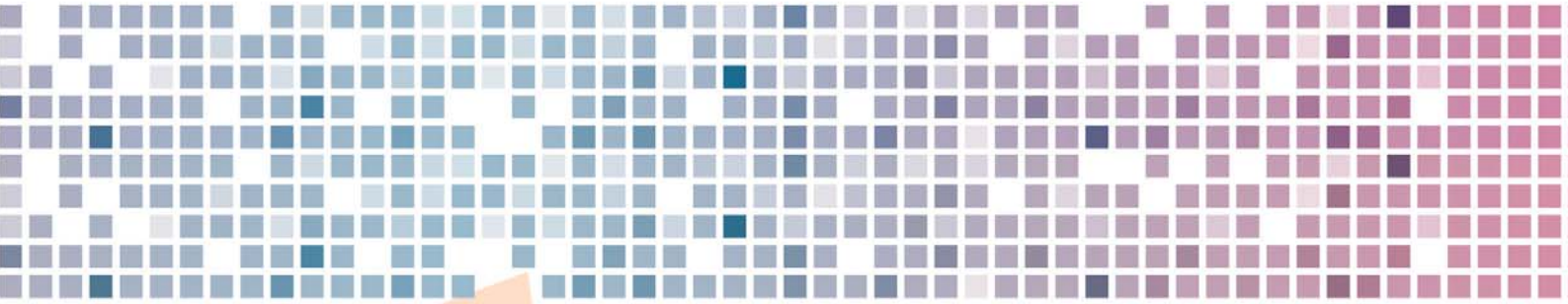




Korea Securities Finance Corp.



Change & Renovation

Annual Report 2004



50^{yrs}

BRIEF HISTORY



"Over the past 50 years"

KSFC PROLOGUE

KSFC strives to draw closer to our valued clients with the highest level of financial services. In appreciation of your support and encouragement over the past 50 years, we pledge to change and renovate ourselves as a financial institution that creates the greatest added value and plays a vital role in the Korean capital market.



| KSFC Profile |



The Korea Securities Finance Corporation (KSFC) was incorporated in October 1955 to contribute to the development of the capital market in Korea by supplying funds to the securities market and by providing selected services, thereby supporting the development of the Korean national economy.

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| Function and Role |

As the only specialized provider of securities financing in Korea, KSFC supplies funds and other related services necessary for issuing, trading and brokering securities to the securities market. In addition, KSFC provides customers' deposits management services to protect securities investors' assets, ESOP(Employee Stock Ownership Plan) support services to enhance workers' wealth and promote labor-management ties, and various deposit and loan products to assist with investors' wealth management. With its diverse range of services, KSFC does not spare any effort to lay the cornerstone for advancement of the financial markets.

Securities Financing Services

In order to facilitate the underwriting, acquiring and trading of marketable securities such as stocks and bonds, KSFC supplies funds and securities to securities firms and individual investors. Through these lending activities, KSFC promotes the issuance and circulation of securities and ensures stability and development of the capital markets.

Securities Underwriting Loans

Securities underwriting loans are provided to underwriters and individual investors in order to promote the underwriting and distribution of securities at the time of their issuance. This assists securities issuers to raise capital which is needed for their investments and operations.

Margin Financing Loans

Margin financing loans enhance the liquidity of the stock market by providing brokerage firms with money loans for the settlement of their customers' margin purchase or stock loans for the customers' short sale. The money and the stock loans serve as a mutual buffer that contributes to ensuring continuity and stability in stock prices.

Securities Secured Loans

Loans secured by securities allow individual and corporate holders of marketable securities such as stocks, bonds and beneficiary certificates to procure funds by pledging their securities as collateral. This enhances the efficacy of securities and helps to foster greater interest in securities trading among the general public.

Management of Customers' Deposits

KSFC also contributes to the stable development of the securities market and protects securities investors' assets through the safekeeping and management of client funds, which have been temporarily deposited by investors at securities or futures companies for the purchase of equity or the settlement of futures transactions and then fully re-deposited with KSFC.

ESOP-related Services

As the sole service provider for ESOP in Korea, KSFC plays a pivotal role in the advancement of ESOP. KSFC holds in custody and administrates company stocks acquired by ESOAs(Employee Stock Ownership Associations), provides advisory services for the establishment and operation of ESOAs, and offers loans for the purchase of company stocks in relation to ESOP.

Private and Corporate Financial Services

In keeping with our commitment to enhancing clients' wealth management, KSFC extends long-term, low-interest loans secured by stocks, bonds, beneficiary certificates, or certificates of deposits (CDs) to individuals and corporations. Clients can also take advantage of deposits for subscriptions to IPO or forfeited shares that offer competitive interest rates and opportunity for capital appreciation.

Ownership Structure



Shareholders' Equity

(As of March 31, 2005)

| Capital Stock | Shares Issued | Par Value |
|-----------------|-------------------|-----------|
| 340 billion won | 68,000,000 shares | 5,000 won |

Ownership Structure by Shareholder Group

(As of March 31, 2005)

| Shareholder Groups | Shareholders | | Shares | |
|---------------------------------------|---------------------|----------------|-------------------|----------------|
| | No. of Shareholders | Ratio (%) | No. of Shares | Ratio (%) |
| Banks | 16 | 2.680 | 22,356,563 | 32.877 |
| Securities Companies | 27 | 4.523 | 25,743,668 | 37.858 |
| Insurance Companies | 6 | 1.005 | 1,098,235 | 1.615 |
| Merchant Banking Corporations | 8 | 1.340 | 1,435,550 | 2.111 |
| Investment Trust Management Companies | 5 | 0.837 | 360,000 | 0.530 |
| Cooperatives | 2 | 0.335 | 1,833,396 | 2.696 |
| KSFC ESOA | 1 | 0.167 | 677,136 | 0.996 |
| KRX & KSD | 2 | 0.503 | 9,473,240 | 13.931 |
| Other Legal Entities | 10 | 1.675 | 1,639,693 | 2.411 |
| Individuals | 519 | 86.935 | 3,382,519 | 4.975 |
| Total | 596 | 100.000 | 68,000,000 | 100.000 |

Major Shareholders

(As of March 31, 2005)

| Shareholders | No. of Shares | Ratio (%) |
|--------------------------------|---------------|-----------|
| KRX | 7,714,883 | 11.35 |
| Woori Bank | 5,310,253 | 7.81 |
| Korea Development Bank | 3,529,932 | 5.19 |
| LG Investment & Securities Co. | 3,505,844 | 5.16 |
| Daishin Securities Co. | 2,944,130 | 4.33 |

Financial Highlights

KSFC Account

(In millions of KRW & in thousands of USD)

| As of March 31 | 2005 | | 2004 | |
|----------------------------------------|----------------------|----------------------|----------------------|----------------------|
| | Korean Won | U.S. Dollars | Korean Won | U.S. Dollars |
| Total Assets | 6,481,733 | 6,327,964 | 9,626,653 | 8,344,879 |
| Total Liabilities | 5,958,200 | 5,816,851 | 9,118,312 | 7,904,223 |
| Shareholders' Equity (Common Stock) | 523,533 (340,000) | 511,113 (331,934) | 508,341 (340,000) | 440,656 (294,730) |

The Korean Won amounts were translated into U.S. Dollars at the exchange rates of KRW 1,024.30 and KRW 1,153.60 to USD 1, the prevailing rates on March 31, 2005 and 2004 respectively.

(In millions of KRW & in thousands of USD)

| Year ended March 31 | 2005 | | 2004 | |
|-------------------------------------|------------|--------------|------------|--------------|
| | Korean Won | U.S. Dollars | Korean Won | U.S. Dollars |
| Total Revenues | 318,327 | 310,775 | 513,387 | 445,030 |
| Total Expenses | 268,795 | 262,418 | 456,255 | 395,505 |
| Income before Income Taxes | 49,532 | 48,357 | 57,132 | 49,525 |
| Net Income | 34,192 | 33,381 | 38,293 | 33,194 |
| Net Income/Average Common Stock (%) | 10.1 | | 11.3 | |
| Dividends/Common Stock (%) | 4.0 | | 6.0 | |

The Korean Won amounts were translated into U.S. Dollars at the exchange rates of KRW 1,024.30 and KRW 1,153.60 to USD 1, the prevailing rates on March 31, 2005 and 2004 respectively.

Trust Account

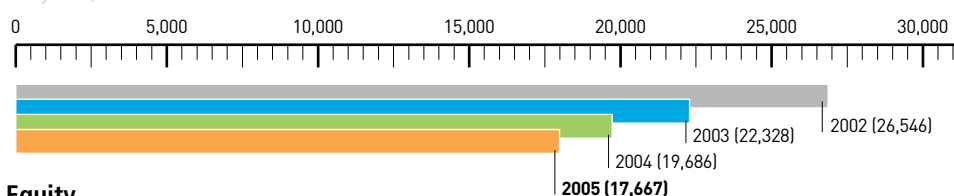
(In millions of KRW & in thousands of USD)

| As of March 31 | 2005 | | 2004 | |
|-------------------|------------|--------------|------------|--------------|
| | Korean Won | U.S. Dollars | Korean Won | U.S. Dollars |
| Total Assets | 11,185,064 | 10,919,715 | 10,059,296 | 8,719,917 |
| Trust Deposits | 11,130,364 | 10,866,313 | 9,997,641 | 8,666,471 |
| Other Liabilities | 54,700 | 53,402 | 61,655 | 53,446 |

The Korean Won amounts were translated into U.S. Dollars at the exchange rates of KRW 1,024.30 and KRW 1,153.60 to USD 1, the prevailing rates on March 31, 2005 and 2004 respectively.

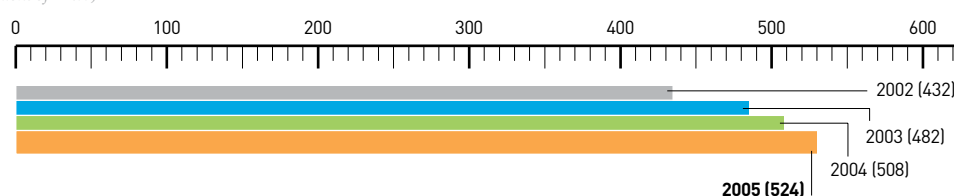
Total Assets

(As of March 31 / In billions of KRW)



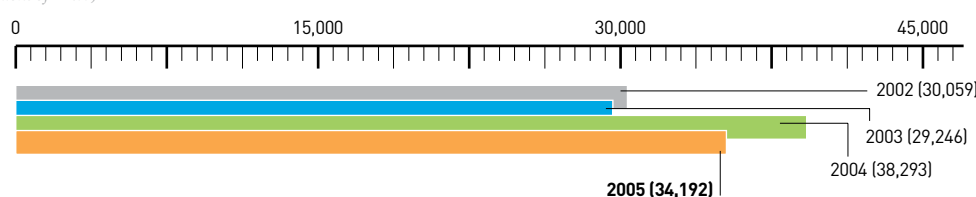
Shareholders' Equity

(As of March 31 / In billions of KRW)



Net Income

(As of March 31 / In billions of KRW)



CEO's Message



Serck-Joo Hong *President & CEO Korea Securities Finance Corp.*

The world economy recorded healthy growth in 2004 driven by U.S. economy's revitalization and newly emerging economies' rapid expansion. However, the Korean economy rather experienced a slowdown, as domestic consumption was not strong enough to compensate for the negative implications of appreciation of the Korean currency, soaring prices of oil and commodities, and weakening exports.

In the local financial markets, the shift towards universal banking system accelerated along with mergers between financial institutions and the rise of holding companies. Amid a low interest rate environment, competition intensified not only between the institutions within a segment, but also between the different sectors of the financial industry. Even though the stock market exhibited signs of new vitality as the KOSPI broke above 1,000p, lingering economic uncertainty acted as a constraint to further gains.

Under these circumstances, the average daily balance of funds raised and managed by the Korea Securities Finance Corporation (KSFC) amounted to 17.4 trillion won in FY2004, falling by 4.1 trillion won compared to the previous year as restructuring of the investment trust sector wound up. Net income decreased by 4.1 billion won from FY2003 to 34.2 billion won.

Over the past year, KSFC fulfilled its public function through safely managing customers' deposits and fostering development of ESOP. Particularly noteworthy is the significant stride made in the trustee business, which was launched in June 2004. In the span of just a year, KSFC became the trustee of assets worth more than 8 trillion won.

