Initial Public Offering of Korea Life Insurance on KRX

Korea Life Insurance was listed on the Korea Exchange (KRX) on March 17, 2010. Korea Life Insurance offered 217,130,000 shares at KRW 8,200 each and raised KRW 1,780,466,000,000 in total. On the basis of the offering price, Korea Life Insurance had a market capitalization of KRW 7,285,946,000,000 at the time of the listing. This makes Korea Life Insurance the 29th largest company listed on KRX by market capitalization. Although this is the second time that a life insurance company became listed in Korea, the first being Tong Yang Life Insurance which was listed on KRX in October 2009, this is the first time when one of "big three" life insurance companies in Korea successfully completed an initial public offering (IPO). The big three are Korea Life Insurance with market share of 14.1% (calculated on the basis of total amount of insurance premiums collected), Samsung Life Insurance with 25.9% and Kyobo Life Insurance with 13.2%. The big three collectively account for 50% of the life insurance market. The asset sizes of big three are Korea Life Insurance—KRW 55 trillion, Samsung Life Insurance—KRW 129 trillion and Kyobo Life Insurance—KRW 52 trillion.

The challenge of listing a life insurance company has been not been overcome for about 20 years until recently. Although Tong Yang Life Insurance became the first life insurance company to be listed last year, the issue of the contractual right of policy holders to receive dividends and unfavorable media portrayal have barred large size life insurance companies from pursuing an IPO. In this background, the listing of Korea Life Insurance stands out because it managed to overcome these issues. Many see this listing as opening the door for other large life insurance companies to become listed. As more life insurance companies become listed, they are expected to shift their management focus away from bulking up their sizes, for which they have been criticized as being reckless, because they will be required as listed companies to provide transparency in their management by filing and disclosing financial statements and annual reports. Furthermore, because Hanwha Group, the parent company of Korea Life Insurance, has announced a plan to invest KRW 2 trillion, the market is interested in whether the proceeds from this IPO will be used to fund a non-financial M&A, such as the acquisition of Daewoo Shipbuilding & Marine Engineering, and eventually lead to changes in the corporate landscape in Korea.

In light of the successful listing of Korea Life Insurance, the market is showing great interest in whether and when other life insurance companies will be listed, including Samsung Life Insurance (currently in the process of preparing for IPO), Kyobo Life Insurance and Mirae Asset Life Insurance. At the same time, Tong Yang Life Insurance as "the first life insurance to be listed" is expected to play a role in the market's evaluation of life insurance companies.

Lee & Ko acted as issuer's counsel in IPOs of both Tong Yang Life Insurance (the first for a life

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insurance company) and Korea Life Insurance (the first for a big life insurance company). Lee & Ko effectively assisted both issuers to overcome legal obstacles and thus immensely contributed to their successful completion of IPOs. In the case of Korea Life Insurance, we put together Kyu Wha Lee (Head of M&A team who has advised Hanwha Group since it acquired Korea Life Insurance), Wan Joo (Head of Labor team), Won Kyu Han (Head of Capital Markets team), Heung Chul Shin (previously an officer of a large life insurance company and leader of the insurance section of the Korean Bar Association) and Won Sik Choo (in charge of overseeing both IPOs) to create a cross-disciplinary team that worked together to provide a comprehensive legal services on IPO, general corporate matters, insurance and labor. On the basis of its members' vast experience, the Lee & Ko team was able to diagnose legal issues that were most likely to surface before, during and after the IPO and prepared for them in advance such that the team was able to resolve these issues effectively and promptly as each of them came to the fore. In sum, the Lee & Ko team assisted its clients to complete the task at hand—IPO—as well as to prepare the ground for their growth in the future.

Furthermore, in the case of Korea Life Insurance, the offering was made both to domestic investors and to overseas investors by providing them with an offering circular in accordance with the US SEC's Rule 144A and Regulation S to accommodate the large size of the offering. Lee & Ko played a significant role in overseas marketing of the offering which ultimately led to the successful completion of the IPO.

