

Market Report for Republic of Korea

November 2014

Korea Financial Investment Association

I. Economic and Financial Background

1. General Economic Development

Although economic recovery has continued as industrial activities recovered from the slump in April and May, the pace of recovery is still slow. Meanwhile, employment has been stabilizing.

The economy created more jobs in July than it did in June, adding 505,000 jobs year-on-year. Inflation in August remained stable in the 1 percent range and rose 1.4 percent year-on-year. Production in the mining and manufacturing industry increased by 1.1 percent month-on-month in July, rising for two consecutive months, despite the relatively weak production of semiconductors & parts. Strong automobile production driven by surging demand related to summer vacations planned for August, contributed to an increase in July.

Service output fell 0.4 percent in July, mainly due to increases in wholesale & retail and publishing & communications services, while retail sales continued to improve, led by semi-durable goods and nondurable goods sales, rising 0.3 percent.

The composite index of coincident indicators remained unchanged from July, and the composite index of leading indicators slightly picked up from the previous month, rising 0.1 points.

Exports, which grew 5.4 percent year-on-year in July, dropped 0.1 percent in August due to fewer days worked amid auto worker strikes.

In August, the KOSPI declined, interest rates slightly went down, and the dollar-won and 100 yen-won ratios fell compared to the previous month.

The economy has continued to suffer from weak domestic demand as consumption and investment have yet to fully recover.

The Korean government will continue to closely monitor internal and external economic trends as external risks remain, including the political unrest in the Middle East and the US tapering its quantitative easing policy. At the same time, the government will work to protect domestic markets from possible external shocks.

The government will also focus on boosting domestic demand by successfully implementing regulatory reform plans and fostering promising service industries, as well as continuing to work on economic innovation.

2. Financial Environment

Due to an unfavorable global economic environment, including the tapering of QE in the United States, the KOSPI reached below 1,800 points during the first half of 2013. However, thanks to the economic recovery of both the U.S. and the EU, and the longest period of net buy of foreign investors, the Korean market closed with a growth rate of 0.7% compared to the previous year.

Although the EU regional risk seemed to be reduced during the first half of the year, index change by Vanguard group and the influence of a statement from the FRB Chairman, Ben Bernanke, indicating tapering of QE in 2013 caused the KOSPI market index to fall below 1,800 points.

However, amid the prospect of economic recovery of advanced economies such as the U.S. and the EU, and the 44 days of foreign investor's net buy, the longest consecutive net purchase period in history (equivalent to KRW 13.9 trillion), the KOSPI rose up to 2,059 points on October 30, 2014, breaking the record for the largest aggregate market value since the establishment of the KRX.

The daily trading value in the KRX derivatives market in 2013 was reduced to KRW 47.9 trillion from KRW 54.6 trillion in 2012, down by 12.3%. The trading value of major products, KOSPI 200 futures and options, shrank by 18.8% and 13.4%, respectively, from the previous year. However, the trading value of Euro futures and single stock futures increased by 230.3% and 4.2%.

The daily trading volume in the futures market reached about 972.4 thousand contracts, which is a decline of 7.3% from 2012. The daily trading volume of the options market diminished significantly as well to a mere 2,350.1 thousand contracts (a decrease of 63.8% from the previous year) due to the raise of the multiplier of the KOSPI 200 options. Despite decreased trading volume in the derivatives market, the daily average of open interests in the futures market increased by 27.6%, which indicates high growth potential of the derivatives market.

In the KOSPI 200 futures market, institutional investor trading fell by 5.5%, while foreigner trading rose by 6.5%. In parallel with the KOSPI 200 futures, the trading volume of institutional investors in the KOSPI 200 options decreased by 4.3%, while the volume of foreign investors' trading grew by 3.3%. In the U.S. dollar futures market, individual investors increased their trading volume by 4.7%, but foreigner trading volume dropped by 4.7%.

II. Economic Performance and Prospects

1. GDP Growth

Korea's real gross domestic product (GDP) expanded 0.5 percent quarter-on-quarter and 3.5 percent year-on-year in the second quarter of 2014, according to preliminary data released by the Bank of Korea (BOK) on September 4. The figures were down 0.1 percentage points from the advanced estimates that were released on July 24.

The quarter-on-quarter growth rates for manufacturing, construction and services were revised down from earlier estimates. Manufacturing grew 0.9 percent, down from 1.1 percent. Construction grew 0.2 percent and services grew 0.6 percent, down from the growth rate of 0.4 percent and 0.7 percent, respectively.

On the expenditure side, private consumption growth declined 0.3 percent, staying at the same level as the advanced estimate while government consumption growth was adjusted down from 0.4 percent to 0.2 percent. Facility investment was up 1.1 percent and construction investment grew 0.4 percent, down from 1.3 percent and 0.5 percent, respectively. Investment in software and technology, which declined 3.6 percent, was revised up from the advanced estimate of -4.2 percent.

Export growth was revised down from 1.9 percent to 1.7 percent, while import growth was revised up from 0.8 percent to 1.1 percent.

