

FEDERAL RESERVE SYSTEM

Landesbank Schleswig-Holstein Girozentrale
Kiel, Germany

Order Approving Establishment of a Branch

Landesbank Schleswig-Holstein Girozentrale (“Bank”), Kiel, Germany, a foreign bank within the meaning of the International Banking Act (“IBA”), has applied under section 7(d) of the IBA (12 U.S.C. § 3105(d)) to establish a branch in New York, New York. The Foreign Bank Supervision Enhancement Act of 1991, which amended the IBA, provides that a foreign bank must obtain the approval of the Board to establish a branch in the United States.

Notice of the application, affording interested persons an opportunity to submit comments, has been published in a newspaper of general circulation in New York, New York (*The New York Post*, March 18, 2002). The time for filing comments has expired, and all comments have been considered.

Bank, with total consolidated assets of approximately \$124 billion,¹ is the 15th largest bank in Germany. Bank is a public law institution and operates as a central bank for the savings banks of the State of Schleswig-Holstein and as a commercial and investment bank both domestically and internationally with its focus on northern Europe and the Baltic States. Bank operates six offices in Germany, and three branches and four representative offices in other countries in Europe.² Upon establishment of the proposed branch, Bank will be a

¹ Unless otherwise indicated, data are as of December 31, 2001.

² By separate order issued today, the Board has approved the application of Hamburgische Landesbank Girozentrale, Hamburg, Germany, a subsidiary of Bank, to establish a representative office in New York, New York.

qualifying foreign banking organization within the meaning of Regulation K (12 C.F.R. 211.23(b)).

Bank's largest shareholder is Westdeutsche Landesbank Girozentrale ("West LB"), Düsseldorf, Germany, which owns approximately 40 percent of Bank. West LB operates as a central bank for the savings banks in North Rhine-Westphalia and also conducts commercial and investment banking activities. The State of Schleswig-Holstein and the Savings Bank and Clearing Association of Schleswig-Holstein, Kiel, Germany, each own approximately 25 percent of Bank. The remaining interest in Bank is held by Landesbank Baden-Württemberg, Stuttgart, Germany.

The proposed branch would assist Bank with its existing business activities in the United States and would be used to develop new business in areas in which the bank specializes such as real estate and transport financing. The proposed branch would also participate in syndicated loans, issue commercial paper and other debt instruments, and provide trade and public financing.

In order to approve an application by a foreign bank to establish a branch in the United States, the IBA and Regulation K require the Board to determine that the foreign bank applicant engages directly in the business of banking outside of the United States, and has furnished to the Board the information it needs to assess the application adequately. The Board also shall take into account whether the foreign bank and any foreign bank parent is subject to comprehensive supervision or regulation on a consolidated basis by its

home country supervisor (12 U.S.C. § 3105(d)(2); 12 C.F.R. 211.24).³ The Board may also take into account additional standards as set forth in the IBA and Regulation K (12 U.S.C. § 3105(d)(3)-(4); 12 C.F.R. 211.24(c)(2)-(3)).

As noted above, Bank and West LB engage directly in the business of banking outside the United States. Bank also has provided the Board with information necessary to assess the application through submissions that address the relevant issues. With respect to supervision by home country authorities, the Board previously has determined, in connection with applications involving other German banks, including West LB, that those banks were subject to home country supervision on a consolidated basis.⁴ Bank is supervised by the German Federal Financial Supervisory Agency on substantially the same terms and

³ In assessing this standard, the Board considers, among other factors, the extent to which the home country supervisors: (i) ensure that the bank has adequate procedures for monitoring and controlling its activities worldwide; (ii) obtain information on the condition of the bank and its subsidiaries and offices through regular examination reports, audit reports, or otherwise; (iii) obtain information on the dealings with and relationship between the bank and its affiliates, both foreign and domestic; (iv) receive from the bank financial reports that are consolidated on a worldwide basis or comparable information that permits analysis of the bank's financial condition on a worldwide consolidated basis; (v) evaluate prudential standards, such as capital adequacy and risk asset exposure, on a worldwide basis. These are indicia of comprehensive, consolidated supervision. No single factor is essential, and other elements may inform the Board's determination.

