

# DISCLOSURE REPORT OF BANK OF CHINA LIMITED HUNGARIAN BRANCH

*This report is meticulously crafted to ensure full compliance  
with the disclosure requirements stipulated in Regulation 575/2013/EU  
of the European Parliament and the Council on prudential requirements  
for credit institutions and investment firms (CRR or Regulation).*

In respect of 31 December 2024

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## **I. Introduction**

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Bank of China Limited Hungarian Branch (hereinafter: the Branch) is a branch of Bank of China Limited, whose registered office is located at China 100818, Beijing, Fuxingmen Nei Dajie 1., a credit institution registered in the People’s Republic of China as such, it is a part of the Bank of China Group (hereinafter: the Group), one of the world’s largest banking groups and one of the banks with the longest continuous operation among Chinese banks.

The Branch was established in 2014.

In the present Disclosure Report (further Disclosure), Bank of China Limited, the Head Office, and the Founder have the same meaning; they refer to the financial institution Bank of China Limited, Beijing, of which the Branch is a part.

The Branch itself does not have a LEI code. The Branch Founder’s LEI code is 54930053HGCFWVHYZX42.

The Branch's reporting currency is the Hungarian Forint. The monetary data disclosed in this document are precisely equivalent to millions of Hungarian Forints.

The Branch prepares its financial statements in accordance with International Financial Reporting Standards (“IFRS”)

## **II. Scope, means, and frequency of the disclosure**

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As the Branch, on its individual basis, neither meets the definition of a large institution nor qualifies as a small and non-complex institution, it discloses the information outlined in Article 433c of the CRR (Disclosures by other institutions) annually.

In its resolution No. H-EN-I-90/2015, MNB exempted the Branch from compliance with the requirements contained in the Third, Fourth, Fifth, and Seventh Parts of CRR. Therefore, under said resolution, the Branch is exempted from the obligation to calculate its own funds and capital requirement. In cases where, under Article 433c of CRR, the Branch would be required to disclose information that it does not calculate on its own, the Branch will refer to the relevant part of the Head Office 2024<sup>1</sup> Annual Report.

It is essential to mention that the Branch does not carry out retail business. Its main target clients are local and regional wholesale corporations, enterprises with Chinese relations, and companies with significant investment projects in various sectors of the economy.

Under Article 432 (1) of CRR, institutions may omit one or more of the disclosures listed in CRR. The Branch publishes information relevant to its activity.

## **III. Risk Management objectives and policies (CRR Article 435 (1) points (a), (e), and (f))**

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### **3.1 The general risk profile of the Branch**

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The Branch, as a part of Bank of China Limited, is pursuing the risk management objectives of the Head Office, which is built upon the strategy of maintaining a steady and prudent operation based on a moderate risk appetite.

The Branch has, therefore, defined management policies, strategies, and objectives according to the prevailing regulatory rules and the guidelines and requirements of the Head Office. Accordingly, the Branch’s primary goals are to establish a risk management framework and risk management systems that take into consideration the Branch’s conservative risk-taking and, at the same time, maximize its risk-adjusted returns and the efficient use of funds. As the Branch’s business model builds on lending to corporations in the real economy and thus promotes economic relations and investments between China and Central-Eastern Europe, the most prominent risk faced by the Branch is credit risk.

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<sup>1</sup> [https://www.boc.cn/en/investor/ir3/202503/t20250326\\_25304563.html](https://www.boc.cn/en/investor/ir3/202503/t20250326_25304563.html)

To ensure compliance with the Branch's risk strategy, the Branch takes into consideration the following principles to ensure effective risk management:

**Compliance with regulatory requirements at all times:** The Branch is strongly committed to ensuring that it and all of its employees conduct their activities in accordance with regulatory requirements.

**Risk culture:** The Branch's strategic goals regarding risk management are communicated clearly and concisely to all employees, and prudent risk-taking should be an integral part of every employee's mindset.

**A holistic approach to risk management:** The rules and practices of risk management are defined, taking into consideration the interconnections between different types of risks.

**Clear rules:** For every type of risk the Branch faces, clear rules regarding tasks, reporting rules, and responsibilities are defined for every level of employee.

**Control functions:** In line with the Service Level Agreement, signed by the Branch and Bank of China (CEE) Ltd. (formerly named as Bank of China (Hungary) Close Ltd.) (further on: Bank), certain tasks of the Branch in the field of business activities and risk management are carried out by the Bank following its internal rules. Control functions are independent of the business areas they oversee and are incentivized to ensure the prudent risk-taking of the Branch.

### Overview of Risk Management Processes

The Branch's risk management processes are designed in accordance with the relevant regulatory requirements and the Group guidelines.

These processes cover all aspects of effective risk management, namely:

- Risk-taking
- Risk identification and measurement
- Risk monitoring
- Risk reporting
- Stress testing

The risk-taking policy ensures that the Branch only undertakes risks that match its risk profile and business strategy by providing clear guidelines on what exposures are considered to be desirable based on the Branch's business model and strategy.

Risk measurement methods include client rating and assessment of counterparties' creditworthiness, while risk monitoring methods include continuous observation of limits and collateral.

The overall business and risk management strategy, as well as the risk appetite of the Branch, is determined by the Head Office. The specific policies that constitute the risk management framework of the Branch are based on BOC Group standards and regulations and have been approved by Management.

The main objective of determining the overall risk appetite and setting the risk indicators is to prevent or significantly lower the impact of undesirable risk events. This target is reached by applying clear policies and adequate systems, performing appraisals, closely monitoring limits, and requiring setting and following clear, quantitative risk appetite from all business lines.

To support compliance with the Branch's risk appetite, the departments of the Bank (acting in line with the Service Level Agreements concluded between the Branch and the Bank) being responsible for the different risk management functions (Risk Management Department in case of credit risk, market risk, country risk, and ESG risk; Financial Department in case of strategy risk, liquidity risk; Legal and Compliance Department in case of legal and compliance risk, operational risk; Administration Department in case of reputation risk) regularly measure and report the main risk indicators listed in the Risk Appetite to the Management of the Branch, the Head Office and to the operative levels to allow an efficient flow of information.

The Branch applies a comprehensive limit system for measuring and managing its exposures. The purpose of the limit system is to determine the maximum risk-taking. The limits can be set per client, industry, country, or product, or they

can be based on regulatory or internal risk indicators. The departments responsible for the different risk management functions perform limit management that includes the up-to-date recording of approved limits, continuous monitoring of limit utilization, and reporting on limit overutilization to the Management, which is to be duly documented.

### 3.1.1 Transactions within the BOC Group

Due to being a branch of one of the largest banks in the world, the Branch concludes transactions with several other entities of the Bank of China Group. The Branch secures significant portions of its financing from the Head Office or the fund pools of the Bank of China Group.

The Branch's asset portfolio contains syndicated loans provided by the Branch together with other BOC Group members and participations in syndicated loans transferred to the Branch by other BOC Group members. These transactions help the Branch widen its current customer portfolio.

In certain cases, the Branch provides loans to clients, whereas another member of the Bank of China Group provides guarantee as collateral behind the transaction. In those cases, the credit risk is transferred from the Branch to another member of the Bank of China Group through the guarantee.

### 3.1.2 Statement

The Branch's Management discussed the risk management strategy and the risk profile in May 2025. Pursuant to Article 435 (1) e) of the Regulation, the Management of Bank of China Limited Hungarian Branch states by approving the present Report that the applied risk management system is appropriate in terms of the Branch's profile and strategy and the risk profile of the Branch is within the framework approved by the Management and the Head Office.

In line with its business strategy, the Branch focuses on the commercial banking business and provides credit facilities for mainly larger companies. Due to this business strategy, the main risk is the credit risk within the Branch's total risk exposure, although the level of the credit risk is considered moderate, because the clients are predominantly global corporations with stable and diversified operation. Based on this strategy, the Branch uses specific risk appetite indicators and key risk indicators determined partly based on the Head Office's recommendations and also considering local aspects.

The Branch's Management discussed the risk appetite of the Branch in May 2025. Pursuant to Article 435 (1) f) of the Regulation, the Management of Bank of China Limited Hungarian Branch states that the risk appetite presented in this document is in line with the Branch's and the Head Office's business strategy and includes appropriate key risk indicators focusing on the prevention of losses.

