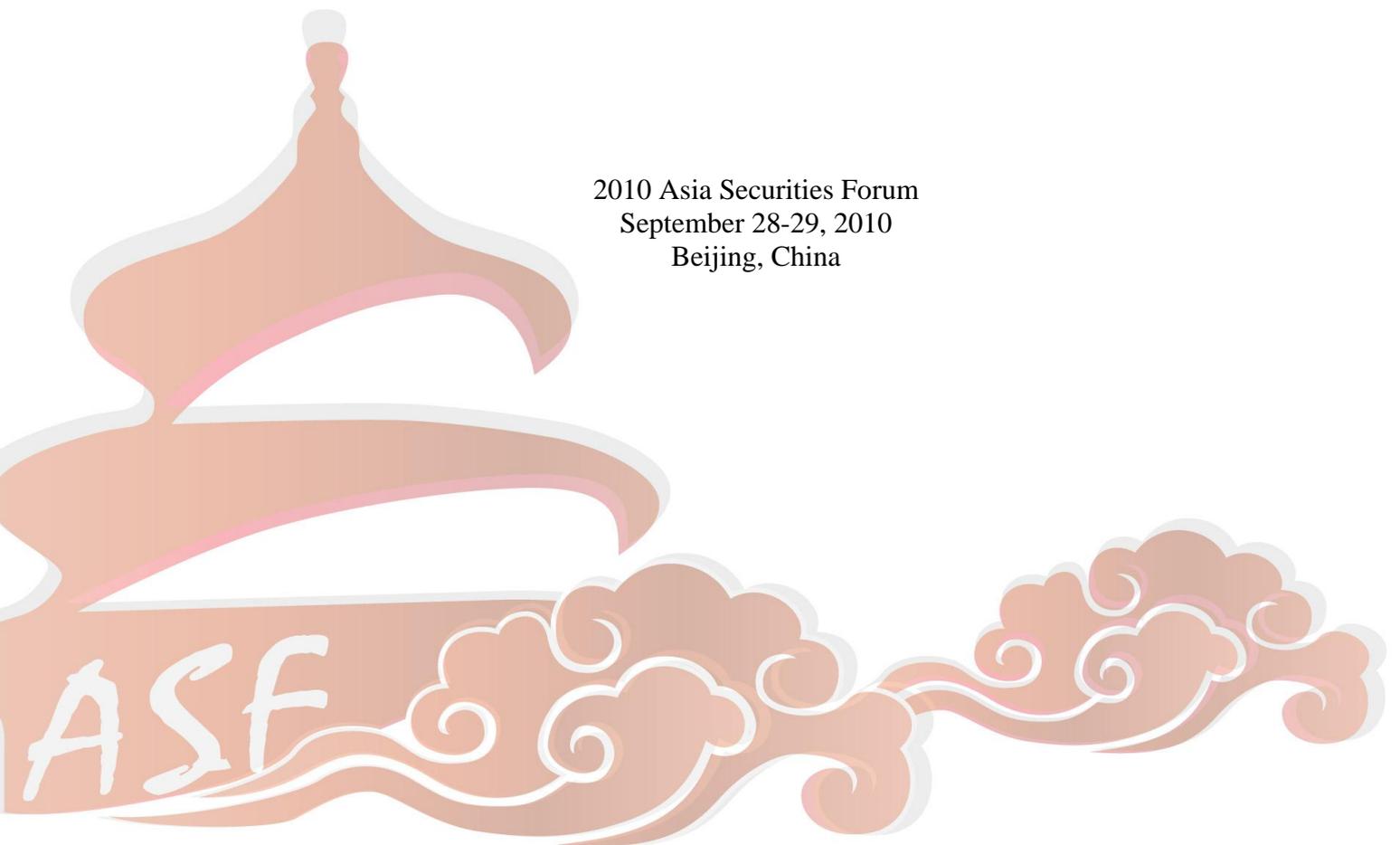


Member Reports

Korea

2010 Asia Securities Forum
September 28-29, 2010
Beijing, China





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Overview

From early 2010, the Korean economy has continued its upward trend with real economic indicators such as production, investment and exports remaining in recovery and the financial markets stable. This trend continued throughout the first half of 2010, with the Korean economy seeing improving exports and domestic demand, stabilizing prices, and a recovery in employment levels.

In May 2010, mining and manufacturing production, backed by robust exports and domestic demand, increased by 2.6 percent month-on-month and 21.5 percent year-on-year. At the same time, service output, while gaining 3.8 percent year-on-year, lost 1.2 percent month-on-month due to temporary factors. Consumer goods sales edged up 1.1 percent month-on-month with the subsiding of the unusually cold winter and increased economic activity due to the FIFA World Cup, and increased 3.6 percent year-on-year.

During the same period, facilities investment showed a 3.9 percent month-on-month gain due to increased demand for production facilities backed by robust exports. Year-on-year, facilities investment grew 22.3 percent. Completed construction increased by 4.0 percent month-on-month and 0.5 percent year-on-year as the climate for both building construction and civil engineering works improved. The total number of workers hired in May rose by 586,000 month-on-month, led primarily by the manufacturing and service sectors. The employment rate for May reached 59.1 percent, an increase of 0.3 percentage points month-on-month, while the unemployment rate dropped to 3.2 percent, shedding 0.5 percentage points.

Exports in June hit a record high, rising on the back of brisk semiconductor and automobile sales, jumping 32.4 percent year-on-year. Imports also increased dramatically, rising by 36.9 percent year-on-year and led primarily by raw and capital materials. Meanwhile, consumer prices in June posted a stable year-on-year increase of 2.6 percent with the relatively low prices of agricultural, livestock, and marine products offsetting the rising prices of manufactured goods.

At the same time, uncertainties in the financial market escalated amid both positive and negative conditions; the former being the economic recovery and eased concerns about the Eurozone fiscal difficulties, and the latter the slowing down of the global economy. The housing market continued to show regional variations in June, with the Seoul metropolitan area continuing to post falling prices and shrinking sales, while the provincial housing markets showed a small but steady rise in prices.

In conclusion, while the Korean economy shows clear signs of improvement, concerns over the ongoing global economic recovery are increasing due to fears of continued fiscal difficulties in southern Europe and a possible slowdown in the US and Chinese economies. As such, the Korean government is expected to continue its current macroeconomic policies to facilitate sustainable economic growth while increasing its the monitoring of external conditions. At the same time, the government will continue its policies to create more jobs and strengthen social safety nets in an effort to help the improving economic indicators trickle down to the working class.

I. Macroeconomic Developments

1. Private Consumption

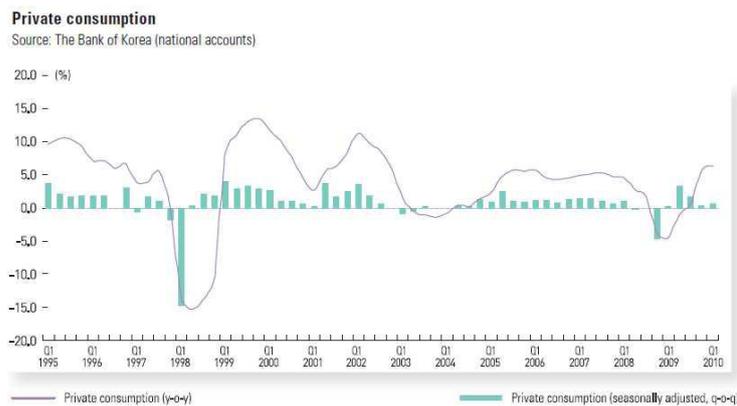
- Private consumption (preliminary GDP) increased 0.7 percent quarter-on-quarter and 6.3 percent year-on-year in the first quarter of 2010.

