



PUBLIC DISCLOSURE

October 1, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Bank of China
Charter Number 80028 and 80091

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New York, New York 10018

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International Bank Supervision
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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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Overall CRA Rating:

This institution is rated Satisfactory.

The conclusions for the three rating criteria are:

- The institution demonstrates an adequate level of community development lending, community development services, and qualified investments.
- The institution demonstrates rare use of innovative or complex qualified investments, community development loans, or community development services.
- The institution demonstrates adequate responsiveness to credit and community development needs in its assessment area.

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: The OCC considers all qualified investments, community development loans, and community development services that benefit areas within the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s).

Census Tract (CT): A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community Development (CD): Affordable housing (including multifamily rental 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 Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

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 U.S. Census Bureau every five years and used to determine the income level category of geographies. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

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

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

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.

Description of Institution

Bank of China Limited (BOC or Head Office), headquartered in Beijing, China, was originally established in 1912. BOC served as China's central bank, international exchange bank, and specialized international trade bank between 1912 and 1949. Following the foundation of the People's Republic of China in 1949, the bank was designated as a specialized foreign exchange bank and provided vital support to China's foreign trade development and economic infrastructure. In 1994, the bank became a state-controlled commercial bank and is currently one of four state-controlled commercial banks in China. BOC remains one of the market leaders in foreign currency and loans, international settlement and trade finance services, foreign exchange trading and treasury activities, and bank services. BOC has been a Global Systemically Important Bank since 2011. As of June 30, 2018, the bank's total assets were just over U.S. \$2.95 trillion with 10,689 domestic branches, 552 overseas branches, and subsidiaries in 55 countries around the world. BOC's core business is commercial banking, which includes corporate banking, personal banking, and financial markets.

In the United States, BOC maintains an interstate federal branch system with two branches located in New York City, New York (hereafter, referred to as BOC-NY or NY branches), one branch located in Chicago, IL (BOC-CHI) and another one located in Los Angeles, CA (BOC-LA). 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 as well as serving the home office customers that do business within the U.S. The NY branches are located on 1045 Avenue of the Americas in Midtown, Manhattan, and on 42-35 Main Street in Flushing, Queens. The Chinatown branch was relocated to Flushing, Queens in June 2014 to better serve the financial needs of the Chinese population in the region. The NY branches are both Federal Deposit Insurance Corporation (FDIC) insured, while BOC-CHI and BOC-LA are limited-purpose branches that are not FDIC insured. The two limited purpose branches in Chicago and Los Angeles are not subject to the CRA.

The primary focus of U.S. operations is to act as a U.S. dollar global clearing center, and to provide a central pool for U.S. dollar liquidity for the BOC Group. The U.S. operations also assist the BOC Group in trade finance, serve the home office customers who do business within the U.S., support U.S. multinational companies that have operations in China, and participate in commercial real estate lending (on a limited basis) in the U.S. market. BOC-NY only originates residential mortgage loans as an accommodation for commercial loan customers and BOC-NY employees. BOC-NY does not offer or advertise retail or consumer loans to retail customers. The branches offer a full range of deposit products to the general public. BOY-NY also offers remittance services and Chinese currency "Renminbi" deposit products to meet community needs.

During the evaluation period, BOC-NY reported total assets of \$61.0 billion and \$50.7 billion as of December 31, 2016 and 2017, respectively. As of June 30, 2018, BOC-NY reported assets totaling \$43.7 billion. This is a decline of approximately 40 percent when compared to the prior evaluation, with assets totaling \$72.7 billion as of June 30, 2014. This considerably impacts the branches' ability to meet the level of community development activities from the prior period. Assets are primarily comprised of cash and loans. As of June 30, 2018, 46 percent of the assets were centered in cash, 41 percent in loans, and 6 percent in securities.

Table 1: Financial Information (000s)

	Year-end 2016	Year-end 2017	Most Recent Quarter-end 6/30/2018	Average for Evaluation Period
Total Assets	60,974,137	50,686,843	43,737,656	51,799,545

Source: Consolidated Report of Assets and Liabilities.

The regulatory requirements governing capital for federal branches are different than those of U.S. domestic banks. Federal branches are required to comply with the capital equivalence deposit (CED) requirements, which equals five percent of the branch's third party liabilities. BOC-NY maintains CED assets that comply with the requirements; however, this does not compare to the volume of capital required by a domestic bank. Furthermore, federal branches are not required to report income for regulatory purposes. Therefore, an analysis of performance to capital and income is not meaningful.

The Office of the Comptroller of the Currency granted BOC-NY 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.