## **3.2 Governance arrangements (Article 435 (2) points (a), (b) and (c))**

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### 3.2.1 Main Governing Bodies of the Branch

The governance structure within the Branch is built upon several levels to define the responsibilities of different functions and persons properly and to ensure that the Branch's main objectives regarding risk-taking and risk management are met.

The Branch forms a legally dependent part of Bank of China Limited, a place of business that directly carries out the transactions inherent in the business of the Head Office. Accordingly, the Head Office determines the Branch's strategic goals and overall risk management framework and monitors the execution of that strategy.

Locally, the main governance body of the Branch is the Management. The primary tasks of the Management are the execution of the strategy and ensuring the proper daily operation of the Branch by making decisions within its own competence.

In 2024, the Management of the Branch consisted of 5 persons. Each member of the Management also has a senior manager position in Bank of China (CEE) Zrt. in the form of multiple employment established under Article 195 of the Labor Code. Two of them also served as members of the Board of Directors of Bank of China (CEE) Zrt.

The selection of members of the governing body is based on the recruitment policy of the Branch, which considers the skills, talents, and experiences of the members, i.e., at least a university degree, 15 years of relevant experience in the banking sector or at an appropriate financial institution are required, the candidate must be familiar with risk management at banks, understand and be capable of implementing the business strategy of the Branch, a good command of the English language and advanced user level computer skills are also required.

Although the Branch has not adopted a formal diversity policy, during the selection of Management members, diversity aspects (such as nationality, professional experience, and gender) are also taken into account. For that reason, during the selection of members to the governing body, apart from the professional aspects, the following circumstances are also important: the governing body should have both Chinese and non-Chinese members, and there should be diversity among members of the body. In the year 2024, the governing body had one Hungarian member besides the Chinese members, and three members were women.

The Branch regularly monitors compliance with paragraphs 143 and 145 of the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises. New members of the Management must declare the relevant positions and holdings they have and if any reason for disqualification (as defined in Section 137 (4) and Section 137 (6) of the Banking Act exists in respect of their person. MNB also checks the conditions when authorizing appointments. Moreover, the Branch regularly requires existing Management members to disclose any positions filled or holdings outside the Branch.

### 3.2.2 Standing Committees

Similarly, to the Bank, the Branch has also established an additional level of governance in the form of standing committees. These Committees support the decision-making of the Management and thus ensure the prudent and successful operation of the Branch.

**The Branch has set up the following Committees:**

- Risk and Control Committee;
- Anti-Money Laundering Committee (subordinated to the Risk and Control Committee);
- Asset Disposal/Distressed Asset Management Committee (subordinated to the Risk and Control Committee);
- Assets and Liabilities Committee;
- New Activities and Products Committee (subordinated to the Risk and Control Committee);
- Procurement Committee.

In the risk management framework of the Branch, the Risk and Control Committee (RCCO) takes the most prominent role as it is responsible for strategic risk management on risk strategy, reviews, and pre-approves proposals of the Risk Management Department and other departments involved in risk management before sending it to the Management for approval, if necessary. The RCCO also reviews the functioning of the Branch's risk management framework and internal control systems. It is chaired by the Deputy General Manager in charge of risk management, its members are the heads (deputy heads) of all departments. The Internal Auditor has a standing invitation.

The Assets and Liabilities Committee (ALCO) has also been established within the Branch's governance structure. The ALCO plays a vital function in the Branch's risk management processes, as it makes recommendations and decisions on the operative management of the Branch's exposures and positions, which are in line with the resolutions and decisions of the Head Office and Management.

### 3.2.3 Control Functions

The internal control functions within the Branch are organizationally independent of the business areas they supervise and have the necessary resources, authority, and access to information that is required to perform their tasks. Besides reporting to the Management, the control functions also report to different departments – varying by control function - of the Head Office, referred to as line supervisory departments.

#### *“The three lines of defence”*

The Branch uses the so-called "three lines of defence" model to identify the functions within the Branch that are responsible for addressing and managing risks.

The business lines, as the first line of defence, take risks and are responsible for their operational management directly and permanently. The risk management functions and the compliance function form the second line of defence. The risk management functions are responsible for the implementation of operative risk management, including its ongoing and proactive development. The compliance function monitors compliance with legal and regulatory requirements and internal policies, provides advice on compliance to the Management and other relevant staff, and establishes policies and processes to manage compliance risks and ensure compliance. Both functions may intervene to ensure the modification of internal control and risk management systems within the first line of defence where necessary.

The independent internal audit function, as the third line of defence, is in charge of the independent review of the first two lines of defence. It performs its tasks fully independently of the other lines of defence.

To ensure their proper functioning, all internal control functions are independent of the business they control and have appropriate financial and human resources to perform their tasks. The heads of internal control functions report to the Management, and functionally to the respective departments of the Head Office

The Branch's Management yearly evaluates the Branch's internal governance and internal control framework and assess the operation of the Branch's internal lines of defence, including the structure and operation of the various elements of the Branch's risk management framework. When needed, they take steps to ensure that necessary corrective actions are implemented. When evaluating the operation of the Branch's risk management framework, focus is placed on the implementation of the Branch's risk appetite.

The effective implementation of the three lines of defence model is shown in the table below.

Risk category		1st line of defence	2nd line of defence	3rd line of defence
FINANCIAL RISKS	Credit Risk	Corporate Banking Department Banking Department	Risk Management Department	Internal Auditor
	Liquidity risk	Corporate Banking Department Banking Department Treasury Department	Financial Department Risk Management Department	
	Market risk	Treasury Department	Risk Management Department (trading book) Financial Department (banking book)	

NON-FINANCIAL RISKS	Compliance risk	All Departments	Legal & Compliance Department
	ESG risk		Risk Management Department
	Legal risk		Legal & Compliance Department
	Operational risk		Legal & Compliance Department
	Information security risk		Legal & Compliance Department
	Reputation risk		Administration Department

*a) Risk Management Department*

The Risk Management Department is responsible for the implementation of a sound risk management framework throughout the Branch. It is responsible for further identifying, monitoring, analyzing, measuring, managing, and reporting on risks and forming a holistic view of risks being under its responsibility. It challenges and assists in the implementation of risk management measures by the business lines to ensure that the process and controls in place at the first line of defence are properly designed and effective.

The department coordinates the management of credit risk, credit approval, market risks (trading book), counterparty credit risk, credit concentration risk, environmental and social risk, and country risk according to the related regulatory requirements and BOC Group standards.

*b) Internal Auditor*

The Internal Auditor is strictly independent of the operational and other control functions. It reports to Head Office Internal Audit Department to ensure consistency between the Branch's methodology and risk control framework and the Head Office's.

The Internal Auditor conducts risk-based and general audits. It reviews the internal governance arrangements, processes, and mechanisms to ascertain that they are sound and effective, well implemented, and consistently applied.

*c) Legal and Compliance Department*

The Legal and Compliance Department is part of the Bank's second line of defence. Its primary task is to ensure the Bank's compliance with the regulatory provisions governing its activities and operations and that its internal regulations and policies are consistent with regulatory provisions. Another crucial task of the Legal and Compliance Department is to monitor the implementation of policies and regulations from the Head Office, BOC Europe and local regulatory authorities and to coordinate the monitoring and prevention of money laundering and terrorism financing, as well as market abuse and fraud events.

The Legal and Compliance Department is responsible for the second-level control of customer due diligence carried out by the Bank's business departments.

The Legal and Compliance Department reviews and validates all risk-taking contracts from a legal point of view and makes proposals to the legal stipulations to ensure compliance with applicable laws and regulations.

Other functions of the Legal and Compliance Department include maintaining the Bank's Conflicts of Interest Record, Confidentiality Lists, Insiders Lists, and maintaining the staff's Personal Transaction Record, which all play a crucial role in managing operational and reputational risks.

Furthermore, the Legal and Compliance Department reports quarterly to the Risk and Control Committee about the implementation of the compliance control plan and control results, as well as about the progress of corrective action plans. The Department also reports to the Board of Directors and the Board of Supervisors at least once quarterly a year concerning the fulfillment of its tasks.

Currently, there are no plans to implement any major changes in the operation, size, and authority of the control functions outlined above..

3.2.4 Risk culture, risk awareness

The high level of risk awareness among all employees and the inherently conservative risk approach is an integral part of the business strategy. A full understanding of the economic environment in which the Branch operates and the risk profile of the clients is a central part of the business and risk strategy.

