

PRESS RELEASE

January 8, 2014

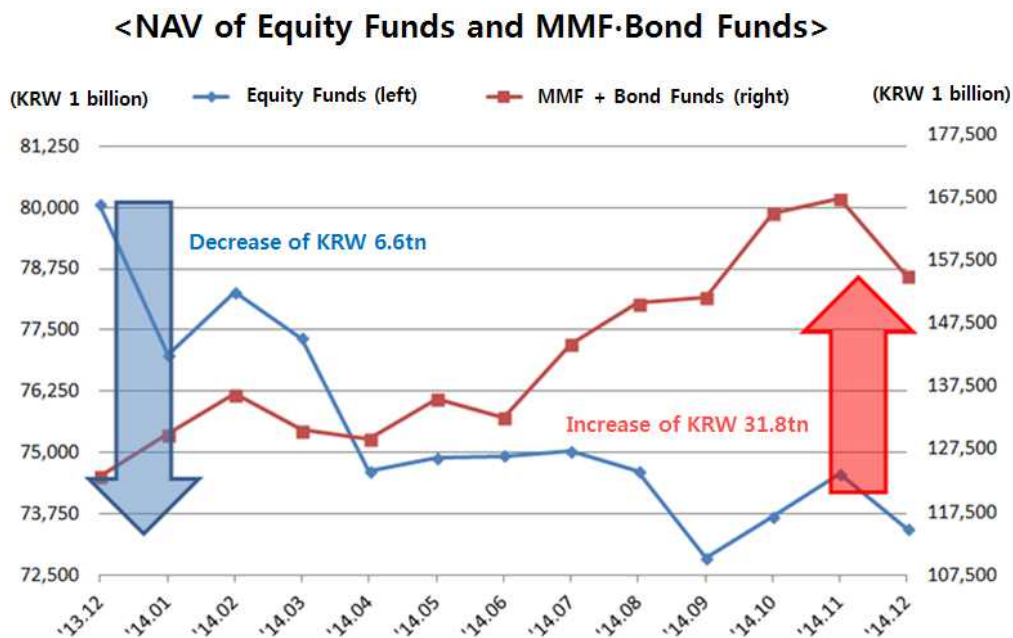
KOFIA Publishes Domestic Fund Market Trend Analysis for 2014

The total NAV of funds increased by KRW 47.6tn compared to the previous year, largely driven by the NAV growth in bond funds and MMFs.

1. Overview

Throughout the year of 2014, the NAV of MMFs and bond funds jumped significantly while the NAV of equity funds slightly dropped by KRW 6.6tn. As a result, the total NAV of funds increased by KRW 47.6tn compared to the previous year to reach KRW 376.1tn and the outstanding amount increased by KRW 47tn to reach KRW 381.9tn.

*MMF: KRW 16.1tn ↑, Bond fund: KRW 15.7tn ↑



2. Market Trends by Fund Type

- A. **(Equity Funds)** The NAV of both domestic equity funds and overseas equity funds decreased due to pervasive concerns over foreign investment and uncertainty about domestic economic recovery.
- **(Domestic Equity Funds)** The domestic stock market seemed to be recovering during early 2014, backed by the recovery of the US economy and the economic stimulus package implemented by the newly inaugurated prime minister. However, the momentum was short lived as the recovery did not translate into growth of the real

economy, and stock market growth was put back on a decline during the second half of 2014.

While the KOSPI failed to break out of the rectangular formation between 1850pt and 2100pt, investors continued the trend of redemption on domestic equity funds when prices reached a high point. As a result, the NAV of domestic equity funds decreased by KRW 4.2tn compared to the previous year to reach KRW 59.1tn as of the end of 2014.

- **(Overseas Equity Funds)** The overseas equity market showed signs of recovery early in the year, backed by the DJIA which fluctuated but increased nevertheless.

However, there was an outflow of KRW 3.3tn worth of capital as investors failed to overcome uncertainty about overseas equity funds. As a result, the NAV decreased by KRW 2.4tn compared to the previous year to reach KRW 14.3tn.

- B. **(Bond Funds)** The NAV of domestic bond funds and overseas bond funds increased by 27% and 37.3% respectively, as a result of investors' stronger preference for safer assets amid a contracted stock market and economy, and capital inflows from the commission funds of the Ministry of Land, Infrastructure and Transport.

- **(Domestic Bond Funds)** Investors maintained their preference for domestic bond funds amid the recession in the domestic stock market and the prolonged trend of low interest rates.

With net capital inflow of about KRW 8.3tn into domestic bond funds, the NAV increased by KRW 13.6tn compared to the previous year to reach KRW 64.1tn, while the outstanding amount increased by KRW 12.8tn YoY to reach KRW 63.1tn.