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District Court Ruling in KIKO Case Results in Across-the-board Victory for Legal Arguments Presented by Lee & Ko on behalf of Defendant Banking Institution

In the first major ruling made by a Korean court on a series of claims and procedural motions that have been filed against financial institutions by Korean plaintiffs in litigation concerning “knock-in, knock-out” currency derivatives (“KIKO”), the positions taken by Lee & Ko in defending and representing its client (a prominent banking institution) in the case have been validated in a sweeping victory for the defense.

Court ruling establishes precedent expected to be followed in subsequent KIKO-related cases.

Although subject to a possible appeal, it is expected that the ruling announced on February 8, 2010 by the Seoul Central District Court will establish a strong precedent that subsequent court decisions will follow in disposing of similar KIKO-related cases and issues.

What are KIKO contracts?

By way of background, KIKO refers to a class of currency option contracts designed to reduce risks associated with foreign exchange rate fluctuations. Under typical KIKO contractual arrangements, the customer (typically a business enterprise engaged in export transactions) will obtain foreign exchange put option rights against the relevant bank, and the bank will acquire foreign exchange call option rights against the customer. The options will then be exercised automatically at maturity based on the previously determined exercise rate set forth in the KIKO contract. In the event that certain foreign exchange fluctuation levels are reached, the call option will be triggered (a “knock-in” event) and the put option will cease to exist (a “knock-out” event). When a bank’s call option right is knocked in as a result of the relevant foreign exchange rate fluctuation exceeding a specified level, the customer can find itself in the position of having to sell foreign exchange to the bank at a loss (in comparison with the prevailing market rate). A bank’s KIKO contract with an export business will reflect the expected foreign currency inflow of the export business and KIKO contracts have been seen as an opportunity for businesses to get the benefit of foreign exchange exercise rates that are significantly more advantageous than those available through “plain vanilla” forward contracts.

Specific precedent-setting findings of the court.

In addition to rejecting a procedural application for a preliminary injunction, which was filed by

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the plaintiff against the defendant in order to impose a suspension of the underlying contractual arrangements, the court rejected the full slate of substantive claims that had been filed against Lee & Ko's client.

More specifically, the court ruling, among other things:

(1) rejected the plaintiff claim that the KIKO financial product was an unsuitable financial product in relation to the circumstances of the plaintiff (a business enterprise that acquired foreign currency through export business transactions) and upheld the defendant's view that the KIKO contracts could be recognized as suitable partial hedging arrangements;

(2) rejected the plaintiff claim that the method used by the defendant bank in applying the theoretical option value was inappropriate;

(3) rejected the plaintiff claim that the margin received by the defendant was excessive or that the method of assessing fees was unlawful;

(4) found, contrary to the plaintiff's assertions, that the KIKO contracts, given the level of negotiation and other relevant factors involved at the time of their creation, did not constitute standardized contracts for the purposes of determining whether their provisions violated the Act for the Regulation of Standardized Contracts ("ARSC"), and further found that, even if the KIKO contracts were to be regarded as standardized contracts, their provisions would not have constituted unfair terms under the ARSC;

(5) found that the record of past transaction experience with the KIKO financial product had shown that it was suitable for the businesses to whom it was marketed and that the explanations provided by the defendant to the plaintiff had been sufficient to inform the plaintiff of the relevant risks; and

(6) found that no evidence supports the plaintiff's claims based on theories of mistake, fraud and tortious misconduct.

