

Unparalleled Value

KSFC ANNUAL REPORT, FISCAL YEAR 2006



Korea Securities Finance Corp.

The Korea Securities Finance Corporation (KSFC), the nation's only securities financing organization, has contributed to the growth and development of the Korean capital market ever since its inception. Drawing on the strengths of its half-century history, its accumulated know-how, and its role as "a primary financial institution specializing in securities and leading the capital market," the company will continue to take the lead in advancing the securities industry.

**“KSFC is dedicated to building
a better tomorrow for
the market and its customers!”**

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Function and Role

Mission Statement

The Korea Securities Finance Corporation (KSFC) was established in October 1955 to support growth in the Korean capital market by providing funds and a wide range of services to its securities players, thereby contributing to the development of the national economy.

Roles and Functions

As the sole Korean financial institution specializing in securities financing, KSFC has been instrumental in providing liquidity to the securities market through the supply of financing and securities over the past 52 years. Its services include both traditional securities financing (such as securities underwriting loans, margin financing loans, and securities-secured loans) and public-function services (such as the safe management of customers' deposits for the protection of securities investors, support for the Employee Stock Ownership Plan (ESOP), and treasury fund-based bond dealer loans).

The company also provides deposit and loan products to support increases in properties by general investors. It was also the first player in the Korean securities industry to be allowed to deal in custodial services under the Indirect Investment Asset Management Business Act. This permitted it to contribute even more to the sound development of the Korean securities market.

Traditional securities financing

KSFC supplies funds and/or securities required for securities underwriting, acquisitions, and/or trading to securities firms and investors. This results in the seamless issuance and transaction of securities and contributes to the stabilization and development of the Korean securities market.

- **Securities underwriting financing**

KSFC extends financial support to underwriters and/or investors participating in the primary market to facilitate the underwriting and distribution of securities. This ensures efficient financing by companies issuing such securities.

- **Margin financing**

KSFC accommodates investors with loans required for the settlement of stock purchases or lends them stocks needed for (stock) selling in relation to margin transactions in the secondary market. This leads to increased market liquidity and ensures the stability and continuity of share prices, since money and stock loans both serve as buffers.

- **Securities secured financing**

This service enables individuals and corporations to borrow funds without selling marketable securities by offering them as security. This heightens the utilization of securities and encourages investments in securities by the general public.

Management of customers' deposits

Funds that have been temporarily deposited with securities firms and futures companies by customers for stock and/or futures trading purposes are re-deposited or entrusted to KSFC for safekeeping and custody. This protects investors participating in the securities market and contributes to its overall stability.

ESOP-related services

In its role as the exclusive custodian for Korea's Employee Stock Ownership Plan (ESOP), KSFC contributes to the system's growth and development by providing both custody and management of employee stocks held by the Employee Stock Ownership Associations (ESOAs) and/or ESOA members, offering advisory and PR services to ESOAs, and supporting employee stock purchase-related financing.