The primary goal of the risk management strategy is to maximize the value for the shareholders within the acceptable risk profile, meet the local requirements, and protect depositors and other stakeholders for the Branch's prudent and stable operation, which ensures the fulfillment of the Branch's business policy and strategy. The Branch is constantly working on improving the systems, policies, and procedures that enables timely identification, measurement, control, and monitoring of all risks that occur in the Branch.

The Branch has set up basic principles on which the risk management framework is built:

**Compliance:** The Branch aims to fully comply with all applicable local laws and regulations and the Group guidelines.

**Appropriate balance between risk and return:** The Branch aims to achieve an appropriate balance of risk and return through active control.

**Segregation of duties, avoiding conflict of interest:** Risk management units and personnel are independent of business units and should perform independent reviews and give professional opinions for the risks arising from business activities.

**Clarify rights and responsibilities:** Accountability shall be carried out through a strict internal control mechanism, specific division of responsibilities, and clearly defined rights.

**Forward-looking and proactive approach:** All employees cooperate, study, and manage risks in a forward-looking manner, actively identify and improve management and control measures, and ensure risks are under control.

**Fully know your customers and businesses:** The motto "know your customers" and "know your businesses" are the cornerstones of banking operations. The Branch performs due diligence on new products and businesses to ensure acceptable risks.

**Consistency and coherence:** The Branch has a coherent risk appetite and risk management strategy and carries out consolidated risk management in order to ensure consistency between risk management objectives and business activities.

**Differentiated and controllable:** Under the risk appetite and risk management strategy, the Branch has differentiated and controllable risk management in line with the external market environment and its own risk management capability to make risk management flexible and pragmatic.

**Substance over the form should prevail:** In all cases where risk strategy and any other relevant risk internal rules are not fully clear, substance over the form prevails, meaning all available information is considered.

The code of conduct, gift policy, conflicts of interest policy, and risk assumption policy are all in place to enforce and promote a risk culture and risk-taking that is in line with the Branch's strategic goals. The Branch pays special attention to communicating risk culture within the institution, including delivering training.

### 3.3 Reporting systems, stress testing, and risk mitigation techniques

#### 3.3.1 Reporting Systems

The Branch has established several reporting systems ranging from the operational level up to the Head Office and Management to ensure the prompt transfer of information to all persons who need it in a way that enables them to recognize its importance. The main departments responsible for reporting are the Risk Management Department (concerning credit risk, credit concentration risk, trading book-related market risk, and country risk), the Legal and Compliance Department (concerning operational, compliance, and AML risks), the Financial Department (in respect of liquidity risk) and the Internal Auditor.

The Risk and Control Committee is responsible for reviewing the reports of the Risk Management Department and the other internal control functions and for examining and proposing solutions for actual issues. In addition to the reporting systems outlined above, the Management also reports directly to the Head Office about the implementation of the Head Office's resolutions and the actions taken by the Management within its scope of competence.

Through periodic reports, the Management and the Head Office are continuously informed about the levels of risk appetite indicators, the overall risk situation across all types of risks, and the utilization of different limits.

All of the above is aimed at ensuring that the Head Office and Management can monitor the implementation of the Branch's risk strategy and make adjustments when and if necessary. The Head office and Management are responsible

for periodic revision—and, if necessary, adjustment—of the strategies and policies for risk undertaking, managing, monitoring, and mitigating the risks the Branch is or might be exposed to.

### 3.3.2 Hedging, Risk Mitigation

#### *3.3.2.1 Limits*

The Branch, as a part of Bank of China Limited, does not set individual limits on its own. Instead, it complies with the limits set by the Head Office, e.g., country, client, or partner limits for the whole Group.

The Risk Management Department reports on limit utilization regularly to the Head Office

#### *3.3.2.2 Client rating*

The goal of the rating is to assess the risk profile of the clients and to identify lending opportunities that match the risk strategy and overall business model of the Branch and the Head Office.

Client ratings are reviewed periodically, and if they deteriorate, the Branch takes appropriate countermeasures.

#### *3.3.2.3 Collateral management*

The Branch prefers exposures where the transaction is supported by strong collateral and accepts, among other bank guarantees (including guarantees received from another member of the Bank of China Group), cash collateral, mortgage, pledge, and suretyship.

The Branch has developed detailed policies related to evaluating collaterals, considering their characteristics, availability, and enforceability, and their monitoring.

Regular risk monitoring evaluates not only the financial and commercial position of the debtor but also the developments concerning the given transaction and the collaterals during the entire term of the assets.

The Branch adopted the Group procedures and uses a Group IT application developed specifically to record and update data concerning collaterals.

#### *3.3.2.4 Transaction classification*

As a general principle, the Branch classifies its assets and off-balance sheet items quarterly. When a credit asset's risk profile changes, a dynamic adjustment needs to be performed (in addition to the regular quarterly assessment).

#### *3.3.2.5 Impairment recognition and provision calculation policy*

Based on the classification of the transaction and the assets, by assigning them to the appropriate asset classification category, the impairment must be recognized in securities, investments, receivables, and other assets. Provisions must also be made regarding the contingent and future obligations listed in legal stipulations regulating the bookkeeping of credit institutions. Following Group methodology, the Branch calculates provisions in line with the requirements set out by IFRS 9.

## **3.4 Risk management objectives and policies for separate risk types**

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### 3.4.1 Credit Risk

Credit risk is the risk of loss arising from the failure of a borrower or counterparty to repay a loan or otherwise meet a contractual obligation.

### 3.4.2 Credit Risk strategy and business model

A conservative approach to credit risk has traditionally characterized the Group and therefore, the Branch's business model and the Branch credit risk management framework has been established accordingly.

The Branch's business model involves lending to large corporate customers and promoting economic relations between China and the Central-Eastern European region. In addition to such transactions, the Branch participates in syndicated lending—coordinated by the Head Office—with other members of the Bank of China Group.

To ensure safe and profitable operation and support its business strategy and business model, the Branch has developed

its risk management framework, which is reviewed periodically and amended if necessary. In parallel with the growth of the Branch, its risk management framework has been continuously developed to ensure effective risk management.

The objectives of credit risk management are to ensure that the Branch's lending activity is consistent with the related principles and requirements of the Head Office, i.e.:

- A lending transaction can be approved only if its interest and fee payment terms generate acceptable incomes for the Branch in light of the risks taken.
- Credit officers must comply with all applicable laws and internal regulations of the Branch and the Head Office.
- Lending business should be secure and profitable, and it should not endanger the Branch's liquidity position.
- When deciding upon exposures, the Branch must respect counterparty limits and strive to avoid over-concentration, taking into account the structure of the Branch's funding requirements as well as the requirements of prudent lending.
- All loans must be under continuous control and record keeping, and the Branch shall regularly monitor its credit portfolio and ensure the good quality of assets.

The risk undertaking and management follow the local and group regulations and requirements and are operated with respect of the following principles:

- Know your customer and your business procedures, which represent the starting point of customer relationships, and use them to avoid/minimize various types of risks.
- Transparency needs to be set for every transaction and needs to be documented.
- AML and compliance risks must be addressed properly.
- The Branch takes and manages risk with caution, and credit-granting shall be based on sound and well-defined criteria.
- Risk analysis should be forward-looking, and monitoring/controlling should be done throughout the lifetime of transactions.

The Branch does not calculate capital requirements as it has been exempted from the obligation to comply with the requirements contained in the Third, Fourth, Fifth, and Seventh Parts of CRR (for more details, please see Section Capital requirements, CRR Article 438). It does not have items that would be classified as particularly high risk under Article 128 of CRR.

#### *3.4.2.1 Credit risk management policies and processes*

To ensure a prudent and profitable operation based on its conservative approach to credit risk, the Branch has developed its client lending and risk undertaking conditions defined by internal regulations. These regulations are reviewed periodically and amended, if necessary, based on the applicable rules of law, the business concepts and requirements of BOC Group, and the recommendations of the MNB. These policies and guidelines aim to ensure that all legal requirements are met at all times and to enhance the risk culture within the Branch.

The top-level internal document for risk management is the Enterprise Risk Management Policy. Further main policies regarding credit risk are the Policy of Risk Undertaking and the General Lending Policy, which define the lending principles and the types of risk-taking, the general rules of credit application, and the credit approval process. The Branch's Business Rules on Credit and Documentary Operations contain general information on the Branch's credit products, which is available on the Branch's website.

The Branch ensures that its risk profile is in line with its risk strategy. For this purpose, quantitative limits and qualitative principles are established in accordance with internal regulations.