Private Consumption Trends

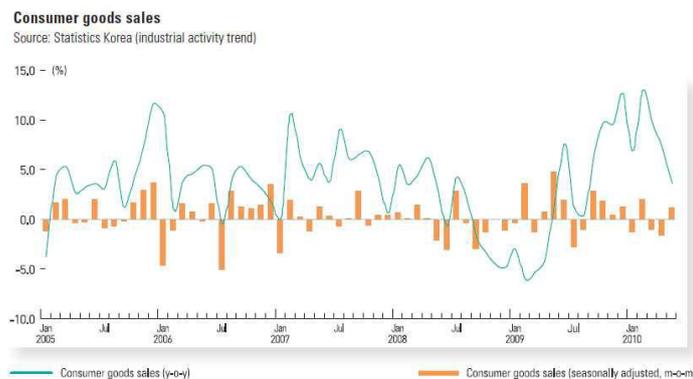
(Percentage change from same period in previous year)

	2007	2008		2009 ¹				2010 ¹	
	Annual	Annual	Q4	Annual	Q1	Q2	Q3	Q4	Q1
Private consumption ²	5.1	1.3	-3.6	0.2	-4.4	-1.0	0.7	5.8	6.3
(Seasonally adjusted) ³	-	-	-4.5	-	0.3	3.3	1.7	0.4	0.7

1. Preliminary 2. National accounts 3. Percentage change from previous period
Source: The Bank of Korea



Sales of consumer goods increased 1.1 percent month-on-month and 3.6 percent year-on-year in May as the sales of durable, semi-durable and non-durable goods all improved.



On a month-on-month basis, semi-durable goods such as clothing increased most substantially by 3.3 percent, while durable goods such as electronic appliances and nondurable goods such as food rose 1.6 percent and 0.9 percent, respectively.

On a year-on-year basis, the sales of durable goods continued to rise despite an 8.8 percent decline in automobile sales. Sales of semi-durable and non-durable goods also increased by 7.4 percent and 2.7 percent, respectively.

Consumer goods sales are projected to remain positive in June given advanced indicators such as gasoline sales and shipments, recovering purchasing power in the private sector, improving consumer sentiment, and increased consumption during the FIFA World Cup.

Domestic credit card spending increased 15.3 percent year-on-year, a reduction of 1.9 percentage points from a month earlier. Sales at department stores and large discount stores improved 10.8 percent and 6.0 percent, respectively, the former adding 3.3 percentage points and the latter 4.1 percentage points to the previous month's rates.

Gasoline sales grew 5.6 percent year-on-year, a 5.5 percentage point increase from the preceding month, due to a 0.9 percent month-on-month decrease in price and the rising number of people travelling.

Consumer Goods Sales Trends

(Percentage change from same period in previous year)

	2008		2009				2010			
	Annual	Annual	Q1	Q2	Q3	Q4	Q1 ¹	Mar	Apr ¹	May ¹
Consumer goods sales	1.1	2.6	-4.7	1.5	2.8	10.8	9.9	9.9	7.3	3.6
(Seasonally adjusted) ²	-	-	1.0	5.1	0.3	4.1	0.5	-1.0	-1.6	1.1
- Durable goods ³	1.6	8.1	-11.9	5.7	7.9	33.9	29.4	28.3	16.5	1.8
- Automobiles	-3.5	21.8	-20.6	20.1	24.1	76.9	48.3	40.8	30.2	-8.8
- Semi-durable goods ⁴	-3.0	0.3	-1.5	-0.6	-0.7	3.4	2.7	1.0	4.1	7.4
- Non-durable goods ⁵	1.4	1.2	-1.4	0.5	1.9	4.1	3.3	3.3	3.3	2.7

1. Preliminary

2. Percentage change from previous period

3. Durable goods: Automobiles, electronic appliances, furniture, telecommunications devices, etc.

4. Semi-durable goods: Clothing, footwear, etc.

5. Non-durable goods: Food, medicine, cosmetics, fuel, tobaccos, etc.

Source: Statistics Korea

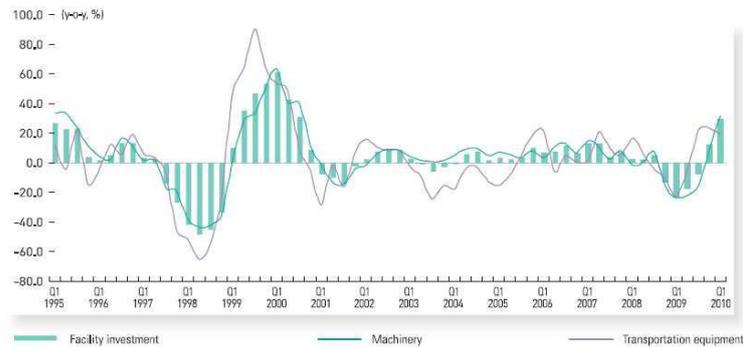
2. Facility and Construction Investment

2-1. Facility Investment

Facility investment (preliminary GDP) in the first quarter of 2010 posted a quarter-on-quarter increase of 2.4 percent and a year-on-year gain of 29.9 percent. Despite the decline in transportation equipment investment decelerating in March, overall facility investment in April fell 5.9 percent due to the high amount of machinery investment during the previous month, particularly in semi-conductor equipment. However, on a year-by-year basis, facility investment has risen 25.7 percent.

Facility investment by type

Source: The Bank of Korea (national accounts)



Facility Investment Trends

(Percentage change from same period in previous year)

	2008		2009				2010 ¹			
	Annual	Annual	Q1	Q2	Q3	Q4	Q1	Mar	Apr ²	May ³
Facility investment	-3.0	-8.0	-17.9	-12.9	-10.0	10.2	24.3	34.0	25.5	22.3
(Seasonally adjusted) ²	-	-	-10.2	5.6	2.4	13.9	1.2	4.0	-6.0	3.9
- Machinery	-4.2	-12.9	-22.1	-18.9	-17.0	8.8	28.1	42.7	31.2	32.8
- Transportation equipment	2.1	12.0	0.1	11.8	20.0	15.5	12.0	5.9	6.9	-7.4
Domestic machinery orders	-13.8	-11.8	-35.5	-17.7	3.4	20.0	10.5	22.9	25.1	56.7
- Public	5.0	61.7	150.8	29.9	280.2	-27.2	-43.7	37.2	39.0	21.3
- Private	-15.5	-19.9	-44.8	-22.3	-16.0	35.2	22.9	21.3	24.2	59.4
- Machinery imports	6.4	-16.6	-27.9	-27.4	-15.9	7.2	47.8	74.8	44.2	43.0
Facility investment adjustment pressure ³	-1.7	-4.0	-19.1	-8.9	1.2	12.8	21.7	18.0	15.4	16.2

1. Preliminary
 2. Percentage change from previous period
 3. Production growth rate minus production capacity growth rate in the manufacturing sector (%p)
 Sources: Statistics Korea & The Korea International Trade Association (Machinery imports data)

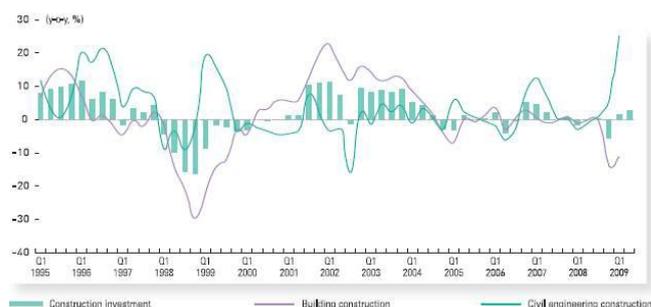
2-2. Construction Investment

Construction investment (preliminary GDP) in the first quarter of 2010 rose 1.3 percent quarter-on-quarter and 2.3 percent year-on-year.

