Country Report : KOREA

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Contents

Overview

For 2009, exports remain on a declining path amid the global recession. The Korean economy is, therefore, forecast to register a negative rate of growth as domestic demand is deeply subdued.

Private consumption is predicted to shrink still further from its performance last year in response to the decline in income and weakened consumer confidence brought about by worsening employment conditions and declines in wealth. Nevertheless, it is anticipated that the downturn in private consumption may perhaps be alleviated by the government's expansionary fiscal policy.

Facilities investment is anticipated to remain very low owing to worsening business confidence brought about by the economic downturns at home and abroad, the increased burden of importing capital goods and the deterioration of fund-raising conditions.

Construction investment is forecast to exhibit a mild increase thanks to the expansion of government investment in social overhead capital (SOC) projects, which should help to offset the slackness of both residential and non-residential building construction.

Exports are expected to remain on a declining trend due to the deepening of the synchronized global economic recession. Imports are also anticipated to decline greatly due to shrinking domestic demand.

Employment conditions are anticipated to deteriorate due to the deepening downturn in economic activity and corporate restructuring. Nevertheless, it is expected that the government's efforts to create jobs and keep people employed will ameliorate the situation.

In the financial markets, the supply of credit is likely to be hampered by the continuing global financial turmoil, the contraction of economic activity and uncertainties surrounding corporate restructuring. There is also the possibility of episodes of heightened volatility in price variables such as share prices and exchange rates.

The Financial Investment Services and Capital Markets Act (FISCMA) was implemented on February of 2009 opening the door to new opportunities and competition for the Korean capital market. The consolidation of Korea's capital market has brought new horizons to investor protection, quality of services, the emergence of world-class investment banks and the overall development of the capital market.

I. Macroeconomic Developments

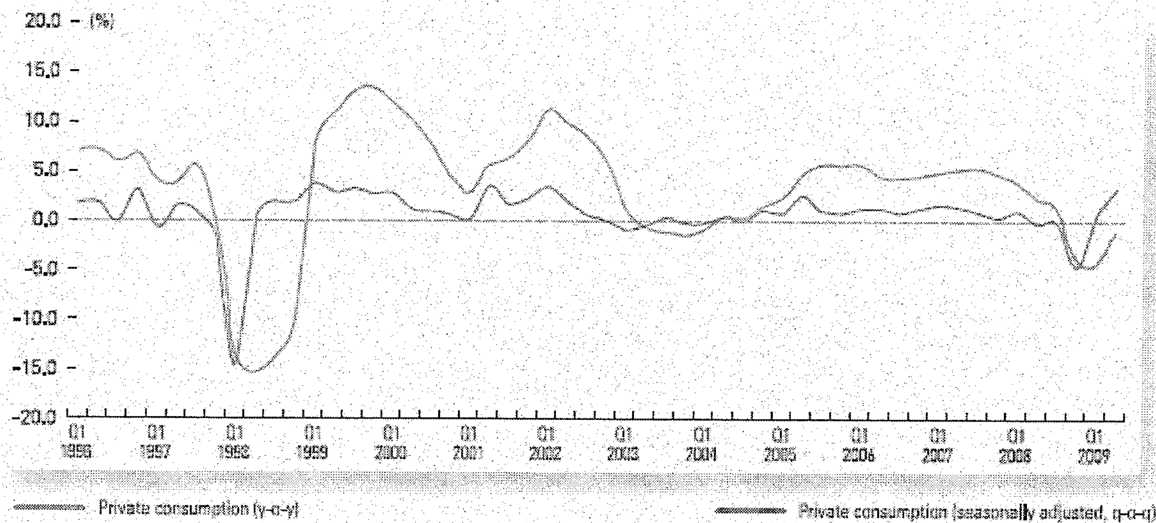
1. Private Consumption

Consumption levels were recovering in the beginning of 2008, (with a peak in private consumption of 5.4 percent in third quarter of 2007, gradually decreasing to 4.0 percent and 2.3 percent in first and second quarters of the 2008, and bottoming out at -4.4 percent in first quarter of 2009). Consumer goods sales maintained its growth momentum, driven by the recovery in domestic demand despite the unfavorable conditions exhibited by consumption-related indicators such as continuing declines in car sales.

Consumer goods sales slowed further, continuing its downward trend from August to the year-end. Therefore, consumer spending also remained in a downward trend, as sluggish employment and the decline in asset values adversely affected households' disposable income.

The consumer expectations index hit its peak in the first quarter of 2008 at the 100 mark, reflecting improving consumer sentiment. However, this trend began to reverse from April as the worsening job market, negative wealth effect from plunging real estate prices, and declining real income continued to undermine consumer sentiment.

Private consumption
Source: The Bank of Korea (national accounts)



Private Consumption Trends

(Percentage change from same period in previous year)

	2007			2008[1]					2009[1]	
	Annual	Q3	Q4	Annual	Q1	Q2	Q3	Q4	Q1	Q2
Private consumption[2]	5.1	5.4	4.7	0.9	4.0	2.3	1.4	-3.7	-4.4	-1.1
(Seasonally adjusted)[3]	-	0.9	0.4	-	1.1	-0.2	0.0	-4.6	0.4	3.3

1. Preliminary
2. National accounts
3. Percentage change from previous period

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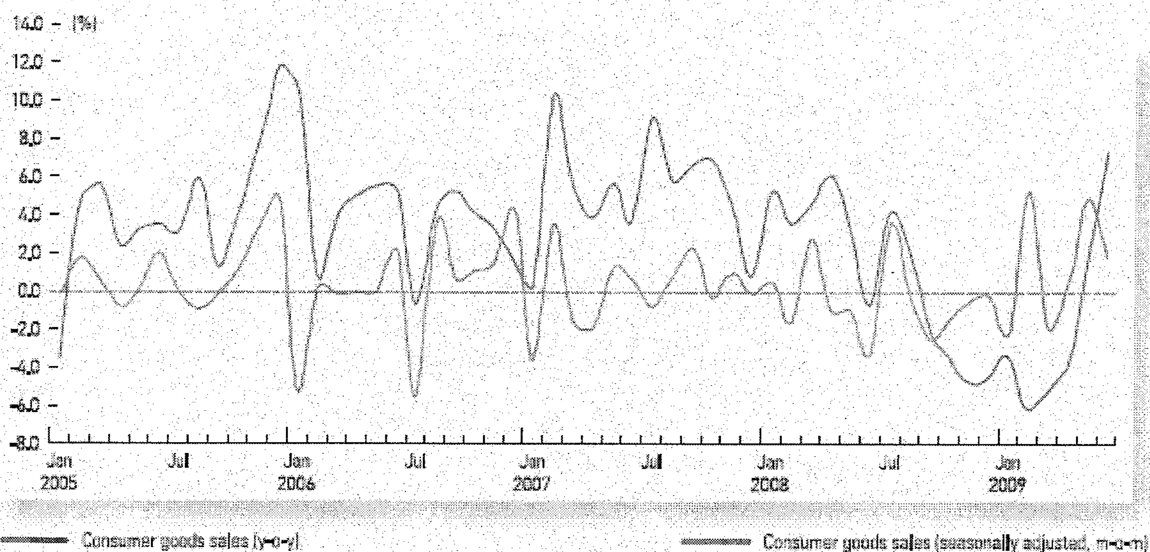
In May 2009, consumer sentiment improved due to increased stability in the financial market. The growing strength of the won against the dollar, a recent stock market rally and an easing in inflationary pressures all contributed to a significant improvement in consumer sentiment despite the depressed job market.

