



KOFIA

2016 ANNUAL REVIEW

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Welcome to KOFIA

The Korea Financial Investment Association (KOFIA) was founded in 2009 as a non-profit organization under the Financial Investment Services and Capital Markets Act (FSCMA), through the merger of the Korea Securities Dealers Association (established in 1953), Asset Management Association of Korea (established in 1996), and Korea Futures Association (established in 1996).

KOFIA's main role is ensuring that members observe fair business practices, conduct securities trading appropriately, and prioritize investor protection. Every securities, asset management, futures and real estate trust firm in Korea is a KOFIA member, and adheres to the self-regulatory policies put forth by the association. In addition, as the primary advocate for the financial investment industry, KOFIA spearheads the continued development and globalization of the Korean capital market.

KOFIA's History at a Glance

1953	Foundation of the Korea Securities Dealers Association (KSDA)
1977	Foundation of the Korea Securities Training Institute
1996	Foundation of the Asset Management Association of Korea (AMAK) Foundation of the Korea Futures Association (KFA)
2000	Launch of OTC Bulletin Board (OTCBB)
2005	Launch of FreeBoard Foundation of the Korea Council for Investor Education (KCIE)
2009	Foundation of the Korea Financial Investment Association (KOFIA) through the merger of the KSDA, AMAK, and KFA
2010	Launch of FreeBond
2013	Celebration of KOFIA's 60th anniversary
2014	Launch of K-OTC
2015	Launch of K-OTCBB



Message from the Chairman

Welcome to the Korea Financial Investment Association

For more than 63 years, KOFIA has aimed to maintain fair business practices among its members and at the same time represent the best interest of our industry. KOFIA also promoted capital market efficiency and investor education, thereby contributing to capital formation, investor protection, and economic growth.

The year 2016 was undeniably turbulent for the global economy, especially exemplified by Brexit, the U.S. interest rate hike, and some European banks' struggles. Domestically, our economy faced challenges such as a sharp rise in household debt, restructuring of the shipping and shipbuilding industries, and acceleration of unemployment and income polarization. KOFIA believes that the financial service industry plays an essential role in the nation's economy. Thus, we have put in great efforts with the government and the industry to push forward financial reforms that would overcome such challenges.

To name a few, KOFIA advocated the introduction of new products and services, such as tax-free overseas equity funds, the Individual Savings Account (ISA), prime brokerage services, as well as the designation of SME-specialized brokers. Other efforts include easing regulations for private placement funds and revamping the fund taxation regime.

Despite such achievements, we still have other major issues to address, specifically as the year 2016 marked the advent of the 4th Industrial Revolution. Fintech has gained substantial attention around the world, and global regulatory debates have been building up on market innovation.

Unfortunately, our financial regulatory environment is still, in large part, rules-based and focused on ex-ante supervision. Such an environment not only holds back bold financial innovation in areas such as Fintech, but also undermines the global competency of our market players.

And that is why KOFIA has been making efforts to change the current regulatory architecture to a principles-based regulation, which allows regulators to better respond to the rapidly changing market conditions and technological breakthrough in recent times. We believe that under this regulatory approach, Korean financial companies would have a better chance at developing creative and innovative products and services.

Our mission does not change over time, but this time of great change only calls for KOFIA's greater dedication to our shared values of market productivity, industry sophistication and global competitiveness. KOFIA, with its wide range of expertise and network, will collaborate with our various stakeholders to advance Korea's financial service industry and capital market. We ask for your continued interest and support for KOFIA.

Thank you.

KWON, Yong Won
Chairman | Korea Financial Investment Association

Yong Won Kwon

KOFIA's Roles & Functions

Advocacy for the Financial Investment Industry

Policy Advocacy

As an advocate for the development of the Korean capital market and financial investment industry, KOFIA examines various regulations in need of enhancement, and proposes opinions and solutions to the government, supervisory agencies, and lawmakers.

In order to accomplish this, KOFIA networks with the financial investment industry, academia, and research institutes over current issues, and organizes councils and task forces with CEOs and professionals from member firms. As a result, the association is able to more effectively reflect industry concerns.

Due to these efforts, the financial investment industry witnessed a number of new developments in 2016, such as the introduction of IFAs, an overhaul of private fund regulations to boost the development of venture capital, and regulatory improvements designed to promote the reasonable management of retirement and personal pensions.

Member Services

In an increasingly interconnected world, establishing a presence in the global capital market has become a necessity for Korean financial investment firms. To do business in the new environment created by the FSCMA, these firms are looking to engage in overseas operations, particularly in emerging markets.

In response, KOFIA started the New Portfolio Korea (NPK) program to help its member companies seek out new business prospects around the globe. Through this program, KOFIA provides member companies with opportunities to visit markets in countries that are of particular interest to them, such as Malaysia, Indonesia, and Turkey, as well as countries with promising but less accessible markets, such as Greece and Israel, so as to help them develop a more extensive business model. In 2016, KOFIA visited Vietnam and the U.S. to explore ways for closer cooperation in the future.

Furthermore, KOFIA is extensively involved in international matters, as an active member of the International Council of Securities Associations (ICSA), International Investment Funds Association (IIFA), Asia Securities Forum (ASF), International Forum for Investor Education (IFIE), International Organization of Securities Commissions (IOSCO), and many other international organizations.

Education for Professionals & Investors

Education and Training for Professionals

KOFIA firmly believes that well-educated and highly trained industry professionals are the most valuable asset to the financial investment industry. To this end, the Korea Institute of Financial Investment (KIFIN), KOFIA's educational arm, has been nurturing and developing financial talents and professionals over the past four decades, serving as a leading education center for Korea's financial investment sector.

In 2016, KIFIN offered 143 training courses across 7 different financial market fields*. These courses were grouped under three categories – General, Professional, and Qualification – and then further divided into Basic (theory), Intensive (case studies), and Expert (practical application) levels. This allowed KIFIN to better meet the needs of the industry and bring out the full potential of market professionals.

* Stock investment, bond investment, derivatives investment, alternative investment, investment banking, wealth management, financial sales support

Fostering a Sound Investment Culture

KOFIA highly values investor education, considering it vital to building a sound investment culture centered on investor protection. As such, it has played a key role in shifting the focus of the investment paradigm for individual investors from short-term speculative trading to long-term direct and indirect investment. It also played a leading role in founding the Korea Council for Investor Education (KCIE), and currently acts as its secretariat, with the KOFIA chairman serving as head of the KCIE. Other KCIE members include the Korea Exchange (KRX), Financial Services Commission (FSC), and Financial Supervisory Service (FSS), in addition to a number of other organizations.

The KCIE offers online and offline education programs tailored to the needs of individual investors, which include young students, the general public, and teachers who provide financial education in the classroom. In particular, the KCIE, as an off-site educator, utilizes the Financial Village as a platform to enhance the public's financial literacy and asset management skills by providing education programs customized to each stage of a person's life.

KOFIA's Roles & Functions

Market Operations

The KOSDAQ market, launched by the KSDA in 1996, has become one of the most successful new market platforms in the world. It was managed by the KSDA until it was merged with the KRX in 2005.

K-OTC

Since KOFIA introduced FreeBoard in July 2005, KOFIA and the FSC redefined FreeBoard as a platform for promoting the transparent and robust transactions of unlisted stocks and named it K-OTC. K-OTC is split into two divisions: K-OTC Market, which facilitates transactions for unlisted corporations that submit annual reports or meet KOFIA's disclosure requirements; and K-OTCBB, a Bulletin Board for all types of unlisted stocks regardless of a company's compliance with disclosure requirements, which opened in March 2015. Additionally, KOFIA established and began to operate K-OTC PRO, a membership-based trading platform, in July 2017 to assist financial professionals including institutional and professional investors in the convenient trading of unlisted stocks and corporate financing.

FreeBond

KOFIA plays an important role in ensuring the efficiency and transparency of the OTC fixed income market by collecting and disseminating essential trading data. In April 2010, KOFIA established FreeBond, an exclusive system for trading bonds, which enables financial investment companies and related entities to post quotations for trading or brokering, as well as negotiate with counterparties in the OTC market. KOFIA also runs the Bond Quotation System, which displays bid/ask quotations in real time to simplify transactions for bond traders, and provides other bond-related data.

Self-Regulation

Self-Regulation

KOFIA is the sole self-regulatory organization (SRO) of the Korean financial investment industry, overseeing a wide spectrum of industry areas. KOFIA believes that self-regulation should be responsive, flexible, and market-friendly. To effectively carry out its roles and functions as an SRO, KOFIA maintains the Self-Regulation Committee (SRC). The SRC is responsible for KOFIA's self-regulatory activities, such as making decisions on regulatory enactments and revisions, and imposing sanctions on member companies, corporate executives and employees who fail to comply with regulations. The committee is headed by a standing chairman.

KOFIA's main areas of self-regulation :

- 1) Enacting regulations and codes of best practices for fair business activities
- 2) Reviewing standard agreements and advertisements
- 3) Conducting member inspections
- 4) Registering and administering qualification exams for financial professionals
- 5) Mediating disputes between member companies and their customers

1. KOFIA establishes business conduct regulations for member companies on sales and other common business activities, as well as securities underwriting. The association also sets various guidelines, such as standard rules for investment advice and standard internal control criteria for financial investment firms.
2. To ensure investor protection, KOFIA conducts preliminary reviews on advertisements of financial investment products and the business activities of financial investment firms. It also reviews terms and conditions, and sets standard agreements to support investment firms' business activities.
3. KOFIA conducts member inspections and imposes sanctions for regulatory violations.
4. Financial professionals must receive accreditation by passing qualification exams, completing training, and registering with the association to conduct business activities such as investment solicitation and advice on financial instruments. KOFIA manages both the registration and the qualification exams.
5. To safeguard investor interests, KOFIA runs an investor protection center with an in-house attorney to arbitrate disputes.

KOFIA's Activities in 2016

Striking a Balance Between Stability and Growth

KOFIA's efforts focused on three key areas in 2016 to ensure the continued advancement of Korea's capital market.

FOSTERING A FOUNDATION FOR GROWTH

To promote long-term sustainable growth of the Korean financial investment industry and wealth accumulation among the general public, KOFIA introduced new financial products and enhanced capital market regulations.

Expanding Demand in the Capital Market

KOFIA advocated the amendment of laws and introduction of new financial instruments that encourage the market to expand and seek out new long-term profit sources.

Promoting the Individual Savings Account (ISA)

- KOFIA further promoted the ISA scheme adopted in March 2016 by introducing online sales of discretionary ISAs, ISA account transfer service, and an ISA comparative disclosure system.
- To this end, KOFIA launched advertisement campaigns with securities companies throughout the year to enhance the public interest in ISAs and attract subscribers.

Introducing the Independent Financial Advisor (IFA)

- KOFIA played an essential role in the introduction of IFAs, which aim to provide objective and professional financial advice.
- Additionally, KOFIA undertook its follow-up measures for the successful operation of IFAs, such as setting up guidelines for best practices and investment recommendations.

Facilitating Market Distribution

- KOFIA contributed to expanding fund distribution channels by supporting credit card companies to enter the online fund distribution business.
- Also, the association led the efforts to improve fund distribution policies, such as enhancing customer identification programs and allowing non-face-to-face opening of accounts.

Introducing Tax-Exempt Overseas Funds

- KOFIA supported member companies to launch tax-exempt overseas funds which help invigorate overseas investments and efficiently manage portfolios.
- The Enforcement Decree of the Restriction of Special Taxation Act, enacted in February 2016, permits special investment accounts that offer tax exemption for trading and exchange gains or losses, including foreign gains or losses, on overseas-listed equities incorporated in an overseas equity fund.
- The exemption is in effect for a maximum of ten years and applies to accounts opened between February 29, 2016 and December 31, 2017. This is anticipated to promote investment in overseas equity funds which have experienced a drop in recent years.

Fostering Big Investment Banks

- KOFIA contributed to improving regulations for nurturing big investment banks. Brokerage houses with a capital base of more than 4 trillion won (USD 3.5 billion) are allowed to issue promissory notes beginning in 2017. Additionally, brokerage houses with a capital base of more than 8 trillion won can operate Investment Management Accounts (IMAs) where their clients' assets are held and managed.
- KOFIA supports them to be able to involve in not only OTC block deal matching services but also real estate collateral trusts which were previously allowed only for banks, so as to offer a wide range of corporate finance services.

Boosting Competitiveness of Financial Investment Companies

KOFIA's promotion of new financial investment businesses and smart capital market regulation sharpened the competitive edge of the industry.

Enabling Securities Firms to Involve in Private Placement Fund Business

- Efforts were initiated by KOFIA in June 2016 that securities companies were allowed to concurrently run hedge fund services which could create a synergistic effect with their investment banking business.
- In April, KOFIA lent support to securities firms to concurrently operate their new technology venture capital business, which aims to enhance their profitability and vitalize the venture capital market.

