

2014 Asia Securities Forum

Market Report: Republic of Korea

Presented by the Korea Financial Investment Association





**K O R E A
C A P I T A L
M A R K E T**

C O N T E N T S

- I. Korean Capital Market**
 - I. Current Status**
 - II. Prospects
- II. Korean Financial Investment Industry
- III. Capital Market Regulations

**STOCK MARKET
KOSPI TREND**

- Since 2012, the KOSPI has maintained a rectangle formation in the 1800-2000 range
- There was a breakout from the formation in 2014, with the market hitting a three-year high of 2,093 on Jul. 30, 2014
- Foreign investors hold 32.5% of the total market value (as of Sep. 30, 2014)



	KOSPI
Market capitalization (USD bn., as of end of Sep. 2014)	1,205
Daily trading amount (USD bn., as of end of Sep. 2014)	4.7
No. of listed companies (as of Oct. 2014)	773

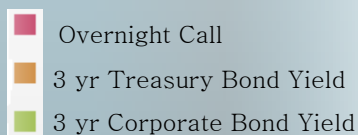
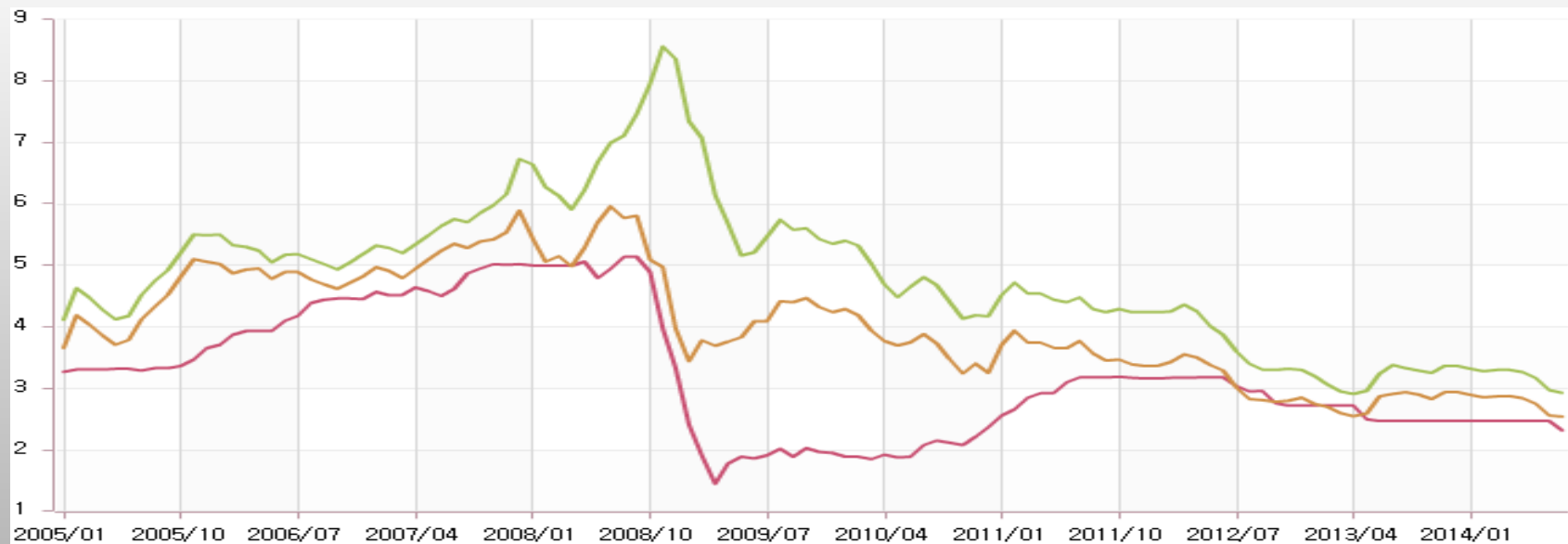
BOND MARKET YIELD