Since then, consumer goods sales have increased 7.3 percent year on year, buoyed by a strong growth in sales of durable goods. The increase in consumer spending shows no signs of slowing down in the short term given the job market's positive reaction to recent government measures, the stabilization of prices and financial markets and improving consumer sentiment.

Consumer goods sales
Source: Korea National Statistical Office (industrial activity trend)



Consumer Goods Sales Trends

(Percentage change from same period in previous year)

	2008					2009				
	Annual	Q1	Q2	Q3	Q4	Q1	Q2[1]	Apr	May[1]	Jun[1]
Consumer goods sales	1.0	4.4	2.9	1.4	-4.2	-4.9	1.5	-3.9	1.6	7.3

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2. Facility and Construction Investment

2-1. Facility Investment

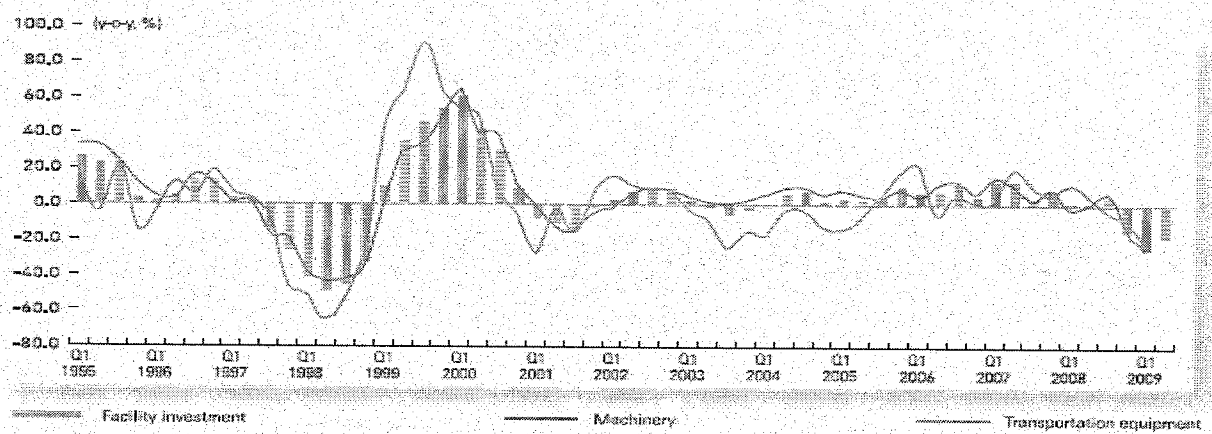
Due to the continuation of the global financial instability that began in 2008, facilities investment fell 20.2% year-on-year in the first half of 2009. As the international economy lost its vitality, it negatively impacted on the overall investment environment.

In the beginning of 2008, growth fell 6.3 percent quarter-on-quarter, affecting the facility investment sector. The trends for machinery such as semiconductor equipment and transportation equipment began to rapidly decline, matched by falls in other leading indicators.

In the first half of 2009, Korea experienced a 14 percent decrease in the first quarter and a 23.5 percent decrease in second quarter when compared to the same periods in the previous year, the lowest amounts recorded since 2008, and a decrease 136.4 percent since its peak in the third quarter of 2008.

However, facility investments have recently begun to rise, cutting a year-on-year loss of 5.6 percent due to increases in transportation equipment investment.

Facility investment by type
Source: The Bank of Korea (national accounts)



Facility Investment Trends

	2007		2008[1]					2009[1]	
	Annual	Q4	Annual	Q1	Q2	Q3	Q4	Q1	Q2
Facility investment[2]	9.3	8.0	-2.0	1.5	1.1	4.3	-14.0	-23.5	-17.2
(Seasonally adjusted)[3]	-	3.8	-	-0.4	0.4	0.2	-14.2	-11.2	8.4
- Machinery	9.2	8.5	-2.7	-1.2	-0.1	6.5	-15.3	-24.0	-
- Transportation equipment	9.6	5.8	0.4	12.2	5.1	-3.6	-9.9	-21.8	-

1. Preliminary
2. National accounts
3. Percentage change from previous period

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2-2. Construction Investment

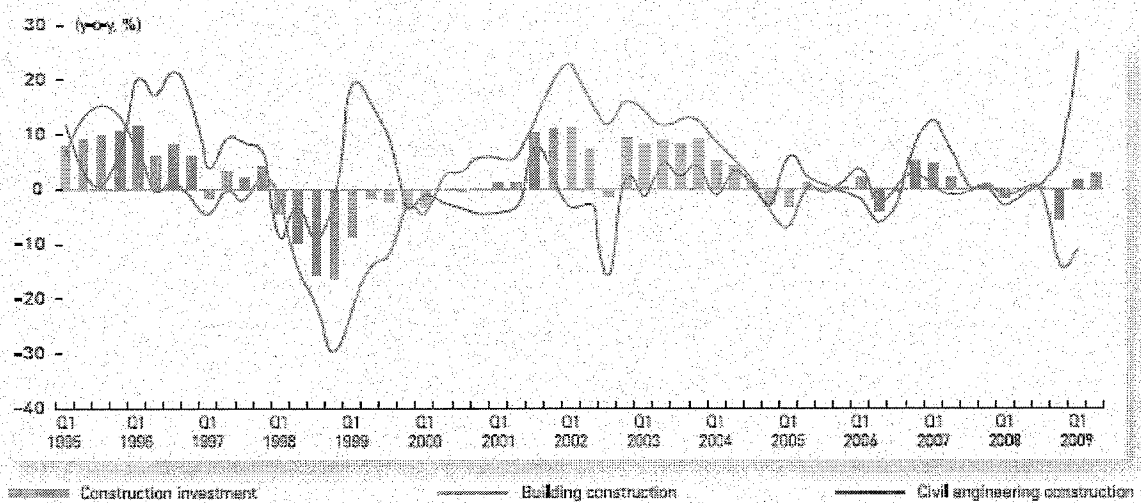
In the first quarter of 2008, the amount of construction orders sharply increased due to a large amount of housing developments initiating operations prior to an impending housing price cap being introduced that October. This growth slowed considerably from 104.7 percent to

36.3 percent in January, 2009 but still maintained strong growth.
However, construction investment in fourth quarter of 2008 dipped 6.1 percent year-on-year, or 4 percent quarter-on-quarter. In particular, from December to February, completed construction declined at a rapid pace due to a plunge in building contracts, with orders dropping 20.7 percent in February.

