



Korea Securities Finance Corp.

Change & Renovation

ANNUAL REPORT FY2005

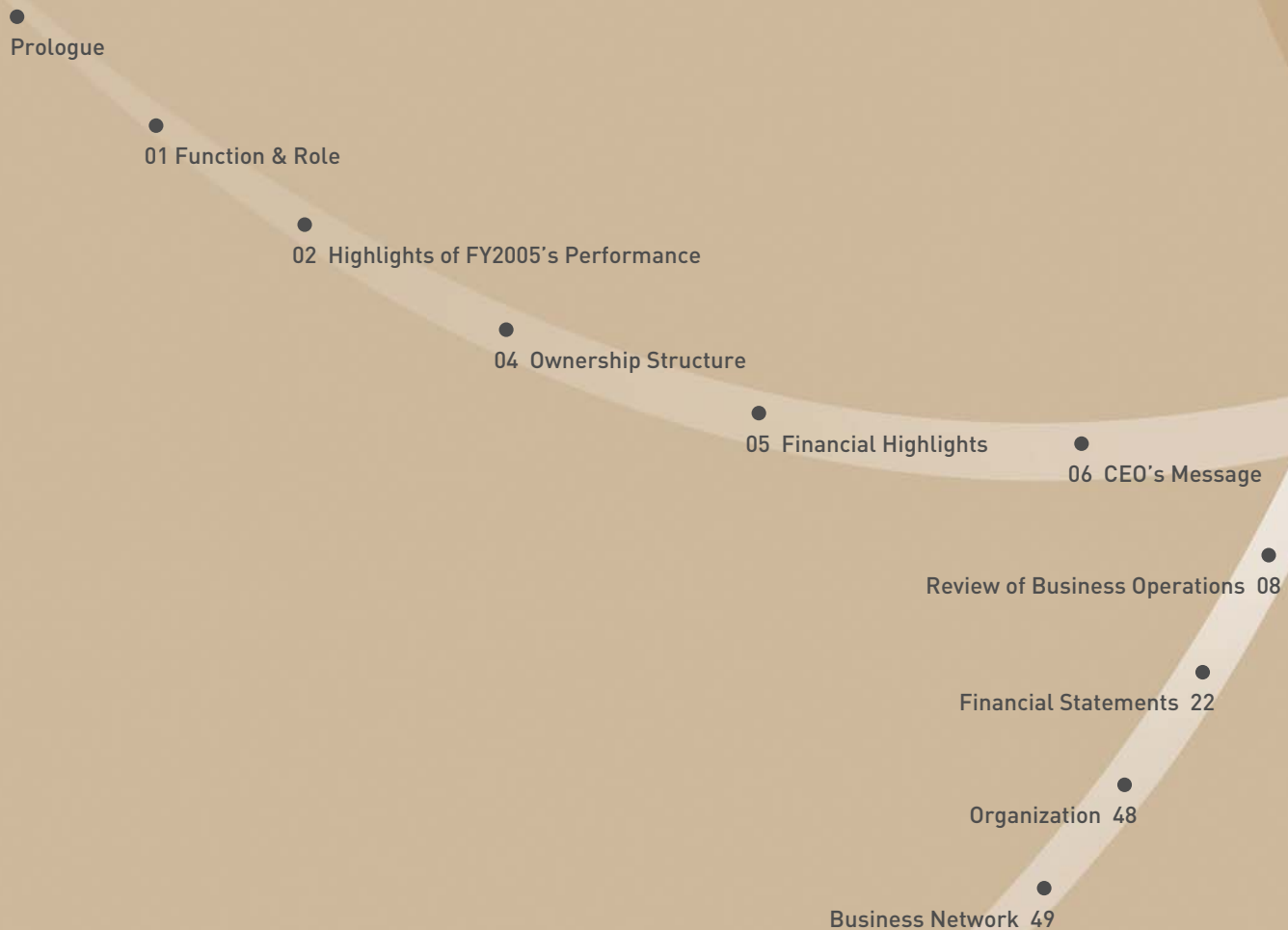


50 years of trust building, a century of co-prosperity

Korea Securities Finance Corporation ("KSFC") is the sole provider of securities financing services in Korea and has played an integral role in the development of the Korean capital market during the past half century. KSFC has been a partner to the myriad of institutions/investors partaking in the domestic securities market and has walked hand-in-hand since the fledgling days of the local market.

KSFC has firmly established itself as the solid keystone for the domestic securities market on the back of its prolific knowledge and experience built up from a tradition going back 50 years. Furthermore, we will continue to support our customers and boost value for shareholders by creating highest added value as a key financial institution in the capital market.

TABLE OF CONTENTS



●	Prologue
●	01 Function & Role
●	02 Highlights of FY2005's Performance
●	04 Ownership Structure
●	05 Financial Highlights
●	06 CEO's Message
●	Review of Business Operations 08
●	Financial Statements 22
●	Organization 48
●	Business Network 49

FUNCTION AND ROLE

Korea Securities Finance Corporation ("KSFC") was incorporated with the approval from the Minister of Finance and Economy under the Securities and Exchange Act in October 1955, and has been the sole specialized provider of securities financing in Korea. For the past 50 years, KSFC has performed a diverse range of services to provide liquidity to the securities market through the supply of financing and securities. These services range from traditional securities financing (securities underwriting loans, margin financing loans & securities secured loans), safe guaranty of customer deposits for the protection of investors, ESOP (Employee Stock Ownership Plan) support services that facilitates wealth accretion & enhanced staff loyalty and bond dealer loans based from public funding.

Moreover, KSFC also provides deposit and loan products to support the wealth accumulation for investors while recently adding on custodian services to KSFC's business scope. Continued efforts are being made to provide services/products needed to enable the healthy development of the securities market.

Traditional securities financing/lending

A service providing required funds or securities to securities firms and investors for the purpose of securities underwriting, acquisition, and/or trading to facilitate the efficient issuance and transaction of securities, which would in turn ensure the stabilization and development of the local market.

■ Securities underwriting financing

Financing provided to underwriters and/or investors participating in the primary market to ensure the effective underwriting and distribution in respect to primary securities issuances for the purpose of supporting capital funding by corporates.

■ Margin Financing

A service offered for the purpose of providing investors with funds required to settle a stock purchase or securities in the secondary market for margin transactions in order to provide market liquidity and act as a safeguard to ensure stability and continuity of share price.

■ Securities secured financing

Loans provided to individuals and corporate entities collateralized with equities, bonds, beneficiary certificates and/or other marketable securities that enable borrowers to remain hold of their securities holdings in turn leading to increased participation of the general populace in the securities market.

Custody of customer deposits

For the protection of investors participating in the securities market, funds temporarily deposited by customers for the purpose of trading stocks and/or futures in securities firms and futures companies are re-deposited or entrusted to KSFC for safe-keeping and custody.

ESOP related services

As the exclusive custodian of ESOP ("Employee Stock Ownership Plan") in Korea, KSFC provides the following services in order to establish and develop ESOP; (1) custody & management of employee stock held by ESOAs ("Employee Stock Ownership Association") and/or ESOA members, (2) advisory for establishment and management of ESOA, employee stock purchase related financing, ESOA establishment /operations related advisory, and training of staff responsible for employee stock duties.

General customer financing

Low interest, long-term loans secured by equity, bonds, beneficiary certificates or CDs that are provided to corporate and individual customers. To add, deposit products linked to public offerings and stock subscriptions of relatively higher yields with potential upside from trading gains are also available to customers.

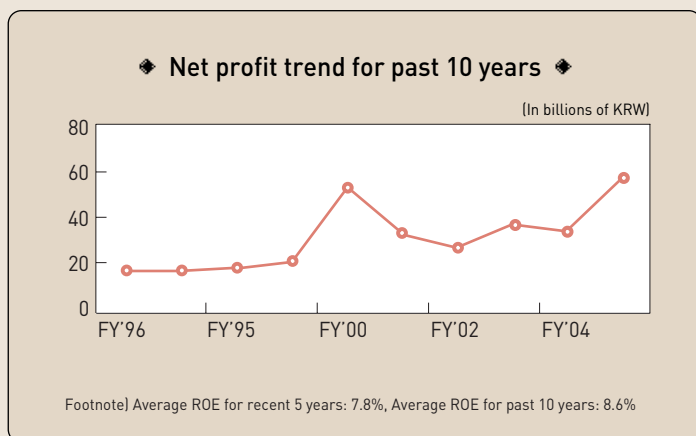
HIGHLIGHTS OF FY05'S PERFORMANCE



“Record earnings achieved”

Net profit for FY05 was 74% higher than the previous fiscal year and also exceeded our FY05 earnings target by 137% coming in at KRW59.6 billion, which is the greatest profit realized since the establishment of KSFC.

An exceptionally bullish market in 2005 had a hand in achieving our strong business performance, but more so, it is a result of the diligent collaborative efforts made by our KSFC family to enhance operational efficacy. Sales capability was boosted by strengthening frontline operations serving both retail and wholesale customers especially in the areas of core securities financing and asset management, cost reduction was realized through continued restructuring while overall productivity was enhanced through business process re-engineering.



Pro-active support activities for securities industry

We have been able to bolster our financing support capability towards securities firms by improving our customer deposit management system (expansion of MMF and call loan investment limit, including MBS as an investment facility and newly establish marketable securities lending function, April 2005). Furthermore, we have taken another step forward in protecting investor interests by taking on beneficiary deposits for investment products (e.g. mutual funds) sold directly by asset management companies.

KSFC having been the exclusive domestic ESOP custodian since 1977 remains committed to the continued improvement and proliferation of ESOP in Korea. To upgrade research & training related to ESOP, promote ESOP as a means for general workers to accumulate wealth, and foster a more constructive labor-management culture the ‘ESOP Support Center’ was established in May 2005.

In order to advance the functionality of marketable securities for investors, we have been pro-active in developing/launching new products taking into account our customers’ needs and extensively upgraded our financing support capability for securities companies. The introduction of the ‘Half-day call loan’ product (May 2005), ‘Stock option loans’ (August 2005) for general investors and ‘Securities under protective custody secured loans’ (June 2005) were some notable accomplishments made during 2005.

We also added on a new market support function, which is to provide low-cost financing to government bond dealers, as a means of developing the local bond and listed RP market.

Expansion of core capital market infrastructure foundation

With the aim of enhancing the competitiveness of the securities industry and upgrading customer service level, we have been working towards the participation of KSFC in the securities industry’s payment & settlement system. The industrious efforts made in the past 2 years have come to fruition as KSFC has been selected to be a main provider of payment & settlement services for the securities industry.

Our selection as the main payment/settlement services provider for the securities industry has enabled us to solidify KSFC’s identity as the core financial infrastructure related services provider for the capital market. Moreover, we should be capable of further bolstering our position in the customer deposit trustee/custody and public services area. Despite being a latecomer to the custodian business segment, we have been able to increase our custody volume to KRW 13 trillion in a span of 2 years (realized 197% YoY growth in 2005), ranking KSFC seventh in terms of business volume.

Advancement of business management platform

We have been pro-actively upgrading our business management platform having implemented our new integrated revenue management system in September 2005 and also successfully configured advanced risk, credit and performance management systems. Founded on our upgraded systems platform, we intend on moving away from the conventional methodology for business planning/coordination and incorporating a more dynamic ‘Plan-Do-See’ management approach. Business planning will be based on strategic objectives and agenda-focused while performance evaluation will be performed at a LOB & division level and business plan adjustments will be carried out through a management planning committee.



In March 2005, an agreement was reached between management and staff that a self-directed restructuring is required going forth and the key initiatives being an extensive staff restructuring (head-count reduction of 25%), merging of redundant organizational functions, and wage freeze for the next 3 years. Cost-savings realized from the restructuring initiatives will be reallocated essentially towards the upgrading of business processes, fostering of business specialists, and IT development in order to boost KSFC's competitiveness, which is the key for future growth.

Creation of a dynamic working culture and new corporate identity (CI)

KSFC management and staff are adhering to the 'The KSFC Way', which is deemed to be a catalyst for the attainment of our vision and a business philosophy that drives innovation. The core values of 'The KSFC Way' are customer-oriented mind-set, innovation, passion, expertise and integrity while the attributable characters of KSFC man/woman are 'ardent learners', 'creative innovators' and 'trustworthy benefactors'.

In commemoration of our 50th anniversary, a brand new Corporate Identity (CI) that is consistent with our corporate vision and core values was conceived in May 2005. Everyone at KSFC has pledged to work towards KSFC becoming the guiding light for the Korean financial sector and to take another step forward in becoming a dynamic and trusted company.

Building up of cooperative affiliations with Asian peers and a global network

An international conference attended by securities financing companies from various Asian nations (Japan, Taiwan, Thailand and Korea) was held in October 2005 to commemorate KSFC's 50th anniversary. The key objectives for the event were to establishment groundwork for mutual cooperation and joint development going forth. Continued efforts will be made to configure a global network by building up strong collaborative relationships with securities financing agencies across Asia.

The securities financing agencies in Taiwan and Thailand were in fact modeled after KSFC and other developing nations that do not have securities financing agencies including China, Vietnam and India, have been actively benchmarking KSFC. To support the development of securities markets in developing nations, we will carry on

our endeavors to export Korea's securities financing policies and systems.

Upgrading of credit rating to AAA/stable and enhanced public recognition

In April of this year, we had received the top credit rating of AAA/stable (previously AA+) for both corporate and bond ratings from Korea Investor Services and National Information & Credit Evaluation.

The upward adjustment of our credit rating was on the back of the successful implementation of public service functions including customer deposit custody, healthy financial structure, pro-active strategy to expand capital market infrastructure services such as the involvement in the securities industry settlement/payment system, significantly enhanced profitability and effective re-engineering of work processes.

