

FEDERAL RESERVE SYSTEM

Allianz SE
Munich, Germany

Order Approving the Acquisition of Shares of a Savings Association

Allianz SE (“Allianz”), a company that is treated as a financial holding company within the meaning of the Bank Holding Company Act (“BHC Act”), has requested the Board’s approval under sections 4(c)(8) and 4(j) of the BHC Act and section 225.24 of the Board’s Regulation Y¹ to retain its interest in The Hartford Financial Services Group, Inc. (“The Hartford”), Hartford, Connecticut, on consummation of The Hartford’s proposal to become a savings and loan holding company by indirectly acquiring all the shares of Federal Trust Bank (“Federal Trust”), Sanford, Florida, a federal savings association.

Section 4 of the BHC Act requires a bank holding company to obtain the Board’s approval before acquiring more than 5 percent of the voting shares of a savings association, regardless of whether the acquisition would represent a controlling interest.² Allianz is subject to the BHC Act as a result of its ownership of Dresdner Bank AG (“Dresdner”), Frankfurt am Main, Germany, which operates a branch in New York, New York.³ Allianz owns 23.7 percent of the voting shares of The Hartford, a diversified financial services company. On November 14, 2008, The Hartford applied to the Office of Thrift Supervision (“OTS”) to acquire Federal Trust Corporation (“FTC”), the parent

¹ 12 U.S.C. §§ 1843(c)(8) and (j); 12 CFR 225.24.

² See 12 U.S.C. §§ 1843(c)(8), 1843(i). As discussed more fully below, the Board has determined that Allianz would not control or exercise a controlling influence over The Hartford based on all the facts and circumstances of the investment, including commitments and representations provided by Allianz to the Board.

³ A foreign bank that operates a branch or agency in the United States (and any company that owns or controls such foreign bank) is subject to the BHC Act as if it were a bank holding company. 12 U.S.C. § 3106(a).

savings and loan holding company of Federal Trust, and thereby acquire control of Federal Trust.

Section 4(i)(4) of the BHC Act requires the Board to provide the director of OTS with notice of an application to acquire a savings association and to provide the director a period of time (normally 30 days) within which to submit views and recommendations on the proposal.⁴ The BHC Act also authorizes the Board to reduce or eliminate this notice period under certain circumstances.⁵

In light of the unusual and exigent circumstances affecting the financial markets, and all other facts and circumstances, the Board has determined that emergency conditions exist that justify expeditious action on this proposal in accordance with the provisions of the BHC Act and the Board's regulations.⁶ The Board has provided notice to OTS, the primary federal supervisor of FTC and Federal Trust, and to the Department of Justice ("DOJ"). Those agencies have indicated they have no objection to approval of the proposal. For the same reasons, and because this transaction represents a minority, noncontrolling investment in The Hartford and its proposed subsidiary depository institution, the Board has waived public notice of the proposal.

Allianz, with total consolidated assets of approximately \$1.4 trillion, provides insurance, banking, and asset-management products and services in more than 70 countries. Allianz's banking activities are conducted primarily through Dresdner. Dresdner also owns Dresdner Kleinwort Securities, LLC, a U.S. broker-dealer.

The Hartford, with total consolidated assets of \$312 billion, is a diversified insurance and financial services company, with international operations in Japan, the United Kingdom, Canada, Brazil, and Ireland. FTC, with total consolidated assets of approximately \$602 million, operates one insured depository institution, Federal Trust, which has offices only in Florida and controls deposits of approximately \$415 million.⁷

⁴ 12 U.S.C. § 1843(i)(4).

⁵ *Id.*

⁶ 12 U.S.C. § 1843(i)(4); 12 CFR 225.25(d) and 262.3(l).

⁷ Asset data are as of June 30, 2008. Deposit data are as of September 30, 2008.

The Board previously has determined by regulation that the operation of a savings association by a bank holding company is closely related to banking for purposes of section 4(c)(8) of the BHC Act.⁸ The Board requires that savings associations acquired by bank holding companies or financial holding companies conform their direct and indirect activities to those permissible for bank holding companies under section 4(c)(8) of the BHC Act. Allianz has committed to conform or divest its interests in The Hartford if The Hartford, FTC, Federal Trust, or any of their subsidiaries engage in activities that are impermissible under the BHC Act.

In reviewing the proposal, the Board is required by section 4(j)(2)(A) of the BHC Act to determine that the proposed acquisition of FTC and Federal Trust “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, or unsound banking practices.”⁹ As part of its evaluation of a proposal under these public interest factors, the Board reviews the financial and managerial resources of the companies involved, the effect of the proposal on competition in the relevant markets, and the public benefits of the proposal.¹⁰ In acting on a notice to acquire a savings association, the Board also reviews the records of performance of the relevant insured depository institutions under the Community Reinvestment Act (“CRA”).¹¹

In reviewing the proposal under section 4 of the BHC Act, the Board has considered the financial resources of Allianz, The Hartford, FTC, and Federal Trust. The Board has also reviewed the effect that the transaction would have on those resources in light of all the facts of record, including confidential reports of examination, other supervisory information from the primary federal and state supervisors of the

⁸ 12 CFR 225.28(b)(4)(ii).

⁹ 12 U.S.C. § 1843(j)(2)(A).

¹⁰ See 12 CFR 225.26; see, e.g., BancOne Corporation, 83 Federal Reserve Bulletin 602 (1997).

¹¹ 12 U.S.C. § 2901 et seq.

organizations involved in the proposal, publicly reported and other financial information, and information provided by Allianz.