Expediting Closure of Small Funds*

*One-year-old or older funds worth less than KRW 5billion (USD 4.27 million) can be trimmed off.

- KOFIA encouraged each asset manager to eliminate small funds, in accordance with the 'best practices for adjusting small funds and restricting their new launch' implemented since February 2016.
- As a result, the rate of small funds sharply dropped from 36.3% in end-June of 2015 to 7.2% in end-December of 2016, which allowed asset managers to work more efficiently and helped enhance industry reputation.

Introducing Public Funds with Performance-Based Fees

- KOFIA played a part in introducing a performance-sharing scheme to rebuild trust in public funds and supported its members' product launches by setting up a standard model for public funds with performance-based fees.

Advancing the Governance of Retirement Pension Plans

- KOFIA led the efforts to introduce a trust-based pension scheme, similar to the Australian superannuation, as an alternative to the existing contract-based scheme in order to boost employer participation and promote practical management.
- To this end, the Employee Retirement Benefit Security Act (ERBSA) was revised to introduce default options for defined contribution automatic enrolment pension schemes.

Enhancing the Personal Pension Scheme

- KOFIA played a leading role in enacting the Personal Pension Act which brought all regulations relevant to personal pensions together under a single independent act.
- KOFIA worked to include discretionary investment-type pension products alongside the existing insurance-, trust- and fund-type pension products, as well as allow the transfer between personal pension accounts and IRP (Individual Retirement Pension) accounts.

Promoting Globalization of Financial Investment Companies

KOFIA provided support to member companies seeking to venture into overseas markets and diversify profit sources.

Enhancing the Financial Infrastructure for Globalization

- KOFIA set up guidelines in June 2016 that exempted securities firms from submitting securities registration statements when distributing overseas government bonds to Korea, so as to diversify their portfolios.
- A series of government meetings were arranged by KOFIA to discuss ways to resolve regulatory issues related to the Asia Region Funds Passport (ARFP), such as tax law amendments. Signatory countries of the Memorandum of Cooperation (MoC) include Australia, Japan, Korea, New Zealand and Thailand.
- KOFIA continued to foster the Qualified Institutional Buyer (QIB) market as a platform for foreign companies to issue bonds in Korea. The QIB market reform allowed KOFIA to achieve its two objectives – boost corporate financing and increase institutional investments.

ENHANCING REPUTATION AND TRUST

To promote trust in the financial industry and capital market, KOFIA supported the development of financial companies' capacity to carry out internal control measures, and streamlined regulations and the qualification process for market professionals.

Adopting Measures for Deregulation & Investor Protection

KOFIA offered assistance to financial investment companies to effectively respond to recent market changes.

Promoting Better Internal Control

- KOFIA amended the Standard Rules on Investment Solicitation to streamline sales documents and emphasize the duty of explanation.
- KOFIA helped member companies enhance the quality of their internal control by providing investment guidelines and coming up with agreement samples for new products such as ISAs and hedge funds.
- KOFIA not only held briefing sessions, but also released guideline handbooks to prevent member companies from being exposed to legal risks arising from the implementation of the Improper Solicitation and Graft Act and prohibition on market disturbances.
- KOFIA amended its Standards for Internal Control of Financial Investment Companies in August 2016 to increase independence of compliance officers and boost efficiency of internal control.

Enhancing Investor Protection

- KOFIA adopted the suitability report with an emphasis on supporting investors' rational investment decisions and preventing mis-selling.
- KOFIA introduced stricter restrictions on unfaithful institutional investors that received publicly offered shares in the book-building process, but did not subscribe to the shares.

DEVELOPING INNOVATIVE MEMBER SERVICES

To strengthen the quality of member services, KOFIA maintained open communication channels and worked to broaden its legislative support.

Enhancing Communication

KOFIA promotes communication with member companies and actively responds to key legislative developments in the government and the National Assembly.

Serving as an Advocate for the Industry

- KOFIA arranged regular meetings with working-level employees across different business areas, collected their opinions, made proposals to the government and provided feedback.

Promoting Public-Private Cooperation in Market Research

- KOFIA provided opportunities for discussions on key capital market issues by hosting a roundtable meeting for industry members, academia and authorities.

2016 KOREAN CAPITAL MARKET REVIEW

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1. Korean Economy & Capital Market

Korea's total financial assets have steadily increased alongside the country's economic development. At the end of 2016, the total volume of financial assets in Korea reached KRW 15,439tn, a 5.8% year-on-year growth. This is a continuation of the steady increase in asset volume seen since 2009.

Cash and deposits made up the largest share of total asset volume in 2016, standing at 19.3%, while stocks stood slightly under at 16.8%, bonds at 16.2% and funds at 3.0%. Insurance/pensions and loans accounted for 7.2% and 17.9%, respectively. Overall, financial investment instruments including stocks, bonds and funds, took up 36.0% of the total financial asset volume.

Korea's stock market capitalization at the end of 2016 was KRW 1,510tn, a 4.5% year-on-year increase. The outstanding balance of bond issues stood at KRW 1,751tn, up by 2.8% from the same time a year earlier. Korea's stock market capitalization to GDP ratio was 92.2%, and the bond market capitalization to GDP ratio was 106.9%, both posting a slight decline year-on-year.

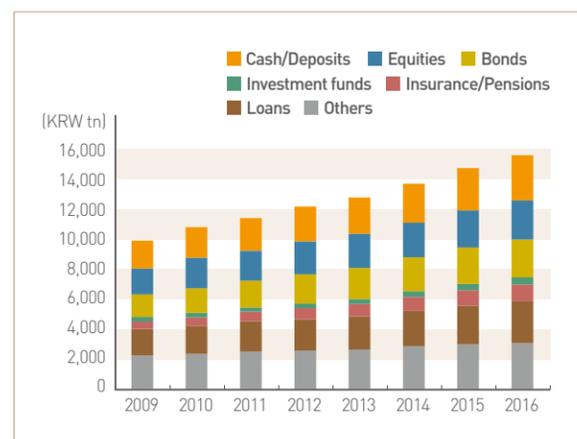
Put into a global context, Korea's stock market capitalization to GDP ratio (92.2%) is slightly lower than those of advanced economies, such as the US at 147.4%, UK at 130.9%, and Japan at 107%.

Among the financial sectors, the banking industry boasts the largest amount of total assets and equity capital. At the aggregate level, the securities sector comes in third next to life insurance.

Average assets and equity capital of securities companies stood at KRW 6.7tn and KRW 0.9tn, respectively, both coming in at 5th place.

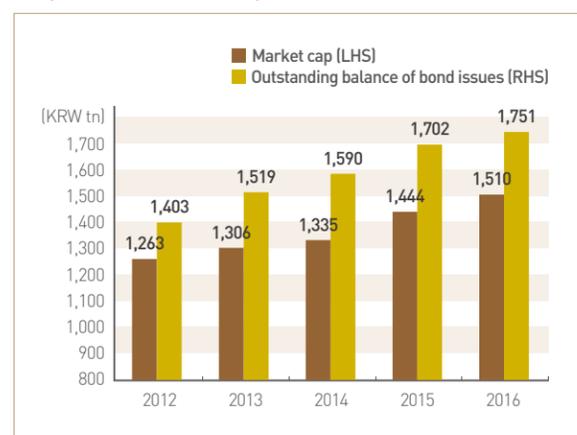
Meanwhile, the number of asset management companies grew by 72 year-on-year. This resulted from the sharp increase in the number of professional private fund managers following the revamp of the private placement fund regime, which took place in October 2015.

Graph 1-1. Annual Financial Asset Volume



Source : The Bank of Korea, Flow of Funds

Graph 1-2. Size of the Capital Market in Korea



Source : The Bank of Korea (Economic Statistics System), Korea Financial Investment Association (FreeSIS)

Table 1-1. Size of Financial Sectors

(Units: No., KRW tn, %)

Category	Banking	Life insurance	Non-life insurance	Credit card	Securities	Asset management
No. of companies	17	25	32	8	53	165
Total assets	2,622.6	782.2	252	104.4	356	6.5
Equity capital	178.1	65.8	32.5	25.2	47.7	5.1
Net profit	2.4	2.5	3.5	2	2.1	0.6
ROE	1.3	3.8	11.2	7.6	4.5	14.3

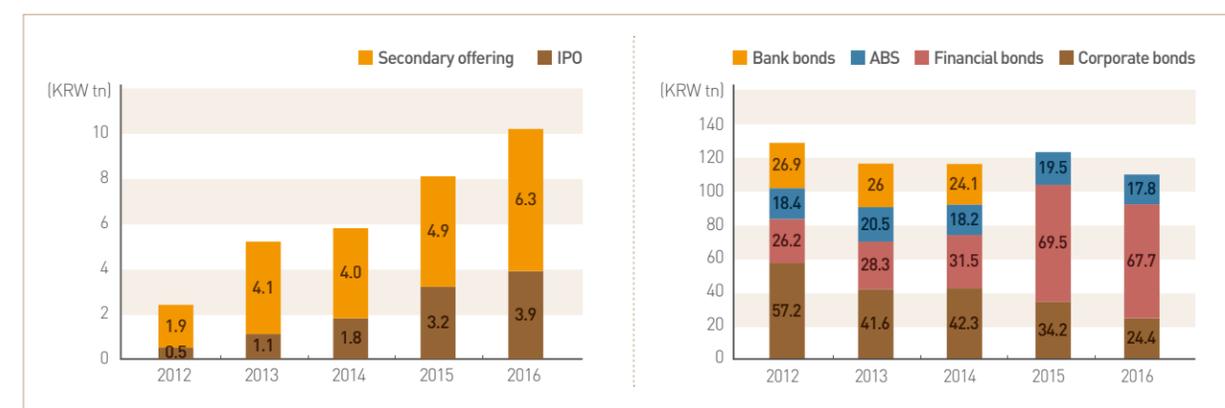
Source : Financial Supervisory Service, Monthly Financial Statistics Bulletin (as of 2016)

Corporate financing through the Korean capital market (stocks and bonds) amounted to KRW 120tn in 2016, an 8.4% drop compared to the previous year.

Market-based financing expanded 28.8% year-on-year to KRW 10tn. Both IPOs and secondary offering showed better results than the year before.

On the other hand, financing via the bond market decreased 10.7% year-on-year to KRW 109tn. The US key interest rate hike in 2H 2016 led to a surge in Korea's bond interest rate, prompting companies to postpone or cancel the issuance of corporate bonds. This environment was a drag on the issuance of corporate bonds, financial bonds and ABS.

Graph 1-3. Corporate Financing via the Capital Market



Source : Financial Supervisory Service, 「Direct Financing of Korean Companies in 2016」 (Press release)

* The Financial Supervisory Service recently adjusted the classification system of corporate bonds. According to the new system, bank bonds are included in financial bonds, and corporate bonds issued by financial holding companies are now also categorized under financial bonds.

Non-financial assets including real estate accounted for 62.8% of household assets in 2016, whereas the share of financial assets was 37.2%. Although the proportion of non-financial assets remains greater than that of financial assets, it should be noted that the latter is steadily rising.

Table 1-2. Household Non-Financial & Financial Assets

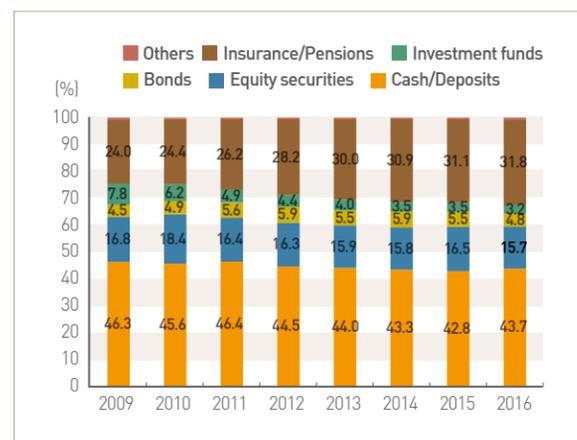
(Unit: %)

Category	2011	2012	2013	2014	2015	2016
Non-financial assets	66.7	65.7	64.8	64.1	63	62.8
Financial assets	33.3	34.3	35.2	35.9	37	37.2

Source : The Bank of Korea, National Balance Sheet

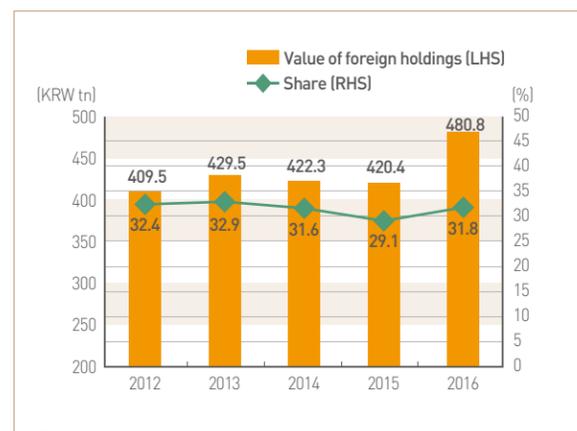
Among financial assets, cash and deposits maintained the largest share at 43.7%, but their percentage is on a downtrend. Financial investment instruments such as stocks, bonds and funds accounted for 23.7%, down by 1.8%p compared to a year ago.