Previous state of uncertainty about KIKO contract enforceability due to earlier court decisions on preliminary injunction applications

Additionally, it should be noted that, in December 2008, at the initial stage of KIKO-related disputes, notwithstanding the fact that the KIKO contracts, by their nature, expressly dealt with the allocation of foreign exchange rate fluctuation risks and specified the precise manner in which such risks were to be allocated, decisions made by courts ruling on preliminary injunction

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applications to suspend the performance of KIKO contracts pending litigation on the substantive legal issues tended to support the position that the magnitude of foreign exchange rate fluctuations that had recently occurred were beyond the scope originally contemplated by the parties to the KIKO contracts and, in one somewhat difficult to understand court statement issued in connection with approval of a preliminary injunction application, the court indicated that the degree of fluctuation that had occurred constituted a case of "rebus sic stantibus" (a legal doctrine allowing for contracts to become inapplicable because of a fundamental change of circumstances), which justified the granting of the preliminary injunction. (As a result, banking institutions involved in the KIKO market had reason to fear that subsequent court decisions on the substantive issues would be adverse to the banking industry.)

Court ruling constitutes positive outcome for stability and predictability in financial sector transactions

After a long and sustained effort in representing the defendant in this case, this across-the-board ruling in favor of the positions advocated by Lee & Ko on behalf of the defendant comes as a gratifying vindication of the soundness of the legal arguments and analyses that we put forth in this litigation. Furthermore, it is expected that this ruling will bring welcome relief in the financial community, which has faced considerable uncertainty as to how similar derivatives products and court cases may be disposed of in the future.

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Implementation of "FX Derivative Transactions Risk Management Guideline"

The Financial Supervisory Services released a press release on January 6, 2020 stating that it will endeavor to prevent overhedging of foreign exchange risk by corporate investors by furnishing "FX Derivative Transactions Risk Management Guideline" applying to banks. According to this guideline, corporate investors need to adhere to risk hedge ratios set by banks which in any case shall not exceed 125% of underlying exposure.

Background for the Creation of Guideline

To facilitate banks' management of counterparty risk arising in connection with FX derivative transactions, the Detailed Enforcement Regulations for Supervision of Banking Institutions as amended (the "**Regulations**") by the Financial Supervisory Service (the "**FSS**") on December 31, 2009 went into effect in January 2010. To provide the details of how the Regulations will be implemented in practice, the FSS along with the Korean Federation of Banks have published "FX Derivative Transactions Risk Management Guideline" (the "**Guideline**"). The implementation of the Guideline is expected to prevent overhedging of currency risk by the Corporate Investors and improve the banks' management of counterparty risk concerning the Corporate Investors.

Main Points of the Guideline

According to the Guideline, banks that desire to enter into FX forwards, FX options or FX swaps (collectively, "**FX Transactions**") with corporate investors, except for financial institutions and public enterprises, (the "**Corporate Investors**") need to verify whether any of such Corporate Investors' assets, liabilities or contracts presents currency risk exposure that could be mitigated by the use of one or more of the FX Transactions (the "**Underlying Exposure**"). The Underlying Exposure include, without limitation, current exports, imports, inbound money flow, outbound money flow and any other transactions that arise in a Corporate Investor's normal course of business. Banks may also confirm whether the exports and imports that are expected to take place in the near future is Underlying Exposure by using the projected figures associated with them.

In addition to the foregoing, banks need to ensure in principle that each Corporate Investor's risk hedge ratio, which is the ratio of the notional amount and the amount of underlying exposure, does not exceed 125%. When calculating and setting a risk hedge ratio for a Corporate Investor, banks are expected to take into consideration the balances of the FX Transactions such Corporate Investor has entered into with other banks. Banks may set different risk hedge ratios for different

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Corporate Investors depending on various factors, such as their credit rating and capital adequacy.

Consequences for Exceeding the Risk Hedge Ratio

Each bank is required to inform in advance each Corporate Investor with whom they enter into a FX Transaction that such FX Transaction will become terminable by the bank if the Corporate Investor (i) fails to provide evidence that proves the existence of Underlying Exposure at the request of the bank, (ii) intentionally provides false evidence to the bank or (iii) fails to inform the bank that the risk hedge ratio for the FX Transaction has exceeded the risk hedge ratio set by the bank for the Corporate Investor when the Corporate Investor is aware of such fact. If such a condition for termination is included in the agreement, the Corporate Investors should make note of them.

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