Completed construction (constant value) in April dropped 5.4 percent month-on-month or 7.0 percent year-on-year, as both building construction and civil engineering works showed a poor performance.

In May, however, completed construction increased by 4.0 percent month-on-month with both building construction and civil engineering works performing well, the former in particular with non-residential construction. Year-on-year, completed construction recorded an increase of mere 0.5 percent, with sluggish residential construction leading to a drop in construction projects.

Construction investment
 Source: The Bank of Korea (national accounts)



Construction investment in June is expected to grow slightly, despite continuing weak investor confidence, given that the number of civil engineering projects has been boosted by increased early fiscal spending in the first half.

Construction Investment Trends

(Percentage change from same period in previous year)

	2008					2009 ¹					2010 ¹
	Annual	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Q1
Construction investment ²	-2.8	-2.5	-0.5	0.4	-7.7	4.4	2.8	5.1	4.4	5.0	2.3
(Seasonally adjusted) ³	-	-4.2	-0.4	0.7	-3.3	-	5.9	1.8	-0.7	-0.1	1.3
- Building construction	-4.6	-1.0	-0.8	0.2	-14.8	-1.8	-9.6	-2.4	1.2	2.5	1.7
- Civil engineering works	-0.2	-5.1	-0.2	0.8	1.6	13.3	26.1	15.7	9.7	7.5	3.1

1. Preliminary
 2. National accounts
 3. Percentage change from previous period
 Source: The Bank of Korea

3. Exports and Imports

Exports in June continued at a brisk pace, rising 32.4 percent year-on-year to US\$42.65 billion - the highest amount of monthly exports to date. Average daily exports (adjusted to weekdays) were also the highest recorded, posting a daily average of US\$1.85 billion.

Categorized by specific exports; semiconductors, automobiles, and household appliances jumped, while wireless communication devices decreased year-on-year. Categorized regionally; exports to Central and South America, the US, and Japan continued to increase, with exports to the EU rising at a faster pace despite south Europe's fiscal woes.

Exports and Imports

(US\$ billion)

	2008		2009				2010			
	Annual	Annual	Q1	Q2	Q3	Q4	Q1	May	Jun	Jan-Jun
Exports	422.01	363.53	74.42	90.36	94.78	103.97	101.36	39.10	42.65	222.45
(y-o-y, %)	13.6	-13.9	-25.2	-21.1	-17.6	11.7	36.2	40.5	32.4	35.0
Average daily exports	1.53	1.30	1.10	1.30	1.32	1.49	1.51	1.82	1.85	1.64
Imports	435.27	323.09	71.42	73.97	84.85	92.85	98.08	34.97	35.18	203.51
(y-o-y, %)	22.0	-25.8	-32.7	-35.6	-31.0	1.4	37.3	49.4	36.9	40.0
Average daily imports	1.58	1.16	1.06	1.06	1.18	1.33	1.46	1.63	1.53	1.50

Source: Korea Customs Service

Imports in May jumped 50.0 percent year-on-year to US\$35.12 billion, while average daily amount increased by US\$160 million from the previous month to reach US\$1.63 billion. Crude oil (up 84.2%), steel (up 74.8%), and nonferrous metals (up 50.4%) in particular posted significant increases due to the recovering economy and rises in the price of raw materials. Imports of capital goods and consumer goods accelerated the increase, backed by recovering domestic demand and rising facility investment.

Imports in June also rose, increasing by 36.9 percent year-on-year to US\$35.18 billion, with imports of raw materials, capital goods, and consumer goods driving the rise in imports amidst recovering domestic demand. Additionally, riding on the back of strong exports, June also marked the highest-ever monthly trade balance with a surplus of US\$7.47 billion.

Trade Balance Trend

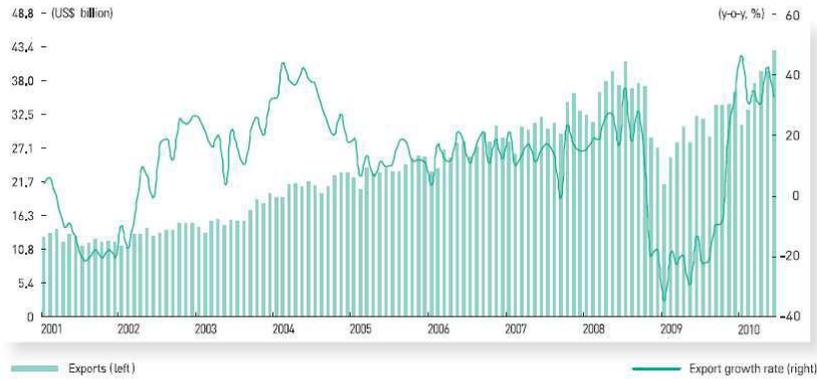
(US\$ billion)

	2008		2009				2010			
	Annual	Annual	Q1	Q2	Q3	Q4	Q1	May	Jun	Jan-Jun
Trade Balance	-13.27	40.45	3.00	16.39	9.94	11.12	3.27	4.37	7.47	18.95

Source: Korea Customs Service

Exports (customs clearance basis)

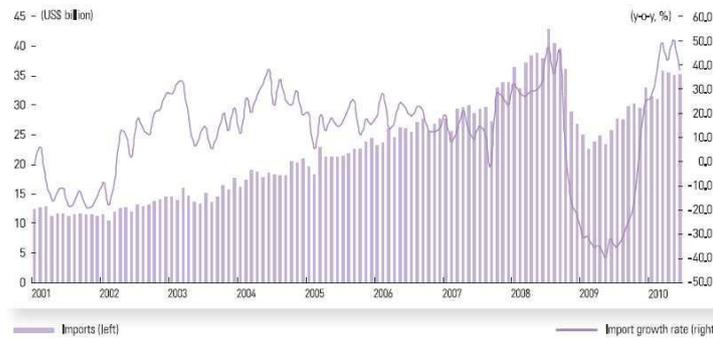
Source: Korea Customs Service & Ministry of Knowledge Economy (export and import trend)



(Source: Economic Bulletin, July 2010, Ministry of Strategy and Finance)

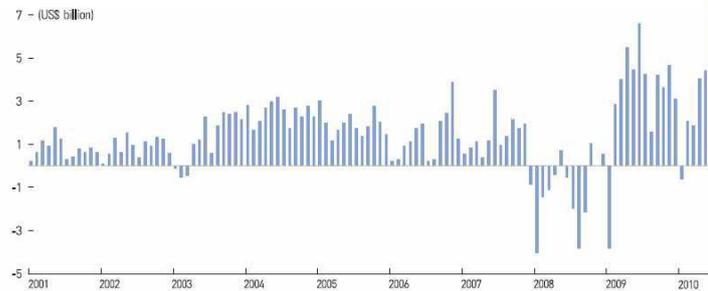
Imports (customs clearance basis)

Source: Korea Customs Service & Ministry of Knowledge Economy (export and import trend)



Trade balance

Source: Korea Customs Service & Ministry of Knowledge Economy (export and import trend)