Since I assumed office as the CEO in June of 2004, KSFC has been pursuing management innovation, mapping out a new vision, creating a new corporate culture, broadening the business scope, and seeking ways to further enhance services to our clients. Last September, everyone at KSFC came together to proclaim a new vision of "a financial institution that creates the greatest added value and plays a vital role in the capital markets." Along those lines, KSFC has selected the following as its four core business activities: (1) loan and deposit services, (2) management of customers' deposits and other public roles, (3) management of assets and (4) businesses focusing on the basic infrastructure of the capital market including trustee and brokerage services.

In January of 2005, as we were formulating business plans for the new fiscal year, we selected as our management targets building an engine for sustainable growth and securing a viable profit base. In that vein, we decided on four strategic objectives: (1) profit maximization and retrenchment, (2) specialization in the basic infrastructure of the capital market, (3) adoption of an advanced management structure, and (4) introduction of a system for continuous innovation.

To realize our goal of innovation and lay the ground for a new beginning, all KSFC officers and employees agreed to a three-year wage freeze in February as a way of sharing the burden. We also had to endure the pain of the departure of 25% of the workforce.

Additionally, KSFC has reinforced its role as a specialized provider of securities-secured loans by launching uncollected money financing loans. KSFC also introduced loans to finance securities backed loans of securities firms and launched loan products collateralized by non-listed shares and subordinated convertible bonds in February 2005.

The Korean economy is forecasted to expand by about 4% in 2005, with delayed recovery in domestic consumption, slower export growth, and gradual improvement in facility investment. In the financial markets, persistently low interest rates and heightening competitive pressure are raising concerns over a potential decline in profits of financial institutions. But at the same time, hope is growing for new opportunities created by the growing indirect investment market and the convergence of various financial services.

In recognition of our surrounding environment, all of us here at KSFC make the following vows and commitments:

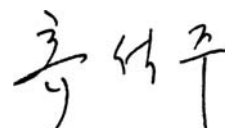
First, KSFC will strengthen its existing businesses such as management of customers' deposits, ESOP-related services, trustee business, and loans secured by securities. We will also continue to seek out future growth drivers such as the trust and brokerage businesses and new opportunities in the securities market.

Second, KSFC will support securities firms and seek ways of mutual growth and advancement through cooperation, which is one of the purposes of our establishment. In particular, the role of promoting the securities industry will be strengthened through the enhanced management of customers' deposits and the promotion to launch payment and settlement services.

Third, KSFC will reinforce Strategic Enterprise Management(SEH). Following building up the Enterprise Information System(EIS) last year, KSFC will further improve Management by Objectives(MBO) to firmly establish a profit- and value-oriented management framework that emphasizes responsibility and accountability.

Finally, KSFC will endeavor to maximize shareholders' value by going public within the next few years. Everyone at KSFC shares the thought that KSFC's going public is necessary to ensure sustainable long-term growth. To that end, KSFC will institute a solid profit model and strengthen our financial status.

With a strong foundation built over five decades, KSFC is now pursuing change and innovation to move even closer to our clients. The year 2005 marks the 50th anniversary of KSFC, and we face the year with a new resolution to make a second leap forward. KSFC is committed to maintaining a vital presence in the capital markets and creating the greatest added value. We strive to be a helpful companion that creates value for our clients and the markets.



Serck-Joo Hong
President & CEO
Korea Securities Finance Corp.



Review of Business Operations



OPERATION OF FUNDS

- Loans
- Securities Purchased under Reverse RP
- Notes Discounted
- Marketable Securities & Investment Securities
- Call Loan

PROCUREMENT OF FUNDS

- Bonds Issued
- Notes Issued
- Short-term Deposits Received
- Bond Sales under RP
- Call Money
- Shareholders' Equity



MANAGEMENT OF CUSTOMERS' DEPOSITS

TRUSTEE AND CUSTODIAN BUSINESS

ESOP-RELATED SERVICES

SECURITIES BORROWING AND LENDING BROKERAGE SERVICE



Under the new vision of "rising as the key player in the capital market that creates the greatest added value," KSFC has not only fulfilled its public functions, but also reinforced its commercial activities to respond to the fast changing financial environment.

KSFC's public functions include management of customers' deposits to protect investors' interests, supply of funds to facilitate development of the stock and bond markets, and services to further ESOP as a way of promoting workers' socio-economic welfare and their commitment to the workplace. KSFC has also evolved to keep pace with the changes in today's financial market by expanding its business scope and focusing on enhancing profitability.

Operation of Funds

The means by which KSFC manages its funds include loans, securities purchased under reverse RP, notes discounted, marketable securities, and long-term investments. Short-term funds for reserve requirements or temporarily idle money are managed through bank deposits or call loans. Recent trends in KSFC's operation of funds include (1) a decreased weight of loans and notes discounted that resulted from the end of KSFC's government policy support role following the Asian financial crisis and (2) an increased weight of marketable securities, bank deposits, and deposit accounts.

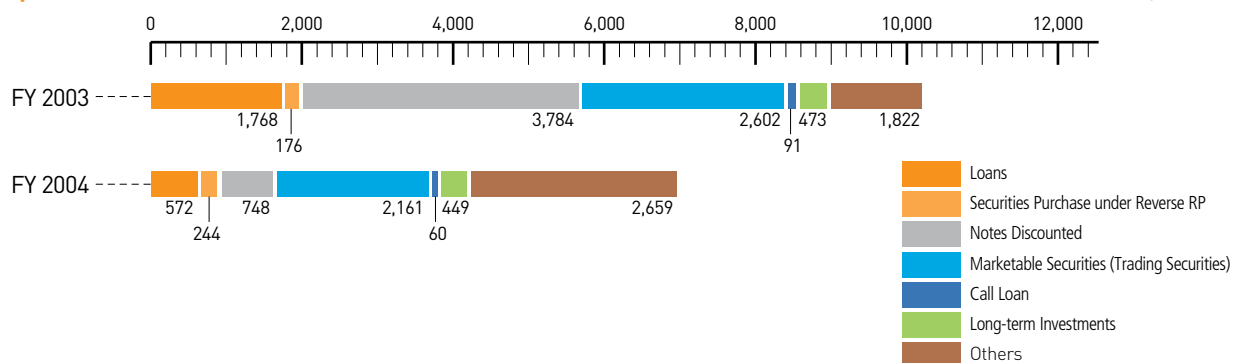
In FY2004, the average daily balance of KSFC's operating funds decreased by 3.82 trillion won to 6.89 trillion won, a 35.7% drop from the previous year.

(In millions of KRW, %)

| | FY 2004 | | FY 2003 | | Year-on-Year Change in Amount | Year-on-Year Percentage Change |
|---------------------------------------------------|------------------|--------------|-------------------|--------------|-------------------------------|--------------------------------|
| | Amount | Ratio (%) | Amount | Ratio (%) | | |
| Loans | 571,852 | 8.3 | 1,767,549 | 16.5 | △1,195,697 | △67.6 |
| Public Bond Underwriting Loans | 9,351 | 0.1 | - | - | 9,351 | - |
| Margin Financing Loans | 32,089 | 0.5 | 40,133 | 0.4 | △8,044 | △20.0 |
| Bond Dealer Loans | 125,651 | 1.8 | 174,845 | 1.6 | △49,194 | △28.1 |
| Working Capital Loans | 26,727 | 0.4 | 1,219,494 | 11.4 | △1,192,767 | △97.8 |
| Uncollected Money Financing Loans | 20,366 | 0.3 | - | - | 20,366 | - |
| Securities Secured Loans | 233,004 | 3.4 | 270,247 | 2.5 | △37,243 | △13.8 |
| ESOA Loans | 75,842 | 1.1 | 59,839 | 0.6 | 16,003 | 26.7 |
| Secured Financing Loans | 48,493 | 0.7 | 1,004 | 0.0 | 47,489 | 4,730.0 |
| Loans Secured by Subscription | | | | | | |
| Deposit for Forfeited Shares | 329 | 0.0 | 1,987 | 0.0 | △1,658 | △83.4 |
| Securities Purchased under Reverse RP | 243,658 | 3.5 | 176,080 | 1.6 | 67,578 | 38.4 |
| Notes Discounted | 747,830 | 10.8 | 3,784,465 | 35.3 | △3,036,635 | △80.2 |
| Marketable Securities (Trading Securities) | 2,161,122 | 31.4 | 2,601,989 | 24.3 | △440,867 | △16.9 |
| Call Loan | 60,374 | 0.9 | 91,217 | 0.9 | △30,843 | △33.8 |
| Long-term Investments | 449,414 | 6.5 | 473,497 | 4.4 | △24,083 | △5.1 |
| Available-for-Sale Securities | 331,874 | 4.8 | 415,220 | 3.9 | △83,346 | △20.1 |
| Held-to-Maturity Securities | 50,000 | 0.7 | 137 | 0.0 | 49,863 | 36,396.4 |
| Investment Assets | 14,882 | 0.2 | 16,453 | 0.2 | △1,571 | △9.5 |
| Tangible Assets | 33,362 | 0.5 | 31,938 | 0.3 | 1,424 | 4.5 |
| Deferred Income Tax Assets | 19,296 | 0.3 | 9,749 | 0.1 | 9,547 | 97.9 |
| Others | 2,658,757 | 38.6 | 1,822,058 | 17.0 | 836,699 | 45.9 |
| Total | 6,893,007 | 100.0 | 10,716,855 | 100.0 | △3,823,848 | △35.7 |

Operation of Funds

(In billions of KRW)



Loans**Securities Purchased under Reverse RP**

Notes Discounted

Marketable Securities & Investment Securities

Call Loan

Bonds Issued

Notes Issued

Short-term Deposits Received

Bond Sales under RP

Borrowings from Trust Account

Call Money

Shareholders' Equity

TRUSTEE AND CUSTODIAN BUSINESS

ESOP-RELATED SERVICES

SECURITIES BORROWING AND LENDING
BROKERAGE SERVICE

| Loans |

The average daily balance of loans plunged by 1,195.7 billion won to 571.9 billion won, a 67.6% drop from the previous year. Its portion to the total amount of funds operated by KSFC also declined from the previous year's 16.5% to 8.3%.

A detailed look by loan category follows.

Margin Financing Loans

Margin financing loans are extended to securities firms for the purpose of providing their customers with funds or stocks required to settle a stock purchase or sale in margin transactions. They are classified into money loans for the settlement of customers' margin purchase and stock loans for customers' short sale.

With brokerage firms holding abundant cash, the demand for money loans dwindled in FY2004, leading to a reduction in the average daily balance by 8.0 billion won to 32.1 billion won, a 20.0% drop from the previous year. Stock loans have not been made since the mid-1980s because of an insufficient amount of stocks available for the loans, and the general understanding that short selling of a stock is negative for its price.

Bond Dealer Loans

The average daily balance of public bond underwriting loans, which are offered to primary bond dealers to underwrite treasury bonds, amounted to 9.4 billion won. The funds for these loans come from the national treasury or KSFC's own funding.

Loans provided to secondary dealers in the bond market for the trading of bonds are no longer funded from the national treasury and only come from the KSFC's own funding. This resulted in a decrease in the average daily balance by 49.2 billion won to 125.7 billion won, a 28.1% drop from the previous year.

Working Capital Loans

Working capital loans, which are secured by marketable securities, are provided to securities-related institutions, KRX(Korea Exchange), futures companies, and insurance companies. With the redemption upon maturity of a long-term loan extended to Hyundai Investment and Securities, which was funded by an issuance of bonds (non-real name) of 2 trillion won, on October 31, 2003, the average daily balance in working capital loan tumbled by 1,192.8 billion won to 26.7 billion won, a 97.8% drop from the previous year.

Uncollected Money Financing Loans

KSFC introduced the uncollected money financing loan in November 2004 for the purpose of supporting and pursuing cooperation with securities companies, which are both major shareholders and clients of KSFC. This loan facility provides securities companies with funds they need to settle the payments for securities purchased by their customers with customer margin. The average daily balance of uncollected money financing loans was 20.4 billion won.



Securities Secured Loans

Most of the KSFC's loan products are intended for securities companies and have the feature of supporting government financial policy. In contrast, securities secured loan is offered to individual customers, corporations, and ESOAs. During FY2004, KSFC tried to bolster its commercial operations, especially in lending activities, and the securities secured loan has emerged as a core product in this line, enhancing KSFC's overall profitability. However, competition in this area started heating up recently as other securities firms and banks aggressively promoted similar kinds of loans as a new source of income.

Loans secured by marketable securities and extended to individuals and corporations recorded an average daily balance of 233.0 billion won, decreased by 37.2 billion won, a 13.8% drop from the previous year. However, the average daily balance of loans for ESOAs increased by 16.0 billion won to 75.8 billion won, up by 26.7% from the previous year.

