

FEDERAL RESERVE SYSTEM

Hana Financial Group Inc.  
Seoul, Korea

Order Approving Notice to Engage in Nonbanking Activities

Hana Financial Group Inc., Seoul, Korea (“HFG”), a foreign banking organization subject to the provisions of the Bank Holding Company Act (“BHC Act”),<sup>1</sup> has requested the Board’s approval under section 4(c)(8) of the BHC Act<sup>2</sup> and section 225.24 of the Board’s Regulation Y<sup>3</sup> to acquire indirect controlling interests in KEB NY Financial Corp., New York, New York (“KEB NY”), and KEB LA Financial Corp., Los Angeles, California (“KEB LA”). HFG would acquire KEB NY and KEB LA as part of the acquisition of a controlling interest in Korea Exchange Bank, Seoul, Korea (“KEB”). KEB NY and KEB LA are wholly owned subsidiaries of KEB.<sup>4</sup> As a result of the proposed acquisition, HFG would engage in the United States in the following nonbanking activities:

- (1) making, acquiring, brokering, or servicing loans or other extensions of credit (including factoring, issuing letters of credit, and accepting drafts) for the account of KEB NY and KEB LA, or for the account of others, in accordance with 12 CFR 225.28(b)(1); and
- (2) activities usual in connection with making, acquiring, brokering, or servicing loans or other extensions of credit, as determined by the Board and permitted under 12 CFR 225.28(b)(2).

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<sup>1</sup> As the parent company of a foreign bank operating an agency in the United States, HFG is subject to the BHC Act by operation of section 8(a) of the International Banking Act of 1978 (12 U.S.C. § 3106(a)).

<sup>2</sup> 12 U.S.C. §§ 1843(c)(8) and 1843(j).

<sup>3</sup> 12 CFR 225.24.

<sup>4</sup> A commenter asserted that Goldman Sachs and “others” should join this application. Goldman Sachs owns less than 5 percent of the shares of HFG and does not require Board approval under the BHC Act with respect to the proposed transaction. No other shareholder of HFG is subject to the BHC Act and none requires approval under the act.

Notice of the proposal, affording interested persons an opportunity to comment, has been published in the Federal Register (76 Federal Register 6136 (2011)). The time for filing comments has expired, and the Board has considered the notice and all comments received in light of the factors set forth in section 4 of the BHC Act.

HFG, with consolidated assets of approximately \$157.1 billion, is the fourth largest banking organization in Korea. In the United States, HFG, indirectly through its subsidiary Hana Bank, Seoul, operates a New York state-licensed agency in New York City. KEB is a Korean commercial bank headquartered in Seoul with total assets of approximately \$92 billion. KEB is the fifth largest commercial bank in Korea, and it provides a broad range of banking and other financial services throughout the world. In the United States, KEB owns and operates three wholly owned subsidiaries. Two of the subsidiaries, KEB NY and KEB LA, are lending subsidiaries that hold, service, and originate commercial loans and provide trade financing. The third subsidiary engages in servicing activities.<sup>5</sup>

The Board has determined by regulation that extending credit and servicing loans, and activities related to extending credit, are activities closely related to banking for purposes of section 4(c)(8) of the BHC Act. HFG has committed to conduct the proposed activities in accordance with the limitations set forth in Regulation Y and the Board's orders.

In reviewing the proposal, the Board is required by section 4(j)(2)(A) of the BHC Act to determine that the proposed acquisition "can reasonably be expected to produce benefits to the public ... that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, unsound banking practices, or risk to the stability of the United States banking or financial system."<sup>6</sup> As part of its evaluation of these factors, the Board considers the

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<sup>5</sup> KEB USA International Corp. engages in servicing activities that are permitted under section 4(c)(1)(C) of the BHC Act (12 U.S.C. § 1843(c)(1)(C)).

<sup>6</sup> 12 U.S.C. § 1843(j)(2)(A).

financial and managerial resources of the companies involved and the effect of the proposal on those resources.<sup>7</sup>

In assessing the financial and managerial resources of the companies involved, the Board has considered, among other things, information provided by HFG, public comment, confidential reports of examination, other confidential supervisory information, and publicly reported financial and other information. In evaluating the financial factors of this proposal, the Board has considered a number of factors, including capital adequacy. HFG has capital ratios in excess of the minimum levels that would be required by the Basel Capital Accord and are considered equivalent to the capital that would be required of a U.S. banking organization. The transaction in the United States is a small part of the acquisition by HFG of a foreign bank in Korea. The Board has considered that the primary supervisor for HFG in Korea has reviewed the financial factors and approved the acquisition of KEB by HFG.

In addition, the Board has considered the managerial resources of HFG,<sup>8</sup> the supervisory experiences of the relevant banking supervisory agencies with HFG, and HFG's record of compliance with applicable U.S. banking laws.<sup>9</sup> The Board has also consulted with home country authorities responsible for supervising HFG and

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<sup>7</sup> 12 CFR 225.26.

