

FEDERAL RESERVE SYSTEM

Shinhan Financial Group Co., Ltd.
Seoul, Korea

Order Approving the Formation of a Bank Holding Company
and Control of a Bank

Shinhan Financial Group Co., Ltd. (“SFG”) has requested the Board’s approval under section 3 of the Bank Holding Company Act (“BHC Act”) (12 U.S.C. § 1842) to become a bank holding company and to control CHB America Bank, New York, New York (“CHB”). SFG’s proposal is part of the privatization of Chohung Bank, Seoul, Korea, by the Korea Deposit Insurance Corporation (“KDIC”).¹

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (68 Federal Register 52,770 (2003)). The time for filing comments has expired, and the Board has considered the proposal in light of the factors set forth in section 3 of the BHC Act.

Before its acquisition of Chohung, SFG had total consolidated assets of \$56 billion and was the sixth largest banking organization in Korea.² SFG’s wholly owned subsidiary, Shinhan Bank, also in Seoul (“Shinhan”), operates a branch in New York City.

¹ The KDIC acquired control of Chohung in 1999. In August 2003, SFG acquired approximately 80 percent of the voting shares of Chohung from the KDIC. The shares of CHB, Chohung’s wholly owned subsidiary bank, were placed in a temporary trust (“CHB Trust”) pending the submission of this application.

² Foreign asset and ranking data are as of December 31, 2002, and use exchange rates then in effect.

Before its acquisition by SFG, Chohung was the fifth largest banking organization in Korea and had total consolidated assets of \$56 billion.³ Chohung operates a branch in New York City. CHB has total consolidated assets of \$293 million and controls deposits of \$217 million, representing less than 1 percent of total deposits in insured depository institutions in the United States.⁴ CHB operates branches in California and New York City.

Competitive and Convenience and Needs Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or be in furtherance of a monopoly. The BHC Act also prohibits the Board from approving a proposed bank acquisition that would substantially lessen competition in any relevant banking market unless the anticompetitive effects of the proposal in that banking market are clearly outweighed in the public interest by the probable effects of the proposal in meeting the convenience and needs of the community to be served.⁵ This proposal represents SFG's initial entry into retail banking in the United States. Although Shinhan, Chohung, and CHB all operate branches in New York City, there are numerous competitors for banking services in the relevant banking markets. Based on all the facts of record, the Board has concluded that consummation of the proposal would

³ SFG has indicated that Chohung will remain a separate legal entity for approximately three years after its acquisition by SFG.

⁴ Domestic asset and deposit data are as of March 31, 2003. Insured depository institutions include commercial banks, savings banks, and savings associations.

⁵ 12 U.S.C. § 1842(c)(1).

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.

The Board also has 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, including the performance record of CHB under the Community Reinvestment Act.⁶ In light of all the facts of record, the Board has concluded that considerations relating to the convenience and needs of the communities to be served are also consistent with approval of this proposal.

Financial, Managerial, and Other Supervisory Factors

The BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and banks involved in an acquisition.⁷ In assessing the financial and managerial strength of SFG, Chohung, and CHB, the Board has reviewed information provided by SFG, confidential supervisory and examination information, and publicly reported and other financial information. In addition, the Board has consulted with relevant supervisory authorities, including the Financial

⁶ 12 U.S.C. § 2901 *et seq.* CHB was formed in March 2003 by the merger of California Chohung Bank with and into Chohung Bank of New York. Before this merger, each bank had received a “satisfactory” rating at the most recent CRA performance evaluation by its appropriate federal supervisor, the Federal Deposit Insurance Corporation: California Chohung Bank, as of April 2001; and Chohung Bank of New York, as of June 1998.

⁷ 12 U.S.C. § 1842(c)(2).

Supervisory Service (“FSS”),⁸ which is responsible for the supervision and regulation of Korean financial institutions. The Board notes that the overall financial strength and future prospects of the combined organization will likely be enhanced by the privatization transaction. SFG’s capital levels are considered equivalent to those that would be required of a U.S. banking organization under similar circumstances. Based on all the facts of record, the Board concludes that the financial and managerial resources and future prospects of SFG, Chohung, and CHB are consistent with approval.

Section 3 of the BHC Act also provides that the Board may not approve an application involving a foreign bank unless the bank is subject to comprehensive supervision or regulation on a consolidated basis by the appropriate authorities in the bank's home country.⁹ As noted, the home country supervisor of SFG, Shinhan, and Chohung is the FSS. The Board has previously determined, in an application under the BHC Act involving Woori Bank, Seoul, that Woori Bank was subject to comprehensive

⁸ The FSS is the executive body of the Financial Supervisory Commission, which is responsible for promulgating supervisory regulations, making policy decisions about supervision, and imposing sanctions on financial institutions. See Woori Finance Holdings Co., Ltd. and Woori Bank, 89 Federal Reserve Bulletin 436 (2003) (“Woori Order”).

⁹ 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. See 12 C.F.R. 225.13(a)(4). Regulation K provides that a foreign bank will be considered to be subject to comprehensive supervision or regulation on a consolidated basis 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 bank, including its relationship to any affiliates, to assess the bank’s overall financial condition and its compliance with laws and regulations. See 12 C.F.R. 211.24(c)(1).

consolidated supervision by the FSS.¹⁰ In this case, the Board has determined that Chohung and Shinhan are supervised on substantially the same terms and conditions as Woori Bank. Based on all the facts of record, the Board has concluded that Chohung and Shinhan are subject to comprehensive supervision and regulation on a consolidated basis by their home country supervisor.¹¹

In addition, section 3 of the BHC Act 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 that the Board deems appropriate to determine and enforce compliance with the BHC Act.¹² The Board has reviewed the restrictions on disclosure in jurisdictions in which SFG, Shinhan, and Chohung have material operations and has communicated with relevant government authorities concerning access to information. SFG, Shinhan, and Chohung have committed that, to the extent not prohibited by applicable law, each will make available to the Board such information on the operations of its affiliates that the Board deems necessary to determine and enforce compliance with the BHC Act and other applicable federal law.

¹⁰ See Woori Order.

¹¹ The FSS also has supervisory authority with respect to SFG and its nonbanking subsidiaries. The FSS conducts inspections of SFG and its subsidiaries and requires SFG to submit reports about its operations on a consolidated basis. The FSS also may review transactions between SFG and its subsidiaries and has authority to require SFG to take measures necessary to ensure the safety and soundness of SFG's organization.

¹² See 12 U.S.C. § 1842(c)(3)(A).

SFG, Shinhan, and Chohung also have committed to cooperate with the Board to obtain any waivers or exemptions that may be necessary to enable their affiliates to make any such information available to the Board. In light of these commitments, the Board has concluded that SFG, Shinhan, and Chohung have 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)(3) of the BHC Act are consistent with approval.

Conclusion

Based on the foregoing and in light of all the facts of record, 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. The Board's approval is specifically conditioned on compliance by SFG and its affiliates with all the representations and commitments made in connection with the application, prior commitments made in connection with establishment of the CHB Trust, 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 transfer of the CHB voting shares from the CHB Trust to SFG shall not be consummated before the fifteenth calendar day after the effective date of this order, and the proposal may not be consummated later

than three months after the effective date of this order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of New York, acting pursuant to delegated authority.

By order of the Board of Governors,¹³ effective November 20, 2003.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

¹³ Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Gramlich, Bies, Olson, and Bernanke. Absent and not voting: Governor Kohn.