Secured Financing Loans

KSFC launched the secured financing loan in March 2004. With this product, securities companies can procure funds needed to extend loans to their customers that are secured by marketable securities deposited by the customers. The average daily balance was 48.5 billion won.

Loans Secured by Subscription Deposit for Forfeited Shares

Loans secured by subscription deposit for forfeited shares provide funds to subscribe for forfeited shares with subscription deposit account for forfeited shares at KSFC taking the respective deposit as collateral. The rationalization of issue price of forfeited shares and securities firms' tighter restrictions on share subscription have sharply reduced the merit of subscribing for forfeited shares. Consequently, the average daily balance plummeted by 1.7 billion won to 0.3 billion won, a 83.4% drop from the previous year.

| Securities Purchased under Reverse RP |

Amid growing market interest in RPs (repurchase agreement) as an alternative to call loans as a short-term financial vehicle, KSFC has been actively purchasing securities under reverse RP since September 2001 in an effort to diversify the methods used to operate funds and to prepare to enter the bond market. However, a drawback is that the financing cost is related high compared to the call loans, which is unsecured.

The average daily balance of securities purchased under reverse RP rose by 67.6 billion won to 243.7 billion won, a 38.4% increase from the previous year. As a portion of total funds managed, it expanded from 1.6% in FY2003 to 3.5% in FY2004.

| Notes Discounted |

Notes discounted had been the main method for managing short-term idle funds until 1998. But their portion in the operation of funds dipped below 50% in 1997, and has continued to fall at a rapid pace since then. The decline is attributable to an adjustment in MMF investment weight on KSFC notes (4%→0%) and dissolution of Investment Trust Stabilization Funds (May 24, 2004).

The average daily balance decreased by 3.04 trillion won to 747.8 billion won, an 80.2% drop from the previous year. Note discounted as a proportion of funds operated by KSFC dwindled to 10.8%, a sharp decrease from 35.3% in FY2003.

| Marketable Securities & Investment Securities |

While notes discounted saw a rapid reduction in their portion under KSFC's fund operation lately, marketable and investment securities have steadily enlarged their portions since 2001.

Marketable securities held by KSFC are classified into three categories: (1) trading securities are purchased for the purpose of operating short-term funds or for near-term trading and are recognized as a current asset; (2) held-to-maturity securities are intended to be held until maturity and are accounted for as a long-term investment; and (3) securities which do not belong to either of the two aforementioned categories are classified as available-for-sale securities and are accounted for as a long-term investment. Held-to-maturity and trading securities are not carried at market prices.

The average daily balance of marketable securities slid by 440.9 billion won to 2.16 trillion won, a 16.9% drop from the previous year, and it represented 31.4% of funds operated by KSFC.

For investment securities, the average daily balance dropped by 83.3 billion won to 331.9 billion won, down by 20.1% from the previous year.

| Call Loan |

The average daily balance of call loan, an instrument for the management of short-term funds, decreased by 30.8 billion won to 60.4 billion won, a 33.8% drop from the previous year.

| Procurement of Funds |

The sources of funds operated by KSFC include shareholders' equity; bonds issued; deposits received from securities-related institutions, individuals, and corporations; notes issued; and bond sales under RP. Recent highlights are as follows:

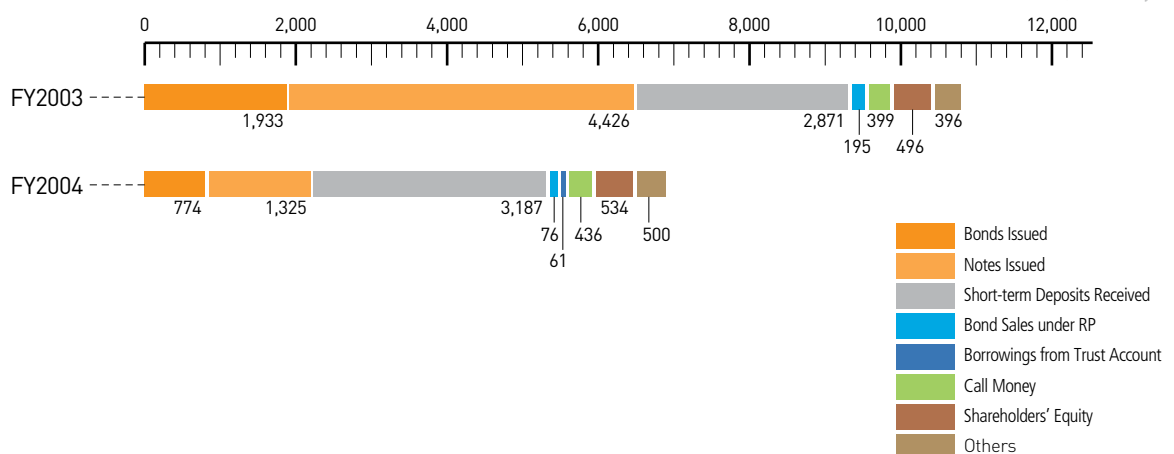
◆October 2003 - redemption of non-real name bonds issued for the purpose of supporting Hyundai Investment & Securities (HIS) ◆February 2004 - full redemption of HIS-linked call money ◆April 2004 - discontinuation of receiving deposits from the national treasury ◆May 2004 – reduction in notes issued following a decrease of mandatory portfolio weight on MMF (4%→0%) and dissolution of Investment Trust Stabilization Funds. For these reasons, notes issued, which mainly raised funds that were channeled to support the government's financial policy, decreased significantly compared to FY2003. In contrast, deposits grew by 11.0%, backed by an increase in customers' deposits placed with KSFC and KSFC's reinforced commercial activities. A new source of capital, i.e., borrowings from trust account, emerged as KSFC commenced the trustee business in June 2004. The shareholders' equity portion of capital raised is on the rise due to the decrease in funds procured to support government policy measures.

(In millions of KRW, %)

| | FY 2004 | | FY 2003 | | Year-on-Year Change in Amount | Year-on-Year Percentage Change |
|-----------------------------------------------------|------------------|--------------|-------------------|--------------|-------------------------------|--------------------------------|
| | Amount | Ratio (%) | Amount | Ratio (%) | | |
| Bonds Issued | 773,500 | 11.2 | 1,933,363 | 18.0 | △1,159,863 | △60.0 |
| Notes Issued | 1,324,571 | 19.2 | 4,426,332 | 41.3 | △3,101,761 | △70.1 |
| Short-term Deposits Received | 3,187,046 | 46.2 | 2,870,746 | 26.8 | 316,300 | 11.0 |
| Customers' Deposits Received | 2,427,193 | 35.2 | 1,987,980 | 18.6 | 439,213 | 22.1 |
| Subscription Guaranty Money Deposits | 376,156 | 5.5 | 700,313 | 6.5 | △324,157 | △46.3 |
| SMSF(Securities Market Stabilization Fund) Deposits | 63,216 | 0.9 | 40,209 | 0.4 | 23,007 | 57.2 |
| Subscription Deposits for IPO Shares | 17,573 | 0.3 | 5,589 | 0.1 | 11,984 | 214.4 |
| Subscription Deposits for Forfeited Shares | 120,048 | 1.7 | 68,112 | 0.6 | 51,936 | 76.3 |
| Others | 182,860 | 2.7 | 68,543 | 0.6 | 114,317 | 166.8 |
| Bond Sales under RP | 76,386 | 1.1 | 195,152 | 1.8 | △118,766 | △60.9 |
| Borrowings from Trust Account | 60,956 | 0.9 | - | - | 60,956 | - |
| Call Money | 436,051 | 6.3 | 398,733 | 3.7 | 37,318 | 9.4 |
| Shareholders' Equity | 534,479 | 7.8 | 496,040 | 4.6 | 38,439 | 7.7 |
| Others | 500,018 | 7.3 | 396,489 | 3.7 | 103,529 | 26.1 |
| Total | 6,893,007 | 100.0 | 10,716,855 | 100.0 | △3,823,848 | △35.7 |

Procurement of Funds

(In billions of KRW)



| Bonds Issued |

KSFC raises funds needed to support securities firms or to facilitate implementation of government policy by borrowing from financial institutions and also by issuing corporate bonds. Borrowings are usually for short-term use, and most of them had been from banks. However, KSFC ceased borrowing from banks in 1999, and instead has turned to call money to secure required short-term capital.

KSFC also issues corporate bonds as a more stable method of securing funds. Following the redemption of KSFC bonds (non-real name) on October 31, 2003, the remaining balance of corporate bonds is 773.5 billion won, which are related to regulations that require major shareholders of insolvent financial institutions to bear a part of the burden with moves such as bond purchase.

| Notes Issued |

Promissory notes, which resemble deposits in nature, are issued to individuals and corporations. There has been a considerable reduction in notes issued due to the adjustment in the mandatory portfolio weight on KSFC notes in MMF products (4%→0%), dissolution of the Investment Trust Stabilization Funds (May 23, 2004), and the discontinuation of deposits from the national treasury as of April 1, 2004.

The average daily balance tumbled by 70.1% year-on-year to 1.32 trillion won, accounting for 19.2% of total funds raised.

| Short-term Deposits Received |

As the amount of notes issued dwindled, deposits accounted for the largest portion of funds raised, at 46.2% of the total in FY2004. The average daily balance of deposits went up by 11.0% over FY2003 to 3.19 trillion won.

A detailed look by deposit category follows.

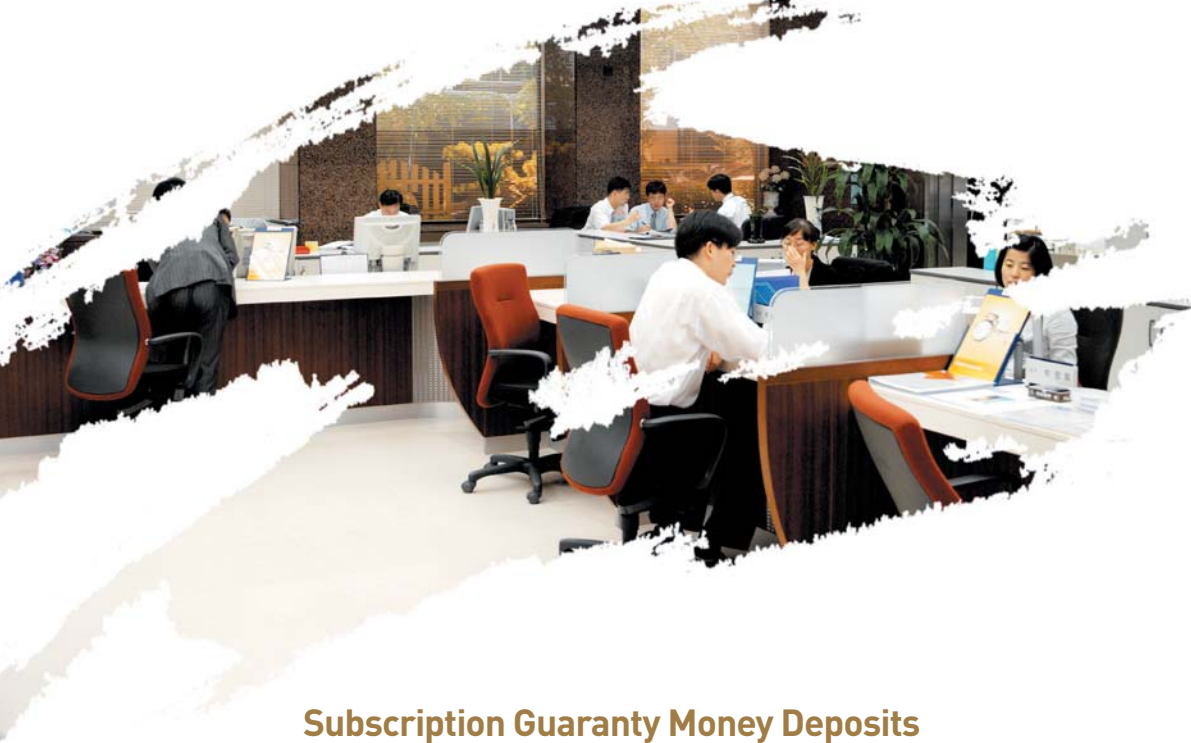
Customers' Deposits Received

The average daily balance of customers' deposits, which comprises the bulk of deposits, grew by 22.1% over the previous year to 2.43 trillion won. That amount was equivalent to 35.2% of total funds procured.

