

FEDERAL RESERVE SYSTEM

Bancolombia, S.A.  
Medellin, Colombia

Order Approving Establishment of an Agency

Bancolombia, S.A. (ABank@), Medellin, Colombia, a foreign bank within the meaning of the International Banking Act (AIBA@), has applied under section 7(d) of the IBA (12 U.S.C. ' 3105(d)) to establish an agency in Miami, Florida. 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 an agency in the United States.

Notice of the application, affording interested persons an opportunity to comment, has been published in a newspaper of general circulation in Miami, Florida (*Miami Daily Business Review*, April 1, 2002). The time for filing comments has expired, and the application and all comments received have been considered.

Bank, with total consolidated assets of approximately \$4.3 billion, is the largest commercial bank in Colombia.<sup>1</sup> Bank's shares are publicly traded in Colombia and the United States. Suramericana de Inversiones S.A. ("Suramericana"), a Colombian insurance company, and Compania de Cementos Argos, S.A. ("Argos"), a Colombian industrial company, control approximately 53 percent of Bank's shares.<sup>2</sup> Bank's remaining shares are widely held, with no individual or entity controlling more than 10 percent of voting shares.

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<sup>1</sup> Unless otherwise indicated all data are as of December 31, 2002.

<sup>2</sup> Due to significant cross-shareholdings, Suramericana and Argos are subsidiaries of each other. Suramericana and Argos are part of a loosely associated

Bank engages in commercial and retail banking and international trade services through more than 320 branches, and it engages in leasing, trust, fiduciary, asset management, investment banking, and securities brokerage services through several subsidiaries. In addition, Bank operates bank subsidiaries in Panama and the Cayman Islands. Bank does not have any operations in the United States.

The proposed agency would complement and expand Bank's current business. It primarily would offer corporate banking, correspondent banking, international trade, private banking, cash management, and portfolio investment services.

In order to approve an application by a foreign bank to establish an agency 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

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group of Colombian financial services and industrial companies collectively referred to as Grupo Empresarial Antioqueno ("Grupo"). Other Grupo-associated companies own a combined 9.1 percent of Bank's voting shares. Grupo is not a legal entity and has no formal status under Colombian corporate, securities, or banking laws, although Grupo companies informally coordinate when making certain strategic business decisions. Suramericana and Argos are considered to control Bank for purposes of the Bank Holding Company Act of 1956, as amended ("BHC Act"), and the IBA and are considered to be "ultimate parents" of Bank for purposes of Regulation K. The 37.9 percent of Bank's voting shares not owned by Grupo-associated companies are widely held, with no single individual or entity owning 5 percent or more of voting shares.

on a consolidated basis by its home country supervisor (12 U.S.C. ' 3105(d)(2); 12 C.F.R. 211.24).<sup>3</sup> 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)).

The IBA includes a limited exception to the general requirement relating to comprehensive, consolidated supervision (12 U.S.C. ' 3105(d)(6)). This exception provides that, if the Board is unable to find that a foreign bank seeking to establish a branch, agency, or commercial lending company is subject to comprehensive supervision or regulation on a consolidated basis by the appropriate authorities in its home country, the Board may nevertheless approve an application by such foreign bank if:

(i) the appropriate authorities in the home country of the foreign bank are actively working to establish arrangements for the consolidated supervision of such bank; and (ii) all other factors are consistent with approval

(12 U.S.C. ' 3105(d)(6)(A)). In deciding whether to exercise its discretion to approve an application under authority of this exception, the Board shall also consider whether the foreign bank has adopted and implemented procedures to

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<sup>3</sup> 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.

combat money laundering (12 U.S.C. ' 3105(d)(6)(B)). The Board also may take into account whether the home country of the foreign bank is developing a legal regime to address money laundering or is participating in multilateral efforts to combat money laundering (12 U.S.C. § 3105(d)(6)(B)).

As noted above, Bank engages 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 an application involving another bank in Colombia, that the bank's home country authorities were working to establish arrangements for the consolidated supervision of the bank.<sup>4</sup> Bank is supervised by the Colombia Superintendency of Banking on substantially the same terms and conditions as that other bank.