#### *3.4.2.2 Client rating*

The Branch performs client rating for every client with whom it concludes a contract that results in risk-taking or who secures risk assumption partially or fully, e.g., by guarantee. The rating is made in the internal rating system of the Branch; however, in certain cases, it is based on the rating already applied in BOC Group. The rating category of the client affects the client's eligibility for lending, the client's limit, the collateral requirements, and the price of risk assumption.

The rating is performed before the undertaking of risks (basic rating) and is reviewed at least annually when there is an ongoing relationship with the client.

#### *3.4.2.3 Approval process*

The approval process includes risk due diligence performed by the Risk Management Department, deliberation by the Credit Review Committee, and approval by authorized approvers either at the Branch or Head Office level, depending on the size of the credit request.

The Branch has a separate process for low-risk/quasi-low-risk corporate transactions. In these cases, the loan approval process is simplified, and the credit request does not undergo committee review.

#### *3.4.2.4 Client and Client Group Limits*

The Branch applies client group limits to define the maximum risk acceptable concerning a given client or group of clients, however the overall client group limits are set at BOC Group/Head Office level. The limits are determined considering the client rating, the economic situation of the client's operating sector, and the availability of collaterals. The Branch will not assume any risk over the client limit defined with respect to the given client/client group, which ensures that concentration risk stays on or below the acceptable level.

#### *3.4.2.5 Steps before signing the contract and loan disbursement*

As an additional level of independent control, both the Legal and Compliance Department and Risk Management Department examine the risk-related contracts before signature to verify whether the legal terms/exposure to be taken by the Branch is compliant with the relevant laws/approval.

If the contract or any of the related contracts are not qualified impeccable, the Legal and Compliance Department and/or the Risk Management Department will notify the Business Department on the remarks and initiate the necessary amendments.

#### *3.4.2.6 Asset classification*

Asset classification is managed at least quarterly. Business departments submit their proposal on asset classification, which is then verified by the Risk Management Department. Final approval right is either with the local authorized approver or at Head Office level depending on the size and classification of the risk taking. Provisioning and impairment calculations are performed in line with IFRS 9 requirements.

Qualitative and quantitative information on the Branch's loan portfolio is provided to the Management in the form of quarterly comprehensive risk reports/asset inventory reports. These reports contain information on the activities of the Branch based also on different segmentations, including client sector, country, product type and client group.

#### *3.4.2.7 Collateral evaluation*

In addition to assessing risks, the Branch regularly assesses, both in decision-making and monitoring, the effectiveness and value of credit risk mitigating tools (e.g., collaterals, guarantees) offered by the client or a third party or the covenants ensured in the contract.

#### *3.4.2.8 Monitoring*

The Branch monitors client-related exposures and their compliance with contractual payment conditions on a monthly basis and notifies the Branch's competent personnel accordingly. This evaluation covers the entire client portfolio and identifies the actual and expected risks in time. Before the maturity date, the Operations Department's Loan Administration function notifies the debtors, requesting that they secure the cover for interest payment and capital installment in time.

#### *3.4.2.9 Credit Risk Management Departments*

The Branch uses the so-called "three lines of defence" model to identify the functions within the Branch responsible for addressing and managing risks. Based on this principle, in the frame of credit risk management, the business lines are the first line of defence, taking risks and being directly and permanently responsible for their operational management.

The Risk Management Department is responsible as a second line of defense for credit risk and credit concentration risk, including drafting risk management rules and policies, developing risk management

technology, and identifying, assessing, monitoring, reporting, and controlling risks being under its responsibility.

The Legal and Compliance Department supports the credit risk management process by monitoring the issuance of new legal and regulatory requirements.

The Internal Auditor, as the third line of defense, oversees the operational and control functions and reports directly to the Internal Audit Department of the Head Office on compliance with the internal policies and assessment of risk management effectiveness.

### 3.4.3 Counterparty Credit Risk

The Head Office established a global counterparty risk limit regime, and the Branch utilizes this system. However, the Branch is exempt from the requirements set by Part Three of the CRR and, as a result, is not required to calculate capital charges under the counterparty credit risk capital requirements of the CRR. Additionally, the Branch did not conclude any netting agreements in the year of the disclosure.

Although the Branch does not have to calculate capital requirements concerning counterparty credit risks, it has implemented a number of procedures of the Head Office to manage counterparty risks actively, all of which are detailed below.

#### *3.4.3.1 Risk management objectives and policies related to counterparty risk*

The Branch's general objective (in line with the global counterparty risk limit regime of the BOC Group) is to apply strict limits to minimize the counterparty credit risk. The Branch places its liquid sources for short periods with other banks, but mainly within the BoC Group. Due to the Branch's business model, including the limited derivative transactions (mostly short-term FX swaps), the counterparty risk exposures are low.

*The method of setting limits to the counterparty exposures concerning the internal capital requirement calculation*

As the Branch is exempted from capital requirement calculations, this point is not applicable in its case.

#### *3.4.3.2 Policies relating to guarantees and other risk mitigation techniques with regard to the counterparty risk*

The Branch minimizes its counterparty risks primarily through the limit system. Within the risk management framework, the Head Office/Branch has established client and client group limits, which indicate the maximum amount of risks acceptable to the customer/customer group with regard to any type of risk (including counterparty credit risk).

The limits are established based on the regulatory framework and BOC Group's internal guidelines. The limit calculation process takes into consideration the client's rating; limits are established for a year and reviewed annually.

These limits are meant to ensure that exposures related to individual entities or a connected group of entities do not exceed the approved risk appetite (including counterparty credit risk as well) of the Group/Branch. The monitoring of these limits is performed by the Risk Management Department, with regular reports to the Management, to the RCCO and to the Head Office in the form of quarterly comprehensive risk reports.

The Branch did not conclude any netting or margin agreements in the year of the Disclosure.

#### *3.4.3.3 Policies regarding wrong-way risk exposures*

The wrong-way risk is the risk where the exposure toward a counterparty is increasing, and the counterparty's credit rating is deteriorating. To manage wrong-way risk, the Branch has several measures, such as limits and the monitoring of collateral quality to minimize wrong-way risks. Furthermore, it does not conclude any credit derivative transactions that are most prone to wrong-way risk, thereby avoiding risks related to such instruments. Additionally, concerning treasury transactions, in most cases, the Branch uses the services of other members of the BoC Group, thereby minimizing any undesirable risks that may come with the wrong-way counterparty risk.

#### *3.4.3.4 Impact of downgrading the Branch on the amount that the institution should provide as collateral*

Due to the fact that the current contractual framework and most of the transactions are concluded within the Bank of China Group and that the Branch itself does not have a credit rating, the requirement to disclose the impact of downgrading of the disclosing entity is not applicable in case of the Branch, only on the level of the Head Office.

#### 3.4.4 Market Risk

Market risk is the risk of loss arising from movements in market prices (interest rates, exchange rates, equity prices, and commodity prices). Market risk exists in the trading book and banking book.

##### *3.4.4.1 Strategies and processes of market risk management*

The Branch takes a conservative approach to market risks, and as a result, the risk management strategy and processes are aimed at minimizing risk-taking in this category. The Branch only provides investment services to a rather limited number of clients and, therefore, engages in a small number of derivative transactions.

The Head Office established various tools to manage and measure market risk within its risk management framework; it introduced limits for banking book and trading book transactions. These limits include, e.g., net foreign exchange exposure limits, VaR limit, PVBP (present value of a basis point) limit, and stop loss limits. In 2024, the Branch continuously monitored every limit applying to market risks, and the Management was kept up to date in terms of exposure and limit levels by periodic reports.

Specially developed sub-systems are available to monitor market risks. These systems provide sufficient information for every person and unit responsible for risk management within the framework of their scope of decision-making. The Branch introduced strict regulations on the Treasury counterparty and transaction limits, which are also set and monitored at the Group level.

##### *3.4.4.2 Structure and organization of the market risk management functions*

###### **a) Management**

The Management is responsible for preparing and supervising the implementation of market risk management policies and procedures, assuming and managing the market risk incurred in business operations within the risk appetite.

###### **b) Risk and Control Committee**

The Risk and Control Committee performs comprehensive risk management on behalf of the Management. It carries out and implements the overall risk strategy and risk appetite established by the Management to implement the market risk limits set by the Head Office. It supervises the implementation of the Branch's market risk management system.

###### **c) Assets and Liabilities Committee**

The Assets and Liabilities Committee reviews methods, quantitative standards, and risk limits relating to interest rate risk and exchange rate risk management across the Branch.