4. Employment

In May, the employment rate rose by 0.7 percentage points year-on-year to 60.0 percent with the number of workers on payroll increasing by 586,000 from a year earlier. In

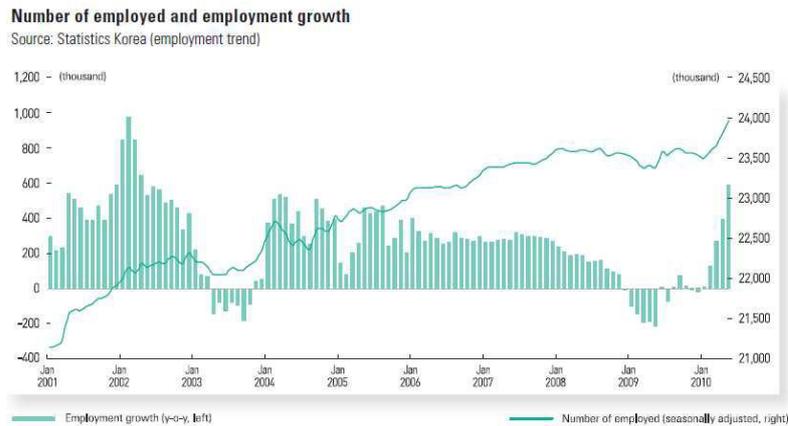
seasonally adjusted terms, the number of employed rose by 17,000 from the previous month with the employment rate up by 0.3 percentage points month-on-month to 59.1 percent.

Hiring in manufacturing increased for five consecutive months boosted by strong exports and manufacturing output. The service sector continued to hire more workers amid a recovery in domestic demand and elevated consumption. Employment levels in agriculture, forestry, and fisheries reduced their decline as the unusually cold temperatures returned back to normal levels.

Categorized by status of workers, salaried workers rose by 770,000 led by a surge of 763,000 individuals transferring to regular worker status. At the same time, the decline in the number of day workers decelerated to a loss of 139,000. However, non-wage workers including the self-employed (down 82,000) plummeted by 185,000 from a year earlier. Categorized by gender, while both male workers (up 268,000) and female workers (up 318,000) increased, the latter expanded at a more rapid pace.

	2008		2009					2010		
	Annual	Annual	May	Q1	Q2	Q3	Q4	Q1	Apr	May
Number of employed (million)	23.58	23.51	93.6	22.90	23.74	23.75	23.63	23.04	23.92	24.31
Employment rate (%)	59.5	58.6	59.3	57.4	59.3	59.1	58.7	57.0	59.1	60.0
(seasonally adjusted)	59.5	58.6	58.4	58.8	58.6	58.7	58.5	58.3	58.8	59.1
Employment growth (y-o-y, thousand)	145	-72	-219	-146	-134	-1	-6	132	401	586
(Excluding agriculture, forestry & fishery)	182	-34	-170	-160	-109	24	110	296	529	673
- Manufacturing	-52	-126	-140	-163	-151	-143	-49	61	145	190
- Construction	-37	-91	-125	-43	-113	-103	-107	-61	19	46
- Services	263	186	94	47	155	269	264	295	367	438
- Agriculture, forestry & fishery	-37	-38	-49	14	-25	-25	-116	-164	-128	-87
- Wage workers	236	247	79	73	175	356	385	371	641	770
· Regular workers	386	383	306	318	313	386	515	651	784	763
· Temporary workers	-93	22	-89	-136	-5	125	105	-37	96	147
· Daily workers	-57	-158	-138	-108	-133	-155	-235	-243	-240	-139
- Non-wage workers	-92	-319	-298	-220	-309	-357	-391	-239	-240	-185
· Self-employed workers	-79	-259	-301	-197	-286	-276	-279	-106	-106	-82
- Male	96	31	-8	-23	24	34	89	117	187	268
- Female	48	-103	-211	-124	-158	-34	-94	15	213	318
- 15 to 29	-119	-127	-112	-212	-99	-123	-77	-12	-72	-16
- 30 to 39	-26	-173	-211	-159	-213	-169	-149	-42	-13	1
- 40 to 49	64	-24	-37	8	-27	-30	-46	-21	58	63
- 50 to 59	207	198	141	193	156	211	230	251	320	374
- 60 or more	18	54	0	23	49	109	37	-44	108	162

Source: Statistics Korea



5. Exchange Rate

In January, 2010, the won/dollar exchange rate fell 2.7 won month-on-month to wrap up the month at 1,161.8 won. Then, on January 11, the exchange rate dropped to 1,119 won - its lowest point this year - as the won gained strength on Korea's financial soundness and bright outlook for growth.

The won later shifted back up as investors' appetite for safer assets grew due to the ongoing efforts to strengthen bank regulations, concerns over China's economic outlook, and the credit risks in the Eurozone. As a result, the won/yen exchange rate also rose, reaching the 1,290 won range, as uncertainties in the international financial markets boosted demand for the yen.

The lack of confidence in the market saw the won/dollar exchange rate temporarily soar to 1,160.0 won in February, and then return to 1,131.3 won in March as foreign investors began buying domestic stocks amid easing concerns over the Greek fiscal crisis and rising expectations of global economic recovery.

However, as of the end-June, the won/dollar exchange rate had risen 19.7 won from the end of May to wrap up the month at 1,222.2 won. The won's volatility widened principally due to a mixture of domestic and international factors such as the government's announcement of measures to reduce volatility in capital flows, concerns over the economic slowdown in the US and China, the easing of the fiscal woes in the Eurozone, and expectations of yuan's appreciation.

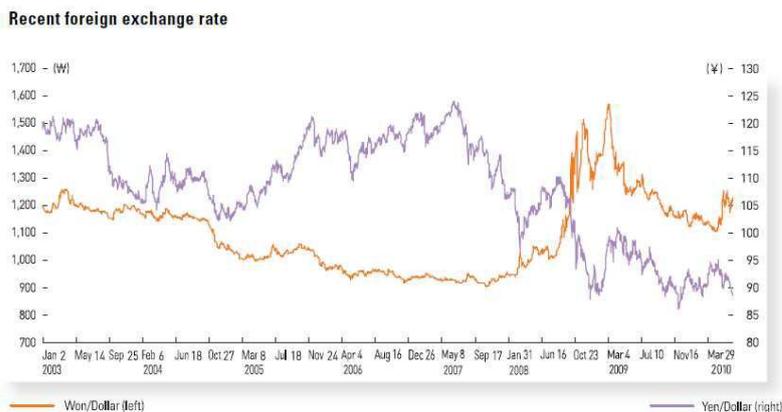
The won/yen exchange rate also rose, gaining 66.5 won month-on-month, on the back of deepening concerns about the economic slowdown in the US and China and an appreciating yen.

Exchange Rate Trends

	(End-period)						
	2006 Dec	2007 Dec	2008 Dec	2009 Dec	2009 May	2010 Jun	Change ¹
Won/Dollar	929.8	936.1	1,259.5	1,164.5	1,202.5	1,222.2	-1.6
Won/100Yen	783.4	828.6	1,396.8	1,264.5	1,314.1	1,380.6	-4.8

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.

Exchange Rate



II. Regulatory Development and Capital Markets

1. Regulatory Development

1-1. The 1st Amendments to the FSCMA

Since Financial Investment Services and Capital Markets Act (FSCMA) came into effect in February 2009, the 1st amendments were made based on six proposals. The Amendments are taken effect in June 2010, three month after a public announcement.

