



WHOLESALE BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

August 18, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Bank of China
Charter Number: 80028 and 80091
410 Madison Avenue
New York, New York 10173

And

42-44 East Broadway
New York New York 10002

Office of the Comptroller of the Currency

New York Metro North
340 Madison Ave, 4th floor
New York, New York 10173

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.

INSTITUTION'S CRA RATING:

This institution is rated "Satisfactory"

The conclusions for the three rating criteria are:

- Bank of China – NY (BOC-NY) demonstrates an adequate level of community development lending, services and qualified investment activity; and
- BOC-NY demonstrates no use of innovative or complex qualified investments, community development loans, or community development services.
- BOC – NY exhibits adequate responsiveness to credit and community development needs in its assessment area.

Scope of the Examination

In evaluating the branches' performance under the CRA, we reviewed community development activities from July 11, 2005 through August 18, 2008. We reviewed the level and nature of qualified investments, community development lending, and community development services. At the prior examination dated July 11, 2005, BOC-NY's CRA performance was rated "Satisfactory".

Description of Institution

Bank of China Limited (BOC), headquartered in Beijing, China, was originally established in 1912 to assist with China's central bank functions. Following the foundation of the People's Republic of China in 1949, the bank was designated as a specialized foreign exchange bank. In 1994, the bank became a state-owned commercial bank and is currently one of four state-owned commercial banks in China. BOC remains one of the market leaders in foreign currency deposits and loans, international settlement and trade finance services, foreign exchange trading and treasury activities, and bankcard services. At year-end 2007, the bank's market capitalization of US \$197.8 billion made BOC the fourth largest financial institution globally*. At year-end 2007, it had 10,145 domestic branches, 689 overseas branches and subsidiaries in 27 countries around the world and 1200 correspondent banks. Bank of China's core business is commercial banking, which includes corporate banking, personal banking and financial markets.

* Bank of China Limited Annual Report 2007

In the United States, BOC-NY is an intrastate Federal Branch with two branches located in New York City, New York. 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. Federal Branches are required to comply with the capital equivalence deposit (CED) requirements, which are related to 5% of the branch's third party liabilities. BOC-NY maintains CED assets equal to amount required for the federal branches, although it does not compare to the volume of capital required by a domestic bank. Federal Branches are not required to report income for regulatory purposes. Therefore, an analysis of performance to average Tier-I capital and to income is not meaningful. The two branches located in New York City are both FDIC insured and located on 48th St in Midtown and on East Broadway in the Chinatown area of Lower Manhattan. BOC also has a limited-purpose branch that is not FDIC insured, located in Los Angeles, California. Because the branch is not FDIC insured it is not subject to CRA regulation.

The primary focus of the U.S. operations is to act as a US dollar global clearing center and provide a central pool for US dollar liquidity for the BOC group. Mortgage loans are originated as an accommodation for commercial loan customers and BOC-NY employees only. Retail loans and consumer loans are not offered or advertised for retail customers. A full range of deposit products are offered to the general public through the Chinatown branch.

As of June 30, 2008, BOC-NY reported assets, including the International Banking Facility ("IBF"), totaling \$5.24 billion. IBF assets represent \$1.12 billion of the balance sheet. Assets comprise 39% in loans, 27% in fed funds sold and 24% in securities. The remaining assets consist of cash and other assets. There are no financial or legal constraints that hinder BOC-NY from meeting the community development needs of its assessment area.

The Office of the Comptroller of the Currency ("OCC") granted BOC-NY offices their 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.

Table 1: Financial Information ('000s)

	Year-end 2005	Year-end 2006	Year-end 2007	Most Recent Quarter-end 06/30/2008	Average for Evaluation Period
Total Assets	2,366	6,753	2,718	5,241	4,269

Source: Consolidated Report of Assets and Liabilities

Description of Assessment Area

BOC-NY's assessment area (AA) is the entire New York-Wayne-White Plains NY-NJ Metropolitan Division (MD) #35644, a large urban metropolitan region under the New York-Newark-Edison, NY-NJ-PA Metropolitan Statistical Area (MSA) #35620. Refer to **Table 2** for demographic information on the

AA. The branches' AA meets the requirement of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

The total population of the #35644 MD in 2007 was 11.5 million, which represents a nominal increase from 2006's levels. The 2007 updated Department of Housing and Urban Development (HUD) median family income was \$59,200. There are 4.4 million households within the MD, of which 95% percent are occupied. The housing market within the MD is largely rental-based. Rental units account for 59% of occupied units and owner-occupied housing represents 36%. The housing stock consists of 1-4 family units (49%) and multifamily units (51%). The median housing value is considered high at \$238,567 based on 2000 US Census Data. Poverty levels are also high within the MSA, with 17% of households living below the poverty level based on 2000 US Census data.

The #35644 MD is dominated by large multinational financial institutions, creating an intensely competitive market environment. The top financial institutions in the area include JP Morgan Chase, Citibank N.A, Bank of America and HSBC Bank USA.

The New York-Wayne-White Plains NY-NJ MD comprises 11 counties in New York State and the State of New Jersey. The counties of New York, Queens, Bronx, Kings and Richmond combined represent New York City. In addition the MD includes Putnam, Rockland and Westchester County in New York State and Bergen, Hudson and Passaic Counties in the State of New Jersey.

