

UNITED STATES OF AMERICA  
BEFORE THE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

FEDERAL DEPOSIT INSURANCE CORPORATION

CALIFORNIA DEPARTMENT OF FINANCIAL INSTITUTIONS

ILLINOIS OFFICE OF BANKS AND REAL ESTATE

NEW YORK STATE BANKING DEPARTMENT

WASHINGTON DEPARTMENT OF FINANCIAL INSTITUTIONS

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In the matter of	)		
	)		
KOREA EXCHANGE BANK	)		
Seoul, Korea	)	Federal Reserve Docket Nos.	00-008-B-FB
	)		00-008-B-FA
KOREA EXCHANGE BANK	)		00-008-B-FBR1
LOS ANGELES AGENCY	)		00-008-B-FBR2
Los Angeles, CA	)		00-008-B-FBR3
	)		00-008-B-FBR4
KOREA EXCHANGE BANK	)		
CHICAGO BRANCH	)	FDIC Docket No.	00-051B
Chicago, IL	)		
	)	Illinois Docket No.	00-BBTC-03
KOREA EXCHANGE BANK	)		
BROADWAY BRANCH	)		
New York, NY	)		
	)		
KOREA EXCHANGE BANK	)		
NEW YORK BRANCH	)	Order Issued Upon Consent	
New York, NY	)		
	)		
KOREA EXCHANGE BANK	)		
SEATTLE BRANCH	)		
Seattle, WA	)		
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WHEREAS, in recognition of the common goal of the Board of Governors of the Federal Reserve System (the “Board of Governors”), the Federal Deposit Insurance Corporation (the “FDIC”), the California Department of Financial Institutions, the Illinois Office of Banks and Real Estate, the New York State Banking Department, and the Washington Department of Financial Institutions (collectively, the “State Bank Supervisory Authorities”), and of the Korea Exchange Bank, Seoul, Korea (the “Bank”), its branch in Chicago, Illinois, its Broadway Branch in New York, New York, its New York Branch in New York, New York, its branch in Seattle, Washington (each a “Branch”), and its Agency in Los Angeles, California (the “Agency”) to ensure compliance with all applicable federal and state laws, rules, and regulations, the Bank, Branches and Agency have consented to the issuance of this Consent Order (the “Order”).

WHEREAS, as the result of the identification of deficiencies in its U.S. operations, the Bank is taking steps (1) to enhance and improve the U.S. operations’ policies and procedures for compliance with the Currency and Foreign Transactions Reporting Act (31 U.S.C. 5311 *et seq.*) and the accompanying regulations issued by the U.S. Department of the Treasury (31 C.F.R. 103.11 *et seq.*) (collectively referred to as the Bank Secrecy Act (the “BSA”)), customer due diligence practices, internal control environment, audit standards and management oversight and (2) to ensure full compliance with all applicable laws and regulations, including the BSA, 12 C.F.R. Parts 208 and 211, and California Penal Code, Section 14160 *et seq.*,<sup>1</sup> this Order is being issued to make a record of the measures necessary to ensure full

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<sup>1</sup> For purposes of this Order, all references to compliance with the BSA shall include compliance with 12 C.F.R. Parts 208 and 211 and with the California Penal Code, Section 14160 *et seq.*

compliance with all applicable laws and regulations and to obtain a formal commitment to their full implementation from the management of the Bank, Branches and Agency.

WHEREAS, on April 24, 2000, the board of directors of the Bank adopted a resolution:

(1) authorizing and directing Mr. Hans-Bernhard Merforth, Senior Managing Director, to enter into this Order on behalf of the Bank, each Branch and the Agency and consenting to compliance by the board of directors of the Bank, each Branch and the Agency and the Bank's institution-affiliated parties, as defined in sections 3(u) and 8(b)(4) of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1813(u) and 1818(b)(4)), to comply with each and every provision of this Order; and

(2) waiving any and all rights that the Bank, each Branch and the Agency may have pursuant to 12 U.S.C. 1818 and applicable state laws:<sup>2</sup>

(a) to the issuance of a notice of charges and of hearing on any matter set forth in this Order;

(b) to a hearing for the purpose of taking evidence on any matters set forth in this Order;

(c) to judicial review of this Order; and

(d) to challenge or contest, in any manner, the basis, issuance, validity, terms, effectiveness or enforceability of this Order or any provision hereof.

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<sup>2</sup> California Financial Code, section 1912; Illinois Administrative Procedures Act, 5 ILCS 100\10-70; New York Banking Law, section 39; Revised Code of Washington, Title 30, section 30.04.450.

NOW, THEREFORE, before the taking of any testimony or adjudication of, or finding on any issue of fact or law herein, and without this Order constituting an admission or denial of any allegation made or implied by the Board of Governors, the FDIC, or the State Bank Supervisory Authorities in connection with this proceeding, and solely for the purpose of settlement of this proceeding without protracted or extended hearing or testimony and pursuant to the aforesaid resolution:

IT IS HEREBY ORDERED that, where applicable, the Bank, each Branch, the Agency and their institution-affiliated parties cease and desist and take affirmative action as follows:

1. (a) The Bank, each Branch, the Agency and any institution-affiliated party thereof, shall not, directly or indirectly, violate the BSA or any rules or regulations issued pursuant thereto and shall correct all BSA violations cited at previous examinations; and

(b) For the purposes of this Order, the term "violate" shall include any action (alone or with another or others) for or toward causing, bringing about, participating in, counseling or aiding or abetting a violation.