Key Changes	Purpose
① Introducing PEFs and Mutual Fund for Corporate financial(temporarily enforced for 3 years)	Facilitating corporate funding and corporate restructuring through capital markets
② Allowing companies to issue CPs without issuing electronic notes	Improving the quality of financial services through the extended scope of financial investment business, as well as enhancing public trust in financial investment companies
③ Strengthening requirements for financial investment companies to add new business activities, while easing requirements for major shareholders	Providing better protections for financial investors and consumers
④ Extending requirements for financial investment companies' executives to non-registered directors	Conducting prior reviews for OTC derivatives trades
⑤ Imposing mandatory ceilings on funds sales/service fees	
⑥ Conducting prior reviews for OTC derivatives trades	

Detailed Plans

(1) Revitalizing Corporate Funding through the Capital Markets

A. Introducing PEF and Mutual Fund for corporate financial restructuring

With the intent to utilize the capital markets and gather private funds to revitalize corporate restructuring, a special exemption law will be enacted for three years on asset management of funds specially purposed for enhancing corporate financial structure.

	Current regulation	Future (under exemption law)
Corporate Financial Stability PEF	<p>Must have the intent to participate in management</p> <p>(i) must invest more than 10% of the company's total issued shares</p> <p>(ii) must invest more than 50% of PEF's total assets in equity</p>	<p>Participation in management not required</p> <p>Main investments will be made to non-equity balance sheet items such as impaired assets and fixed assets</p> <p>But with the requirement of more than 50% of the PEF's assets invested into corporate restructuring related assets</p>
Corporate Financial Stability Mutual Funds	<p>10% rule on investment diversification applied</p> <p>The fund cannot invest more than 10% of its assets to companies under certain industrial sector</p>	<p>The diversification rule alleviated to supply sufficient liquidity to the SMEs</p> <p>A maximum of 50% of the fund's assets can be invested to newly issued stocks of SMEs and mid-size corporations</p>

B. Allowing companies to issue CPs without issuing electronic notes

The potential hurdle for a company to issue CPs to raise short-term funds while investment companies trade them through the securities depository system will be removed.

Current regulation	Amended under FSCMA
<p>Listed companies with assets over 10 billion won that are subjected to external audits are required to issue electronic notes when issuing promissory notes</p> <p>But, the same requirement applied to CPs and other promissory note that are meant to be traded</p>	<p>The previous requirement of issuing electronic notes are waved for CPs</p>

(2) Enhancing Public Trust in Financial Investment Companies

A. Requirement for financial companies to expand into new business activities are strengthened, while qualifications for major shareholders are eased.

* Detailed will be specified in the Enforcement Decree of the FSCMA

B. Required qualification for executives of financial companies are extended to cover non-registered directors. It is to prevent individuals who violated the FSCMA or other financial regulations from being appointed as non-registered directors of financial companies.

(3) Protecting Financial Investors and Consumers

A. Mandatory ceiling on fund sales/services fees are imposed imposed to curb excessive fees taken by fund managing companies and to protect investors. The law stipulates that sales fees should not exceed 3%, and service fees should not exceed 1.5% of the fund's assets. A specified level of ceilings will be set by a presidential decree.

B. Prior reviews for OTC derivatives are introduced as an ex ante regulation to assess risks involved in OTC derivatives as it has been pointed out that lack of such preventive measures incurred huge losses to investors through KIKOs and sub-prime mortgages



A review committee will be created within the Korea Financial Investment Association (KOFIA) to conduct a prior review of OTC derivatives newly introduced by each financial company, as mentioned herein below:

(1) Products subject to such a review include ① credit derivatives or OTC derivatives whose underlying assets are natural, environmental, economic phenomena*; ② OTC derivatives for retail investors.

* There is yet a market for underlying assets of these derivatives; therefore, it is difficult to exactly assess values of these OTC derivatives products.

(2) A review committee for OTC derivatives, established, established within the KOFIA, will be comprised of five to ten committee members including a chairperson. Results are to be reported to the Governor of the Financial Supervisory Service (FSS)

(3) The committee will assess the composition of underlying assets, validity of risk avoidance structure, product descriptions, and sales plans of OTC derivatives.

1-2. Introduction of the Disclosure System on Analysts and Reports to Increase Investors' Access to Information.

While investment reports by securities analysts (hereinafter referred to as reports) are widely used as key source of information for investors when making investment decisions, investors find it difficult to obtain relevant background information that could help inform their decisions such as the analysts' careers and employment records.

A systematic disclosure system on the analysts and their reporting is not well-established and only limited information, in an ad-hoc manner, is currently provided.

To better protect investors, an efficient disclosure system needs to be established so that reliable information is available to allow investors to make informed investment decisions. The analysts disclosure system is available on the KOFIA website in order for investors to gain easy access to information* on all analysts registered with KOFIA.

* The information includes: name of the analyst; KOFIA registration number; name of the securities company he/she is currently employed at, as well as previous firms; career history; and the status and number of analysts employed by each securities company.

Disclosure on the reports will be provided by each securities company so that each report is readily available to the customers of that company.

Disclosure on the reports are also linked to the KOFIA website in order for investors to search for information related to each analyst and his/her reports directly through the KOFIA website.

The disclosure system is expected to become a major reference for investors when making investment decisions by increasing the amount of available information on the analysts and the reports offered to investors.

By expanding access to information on the analysts and their reports, we expect investors to develop greater confidence when making investment decisions, thereby enhancing the securities market.

※ The disclosure system will be more user-friendly and will provide higher quality information than similar systems utilized by advanced countries such as the U.S.

From a long-term perspective, the quality of reporting is expected to improve as the greater transparency and market forces will direct investors toward those analysts with better track records.

The Disclosure System on Analysts and Reports was set to go online on August 9th, after the updated KOFIA's website has been launched. Analysis of the content of the various reports will be conducted by an outside expert agency and regularly published.

< Disclosure Items of Analysts and Reports >

	Analyst	Report
Items being Disclosed	<ul style="list-style-type: none"> ▪ Name and age ▪ Registration number ▪ Company name ▪ Work experience (Career background and employment history provided on a company-by-company basis [no need to identify the name of each company]) ▪ Status of Analysts (total number of analysts) for each securities company ▪ Status of the reports by analyst (accessed via the website of the relevant securities company) 	<ul style="list-style-type: none"> ▪ Report title ▪ Name of company being analyzed ▪ Analyst's name ▪ Date of publication ▪ Report summary (ex. investment opinion[buy/sell], target price, sale and sales prospects, etc.) ▪ Copy of the original report (accessed via the website of the relevant securities company) ▪ Analyst's career information (accessed via the KOFIA website)

1-3. New Auction-based Block Trading Service

On July 21st 2010, Korea Exchange's proposal on new 'Auction-based Block Trading Service (hereinafter "A-Blox")' for its Securities markets (KOSPI Market & Kosdaq Market) has been approved by Financial Services Commission. Key functions of this new service will be anonymous liquidity pool and VWAP transaction mechanism which are designed to accommodate large lot trading demands in the market. After having system implementation and market notification period, the new rules on 'A-Blox' will become effective as of 29th November 2010.

In today's highly institutionalized market environment, demands for trading large-lot sizes have been growing consistently. And most of these trades tend to favor OTC transaction or exchange block trading facilities to avoid greater market impact and higher transaction cost. Also, by taking into account of continuous growth of dark-pools in most advanced markets and by listening to the voices of our customers, KRX sought necessity of more efficient block-trading service to meet the large-lot trading demand. Under this background, 'A-Blox' was designed to supplement current 'K-Blox' which is conventional concept of block-trading facility.