Money deposited by customers at brokerage firms for the purpose of spot trading have to be re-deposited at KSFC in accordance with the Securities and Exchange Act. For this type of deposit, the average daily balance slid by 16.4% to 773.5 billion won as sluggish stock market pulled down trading volume.

The Securities and Exchange Act also stipulates that money deposited by customers to trade index futures and options has to be re-deposited at KSFC. Expanded stock market volatility boosted futures trading, driving up the average daily balance of this deposit type by 46.0% to 1.16 trillion won.

Futures companies are required to entrust their customers' deposits with the KSFC under the Futures Trading Act. The average daily balance of this class of deposit shot up 83.9% to 495.4 billion won backed by a pickup in futures trading activity.



Subscription Guaranty Money Deposits

Deposits made by customers to subscribe to IPO shares or rights issues are re-deposited with KSFC by the underwriter. This is a systematic safeguard aimed at preventing investor losses that could result if securities firms do not manage such deposits separately from their own accounts. KSFC usually manages these deposits by selling short-term notes, with the amount not exceeding the deposit amount, to the securities companies that make the deposits.

Weakness in the primary market caused the average daily balance of subscription guaranty money deposit to fall by 46.3% over the previous year to 376.2 billion won, equal to 5.5% of total funds raised by KSFC.

Subscription Deposits for IPO and Forfeited Shares

Although the merit of subscribing to IPO shares faded due to a change in the related regulations, subscription deposit for IPO shares swelled by 214.4% year-on-year to 17.6 billion won. The impressive jump is attributed to vitalized commercial activities at KSFC such as efforts to attract the deposits of customers who redeemed KSFC bonds (non-real name).

The average daily balance of subscription deposit for forfeited shares expanded by 76.3% year-on-year to 120.0 billion won.

Others

The average daily balance of money deposited by the Securities Market Stabilization Fund (SMSF) rose by 57.2% to 63.2 billion won. Deposits of SMSF, which was created to stabilize the stock market, are temporarily kept with KSFC until the securities purchased by SMSF are sold and the proceeds are distributed to the Fund members.

The average daily balance of other types of deposits were 23.2 billion won for securities-related institutions' deposit, 146.4 billion won for general corporations' deposit, 8.5 billion won for ESOA deposit, 1.5 billion won for special deposit, and 3.3 billion won for guarantee deposit. Noteworthy is the 142.8% surge in the balance for general corporations' deposit, which bolstered its proportion of total deposits from 2.1% to 4.6%. The increase was the result of active promotion of this deposit product to the corporate sector.

| Bond Sales under RP |

KSFC can also raise funds by selling its debt securities to corporations or individuals with an agreement to repurchase them at a designated time and price. Bond sales under repurchase agreements (RPs), which had once lost its interest rate merit, revitalized among institutions in the second half of FY2003.

However, the average daily balance of bond sales under RP declined by 60.9% year-on-year to 76.4 billion won as the low interest rate environment eroded the appeal of bonds as an investment vehicle.

| Borrowings from Trust Account |

Following the start of the trustee business from June 2004, KSFC receives deposits of temporarily idle cash of indirect investment assets from the institutions that manage these assets under trustee agreements. These funds are classified as borrowings from trust account.

The average daily balance of borrowings from trust account, which have to be managed separately according to the consignor and the indirect investment asset manager, was 60.96 billion won, accounting for 0.9% of total funds procured by KSFC.

| Call Money |

The average daily balance of call money, a means of raising short-term capital, increased by 9.4% over a year earlier to 436.1 billion won, or equivalent to 6.3% of total funds raised.

| Shareholders' Equity |

As of the end of FY2004, KSFC's shareholders' equity stood at 570.6 billion won, representing a 5.8% year-on-year growth. The average daily balance rose by 7.7% to 534.5 billion won.

| Management of Customers' Deposits |

In accordance with the Securities and Exchange Act and Futures Trading Act, money temporarily deposited by customers at securities or futures companies for the purpose of trading marketable securities or futures transactions is fully re-deposited or entrusted with the KSFC.

KSFC is the sole custodian of customers' deposits under regulations that are designed to ensure that proprietary assets of a securities firm or futures company are strictly segregated from customers' deposits. This measure is intended to protect the assets of customers even in the event of bankruptcy of a securities firm or futures company, thereby helping to maintain stability in the securities markets.

Amendments to relevant regulations in December 2002 enabled management of customers' deposits not only through the deposit method (segregation from KSFC's own account), but also through trust accounts. As of the end of March 2005, customers' deposits of 29 (out of a total 56) depositing institutions were being managed through trust accounts.

KSFC has established consultative committees in order to enhance transparency and stability in the management of funds through the deposit and trust methods.

For FY2004 (April 1, 2004 ~ March 31, 2005), the balance of customers' deposits managed by KSFC, on an average daily basis, was 2.43 trillion won in deposit accounts and 10.45 trillion won in trust accounts.



| Trustee and Custodian Business |

KSFC started holding in custody and managing investment trusts and property entrusted by asset management companies and investment companies, in accordance with the Act on Business of Operating Indirect Investment and Assets, in June 2004, which was during the early phase of the implementation of the amended version of the law. The trustee business is intended to widen the scope of business at KSFC.

KSFC expanded into this area with the objective of faithfully fulfilling its role as an expert manager. With a proactive stance, we pursued cooperative relations with asset management companies and strived to offer systematic and diverse services. Those efforts bore fruit, as KSFC was entrusted with 314 funds from 31 asset management companies by the end of FY2004, which was just 10 months since the business was launched. As of the end of FY2004, entrusted assets were worth 7.85 trillion, with the average daily balance amounting to 3.28 trillion won.

| ESOP-related Services |

The Employee Stock Ownership Plan (ESOP) is a mechanism that enables employees to acquire stock of their respective company in order to enhance their socio-economic status and promote cooperative labor-management relations.

Pursuant to the Securities and Exchange Act and the Basic Workers Welfare Act, KSFC is the sole institution in Korea charged with carrying out ESOP related services. Services provided by KSFC include custody of stocks held by ESOAs and/or ESOA members, various lending activities related to ESOP, advisory on setting up and operating an ESOA, training of persons responsible for ESOP duties, and management of ESOP.

As of the end of FY2004, a total of 2,275 companies had established ESOAs in Korea. Among them, 743 deposited a total of about 300 million shares with KSFC.

| Securities Borrowing and Lending Brokerage Service |

Securities Borrowing and Lending (SBL) is a low-risk investment vehicle that takes advantage of arbitrage opportunities in individual securities and/or markets. KSFC acts as an intermediary for the borrowing and lending of equity and bonds.

Driven by active participation of market players and the increase in arbitrage trading of treasury bonds, the market for bond lending mushroomed, with the brokerage volume climbing to 470.6 billion won. Further growth is anticipated, led by a robust treasury bond market and increased arbitrage trading.

Financial Statements



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Independent Auditors' Report

>> Based on a report originally issued in Korean

The Shareholders and Board of Directors The Korea Securities Finance Corporation

We have audited the accompanying balance sheets of The Korea Securities Finance Corporation (the "Company") as of March 31, 2005 and 2004, and the related statements of income, appropriation of retained earnings and cash flows for the years then ended, all expressed in Korean Won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2005 and 2004, and the results of its operations, the changes in its retained earnings, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

Without qualifying our opinion, we drew attention to the following :

As discussed in note 2 (a) to the financial statements, accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those knowledgeable about Korean accounting procedures and auditing standards and their application in practice.

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea
April 15, 2005

This report is effective as of April 15, 2005, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Balance Sheets

>> March 31, 2005 and 2004

(Millions of Won except share data)

| | 2005 | 2004 |
|---------------------------------------------------------|--------------------|------------------|
| Assets *** | | |
| Current assets: | | |
| Cash and cash equivalents (notes 3 and 8) | ₩ 2,752,572 | 2,822,185 |
| Short-term securities (notes 2 and 4) | 2,071,438 | 3,177,892 |
| Current portion of long-term securities (notes 2 and 7) | 192,329 | 25,779 |
| Loans (notes 2, 5 and 8) | 816,658 | 539,935 |
| Notes discounted | 122,052 | 2,434,812 |
| Securities purchased under resale agreements (note 2) | 169,500 | 69,300 |
| Accrued income and other current assets (notes 6 and 8) | 24,980 | 20,763 |
| Total current assets | 6,149,529 | 9,090,666 |
| Long-term securities (notes 2 and 7) | 182,875 | 391,010 |
| Long-term loans (notes 2, 5 and 8) | 80,981 | 76,268 |
| Property and equipment (notes 2 and 9) | 30,035 | 32,959 |
| Other assets (notes 2, 10 and 17) | 38,313 | 35,750 |
| Total assets | ₩ 6,481,733 | 9,626,653 |

Liabilities and Shareholders' equity ***

| | | |
|-----------------------------------------------------------------|--------------------|------------------|
| Current liabilities: | | |
| Short-term deposits received (note 8) | 3,064,397 | 2,295,464 |
| Notes issued | 504,068 | 4,863,484 |
| Call money | 877,600 | 297,400 |
| Securities sold under repurchase agreements | 201,300 | 88,253 |
| Current portion of bonds issued (note 12) | 633,363 | 529,240 |
| Accrued expenses and other current liabilities (notes 8 and 11) | 235,962 | 263,136 |
| Total current liabilities | 5,516,690 | 8,336,977 |
| Bonds issued (note 12) | 430,632 | 773,651 |
| Long-term deposits received (note 8) | 2,192 | 3,948 |
| Reserve for contingencies (note 2) | 6,340 | - |
| Retirement and severance benefits (notes 2 and 13) | 2,346 | 3,736 |
| Total liabilities | 5,958,200 | 9,118,312 |
| Shareholders' equity | | |
| Common stock of ₩5,000 par value | | |
| Authorized - 128 million shares | | |
| Issued - 68 million shares | 340,000 | 340,000 |
| Revaluation surplus and other capital surplus | 21,767 | 21,767 |
| Legal reserve (note 14) | 40,400 | 36,400 |
| Appropriated retained earnings | 91,070 | 77,170 |
| Unappropriated retained earnings | 34,218 | 38,298 |
| Capital adjustment: | | |
| Gain (Loss) on valuation of investment securities (note 7) | 4,010 | (4,832) |
| Treasury stock | (7,932) | (462) |
| Total shareholders' equity | 523,533 | 508,341 |
| Total liabilities and shareholders' equity | ₩ 6,481,733 | 9,626,653 |

See accompanying notes to financial statements.

Statements of Income

>> Years ended March 31, 2005 and 2004

(Millions of Won except share data)

| | | 2005 | 2004 |
|--------------------------------------------------------------------|---|----------|---------|
| Operating revenue: | | | |
| Interest on bank deposits (note 8) | ₩ | 87,037 | 61,584 |
| Interest on securities | | 26,210 | 42,194 |
| Interest on loans and notes discounted (note 8) | | 59,134 | 273,139 |
| Gain on trading of securities | | 61,446 | 74,201 |
| Dividends | | 1,302 | 345 |
| Commissions | | 3,256 | 2,899 |
| Others (note 2) | | 79,177 | 58,283 |
| | | 317,562 | 512,645 |
| Operating expenses: | | | |
| Interest expenses (note 8) | | 181,954 | 389,534 |
| Loss on trading of securities | | 1,684 | 3,932 |
| Selling, general and administrative expenses (notes 15, 21 and 22) | | 44,255 | 35,798 |
| Others (note 2) | | 10,426 | 26,235 |
| | | 238,319 | 455,499 |
| Operating income | | 79,243 | 57,146 |
| Other income (deductions): | | | |
| Loss on impairment of Long-term securities | | (5,052) | - |
| Donations (note 22) | | (679) | (670) |
| Transfer to reserve for contingencies | | (6,340) | - |
| Others (note 2) | | 568 | 656 |
| | | (11,503) | (14) |
| Earnings before extraordinary gains/losses and income taxes | | 67,740 | 57,132 |
| Extraordinary losses (note 16) | | 18,208 | - |
| Earnings before income taxes | | 49,532 | 57,132 |
| Income taxes (notes 2 and 17) | | 15,340 | 18,839 |
| Net income | ₩ | 34,192 | 38,293 |
| Earnings per share of common stock in Won (notes 2 and 19) | ₩ | 506 | 564 |

See accompanying notes to financial statements.