For the first quarter of 2009, investment in construction rose 1.7 percent year-on-year, or 5.3 percent quarter-on-quarter. Investment in construction rose 2.4 percent year-on-year in second quarter.

Construction investment

Source: The Bank of Korea (national accounts)



Construction Investment Trends

(Percentage change from same period in previous year)

	2007		2008[1]					2009[1]	
	Annual	Q4	Annual	Q1	Q2	Q3	Q4	Q1	Q2
Construction investment[2]	1.4	0.4	-2.1	-1.9	-0.3	0.2	-5.6	1.6	2.4
(Seasonally adjusted)[3]	-	2.9	-	-2.5	-0.3	0.1	-3.0	5.2	0.4
- Building construction	-0.0	0.7	-4.3	-1.2	-0.1	-0.1	-14.3	-11.1	-
- Civil engineering works	3.8	-0.1	1.3	-3.2	-0.7	0.7	5.7	24.9	-

1. Preliminary
2. National accounts
3. Percentage change from previous period

Korea Ministry of Strategy and Finance

3. Exports and Imports

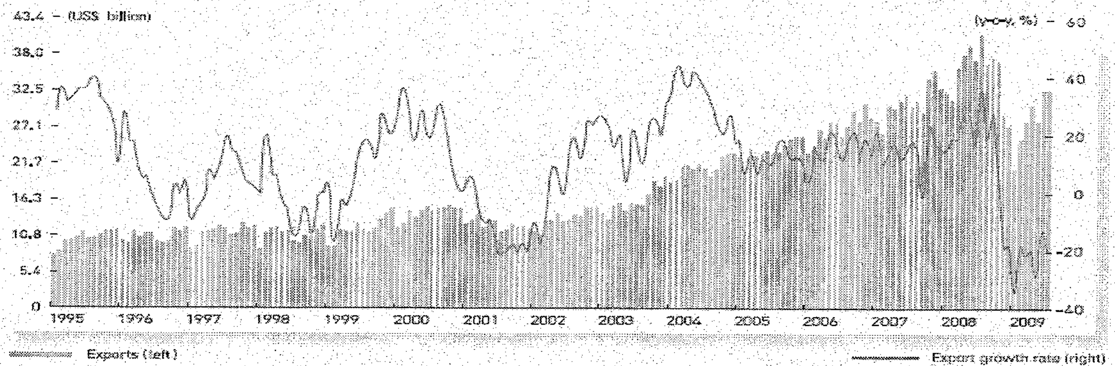
The initial year-on-year growth rate for exports was estimated to be positive until the third quarter of 2008, with growth slowing in October. Growth continued to fall with exports totaling US $32.63 billion in June 2009. The weaker growth in exports for 2009 was partly due to the high base effect of the corresponding period for the previous year.

By export category, most products showed a positive growth in 2008, excluding automobiles, semiconductors and computers. The downward trend in automobiles was due to growing output in overseas plants, while that of semiconductors was attributed to weak prices. In 2009, the growth trend of most products such as petroleum products, wireless communication devices, etc declined, while ship construction and liquid crystal devices maintained positive growth.

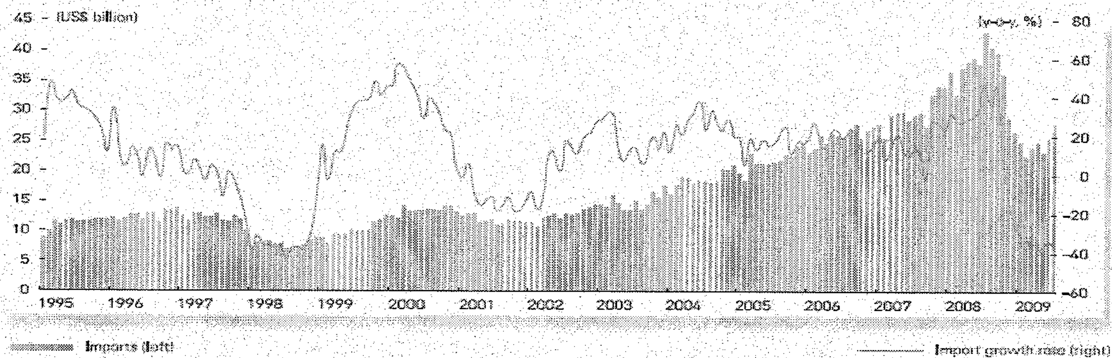
Imports continued to rise until September 2008, mainly due to raw material prices, such as crude oil, steel products and gas. However, as there was a significant drop in raw material prices and weakened domestic demand, imports showed a consistent fall from July 2009. In particularly, the biggest decline in imports since 2004 was recorded in January 2009.

The monthly trade balance was in the red for five months in a row until April 2008 as a result of the expansion in imports. After a swing to surplus in May, the overall trade balance posted deficits again. From October 2008, raw material prices fell and imports dropped at faster pace than exports, thus reversing the trend back to surplus where it remained, with the exception of January 2009. June 2009 recorded the highest amount of trade at US $7.44 billion.

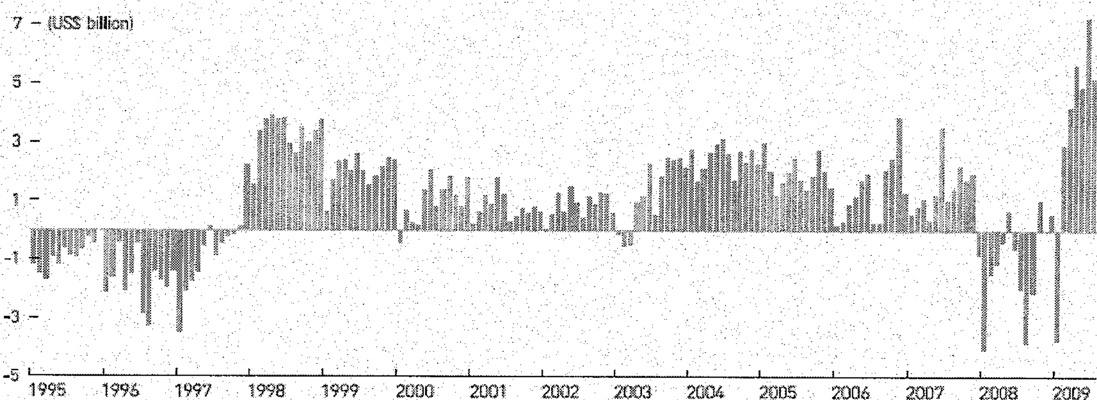
Exports (customs clearance basis)