###### **d) Risk Management Department**

The Risk Management Department is responsible for preparing market risk management regulations; taking the lead in the identification, measurement, monitoring, and independent report of market risk; identifying, measuring, and monitoring the market risk conditions of the trading book; urging the related departments to implement the market risk limits set by the Head Office; proposing to Head Office on the market risk limit adjustment on the basis of the actual market risk conditions of the Branch; and participating in the risk assessment and approval of new products.

###### **e) Financial Department**

The Financial Department is responsible for measuring, monitoring, and reporting the interest rate and exchange rate risk in the banking book, urging the business departments to perform the measures for the interest rate and exchange rate risk control and proposing the assets and liabilities structure adjustment and business adjustment.

f) Treasury Department

The Treasury Department is responsible for classifying the trading book and the banking book as required by the Head Office; implementing the market risk limits of the trading book and banking book, other regulations and procedures on market risk management; carrying out daily risk management and making timely report on market risk information as required by Risk Management Department.

g) Other relevant departments

Other business departments are responsible for implementing the Branch's market risk management policies and procedures to ensure effective market risk monitoring in their respective business lines, compliance with limit implementation, and timely reports on market risk information as required by the Risk Management Department.

The Internal Auditor is independent of daily operations and is responsible for assisting the Management and the Founder in assessing the adequacy and effectiveness of market risk.

### 3.4.5 Operational Risk

#### *3.4.5.1 Risk Management Principles*

The Branch and the Group define operational risk as losses resulting from inappropriate internal processes and systems, external events, or inadequate performance of tasks by personnel, or could also be caused by the violation or non-fulfillment of a rule of law, contracts, or procedures defined in an internal regulation. In line with the regulatory requirements, the definition of operational risk includes legal risk but excludes strategic and reputational risk.

In the risk management framework, the Branch uses a common taxonomy for the categorization of operational risk events, related causes, and effects. The Branch distinguishes the following types of operational risk events:

- internal fraud,
- external fraud,
- employer's practice and work safety,
- client, business practice, marketing, and product policy,
- damages caused to property and equipment,
- disruption of business continuity or system error, and
- implementation, fulfillment, process management.

Furthermore, operational risk losses may occur independently of other risk types (events of a purely operational risk nature) or related to other risk types, such as market and credit risks, increasing the losses suffered.

Operational risk is, therefore, a diverse risk that differs in many respects from other risk types, as low-frequency, high-severity loss events often characterize it. To reflect the diverse nature of operational risks, the Group implemented a comprehensive framework that ensures the timely identification, measurement, and management of operational risk losses.

The operational risk management framework of the Branch follows the following main principles:

**Comprehensive management:** The operational risk management system shall penetrate each business process and each operational link, cover all departments, branch offices, and posts, and be performed by all staff.

**Timely adjustment:** Operational risk management shall match our Branch's internal and external environments and make timely adjustments and improvements based on changes in business strategies and concepts, as well as changes in external economic, political, and regulatory environments.

**Cost-effectiveness:** The operational risk management measures should accommodate the specific business scale, complexity, and other characteristics and seek a reasonable balance between the cost and return of risk management outcomes.

#### *3.4.5.2 Risk management policies and rules*

As part of Bank of China Limited, the branch applies Head Office Operational Risk Management Policies, which define the main elements of the operational risk management framework and related processes, as well

as responsibilities. The other Head Office rules on the detailed operational risk management requirements, e.g., the management rules on KRI, RACA, and LDC, are also followed by the Branch.

#### *3.4.5.3 Organizational structure, key responsibilities*

The Head Office ensures that Management has the authority to effectively identify, assess, monitor, control, or mitigate operational risks. Management is responsible for implementing the operational risk management strategies and policies approved by HO.

The Legal and Compliance Department is the leading department of operational risk management, which is responsible for establishing and implementing the bank-wide operational risk management framework and promoting operational risk management consistency and effectiveness bank-wide. The main responsibilities include the establishment and regular review of operational risk identification and measurement processes (loss data collection, risk, and control assessments, key risk indicator monitoring), reporting of key operational risks to the management, and proposing potential risk mitigation actions in line with risk appetite on a cost-benefit basis.

In addition, implementing the overall operational risk management framework requires the involvement and commitment of the entire organization. As a main principle, all organizational units are involved in managing operational risk and reducing risk levels to acceptable levels.

In terms of operational risk management, the Risk and Control Committee is responsible for maintaining the Branch's operational risk management framework, assessing its effectiveness, identifying any weaknesses, making decisions on relevant improvement measures, and supervising the implementation of these measures.

The Internal Auditor regularly examines and assesses the Branch's operational risk management.

#### *3.4.5.4 Operational Risk Management Process*

The first step of the operational risk management process is to identify operational risks that could jeopardize the achievement of the Branch's business objectives and may even cause significant losses. Proper risk identification is essential for quality risk management. Therefore, every organizational unit of the Branch monitors, evaluates, and manages any disturbances or operational risks occurring within its scope of activities.

To better identify, assess, monitor, control or mitigate, and report operational risk, the Branch gradually establishes and maintains the following relevant operational risk management processes:

- the operational risk and control assessment (“RACA”) process;
- the process of reporting material operational risk events;
- the process of operational Loss Data Collection (“LDC”);
- the process of monitoring Key Risk Indicators (“KRI”);
- the process of internal control measure examination and identification;
- the process of tracking operational risk rectification;
- the approval process of new product risk;
- the process of the business emergency plan and business continuity plan;
- the process of service outsourcing management;
- the operational risk reporting process;
- the process of assessing major business environment and internal control elements; and
- other operational risk management processes.

Currently, there are no mandatory limits for operational risks; only certain risk limits have been set for the main risk indicators, which also incorporate operational risks.

#### *3.4.5.5 Risk Mitigation*

To ensure effective control over operational risk management activities, the Branch's operational risk management regularly assesses the adequacy of operational risk control measures or other mitigation measures and identifies the acceptability of operational risk after those measures are implemented.

If the level of operational risk is unacceptable, remedial measures are to be adopted and recorded formally. The person liable for rectification regularly monitors the implementation of the remedial measures and ensures that

the operational failure can be resolved within the defined timeframe.

#### 3.4.5.6 Reporting Lines

Through the prescribed process, regular reports are provided about the most important changes in the operational risk profile for the Head Office, Management, Risk and Control Committee, and relevant departments, taking into account the nature, impacts, frequency, and severity of operational risk.

The Branch has established the following operational risk management reporting routes:

- The Legal and Compliance Department reports to the Risk and Control Committee, Management, and the Head Office
- The Internal Auditor reports to the Head Office
- The Legal and Compliance Department reports to the Internal Control and Legal and Compliance Department of the Head Office.
- The special functional departments of operational risk management and other relevant departments of the Branch (or of the Branch where the control function is outsourced) report to the Legal and Compliance Department, Management, and the competent departments of the Head Office.

#### 3.4.6 Residual Risk

Residual risk is the risk of reduced effectiveness of credit risk management and increased default loss arising from the flaws of the credit risk mitigation instruments. It includes the failure to take over the collaterals on a timely basis due to the counterparty's default, the difficulty in liquidating collaterals due to the lack of liquidity, rejected or delayed payment by the guarantor, and the expiry of the relevant documents.

One method the Branch uses to mitigate risks concerning client exposures is to apply a conservative definition of the scope and value of collaterals and securities when they are accepted.

The collaterals of risk-taking transactions are regularly reviewed as part of monitoring. In the case of real estate collaterals securing assets with a long-term maturity, the properties must be regularly reappraised in accordance with the legal requirements.

#### 3.4.7 Concentration Risk

Credit risk concentration refers to disproportionately large risk exposure to specific credit risks. Concentration risk may derive from the following:

1. Large individual (or possibly related) exposures (the definition of "related" must be broad enough to include, for example, exposures related through joint ownership/management/guarantee providers); and
2. Significant exposures existing in respect of such groups of partners where the likelihood of a default is determined by common reasons, for example:
  - economic sector;
  - geographical location;
  - currency;
  - product;
  - credit risk mitigating measures (including, among others, risks existing in respect of one single security provider related to indirect credit exposure, including the possible occurrence of wrong-way risk).

The fundamental tools for concentration risk management are limit systems. The regulations on the limit systems are subject to Management approval. The Risk Management Department continuously monitors the concentration of its exposures, e.g., to client groups, sectors.

