

FEDERAL RESERVE SYSTEM

Korea Exchange Bank
Seoul, Republic of Korea

Order Approving the Establishment of an Agency

Korea Exchange Bank (“KEB”), Seoul, Republic of Korea, a foreign bank within the meaning of the International Banking Act (“IBA”), has applied under section 7(d) of the IBA¹ to retain the agency currently operated in New York, New York, by Hana Bank, Seoul, Republic of Korea, following an internal reorganization that involved KEB’s merger with its affiliate, Hana Bank.² 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 New York, New York (*New York Post*, July 30, 2015). The time for submitting comments has expired, and the Board has considered all comments received.

KEB, with total consolidated assets of approximately \$107 billion, is the fifth largest commercial bank in Korea by asset size.³ KEB’s shares are widely held, with no shareholder or group of shareholders controlling more than 10 percent of its outstanding shares.⁴ KEB engages in a broad range of retail and commercial banking

¹ 12 U.S.C. § 3105(d).

² On September 1, 2015, Hana Bank merged with and into Korea Exchange Bank to form “KEB Hana Bank.”

³ Asset data are as of March 31, 2015. Ranking data are as of December 31, 2014.

⁴ As of December 31, 2014, the National Pension Service of Korea, Franklin Resources, and BlackRock owned 9.5 percent, 7.0 percent, and 5.1 percent, respectively, of the voting shares of Hana Financial Group, Seoul, Republic of Korea, the ultimate parent of KEB. No other person owned 5 percent or more of the voting shares of KEB and its

activities through numerous offices and subsidiaries located throughout the world. Outside Korea, KEB has operations in the United States and over 20 other countries.

In the United States, KEB operates three wholly owned subsidiaries: KEB NY Financial Corp., New York, New York; KEB LA Financial Corp., Los Angeles, California; and KEB USA International Corp., New York, New York.⁵ KEB is a qualifying foreign banking organization under Regulation K.⁶

KEB and Hana Bank have been affiliated foreign banks since 2012. On August 27, 2015, KEB received approval, pursuant to section 211.24(a)(6) of the Board's Regulation K, to proceed with the merger of KEB and Hana Bank prior to Board action on KEB's application to establish an agency in the United States through retention of the Hana Bank agency.⁷ The merger of KEB and Hana Bank was completed on September 1, 2015.

Under the IBA and Regulation K, in acting on an application by a foreign bank to establish an agency, the Board must consider whether (1) the foreign bank and any foreign bank parent engage directly in the business of banking outside of the United States, (2) the foreign bank has furnished to the Board the information it needs to assess the application adequately, and (3) the foreign bank and any foreign bank parent are subject to comprehensive supervision on a consolidated basis by their home country

ultimate parent. There are no voting agreements or other mechanisms that exist among shareholders for the exercise of control over Hana Financial Group.

⁵ KEB USA International Corp. engages in activities limited to providing administrative back-office functions to KEB, pursuant to section 4(c)(1)(C) of the Bank Holding Company Act of 1956 (12 U.S.C. § 1843(c)(1)(C)).

⁶ 12 CFR 211.23(a).

⁷ See Letter dated August 27, 2015, from the Board to Mr. William S. Eckland, Sidley Austin LLP. Consistent with 12 CFR 211.24(a)(6), KEB provided commitments to the Board to not engage in any new lines of business or expand its U.S. activities until the disposition of the application and to abide by the Board's decision on KEB's application to establish an agency, including, if necessary, a decision to require the termination of the activities of the agency.

supervisor.⁸ The Board also considers additional standards set forth in the IBA and Regulation K.⁹

⁸ 12 U.S.C. § 3105(d)(2); 12 CFR 211.24. Regulation K provides that a foreign bank is subject to consolidated home country supervision if the foreign bank is supervised or regulated in such a manner that its home country supervisor receives sufficient information on the worldwide operations of the foreign bank (including the relationships of the bank to an affiliate) to assess the foreign bank's overall financial condition and compliance with law and regulation. 12 CFR 211.24(c)(1)(ii). In assessing this standard, the Board considers, among other indicia of comprehensive, consolidated supervision, 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; and (v) evaluate prudential standards, such as capital adequacy and risk asset exposure, on a worldwide basis. No single factor is essential, and other elements may inform the Board's determination.

