FRB Order No. 2015-07
February 20, 2015

FEDERAL RESERVE SYSTEM

Sumitomo Mitsui Financial Group, Inc.
Sumitomo Mitsui Banking Corporation
Tokyo, Japan

Order Approving Acquisition of Shares of a
Bank Holding Company

Sumitomo Mitsui Financial Group, Inc. ("SMFG"), and Sumitomo Mitsui Banking Corporation ("SMBC"), both of Tokyo, Japan (collectively, "Applicants"), foreign banking organizations that are financial holding companies under the Bank Holding Company Act of 1956, as amended ("BHC Act"),[1] have requested the Board's approval under section 3(a) of the BHC Act to increase their ownership interest from 9.7 percent to 19.9 percent of the voting shares of The Bank of East Asia, Limited ("BEA"), Hong Kong SAR, People's Republic of China, a foreign banking organization that is a bank holding company under the BHC Act by virtue of its ownership interest in Industrial and Commercial Bank of China (USA), National Association ("ICBC-USA"), New York, New York.[2]

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[1] 12 U.S.C. § 1842.

[2] 12 CFR 225.11(c)(1). BEA and its subsidiary, East Asia Holding Company, Inc., New York, New York, are bank holding companies by virtue of their ownership of 20 percent of the voting shares of ICBC-USA and, thus, subject to the BHC Act. Prior to July 2012, ICBC-USA was a wholly owned subsidiary of BEA and was named The Bank of East Asia (USA), National Association ("BEA-USA"). In 2012, with the Board's prior approval, BEA sold an 80 percent interest in the voting shares of BEA-USA (now ICBC-USA) to the Industrial and Commercial Bank of China Limited, Beijing, People's Republic of China. See Industrial and Commercial Bank of China Limited, FRB Order No. 2012-4 (May 9, 2012). BEA also is subject to the BHC Act because it operates branches in the United States. 12 U.S.C. § 3106(a). On October 31, 2012, the Board approved an application from the Applicants to increase their interest in BEA from

Notice of the proposal affording interested persons an opportunity to submit comments has been published (79 Federal Register 61308 (October 10, 2014)). The time for submitting 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.

SMFG, with total assets of approximately $1.6 trillion, is the third largest banking organization in Japan.[3] SMFG, through its subsidiaries, including SMBC, engages in a broad range of banking and financial services throughout Japan, Asia, the United Kingdom, and North and South America. Outside Japan, SMFG owns subsidiary banks in the United Kingdom, Brazil, Canada, the People's Republic of China, Indonesia, Russia, and Malaysia, and SMBC operates branches in more than a dozen additional countries.

In the United States, Applicants own Manufacturers Bank, Los Angeles, California, with consolidated assets of $2.4 billion and deposits of approximately $1.9 billion.[4] Manufacturers Bank engages in retail and commercial banking in the United States through 10 branches in California. SMBC operates uninsured state branches in New York City, Los Angeles, and San Francisco and representative offices in Houston and Jersey City. Applicants also maintain nonbanking subsidiaries in the United States.[5] SMFG and SMBC are each qualifying foreign banking organizations and, upon

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4.7 percent to up to 9.9 percent. See Sumitomo Mitsui Financial Group, Inc., FRB Order No. 2012-11 (Oct. 31, 2012) ("Sumitomo Order").

[3] Asset and ranking data are as of September 30, 2014, and are based on the exchange rate as of that date, unless otherwise noted. No shareholder owns 5 percent or more of the outstanding shares of SMFG.

[4] Asset and deposit data are as of September 30, 2014.

