

FEDERAL RESERVE SYSTEM

Bank Hapoalim, B.M.  
Tel Aviv, Israel

Zohar Hashemesh Le'Hashkaot Ltd.  
Tel Aviv, Israel

Hapoalim U.S.A. Holding Company, Inc.  
New York, New York

Arison Holdings (1998) Ltd.  
Tel Aviv, Israel

Israel Salt Industries Ltd.  
Atlit, Israel

Order Approving Formation of Bank Holding Companies and  
Acquisition of a Bank

Bank Hapoalim, B.M. (“Bank Hapoalim”), Zohar Hashemesh Le'Hashkaot Ltd. (“Zohar”), Hapoalim U.S.A. Holding Company, Inc. (“Hapoalim U.S.A.”), Arison Holdings (1998) Ltd. (“Arison”), and Israel Salt Industries Ltd. (“Israel Salt”) (collectively, “Applicants”) have requested the Board’s approval under section 3(a)(1) of the Bank Holding Company Act (“BHC Act”) (12 U.S.C. § 1842(a)(1)) to become bank holding companies by acquiring control of all the voting shares of Signature Bank, New York, New York (“Bank”), a de novo New York State-chartered bank.<sup>1</sup>

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<sup>1</sup> The New York State Banking Department conditionally approved Bank’s organization certificate on September 7, 2000. Bank would be wholly owned by Hapoalim U.S.A., which is a wholly owned subsidiary of Zohar. Hapoalim U.S.A. and Zohar are wholly owned subsidiaries of Bank Hapoalim. Arison and Israel Salt own 20.7 percent and 11.6 percent, respectively, of the voting shares of Bank Hapoalim. Arison and Israel Salt also are parties to a shareholder agreement

(continued...)

Notice of the application, affording interested persons an opportunity to comment, has been published (65 Federal Register 57,353; 69,537; and 70,570 (2000)). The time for filing comments has expired, and the Board has considered the application and all comments received in light of the factors set forth in section 3 of the BHC Act.

Bank Hapoalim, with consolidated assets of \$52.8 billion, is the largest banking organization headquartered in Israel.<sup>2</sup> Bank Hapoalim maintains three branches in New York, New York; a branch in Chicago, Illinois; an agency in Miami, Florida, and a representative office in San Francisco, California. Bank Hapoalim also engages in securities brokerage activities in the United States.

#### Competitive Considerations

The proposal involves the formation and acquisition of a de novo bank. The Board previously has noted that the establishment of a de novo bank enhances competition in the relevant banking market and is a positive consideration in an application under section 3 of the BHC Act.<sup>3</sup> There is no evidence in this case that the transaction would lessen competition or create or further a monopoly in any relevant market. Accordingly, the Board concludes that

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among the owners of 42.5 percent of the voting shares of Bank Hapoalim. Under this agreement, Arison and Israel Salt each have the power under certain circumstances to control the voting of all the shares held by the parties to the agreement. As a result, Arison and Israel Salt each are considered to control Bank Hapoalim and have joined in the filing of this application. Arison and Israel Salt are each qualifying foreign banking organizations under Regulation K. See 12 C.F.R. 211.23.

<sup>2</sup> Asset data are as of June 30, 2000, and use exchange rates then in effect. Ranking data are as of November 1, 2000.

<sup>3</sup> See Wilson Bank Holding Company, 82 Federal Reserve Bulletin 568 (1996).

consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of banking resources in any relevant banking market, and that competitive considerations are consistent with approval.<sup>4</sup>

#### Financial, Managerial, and Supervisory Considerations

The BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and banks involved in the proposal and certain supervisory factors. The Board has reviewed information provided by Bank Hapoalim, confidential supervisory and examination information, and publicly reported financial and other information in assessing the financial and managerial strength of Bank Hapoalim and its subsidiaries. Bank Hapoalim's capital ratios exceed the minimum levels that would be required under the Basle Capital Accord and are considered equivalent to the capital that would be required of a U.S. banking organization. In addition, the Board has reviewed supervisory information from the home country authorities responsible for supervising Bank Hapoalim concerning the proposal and the managerial resources of Applicants, as well as reports of examination from the appropriate federal and state supervisors of the U.S. operations of Bank Hapoalim assessing its managerial resources. Based on all the facts of record, the Board concludes that the financial and managerial resources and future prospects of Applicants and Bank are consistent with approval under section 3 of the BHC Act.

