



Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

Conditional Approval #600
August 2003

July 17, 2003

David C. Kenny, Esquire
Squire, Sanders & Dempsey L.L.P.
One Maritime Plaza, Suite 300
San Francisco, California 94111-3492

Re: Final application by CITIC Ka Wah Bank Ltd (“CKWB” -- formerly The Hongkong Chinese Bank Limited), Hong Kong, to establish a de novo uninsured Federal branch in New York, New York; and acquire and establish an uninsured limited Federal branch in Alhambra, California, all owned by China International Trust and Investment Corporation (“China International”)
Application Control Numbers: 2002-IB-10-0008 and 0009

Dear Mr. Kenny:

On November 21, 2002, the Office of the Comptroller of the Currency (OCC) granted conditional after-the fact approval of the request by CKWB to proceed with the acquisition of substantially all of the U. S. banking business of CITIC International Financial Holdings (“CITIC” – formerly CITIC Ka Wah Bank Limited) prior to a decision by the OCC on the final application. CKWB now has satisfied each of the representations and commitments relied upon and certain conditions imposed in the approval, and the statutory and regulatory requirements of the International Banking Act of 1978, 12 U.S.C. §§ 3101 *et seq.* and 12 CFR Part 28. This includes the sale of insured deposits and filing of a notice to voluntarily liquidate the old Federal branch in NY.

The primary regulator of CKWB and CITIC, the Hong Kong Monetary Authority, confirmed previously that it did not object to CKWB’s reliance upon the OCC’s “after-the-fact” approval procedure, and it has not objected to final conditional approval of the final application.

On the basis of the facts of record and your representations and commitments, the OCC has approved the final application subject to the following conditions:

1. In addition to compliance with other applicable requirements under U.S. law, China International and CKWB will make available to the OCC such information on the operations and activities of China International and CKWB and any of China International and CKWB’s affiliates that the OCC deems necessary to determine and enforce compliance by China International and CKWB with applicable Federal laws. If

the disclosure of any required information is prohibited by law or otherwise, China International and CKWB will cooperate with the OCC including seeking timely waivers of or exemptions from any applicable confidentiality or secrecy restrictions or requirements in order to enable China International and CKWB to make any such information available to the OCC.

2. China International and CKWB consent to the jurisdiction of the Federal courts of the United States and of all United States government agencies, departments and divisions for purposes of any and all claims made by, proceedings initiated by, or obligations to, the United States, the Office of the Comptroller and any other United States government agency, department or division, in any matter arising under U. S. Law, as defined in their consents to jurisdiction made to the OCC. China International and CKWB shall maintain a registered agent in the U. S. to receive service of process and shall notify the OCC of any change in the designated registered agent.
3. CKWB: (i) shall give the OCC's New York Field Office at least sixty (60) days prior written notice of CKWB's intent that either the branch located in New York or the branch located in California will significantly deviate or change from its business plan or operations and (ii) shall obtain the OCC's written determination of no objection before either branch engages in any significant deviation or change from its business plan or operations.
4. China International and CKWB must comply with all understandings and commitments contained in any approval order issued by the Federal Reserve Board in connection with the proposed Federal branches.

The conditions of this approval are conditions "imposed in writing by the agency in connection with the granting of any application or other request" within the meaning of 12 U.S.C. § 1818. As such, the conditions are enforceable under 12 U.S.C. § 1818.

CKWB shall continue to maintain a Capital Equivalency Deposit (CED) for the new Federal branch located in New York and a CED for the limited Federal branch located in California. The CEDs shall be maintained pursuant to letter-agreements in such form and containing such limitations and conditions as prescribed by the OCC. See the *Federal Branches and Agencies* handbook for further information.

The New York and California branches must continue to follow the enclosed standard requirements, and minimum policies and procedures.

This approval, and the activities and communications by OCC employees in connection with the filing, do not constitute a contract, express or implied, or any other obligation binding upon the OCC, the United States, any agency or entity of the United States or any officer or employee of the United States, and do not affect the ability of the OCC to exercise its supervisory, regulatory and examination authorities under applicable law and regulations. The foregoing may not be waived or modified by any employee or agent of the OCC or the United States.