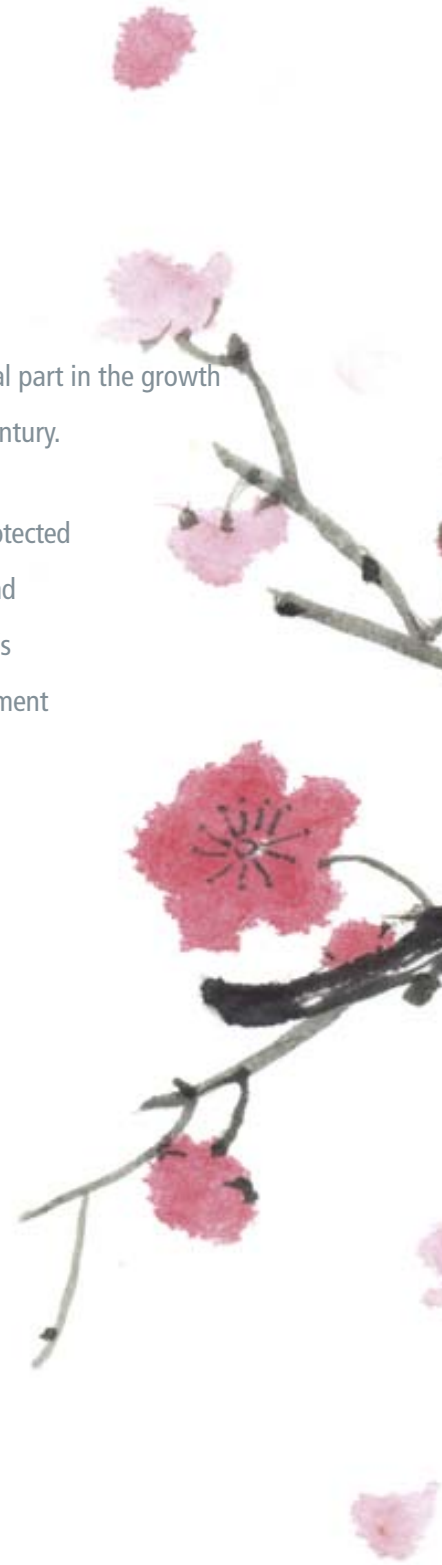
General customer financing

The purpose of this service is to provide corporate and/or individual customers with low interest, long-term loans to customers holding stocks, bonds, beneficiary certificates, or certificates of deposit (CDs) as security. In addition, KSFC deals in deposit products related to subscriptions for publicly-offered or forfeited shares. These products normally produce more competitive interest rates, resulting in increased opportunities for trading gains.

A Professional and Trustworthy Partner

The Korea Securities Finance Corporation (KSFC) has played an integral part in the growth and development of the Korean securities industry for the past half century.

We pride ourselves on having provided professional securities financing services and protected investors whose interests were threatened by market crashes, foreign currency crises, and other difficulties. Moving forward, we will continue to serve as the anchor of the nation's securities market through our steadfast commitment to sound and transparent management and by acting as a reliable safeguard for the market.





**A premier financial institution
with a “AAA (Stable)” credit rating**

KSFC is an extremely respected financial institution that boasts a “AAA (Stable)” credit rating and zero delinquencies. We manage funds worth more than KRW 20.0 trillion, deploying advanced business strategies to guarantee the highest possible asset quality.

**“Back to basics” management with an emphasis
on transparency and openness**

KSFC’s Code of Ethics underlines our recognition of the financial, legal, and ethical responsibilities that are the duty of all modern and progressive enterprises. We are committed to using transparency, rationality, and legitimacy as the basic criteria for our decision-making, and fulfill our corporate social responsibilities by participating in a wide variety of community activities through our “Hanmaum(One Mind)” Volunteer Group. Our ultimate goals are to carry on a “management of sharing” and create a warmer, healthier, and more beautiful world.

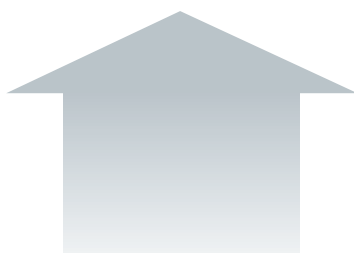
Thriving in the Marketplace

KSFC's corporate vision is to be a financial institution specializing in securities and leading the capital market. Our strategic goals are to cope with a rapidly changing financial environment and build the strongest possible foundations for continued growth. We welcome change and actively seek out innovations that can reinforce our core capabilities, strategies, and operational practices.

We will concentrate our efforts on developing new businesses, augmenting our earning power, and increasing the value of our assets and equity capital—all to better prepare for an era of ever-increasing competition from well-established global financial institutions. Our goal is to become a financial institution that specializes in securities, but with a primary focus on wholesale banking services and market infrastructures.

Vision

A financial institution specializing in securities and leading the capital market



Development Strategies

Securities Financing	Banking services centering on institutional investors	Infrastructure service for institutional investors	Asset management
Strengthen traditional securities financing and banking operations, including supplying funds and securities to the securities market, managing customers' deposits, and supporting employee stock ownership plans.	Reinforce banking services, targeting institutional investors through loans and deposits, trusts, fund management, sales of financial products, government and public bonds trading, and other agency-type operations.	Expand wholesale banking and market infrastructure businesses as a firm foundation for future growth—including securities custody, brokerage of securities borrowing and lending, and funds brokerage.	Add to expertise in asset management operations, such as direct and indirect asset management and the management of assets under custody.



