



WHOLESALE BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

Public Disclosure

July 11, 2005

Community Reinvestment Act Performance Evaluation

**Bank of China
Charter Number: 80028 and 80091**

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and
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NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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A Definitions and Common Abbreviations Section can be found at back of the Report.

Institution's CRA rating:

This institution is rated "Satisfactory"

The principal factors supporting this rating are:

- Bank of China- NY (BOC-NY) demonstrates an adequate level of community development lending, services, and qualified investment activity.
- The community development activities undertaken by BOC-NY were not considered innovative or complex, but of the type routinely provided by private investors.
- The bank demonstrates adequate responsiveness to credit and community development needs of its assessment area.

Scope of the Examination

In evaluating BOC-NY's performance under the CRA, we reviewed the Branches' community development activities from August 5, 2002 through July 10, 2005. We reviewed the level and nature of the qualified investments, community development lending, and community development services provided for consideration. At the prior examination dated August 5, 2002, BOC-NY's CRA performance was rated Satisfactory.

Description of Institution

The Bank of China is one of the four largest state-owned commercial banks in the People's Republic of China. Headquartered in Beijing, China, it is a full service bank that ranks as the second largest in China with total assets approximating USD \$500 billion. Bank of China is the first and the only Chinese bank that has a presence in all major continents with 542 overseas branches and subsidiaries in 27 countries and territories. It is the world's 29th largest bank in tier-one capital with over 11,000 branches and 3,600 correspondent banks worldwide. BOC-NY operates as an intrastate institution with its two offices located in the Borough of Manhattan, New York City. The Midtown branch is located on Madison Avenue and 48th Street, while the Chinatown office is situated on East Broadway in the Chinatown section of lower Manhattan. Both branches are FDIC insured. In addition, Bank of China has a limited branch in

Los Angeles, California that is not FDIC insured and, therefore, not subject to CRA requirements. The primary focus of the U.S. operations is to provide financing for import/export businesses operating between China and the U.S., as well as to fund project financing in both countries. Mortgage loans are only made as an accommodation for commercial loan customers and BOC-NY employees. Retail loans are not offered. A full range of deposit products are offered to the general public.

The Office of the Comptroller of the Currency (“OCC”) granted BOC’s New York offices its wholesale institution designation on November 1, 1996. An institution so designated is evaluated pursuant to the community development test, which assesses a bank’s record of meeting assessment area credit needs through community development lending, qualified investments or community development services, as applicable.

A Federal Branch is a branch office of a foreign bank that is located within the United States. These offices are generally established for specific purposes such as assisting in trade finance and to serve the home office customers who do business within the US. The regulatory requirements governing capital are different than the rules for domestic banks. Also, Federal Branches are not required to report income for regulatory purposes. These differences, therefore, preclude any meaningful analysis of performance to Tier I capital and income.

As of March 31, 2005, BOC-NY reported assets, including the International Banking Facility (“IBF”), totaling \$2.0 billion. The IBF contributed \$58 million to the aggregate asset total. Assets are focused on loans, representing 42% of assets. Investment securities comprise 38% of assets, and overnight federal funds sold represent an additional 10%. Cash and other assets comprise the remaining balance.

There are no financial or legal constraints that hinder BOC-NY from meeting the community development needs of its assessment area.

Table 1: Financial Information (000s)

| | Year End 2002 | Year End 2003 | Year End 2004 | Most Recent Quarter End 3/31/2005 | Average for Evaluation Period |
|---------------------|------------------|------------------|------------------|--|--|
| Total Assets | 1,643,058 | 2,900,990 | 2,227,668 | 1,999,092 | 2,192,702 |

Source: Consolidated Report of Condition and Income

Description of Assessment Area (AA)

BOC-NY, an intrastate federal branch, operates in a large urban area, and has identified the entire New York-Wayne-White Plains NJ-NJ Metropolitan Statistical Area (#35644) as its AA. Refer to **Table 1** for the census tracts income characteristics. The total population of the AA is 9.3 million people. The updated median family income for 2004 of the AA is \$57,000. The Branch used the eight-county New York MSA (#5600) as its AA through 2003. The Federal Office of Management and Budget expanded the MSA to include the three additional counties in New Jersey beginning January 1, 2004, and management elected to continue to use the entire

MSA as its AA. The AA meets regulatory guidelines and does not arbitrarily exclude low or moderate-income areas.