(c) To ensure that the Bank, each Branch and the Agency shall not violate any of the provisions of the BSA, or rules or regulations issued pursuant thereto, within 45 days of the issuance of this Order, the Bank shall submit to the Federal Reserve Banks of Chicago, New York and San Francisco (the "Reserve Banks"), the FDIC and the State Bank Supervisory Authorities an acceptable written plan designed to:

(i) ensure compliance with the recordkeeping and reporting requirements for currency transactions of over \$10,000 (31 C.F.R. 103.22);

- (ii) ensure compliance with the identification requirements related to the recordkeeping and reporting requirements for currency transactions of over \$10,000 (31 C.F.R. 103.28);
- (iii) ensure compliance with the exemption procedures (31 C.F.R. 103.22);
- (iv) ensure compliance with the recordkeeping requirements for the purchase of bank checks and drafts, cashier's checks, money orders and traveler's checks (31 C.F.R. 103.29); and
- (v) ensure compliance with the requirements related to the nature of records to be maintained and the retention period of such records (31 C.F.R. 103.38).

2. Within 45 days of the issuance of this Order, the Bank shall submit to the Reserve Banks, the FDIC and the State Bank Supervisory Authorities an acceptable enhanced customer due diligence program. The program shall be designed to reasonably ensure the identification and timely, accurate and complete reporting of known or suspected criminal activity against or involving the Bank, Branches or Agency to law enforcement and supervisory authorities as required by the suspicious activity reporting provisions of Regulation H (12 C.F.R. 208.62 and 208.63) and Regulation K (12 C.F.R. 211.24) of the Board of Governors. The enhanced customer due diligence program shall provide:

- (a) For a risk focused assessment of the customer base of the Branches and the Agency to:
  - (i) identify the categories of customers whose transactions do not require monitoring because of the routine and usual nature of their banking activities; and

(ii) determine the appropriate level of enhanced due diligence necessary for those categories of customers that the Branches or the Agency have reason to believe pose a heightened risk of illicit activities at or through the Branches or the Agency.

(b) For those customers whose transactions require enhanced due diligence, procedures to:

(i) determine the appropriate documentation necessary to confirm the identity and business activities of the customer;

(ii) understand the normal and expected transactions of the customer; and

(iii) report suspicious activities in compliance with existing reporting requirements set forth in the regulations of the Board of Governors, the FDIC and the State Bank Supervisory Authorities.

(c) Appropriate procedures to reasonably ensure that all new products involving the receipt or transfer of funds comply with applicable laws and regulations related to BSA compliance and suspicious activity reporting.

3. Within 45 days of the issuance of this Order, the Bank shall submit to the Reserve Banks, the FDIC and the State Bank Supervisory Authorities an acceptable internal compliance program, designed to, among other things, ensure and maintain compliance by the Bank, each Branch and the Agency with the BSA and related rules and regulations. The program, at a minimum, shall:

(a) provide the means to detect and monitor all currency and other transactions occurring at any Branch or the Agency to ensure that such transactions are not being

conducted for illegitimate purposes and that there is full compliance with all laws and regulations applicable to such transactions;

(b) provide effective training to all appropriate personnel at each Branch and the Agency (including, but not limited to, tellers, customer service representatives, lending officers, private and personal banking officers and all other customer contact personnel) in all aspects of regulatory and internal policies and procedures related to the BSA and the identification and reporting of suspicious transactions and to update the training on a regular basis to ensure that all personnel have the most current and up to date information; and

(c) provide for independent testing of compliance with all applicable rules and regulations related to the BSA and the reporting of suspicious transactions.

4. Within 45 days of the issuance of this Order, the Bank shall ensure that the BSA compliance program for all Branches and the Agency is managed by a qualified officer who shall have responsibility for all BSA compliance and related matters, including, without limitation, the identification and timely, accurate and complete reporting to law enforcement and supervisory authorities of unusual or suspicious activity or known or suspected criminal activity perpetrated against or involving such Branch or Agency.

5. The written plans, programs and procedures required by paragraphs 1, 2, and 3 hereof shall be submitted to the San Francisco Reserve Bank, the FDIC and the California Department of Financial Institutions for review and approval by the applicable Reserve Banks, the FDIC and the applicable State Bank Supervisory Authorities. Acceptable plans, programs, and procedures shall be submitted within the time periods set forth in this Order. The Bank, the Branches and the Agency shall adopt the approved plans, programs, and procedures within 10

days of approval by the applicable Reserve Bank, the FDIC and the applicable State Bank Supervisory Authority and then shall fully comply with them. During the term of this Order, the approved plans, programs and procedures shall not be amended or rescinded for any Branch or the Agency without the prior written approval of (i) the applicable Reserve Bank, (ii) the applicable State Bank Supervisory Authority, and (iii) the FDIC, when applicable.