GDP by production and expenditure*										
(Percentage change from previous period)										
	2012				2013 ¹				2014 ¹	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
GDP	0.5 [2.6] ²	0.5 [2.4] ²	0.4 [2.1] ²	0.6 [2.1] ²	0.6 [2.1] ²	1.0 [2.7] ²	1.1 [3.4] ²	0.9 [3.7] ²	0.9 [3.9] ²	0.5 [3.5] ²
Agriculture, forestry & fisheries	-6.7	-0.2	-0.4	6.1	-4.1	1.9	4.6	7.4	-4.4	-3.7
Manufacturing	1.5	0.3	0.3	0.1	1.2	1.2	1.2	0.8	2.2	0.9
Construction	-2.9	-0.2	0.4	-1.2	2.7	1.7	1.9	-2.4	1.2	0.2
Services ³	0.9	0.7	0.4	0.6	0.5	1.2	0.7	0.8	0.6	0.6
Private consumption	0.8	0.2	1.2	0.4	-0.1	0.7	1.0	0.6	0.2	-0.3
Government consumption	2.4	-0.4	1.0	0.2	0.5	1.6	0.4	0.9	0.0	0.3
Facility investment	11.5	-8.0	-3.2	-3.3	1.5	1.0	2.7	5.6	-1.9	1.1
Construction investment	-2.1	-3.0	1.2	-2.4	6.5	4.6	0.2	-5.2	5.1	0.4
Intellectual property investment	9.0	-3.2	3.3	-2.8	9.4	-2.2	1.2	1.8	6.5	-3.6
Exports	0.5	2.5	1.9	0.9	0.2	2.6	-1.1	1.4	1.5	1.7
Imports	3.0	-0.2	0.3	-1.3	0.6	1.8	-0.4	2.9	-0.8	1.1

*At 2010 chained prices in seasonally adjusted terms

1. Preliminary

2. Percentage change from the same period of the previous year

3. Wholesale & retail, hotels & restaurants, transportation & storage, communications services, financial & insurance services, real estate & renting, business services, public administration, defense & social security, education services, healthcare & social welfare services, entertainment, cultural & sports services and other services are included.

2. Exports and Imports

Exports in August decreased 0.1 percent (preliminary) year-on-year to US \$46.28 billion. Exports fell due to fewer days worked (down 1 day), auto worker strikes, summer vacations in the auto industry and a decline in shipments to China. Shipments of most export items, such as mobile phones and semiconductors, increased, but automobile exports declined sharply. By region, exports to the US and EU rose but exports to China, Japan and the ASEAN countries fell.

(US \$ billion)

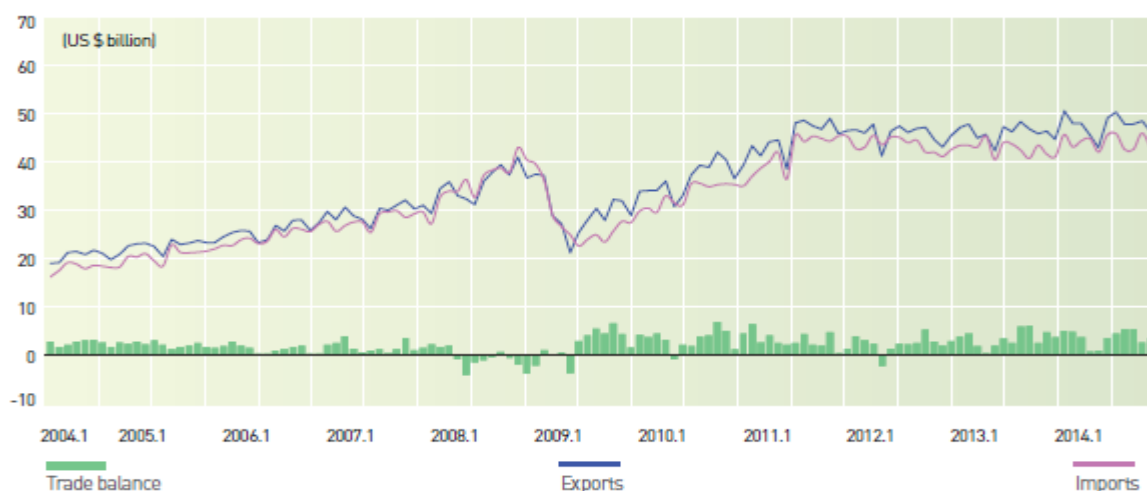
	2013						2014			
	Annual	Q1	Q2	Q3	Q4	Jul	Q1	Q2	Jul	Aug ¹
Exports	559.63	135.32	141.16	136.79	146.37	46.31	137.59	145.75	48.29	46.28
(y-o-y, %)	2.1	0.3	0.7	2.8	4.7	7.6	1.7	3.3	5.4	-0.1
Average daily exports	2.05	2.02	2.06	2.00	2.11	1.97	2.07	2.19	1.93	2.06

1. Preliminary

Source: Korea Customs Service

Exports and imports

Sources: Korea Customs Service, Ministry of Trade, Industry and Energy (export and import trends)



The trade balance (preliminary) in August remained in the black for the 31th consecutive month, posting a surplus of US \$3.41 billion.

(US \$ billion)

	2013						2014			
	Annual	Q1	Q2	Q3	Q4	Aug	Q1	Q2	Jul	Aug ¹
Trade balance	44.05	5.59	14.40	10.76	13.30	4.72	5.21	14.98	2.40	3.41

1. Preliminary

Source: Korea Customs Service

3. Employment

The economically active population marked 26,775 thousand in August of 2014, which grew by 701 thousand persons or 2.7 percent year-on-year and the labor force anticipation rate stood at 62.9 percent, up 1.1%pt year-on-year.

The number of employed persons totaled 25,885 thousand persons in August of 2014, which went up 594 thousand persons or 2.3 percent year-on-year, and the employment-population ratio recorded 60.8 percent, up 0.8%pt year-on-year.

The number of unemployed persons totaled 890 thousand people in August of 2014, which increased 107 thousand persons or 13.7 percent year-on-year and the unemployment rate marked 3.3 percent, up 0.3%pt year-on-year.

The economically inactive population totaled 15,797 thousand people in August of 2014, decreasing 298 thousand persons or 1.8 percent year-on-year.

