

FEDERAL RESERVE SYSTEM

Woori Finance Holdings Co., Ltd.
Seoul, Korea

Woori Bank
Seoul, Korea

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

Woori Finance Holdings Co., Ltd. (“WFH”) 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 acquire indirectly all the voting shares of Panasia Bank, National Association, Fort Lee, New Jersey (“Panasia”). Woori Bank (“Woori”), a wholly owned subsidiary of WFH and a bank holding company within the meaning of the BHC Act, has also requested the Board’s approval under section 3 to acquire indirectly all the voting shares of Panasia.¹

Notice of the proposals, affording interested persons an opportunity to submit comments, has been published (68 Federal Register 14,658 and 17,808 (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.

¹ Woori owns all of the capital stock of Woori America Bank, New York, New York (“Woori America”), a state-chartered nonmember bank. Under the proposal, Woori America would acquire all the voting shares of Panasia, and Panasia immediately would be merged with and into Woori America. The proposed merger has been approved by the Federal Deposit Insurance Corporation (“FDIC”) pursuant to the Bank Merger Act, and the New York State Banking Department.

WFH is a Korean financial holding company controlled by the Korea Deposit Insurance Company (“KDIC”).² With total consolidated assets of \$97 billion, WFH is the second largest banking organization in Korea.³ Woori, with total consolidated assets of \$74 billion, is WFH’s lead subsidiary bank and the third largest bank in Korea. In the United States, Woori operates agencies in New York City and Los Angeles. Woori America, with total assets of \$354 million, controls approximately \$319 million in deposits, representing less than 1 percent of total deposits in insured depository institutions in the United States (“total U.S. insured deposits”).⁴ Woori America operates branches in New York and New Jersey.⁵

Panasia, with total assets of \$213 million, controls \$187 million in deposits, representing less than 1 percent of total U.S. insured deposits. Panasia serves Korean-American communities in the New York City, Philadelphia, and Washington, D.C. metropolitan areas.⁶

Interstate Analysis

² In 2002, the KDIC sold approximately 12 percent of the voting shares of WFH in a public offering, and it now owns approximately 88 percent of WFH. Under Korea’s Financial Holding Companies Act, the KDIC is required to divest fully its ownership in WFH by the end of 2005.

³ Foreign asset and ranking data are as of December 31, 2002, and use exchange rates then in effect.

⁴ Domestic asset data are as of March 31, 2003, and deposit data are as of December 31, 2002. Insured depository institutions include all insured banks, savings banks, and savings associations.

⁵ Woori America has its head office and two branches in New York City and branches in Fort Lee and Ridgefield, New Jersey.

Section 3(d) of the BHC Act allows the Board to approve an application by a bank holding company to acquire control of a bank holding company or bank located in a state other than the home state of the applicant if certain conditions are met. For purposes of the BHC Act, the home state of WFH and Woori (“Applicants”) is New York,⁷ and Panasia is located in New Jersey, Pennsylvania, and Virginia.⁸ Based on a review of all the facts of record, including a review of relevant federal and state statutes, the Board finds that all conditions for an interstate acquisition enumerated in section 3(d) are met in this case.⁹ Accordingly, the Board is permitted to approve the proposal under section 3(d) of the BHC Act.

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

⁶ Panasia, currently a subsidiary of National Penn Bancshares, Boyertown, Pennsylvania, operates offices in Fort Lee, Palisades Park, and Closter, New Jersey; Philadelphia and Cheltenham, Pennsylvania; and Annandale, Virginia.

⁷ A bank holding company’s home state is the state in which the total deposits of all banking subsidiaries of such company were the largest on July 1, 1966, or the date on which the company became a bank holding company, whichever is later. 12 U.S.C. § 1841(o)(4)(C).

⁸ For purposes of section 3(d), the Board considers a bank to be located in the states in which the bank is chartered, headquartered, or operates a branch.

⁹ Applicants meet the capital and managerial requirements established under applicable law. 12 U.S.C. § 1842(d)(1)(A). On consummation of the proposal, Applicants would control less than 10 percent of total U.S. insured deposits and would not exceed applicable deposit limitations in any state as established under state and federal law. 12 U.S.C. § 1842(d)(2). None of the relevant states specifies a minimum period of time a bank to be acquired through an interstate acquisition must have been in existence. 12 U.S.C. § 1842(d)(1)(B). All other requirements of section 3(d) of the BHC Act would be met on consummation of the proposal.

geographic markets; the convenience and needs of the communities to be served, including the records of performance of the insured depository institutions involved in the transaction under the Community Reinvestment Act (“CRA”);¹⁰ 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 Woori, whether the foreign bank is subject to comprehensive supervision and regulation on a consolidated basis by its home country supervisor.¹¹

The Board has considered these factors in light of a record that includes information provided by Applicants, confidential supervisory and examination information, and publicly reported financial and other information. The Board also has consulted with and considered information provided by the primary home country supervisor of Woori.

Competitive 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.¹²

¹⁰ 12 U.S.C. § 2901 et seq.

