

FEDERAL RESERVE SYSTEM

Kookmin Bank
Seoul, Korea

Order Approving Establishment of Branches

Kookmin Bank (“New Bank”), a *de novo* Korean bank to be established by Kookmin Bank (“Kookmin”) and Housing & Commercial Bank (“H&CB”), both of Seoul, Korea, and both foreign banks 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 branches 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 branches 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 (*The New York Times*, August 31, 2001). The time for filing comments has expired, and all comments have been considered.

Kookmin, with total consolidated assets of approximately \$76 billion, is the largest commercial bank in Korea.¹ Kookmin is primarily engaged in providing banking services to retail customers and small and medium-sized enterprises. Kookmin operates an extensive network of branches and subsidiaries in Korea, as well as branches in Argentina, Japan, New Zealand, and New York. Kookmin is a qualifying foreign banking organization within the meaning of Regulation K (12 C.F.R. 211.23(b)).

H&CB, with consolidated assets of \$53 billion, is the third largest bank in Korea. H&CB is principally engaged in mortgage lending and retail banking services. H&CB operates an extensive domestic branch network in Korea as well as branches in Japan and New York. H&CB is a qualifying foreign banking organization within the meaning of Regulation K (12 C.F.R. 211.23(b)).

Kookmin and H&CB intend to merge into New Bank in November 2001. On completion of the merger, it is expected that New Bank would be the largest bank in Korea. New Bank would continue to conduct retail banking business in Korea as well as focus on selected areas, such as corporate banking, international finance, and capital markets activities. Kookmin and H&CB, on behalf of New Bank, have requested authority for

¹All data are as of June 30, 2001.

New Bank to retain and operate the Kookmin and H&CB branches in New York through this application.

In acting on an application by a foreign bank to establish branches 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).² In addition, the Board may take into account additional standards as set forth

²In 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.

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, an application by such foreign bank may nevertheless be approved 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 approve an application under authority of this exception, the Board shall also consider whether the foreign bank has adopted and implements procedures to 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, New Bank will engage directly in the business of banking outside the United States. Kookmin and H&CB, on behalf of New Bank, have provided the Board with information necessary to assess the application through submissions that address the relevant issues.

With respect to supervision by New Bank's home country authorities, the Board previously has determined, in connection with applications involving Kookmin and H&CB, that the banks' home country authorities were actively working to establish arrangements for the consolidated supervision of those banks.³ New Bank will be supervised by the Financial Supervisory Service (the "FSS") on substantially the same terms and conditions as its predecessor banks. Based on all the facts of record, it has been determined that New Bank's home country authorities are actively working to establish arrangements for the consolidated supervision of New Bank, and that considerations relating to the steps taken by its home country, and the steps Kookmin and H&CB have taken, and New Bank will take, to combat money laundering are consistent with approval under this standard.

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

Bank must comply with the minimum capital standards of the Basel Capital Accord (“Accord”), as implemented by Korea. New Bank’s capital will be 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 New Bank are also considered consistent with approval, and New Bank appears to have the experience and capacity to support the proposed branches. New Bank has established controls and procedures for the proposed branches 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 New Bank’s operations, the restrictions on disclosure in relevant jurisdictions in which New Bank will operate have been reviewed and relevant government authorities have been communicated with regarding access to information. Kookmin and H&CB, on behalf of New Bank, have committed to make

³See *Kookmin Bank*, 86 Federal Reserve Bulletin 291(2000); *Housing*

available to the Board such information on the operations of New Bank and any of its 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, Kookmin and H&CB, on behalf of New Bank, 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 FSS may share information on New 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 New 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 Kookmin and H&CB on behalf of New Bank, as well as the terms and conditions set forth in this order, New Bank's application to

establish branches is approved.⁴ Should any restrictions on access to information on the operations or activities of New Bank and its affiliates subsequently interfere with the Board's ability to obtain information to determine and enforce compliance by New Bank or its affiliates with applicable federal statutes, the Board may require termination of any of New Bank's direct or indirect activities in the United States. Approval of this application also is specifically conditioned on compliance by New Bank with the commitments made in connection with this application and with the conditions in this order.⁵ The commitments and conditions referred to above are conditions imposed in writing by the Board in connection with its

⁴Approved 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.

⁵The Board's authority to approve the establishment of the proposed branches 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 the New York State Banking Department ("Department") to license the proposed offices of Bank in accordance with any terms or conditions that the Department may impose.

decision and may be enforced in proceedings under 12 U.S.C. § 1818 against New Bank and its affiliates.

By order, approved pursuant to authority delegated by the Board, effective October 31, 2001.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board