	(thousand persons, %, year-on-year)						
	August 2013		July 2014		August 2014		
		Change rate		Change rate		Change	Change rate
● Population 15 years & over	42,168	1.2	42,528	0.9	42,571	403	1.0
■ Economically active population	26,074	1.8	26,891	2.2	26,775	701	2.7
(Participation rate)	(61.8)		(63.2)		(62.9)	(1.1p)	
• Male	15,162	1.3	15,547	1.9	15,497	335	2.2
(Participation rate)	(73.5)		(74.7)		(74.4)	(0.9p)	
• Female	10,912	2.4	11,344	2.8	11,278	366	3.4
(Participation rate)	(50.6)		(52.2)		(51.9)	(1.3p)	
○ Employed persons	25,291	1.7	25,979	2.0	25,885	594	2.3
Employment-population ratio	60.0		61.1		60.8	0.8p	
• Agriculture, forestry & fishing	1,721	1.6	1,604	-6.4	1,596	-125	-7.3
• Mining & manufacturing	4,132	0.2	4,372	4.5	4,348	217	5.2
• Manufacturing	4,116	0.1	4,358	4.6	4,335	219	5.3
• Construction	1,746	-0.4	1,849	3.2	1,810	64	3.7
• Wholesale & retail trade, accommodation & food	5,646	0.7	5,927	4.9	5,931	285	5.0
• Electricity, transport, telecom & finance	3,108	4.7	3,047	-2.4	3,016	-92	-2.9
• Business, personal, public service & others	8,939	2.6	9,180	1.9	9,183	245	2.7
• Regular employees	11,842	5.7	12,165	3.0	12,165	323	2.7
• Temporary employees	4,862	-1.5	5,219	4.7	5,104	242	5.0
• Daily workers	1,536	-3.7	1,562	-3.3	1,507	-28	-1.8
• Self-employed workers	5,747	-1.0	5,732	-0.3	5,804	57	1.0
• Unpaid family workers	1,304	-1.3	1,301	-0.7	1,305	0	0.0
○ Unemployed persons	783	2.5	912	10.1	890	107	13.7
Unemployment rate	3.0		3.4		3.3	0.3p	
(Seasonally adjusted)	(3.1)		(3.4)		(3.5)		
• Male	498	5.2	526	-0.5	539	41	8.2
Unemployment rate	3.3		3.4		3.5	0.2p	
(Seasonally adjusted)	(3.4)		(3.3)		(3.6)		
• Female	285	-2.0	385	29.1	351	66	23.3
Unemployment rate	2.6		3.4		3.1	0.5p	
(Seasonally adjusted)	(2.8)		(3.6)		(3.3)		
• Middle school graduates & under	88	-16.0	96	7.7	98	10	11.5
(Unemployment rate)	(1.8)		(2.0)		(2.1)	(0.3p)	
• High school graduates	339	-2.2	435	10.8	426	87	25.6
(Unemployment rate)	(3.3)		(4.1)		(4.0)	(0.7p)	
• College, univ. graduates & over	355	13.9	381	10.1	366	10	2.8
(Unemployment rate)	(3.2)		(3.3)		(3.2)	(0.0p)	
■ Economically inactive population	16,094	0.3	15,637	-1.3	15,797	-298	-1.8

4. Balance of Payments

Korea's current account (preliminary) in July posted a surplus of US \$7.91 billion, staying in the black for 29 consecutive months. The goods account surplus expanded from US \$6.65 billion in June to US \$6.86 billion in July, as export growth exceeded import growth.

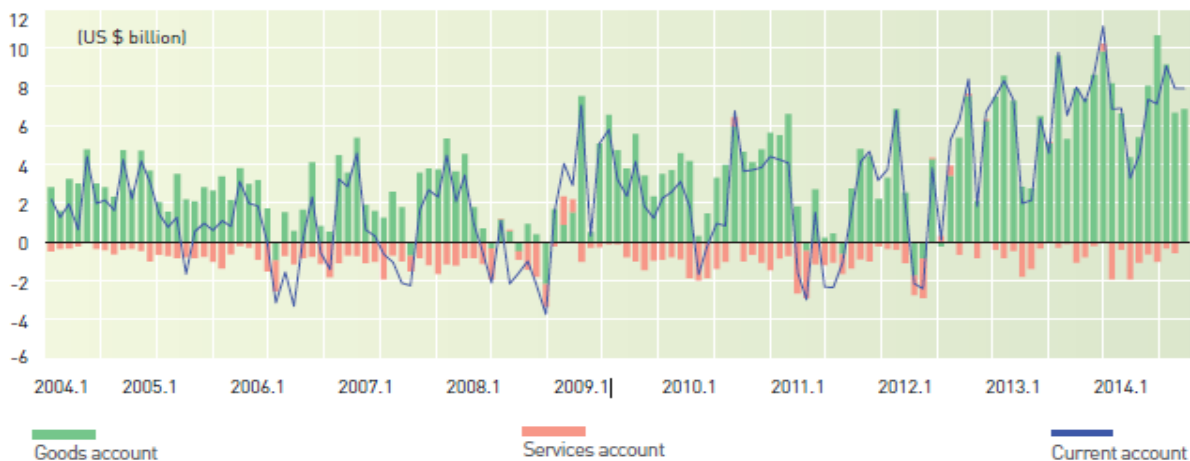
Compared to the same period of the previous year, the goods account surplus contracted by US \$1.05 billion as import growth exceeded export growth due to a rise in consumer goods imports.

The services account deficit contracted from US \$0.58 billion to US \$0.01 billion due to improvements in the construction and intellectual property rights accounts.