Possible exposures to foreign enterprises may be converted to risks related to financial institutions for the Branch through individual commitments of the BoC Group or Chinese financial institutions.

#### 3.4.8 Country Risk

Country risk refers to possible circumstances that might adversely impact the interests of the Branch and those of the Head Office, which could be caused by the economic, financial, political, or social situation of the given country. This would jeopardize the appropriate fulfillment of one or more transactions and/or the outlooks of a given activity.

The Head Office does not impose individual country limits on the Branch; the Head Office monitors utilization through system information.

The Risk Management Department is also involved in assessing the country risk of specific countries falling into the Branch's delegation. The Head Office takes such assessment into account when determining country risk limits.

#### 3.4.9 Interest Rate Risk In The Banking Book

Interest rate risk in the banking book ("IRRBB") refers to the risk of losses to a Branch's economic value and its overall earnings of the banking book, arising from adverse movements in interest rate level or term structure. IRRBB mainly comes from repricing gaps between assets and liabilities in the banking book, as well as differences in changes in benchmarking interest rates for assets and liabilities.

The Group assesses IRRBB primarily through an interest rate repricing gap analysis. This analysis measures the difference between the amount of interest-earning assets and interest-bearing liabilities that must be repriced within certain periods. The Group employs the interest rate repricing gap analysis. It takes the impact of the off-balance sheet business into consideration when calculating the indications of earnings' sensitivity to changing interest rates.

The Group uses 25 basis point parallel shocks (with the overall shape of the yield curve remaining the same) to the yield curve to measure the sensitivity of its net interest income. Further information on the interest rate risk management in the banking book applied by the Group is contained in Part Risk Management of the Group's Annual Report, paragraph Management of Interest Rate Risk in the Banking Book.

#### 3.4.10 Liquidity Risk

Liquidity risk is the risk that a solvent commercial bank fails to duly acquire adequate funds or fails to do so at a reasonable cost to manage the risk of asset increase or debt repayment at maturity.

##### *3.4.10.1 Strategies and processes in the management of the Liquidity Risk*

Liquidity management is the ability of the Branch to finance and meet the growth of its assets and the due payment obligations without incurring significant unforeseen losses. The risks related to liquidity are the following: the transformation of short-term liabilities into long-term assets to increase profitability by maturity conversion; large-scale withdrawal of funds before maturity; the possibility of renewal of funds; the changes of the pricing of the funds; the environmental effects and the uncertainty of the behavior of other market participants.

The liquidity risks of the Branch can be primarily assigned to two categories:

**Maturity:** a liquidity risk related to a mismatch in maturity dates;

**Structural:** a risk related to the opportunity to renew the funds or the change in funding costs.

The Branch takes a conservative approach to liquidity risk. The fundamental purpose of liquidity risk management is to observe the requirements and guidelines related to its liquidity management and ensure the ability to pay at all times (solvency and liquidity). Efficient liquidity management ensures that the Branch has sufficient liquid assets or appropriate access to such assets to fulfill its due payment obligations.

Liquidity risk management is divided into two functional areas: liquidity management and liquidity risk control. The Treasury Department, Corporate Banking Department, performs liquidity management from an operational and strategic perspective, while the Financial Department performs liquidity risk control.

The Management exercises decision-making rights related to the Liquidity Policy and properly oversees the overall liquidity risk management process. The specific conditions of fundraising are defined by the branch's Assets and Liabilities Committee based on the development of market conditions.

The purpose of the liquidity reserve policy is to ensure that liquid assets of the appropriate level are available for the Branch at all times to cover any unexpected outflow of funds.

##### *3.4.10.2 Structure and Organization of the Liquidity Risk Management Function (authority, statute, other arrangements)*

The governance structure of liquidity risk management includes the Management and its Assets and Liabilities Committee (ALCO), and functional departments of the Bank.

The Management examines, accepts, and approves the bank's liquidity risk appetite and establishes the acceptable level of liquidity risk. The bank's Management is responsible for supervising the implementation of its liquidity plan according to the liquidity risk level acceptable to and approved by the Management will also establish the organizational framework of liquidity risk management and define the responsibilities of the individual departments.

The Financial Department defines the indicators for the liquidity risk limits, defines, measures, and follows up on the liquidity risk of the Branch, carries out stress tests, and reports their results to the ALCO.

The Treasury Department implements the Branch's policy on liquidity risk management, manages the Branch's FX portfolio, participates in stress tests, and proposes developing the risk-management strategy and procedures for liquidity risk management.

#### *3.4.10.3 Scope and nature of liquidity risk reporting and measurement systems*

The Branch sets liquidity risk limits based on the nature, size, and complexity of its business and risk policy. These limits are linked to the Branch's annual budget and business development plan and are reviewed at least once every year. The Financial Department is responsible for measuring, monitoring, and controlling various indicators of liquidity risk. In case of overstepping a limit, the Financial Department reports it to Management and takes measures to correct the situation.

To forecast the trend of liquidity risk changes, the Branch sets stricter internal early warning indicators than the ones set by the competent authority. When liquidity conditions trigger an early warning indicator, the Financial Department informs and assists the related department in taking effective measures to avoid the indicator's worsening and restore the liquidity position.

#### *3.4.10.4 Policies for hedging and mitigating the liquidity risk and Strategies and processes for monitoring the continuing effectiveness of hedges and mitigants*

If the Branch lends a substantial amount with long maturity, the Bank of China Head Office provides funds for the Branch with long maturity. This agreement significantly decreases the level of inherent liquidity risks.

The Head Office, in cooperation with other major members within the group, operates fund pools that can be used to conduct liquidity management transactions. Fund pools efficiently manage liquidity across borders, thus allowing cost-effective transactions such as lending and foreign exchange swaps between the subsidiaries and the fund pools.

The Branch uses three lines of defence for liquidity risk management in accordance with the relevant requirements of the MNB and its Enterprise Risk Management Policy. The first line of defence for liquidity risk management is constituted by all business departments. The responsibilities of departments of the first line of defence are implementing liquidity risk management regulations and procedures, carrying out scheduled self-inspection for internal control of liquidity risks, and working to identify, report and handle all kinds of liquidity risks in a timely manner. The second line of defence for liquidity risk management is the Financial Department and Risk Management Department. The Financial Department is responsible for monitoring, reporting, and controlling liquidity risks and providing guidance, training, supervision, and inspection to the first line of defence. The third line of defence for liquidity risk management is Internal Auditor. He/she is responsible for conducting independent audits of the performance of the first and second lines of defense, identifying problems in a timely manner, regularly reviewing and evaluating the sufficiency and effectiveness of liquidity risk management, and presenting suggestions for rectification.

#### 3.4.11 Reputational Risk

Reputational risk is the threat of loss resulting from damage to a bank's reputation. It can materialize as lost revenue, increased costs, liquidity shortages, or a decrease in shareholder value.

As one of the largest international banking groups – the Bank of China Group – special attention is paid to avoid any damage to the well-earned reputation of the Group. Because reputational risk is interconnected with many other general risk types, the Branch takes an integrated approach to avoid reputational risk. Through the combination of conflicts of interest policies, anti-money laundering and “know your customer” (KYC) policies, code of conduct and IT security, and other measures, the Branch strives to minimize the risk of any reputational damages.

### 3.4.12 ESG Risk

ESG risks include environmental, social, and governance risks, which can impact banks' P&L and liquidity.

ESG risks can affect the Branch directly (e.g., storm damage to bank buildings). Still, they can also affect customers (change in sales opportunities, production disruptions, etc.), leading to possible higher loan defaults. Environmental risks are divided into physical risks (e.g., the direct effects of climate change on the water supply of industrial companies) and transition risks (e.g., the effects of political measures to combat climate change and their impact on manufacturers of combustion engines).

For loans or borrowers associated with a higher ESG risk, a more intensive analysis of the actual business model of the borrower is required, including a review of current and projected greenhouse gas emissions, the market environment, supervisory ESG requirements for the companies under consideration and the likely impacts of ESG regulation on the borrower's financial position. The assessment of the client's exposure to ESG risk, in particular, environmental factors and the impact on climate change, and the appropriateness of the mitigating strategies, as set out by the borrower, shall form an integral part of the credit approval and due diligence process.

The Branch aims to support green manufacturing in the industrial field, energy-saving construction and operation in the construction field, and green and low-carbon transportation in the transportation field. It also actively supports pollution and carbon reduction technologies.

