therefore, before proceeding with the initiation of structural interventions aimed at changing the structure of the assets e

of the passive;

• to quantify the Risk Tolerance thresholds;

• to identify potential adverse situations in which it is reasonably foreseeable that the indicators liquidity regulations fall below the regulatory minimum value and activate the measures and the procedures for preparing the plan to restore compliance with the aforementioned requirements (so-called restoration of conformity);

• to evaluate ex-post the adequacy of the calibration of the operating limits, ie to check if the level of the operational limits defined determine the maintenance of an amount of liquidity which makes it possible to cope with unforeseen crisis situations and to continue to comply with regulatory constraints;

• the planning and initiation of interventions aimed at compensating for any imbalances;

• for the definition and periodic review of the Contingency Funding Plan (or “CFP”).

Regulatory Stress Scenarios: LCR and NSFR:

The Bank measures the liquidity risk in the event of stress by periodically measuring the regulatory indicators aimed at achieving two distinct but complementary objectives.

• Liquidity Coverage Requirement (LCR), is aimed at strengthening the short-term risk profile of liquidity by ensuring that the Bank has a sufficient level of liquidity reserves to overcome an acute stressful situation lasting 30 days.

• Net Stable Funding Ratio (NSFR), aims to strengthen the longer-term profile providing the Bank with greater incentives to finance its activities by drawing on a structural basis a more stable sources of supply. This regulatory standard has a time horizon of one year and is been developed to ensure that assets and liabilities have a sustainable maturity structure. The

measurement of the LCR and NSFR indicators is usually carried out on a monthly and quarterly basis, respectively. Furthermore, the impact on the LCR indicator is detected on a quarterly basis in the event of the occurrence of a set of adverse events (of a specific and systemic nature) that negatively affect the indicator itself.

Below is the information relating to the liquidity coverage ratio, supplementing the information on liquidity risk management pursuant to Article 435 of the CRR, as required by the EBA / GL / 2017/01 Guidelines:

		1 quarter 2021	**2 quarter 2021**	**3 quarter 2021**	**4 quarter 2021**
21	**HQLA**	606.609.840,54	1.007.339.141,66	364.117.575,06	452.892.014,02
22	**EXPECTED NET FLOW**	390.583.167,58	424.911.072,81	179.920.411,45	177.989.946,16
23	**LCR**	155%	237%	202%	254%

6. Section 4: Policies and processes for the management of the main risk categories

EU CRA table: general qualitative information on credit risk

For the new credit granting they are selective and punctual criteria have been defined, while for the classification of the outstanding credit, and the related ones provisions, even more stringent criteria have been adopted, marked by greater prudence in assessment of recovery prospects and more generally of the prospective solvency of customers.

In order to guarantee effective monitoring of credit risk, the structures assigned to credit risk have been further strengthened credit control, with a monitoring activity based on an even more stringent attention of anomaly phenomena and ensuring the necessary speed in evaluating the data of the financed party, in order to take appropriate risk mitigation actions as quickly as possible.

During 2021, the Bank continued the strategy addressing the potential impacts related to the health emergency following the Covid-19 pandemic crisis.

During 2020-2021, the branch conducted an in-depth analysis on the quality of its loan portfolio with the aim of identifying the customer groups particularly sensitive to the health crisis with the aim of defining a management strategy for the following months and years.

The areas on which attention has been focused, in order to maintain strict control over the loan portfolio, are represented by strengthening of monitoring of economic sectors particularly impacted by the health crisis.

The main interventions concerned the following areas:

- monitoring of the loan portfolio: monitoring and reporting on the sectors was strengthened potentially impacted by the health crisis.

The Bank's exposure to sectors deemed potentially relevant from a Covid-19 perspective remained constant during 2021.

Details of the credit risk management process are provided below.

The branch has adopted the “Four in One” credit monitoring, that include the periodic review of credit activity, monitoring and management of credit asset classification and report on material event credit risk. As a result, the Bank has the possibility to improve the follow-up of the credit management after the drawdown of the limit, and to improve the analysis and research on the Italian and worldwide financial markets for the control of country risk and systematic risk.

a) Inventory of credit exposure

Periodic inventory of credit assets led by the Risk Management Department and attended by credit-related departments (Corporate Finance Dept. and Business Dept.) for inventory taking, communication, analysis and review and decision-making of credit assets on a regular basis, timely focusing on representative and key customers with an important impact on asset quality and researching and determining credit policies and management measures that are implemented by each department. Periodic inventory of credit assets includes on-balance and off-balance-sheet credit assets, such as corporate credit, credit to financial institutions, and personal credit.

b) Post delivery credit management

The credit departments (for example, Corporate Finance Department and Business Department) are responsible for the post-delivery credit management including the period of drawdown and the repayment of the loan. These departments, through periodic visit and continued analysis of the financial status, are able to collect information of the customers to understand the change of their behavior; monitor and evaluate the capital movements, the sectorial risk and the relation with other financial institutions; identify, analyze and be aware of the latent risk and the development of long-term relationship with the customers, as well as elaborate and define the techniques for mitigating the risk of managing post-delivery credit.

c) Credit Asset Classification

The Bank periodically carries out the inventory, the communication, the analysis and the review of credit exposures, focusing mainly on sectors, areas, products and customers that represent a significant influence on the total quality of credit portfolio, in order to analyze and determine the credit policy and the management measures.

d) Material credit risk event report

Material credit risk event refers to the event that may pose a material negative impact on the overall image, credit asset safety and asset quality of the Bank. For example, changes in macro-economy, market, industry, and other external circumstances pose adverse impact on the customer's operations, or the customer's big investment failure may pose or has posed severe impact on its solvency; or the report made by a rating agency or investment bank may pose material adverse impact. The business departments are the initiators of material credit risk event. The material credit risk event of credit customer shall be co-signed by the business departments together with the Risk Management Department, assessing the possible impact of the event on the credit asset safety, making risk judgment, drawing up emergency measures or solutions, and giving proposals on adjustment of the customer's credit rating, risk classification, post-lending management or duration management strategies, and overall credit facilities, then report to the Senior Manager Office for instructions.

Use of credit risk mitigation techniques

Qualitative disclosure

The amount of credit protection before maturity adjustment

Cash Collaterals: In accordance with Article 200 of CRR/575/2013, cash on deposit with, or cash assimilated instruments held by, a third-party institution in a non-custodial arrangement and pledged to the lending institution can be used as an eligible collateral. The cash collaterals fulfill the operational requirements set out in Article 207, with the Bank having in place clear and robust procedures for the timely liquidation of the collateral. The part of the exposures covered by cash collateral has been assigned a risk weight of 0% based on requirements set out in Article 222 point 6 (a) of CRR/575/2013 if denominated in the same currency as the exposure.