The primary income account surplus contracted from US \$2.23 billion to US \$1.49 billion due to a decrease in dividend income, while the secondary income account deficit expanded from US \$0.38 billion to US \$0.43 billion.

Current account balance

Source: The Bank of Korea (balance of payments trends)



(US \$ billion)

	2013 ¹						2014 ¹			
	Annual	Q1	Q2	Q3	Q4	Jul	Q1	Q2	Jun	Jul
Current account	79.88	10.46	20.80	23.78	24.84	7.99	15.07	24.13	7.92	7.91
- Goods balance	80.57	12.08	20.00	23.88	24.62	7.91	17.75	26.42	6.65	6.86
- Service balance	-7.93	-3.51	-0.41	-2.06	-1.94	-1.06	-3.62	-1.95	-0.58	-0.01
- Primary income balance	11.42	2.78	1.84	3.16	3.64	1.40	1.91	1.33	2.23	1.49
- Secondary income balance	-4.18	-0.89	-0.62	-1.19	-1.48	-0.26	-0.96	-1.68	-0.38	-0.43

1. Preliminary

Source: The Bank of Korea

5. Prices

The Consumer Price Index was 109.45 (2010=100) in August of 2014 and the index increased 0.2 percent from the preceding month and rose 1.4 percent from August of 2013. The index excluding agricultural products and oils was 109.16 in August of 2014. The index increased 0.1 percent from the preceding month and rose 2.4 percent from August of 2013.

(2010=100, %)

CPI (2010=100)	2014							
	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.
All items	108.50	108.79	108.99	109.06	109.24	109.10	109.26	109.45
Percent changes from the preceding month	0.5	0.3	0.2	0.1	0.2	-0.1	0.1	0.2
Percent changes over the last 12 months	1.1	1.0	1.3	1.5	1.7	1.7	1.6	1.4
Excluding agricultural products and oils	107.74	107.98	108.29	108.49	108.77	108.86	109.08	109.16
Percent changes from the preceding month	0.2	0.2	0.3	0.2	0.3	0.1	0.2	0.1
Percent changes over the last 12 months	1.7	1.7	2.1	2.3	2.2	2.1	2.2	2.4

The index for Food and non-alcoholic beverages, Alcoholic beverages and tobacco, Housing, Water, electricity, gas and other fuels and Furnishings, household equipment & routine maintenance went up 0.8 percent, 0.2 percent, 0.1 percent and 0.4 percent respectively in August. The index for Recreation and culture, Restaurants and hotels and Miscellaneous goods and services increased 1.3 percent, 0.2 percent and 0.1 percent respectively in August.

(2010=100, %)

Expenditure category	Number of Items	Weights	August 2013			August 2014		
			Index	Percent changes from the preceding month	Percent changes from August 2012	Index	Percent changes from the preceding month	Percent changes from August 2013
All items	481	1000.0	107.93	0.4	1.5	109.45	0.2	1.4
Food and non-alcoholic beverages	134	139.0	115.19	2.3	2.8	114.67	0.8	-0.5
Alcoholic beverages and tobacco	8	11.8	104.02	0.0	1.6	103.93	0.2	-0.1
Clothing and footwear	34	66.4	111.10	0.6	2.0	116.17	0.0	4.6
Housing, water, electricity, gas and other fuels	21	173.0	113.58	0.3	3.2	116.59	0.1	2.7
Furnishings, household equipment & routine maintenance	49	38.2	106.67	0.3	0.0	109.28	0.4	2.4
Health	28	72.9	102.63	0.1	0.5	103.45	-0.4	0.8
Transport	32	111.4	110.51	0.5	0.5	108.45	-0.4	-1.9
Communication	8	59.1	95.78	0.0	-0.1	95.73	0.0	-0.1
Recreation and culture	64	53.0	105.12	0.7	2.8	106.11	1.3	0.9
Education	20	103.5	104.34	0.1	0.7	106.09	0.0	1.7
Restaurants and hotels	42	121.6	107.47	0.1	1.7	108.99	0.2	1.4
Miscellaneous goods and services	41	50.1	96.60	-4.0	-2.1	103.95	0.1	7.6

6. Household Income & Expenditure

The average monthly income per household amounted to 4,152 thousand won in the second quarter of 2014, up 2.8% from the second quarter of 2013. (At 2010 prices a rise of 1.1% from the second quarter 2013) The employee and self-employment income grew by 4.1% and 0.7%, respectively. The property, non-regular and transfer income declined by 10.8%, 0.4% and 0.1%, respectively.

(Unit: thousand won, %)

	Amount				Change		
	2Q 2013	1Q 2014	2Q 2014	Composition	2Q 2013	1Q 2014	2Q 2014
Income	4,040.6	4,403.3	4,152.2	100.0	2.5	5.0	2.8
Regular income	3,913.8	4,207.2	4,025.9	97.0	3.0	4.4	2.9
Employee income	2,652.9	2,903.5	2,761.5	66.5	3.4	5.3	4.1
Self-employment income	866.4	861.4	872.4	21.0	1.1	3.2	0.7
Property income	20.3	20.1	18.1	0.4	-4.1	-10.6	-10.8
Transfer income	374.1	422.3	373.9	9.0	5.2	1.8	-0.1
Non-regular income	126.8	196.0	126.3	3.0	-10.7	20.9	-0.4

The average monthly consumption expenditure per household marked 2,478 thousand won in the second quarter 2014, which rose 3.1% from the second quarter 2013. (At 2010 prices a rise of 1.5% from the second quarter 2013) The increase in consumption expenditure was mainly caused by the rise in expenditures on 'Transport (5.9%)', 'Restaurants and hotels (4.9%)', 'Miscellaneous goods and services (6.1%)' and 'Health (6.5%)'. The expenditures on 'Housing, water, electricity and other fuels' and 'Communication' fell by 1.1% and 5.8%, respectively.