[5] These nonbanking subsidiaries include SMBC Capital Markets, Inc.; SMBC Leasing and Finance, Inc.; SMBC Nikko Securities America, Inc.; and JRI America, Inc., all of New York, New York.

consummation of the proposal, would continue to meet the requirements for a qualifying foreign banking organization under Regulation K.[6]

BEA, with total consolidated assets of approximately $100.8 billion, is the fifth largest bank in Hong Kong. BEA engages primarily in retail and commercial banking, wealth management, and insurance services in the People's Republic of China, North America, the United Kingdom, and Southeast Asia. In the United States, BEA operates an FDIC-insured federal branch in New York City ("BEA-NY") and uninsured federal branches in New York City and Los Angeles. As noted above, BEA also owns 20 percent of the voting shares of ICBC-USA. ICBC-USA, with consolidated assets of approximately $1.1 billion and deposits of approximately $910 million, engages in retail and commercial banking in the United States and operates 13 branches in New York and California.

Noncontrolling Investment

Applicants currently own approximately 9.7 percent of the voting shares of BEA and propose to increase their ownership interest to 19.9 percent of voting shares. Applicants have stated that they do not propose to control or exercise a controlling influence over BEA as a result of the proposal.[7]

The Board received a comment objecting to the proposal on the grounds that a group of BEA shareholders, including Applicants, may be acting in concert in relation to their investments in BEA and may have control over BEA for purposes of section 3 of the BHC Act. The Board has considered the commenter's allegations in light

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[6] 12 CFR 211.23(a).

[7] The Board previously has approved the acquisition by a bank holding company of less than a controlling interest in a bank or bank holding company. See, e.g., Sumitomo Order; Mitsubishi UFG Financial Group, Inc., 95 Federal Reserve Bulletin B34 (2009) (acquisition of up to 24.9 percent of the voting shares of a bank holding company); Brookline Bancorp, MHC, 86 Federal Reserve Bulletin 52 (2000) (acquisition of up to 9.9 percent of the voting shares of a bank holding company); Mansura Bancshares, Inc., 79 Federal Reserve Bulletin 37 (1993) (acquisition of 9.7 percent of the voting shares of a bank holding company).

of all the facts of record and has reviewed information provided by both the commenter and Applicants, as well as confidential supervisory information, including information provided by Applicants' home country supervisor, the Japanese Financial Services Agency ("JFSA").

In particular, Applicants have agreed to abide by certain commitments substantially similar to those on which the Board has previously relied in determining that an investing company would not be able to exercise a controlling influence over another bank holding company or bank for purposes of the BHC Act ("Passivity Commitments"). For example, Applicants have committed not to exercise or attempt to exercise a controlling influence over the management or policies of BEA, not to seek or accept more than one representative on the board of directors of BEA, and not to have any other director or executive officer interlocks with BEA or its subsidiaries.

In addition, Applicants have committed not to enter into any agreement with BEA or any of its subsidiaries that substantially limits the discretion of BEA's management over major policies and decisions; not to solicit or participate in soliciting proxies with respect to any matter that has been presented to the shareholders of BEA or its subsidiaries; and not to dispose or threaten to dispose of equity interests of BEA or any of its subsidiaries in any manner as a condition, or inducement, of specific action or non-action on the part of BEA or any of its subsidiaries. The Passivity Commitments also contain certain restrictions on the permissible business relationships between Applicants and BEA.

Upon consummation of the proposal, SMBC would not be authorized to own, control, or have the power to vote 25 percent or more of any class of voting securities of BEA, or to control in any manner the election of a majority of the directors of BEA. Applicants have represented that they have provided all existing or proposed agreements regarding the proposed investment to the Board and have confirmed that they made their decision to invest in BEA independent of any other BEA shareholder. The terms of the investment agreement between SMBC and BEA are consistent with the

requirements of the Board's Policy Statement on Equity Investments in Banks and Bank Holding Companies for noncontrolling investments. In addition, Applicants have represented that they have no agreements with other investors in BEA.

The Board has also considered the restrictions imposed by the laws of Hong Kong and the People's Republic of China on the authority of Applicants to control BEA and the structure of ownership of BEA by other shareholders, including the founding members of BEA. The Board has consulted with the supervisory authorities in Hong Kong and Japan on these matters.