Table 2: Assessment Area Description

| | Number | Low | Moderate | Middle | Upper |
|-----------------|---------------|------------|-----------------|---------------|--------------|
| Tracts | 2921 | 12% | 25% | 28% | 33% |
| Families | 2,705,548 | 26%* | 15%* | 17%* | 42%* |

Source: Demographic Data – 2000 U.S. Census. 2% of the tracts are not classified for income. *Represents families by income level.

The New York-Wayne-White Plains NJ-NJ Metropolitan Statistical Area (MSA) covers 11 counties in New York State and the State of New Jersey. The counties of New York, Queens, Bronx, Kings and Richmond combined make up New York City. In addition the MSA includes Putnam, Rockland and Westchester County in New York State and Bergen, Hudson and Passaic Counties in the State Of New Jersey.

The New York MSA is home to many large and diversified financial service companies, contributing to a very competitive market for all types of products. Major competitors providing financial services include JP Morgan Chase, Citibank, HSBC, Bank of America and Commerce Bank.

A substantial majority, 71% of the MSA population and 69% of the families are concentrated within the five counties of New York City. Most of the MSA's low and moderate-income census tracts and families are located in NYC. A high portion of the City's households (20%), have incomes below the poverty level.

New York City (NYC) is a leading world financial, business and trade center. It is the most culturally diverse, densely populated and wealthiest (in terms of personal income) city in the world. Manhattan, which accounts for nearly two thirds of NYC's total employment, is the regional economic engine with a traditionally strong finance, insurance and real estate sector, focused in Wall St., the heart of the City's financial district. The financial district is the home of the New York and American Stock Exchanges, the NASDAQ and Commodities Exchange, and the Federal Reserve Bank of New York.

NYC is primarily a service-based economy. Education, health services, financial services and information services all make up a larger portion of New York's workforce than other Top 100 cities. Education and health services represented over 15% of NYC's employment in 2004. Leisure and hospitality led NYC employment growth over the past decade at a 2.9% average annual growth rate. The top five employers are New York Presbyterian Healthcare Network JP Morgan Chase, Citigroup Inc., Verizon Communications and Continuum Health Partners Inc.

Within the AA, there are 4.4 million housing units of which 95% are occupied. The AA housing is predominantly rental housing with 59% of housing units being renter occupied housing compared to 33% owner occupied housing. Multifamily units (five or more families) represent

51% of the housing units. The median housing value in the AA is \$238,567, making homeownership difficult for most people with low and moderate-income.

While the above describes the MSA in general, the primary focus of BOC-NY is in activities within the AA that are primarily within the Chinatown area of Manhattan and other Asian centers within New York City. Employment in the Chinatown community is primarily services and light manufacturing. Businesses within the Chinatown area are concentrated in food services, garment industry and jewelry stores. The Midtown branch is located in a primarily commercial area, while the Chinatown office is located in a mixed residential and commercial area, comprised primarily of multifamily rental units and small businesses.

A community contact with a not-for-profit community based organization was conducted during this review. The contact's primary role is to provide assistance primarily to immigrants and refugees. The contact confirmed the need for financing to support small businesses, and affordable housing. The contact also believes there are many service related needs and opportunities available, especially related to credit education for small business owners. The contact believes that more flexible business lending criteria is needed when dealing with the Asian American community, as they are a more cash based culture than US banks are accustomed to dealing with. The need to deal differently with this cultural group has led to the formation of new banks dedicated to serving this market.

Conclusions About Performance

Summary

- The Branches have an overall adequate level of community development (CD) lending, investments and services. All of the CD loans investments and services directly benefited the Branches' AA. CD loans comprised a substantial majority of the activity for the evaluation period. The CD investments consisted mainly of prior period investments that continue to benefit the AA. CD services were concentrated in credit education activities.
- The Branches' CD activities were not considered innovative or complex in nature. The qualified investments were generally of the type routinely provided by private investors.
- Overall BOC-NY demonstrated an adequate responsiveness to the CD needs of its AA. The vast majority of the Branches' CD loans supported economic development and the revitalization/stabilization of low and moderate-income geographic areas. The Branch also had loans that supported affordable housing for people of low and moderate-income. The investments primarily supported affordable housing for people of low and moderate-income. The Branches' CD services consisted primarily of financial counseling for people of low and moderate-income and small size businesses.