Immovable property: the immovable properties (residential and commercial properties) are qualified as eligible collateral full filling requirements laid down in Article 208 of CRR/575/2013. The Bank has appointed external independent experts for the evaluation of values of immovable properties used as eligible collaterals.

Guarantees: In line with Article 233 of CRR/575/2013, the value of the unfunded credit protection is the amount that the protection provider has undertaken to pay in event of the default or non-payment of the borrower or on the occurrence of other specified credit events. The unfunded credit risk protections, i.e. financial guarantees issued by institutions or corporate for corporate loans fulfills the requirements stated in Article 213 of CRR/575/2013 and are able to cover totally proper loan exposures. The guarantees that the Bank holds are mostly issued by branches within Bank of China Group.

Currency adjustments: For unfunded credit protections such as guarantees, the Bank treat those guarantees denominated in currency different from that in which the exposure is denominated with a volatility adjustment in accordance with Article 233 point 3 of CRR/575/2013.

$$G^* = G \cdot (1 - H_{fx})$$

G* = the amount of credit protection adjusted for foreign exchange risk

G = the nominal amount of credit protection

H_fx= the volatility adjustment for any currency mismatch between the credit protection and the underlying obligation determined by point 4 of the same article of the same regulation.

For such exposures, the Bank carries out volatility adjustments for currency mismatch on a 10 business day liquidation period (volatility adjustment 8%) assuming daily revaluation, and calculate based on supervisory volatility adjustments approach set out in Article 224-226 of the

same regulation. Currently the value of credit protection after currency adjustment in the Bank's credit portfolio is all greater than the loan amount.

Maturity adjustments

Where the residual maturity of the CRM is less than that of the underlying credit exposure a maturity mismatch occurs. Where there is a maturity mismatch and CRM has an original maturity less than one year, the CRM is not recognized for capital purpose as eligible credit protection in accordance with Article 237 of CRR/575/2013. In other cases where there is a maturity mismatch, partial recognition is given to the CRM for regulatory capital purpose by carrying out a maturity adjustment process as detailed in Article 239 of CRR/575/2013. Currently no CRM's residual maturity is less than that of the underlying credit exposure in the Bank's portfolio.

Disclosure on the use of the standardized method and internal models for market risk

EU MRA table: qualitative disclosure obligations on market risk

Market risk is the risk of losses in on-and-off balance sheets positions arising from movements in market prices, CRR/575 clearly classifies market risk into 2 macro-categories: position risk and foreign exchange risk. Position risk includes specific instruments such as interest rate futures and forwards, options and warrants, interest rate swap and credit derivatives, as well as debt instruments, equity instruments and Collective Investment Undertakings. To be noted that interest rate positions and debt instruments are subject to capital requirements only if they are classified in trading book.

The Bank, as at 31 December 2021, had no such position in trading book and did not hold any other instruments mentioned above therefore, the Bank was not subject to position risk, whereas was subject to foreign exchange risk to be demonstrated below.

The Bank adopted the standardized approach in measuring the overall market risk.

Due to the Bank's actual business, market risk of the Bank mainly consisted of exchange rate risk. To manage exchange rate risk, the Bank followed the policies of the BOC Head Office and mainly managed position exposures in foreign currencies. According to the rules of the BOC Head Office, the position exposure in foreign currencies could not exceed USD 2 million, while the position exposure of trading book could not exceed USD 200,000. The main foreign exchange risks were as follows:

I. Foreign Exchange Risk

a. Trading book foreign exchange risk

This risk was derived from exposure in foreign currencies aimed at trading, which might be on the Bank's own account or for third parties. Since the BOC Head Office had not authorized the Bank to trade on its own account, the exposure of the Bank's trading book was only composed of the exposure derived from trading for third parties. The management of trading book exchange risk followed the limit control set by the BOC Head Office that the trading book position exposure in foreign currencies could not exceed USD 200,000.

b. Banking book foreign exchange risk

The exchange risk of banking book included all items listed in on-and-off balance sheets which were not included in trading book. The main exposure of this risk was composed of profits and losses denominated in currencies other than Euro and exposures derived from banking book foreign exchange transactions. The management of trading book exchange risk also followed the limit control set by the BOC Head Office.

II. The management procedures

a. Procedure of trading book foreign exchange risk management

Corporate Finance Dept. (Treasury) collected the trading exposures derived from FX Spot transactions from operation systems (BANCS, GTS and GUPP) in real time and conducted coverage transactions with the BOC Head Office to makes sure that the exposures were within the set limits; in the case of other transactions trading with clients (for example, FX forward and swap), after having received order from customers, a back-to-back transaction was conducted in the system. The Bank's Risk Management Dept. monitored the corresponding limits regularly. Furthermore, the Middle Office in charge of European Area and located in London also monitored the corresponding risks and limits in real time.

b. Procedure of banking book foreign exchange risk management

Corporate Finance Dept. (Treasury) managed the Bank's profits received in currencies other than Euro and exposures deriving from banking book FX transactions and converted them into local currency based on the Bank's need and in accordance with the set limits.

c. The management mechanism

As required by BOC Head Office, the Branch currently used MUREX system to manage trading book market risk and banking book FX transactions. To manage exposures deriving from profits and losses denominated in currencies other than Euro, the Bank calculated the corresponding exposure with the daily report of Accounting & Operation Dept. and the data of MUREX system.

Management of foreign exchange risk

In line with the Article 352 of the regulations (EU) 575/2013, the Bank measured all the open position of every currency, including the net spot positions (that the net of all asset items and all liability items, including accrued interest) and the net forwards positions (that was the total sum

to be received less the total sum to be paid under forward exchange). Net short and long positions in each currency other than the reporting currency (i.e. EURO) was then be summed separately to form the total of the net short positions and the total of the net long positions respectively. The higher of these two totals was the Bank's overall net foreign-exchange position. The detailed exposure, as at 31 December 2021, in each foreign currency is the following:

On Balance (Original Currency)		Off balance （Original Currency)		Total
Currency	Amount	Not Utilized	Total Original Currency	Euro
AUD	(5.700,66)	-	(5.700,66)	(3.650,76)
CHF	-	-	-	-
CNH	-	-	-	-
CNY	710.753,75	(2.129.634,98)	(1.418.881,23)	(197.212,00)
GBP	(27.184,21)	-	(27.184,21)	(32.351,37)
HKD	(8.968,50)	-	(8.968,50)	(1.015,31)
JPY	(1.387.394,00)	-	(1.387.394,00)	(10.641,16)
SEK	-	-	-	-
SGD	(1.615,48)	-	(1.615,48)	(1.057,32)
USD	(85.866.022,34)	85.585.796,45	(280.225,89)	(247.418,23)

Net short and long positions in each currency other than the reporting currency were converted at spot rates into the reporting currency. They were then summed separately to form the total of the net short positions and net long positions respectively. The higher of these two totals was the institution's overall net foreign-exchange position.

