

FEDERAL RESERVE SYSTEM

Union Bank of Israel Ltd.
Tel Aviv, Israel

Order Approving Establishment of a Representative Office

Union Bank of Israel Ltd. (“Bank”), Tel Aviv, Israel, a foreign bank within the meaning of the International Banking Act (“IBA”), has applied under section 10(a) of the IBA (12 U.S.C. § 3107(a)) to establish a representative office 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 a representative office in the United States.

Notice of the application, affording interested persons an opportunity to submit comments, has been published in a newspaper of general circulation in New York, New York (*The New York Post*, August 2, 2002). The time for filing comments has expired, and all comments have been considered.

Bank, with total consolidated assets of approximately \$4.6 billion,¹ is primarily engaged in capital market activities, foreign currency services, and financing the diamond industry.² Bank operates branches throughout Israel and one branch in the Cayman Islands. Bank also has several subsidiaries that engage in investment banking, portfolio and fund management, insurance, and mortgage lending.

The proposed representative office is intended to promote Bank’s services to existing and potential customers in the United States. It would conduct research, act

¹ Unless otherwise indicated, data are as of December 31, 2002.

² Shlomo Eliahu Holdings Ltd., Yeshayahu Landau Holdings (1993) Ltd., and David Lubinsky Assets (Holdings) 1993 Ltd. own 23, 23, and 18 percent of Bank, respectively. Bank Leumi le-Israel B.M., also in Tel Aviv, owns approximately 11.5 percent of Bank. The remaining shares of Bank are widely held.

as a liaison with customers of Bank, solicit loans, execute loan documents, and solicit purchasers of loans and loan servicing contracts. All decisions on credit extended by Bank would be made at the head office.

In acting on an application to establish a representative office, the IBA and Regulation K provide that the Board shall take into account whether the foreign bank 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. § 3107(a)(2)).³ In the case of an application to establish a representative office, the standard with respect to home country supervision would be met if the applicant bank is subject to a supervisory framework that is consistent with the activities of the proposed office, taking into account the nature of the activities and the operating record of the applicant. (12 C.F.R. 211.24(d)(2)). The Board may take into account 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)).

³ In 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.

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

With respect to supervision by home country authorities, the Board previously has determined, in connection with an application involving another Israeli bank, that such bank was subject to home country supervision on a consolidated basis.⁴ Bank is supervised by the Bank of Israel on substantially the same terms and conditions as the other bank. Based on all the facts of record, it has been determined that Bank is subject to comprehensive supervision and regulation on a consolidated basis by its home country supervisor.

The additional standards set forth in section 7 of the IBA and Regulation K (*see* 12 U.S.C. § 3105(d)(3)-(4); 12 C.F.R. 211.24(c)(2)) have also been taken into account. The Bank of Israel has no objection to the establishment of the proposed representative office.

With respect to the financial and managerial resources of Bank, taking into consideration Bank's record of operations in its home country, its overall financial resources, and its standing with its home country supervisor, financial and managerial factors are consistent with approval of the proposed representative office. Bank appears to have the experience and capacity to support the proposed representative office and has established controls and procedures for the proposed representative office to ensure compliance with U.S. law.

Money laundering is a criminal offense in Israel and banks are required to establish internal policies and procedures for the detection and prevention of money laundering. Israeli legislation and regulations of the Bank of Israel require banks to adopt know-your-customer policies, report suspicious transactions, appoint a compliance officer, and maintain records.

⁴ *See Bank Hapoalim, B.M.*, 87 Federal Reserve Bulletin 327 (2001).

Accordingly, Bank has established anti-money laundering policies and procedures that have been adopted by all of Bank's offices and subsidiaries. Bank has implemented know-your-customer policies, suspicious activity reporting procedures, and related training programs.

With respect to access to information on Bank's operations, the restrictions on disclosure in relevant jurisdictions in which Bank operates have been reviewed and relevant government authorities have been communicated with regarding access to information. Bank and its parents have committed to make available to the Board such information on the operations of Bank and any of its affiliates as 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 or otherwise, Bank and Bank's parents 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 Bank of Israel may share information on 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 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 Bank and its parents and the terms and conditions set forth in this order, Bank's application to establish the representative office is hereby approved.⁵ Should any restrictions on access to information on the operations or activities of Bank or any of its affiliates subsequently interfere with the Board's ability to obtain information to

⁵ 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. *See* 12 C.F.R. 265.7(d)(12).

determine and enforce compliance by Bank or its affiliates with applicable federal statutes, the Board may require or recommend termination of any of Bank's direct and indirect activities in the United States. Approval of this application also is specifically conditioned on compliance by Bank and its parents with the commitments made in connection with this application and with the conditions in this order.⁶ The commitments and conditions referred to above are conditions imposed in writing by the Board in connection with its decision and may be enforced in proceedings against Bank and its affiliates under 12 U.S.C. § 1818.

By order, approved pursuant to authority delegated by the Board, effective April 10, 2003.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

⁶ The Board's authority to approve the establishment of the proposed representative office 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 or its agent, the New York State Banking Department, to license the proposed office of Bank in accordance with any terms or conditions that it may impose.