

International Financial Institutions Association in California

21st Annual Convention

“Strategic Issues for Pacific Rim Financial Institutions”
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“International Banking in California Today”
Legislative/Regulatory Focus Panel

Presentation by
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California Department of Financial Institutions



History of Foreign Banking in California

- According to Financing an Empire - The History of Banking in California by Dr. Ira B. Cross, the first foreign bank to open in California was the Commercial Bank of India, a British bank that opened an agency office in San Francisco in 1863 and closed in 1866.

- According to DFI records, the first foreign corporation licensed by the State Banking Department was the Russo-Chinese Bank, St. Peterburg, Russia. It incorporated in December, 1895 and a San Francisco branch was authorized April 1904. It voluntarily closed November 1910, and its business was taken over by Wells Fargo Nevada National Bank, one of the predecessors to Wells Fargo Bank, N.A.

Russo-Chinese Bank was the first Chinese-foreign jointly owned bank in China. Its headquarters was situated in St. Petersburg in Russia, and Shanghai Branch started business on the Bund in 1896.



- The British & California Banking Company Ltd., opened in 1864 and closed in 1866. Bank of British North America opened in 1864. In 1918 it was succeeded by British American Bank, the predecessor of Bank of Montreal, which still maintains a representative office in California.

Formed in 1835, the British Bank of North America established its first colonial branch in Newfoundland in 1837. Subsequently, other branches were opened in New Brunswick, Nova Scotia, British Columbia, the Yukon and in California.



- Bank of British Columbia, operated from 1864 until 1901 when it was absorbed by the Canadian Bank of Commerce, predecessor to our oldest licensee, the Canadian Imperial Bank of Commerce.



Canadian Bank of Commerce, Canada's second largest financial institution opened in Winnipeg in 1893 and constructed its Western headquarters in the style of a Greek temple.

California Today

- California is home to more than 35 million people
 - And expected to grow to 46 million by the year 2020 and 59 million by the year 2040.
 - California's growth is coming with a diversity unseen around the world – with more than 100 native languages spoken today in our public schools. That diversity brings with it power and potential, anchored in the immigrant community's work ethic and its belief in the California Dream of limitless opportunity and upward mobility.
- California's diverse economy is the sixth largest economy in the world
- California's economy is the largest of all U.S. states
- California's economy represents 13% of nations economy

Sources: US Census Bureau, Dept. of Finance

Foreign Banking in California Today

- 17 of the 25 largest banks in the world are present* in California.
- International banks make 23% of all loans to American businesses.
- State licensed international banks held more than \$1.15 trillion in assets.
- 84% of the international bank branches and agencies in the U.S. are state-chartered.
- 86% of the international bank branches and agencies in California are state-chartered.

(through an agency, branch, representative office or subsidiary bank or trust company)

Subsidiary Banks

- Ten California state-chartered banks are operated as subsidiaries of foreign banks.
 - These banks held \$35.2 billion in assets as of June 30, 2003.
 - This compares to \$23.5 billion as of December 31, 1996.
 - The assets of subsidiaries expressed as a percentage of state-chartered banks decreased slightly from 28 percent in 1996 to 27 percent as of June 30, 2003.

Branch and Agency Offices of Foreign Banks

- Total assets of agencies and branch offices of foreign banks in California decreased \$2.9 billion over the year, from \$19.7 billion in 2001 to \$16.8 billion in 2002, a decline of 14.7 percent.
- Loans were down \$4.8 billion, from \$16.6 billion to \$11.9 billion, a decline of 28.7 percent.

- Total operating income was down from \$1.4 billion to \$704.2 million, a decline of 49.7 percent over the same period.
- The number of foreign banks with agencies or branch offices decreased from 49 to 43 during the year.
- The decade-long trend of decreasing foreign bank assets continues unabated, as foreign banks reduce their overseas offices as a result of consolidations due to mergers and cost-cutting measures imposed to increase profitability.