¹¹ 12 U.S.C. § 1842(c).

¹² 12 U.S.C. § 1842(c)(1).

Woori America and Panasia compete directly in the New York-New Jersey Metropolitan banking market (“New York banking market”).¹³ Consummation of the proposal would be consistent with the Department of Justice Merger Guidelines (“DOJ Guidelines”) and Board policies and precedent.¹⁴ In light of 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 considerations are consistent with approval.¹⁵

¹³ The New York banking market is defined as New York City; Bronx, Dutchess, Kings, Nassau, Orange, Putnam, Queens, Richmond, Rockland, Suffolk, Sullivan, Ulster, and Westchester Counties in New York; Bergen, Essex, Hudson, Hunterdon, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset, Sussex, Union, Warren, and a portion of Mercer Counties in New Jersey; Pike County in Pennsylvania; and Fairfield and portions of Litchfield and New Haven Counties in Connecticut.

¹⁴ Under the DOJ Guidelines, 49 Federal Register 26,823 (1984), a market is considered unconcentrated if the post-merger Herfindahl-Hirschman Index (“HHI”) is below 1000. The Department of Justice has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger or acquisition increases the HHI by at least 200 points. The Department of Justice has stated that the higher than normal HHI thresholds for screening bank mergers or acquisitions for anticompetitive effects implicitly recognize the competitive effects of limited-purpose lenders and other nondepository financial institutions.

¹⁵ Woori America controls deposits of \$296 million in the New York banking market, representing less than 1 percent of total deposits in depository institutions in the market (“market deposits”), and Panasia controls deposits of \$141 million in the market. On consummation of the proposal, Woori America would be the 79th largest depository institution in the New York banking market, controlling deposits of \$437 million, representing less than 1 percent of market deposits. The HHI would remain unchanged at 960 after consummation of the proposal, and numerous competitors would remain in the market. Deposit and market share data are as of June 30, 2002, and are based on calculations in which the deposits of thrift institutions are included at 50 percent. The Board previously has indicated that

Convenience and Needs Considerations

The Board 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, including the records of the relevant depository institutions under the CRA. As provided in the CRA, the Board evaluates the record of an institution in light of examinations of the CRA performance records of the institution by the appropriate federal supervisory agencies. 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.¹⁶

The Board notes that Woori America and Panasia received “satisfactory” ratings at their most recent CRA performance examinations.¹⁷ Based on all the facts of record, the Board concludes that considerations relating to the convenience and needs of the communities to be served are consistent with approval.

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.¹⁸ In assessing the financial and managerial strength of Applicants

thrift institutions have become, or have the potential to become, significant competitors of commercial banks. See Midwest Financial Group, 75 Federal Reserve Bulletin 386 (1989); National City Corporation, 70 Federal Reserve Bulletin 743 (1984).

¹⁶ Interagency Questions and Answers Regarding Community Reinvestment, 66 Federal Register 36,620 and 36,639 (2001).

¹⁷ Woori America received a “satisfactory” CRA performance rating from the FDIC, as of November 1997; and Panasia received a “satisfactory” CRA performance rating from the OCC, as of September 2002.

¹⁸ 12 U.S.C. § 1842(c)(2).

and the banks to be acquired, the Board has reviewed information provided by Applicants, confidential supervisory and examination information, and publicly reported and other financial information. In addition, the Board has consulted relevant supervisory authorities in Korea.¹⁹

In evaluating financial factors in expansion proposals by banking organizations, the Board consistently has considered capital adequacy to be especially important. Woori America is well capitalized and would remain so on consummation of the proposal. The capital ratios of WFH and Woori would continue to exceed the minimum levels required under the Basel Capital Accord and are considered equivalent to the capital ratios that would be required of a U.S. banking organization. The Board notes that the proposed transaction is relatively small and would be financed by Woori with internally available funds.

The Board has reviewed supervisory information from the home country authorities responsible for supervising Woori, as well as reports of examination from the appropriate federal and state supervisors of Woori America and the U.S. operations of Woori concerning the proposal and the managerial resources of Applicants and Woori America. Based on all the facts of record, the Board concludes that the financial and managerial resources and future prospects of Applicants, Woori America, and Panasia are consistent with approval under section 3 of the BHC Act.

¹⁹ The Korean Financial Supervisory Service has indicated that it has no objection to the acquisition of Panasia by Applicants, and the proposal has been approved by Korea's Ministry of Finance and Economy.

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.²⁰ In this light, the Board has considered the following information. In early 1997, the Korean economy experienced difficulties in the financial sector.²¹ To address these difficulties, the Korean government took measures to reform the financial sector, including restructuring bank regulation and supervision through the establishment of a new supervisory authority for Korean financial institutions, the Financial Supervisory Commission (“FSC”). The FSC is responsible for promulgating supervisory regulations, making policy decisions about supervision, and imposing sanctions on financial institutions. The Korean

²⁰ 12 U.S.C. § 1842(c)(3)(B). Under Regulation Y, the Board uses the standards enumerated in Regulation K to determine whether a foreign bank that has applied under section 3 of the BHC Act is subject to consolidated home country supervision. 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 law and regulation. See 12 C.F.R. 211.24(c)(1).