Fiscal Year 2006 Performance Highlights

Recorded net income of KRW 45.7 billion as the result of increases in sales capacity

Assets and net income amounted to KRW 20.6 trillion and KRW 45.7 billion, respectively, in fiscal 2006. These exceptional results were due to concerted efforts by the entire staff to expand our operational efficacy—even in the face of such unfavorable internal and external conditions as a bearish stock market, a contraction in asset management gains, and reductions in the long- and short-term spreads of bond yields. Loans to support securities firms and the securities market and securities assets under custody management exceeded KRW 1.5 trillion and KRW 17.0 trillion, respectively.

Redefined corporate vision and ameliorated business management systems

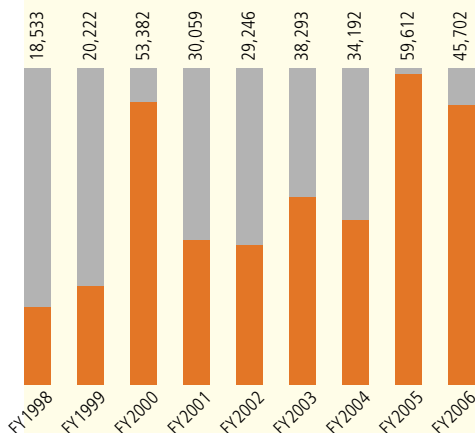
In preparation for widely anticipated changes in the financial environment flowing from the soon-to-be-enacted Capital Market Integration Act and the recently concluded Free Trade Agreement between Korea and the United States, we decided to rework our corporate vision to become a financial institution specializing in securities and leading the capital market. To accomplish this goal, we mapped out five core strategies and 25 tasks to be carried out.

We also reconfigured our operational structure and relocated our resources to increase their focus on customers, markets, and results. Our goal is to realize a net income of KRW 100.0 billion and total assets worth KRW 100.0 trillion by 2010.

In addition to this, we hired professional asset managers, strengthened our incentive sales programs, and brought in consultants with expertise in the fields of personnel and organizational management to construct a more performance-centered corporate culture that emphasizes employee autonomy and increased personal responsibilities. Many of these actions resulted from the skilled involvement of our management advisory committee, which is composed of experts in the fields of securities and finance. First put in place in February 2007, this group offers invaluable advice on such matters as our overall corporate vision, our development strategies, and other major management issues.

With a view to augmenting the overall performance of our management and establishing more responsive and responsible management frameworks, we systemized our performance management processes by completing the introduction of the Balanced Scorecard (BSC) and Management Dashboard programs in March 2007. In order to raise our credibility and enterprise value, we set up an internal accounting control system (or "K-SOX") to improve the transparency of our accounting systems. This was done in January 2007, and was preceded by the introduction of a business recovery system in September 2006. Its function is to guarantee continuity and stability throughout our operations.

Change in Net Income
(In millions of KRW)



Augmented operational competitiveness and reinforced market infrastructure businesses

We added to our overall competitiveness and profitability by developing new products and redesigning existing ones. These efforts included new deposits for wrap account funds at securities firms (first introduced in March 2007) and expanded margin financing loans to activate margin transactions (in the form of an increase of 258.0% year-on-year to KRW 179.2 billion).

In addition, we contributed to the growth of the Korean employee stock ownership plan (ESOP) by providing funding to employee stock ownership associations (ESOAs). ESOP financing loans recorded their highest-ever worth, which now stands at KRW 448.3 billion—up 83.0% year-on-year. We also worked with the Korean Ministry of Labor to publish a study of model management cases and reward excellently managed companies. Another task that we undertook was the revitalization of the bond and repurchase agreement (RP) markets. We began to provide government bond dealers with newly-deposited national treasury funds at low interest rates in May 2006.

We demonstrated our commitment to protecting investors and enhancing the competitiveness of the securities industry through new deposits of funds related to the introduction of the MMF forward pricing system (initiated in July 2006), the foreign currency margin system (established in October 2006), and RP lending to securities firms. KSFC also played a pivotal role in reinvigorating the bond lending and borrowing market. We maintained our lead position in the bonds lending and borrowing brokerage business—mainly by enhancing the convenience of our SBL services and increasing profit margins for cash collaterals.

