

FEDERAL RESERVE SYSTEM

NongHyup Bank
Seoul, Republic of Korea

Order Approving Establishment of a Branch and a Representative Office

NongHyup Bank (“NH Bank”), Seoul, Republic of Korea, a foreign bank within the meaning of the International Banking Act (“IBA”), has applied under sections 7(d) and 10(a) of the IBA¹ to establish a state-licensed branch and a representative office (“U.S. offices”), both 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 branch or representative office in the United States.

Notice of the applications, affording interested persons an opportunity to comment, has been published in a newspaper of general circulation in New York, New York (*New York Post*, April 19, and July 30, 2012). The time for filing comments has expired, and all comments received have been considered.

NH Bank, with total consolidated assets of approximately \$175 billion, is a newly chartered banking entity resulting from an internal corporate restructuring of National Agricultural Cooperative Federation (“NACF”), also of Seoul.² NH Bank is wholly owned by NH Financial Group Inc. (“NHFG”) which, in turn, is wholly owned by NACF.³

NHFG and NH Bank were established as of March 2, 2012, pursuant to an amendment to the Korean National Agricultural Cooperative Federation Act, which

¹ 12 U.S.C. §§ 3105(d) and 3107(a).

² Asset data is as of September 30, 2012.

³ NACF is a special-purpose entity created by the Korean government that acts as an umbrella organization for Korean agricultural cooperatives. NACF is entirely owned

separated NACF's financial and non-financial activities. On that date, by operation of Korean law, NACF's credit and banking businesses were transferred to NH Bank. NH Bank assumed NACF's banking business in its entirety and succeeded to all of NACF's rights and obligations associated therewith. As of year-end 2011, NH Bank would have been the fourth largest banking institution in Korea based on asset size.⁴ NH Bank engages in commercial banking activities through its head office and approximately 1,172 branch offices in Korea, including general commercial, agricultural and credit card lending, trust activities, and deposit taking. In the United States, NACF operates a representative office in New York City and a nonbank company in Cerritos, California.⁵ Upon the establishment of the proposed branch, NACF, NHFG, and NH Bank would all be qualifying foreign banking organizations under Regulation K.⁶

The proposed representative office would assume the current business of NACF's existing representative office. When NH Bank establishes the proposed branch, the proposed representative office would be closed. The proposed representative office would act as liaison between NH Bank and its customers in the United States and would engage in other representational activities, including soliciting purchasers of loans and parties to contract with NH Bank for the servicing of NH Bank loans; and conducting research.⁷ The proposed representative office would also solicit loans in principal

by its member agricultural cooperatives. No shareholder, directly or indirectly, owns 5 percent or more of the voting shares of NACF.

⁴ This ranking is based on the asset size of NACF's banking business prior to the restructuring and includes trust accounts.

⁵ See e.g., National Agricultural Cooperative Federation, 96 Federal Reserve Bulletin B27 (2010). Through a Korean nonbanking subsidiary, NACF has an indirect U.S. subsidiary that engages primarily in agricultural market research, marketing Korean agricultural products, and other nonbanking activities. NACF has similar establishments in Tokyo and Beijing. NACF would hold its indirect U.S. subsidiary pursuant to section 2(h)(2) of the Bank Holding Company Act. 12 U.S.C. § 1841(h)(2).

⁶ 12 CFR 211.23(a).

⁷ A representative office may engage in representational and administrative functions in connection with the banking activities of the foreign bank, including soliciting new business for the foreign bank, conducting research, acting as a liaison between the

amounts of \$250,000 or more and, in connection with those loan proposals, would assemble credit information, make property inspections and appraisals of property, secure title information, and prepare loan applications and make recommendations. The proposed branch would provide remittance/money transmittal services for existing NH Bank customers in Korea; trade finance services, such as letters of credit and bankers acceptances, on behalf of NH Bank and its Korean branches for Korean companies and U.S. companies seeking to do business with Korea; and financing for Korean and other companies with subsidiaries or branches in the United States.