Noncontrolling Investment

Allianz has stated that it does not propose to control or exercise a controlling influence over The Hartford and that as a result, its indirect investment in FTC and Federal Trust would be a passive investment. Allianz has provided certain commitments that are similar to commitments previously relied on by the Board in determining that an investing bank holding company would not be able to exercise a controlling influence over another company for purposes of the BHC Act. For example, Allianz has committed not to exercise or attempt to exercise a controlling influence over the management or policies of The Hartford or any of its subsidiaries and has committed not to have more than one representative serve on the board of The Hartford or its subsidiaries. The commitments also include certain restrictions on the business relationships of Allianz with The Hartford, FTC, and Federal Trust.

Based on these considerations and all other facts of record, the Board has concluded that Allianz would not control The Hartford or its subsidiary depository institution solely by virtue of the proposed retention of its interest in The Hartford. The Board notes that the BHC Act would require Allianz to file an application and receive the Board's approval before it could directly or indirectly acquire additional shares of, or attempt to exercise a controlling influence over, The Hartford.¹²

Financial and Managerial Resources

In evaluating financial resources, the Board reviews the financial condition of the organizations involved on both a parent-only and consolidated basis, as well as the financial condition of the subsidiary insured depository institutions and significant nonbanking operations. In this evaluation, the Board considers a variety of measures, including capital adequacy, asset quality, and earnings performance. In assessing financial resources, the Board consistently has considered capital adequacy to be

¹² See, e.g., Emigrant Bancorp, Inc., 82 Federal Reserve Bulletin 555 (1996); First Community Bancshares, Inc., 77 Federal Reserve Bulletin 50 (1991).

especially important. The Board also evaluates the financial condition of the pro forma organization, including its capital position, asset quality, and earnings prospects, and the impact of the proposed funding of the transaction.

The capital levels of Allianz exceed the minimum levels that would be required of a foreign bank under the Basel Capital Accord and are, therefore, considered to be equivalent to the capital levels that would be required of a U.S. banking organization. The Board has also consulted with the OTS about the financial resources of The Hartford, FTC, and Federal Trust, including those resources on consummation of the proposal. Based on its review of the record, the Board finds that Allianz has sufficient resources to retain its interest in The Hartford.

The Board also has considered the managerial resources of the organizations involved. The Board has considered available supervisory information concerning Dresdner's U.S. operations, FTC, and Federal Trust. In addition, the Board has considered its supervisory experiences and those of the other relevant banking supervisory agencies with the organizations and their records of compliance with applicable banking laws and with anti-money laundering laws. The Board has also consulted with the OTS about the managerial resources of, and its supervisory experiences with, FTC and Federal Trust.

Based on all the facts of record, the Board has concluded that the financial and managerial resources of the organizations involved in the proposal are consistent with approval under section 4 of the BHC Act.

Competitive Considerations and CRA Performance Records

As part of the Board's consideration of the public interest factors under section 4 of the BHC Act, the Board has considered carefully the competitive effects of the proposal in light of all the facts of record. The Board has found that noncontrolling interests in directly competing depository institutions may raise serious questions under the BHC Act and has stated that the specific facts of each case will determine whether the minority investment in a company would be anticompetitive.¹³ Dresdner, the subsidiary

¹³ See, e.g., BOK Financial Corp., 81 Federal Reserve Bulletin 1052, 1053-54 (1995).

foreign bank of Allianz, however, does not compete directly with FTC in any relevant banking market. Based on all the facts record, the Board concludes that the consummation of the proposal would have no significantly adverse effect on competition or on the concentration of banking resources in any relevant banking market.

As provided in the CRA, the Board has evaluated the proposal in light of the evaluations by the appropriate federal supervisors of the CRA performance records of the relevant insured depository institutions. An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, on-site evaluation of the institution's overall record of performance under the CRA by its appropriate federal supervisor.¹⁴ Federal Trust received a "satisfactory" rating on June 26, 2006, its most recent CRA examination. Based on a review of the entire record and for the reasons stated above, the Board concludes that the CRA performance records of the relevant depository institutions are consistent with approval.

Public Benefits

As part of its evaluation of the public interest factors under section 4 of the BHC Act, the Board has reviewed carefully the public benefits and possible adverse effects of the proposal. The record indicates that consummation of the proposal would result in benefits to consumers currently served by FTC and Federal Trust by strengthening the financial and managerial resources available to Federal Trust and thereby enhancing Federal Trust's future prospects.

For the reasons discussed above and based on all the facts of record, the Board has determined that the conduct of the proposed nonbanking activities within the framework of Regulation Y and Board precedent is not likely to result in significantly adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices. Based on all the facts of record, the Board has concluded that consummation of the proposal can reasonably be

¹⁴ See Interagency Questions and Answers Regarding Community Reinvestment, 74 Federal Register 498 at 527 (2009).

expected to produce public benefits that would outweigh any likely adverse effects. Accordingly, the Board has determined that the balance of the public benefits under the standard of section 4(j)(2) of the BHC Act is consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the notice should be, and hereby is, approved. 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 Allianz with the conditions imposed in this order and the commitments made to the Board in connection with the notice. The Board's approval also is subject to all the conditions set forth in Regulation Y, including those in sections 225.7 and 225.25(c),¹⁵ and to the Board's authority to require such modification or termination of the activities of Allianz or 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 this action, these conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decisions herein and, as such, may be enforced in proceedings under applicable law.

By order of the Board of Governors,¹⁶ effective January 14, 2009.

(SIGNED)

Robert deV. Frierson
Deputy Secretary of the Board

¹⁵ 12 CFR 225.7 and 225.25(c).

¹⁶ Voting for this action: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Kroszner, and Duke.