The Colombian government has taken a number of steps to combat money laundering. In the past decade, Colombia has enacted legislation to prevent money laundering and has established a regulatory infrastructure to assist this effort. Colombia has established a Financial Information and Analysis Unit in the Ministry of Finance, which is responsible for gathering and centralizing information from public and private entities in Colombia, as well as analyzing such information. The Prosecutor General's office has established a unit to investigate and

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<sup>4</sup> Banco de Bogota, S.A., 87 Federal Reserve Bulletin 552 (2001).

prosecute money laundering cases and forfeiture actions. In addition, the Superintendency has issued circulars that require financial institutions to establish systems for the prevention of money laundering.

Colombia participates in international fora that address the issues of asset forfeiture and the prevention of money laundering. Colombia is a party to the 1988 U.N. Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (AConvention@), and the United States has certified that Colombia has taken adequate measures to achieve full compliance with the goals and objectives of the Convention. Colombia also has signed the U.N. Convention against Transnational Organized Crime and is a member of the Organization of American States Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering. Colombia is not a member of the Financial Action Task Force (“FATF”), although FATF’s recommendations have been taken into account by Bank in developing its manuals, internal procedures, and training courses.

Bank has taken measures to ensure compliance with Colombian law and regulations, including implementing policies and procedures related to “know-your-customer” practices, suspicious transaction reporting, record keeping, and employee training.<sup>5</sup> An internal central compliance unit monitors Bank’s adherence to these policies and procedures.

Based on all the facts of record, it has been determined that Bank=s home country authorities are actively working to establish arrangements for the consolidated supervision of Bank, and that considerations relating to the steps taken by Bank and its home country to combat money laundering are consistent with approval under this standard.

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<sup>5</sup> Bank’s foreign bank subsidiaries have adopted the same policies and procedures for the prevention of money laundering.

The additional standards set forth in the IBA (12 U.S.C. 3105(d)(3)-(4); 12 C.F.R. 211.24(c)(2)) have also been taken into account. The Superintendent has no objection to the establishment of the proposed agency.

Bank must comply with the minimum capital standards of the Basel Capital Accord (A Accord”), as implemented by Colombia. Bank=s capital is in excess of the minimum levels that would be required by the Accord and is considered equivalent to the capital that would be required of a U.S. banking organization. Managerial and other financial resources of Bank are also considered consistent with approval, and Bank appears to have the experience and capacity to support the proposed agency. Bank has established controls and procedures for the proposed agency to ensure compliance with U.S. law, as well as controls and procedures for its worldwide operations generally.

With respect to access to information about the operations of Bank and its parents, the restrictions on disclosure in relevant jurisdictions in which Bank and its parents operate have been reviewed and communications with relevant government authorities regarding access to information have been conducted. Bank and its parents have committed to make available to the Board such information on the operations of Bank and any of its affiliates that the Board deems necessary to determine and enforce compliance with the IBA, the BHC Act, and other applicable federal law. To the extent that the provision of such information to the Board may be prohibited by law, 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 Superintendent 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, 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, as well as the terms and conditions set forth in this order, Bank=s application to establish an agency should be, and hereby is, approved.<sup>6</sup> Should any restrictions on access to information on the operations or activities of Bank and 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 or 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.<sup>7</sup> The commitments and conditions referred to above are

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<sup>6</sup> 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).

<sup>7</sup> The Board=s authority to approve the establishment of the proposed agency parallels the continuing authority of the State of Florida to license offices of a foreign bank. The approval of this application does not supplant the authority of the State of Florida, or its agent, the Florida Department of Banking and Finance, to license the proposed office of Bank in accordance with any terms or conditions that it may impose.

conditions imposed in writing in connection with this decision and may be enforced in proceedings under 12 U.S.C. ' 1818 against Bank and its affiliates.

By order, approved pursuant to authority delegated by the Board, effective March 27, 2003.

(signed)

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Robert deV. Frierson  
Deputy Secretary of the Board