Although trades will be conducted on a same platform, 'A-Blox' orders will be kept in separate pool from existing Auction and Block-Trading (K-Blox) pool. Thus 'A-Blox'



orders will only be matched amongst each other without quotes being displayed to the public. Orders will be matched on continuous auction basis under the time priority principle and trades will be settled at the day's Volume Weighted Average Price (VWAP).

<Specific Rules and Functions>

§ Applicable Securities: Equities, DRs, ETFs (excluding Administrative Issues and Liquidation Issues)

§ Trading Hours: 07:30~08:30 for off-hour session and 09:00~14:30 for regular session

§ Order Inputs: Unlike '-Blox' method, where traders need to input negotiated transaction deals, '-Blox' will be in a form of order types - meaning traders need to place an A-Blox order with indication on the security, buy/sell, and quantity (and not the price).

§ Trade Execution: Buy and sell orders will be matched on continuous auction basis under time priority principle. This means trades will be executed immediately when there are both buy order and sell order on certain security.

§ Transaction Price: All transaction occurred through '-Blox' will be settled at Volume Weighted Average Price (VWAP). All-day VWAP will be applied for transactions occurred at off-hour session and match-point VWAP will be applied for transaction occurred at regular session.

- All-day VWAP = (total transaction value of the regular session) / (total trading volume of the regular session)

- Match-point VWAP = (total transaction value from execution time till the market close) / (total trading volume from execution time till the market close)

§ Market Information: Information on A-Blox orders (such as quotes and transactions) will not be displayed during trading hours. However, trade execution information will only be provided to the relevant buyer and the seller and presence of A-Blox orders on each buy side and sell side will be displayed. A-Blox trading volume on each security issues will be disclosed after the day's market close.

§ Trading Parameters

- Minimum order size: value of 500 million KRW (in case of Kosdaq Market, value of 200 million KRW).

- Trading Unit: 100 shares, meaning quantity of orders have to be in hundreds (in case of Kosdaq Market, 1 share)

- Validity of the Orders: orders placed at off-hours session will not be valid in regular session and vice versa.

- Short Selling: same procedures and regulations (flagging, confirmation on availability of covered shares, and etc.) will be applied. However, up-tick rule will not be applied to A-Blox orders.

2. Capital Markets

2-1. Stock Market

In January, in line with a fall in the global stock markets, the Korean stock market plunged as investor sentiment cooled on hearing news of the Bank of China's proposal to raise their

bank reserve ratio by half a percentage point on January 18, and the US administration's proposed financial reform regulations on January 21.

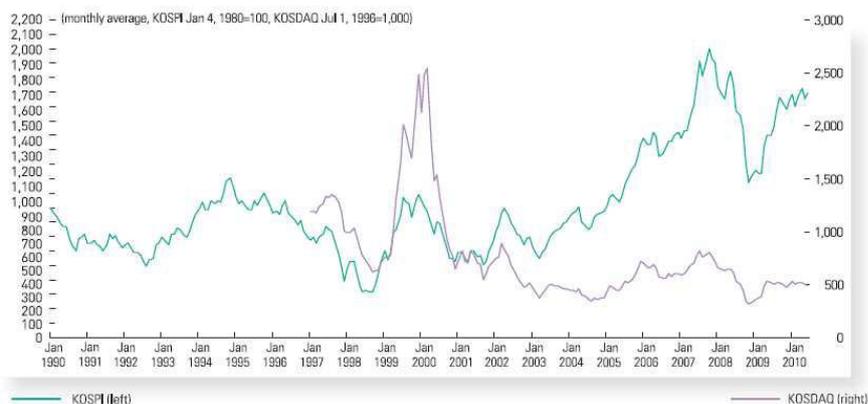
Persistent concerns over the burgeoning debt crisis in European countries such as Greece and Spain led to a contraction in investment in the European emerging markets as well as those in Asia. Although the year started with the domestic stock market boosted by the so-called "January effect," the market soon fell, driven by foreign investors' net-selling of Korean shares that was prompted by fears that China would raise its reserve requirement ratio for banks.

Recently, however, Korean stock market prices have risen on the back of expectations of an economic recovery and perceived easing of the Eurozone's fiscal woes. The prospect of the yuan appreciating following China's return to a managed floating exchange rate system and favorable economic indicators released by the US and China also created optimistic investment sentiment. Pending home sales in the US jumped 6 percent from the previous month in April, and China's May exports rose 48.5 percent year-on-year.

Nevertheless, concerns in the Eurozone remain with Moody's downgrading Greece's sovereign debt rating and continuing concern over an economic slowdown as raised by the Conference Board's decision to cut its leading-indicator index for China at end-June. However, despite these lingering woes in the global financial market, foreign investors, encouraged by Korea's robust economic performance, have turned their position to net buying and have purchased 0.8 trillion won in stocks.

Stock Market Index

Stock prices



Stock Market Trends

(End-period, point, trillion won)

	KOSPI			KOSDAQ		
	May 2010	Jun 2010	Change ¹	May 2010	Jun 2010	Change ¹
Stock price index	1,641.3	1,698.3	+57.0 (+3.5%)	489.4	490.0	+0.6 (+0.1%)
Market capitalization	904.3	936.5	+32.2 (+3.6%)	86.7	88.0	+1.3 (+1.5%)
Average daily trade value	6.3	5.1	-0.8 (-19.0%)	2.1	1.7	-0.4 (-19.0%)
Foreign stock ownership	31.7	31.4	-0.3(-0.9%)	8.6	8.2	-0.4 (-4.7%)

¹. Change from the end of the previous month

2-2. Bond Market

Treasury bond yields declined in January 2010 due to the Bank of Korea's policy rate freeze, growing demand for safe assets amid a bearish stock market and slowed GDP growth in the

fourth quarter of 2009. Adding to the above factors, foreign investors continued their net-selling of KTB futures, further accelerating the fall in the yields. However, Treasury bond yields began to increase in May due to high expectations that the government would soon begin to implement its exit strategies.

Around the same time, the Chinese government raised its bank reserve requirements by 50 basis points on May 2, and the Bank of Korea dropped the phrase “for the time being” in a statement released after the Monetary Policy Committee’s May 12 decision to hold its key interest rate steady, further raising investor sentiment.

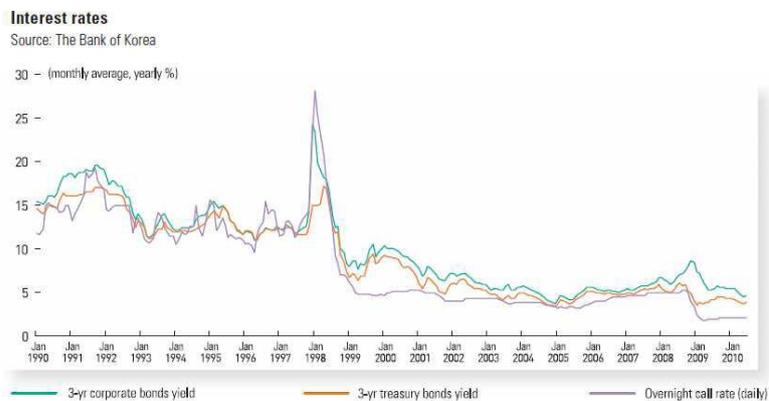
Treasury bond yields then further increased June due to increased expectations that Korea would raise its benchmark rate in the second half of the year. Amid the anticipation of an early rate hike, the Korean government also imposed new limits on foreign exchange derivatives contracts for foreign banks operating in Korea, again boosting Treasury bond yields.