Graph 1-4. Breakdown of Household Financial Assets

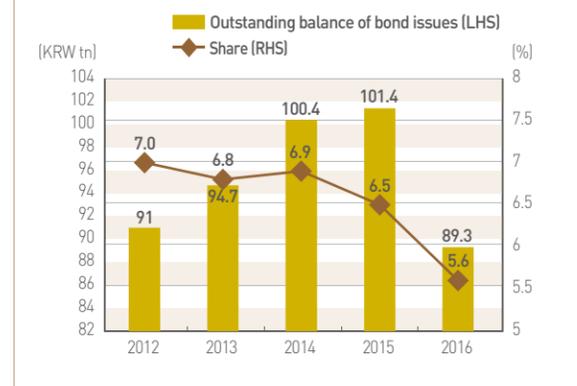


Foreign holdings of listed stocks were worth KRW 480.8tn in 2016, up by 2.7%p year-on-year to comprise 31.8% of total market capitalization.

Graph 1-5. Foreign Investment Trend



In the bond market, foreign holdings of listed stocks were valued at KRW 89.3tn, marking an 11.9% year-on-year decline. Factors including "Trumplation" after the US presidential election raised bond interest rates to a substantially higher level, which made foreigners leave the Korean bond market.



The share of listed bonds held by foreigners, mostly consisted of government and special bonds, represented 5.6% of the total, which is slightly lower compared to the previous year unlike stocks.

Source : Korea Exchange, Shareholdings by Investor Group Financial Supervisory Service, 「Trend in Foreign Securities Investment」 (Press release)

2. Equity Market

When the KRX was established in 1956, there were only 12 listed companies with a turnover of merely KRW 390mn. Since then, Korea's stock market achieved remarkable qualitative and quantitative growth over the past six decades, in tandem with the real economy.

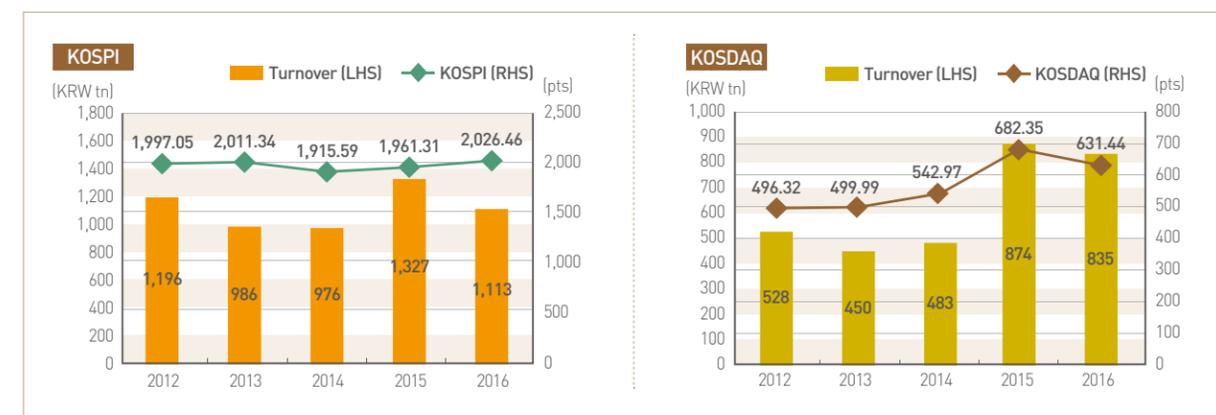
of the KOSDAQ market.

The KOSPI index hovered slightly above 2,000pts at the end of 2016, with the turnover declining KRW 210tn year-on-year to KRW 1,113tn.

In particular, multiple stock markets began to coexist following the overhaul of the over-the-counter (OTC) stock market in 1996 and the subsequent establishment

As for the KOSDAQ index, it dropped slightly by 7.5% to 631.44pts over the same period, with the turnover falling 4.5% year-on-year to KRW 835tn.

Graph 2-1. Stock Market Trend



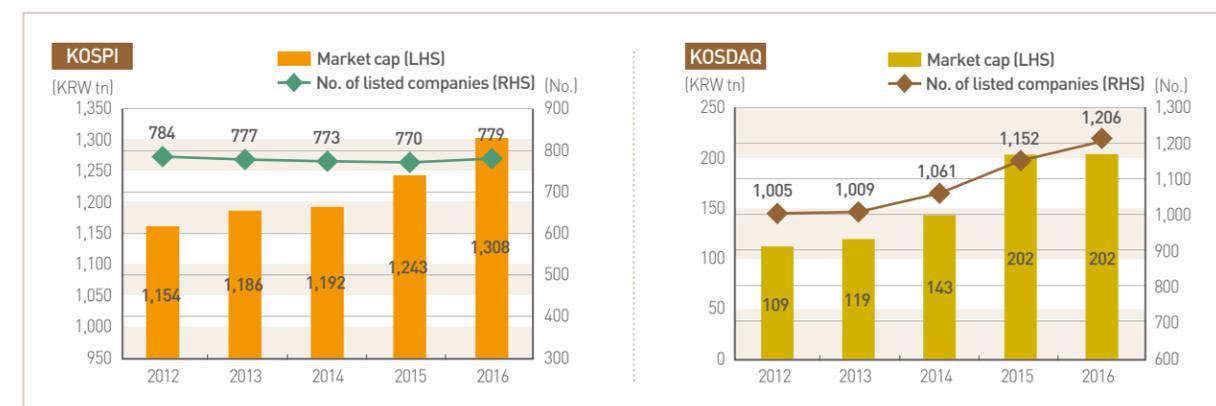
Source : Korea Exchange

In the KOSPI market, the total number of listed companies increased by 9 compared to the previous year to 779 at the end of 2016. Market capitalization recorded KRW 1,308tn, a 5.3% increase year-on-year.

market capitalization. The number of listed companies increased by 54 year-on-year, while the market cap remained more or less flat. The steady growth in the number of listed companies is a testament to the fact that SMEs and venture companies are increasingly utilizing the KOSDAQ market to meet their financing needs.

Meanwhile, the KOSDAQ market had 1,206 listed companies at the end of 2016 with KRW 202tn in

Graph 2-2. Listed Companies and Market Capitalization



Source : Korea Exchange

A look at the turnover shows that individual investors made up the largest portion of the Korean stock market followed by foreign investors and institutional investors.

Individual investors accounted for 49.7% of the total turnover in the KOSPI market in 2016, while foreigners took up 29%. Institutional investors, including investment trusts, pension funds and mutual aid associations, assumed 19.9%.

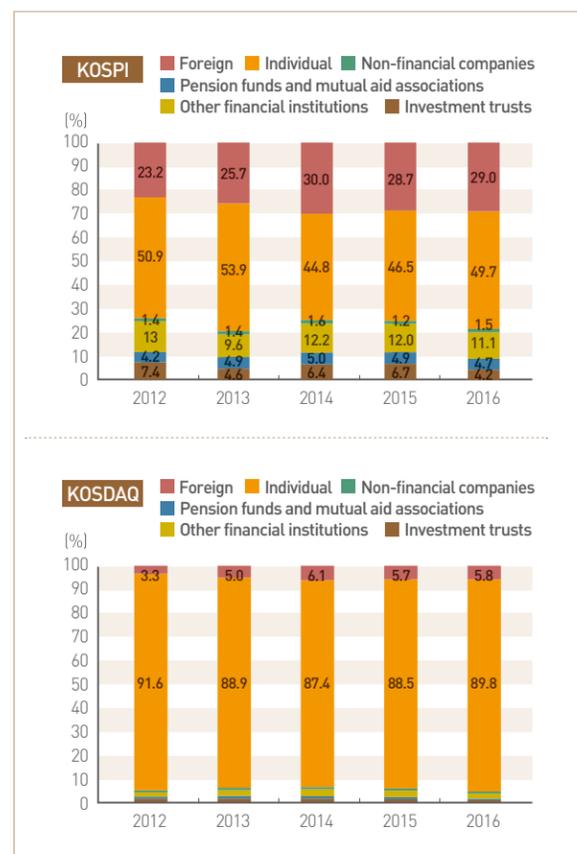
The higher share of foreign investors since 2014 contributed to a more balanced market. However, the percentage of individual investors rose again in 2016.

As for the KOSDAQ market, it is still dominated by individual investors who make up approximately 90% of the total turnover. The share of foreign investors and institutional investors went down compared to 2015 and is at a marginal level in 2016.

Total standby liquidity reserves, including client money, cash management accounts (CMAs) and margin accounts, recorded KRW 82.3tn, a gain of 3.2% from the previous year's KRW 79.7tn.

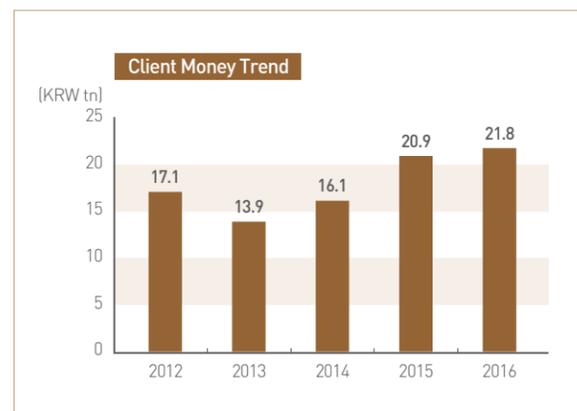
In particular, client money held by securities companies as stand-by capital for future stock purchases escalated 4% from KRW 20.9tn in 2015 to KRW 21.8tn at the end of 2016, illustrating a huge capital inflow into the stock market.

Graph 2-3. Stock Market Breakdown by Investor Type



Source : Korea Exchange

Graph 2-4. Standby Liquidity Reserves



Meanwhile, the balance for margin accounts, which refers to the money lent by securities firms to investors for stock purchases, moved up 3.8% to KRW 6.8tn in end-2016 from KRW 6.5tn in the previous year.

The KOSDAQ outpaced the KOSPI in terms of the margin account balance in 2016 for two consecutive years, owing to stronger demand for loans from investors seeking short-term profit due to the KOSDAQ's high-volatility nature.

Consequently, the KOSPI and KOSDAQ market assumed KRW 2.9tn and KRW 3.9tn in the margin account balance, respectively.

The balance for CMAs – accounts offered by securities companies that allow flexible deposits and withdrawals – increased 2.8% year-on-year to KRW 53.7tn in 2016. The RP type took up the largest share of the CMA balance at 59%.

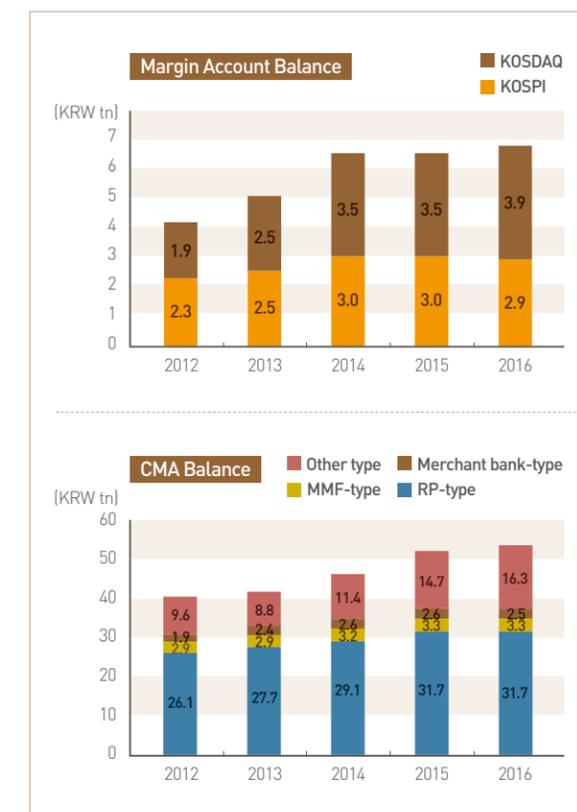
There were a total of 53 securities companies in Korea at the end of 2016, a drop by 3 compared to a year earlier. The number of securities firms peaked in 2013 at 62, but then dropped by 9 over the next three years.

This was due to the corporate restructuring and re-organization of securities companies following a prolonged market recession. Four securities firms closed down their businesses due to mounting losses. Five were strategically merged with other companies to secure long-term growth engines. One went bankrupt, but one set up new operations.