Imports (customs clearance basis)



Trade Balance



(Source: Economic Bulletin, August 2009, Ministry of Strategy and Finance)

(US$ billion)

	2008			2009						
	Annual	Jun	Jan-Jul	Q1	Q2	Apr	May	Jun	Jul	Jan-Jun
Exports	422.01	40.96	254.9	74.57	91.10	30.42	28.15	32.63	32.72	198.39
(y-o-y, %)	13.6	35.6	22.6	-25.0	-20.4	-19.6	-28.5	-12.4	-20.1	-22.2
Average daily exports	1.53	1.64	1.07	1.10	1.31	1.27	1.28	1.39	1.31	1.23
Imports	435.27	42.93	263.8	71.29	73.28	24.63	23.09	25.36	27.59	172.16
(y-o-y, %)	22.0	47.0	32.3	-32.8	-36.2	-35.6	-40.3	-32.9	-35.8	-34.7
Average daily imports	1.58	1.72	1.65	1.05	1.05	1.03	1.05	1.08	1.10	1.06
Trade balance	-13.27	-1.99	-8.90	3.27	17.82	5.79	5.06	7.27	5.14	26.23

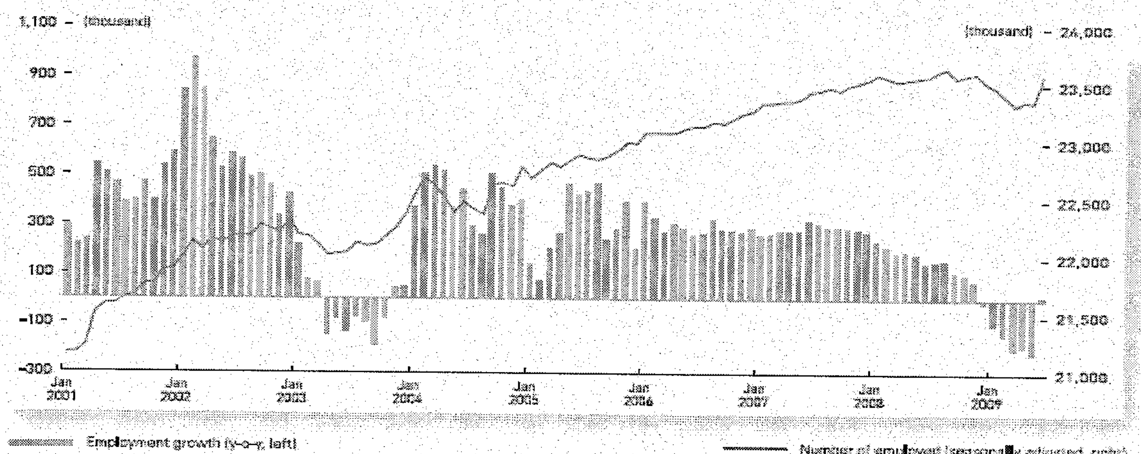
4. Employment

Due to the ongoing global financial turmoil, employment numbers dropped 141,000 in the first half of 2009. The number of employed workers began to decrease from second quarter of 2007. Employment figures shows 209,000 new jobs in the first quarter of 2008, representing the highest growth for both 2008 and 2009.

The numbers then decreased to 173,000 in the second quarter of 2008, 141,000 in third quarter, 54,000 in the fourth quarter, and a negative growth of −146,000 new jobs in first quarter of 2009. The decline continued in April and May with −188,000 and −219,000 being recorded respectively, the largest declines since 2006.

In August of 2009, the employment rate stood at 59.8 percent, representing a 0.7 percent decrease compared to the same period in the previous year. Conversely, the unemployment rate rose 0.8 percentage points year-on-year to 3.9 percent.

Number of employed and employment growth
Source: Korea National Statistical Office (employment trend)



Employment Trends

(Change from same period in previous year, thousand)

	2008						2009				
	Annual	Jun	Q1	Q2	Q3	Q4	Q1	Q2	Apr	May	Jun
Employment growth	145	147	209	173	141	54	-146	-134	-188	-219	4

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II. Financial Markets

1. Stock Market

In January 2008, the Korean stock market, along with other global stock markets, showed a dramatic fall in share prices due to external uncertainties and factors such as the lingering financial market unrest due to the US subprime mortgage woes, concerns over the US economic recession and the possible downgrade of US bond insurers' credit ratings. On January 30, the KOSPI bottomed at 1,589.1 points, dragged down by possible negative economic effects of a natural disaster in China.

However, the KOSPI recovered, reaching 1,850 points in May as expectations of an easing of the credit crunch grew and investors' appetite for relatively undervalued Korean stocks grew. The main Korean bourse reached its 2008 peak of 1,888.9 points on May 16, but the scope of its upswing was limited by fears of possible inflation, driven by high oil prices and profit-taking from the few days of sharp gains. Foreign investors became net-buyers of Korean shares for the first time in 12 months since May 2007, with their net buying amounting to 312.6 billion won.

Since May 2008, the main Korean bourse has shown a downward trend due to uncertain economic prospects and fears over another credit crunch. After the KOSPI reached its 2008 peak of 1,888.9 points, the benchmark index nosedived as global stock markets turned more bearish. This sluggishness was partly due to increased stagflation risks stemming from soaring oil prices. Foreign investors have maintained short positions in both the spot and future markets since June. The net amount of spot products sold by foreign investors was 5.2 trillion won while that of future products was 1.9 trillion won.

The bear market continued to worsen, with the Korea stock market undergoing a sharp correction as foreign investors continued to sell Korean shares, and investors shifted to safe heaven assets amid the growing uncertainties in the international financial market.

The global financial market's volatility has significantly heightened since Lehman Brothers filed for bankruptcy protection on September 14. The Korean stock market declined to 938.75 points on October 24, the lowest record for the year.

However, the main Korean bourse rebounded thereafter due to the announcement by the Korean government of comprehensive policy measures for overcoming the ongoing economic crisis, and the signing of the Korea-US currency swap agreement. The Korean stock market advanced in early November as the government announced that it was undertaking "comprehensive measures to overcome the ongoing economic difficulties" on November 3.