If you have questions, please contact Senior Licensing Analyst Sandya Reddy at (212) 790-4055 or me at (202) 874-5060.

Sincerely,

/s/ Beverly Evans

Beverly Evans
Senior Licensing Analyst

Enclosures: Standard Requirements
Minimum Policies and Procedures

Standard Requirements

China International and CKWB must meet the following standard requirements with respect to each Federal branch:

The OCC requires CKWB to engage an independent, external auditor to perform an audit according to generally accepted auditing standards of sufficient scope to enable the auditor to render an opinion on the financial statements of each Federal branch, taken as a whole. The audit period shall commence on the date of consummation of OCC's After-the-Fact (ATF) approval of the establishment of each Federal branch and may end on any calendar quarter-end no later than 12 months after each Federal branch opens. The OCC expects that such audits will be performed annually for at least three years following commencement of operations.

CKWB must develop written policies and procedures that will guide each Federal branch's operations in a safe and sound manner. In addition, CKWB must review and adopt the policies and procedures at its first meeting (see also Minimum Policies and Procedures). CKWB is responsible for regular review and modification of policies and procedures and for assuring continuous compliance with them.

Any services performed by affiliates for each Federal branch and payments to said affiliates by the Federal branch will be rendered pursuant to contracts that comply with federal laws and regulations and reflect safe and sound practices.

Each Federal branch will maintain accounts, books, and records as prescribed by 12 C.F.R. Part 28 and in such a manner as to facilitate the complete and accurate presentation of financial statements and other reports in form and content as required by the OCC.

Minimum Policies and Procedures

Some of the policies and procedures may not be applicable to Federal branches. CKWB must adopt and monitor those policies and procedures applicable to each Federal branch's activities.

1. Lending policy, including:

a. Fundamental elements of a sound loan policy as described in the "Loan Portfolio Management" booklet of the *Comptroller's Handbook for National Bank Examiners*.

b. Loan administration procedures designed to ensure that no extensions of credit are granted without first obtaining and analyzing current and satisfactory credit information as well as satisfactory and, in the case of secured loans, perfected collateral documentation.

c. Internal loan review procedures to review periodically the loan portfolio to identify and categorize problem credits.

d. Approval of management's review of the adequacy of each Federal branch's allowance for possible loan losses and maintenance of an adequate allowance consistent with the comments in the "Allowance for Loan and Lease Losses" booklet of the *Comptroller's Handbook for National Bank Examiners*.

e. Procedures to ensure that each Federal branch:

- Takes immediate and continuing action to protect its interest in any and all assets displaying any evidence of weakness.
- Monitors concentrations of credit and safeguards against unsound concentrations of credit.
- Prices its credits properly.

f. Procedures to ensure compliance with *all* applicable laws and regulations, including, for example, lending limits and loans to insiders.

2. Funds management, investment securities, and interest rate risk policies, including:

a. A funds management policy and strategies consistent with the comments in the "Funds Management" section 405 of the *Comptroller's Handbook*.

b. Procedures to enable management to monitor liquidity and interest rate risk.

c. An investment securities policy consistent with the comments in the “Investment Securities” section 203 of the *Comptroller’s Handbook for National Bank Examiners*; OCC Bulletin 96-69: Investment Securities: 12 CFR 1 - Final Rule dated 12/11/96; and OCC Bulletin 98-20: Investment Securities - Policy Statement dated 4/27/98, within which each Federal branch must operate when purchasing and selling investment securities. The policy should specifically define each Federal branch’s investment strategies.

d. A borrowed funds policy consistent with the comments in the “Borrowed Funds” section 302 of the *Comptroller’s Handbook for National Bank Examiners*.

e. An interest rate risk policy and strategy consistent with comments in the “Interest Rate Risk” booklet of the *Comptroller’s Handbook for National Bank Examiners* and OCC Bulletin 96-36: Interest Rate Risk - Final Policy Statement dated 7/12/96.

3. Internal and external audit policies, including:

a. The development and implementation of an internal control system, including internal and external audit functions, that provides for effective risk assessment, timely and accurate reports, safeguarding and management of assets, and compliance with applicable laws and regulations. The audit functions and control systems should be consistent with the “Internal and External Audit” and “Internal Control” booklets of the *Comptroller’s Handbook*.