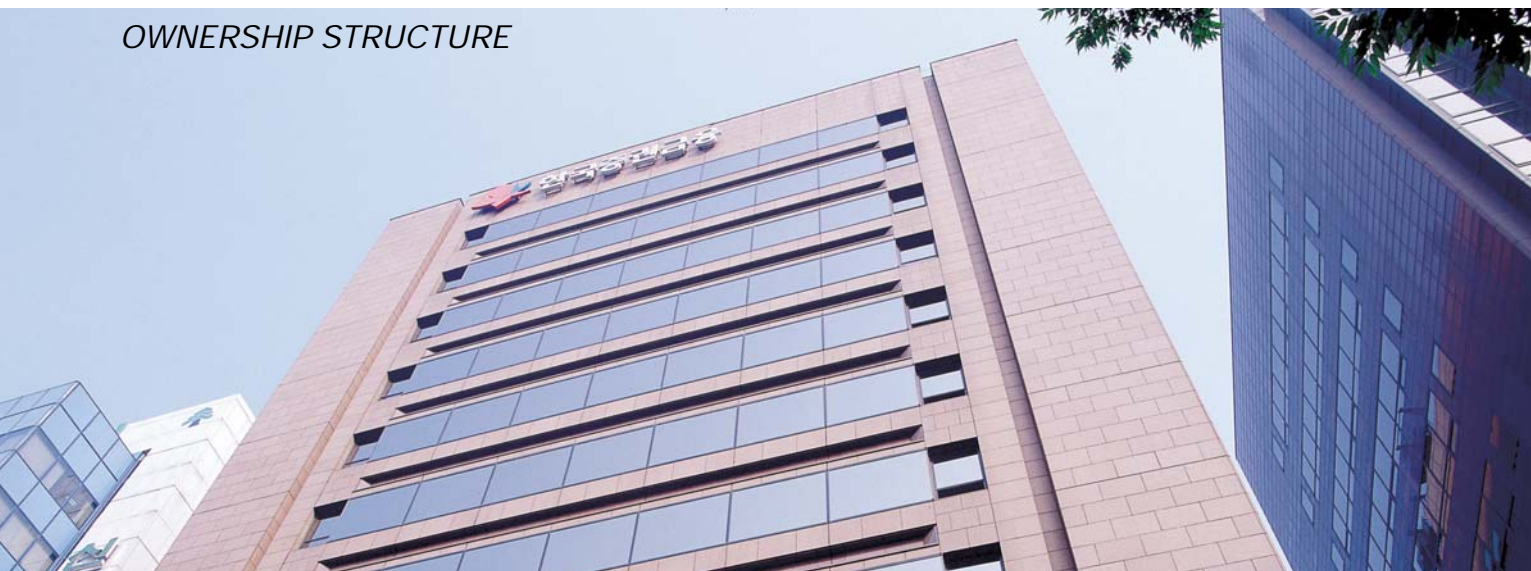
In December 2005, KSFC received the most prestigious award for the financial sector, the 15th Dasan special award, in recognition of KSFC's incommensurable contribution to the capital market during the past 50 years, the recent successful restructuring and continued efforts being pushed forth for innovation and enhanced competitiveness. On the back of our efforts to upgrade our custodian services and systemization of work process, we received ISO 9001 certification for our custodian services, which is a first for a Korean financial institution, in September 2005.

Introduction of ethical management and increased social contribution activities

KSFC continues to strive to become a well-respected corporate by fulfilling its social responsibilities through its 'management for sharing', social contribution and the adoption of ethical management. The 4 key principles under our management ethics are customer satisfaction for the enhancement of competitiveness, maximization of corporate value, pro-active participation in social contribution activities and development of quality human resources.

KSFC has been extremely active towards social contribution and 'management for sharing' as elucidated by the launching of the 'We Are One Volunteer Group' in July of 2005, set up of a partnership with HABITAT, backing for home construction events, introduction of matching grand policy, and also support provided to underprivileged youth and teenage parents.

OWNERSHIP STRUCTURE



■ Capital structure

(As of March 31, 2006)

Paid-in-capital	Stock issued	Face value per share
KRW340 billion	68,000,000	KRW5,000

■ Shareholder structure (Composition by segment)

(As of March 31, 2006)

	Shareholders		Total shares held	
	No. of shareholders	Ratio(%)	No. of shareholders	Ratio(%)
Banks	16	2.60	22,356,563	32.88
Securities firms	26	4.22	25,743,668	37.86
Insurance co.	6	0.97	1,098,235	1.61
Merchant banks	7	1.14	1,264,194	1.86
Asset management co.	5	0.81	360,000	0.53
Cooperatives	2	0.33	1,833,396	2.70
ESOA	1	0.16	616,228	0.91
Related agencies	2	0.32	9,473,240	13.93
Other corporates	12	1.95	1,824,822	2.68
Individuals	539	87.50	3,429,654	5.04
Total	616	100.00	68,000,000	100.00

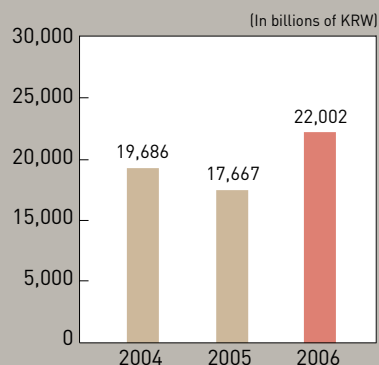
■ Major shareholders

(As of March 31, 2006)

	No. of shares	Stake(%)
KRX	7,714,883	11.35
Woori Bank	5,310,253	7.81
Woori Investment & Securities	4,103,588	6.04
Korea Development Bank	3,529,932	5.19
Daeshin Securities	2,944,130	4.33

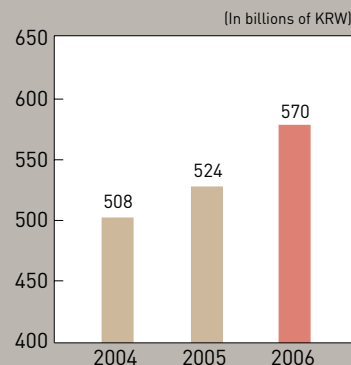
FINANCIAL HIGHLIGHTS

■ Total Assets (As of March 31)

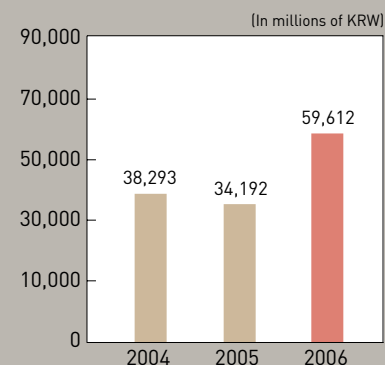


* Total Assets are the sum of KSFC and trust account

■ Shareholders' Equity (As of March 31)



■ Net Income (As of March 31)



■ KSFC Account

(In millions of KRW & In thousands of USD)

As of March 31	2006		2005	
	Korean Won	U.S. Dollars	Korean Won	U.S. Dollars
Total Assets	10,045,883	10,339,526	6,481,733	6,382,800
Total Liabilities	9,476,137	9,753,126	5,958,200	5,867,258
Shareholders' Equity (Common Stock)	569,746	586,400	523,533	515,542
	-340,000	-349,938	-340,000	-334,810

* The Korean Won amounts were translated into U.S. Dollars at the exchange rates of KRW 971.60 and KRW 1,015.50 to USD 1, the prevailing rates on March 31, 2006 and 2005 respectively.

(In millions of KRW & In thousands of USD)

Years ended March 31	2006		2005	
	Korean Won	U.S. Dollars	Korean Won	U.S. Dollars
Total Revenues	356,047	366,454	318,327	313,468
Total Expenses	273,270	281,258	268,795	264,692
Income before Income Taxes	82,777	85,197	49,532	48,776
Net Income	59,612	61,354	34,192	33,670
Net Income/Average Common Stock(%)	17.5		10.1	
Dividends/Common Stock(%)	8.0		4.0	

* The Korean Won amounts were translated into U.S. Dollars at the exchange rates of KRW 971.60 and KRW 1,015.50 to USD 1, the prevailing rates on March 31, 2006 and 2005 respectively.

■ Trust Account

(In millions of KRW & In thousands of USD)

As of March 31	2006		2005	
	Korean Won	U.S. Dollars	Korean Won	U.S. Dollars
Total Assets	11,956,589	12,306,082	11,185,063	11,014,341
Trust Deposits	11,890,972	12,238,547	11,130,364	10,960,477
Other Liabilities	65,617	67,535	54,700	53,865

* The Korean Won amounts were translated into U.S. Dollars at the exchange rates of KRW 971.60 and KRW 1,015.50 to USD 1, the prevailing rates on March 31, 2006 and 2005 respectively.

CEO'S MESSAGE



To our esteemed shareholders and clients

I would like to first express my sincere gratitude for the continued support provided by our shareholders and clients for the development of Korea Securities Finance Corp. Looking back at FY05, the healthy economic growth realized by the U.S. & China, break-out of Japan from its economic recession, and also positive domestic factors, including the resurgence of private consumption and strong export performance had all indicated that the Korean economy had entered a period of recovery. However, in reality beneath the surface, our economy had not been able to completely shed its lingering sluggishness especially on the domestic front. Moreover, continued rise of oil prices and the sharp appreciation of the Korean Won had aggravated the uncertain state of our economy.

In respect to the financial sector, the key issues were continued industry consolidation through M&A between financial institutions, integrated distribution of financial/investment products through the amendment of Capital Market Consolidation Act, and regulatory control based on functionality. For the securities market, the proliferation of the monthly equity saving plans had instituted a firm base for indirect investment driven by institutional investors enabling the KOSPI to surpass the 1,400 point level.

On the back of favorable market circumstances, we were able to grow our asset volume growth by 16% in 2005 to KRW 20.2 trillion and achieve a record net profit of KRW59.6 billion, which was 74% higher than last year's net profit and 137% higher than our planned target. Certainly the bullish equity market had a part in enabling our company to achieve the impressive business performance but the main driver was the collaborative efforts made by our staff and management to enhance profitability. The effective implementation of public services including the management of customer deposits combined with the strong growth of revenue (50% YoY growth in 2005) in core securities

financing business such as general investor financing and securities firm financing support are some prime examples of our successes during 2005.

In relation to fund operations, we were able to realize earnings growth of over 100% owing to pro-active business enhancement initiatives. We had endeavored to change the maturity structure on the fund procurement side to a more long-term composition, reconfigured our portfolio by improving our management approach for assets including customer deposits, upgraded our operational processes & techniques and secured top quality specialist human resources.

For the custody business, we had joined in the fray as a latecomer but after only two years of operations assets under custody have grown to KRW13 trillion, which corresponds to a 197% growth in 2005 on a YoY basis. At this time, KSFC's customer business is ranked seventh in the custody business sector. More impressive is the fact that KSFC received ISO 9001 certification in recognition of our successful efforts to improve custody service level and systematize the work processes.

Key financial indices showed substantial improvement on the back of strong business performance. Return-on-equity ("ROE") rose by 4.28%p from the previous year to 10.91% proving KSFC has the faculty to achieve sustainable growth while per-staff-productivity level was boosted by 51% to KRW410 million per staff.

Noteworthy accomplishments were also achieved in expanding our securities industry core infrastructural functionality to fields such as settlement & payment services and configuring an internal operational management system.

In April of 2006, KSFC was selected by local securities firms to be the main provider of financial settlement & payment services for the securities industry as a result of diligent efforts for the past two years. Considerable efforts and preparation will be required in the building up phase but we have been able to solidify our position as the core infra-

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structural services provider in the capital market. In addition, we have successfully deployed new comprehensive revenue management, risk, and management objective & performance management systems. To become a well-respected corporate, we introduced the concept of ethical management in April 2005 and have been pro-active in fulfilling our social responsibilities through the participation of social contribution activities and 'sharing oriented management'.

On account of the diligent efforts by all members of KSFC in each of their areas of expertise, both major domestic credit rating agencies imparted the top credit rating of AAA/stable in April 2006. KSFC also received the Dasan award, which is largely accepted as the top financial award, in late 2005.

To our esteemed shareholders and clients

Economic conditions both external and internal are expected to remain indeterminate also for 2006 while competition is expected to become even more severe in the financial market, not only between peers but also across industry borders under the current trend of consolidation and convergence. We will not sit on our laurels satisfied with our performance in FY05 and pledge to continue our efforts to strengthen our organizational capability, enhance competitiveness and profitability. The following business objectives will be pro-actively pushed forth.

Firstly, based on our objective of maintaining ROE above the 10% level in for FY06, we will focus our efforts on improving asset quality and strengthening our revenue base. Our core business frontline capabilities such as loan origination, deposit-taking, asset management and fee income services will be enhanced and potential risk will be effectively monitored and controlled.

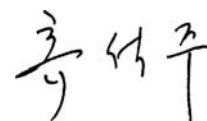
Secondly, we will continue to expand our capital market core infrastructure business. Preparations for the implementation of settlement & payment services will be carried out meticulously and we will contin-

ue to strengthen our position as a core infrastructure service provider by adroitly taking necessary actions in relation to the amendments on the Capital Market Consolidation Act.

Thirdly, we will build up and improve our advanced business management system. The strategic analytical approach and operational performance evaluation system will be reinforced while also configuring a self-directed performance management platform and increasing business accountability for LOBs (line of business). Furthermore, we will work towards the effective utilization of the newly introduced performance objective management system in order to improve the individual ability and performance evaluation process.

Lastly, we will accelerate the enhancement of corporate culture and operation innovation. Following on from last year's institution of ethical management, initiation of social contribution activities and founding of core values, we will endeavor to firmly imprint 'The KSFC Way' on the whole organization to establish a philosophical foundation that will drive continued innovation and build upon a future-oriented business mindset.

The above management objectives will be pro-actively pushed forth to achieve KSFC's vision 2010 to become a "key player in the capital market that creates maximum value added." We will strive to achieve a level of business performance our shareholders will be satisfied with. I would like to again thank our shareholders and clients for the constant support and unwavering trust. We ask for your continued encouragement and guidance in order for us to achieve desired results.



Serck-Joo Hong

Korea Securities Finance Corp. President & CEO

REVIEW OF BUSINESS OPERATIONS



In the past year, both U.S. and China, which are closely linked to Korea's economy, realized healthy growth while Japan finally showed signs of recovery following a ten year economic downturn.

Such favorable circumstances on the external side and the successful restructuring of the domestic corporate sector had enabled Korea to maintain strong export performance while on the domestic front gradual recovery of private consumption had a positive impact. However, the rise in oil prices and raw material prices combined with an unstable Korean Won had adversely impacted exports, leading to increasing uncertainties in relation to economic recovery.

Sizing up continued in the financial sector since M&A between financial institutions/groups were instigated from 2004 and transformation of financial institutions into investment banks also became a hot issue. In particular, the securities market had undergone a significant change in both a quantitative and qualitative perspective. The KOSPI bounded over the 1,300P mark as indirect investment driven by institutional investors developed into a prevalent trend as monthly equity savings plans gained popularity.

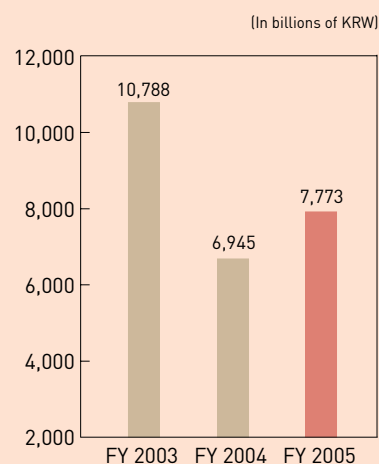
Under the rapidly changing business environment, KSFC has pro-actively managed the arising circumstances through the expansion of commercial business volume and enhancement of profitability. As a result, asset volume grew by 16% from the previous year based on an average balance basis to KRW20.2 trillion while net profit increased by 74% from 2004 and came in 137% higher than the planned target at KRW59.6 billion, which is a record earnings level for KSFC since its inception.