Statements of Appropriation of Retained Earnings

>> Years ended March 31, 2005 and 2004

Date of Appropriation for 2005 : June 10, 2005

Date of Appropriation for 2004 : June 10, 2004

(Millions of Won)

| | | 2005 | 2004 |
|-------------------------------------------------------------------------|---|-----------|-----------|
| Unappropriated retained earnings: | | | |
| Balance at beginning of year | ₩ | 26 | 5 |
| Net income | | 34,192 | 38,293 |
| | | ----- | ----- |
| | | 34,218 | 38,298 |
| Appropriations: | | | |
| Legal reserve (note 14) | | 3,500 | 4,000 |
| Reserve for dividends | | 17,300 | 13,900 |
| Dividends (note 20) | | 13,374 | 20,372 |
| | | ----- | ----- |
| | | 34,174 | 38,272 |
| Unappropriated retained earnings carried over to subsequent year | | | |
| | ₩ | 44 | 26 |

See accompanying notes to financial statements.

Statements of Cash Flows

>> Years ended March 31, 2005 and 2004

(Millions of Won)

| | | 2005 | 2004 |
|-----------------------------------------------------|---|-----------|-----------|
| Cash flows from operating activities: | | | |
| Net income | ₩ | 34,192 | 38,293 |
| Adjustments to reconcile net earnings | | | |
| to net cash provided by operating activities: | | | |
| Depreciation and amortization | | 4,081 | 3,189 |
| Provision for retirement and severance benefits | | 3,406 | 2,080 |
| Gain on valuation of short-term securities, net | | (25,010) | (1,255) |
| Gain on trading of short-term securities, net | | (59,762) | (70,269) |
| Gain on disposition of long-term securities, net | | (2) | - |
| Loss on impairment of Long-term securities | | 5,052 | - |
| Transfer to reserve for contingencies | | 6,340 | - |
| Reversal of allowance for doubtful accounts | | (29,611) | (18,659) |
| Decrease (increase) in accrued income and | | | |
| other current assets | | (4,216) | 653,247 |
| Increase in other assets | | (5,471) | (9,315) |
| Increase (decrease) in accrued expenses and | | | |
| other current liabilities | | (27,063) | (436,119) |
| Payment of retirement and severance benefits | | (6,101) | (1,817) |
| Others | | (39) | 444 |
| | | ----- | ----- |
| Net cash provided by (used in) operating activities | | (104,204) | 159,819 |

Statements of Cash Flows, Continued

>> Years ended March 31, 2005 and 2004

(Millions of Won)

| | 2005 | 2004 |
|--------------------------------------------------------------------------|--------------|--------------|
| Cash flows from investing activities: | | |
| Decrease in short-term securities | ₩ 6,505,112 | 11,741,395 |
| Decrease in current portion of long-term securities | 27,805 | - |
| Decrease in loans | 17,590,591 | 18,954,711 |
| Decrease in notes discounted | 2,360,703 | 446,134 |
| Decrease in securities purchased under resale agreements | 2,653,900 | 1,733,000 |
| Disposition of long-term securities | 17,588 | 24,952 |
| Decrease (increase) in other assets | 3,021 | (59) |
| Decrease in long-term loans | 51,421 | 2,036,172 |
| Disposition of property and equipment | 368 | 121 |
| Increase in short-term securities | (5,313,887) | (12,879,005) |
| Increase in loans | (17,885,423) | (16,060,120) |
| Increase in securities purchased under resale agreements | (2,754,100) | (1,723,000) |
| Acquisition of long-term securities | (15) | (50,005) |
| Increase in long-term loans | (56,358) | (2,058,039) |
| Acquisition of property and equipment | (1,405) | (4,565) |
| Decrease (increase) in deposits for retirement and severance benefits | 1,086 | 565 |
| Net cash provided by investing activities | 3,200,407 | 2,162,257 |
| Cash flows from financing activities: | | |
| Increase in short-term deposits received | 62,249,929 | 82,955,238 |
| Increase in call money | 97,283,600 | 86,994,300 |
| Increase in securities sold under repurchase agreements | 955,643 | 2,093,638 |
| Increase in notes issued | - | 684,707 |
| Proceeds from bonds issued | - | 9,952 |
| Decrease in short-term deposits received | (61,480,996) | (82,863,379) |
| Decrease in call money | (96,703,400) | (87,121,200) |
| Decrease in notes issued | (4,359,416) | - |
| Decrease of securities sold under repurchase agreements | (842,596) | (2,350,993) |
| Decrease of long-term deposits received, net | (1,631) | (251) |
| Payment of current portion of bonds issued | (238,870) | (1,470,760) |
| Acquisition of treasury stock | (7,470) | - |
| Payment of dividends | (20,609) | (23,569) |
| Net cash used in financing activities | (3,165,816) | (1,092,317) |
| Net increase (decrease) in cash and cash equivalents | (69,613) | 1,229,759 |
| Cash and cash equivalents at beginning of year | 2,822,185 | 1,592,426 |
| Cash and cash equivalents at end of year (notes 3 and 18) | ₩ 2,752,572 | 2,822,185 |

See accompanying notes to financial statements.

Notes to Financial Statements

>> March 31, 2005 and 2004

(1) The Company

The Korea Securities Finance Corporation (the "Company") was incorporated on October 11, 1955 to engage in the securities financing business under the Securities and Exchange Act.

The Company is required to have the approval of the Minister of Finance and Economy or the Financial Supervisory Commission to enter new lines of business.

Since December 20, 2002, the Company has been engaged in trust business with a view to investing funds received from securities companies as deposits of customers' funds for securities transactions.

As of March 31, 2005, the Company's major shareholders and ownerships are as follows:

| Shareholders | Ownership (%) |
|----------------------------|---------------|
| Korea Exchange Bank | 11.345 |
| Woori Bank | 7.809 |
| Korea Development Bank | 5.191 |
| LG Investment & Securities | 5.156 |
| Daishin Securities | 4.330 |

(2) Summary of Significant Accounting Policies

(a) Basis of Presenting Financial Statements

The Company maintains its official accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in conformity with the accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use only by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured, and translated into English (with certain expanded descriptions) from the Korean language financial statements.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Company's financial position, results of operations or cash flows, is not presented in the accompanying financial statements.

(b) Investments in Securities

Upon acquisition, the Company classifies certain debt and equity securities into one of the three categories: held-to-maturity, available-for-sale, or trading securities. Investments in debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity. Securities that are bought and held principally for the purpose of selling them in the near term (thus held for only a short period of time) are classified as trading securities. Trading generally reflects active and frequent buying and selling, and trading securities are generally used to generate profit on short-term differences in price. Investments not classified as either held-to-maturity or trading securities are classified as available-for-sale securities.

Trading securities are carried at fair value, with unrealized holding gains and losses included in earnings. Available-for-sale securities are carried at fair value, with unrealized holding gains and losses reported as a capital adjustment. Investments in equity securities that do not have readily determinable fair values are stated at cost. Declines in value judged to be other-than-temporary on available-for-sale securities are charged to current results of operations. Investments in debt securities that are classified into held-to-maturity are reported at amortized cost at the balance sheet date and such amortization is included in interest income.

Notes to Financial Statements

>> March 31, 2005 and 2004

(2) Summary of Significant Accounting Policies, Continued

Marketable securities are at the quoted market prices as of the year ends. Non-marketable debt securities are recorded at the fair values derived from the discounted cash flows by using an interest rate deemed to approximate the market interest rate. The market interest rate is determined by the issuers' credit rate announced by the accredited credit rating agencies in Korea. Money market funds are recorded at the fair value determined by the investment management companies.

Trading securities are classified as current assets, whereas available-for-sale securities and held-to-maturity securities are classified as long-term investments. However, available-for-sale securities whose maturity dates are due within one year from the balance sheet date or whose likelihood of being disposed of within one year from the balance sheet date is probable are classified as current assets. Likewise, held-to-maturity securities whose maturity dates are due within one year from the balance sheet date are classified as current assets.

(c) Allowance for Doubtful Accounts

The Regulation on Supervision over Financial Soundness of the Company provides guidelines for calculating the allowance for doubtful accounts. These guidelines require that all accounts be classified based on a number of factors, including the financial position of the borrower, the payment history of the account, and the default of the borrower. In accordance with these guidelines, accounts have been classified as normal, precautionary, substandard, doubtful or estimated loss. The allowance is then calculated account balance for each classification using the prescribed percentage or more of 0.5%, 2%, 20%, 75%, or 100%, respectively.

(d) Property and Equipment

Property and equipment are stated at cost and accumulated depreciation is reflected as deduction from the tangible asset. Expenditure that results in enhancement of the value or expansion of the useful lives of the facilities involved is capitalized as additions to tangible assets. Depreciation is computed by the declining-balance method with applicable rates based on useful lives of the respective assets shown as follows (the straight-line method for buildings and structures).

| | useful lives (years) |
|------------------|----------------------|
| Buildings | 6~60 |
| Structures | 10~40 |
| Office equipment | 4 |
| Vehicles | 4 |

(e) Retirement and Severance Benefits

Employees who have been with the Company for more than one year are entitled to lump-sum payments based on current rates of pay and length of service when they leave the Company. The Company's estimated liability under the plan which would be payable if all employees left on the balance sheet date is accrued in the accompanying balance sheets.

A portion of retirement and severance benefits liability is covered by an employees' severance benefits insurance where the employees have a vested interest in the deposit with the insurance company. The deposit for severance benefits insurance is, therefore, reflected in the accompanying balance sheet as a deduction from the liability for retirement and severance benefits.

(f) Income Taxes

Income tax on the earnings or loss for the years comprises current and deferred tax. Income tax is recognized in the statement of earnings except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

Notes to Financial Statements

>> March 31, 2005 and 2004

(2) Summary of Significant Accounting Policies, Continued

A deferred tax asset is recognized only to the extent that it is probable that future taxable earnings will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(g) Contingent Liabilities

Contingent losses are generally recognized as liability when probable and reasonably estimable.

(h) Earnings Per Share

Earnings per common share are calculated by dividing net earnings applicable to common stock by the weighted average number of common stock outstanding.

(i) Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related notes to financial statements. Actual results could differ from those estimates.

(3) Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2005 and 2004 are summarized as follows:

(Millions of Won)

| | | 2005 | 2004 |
|--------------------------|---|------------------|------------------|
| Cash on hand | ₩ | 7 | 8 |
| Passbook accounts | | 1 | 3 |
| Current accounts | | 33 | 45 |
| Time deposits | | 125,000 | 351,000 |
| MMDA | | 2,066,233 | 2,196,877 |
| Certificates of Deposits | | 561,298 | 274,252 |
| | ₩ | 2,752,572 | 2,822,185 |

(4) Short-term Securities

Short-term securities as of March 31, 2005 and 2004 are summarized as follows:

(Millions of Won)

| | | Cost (*) | | Unrealized Holding gains (losses) | | Fair value | |
|-----------------------------------|---|------------------|------------------|-----------------------------------|--------------|------------------|------------------|
| | | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| <Trading securities> | | | | | | | |
| Equity securities | ₩ | 3,856 | 867 | 1,222 | 665 | 5,078 | 1,532 |
| Debt securities | | 591,607 | 236,856 | (5,207) | (3,034) | 586,400 | 233,823 |
| Beneficiary certificates | | 1,444,912 | 2,897,561 | 21,782 | 15,749 | 1,466,694 | 2,913,310 |
| Mutual funds | | 6,053 | 41,352 | 7,213 | (12,125) | 13,266 | 29,227 |
| | ₩ | 2,046,428 | 3,176,636 | 25,010 | 1,255 | 2,071,438 | 3,177,892 |

(*) The securities acquired before current year are recorded at prior year' book value.