Interest Rates Trends

	(End-period, %)							
	2006	2007	2008	2009	2010			Change ¹
	Dec	Dec	Dec	Dec	Apr	May	Jun	
Call rate (1 day)	4.60	5.02	3.02	2.01	2.00	2.03	2.03	3
CD (91 days)	4.86	5.82	3.93	2.88	2.45	2.45	2.46	1
Treasury bonds (3 yrs)	4.92	5.74	3.41	4.44	3.61	3.58	3.86	28
Corporate bonds (3 yrs)	5.29	6.77	7.72	5.56	4.41	4.45	4.77	32
Treasury bonds (5 yrs)	5.00	5.78	3.77	4.98	4.27	4.36	4.44	8

¹. Basis point changes in May 2010 from the previous month

Korea Ministry of Strategy and Finance



2-3. Derivatives Market

In the first half of 2010, the derivatives market saw its average daily trading volume (14,488,504 contracts) and trading value (55 trillion won) go up by 22.7% and 22.9% respectively, due to an increase in demand for derivatives as a means of hedging risk in an uncertain market climate. During the same period, the average daily trading volume(899,343 contracts) and trading value (54.2 trillion won) of the futures market rose 24.5% and 34.2% respectively. While the KOSPI-200 options market saw its average daily trading volume (13,589,161 contracts) and trading value (1.2 trillion won) expand 22.5% and 21.9% respectively year-on-year.

Categorized by investor type, the trading value by institutional investors of equity products such as KOSPI-200 futures, options, equity futures went up 7.3%p, 4.5%p, 4.2%p,

respectively year-on-year, while the trading volume by individual and foreign investors declined.

*Individual investors: KOSPI-200 futures (-10.6%), Equity futures (-2.9%)

Foreign investors: KOSPI-200 options (-6.6%),

In the case of 3-year Korea Treasury Bond (KTB) futures and U.S. dollar futures, the trading value by foreign investors and individuals increased, indicating that the investor base of the market that is dominated by institutional investors has expanded to include foreign and individual investors.

*Foreigners: 3-year KTB (+1.5%), U.S. dollar futures (+6.5%)

Individuals: 3-year KTB (+2.1%), U.S. dollar futures (+0.1%)

The key factors behind the growth in the derivatives market are as follows: an increase in market uncertainties arising from unexpected external factors, including the Eurozone fiscal crisis and geopolitical risks in the Korean peninsula; growth in the equity-linked derivatives market such as ELS, ELW; and an increase in the investor base due to securities firms moving into the futures industry.

Average Daily Trading Volume and Values of Derivatives

(Unit : Contract, %)

	2009		1st Half of 2010	Rate of Increase
		1st Half '09		
KOSPI-200 futures	329,142	354,125	365,305	2.3
Equity futures	146,132	182,853	177,953	-2.7
3-year Korean Treasury Bond (KTB) futures	79,252	78,120	102,225	30.9
U.S. Dollar futures*	162,695 (212,912)	105,952 (208,411)	250,097	136.0 (20.0)
Sub-total	718,972 (769,189)	722,587 (825,046)	899,343	24.5 (9.0)
KOSPI-200 options	11,545,418	11,089,241	13,589,161	22.5
Total	12,264,390 (12,314,607)	11,811,828 (11,914,287)	14,488,504	22.7 (21.6)

* () : Due to the trading unit change from \$50,000 to \$10,000 in April 27, 2009, pre-change trading volumes were multiplied by 5 times to give an accurate comparison.
source: Korea Exchange(KRX)

Share of Trading by Investor Type

(Unit : %, %p, Trading volume basis)

		Institutional	Individual	Foreigner
KOSPI-200 futures	1st half '09.	37.6	37.2	25.2
	1st half '10.	44.9(+7.3)	26.6(-10.6)	28.5(+3.3)
KOSPI-200 options	1st half '09.	19.0	35.2	45.8
	1st half '10.	23.5(+4.5)	37.3(+2.1)	39.2(-6.6)
Equity futures	1st half '09	22.8	68.0	9.2
	1st half '10.	27.0(+4.2)	65.1(-2.9)	7.9(-1.3)
3-year KTB futures	1st half '09.	86.0	7.1	6.9
	1st half '10.	82.4(-3.6)	9.2(+2.1)	8.4(+1.5)
U.S. Dollar futures	1st half '09.	80.7	15.5	3.7
	1st half '10.	74.1(-6.6)	15.6(+0.1)	10.2(+6.5)

* () : Year-on-year increase or decrease, %p
source: Korea Exchange(KRX)

2-4. Asset Management

In the first half of 2010, the total assets under management (AUM) increased, in particular in bond funds and MMFs, as investors flocked toward safer assets due to adverse external conditions. The total AUM (excluding ETFs) saw a year-on-year increase of 1.3 trillion won, reaching 329.4 trillion won as of June, 2010.

The AUM of foreign funds declined 4.2 trillion won (-5.8%) to 68.8 trillion compared to the previous year, while the AUM of domestic funds increased 5.5 trillion won (+2.2%) to 260.6 trillion as investors moved to MMFs and safe bond funds due to ongoing market uncertainties such as stock prices fluctuations. In addition, backed by an upswing in the KOSPI and an increase in domestic funds' AUM, total net assets rose 0.8 trillion won (+0.3%) year-on-year to reach 315. 5 trillion won.

Trends of Net Asset and KOSPI

In the first half of the year, the net assets of bond funds and MMFs saw an increase, while the net assets of equity funds declined compared to the previous year.

As of end of June, 2010, the net assets of equity funds were recorded at 101 trillion won with an outflow of 10.4 trillion won during the first half as investors realized their gains and moved away from funds toward other areas of the capital market.

Trend of Net Asset by Fund Type

(Unit: Trillion Won, %)

Year End	Equity fund	Balanced Funds	Bond Fund	MMF	Others	Total	
2006	486,835	491,090	511,222	583,943	336,633	2,408,723	
2007	1,331,629	460,272	411,558	478,590	477,886	3,159,935	
2008	805,433	342,550	312,803	906,152	484,339	2,851,077	
2009	1,122,345	308,874	460,143	724,249	531,643	3,147,254	
2010	March	1,073,026	310,532	480,876	832,502	549,881	3,246,617
	June	1,009,704	314,114	494,120	792,331	544,336	3,154,604
Ratio (%)	32.0	10.0	15.7	25.1	17.3	100.0	

source: Korea Financial Investment Association(KOPIA)

III. Prospects for the Financial Investment Industry

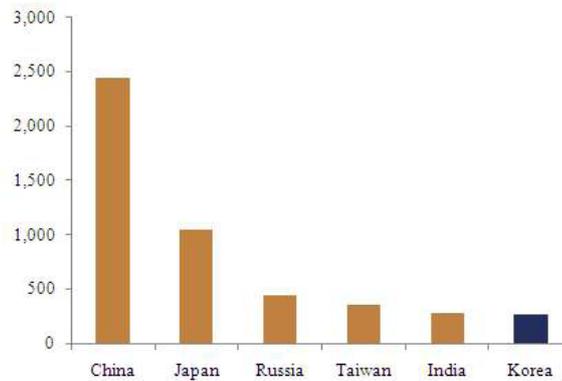
1. Prospects of Korean Economy

The Korean government has actively worked to stabilize and advance the Korean economy through strategic economic development, and as a result saw its credit rating upgraded from A2 to A1 by Moody's Investors Service in April 2010. The success of the government's strategy can be seen in Korea's credit ratings, which stood at a mere BAA2 in 1999, and has steadily been upgraded over the past 11 years, reaching A3 in 2002, and A2 in 2007 and 2009. Furthermore, while S&P downgraded the credit ratings and outlooks of Greece and Portugal respectively to BB+/negative, and A-/negative, Korea has maintained maintains its rating and outlook of A/positive due to its high foreign exchange reserves, which were ranked 6th globally (at USD272 bil.).