PROCUREMENT OF FUNDS

KSFC's main funding sources include shareholders' equity, bonds issued, various deposits made by individuals and corporate entities, notes issued, and call money. The notable funding related issues are as follows: (1) the redemption of non-real name bonds issued for the financial support of Hyundai Investment & Securities, contraction of notes issued procurement position due to the adjustment of the mandatory portfolio weighting of KSFC notes for MMFs (4% → 0%) and the decrease in policy funds, (2) the extending of the funding maturity structure that was short-term oriented (bond and notes issuance) to ensure stable operation of funds, subsequently the policy funding based borrowings (bonds) and notes issued volume fell by 26.9% from the previous year to KRW1,178 billion while deposits grew by 30.9% on a YoY basis to KRW4,171 billion on the back of a bull market and strengthened frontline operations. Furthermore, a total of KRW440 billion in corporate bonds were issued in 5 tranches in FY05 in order to extend the funding maturity structure.

(Procurement of funds)

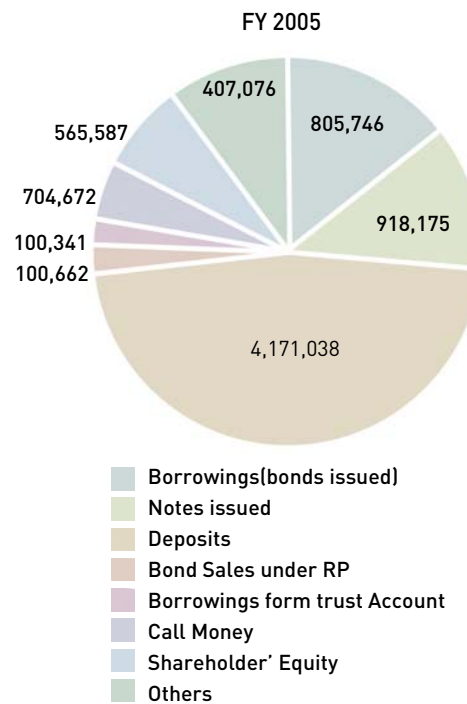
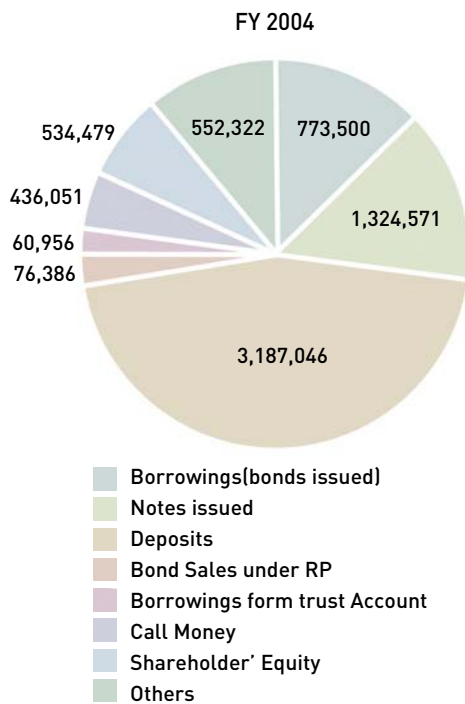


(In millions of KRW, %)

	FY 2005		FY 2004		Amount change	Rate of change
	Amount	Ratio(%)	Amount	Ratio(%)		
Borrowings (bonds issued)	805,746	10.4	773,500	11.1	32,246	4.2
Notes issued	918,175	11.8	1,324,571	19.1	△406,396	△30.7
Deposits	4,171,038	53.7	3,187,046	45.9	983,992	30.9
Customers' Deposits Received	2,786,594	35.9	2,427,193	35	359,401	14.8
Subscription Guaranty Money Deposits	953,931	12.3	376,156	5.4	577,775	153.6
SMSF(Securities Market StabilizationFund) Deposits	40,806	0.5	63,216	0.9	△22,410	△35.4
Subscription Deposits for IPO Shares	24,746	0.3	17,573	0.3	7,173	40.8
Subscription Deposits for Forfeited Shares	122,025	1.6	120,048	1.7	1,977	1.6
Others	242,936	3.1	182,860	2.6	60,076	32.9
Bond Sales under RP	100,662	1.3	76,386	1.1	24,276	31.8
Borrowings from Trust Account	100,341	1.3	60,956	0.9	39,385	64.6
Call Money	704,672	9.1	436,051	6.3	268,621	61.6
Shareholders' Equity	565,587	7.3	534,479	7.7	31,108	5.8
Others	407,076	5.2	552,322	7.9	△145,246	△26.3
Total	7,773,297	100	6,945,311	100	827,986	11.9



(In millions of KRW)



Borrowings

KSFC procures funds employed in supporting the securities industry and execution of various policy functions through direct borrowings from financial institutions such as banks and also the issuance of bonds.

As funds borrowed directly from external financial institutions are short-term facilities, KSFC has ceased direct borrowings since 1999 but in FY05 new borrowings in the amount of KRW200 billion was made for the purpose of diversifying funding sources. In addition, KSFC is issuing bonds in order to further stabilize exter-



nal funding and in FY05 new bonds were issued on 5 occasions for a total of KRW440 billion to extend the funding maturity profile. The average balance of borrowings increased by 4.2% from the previous year to KRW806 billion.

Notes issued

Notes issued are a facility that general investors use to invest their short-term idle funds and institutional investors utilize to deposit short-term transitory funds in which investors receive a promissory note from KSFC.

Volume of notes issued has contracted drastically following the adjustment for the mandatory portfolio weighting on KSFC notes in MMF products (4% → 0%), dissolution of the Investment Trust Stabilization Funds (May 24, 2004), and the discontinuation of deposits from the national treasury as of April 1, 2004. Notes issued volume is expected to grow gradually as the public account management fund trustee service was launched.

The notes issued volume for FY05 based on average daily balance decreased by KRW406 billion (30.7% YoY decline) to KRW918 billion, accounting for 11.8% of total funding.

Deposits

The average daily balance of deposits for KSFC increased by KRW984 billion (30.9% YoY growth) to KRW4,171 billion, accounting for more than half of total funds procured at 53.7%.

Despite having a limited distribution network with only 6 branches nationwide, pro-active sales/marketing efforts enabled KSFC realize strong deposit growth. The status by product type is as follows:

Customer deposits received, which accounts for the largest proportion of deposits, increased by KRW359 billion (14.8% YoY growth) to KRW2,787 billion, comprising of 35.9% of total funds procured.

Deposits made by customers with securities firms, for the purpose of subscribing to corporate IPO offerings or rights issues, re-deposited to KSFC is designated as a subscription guaranty money deposit. Compared to the previous year, average daily balance surged by KRW578 billion to KRW954 billion, translating to an increase of 153.6% and accounting for 12.3% of total funds procured.

On the other hand, subscription deposits for IPO and forfeited shares provide competitive deposit rates and also potential trading gains from allotted shares and depositors can also receive value added services including loans secured by subscription deposit for forfeited shares and subscription agency services.

Relative to the previous year, subscription deposits for IPO grew by KRW7,173 million (40.8% YoY growth) to KRW24,746 million. Subscription deposits for forfeited shares grew by only KRW1,977 million (1.6% YoY growth) to KRW122,025 million.

The deposit of Securities Market Stabilization Fund (SMSF), which is a mechanism established to stabilize the securities market and alleviate supply & demand imbalances is held custody by KSFC and KSFC also serves as a fund transaction institution. SMSF deposits decreased by KRW22,410 million (35.4% YoY growth) to KRW40,806 million.

The average daily balance of other deposit products such as securities



related institutions deposit, corporate deposits, ESOA deposits, special deposits and guaranty deposits were KRW21,978 million, KRW218,255 million, KRW1,205 million, KRW1,498 million and KRW1,805 million, respectively.

Bond sales under RP

As a means of procuring funds, KSFC is able to sell its bond holdings (treasury bonds, corporate bonds, etc.) to the government, municipal administrations, corporations, pension funds, financial institutions or individuals with a specific agreement to repurchase the bonds originally sold at a pre-designated time and price.

The increased volatility of the bond market in 2005 had spurred investors targeting interest rate arbitrage to invest in bonds hence increasing liquidity. This led to a KRW24,276 million increase (31.8% YoY growth) of average daily balance to KRW100,662 million.

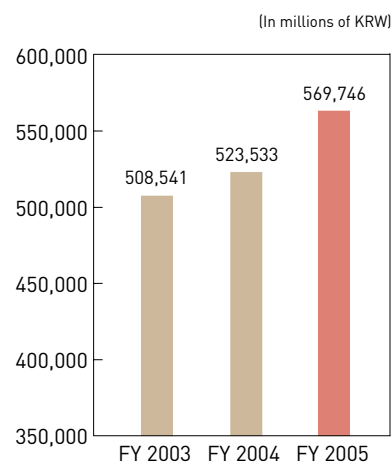
Borrowings from Trust Account

Since KSFC initiated the trustee/custodian business in June 2004, KSFC now receives deposits of transitory idle cash positions of indirect investment assets from the indirect investment institutions through its trust account under trustee agreements. The average daily balance of the trust account position, which has to be managed separately according to the consignor and the indirect investment institution, grew by 197% to KRW13 trillion. Owing to this, borrowings from trust account increased by 64.6% to KRW100,341 mil-

lion, accounting for 1.3% of total funds procured.

Call money

Call money is a short-term fund-raising facility and this position grew by KRW268,621 million (61.6% YoY growth) to KRW704,672 million. The surge in call money is attributed to market liquidity and funding supply & demand.



Shareholders' equity

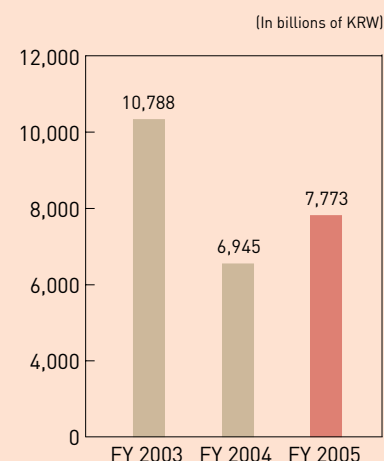
As of year-end FY05, KSFC's shareholders' equity stood at KRW570 billion growing by 8.8% compared to previous year's KRW523 billion. Average daily balance increased by KRW31 billion (5.8% YoY growth) to KRW535 billion.

OPERATION OF FUNDS

KSFC manages its procured funds through loan origination, bond purchase under reverse RPs, notes discounted, marketable securities and fixed assets. In the case of reserve funds and temporary idle funds or other short-term funds, they are managed through deposit products and/or call loans.

In FY05, the average daily balance of funds managed by KSFC increased by KRW828 billion (11.9% YoY growth) to KRW7,773 billion.

Growth realized in FY05 can be partially attributed to a bullish securities market but the main reasons behind the strong showing was the aggressive growth achieved in core businesses such as loan origination and asset management by bolstering KSFC's commercial operations and sales/marketing capability. Refer to below table for more details information.

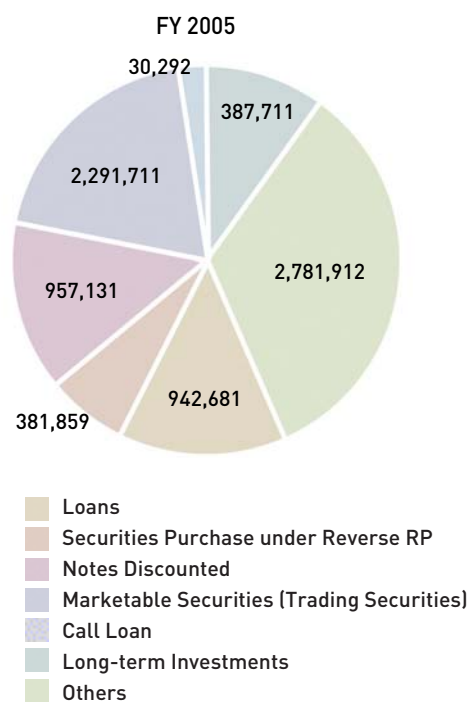
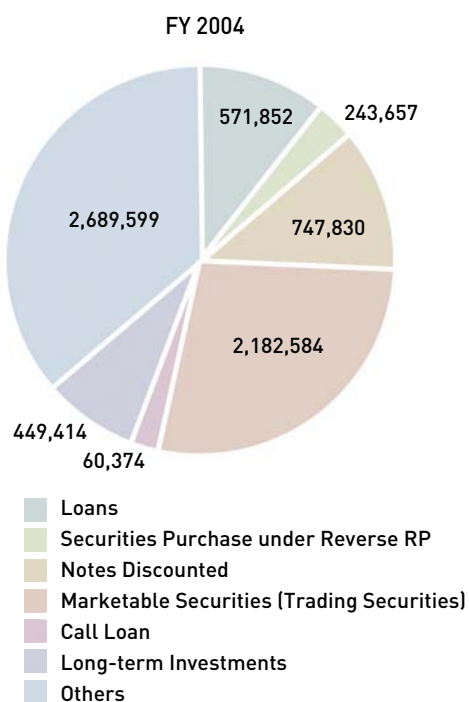


(In millions of KRW, %)

	FY 2005		FY 2004		Amount change	Rate of change
	Amount	Ratio(%)	Amount	Ratio(%)		
Loans	942,681	12.1	571,852	8.2	370,829	64.8
Gov't Bond Underwriting Loans	6,828	0.1	9,351	0.1	△2,523	△27.0
Margin Financing Loans	49,689	0.6	32,089	0.5	17,600	54.8
Bond Dealer Loans	86,834	1.1	125,651	1.8	△38,817	△30.9
Working Capital Loans	26,510	0.3	26,727	0.4	△217	△0.8
Uncollected Money Financing Loans	115,444	1.5	20,366	0.3	95,078	466.8
Securities Secured Loans	381,313	4.9	233,004	3.3	148,309	63.7
ESOA Loans	125,751	1.6	75,842	1.1	49,909	65.8
Secured Financing Loans	146,955	1.9	48,493	0.7	98,462	203
Loans Secured by Subscription Deposit for Forfeited Shares	3,357	0.1	329	0	3,028	920.4
Securities Purchased under Reverse RP	381,859	4.9	243,658	3.5	138,201	56.7
Notes Discounted	957,131	12.3	747,830	10.8	209,301	28
Marketable Securities (Trading Securities)	2,291,711	29.5	2,182,584	31.4	109,127	5
Call Loan	30,292	0.4	60,374	0.9	△30,082	△49.8
Long-term assets	387,711	5	449,414	6.5	61,703	△13.7
Available-for-Sale Securities	269,315	3.5	331,874	4.8	△62,559	△18.9
Held-to-Maturity Securities	49,863	0.6	50,000	0.7	△137	△0.3
Investment Assets	12,380	0.2	14,882	0.2	△2,502	△16.8
Tangible Assets	31,479	0.4	33,362	0.5	△1,883	△5.6
Deferred Income Tax Assets	24,674	0.3	19,296	0.3	5,378	27.9
Others	2,781,912	35.8	2,689,599	38.7	92,313	3.4
Total	7,773,297	100	6,945,311	100	827,986	11.9



(In millions of KRW)



Loans

Attributable to a robust securities market and expanded sales/marketing capabilities, KSFC's loan portfolio surged in FY05. The average daily balance soared by KRW371 billion (64.9% YoY growth) to KRW943 billion while the proportion of loans to total operating

assets increased by 3.9% to 12.1%. The details for each loan type are as follows:

Margin financing loan is a facility offered through securities firms for the purpose of providing investors with funds required to settle a stock purchase or securities (stock loan is no longer allowed) in



margin transactions. Through margin financing loans, KSFC is able to create additional trading demand, which ultimately contributes to enhancement of stock liquidity and stabilization of the stock market. These loans are classified into money loans for the settlement of customers' margin purchase and stock loans for customers' short sale. Margin financing loans rose by KRW17,600 million (54.8% YoY growth) to KRW49,689 million.