Foreign Banks

Date	Number of Banks Represented	Number of Offices					Total	Assets (Millions)	Deposits (Millions)
		Agencies		Branch Offices					
		Depository	Non-Depository	Limited	Retail	Wholesale			
12/30/02	43	12	9	3	2	23	49	16,778	6,356
12/31/01	49	17	10	3	2	24	56	19,669	3,579
12/31/00	54	19	13	4	2	25	63	25,529	3,941
12/31/99	57	20	15	4	3	23	65	27,408	5,936
12/31/98	66	29	21	4	3	24	81	39,954	6,520
12/31/97	75	32	24	4	4	25	89	53,516	6,182
12/31/96	81	41	23	7	6	19	96	65,025	9,147

Offices of Foreign (Other Nation) Banks Opened During the Year

- On January 1, 2002, there were 56 agencies and branch offices of foreign (other nation) banks representing 49 banks. During the year, one agency opened, eight agencies and one branch offices closed, leaving 49 agencies and branch offices representing 43 banks.

- Of the total, 12 are depositary agencies, nine are non-depositary agencies, three are limited branch offices, two are retail branch offices and 23 are wholesale branch offices.

One agency opened during the year:

<i>Name of Bank</i>	<i>Country</i>	<i>Location</i>	<i>Opened</i>
<u>Depository Agency</u> Banca di Roma S.p.A.	Italy	San Francisco	7/1/02

Representative Offices of Foreign (Other Nation) Banks

- On January 1, 2002, there were 22 representative offices of foreign (other nation) banks representing 20 banks. During the year, one representative office opened and four closed, leaving 21 representative offices representing 19 banks.

Representative Offices of Foreign (Other Nation) Banks Opened

Three representative offices of foreign (other nation) banks opened during the year:

<i>Name of Bank</i>	<i>Country</i>	<i>Location</i>	<i>Opened</i>
BNP Paribas	France	Los Angeles	6/28/02
Mizuho Corporate Bank, Ltd.	Japan	San Francisco	4/1/02
Royal Bank of Scotland plc, The	United Kingdom	San Francisco	4/8/02

DFI Budget

The following represents the budget approved by the Legislature via the Budget Act:

DFI 2003-04 Budget	\$20,521,000
Financial Institution Fund	\$16,891,000
Credit Union Fund	\$3,294,000
Local Agency Deposit Security Fund	\$336,000

More about DFI

- We supervise almost 700 state-chartered financial institutions, including banks, credit unions, savings associations, industrial banks, offices of foreign banks, trust companies, business and industrial development corporations, issuers of travelers checks and payment instruments (money orders), and transmitters of money abroad.
- Assets of these institutions total over \$200 billion.
- The Department's programs are supported by assessment of licensees, license and application fees and charges for various other services.
- Almost 70 percent of the Department's 217 full-time employees are examiners.

The background of the slide features a faded, artistic image of a map. A compass is positioned in the upper left, and a ruler is placed horizontally across the middle. The word "OCEAN" is visible on the map in large, spaced-out letters. The overall aesthetic is that of a navigational or surveying tool set over a geographical map.

Mission:

- To ensure the integrity and stability of California's financial services system through the regulation and supervision of state licensed financial institutions.

Vision

- To advance the California state financial services system through efficient and fair regulation that engenders public confidence and trust. We will use training and technology to maintain and enhance a professional staff that is responsive and adaptable to the changing environment in which we operate so that we are one of the preeminent financial services regulators in the United States.

Resources on the DFI Web site

- Annual Reports
- Financial Statistics
- Financial Institution Law
- DFI forms
- Corporate Governance Page
- Directories of all DFI licensees
- Consumer Information
- Financial Literacy
 - DFI has partnered with the FDIC in the distribution of Money Smart, a financial education curriculum. It is available in English, Spanish, Chinese and Korean and can be ordered, free of charge, at the FDIC website <http://www.fdic.gov>.
- Executive Officer and Director Compensation Survey



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Additional Sources: California Legislative Analyst; *Financing an Empire - The History of Banking in California* by Dr. Ira B. Cross; *Structure and Share Data for U.S. Offices of Foreign Banks* - Federal Reserve Board