The spot exchange rate as of 31 December 2021 was:

Spot Rate 31/12/2021	
Currency	**Euro/Currency**
Australian Dollar (AUD)	1,5615
Swiss Franc (CHF)	1,0331
Chinese Yuan (CNY)	7,1947
Euro (EUR)	1
Great Britain Pound (GBP)	0,84028
Hong Kong Dollar (HKD)	8,8333
Japanese Yen (JPY)	130,38
Swedish Kronor (SEK)	10,2503
Singapore Dollar (SGD)	1,5279
Taiwan Dollar (TWD)	31,519
US Dollar (USD)	1,1326

According to the De minims criteria stated in the above Article 351 of CRR/575, if the sum of an institution's overall net foreign-exchange position and its gold position, calculated in accordance with the procedure set out in Article 352 of CRR/575, exceeds 2% of its total own funds. The

institution shall calculate and own funds for foreign exchange risk multiplying the net FX exposure by 8.

By the end of 2021, the net position (493.346,15 Euro) was less than 2% of the Bank's own fund amount (280.730.704,18 Euro). Therefore, no capital was required for the coverage of foreign exchange risk.

Operational risk disclosure

EU table ORA: qualitative information on operational risk

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 based on the last three twelve-monthly observations at the end of the financial year.[1]
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

Own Fund requirement for Operational Risk

Currency: Euro

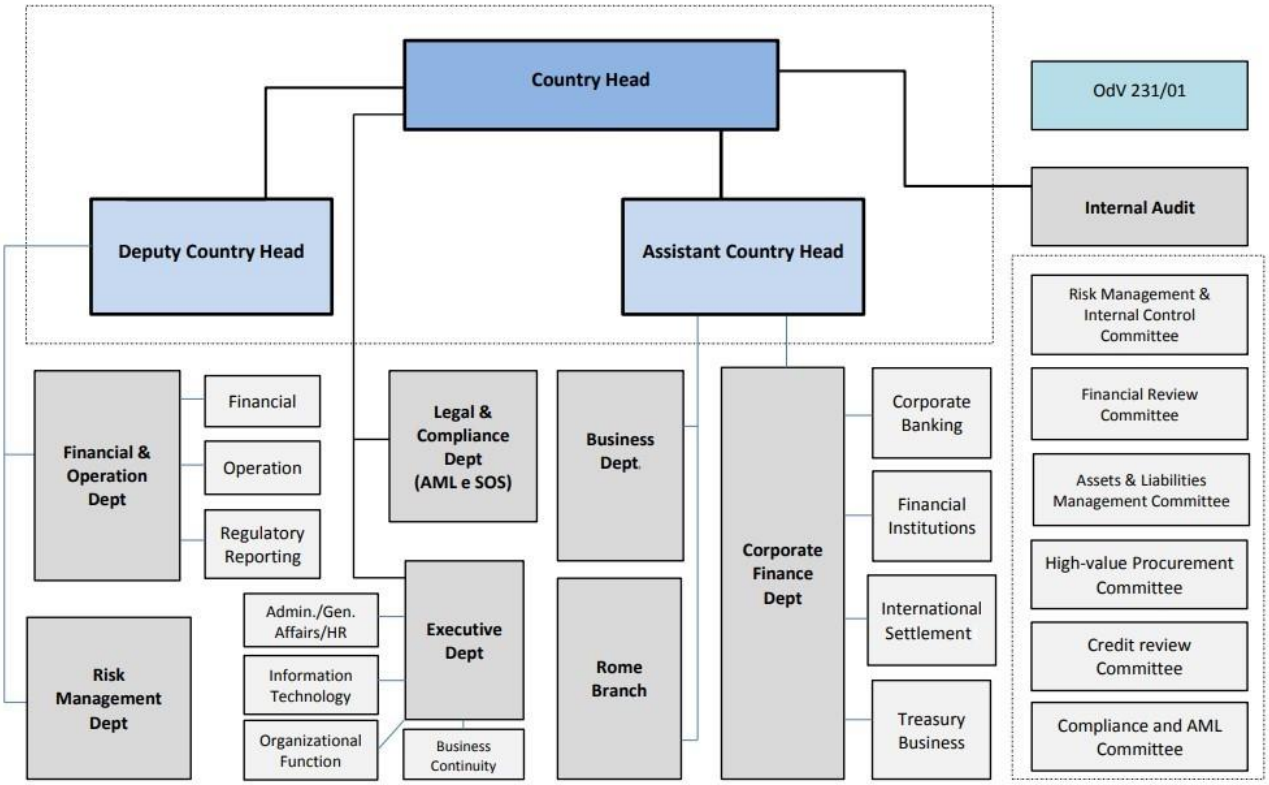
Relevant Indicators	
2019	18.820.537,51
2020	19.148.557,00
2021	21.594.303,00
Average	19.854.465,84
Capital	2.978.169,88
RWA	37.227.123,44

[1] From year 2019 to year 2021

7. Section 5: "Governance" systems

EU OVB table: disclosure on governance systems

In 2021, the organizational structure of the Bank remains composed by three main parts, i.e., the direction, the departments and committees. Below is the organizational chart of the Bank.



In 2021, the responsibilities of senior management have not been rearranged and the composition of the senior board remain unchanged.

8. Section 6: Own funds

EU CC1 model: composition of regulatory own funds

		Amount(Euro/000) 31.12.2021
		a)
1	Capital instruments and the related share premium accounts in accordance with Articles 26(1) letters (a) and (b), 27, 28, 29 of CRR and the EBA list as referred to in Article 26(3) of the same regulation.	195.195
2	Retained earnings prior to all regulatory adjustments in accordance with Article 26(1)(c) of CRR (prior to the inclusion of any interim net profits or losses).	
3	Amount of accumulated other comprehensive income and other reserves in accordance with Article 26(1)(d) and (e) of CRR.	
EU-3a	Amount of funds for general banking risk in accordance with Article 26(1)(f) of CRR.	
4	Amount of qualifying items referred to in Article 484(3) of CRR and the related share premium accounts subject to phase out from CET1 as described in Article 486(2) of CRR.	-
5	Minority interests (amount allowed in consolidated CET1) as per Article 84 of CRR.	-
EU-5a	Independently reviewed interim profits net of any foreseeable charge or dividend as per Article 26(2) of CRR.	
6	Sum of rows 1 to EU-5a.	195.195
7	Additional value adjustments in accordance with Article 34 and 105 of CRR (negative amount).	
8	Intangible assets (net of related tax liability) in accordance with Articles 36(1)(b) and 37 of CRR (negative amount).	
9	Not applicable	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38(3) are met) in accordance with Articles 36(1)(c) and 38 of CRR (negative amount).	-4.399
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value in accordance with Article 33(1)(a) of CRR.	-
12	Negative amounts resulting from the calculation of expected loss amounts in accordance with Articles 36(1)(d) and 40 of CRR.	-
13	Any increase in equity that results from securitised assets in accordance with Article 32(1) of CRR (negative amount).	-
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing in accordance with Article 33(1)(b) of CRR.	
	Defined-benefit pension fund assets in accordance with Articles 36(1)(e) and 41 of CRR (negative amount).	
16	Direct, indirect and synthetic holdings by an institution of own CET1 instruments as described in Articles 36 (1) (f) and 42 of CRR (negative amount).	
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution as described in Articles 36(1)(g) and 44 of CRR (negative amount).	
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) as described in Articles 36(1)(h), 43, 45, 46,49(2)(3) and 79 of CRR (negative amount).	
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) as described in Articles 36(1)(i), 43, 45, 47, 48(1)(b), and 49(1) to (3) of CRR (negative amount).	
20	Not applicable	