Based on these considerations and all the facts of record, the Board has concluded that the structure of the proposed transaction would not constitute control or the exercise of a controlling influence over BEA or any of its subsidiaries. The Board notes that the BHC Act requires Applicants to receive the Board's approval before directly or indirectly acquiring additional shares of BEA or attempting to exercise a controlling influence over BEA or any of its subsidiaries.[8]

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.[9]

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[8] 12 U.S.C. § 1842. See, e.g., Emigrant Bancorp, Inc., 82 Federal Reserve Bulletin 555 (1996) ("Emigrant Bancorp Order").

[9] 12 U.S.C. § 1842(c)(1). See, e.g., Emigrant Bancorp Order.

The Board previously has stated that one company need not acquire control of another company to lessen competition between them substantially.[10] Noncontrolling interests in directly competing depository institutions may raise competitive issues under the BHC Act, and the specific facts of each case will determine whether a minority investment in a company would be anticompetitive.[11]

Because the subsidiary banks of Applicants and BEA compete directly in the Los Angeles and San Francisco-Oakland-San Jose banking markets,[12] the Board has reviewed the competitive effects of the proposal in these banking markets in light of all the facts of record. In particular, the Board has considered the number of competitors that would remain in the banking markets, the relative shares of total deposits held by insured depository institutions that Applicants would control in the markets ("market deposits"),[13] the concentration levels of market deposits and the increase in those levels

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[10] See e.g., Sun Trust Banks, Inc., 76 Federal Reserve Bulletin 542 (1990).

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

[12] The Los Angeles banking market is defined as the Los Angeles Ranally Metropolitan Area ("RMA") and the cities of Acton in Los Angeles County and Rosamond in Kern County. The San Francisco-Oakland-San Jose banking market is defined as the San Francisco-Oakland-San Jose RMA and the cities of Byron in Contra Costa County, Hollister and San Juan Bautista in San Bonito County, Pescadero in San Mateo County, and Point Reyes Station in Marsh County. Applicants do not currently compete with BEA in any other relevant banking market. BEA operates an insured branch in New York, and ICBC-USA operates in New York. SMBC's New York branch is not insured by the Federal Deposit Insurance Corporation and generally cannot accept retail deposits. Moreover, neither banking organization controls a significant share of the New York banking market.

[13] Deposit and market share data are based on data reported by insured depository institutions in the summary of deposits data as of June 30, 2013, and have been updated to reflect industry mergers and acquisitions as of September 18, 2014. The data are also based on calculations in which the deposits of thrift institutions are included at 50 percent. The Board has previously indicated that thrift institutions have become, or have the potential to become, significant competitors of commercial banks. See, e.g., Midwest Financial Group, Inc., 75 Federal Reserve Bulletin 386 (1989) and National City Corporation, 70 Federal Reserve Bulletin 743 (1984). Thus, the Board regularly has

as measured by the Herfindahl-Hirschman Index ("HHI") under the Department of Justice Bank Merger Competitive Review guidelines ("DOJ Guidelines"), and other characteristics of the markets.[14]

Consummation of the proposal would be consistent with Board precedent and within the thresholds in the DOJ Guidelines in the relevant banking markets. On consummation, the Los Angeles banking market would remain unconcentrated and the San Francisco-Oakland-San Jose banking market would remain highly concentrated, as measured by the HHI.[15] Numerous competitors would remain in both banking markets.

The DOJ conducted a review of the potential competitive effects of the proposal and has advised the Board that consummation of the proposal would not likely have a significantly adverse effect on competition in any relevant banking market. In addition, the appropriate banking agencies have been afforded an opportunity to comment and have not objected to the application.

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included thrift deposits in the market share calculation on a 50 percent weighted basis. See, e.g., First Hawaiian, Inc., 77 Federal Reserve Bulletin 52 (1991).