Bond dealer loans are funds provided to bond dealers licensed to either underwrite or deal in bonds in conformance to the Securities and Exchange Act. These loans are classified into bond underwriting loans and bond market making loans where the former serves as a source of funds for primary bond dealers to underwrite bonds and the latter being available to secondary dealers within the bond market for the trading of bonds.

For bond underwriting loans, they are categorized into government bond underwriting loans, which provide funds to dealers to invest in government bonds and corporate bond underwriting loans. The average daily balance for government bond underwriting loans fell by KRW2,523 million (27.0% YoY decline) to KRW6,828 million. Market making loans for bond dealers also dropped sharply by KRW38,817 million (30.9% YoY decline) to KRW86,835 million.

Working capital loans are provided to securities firms, futures companies, and other securities related companies with the purpose of providing liquidity to institutional investors. Compared to FY04, the average daily balance dropped off slightly by KRW217 million (0.8% YoY decline) to KRW26,510 million.

The uncollected funds financing loan was introduced to support the efficient settlement of funds to build up the local securities market. This loan is provided to securities firms for the purpose of settlement

of securities related payments, with collateral being customer margins in. Owing to a strong bourse, average daily loan volume grew by KRW95,078 million (466.8% YoY growth) to KRW115,444 million.

General securities secured loans are offered to individual, corporate and ESOA customers with the objective of broadening securities investment among the populace and enhance the utility of marketable securities. A buoyant equity market with share prices basically on an upward trajectory had boosted the demand for equity investment funding. Taking advantage of the propitious market environment and also focusing more on the general securities secured loan business, we were able to realize both volume growth and profit enhancement.

By loan category, general secured loans towards individuals and corporates showed a sharp rise of its average daily balance of KRW148 billion (63.7% YoY growth) to KRW381 billion. In case of ESOA related loans, the average daily balance also grew strongly by KRW50 billion (65.8% YoY growth) to KRW126 billion.

Securities secured loans were launched in March 2004 to provide securities firms with low interest funding that can be extended to general individual and institutional investors.

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 in order to facilitate more active usage of marketable securities. The average daily balance for 2005 showed strong growth of KRW98,462 million (203.0% YoY growth) to KRW146,955 million.

Loans secured by subscription deposit for forfeited shares a facility that provides investors with funds to subscribe for forfeited shares had realized remarkable growth with the average daily balance swelling by



KRW3,028 million (920.4% YoY growth) to KRW3,357 million.

Securities purchased under reverse RP

For FY05, the average daily balance for securities purchased under reverse RP had increased by KRW138,201 million (56.7% YoY growth) to KRW381,859 million. The weighting for securities purchased under reverse RP to total operating assets also rose from 3.5% in FY04 to 4.9% as of FY05. Strong growth was possible on the back of swelling customer deposits as the market was robust and the increase in resources for investment in securities purchased under reverse RP as KSFC launched the public account management fund trustee services on October 5th.

Notes discounted

Prior to 1998, notes discounted had accounted for a sizable portion of operational assets as this facility was a vital means of supplying low cost funds to the securities market and also controlling supply & demand. The proportion accounted for by notes discounted started to fall below the 50% level from 1997 onwards and has been declining at a rapid pace.

The continued decline is attributable to the adjustment of MMF investment weighting for KSFC notes (4% → 0%) and the dissolution of Investment Trust Stabilization Funds (May 24, 2004). However, there was an about-turn in FY05 as average daily balance showed growth of KRW209,301 million (28.0% YoY growth) to KRW957,131 million owing to the increase of subscription guaranty money deposits which was the funding base for the increase in notes dis-

counted business.

Marketable securities

Marketable securities invested by KSFC are classified as (1) trading securities recognized as current assets purchased for the purpose of managing and/or trading of short-term funds, (2) held-to-maturity securities booked as long-term assets purchased for the intent of holding until maturity and (3) available-for-sale securities belonging to the fixed asset classification that are not recognized as trading securities and held-to-maturity securities. Unlike available-for-sale securities, held-to-maturity and trading securities are not evaluated on a mark-to-market basis. As a core function of KSFC, asset management operations has been strengthened by hiring investment specialists, reconfiguring the investment portfolio and restructuring the work processes. These initiatives have been largely successfully as illustrated by the 1.82% boost in average returns to 6.77% and also growth of assets under management.

The average daily balance for trading securities grew by KRW109,127 million (5.0% YoY growth) to KRW2,292,711 million accounting for 29.5% of total operating assets while investment securities contracted by KRW62,559 million (18.9% YoY decline) to KRW269,315 million.

Call loans

As a vehicle for management of short-term idle funds, call loans posted a decline of KRW30,082 million (49.8% YoY decline) to KRW30,292 million.

| KEY FINANCIAL INDICES |

In FY05, the KSFC family had focused its efforts in strengthening our core businesses in loan origination, deposit-taking, asset management, public services and market infrastructure services to build a strong commercial business footing. Through our efforts, we have established a solid platform for growth and the diversification of KSFC's revenue base.

Owing to improved operational capabilities, key performance indices have shown significant enhancement for FY05. Return-on-equity (ROE) rose by 4.28%p to 10.91% while net interest margin (NIM) became positive for the first time since our inception at 0.9% and productivity level per staff also improved to a great degree.

(In billions of KRW, %)

	Total assets (Proprietary assets)	Shareholders' equity	Net profit	ROE	NIM	NIS	Productivity level per staff
FY'05	20,175(7,773)	547	60	10.91	0.90	1.31	4.1
FY'04	17,396(6,945)	516	34	6.63	-0.63	1.39	2.7
Change	2,779(828)	31	26	4.28	1.53	-0.08	1.4

| CUSTODY/MANAGEMENT OF CUSTOMER DEPOSITS |

Funds deposited by investors for the purpose of trading stocks and/or futures in securities firms and futures companies have to be re-deposited or entrusted to KSFC pursuant to the Securities and Exchange Act and the Futures Trading Act for the protection of investors. As the sole custodian institution for customers' deposits, KSFC has to separately manage customer deposits from the proprietary accounts of securities firms or futures companies to protect the assets of customers even in the event of bankruptcy of the respective securities firm or futures company.

KSFC has the responsibility of prudently managing customer deposits that have been separately entrusted either in the form of a trust account or deposits by securities firms (futures companies). To ensure the safe return of investor assets, the vehicles of investment that may be utilized are restricted to government bonds, bank deposits, securities secured loans and MMFs with the investment limit also being strictly applied.

Furthermore, in order to ensure the transparency and security in relation to customer deposit management, autonomous consultative committees have been established for both the management of special deposits and special trust deposit accounts.

The customer deposit under the custody of KSFC as of FY05 for the deposit account based on a daily average balance for the year had increased by KRW359 billion to KRW2,787 billion while on the trust account side average daily balance grew by KRW1,951 billion to KRW12,402 billion.

| ESOP RELATED SERVICES |

The ESOP (Employee Stock Ownership Plan) is a scheme, which has been instituted to give employees the opportunity to enhance their socio-economic status and promote cooperative labor-management relations, by enabling employees to purchase and hold company stock through an ESOA (Employee Stock Ownership Association).

As the sole provider of ESOP related services in Korea pursuant to the Securities and Exchange Act, Basic Workers Welfare Act and other relevant regulations, KSFC continues to strive to develop and promote ESOP. In May 2005, we opened the 'ESOP Support Center' which carries out research & training related to ESOP, promotes ESOP as a means for general workers to accumulate wealth, and fosters a more constructive labor-management culture.

The key services provided by KSFC are custody & management of employee stock held by ESOAs and/or ESOA members, custody & management of ESOA funds, employee stock related financing, ESOA establishment /operations related advisory, and training of staff responsible for employee stock duties. As of FY05, a total of 2,275 companies established an ESOP and 743 of the ESOAs have entrusted around 300 million shares to KSFC.

| CUSTODIAN SERVICES |

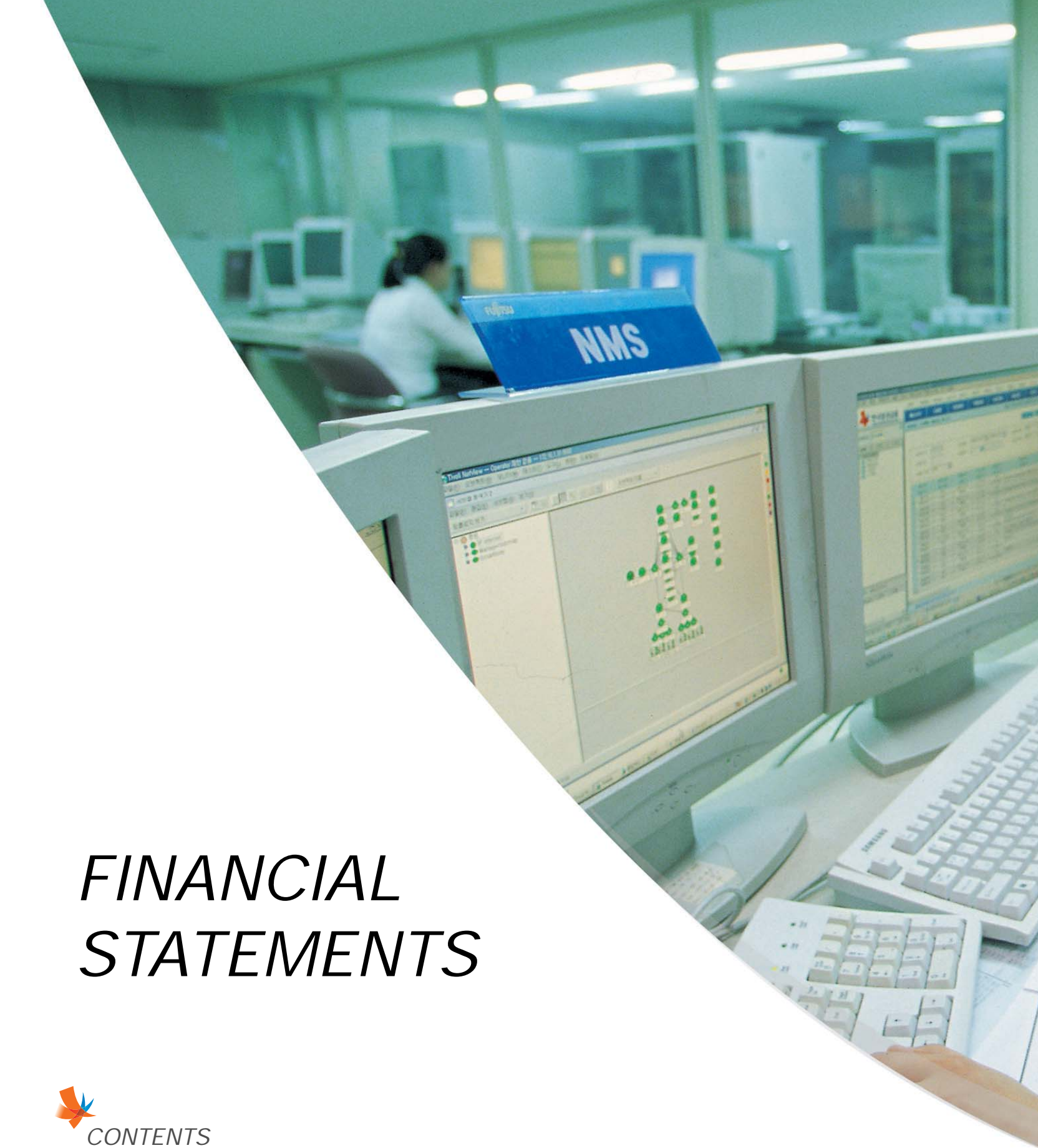
In conformance to the Act on Business of Operating Indirect Investment and Assets, KSFC is providing trustee and custody services. As the first securities related institution to be a custodian, we have made diligent efforts to enhance our service level and systemize our work process. Owing to our efforts, we received ISO 9001 certification for our custodian services, which is a first for a Korean financial institution, in September 2005.

Despite being a latecomer to the business, we have been able to grow our assets under custody to KRW13 trillion (197% YoY growth in 2005) ranking KSFC seventh in the custody market. Differentiated services provided to our clients including compliance and asset management support services have been well taken by our clients.

| SECURITIES BORROWING & LENDING(SBL) BROKERAGE SERVICE |

Securities lending and borrowing (SLB) is an investment vehicle mainly utilized to earn low-risk income through arbitrage between individual stocks and/or markets, hedging to fix returns in relation to the exercise of rights or long-term vs. short-term price variation and swap transactions for marketable securities. Basically, KSFC is an intermediary for lending and borrowing of equity or bonds.

In FY05, the active participation of market players and increase of arbitrage transactions for government bond futures had substantially enlarged the bond intermediary market. Together with our efforts in enhancing our services, the average daily volume was KRW664 billion and as of year-end 2005, the balance was in excess of KRW2 trillion solidifying KSFC's position as the top SLB service provider. The domestic market is expected to show continued growth considering the expansion of the government bond market, increased arbitrage trading and borrowings to be possible for banks and asset management companies.



FINANCIAL STATEMENTS



CONTENTS

22	Independent Auditors' Report	23	Balance Sheets	24	Statements of Income
25	Statements of Appropriation of Retained Earnings	26	Statements of Cash Flows	27	Notes to Financial Statements
42	Independent Auditors' Report(Trust Account)	43	Statement of Assets and Liabilities(Trust Account)		
44	Notes to Financial Statements(Trust Account)				



Independent Auditors' Report

English Translation of a Report Originally Issued in Korean

The Shareholders and the Board of Directors of Korea Securities Finance Corporation

We have audited the accompanying balance sheet of Korea Securities Finance Corporation (the "Company") as of March 31, 2006, and the related statements of income, appropriations of retained earnings and cash flows for the year 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. The accompanying balance sheet of the Company as of March 31, 2005, and the related statements of income, appropriation of retained earnings and cash flows for the year then ended, were audited by other auditors, and in their report dated April 15, 2005, they expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2006 financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2006 and the results of its operations, changes in its retained earnings and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the Republic of Korea (See Note 2).

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.