EU-20a	Exposure amount which qualifies for a RW of 1250%, where the institution opts for the deduction alternative, as described in Article 36 (1) (k) of CRR.	
EU-20b	Of the amount reported in EU-20a, the amount relating to qualifying holdings outside the financial sector in accordance with Articles 36(1)(k)(i) and 89 to 91 of CRR (negative amount).	
EU-20c	Of the amount reported in EU-20a, the amount relating to securitisation positions, in accordance with Articles 36(1)(k)(ii), 243(1)(b), 244(1)(b) and 258 of CRR (negative amount).	
EU-20d	Of the amount reported in EU-20a, the amount relating to free deliveries in accordance with Articles 3(1)(k)(iii) and 379(3) of CRR (negative amount).	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38(3) are met) as described in Articles 36(1)(c), 38 and 48(1)(a) of CRR (negative amount).	
22	Amount exceeding the 17.65% threshold in accordance with Article 48(1) of CRR (negative amount).	
23	Of the amount reported in 22, the amount of Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities as described in Articles 36(1)(i) and 48(1)(b) of CRR.	
24	Not applicable	
25	Of the amount reported in 22 the amount of deferred tax assets arising from temporary differences as described in Articles 36(1)(c), 38 and 48(1)(a) of CRR.	
EU-25a	Losses for the financial year in accordance with Article 36(1)(a) of CRR (negative amount).	
EU-25b	Amount of foreseeable tax charges relating to CET1 items foreseeable at the moment of their calculation, except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be applied to cover risks or losses, in accordance with Article 36(1)(l) of CRR (negative amount).	
26	Not applicablke	
27	Qualifying AT1 deductions that exceed the AT1 items of the institution as described in Article 36(1)(j) of CRR (negative amount).	
EU 27a	Other regulatory adjustments Institutions shall disclose in this row any regulatory adjustment applicable, reported as part of supervisory reporting and not included in any other row of this template, including the amount of IFRS 9 transitional arrangements, when relevant and until the end of the transitional period	
28	Total regulatory adjustments to CET1, to be calculated as the sum of rows 7 to EU-20a, 21, 22 and EU-25a to 27a.	-4.399
29	Common Equity Tier 1 (CET1) capital, to be calculated as row 6 minus row 28.	190.796
30	Capital instruments and the related share premium accounts as per Articles 51 and 52 of CRR.	30.000
31	The amount in row 30 classified as equity under applicable accounting standards.	30.000
32	The amount in row 30 classified as liabilities under applicable accounting standards.	
33	Amount of qualifying items referred to in Article 484(4) and the related share premium accounts subject to phase out from AT1 as described in Article 486(3) of CRR.	
EU-33a	Amount of qualifying items referred to in Article 494a(1) of CRR subject to phase out from AT1.	
EU-33b	Amount of qualifying items referred to in Article 494b(1) of CRR subject to phase out from AT1.	
34	Qualifying T1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties as described in Articles 85 and 86 of CRR.	
35	The amount reported in row 34 that relates to the instruments issued by subsidiaries subject to phase out as described in Article 486(3) of CRR.	
36	The sum of rows 30, 33, EU-33a, EU-33b and 34.	30.000
37	Direct, indirect and synthetic holdings by an institution of own AT1 instruments as described in Articles 52(1)(b), 56(a) and 57 of CRR (negative amount).	
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution as described in Articles 56(b) and 58 of CRR (negative amount).	
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) as described in Articles 56(c), 59, 60 and 79 of CRR (negative amount).	

40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) as described in Articles 56(d), 59 and 79 of CRR (negative amount).	
41	[An Empty Set under CRR]	
42	Qualifying T2 deductions that exceed the T2 items of the institution as described in Articles 56(e) of CRR (negative amount).	
Eu-42a	Other regulatory adjustments to AT1 capital Institutions shall disclose in this row any regulatory adjustment applicable, reported as part of supervisory reporting and not included in any other row of this template.	
43	The sum of rows 37 to EU-42a.	
44	Additional Tier 1 (AT1) capital, to be calculated as row 36 minus row 43.	
45	Tier 1 capital, to be calculated as row 29 plus row 44.	220.796
46	Capital instruments and the related share premium accounts as described in Articles 62 and 63 of CRR.	
47	Amount of qualifying items referred to in Article 484(5) and the related share premium accounts subject to phase out from T2 as described in Article 486(4) of CRR.	
EU-47a	Amount of qualifying items referred to in Article 494a(2) of CRR subject to phase out from T2.	
EU-47b	Amount of qualifying items referred to in Article 494b(2) of CRR subject to phase out from T2.	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties as described in Articles 87 and 88 of CRR.	59.934
49	Of the amount reported in 48, the amount relating to instruments issued by subsidiaries subject to phase out, as described in Article 486(4) of CRR.	
50	Credit risk adjustments in accordance with Articles 62(c) and (d) of CRR.	
51	The sum of rows 46 to 48 and row 50.	59.934
52	Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans as described in Articles 63(b)(i), 66(a) and 67 of CRR (negative amount).	
53	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution as described in Article 66(b) and 68 of CRR (negative amount).	
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) as described in Articles 66(c), 69, 70 and 79 of CRR (negative amount).	
54a	An empty set under CRR	
55	Direct, indirect and synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) as	
56	[An Empty Set under CRR]	
EU-56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution as described in Article 66(e) of CRR (negative amount)	
Eu-56b	Other regulatory adjustments to T2 capital Institutions shall disclose in this row any regulatory adjustment applicable, reported as part of supervisory reporting and not included in any other row of this template.	
57	The sum of rows 52 to EU-56b.	
58	Tier 2 (T2) capital, to be calculated as row 51 minus row 57.	59.934
59	Total capital, to be calculated as row 45 plus row 58.	280.730
60	Total Risk exposure amount	
61	Common Equity Tier 1 (as a percentage of risk exposure amount), to be calculated as row 29 divided by row 60 (expressed as a percentage) in accordance with Article 92(2)(a) of CRR.	
62	Tier 1 (as a percentage of risk exposure amount), to be calculated as row 45 divided by row 60 (expressed as a percentage) in accordance with Article 92(2)(b) of CRR.	
63	Total capital (as a percentage of risk exposure amount), to be calculated as row 59 divided by row 60 (expressed as a percentage) in accordance with Article 92(2)(c) of CRR.	