Won “Triple Crown” in credit ratings and consolidated global networking

We obtained a “AAA” (Stable) credit rating (the highest level offered for the issuance of bonds) from the nation’s three major credit rating agencies. This signal honor was given in recognition of our dedicated management of customers’ deposits, healthy financial structure, and superb revenue foundations.

We also worked to strengthen our overseas alliances and enhance our PR activities. We held a series of briefing sessions on Korea’s securities finance systems with officials from the Association of South-East Asian Nations (ASEAN) and representatives of Chinese securities-related organizations.

Key Financial Indicators

(In billions of KRW, %, based on average annualized balance)

	Total Assets (Including trust accounts)	Shareholders’ Equity	Net Income	ROE	NIM	NIS
FY 2006	29,024 (39,734)	584.8	45.7	7.92	0.95	0.42
FY 2005	21,043 (33,445)	569.7	59.6	10.91	0.94	0.40
Change	7,981 (6,289)	15.1	△13.9	△2.99	△0.01	△0.02

Note) The calculations of NIM and NIS are based on financial resources which KSFC has procured independently.

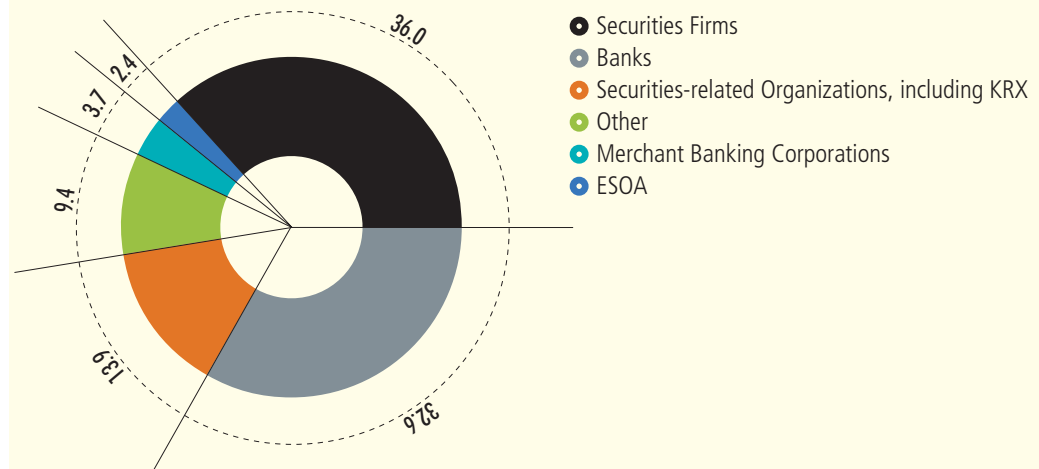
Ownership Structure

Capital Stock

(As of March 31, 2007)

Paid-in Capital	No. of Shares Issued	Face Value per Share
KRW 340.0 billion	68,000,000	KRW 5,000

Composition of Shareholders



Note) ESOA refers to an employee stock ownership association.

Major Shareholders

	No. of Shares Held	Stake (%)
Korea Exchange (KRX)	7,714,883	11.3
Woori Bank	5,310,253	7.8
Woori Investment & Securities	4,103,588	6.0
Korea Development Bank	3,529,932	5.2
Shinhan Bank	3,221,383	4.7

Financial Highlights

KSFC Account

(In millions of KRW & thousands of USD)

As of March 31	2007		2006	
	Korean won	U.S. dollars	Korean won	U.S. dollars
Assets	8,555,736	9,093,141	10,045,883	10,339,526
Total Liabilities	7,970,917	8,471,588	9,476,137	9,753,126
Shareholders' Equity (Common Stock)	584,819 (340,000)	621,553 (361,356)	569,746 (340,000)	586,400 (349,938)

(In millions of KRW & thousands of USD)

Years ending March 31	2007		2006	
	Korean won	U.S. dollars	Korean won	U.S. dollars
Total Revenues	482,338	512,635	356,047	366,454
Total Expenses	419,162	445,491	273,270	281,258
Income before Income Taxes	63,176	67,144	82,777	85,197
Net Income	45,702	48,573	59,612	61,354
Net Income/Average Common Stock (%)	13.4		17.5	
Dividends/Common Stock (%)	5.0		8.0	