Notes to Financial Statements

>> March 31, 2005 and 2004

(5) Loans

Loans (including long-term loans) as of March 31, 2005 and 2004 are summarized as follows:

| | | (Millions of Won) | |
|------------------------------------------------------------|---|-------------------------|-------------------------|
| | | 2005 | 2004 |
| Call loans | ₩ | 166,000 | 40,100 |
| Margin financing loans | | 224,961 | 193,795 |
| Working capital loans | | 49,000 | 45,000 |
| Loans to support secured financing | | 94,144 | 22,615 |
| Loans to support uncollected money financing | | 59,914 | - |
| Loans for employee's stock acquisition | | 82,263 | 77,083 |
| Employee's stock secured loans | | 263 | 55 |
| General secured loans | | 242,309 | 240,383 |
| Loans secured by subscription deposit for forfeited shares | | 11 | 67 |
| | | ----- 918,865 | ----- 619,098 |
| Less allowance for doubtful accounts | | (21,226) | (2,895) |
| | ₩ | ----- 897,639 | ----- 616,203 |

(6) Accrued Income and Other Current Assets

Accrued income and other current assets as of March 31, 2005 and 2004 are summarized as follows:

| | | (Millions of Won) | |
|------------------|---|------------------------|------------------------|
| | | 2005 | 2004 |
| Accrued income | ₩ | 17,686 | 18,456 |
| Prepaid expenses | | 446 | 902 |
| Others | | 6,848 | 1,405 |
| | ₩ | ----- 24,980 | ----- 20,763 |

(7) Long-term Securities

Long-term securities (including current portion of long-term securities) as of March 31, 2005 and 2004 are summarized as follows:

| | | (Millions of Won) | | | | | |
|----------------------------------------------|---|---------------------------|-------------------------|--------------------------------------|-------------------------|-------------------------|-------------------------|
| | | Cost or Amortized cost | | Unrealized Holding gains (losses) | | Fair value | |
| | | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Available-for-sale equity securities: | | | | | | | |
| Liquid stock | ₩ | 16,965 | 24,484 | (4,235) | (2,428) | 12,730 | 22,056 |
| Illiquid stock (*) | | 4,506 | 4,506 | - | - | 4,506 | 4,506 |
| | | ----- 21,471 | ----- 28,990 | ----- (4,235) | ----- (2,428) | ----- 17,236 | ----- 26,562 |
| Available-for-sale debt securities: | | | | | | | |
| Government bonds | | 24,132 | 30,954 | 421 | (1,191) | 24,553 | 29,763 |
| Finance debentures | | 212,809 | 234,566 | (1,249) | 2,419 | 211,560 | 236,985 |
| Corporate debentures | | 69,948 | 77,112 | 1,906 | (3,633) | 71,854 | 73,479 |
| | | ----- 306,889 | ----- 342,632 | ----- 1,078 | ----- (2,405) | ----- 307,967 | ----- 340,227 |
| Held-to-maturity debt securities: | | | | | | | |
| Corporate debentures | | 50,000 | 50,000 | - | - | 50,000 | 50,000 |
| | ₩ | ----- 378,360 | ----- 421,622 | ----- (3,157) | ----- (4,833) | ----- 375,203 | ----- 416,789 |

(*) Fair value not available

Notes to Financial Statements

>> March 31, 2005 and 2004

(8) Balances and Transactions with its Shareholders

Major balances and transactions, in aggregate, with the shareholders, composed of banks, securities companies, and insurance companies, of the Company as of and for the years ended March 31, 2005 and 2004 are as follows:

| | | 2005 | 2004 |
|-------------------|---|-----------|-----------|
| Deposits placed | ₩ | 2,676,117 | 2,726,486 |
| Loans | | 658,925 | 366,531 |
| Accrued income | | 8,911 | 12,907 |
| Deposits received | | 681,334 | 855,869 |
| Accrued expenses | | 1,906 | 2,753 |
| Interest income | | 111,005 | 94,833 |
| Interest expenses | | 33,184 | 47,400 |

(Millions of Won)

(9) Property and Equipment

Property and equipment as of March 31, 2005 and 2004 are summarized as follows:

| | | 2005 | 2004 |
|-------------------------------|---|---------------|---------------|
| Land | ₩ | 15,527 | 15,627 |
| Buildings | | 12,027 | 12,188 |
| Structures | | 195 | 195 |
| Office equipment | | 15,336 | 15,312 |
| Vehicles | | 153 | 153 |
| | | 43,238 | 43,475 |
| Less accumulated depreciation | | (13,203) | (10,516) |
| | ₩ | 30,035 | 32,959 |

(Millions of Won)

As of March 31, 2005, fixed assets of the Company are insured against fire and other casualty losses up to ₩16,120million.

(10) Other Assets

Other assets as of March 31, 2005 and 2004 are as follows:

| | | 2005 | 2004 |
|----------------------------|---|---------------|---------------|
| Guarantee deposits | ₩ | 7,289 | 6,133 |
| Loans to employees | | 4,531 | 8,701 |
| Deferred income tax assets | | 24,767 | 19,296 |
| Others | | 1,726 | 1,620 |
| | ₩ | 38,313 | 35,750 |

(Millions of Won)

Notes to Financial Statements

>> March 31, 2005 and 2004

[11] Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities as of March 31, 2005 and 2004 are summarized as follows:

(Millions of Won)

| | | 2005 | 2004 |
|--------------------------------|---|----------------|----------------|
| Accrued expenses | ₩ | 15,347 | 13,993 |
| Unearned income | | 42,084 | 30,716 |
| Income taxes payable | | 4,869 | 19,416 |
| Dividends payable | | 395 | 236 |
| Accrued interest on bonds | | 107,462 | 195,865 |
| Borrowings from trust accounts | | 61,698 | - |
| Others | | 4,107 | 2,910 |
| | ₩ | 235,962 | 263,136 |

[12] Bonds Issued

Details of bonds issued as of March 31, 2005 and 2004 are summarized as follows:

(Millions of Won)

| | Maturities | Interest rates (%) | 2005 | 2004 |
|--------|-------------------------------|---------------------------|------------------|----------------|
| 1998-1 | October 2004 | 6.50 | ₩ 290,370 | 529,240 |
| 2000-2 | July 2005 | 2.00 | 160,000 | 160,000 |
| 2000-3 | August 2005 | 2.00 | 10,000 | 10,000 |
| 2000-4 | September 2005 | 2.00 | 80,000 | 80,000 |
| 2000-5 | December 2005 | 1.00 | 23,000 | 23,000 |
| 2000-6 | December 2005 | 2.00 | 70,000 | 70,000 |
| 2001-2 | July 2006 | 0.87 | 30,000 | 30,000 |
| 2001-3 | September 2006 | 0.04 | 105,200 | 105,200 |
| 2001-4 | September 2006 | 0.04 | 30,000 | 30,000 |
| 2001-5 | October 2006 | 0.21 | 105,200 | 105,200 |
| 2001-6 | December 2006 | 0.71 | 105,100 | 105,100 |
| 2002-2 | November 2007 | 0.01 | 45,000 | 45,000 |
| 2003-1 | August 2008 | 3.42 | 10,000 | 10,000 |
| | | | 1,063,870 | 1,302,740 |
| | Less current portion | | (633,370) | (529,240) |
| | Add premium on bonds issued | | 207 | 286 |
| | Less discount on bonds issued | | (75) | (135) |
| | | | ₩ 430,632 | 773,651 |

[13] Retirement and Severance Benefits

Details of changes in the retirement and severance benefits for the years ended March 31, 2005 and 2004 are summarized as follows:

(Millions of Won)

| | | 2005 | 2004 |
|-----------------------------------------------|---|--------------|--------------|
| Balance at beginning of year | ₩ | 9,340 | 9,077 |
| Provision for the year | | 3,406 | 2,080 |
| Payments during the year | | (6,101) | (1,817) |
| Balance at end of year | | 6,645 | 9,340 |
| Less deposits for severance benefit insurance | | (4,177) | (5,376) |
| Less national pension fund | | (122) | (228) |
| | ₩ | 2,346 | 3,736 |

Notes to Financial Statements

>> March 31, 2005 and 2004

(14) Legal Reserve

The Trust Business Act requires the Company to appropriate as legal reserve an amount equal to at least 10% of earnings for each accounting period until the reserve equals to 100% of stated capital.

The legal reserve is not available for the payment of cash dividends but may be transferred to capital stock or used to offset accumulated deficit.

(15) Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2005 and 2004 are summarized as follows:

| | | 2005 | 2004 |
|-------------------------------------------------|---|---------------|---------------|
| Salaries | ₩ | 11,709 | 11,410 |
| Other employee benefits | | 7,895 | 6,155 |
| Provision for retirement and severance benefits | | 3,406 | 2,080 |
| Welfare | | 3,323 | 2,728 |
| Taxes and dues | | 2,200 | 2,836 |
| Depreciation | | 4,081 | 3,188 |
| Miscellaneous | | 11,641 | 7,401 |
| | ₩ | 44,255 | 35,798 |

(16) Extraordinary Losses

The Company recorded an extraordinary loss of ₩18,208 million as special retirement pay expenses in relation to the reorganization plan in accordance with the agreement with the employee.

Notes to Financial Statements

>> March 31, 2005 and 2004

[17] Income Taxes

The Company is subject to a number of taxes based upon earnings which result in the following normal tax rates:

| Taxable earnings | Prior to 2005 | Thereafter |
|-------------------|---------------|------------|
| Up to 100 million | 16.5% | 14.3% |
| Over 100 million | 29.7% | 27.5% |

The Korean government reduced the corporate income tax rate beginning in 2005. Specifically, effective from January 1, 2005, the income tax rate will be reduced from 29.7% to 27.5%.

The components of income tax expense for the years ended March 31, 2005 and 2004 are summarized as follows:

| | | (Millions of Won) | |
|--------------------------------------------------------|---|-------------------|----------|
| | | 2005 | 2004 |
| Current | ₩ | 20,811 | 28,461 |
| Deferred (*) | | (5,471) | (9,622) |
| | ₩ | 15,340 | 18,839 |
| Beginning balance of deferred income tax assets | ₩ | 19,296 | 9,981 |
| Adjustment to the income tax return of the prior years | | - | (307) |
| Ending balance of deferred income tax assets | | (24,767) | (19,296) |
| (*) Deferred income tax expense (benefit) | ₩ | (5,471) | (9,622) |

The tax effects of temporary differences that resulted in significant portions of the deferred tax assets and liabilities as of March 31, 2005 and 2004 are as follows:

| | | (Millions of Won) | |
|--------------------------------------------|---|-------------------|---------------|
| | | 2005 | 2004 |
| Deferred income tax assets: | | | |
| Unearned income | ₩ | 11,514 | 8,383 |
| Impairment loss on investment securities | | 12,860 | 11,033 |
| Loss on valuation of marketable securities | | 3,947 | 5,268 |
| Depreciation | | - | 114 |
| Allowance for possible loans losses | | 488 | 488 |
| Others | | 8,469 | 5,110 |
| | | 37,278 | 30,396 |
| Deferred income tax liabilities: | | | |
| Accrued income | | (3,434) | (3,151) |
| Gain on valuation of marketable securities | | (8,923) | (7,949) |
| Depreciation | | (154) | - |
| | | (12,511) | (11,100) |
| Net deferred income tax assets | ₩ | 24,767 | 19,296 |

Notes to Financial Statements

>> March 31, 2005 and 2004

(18) Statement of Cash Flows

Major non-cash activities for the years ended March 31, 2005 and 2004 are summarized as follows:

| | (Millions of Won) | |
|-----------------------------------------------------------------------------------|-------------------|--------|
| | 2005 | 2004 |
| Offset of gain on valuation of long-term securities against capital adjustment | ₩ - | 11,584 |

(19) Earnings Per Share

Earnings per share for the years ended March 31, 2005 and 2004 are calculated as follows:

| | (Millions of Won) | |
|---------------------------------------------------|-------------------|----------------|
| | 2005 | 2004 |
| Net earnings in Won | ₩ 34,191,872,726 | 38,293,385,362 |
| Weighted-average number of shares of common stock | 67,540,454 | 67,907,560 |
| Earnings per share in Won | ₩ 506 | 564 |

(20) Dividends

Details of dividends for the years ended March 31, 2005 and 2004 are as follows:

| | (Millions of Won) | |
|-----------------------------------------|-------------------|--------|
| | 2005 | 2004 |
| Dividend amount | | |
| Cash dividends | ₩ 13,374 | 20,372 |
| Net income | 34,192 | 38,293 |
| Dividends as a percentage of net income | 39.11% | 53.20% |

(21) Added Value

The components of selling and general administrative expenses which are necessary in calculating added value at March 31, 2005 and 2004 are as follows:

| | (Millions of Won) | |
|-------------------------------------------------|-------------------|--------|
| | 2005 | 2004 |
| Salaries | ₩ 11,709 | 11,410 |
| Provision for retirement and severance benefits | 3,406 | 2,080 |
| Other employee benefits | 7,895 | 6,155 |
| Welfare | 3,323 | 2,728 |
| Rent | - | 1 |
| Depreciation | 4,081 | 3,188 |
| Taxes and dues | 2,200 | 2,836 |
| | ₩ 32,614 | 28,398 |

(22) Employee Welfare and Contributions to Society

For employee welfare, the Company maintains a canteen, workmen's accident compensation insurance and unemployment insurance. The amounts of welfare spending for the years ended March 31, 2005 and 2004 are estimated at ₩3,323 million and ₩2,728 million, respectively.

The Company donated ₩679 million and ₩670 million to the Korea Securities Research Institute and others for the years ended March 31, 2005 and 2004, respectively.