64	Institution CET1 overall capital requirement (CET1 requirement in accordance with article 92(1)(a) of Regulation (EU) No 575/2013, plus additional CET1 requirement which the institutions are required to hold in accordance with Article 104(1)(a) of Directive 2013/36/EU, plus combined buffer requirement in accordance with Article 128(6) of Directive 2013/36/EU) expressed as a percentage of risk exposure amount. To be calculated as 4.5% plus the additional pillar 2 requirements which the institutions are required to hold in accordance with Article 104(1)(a) of Directive 2013/36/EU plus the combined buffer requirement calculated in accordance with Articles 128, 129, 130, 131 and 133 of Directive 2013/36/EU. This row will show the CET1 ratio below which the institution will become subject to constraints on distributions.	
65	The amount in row 64 (expressed as a percentage of risk weighed assets) that relates to the capital conservation buffer requirement in accordance with Article 129 of Directive 2013/36/EU.	
66	The amount in row 64 (expressed as a percentage of risk weighed assets) that relates to the countercyclical buffer requirement in accordance with Article 130 of Directive 2+013/36/EU.	
67	The amount in row 64 (expressed as a percentage of risk weighed assets) that relates to the systemic risk buffer requirement in accordance with Article 133 of Directive 2013/36/EU.	
EU-67a	The amount in row 64 (expressed as a percentage of risk weighed assets) that relates to the G-SII or O-SII buffer requirement in accordance with Article 131 of Directive 2013/36/EU.	
68	Common Equity Tier 1 available to meet buffer (as a percentage of risk exposure amount). To be calculated as the available CET1 capital of the institution, less the institution's CET1 capital requirements in accordance with article 92(1)(a) of Regulation (EU) No 575/2013 and following Article 104(1)(a) of Directive 2013/36/EU, and less any Common Equity Tier 1 items used by the institution to meet its additional Tier 1 and T2 capital requirements.	
69	[non relevant in EU regulation]	
70	[non relevant in EU regulation]	
71	[non relevant in EU regulation]	
72	Direct and indirect holdings of the own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions) in accordance with Articles 36(1)(h), 45, 46, 56(c), 59, 60, 66(c), 69, 70 and 72i of CRR	
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% threshold and net of eligible short positions) in accordance with Articles 36(1)(i), 43, 45, 47, 48(1)(b) and 49(1)-(3) of CRR. (The total amount of such investments that are not reported in row 19 and row 23).	
74	[An Empty Set under CRR]	
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold according to 48(2)(b), net of related tax liability where the conditions in Article 38(3) are met) in accordance with Articles 36(1)(c), 38 and 48 of CRR. (The total amount of such deferred tax assets that are not reported in row 21 and row 25).	
76	Credit Risk Adjustments included in T2 in respect of exposures subject to standardised approach in accordance with Article 62(c) of CRR.	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach in accordance with Article 62(c) of CRR.	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach in accordance with Article 62(d) of CRR.	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach in accordance with Article 62(d) of CRR.	
80	Current cap on CET1 instruments subject to phase out arrangements in accordance with Articles 484(3), 486(2) and (5) of CRR.	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities) in accordance with Articles 484(3), 486(2) and (5) of CRR.	
82	Current cap on AT1 instruments subject to phase out arrangements in accordance with Articles 484(4), 486(3) and (5) of CRR.	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) in accordance with Articles 484(4), 486(3) and (5) of CRR.	
84	Current cap on T2 instruments subject to phase out arrangements in accordance with Articles 484(5), 486(4) and (5) of CRR.	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities) in accordance with Articles 484(5), 486(4) and (5) of CRR.	

Qualitative disclosure

On 1 January 2014, the new harmonized regulations for banks and companies came into force investment contained in Regulation (EU) 26.06.2013 n. 575 (CRR - Capital Requirements Regulation) e in the Directive (EU) 26.06.2013 n. 36 (CRD IV - Capital Requirements Directive) that transpose in the states of the European Union the standards defined by the Basel Committee for Banking Supervision (so-called Basel 3).

Bank of Italy, as part of a complex process of reviewing the supervisory regulations of banks, issued Circular no. 285 "Supervisory provisions for banks" of 17 December 2013 which almost entirely replaces Circular no. 263/2006, and with which:

• the national options provided by the CRR have been exercised,

• the secondary technical provisions of CRD IV have been incorporated.

On the same date, the Bank of Italy also issued Circular no. 286 “Instructions for completing the prudential reports for banks and real estate brokerage companies "which replaces the Circular n. 155/1991 and defines the reporting schemes:

• “harmonized” prudential supervisory reports in compliance with the relevant technical standards of the EBA: own funds, credit and counterparty risk, market risk, operational risk, large exposures, mortgage loss measurements, overall capital position, liquidity monitoring e financial leverage;

• “non-harmonized” prudential supervisory reports: related parties.

On 7 October 2016, the 18th update of the "supervisory provisions for banks" referred to in Circular no. 285 of 17 December 2013.

The aforementioned update concerned the modification of the capital conservation buffer (CCB) requirement referred to in Part One, Title II, Chapter I, Section II of the Circular in question in order to implement the provisions contained in the EU directive 36/2013 (CRD IV) as well as to reduce the divergences between national regulations, in line with the action initiated by the Single Supervisory Mechanism (SSM) to minimize the differences in the prudential regulations applicable to banks.

This regulatory intervention provides that banks, both at individual and consolidated level, are required to apply a minimum capital buffer ratio equal to:

• 1.25% from 1 January 2017 to 31 December 2017;

• 1.875% from 1 January 2018 to 31 December 2018;

• 2.5% starting from January 1, 2019.

This update came into effect on January 1, 2017.

The minimum capital ratios to be respected for 2021, pursuant to art. 92 CRR, therefore appear to be I following:

• Common Equity Tier 1 ratio (CET1 ratio) equal to 4.5% + 2.5% retention buffer of capital (Capital Conservation Buffer - CCB)

• Tier 1 capital ratio of 6.0% + 2.5% of CCB

• total capital ratio of 8% + 2.5% of CCB.

According to the communication from Bank of Italy protocol number 1487144/18 of 19 December 2018 regarding decision on capital requirement specifically for BOCMI, the minimum capital ratios are the following:

Capital Ratio 2021				
Item	**Minimum**	**SREP requirements**	**Conservational Buffer**	**Capital Requirement**
CET 1	4.50%	1.26%	2.5%	8.26%
TIER 1	6.00%	1.69%	2.5%	10.19%
CAR	8.00%	2.25%	2.5%	12.75%

On the date 31 December 2021, the minimum capital requirements regarding different capital classes (CET 1, Tier 1 capital, Total capital) were totally satisfied.