[14] Under the DOJ Guidelines, a market is considered unconcentrated if the post-merger HHI is under 1000, moderately concentrated if the post-merger HHI is between 1000 and 1800, and highly concentrated if the post-merger HHI exceeds 1800. The Department of Justice ("DOJ") has informed the Board that a bank merger or acquisition generally would not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. Although the DOJ and the Federal Trade Commission issued revised Horizontal Merger Guidelines in 2010, the DOJ has confirmed that its guidelines for bank mergers or acquisitions, which were issued in 1995, were not changed. Press Release, Department of Justice (August 19, 2010), available at www.justice.gov/opa/pr/department-justice-and-federal-trade-commission-issue-revised-horizontal-merger-guidelines.

[15] As of June 30, 2014, the HHI would remain at 973 in the Los Angeles banking market, which has 132 insured depository institution competitors. The HHI would remain at 2030 in the San Francisco-Oakland-San Jose banking market, which has 85 insured depository institution competitors. The combined deposits of the institutions involved in the proposal in each of the Los Angeles and San Francisco-Oakland-San Jose banking markets represent less than 1 percent of market deposits.

Based on all the facts of record, the Board concludes 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 consideration of 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.[16] 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 Board such information on its operations and activities and those of its affiliates as the Board deems appropriate to determine and enforce compliance with the BHC Act.[17]

The 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, consultation with the JFSA, and information provided by Applicants and by public commenters.

In evaluating financial factors, the Board reviews the financial condition of the organizations involved. In this evaluation, 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

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[16] The Board has analyzed the effectiveness of Applicants' anti-money-laundering efforts in connection with the Board's assessment of whether Applicants are subject to comprehensive supervision or regulation on a consolidated basis by appropriate authorities in their home country.

[17] 12 U.S.C. § 1842(c)(3)(A).

applicants, including their capital position, asset quality, liquidity, and earnings prospects, and the impact of the proposed funding of the transaction. In assessing financial factors, the Board considers capital adequacy to be especially important.

The capital levels of Applicants 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 seeking to acquire up to 19.9 percent of BEA.[18] Applicants' reported earnings performance, liquidity, and asset quality indicators, including nonperforming loans and reserves for loan losses, are consistent with approval of the proposal. Applicants' U.S. bank subsidiary, Manufacturers Bank, and ICBC-USA are each well capitalized and would remain so on consummation of the proposal.

The proposed transaction is structured as a cash purchase of shares. SMBC would acquire and hold the shares directly and would use existing resources to fund the proposed purchase. In light of the relative size of Applicants to the size of the investment in BEA, the transaction would have a minimal impact on the financial condition of Applicants. Based on its review of the record, the Board concludes that Applicants have sufficient financial resources to effect the proposal.

The Board has also considered the managerial resources of the organizations involved. The Board has reviewed the examination records of Applicants' and BEA's U.S. operations, including assessments of their management, risk-management systems, and operations. The Board also has considered its supervisory experiences and those 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 also has consulted with the JFSA. In addition, the Board has

[18] The Board has considered the total, and the tier 1 risk-based capital ratios, and the ratios of tier 1 capital to total consolidated assets of SMFG and SMBC.

considered the future prospects of Applicants, BEA, Manufacturers Bank, and ICBC-USA in light of the financial and managerial resources of the organizations.

The Board has reviewed the restrictions on disclosure in the relevant jurisdictions in which Applicants operate and has communicated with relevant government authorities concerning access to information. In addition, Applicants have committed that, to the extent not prohibited by applicable law, they will make available to the Board such information on their operations and the operations of their affiliates as the Board deems necessary to determine and enforce compliance with the BHC Act, the International Banking Act, and other applicable federal laws. Applicants also have committed to cooperate with the Board to obtain any waivers or exemptions that may be necessary to enable them or their 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 has considered whether Applicants are subject to comprehensive supervision or regulation on a consolidated basis by appropriate authorities in their home country.[19]

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[19] 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 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 (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 considers, among other indicia of comprehensive, consolidated supervision, the

The Board previously has determined that SMFG and SMBC are subject to comprehensive supervision on a consolidated basis by their home country supervisor.[20] The Applicants continue to be supervised by the JFSA on substantially the same terms and conditions. Based on this finding and all the facts of record, the Board has concluded that SMBC and SMFG continue to be subject to comprehensive supervision on a consolidated basis by their home country supervisor.