April 20, 2006

This report is effective as of April 20, 2006, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

BALANCE SHEETS

AS OF MARCH 31, 2006 AND 2005

(In millions)

Korean Won

	2006	2005
ASSETS		
CURRENT ASSETS:		
Cash and due from banks (Note 3)	₩ 2,813,658	₩ 2,752,572
Trading securities (Note 4)	3,304,090	2,071,438
Short-term investment securities (Note 4)	469,521	192,328
Short-term loans (Notes 5 and 6)	2,391,343	1,108,210
Other current assets (Note 8)	56,235	24,981
	9,034,847	6,149,529
NON-CURRENT ASSETS:		
Long-term investment securities (Note 4)	728,643	182,875
Long-term loans (Notes 5 and 6)	233,649	80,981
Property and equipment (Note 7)	29,460	30,036
Other non-current assets (Note 9)	19,284	38,312
	1,011,036	332,204
	₩ 10,045,883	₩ 6,481,733
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term deposits received (Note 10)	₩ 3,965,784	₩ 3,064,397
Notes issued	3,001,982	504,068
Short-term borrowings (Note 11)	200,000	-
Call money (Note 11)	804,300	877,600
Securities sold under repurchase agreements (Note 11)	234,502	201,300
Current portion of bonds issued (Note 13)	895,072	633,363
Other current liabilities (Note 12)	207,372	235,962
	9,309,012	5,516,690
FIXED LIABILITIES:		
Bonds issued (Note 13)	155,049	430,632
Long-term deposits received	1,227	2,192
Reserve for contingencies (Note 15)	7,281	6,340
Accrued retirement and severance benefits (Note 14)	3,568	2,346
	167,125	441,510
	9,476,137	5,958,200
SHAREHOLDERS' EQUITY (Note 16)		
Common stock	340,000	340,000
Capital surplus	21,767	21,767
Retained earnings		
(Net income of ₩59,612 million for the year ended March 31, 2006 and ₩34,192 million for the year ended March 31, 2005)	211,926	165,688
Capital adjustment	(3,947)	(3,922)
	569,746	523,533
	₩ 10,045,883	₩ 6,481,733

See accompanying notes to financial statements.

STATEMENTS OF INCOME

FOR THE YEARS ENDED MARCH 31, 2006 AND 2005

(In millions except per share amounts)

Korean Won

	2006	2005
OPERATING REVENUE:		
Interest on bank deposits	₩ 90,184	₩ 87,037
Interest on securities	55,284	26,210
Interest on loans	95,049	67,977
Gain on disposal of trading securities	55,571	61,446
Gain on valuation of trading securities	33,487	33,929
Reversal of allowance for possible loan losses	11,047	29,611
Dividends	482	1,302
Commissions	3,993	3,256
Others	9,683	6,794
	354,780	317,562
OPERATING EXPENSES:		
Interest expenses	212,482	181,954
Loss on disposal of trading securities	2,121	1,684
Loss of valuation of trading securities	1,340	8,919
Selling, general and administrative expenses (Note 17)	39,874	44,255
Others	3,445	1,507
	259,262	238,319
OPERATING INCOME	95,518	79,243
NON-OPERATING INCOME (EXPENSES):		
Loss on impairment of long-term investment securities (Note 4)	(11,297)	(5,052)
Gain (Loss) on disposal of long-term investment securities, net	(161)	2
Donations (Note 22)	(1,057)	(679)
Transfer to reserve for contingencies	(941)	(6,340)
Others	715	566
	(12,741)	(11,503)
ORDINARY INCOME	82,777	67,740
EXTRAORDINARY LOSSES	-	18,208
INCOME BEFORE INCOME TAX	82,777	49,532
INCOME TAX EXPENSE (Note 18)	23,165	15,340
NET INCOME	₩ 59,612	₩ 34,192
ORDINARY INCOME PER SHARE (Note 20)	₩ 892	₩ 698
NET INCOME PER SHARE (Note 20)	₩ 892	₩ 506

See accompanying notes to financial statements.

STATEMENTS OF APPROPRIATION OF RETAINED EARNINGS

STATEMENTS OF APPROPRIATION OF RETAINED EARNINGS

(In millions)

Korean Won

	2006	2005
RETAINED EARNINGS BEFORE APPROPRIATIONS:		
Beginning of the year	₩ 44	₩ 26
Net income	59,612	34,192
	59,656	34,218
APPROPRIATIONS:		
Legal reserve (Note 16)	6,000	3,500
Reserve for dividends	26,900	17,300
Cash dividends	26,720	13,374
	59,620	34,174
UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED FORWARD TO SUBSEQUENT YEAR	₩ 36	₩ 44

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MARCH 31, 2006 AND 2005

(In millions)

	Korean Won	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	₩ 59,612	₩ 34,192
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	3,369	4,081
Provision for retirement and severance benefits	2,698	3,406
Gain on valuation of trading securities, net	(32,147)	(25,010)
Gain on disposal of trading securities, net	(53,450)	(59,762)
Loss (Gain) on disposal of long-term investment securities, net	161	(2)
Loss on impairment of long-term investment securities	11,297	5,052
Transfer to reserve for contingencies	941	6,340
Reversal of allowance for possible loan losses	(11,047)	(29,611)
Increase in other current assets	(28,377)	(4,216)
Decrease (increase) in other non-current assets	13,166	(5,471)
Decrease in other current liabilities	(28,665)	(27,063)
Payment of retirement and severance benefits	(1,009)	(6,101)
Others	(9,025)	(39)
Net cash used in operating activities	(72,476)	(104,204)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from disposal of trading securities	11,833,691	6,505,112
Proceeds from disposal of short-term investment securities	192,349	27,805
Collection of short-term loans	146,532,519	22,605,194
Disposition of long-term investment securities	4,457	17,588
Proceeds from disposal of other non-current assets, net	1,282	3,021
Collection of long-term loans	79,320	51,421
Disposition of property and equipment	841	368
Acquisition of trading securities	(12,980,746)	(5,313,887)
Extension of short-term loans	(147,803,666)	(20,639,523)
Acquisition of long-term investment securities	(1,020,187)	(15)
Extension of long-term loans	(232,928)	(56,358)
Acquisition of property and equipment	(3,315)	(1,405)
Decrease (increase) in deposits for retirement and severance benefits, net	(479)	1,086
Net cash provided by (used in) investing activities	(3,396,862)	3,200,407
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in short-term deposits received	₩ 118,101,069	₩ 62,249,929
Proceeds from short-term borrowings	45,436,000	-
Increase in call money	161,558,800	97,283,600
Increase in securities sold under repurchase agreements	1,100,932	955,643
Increase in notes issued	96,760,601	-
Proceeds from bonds issued	439,677	-
Decrease in short-term deposits received	(117,199,682)	(61,480,996)
Repayment of short-term borrowings	(45,236,000)	-
Decrease in call money	(161,632,100)	(96,703,400)
Decrease in notes issued	(94,262,687)	(4,359,416)
Decrease of securities sold under repurchase agreements	(1,067,730)	(842,596)
Decrease of long-term deposits received, net	(878)	(1,631)
Payment of current portion of bonds issued	(453,680)	(238,870)
Acquisition of treasury stock	(512)	(7,470)
Payment of dividends	(13,386)	(20,609)
Net cash provided by (used in) investing activities	3,530,424	(3,165,816)
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	61,086	(69,613)
CASH AND DUE FROM BANKS, BEGINNING OF YEAR	2,752,572	2,822,185
CASH AND DUE FROM BANKS, END OF YEAR (Notes 3 and 19)	₩ 2,813,658	₩ 2,752,572

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2006 AND 2005

1. GENERAL:

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 the trust business to invest funds received from securities companies as deposits of customers' funds for securities transactions.

As of March 31, 2006, the capital stock of the Company amounts to ₩340,000 million, and the largest shareholder of the Company is the Korea Exchange, which owns 11.345 percent of the common shares.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Financial Statement Presentation

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 included in 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.

The significant accounting policies followed by the Company in preparing the accompanying statutory financial statements are summarized below.

Interest Income Recognition

The Company applies the accrual basis in recognizing interest income related to deposits, loans and securities, except for unsecured uncollectible receivables. Interest on loans, whose principal or interest is past due at the balance sheet date, is generally not accrued, with the exception of interest on certain loans secured by guarantee of governments or government agencies, or collateralized by bank deposits.

Valuation of Securities

(1) Valuation of Trading Securities

Trading equity and debt securities are initially recognized at acquisition cost plus incidental expenses determined by the individual moving average method (the specific identification method for debt securities). When the face value of trading debt securities differs from their acquisition cost, the effective interest rate method is applied to amortize the difference over the remaining term of the debt securities. After initial recognition, if the fair value of trading securities differs from the book value, trading securities are stated at fair value and the resulting valuation gain or loss is included in current operations.

(2) Valuation of Available-for-sale Securities

Available-for-sale securities are initially recognized at acquisition cost plus incidental expenses, determined by the individual moving average method (the specific identification method for debt securities). The effective interest rate method is applied to amortize the difference between the face value and the acquisition cost over the remaining term of the debt security. After initial recognition, available-for-sale securities are stated at fair value, with the net unrealized gain or loss presented as gain or loss on valuation of available-for-sale securities in capital adjustments. Accumulated capital adjustments of securities are charged to current operations in a lump sum at the time of disposal or impairment recognition. Non-marketable equity securities are stated at acquisition cost on the financial statements if the fair value of the securities is not reliably determinable.

If the fair value of equity securities (net asset fair value in case of non-marketable equity securities stated at acquisition cost) is below the acquisition cost and the pervasive evidence of impairment exists, the carrying value is adjusted to fair value and the resulting valuation loss is charged to current operations. If the collectible value of debt securities is below the amortized cost and the pervasive evidence of impairment exists, the carrying value is adjusted to collectible value and the resulting valuation loss is charged to current operations. With respect to impaired securities, any unrealized valuation gain or loss of securities previously included in the capital adjustment account is reversed.

(3) Valuation of Held-to-maturity Securities

Held-to-maturity securities are stated at acquisition cost plus incidental expenses, determined by the specific identification method. When the face value of held-to-maturity securities differs from its acquisition cost, the effective interest rate method is applied to amortize the difference over the remaining term of the securities. If collectible value is below the amortized cost and the pervasive evidence of impairment exists, the carrying value is adjusted to collectible value and the resulting valuation loss is charged to current operations.

(4) Reversal of Loss on Impairment of Available-for-sale Securities and Held-to-maturity Securities

If the reasons for impairment losses of available-for-sale securities no longer exist, the recovery is recorded in current operations under non-operating income up to the amount of the previously recognized impairment loss as reversal of loss on impairment of available-for-sale securities and any excess is included in capital adjustments as gain on valuation of available-for-sale securities. However, if the increases in the fair value of the

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2006 AND 2005

impaired securities are not regarded as the recovery of the impairment, the increases in the fair value are recorded as gain on valuation of available-for-sale securities in capital adjustments. For non-marketable equity securities, which were impaired based on the net asset fair value, the recovery is recorded up to their acquisition cost.

For held-to-maturity securities, the recovery is recorded in current operations under non-operating income within the amount of amortized cost that would have been recorded according to the original schedule if the impairment losses had not been recognized and recorded as reversal of loss on impairment of held-to-maturity securities.

Bonds under Resale or Repurchase Agreements

Bonds purchased under resale agreements are recorded as loans and bonds sold under repurchase agreements are recorded as borrowings when the Bank purchases or sells securities under resale or repurchase agreements.

Allowance for Possible Loan Losses

The Company has classified financial soundness of accounts based on a debtor's ability to repay, overdue periods and dishonored loans as of March 31, 2006.

The Company changed its rate of providing an allowance for possible loan losses on loans secured by unlisted stocks and allowance is reserved in addition to the allowance for loans secured by listed stocks for the year ended March 31, 2006.

As a result, bad debt expenses have increased by ₩173 million and net income has decreased by ₩125 million.

Company

Ratio	Normal	Pre-cautionary	Standar	Doubtful	Estimated loss
All loans excluding loans secured by unlisted stock	0.50%	2%	20%	50%	100%
Loans secured by unlisted stock	1%	4%	40%	75%	100%

Private

Ratio	Normal	Pre-cautionary	Standar	Doubtful	Estimated loss
All loans excluding loans secured by unlisted stock	0.75%	8%	20%	55%	100%
Loans secured by unlisted stock	1.50%	16%	40%	82.50%	100%

Also, allowance for possible loan losses to be provided includes allowance on loans (short-term & long-term loans), call loans, credit loans (such as notes discounted), securities purchased under resale agreements and credit suspense payments.

Property and Equipment

Property and equipment are recorded at cost or production cost including the incidental expenses. Routine maintenance and repairs are expensed as incurred. Expenditures that result in the enhancement of the value or the extension of the useful lives of the facilities involved are capitalized as additions to property and equipment.

Depreciation is computed by using the declining-balance method (straight-line method for building and structures) based on the estimated useful lives of the assets as follows:

	Useful lives (years)
Buildings	6-60
Structures	10-40
Office equipment	4
Vehicles	4

Accrued 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 at 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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2006 AND 2005

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 accrued retirement and severance benefits.

Income Tax Expense

Income tax expense is the amount currently payable for the period added to or deducted from the changes in deferred income taxes. However, deferred income tax assets are recognized only if the future tax benefits from accumulated temporary differences and any tax loss carryforwards are realizable. The difference between the amount currently payable for the period and income tax expense is accounted for as deferred income tax assets or liabilities, which will be charged or credited to income tax expense in the period each temporary difference reverses in the future. Deferred income tax assets or liabilities are calculated based on the expected tax rate to be applied at the reversal period of the related assets or liabilities. Tax payable and deferred income tax assets or liabilities regarding to certain items are charged or credited directly to related components of shareholders' equity.

Amortization of Discounts (Premiums) on Debentures

Discounts or premiums on debentures issued are amortized over the period from issuance to maturity using the effective interest rate method. Amortization of discounts or premiums is recognized as interest expense or interest income on the debentures.

Accounting for Trust Accounts

The Company separately maintains the books of accounts and financial statements in connection with the trust operations (the trust accounts) from those of the Company accounts in accordance with the Trust Business Act. When surplus funds are generated through the management of trust assets, such funds are deposited with the Company accounts and are recorded as due to trust accounts of the Company accounts. Also, the borrowings from the Company accounts are recorded as due from trust accounts of the Company accounts. The Company receives fees for operation and management of the trust business, which are accounted as fees and commissions from trust accounts.

Application of the Statement of Korea Accounting Standards

The Korea Accounting Standard Board (KASB) under the Korea Accounting Institute (KAI) issued the Statements of Korea Accounting Standards (SKAS) for achieving a set of Korean accounting standards that should be internationally acceptable and comparable. The Statements supersede the related existing accounting standards and constitute generally accepted accounting principles of the Republic of Korea. The Company has implemented SKAS No.1 (Accounting Changes and Correction of Errors) since January 1, 2002 and adopted SKAS from No.2 (Interim Financial Statements) through No.9 (Convertible Securities), since January 1, 2003. Also, the Company has implemented SKAS No.13 (Troubled Debt Restructurings), since January 1, 2005 and adopted SKAS No.15 (Investment in Associates), No. 16 (Income Taxes) and No. 17 (Provisions, Contingent Liabilities and Contingent Assets), since January 1, 2006.