Under the IBA and Regulation K, in acting on an application by a foreign bank to establish a branch or a representative office, the Board must consider whether the foreign bank (1) engages directly in the business of banking outside the United States; (2) has furnished to the Board the information it needs to assess the application adequately; and (3) is subject to comprehensive supervision on a consolidated basis by its home country supervisors.⁸ The Board also considers additional standards set forth in the IBA and Regulation K.⁹

foreign bank's head office and customers in the United States, performing preliminary and servicing steps in connection with lending, and performing back-office functions. A representative office may not contract for any deposit or deposit-like liability, lend money, or engage in any other banking activity. 12 CFR 211.24(d)(1).

⁸ 12 U.S.C. §§ 3105(d)(2) and 3107(a)(2); 12 CFR 211.24(d)(2). In assessing the supervision 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 the 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 See 12 U.S.C. § 3105(d)(3)-(4); 12 CFR 211.24(c)(2). These standards include: whether the bank's home country supervisor has consented to the establishment of the office; the financial and managerial resources of the bank; whether the bank has

The IBA includes a limited exception to the general standard relating to comprehensive, consolidated supervision.¹⁰ 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, the Board may nevertheless approve the application provided that: (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.¹¹ This is the standard applied in this case. In deciding whether to exercise its discretion to approve an application under authority of this exception, the Board must also consider whether the foreign bank has adopted and implemented procedures to combat money laundering.¹² 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.¹³

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

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; whether the appropriate supervisors in the home country may share information on the bank's operations with the Board; whether the bank and its U.S. affiliates are in compliance with U.S. law; the needs of the community; and the bank's record of operation. The Board may also, in the case of a foreign bank that presents a risk to the stability of the United States, take into account, to the extent appropriate, 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. 12 U.S.C. § 3105(d)(3)(E).

¹⁰ 12 U.S.C. § 3105(d)(6).

¹¹ 12 U.S.C. § 3105(d)(6)(A).

¹² 12 U.S.C. § 3105(d)(6)(B).

¹³ Id.

With respect to supervision by home country authorities, the following factors have been taken into consideration. NH Bank is subject to oversight by a number of Korean government agencies, including the Financial Supervisory Service (“FSS”), in a manner different from other Korean commercial banks.¹⁴ As NH Bank is a specialized bank that is part of an agricultural cooperative, several other governmental agencies, in addition to the FSS, participate in the supervision of NH Bank and in the oversight of its parent companies. These include the Ministry for Food, Agriculture, Forestry, and Fisheries (“Food and Agriculture Ministry”); the Ministry of Strategy and Finance; and the Board of Audit and Inspection. Under applicable Korean law, the Financial Services Commission, whose executive body is the FSS, must take into account the unique objectives of NH Bank and consult with the Food and Agriculture Ministry before imposing sanctions on or granting authorizations to the bank. NH Bank’s direct parent, NHFG, is supervised as a financial holding company by the FSS, while NH Bank’s ultimate parent, NACF, is supervised by the Food and Agriculture Ministry, which inspects each NACF unit over the course of a three-year schedule. Additionally, NACF is subject to periodic on-site examination of all its businesses by the Korean National Assembly’s Committee of Agriculture, Forestry and Ocean in connection with its oversight of the Korean agricultural industry. NH Bank is subject to lower liquidity requirements than commercial banks and, in connection with its formation, was granted temporary authority to extend credit to other business units in the NACF group.

The structure of NH Bank is new and was designed to permit more effective supervision of the banking operations of the NACF organization. This restructuring has caused a realignment of the regulatory structure applicable to NH Bank as well. This regulatory structure involves a combination of agencies and a balancing of missions that is different than the regulatory structure previously reviewed by the Board

¹⁴ The FSS is the executive body of the Financial Services Commission (“FSC”), which is responsible for promulgating supervisory regulations, making policy decisions about supervision, and imposing sanctions on Korean financial institutions. The FSS is responsible for the supervision of Korean financial institutions, including overseas offices, pursuant to regulations promulgated by the FSC.

for other Korean banks.¹⁵ The relevant Korean authorities are working together to fully implement a supervisory framework that will effectively supervise NH Bank on a worldwide consolidated basis.