The Board has considered the effectiveness of Applicants' anti-money-laundering policies and procedures as well as the Board's supervisory experiences and those of other relevant banking supervisory organizations with Applicants' compliance record. On the basis of all facts of record, the Board has determined that Applicants' 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 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 Community Reinvestment Act ("CRA").[21] The CRA requires the federal financial supervisory agencies to encourage insured depository institutions to help meet

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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 regulation examination reports, audit reports, or otherwise; (iii) obtain information on the dealings with and 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; (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.

[20] See, e.g., Sumitomo Order; The Wakashio Bank, Limited, 89 Federal Reserve Bulletin 217 (2003).

[21] 12 U.S.C. § 2901 et seq.; 12 U.S.C. § 1842(c)(2).

the credit needs of the local communities in which they operate, consistent with their safe and sound operation,[22] 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 ("LMI") neighborhoods, in evaluating bank expansionary proposals.[23]

The Board has considered all the facts of record, including reports of examination of the CRA performance of Manufacturers Bank, BEA-NY, and ICBC-USA; information provided by Applicants; and confidential supervisory information.

A. Record of Performance under the CRA

As provided in the CRA, the Board evaluates an institution's performance based on the CRA evaluation completed by that institution's primary regulator.[24] The CRA requires that the appropriate federal financial supervisor for a depository institution prepare a written evaluation of the institution's record of meeting the credit needs of its entire community, including LMI neighborhoods.[25] 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.[26]

CRA Performance of Manufacturers Bank

Manufacturers Bank was assigned an overall "satisfactory" rating at its most recent CRA performance evaluation by the Federal Deposit Insurance Corporation

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[22] 12 U.S.C. § 2901(b).

[23] 12 U.S.C. § 2903.

[24] See Interagency Questions and Answers Regarding Community Reinvestment, 75 Federal Register 11642, 11665 (March 11, 2010) ("Interagency Questions and Answers").

[25] 12 U.S.C. § 2906.

[26] See Interagency Questions and Answers.

("FDIC") in February 2014 ("Manufacturers Bank Evaluation").[27] Manufacturers Bank received a "low satisfactory" rating for the Lending Test and "high satisfactory" ratings for both the Investment Test and the Service Test.

In evaluating the Lending Test, examiners noted that the bank adequately responded to the credit needs of its assessment areas. Examiners found that the bank was a leader in making community development loans and that the geographic distribution of loans provided by the bank reflected adequate penetration throughout the assessment areas.

In evaluating the Investment Test, examiners found that the qualified investments held by the bank exhibited good responsiveness to credit and community economic development needs in its assessment areas. Examiners noted that the total amount of qualified investments held by the bank had increased from the prior evaluation period. The majority of the bank's qualified investments had been utilized to purchase securities for affordable housing and economic development. Grants and donations provided by the bank also had increased from the prior evaluation period and had been utilized for various purposes, such as affordable housing, community development services, and economic development within the bank's assessment areas.

In evaluating the Service Test, examiners found that the bank's delivery systems, banking products and services, and business hours were accessible to essentially all portions of the bank's assessment areas. The geographical dispersion of the bank's branch offices by income level was considered fairly diverse, with all income levels

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[27] The Manufacturers Bank Evaluation was conducted using Large Bank CRA examination procedures. Examiners reviewed small business lending data for 2012 and 2013 and community development loans, investments, and services from November 29, 2010, through February 18, 2014. For community development investments, examiners also considered the current book value of any prior period investments still outstanding as of the subject evaluation. The Manufacturers Bank Evaluation included a full-scope review of the Los Angeles assessment area, comprising the following regions: Los-Angeles-Long Beach-Glendale Metropolitan Division; Santa Ana-Anaheim-Irvine Metropolitan Statistical Area ("MSA"); and Riverside-San Bernardino-Ontario MSA.

represented. Examiners also noted that the bank provided a relatively high level of community development services that benefited LMI individuals and geographies within the bank's assessment areas.