Trust Account

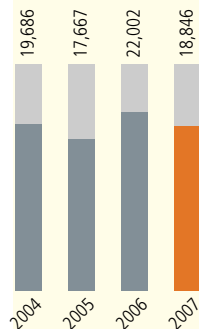
(In millions of KRW & thousands of USD)

Years ending March 31	2007		2006	
	Korean won	U.S. dollars	Korean won	U.S. dollars
Total Assets	10,290,255	10,936,609	11,956,589	12,306,082
Trust Deposits	10,230,813	10,873,433	11,890,972	12,238,547
Other Liabilities	59,442	63,176	65,617	67,535

Note) Korean won amounts were translated into U.S. dollars at the rates of KRW 940.9 and KRW 971.6 to USD 1.0—the prevailing rates as of March 31, 2007/2006, respectively.

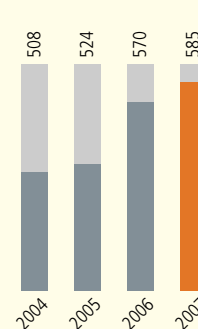
Total Assets

(In billions of KRW)



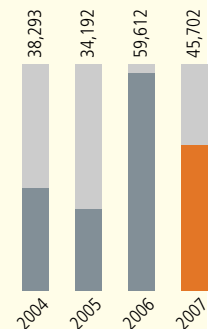
Shareholders' Equity

(In billions of KRW)



Net Income

(In billions of KRW)



Note) Total assets are the sum of KSFC account and trust account.

(As of March 31)

CEO's Message



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we concentrated on increasing our support for the securities industry
and preparing the foundations for its eventual
self-reliance while also carrying out
our various public functions

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The world economy, led by China and Europe, experienced solid growth in 2006. Unfortunately, the Korean economy saw a slower-than-expected recovery, even though total exports were in excess of USD 300.0 billion. This was due to problems both at home and abroad—including a steep rise in house prices, sluggish private consumption, continuing falls in exchange rates, the North Korean nuclear situation, and high oil prices.

In the financial sector, the implications of the Capital Market Integration Act, which is slated for enactment in 2009, and the conclusion of a Free Trade Agreement between Korea and the United States were the most important issues that we had to face. Furthermore, we are now in an era of unlimited competition, in which deregulation, the full-scale integration of financial services, globalization, and digitalization all impact on our operations. Given such a landscape, the securities market in 2006 was relatively stagnant, failing to take advantage of favorable trends from the preceding year due to a strong Won and rising interest rates.

To Our Valued Shareholders and Customers

Despite this predominantly negative market climate, KSFC managed to record a 2% year-on-year increase in asset volume, amounting to about 20.6 trillion won at the end of fiscal 2006. On the other hand, net income after income taxes decreased by 23% to 45.7 billion won, reflecting the aforementioned difficult economic and financial conditions. This decline in net income was mainly due to a contraction in gains on asset management, which was in turn caused by increases in financing expenses following a rise in interest rates. However, operating revenues expanded to 16.2 billion won from 13.9 billion won in the previous fiscal year.

In fiscal 2006, we concentrated on increasing our support for the securities industry and preparing the foundations for its eventual self-reliance while also carrying out our various public functions such as the safekeeping and management of customers' deposits and the growth and development of the Korean Employee Stock Ownership Plan (ESOP). As a result, deposits from corporations, securities-secured loans, and ESOP financing loans boasted extremely high year-on-year growth rates of 52%, 41%, and 166%, respectively.

We also enjoyed remarkable accomplishments in the custody business, ranking seventh in the industry overall with assets under custody management reaching over 17.0 trillion won even though we had only been operating in this sector for three years. This, obviously, helped to boost our pride and brighten our future prospects. Thanks to these endeavors, we obtained a "AAA (stable)" rating from the nation's three major credit rating agencies—the highest one possible.

In all likelihood, our operating environment will witness accelerated competition among financial industries and companies, due mainly to the enactment of the Capital Market Integration Act and the Free Trade Agreement between Korea and the United States. The

CEO's Message



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To deal forcefully with these changes to our operating environment,
we recently announced our new corporate vision:
“to be a financial institution specializing in securities
and leading the capital market.”



securities industry is also expected to experience rapid expansion, both in terms of size and the integration of financial services.