For additional reference, see *The Directors Book: The Role of the National Bank Director*; OCC Bulletin 98-1: Interagency Policy Statement -- Internal Audit/Outsourcing dated 1/7/98; and OCC Bulletin 99-37: Interagency Policy Statement on External Audit Programs dated 10/7/99.

b. Procedures to ensure that each Federal branch maintains minimum security devices and procedures as required by 12 CFR Part 21.

c. Internal control systems to ensure ongoing compliance with the currency reporting and recordkeeping requirements of the Bank Secrecy Act (BSA) and USA Patriot Act. Personnel should be trained in BSA and Patriot Act procedures and one or more persons designated to monitor day-to-day compliance.

4. Insider policies, including:

a. The development and implementation of a written policy according to the “Insiders Activities” booklet of the *Comptroller’s Handbook*.

b. Written policies and procedures, as required by 12 CFR 9.5 to prohibit the use of material inside information in investment decisions or recommendations.

5. Compliance policies, including, if applicable:

a. A compliance program covering consumer, and fair lending laws and regulations approved by CKWB and management of each Federal branch, that includes (see the *Comptroller's Handbook -- Consumer Compliance Examination*):

- Delegation of compliance responsibilities to specific Federal branch personnel.
- Written guidance for, and training of, employees covering applicable laws and regulations.
- A mechanism to report deficiencies and ensure corrective action.

b. Branch closing policy (applicable to each Federal branch), including:

- Procedures for determining objectively which branch or branches to close and which customers to notify.
- Procedures and methods for providing the notices required by law.

c. BSA programs to fulfill the requirements of 12 CFR 21.21. CKWB must approve written procedures designed to monitor each Federal branch's compliance with the requirements of the Bank Secrecy Act regulations, 31 CFR 103. The compliance program must provide for a system of internal controls to ensure ongoing compliance; provide independent testing for compliance; designate a person responsible for coordinating and monitoring day-to-day compliance; and provide training for appropriate personnel. CKWB must approve the BSA compliance program.

Development and implementation of procedures for the preparation, review for accuracy, and submission of required regulatory reports. The procedures should address:

- The requirements that each Federal branch prepare all financial statements on an accrual basis according to generally accepted accounting principles.
- Regular financial report filings (such as Quarterly Reports of Condition and Income, Annual Report of Trust Assets and Special Report of Trust Activities, as applicable, annual financial disclosures (12 CFR 18), and annual minimum security devices and procedures report).
- Operations reports (such as Federal branch robbery notification reports).
- SEC reports, to the extent applicable.
- Other reports as detailed in the *Comptroller's Handbook*.

6. Supervision policy consistent with the "Duties and Responsibilities" section 501 of the *Comptroller's Handbook for National Bank Examiners* and *The Directors Book*, including:

- a. A method for periodically reviewing and revising, as necessary, the aforementioned policies.
- b. Procedures to assess management's performance.
- c. A method to assess whether management is receiving adequate information on the Federal branch's operation to enable them to fulfill their responsibilities.
- d. A method to evaluate whether management is acting responsibly and expeditiously in fulfilling their duties.

7. Disaster recovery plan.

8. Policies and procedures for maintaining the privacy and security of consumer information, including:

a. Establishing privacy policies and opt out mechanisms (if appropriate) in accordance with 12 CFR 40. This includes:

- Developing privacy notices.
- Delivering initial and annual notices on timely basis.
- Revising privacy notices as necessary.
- Developing acceptable methods of delivery.
- Implementing consumer opt out elections where applicable.
- Limiting disclosure of account numbers for marketing purposes.
- Limiting use and disclosure of information received from nonaffiliated financial institutions.
- Developing confidentiality contract clauses where applicable.

b. Implementing training programs for employees about privacy policies and procedures.

c. Adopting internal controls, policies, and audit procedures to ensure continued compliance with privacy regulations.

d. Implementing a written information security program to safeguard customer information pursuant to the guidelines in 12 CFR Part 30. This includes:

- CKWB approval and oversight of program.
- Assessing risks to security of customer information.
- Designing information security program to control identified risks.
- Overseeing arrangements with service providers.
- Adjusting program in light of changes in technology, threats to information, sensitivity of customer information, changing business arrangements.