

FEDERAL RESERVE SYSTEM

Hana Financial Group Inc.  
Seoul, Republic of Korea

Order Approving Acquisition of Shares of a  
Bank Holding Company

Hana Financial Group Inc., Seoul, Republic of Korea (“HFG”), a foreign banking organization subject to the provisions of the Bank Holding Company Act, as amended (“BHC Act”),<sup>1</sup> has requested the Board’s approval under section 3 of the BHC Act to acquire up to 71.4 percent of the voting shares of BNB Financial Services Corporation (“BNB”), New York, New York, and indirectly acquire BNB Bank, National Association, Fort Lee, New Jersey, pursuant to section 3(a)(1) of the BHC Act.<sup>2</sup>

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (77 Federal Register 48984, August 15, 2012). The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 3 of the BHC Act.

HFG, with total assets of approximately \$260.4 billion, is the third largest banking organization in Korea.<sup>3</sup> HFG, through its subsidiaries, Hana Bank and Korea Exchange Bank (“KEB”), both of Seoul, engages in a broad range of banking and financial services throughout the world, including retail and

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<sup>1</sup> 12 U.S.C. § 1842.

<sup>2</sup> 12 CFR 225.11(c)(1).

<sup>3</sup> Unless otherwise provided, asset and ranking data are as of March 31, 2013, and are based on the exchange rate as of that date, as appropriate.

commercial banking, corporate and investment banking, asset management, insurance-related activities, leasing, foreign exchange, and trade finance.

Internationally, HFG operates through its branches and subsidiaries in five continents, including Asia, Australia, Europe, and North and South America. In the United States, Hana Bank operates an uninsured New York state-licensed agency. HFG also maintains nonbanking subsidiaries in the United States.<sup>4</sup>

HFG is a qualifying foreign banking organization and, upon consummation of the proposal, would continue to meet the requirements for a qualifying foreign banking organization under Regulation K.<sup>5</sup>

BNB, with total consolidated assets of \$320.1 million, owns BNB Bank and a non-bank subsidiary, BNB Statutory Trust I (“BNB Trust”), also of New York, New York.<sup>6</sup> BNB Bank provides general commercial banking services to individuals and small- and medium-sized businesses through its three branches, two in New Jersey and one in New York. The bank also has two loan production offices in New Jersey.

### **Factors under the Bank Holding Company Act**

The BHC Act sets forth the factors that the Board must consider when reviewing the formation of bank holding companies or the acquisition of banks. These factors are the competitive effects of the proposal in the relevant geographic markets; the convenience and needs of the communities to be served, including the

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<sup>4</sup> KEB does not engage in commercial banking activities in the U.S., but owns several U.S. nonbank subsidiaries. The nonbanking subsidiaries are KEB NY Financial Corp. and KEB USA International Corp., both of New York, New York; and KEB LA Financial Corp., Los Angeles, California. KEB NY and KEB LA provide lending and trade financing services, while KEB USA engages in activities limited to providing administrative back-office functions to KEB.

<sup>5</sup> 12 CFR 211.23(a).

<sup>6</sup> BNB Trust was established in 2004 to issue trust preferred securities for BNB.

records of performance of the insured depository institutions involved in the transaction under the Community Reinvestment Act (“CRA”);<sup>7</sup> the effects of the acquisition on financial stability; the financial and managerial resources and future prospects of the companies and banks involved in the proposal; the availability of information to determine and enforce compliance with the BHC Act and other applicable federal banking laws; and, in the case of applications involving a foreign bank such as Hana Bank, whether the foreign bank is subject to comprehensive supervision and regulation on a consolidated basis by its home country supervisor.<sup>8</sup>

### **Competitive Considerations**

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of any attempt to monopolize the business of banking in any relevant banking market. The BHC Act also prohibits the Board from approving a proposal that would substantially lessen competition in any relevant banking market, unless the anticompetitive effects of the proposal clearly are outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.<sup>9</sup>

HFG does not currently compete with BNB in any relevant banking or nonbanking market.<sup>10</sup> Based on all the facts of record, the Board has concluded

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<sup>7</sup> 12 U.S.C. § 2901 et seq.

<sup>8</sup> 12 U.S.C. § 1842(c).

<sup>9</sup> 12 U.S.C. § 1842(c)(1). See, e.g., Emigrant Bancorp, Inc., 82 Federal Reserve Bulletin 555 (1996).

<sup>10</sup> Hana Bank’s New York agency is not insured by the Federal Deposit Insurance Corporation and cannot accept retail deposits. BNB’s only nonbank subsidiary is a

that 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 factors are consistent with approval of the proposal.