There are no known legal, financial, or other factors impeding the branches' ability to help meet the community development needs of its assessment area. However, in addition to balance sheet contraction, BOC-NY is somewhat constrained with regards to qualified investment activities. BOC Head Office has prohibited BOC-NY from acquiring or reinvesting in any covered bond, asset-backed security (ABS), mortgage-backed security (MBS), or structured bond in the future, which constrains permissible investment activity.

Scope of the Examination

In evaluating the branches' performance under the CRA, the OCC reviewed community development activities from July 1, 2014 through December 31, 2017. The OCC reviewed the level and nature of community development lending, qualified investments, and community development services, with consideration given to the community development needs of the branches' assessment area. Examiners tested the community development loans, investments, and services submitted by management to ensure the data was accurate and that it met the regulatory definition for CRA credit. We found the data to be accurate and reliable for our evaluation of CRA performance. At the prior examination dated June 30, 2014, the OCC rated BOC-NY Outstanding.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. §25.28(c) or §195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

Description of Assessment Area

The assessment area for BOC-NY is comprised of eleven counties within the New York metropolitan region, a large urban market under the New York-Northern New Jersey-Long Island, NY-NJ-PA Metropolitan Statistical Area (MSA). The counties include: New York, NY (Manhattan); Kings, NY (Brooklyn); Queens, NY; Bronx, NY; Richmond, NY (Staten Island); Westchester, NY; Putnam, NY; Rockland, NY; Hudson, NJ; Bergen, NJ; and Passaic, NJ. The assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

The AA is comprised of 2,900 census tracts (CT). Of these, 396 are low-income census tracts (13.7 percent), 751 are moderate-income tracts (25.9 percent), 791 are middle-income tracts (27.3 percent), and 887 are upper-income tracts (30.6 percent). There are 75 census tracts (2.6 percent) listed as unknown by the 2015 U.S. Census Bureau. The total population of the AA was 11.8 million, reflecting a relatively stable population since the prior evaluation. The MSA median family income was \$73,700. The AA consists of 2.7 million families, of which 28.6 percent are low-income families, and 15.3 percent are moderate-income families. The unemployment rate was relatively stable at 5.78 percent.

The demographics of the AA indicates that there is significant disparity in the income levels of the five boroughs that make up New York City (NYC). New York County (Manhattan) is among the wealthiest counties in the U.S., and the other boroughs, especially Queens and Staten Island, have large middle-income populations. Meanwhile, 17.24 percent of households in the AA are below poverty level. The housing market is largely rental based, consisting of 56 percent rental-occupied units and 35 percent owner-occupied units. Fourteen percent of homeowners and 29 percent of renters pay in excess of 30 percent of their income for housing. Refer to Table 2 below for demographic information of the AA.

Table 2: Assessment Area Description

	Number	Low	Moderate	Middle	Upper
Tracts	2900	13.7%	25.9%	27.3%	30.6%
Families	2,691,638	28.6%*	15.3%*	15.5%*	40.7%*
Businesses	749,390	8.9%**	18.4%**	20.3%**	50.4%**

Source: Demographic Data – 2015 American Community Survey (ACS) US Census data.

*Represents families by income level.

**Represents businesses by income level of census tract.

BOC-NY faces significant competition in the region from large multi-national institutions capable of offering a wider array of products and services. In addition, other Chinese-focused banks are expanding their footprints in the region. Major competitors in the area include JP Morgan Chase, Bank of America, Citibank, HSBC, The Bank of New York Mellon, and Goldman Sachs. These institutions provide strong competition for community development activities in the assessment area. The FDIC Deposit Market Share Report as of June 30, 2017 shows that the top ten institutions make up 72.73 percent of the deposit market share. At that time, BOC-NY reported \$23.0 billion in deposits, representing 1.27 percent of the total deposits in the market. BOC Head Office maintains its presence in New York City primarily to meet the financial needs of the existing Chinese population and businesses.

Moody's Analytics reports that job growth within the AA has slowed and was slightly below that of the nation in 2017, which is largely due to slower gains in the consumer and tourism industries. The labor market within the AA has continued to tighten and shift away from high-wage industries. Top employers in the area include JP Morgan Chase, Mount Sinai Medical Center, Citibank, and the New York-Presbyterian Healthcare System. The strength of the greater New York City area is that it is the financial capital of the world, has strong international immigration, and high per capita income. Some of the weaknesses noted within the AA include: high business costs, costly housing and high tax burdens, and an overreliance on wealthy overseas buyers to support the slowing commercial real estate market. Financial services, medical centers, and tourism remain the primary economic drivers of the assessment area.