Under section 3 of the BHC Act, the Board may not approve an application involving a foreign bank unless the bank is "subject to comprehensive

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<sup>4</sup> After consummation of the proposal, New York would be the home state of Applicants and Bank for purposes of the BHC Act. Accordingly, the proposed transaction is not barred by section 3(d) of the BHC Act. See 12 U.S.C. §§ 1841(o)(4) and 1842(d).

supervision or regulation on a consolidated basis by the appropriate authorities in the bank's home country."<sup>5</sup> The Supervisor of Banks, who heads the Banking Supervision Unit within the Bank of Israel, is the primary regulator of Israeli banks, including Bank Hapoalim. The Supervisor of Banks conducts on-site examinations of Bank Hapoalim that cover areas such as major lines of business, risk management, corporate governance, compliance, asset quality, and transactions with affiliates. These examinations include a review of Bank Hapoalim's internal audit function and internal audit reports. Examinations by the Supervisor of Banks include frequent targeted examinations of specific business lines or supervisory areas. Although the Bank of Israel does not generally conduct on-site examinations of foreign offices, the Supervisor of Banks reviews Bank Hapoalim's foreign operations based on periodic reporting provided by Bank Hapoalim and information provided by host country supervisors.

External auditors evaluate Bank Hapoalim's internal controls and audit Bank Hapoalim's consolidated financial statements annually. Their comments and findings are provided to the board of directors of Bank Hapoalim. The Supervisor of Banks reviews the findings of the external auditors.

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<sup>5</sup> 12 U.S.C. § 1842(c)(3)(B). As provided in Regulation Y, the Board determines whether a foreign bank is subject to consolidated home country supervision under the standards set forth in Regulation K. 12 C.F.R. 225.13(a)(4). Regulation K provides that a foreign bank may be considered subject to consolidated supervision if the Board determines that the bank is supervised or regulated in such a manner that its home country supervisor receives sufficient information on the worldwide operations of the foreign bank, including the relationships of the bank to its affiliates, to assess the foreign bank's overall financial condition and compliance with law and regulation. 12 C.F.R. 211.24(c)(1)(ii).

Bank Hapoalim is subject to extensive reporting requirements and must provide reports to the Supervisor of Banks concerning, among other things, profit and loss, capital adequacy, liquidity, asset quality, large exposures, currency positions, loans to related parties, investments in subsidiaries and affiliated companies, and controlling shareholders. Bank Hapoalim also must submit quarterly and annual reports on overseas operations, as well as annual audited consolidated financial statements. The Supervisor of Banks has the authority to require Bank Hapoalim, its directors, employees, or auditors to provide any information related to the bank's business and any corporation under the bank's control.

The Supervisor of Banks has promulgated regulations for banks limiting loans to one borrower or a group of borrowers under common control and limiting aggregate exposure to the bank's six largest borrowers. In addition, the Supervisor of Banks has imposed capital-based limits on the amounts that a credit institution may invest overseas and in nonfinancial companies.

With respect to affiliate transactions, a directive of the Supervisor of Banks limits the aggregate amount of Bank Hapoalim's exposure to related parties to 10 percent of the bank's capital. Additionally, the Supervisor of Banks requires that transactions between Bank Hapoalim and related parties be conducted on market terms.

The Supervisor of Banks has statutory authority to revoke the license of a bank. In addition, the Supervisor of Banks may restrict the business activities of a bank, forbid the distribution of dividends, and suspend or limit the powers of directors or managers if an institution fails to follow its remedial directives or if the Supervisor determines the condition of the bank requires such actions.

Bank Hapoalim also is subject to laws and regulations issued by other Israeli government entities. As a company whose shares are listed on the Tel Aviv

Stock Exchange (“TASE”), Bank Hapoalim is subject to laws and regulations applicable to public companies and enforced by the TASE and the Israeli securities authority. Bank Hapoalim and its affiliates are also subject to the jurisdiction of the Tax Authorities, the Trade Practices Commission, and the Registrar of Companies. The Bank of Israel may exchange supervisory information with these other authorities.

Based on all the facts of record, the Board has concluded that Bank Hapoalim is subject to comprehensive supervision and regulation on a consolidated basis by its home country supervisor.

The BHC Act also requires the Board to determine that the foreign bank has provided adequate assurances that it will make available to the Board such information on its operations and activities and those of its affiliates that the Board deems appropriate to determine and enforce compliance with the BHC Act.<sup>6</sup> The Board has reviewed the restrictions on disclosure in jurisdictions where Bank Hapoalim has material operations and has communicated with relevant government authorities concerning access to information. Each of Bank Hapoalim and its parents has committed that it will make available to the Board such information on the operations of Bank Hapoalim and any of its affiliates that the Board deems necessary to determine and enforce compliance with the BHC Act, the International Banking Act (12 U.S.C. § 3101 *et seq.*), and other applicable federal law. Each of Bank Hapoalim and its parents also has committed to cooperate with the Board to obtain any waivers or exemptions that may be necessary to enable Bank Hapoalim to make such information available to the Board. In light of these commitments and other facts of record, the Board has concluded that Bank

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<sup>6</sup> See 12 U.S.C. § 1842(c)(3)(A).