Table 2: New York-Wayne-White Plains NY-NJ Assessment Area

	Number	Low	Moderate	Middle	Upper
Tracts	2921	12%	25%	28%	33%
Families	2,705,548	26%*	15%*	17%*	42%*
Businesses	766035	6%	17%**	21%**	54%**

Source: Demographic Data – 2000 U.S. Census and 2007 Business Geodeographic Data. *Represents families by income level, **Represents businesses by income level of census tract. Two percent of businesses did not report census tract information.

New York City is the financial capital of the U.S. Primarily a service-based economy, New York City accounts for one-third of the Northeast's regional employment in the state and 40% of the North East's output. Education and health services, government, professional and business services and financial activities comprise the main employment sectors. Together these represent 59% of the total employment in the city. Major employers in the region include New York-Presbyterian Health Care System, Citigroup Inc, JP Morgan Chase and Company, Verizon Communications Inc., and Federated Department Stores Inc^[1].

The New York-Wayne-White Plains NY-NJ MD continues to expand but, based on economic reports, nearly all major driving industries are showing signs of decline or weakness. Forecasts indicate that Wall Street layoffs will impact the New York City economy later this year and into the next. The unemployment rate has increased from 4.7% in 2006 to 4.9% in 2007 and is forecasted to rise in 2008. Employment growth was led primarily by the construction, leisure and hospitality and professional and business services sectors, with a combined employment growth of 7.7% in 2007^[1].

^[1]Moody's Economic Report, January 2008.

While the above describes the overall MD, BOC-NY activities are focused within the Chinatown area of Manhattan and other Asian centers within New York City such as Flushing, Queens and parts of Brooklyn. Employment in the Chinatown community is primarily services-based, consisting of retail shops and small businesses. Major businesses in the Chinatown area include food services, garment industries and tourism-related industries. In January 2006, New York State designated Chinatown an Empire Zone because of the continuing hardship experienced by the Chinatown area as a result of the September 11, 2001 attacks. New York State city officials noted that businesses have experienced sharp and significant drops in revenue since September 11th and have yet to recover. The purpose of an Empire Zone designation is to stimulate economic growth through a variety of state tax incentives designed to attract new businesses to the area and to enable existing businesses to expand and create more jobs.

We reviewed two community contacts during the examination. We conducted an interview with one not-for-profit affordable housing organization and reviewed community contact information for a not-for-profit focused on revitalizing economically distressed neighborhoods in the New York metro region. The two organizations' activities include financial literacy education for homebuyers, mortgage lending, housing development, entrepreneurship skill training and various community development projects. The contacts identified the need for financing economic revitalization efforts and affordable housing. They also stated that opportunities for community development activities exist but that financial institutions could provide greater support. One community contact noted that BOC - NY had provided lending support for their organization.

Conclusions about Performance

Summary

- The branches have an adequate level of community development (CD) lending, services and investments in relation to available opportunities and the branches' capacity. All CD loans, investments and services directly benefit the branches' AA. CD loans represented the majority of community development activities. CD investments consisted of current and prior period investments and grants that directly benefit the AA. CD services include providing technical services for small businesses in the Chinatown area and support for organizations engaged in community development activities.
- The branches did not engage in community development activities that were considered innovative or complex.
- The branches demonstrated adequate responsiveness to the community development needs in its AA. The majority of CD activities were through CD loans that supported economic development. Loans also supported affordable housing initiatives. CD investment activities were concentrated in investment pools directed towards providing homeownership for low- or moderate-income individuals. The branches CD services were concentrated in technical services and participation in community service activities.

Qualified Investments

Table 3b: Qualified Investment Activity ('000s)

	Benefits AA
Originated Investments	4,147
Originated Grants	38
Prior-Period Investments that Remain Outstanding	3,150
Total Qualified Investments	7,335
Unfunded Commitments	0

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

During the evaluation period, BOC-NY had one current period investment totaling \$4.15 million and total investments (current and prior period) totaling \$7.30 million. In addition to investments, the branches also made 27 grants and donations totaling \$38 thousand to local community development organizations involved in community service activities during the evaluation period.

The current period investment is a pool of mortgage-backed securities from Fannie Mae. The majority of loans within this pool are home loans for low- or moderate-income individuals within the branches' AA. Prior period investments that have an outstanding balance include two investment funds targeted to fund low-income housing projects in New York City, totaling \$3.15 million. All prior period and current investments fund affordable housing needs for low- and moderate-income individuals, a need community contacts identified as significant within the AA. None of the investments were considered innovative or complex in nature.

Community Development Lending

CD lending represents the branches' primary CD activity. During the evaluation period, the branches originated four loans and a line of credit, totaling \$33.25 million.

The four loans and the line of credit totaling \$33.25 million supported economic development projects through financing small-business lending in low-and moderate-income geographies in a designated Empire Zone. These projects will help to revitalize low-and moderate-income geographies in the AA.

None of the loans were considered innovative or complex in nature.

Other Loan Data

A legally binding standby letter of credit for \$1.44 million was also considered because it supported affordable housing and rehabilitation project initiatives in the AA.

Community Development Services

BOC-NY employees provided technical services and participated in community service activities with seven qualified community development organizations. The organizations support community services targeted to low- or moderate-income individuals and provide small and immigrant-run businesses located in Chinatown with technical services.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

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.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development.

Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
 - a. Rates of poverty, unemployment, and population loss; or
 - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

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: 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.

Net Operating Income: As listed in the Consolidated Report of Condition and Income; Income before income taxes and extraordinary items and other adjustments.

Tier 1 Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Total Assets: Total bank assets as listed in the Report of Assets and Liabilities of US Branches and Agencies of Foreign Banks.

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.