Currently Bank of China Ltd. Milan Branch has received 2022 SREP, according to the communication from Bank of Italy dated March 2022 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

CET1	
Minimum Cet1 Ratio	4,50%
Additional Capital Guidance	1,26%
Pillar 2 Guidance	0,75%
Capital Requirement	9,00%
TIER1	
Minimum Tier 1 Ratio	6,00%
Additional Capital Guidance	1,69%
Pillar 2 Guidance	0,75%
Capital Requirement	10,90%
CAR	
Minimum	8,00%
Additional Capital Guidance	2,25%
Pillar 2 Guidance	0,75%
Capital Requirement	13,50%

As at the year end of 2021, the total own funds is equal to Euro 280,7 million composed by Euro 190,8 million of Common Equity Capital 1, Euro 30 million of Additional Tier 1 and Euro 60 million of Tier 2 capital which is a sub-ordinary loan granted by the Bank's head office, with an original term of 10 years, expiring in December 2026(now in the amortizing period).

EU CC2 model: reconciliation of regulatory own funds with the balance sheet in the audited financial statements

	a	c
	Balance sheet included in the published financial statements	Reference
	31.12.2021	
Cash and cash equivalents	376.836.441	
Financial assets measured at fair value with impact on the income statement	65.092	
a) financial assets held for trading	65.092	
b) financial assets designated at fair value		
c) other financial assets mandatorily measured at fair value		
Financial assets measured at fair value with impact on comprehensive income		
Financial assets measured at amortized cost	1.356.157.365	
a) loans to banks	62.446.047	
b) loans to customers	1.293.711.318	
Hedging derivatives		
Value adjustment of financial assets subject to generic hedging (+/-)		
Equity investments		
Tangible assets	8.621.636	
Intangible assets		8
- Goodwill		
Tax assets	6.055.009	
a) current	1.656.230	
b) advanced	4.398.779	10
Non-current assets and groups of assets held for sale		
Other activities	969.164	
Total Asset	1.748.704.707	

Financial liabilities measured at amortized cost	1.536.268.635	
a) due to banks	970.014.262	
b) payables to customers	566.254.373	
c) outstanding securities		
Financial liabilities held for trading	874.383	
Financial liabilities designated at fair value		
Hedging derivatives		
Tax liabilities		
a) current		
b) deffered		
Liabilities associated with assets held for sale		
Other Liabilities	2.435.767	
TFR	1.426.067	
Provisions for risks and charges	3.743.706	
Commitments and guarantees issued	701.161	
pension and similar obligations	3.042.545	
Other provisions for risks and charges	-193.469	
Total Liabilities	1.544.555.089	
Equity	200.000.677	
Profit (Loss) for the period (+/-)	8.767.186	
Retained Earning and reserves	-4.618.245	
Total Liabilities and Equity	1.748.704.707	

9. Section 7: Capital Requirements

EU OVC table: ICAAP information Qualitative information

The supervisory provisions for banks issued by the Bank of Italy (Circular 285/13) underline the importance of the corporate capital adequacy assessment process (ICAAP - Internal Capital Adequacy Assessment Process) aimed at determining the overall adequate capital, in current terms and prospective, and to face all the risks assumed. The ICAAP supports and integrates the "traditional" process of assessment of the congruity between own funds and mandatory capital requirements. To the regulatory view capital adequacy, based on capital ratios resulting from the comparison between own funds and requirements prudential in the face of first pillar risks, alongside the management vision of capital adequacy based on the comparison between the financial resources that it is believed can be used for the risks assumed and the estimate of the capital absorbed by these risks. The self-assessment process of capital adequacy implemented by the branch is therefore aimed at determining the adequate capital - by amount and composition - permanent coverage of all risks to which it is or could be exposed, too other than those for which compliance with specific capital requirements is required. The Branch determines the overall internal capital through an approach based on the use of simplified methodologies for measuring quantifiable risks, qualitative assessments for other relevant risks, simplified sensitivity analyzes with respect to the main risks assumed and the simple sum of the capital measures internal calculated for each risk (building block approach). Internal capital is defined as capital at risk, that is, the capital requirement relating to a specific risk that the Branch deems necessary to cover losses in excess of a given expected level; by overall internal capital we mean the internal capital referring to all the significant risks assumed by the Branch, including any internal capital requirements due to strategic considerations.

The total internal capital is compared with the total capital, understood as the sum of the capital elements that the Group believes can be used to cover it.

The ICAAP is a complex organizational process, which requires the involvement of a plurality of structures and professionalism, and an integral part of corporate governance, contributing to the determination of the strategies and current operations of the Group. In particular, the ICAAP is consistent with the RAF, effectively integrates risk management and notes for the purpose of assessing the sustainability of strategic choices:

- strategic and operational choices and risk objectives constitute an input element of the process;
- the results of the process may lead to a change in risk appetite and objectives planning adopted.

This process, in conjunction with the RAF (Risk Appetite Framework), is based on suitable corporate risk management systems and adequate corporate governance mechanisms, on an organizational structure with defined lines of responsibility and adequate internal control systems.

Within the Banking Group's Risk Appetite Framework (RAF), risk appetite defines strategic guidelines in relation to the assessment of current and future capital adequacy and risk-taking policies. The method of definition of the Banking Group provides for a series of target indicators expressed in terms of:

- capital adequacy - assessed with reference to the regulatory measures of the ratios solvency, also considering any stress situations and in relation to the total capital;

- financial balance - assessed over different time horizons (medium term, short term), with reference to regulatory measures of liquidity ratios (LCR and NSFR) and with reference to readily available liquidity reserves and monitoring of financial leverage;

- organizational structure - IT and controls - based on the minimization of possible impacts arising from the risks that can be pursued through the adoption of risk management policies, rigorous organizational controls, measurement methodologies and mitigation tools, in particular with reference to non-measurable risks.

Management of capital requirement

Functions assigned for ICAAP purposes

During the last year there has been no significant amendment on the functions involved in the ICAAP preparation:

Country Head

He represents the interest of Bank of China Ltd. Milan Branch in Italy and he implements the strategic development of Bank of China Group abroad and manages the Branch. He is the sole attorney of the Branch and he is responsible for all the risks taken by the Branch, and he has the

right to approve at branch level the policies related to the risk management and the ICAAP report.

Risk Management and Internal Control Committee

Examines and evaluates periodically the capital adequacy following the method envisaged by the supervisory Authority, deliberates about the ICAAP Report; evaluate the variations that could have impact on the capital and promote the update/revision process of the ICAAP.