### **Financial, Managerial, and Other Supervisory Considerations**

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources (including the competence, experience, and integrity of officers, directors, and principal shareholders) and future prospects of the companies and depository institutions involved in the proposal as well as the effectiveness of these companies in combatting money laundering activities.<sup>11</sup> The Board's review was conducted in light of all the facts of record, including confidential supervisory and examination information from the various U.S. banking supervisors of the institutions involved, publicly reported and other financial information, and information provided by HFG and by public commenters. The Board also has consulted with the Korean Financial Supervision Service ("FSS"), the agency with primary responsibility for the supervision and regulation of Korean banking organizations, including HFG.

In evaluating financial factors, the Board reviews the financial condition of the applicant and the target depository institution. The Board considers a variety of information, including capital adequacy, asset quality, and earnings performance. The Board also evaluates the effect of the transaction on the financial condition of the applicant, including its capital position, asset

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trust company that provides services solely to BNB Bank, while Hana's nonbank subsidiaries engage in lending, trade finance and money transmittal services.

<sup>11</sup> 12 U.S.C. § 1842(c)(2), (5), and (6). The Board has analyzed the effectiveness of HFG's anti-money-laundering efforts in connection with the Board's assessment of whether HFG is subject to comprehensive supervision or regulation on a consolidated basis by appropriate authorities in its home country.

quality, and earnings prospects, and the impact of the proposed funding of the transaction.

The capital levels of HFG exceed the minimum levels that would be required under the Basel Capital Accord and are considered to be equivalent to the capital levels that would be required of a U.S. banking organization.<sup>12</sup> HFG's reported earnings performance and asset quality indicators, including nonperforming loans and reserves for loan losses, are consistent with approval of the proposal. The proposed transaction is structured as a cash purchase of shares. HFG would use existing resources to fund the purchase of the shares. In light of the size of HFG relative to the size of its investment in BNB, the transaction would have a minimal impact on the financial condition of HFG. Based on its review of the record, the Board finds that HFG has sufficient financial resources to effect the proposal.

The Board also has considered the managerial resources of the organizations involved. The Board has reviewed the examination records of HFG's U.S. operations and of BNB, including assessments of their management, risk-management systems, and operations. The Board also has considered its supervisory experience and that of the other relevant bank supervisory agencies with the organizations, including consultations in connection with this proposal, and the organizations' records of compliance with applicable banking and anti-money-laundering laws. As noted, the Board has also consulted with the FSS. In addition, the Board has considered the future prospects of HFG in light of the financial and managerial resources of the organizations.

Section 3 of the BHC Act also requires the Board to determine that an applicant has provided adequate assurances that it will make available to the

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<sup>12</sup> The Board considered the total and tier 1 risk-based capital ratios and the ratio of tier 1 capital to total consolidated assets of HFG, Hana Bank, and KEB.

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>13</sup> The Board has reviewed the restrictions on disclosure in the relevant jurisdictions in which HFG operates and has communicated with relevant government authorities concerning access to information. In addition, HFG has committed that, to the extent not prohibited by applicable law, it will make available to the Board such information on its operations and the operations of its affiliates that the Board deems necessary to determine and enforce compliance with the BHC Act, the International Banking Act, and other applicable federal laws. HFG also has committed to cooperate with the Board to obtain any waivers or exemptions that may be necessary to enable it or its affiliates to make such information available to the Board. Based on all the facts of record, the Board has concluded that considerations relating to the financial and managerial resources and future prospects of the organizations involved in the proposal, as well as access to information by the Board are consistent with approval.

### **Supervision or Regulation on a Consolidated Basis**

In evaluating this application and as required by section 3 of the BHC Act, the Board considered whether HFG is subject to comprehensive supervision or regulation on a consolidated basis by appropriate authorities in its home country.<sup>14</sup>

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<sup>13</sup> 12 U.S.C. § 1842(c)(3)(A).

<sup>14</sup> 12 U.S.C. § 1842(c)(3)(B). As provided in Regulation Y, the Board determines whether a foreign bank is subject to comprehensive supervision on a consolidated basis by the appropriate authorities in the bank's home country under the standards set forth in Regulation K. See 12 CFR 225.13(a)(4). Regulation K provides that a foreign bank is subject to consolidated home country supervision if the foreign 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

As noted, the FSS is the supervisor of Korean banking organizations, including holding companies such as HFG. The FSS conducts inspections of HFG and its subsidiaries annually or on an as needed basis, and requires HFG to submit reports about its operations on a consolidated basis. The FSS also reviews transactions between HFG and its subsidiaries and has authority to require HFG to take measures necessary to ensure the safety and soundness of the HFG organization. The Board has previously determined that the FSS exercises comprehensive consolidated supervision over Korean financial holding companies and banks.<sup>15</sup> HFG represents, on its own behalf and with respect to Hana Bank and KEB, that they are subject to the same supervisory regime as applies to other Korean financial holding companies and banks. The Board also has consulted with the FSS about their supervision of Hana Bank, KEB, and HFG. Based on all the facts of record, the Board has concluded that HFG, Hana Bank and KEB are subject to comprehensive supervision on a consolidated basis by their appropriate home country authorities for purposes of this application.