⁹ 12 U.S.C. § 3105(d)(3)–(4); 12 CFR 211.24(c)(2)–(3). The additional standards set forth in section 7 of the IBA and Regulation K include the following: (i) whether the bank's home country supervisor has consented to the establishment of the office; (ii) the financial and managerial resources of the bank; (iii) whether the bank has procedures to combat money laundering, whether there is a legal regime in place in the home country to address money laundering, and whether the home country is participating in multilateral efforts to combat money laundering; (iv) whether the appropriate supervisors in the home country may share information on the bank's operations with the Board; (v) whether the bank has provided the Board with adequate assurances that it will make available to the Board such information on its operations and activities and those of its affiliates that the Board deems necessary to determine and enforce compliance with the IBA and other applicable federal banking statutes; (vi) whether the bank and its U.S. affiliates are in compliance with U.S. law; (vii) the needs of the community; and (viii) the bank's record of operation. The Board also considers, in the case of a foreign bank that presents a risk to the stability of the United States, whether the home country of the bank has adopted, or is making demonstrable progress toward adopting, an appropriate system of financial regulation for the financial system of such home country to mitigate such risk. 12 U.S.C. § 3105(d)(3)(E).

As noted above, KEB engages directly in the business of banking outside the United States. KEB also has provided the Board with information necessary to assess the application through submissions that address the relevant issues.

The Board previously has determined that KEB is subject to comprehensive supervision on a consolidated basis by its home country supervisor, the Korean Financial Supervision Service (“FSS”).¹⁰ KEB remains supervised by the FSS on substantially the same terms and conditions. Based on all the facts of record, it has been determined that KEB continues to be subject to comprehensive supervision on a consolidated basis by its home country supervisor.

The additional standards set forth in section 7 of the IBA and Regulation K have also been taken into account. The FSS has no objection to the establishment of the proposed agency.

The Board has also considered the financial and managerial factors and other factors required by the IBA. Korea’s risk-based capital standards are consistent with those established by the Basel Capital Accord (“Basel Accord”). KEB’s capital is in excess of the minimum levels that would be required by the Basel Accord and is considered equivalent to capital that would be required of a U.S. banking organization. Managerial and other financial resources of KEB are considered consistent with approval, and KEB appears to have the experience and capacity to support the proposed agency. In addition, KEB has established controls and procedures for the proposed agency to ensure compliance with U.S. law and for its operations in general.

Korea is a member of the Financial Action Task Force and subscribes to its recommendations on measures to combat money laundering and international terrorism. In accordance with these recommendations, Korea has enacted laws and regulations to deter money laundering that are consistent with the Financial Action Task Force’s recommendations. Money laundering is a criminal offense in Korea, and financial institutions are required to establish internal policies, procedures, and systems for the

¹⁰ Hana Financial Group, FRB Order No. 2013-4 (August 14, 2013).

detection and prevention of money laundering throughout their worldwide operations. KEB has policies and procedures to comply with these laws and regulations, and its compliance is monitored by governmental entities responsible for anti-money-laundering compliance.

KEB has committed to make available to the Board such information on its operations and on those of any of its affiliates that the Board deems necessary to determine and enforce compliance with the IBA, the Bank Holding Company Act of 1956, and other applicable federal law. To the extent that the provision of such information to the Board may be prohibited by law or otherwise, KEB has 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 light of these commitments and other facts of record, it has been determined that KEB has provided adequate assurances of access to any necessary information that the Board may request.

Section 173 of the Dodd-Frank Wall Street Reform and Consumer Protection Act amended the IBA to provide that the Board may consider, for a foreign bank that presents a risk to the stability of the United States financial system, whether the home country of the foreign bank has adopted, or is making demonstrable progress toward adopting, an appropriate system of financial regulation for the financial system of such home country to mitigate such risk.¹¹ Information relevant to the standard regarding risk to the stability of the United States financial system has also been reviewed. In particular, consideration has been given to (1) the size and scope of KEB's activities, including the type of activities it proposes to conduct, in the United States and the potential for those activities to increase or transmit financial instability; and (2) the framework in place for supervising KEB in its home jurisdiction. Based on these and other factors, financial stability considerations in this proposal are consistent with approval.

¹¹ Pub. L. No. 111-203, 124 Stat. 1376, 1440 (2010), codified at 12 U.S.C. § 3105(d)(3)(E).

On the basis of all the facts of record, and subject to the commitments made by KEB as well as to the terms and conditions set forth in this order, KEB's application to establish an agency in New York is hereby 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.¹² Should any restrictions on access to information on the operations or activities of KEB and its affiliates subsequently interfere with the Board's ability to obtain information to determine and enforce compliance by KEB or its affiliates with applicable federal statutes, the Board may require termination of any of KEB's direct or indirect activities in the United States. Approval of this application also is specifically conditioned on compliance by Bank with the commitments made in connection with this application and with the conditions in this order.¹³

By order, approved pursuant to authority delegated by the Board, effective October 27, 2015.

Margaret McCloskey Shanks (signed)

Margaret McCloskey Shanks
Deputy Secretary of the Board

¹² 12 CFR 265.7(d)(12).

¹³ The Board's authority to approve the establishment of an agency 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 and its agent, the New York State Department of Financial Services, to license the proposed agency of KEB in accordance with any terms and conditions that the New York State Department of Financial Services might impose. The New York State Department of Financial Services approved KEB's application to establish the agency on August 31, 2015.