3-year Treasury bond yield now at 2.29% (end of Sep. 2014)

- The proven stability of won-denominated bonds, the upgrade of Korea's credit rating by international rating agencies, and the reduction of the key interest rate are factors affecting the current rate

Interest Rates

(Unit: %, Source: Bank of Korea)

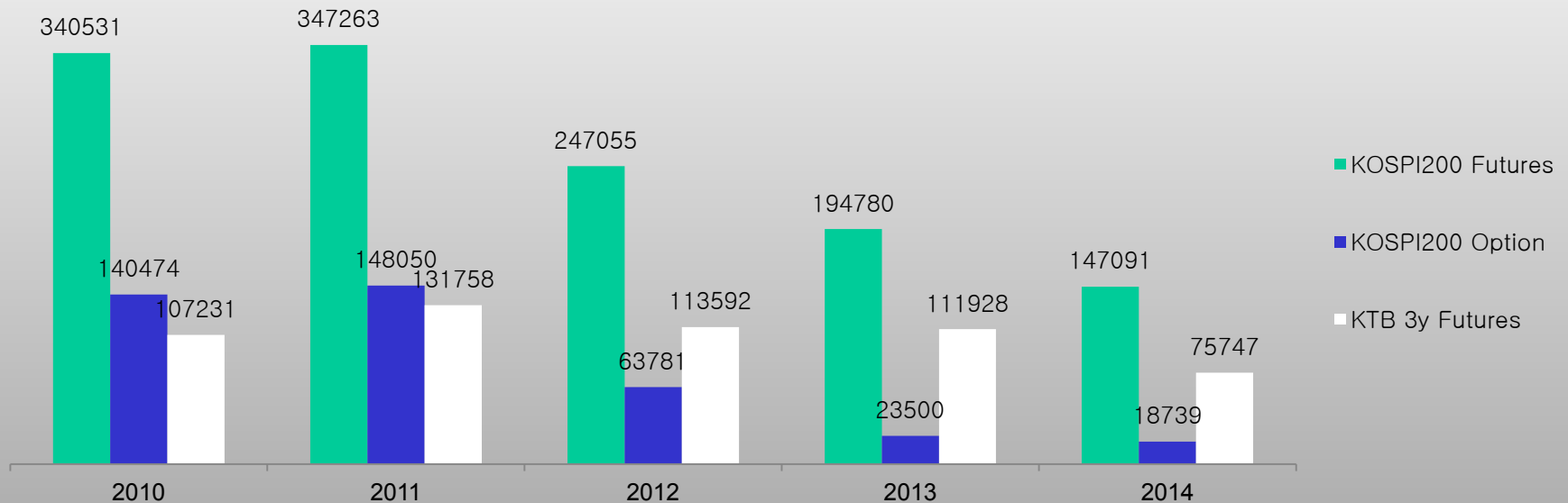


DERIVATIVES MARKET SIZE & VALUE

- The trading volume of exchange-traded derivatives has been on the decline since 2012
- In particular, the trading volume dropped significantly when the multiplier for KOSPI 200 Options was raised

Daily Trading Volume of Key Exchange-Traded Derivatives

(Unit: KOSPI 200 Futures contract, KTB 3y Futures contract, KOSPI 200 Option 100 contracts, Source: KRX)



**FUND MARKET
FROM GLOBAL PERSPECTIVE**

- **Korea, No. 13 in size with AUM of USD 309 BN, but No. 1 in number of funds with 10,593 funds**
 - Korea has the lowest average AUM per fund among the top 15 countries
 - Main reasons: preference for single-client funds by institutions & launching new products with short-term goals