Qualified Investments

Table 3b: Qualified Investment Activity (000s)

| | Benefits AA |
|---|--------------------|
| Originated Investments | 180 |
| Originated Grants | 49 |
| Prior-Period Investments that Remain Outstanding | 3,757 |
| Total Qualified Investments | 3,986 |
| Unfunded Commitments* | 36 |

- “Unfunded Commitments” means legally binding investment commitments that are tracked and recorded by the bank’s financial reporting system.

BOC-NY investments consisted primarily of four prior period investments that have an outstanding balance. All the prior period investments as well as the new investment and the unfunded commitment support affordable housing for people of low and moderate-income, an important need in the Branches’ AA. The new investment and the unfunded commitment are associated with a prior period investment that continues to assist community development corporations in developing low-income housing in the AA. None of the investments were considered innovative or complex in nature.

BOC-NY also made 45 grants totaling \$49 thousand dollars to various organizations that supported a wide variety of CD activities.

Community Development Lending

CD lending represented the Branches’ primary CD activity during the evaluation period. The Branch originated seven loans for \$39.5 million that qualified under the CD definition in the CRA regulation. Three of the loans representing \$20.8 million of the total are helping to revitalize and stabilize low and moderate-income geographic areas located within the AA. Another three loans representing \$18.1 million are supporting economic development by financing small size businesses that are creating and retaining jobs for people with low and moderate-income or are located in low or moderate geographic areas, or in areas targeted for redevelopment by federal, state or local government within the AA. The remaining loan for \$600 thousand is supporting the development of affordable housing for people of low and moderate-income. None of the loans were considered innovative or complex in nature.

Community Development Services

BOC-NY provided CD services that primarily supported credit education. Branch employees were involved in 17 CD activities during the evaluation period. The majority of the activities provided financial education concerning homeownership and general credit counseling to people with low and moderate-income. The Branch also held financial educational seminars for small business owners.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate – Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if both companies are directly or indirectly controlled by the same company. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Assessment Area (AA) – A geographic area that consists generally of one or more MSAs (using the MSA boundaries that were in effect as of January 1 of the calendar year in which the delineation is made) or one or more contiguous political subdivisions, such as counties, cities, or towns, in which the bank has its main office, branches, and deposit-taking ATMs.

Benefit to Assessment Area – A qualified Community Development activity benefits the assessment area if (i) the activity benefits areas within the assessment area, or (ii) the activity has the potential to benefit the assessment area and is located in the broader statewide or regional area that includes the bank's assessment area. If a bank has adequately addressed the needs of its assessment area, then the OCC also considers activities submitted by the bank that benefit areas outside of its assessment area.

Census Tract (CT) – Small, locally defined statistical areas within metropolitan statistical areas. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. A CT has defined boundaries per 10-year census and an average population of 4,000.

Community Development (CD) – Affordable housing for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies.

Community Reinvestment Act (CRA) – The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Geography – A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Median Family Income (MFI) – The median income determined by the United States Census Bureau every 10 years and used to determine the income level category of geographies. Also, it

is the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of families. For any given geography, the median is the point at which half of the families have income above it and half below it. (See the four categories of median income below.)

- **Low-Income** – An income level that is less than 50% of the MFI.
- **Moderate-Income** – An income level that is at least 50% and less than 80% of the MFI.
- **Middle-Income** – An income level that is at least 80% and less than 120% of the MFI.
- **Upper-Income** – An income level that is 120% or more of the MFI.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Metropolitan Statistical Area that contains a population of at least 2.5 million. A Metropolitan Division consists of one or more counties that represent an employment center or centers, plus adjacent counties associated with the main county or counties through commuting ties.

Metropolitan Statistical Area (MSA): An area, defined by the Office of Management and Budget, as having at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

Total Assets – Total bank assets as listed in the Consolidated Report of Condition and Income.

Wholesale Institution – An institution that is not in the business of extending home mortgage, small business, small farm, or consumer loans to retail customers and for which a designation as a wholesale bank is in effect.