(Unit: thousand won, %)

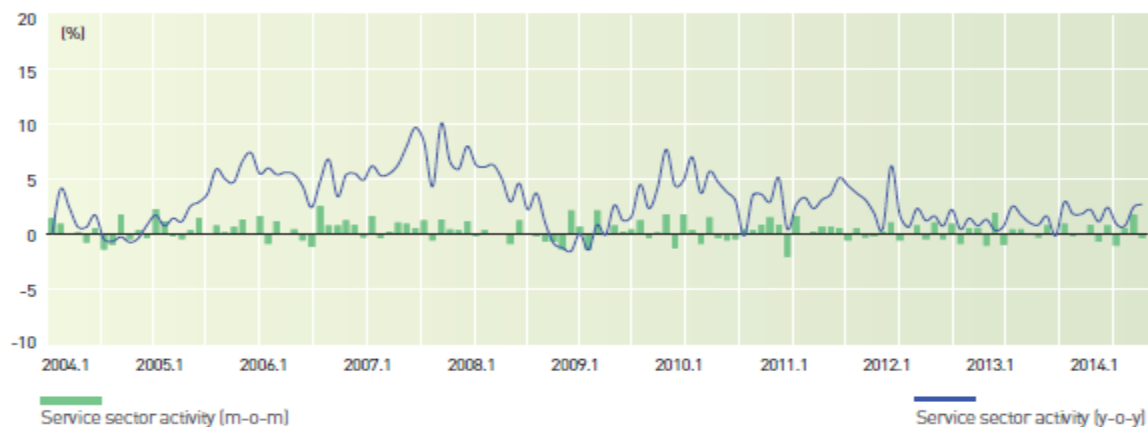
	Amount				Change		
	2Q 2013	1Q 2014	2Q 2014	Composition	2Q 2013	1Q 2014	2Q 2014
Consumption expenditure	2,403.5	2,653.6	2,477.7	100.0	0.7	4.4	3.1
Food and non-alcoholic beverages	329.9	343.6	336.5	13.6	1.1	2.1	2.0
Alcoholic beverages and tobacco	27.6	26.9	27.1	1.1	-1.4	0.8	-1.6
Clothing and footwear	171.2	163.4	175.1	7.1	0.5	-1.2	2.3
Housing, water, electricity and other fuels	260.9	323.5	258.0	10.4	6.5	-0.7	-1.1
Furnishings, household equipment and routine household maintenance	98.4	97.7	107.4	4.3	9.1	9.4	9.1
Health	157.4	172.2	167.6	6.8	-0.8	0.4	6.5
Transport	311.4	330.3	329.8	13.3	0.9	12.2	5.9
Communication	152.2	159.4	143.5	5.8	-1.4	5.5	-5.8
Recreation and culture	138.9	154.2	148.2	6.0	3.2	7.6	6.7
Education	234.0	348.4	235.1	9.5	0.9	2.6	0.5
Restaurants and hotels	321.6	314.1	337.3	13.6	0.4	6.1	4.9
Miscellaneous goods and services	200.0	220.0	212.2	8.6	-8.2	8.2	6.1

7. Service Sector Activity

Service output in July declined 0.4 percent month-on-month, led by wholesale & retail, publishing & communications services and financial & insurance services. Compared to the same period of the previous year, service output increased 2.7 percent. Wholesale & retail (down 1.6%, m-o-m), publishing & communications services (down 3.6%, m-o-m), financial & insurance services (down 1.4%, m-o-m) and professional, scientific & technical services (down 2.9%, m-o-m) fell after rising for the last two months. Hotels & restaurants (up 3.8%, m-o-m) and entertainment, cultural & sports services (up 5.0%, m-o-m) remained robust. Service output is likely to improve in August, as sales at department stores and large discount stores recovered, stock transactions increased and box office ticket sales rose.

Service sector activity

Source: Statistics Korea (industrial activity trends)



[Percentage change from previous period]

	Weight	2012		2013				2014 ¹				
		Annual	Q4	Annual	Q1	Q2	Q3	Q4	Q1	Q2 ¹	Jun ¹	Jul ¹
Service activity index	100.0	1.6	0.1	1.4	0.2	0.4	0.2	0.9	0.5	0.0	1.7	-0.4
- Wholesale & retail	21.6	0.8	0.3	-0.2	-0.8	0.1	-0.1	0.6	0.1	-0.4	0.8	-1.6
- Transportation services	8.5	1.2	-0.1	1.1	0.7	0.1	-1.0	0.6	1.1	-0.3	0.9	0.7
- Hotels & restaurants	7.2	-1.2	-2.4	0.4	0.1	0.6	2.7	-0.9	-1.6	-2.2	3.3	3.8
- Publishing & communications services	8.4	3.0	-0.3	1.9	0.6	-1.0	0.9	3.4	-2.0	0.8	4.7	-3.6
- Financial & insurance services	14.7	2.8	1.0	0.5	-0.1	-1.1	-0.5	0.6	2.7	1.3	2.6	-1.4
- Real estate & renting	5.3	-4.8	0.7	2.5	-2.2	7.4	-3.6	3.6	-3.2	7.6	0.0	-3.0
- Professional, scientific & technical services	5.6	3.7	-0.2	3.3	0.2	4.9	-2.9	0.7	0.4	2.8	4.3	-2.9
- Business services	3.3	3.5	0.2	2.2	1.6	-0.4	1.6	0.4	1.6	-0.5	-0.4	0.4
- Education services	10.9	0.9	0.8	0.8	0.8	-1.0	1.2	0.7	1.1	-2.2	0.2	1.4
- Healthcare & social welfare services	7.5	6.7	0.7	5.0	0.8	1.1	2.5	1.6	1.5	0.5	0.8	0.2
- Entertainment, cultural & sports services	2.9	2.8	-3.0	-0.5	1.7	0.6	0.2	-0.2	1.4	-6.8	2.2	5.0
- Membership organizations & personal services	3.6	-1.4	0.0	5.3	3.1	-0.7	3.5	0.2	0.1	-3.4	-1.9	8.5
- Sewerage & waste management	0.6	-0.6	-4.3	-0.4	0.5	0.6	0.9	1.2	0.2	-1.4	6.0	2.1