Since 2021, the Branch has followed the Head Office's commitment that BOC Group shall stop financing new coal mining and power projects overseas.

**Own funds (CRR Article 437 point (a))** The Head Office provided the Branch with an endowment capital of USD 20 million, which the Branch converted into HUF and kept in its books as an endowment capital of HUF 4,000 million and a capital reserve of HUF 433 million. The Branch does not calculate its own funds, so any disclosure concerning its own funds does not apply to it own.

The underlying capital behind the risks of the Branch are the own funds of Head Office. Information concerning the own funds of the Head Office are contained in the disclosure document of the Group.

### **Own funds requirements and risk-weighted exposure amounts (CRR Article 438 point (c) and (d))**

As mentioned earlier, the Branch is exempt from compliance with the requirements contained in the Third, Fourth, Fifth, and Seventh Parts of CRR. The rules on calculating the capital requirements are contained in the Third Part of CRR; therefore, under the exemption, the Branch is released from the obligation to calculate the capital requirement.

The Group's Capital Adequacy Ratio Report of 2024 provides information on the risk-weighted exposures by risk type.

## IV. Key metrics (CRR Article 447)

Institutions shall disclose the information referred to in Article 447, point (a) to (g) of CRR by using template EU KM1 of Annex I to Commission Implementing Regulation (EU) 2021/637 of 15 March 2021 laying down implementing technical standards with regard to public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council and repealing Commission Implementing Regulation (EU) No 1423/2013, Commission Delegated Regulation (EU) 2015/1555, Commission Implementing Regulation (EU) 2016/200 and Commission Delegated Regulation (EU) 2017/2295, and by following the instructions set out in Annex II to the same regulation.

As described in the previous section, the Branch does not calculate its own funds or capital requirements on a single basis. In addition, it is noted that the Branch has been exempted from the obligation to comply with the liquidity coverage requirement set forth in Part Six, Article 412, and from complying with the requirement of net stable funding ratio set out in the same part, Article 428b of CRR. Therefore, the Branch has nothing to declare in template EU KM1.

For details on the Group's own funds and capital requirements, please refer to the Capital Adequacy Ratio Report of 2024. The Group provides information on the liquidity coverage ratio and net stable funding ratio in its 2024 Annual report, which is part of Supplementary information.

The ROA of the Branch is 0,45%.

## V. Remuneration policy (CRR Article 450 (1) points (a) to (d), (h) to (k))

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The Branch's Remuneration Policy is in line with the business strategy, risk tolerance, objectives, values, and long-term interests. It aims to discourage excessive risk-taking and incorporates measures to avoid conflicts of interest.

### 5.1 Process of decision-making regarding the remuneration policy

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The Remuneration Policy of the Branch follows the remuneration policy of the Head Office.

Management assesses the remuneration policy at least once a year and decides on the policy for the given year. Because the Branch is part of the Head Office, no remuneration committee was established at the Branch.

### 5.2 Remuneration Components

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In the Branch, remuneration consists of a fixed part, additional benefits/allowances, and a variable part (bonus), as detailed later in this section. The fixed and variable remuneration are regulated in the remuneration policy as mentioned above, while the branch has a separate measures for additional benefits.

In the case of the Management, both the annual amount and the ratio of fixed and performance-based remuneration are established by the the Founder (Head Office HR Department).

According to the decision of the Head Office, the annual amount of the performance-based remuneration payable to an individual shall not exceed 100% of the individual's annual fixed remuneration. The current ratio approved by the Founder is, in the case of Specified Persons, 100%, which means that a maximum of 100% of the individual's annual base salary may be paid as performance-based remuneration.

#### 5.2.1 Fixed Remuneration

Fixed remuneration is the fixed part of the salary—it is not linked to the performance of the Branch's entity, business unit, or individual-level targets. Fixed remuneration reflects the individual's relevant professional experience and organizational responsibility as set out in their job description.

Except of the case of the Management, the monthly base salary is agreed upon by the General Manager (as the person being entitled to exercise employer's rights) and the employee and fixed in the individual employment contracts

As a matter of principle, the amount of the fixed remuneration for the Specified Persons shall be high enough to provide adequate compensation for the professional work and shall be in line with the level of education, ranking, the required level of experience and skills, and the relevant business sector.

#### 5.2.2 Allowances / Benefits

The scope of such allowances forms part of routine employment/executive packages and contain, among other things, the following benefits: a hot meal, mobile phone, SIM card, school-start support, company car for selected employees, gift vouchers for different occasions, dinner and taxi cost reimbursement in case of late overtime, key-position based special allowances, and different type of allowances and cost reimbursements for expats (posted employees) based on guidelines of the Head Office.

#### 5.2.3 Performance-based (variable) remuneration.

Performance-based remuneration is based on both long-term profitability and the evaluation of the individual's contribution to the results of the Branch. Performance is measured at the Branch, department, and individual level. It is subject to the fulfillment of predefined requirements. It is payable only in cases when the Branch's financial situation is sustainable, and the performance of the Branch, the Branch's unit, and the individual enable such payment.

The Bank considers a performance-based remuneration to be significant, if the amount of the performance-based remuneration payable to one person exceeds 100 million HUF (gross) within a one-year term.

## 5.3 Risk Adjustments

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The Branch uses ex-ante risk adjustment and to the deferred part of the performance-based remuneration ex-post risk

adjustment.

The Risk Management Department uses ex-ante risk adjustment during the award process. It allows the full range of existing and potential risks related to the branch's activity to be taken into account.

The Financial Management Department carries out ex-post risk adjustment to ensure consistency between the performance-based remuneration and the risks assumed by the Branch. This also enforces the impact of risks that may have been ignored by the ex-ante risk adjustment or that have arisen after the ex-ante risk adjustment.

The deferred installments may be paid after the ex-post risk adjustment, which is based on evaluating entity-level and individual performances.

### 5.3.1 Malus and Clawback

The Branch has also established malus and clawback provisions to enhance the ex-post risk adjustment process and to avoid any excessive risk-taking of the specified person. In case the profitability of the branch decreases primarily due to the fact that a specified person undertook excessive risk, then their performance-based remuneration will be decreased or even canceled. Furthermore, should the Branch suffer significant losses in its capital, the amount of the performance-based remuneration for the actual year may be decreased or canceled, and stricter rules for appraisal of performance may be applied.

Additionally, performance-based remuneration would be canceled, and the earlier paid bonus may be reclaimed if the Specified Person is involved in a criminal act, serious breach of code of conduct and other internal rules, fraud, or great negligence that significantly lowered the profitability or reputation of the Branch and, therefore, the Head Office.

### 5.3.2 Deferrals – vesting

In case,

- the Branch would qualify as a large institution as defined in point (146) of Article 4(1) of Regulation (EU) No 575/2013,
- the average total value of the Branch's assets on an individual basis calculated based on the year-end figures of the previous four years would exceed HUF 1.500 billion,

the actual payment of 40% of the performance-based remuneration should be delayed for a deferral period of 5 years in case of the executive officers, and four years in case of all other Specified Persons, except when a Specified Person's performance-based remuneration does not exceed HUF 17,5 million, and 30% of his/her total yearly remuneration. In the case of Specified Persons whose yearly performance-based remuneration exceeds HUF 100 million, 60 % of the performance-based remuneration should be deferred.

Before paying out the deferred part, the performance is reassessed, and, if necessary, an ex-post risk adjustment is performed.

During the entire deferral period, the impacts occurring meanwhile in connection with the activity of the Specified Persons during the performance period are considered, and depending on those, the amount of the remuneration subject to deferred payment should be reduced if it is deemed necessary. Such ex-post risk adjustment is performed by the Financial Management Department, which informs the Administration Department (HR function) of the results.

## **5.4 Specified Persons**

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The branch's Management consists of five persons, who, together with the Internal Auditor, the Head of the Treasury Department, and the Head of the Administration Department, are the Specified Persons.

All management members are employed by both Bank of China Limited Hungarian Branch and Bank of China (CEE) Ltd under multiple employment as permitted by Article 195 of the Hungarian Labor Code. In the related labor contracts, the parties referred to Section 2 of Article 195 of the Hungarian Labor Code and agreed that the Bank of China Limited Hungarian Branch would make the salary payments for the management members.

Changes in the number of identified Specified Persons in 2024:

- Employment of Assistant GM was terminated in 2024 Q1 and a new Assistant GM was employed from 2024 Q4.