- **(Overseas Bond Funds)** There was a net capital inflow of KRW 1.9tn throughout the year 2014.

The NAV and outstanding amount of overseas bond funds increased by KRW 2.1tn and KRW 2.0tn, respectively, compared to the previous year, to each reach KRW 7.7tn and KRW 7.8tn.

- C. **(MMFs)** The NAV of MMFs recorded KRW 83.2tn as of the end of 2014, backed by a net capital inflow of KRW 14.3tn, as the volume of immobile capital increased throughout the market during 2014.

- The asset value of MMFs rose continuously since the start of 2014 to reach KRW 105.3tn as of early November, before falling to KRW 83.2tn as of the end of the year, which marked a KRW 16.1tn increase compared to the previous year.

[NAV Changes and Fund Flow by Fund Type]

(Unit: KRW bn)

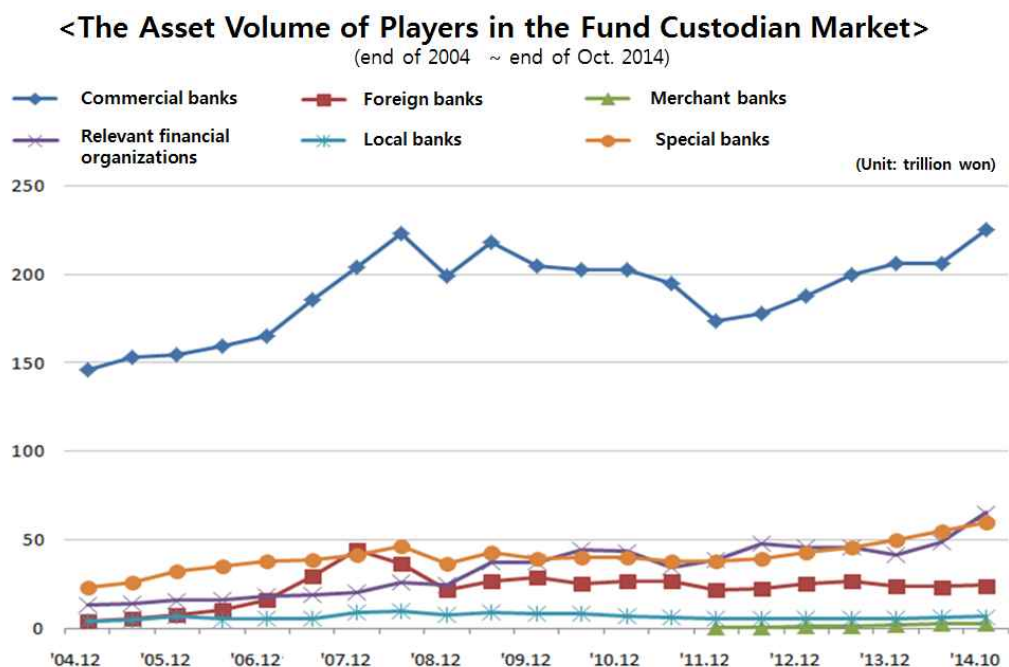
Fund Type	NAV (End of '13)	Fund Flow during 2014			Valuation Change	NAV Change	NAV (End of '14)
		Inflow	Outflow	Change			
Securities (A)	178,579	105,957	97,584	+8,373	+12,133	+20,506	199,085
- Equity	80,056	28,262	32,915	△ 4,652	△ 1,965	△ 6,617	73,439
- Hybrid-Equity	9,823	5,437	5,785	△ 348	+768	+420	10,243
- Hybrid-Bond	22,936	18,414	15,203	+3,211	+1,579	+4,790	27,726
- Bond	56,115	53,844	43,681	+10,162	+5,543	+15,705	71,820
-Fund of Fund	9,649	14,635	8,935	+5,698	+510	+6,208	15,857
MMFs (B)	67,090	538,786	524,508	+14,278	+1,866	+16,144	83,234
Derivatives (C)	32,211	25,496	23,163	+2,328	△ 1,540	+788	32,999
Real Estate (D)	24,249	7,933	3,294	+4,639	+853	+5,492	29,741
Special Assets (E)	26,316	7,368	2,550	+4,816	△ 129	+4,687	31,003
Total (A+B+C+D+E)	328,446	700,173	660,038	+40,137	+7,479	+47,616	376,062

Note: Valuation Change = NAV Change – Fund Flow Change
 Securities = Equity + Hybrid Equity + Hybrid Bond + Bond + Fund of Fund
 NAV includes ETFs, while fund flow data exclude ETFs.