Hapoalim has provided adequate assurances of access to any appropriate information the Board may request.

For these reasons, and based on all the facts of record, the Board has concluded that the supervisory factors it is required to consider under section 3(c) of the BHC Act are consistent with approval.

#### Convenience and Needs Considerations

The Board also has carefully considered the effect of the proposal on the convenience and needs of the communities to be served in light of all the facts of record. The Board has long held that consideration of the convenience and needs factor includes a review of the records of the relevant depository institutions under the Community Reinvestment Act (12 U.S.C. § 2901 *et seq.*) (“CRA”). As provided in the CRA, the Board evaluates the record of performance of an institution in light of examinations by the appropriate federal supervisors of the CRA performance records of the relevant 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.<sup>7</sup>

One of Bank Hapoalim’s New York branches (the “New York Branch”) is currently subject to the CRA. At its most recent examination for CRA performance, as of May 22, 2000 (the “2000 Examination”), the New York Branch received an overall rating of “satisfactory” from its primary federal regulator, the

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<sup>7</sup> The Interagency Questions and Answers Regarding Community Reinvestment provides that a CRA examination is an important and often controlling factor in the consideration of an institution’s CRA record. See 65 Federal Register 25,088 and 25,107 (2000).

Federal Deposit Insurance Corporation.<sup>8</sup> The branch's levels of community development lending, qualified investments and grants, and community development services were all found to be adequate.<sup>9</sup>

As noted above, Bank is a newly chartered bank that has not yet begun operation. Bank Hapoalim's CRA plan calls for Bank to engage in community development lending by extending credit to community development financial institutions ("CDFIs") that would make loans to nonprofit organizations funding affordable housing and economic development projects in Bank's assessment area.<sup>10</sup> Bank also would lend to community development corporations ("CDCs") and local development corporations ("LDCs") in its assessment area. Bank's community development investments would include nonmember deposits in credit unions in low- and moderate-income neighborhoods in New York City. Bank Hapoalim also expects Bank to make grants to CDFIs, CDCs, and LDCs as it develops relationships with them. Bank's services are expected to include basic checking accounts and products designed for small businesses and nonprofit organizations.

Based on all the facts of record, including Bank Hapoalim's record of performance under the CRA, the Board concludes that convenience and needs considerations are consistent with approval of the proposal.

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<sup>8</sup> The New York Branch is designated as a wholesale institution for CRA purposes and is, therefore, evaluated under the community development test. See 12 C.F.R. 345.25.

<sup>9</sup> At its previous CRA examination, as of June 30, 1997, the New York Branch received a rating of "needs to improve." The 2000 Examination, however, found that the New York Branch had improved its CRA performance and merited a "satisfactory" CRA rating.

<sup>10</sup> Bank Hapoalim has identified Bank's assessment area for CRA purposes to be Bronx, Kings, New York, and Queens Counties in New York State.

## Conclusion

Based on the foregoing, the Board has determined that the application should be, and hereby is, approved. In reaching this 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 and other applicable statutes.<sup>11</sup> The Board's approval is specifically conditioned on compliance by Applicants with all the commitments made in connection with the application, including the commitments discussed in this order and the conditions set forth in this order and the above-noted Board regulations and orders, and on the Board's receiving access to information on the operations or activities of Applicants and any of their affiliates that the Board determines to be appropriate to determine and enforce compliance with applicable federal statutes and regulations by Applicants and their affiliates. For the purpose of this action, the commitments relied on by the Board in reaching its decision are deemed 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.

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<sup>11</sup> The Board notes that, in a report dated June 22, 2000, the Financial Action Task Force, an intergovernmental body that develops and promotes policies to combat money laundering, identified Israel as having certain deficiencies in its anti-money laundering policies and procedures. In connection with this action, the U.S. Department of the Treasury's Financial Crimes Enforcement Network ("FinCEN") issued an advisory concerning potential problems that could arise in dealing with banks in Israel in light of the lack of adequate anti-money laundering policies. Since that time, Israel has enacted anti-money laundering legislation and issued implementing regulations to address these deficiencies, including adopting requirements that banks report suspicious transactions and maintain records of customer transactions. In light of these and other actions taken by Israel to strengthen its anti-money laundering policies and procedures, the Board believes that the application may be approved.

The transaction shall not be consummated before the fifteenth calendar day after the effective date of this order, or 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 March 26, 2001.

(signed)

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Robert deV. Frierson  
Associate Secretary of the Board

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<sup>12</sup> This action was taken pursuant to the Board's Rules Regarding Delegation of Authority (12 C.F.R. 265.4(b)(1)) by a committee of Board members. Voting for this action: Chairman Greenspan and Governors Kelley and Meyer. Absent and not voting: Vice Chairman Ferguson and Governor Gramlich.