The Korean stock market regained some stability in December 2008, helped by domestic as well as international efforts to stabilize the financial market and boost the lackluster economy. The Bank of Korea cut its benchmark interest rate by 1.0 percentage point to 3.0 percent on December 11 and the Korean government announced its economic policy directions for 2009 on December 16. Foreign investors became net-buyers of Korean shares for the first time in 7 months as the selling spree became subdued by increased dollar liquidity and the global credit crunch began to ease.

The Korean stock market stabilized somewhat in January 2009 due to expectations over the effects of the economic stimulus packages implemented or planned at home and abroad. However, concerns over the deepening economic recession remained. Foreign investors maintained their net buying positions for two consecutive months as the international financial market jitters were subdued.

2. Bond Market

Bond yields such as Treasury bond yields plunged in January 2008, dragged down by the Bank of Korea's expected rate cut and the growing appetite for safe assets due to the global stock market slump. The yields fell sharply in January due to the global stock market crash and the US' aggressive interest rate cut of one basis point. Yields on 3-month CDs, which are short-term interest rates, fell considerably as the supply declined.

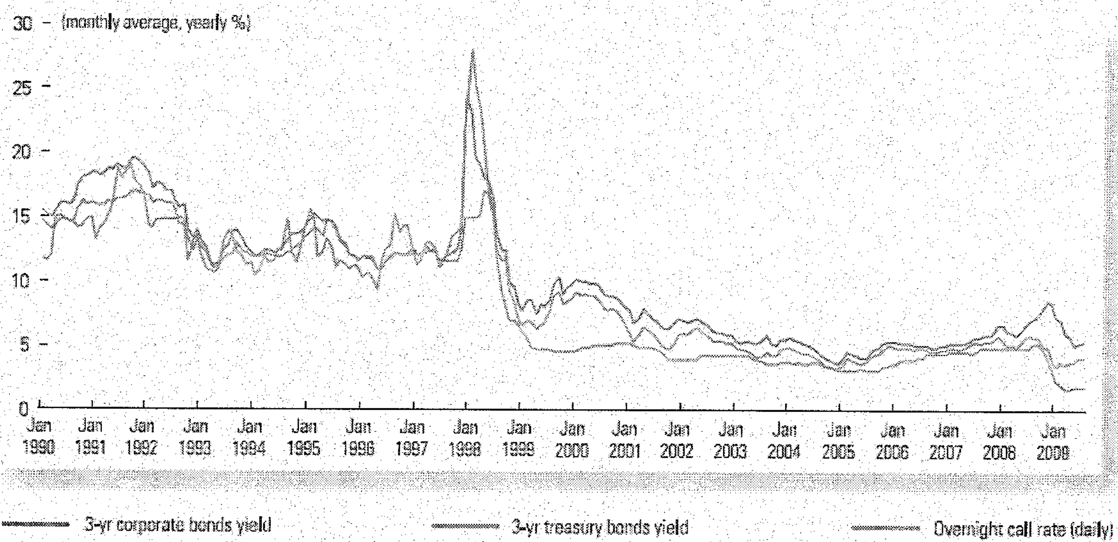
After February, the trend for bond yields changed from downward to upward. Bond yields such as Treasury bond yields rose in March. This rise was affected by the growing number of short positions held by foreign investors who were more concerned about the falling won and uncertainties in international financial markets. For example, the interest rates on three-year Treasury bonds rose up to 5.33 percent on March 17.

Led by Treasury bonds, bond yields soared in May as inflationary fears stemming from steep rises in oil and other commodity prices dampened expectations of a rate cut by the Bank of Korea. The benchmark interest rate was raised by the Bank of Korea, and long-term bond yields began falling after the 3-year Treasury bond yields reached 6.17 percent on July 14 due to fears of an economic slowdown and lessened inflationary pressures.

Bond yields, mainly Treasury bond yields, fell considerably in October due to worries over an economic slowdown both domestically and abroad, interest rate cuts and expected further rate cuts by the Bank of Korea. By November, bond yields, in particular Treasury bond yields, had stabilized as the Bank of Korea cut its policy rate by 1.25 basis points to 4 precent. Bond yields continued to stabilize in December 2008, as the Bank of Korea cut its policy rate by a further 100 basis points on December 11, and the government provided the market with further liquidity. The yields of CDs, in particular, fell by 152 basis points during the month to the 3 percent range.

Treasury bond yields, which were unstable in the previous months, stabilized in April 2009, buoyed by the successful issuance of state bonds and foreign investors' net-buying of KTB (Korea Treasury Bond) futures. On April 26, the government held a 20-year Treasury bonds auction to the amount. offered and accepted, of 500 billion won. With this abundant liquidity in the market, interest rates such as the yields on CDs continued their downward trend.

Interest Rates



Interest Rates Trends

(End-period)

	2005	2006	2007	2008	2009			
	Dec	Dec	Dec	Dec	May	Jun	Jul	Change[1]
Call rate (1 day)	3.76	4.60	5.02	3.02	1.96	1.96	1.95	-107
CD (91 days)	4.09	4.86	5.82	3.93	2.41	2.41	2.41	-152
Treasury bonds (3 yrs)	5.08	4.92	5.74	3.41	3.83	4.16	4.26	85
Corporate bonds (3 yrs)	5.52	5.29	6.77	7.72	4.98	5.39	5.68	-204
Treasury bonds (5 yrs)	5.36	5.00	5.78	3.77	4.67	4.64	4.76	99

1. Basis point changes in July 2009 from end December 2008

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3. Derivatives Market

In 2008, the average daily trading volume in the derivatives market recorded their highest amount of contracts since 2003, lead by KOSPI-200 futures and 3-year Korean Treasury Bond (KTB) futures, and following a period increased spot market volatility.

The average daily trading volume in 2008 was 11,561,602 contracts, an increase of 2.4 percent, while the average daily trading value for the same period was 35 trillion won, an increase of 18.2 percent. The average daily trading volumes for the KOSPI-200 futures, Korean Treasury Bond (KTB) futures and U.S. dollar futures recorded their highest amount of contracts. The average daily trading volume for the entire futures market increased by 48.0 percent, while KOSPI-200 options trading averaged 11,155,139 contracts per day, a 1.3 percent increased for 2008.

The average daily trading value for the futures market reached 33.6 trillion won, a 17.8 percent increase, and the average daily trading value of KOSPI-200 options market rose to 1.2 trillion won, a 30.5 percent increase.