⁴ See *Allgemeine HypothekenBank Rheinboden AG*, 88 Federal Reserve Bulletin 196 (2002); *DePfa Bank AG*, 87 Federal Reserve Bulletin 710 (2001); *RHEINHYP Rheinische Hypothekenbank AG*, 87 Federal Reserve Bulletin 558 (2001); *Deutsche Hyp Deutsche Hypothekenbank*, 86 Federal Reserve Bulletin 658 (2000); *Deutsche Bank AG*, 85 Federal Reserve Bulletin 509 (1999); *Westdeutsche ImmobilienBank*, 85 Federal Reserve Bulletin 346 (1999); *Commerzbank AG*, 85 Federal Reserve Bulletin 336 (1999); *West Merchant Bank Limited*, 81 Federal Reserve Bulletin 519 (1995).

conditions as the other banks.⁵ Based on all the facts of record, it has been determined that Bank is subject to comprehensive supervision and regulation on a consolidated basis by its home country supervisor.

The additional standards set forth in section 7 of the IBA and Regulation K (*see* 12 U.S.C. § 3105(d)(3)-(4); 12 C.F.R. 211.24(c)(2)) have also been taken into account. The German Federal Financial Supervisory Agency has no objection to the establishment of the proposed branch.

Germany's risk-based capital standards are consistent with those established by the Basel Capital Accord. Bank's capital is in excess of the minimum levels that would be required by the Basel Capital Accord and is considered equivalent to capital that would be required of a U.S. banking organization. Managerial and other financial resources of Bank also are considered consistent with approval, and Bank appears to have the experience and capacity to support the proposed branch. In addition, Bank has established controls and procedures for the proposed branch to ensure compliance with U.S. law, as well as controls and procedures for its worldwide operations generally.

Germany is a member of the Financial Action Task Force and subscribes to its recommendations regarding measures to combat money laundering. In accordance with these recommendations, Germany has enacted laws and created legislative and regulatory standards to deter money laundering. Money laundering is a criminal offense in Germany and credit institutions are required to establish internal policies and procedures for the detection and prevention of money laundering.

⁵ On May 1, 2002, the German Federal Banking Supervisory Office merged with the Federal Insurance Supervisory Office and the Securities Supervisory Office to create a single cross-sector structure for financial supervision.

With respect to access to information on Bank's operations, the restrictions on disclosure in relevant jurisdictions in which Bank operates have been reviewed and relevant government authorities have been communicated with regarding access to information. Bank and its parents have committed to make available to the Board such information on the operations of Bank and any of their affiliates that the Board deems necessary to determine and enforce compliance with the IBA, the Bank Holding Company Act of 1956, as amended, and other applicable federal law. To the extent that the provision of such information to the Board may be prohibited by law or otherwise, Bank and its parents have committed to cooperate with the Board to obtain any necessary consents or waivers that might be required from third parties for disclosure of such information. In addition, subject to certain conditions, the German Federal Financial Supervisory Agency may share information on Bank's operations with other supervisors, including the Board. In light of these commitments and other facts of record, and subject to the condition described below, it has been determined that Bank has provided adequate assurances of access to any necessary information that the Board may request.

On the basis of all the facts of record, and subject to the commitments made by Bank and its parents, and the terms and conditions set forth in this order, Bank's application to establish the branch is hereby

approved.⁶ Should any restrictions on access to information on the operations or activities of Bank or any of its affiliates subsequently interfere with the Board's ability to obtain information to determine and enforce compliance by Bank or its affiliates with applicable federal statutes, the Board may require or recommend termination of any of Bank's direct and indirect activities in the United States. Approval of this application also is specifically conditioned on compliance by Bank and its parents with the commitments made in connection with this application and with the conditions in this order.⁷ The commitments and conditions referred to above are conditions imposed in writing by the Board in connection with its decision and may be enforced in proceedings against Bank and its affiliates under 12 U.S.C. § 1818.

By order, approved pursuant to authority delegated by the Board, effective June 21, 2002.

(Signed)

Robert deV. Frierson
Deputy Secretary of the Board

⁶ Approved by the Director of the Division of Banking Supervision and Regulation, with the concurrence of the General Counsel, pursuant to authority delegated by the Board. *See* 12 C.F.R. 265.7(d)(12).

⁷ The Board's authority to approve the establishment of the proposed branch parallels the continuing authority of the State of New York to license offices of a foreign bank. The Board's approval of this application does not supplant the authority of the State of New York or its agent, the New York State Banking Department ("Department"), to license the proposed office of Bank in accordance with any terms or conditions that the Department may impose.