Independent Auditors' Report (Trust Account)

>> Based on a report originally issued in Korean

The Board of Directors and Stockholders The Korea Securities Finance Corporation

We have audited the accompanying statements of trust assets and liabilities of The Korea Securities Finance Corporation (the "Company") as of March 31, 2005 and 2004, and the related statements of trust operations for the periods then ended, all expressed in Korean Won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles and significant estimates used by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the trust accounts financial statements referred to above present fairly, in all material respects, the financial positions of the Company's trust accounts as of March 31, 2005 and 2004 and the results of its trust operations for the periods then ended, in conformity with the accounting and reporting guidelines prescribed by the Korean trust and banking regulatory authorities and the Financial Accounting Standards, as established by the Financial Supervisory Commission of the Republic of Korea.

Without qualifying our opinion, we draw attention to the following:

As discussed in note 2(a) to the trust accounts financial statements, accounting principles and auditing standards and their application in practice vary among countries. The accompanying trust accounts financial statements are not intended to present the financial position, results of operations in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying trust account financial statements are for use by those knowledgeable about Korean accounting procedures and auditing standards and their application in practice.

As discussed in note 7 to the financial statements, as of and for the periods ended March 31, 2005 and 2004, the trust accounts recorded accrued trust fees of ₩535 million and ₩472 million, and trust fees of ₩5,508 million and ₩5,653 million from transactions with the Company.

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea
April 20, 2005

This report is effective as of April 20, 2005, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Statement of Assets and Liabilities (Trust Account)

>> March 31, 2005

(Millions of Won)

| | | 2005 | 2004 |
|----------------------------------------------|----------|-------------------|-------------------|
| Assets | | | |
| Cash and due from banks | ₩ | 4,689,303 | 5,410,601 |
| Marketable securities (note 3) | | 5,159,525 | 3,875,136 |
| Loans (note 4) | | - | 22,000 |
| Call loans | | 163,800 | 31,800 |
| Securities purchased under resale agreements | | 1,119,100 | 674,300 |
| Other assets (note 5) | | 53,335 | 45,458 |
| Total assets | ₩ | 11,185,063 | 10,059,295 |
| Liabilities | | | |
| Trust deposits (note 8) | ₩ | 11,130,364 | 9,997,641 |
| Other liabilities (note 6) | | 54,699 | 61,654 |
| Total liabilities | ₩ | 11,185,063 | 10,059,295 |

See accompanying notes to trust account financial statements

Statement of Operations (Trust Account)

>> For the years ended March 31, 2005 and 2004

(Millions of Won)

| | | 2005 | 2004 |
|----------------------------------------------------------|----------|----------------|----------------|
| Revenue: | | | |
| Interest income: | | | |
| Interest on due from banks | ₩ | 209,599 | 219,229 |
| Interest on securities | | 81,440 | 136,107 |
| Interest on loans | | 1,436 | 7,820 |
| Interest on call loans | | 5,977 | 16,898 |
| Interest on securities purchased under resale agreements | | 31,282 | 29,022 |
| | | 329,734 | 409,076 |
| Securities related gain: | | | |
| Gain on trading of marketable securities | | 37,337 | 25,773 |
| Gain on valuation of marketable securities | | 26,297 | 34,232 |
| | | 63,634 | 60,005 |
| Other income: | | | |
| Miscellaneous income | | 46 | - |
| | | 46 | - |
| | ₩ | 393,414 | 469,081 |
| Expenses: | | | |
| Dividends of trust profits to beneficiaries | ₩ | 385,703 | 437,710 |
| Trust fees | | 5,508 | 5,653 |
| Other | | 217 | 201 |
| | | 391,428 | 443,564 |
| Securities related loss: | | | |
| Loss on trading of marketable securities | | 1,677 | 24,288 |
| Loss on valuation of marketable securities | | 309 | 1,229 |
| | | 1,986 | 25,517 |
| | ₩ | 393,414 | 469,081 |

See accompanying notes to trust account financial statements

Notes to Financial Statements (Trust Account)

>> March 31, 2005 and 2004

(1) Description of the Trust

The Korea Securities Finance Corporation (the "Company") established the trust accounts in accordance with the Trust Business Act on December 20, 2002 under the approval of Financial Supervisory Commission, made on November 8, 2002, to provide and administer funds for securities transactions.

The Company's trust accounts (the "Trust") consist of the trust for spot trading customers' deposits and the trust for futures trading customers' deposits and establish funds based on customers' deposits, invest those funds in securities pursuant to the Securities and Exchange Act, Agreements and Management instructions and pay dividends to beneficiaries based on actual performance.

(2) Summary of Significant Accounting Policies and Basis of Presenting Financing Statements

The financial statements of the Trust accounts are prepared in accordance with the Trust Business Law, the Trust Business Working Rule and the relevant regulations. The Company manages its trust account separately from the Company's operations in accordance with the Trust Business Law. The significant accounting policies applied in the preparation of the accompanying trust accounts financial statements are summarized as follows:

(a) Basis of Presenting Trust Accounts Financial Statements

The Company maintains its trust accounting records in Korean won and prepares its trust accounts financial statements in the Korean language (Hangul) in conformity with the accounting and reporting guidelines prescribed by the Korean trust and banking regulatory authorities, including requirements of the Trust Business Law under which the trust account was established. Certain accounting principles applied by the Trust that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these trust accounts financial statements are intended for use only by those who are informed about Korean accounting principles and practices. The accompanying trust accounts financial statements have been condensed, restructured, and translated into English (with certain expanded descriptions) from the Korean language financial statements.

(b) Revenues and Expenses of Trust Accounts

The Trust records the amount of the trust revenue less all expenses and trust fees as the dividends of trust profits to beneficiaries. The trust fees are recorded in the Company's own accounts as a part of other operating income.

(c) Trust Fees

The Trust paid trust fees to the Company's own accounts based on performance of trust funds in accordance with the guidelines of the Trust Business Law.

(d) Marketable Securities

Securities consist of debt securities, certificate of deposits and beneficiary certificates.

Listed debt securities, whose quoted market price are available in the market at least for ten days per every month in three consecutive months preceding the balance sheet date, are recorded at closing or last traded price. While, unlisted debt securities are recorded based on yield rate provided by more than two credit rating agencies, and fair value yielded by the Securities Valuation Committee of the Company are generally used to estimate market value in case that market price are not available to estimate.

Beneficiary certificates are recorded at standard price announced by the trust management company on valuation date. However, if no standard price is reported, the last quoted price by the trust management company on the date closest to the valuation date is used.

Negotiable certificate of deposits are recorded at yield rate on financial debentures issued by financial and other institution whose credit rating and remaining maturity of debentures are the same as those of the Company. However, fair value yielded by the Securities Valuation Committee is used in case that above yield rate does not effectively reflect current market value.

(e) Allowance for Loan Losses

The Trust establishes allowance for loan losses to certain trust assets, which are not marked-to-market, in assessing the borrowers' capacity to repay and credit risk at the end of every month. Pursuant to the guideline for allowance account, provisions for loan losses are made in the amount of 0% (normal), 2% (precautionary), 20% (sub-standard) and 50% (doubtful), respectively.

Based on above classification, allowance for loan losses on trust assets are not provided as of March 31, 2005 as regards to loan classified as normal.

Notes to Financial Statements (Trust Account)

>> March 31, 2005 and 2004

(3) Marketable Securities

Marketable securities as of March 31, 2005 and 2004 are summarized as follows:

| | | (Millions of Won) | |
|--------------------------------------|---|-------------------|------------------|
| | | 2005 | 2004 |
| Government bonds | ₩ | - | 99,125 |
| Finance debentures | | 128,619 | 67,539 |
| Special debentures | | - | 41,024 |
| Beneficiary certificates | | 2,148,083 | 2,059,005 |
| Negotiable certification of deposits | | 2,882,823 | 1,608,443 |
| | ₩ | 5,159,525 | 3,875,136 |

(4) Loans

Loans as of March 31, 2005 and 2004 are summarized as follows:

| | | (Millions of Won) | |
|-------------------------------------|---|-------------------|---------------|
| | | 2005 | 2004 |
| Working capital loans | ₩ | - | 22,000 |
| Loans on debt securities collateral | | - | - |
| | ₩ | - | 22,000 |

(5) Other Assets

Other assets as of March 31, 2005 and 2004 are summarized as follows:

| | | (Millions of Won) | |
|---------------------|---|-------------------|---------------|
| | | 2005 | 2004 |
| Accrued income | ₩ | 51,573 | 42,181 |
| Accounts receivable | | 746 | 1,129 |
| Prepaid expenses | | 1,016 | 2,148 |
| | ₩ | 53,335 | 45,458 |

(6) Other Liabilities

Other liabilities as of March 31, 2005 and 2004 are summarized as follows:

| | | (Millions of Won) | |
|-------------------------|---|-------------------|---------------|
| | | 2005 | 2004 |
| Accounts payable | ₩ | 931 | 1,596 |
| Trust fees payable | | 535 | 472 |
| Trust dividends payable | | 53,233 | 59,586 |
| | ₩ | 54,699 | 61,654 |

(7) Transactions with Related Company

As of and for the periods ended March 31, 2005 and 2004, the Trust recorded accrued trust fees of ₩535 million and ₩472 million, and trust fees of ₩5,508 million and ₩5,653 million from transactions with the Company.

Notes to Financial Statements (Trust Account)

>> March 31, 2005 and 2004

(8) Performance Yield Rates

Performance yield rates for the years ended March 31, 2005 and 2004 are calculated as follows:

(Millions of Won)

| | | 2005 | | |
|-------|------|---------------------------------------------------|--------------------------------|--------------|
| | | Dividends of trust profits to beneficiaries | Accumulated amount in Trust | Yield Rate |
| Apr. | 2004 | ₩ 36,771 | 337,821,806 | 3.97% |
| May. | 2004 | 37,239 | 345,083,009 | 3.94% |
| Jun. | 2004 | 32,865 | 306,156,895 | 3.92% |
| Jul. | 2004 | 30,764 | 287,337,464 | 3.91% |
| Aug. | 2004 | 32,340 | 293,425,592 | 4.02% |
| Sept. | 2004 | 30,248 | 302,124,090 | 3.65% |
| Oct. | 2004 | 31,419 | 318,298,921 | 3.60% |
| Nov. | 2004 | 30,013 | 302,083,033 | 3.63% |
| Dec. | 2004 | 28,653 | 306,632,221 | 3.41% |
| Jan. | 2005 | 29,646 | 322,688,336 | 3.35% |
| Feb. | 2005 | 30,469 | 322,110,816 | 3.45% |
| Mar. | 2005 | 35,276 | 370,818,736 | 3.47% |
| | | ₩ 385,703 | 3,814,580,919 | 3.69% |

Under the terms of the trust deed, dividends of trust profits are calculated by applying average C2 interest rate (announced by the Bank of Korea) to monthly accumulated trust deposits, and those amounts are credited to the trust deposits on the third business day of the following month. Additionally, trust profits are calculated by applying the performance yields, which are based on trust profits less trust fees and other expenses, and added to or deducted from the trust deposits on the third business day of the following month.