Interestingly, while the overall number of securities companies fell, their equity capital which displays the size of a securities company, continued to grow. Equity capital of securities firms totalled KRW 47.6tn at the end of 2016, an average increase of KRW 0.9tn per company.

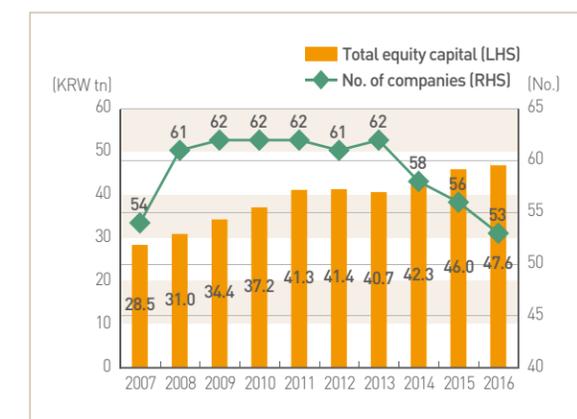
This demonstrates the trend of securities companies growing in size through strategic M&As and secondary offering backed by the Korean government's policy to foster large-scale full service investment banks.

Graph 2-4. Standby Liquidity Reserves



Source : Korea Financial Investment Association (FreeSIS)

Graph 2-5. No. of Securities Companies and Equity Capital



Source : Financial Supervisory Service, Monthly Financial Statistics Bulletin

Securities companies recorded KRW 2.1tn in net profit in 2016, shedding 33.9% compared to the KRW 3.2tn posted a year ago.

Their net profit had been on a growth track thanks to positive factors including an improved operating environment after posting KRW 0.2tn net loss in 2013.

However, net profit moved once again to a downward trajectory last year as brokerage commissions decreased on lower turnover.

ROE was also hurt by lower net profit, registering 4.6% in 2016, a 2.3%p decline compared to the year before.

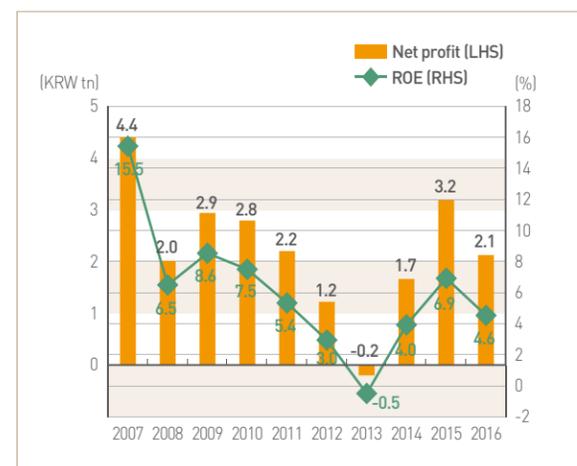
In 2016, securities companies suffered declines for most of their major profit sources. Commission profits were scaled down by 5.5% year-on-year to KRW 7.5tn, while profits from proprietary trading slipped 40.9% over the same period to KRW 2.5tn.

Brokerage commission profits, which account for the largest proportion of total commission profits (49.6%), retreated 19% year-on-year to KRW 3.7tn in 2016 due to a decline in the turnover. The second largest source of commission profits was investment banking services, including securities underwriting and advisory services, and M&A business activities.

While these commission profits jumped 6.1% year-on-year to KRW 1.3tn, income from asset management services, such as fund distribution, investment advisory services, discretionary investment services and investment trust services recorded KRW 0.8tn. Although brokerage commissions still make up the largest portion of the commission income structure, contribution from IB services also increased year-on-year.

The proprietary trading profit of securities firms dropped in 2016, as the interest rate reversed to an uptrend, which led to the KRW 1.2tn decline year-on-year in their net balance for the disposal and valuation of bonds.

Graph 2-6. Securities Companies' Net Profit and ROE



Source : Financial Supervisory Service, Monthly Financial Statistics Bulletin

Table 2-1. Profit Structure of Securities Companies

Category	(Units: KRW tn, %)			
	2015 (A)	2016 (B)	Change (B-A)	Growth rate (%)
Commission profits	7.9	7.5	△0.4	△5.5
Brokerage	4.6	3.7	△0.9	△19.0
IB services	1.2	1.3	0.1	6.10
Asset management services	0.9	0.8	△0.1	△11.0
Proprietary trading profits	4.2	2.5	△1.7	△40.9
Stocks	0.5	0.3	△0.2	△41.5
Bonds	5.2	4	△1.2	△23.6
Derivatives	△1.6	△1.8	△0.2	-

Source : Financial Supervisory Service, Financial Statistics Information System (Press release)

3. Bond Market

Bond issuance was scaled down by KRW 93.8tn year-on-year to KRW 580.5tn in 2016 as higher bond interest rates and larger volatility prompted issuers and institutional investors to put off their issuance and investment plans. The issuance amount of Korea Treasury Bonds (KTB) dropped 15.3% year-on-year to KRW 138.2tn, while that of Monetary Stabilization

Bonds (MSB) decreased 14.3% to KRW 161.1tn over the same period.

Corporate bond issuance also fell 12.1% year-on-year to KRW 72.5tn due to factors including the restructuring of vulnerable industries and higher interest rates.

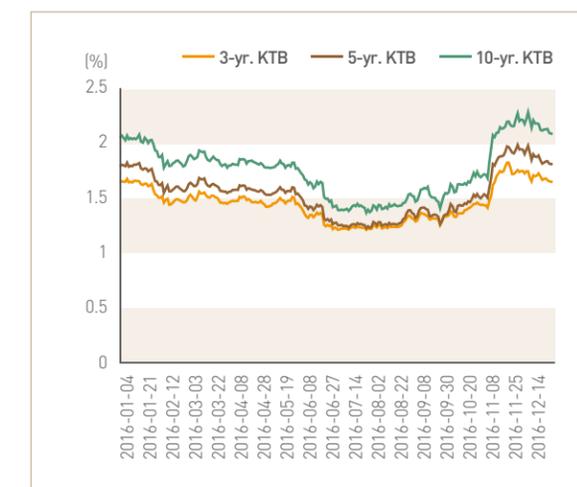
Table 3-1. Bond Issuance by Type

Category		(Units: KRW tn, %)				
		2014	2015	2016	Year-on-year	Share (%)
Government bonds	Issuance amount	146.6	163.1	138.2	-24.9	23.8
	Balance	493.3	544.8	581.4	36.6	33.2
Municipal bonds	Issuance amount	4.3	5.8	3.6	-2.2	0.6
	Balance	19.4	21.5	21.3	-0.2	1.2
Special bonds	Issuance amount	67.4	91.4	61.8	-29.6	10.6
	Balance	354.1	334.2	336.6	2.4	19.2
Monetary stabilization bonds	Issuance amount	189.9	188.0	161.1	-26.9	27.8
	Balance	178	180.9	168.4	-12.5	9.6
Financial bonds	Issuance amount	115	143.4	143.3	-0.1	24.7
	Balance	278.4	351.6	374.3	22.7	21.4
Corporate bonds	Issuance amount	78.9	82.5	72.5	-10.0	12.5
	Balance	266.9	270.3	269.0	-1.3	15.4
Total	Issuance amount	602.1	674.3	580.5	-93.8	100.0
	Balance	1,590.0	1,703.6	1,750.9	47.4	

Bond interest rates displayed a downtrend in the first half of 2016 as investor preference for safe assets increased after the Bank of Korea cut its key interest rate to 1.25% from 1.50% on June 9 and the UK announced its plan to leave the EU. The interest rate for the 3-year KTB hit a historic low of 1.203% on July 6.

Since October, the bond interest rate reversed to an uptrend as the possibility of a key interest rate reduction lessened due to concerns over domestic household debt and stronger inflationary expectations driven by improved US economic indicators.

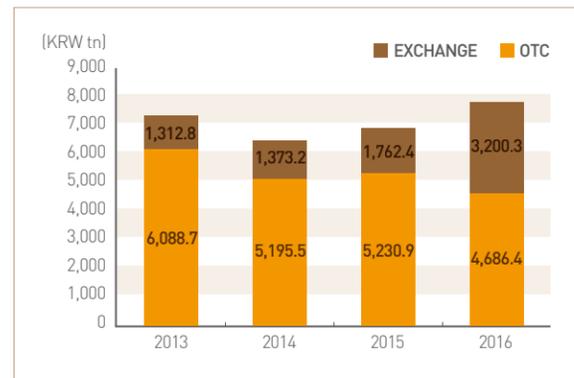
Graph 3-1. 2016 Bond Interest Rate



Bond trading based on volume slightly stalled in 2014 for both the OTC market and the exchange market. However, trading volume began to grow from 2015, and particularly in 2016, it increased 12.8% year-on-year to KRW 7,886.7tn due to Korea's key interest rate cut and the US Fed's rate hike implemented in December.

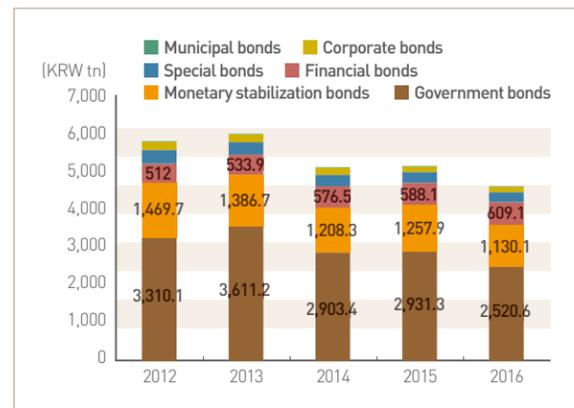
The OTC market made up around 80% of the total bond trading volume, but this figure dropped significantly to 59.4% in 2016.

Graph 3-2. Annual OTC and Exchange Trading Volume



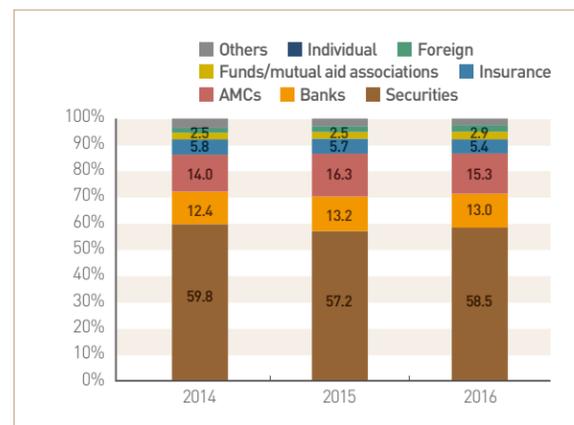
Source : Korea Financial Investment Association, Korea Exchange

Graph 3-3. Annual OTC Trading Volume by Bond Type



Source : Korea Financial Investment Association

Graph 3-4. OTC Trading by Investor Type



Source : Korea Financial Investment Association

An analysis of trading volume by bond type shows that the proportion of KTB trading has been on a steady uptrend since the 2000s, and currently represents a dominant share of the secondary bond market at more than 60%. Improvements in government policies to nurture the KTB market, such as the introduction of fungible issues in May 2000 and the increase in KTB issuance, greatly aided this growth.

Meanwhile, as government and public bonds have come to represent a bigger slice of the pie, the share of corporate bonds, including ABS, has comparatively diminished. In 2000, corporate bonds accounted for 14.7% of total trading volume, but this figure started to slide down in 2004 to a mere 3.2% at the end of 2016.

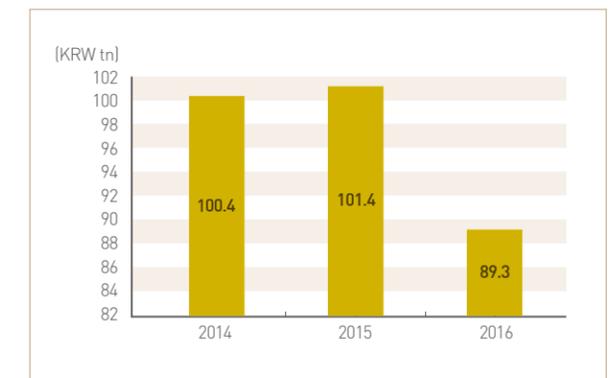
A breakdown of trading volume by investor type demonstrates that securities companies made up the largest share with 60%, followed by banks, AMCs, insurance companies and funds/mutual aid associations.

Overall, domestic institutional investors comprised 95% of total trading volume. In 2016, trading volume of AMCs and insurance companies slightly declined by 1.0%p and 0.3%p, respectively, whereas that for securities companies (1.3%p), funds/mutual aid associations (0.4%p) and foreign investors (0.2%p) increased.

As part of its reform plan to expand foreign currency liquidity, the Korean government began granting tax exemptions to foreigners in 2009 on interest income and capital gains for KTB and MSB investments.