1. Preliminary

Source: Statistics Korea

II. Capital Market Performance

1. Stock Market

The KOSPI in August fell 7.6 points to 2,069 points from 2,076 points in the previous month. The KOSPI fell earlier in the month due to increasing concerns over Ukraine and Iraq, but later gained some ground as concerns over an early interest rate hike in the US eased.

Stock prices



(Closing rate)

	KOSPI			KOSDAQ		
	Jul 2014	Aug 2014	Change ¹	Jul 2014	Aug 2014	Change ¹
Stock price index (points)	2,076.1	2,068.5	-7.6 (-0.4%)	536.3	570.2	33.9 (6.3%)
Market capitalization (trillion won)	1,242.4	1,238.9	-3.5 (-0.3%)	130.6	139.2	8.6 (6.6%)
Average daily trade value (trillion won)	4.0	4.1	0.1 (2.5%)	2.0	2.2	0.2 (10.0%)
Foreign stock ownership (% , %p)	35.9	35.5	-0.4 (-1.1%)	10.7	11.0	0.3 (2.8%)

1. Change from the end of the previous month

Source: Korea Exchange

2. Exchange Rate

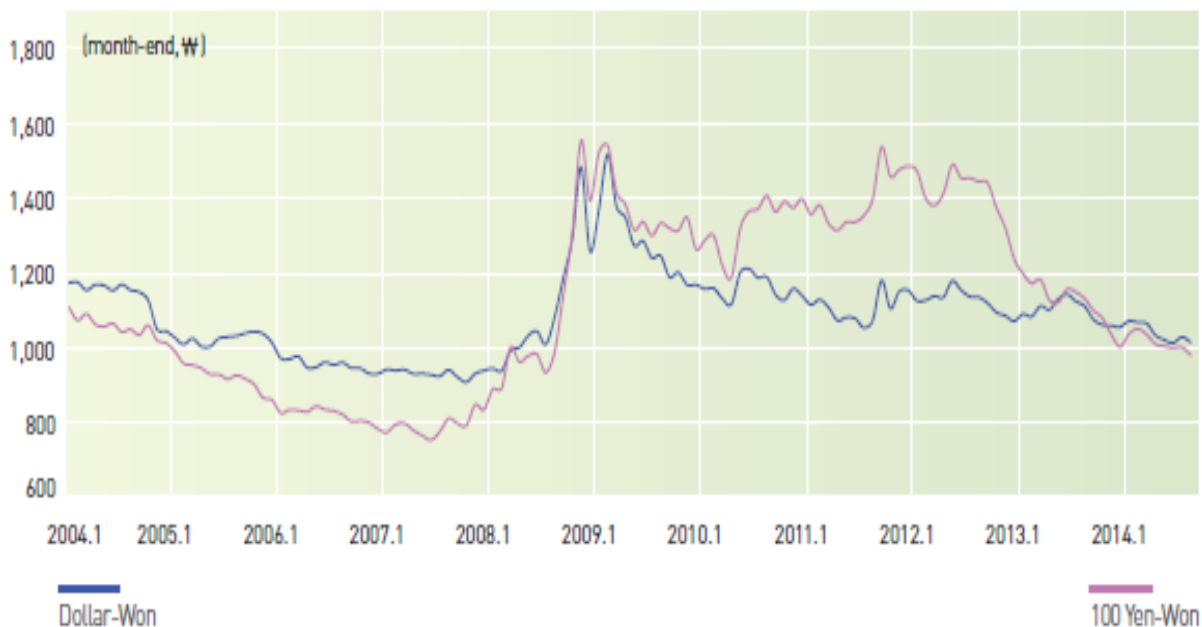
The dollar-won exchange rate in August fell 13.9 won to 1,014.0 won from 1,027.9 won at the end of July. Despite the Bank of Korea's decision to cut its benchmark interest rate (2.50% > 2.25%), as well as talks over an early interest rate hike in the US, the dollar-won exchange rate declined due to inflows of portfolio investment funds. The 100 yen-won exchange rate declined from 1,000.6 won in July to 976.7 won in August, as the yen remained weak due to diverging monetary policies between the US and Japan.

(Closing rate)

	2008	2009	2010	2011	2012	2013	2014		
	Dec	Dec	Dec	Dec	Dec	Dec	Jul	Aug	Change ¹
Dollar-Won	1,259.5	1,164.5	1,134.8	1,151.8	1,070.6	1,055.4	1,027.9	1,014.0	4.1
100 Yen-Won	1,396.8	1,264.5	1,393.6	1,481.2	1,238.3	1,002.3	1,000.6	976.7	2.6

1. Appreciation from the end of the previous year (%); the exchange rate is based on the closing price at 3:00 p.m., local time.