<sup>8</sup> A commenter expressed concern about HFG's managerial strength based on an article in a Korean newspaper that described a supervisory "caution" issued against Hana Bank for violation of certain insurance requirements in Korea. In connection with this notice, the Board has reviewed HFG's record of operation in the U.S. and has consulted with HFG's home country supervisor.

<sup>9</sup> The commenter requested that the Board consider the proposal in light of the Community Reinvestment Act ("CRA") (12 U.S.C. § 2901 *et seq.*). The CRA does not provide for consideration of a notificant's CRA performance record in the evaluation of a notice to acquire a nondepository institution under section 4 of the BHC Act. The commenter also asked that the Board "explore" a 2003 judicial decision. However, that decision does not involve any entity affiliated with either of the parties to the proposed transaction.

reviewed reports of examination from the appropriate federal and state supervisors of the U.S. operations of HFG that assessed its managerial resources. As noted, HFG's home country supervisor, the Korean Financial Services Commission, has approved the proposed acquisition. Based on all the facts of record, the Board has concluded that considerations relating to the financial and managerial resources of the organizations involved are consistent with approval.

Section 4(j)(2)(A) of the BHC Act also requires the Board to consider whether the proposal is likely to pose a significant risk to the stability of the United States banking or financial system. There would be only minimal linkages between HFG and the U.S. financial system if the proposal were approved. For instance, KEB NY and KEB LA have combined total U.S. assets of \$626 million, and HFG's current U.S. assets, represented by Hana Bank's agency in New York, are approximately \$600 million. The Board believes that the proposal would not pose a significant risk to the United States banking or financial system.

The Board has also considered carefully the competitive effects of the proposal in light of all the facts of record. HFG and KEB compete only in the Metropolitan New York-New Jersey lending market and represent a relatively small aggregate position within that market. The Metropolitan New York-New Jersey lending market is unconcentrated, and numerous competitors would remain in the market. Based on all the facts of record, the Board concludes that HFG's proposed activities would have a de minimis effect on competition for the relevant nonbanking activities.

The Board expects that the proposed activities would result in benefits to the public by enhancing the ability of HFG and KEB to serve their customers within the United States. The Board concludes that the conduct of the proposed nonbanking activities within the framework of Regulation Y and Board precedent is not likely to result in adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, unsound banking practices, or a significant risk to the

stability of the United States banking or financial system that would outweigh the public benefits of the proposal discussed above. Accordingly, based on all the facts of record, the Board has determined that the balance of the public benefits factor that it must consider under section 4(j) of the BHC Act is consistent with approval of the proposal.

Based on the foregoing, the Board has determined that the notice should be, and hereby is, approved.<sup>10</sup> In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act. The Board's approval is specifically conditioned on compliance by HFG with the conditions imposed in this order and the commitments made to the Board in connection with the notice. The Board's approval is also subject to all the conditions set forth in Regulation Y, including those in sections 225.7 and 225.25(c),<sup>11</sup> and to the Board's authority to require such modification or termination of the activities of HFG and any of its subsidiaries as the Board finds necessary to ensure compliance with, and to prevent evasion of, the provisions of the BHC Act and the Board's regulations and orders issued thereunder. For purposes of these actions, the conditions and commitments are deemed

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<sup>10</sup> The commenter has requested that the Board hold a public meeting or hearing on the proposal. Section 4 of the BHC Act and the Board's rules thereunder provide for a hearing on a notice to acquire nonbanking companies if there are disputed issues of material fact that cannot be resolved in some other manner. 12 CFR 225.25(a)(2). Under its rules, the Board also may, in its discretion, hold a public meeting if appropriate to allow interested persons an opportunity to provide relevant testimony when written comments would not adequately present their views. The Board has considered carefully the commenter's request in light of all the facts of record. In the Board's view, the commenter had ample opportunity to submit its views, and, in fact, submitted written comments that the Board has considered carefully in acting on the proposal. The commenter's request fails to demonstrate why the written comments do not present its views adequately and fails to identify disputed issues of fact that are material to the Board's decision that would be clarified by a public meeting or hearing. For these reasons, and based on all the facts of record, the Board has determined that a public meeting or hearing is not required or warranted in this case. Accordingly, the request for a public meeting or hearing on the proposal is denied.

<sup>11</sup> 12 CFR 225.7 and 225.25(c).

to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

This transaction shall not be consummated later than three months after the effective date of this order unless such period is extended for good cause by the Board or the Federal Reserve Bank of New York, acting pursuant to delegated authority.

By order of the Board of Governors,<sup>12</sup> effective February 8, 2012.

*(signed)*

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Robert deV. Frierson  
Deputy Secretary of the Board

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<sup>12</sup> Voting for this action: Chairman Bernanke, Vice Chair Yellen, and Governors Duke, Tarullo, and Raskin.