Although this tax exemption was repealed in 2011, net foreign buying of Korean bonds continued due to prospects for a stronger Korean won and the efforts of each countries' central banks to diversify foreign currency investment assets. At the end of 2016, the outstanding balance of foreign-held domestic bonds stood at around KRW 89.3tn, an 11.9% decline from the previous year.

Graph 3-5. Korean Bonds Held by Foreign Investors



Source : Financial Supervisory Service, "Foreign Investors' Securities Trading Trend" (Press release)

4. Derivatives Market

Korea's derivatives market is divided into a division of Korea Exchange (KRX) where standardized products are traded and the over-the-counter (OTC) market where non-standardized products change hands.

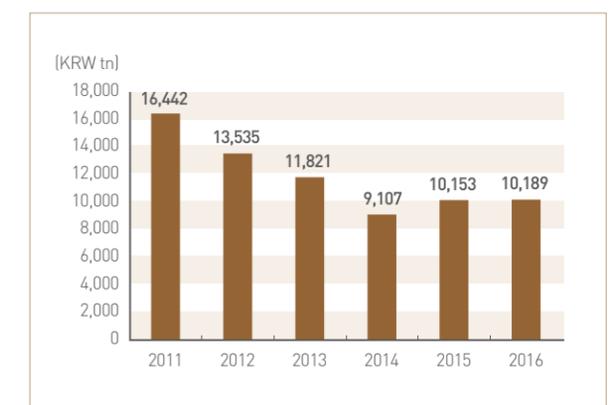
The exchange-traded derivatives market has displayed spectacular growth since the establishment of the KOSPI 200 futures market in 1996. To date, a total of 31 products have been listed, with six being de-listed.

KRX has been steadily introducing new products, such as the volatility index and sector index products (October 2014), mini KOSPI 200 futures-options (July 2015) and RMB futures (September 2015).

Most recently, KRX listed EURO STOXX 50 Futures as a new product in June 2016 in cooperation with Eurex.

KRX topped the global ranking of trading volume back in 2011, thanks to active trading of KOSPI 200 futures and option products. However, the market has suffered a severe downturn since 2011 due to heavier regulations coupled with weaker demand for derivatives trading as a result of reduced stock market volatility.

Graph 4-1 Annual Turnover of Exchange-Traded Derivatives



Source : Financial Supervisory Service, Monthly Financial Statistics Bulletin

The total trading volume of exchange-traded derivatives was approximately 693 million contracts in 2016, down by 12.3% from the 791 million contracts of the previous year. The turnover of exchange-traded derivatives inched up 0.35% year-on-year to KRW 10,189tn. As for the OTC derivatives market, the turnover grew 3.0% compared to the previous year to KRW 12,644tn.

Meanwhile, equity-linked securities (ELS) and derivative-linked securities (DLS) that were first introduced to South Korea in 2003 enjoyed about a 30 times jump in the issuance volume from KRW 3.5tn to KRW 101tn over a decade. As a result, they were recognized as attractive medium-risk and medium-return products in the dull economic growth and low interest rate environment.

Exchange-Traded Derivatives Market Trends

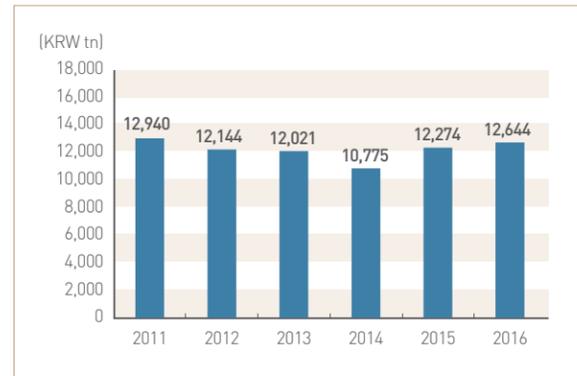
After reaching a peak in 2011, activity in the Korean exchange-traded derivatives market has been losing vigor due to tightened derivatives market regulations, contraction of the spot market, and reduced volatility.

Less Liquidity in the Exchange-Traded Derivatives Market

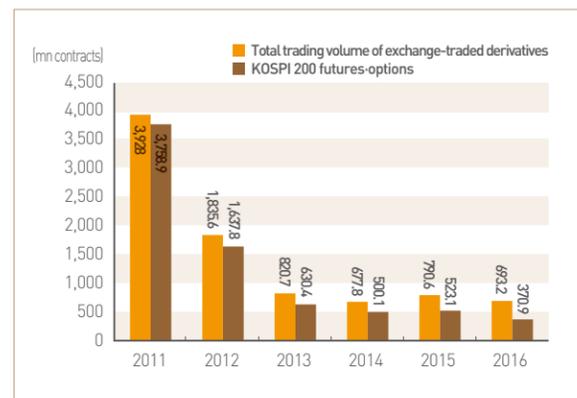
The total trading volume of exchange-traded derivatives was approximately 693 million contracts in 2016, slipping roughly 82.4% from approximately 3.9bn contracts registered in 2011, and 12.3% lower than the previous year's figure.

The market's flagship product KOSPI 200 futures options suffered a 90.1% drop in total trading volume compared to 2011, and a 29.1% decline year-on-year.

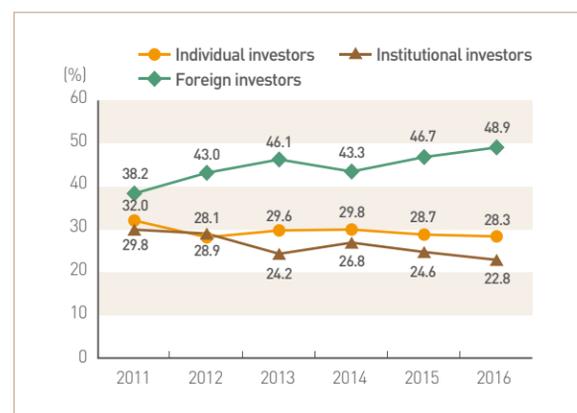
Graph 4-2 Annual Turnover of OTC Derivatives



Graph 4-3. Trading Volume of Exchange-Traded Derivatives



Graph 4-4. KOSPI 200 Futures and Options Trading by Investor Type



Foreign Investors Take the Lead as Retail and Institutional Investors Pull Back

KOSPI 200 Futures and Options take up the largest share in the exchange-traded derivatives market. The share of trading by retail investors has been steadily declining from 32.0% in 2011 to 28.3% in 2016. The same trend has been witnessed for share of trading by institutional investors, which has gone down to 22.8% in 2016 from 29.8% in 2011.

In contrast, the share of trading by foreign investors has been on a steady increase, moving up to 48.9% in 2016 from 38.2% in 2011. Foreign investors have been taking the lead in the KOSPI 200 futures-options markets, Korean Treasury Bond (KTB) futures market, and USD futures market by increasingly engaging in high frequency trading (HFT).

OTC Derivatives Market Trends

The exchange-traded derivatives market has been severely dampened mainly due to a series of new regulations imposed on retail and institutional investors.

Retail investors steadily left the market due to regulations that limit their entry, including the abolishment of call option-dedicated accounts that had been exempt from margin requirements in 2011, option multiplier increase in 2012 and stronger margin requirements in 2013.

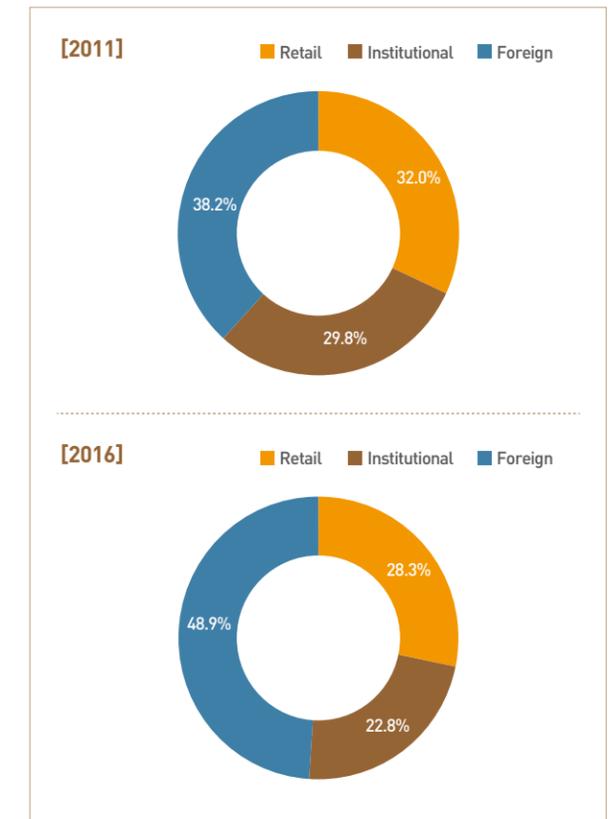
As for institutional investors, their participation in the market has also continuously decreased with the phase-out of tax exemption provided for arbitrage trading.

More foreign investors are investing in the market, but their trading amount is in a downward spiral due to the absence of counterparties amid weakened participation of retail and institutional investors.

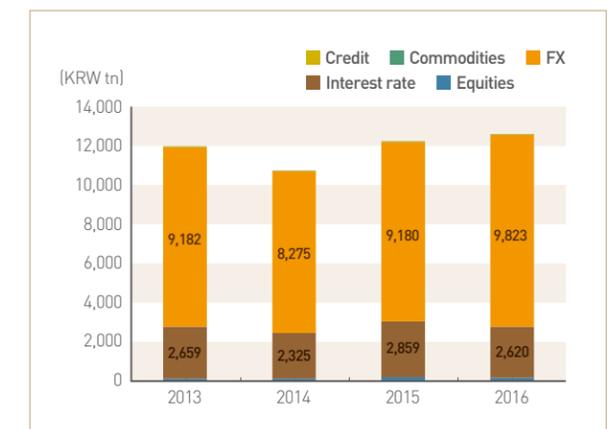
From a market perspective, the lower price volatility of the stock market rendered institutional investors to manage their risks less through derivatives trading and pushed down retail investors' demand for arbitrage trading.

(KOSPI 200 Volatility Index: a record high of 50.11pts in 2011 → an average of 14.11pts in 2016)

Graph 4-5. Trading by Investor Type



Graph 4-6. OTC Derivatives Trading



The OTC derivatives market is valued at KRW 12,644tn. OTC derivatives with an underlying currency account for the lion's share at 77.7%, followed by those using interest rates (20.7%) and equities (1.3%). By investor, banks accounted for the largest share (87.3%) followed by securities companies (9.0%), investment trusts (2.9%) and insurance companies (0.8%).

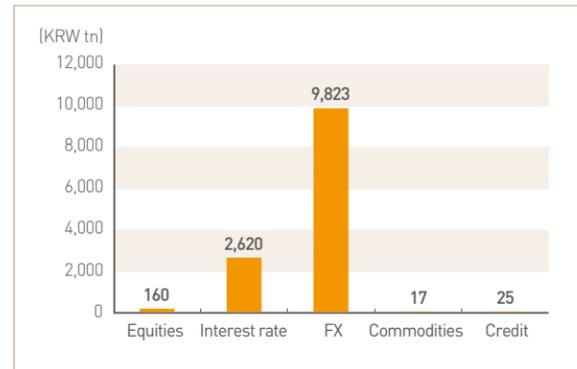
Year/ KRW tn	FX	Interest Rate	Equities	Credit	Commodities
2016	9,823.2	2,619.5	159.5	25.0	16.6
2015	9,180.0	2,859.0	194.7	20.0	19.9

Growth of Mid-Risk and Mid-Return Products in the New Normal Era

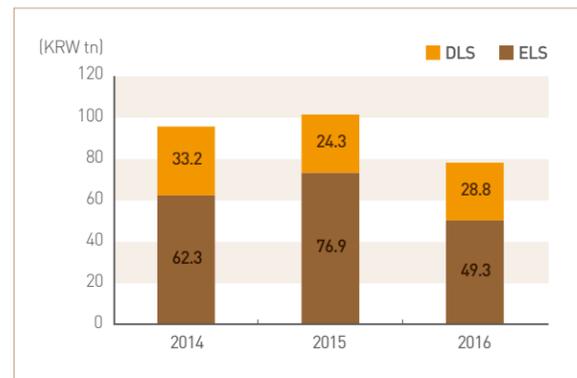
ELS and DLS were first issued in 2003 in the amount of KRW 3.5tn. In just 13 years, the market exponentially expanded by more than 30 times to post a record high of KRW 101tn in 2015 (ELS KRW 76.9tn, DLS KRW 24.3tn), allowing them to establish themselves as mid-risk, mid-return products.

However, the issuance volume slipped 22.9% year-on-year to KRW 78tn (ELS KRW 49.3tn, DLS KRW 28.8tn) in 2016.