CRA Performance of BEA-NY

BEA-NY was assigned an overall "outstanding" rating at its most recent CRA performance evaluation by the Office of the Comptroller of the Currency ("OCC") in January 2010 ("BEA-NY Evaluation"), with a rating of "outstanding" for the Lending Test.[28] In evaluating the Lending Test, examiners found that the bank's average loan-to-deposit ratio met the standard for outstanding performance, and that the geographical distribution of the bank's loans reflected excellent dispersion in its assessment areas. A substantial majority of the loans originated by BEA-NY during the period evaluated were within its assessment areas, and examiners noted that the distribution of loans reflected reasonable dispersion among businesses of different sizes and excellent dispersion throughout geographies of different income levels. Examiners also found that the percentage of small business loans made by the bank to businesses in LMI geographies exceeded the percentage of businesses located in these areas during the evaluation period.

CRA Performance of ICBC-USA

ICBC-USA was assigned an overall "outstanding" rating at its most recent CRA performance evaluation by the OCC in January 2010 ("ICBC-USA Evaluation").

[28] The BEA-NY Evaluation was conducted using the Small Bank CRA examination procedures. Examiners reviewed commercial real estate loans from January 1, 2007, through September 30, 2009. The BEA-NY Evaluation included a full-scope review of three counties in New York State: Kings, New York, and Queens, which are part of the New York-Northern New Jersey-Long Island MSA. SMBC's and BEA's uninsured branches are not subject to the CRA.

ICBC-USA received "outstanding" ratings for both the Lending Test and the Community Development Test.[29]

In evaluating the Lending Test, examiners noted that the bank's average loan-to-deposit ratio was more than reasonable and met the standard for outstanding performance. The geographical distribution of the bank's loans was considered to reflect excellent dispersion throughout the assessment areas. The distribution of the bank's loans was also considered to reflect excellent penetration among businesses of different sizes. Examiners also noted that the percentage of small business loans made by the bank to businesses in LMI geographies exceeded the percentage of businesses located in these areas during the evaluation period.

In evaluating the Community Development Test, examiners noted that the bank's performance demonstrated excellent responsiveness to the needs of the assessment areas through community development loans, investments, and services. During the evaluation period, the bank made community development loans and qualified investments for affordable housing to promote economic development, to revitalize and stabilize LMI areas, and to provide an array of community services, including health care and youth programs. Bank staff also supported various community development services, including financial literacy and homeownership seminars and workshops for senior citizens.

B. Additional Information on Convenience and Needs of Communities to be Served

[29] The ICBC-USA Evaluation, which occurred when ICBC-USA was a wholly owned subsidiary of BEA, was conducted using Intermediate Small Bank CRA performance procedures. Examiners reviewed commercial loans from January 1, 2007, through September 30, 2009. The evaluation period for community development loans, investments, and services was April 26, 2006, through January 4, 2010. The ICBC-USA Evaluation included a full-scope review of three statistical areas: New York-Northern New Jersey-Long Island (Multi-State) MSA; San Francisco-San Mateo-Redwood City MSA; and Los Angeles-Long Beach-Glendale MSA.

In assessing the effects of a proposal on the convenience and needs of the communities to be served, the Board also considers the extent to which the proposal would result in public benefits.

The proposal is part of BEA's efforts to increase its capital base. Applicants represent that the proposal is not expected to result in any discontinuation or material changes to the products or services offered by Applicants', BEA's, or ICBC-USA's U.S. offices, including with respect to LMI neighborhoods. Applicants also represent that after this proposal, they will continue to help meet the credit needs of the local communities in which they operate, consistent with their safe and sound operation, and in materially the same manner as before consummation of the proposal.