Average Daily Trading Volume and Values of Derivatives

(Unit : Contract, 100 million won)

Derivatives	Average daily trading volume			Average daily trading value		
	2007	2008	Rate of Increase	2007	2008	Rate of Increase
KOSPI-200 futures	194,139	267,878	+38.0	214,343	251,498	+17.3
3-year Korean Treasury Bond (KTB) futures	55,102	64,156	+16.4	59,150	68,655	+16.1
U.S. Dollar futures	23,383	26,847	+14.8	10,839	15,056	+38.9
Sub-total	**274,684**	**406,463**	**+48.0**	**285,339**	**336,058**	**+17.8**
KOSPI-200 options	11,015,626	11,155,139	+1.3	8,877	11,582	+30.5
Total	**11,290,310**	**11,561,602**	**+2.4**	**294,216**	**347,640**	**+18.2**

During 2008, foreign investors' share of trading drastically increased by 7.7 percent, especially in the KOSPI-200 options market. Foreign investors began to gain significant influence within the derivatives markets through algorithm trading.

Individual investors' share of trading in KOSPI-200 futures (up by 1.1%), 3-year KTB futures (up by 1.8%) and U.S. dollar futures (up by 4.3%) all rose. While foreign investors' shares of trading in KOSPI-200 futures, 3-year KTB futures and U.S. dollar futures decreased.

Share of Trading by Investor Type

(Unit : %)

Products	Year	Institution							Individual	Foreigner
			Bank	Asset management	Securities	Futures	Insurance	Others		
KOSPI-200 futures	'07	38.3	0.7	2.5	32.3	0.4	0.4	2.0	35.9	25.8
	'08	**38.1**	**0.7**	**2.8**	**30.9**	**2.3**	**0.2**	**1.2**	**37.0**	**24.9**
KOSPI-200 options	'07	28.9	0.1	0.5	25.2	2.4	0.2	0.5	36.2	34.9
	'08	**23.4**	**0.1**	**0.3**	**19.3**	**3.1**	-	**0.6**	**34.0**	**42.6**
3-year Korean Treasury Bond (KTB) futures	'07	86.2	38.8	5.9	20.8	17.8	1.4	1.5	2.0	11.8
	'08	**87.2**	**33.5**	**4.2**	**26.8**	**19.0**	**1.5**	**2.2**	**3.8**	**9.0**
U.S. Dollar futures	'07	92.4	42.6	28.4	1.3	16.6	0.8	2.7	2.6	5.0
	'08	**88.4**	**40.5**	**20.1**	**2.1**	**20.7**	**0.6**	**4.4**	**6.9**	**4.7**

* Futures : Share of trading volume basis
KOSPI-200 options : Share of trading value basis

KOSPI-200 futures maintained an upward trend in 2009 and reached 184.10 on June of 2009. 3-year KTB futures steadily went down month by month until June. US dollar futures showed a downward trend in the beginning of 2009, rebounding from 1255.00 won/dollar on May of 2009 to 1273.00 won/dollar on June.

4. Exchange Rate

The won/dollar exchange rate fluctuated around the 940 to 960 won range in January 2008. The exchange rate rose to the 954 won range on January 22 as investors demanded safer assets amid financial market volatility. Afterward, the won traded against the dollar in the 940 won range, as the global stock markets were stabilized by an economic stimulus package in the US and two interest rate cuts by the US Federal Reserve Board from 4.27 percent to 3.5 percent on January 22 and then to 3.0 percent on January 31. Increased selling of the dollar by domestic exporters also boosted the won's value.

The won/dollar exchange rate closed the month higher at 1,002.6 won as demands for dollars increased due to dividend remittances by foreign investors, importers' payments for imported goods and net buying by offshore investors. In July, the won/dollar exchange rate increased by 15.9 won from the end of the previous month to wrap up the month at 1,046.0 won.

The exchange rate repeated its ups and downs, affected by government measures to stabilize the foreign exchange market. The won gained further against the dollar toward the end of June as foreign investors maintained a net selling position in the Korean stock market and international oil prices rose further.

The won/dollar exchange rate recorded a steep rise in September as falling global stock prices triggered by US financial woes led foreign investors to retrieve their portfolio investments from the Korean stock market and buy dollars. The exchange rate exceeded the 1,200 won mark as credit concerns spread and fears of a foreign currency crunch mounted with the collapse of Lehman Brothers.

In the middle of November, the exchange rate dropped due to factors that supported the won, such as a rate cut and international collaborations to secure dollar liquidity including the establishment of new currency swap lines. The won/dollar exchange rate surged toward the end of the month to the 1,460 won range, the highest level in the past 126 months. However, this increase was sharply narrowed by the Korea-US currency swap agreement that eased the panic in the market. The won/dollar exchange rate in early March rose to the upper 1,500s, fueled by uncertainties in the international financial market and worries over the global economic recession.

Later in March, the exchange rate sharply fell to stabilize in the upper 1,300s as a result of the global market's recovery, Korea's current account surplus of US$3.68 billion and foreign investors becoming net-buyers of Korean shares. The won/dollar exchange rate in March fell 150.5 won from the end of February to wrap up the month at 1,383.5 won.

Finally, the exchange rate stabilized with the won/dollar slowly dropping in the beginning of May. The won/dollar exchange rate fluctuated around the 1,230 to 1,270 won range, boosted by surpluses in the current and trade accounts and the continued net buying of Korean shares by foreign investors. The exchange rate dropped a further 27 won from the end of the previous month to wrap up the month at 1,255 won, with a monthly high of 1,277.0 won on May 6 and a low 1,237.9 on May 11.

Exchange Rate Trends

(End-period)

	2006	2007	2008	2009		
	Dec	Dec	Dec	Jun	Jul	Change[1]
Won/Dollar	929.8	936.1	1,259.5	1,273.9	1,228.5	2.5
Won/100Yen	783.4	828.6	1,396.8	[illegible]	[illegible]	[illegible]

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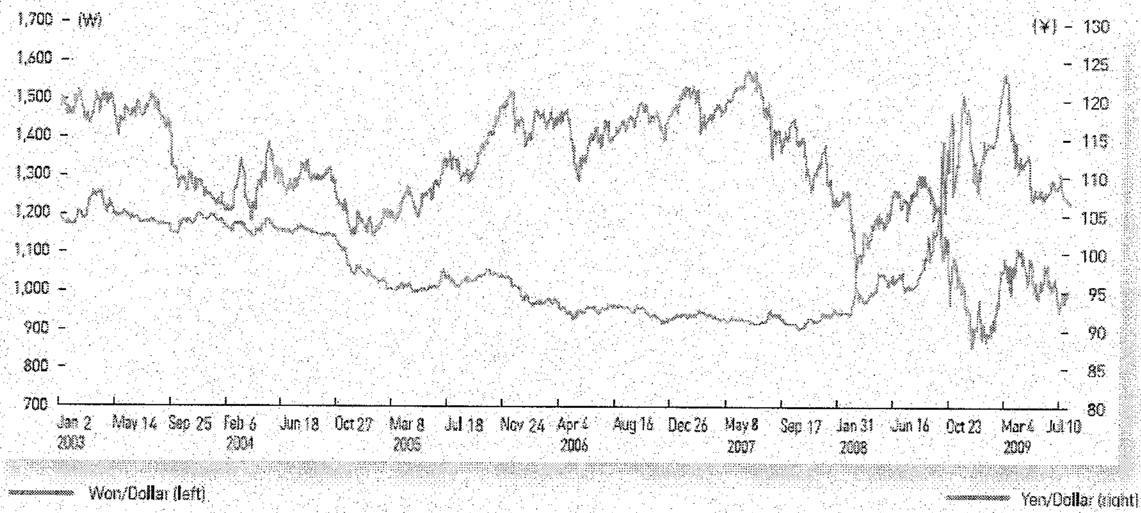
1. Appreciation from the end of the previous year (%); the exchange rate is based on the closing price at 3:00 p.m., local time.