Graph 4-7. OTC Derivatives Trading by Product Type



Graph 4-8. Annual Volume of Structured Product Issues



5. Fund Market

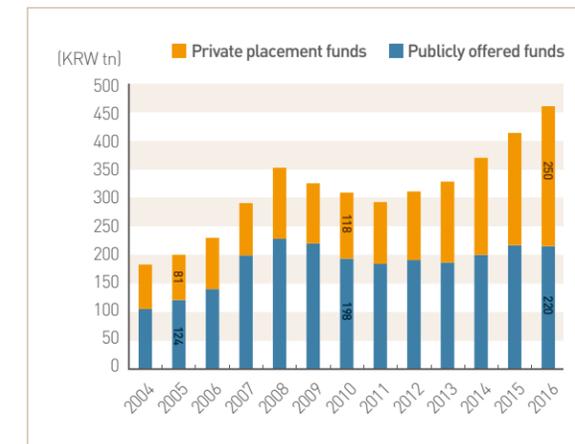
Korea's asset management industry continued to be in the spotlight in 2016, as pension assets have increased amidst the prolonged low interest rate environment and aging population.

Over the year, both the government and industry players focused on ensuring the steady growth and enhancing competitiveness of the asset management market.

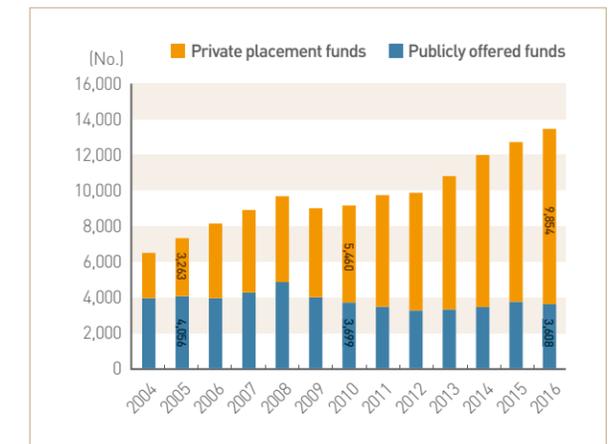
Notable developments in 2016 included the relaxation of regulations for private placement funds, revamp of the fund taxation regime, elimination of small funds, and expansion of distribution channels.

Korea's total fund AUM and the number of funds have been steadily increasing, with the AUM posting KRW 469tn for 13,462 funds at the end of 2016.

Graph 5-1. Fund AUM



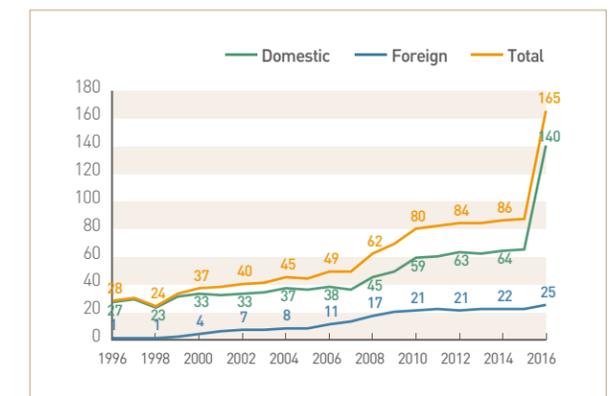
Graph 5-2. Total Number of Funds



The reshuffle of the private placement fund scheme in October 2015 eased entry requirements for professional private fund management companies, allowing many to enter the market.

As a result, the number of asset management companies soared to 165 as of end-2016 (140 domestic, 25 foreign).

Graph 5-3. Number of Asset Management Companies



Total fund NAV at the end of 2016 was KRW 462tn, an 11.6% or KRW 48tn increase from the KRW 414tn posted a year ago.

Asset management companies' earnings have been on an uptrend since 2011. Their profitability was enhanced on factors including higher total AUM and a surge in non-operating income.

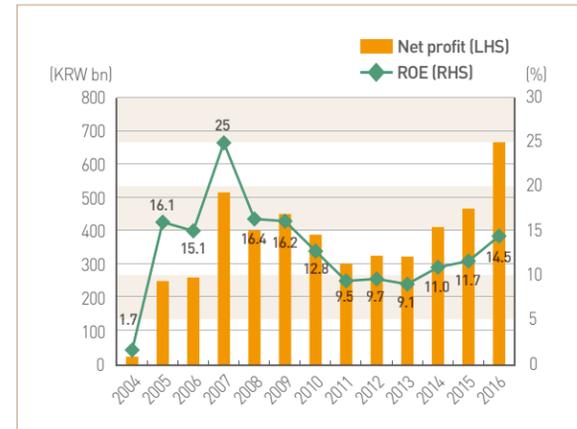
With the drop in NAV for equity funds tapering off, aggregate NAV has grown significantly. In particular, a stronger preference for safe assets led to greater investment in bond funds and MMFs, while at the same time, special asset funds and other forms of alternative investment also attracted more investors.

* The NAV for equity funds fell by KRW 7.8tn, whereas it grew for derivatives funds, bond funds, MMFs, real estate funds and special asset funds by KRW 4.8tn, KRW 14.8tn, KRW 10.9tn, KRW 10.8tn, and KRW 8.3tn, respectively.

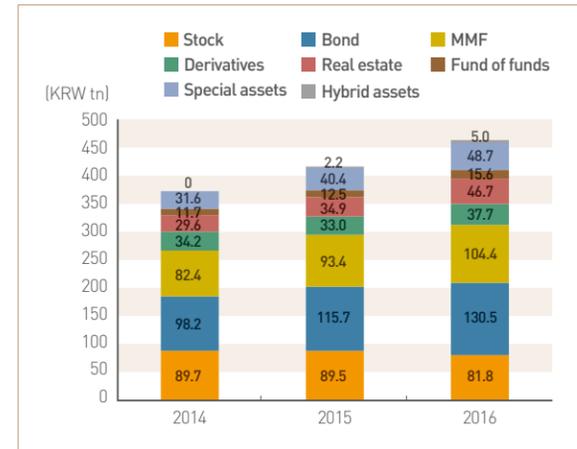
Funds were mostly distributed by securities companies and banks. At the end of 2016, securities companies accounted for 68.5% of total distributions, followed by banks at 22.8%, insurance companies at 1.8%, and others at 6.8%.

To improve general investors' access to funds, the Korean government approved mutual savings institutions such as the National Agricultural Cooperative Federation, National Federation of Fisheries Cooperatives, Mutual Savings Bank, and the Post Office as fund distributors in April 2016. Some of them have begun to sell funds in 2017 after the completion of the approval process.

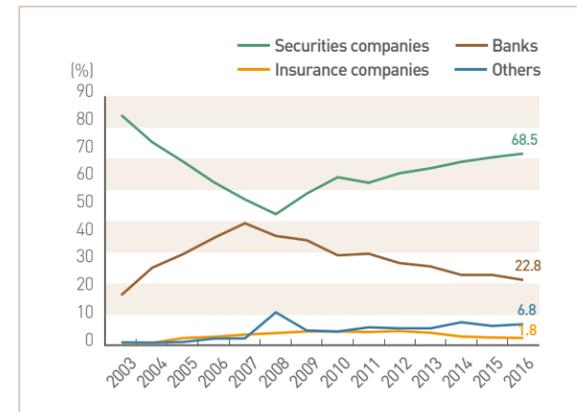
Graph 5-4. Net Profit and ROE of Asset Management Companies



Graph 5-5. Investment by Fund Type



Graph 5-6. Distribution by Institution Type



At the end of 2016, retail investors and other institutions made up 25.1% and 15.1% of fund investments, respectively. Investments by financial institutions accounted for 59.8%, a 2.5%p rise from the previous year.

This increase reflects the steady growth trend of funds distributed to financial institutions witnessed since the global financial crisis.

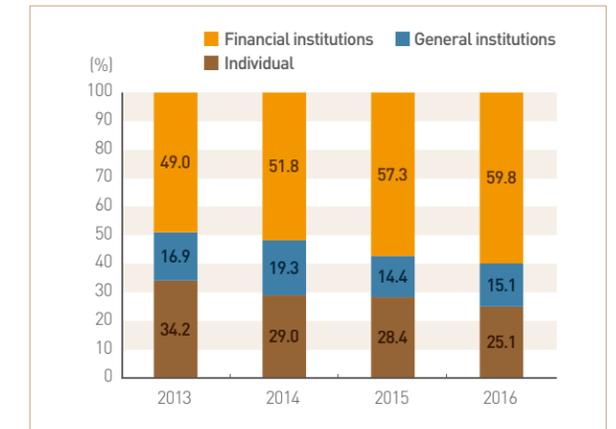
Investments in overseas funds have been on a decline since the crisis. However, interest has been recently renewed by Korean stocks trading in a channel for a long period.

Due to the persistent low interest rate environment, investor interest in mid-risk, mid-return investment products has been steadily growing.

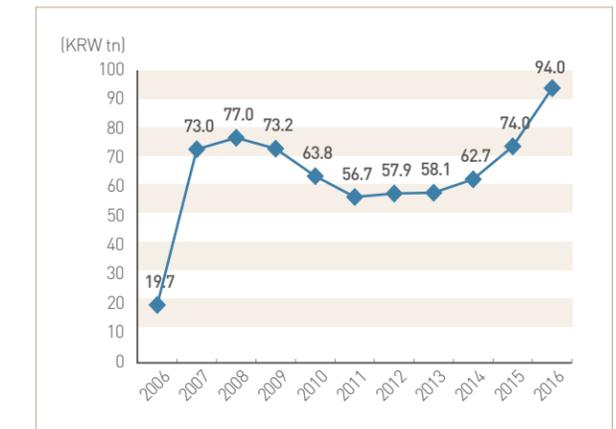
A good example would be ETFs, which are passive investment propositions. In 2016, new ETF products, including overseas ETFs with tax benefits, smart beta/strategic ETFs, and new growth industry ETFs, were launched.

Total AUM broke through the KRW 25tn mark with the release of these new products.

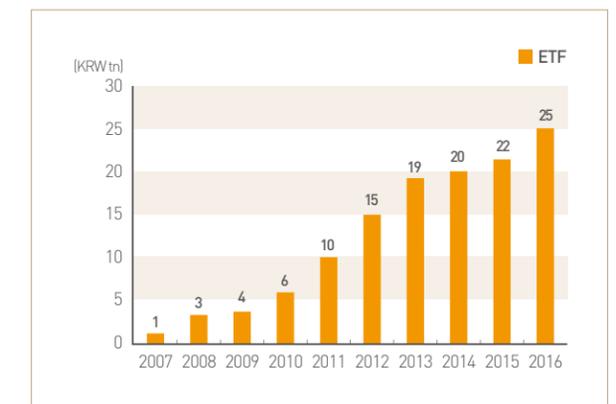
Graph 5-7. Distribution by Investor Type



Graph 5-8. Overseas Investment Fund AUM



Graph 5-9. ETF AUM



At the end of 2016, bonds made up the largest share of fund investments, at 43.1%. Noticeably, investments in other assets accounted for a considerable 25.4%, which reflects the larger demand for alternative investments and the subsequent surge in NAV for real estate and special asset funds.

The Korean financial authorities launched a project to reduce the number of small funds to help eliminate inefficiency and rebuild investor trust in the fund market. Thanks to the project, the number of small funds has witnessed a sharp decline recently.

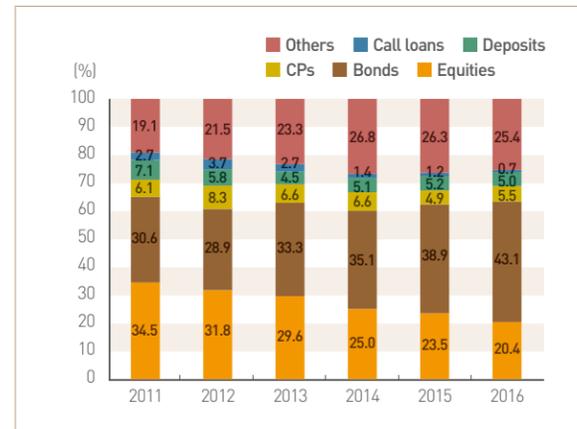
* Small funds: Public open-ended funds launched more than a year ago, with an outstanding balance of less than KRW 5bn

The Enforcement Decree of the Restriction of Special Taxation Act enacted on February 5, 2016 permits special investment accounts that offer tax exemption for trading and valuation gains or losses, including relevant FX income, on overseas-listed equities incorporated in an overseas equity fund.