No person received any remuneration at the Branch that would equal or exceed the amount of one million euros.

## **5.5 The amount of fixed and variable remuneration paid during 2024**

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### **5.5.1 Total remuneration of all employees**

As of the end of 2024, the branch had 26 staff (including inactive staff and shared employed employees). The branch spent HUF 1481 million on salaries and other staff-related expenditures, of which wages and bonuses totaling HUF 896 million and other personal-related payments totaling HUF 585 million.

In the year 2024, a HUF 133,8 million bonus was rewarded to the employees of the Branch as variable remuneration.

### **5.5.2 Remuneration of Specified Persons**

Below, quantitative information is provided in respect of the actual remuneration paid by the Bank for 2024.

**EU REMI - REMUNERATION AWARDED FOR THE FINANCIAL YEAR**

In millions of Hungarian Forint		a	b	d
		MB Supervisory function NOT RELEVANT	MB Management function	Other identified staff
<b>1</b>	<b>Number of identified staff</b>	<b>0</b>	<b>5</b>	<b>2</b>
<b>2</b>	<b>Total fixed remuneration</b>	<b>0</b>	<b>284,1*</b>	<b>90,4</b>
3	Of which: cash-based	0	284,1*	90,4
4	(Not applicable in the EU)	0	0	0
EU-4a	Of which: shares or equivalent ownership interests	0	0	0
5	Of which: share-linked instruments or equivalent non-cash instruments	0	0	0
EU-5x	Of which: other instruments	0	0	0
6	(Not applicable in the EU)	0	0	0
7	Of which: other forms	0	0	0
8	(Not applicable in the EU)	0	0	0
<b>9</b>	<b>Number of identified staff</b>	<b>0</b>	<b>5</b>	<b>2</b>
<b>10</b>	<b>Total variable remuneration</b>	<b>0</b>	<b>46,5</b>	<b>10,8</b>
11	Of which: cash-based	0	38,5	10,8
12	Of which: deferred	0	3,2	0
EU-13a	Of which: shares or equivalent ownership interests	0	0	0
EU-14a	Of which: deferred	0	0	0
EU-13b	Of which: share-linked instruments or equivalent non-cash instruments	0	8	0
EU-14b	Of which: deferred	0	3,2	0
EU-14x	Of which: other instruments	0	0	0
EU-14y	Of which: deferred	0	0	0
15	Of which: other forms	0	0	0
16	Of which: deferred	0	0	0
<b>17</b>	<b>Total remuneration (2 + 10)</b>	<b>0</b>	<b>330,6</b>	<b>101,2</b>

\* MB Management function: all five members of the Management simultaneously constitute the Management of Bank of China (CEE) Ltd. and Bank of China Limited Hungarian Branch under multiple employment contracts as permitted by Article 195 of the Hungarian Labor Code. In the related labor contracts – based on Article 195 (2) of the Hungarian Labor Code - the parties agreed that Bank of China Limited Hungarian Branch will make the salary payments for the members of the Management. They did not receive fixed salary or variable remuneration from Bank of China (CEE) Ltd., in 2024, though based on a cost allocation agreement between Bank of China (CEE) Ltd. and Bank of China Limited Hungarian Branch (hereinafter "the Banks") the Banks share the remuneration related costs among themselves with a predefined ratio, how the members of the management share their attention among their employer banks.

Taking into consideration the above-mentioned cost allocation the five members of the management (2,61 FTE in case of Bank of China Limited Hungarian Branch) were rewarded with a total remuneration of HUF 330,6 million, including HUF 284,1 million fixed remuneration and HUF 46,5 million variable remuneration in 2024 for their activities in Bank of China Limited Hungarian Branch. As seen in the table above, the total remuneration of specified persons equaled HUF 431,8 million of which HUF 374,5 million was fixed remuneration and HUF 57,3 million was variable.

In line with Section 119(5) lit. b) of the Banking Act, provisions of Section 118 (11) of the Banking Act are applicable (i.e. the performance-based remuneration need to consist of 50% of share-linked instruments) in case of a Specified Person whose yearly performance-based remuneration exceeds HUF 17,5 million, and one-third of his/her total yearly remuneration, so this Specified Person is entitled for HUF 8 million cash-based (HUF 4,8 million is paid, and 3,2 million is deferred for 4 years) and HUF 8 million phantom share based (HUF 4,8 million is paid, and 3,2 million is deferred for 4 years) variable remuneration

No acquired entitlement was subsequently adjusted.

### 5.5.3 Deferred remuneration awarded during the financial year

A Specified Person's performance-based remuneration exceeded HUF 17,5 million and 30% of their total yearly remuneration in 2024, so variable remuneration was deferred for 4 years and 50% of the performance-based remuneration consists of phantom-shares (share-linked instrument), so the Specified Person is entitled for HUF 8

million cash-based (HUF 4,8 million is paid, and 3,2 million is deferred for 4 years) and HUF 8 million phantom share based (HUF 4,8 million is paid, and 3,2 million is deferred for 4 years) variable remuneration.

#### 5.5.4 Outstanding Deferred Remuneration

A Specified Person is entitled for HUF 3,2 million cash-based, and HUF 3,2 million phantom-share based variable remuneration, which are deferred for 4 years

#### 5.5.5 Sign-on and Severance Payments

During the year 2024, no severance payments, sign-on payments, or guaranteed variable remuneration awards were made

#### 5.5.6 Remuneration of 1 million EUR or more per year

During the year 2024, no employee received remuneration of 1 million EUR or more.

## **VI. Temporary treatment of unrealized gains and losses measured at fair value through other comprehensive income in view of the COVID-19 pandemic (Article 468)**

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The Branch does not apply the transitional rules set out in Article 468 of the CRR Decree, so it has nothing to disclose in this Article.

## **VII. Introduction of IFRS 9 (Article 473a)**

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The Branch does not apply the transitional measures set out in Article 473a of the CRR Regulation and thus has nothing to declare regarding this Article.

## **VIII. Transitional provisions for disclosure of own funds (Article 492)**

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In the period from 1 January 2014 to 31 December 2021, institutions shall disclose the amount of instruments that qualify as Common Equity Tier 1 instruments, Additional Tier 1 instruments, and Tier 2 instruments by applying Article 484.

The Branch does not calculate its own funds on a single basis and, therefore, has nothing to declare in this Article.

## **IX. Temporary exclusion of certain exposures to central banks from the total exposure measure in view of the COVID-19 pandemic (Article 500b)**

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The Branch does not apply the measures set out in Article 500b of the CRR Regulation and thus has nothing to declare regarding this Article.

The Management of the Branch approved this Report on 30 May 2025.

**Annex I – Information on loans and advances subject to legislative and non-legislative moratoria (compliant with the disclosure requirements contained in EBA Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis EBA/GL/2020/07)**

**Template 1: Information on loans and advances subject to legislative and non-legislative moratoria**

In Hungarian Forint		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount								Accumulated impairment, accumulated negative changes in fair value due to credit risk						Gross carrying amount
		Performing				Non performing				Performing			Non performing			Inflows to non-performing exposures
			Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days				Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	
1	Loans and advances subject to moratorium	0														
2	of which: Households															
3	of which: <i>of which: Collateralized by residential immovable property</i>															
4	of which: non-financial corporations															
5	of which: <i>Small and Medium-sized Enterprises</i>															
6	of which: <i>Collateralized by commercial immovable property</i>															

**Template 2: Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria**

**In Hungarian Forint**

		a	b	c	d	e	f	g	h	i
		Number of obligors	Gross carrying amount							
			Of legislative moratoria	which: Of which: expired	Residual maturity of moratoria					
					<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year	
1	Loans and advances for which moratorium was offered	0								
2	Loans and advances subject to moratorium (granted)	0								
3	of which: Households									
4	of which: Collateralized by residential immovable property									
5	of which: non-financial corporations									
6	of which: Small and Medium-sized Enterprises									
7	of which: Collateralized by commercial immovable property									

**Template 3: Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis**

**In Hungarian Forint**

		a	b	c	d
		Gross carrying amount	of which: forborne	Maximum amount of the guarantee that can be considered	Gross carrying amount
				Public guarantees received	Inflows to non-performing exposures
1	Newly originated loans and advances subject to public guarantee schemes	0			
2	of which: Households				
3	of which: Collateralized by residential immovable property				
4	of which: non-financial corporations				
5	of which: Small and Medium-sized Enterprises				
6	of which: Collateralized by commercial immovable property				