In light of these developments, the Korean government will continue pursuing its expansionary fiscal policies and budgets to ensure Korea's economy successfully recovers, while at the same time actively working towards creating jobs and supporting the working

class. In addition, the government will also increase its efforts to reform the economy through corporate restructuring and nurturing growth in order to create a solid foundation for future economic success.

Foreign Reverses (USD bil.)



2. Prospects for Global Market Players

Since beginning of 2010, the global economy has displayed signs of a gradual recovery with production and exports improving in advanced countries. However, potential threats to global economic stability remain, including sluggish employment and fiscal instability.

As a global market player, Korean corporations' market share in their respective markets has been increasing, in particular in the semiconductor, display, and shipbuilding industries. For example, Hyundai Automobiles now accounts for about 8% of the USA automobile market, while Samsung ranks 1st in the global DRAM and mobile phone markets. With their increasing global competitiveness, Korean corporations are expected to continue make inroads into the global markets in the future.

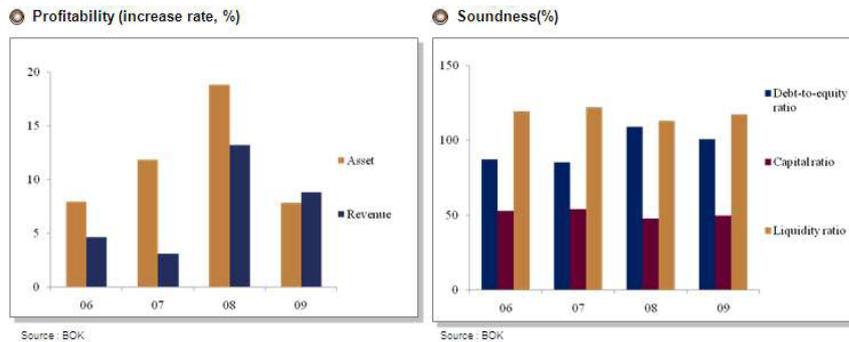
Global market share of Korean Corporations

	Global Market Share of Korean Corporations (%)				Increase from 2006 (%p)	Out of Total*	
	2006	2007	2008	2009(1H)		'08	'091H
Semiconductor (DRAM)(Samsung)	43.9	46.9	46.8	56.2	12.3	7.8	7.2
Display (LG)	43.5	43.2	46.2	53.3	9.8	4.4	6.4
Shipbuilding (Hyundai Heavy)	33.5	35.7	37.5	41.6	8.1	10.2	15.0
Mobile Phone (Samsung)	17.6	21.5	25.3	28.8	11.2	8.5	9.3
Automobile (Hyundai)	5.9	6.0	6.6	7.0	1.1	8.3	6.5
Petrochemicals (SK)	5.1	5.5	5.5	5.3	0.2	7.6	7.4
Steel (POSCO)	3.9	3.9	4.0	4.2	0.3	7.1	6.9

* Passenger car: sales volume; semiconductor & mobile phone: shipments; display: total size of production; steel: crude steel output; petrochemicals: ethylene production capability (number of tons of ethylene that can be produced annually); shipbuilding: delivery volume (dwt)
*Source: Korea International Trade Association; Korea Investment & Securities Co., Ltd.

3. Prospects of Korean Corporate Profitability and Soundness

Listed Korean corporations have recorded increases in their assets and operating profits from the previous year (7.8%, 5.8% respectively). Equally, at the end of 2009, domestic corporations showed debt-to-equity, capital, and liquidity ratios of 100.8%, 49.8%, 117.4% respectively. Major industries such as the IT and electronics, industrial machinery, automobile, and shipping have seen their growth rates increase on average by 4.325% in assets and 6.65% in operating profits. Debt-to-equity and debt-to-asset ratios also increased to 134.5% and 17.6% respectively on average.



To create a solid foundation for a sustainable recovery and to nurture strong, competitive corporations, the Korean government tightly supervises companies in terms of their financial soundness and foreign exchange risks. In June, the government issued a directive to lower the limit on project financing by savings banks from the current level of 20 percent of the total lending amount to 13 percent by 2013. Such an action is designed ensure the financial soundness of commercial banks, and at the same time encourage the development of the long-term bond markets through the issue of issued inflation-linked KTBs that coincided with this measure.

While measures such as the above may have a negative short-term impact, with a potential temporary decline in profitability in the short-term, it is clear that in the long-term these policies will lead to stronger, sound corporations that are even more competitive globally and can generate greater profits.

4. Prospects of National Pension and Corporate Pension

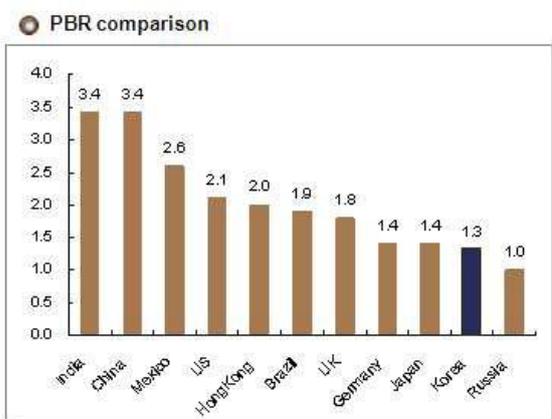
To support the working class, the government has encourage daily workers to buy into the national pension program, while at the same time encouraging greater participation in the market the pension scheme as key institutional investors. It is, therefore, expected that participation in the National Pension Fund will increase to over 20% (USD 36.3 bil.) in 2014 from its 2009 level of 13%. At the same time, participation in the Corporate Pension scheme will increase to 6.5% (USD 10 bil.) from its 2009 level of 1.8%, and will begin investing in equities in 2014.



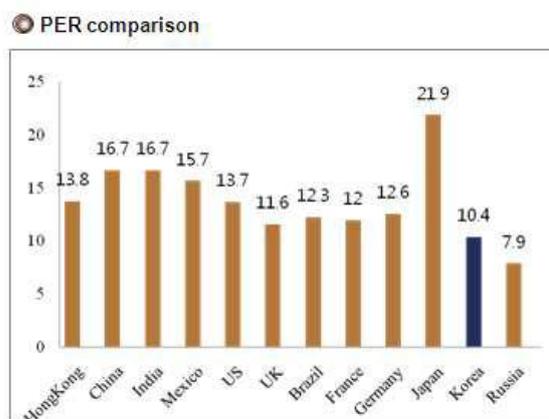
5. Prospects of Undervalued Korean Capital Market

Compared with developing market such as India and China, Korea's PBR and PER are relatively small. This can be interpreted as meaning the Korean capital market is undervalued. From the 3rd quarter of 2009, the Korean economy has continued its upward trend with real economic indicators such as production, investment and exports remaining in a recovery phase, and the financial markets remaining stable, thereby contributing to the creation of a sound economy.

Based on this fact, it is forecasted that the undervaluation of the Korean capital market will provide a rational reason for foreign investors to invest, which will be firmly supported by a profitable Korean corporate sector and increased institutional investors.



Source: Bloomberg



Source: Bloomberg