Foreign exchange rates

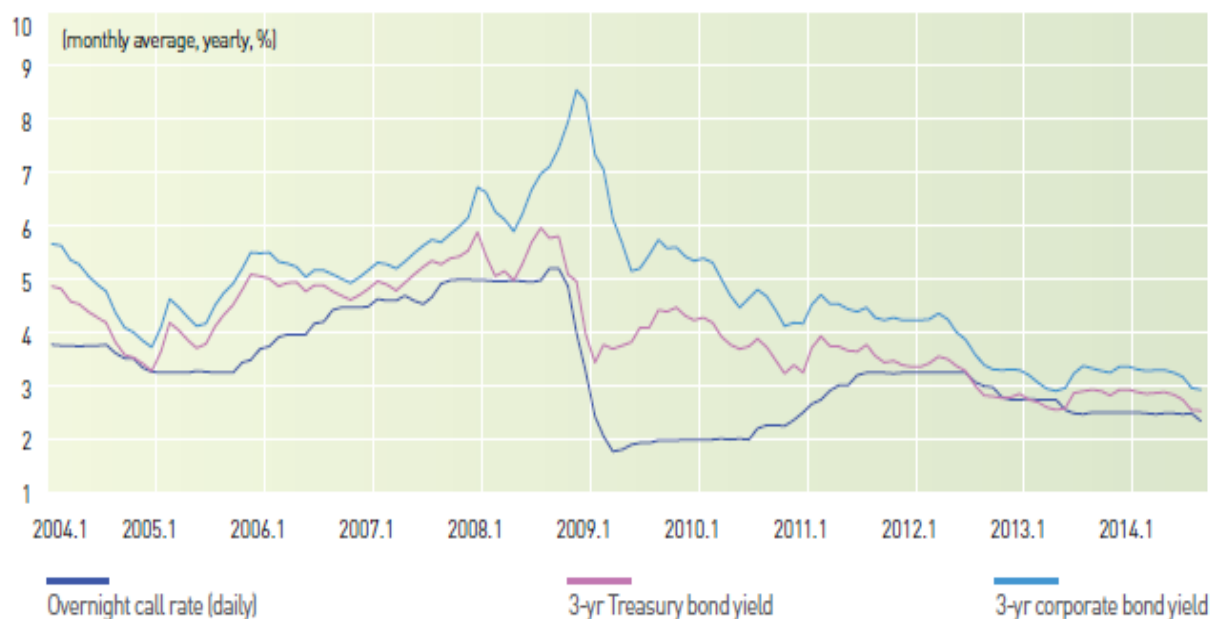


3. Bond Market

3-year Treasury bond yields fell from 2.52 percent in July to 2.51 percent in August. Treasury bond yields, which had been rising due to diminishing expectations for additional interest rate cuts, inched down as long-term interest rates in major countries fell.

Interest rates

Source: The Bank of Korea



(Closing rate, %)

	2009	2010	2011	2012	2013	2014				
	Dec	Dec	Dec	Dec	Dec	May	Jun	Jul	Aug	Change ¹
Call rate (1 day)	2.01	2.51	3.29	2.77	2.52	2.49	2.49	2.49	2.24	-25
CD (91 days)	2.88	2.80	3.55	2.89	2.66	2.65	2.65	2.65	2.40	-25
Treasury bonds (3 yrs)	4.44	3.38	3.34	2.82	2.86	2.82	2.68	2.52	2.51	-1
Corporate bonds (3 yrs)	5.56	4.27	4.21	3.29	3.29	3.24	3.10	2.92	2.88	-4
Treasury bonds (5 yrs)	4.98	4.08	3.46	2.97	3.23	3.04	2.88	2.76	2.74	-2

1. Basis point, changes from the previous month

4. Derivatives Market

Reinforced regulations on the derivatives market, contraction of the spot market, and reduced volatility dampened the Korean exchange-traded derivatives market in 2013. Total trading volume for the year was approximately 820 million contracts, a decrease of 55.3% from 2012, and the daily average trading volume of the futures market decreased by 7.3%, recording 972,424 contracts in 2013. The options market experienced a drop of 63.0% in the daily average trading volume, amounting to 2,350,042 contracts in 2013, resulting from a decline in investments due to the FSC's measures aimed at enhancing the soundness of the KOSPI 200 options market (multiplier increased from KRW 100,000 to KRW 500,000, cash deposit ratio raised from one-third to one-half).

COMPARISON ON THE DAILY AVERAGE TRADING VOLUME OF MAJOR EXCHANGE-TRADED DERIVATIVES

(Unit: Contracts, %)

Category	2012	2013	Variance Rate (year-on-year)
KOSPI 200 futures	251,736	202,311	△19.6
Stock futures	405,205	375,344	△7.4
3-year KTB futures	119,871	118,591	△1.1
US dollar futures	215,925	209,775	△2.8
Futures market total	1,049,288	972,424	△7.3
KOSPI 200 options	6,352,396	2,350,042	△63.0
Total	7,401,684	3,322,466	△55.3

*The KOSPI 200 futures and options include transactions executed during the day and at night. All contracts include spread transactions.

5. Fund Market

As of the end of 2013, the total net assets of funds stood at around KRW 328tn, a growth of 1.73 times from the 2004 figure of KRW 190tn. The aggregate assets under management (AUM) totaled KRW 335tn by the end of 2013, an increase of 1.79 times from 2004's KRW 187tn.