Based on the development strategy of the Bank of China Group and of the Branch, analyzes the strategic plan, the working flow and the priority on the risk management and the internal control of the Branch.

Examines and approves the main policies and procedure of the risk management and of the internal control.

Performs the control and monitoring functions over the internal control system and evaluates its efficiency and indicates the gaps and defects in order to propose the related amendment and improvement.

Periodically reviews the report on the situations of risks and internal control.

Asset and Liabilities Management Committee

Draws up and updates the procedures and regulations of the management of the balance sheet to ensure the compliance with local legislation and the provision of the Head Office.

Evaluates and approves the policies and procedures related to the control of market and exchange rate risks.

Evaluates and approves the regulation related to the management of the Branch liquidity.

Manages the capital structure to achieve effectiveness and profitability.

Evaluates and manages the investment plan of the Branch.

Evaluates the management of the solvency ratio.

Establishes the plan for capital management, drawing up the strategic plan.

Examines and evaluates any events that could have impact on the capital structure of the Branch.

Risk Management Department in collaboration with Senior Management Office's member who is in-charge of Risk Management

Manages and coordinates the implementation of the ICAAP in a coordinated way. Is responsible for the preparation of the policies and systems related to the ICAAP. Is responsible for the ICAAP preparation and presents it to Risk Management and Internal Control Committee for its validation.

Is responsible for the aggregation of the whole credit risk and for the reporting to the senior management and to the Risk Management and Internal Control Committee.

Is responsible for approving an internal rating to the customer, for classifying the exposures and for the preparation of internal procedures and for the management of credit risk of the Branch.

Compliance Officer

Is responsible for the regulatory compliance of the ICAAP report. Is responsible for the part of the Operational Risk in the ICAAP report.

Internal Audit

Is responsible for the verification on the adequacy of ICAAP process. Conducts an independent audit on ICAAP every year to ensure its integrity, accuracy and reasonableness and meet with the regulatory requirements, as well report the audit result to Bank of Italy and the Country Head of the Bank.

Risk mapping for operational units

Methodology used for Quantifiable Risks.

<table>
<tr><td rowspan="11">Pillar I</td><td>Risk type</td><td colspan="2">Risk Measurement Methodology</td></tr>
<tr><td rowspan="2">Credit Risk</td><td colspan="2">Standardized Approach</td></tr>
<tr><td colspan="2">Regulation EU 575/2013-CRR
(Part III. Title II. Chapter 2)</td></tr>
<tr><td rowspan="2">Counterparty Risk</td><td colspan="2">Mark-To-Market Approach</td></tr>
<tr><td colspan="2">Regulation EU 575/2013-CRR
(Part III. Title II. Chapter 6. Section 3)</td></tr>
<tr><td rowspan="2">Market Risk</td><td colspan="2">Standardized Approach</td></tr>
<tr><td colspan="2">Regulation EU 575/2013-CRR
(Part III. Title IV)</td></tr>
<tr><td rowspan="2">Operational Risk</td><td colspan="2">Basic Indicator Approach</td></tr>
<tr><td colspan="2">Regulation EU 575/2013-CRR
(Part III. Title III. Chapter 2)</td></tr>
<tr><td rowspan="4">Pillar II</td><td rowspan="2">Interest Rate risk</td><td colspan="2">Simplified Method</td></tr>
<tr><td colspan="2">Circular 285/2013. Part one. Title III. Chapter 1. Attachment C and C bis</td></tr>
<tr><td rowspan="3">Concentration Risk</td><td rowspan="2">Single Name</td><td>Granularity Adjustment Approach</td></tr>
<tr><td>Circular 285/2013. Part one. Title III. Chapter 1. Attachment B</td></tr>
<tr><td>Geo-Sectorial</td><td>ABI-PWC Model</td></tr>
</table>

In the process of determining the overall internal capital, the Branch also takes into account the risks associated with transactions with associated parties (of a legal, reputational or conflict of interest nature), considering, in cases of exceeding the prudential limits, the related surpluses supplementing the overall internal capital measure. More generally, the outcome of the non-quantifiable risk assessment, together with the overall self-assessment of the ICAAP process, is taken into consideration in order to corroborate or review the results of the capital adequacy assessment carried out; in the presence of significant deficiencies in the ICAAP process and / or exposures deemed relevant to risks that are difficult to quantify, the results of the quantitative assessment of capital adequacy are appropriately and prudentially reviewed. The determination of the total internal capital - carried out according to the "building block" approach - is carried out with reference both to the current situation and to the prospective one. The prospective level is instead determined essentially annually - when preparing the ICAAP report - with

reference to the end of the current year, taking into account the foreseeable evolution of risks and operations.

To this end, the Branch:

- uses the annual budget, adequately detailing it with respect to the need for estimating risks;

- identifies the parameters that influence the incidence of risk, predicting its future evolution also considering macroeconomic variables (market trends);

- defines the estimates of the evolution of risk factors consistent with its own economic and strategic scenarios;

- verifies the forecasts on the basis of the multi-year planning;

- makes an estimate of the evolution of the accounting items that make up the assets identified;

- considers any strategic needs and the target ratio objectives envisaged by the defined risk appetite;

The outcome of the self-assessment of capital adequacy is summarized in a qualitative judgment ("adequacy judgment") with reference to the corporate situation at the end of the last closed financial year and at the end of the current financial year (current and prospective).

The self-assessment of capital adequacy is based, in accordance with the relevant prudential supervisory provisions dictated by Circular no. 285/2013 (second pillar), on the comparison between its total capital determined at the end of the last financial year (capital from a current perspective) and at the end of the current year (capital from a perspective perspective) and the set of all relevant risks (overall internal capital) measured on the same dates (internal capital in current and prospective terms) and in the event of stress.

The methodology adopted to carry out the aforementioned self-assessment is governed by the regulation of the ICAAP process and in the related annexes. In summary, the aforementioned methodology is based on the following aspects.

1) "Definition of the thresholds for the self-assessment of capital adequacy".

The self-assessment of capital adequacy is carried out taking into account the results obtained with reference the measurement of risks and capital from a current, forward-looking perspective and in the event of stress on current values and perspective. The outcome of the self-assessment of capital adequacy is summarized in a qualitative judgment (hereinafter also the "adequacy judgment") with reference to the company situation at the end of the last financial year and at the end of the current financial year (current perspective and perspective).