Exchange Rate



5. Asset Management

The amount of fund sales increased by 1,318 billion won with the total balance reaching 77,896 billion won, and the number of fund accounts decreasing by 1 million to total 13 million during the first quarter of 2009.

Furthermore, the total value of fund sales were worth 77,896 billion won, a decrease of 12 billon won compared to the previous month. This decrease in fund sales was the first since April 2007.

Fund Trends

(Unit : KRW billion,)

	2007		2008		2009
	June	December	June	December	June
Sales Balance	34,519	58,400	73,601	76,578	77,896
Number of account	9,824	14,837	15,682	14,310	13,267

The total number of fund accounts decreased by 2,000 to become 13 million, with the trend for the total number decreasing from June of 2008 to June of 2009. However, the volume of this decrease has gradually begun reducing.

6. Free Board

In July 2005, the Over-the-Counter Bulletin Board (OTCBB) was relaunched as the FreeBoard, with a new organizational scheme and new regulations.

By the end of 2009, a total of 52 issuers were listed on the FreeBoard – 23 venture companies and 29 ordinary companies. As the FreeBoard has relaxed its de-listing criteria, the number of de-listed issues increased 9 and 10 over the previous two years respectively

Listing and Delisting Trends

Period-end	2004	2005	2006	2007	2008
Total Listed Issues (Year-end)	69	62	56	54	70
Newly-listed Issues (for the year)	2	11	8	7	25
De-listed Issues (for the year)	40	18	14	9	10

The average daily trading values and the average daily transaction rate have fallen to KRW 128 million and 25.1 percent, respectively, while market capitalization has increased 1154.9 percent to KRW 5735 billion from 2007 to 2008.

Trading on FreeBoard

Period-end	2004	2005	2006	2007	2008
Market Capitalization(KRW billion)	384	441	418	457	5,735
Average Daily Trading Value(KRW million)	41	75	77	171	128

III. Major Markets and Regulatory Developments

1. Market Developments

1-1. Listing of New Financial Products

The listing of three new products (stock futures, lean hog futures and 10-year Korea Treasury Bond futures) on the KRX will contribute to the advancement of Korea's capital market by providing effective risk management and new investment strategies. Ten-year treasury bond futures were listed on February 25th of 2008 with the aim of offering an effective hedging mechanism against risks associated with long-term interest rate volatility.

The opening of the stock futures market on May 6th of 2008 made it easier to manage risk at the individual stock level and enabled the implementation of various investment strategies using diversified product lines of stock-related derivatives. The stock futures market became the world's 8th largest by trading volume as both trading volume and trading value increased by 16.7 and 2.1 times respectively within the eight months since the market began. The underlying assets were 15 blue-chip stocks of the securities market.

Asia's first lean hogs future was listed on July 21st to make an instrument available for managing the risks associated with the price volatility of hogs in the hog farming industry. As the product line of the derivatives market was extended to include commodities, it opened the way for the balanced growth of financial products and commodity products.

1-2. Globalization of Derivatives Market

In 2008, a deal allowing KOSPI 200 Futures to be traded in the global market was agreed. CME Group and the KRX concluded an agreement to pursue the trading of KOSPI 200 futures in the global market (with KOSPI 200 futures being listed on CME Globex, being traded from 17:00-06:00 local time, Seoul). Thus, the trading hours of KOSPI 200 futures will be extended to become 24 hours and foreign investors will gain easier access to the market, leading to enhanced liquidity

The KRX secured a no-action letter issued on November 28, 2008 by CFTC that enables U.S. investors to invest in KOSPI 200 Futures. Korean futures companies are now exempt from U.S. FCM registration requirements. The KRX is taking steps to exempt Korean futures companies from having to register with the FCM in order to sell futures products to U.S. investors.

Eurex/KRX link to Trade KOSPI 200 Options on EUREX will be scheduled for late 2009. An agreement was concluded on December 15, 2008 to link Eurex, Europe's leading derivatives exchange and KOSPI 200 Options. The trading hours are 17:00-05:00 local time (Seoul) enabling international investors to access KOSPI 200 Options after the end of Korea's trading hours.

1-3. Proliferation of Green Funds

Since the end of last year, Green Funds that mainly invest in sustainable and eco-friendly industries and businesses has emerged in the Korea fund industry, as Korean Government promotes its policy goal of green growth. Since 2009, the number of so-called 'green funds' is estimated to have reached over fifty. As the government announced in July, 2009 its intentions to provide several tax benefits to green funds in, even more green funds are expected to be launched.

1-4. Tax benefit for the Long-Term Fund Investors Adopted

Fund investors who subscribe in long-term fund investment contracts during 2009 are eligible for a deduction in their taxable income and a tax-exemption for interest income (with a ceiling). Up to 3 billion won of taxable income (quarterly per capita) is eligible for the deduction, though investors can invest more than 3 billion won. In order to fully receive the tax-benefit, investors should meet the following requirements; (i) invest and maintain a fund account for at least more than 3 years (ii) make long-term investment contracts with distributors until the end of 2009.

On the other hand, certain temporary tax-benefits will be removed such as the sunset-clause. According to the July, 2009 government announcement, the income tax exemption for Overseas Investment Funds will cease in June 2010. In addition, the securities transaction tax exemption for publicly-offered funds will be eliminated with the sunset-clause.

1-5. Investor Education

In order to protect investors, the Korean government and industry, led by the Korea Financial Investment Association, established the Korea Council for Investor Education (KCIE) in June, 2005. KCIE's goal is to establish a life-long educational system and to implement practical education.

Investment Education for Teenagers

KCIE has developed various programs and materials to be used in schools such as standardized investment education programs. It also provides and manages various experience-oriented education programs such as learning-oriented investor education classes in the weekends. KCIE strives to create effective education programs.