²¹ In the aftermath of Korea’s financial crisis, the Board determined that the Korean authorities were actively working to establish a framework for consolidated supervision in connection with applications to establish branches. Housing & Commercial Bank, 83 Federal Reserve Bulletin 935 (1997), Kookmin Bank, 86 Federal Reserve Bulletin 291 (2000) and 87 Federal Reserve Bulletin 786 (2001). As noted below, there have been significant reforms of the Korean bank supervisory regime since 1997. The International Monetary Fund (“IMF”) recently conducted a Financial System Stability Assessment for Korea in which it reviewed compliance by Korea with the Basel Core Principles for Effective Banking Supervision. The IMF staff concluded that the supervisory and regulatory regime for the financial sector has been substantially strengthened, and recent reforms have helped achieve a high degree of observance of international standards and codes. See IMF Country Report No. 03/81 (March 2003).

Financial Supervisory Service (“FSS”), the executive body of the FSC, is responsible for regulation and supervision of Korean financial institutions. The FSS has a broad range of supervisory and enforcement tools to carry out its supervisory functions.

In addition to restructuring the supervisory agencies, Korea has instituted several new requirements and prudential limitations applicable to banks that are intended to address gaps in the supervisory system that became evident during and after the financial crisis in 1997. The changes include a new asset quality assessment framework, tighter limitations on loans to a single borrower and to conglomerates (including through trust accounts), limits on loans to a shareholder that owns more than 10 percent of a financial holding company or a bank, a prompt corrective action framework, measures to strengthen of capital requirements, and improvements in accounting policies to bring them more into accordance with international accounting standards.

The FSS also has instituted restrictions on relationships between Korean banks and their affiliates. Transactions between a bank and its subsidiaries must be on terms that are fair and reasonable. In addition, Korean banks are generally prohibited from making a loan to any officer or employee of the bank or of its subsidiaries.

Financial holding companies were introduced in Korea by legislation that became effective in 2000.²² Prior approval from the FSS is required to establish a financial holding company and before the company may invest in subsidiaries. Supervision of financial holding companies currently consists of consolidated reporting requirements and annual examinations.

²² A Korean financial holding company may only engage in activities through its subsidiaries, unless the activities concern the management of those subsidiaries and related businesses.

The FSS has primary responsibility for the supervision of WFH and Woori. The FSS conducts annual on-site examinations of Woori, and targeted examinations when considered necessary. The examinations cover areas such as capital adequacy, liquidity, asset quality, and risk management processes. These examinations include a review of Woori's internal audit function and internal audit reports. Woori's foreign branches and subsidiaries are also subject to on-site examination.

Woori is subject to extensive reporting requirements by the FSS, including information filed monthly, quarterly, semiannually and annually. These reports include information on overseas branches and subsidiaries. The FSS also reviews Woori's internal and external audit reports.

Under Korean law, banks are subject to limitations on loans to one borrower or a group of borrowers under common control. With respect to affiliate transactions, a bank is limited to an aggregate exposure to related parties of 20 percent of the bank's capital.

In addition, several other regulators oversee Korean banks, including Woori. The KDIC, the Bank of Korea, and the Korean Financial Intelligence Unit all have limited authority to conduct special examinations of Korean financial institutions. Korean financial supervisors, including Korea's Securities and Futures Commission, share supervisory information about Korean financial institutions as appropriate.

Based on this finding and all the facts of record, the Board concludes that Woori is subject to comprehensive supervision on a consolidated basis by its home country supervisor.²³

In addition, section 3 of the BHC Act requires the Board to determine that a 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.²⁴ The Board has reviewed the restrictions on disclosure in relevant jurisdictions in which WFH and Woori have material operations and has communicated with relevant government authorities concerning access to information. In addition, WFH and Woori have committed to make available to the Board such information on their operations and the operations of their affiliates that the Board deems necessary to determine and enforce compliance with the BHC Act, the IBA, and other applicable federal laws. WFH and Woori also have committed to cooperate with the Board to obtain any waivers or exemptions that may be necessary to enable WFH and its affiliates to make such information available to the Board. In light of these commitments, the Board concludes that WFH and Woori have provided adequate assurances of access to any appropriate information that the Board may request. For these reasons, and based on all the facts of record, the

²³ The FSS also has supervisory authority with respect to WFH and its nonbanking subsidiaries. The FSS conducts inspections of WFH and its subsidiaries and requires WFH to submit reports about its operations on a consolidated basis. The FSS also may review transactions between WFH and its subsidiaries and has authority to require WFH to take measures necessary to ensure the safety and soundness of the WFH organization.

²⁴ 12 U.S.C. § 1842(c)(3)(A).

Board concludes 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 applications should be, and hereby are, 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 Applicants 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 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,²⁵ effective August 4, 2003.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

²⁵ Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Bies, Olson, Bernanke, and Kohn. Absent and not voting: Governor Gramlich.