TOTAL NET ASSETS AND TOTAL AUM OF FUNDS

(Unit: billion won, %)

	Total Net Assets	Total AUM	Ratio of funds to KOSPI market capitalization	
			Stocks ¹⁾	Bonds ²⁾
2004	190,119	186,993	(3.25)	(16.78)
2005	216,809	204,346	(5.67)	(12.26)
2006	242,433	234,615	(6.59)	(11.47)
2007	318,420	296,460	(8.18)	(7.68)
2008	288,507	359,487	(9.63)	(7.58)
2009	318,467	331,834	(8.49)	(8.84)
2010	318,812	315,183	(6.27)	(9.15)
2011	277,341	298,480	(6.40)	(6.95)
2012	307,592	317,273	(6.09)	(6.57)
2013	328,445	334,896	(5.89)	(7.46)

Source: Korea Financial Investment Association

Note: 1) Stock ratio refers to the ratio of stock valuations held by funds to the total capitalization of the KOSPI market.

2) Bond ratio refers to the ratio of bond valuations held by funds to the total capitalization of the bonds and debentures market.

Among the total deposits received by domestic financial institutions, banks' deposits and trusts make up the largest portion, though the amount of funds has been on a steady rise. With the global financial crisis and the fiscal crisis in Europe hitting the Korean economy, the bank ratio of deposit and trust holdings increased as investors moved to safer assets in fear of declining asset value. However, as investor sentiment toward funds recovers, the ratio of funds is expected to turn around.

DEPOSITS RECEIVED BY DOMESTIC FINANCIAL INSTITUTIONS

(Unit: trillion won, %)

	Funds	Bank deposits	Bank trusts	Securities firms	Merchant banks	Total
2004	187.0 (23.0)	549.3 (67.6)	45.2 (5.6)	13.3 (1.6)	17.3 (2.1)	812.1 (100)
2005	204.3 (23.1)	587.6 (66.5)	47.6 (5.4)	20.7 (2.3)	23.2 (2.6)	883.4 (100)
2006	234.6 (24.1)	616.8 (63.3)	62.2 (6.4)	27.9 (2.9)	33.2 (3.4)	974.7 (100)
2007	296.5 (26.9)	643.1 (58.3)	70.0 (6.3)	41.8 (3.8)	52.5 (4.8)	1,103.9 (100)
2008	359.5 (28.6)	724.0 (57.6)	69.7 (5.5)	47.7 (3.8)	55.2 (4.4)	1,256.1 (100)
2009	331.9 (25.2)	812.2 (61.8)	68.1 (5.2)	58.4 (4.4)	43.9 (3.3)	1,314.5 (100)
2010	315.2 (22.2)	868.3 (61.1)	80.8 (5.7)	112.8 (7.9)	45.0 (3.2)	1,422.1 (100)
2011	298.5 (20.1)	933.9 (63.0)	100.5 (6.8)	114.9 (7.8)	34.4 (2.3)	1,482.2 (100)
2012	317.3 (20.4)	973.7 (62.7)	109.6 (7.1)	119.9 (7.7)	33.0 (2.1)	1,553.5 (100)
2013	334.9 (20.8)	996.3 (61.9)	130.3 (8.1)	125.3 (7.8)	23.9 (1.5)	1,610.7 (100)

Source: Korea Financial Investment Association, The Bank of Korea

III. Regulatory Development

The Financial Service Committee (FSC) announced its plan to ease regulations on license system for financial investment business, which includes integrating business units for license, currently overly subdivided, and simplifying license process.

1. Improve License System for Financial Investment Business

In principle, financial investment business will be required to apply for a business license for only when it first enters the sector. The number of business units for regulatory approval will be cut from the current 42 to 13(see the table below). Once a financial institution is granted a regulatory approval for business (①~⑬), the company will be allowed to add new business within the same sector simply through add-on registration, without any additional procedure for approval.

<How business units for regulatory approval will change >

Current			After Revision		
Business	Financial Products	No. of Units	Business	Financial Products	No. of Units
Investment Trading	Securities	5	Investment Trading	①Securities	5
	Securities (excluding underwriting)	7		②Securities (excluding underwriting)	7
	Exchange-traded derivatives	2		③Exchange-traded derivatives	2
	Over-the-counter derivatives	4		④Over-the-counter derivatives	4
Investment Brokerage		11	⑤Investment Brokerage		11
Collective Investment		5	⑥Collective Investment		4
Trust	All asset trust	4	Trust	⑦All asset trust	4
	Money trust			⑧Money trust	
	Trust business other than money trust			⑨Trust business other than money trust	
	Real estate trust			⑩Real estate trust	
Etc.		4 ¹	⑪~⑬ Etc.		3 ²
Total		42	Total		40

¹ ATS trading & brokerage, over-the-counter bond brokerage, corporate bond trading

² The Unit for corporate bond trading will be deleted, while those for real estate fund and special asset fund will be merged into a single unit.

2. Simplify Procedure for Financial Investment Business License

A fast-track procedure will be introduced on a temporary basis in order to expedite regulatory approval process for added-on business, given that it would take time to make revisions to the FSCMA to allow add-on registration system. The fast-track procedure is expected to reduce the time for regulatory approval from the current 7 to 8 months to 3 to 4 months.

Guidelines on review standards for business license will be publicly disclosed to enhance transparency and predictability in the approval process.

Documents required to submit for regulatory approval, which currently amount to 20 or more will be simplified, eliminating overlapping requirements.

3. Amend License-Related Policy for Financial Investment Business

(Investment trading & brokerage business) Business units with similar characteristics and synergy will be merged for a “package approval”

(Collective investment business) New standards for regulatory approval will be developed at each stage of business growth, considering business model and growth path of asset management companies.

(Insurers) Non-life insurance companies will be permitted to operate money trust business.

(Futures investment companies) Futures companies will be permitted to deal with OTC derivatives based on currency, interest rate and credit.