Investor Education for Adults

KCIE has strengthened investor education by opening financial products guide classes and smart investor classes in order to help realize to the goal of 'asset-based welfare' for retired people.

Management of Investor Education Programs

Year	Total	Investment education for teenagers		Investor education for adults	
		Off-line	On-line	Off-line	On-line
2005	35,096	18,451	-	8,226	8,419
2006	112,807	34,455	-	41,130	37,222
2007	153,297	53,530	11,224	45,285	43,258
2008	237,307	70,397	7,000	34,910	125,000
2009 (Expectation)	296,925	62,380	17,920	35,286	181,339

KCIE plans to build its infrastructure for smarter, better educated investors in Korea. It provides management principles and best practice for all the investors education institutions.

In order to strengthen international cooperation on global investor education issues, KCIE is planning the launch of the Asian Forum for Investor Education(AFIE) in February 2010.

2. Regulatory Developments

2-1. Enactment of FISCMA

The Financial Investment Services and Capital Markets Act (FISCMA) was enacted in February 2009 to streamline the current system in four key directions: a shift to functional regulation; the introduction of a comprehensive regulation system; the expansion of business scope; and improving investor protection.

Shift to Functional Regulation: FISCMA shifts how financial products are regulated from the previous system of institution-based regulations to function-based regulations. This means the same financial function will be governed by the same regulations, as opposed to the previous system where the regulations over a particular product differed depending on the institution offering it.

Comprehensive System Regulation: FISCMA defines "financial investment products" in a broad and abstract way instead of enumerating specific products. The new method of defining products is designed to respond to rapidly developing financial investment products, allowing for greater financial investment innovation.

Expand Business Scope: FISCMA was designed to promote synergy by facilitating the integration of financial investment services. It allows for the establishment of financial investment companies that can provide all six types of financial services. Incidental services and foreign currency services are also allowed in principle.

Improving Investor Protection: FISCMA has put in place an advanced investor protection mechanism and strengthened product guidance by requiring financial investment companies to explain the details and underlying risks of their products to investors. It also introduces the "know your customer" rule and the principle of suitability. Financial investment companies are required to know details about their investors and can only recommend financial investment products that are suitable to the investor's background and circumstances. FISCMA also requires that financial investment companies implement investor protection policies such as Chinese walls to resolve possible conflicts of interests.

2-2. Unification of Self-Regulatory Organizations

On February 4, 2009, the Korea Financial Investment Association (KOFIA) was formed, creating a single, consolidated self-regulatory body for the finance and investment industry. Three organizations - the Korea Securities Dealers Association, Asset Management Association of Korea and the Korea Futures Association - were merged to form KOFIA.

The creation a consolidated regulatory organization was mandated by FISCMA. Since business crossovers were now permitted under the Act, the previous system of multiple self-regulatory regimes has become obsolete, with the old system designed for an environment of strict segregation of businesses. As the public regulation system was being overhauled into a functional-based one, it was deemed necessary to do the same for the self-regulatory system.

The creation of a consolidated self-regulatory organization is expected to bring about maximum efficiency. Under the new self-regulatory system, similar business activities are regulated by the same rules. Integrating the regulatory regime also saves on the cost of regulation and enhances responsibility by removing redundancies and blind spots.

2-3. Launch of the Payment and Settlement System

FISCMA has set forth the legal basis for payment and settlement by financial investment firms (securities companies). Payment and settlement services began for the first time on August 4, 2009 with 13 financial investment firms participating.

It is possible for a customer to send and receive money and pay for bills using the customer's account at a financial investment firm, without a banking account, due to the financial firm's participation in the payment and settlement services scheme.

This serves to strengthen the competitiveness of financial investment firms. As financial investment firms begin to set up and use the payment and settlement system independent from banks, it will become possible for financial investment firms to develop new financial products and services.

Furthermore, financial investment firms are now able to provide low-cost money transfer services for clients, since financial investment firms are able to reduce the payment and settlement costs related to the banks' various payment and settlement commissions.

IV. Prospects for the Financial Investment Industry

With the implementation of FISCMA, Korea's capital market now experiences and enjoys a brand new future. FISCMA is expected to drastically alter the banking, insurance, securities, futures and asset management industries by serving as a catalyst for change, and realigning the Korea's financial system from the bank to the capital market.

1. More Efficient Money Brokerage Function in the Capital Market

From the Perspective of Businesses

Under FISCMA, companies will be able to better finance their business and hedge risks. Various structured products will become available for corporate financing in addition to the traditional means of raising capital, such as stocks and bonds. The advent of new breeds of derivative products will also help companies hedge risks arising from the process of business management.

From the Perspective of Consumers

The new financial environment created by FISCMA will be beneficial for investors as well. New types of financial investment products with diverse combinations of risk and levels of return will enable the fine-tuning of asset management practices to suit the individual investment needs of consumers, encouraging a more stable flow of reserve funds into the capital market.

From the Perspective of Financial Investment Companies

FISCMA will provide the necessary impetus to spur the formation of financial investment companies that are much larger in size and more competitive than current market players. Large service providers are beneficial to the corporate capital market as they are better equipped for designing structured products and make principled investments. The key beneficiaries are likely to be innovative venture businesses.

2. Investor Protection and the Subsequent Investor Confidence in the Market

From the Perspective of Consumers

The introduction of the duty of product guidance and advanced investor protection mechanisms will help investors make informed decisions when making their investment choices.

From the Perspective of Businesses

Improved investor protection will result in greater investor confidence in the capital market, thereby attracting more surplus funds to the capital market. More funds mean a better market capability for raising capital for businesses. Since businesses tend to have better risk-taking and decision-making abilities, the regulations on investor protection can be partially removed for corporate investors to give them a wider range of choices.

Effect of FISCMA on Business Sectors

	Expected Effects	Influence
Banks	- Increased opportunities to diversify revenue structure	Positive
	- Possibility of the outflow of funds into financial investment firms conducting retail settlement	Negative
	- Contraction of banks' trust business	Negative
Insurance	- Improvement in the asset management conditions of insurance firms	Positive
	- Increased possibilities for insurance firms' participation in retail settlement	Positive
	- Intensified competition from overlapping businesses	Negative
Securities	- Increased role and net volume in the capital market	Positive
	- Accelerated increases in the size and specialization of capital market-related financial firms	Positive
	- Increased product competitiveness from business crossovers in comprehensive financial services	Positive
	- Strengthened operational foundations	Positive
	- Intensification of market domination by foreign financial firms	Negative
Asset Management	- Affiliate-centered increases in size	Positive
	- Foreign asset management firms' entrance in retail market and intensifying competition	Negative