Approval of Financial Statements

The Company's financial statements for submission to regular shareholders' meeting are subject to approval by the board of directors, which is tabled at their meeting on April 26, 2006.

Reclassification

Certain accounts of the prior period were reclassified to conform to the current period's presentation for comparative purposes; however, the reclassifications had no effect on the reported prior period net income or shareholders' equity of the Company.

3. CASH AND DUE FROM BANKS:

Cash and due from banks as of March 31, 2006 and 2005 are summarized as follows:

(Unit: Won in millions):

	Annual interest rate (%)	Korean Won	
		2006	2005
Cash and due from banks:			
Cash	-	₩ 6	₩ 7
General deposits and others	0.5	15	-
Current deposit	-	51	33
Time deposit	3.78-5.00	83,900	125,000
Money Market Deposit Account (MMDA)	4.05	1,843,030	2,066,234
Certificate of deposit (CD)	4.16-4.75	882,289	561,298
Cash management account (CMA)	3.75	4,367	-
		₩ 2,813,658	₩ 2,752,572

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2006 AND 2005

4. SECURITIES:

(1) Securities as of March 31, 2006 and 2005 are summarized as follows:

(Unit: Won in millions)

	2006	2005
Trading securities:		
Stocks	₩ 53,693	₩ 18,344
Beneficiary certificates	2,368,059	1,466,694
Government and public bonds	20,151	151,224
Financial debentures	651,994	174,388
Foreign exchange stabilization bond	-	10,253
Corporate bonds	210,193	240,886
Others	-	9,649
	₩ 3,304,090	₩ 2,071,438
Available-for-sale securities:		
Stocks	₩ 10,645	₩ 17,236
Government and public bonds	439,810	1,756
Finance debentures	497,867	211,560
Foreign exchange stabilization bond	-	22,797
Corporate bonds	199,842	71,854
	₩ 1,148,164	₩ 325,203
Held-to-maturity securities:		
Others	₩ 50,000	₩ 50,000

(2) The valuation of securities as of March 31, 2006 and 2005 consisted of the following :

March 31, 2006

(Unit: Won in millions)

	Acquisition cost (*)	Adjusted value (**)	Fair value	Book value
Trading securities:				
Stocks	₩ 37,156	₩ -	₩ 53,693	₩ 53,693
Beneficiary certificates	2,345,866	-	2,368,059	2,368,059
Government and public bonds	20,242	-	20,151	20,151
Financial debentures	651,962	-	651,994	651,994
Corporate bonds	210,380	-	210,193	210,193
	₩ 3,265,606	₩ -	₩ 3,304,090	₩ 3,304,090
Available-for-sale securities:				
Stocks	₩ 11,891	₩ -	₩ 39,992	₩ 10,645
Government and public bonds	439,568	439,772	439,810	439,810
Finance debentures	500,082	504,781	497,867	497,867
Corporate bonds	199,146	191,518	199,842	199,842
	₩ 1,150,687	₩ 1,136,071	₩ 1,177,511	₩ 1,148,164
Held-to-maturity securities:				
Others	₩ 50,000	₩ -	₩ 50,000	₩ 50,000

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2006 AND 2005

March 31, 2005

(Unit: Won in millions)

	Acquisition cost (*)	Adjusted value (**)	Fair value	Book value
Trading securities:				
Stocks	₩ 9,909	₩ -	₩ 18,344	₩ 18,344
Beneficiary certificates	1,444,912	-	1,466,694	1,466,694
Government and public bonds	151,000	-	151,224	151,224
Financial debentures	174,385	-	174,388	174,388
Foreign exchange stabilization bond	10,339	-	10,253	10,253
Corporate bonds	246,236	-	240,886	240,886
Others	9,647	-	9,649	9,649
	₩ 2,046,428	₩ -	₩ 2,071,438	₩ 2,071,438
Available-for-sale securities:				
Stocks	₩ 21,471	₩ -	₩ 43,139	₩ 17,236
Government and public bonds	1,755	1,684	1,756	1,756
Finance debentures	212,809	209,598	211,560	211,560
Foreign exchange stabilization bond	22,377	21,938	22,797	22,797
Corporate bonds	69,948	69,229	71,854	71,854
	₩ 328,360	₩ 302,449	₩ 351,106	₩ 325,203
Held-to-maturity securities:				
Others	₩ 50,000	₩ -	₩ 50,000	₩ 50,000

(*)The acquisition cost of the stocks among available-for-sale securities are the book value before valuation.

(**)The difference between face value and acquisition cost was adjusted by effective interest rate method.

(3) Available-for-sale equity securities as of March 31, 2006 and 2005 consisted of the following:

March 31, 2006

(Unit: Won in millions)

	The number of shares	Percentage of ownership (%)	Acquisition cost	Fair value or net asset value	Book value
Listed equity securities:					
Korea Information Service Inc.	46,713	0.98	₩ 234	₩ 888	₩ 888
Unlisted equity securities:					
Seoul Debt Control Fund (*)	3,760,000	3.13	1,746	1,627	1,627
Hankang Restructuring Fund (*)	2,080,000	4.06	1,542	1,063	1,063
Mukunghwa Structure Control Fund (*)	2,080,000	3.12	1,991	1,615	1,615
Arirang Structure Control Fund (*)	2,080,000	3.12	1,872	946	946
Koscom Co., Ltd. (*)	195,238	3.65	976	4,572	976
Korea Securities Depository (*)	3,413	0.05	30	221	30
Korea Exchange (*)	424,746	2.12	3,500	29,060	3,500
	10,623,397		11,657	39,104	9,757
Total	10,670,110		₩ 11,891	₩ 39,992	₩ 10,645

March 31, 2005

(Unit: Won in millions)

	The number of shares	Percentage of ownership (%)	Acquisition cost	Fair value or net asset value	Book value
Listed equity securities:					
Korea Information Service Inc.	46,713	0.98	₩ 234	₩ 1,051	₩ 1,051
Unlisted equity securities:					
Seoul Debt Control Fund (*)	3,760,000	3.13	3,401	3,210	3,210
Hankang Restructuring Fund (*)	2,080,000	4.06	2,499	1,736	1,736
Mukunghwa Structure Control Fund (*)	2,080,000	3.12	5,111	3,029	3,029
Arirang Structure Control Fund (*)	2,080,000	3.12	5,720	3,704	3,704
Koscom Co., Ltd. (*)	195,238	3.65	976	4,642	976
Korea Securities Depository (*)	3,413	0.05	30	204	30
Korea Exchange (*)	424,746	2.12	3,500	25,563	3,500
	10,623,397		21,237	42,088	16,185
Total	10,670,110		₩ 21,471	₩ 43,139	₩ 17,236

(*) This fund was being liquidated as of March 31, 2005. Since there is no possibility of recovery due to the decline of net assets, the Company accounted for the decline as loss on impairment of long-term securities for the year ended March 31, 2005. The amounts collected are excluded from the acquisition cost as of March 31, 2006.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2006 AND 2005

(4) Assets of private beneficiary certificates included in trading securities as of March 31, 2006 and 2005 were as follows:

(Unit: Won in millions)

	2006	2005
Stocks	₩ 17,076	₩ 12,950
Government and public bonds	19,171	-
Finance bonds	3,400	-
Call loans	9,931	-
Deposit due from banks	127	-
Other assets	-	316
Assets	49,705	13,266
Liabilities	-	-
Net assets	₩ 49,705	₩ 13,266

(5) The portfolio of securities, by type, as of March 31, 2006 and 2005 consisted of the following :

(Unit: Won in millions)

	2006		2005	
	Securities in local currency	Percentage(%)	Securities in local currency	Percentage(%)
Trading securities:				
Stocks	₩ 53,693	1.19	₩ 18,344	0.75
Fixed rate bonds	882,338	19.60	586,399	23.97
Beneficiary certificates	2,368,059	52.60	1,466,695	59.95
	3,304,090	73.39	2,071,438	84.67
Available-for-sale securities:				
Equity securities	10,645	0.24	17,236	0.70
Fixed rate bonds	1,137,519	25.26	307,967	12.59
	1,148,164	25.50	325,203	13.29
Held-to-maturity securities:				
Fixed rate bonds	50,000	1.11	50,000	2.04
	₩ 4,502,254	100.00	₩ 2,446,641	100.00

(6) Changes in the gain (loss) on valuation of available-for-sale securities, reflected in capital adjustments for the year ended March 31, 2006 were as follows :

(Unit: Won in millions)

	Beginning	Increase	Decrease	Disposal	Deferred income tax	Ending
Available-for-sale securities:						
Equity securities	₩ 817	₩ 2,753	₩ -	₩ -	₩ (982)	₩ 2,588
Bonds	3,193	2,149	3,425	715	(724)	1,908
	₩ 4,010	₩ 4,902	₩ 3,425	₩ 715	₩ (1,706)	₩ 4,496

(7) Term structure of securities (except for stocks and equity investments) in available-for-sale and held-to-maturity securities as of March 31, 2006 and 2005 was as follows:

March 31, 2006

(Unit: Won in millions)

	Government and public bonds	Finance bonds	Corporate bonds	Total
Available-for-sale securities:				
Less than 3 months	₩ -	₩ -	₩ 15,081	₩ 15,081
Less than 6 months	103,190	-	9,888	113,078
Less than 1 year	204,875	86,488	-	291,363
Less than 2 years	82,018	220,576	114,911	417,505
Less than 3 years	69,739	140,714	50,028	260,481
Less than 4 years	9	-	9,934	9,943
More than 5 years	39	30,029	-	30,068
	459,870	477,807	199,842	1,137,519
Held-to-maturity securities:				
Less than 6 months	-	50,000	-	50,000
	₩ 459,870	₩ 527,807	₩ 199,842	₩ 1,187,519

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2006 AND 2005

March 31, 2005

(Unit: Won in millions)

	Government and public bonds	Finance bonds	Corporate bonds	Total
Available-for-sale securities:				
Less than 3 months	₩ 7,419	₩ 93,981	₩ -	₩ 101,400
Less than 6 months	291	-	-	291
Less than 1 year	16,801	27,880	45,964	90,645
Less than 2 years	-	89,699	25,890	115,589
Less than 3 years	21	-	-	21
Less than 4 years	12	-	-	12
More than 5 years	9	-	-	9
	24,553	211,560	71,854	307,967
Held-to-maturity securities:				
Less than 6 months	-	50,000	-	50,000
	₩ 24,553	₩ 261,560	₩ 71,854	₩ 357,967

(8) The loss on impairment and reversal of loss on impairment loss of available-for-sale securities recognized for the years ended March 31, 2006 and 2005 were as follows:

(Unit: Won in millions)

Accounts	2006		2005	
	Impairment	Reversal	Impairment	Reversal
Available-for-sale securities:				
Equity securities	₩ -	₩ -	₩ 5,052	₩ -
Bonds in local currency	11,297	-	-	-
	₩ 11,297	₩ -	₩ 5,052	₩ -

(9) Securities provided as collateral as of March 31, 2006 and 2005 were as follows:

(Unit: Won in millions)

Provided to	2006	2005	Provided for
Tong Yang Investment Bank	₩ 150,000	₩ 205,500	Securities sold under repurchase agreements
Others	84,502	1,300	Securities sold under repurchase agreements
	₩ 234,502	₩ 206,800	

5. LOANS:

(1) Loans (including long-term loans) as of March 31, 2006 and 2005 are summarized as follows:

(Unit: Won in millions)

	2006	2005
Call loans	₩ 170,000	₩ 166,000
Margin financing loans	79,713	224,961
Working capital loans	30,000	49,000
Loans to support secured financing	227,253	94,144
Loans to support uncollected financing	115,635	59,914
Loans for employees' stock acquisition	242,757	82,264
Loans secured by employees' stocks	2,258	263
General secured loans	561,304	242,309
Loans secured by subscription deposit for forfeited shares	41	11
Notes discounted	122,050	123,600
Securities purchased under resale agreements	1,085,709	169,500
	2,636,720	1,211,966
Less: allowance for possible loan losses	(11,728)	(22,775)
	₩ 2,624,992	₩ 1,189,191

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2006 AND 2005

(2) The loans to financial institutions as of March 31, 2006 and 2005 were as follows:

(Unit: Won in millions)

	2006		2005	
Kiwoom.com Securities Co., Ltd.	₩	221,309	₩	124,914
SK Securities co., Ltd.		152,640		184,285
Tong Yang Investment Bank		133,003		212,359
Hanhwa Securities Co., Ltd.		55,700		30,000
CJ Investment & Securities Co., Ltd.		50,000		-
Meritz Securities Co., Ltd.		50,000		79,500
Daewoo Securities Co., Ltd.		50,000		70,000
Kookmin Bank		50,000		-
Hana Securities Co., Ltd.		30,000		-
Korea Investment & Securities Co., Ltd.		28,300		50,000
Seoul Securities Co., Ltd.		26,564		1,402
Etrade Securities Co., Ltd.		20,000		-
Good Morning Shinhan Securities Co., Ltd.		5,250		20,000
Bridge Securities Co., Ltd.		-		12,872
Kyobo Securities Co., Ltd.		10,100		15,000
Shinheung Securities Co., Ltd.		18,000		-
Dongbu Securities Co., Ltd.		18,154		21,171
Hyundai Securities Co., Ltd.		10,000		-
Mirae Asset Capital Co., Ltd.		-		30,000
Dongwon Securities Co., Ltd.		-		20,000
Others		3,632		15,616
	₩	932,652	₩	887,119

(3) The average balance of the interest bearing loans, and the related interest revenue as of and for the years ended March 31, 2006 and 2005 were as follows :

(Unit: Won in millions)

	2006		2005	
	Average balance	Interest revenue	Average balance	Interest revenue
Interest revenue:				
Call loan	₩ 30,292	₩ 1,258	₩ 60,374	₩ 2,235
Loans	818,676	52,179	,179	31,809
Notes discounted	957,131	28,871	747,830	25,090
Securities purchased under resale agreements	381,859	12,741	243,658	8,843
	₩ 2,187,958	₩ 95,049	₩ 1,548,041	₩ 67,977

6. ALLOWANCE FOR POSSIBLE LOAN LOSSES:

(1) The allowance for possible loan losses as of March 31, 2006 are summarized as follows:

(Unit: Won in millions)

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Margin financing loans	₩ 398	₩ -	₩ -	₩ -	₩ -	₩ 398
Working capital loans	150	-	-	-	-	150
Loans to support secured financing	1,136	-	-	-	-	1,136
Loans to support uncollected financing	578	-	-	-	-	578
Loans for employees' stock acquisition	1,156	373	61	-	-	1,590
Loans secured by employees' stocks	13	4	-	-	-	17
General secured loans	3,364	3,689	44	-	-	7,097
Notes discounted	560	202	-	-	-	762
	₩ 7,355	₩ 4,268	₩ 105	₩ -	₩ -	₩ 11,728

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2006 AND 2005

(2) The allowance for possible loan losses as of March 31, 2005 was summarized as follows:

(Unit: Won in millions)