3. [Features] The Market Share and Special Features of the Fund Custodian Market

As of the end of October 2014, banks and securities companies were accountable for 82.2% and 17.8% of the fund custodian market (based on the NAV; same hereinafter), respectively. In the case of securities companies, the Korea Securities Finance Corporation, which is a financial institution taking custody of MMFs, took up 17%. Meanwhile, merchant banks (no.:5) took up 0.8% of the market as a result of fund assets that they have been entrusted with, following the custody of hedge funds.

- A. **(Market Share)** As of the end of October 2014, banks (no.:14) took up 82.2% of the domestic fund custodian market, whereas securities companies (no.:6) took up 17.8%.



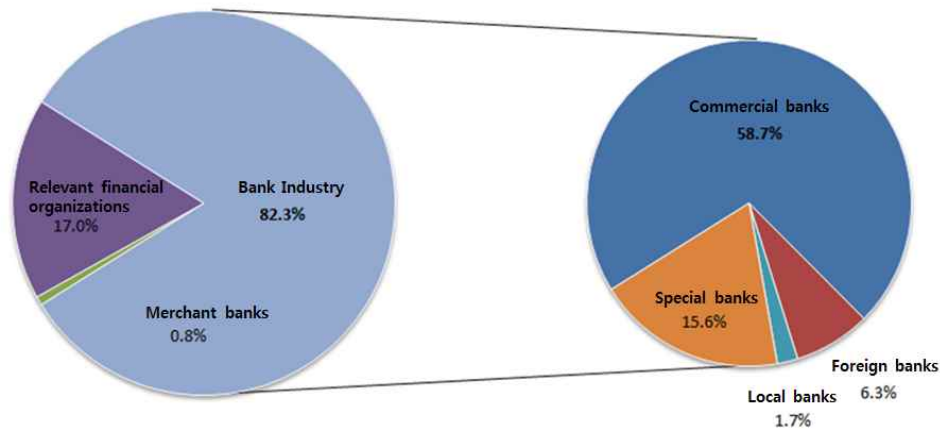
Note)

1. Commercial banks: Kookmin bank, SC bank, Shinhan bank, Korea exchange bank, Woori bank, Hana bank, Citibank Korea
 2. Foreign banks: Deutsche Bank, RBS bank Seoul branch, HSBC Seoul branch
 3. Local banks: Busan bank, Kyongnam bank, Daegu bank
 4. Special banks: Nonghyup bank, Industrial Bank of Korea, KDB bank
 5. Merchant banks: Daewoo securities, Samsung securities, Woori investment & securities, Korea investment & securities, Hyundai securities
 6. Relevant financial organizations: KSFC
- Among banks, commercial banks (no.:7) took up the largest proportion of the fund custodian market at 58.7%, followed by special banks (no.:3) at 15.6%, foreign banks (no.:3) at 6.3%, and local banks (no.:1) at 1.7%.
 - As for the securities industry, the KSFC took up 17% while merchant banks took up 0.8% with the assets of hedge funds under custody.

*Large securities companies started to take on responsibilities as a prime broker for hedge fund assets when they were introduced in Korea during late 2011.

<Proportion of Fund Assets Custodians>

(end of Oct. 2014)



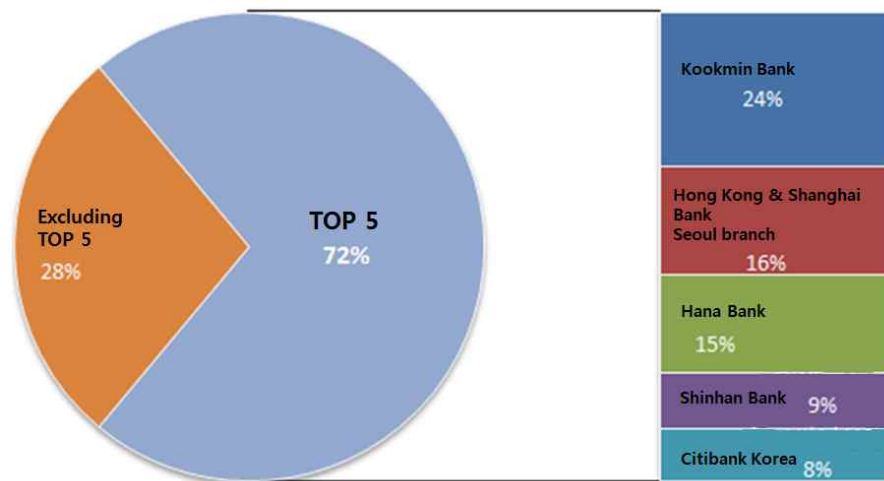
B. **(Market Share by Fund Type)** Commercial banks take up the largest proportion apart from MMFs among different types of fund products. The top five institutions vary according to the type.