(Millions of Won)

| | | 2004 | | |
|-------|------|---------------------------------------------------|--------------------------------|--------------|
| | | Dividends of trust profits to beneficiaries | Accumulated amount in Trust | Yield Rate |
| Apr. | 2003 | ₩ 40,513 | 327,477,394 | 4.52% |
| May. | 2003 | 36,485 | 315,918,491 | 4.22% |
| Jun. | 2003 | 37,304 | 331,371,975 | 4.11% |
| Jul. | 2003 | 41,656 | 341,393,024 | 4.45% |
| Aug. | 2003 | 36,187 | 339,016,171 | 3.90% |
| Sept. | 2003 | 34,947 | 329,833,631 | 3.87% |
| Oct. | 2003 | 33,402 | 322,179,075 | 3.78% |
| Nov. | 2003 | 34,268 | 328,825,802 | 3.80% |
| Dec. | 2003 | 35,410 | 322,020,346 | 4.01% |
| Jan. | 2004 | 36,590 | 328,510,251 | 4.07% |
| Feb. | 2004 | 34,079 | 302,002,716 | 4.12% |
| Mar. | 2004 | 36,870 | 327,057,529 | 4.11% |
| | | ₩ 437,710 | 3,915,606,415 | 4.08% |

Notes to Financial Statements (Trust Account)

>> March 31, 2005 and 2004

(9) Condensed Financial Statements

Condensed Financial Statements of the Trust for Spot Trading Customers' Deposit and the Trust for Futures Trading Customers' Deposit as of and for the period ended March 31, 2005 and 2004 are as follows:

Assets and Liabilities

(Millions of Won)

| 2005 | | | |
|-------------------------------------------------|-------------------------------------------------|----------------------------------------------------|-------------------|
| Accounts | Trust for Spot Trading Customers' Deposit | Trust for Futures Trading Customer's Deposit | Total |
| Assets : | | | |
| Cash and due from banks | ₩ 4,053,618 | 635,685 | 4,689,303 |
| Marketable securities | 4,188,682 | 970,843 | 5,159,525 |
| Loans | - | - | - |
| Call Loans | 145,800 | 18,000 | 163,800 |
| Securities purchased under resale agreements | 782,100 | 337,000 | 1,119,100 |
| Other assets | 44,496 | 8,839 | 53,335 |
| | ₩ 9,214,696 | 1,970,367 | 11,185,063 |
| Liabilities : | | | |
| Trust deposits | ₩ 9,169,578 | 1,960,786 | 11,130,364 |
| Other liabilities | 45,118 | 9,581 | 54,699 |
| | ₩ 9,214,696 | 1,970,367 | 11,185,063 |

Operations

(Millions of Won)

| 2005 | | | |
|-------------------------------------------------------------|-------------------------------------------------|----------------------------------------------------|----------------|
| Accounts | Trust for Spot Trading Customers' Deposit | Trust for Futures Trading Customer's Deposit | Total |
| Revenue : | | | |
| Interest on bank deposits | ₩ 173,472 | 36,127 | 209,599 |
| Interest on securities | 67,223 | 14,217 | 81,440 |
| Interest on loans | 1,403 | 33 | 1,436 |
| Interest on call loans | 5,368 | 609 | 5,977 |
| Interest in securities purchased under resale agreements | 24,509 | 6,773 | 31,282 |
| Securities related gain | 51,518 | 12,116 | 63,634 |
| Other income | 38 | 8 | 46 |
| | ₩ 323,531 | 69,883 | 393,414 |
| Expenses : | | | |
| Dividends of trust profits to beneficiaries | ₩ 317,258 | 68,445 | 385,703 |
| Securities related loss | 1,564 | 422 | 1,986 |
| Trust fees | 4,534 | 974 | 5,508 |
| Other | 175 | 42 | 217 |
| | ₩ 323,531 | 69,883 | 393,414 |

Notes to Financial Statements (Trust Account)

>> March 31, 2005 and 2004

(9) Condensed Financial Statements, Continued

Assets and Liabilities

(Millions of Won)

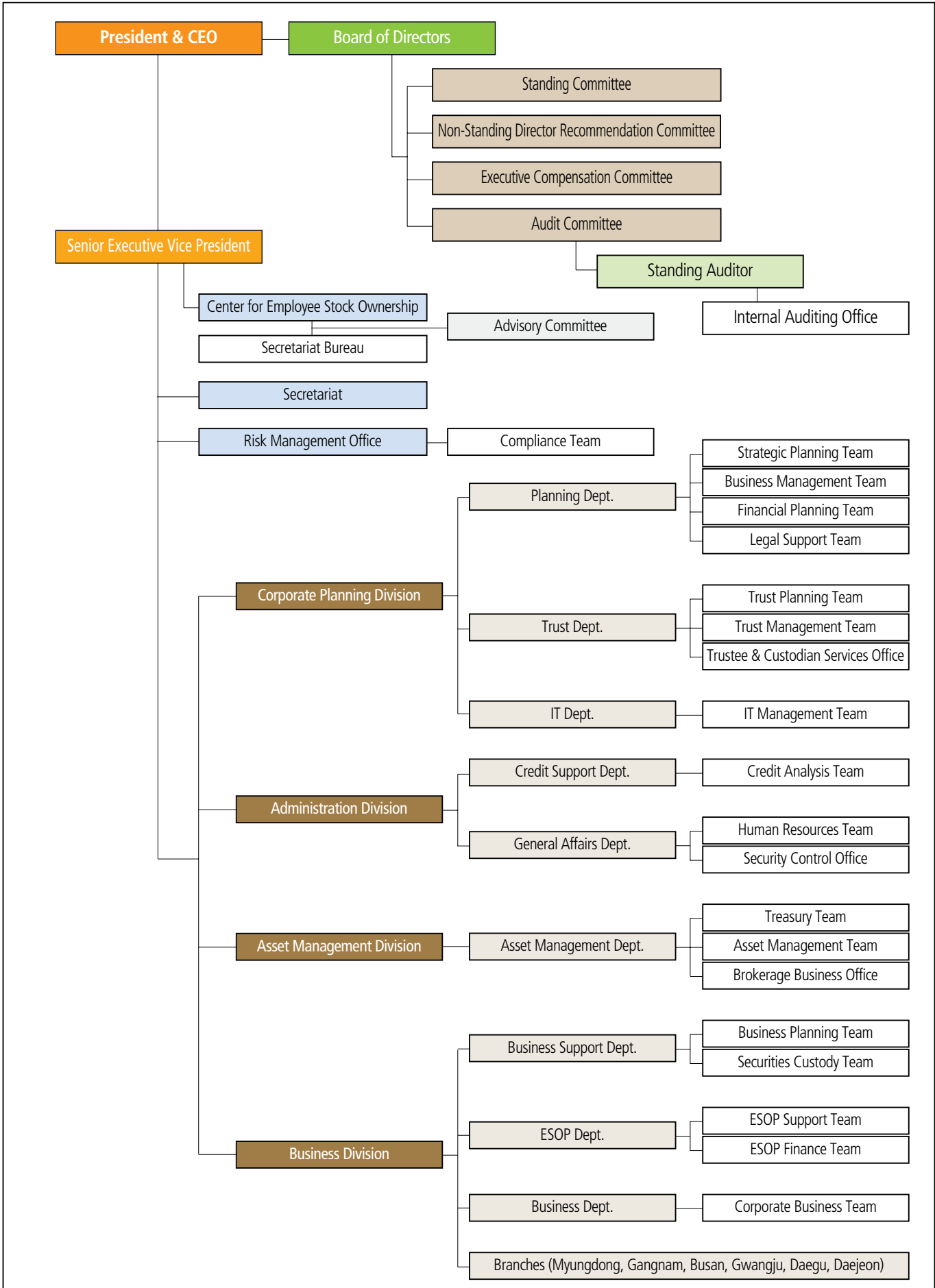
| Accounts | 2004 | | |
|-------------------------------------------------|-------------------------------------------------|----------------------------------------------------|------------|
| | Trust for Spot Trading Customers' Deposit | Trust for Futures Trading Customer's Deposit | Total |
| Assets : | | | |
| Cash and due from banks | ₩ 4,438,225 | 972,376 | 5,410,601 |
| Marketable securities | 3,269,534 | 605,602 | 3,875,136 |
| Loans | 22,000 | - | 22,000 |
| Call Loans | 19,800 | 12,000 | 31,800 |
| Securities purchased under resale agreements | 564,300 | 110,000 | 674,300 |
| Other assets | 37,230 | 8,228 | 45,458 |
| | ₩ 8,351,089 | 1,708,206 | 10,059,295 |
| Liabilities : | | | |
| Trust deposits | ₩ 8,298,695 | 1,698,946 | 9,997,641 |
| Other liabilities | 52,394 | 9,260 | 61,654 |
| | ₩ 8,351,089 | 1,708,206 | 10,059,295 |

Operations

(Millions of Won)

| Accounts | 2004 | | |
|-------------------------------------------------------------|-------------------------------------------------|----------------------------------------------------|---------|
| | Trust for Spot Trading Customers' Deposit | Trust for Futures Trading Customer's Deposit | Total |
| Revenue : | | | |
| Interest on bank deposits | ₩ 185,797 | 33,432 | 219,229 |
| Interest on securities | 116,315 | 19,792 | 136,107 |
| Interest on loans | 7,642 | 178 | 7,820 |
| Interest on call loans | 15,235 | 1,663 | 16,898 |
| Interest in securities purchased under resale agreements | 24,554 | 4,468 | 29,022 |
| Securities related gain | 51,439 | 8,566 | 60,005 |
| | ₩ 400,982 | 68,099 | 469,081 |
| Expenses : | | | |
| Dividends of trust profits to beneficiaries | ₩ 374,630 | 63,080 | 437,710 |
| Securities related loss | 21,347 | 4,170 | 25,517 |
| Trust fees | 4,834 | 819 | 5,653 |
| Other | 171 | 30 | 201 |
| | ₩ 400,982 | 68,099 | 469,081 |

Organization Chart



Board of Directors

| Board of Directors |

Standing Directors

Serck-Joo Hong

President & CEO

Seong Kook Kim

Senior Executive Vice President

Outside Directors

Jae Hoon Youh

CEO, National Policy Forum

Pal Ho Lee

Former Commissioner General, The National Police Agency

Mahn Ki Yang

Editorial Advisor, monthly publication "Financial World"

Dae Song Kim

President & CEO, Daishin Securities

Standing Audit Committee Member & Director

Kay Moon Paik

Standing Auditor

| Executive Officers |

Serck-Joo Hong

President & CEO

Sung Ik Kang

Managing Director

Seong Kook Kim

Senior Executive Vice President

Seon Ho Chu

Managing Director

Kay Moon Paik

Standing Auditor

Sung Chan Park

Managing Director

Business Overview

| Business Network |

website :

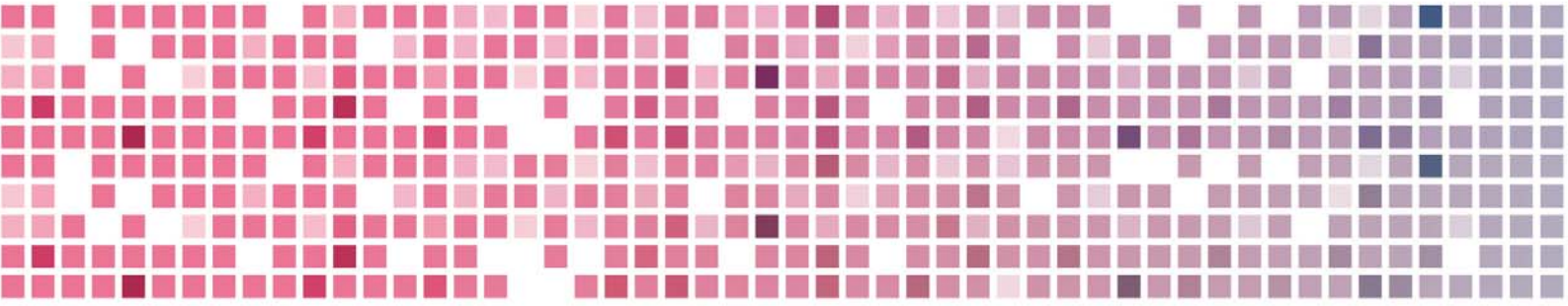
<http://www.ksfc.co.kr>

| | Contact Number | Address |
|------------------|----------------------------------------------|--------------------------------------------------------------------------|
| Head Office | Tel : (02) 3770-8800 Fax : (02) 784-0243 | 34-9, Yeouido-Dong, Yeongdeungpo-Gu, Seoul, Korea |
| Myungdong Branch | Tel : (02) 778-2913 Fax : (02) 778-4716 | 1-3, 1-Ga, Myung-Dong, Jung-Gu, Seoul, Korea |
| Gangnam Branch | Tel : (02) 548-4691 Fax : (02) 3481-7957 | 3rd. Floor, Daejun Bldg, 1318-5, Seocho-Dong, Seocho-Gu, Seoul, Korea |
| Busan Branch | Tel : (051) 808-0239 Fax : (051) 808-0981 | 160-6, Bujeon-Dong, Busanjin-Gu, Busan, Korea |
| Gwangju Branch | Tel : (062) 225-7671 Fax : (062) 225-7670 | 7-12, Daein-Dong, Dong-Gu, Gwangju, Korea |
| Daegu Branch | Tel : (053) 741-4111 Fax : (053) 742-1783 | 43-8, Beomeo-3 Dong, Suseong-Gu, Daegu, Korea |
| Daejeon Branch | Tel : (042) 488-2200 Fax : (042) 486-3895 | 3rd. Floor, Osung Bldg, 1508 , Dunsan- Dong, Suh-Gu, Daejeon, Korea |

(No. of Persons)

| Employees and Officers |

| | Officers | Employees | Special Service Staff | Total |
|--------------|----------|------------|-----------------------|------------|
| Male | 6 | 138 | 13 | 157 |
| Female | - | 21 | 24 | 45 |
| Total | 6 | 159 | 37 | 202 |



Korea Securities Finance Corp.