6. Within 30 days after the end of each calendar quarter (March 31, June 30, September 30, and December 31) following the date of issuance of this Order, the Bank and each Branch and the Agency shall furnish a written progress report detailing the form and manner of all actions taken to secure compliance with this Order, and the results thereof, as well as management's responses to the audit reports on BSA prepared by internal or external auditors during the quarter, to the San Francisco Reserve Bank, the California Department of Financial Institutions and the FDIC.

7. All communications regarding this Order shall be sent to:

Tae Sung Park  
Senior Vice President and Chief of the Regional Office for the Americas  
Korea Exchange Bank – ROAM  
460 Park Ave. 15<sup>th</sup> Floor  
New York, NY 10022

Hans-Bernhard Merforth  
Senior Managing Director  
Korea Exchange Bank  
C.P.O. Box 2924  
Seoul, Korea

And to the following:

(a) For matters relating to the Los Angeles Agency, the Chicago Branch, the Broadway Branch, the New York Branch and the Seattle Branch:

James M. Barnes  
Vice President and Director  
Federal Reserve Bank of San Francisco  
101 Market Street, San Francisco, California 94105

Sharon A. Dunlavey  
Deputy Commissioner  
Department of Financial Institutions  
300 S. Spring Street, Suite 15513  
Los Angeles, California 90013-1204

(b) For matters relating to the Chicago Branch and the Broadway

Branch, also to:

George J. Masa  
Regional Director  
Federal Deposit Insurance Corporation  
25 Ecker Street, Suite 2300  
San Francisco, California 94105

8. The provisions of this Order shall be binding on the Bank, each Branch, the Agency and each of their institution-affiliated parties in their capacities as such, and their successors and assigns.

9. Each provision of this Order shall remain effective and enforceable until stayed, modified, terminated, or suspended by the Board of Governors, the applicable State Bank Supervisory Authority and the FDIC, where applicable.

10. Notwithstanding any provision of this Order, the applicable Reserve Bank, the applicable State Bank Supervisory Authority and the FDIC, where applicable, may, in their discretion, grant written extensions of time to the Bank, a Branch or the Agency to comply with any provision of this Order.

11. The provisions of this Order shall not bar, estop or otherwise prevent the Board of Governors, the State Bank Supervisory Authorities, the FDIC or any federal or state agency or department from taking any other action affecting the Bank, any Branch or the Agency, or any of their current or former institution-affiliated parties.

BY ORDER of the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation (which joins in this Order only with respect to the Chicago Branch and the Broadway Branch), the California Department of Financial Institutions, the Illinois Office of Banks and Real Estate, the New York State Banking Department, and the Washington Department of Financial Institutions.

Date: May 16, 2000

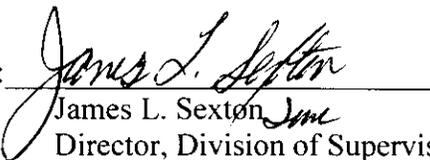
KOREA EXCHANGE BANK  
Seoul, Korea

By:   
Hans-Bernhard Merforth  
Senior Managing Director

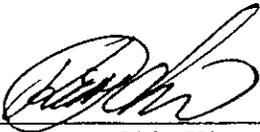
BOARD OF GOVERNORS OF THE  
FEDERAL RESERVE SYSTEM

By:   
Jennifer J. Johnson  
Secretary of the Board

FEDERAL DEPOSIT INSURANCE  
CORPORATION

By:   
James L. Sexton  
Director, Division of Supervision

KOREA EXCHANGE BANK  
LOS ANGELES AGENCY

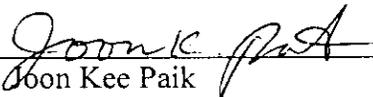
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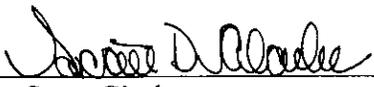
Jan Lynn Owen  
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David L. Scott  
Chief State Examiner

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Deputy Superintendent of Banks

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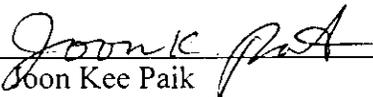
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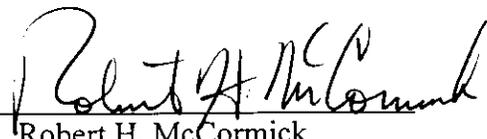
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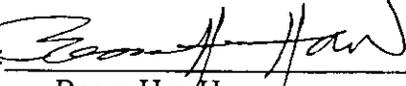
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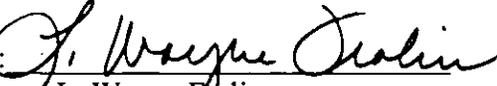
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SEATTLE BRANCH

By:   
Beom Hee Han  
General Manager

WASHINGTON DEPARTMENT  
OF FINANCIAL INSTITUTIONS

By:   
L. Wayne Fralin  
Director, Division of Banks