	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Call Loan	₩ -	₩ 2,000	₩ 10,000	₩ -	₩ -	₩ 12,000
Margin financing loans	1,065	239	-	-	-	1,304
Working capital loans	245	-	-	-	-	245
Loans to support secured financing	430	164	-	-	-	594
Loans to support uncollected financing	300	-	-	-	-	300
Loans for employees' stock acquisition	363	186	61	1	-	611
Loans secured by employees' stocks	1	-	-	-	-	1
General secured loans	1,100	4,933	122	-	16	6,171
Loan secured by subscription deposit for forfeited shares	1	-	-	-	-	1
Notes discounted	308	1,240	-	-	-	1,548
	₩ 3,813	₩ 8,762	₩ 10,183	₩ 1	₩ 16	₩ 22,775

(3) The changes in allowance for possible loan losses for the years ended March 31, 2006 and 2005 were as follows:

(Unit: Won in millions)

	2006	2005
Beginning balance	₩ 22,775	₩ 52,386
Reversal of allowance for possible loan losses	11,047	29,611
Ending balance	₩ 11,728	₩ 22,775

7. PROPERTY AND EQUIPMENT:

(1) Property and equipment as of March 31, 2006 and 2005 were as follows:

(Unit: Won in millions)

	Acquisition cost		Accumulated impairment losses	
	2006	2005	2006	2005
Land	₩ 15,369	₩ 15,527	₩ -	₩ -
Buildings	12,099	12,027	1,954	1,924
Structures	195	195	73	65
Office equipment	17,354	15,337	13,677	11,061
Vehicles	266	153	119	153
	₩ 45,283	₩ 43,239	₩ 15,823	₩ 13,203

(2) The changes in book value of property and equipment for the year ended March 31, 2006 consisted of the following:

(Unit: Won in millions)

	Beginning	Acquisition	Disposal	Replacement	Depreciation	Ending
Land	₩ 15,527	₩ -	₩ 158	₩ -	₩ -	₩ 15,369
Buildings	10,103	606	299	-	265	10,145
Structures	130	-	-	-	8	122
Office equipment	4,276	2,484	65	-	3,018	3,677
Vehicles	-	225	-	-	78	147
	₩ 30,036	₩ 3,315	₩ 522	₩ -	₩ 3,369	₩ 29,460

The changes in book value of property and equipment for the year ended March 31, 2005 consisted of the following:

(Unit: Won in millions)

	Beginning	Acquisition	Disposal	Replacement	Depreciation	Ending
Land	₩ 15,627	₩ -	₩ 100	₩ -	₩ -	₩ 15,527
Buildings	10,513	-	143	-	267	10,103
Structures	138	-	-	-	8	130
Office equipment	6,669	1,405	5	-	3,793	4,276
Vehicles	13	-	-	-	13	-
	₩ 32,960	₩ 1,405	₩ 248	₩ -	₩ 4,081	₩ 30,036

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2006 AND 2005

(3) The published value of land as March 31, 2006 and 2005 were as follows :

(Unit: Won in millions)

	Book value		Published value	
	2006	2005	2006	2005
Land	₩ 15,369	₩ 15,527	₩ 14,272	₩ 13,151

(4) Property and equipment insured as of March 31, 2006 were as follows :

(Unit: Won in millions)

Type	Insured assets	Insured amount	Insurance company
Fire Insurance	Buildings	₩ 12,500	Samsung Fire & Marine Insurance Co., Ltd. & others
Comprehensive insurance	Office equipment	3,260	Samsung Fire & Marine Insurance Co., Ltd. & others
Liability insurance	Others	360	Samsung Fire & Marine Insurance Co., Ltd. & others
		₩ 16,120	

Property and equipment insured as of March 31, 2005 were as follows :

(Unit: Won in millions)

Type	Insured assets	Insured amount	Insurance company
Fire Insurance	Buildings	₩ 12,500	The National agriculture Cooperative Federation
Comprehensive insurance	Office equipment	3,260	Samsung Fire & Marine Insurance Co., Ltd. & others
Liability insurance	Others	360	Samsung Fire & Marine Insurance Co., Ltd. & others
		₩ 16,120	

In addition, the Company carries general insurance for vehicles, liability insurance for officer's compensation and personal reference insurance.

8. OTHER CURRENT ASSETS:

Other current assets as of March 31, 2006 and 2005 were as follows :

(Unit: Won in millions)

	2006	2005
Accrued income	₩ 33,622	₩ 17,686
Prepaid expenses	9,226	446
Current portion of deferred income tax assets	2,878	-
Others	10,509	6,849
	₩ 56,235	₩ 24,981

9. OTHER NON-CURRENT ASSETS:

Other non-current assets as of March 31, 2006 and 2005 were as follows :

(Unit: Won in millions)

	2006	2005
Guarantee deposits	₩ 6,334	₩ 7,289
Loans to employees	4,164	4,531
Deferred income tax assets	7,018	24,767
Others	1,768	1,725
	₩ 19,284	₩ 38,312

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2006 AND 2005

10. SHORT-TERM DEPOSITS RECEIVED:

Short-term deposits received as of March 31, 2006 and 2005 consisted of the following:

(Unit: Won in millions)

	2006	2005
Customers' deposits received	₩ 3,012,910	₩ 2,531,792
Subscription guaranty money deposits	444,858	1,600
Securities market stabilization fund deposits	27,971	75,338
Subscription deposits for IPO shares	11,304	24,710
Subscription deposits for forfeited shares	112,170	129,347
Others	356,571	301,610
	₩ 3,965,784	₩ 3,064,397

11. BORROWINGS:

(1) Short-term borrowings as of March 31, 2006 and 2005 consisted of the following :

(Unit: Won in millions)

Lenders	Annual interest rate (%)	2006	2005
Woori Bank	4.17	₩ 200,000	₩ -

(2) Securities sold under repurchase agreements and call money as of March 31, 2006 and 2005 consisted of the following:

(Unit: Won in millions)

Account	Financial institution	Annual interest rates (%)	2006	2005
Securities sold under repurchase agreements	Tong Yang Investment Bank	3.8-4.76	₩ 234,502	₩ 201,300
Call money	Hanwha Investment Trust Management Co., Ltd.	3.95	₩ 804,300	₩ 877,600
			₩ 1,038,802	₩ 1,078,900

12. OTHER CURRENT LIABILITIES:

Other current liabilities as of March 31, 2006 and 2005 are summarized as follows :

(Unit: Won in millions)

	2006	2005
Accrued expenses	₩ 30,513	₩ 15,347
Unearned income	53,041	42,084
Income tax payable	731	4,869
Dividends payable	383	395
Accrued interest on bonds	66,501	107,462
Borrowings from trust accounts	52,584	61,698
Others	3,619	4,107
	₩ 207,372	₩ 235,962

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2006 AND 2005

13. BONDS ISSUED:

Details of bonds issued as of March 31, 2006 and 2005 are summarized as follows :

(Unit: Won in millions)

	Issuance date	Maturities	Annual interest rates (%)	2006	2005
1998-1	Oct. 1998	Oct. 2003	6.50	₩ 179,690	₩ 297,370
2000-2	Jul. 2000	Jul. 2005	2.00	-	160,000
2000-3	Aug. 2000	Aug. 2005	2.00	-	10,000
2000-4	Sept. 2000	Sept. 2005	2.00	-	80,000
2000-5	Dec. 2000	Dec. 2005	1.00	-	23,000
2000-6	Dec. 2000	Dec. 2005	2.00	-	70,000
2001-2	Jul. 2001	Jul. 2006	0.87	30,000	30,000
2001-3	Sept. 2001	Sept. 2006	0.04	105,200	105,200
2001-4	Sept. 2001	Sept. 2006	0.04	30,000	30,000
2001-5	Oct. 2001	Oct. 2006	0.21	105,200	105,200
2001-6	Dec. 2001	Dec. 2006	0.71	105,100	105,100
2002-2	Nov. 2002	Nov. 2007	0.01	45,000	45,000
2003-1	Aug. 2003	Aug. 2008	3.42	10,000	10,000
2005-1	Apr. 2005	Apr. 2008	4.23	100,000	-
2005-2	Jul. 2005	Jul. 2006	3.88	100,000	-
2005-3	Nov. 2005	Nov. 2006	4.75	30,000	-
2006-1	Feb. 2006	Feb. 2007	4.76	150,000	-
2006-2	Mar. 2006	Mar. 2007	4.72	60,000	-
				1,050,190	1,063,870
Less: current portion				895,190	633,370
				155,000	430,500
Add: premium on bonds issued				127	207
Less: discount on bonds issued				(78)	(75)
				₩ 155,049	₩ 430,632
Current portion of bonds issued				₩ 895,190	₩ 633,370
Less: discount on bonds issued				(118)	(7)
				₩ 895,072	₩ 633,363

The bonds issued from 2000 to 2003 were issued to obligate the original shareholders of insolvent financial institutions, supported by governmental rescue funds for its rehabilitation, of its responsibilities based on the regulation of the Financial Supervisory Commission. Although 1998-1 bonds have expired as of March 31, 2006, since the creditors didn't exercise the right of redemption, these were accounted for as current portion of bonds issued.

14. ACCRUED RETIREMENT AND SEVERANCE BENEFITS:

Details of changes in the accrued retirement and severance benefits for the years ended March 31, 2006 and 2005 are summarized as follows:

(Unit: Won in millions)

	2006	2005
Balance at beginning of year	₩ 6,645	₩ 9,340
Provision for the year	2,698	3,406
Payments during the year	(1,009)	(6,101)
Balance at end of year	8,334	6,645
Less: deposits for severance benefit insurance	(4,656)	(4,177)
Less: national pension fund	(110)	(122)
	₩ 3,568	₩ 2,346

15. CONTINGENCIES AND COMMITMENTS:

(1) The guarantee of a bill amounting to ₩200,000 million was made to Woori Bank related to the short-term borrowings of ₩200,000 million.

(2) The Company has filed a lawsuit claiming ₩4,703 million related to the payment of anonymous bonds and appealed to a higher court after losing the case at the first trial in July 2004. Also, the Company partially won the case at the second trial in August 2005. The estimated losses of ₩7,281 million as a result of the lawsuit are reflected in reserve for contingencies.

In addition, there is a lawsuit for ₩121 million related to transfer of stocks where the Company is the plaintiff, which is in progress

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2006 AND 2005

16. SHAREHOLDERS' EQUITY:

(1) Common stock

As of March 31, 2006, the Company has 128 million common shares authorized with a par value per share of ₩5,000 and 68,000,000 shares has been issued.

(2) Retained earnings :

(Unit: Won in millions)

	2006	2005
Legal reserve	₩ 43,900	₩ 40,400
Reserve for dividends	69,500	52,200
Other reserve	38,870	38,870
Retained earnings before appropriations	59,656	34,218
	₩ 211,926	₩ 165,688

1) 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.

(3) Capital adjustments

As of March 31, 2006, details of capital adjustments are as follows:

1) Treasury stock

The Company obtained 1,199,475 shares of treasury stock pursuant to the fundamental law of welfare for workers and accounted for as capital adjustments. Shares of treasury stock purchased are going to be donated to employee's stock holding association or be disposed at an appropriate time.

2) Gain on valuation of available-for-sale securities

Gain on valuation of available-for-sale securities consists of gain on valuation of marketable equity securities of ₩2,588 million and gain on valuation of debt securities of ₩1,908 million [See Note 4] as of March 31, 2006.

17. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:

Selling, general and administrative expenses for the years ended March 31, 2006 and 2005 are summarized as follows:

(Unit: Won in millions)

	2006	2005
Salaries	₩ 16,788	₩ 19,604
Provision for retirement and severance benefits	2,698	3,406
Other employee benefits	2,739	3,323
Taxes and dues	2,015	2,200
Depreciation	3,369	4,081
Miscellaneous	12,265	11,641
	₩ 39,874	₩ 44,255

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2006 AND 2005

18. INCOME TAX:

(1) The differences between pretax accounting income and taxable income pursuant to Korean Corporate Income Tax Law for the years ended March 31, 2006 and 2005 are summarized as follows:

(Unit: Won in millions)

	2006	2005
Income before income tax	₩ 82,777	₩ 49,532
Taxable and non-deductible items:		
Temporary difference	125,355	175,614
Permanent difference	7,576	1,171
	132,931	176,785
Deductible and non-taxable items:		
Temporary difference	(178,924)	(155,967)
Permanent difference	(148)	(233)
	(179,072)	(156,200)
Taxable income	₩ 36,636	₩ 70,117

(2) The tax effects on temporary differences and tax loss carryforwards that gave rise to significant portions of the deferred income tax assets for the year ended March 31, 2006 were as follows :

(Unit: Won in millions)

	Beginning balance	Deduction	Addition	Ending balance
Unearned revenues	₩ 41,868	₩ 41,868	₩ 53,012	₩ 53,012
Accrued interest of securities	(3,627)	(3,627)	(9,534)	(9,534)
Accrued interest of bonds	(2,753)	(2,753)	(5,779)	(5,779)
Amortization of bonds	46,763	46,763	6,759	6,759
Loss on valuation of trading securities	14,353	14,353	6,606	6,606
Gain on valuation of trading securities	(32,448)	(32,448)	(42,731)	(42,731)
Accrued interest of certificate of deposit	(6,106)	(6,106)	(10,160)	(10,160)
Impairment loss on available-for-sale securities	5,052	-	11,297	16,349
Provision for severance benefits	4,608	-	479	5,087
Deposits for severance benefits	(4,177)	-	(479)	(4,656)
Depreciation	514	15	-	499
Special case of depreciation	(1,081)	(343)	-	(738)
Depreciation for art painting	6	-	-	6
Bad debt expenses	1,775	-	-	1,775
Stock dividend	16,252	-	-	16,252
Deemed dividend	7	-	-	7
Extraordinary losses	1,023	-	-	1,023
Provision of reduction entry	(25)	-	-	(25)
Appropriation of contingencies	6,340	-	941	7,281
Treasury stock	1,210	-	36	1,246
Increase of bonds	-	-	(92)	(92)
Gain on valuation of available-for-sale securities	-	-	(6,202)	(6,202)
	₩ 89,554	₩ 57,722	₩ 4,153	₩ 35,985

(3) Income tax expense for the years ended March 31, 2006 and 2005 is summarized as follows :

(Unit: Won in millions)

	2006	2005
Income tax currently payable	₩ 10,139	₩ 20,811
Changes in deferred tax liabilities	14,732	(5,471)
Retained earnings and other capital surplus adjustments	(1,706)	-
Income tax expense	₩ 23,165	₩ 15,340

(4) The statutory income tax rates applicable to the Company, including resident tax surcharges, are 27.5 percent for the years ended March 31, 2006 and 2005, respectively. However, due to tax adjustments, the effective tax rates for the years ended March 31, 2006 and 2005 are 27.98 percent and 30.97 percent, respectively.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2006 AND 2005

19. STATEMENT OF CASH FLOWS:

Significant transactions not involving cash inflows and outflows for the years ended March 31, 2006 and 2005 were as follows :

(Unit: Won in millions)

	2006	2005
Transfer to current portion of bonds payable	₩ 375,500	₩ -
Transfer of long-term investment securities to short-term investment securities	472,927	-
Gain on valuation of long-term investment securities	2,191	8,843
Deferred income tax assets directly reflected in capital account	1,706	-

20. EARNING PER SHARE:

Earnings per share for the years ended March 31, 2006 and 2005 are calculated as follows :

(Unit: In Won)

	2006	2005
Net income	₩ 59,612,146,658	₩ 34,191,872,726
Ordinary income net of tax effect	59,612,146,658	47,119,992,627
Weighted-average number of shares of common stock	66,857,762	67,540,454
Net income per share	892	506
Ordinary income per share	₩ 892	₩ 698

21. COMPUTATION OF ADDED VALUE:

The accounts for computation of value added are summarized as follows :

(Unit: Won in millions)

	2006	2005
Salaries and wages	₩ 16,788	₩ 19,604
Severance and retirement benefits	2,698	3,406
Other employee benefits	2,739	3,323
Depreciation	3,369	4,081
Taxes and dues	1,940	2,200
	₩ 27,534	₩ 32,614

22. EMPLOYEE WELFARE AND CONTRIBUTIONS TO SOCIETY:

For employee welfare, the Company maintains a canteen, workman's accident compensation insurance and unemployment insurance. The amounts of welfare spending for the year ended March 31, 2006 are estimated at ₩2,739 million.