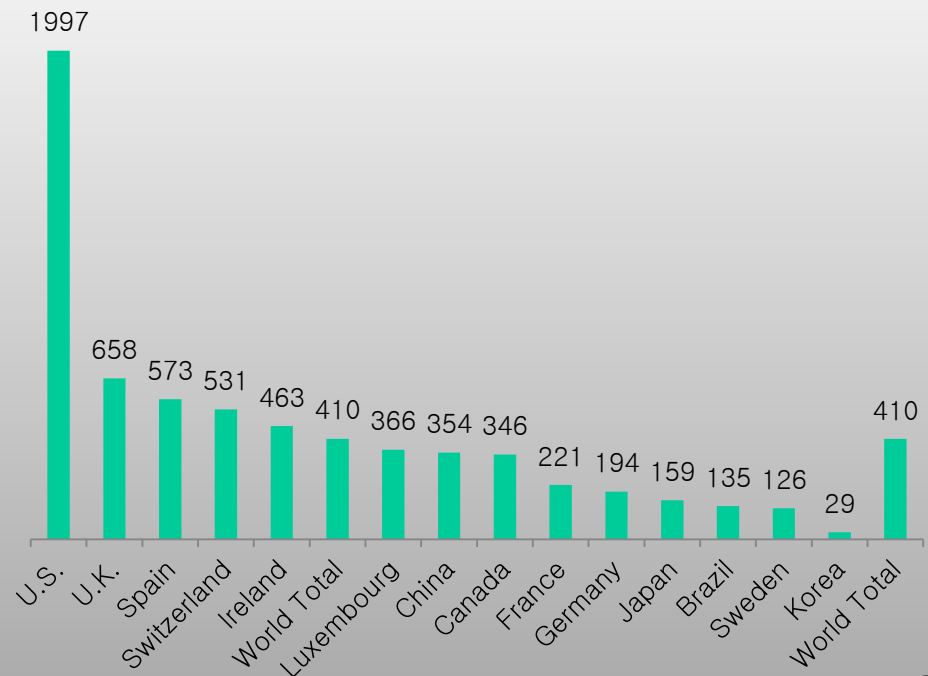
Top 15 Countries by AUM

(Unit: USD bn, as of end of June 2014)

Rank	Country	AUM	M/S(%)	# of Funds
1	U.S.	15,665	49.0	7,846
2	Luxembourg	3,313	10.4	9,663
3	Australia	1,788	5.6	n/a
4	Ireland	1,580	4.9	7,042
5	France	1,559	4.9	3,416
6	U.K.	1,253	3.9	1,095
7	Brazil	1,137	3.6	8,398
8	Canada	1,030	3.2	2,976
9	Japan	825	2.6	5,175
10	China	561	1.8	1,587
11	Switzerland	422	1.3	794
12	Germany	397	1.2	2,046
13	Korea	309	1.0	10,593
14	Sweden	289	0.9	497
15	Spain	285	0.9	2,291
	World Total	31,999	100	78,033

Average AUM per Fund

(Unit: USD bn, as of end of June 2014)





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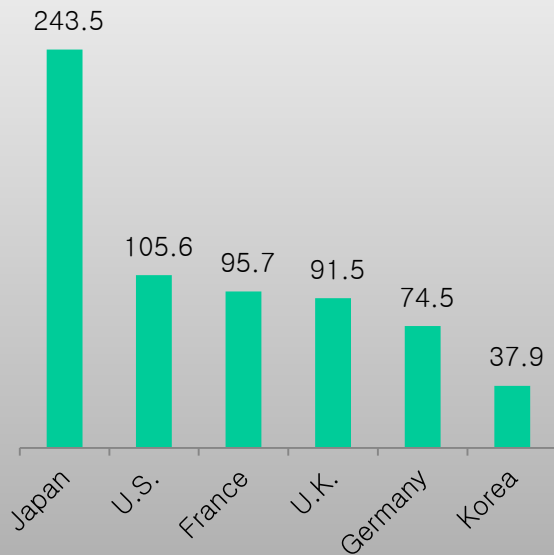
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PROSPECTS

