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Press Release

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LONE STAR ORDERED TO SELL DOWN ITS STAKE IN KOREA EXCHANGE BANK

I. Sale Order of Lone Star's Excess Stake in KEB

RULING

The FSC decided to order Lone Star Fund IV (hereinafter "Lone Star") to sell its stake in KEB that exceeds 10% of the total number of voting stocks within six months by May 18, 2012.*

* Article 16-4 of the Banking Act (5) Where a limit excess stockholder, etc. who has received an order under paragraph (3) fails to comply with the order, the FSC may order the limit excess stockholder, etc. to dispose of the stocks of a financial institution held by him in excess of the limit as set in Article 15(3)1 within a specified period of not more than six months.

The sale order was made on ground that Lone Star failed to redress qualifications as a majority stakeholder in KEB within the deadline (October 28, 2011) set by the FSC, and the situation still remains unfixed.*

* Lone Star was ordered to redress its qualification as a majority stakeholder under the Banking Act that requires no record of punishment for violation of financial laws and regulations since it was ruled guilty of stock price manipulation and fined KRW 25billion.

The FSC concluded that we should not delay our decision any longer, leaving the situation uncorrected.

REASON FOR SETTING A SIX-MONTH PERIOD

The FSC decided to give Lone Star a six-month period to reduce its stake in KEB, considering the number of stocks to be sold and precedent cases.

Lone Star has to sell a total of 265 million shares (41.02%), the largest number of stocks that any shareholder was ever ordered to sell. We also took into our consideration fairness with a precedent case that a majority shareholder in an insurance company was given a six-month period to sell four million shares (41.4%).



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REASON FOR NOT SPECIFYING DETAILS OF THE SALE

The FSC decided not to specify details of the sale, considering the purpose of eligibility test for majority shareholders and reference cases home and abroad.

The eligibility test for majority shareholders and the sale order of shares aim to eliminate unqualified ones, and the FSC considered it possible to fulfill the purpose without specifying details of the sale.

There is a precedent case in which a shareholder who had acquired a majority stake in an insurance company without an FSC's approval and was later ordered to sell the shares without any conditions attached.

Even though legal systems in the US and Britain differ from ours, there is no case either in which a bank shareholder who violated banking laws and regulations was forced to sell its stake through the stock market.

Furthermore, if Lone Star were forced to sell its stake via the stock market, it is likely that the large amount of stocks on sale would lead to sharp decline in KEB stock prices, severely damaging returns on investment of KEB's minority shareholders.

* It would take more than 180 days for Lone Star to sell 265 million shares if it sold about 1.4 million shares per day, an average number of one-day trades for the recent three month. Under such circumstances, there is a high possibility that the massive sales through the stock market would cause KEB's stock price sharply fall. (As of end-2010, the number of minority shareholders with a less than 0.01% stake in KEB is 73,874, and they owned a total of 55million stocks.

※ For violation of the 5% rule, or mandatory reporting rule of large share ownership, there is a precedent case in which the FSC ordered the violator to sell its stake through the stock market. However, the rationale behind such order was that the 5% rule is aimed to disclose the purpose of share ownership in a transparent manner in order to prevent hostile M&As; and the FSC considered that the attached condition would not significantly harm interest of the violator.

REASON FOR SALE ORDER BEFORE DECISION ON NON-FINANCIAL INVESTOR

There were calls for reviewing whether Lone Star was a non-financial investor before the regulatory order to sell down its stake in KEB on the lack of eligibility of Lone Star as the majority shareholder of a bank. However, the FSC concluded that the decision on a non-financial investor does not need to be made prior to the sale order.



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Calls for such review reflect arguments that if Lone Star is a non-financial investor, ‘punitive terms’ should be imposed on the sale of its stake in KEB exceeding 4%. According to them, the approval for Lone Star to acquire KEB in September 2003 was null and void in the first place, and resolutions made in the shareholders’ meetings were void or non-existent because voting rights of Lone Star would have been limited.

For all those arguments, however, the FSC concluded that the decision on a non-financial investor should not necessarily be made before the sale order and its conclusion has grounds to the following;

Under banking laws, the buyout fund can sell all but 4 percent of its 51.02 percent stake without any conditions attached, before the regulatory sale order, even though Lone Star is found to be a non-financial investor.

If Lone Star does not sell down its KEB stake, the financial regulator can still order to sell stake. But even in this case, it is inappropriate to impose the punitive terms on the sale because there is no particular provision specifying the method of the stake sale.

It also has no grounds to claim that Lone Star was a non-financial investor when it acquired KEB in 2003. Even if Lone Star is found to be a non-financial investor, however, it is hardly seen feasible to nullify or cancel the approval for its acquisition of KEB.

And legal experts view is that it is hard to consider acts of Lone Star in its shareholder capacity such as exercising voting rights null and void or non-existent.

II. Review Updates on Lone Star as Non-financial Investor

The FSC concluded on March 16, 2011 that it was hard to consider Lone Star a non-financial investor under banking laws based upon the documents and evidence presented.

The conclusion was made after considering the limits on banking law application, the spirits of regulations adopted on preventing a non-financial investor from owning the controlling stake in a bank and fair application of regulations between Lone Star and other foreign shareholders.

It was after the FSC’s conclusion that some media and politicians raised questions that Lone Star was a non-financial investor because it owned PGM Holdings, a golf course management company established in December 2004 in Japan.

The FSS launched an in-depth investigation into Lone Star’s affiliates in Japan by entering fact-finding with its office in Tokyo, asking Lone Star for documents and reviewing disclosure materials PGM Holdings submitted to Tokyo Stock Exchange.



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The FSS found that PGM Holdings was a financial investment company, but held a non-financial subsidiary and researched its asset volume and shareholding structure.

In addition, it was found that PMG Holdings was going to be sold to Heiwa Corporation in Japan.

The FSS is finalizing the fact-finding work and will report the result to the FSC after a comprehensive legal review, considering the spirits of regulations adopted on preventing a non-financial investor from owning the controlling stake in a bank and court filing against Lone Star in relation to the decision on a non-financial investor.

III. Processing Application by Hana Financial Group to Include KEB as a Subsidiary

Concerning the processing of the application submitted by Hana Financial Group to include KEB as its subsidiary, the FSC panel decided to ask Hana Financial Group to submit a new application reflecting changes in the situation.

Considerable time has passed since Hana submitted the application and the new application should reflect significant changes that took place in relation to conditions for approval amid heightened uncertainty in the financial environment at home and abroad.

Changes are related to the feasibility of business plans of the company to be included, financial conditions and management capability of the Financial Group and its would-be subsidiary, etc.

In addition, Lone Star became ineligible to be the majority shareholder when it was given a guilty verdict on stock price manipulation and subsequently lost its voting rights in KEB shares exceeding 10% since October 25 when it was given an order to redress its qualification as a majority shareholder.

IV. Dismissal of KEB Executives

For sound management of KEB, the financial regulators will recommend Lone Star to dismiss Michael Thompson, Ellis Short and Yoo Hoe-won, the three non-standing directors who were involved in the stock-price manipulation of KEB Card and press ahead with relevant actions that include examinations and sanctions, if necessary.



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