In addition, the Company donated ₩1,057 million for the year ended March 31, 2006.

23. BALANCES AND TRANSACTIONS WITH ITS SHAREHOLDERS

Major balances and transactions, in aggregate, with the shareholders of the Company as of and for the years ended March 31, 2006 and 2005 are as follows :

(Unit: Won in millions)

	2006	2005
Due from banks	₩ 1,922,053	₩ 2,676,117
Loans	592,829	658,925
Accrued income	14,148	8,911
Deposits received	1,018,948	681,334
Accrued expenses	3,281	1,906
Interest income	134,659	113,834
Interest expenses	62,188	33,449

Independent Auditors' Report

English Translation of a Report Originally Issued in Korean

The Beneficiaries of Trust Accounts and the Board of Directors of Korea Securities Finance Corporation:

We have audited the accompanying statement of assets and liabilities of the trust accounts of Korea Securities Finance Corporation (the "Company") as of March 31, 2006, and the related statement of operations for the year ended March 31, 2006, 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 audit. The accompanying statements of assets and liabilities of the trust accounts of the Company as of March 31, 2005, and the related statement of operations for the year then ended, were audited by other auditors, whose report dated April 20, 2005, stated that these financial statements were presented fairly, in all material respects, in accordance with the accounting and reporting guidelines prescribed by the Korean trust and banking regulatory authorities and accounting principles generally accepted in the Republic of Korea.

We conducted our audit 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 used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit 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's trust accounts as of March 31, 2006 and the results of its trust operations for the year then ended, in conformity with the accounting and reporting guidelines prescribed by the Korean trust and banking regulatory authorities and accounting principles generally accepted in the Republic of Korea (See Note 2).

April 20, 2006

This report is effective as of April 20, 2006, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditor's report date and the time the auditor's report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditor's report.

STATEMENTS OF ASSETS AND LIABILITIES

AS OF MARCH 31, 2006 AND 2005

(In millions)

Korean Won

	2006	2005
ASSETS		
Cash and due from bank (Note 3)	₩ 5,891,720	₩ 4,689,303
Securities (Note 4)	5,364,260	5,159,525
Loans (Note 5)	70,836	-
Call loans	209,600	163,800
Securities purchased under resale agreements	340,000	1,119,100
Other assets (Note 6)	80,173	53,335
Total Assets	₩ 11,956,589	₩ 11,185,063
LIABILITIES		
Trust deposits (Note 9)	₩ 11,890,972	₩ 11,130,364
Other liabilities (Notes 7 and 8)	65,617	54,699
Total Liabilities	₩ 11,956,589	₩ 11,185,063

See accompanying notes to financial statements.

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED MARCH 31, 2006 AND 2005

(In millions)

Korean Won

	2006	2005
REVENUE:		
Interest income:		
Interest on due from banks	₩ 221,306	₩ 209,599
Interest on securities	124,567	81,440
Interest on loans	4,482	1,436
Interest on call loans	8,804	5,977
Interest on securities purchased under resale agreements	28,234	31,282
	387,393	329,734
Securities related gain:		
Gain on trading of securities	36,576	37,337
Gain on valuation of securities	38,245	26,297
	74,821	63,634
Other income:		
Miscellaneous income	-	46
	₩ 462,214	₩ 393,414
EXPENSES:		
Dividends of trust profits to beneficiaries (Note 9)	₩ 454,953	₩ 385,703
Trust fees (Note 8)	6,536	5,508
Other	273	217
	461,762	391,428
Securities related loss:		
Loss on trading of securities	452	1,677
Loss on valuation of securities	-	309
	452	1,986
	₩ 462,214	₩ 393,414

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2006 AND 2005

1. DESCRIPTION OF TRUST:

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 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:

The financial statements of the Trust 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 financial statements are summarized as follows:

Basis of Financial Statement Presentation

The Company maintains its trust accounting records in Korean won and prepares its 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 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.

Revenues and Expenses of Trust Accounts

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

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.

Securities

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

Listed debt securities, of which 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. 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 such market price is not available.

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 the above yield rate does not effectively reflect current market value.

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 at 0 percent for normal, 2 percent for precautionary, 20 percent for sub-standard, 50 percent for doubtful and 100 percent for estimated loss.

3. CASH AND DUE FROM BANKS:

Cash and due from banks as of March 31, 2006 and 2005 consisted of:

(Unit: In millions of Won)

	2006	2005
Due from banks in local currency	₩ 5,891,720	₩ 4,689,303

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2006 AND 2005

4. SECURITIES:

Securities as of March 31, 2006 and 2005 are summarized as follows :

(Unit: In millions of Won)

	2006	2005
Finance debentures	₩ 48,452	₩ 128,619
Beneficiary certificates	2,183,112	2,148,083
Negotiable certificate of deposits	3,132,696	2,882,823
	₩ 5,364,260	₩ 5,159,525

5. LOANS:

Loans as of March 31, 2006 and 2005 are summarized as follows :

(Unit: In millions of Won)

	2006	2005
Working capital loans	₩ 40,000	₩ -
Margin financing loans	1,085	-
Bond margin financing loans	29,751	-
	₩ 70,836	₩ -

6. OTHER ASSETS:

Other assets as of March 31, 2006 and 2005 are summarized as follows :

(Unit: In millions of Won)

	2006	2005
Accrued income	₩ 78,102	₩ 51,573
Accounts receivable	984	746
Prepaid expenses	1,087	1,016
	₩ 80,173	₩ 53,335

7. OTHER LIABILITIES:

Other liabilities as of March 31, 2006 and 2005 are summarized as follows:

(Unit: In millions of Won)

	2006	2005
Accounts payable	₩ 984	₩ 931
Trust fees payable (See Note 8)	559	535
Trust dividends payable	64,074	53,233
	₩ 65,617	₩ 54,699

8. TRANSACTIONS WITH RELATED COMPANY:

As of and for the years ended March 31, 2006 and 2005, the Trust has trust fees payable of ₩559 million and ₩535 million, and incurred trust fees of ₩6,536 million and ₩5,508 million from transactions with the Company.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2006 AND 2005

9. PERFORMANCE YIELD RATES:

Performance yield rates for the years ended March 31, 2006 and 2005 are calculated as follows:

		2006		(Unit: In millions of Won)
	Dividends of trust profits to beneficiaries	Accumulated amount in Trust	Yield Rate	
Apr. 2005	₩ 32,478	₩ 339,693,227	3.49%	
May. 2005	31,477	336,029,984	3.42%	
Jun. 2005	32,005	340,942,843	3.43%	
Jul. 2005	35,235	370,803,400	3.47%	
Aug. 2005	37,281	395,118,174	3.44%	
Sept. 2005	33,500	380,621,625	3.21%	
Oct. 2005	39,162	389,700,118	3.67%	
Nov. 2005	39,146	381,676,471	3.74%	
Dec. 2005	42,504	413,811,280	3.75%	
Jan. 2006	46,555	421,082,593	4.04%	
Feb. 2006	41,115	370,191,101	4.05%	
Mar. 2006	44,495	387,105,757	4.20%	
	₩ 454,953	₩ 4,526,776,573	3.67%	

		2005		(Unit: In millions of Won)
	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.

10. 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 years ended March 31, 2006 and 2005 are as follows :

		2006			(Unit: In millions of Won)
Accounts	Trust for Spot Trading Customers' Deposit	Trust for Futures Trading Customers' Deposit	Total		
Assets:					
Cash and due from banks	₩ 5,006,901	₩ 884,819	₩ 5,891,720		
Securities	4,458,876	905,384	5,364,260		
Loans	70,836	-	70,836		
Call loans	172,500	37,100	209,600		
Securities purchased under resale agreements	240,000	100,000	340,000		
Other assets	67,303	12,870	80,173		
	₩ 10,016,416	₩ 1,940,173	₩ 11,956,589		
Liabilities:					
Trust deposits	₩ 9,961,287	₩ 1,929,685	₩ 11,890,972		
Other liabilities	55,129	10,488	65,617		
	₩ 10,016,416	₩ 1,940,173	₩ 11,956,589		

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2006 AND 2005

2005

(Unit: In millions of Won)

Accounts	Trust for Spot Trading Customers' Deposit	Trust for Futures Trading Customers' Deposit	Total
Assets:			
Cash and due from banks	₩ 4,053,618	₩ 635,685	₩ 4,689,303
Securities	4,188,682	970,843	5,159,525
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

2006

(Unit: In millions of Won)

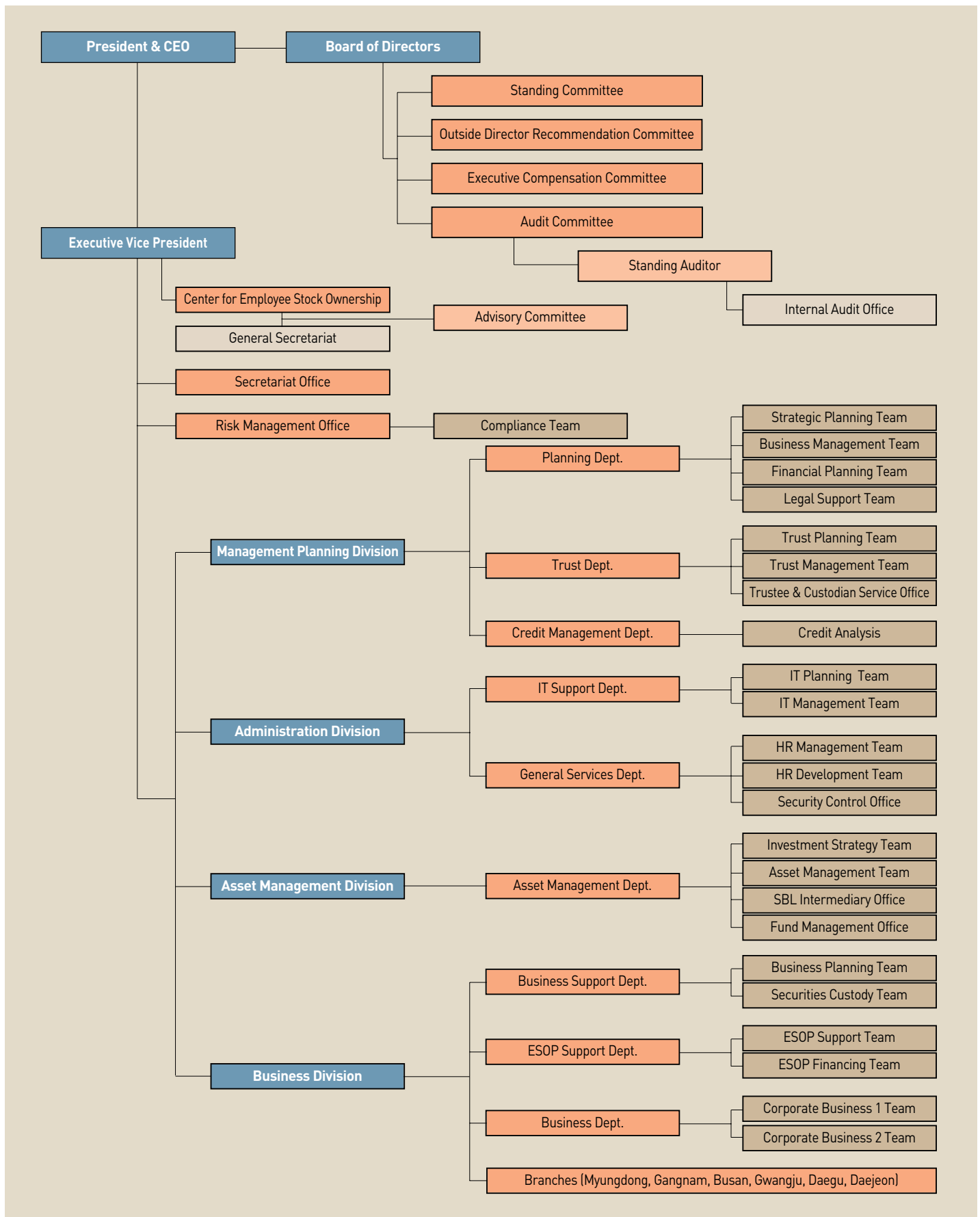
Accounts	Trust for Spot Trading Customers' Deposit	Trust for Futures Trading Customers' Deposit	Total
Revenue:			
Interest on bank deposits	₩ 189,687	₩ 31,619	₩ 221,306
Interest on securities	104,608	19,959	124,567
Interest on loans	4,482	-	4,482
Interest on call loans	7,949	855	8,804
Interest in securities purchased under resale agreements	20,937	7,297	28,234
Securities related gain	62,987	11,834	74,821
	₩ 390,650	₩ 71,564	₩ 462,214
Expenses :			
Dividends of trust profits to beneficiaries	₩ 384,596	₩ 70,357	₩ 454,953
Securities related loss	310	142	452
Trust fees	5,525	1,011	6,536
Other	219	54	273
	₩ 390,650	₩ 71,564	₩ 462,214

2005

(Unit: In millions of Won)

Accounts	Trust for Spot Trading Customers' Deposit	Trust for Futures Trading Customers' 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

ORGANIZATION CHART



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Seong Kook Kim Executive Vice President

Outside Directors

Dae Song Kim President & CEO, Daishin Securities
Mahn Ki Yang Editorial Advisor, monthly publication "Financial World"
Jae Hoon Youh CEO, National Policy Forum
Pal Ho Lee Former Commissioner General, The National Police Agency

Audit Committee Member & Director

Kay Moon Paik Standing Auditor

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Seong Kook Kim Executive Vice President
Kay Moon Paik Standing Auditor
Seon Ho Chu Managing Director(Business Division)
Sung Chan Park Managing Director(Management Planning Division)
Sang Sun Hwang Managing Director(Administration & Asset Management Division)

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