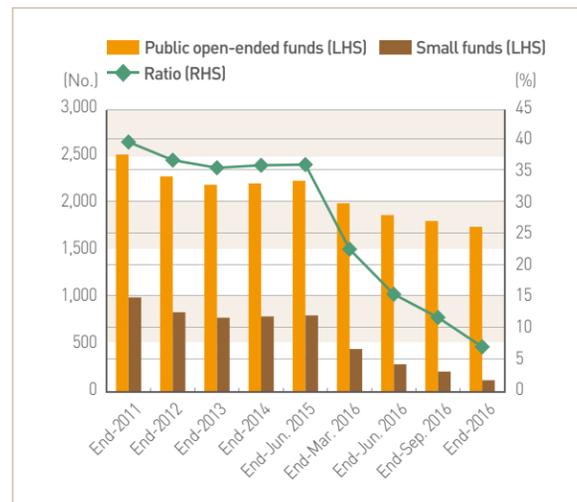
The exemption is in effect for a maximum of ten years and applies to accounts opened between February 29, 2016 and December 31, 2017. This is anticipated to promote investment in overseas equity funds, which has experienced a drop in recent years.

6. Real Estate Trust Market

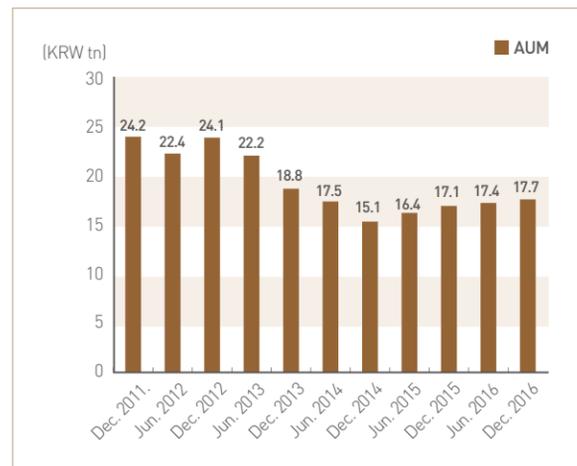
Graph 5-10. Fund Investment by Asset Type



Graph 5-11. Number of Small Funds



Graph 5-12. Overseas Equity Fund AUM



Real estate trusts are trusts which use real estate properties as the asset, and allow real estate owners to pay trust fees and assign a trustee the right to manage, dispose of, or develop the real estate for a set period.

As of end-2016, a total of 56 companies in Korea were authorized for the trust business. There were 45 financial companies that concurrently ran trust businesses (20 securities companies, 19 banks, 6 insurance companies), while 11 were pure real estate trust companies.

The outstanding amount of real estate trusts reached KRW 187.5tn at the end of 2016, with real estate trust companies accounting for 83.1% of the total or KRW 155.9tn, an 11.6% (KRW 16.2tn) increase from the end of the previous year.

This increase was mainly driven by the year-on-year growth of land trusts (KRW 8.8tn or 23.0%) and collateral trusts (KRW 5.4tn or 6.3%), which posted outstanding amount of KRW 47.1tn and KRW 91.6tn, respectively.

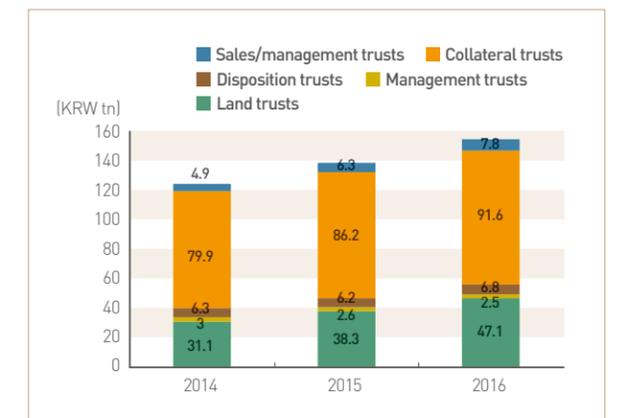
On the back of improved business conditions in the real estate market, such as the persistent low interest rate and deregulation for reconstruction and redevelopment, real estate trust companies recorded an operating revenue of KRW 786.2bn in 2016, up KRW 227.1bn (40.6%) from a year earlier.

Their net profit posted a record high of KRW 393.3bn, a KRW 171.1bn (77.0%) increase year-on-year.

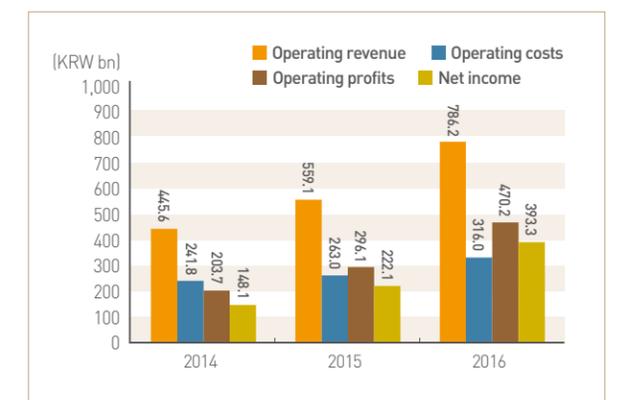
Table 6-1. No. of Trust Companies

Category		2014	2015	2016
Companies with concurrently-run trust business	Securities	20	20	20
	Banking	20	19	19
	Insurance	6	7	6
Sub-Total		46	46	45
Real estate trust companies		11	11	11
Total		57	57	56

Graph 6-1. Outstanding Amount of Real Estate Trust Companies



Graph 6-2. Operating Revenue of Real Estate Trust Companies



7. Advisory & Discretionary Market

At the end of 2016, 397 companies were registered as an investment advisory business in Korea, with their advisory contracts recording KRW 13.0tn in total asset volume.

The Korean government recently amended laws and decrees governing financial advisory services, which came into effect in May 2017, in order to promote industry growth and assist the public with wealth accumulation.

The main details of the amendment include bringing down the entry barrier for becoming a financial advisor by lowering the minimum capital requirement from KRW 500mn to KRW 100mn; introducing IFAs (Independent Financial Advisors) and robo-advisors; and stepping up investor protection by highlighting the duty of explanation in the financial advisory business.

At the end of 2016, the number of companies registered as a discretionary investment business was 389, with the total assets in discretionary investment contracts amounting to KRW 606.4tn.

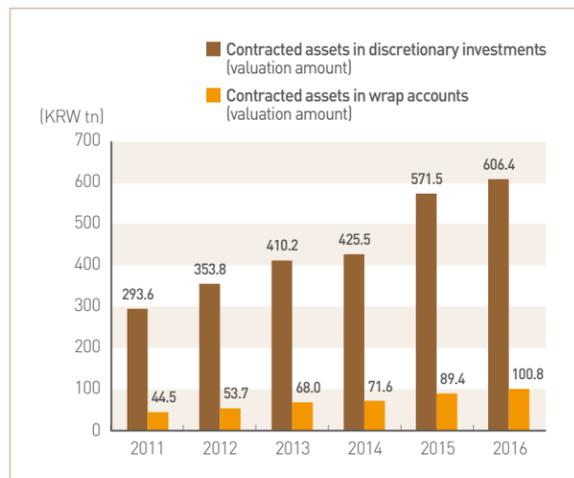
The balance of contracted assets in securities companies' wrap accounts reached KRW 100.8tn, growing KRW 11.4tn year-on-year, and continuing to rise on stronger demand for wealth management services.

Graph 7-1. Volume of Assets in Advisory Contracts



Source : Korea Financial Investment Association (FreeSIS)

Graph 7-2. Volume of Assets in Discretionary Investment Contracts



Source : Korea Financial Investment Association (FreeSIS)

8. Pension Market

Retirement Pensions

Korea has a three-tier pension scheme: The National Pension Service (tier 1), retirement pension (tier 2), and personal pension (tier 3). The retirement pension scheme introduced in 2005 to guarantee post-retirement income for employees saw reserves grow to KRW 147tn at end-2016.

Employees' subscription rate displayed a steady increase alongside expanding reserves. The rate remains on an uptrend, after surpassing 50% in 2014 and reaching 53.6% at end-2015.

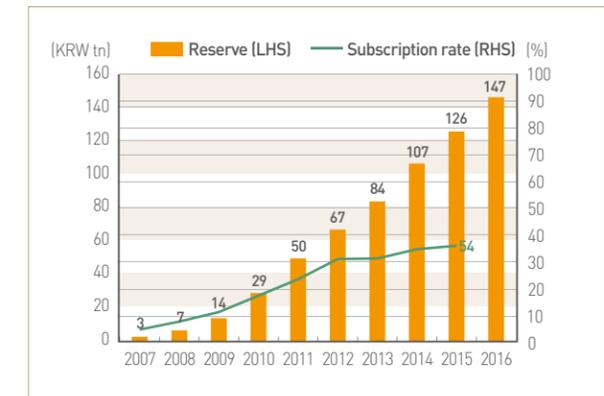
Retirement pensions can be divided into Defined Benefit (DB), Defined Contribution (DC), and Individual Retirement Pension (IRP) schemes.

At the end of 2016, DB plans accounted for 67.8%, followed by DC plans (23.8%) and IRPs (8.4%). Although DBs currently claim the lion's share of the market, the proportion of DC plans is on the rise.

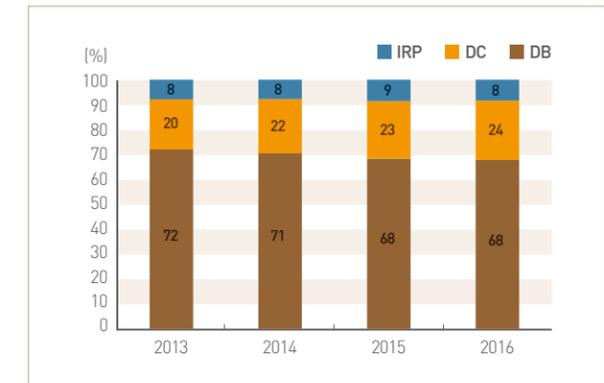
Around 45 entities in the banking, insurance, and securities sectors are operating retirement pension schemes, with banks having the largest share of the market (49.8%) with KRW 73.3tn as of end-2016.

Other market participants include insurance companies, securities companies, and the Korea Workers' Compensation & Welfare Service, with 31.3% (KRW 45.9tn), 18.1% (KRW 26.6tn) and 0.8% of the market share, respectively.

Graph 8-1. Growth of Pension Reserves & Subscription Rate



Graph 8-2. Retirement Pension Plans by Pension Type



Graph 8-3. Pension Market Share by Financial Institution



Management of pension reserves is focused mostly on investments in principal-protected products. Principal-protected products took up the greatest share with KRW 130.9tn (89.0%), while investment type products and other investments, such as standing capital, accounted for smaller shares, with KRW 10.0tn (6.8%) and KRW 6tn (4.2%), respectively.

In order to diversify pension reserve investments, which are overly concentrated on principal-protected products, the government carried out regulatory measures such as lifting regulations on the management of pension reserves (ceiling on maximum investment proportion in risky assets raised from 40% to 70%) in 2015. Furthermore, it has recently set out to adopt a trust-based retirement pension scheme.

Personal Pensions

Personal pensions, first adopted in 1994, are products that provide tax benefits at year-end tax deductions.

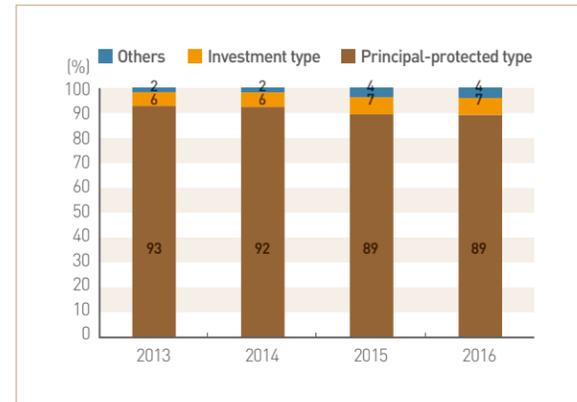
The personal pension market is growing by more than 10% each year, and cumulative reserves marked KRW 118tn at the end of 2016.

As of end-2016, the insurance sector held the majority of reserves with KRW 88.2tn (74.7%), followed by the banking sector (KRW 16.1tn, 13.7%), the securities sector (KRW 9.7tn, 8.2%), and other sectors (KRW 4.0tn, 3.4%).

Meanwhile, tax deferral on money transfers between personal pensions and IRPs was granted in July 2016. This allows financial consumers to better engage in the integrated management of pension assets and enjoy a greater post-retirement income through the enhanced returns of pension assets.

Efforts for regulatory improvements are also underway, such as establishing the Personal Pension Act to streamline complex pension policies and provide pension subscribers with protection throughout the entire process, from subscription to management and collection of pensions, by taking into account the long-term nature of pension plans.