Community Contacts:

In assessing the community development needs of the AA, we leveraged recent community contacts performed by the OCC and other regulatory agencies. Affordable housing (owner-occupied and non-owner-occupied) continues to be a primary need. Contacts indicated that while new development continued to increase during the evaluation period, the majority of new permits were related to the "421-program," which provides tax benefits to luxury developers that allocate a portion of new units for low- to moderate-income residents. In addition, affordable housing availability has declined due to gentrification in the region. Contacts also indicated that the cost of increasing commercial real estate leases are negatively impacting small businesses. Opportunities for participation by local financial institutions include:

- Supporting affordable housing programs for home purchases and rentals;
- First-time home-buyer loan programs;
- Targeted financial education, including housing/home purchase counseling to low- to moderate-income (LMI) persons, as well as small business financial education and access to capital;
- Small business financing;
- Grants that support local programs aiming LMI persons;
- Affordable student lending.

Conclusions about Performance

Summary

- BOC-NYs level of community development lending was adequate relative to available opportunities in the assessment area and the branches’ capacity. All community development lending directly benefitted the branches’ assessment area. CD lending mainly provided financing for commercial development projects that reserved a percentage of units for LMI persons.
- CD lending represented the majority of CD activities during the evaluation period.
- The use of innovative or complex products was rare.
- BOC demonstrated adequate responsiveness to the community development needs of its AA. Community development lending supported affordable housing development. In addition, prior period qualified investments included mortgage-backed securities directed towards facilitating homeownership for LMI individuals. BOC-NY provided few grants/donations supporting financial education and healthcare targeting LMI individuals, as well as disaster relief. The branches’ offered remittance services which are vital to the AAs LMI and immigrant population.

Qualified Investments

Table 3b: Qualified Investment Activity (000s)

	Benefits AA
Originated Investments	\$0
Originated Grants	\$86
Prior-Period Investments that Remain Outstanding	\$8,555
Total Qualified Investments	\$8,642

BOC-NY’s qualified investments during the evaluation period totaled approximately \$8.6 million, a decrease from the prior evaluation period of \$11 million. Qualified investments were primarily comprised of seven prior-period investments in MBS that remain outstanding. The outstanding balance of the investments as of December 31, 2017 was \$8.6 million. The MBS’ underlying mortgages were comprised of mortgages to LMI individuals and families, which benefitted affordable housing in the assessment area. BOC-NY has not originated any new qualified investments since the last evaluation. As previously noted, BOC Head Office prohibited the branches from acquiring or reinvesting in any covered bonds, ABS, MBS, or structured bonds after the 2008 financial crisis. This continues to limit BOC-NY’s qualified investment opportunities.

BOC-NY provided eight CRA-eligible grants totaling approximately \$86 thousand during the evaluation period, the majority of which benefit the branches’ assessment area. The grants were provided to organizations that directly provide benefits to LMI individuals and families.

Benefits include but are not limited to: preservation of homeownership; financial education; health care services; and disaster relief. The largest donation made was \$50 thousand to support revitalization activities after Hurricane Harvey. BOC-NY also provided in-kind donations (furniture) to three community development nonprofit organizations serving New York City. The total estimated market value of the goods donated to the three organizations was approximately \$16 thousand.

Community Development Lending

CD Lending represents the branches' primary CD activity. During the evaluation period, BOC-NY originated nine loans totaling approximately \$556 million, a considerable decrease compared to \$938 million at the prior evaluation. The majority of the originated CD loans provide affordable housing units to LMI individuals and families. All CD lending was within the branches' AA. As previously noted, affordable housing was cited as a community development need within the AA by the community contacts. None of BOC-NY's CD lending was innovative or complex. Below are examples of the larger CD loans originated during the period:

- BOC-NY originated a \$545 million standby letter of credit for the construction of a multifamily rental property, of which \$109 million was CRA-eligible. The loan meets the requirements of the 80/20 Housing Program, which allows for tax-exempt financing when 20 percent of the units are held for LMI individuals.
- BOC-NY originated a \$159 million loan for the acquisition of a multifamily rental property, of which 53 percent of units were subsidized rental housing.
- BOY-NY originated a \$384 million standby letter of credit for the construction of a 63 story luxury rental property, of which approximately \$77 million was CRA-eligible. At least 20 percent of the rental units in the property will be affordable to LMI households.

Community Development Services

BOC-NY provides a low-cost international remittance service to China for deposit customers and non-customers. This is an invaluable service to LMI individuals in geographies that have large immigrant communities. Typically, these individuals have limited banking relationships and do not have access to this service. From January 1, 2014 through December 31, 2017, BOC-NY executed 14,361 remittance transactions to China, with a total value reaching more than \$713 million.