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(including the relationships of the bank to any affiliate) to assess the foreign bank's overall financial condition and compliance with law and regulation. 12 CFR 211.24(c)(1)(ii). In assessing this standard under section 211.24 of Regulation K, the Board must assess, among other factors, the extent to which the home country supervisor: (a) ensures that the bank has adequate procedures for monitoring and controlling its activities worldwide; (b) obtains information on the condition of the bank and its subsidiaries and offices outside the home country through regular reports of examination, audit reports, or otherwise; (c) obtains information on the dealings and relationships between the bank and its affiliates, both foreign and domestic; (d) receives 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 (e) evaluates 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.

<sup>15</sup> See Woori Finance Holdings Co., Ltd., 89 Federal Reserve Bulletin 436 (2003).

In evaluating the effectiveness of HFG and its subsidiaries' policies and procedures to combat money laundering activities in connection with these determinations, the Board considered HFG's and its subsidiaries' anti-money-laundering policies and procedures as well as the Board's supervisory experiences and those of other relevant banking supervisory organizations with HFG's compliance record. On the basis of all facts of record, the Board has determined that HFG and its subsidiaries' anti-money-laundering measures are consistent with approval.

### **Convenience and Needs Considerations**

In acting on a proposal under section 3 of the BHC Act, the Board also must consider the effects of the proposal on the convenience and needs of the communities to be served and take into account the records of the relevant insured depository institutions under the CRA.<sup>16</sup> The CRA requires the federal financial supervisory agencies to encourage insured depository institutions to help meet the credit needs of the local communities in which they operate, consistent with their safe and sound operation, and requires the appropriate federal financial supervisory agency to take into account a relevant depository institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, in evaluating bank expansionary proposals.<sup>17</sup>

The Board has considered the convenience and needs factor and the CRA performance record of BNB in light of all the facts of record. HFG represented that it intends to leverage its resources and banking expertise to strengthen BNB Bank, and to update and expand the products and services that BNB Bank offers to its customers.

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<sup>16</sup> 12 U.S.C. § 2901 *et seq.*; 12 U.S.C. § 1842(c)(2).

<sup>17</sup> 12 U.S.C. § 2903.

As part of its consideration of convenience and needs, the Board has examined the CRA performance record of BNB Bank. BNB Bank received a CRA rating of “satisfactory” from the Office of the Comptroller of the Currency at its most recent CRA performance evaluation dated March 12, 2012. HFG does not own any entities that are subject to CRA. Based on a review of the entire record, the Board has concluded that considerations relating to convenience and needs considerations and the CRA performance records of the relevant insured depository institutions are consistent with approval.

### **Financial Stability**

The Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) amended section 3 of the BHC Act to require the Board also to consider “the extent to which a proposed acquisition, merger, or consolidation would result in greater or more concentrated risks to the stability of the United States banking or financial system.”<sup>18</sup>

In this case, the proposed acquisition of BNB is not a significant expansion by HFG and would have a de minimis impact on HFG’s systemic footprint. In addition, there is no evidence of any significant increase in interconnectedness, complexity, cross-border activities, or other risk factors. Based on these and all the other facts of record, the Board has determined that the proposal would not materially increase risk to the stability of the U.S. financial or banking system.

### **Conclusion**

Based on the foregoing and all the facts of record, the Board approves the proposal by HFG to acquire up to 71.4 percent of the voting shares of BNB. In

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<sup>18</sup> Section 604(d) of the Dodd-Frank Act, Pub. L. No. 111-203, 124 Stat. 1376, codified at 12 U.S.C. § 1842(c)(7).

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 and other applicable statutes. The Board's approval is specifically conditioned on compliance by HFG with all the representations and commitments made in connection with the applications, commitments referred to in this order, and the receipt of all other regulatory approvals. These representations, commitments, and conditions 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.

The transaction may 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>19</sup> effective August 14, 2013.

*Margaret McCloskey Shanks (signed)*

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Margaret McCloskey Shanks  
Deputy Secretary of the Board

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<sup>19</sup> Voting for this action: Chairman Bernanke, Vice Chair Yellen, and Governors Duke, Tarullo, Raskin, Stein, and Powell.