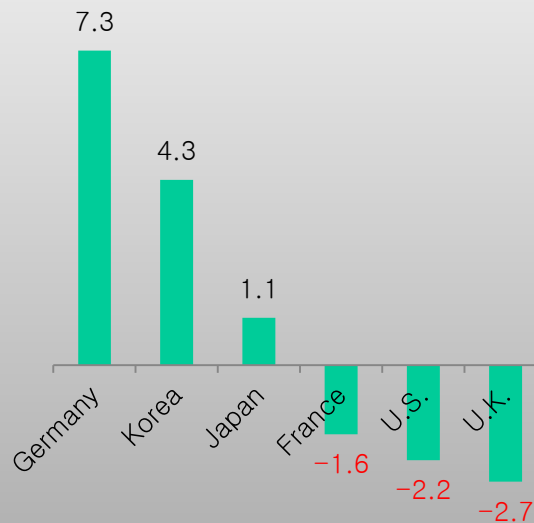
FISCAL SOUNDNESS

- Korea's fiscal soundness is good compared to other advanced nations
- Government debt and fiscal surplus as percentages of GDP are 37.9% and 4.3% for 2014, respectively
- Korea's credit rating was upgraded (Moody's: A1 to Aa3 in Aug. 2012)

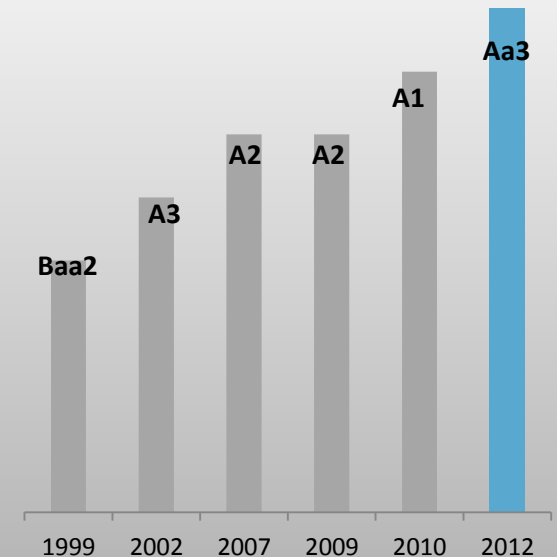
Major Countries' Government Debt to GDP as of April, 2014 (Unit: %, Source: IMF)



Major Countries' Fiscal Balance as of April, 2014 (Unit: %, Source: IMF)



Korea's Credit Ratings (Source: Moody's)





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FINANCIAL SECURITIES COMPANIES IN KOREA

BALANCE SHEETS

- As of the end of June 2014, the total shareholder's equity of securities companies stood at USD 41.0 BN

Unit: USD bn	Total Shareholder's Equity	Total Liabilities	Total Assets
11-Mar	36.6	158.9	195.5
12-Mar	42.0	195.0	237.0
13-Mar	41.8	226.4	268.2
13-Dec	40.8	229.8	270.6
14-Jun	41.0	269.8	310.8

INCOME STATEMENTS

- In 2011, the total net income of securities companies fell to USD 2 BN from 2.5 BN in 2010. Net income for the industry posted USD 0.9 bn for the first half of 2014, an improvement from the net loss of USD 0.2 bn during the previous year.

Unit: USD bn	Operating Revenues	Operating Expenses	Net Income (after taxes)
FY10	58.0	54.9	2.7
FY11	62.4	59.4	2.2
FY12	47.7	46.0	1.2
FY13	34.8	34.4	-0.2
FY14	21.9	20.0	0.9



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Risk-Based Supervision

Global Market	Korean Market
<ul style="list-style-type: none"> ■ Prerequisites for a risk-based supervision program ■ Identification and prioritization of risks ■ Measuring and monitoring of risks ■ Reporting ■ Calibration 	<ul style="list-style-type: none"> ■ A trading error by HanMag Securities resulted in a massive loss (Dec. 2013) ■ Introduction of a limit that allows for principal transactions valued at up to 50% of net capital ■ Introduction of a regulation stipulating the conditions to defer or refuse a DMA entrustment order ■ Establishment of compliance regulations on the reviewing and monitoring of computer systems



THANK YOU