Graph 8-4. Portfolio Composition of Pension Reserves



Graph 8-5. Annual Pension Reserves Volume

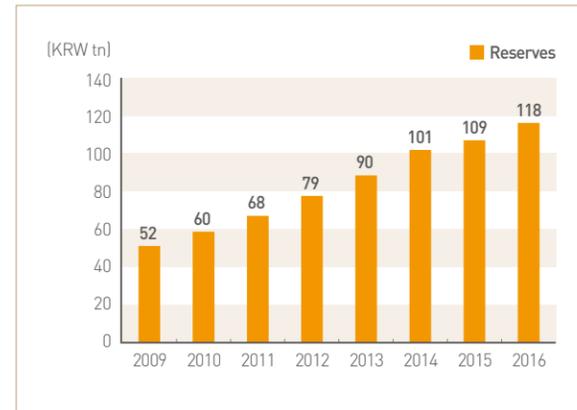


Table 8-1. 2016 Pension Reserves by Financial Institution

Category	Insurance	Banks	Securities	Others	Total
Reserves (KRW tn)	88.2	16.1	9.7	4	118
Share (%)	74.7	13.7	8.2	3.4	100

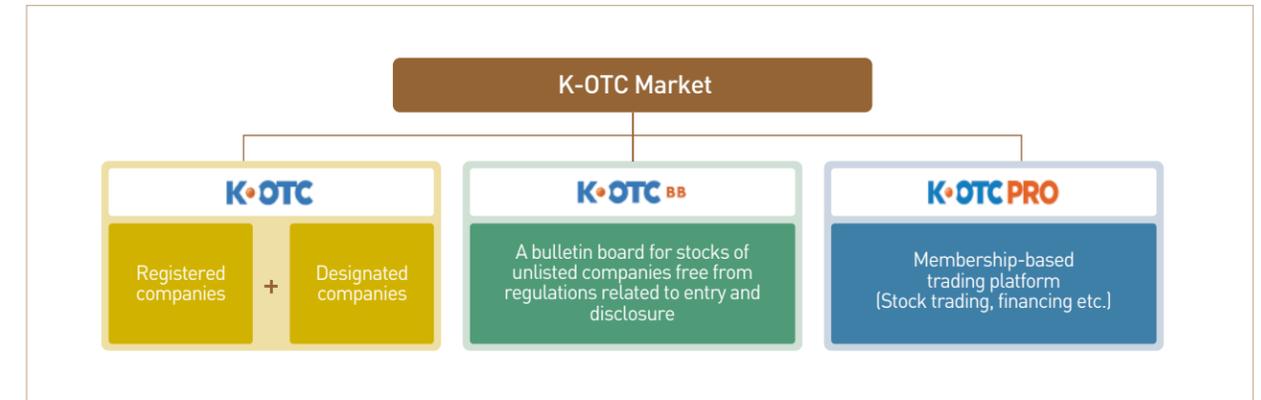
9. K-OTC Market

KOFIA's K-OTC system facilitates the trading of all types of unlisted stocks in Korea. The system is comprised of the K-OTC Market, K-OTCBB and K-OTC PRO. The K-OTC Market is an institutionalized and organized OTC market established and operated by KOFIA pursuant to the FSCMA.

The K-OTCBB is a bulletin board and K-OTC PRO is a membership-based trading platform for all types of unlisted stocks.

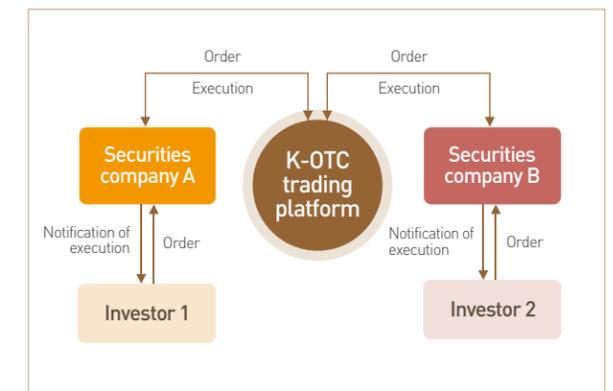
In March 2000, KOFIA established the first over-the-counter market (third market) in Korea in accordance with the Plan to Establish an Over-the-Counter Stock Market announced by the forerunner of the Ministry of Strategy and Finance in May 1999. The name of this market was later changed to "Freeboard." Then the K-OTC Market and K-OTCBB were established in August 2014 and April 2015, respectively, to facilitate the transparent and convenient trading of all types of unlisted stocks, including those of SMEs. The K-OTC PRO platform opened on July 17, 2017.

Chart 9-1. K-OTC Market



The K-OTC Market is separated into two divisions: one for registered companies, and the other for designated companies. Unlisted shares of companies that are registered or designated based on the outlined requirements are traded through KOFIA's trading platform. Investors can trade stocks through securities companies just as they would on the KRX.

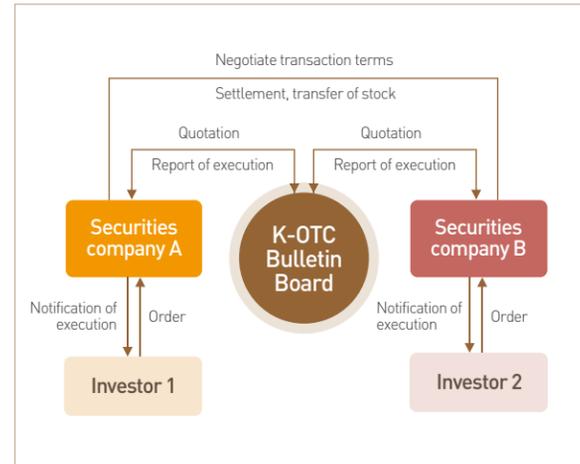
Chart 9-2. K-OTC Market Trading Process



K-OTCBB is a bulletin board for posting stock quotations of companies that are not traded on listed markets or the K-OTC Market.

These companies have to meet the minimum requirements, such as issuance of uniform stock certificates, agreement on transfer agent services and no limit on transfers pursuant to the articles of incorporation. Investors may trade stocks through negotiations between securities companies.

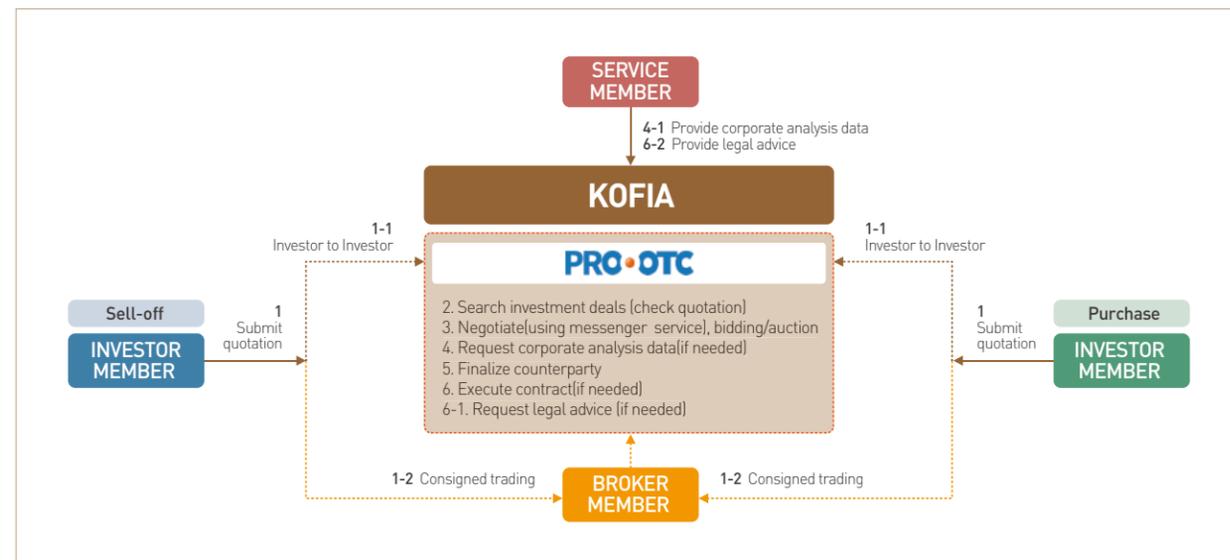
Chart 9-3. K-OTCBB Trading Process



K-OTC PRO is a membership-based trading platform established and operated by KOFIA to assist financial professionals including institutional and professional investors in the convenient trading of unlisted stocks and corporate financing. Members are categorized into investor members, unlisted corporate members,

broker members, and service provider members. Not only stocks, but other financial instruments issued by unlisted companies can be traded on the K-OTC PRO platform using various trading methods including negotiation, bidding and auction.

Chart 9-4. K-OTC PRO Trading Process



* Details must be reported to KOFIA when the counterparty is designated and contract is executed.

A total of 138 companies (94 designated, 44 registered) were trading on the K-OTC Market as of end-2016, and their market capitalization amounted to KRW 10.66tn. The average daily trading volume and average daily turnover registered 1.114mn shares and KRW

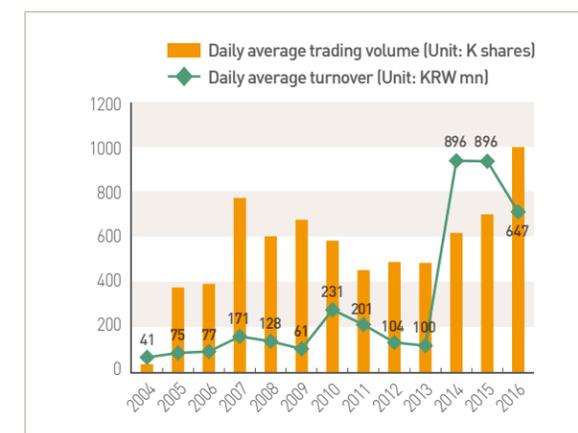
650m, respectively, in the year. Over the same period, K-OTCBB recorded 59,000 shares in the average daily trading volume and KRW 34mn in the average daily turnover.

Table 9-1. K-OTC Market: Registration (Designation) & Cancellation of Companies

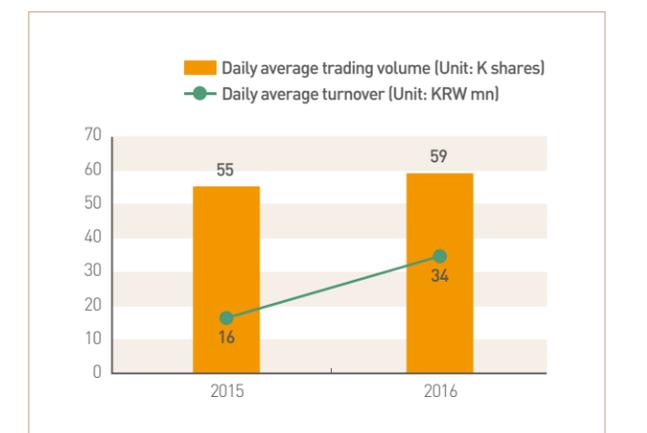
[Units: No., KRW tn]

Category	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
No. of companies	132	176	183	107	69	62	56	54	70	66	71	63	52	52	117	128	138
New registration/designation	134	55	30	11	2	11	8	7	25	10	18	11	6	4	74	30	16
Cancelled registration/designation	2	11	23	87	40	18	14	9	9	14	13	19	17	4	9	19	6
Market capitalization (KRW tn)	1.03	1.29	1.37	1.08	0.38	0.44	0.42	0.46	5.74	0.74	0.81	0.86	0.59	0.62	12.71	11.11	10.7

Graph 9-1. K-OTC Market: Trading Volume & Turnover



Graph 9-2. K-OTCBB: Trading Volume & Turnover



* 2015 data based on the daily trading volume and turnover from the establishment (April 27, 2015) to end-2015

Membership

As of October 17, 2017, KOFIA has a total of 376 members, which includes 241 regular members, 112 associate members, and 23 special members.

KOFIA Members

Membership	Number	Types of Members (No.)
REGULAR	241	- Asset Management: 169 - Securities: 56 - Real Estate Trust: 11 - Futures: 5
ASSOCIATE	112	- Investment Advisory: 75 - Banks: 24 - Insurance: 6 - Crowdfunding: 5 - Merchant Banks: 1 - Securities Finance: 1
SPECIAL	23	- Fund services: 6 - Fund valuation: 4 - Bond valuation: 4 - Credit valuation: 4 - Others: 5 (Korea Listed Companies Association, KOSDAQ Listed Companies Association, Korea Securities Depository, Korea Investment Corporation, CME Group)
TOTAL	376	

Websites

KOFIA Website : www.kofia.or.kr

Affiliated Websites

Korea Institute of Financial Investment : www.kifin.or.kr
- Training of financial investment industry professionals

K-OTC : www.k-otc.or.kr
- K-OTC market data for investors

Bond Market: www.kofiabond.or.kr
- Bond market data, yields, trading activities

Investor Education: www.kcie.or.kr
- Education service for individual investors





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