

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

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To Board of Governors

Subject: Allied Bank International

From Division of Supervision
and Regulation

New York, New York.

During recent Board consideration of several applications involving Allied Bank International ("ABI") and its shareholding banks, questions were asked about the nature and development of the activities of ABI. The following material attempts to respond to those questions although it is admittedly somewhat sketchy, reflecting the newness of ABI.

ABI was conceived by its organizers as an international banking corporation owned by 10 to 20 regional banks with under-developed international banking capabilities. It was their belief that such a corporation would assist the regional banks in providing greater and improved international banking services, and that the system consisting of ABI and its shareholding banks would generally furnish an effective competitive alternative to the few very large banks that dominate the international sector of American banking. Also, it was thought that the system would provide a defense against competitive inroads by those same very large banks into the general business of the stockholding banks.

On April 10, 1968, the Board issued a preliminary permit for ABI to be formed with its stock held by 10 specific banks. A requirement of the permit was that subsequent additions of new stockholders were to receive prior Board approval, it being understood that the number of stockholding banks might eventually reach 20. A final permit was issued on October 4, 1968, and ABI opened for business on October 21, 1968, with capital and surplus of \$20,000,000.

In the period of a little over a year since the Corporation opened for business, the organizational structure of ABI has been rounded out and the beginning made in developing an international banking business. Six banks have been added as stockholders, raising ABI's paid-in capital and surplus to \$32 million. On April 1, 1969, a branch was opened in London, and subsequently a subsidiary was formed in the Netherlands Antilles. Permanent quarters have been established in New York City and the staffing of the Corporation largely completed.

For resources, ABI has had to rely mainly on its capital accounts; deposits at head office are still only about \$15 million, and its deposit customers are still mainly foreign correspondent banks. Deposits have occasionally been supplemented by short-term borrowings.

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Growth in loans to foreign borrowers by ABI's head office has been restricted by ABI's FCRP ceiling; that ceiling obtained by transfers of portions of the ceilings of ABI's shareholding banks, presently totals \$40 million. Outstanding loans at the head office recently totaled about \$37 million, of which about \$16 million represented export financing. The remainder represented principally investments in short-term foreign commercial paper (mainly Mexican). Loan business has so far been developed almost entirely by ABI itself; there have been only one or two instances where loans have been generated by ABI's shareholding banks. Thus far, the principal services rendered by ABI to its shareholding banks appear to be those of a New York correspondent through which international payments and collections are effected.

Although the London branch has been open since April 1969, it is only since mid-October that it has been permitted by the Bank of England to engage in full banking services (including, importantly, foreign exchange transactions). At the end of November, the London branch had about \$14 million in loans outstanding.

In sum, in the past year the growth of ABI has been substantial, but not extraordinarily rapid. As a new "bank," it has been undergoing the difficulties common to institutions in their formative periods with problems of operational organization, establishing business contacts, developing loan and deposit business, and the like. Since the present international business of its shareholding banks is limited, ABI has had to develop its own loan and deposit customers. The services offered by ABI to its shareholding banks appear not yet to have evolved beyond correspondent services of a fairly routine nature; the provision of additional services to those banks and their customers is necessarily conditioned on the development of ABI's own business relationships in foreign banking markets.

In view of the formidable competition faced by ABI from strong and well-established institutions, it was to be expected that time would be required for ABI to establish itself in the international banking market. It was also to be expected that if ABI was to succeed, it would have to adopt an aggressive competitive stance. That seems to be the case, judging from the limited experience to date. What has happened appears to be a "gearing up" of the Corporation to capitalize on growth potentialities as they appear. The establishment of the London branch and the Netherlands Antilles subsidiary at a very early stage of ABI's existence accords with such a view. The pending request for substantial longer-term borrowing authorities is in a similar vein--that is, not necessarily for immediate use but to have the authority available when needed and as market opportunities emerge.

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Because the first year of ABI must be judged one of preparation, it is far too early for any conclusions as to whether the concept underlying ABI will be realized. The working relationships between ABI and its shareholding banks have not yet been firmly established, and it remains to be seen in what ways the affiliation with ABI will enable the stockholding banks to assist their regional exporters and others with international interests.