Quantitative disclosure

EU OV1 model: synoptic table of the total amounts of exposure to risk

		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		a	b	c
		31.12.2021	31.12.2020	31.12.2021
1	Credit risk (excluding CCR)	963.139,52		77.051,16
2	Of which the standardized approach	963.139,52		77.051,16
3	Of which the foundation IRB (FIRB) approach	-	-	-
4	Of which: slotting approach	-	-	-
EU 4a	Of which: equities under the simple risk weighted approach	-	-	-
5	Of which the advanced IRB (AIRB) approach	-	-	-
6	Counterparty credit risk - CCR	Part of credit risk	Part of credit risk	Part of credit risk
7	Of which the standardized approach	-	-	-
8	Of which internal model method (IMM)	-	-	-
EU 8a	Of which exposure to a CCP	-	-	-
EU 8b	Of credit valuation adjustment - CVA			
9	Of which other CCR			
10	Not applicable			
11	Not applicable			
12	Not applicable			
13	Not applicable			
14	Not applicable			
15	Settlement risk	-	-	-
16	Securitization exposures in the non-trading book (after the cap)			
17	Of which SEC-IRBA approach	-	-	-
18	Of which SEC-ERBA (including IAA)	-	-	-
19	Of which SEC-SA approach			
EU 19a	Of which 1250%/ deduction	-	-	-
20	Position, foreign exchange and commodities risks (Market risk)			
21	Of which the standardized approach			
22	Of which IMA	-	-	-
EU 22a	Large exposures	-	-	-
23	Not applicable			
24	Operational risk			
EU 24°	Of which basic indicator approach	37.227,12	-	2.978,17
EU 24b	Of which standardised approach	-	-	-
EU 24c	Of which advanced measurement approach			
25	Not applicable			
26	Not applicable			
27	Not applicable			
28	Not applicable			
29	Total	1.000.366,65		80.029,33

EU KM1 model: main metrics

Riga		a	e
		31.12.2021	31.12.2020
	Available own funds (Amount/000)		
1	Common Equity Tier 1 (CET1) capital	190.796	
2	Tier 1 capital	220.796	
3	Total capital	280.731	
	Risk-weighted exposure amounts		
4	Total risk-weighted exposure amount	1.000.366,65	
	Capital ratios (as a percentage of risk-weighted exposure amount)		
5	Common Equity Tier 1 ratio (%)	19,07%	
6	Tier 1 ratio (%)	22,07%	
7	Total capital ratio (%)	28,06%	
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)		
EU 7a	Additional CET1 SREP requirements (%)	1,26%	
EU 7b	Additional AT1 SREP requirements (%)	1,69%	
EU 7c	Additional T2 SREP requirements (%)	2,25%	
EU 7d	Total SREP own funds requirements (%)	12,75%	
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)		
8	Capital conservation buffer (%)	0,00780%	
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	-	-
9	Institution specific countercyclical capital buffer (%)	-	-
EU 9a	Systemic risk buffer (%)	-	-
10	Global Systemically Important Institution buffer (%)	-	-
EU 10a	Other Systemically Important Institution buffer	-	-
11	Combined buffer requirement (%)		
EU 11a	Overall capital requirements (%)	12,75%	
12	CET1 available after meeting the total SREP own funds requirements (%)	10,813%	
	Leverage ratio		
13	Leverage ratio total exposure measure	1.963.849	
14	Leverage ratio	11,320%	
	Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount)		
EU 14a	Additional CET1 leverage ratio requirements (%)	-	-
EU 14b	Additional AT1 leverage ratio requirements (%)	-	-
EU 14c	Additional T2 leverage ratio requirements (%)	-	-
EU 14d	Total SREP leverage ratio requirements (%)	3,00%	-
EU 14e	Applicable leverage buffer	3,00%	-
EU 14f	Overall leverage ratio requirements (%)		
	Liquidity Coverage Ratio		
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	452.892	
16	Total net cash outflows (adjusted value)	177.989	
17	Liquidity coverage ratio (%)	254%	
	Net Stable Funding Ratio		
18	Total available stable funding	1.123.200	
19	Total required stable funding	1.040.448	
20	NSFR ratio (%)	108,5%	

10. Section 8: Remuneration policies

Qualitative information on remuneration policies 2022

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. Senior Management is designated and detached by the Head Office, this includes in addition to the Country Head, two employees detached to the management of the Branch by the Head Office. Bank of China Milan Branch 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.

Template EU REM1 - Remuneration awarded for the financial year

			MB Supervisory function	MB Management function	Other senior management	Other identified staff
1	Fixed remuneration	Number of identified staff		3	2	
2		Total fixed remuneration		678.114	173.503	
3		Of which: cash-based		678.114	173.503	
4		(Not applicable in the EU)				
EU-4a		Of which: shares or equivalent ownership interests				
5		Of which: share-linked instruments or equivalent non-cash instruments				
EU-5x		Of which: other instruments				
6		(Not applicable in the EU)				
7		Of which: other forms				
8		(Not applicable in the EU)				
9	Variable remuneration	Number of identified staff		6	2	
10		Total variable remuneration		475.370	38.831	
11		Of which: cash-based		475.370	38.831	
12		Of which: deferred		232.542		
EU-13a		Of which: shares or equivalent ownership interests				
EU-14a		Of which: deferred				
EU-13b		Of which: share-linked instruments or equivalent non-cash instruments				
EU-14b		Of which: deferred				
EU-14x		Of which: other instruments				
EU-14y		Of which: deferred				

15		Of which: other forms				
16		Of which: deferred				
17	Total remuneration (2 + 10)			1.153.484	212.334	

Template EU REM3 - Deferred remuneration

		a	b	c	d	e	f	EU - g	EU - h
	Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e.changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
1	MB Supervisory function								
2	Cash-based								
3	Shares or equivalent ownership interests								
4	Share-linked instruments or equivalent non-cash instruments								
5	Other instruments								
6	Other forms								
7	MB Management function	6						6	
8	Cash-based	478.857						246.315	
9	Shares or equivalent ownership interests								
10	Share-linked instruments or equivalent non-cash instruments								
11	Other instruments								
12	Other forms								
13	Other senior management								
14	Cash-based								
15	Shares or equivalent ownership interests								
16	Share-linked instruments or equivalent non-cash instruments								
17	Other instruments								
18	Other forms								
19	Other identified staff								
20	Cash-based								
21	Shares or equivalent ownership interests								
22	Share-linked instruments or equivalent non-cash instruments								
23	Other instruments								
24	Other forms								

25	Total amount	478.857						246.315	

Template EU REM5 - Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)

		a	b	c	d	e	f	g	h	i	j
		Management body remuneration			Business areas						
		MB Supervisory function	MB Management function	Total MB	Investment B.	Retail B.	Asset man.	Corporate functions	Independent internal control functions	All other	Total
1	Total number of identified staff		8	8							8
2	Of which: members of the MB		6	6							6
3	Of which: other senior management		2	2							2
4	Of which: other identified staff										
5	Total remuneration of identified staff		1.365.818	1.365.818							1.365.818
6	Of which: variable remuneration		514.201	514.201							514.201
7	Of which: fixed remuneration		851.617	851.617							851.617

11. Statements of the Country Head

The Country Head, 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

Country Head

Bank of China Ltd. Milan Branch