- **(Equity Fund)** The top five banks regarding the assets of equity funds under custody are Kookmin Bank, HSBC Seoul Office, Hana Bank, Shinhan Bank, and Citibank Korea in this order. They are responsible for 72% of the equity fund assets.

The total asset of equity funds under custody is on the decline in the aftermath of the 2007 Global Financial Crisis.

<Top 5 Banks regarding Asset of Equity Funds>

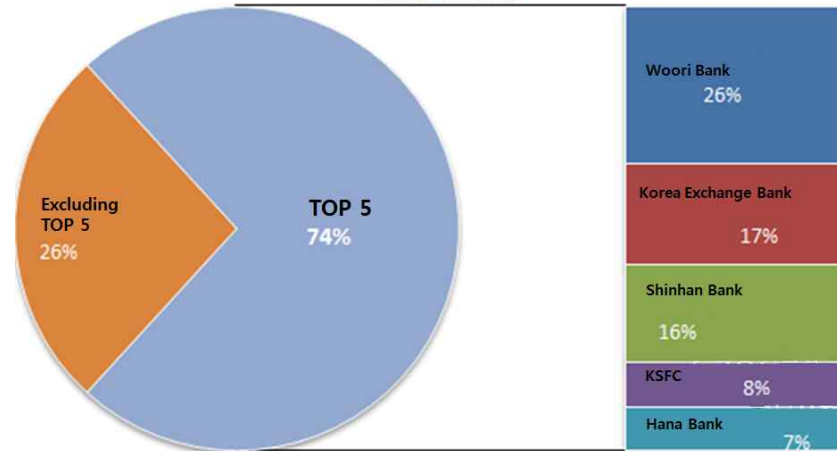
(end of Oct. 2014)



- **(Bond Fund)** The top five banks regarding the assets of bond funds under custody are Woori Bank, Korea Exchange Bank, Shinhan Bank, KSFC, and Hana bank in this order. They are responsible for 74% of the bond fund assets.

The total asset of bond funds under custody is gradually rising, backed by increased capital flows into bond funds.

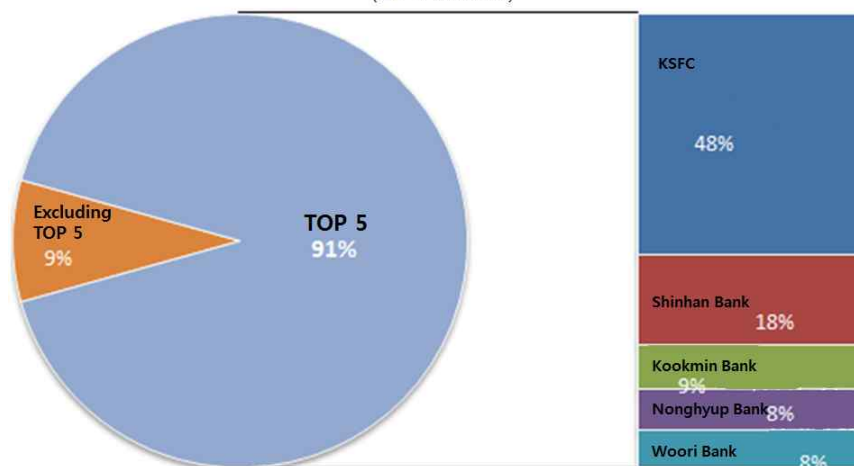
<Top 5 Banks regarding Asset of Bond Funds>
(end of Oct. 2014)



- **(MMF)** The top five banks regarding the assets of MMFs under custody are KSFC, Shinhan Bank, Kookmin Bank, Nonghyup Bank, and Woori bank in this order. They are responsible for 91% of MMF assets.

The MMF asset under custody soared amid the trend of immobilization of market capital. The proportion of the KSFC, which has been the main custodian for MMFs, soared accordingly.

<Top 5 Banks regarding Asset of MMFs>
(end of Oct. 2014)



- C. **(Features)** In contrast to the fund distribution market, the banking sector takes up a significant market share of the fund custodian market. The top five institutions vary according to the fund type, but the market share itself remains largely consistent.

This is because the role of fund custodians is not limited to holding and managing assets but also includes providing management orders. Banks have an advantage in handling capital transfers and trade settlement.

However, the case of the KSFC is unique as it strongly emerged as one of the top custodians amid the increases of the MMF assets under custody. Although the size is insufficient as of now, there is a possibility that the KSFC might transform into a merchant bank if hedge funds gain more popularity in the Korean fund market.