C. Conclusion on Convenience and Needs Considerations

The Board has considered all the facts of record, including reports of examination of the CRA performance records of the institutions involved, information provided by Applicants, and confidential supervisory information. Based on the Board's assessment of the CRA performance of Manufacturers Bank, BEA-NY, and ICBC-USA; its review of examination reports; and its consultation with other agencies, the Board concludes that the convenience and needs factor, including the CRA records of the insured depository institutions involved in this transaction, is consistent with approval of the application.

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."[30]

[30] Section 604(d) of the Dodd-Frank Act, Pub. L. No. 111-203, 124 Stat. 1376, codified at 12 U.SC. § 1842(c)(7).

To assess the likely effect of a proposed transaction on the stability of the U.S. banking or financial system, the Board considers a variety of metrics that capture the systemic "footprint" of the resulting firm and the incremental effect of the transaction on the systemic footprint of the acquiring firm. These metrics include measures of the size of the resulting firm, the availability of substitute providers for any critical products and services offered by the resulting firm, the interconnectedness of the resulting firm with the banking or financial system, the extent to which the resulting firm contributes to the complexity of the financial system, and the extent of the cross-border activities of the resulting firm.[31] These categories are not exhaustive, and additional categories could inform the Board's decision. In addition to these quantitative measures, the Board considers qualitative factors, such as the opaqueness and complexity of an institution's internal organization, that are indicative of the relative degree of difficulty of resolving the resulting firm. A financial institution that can be resolved in an orderly manner is less likely to inflict material damage to the broader economy.[32]

The Board has considered information relevant to risks to the stability of the U.S. banking or financial system. In this case, the proposed acquisition of a noncontrolling interest in BEA is not a significant expansion by SMFG and would have a de minimis impact on SMFG's systemic footprint. The value of the additional shares that Applicants propose to purchase is approximately $945 million.[33] The Board generally presumes that an acquisition of less than $2 billion in assets would not pose significant risks to the financial stability of the United States absent evidence that the transaction would result in a significant increase in interconnectedness, complexity, cross-border activities, or other risk factors. Such additional risk factors are not present in this

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[31] Many of the metrics considered by the Board measure an institution's activities relative to the U.S. financial system.

[32] For further discussion of the financial stability standard, see Capital One Financial Corporation, FRB Order No. 2012-2 (Feb. 14, 2012).

[33] This value is based on BEA's listed price on the Hong Kong Stock Exchange as of September 12, 2014, and the exchange rate as of that date.

transaction, as the proposal merely increases Applicants' ownership interest from approximately 9.7 percent to 19.9 percent of the voting shares of BEA. Applicants would neither consider BEA a subsidiary nor consolidate its financial performance on their balance sheets.

In light of all the facts and circumstances, this transaction would not appear to result in meaningfully greater or more concentrated risks to the stability of the U.S. banking or financial system. Based on these and all other facts of record, the Board has determined that considerations relating to financial stability are consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board approves the proposal by Applicants to acquire additional shares of BEA up to 19.9 percent of the voting shares of BEA. 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 and other applicable statutes. The Board conditions its decision on Applicants providing to the Board adequate information on their operations and activities as well as those of their affiliates to determine and enforce compliance by Applicants or their affiliates with applicable federal statutes. Should any restrictions on access to information on the operations or activities of Applicants or any of their affiliates subsequently interfere with the Board's ability to obtain information to determine and enforce compliance by Applicants or their affiliates with applicable federal statutes, the Board may require termination or divestiture of any of Applicants' or their affiliates' direct or indirect activities in the United States.

The Board's approval is specifically conditioned on compliance by Applicants with the conditions imposed in this order and the commitments made to the Board in connection with the proposal. For purposes of this action, the conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision herein, and, as such, may be enforced in proceedings under applicable law.

The proposal 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,[34] effective February 20, 2015.

Margaret McCloskey Shanks
Deputy Secretary of the Board

[34] Voting for this action: Chair Yellen and Vice Chairman Fischer, Governors Tarullo, Powell, and Brainard.