Korea is a member of the Financial Action Task Force (“FATF”) and subscribes to its recommendations regarding measures to combat money laundering and international terrorism. In accordance with those recommendations, Korea has enacted laws and created legislative and regulatory standards to deter money laundering, terrorist financing, and other illicit activities. Money laundering is a criminal offense in Korea, and financial services businesses are required to establish internal policies, procedures, and systems for the detection and prevention of money laundering throughout their worldwide operations. NH Bank has policies and procedures to comply with those laws and regulations, and these policies and procedures are monitored by governmental entities responsible for anti-money laundering compliance.

Based on all the facts of record, it has been determined that NH Bank’s home country supervisory authorities are actively working to establish arrangements for the consolidated supervision of NH Bank. Considerations relating to the steps taken by NH Bank and its home jurisdiction to combat money laundering are consistent with approval under this standard.

The additional standards set forth in section 7 of the IBA and Regulation K also have been taken into account.¹⁶ The FSS has no objection to the establishment of the proposed branch and representative office.

The financial and managerial factors in this case have been considered and are consistent with approval of the proposed offices. Korea’s risk-based capital standards are consistent with those established by the Basel Capital Accord. NH Bank’s capital is in excess of the minimum levels that would be required of a U.S. banking organization. Managerial and other financial resources of NH Bank are consistent with approval, and NH Bank appears to have the experience and capacity to support the proposed branch. In

¹⁵ See Shinhan Financial Group Co., Ltd., 90 Federal Reserve Bulletin 85 (2004); Woori Finance Holdings Co., Ltd., 89 Federal Reserve Bulletin 436 (2003).

¹⁶ See 12 U.S.C. § 3105(d)(3)-(4); 12 CFR 211.24(c)(2).

addition, NH Bank has established controls and procedures for the proposed U.S. offices to ensure compliance with U.S. law.

With respect to access to information about NH Bank's operations, the restrictions on disclosure in relevant jurisdictions in which NH Bank operates have been reviewed and relevant government authorities have been communicated with regarding access to information. NH Bank and NACF have committed to make available to the Board such information on the operations of NH 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.¹⁷ To the extent that providing such information to the Board may be prohibited by law or otherwise, NH Bank and NACF have committed to cooperate with the Board to obtain any necessary consents or waivers that might be required from third parties for the disclosure of such information. In addition, subject to certain conditions, the FSC and FSS may share information on NH 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 NH Bank and NACF have provided adequate assurances of access to any necessary information that the Board may request.

Section 173 of the Dodd-Frank 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.¹⁸ 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 the absolute and relative size of NH Bank in its home country, the scope of NH Bank's activities, including the type of activities it proposes to conduct in the United States,

¹⁷ NACF previously provided this commitment to the Board in connection with its application to establish a representative office in 2010. See supra, note 4.

¹⁸ 12 U.S.C. § 3105(d)(3)(E).

and the potential for those activities to increase or transmit financial instability, and the framework in place for supervising NH Bank in its home country. Based on these and other factors, financial stability considerations in this proposal are consistent with approval.

On the basis of all the facts of record, and subject to the commitments made by NH Bank and NACF, NH Bank's applications to establish the proposed U.S. offices are 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.¹⁹ Should any restrictions on access to information on the operations or activities of NH Bank and its affiliates subsequently interfere with the Board's ability to obtain information to determine and enforce compliance by NH Bank or its affiliates with applicable federal statutes, the Board may require termination of any of NH Bank's direct or indirect activities in the United States. Approval of the applications also is specifically conditioned on compliance by NH Bank and NACF with the conditions imposed in this order and the commitments made to the Board in connection with this application.²⁰ For purposes of this action, these commitments and conditions are deemed to be conditions imposed in writing by the Board in connection with this decision and, as such, may be enforced in proceedings under applicable law.

By order, approved pursuant to authority delegated by the Board, effective January 28, 2013.

(signed)

Margaret McCloskey Shanks
Deputy Secretary of the Board

¹⁹ 12 CFR 265.7(d)(12).

²⁰ The Board's authority to approve the establishment of the proposed representative office and branch 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 Department of Financial Services, to license the proposed offices of NH Bank in accordance with any terms or conditions that it may impose.