To deal forcefully with these changes to our operating environment, we recently announced our new corporate vision: to be a financial institution specializing in securities and leading the capital market. This means that we will focus on four primary areas: our traditional securities financing services, market infrastructure businesses for institutional investors, banking services centering on institutional investors, and our unparalleled expertise in asset management.

We have worked out five core strategies and twenty-five tasks that must be executed if we are to achieve these goals. At the same time, we have carried out sweeping organizational reforms. These included creating a product development team and a research team to broaden the reach of our core services and a PR team that has overall responsibility for our corporate publicity.

From now on, we will seek to achieve a proper balance between our public and commercial businesses. In terms of in-house operations, this means that we will enhance our organizational cohesiveness and capabilities through future-oriented, profit-centered management and the reinforcement of our strengths in human resources and expertise in securities finance. In external terms, we will continue leading the pack by introducing “one-up” changes and innovations that will meet the needs of the market and customers.

In fiscal year 2007, we will carry forward the following management policies to heighten our competitiveness and solidify our earnings.

First, we will strengthen the sales capacity of our traditional core operations to secure greater competitiveness and earnings bases, aiming for an ROE of 8% or better. We will also develop new businesses and products to augment these earnings sources.

Secondly, we will continue to expand in the capital market infrastructure field and carry out full-scale preparations for implementation of the Capital Market Integration Act. These steps will enhance our position as a leading financial institution in the Korean securities industry and bolster our foundations for future growth.

Thirdly, we will enhance the efficiency of our management by engaging in continuous innovations. In specific terms, this means two things. To begin, we will make improvements to any system or process that has a negative impact on customer convenience or business efficiency. Next, we will refine our profit-centered business management structure through the implementation of our “second-stage” business and financial management systems—including the balance scorecard system (BSC). We will also reform our performance evaluation and compensation programs.

Lastly, we will bolster the soundness of our management. Some of the steps we will take in this area include increasing our volume of equity capital to secure future growth engines, developing new revenue models, and meeting increasingly rigorous guidelines for financial soundness. We will also increase the volume of our retained earnings by establishing a more rational dividend policy and take all measures needed to retain our “AAA” credit rating for corporate bonds.

Last, but not least, we will become a more dynamic and proactive organization. This will be accomplished in two ways: by improving our organizational culture through the practice of open management, and by laying the foundations for sustainable management through the creation of an environment in which talented professionals can demonstrate their creativity and rise to meet new challenges. To guarantee success in this seminally important area, we will take whatever steps are necessary to facilitate the development of healthy, cordial, and mutually respectful labor-management relations.

With your trust and unwavering support, I am convinced that KSFC can meet its ultimate goal of becoming a top-flight financial institution specializing in securities and leading the capital market.

Thank you.

President and CEO Doo Hyung Lee

A photograph of two men in business attire standing in a high-rise office, looking out a large window at a cityscape. The man on the left is wearing a suit and glasses, and the man on the right is wearing a white shirt and tie. The window reflects the city buildings and the men themselves. The overall tone is professional and contemplative.

Fiscal Year 2006 in Review

We will review and discuss our operations in fiscal 2006 (ending March 31, 2007) in two stages—fund procurement and operation.

After that, we will review KSFC's core public operations—Employee Stock Ownership Plan (ESOP)-related services, the management of customers' deposits, custodial services, and securities borrowing and lending brokerage.



Review of Business Operations

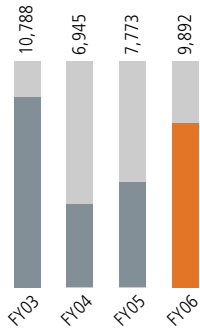
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	Trustee and Custodial Services
	Securities Borrowing and Lending (SBL) Brokerage Service



Procurement of Funds

- KSFC's main financing sources include shareholders' equity, borrowings from financial institutions, the issuance of bonds, individual and corporate deposits, notes issued, and call money. In fiscal 2006, our funding through notes issued and bond sales under RP expanded substantially. In addition, the volume of borrowings from banks increased in the wake of the expansion of our asset management volume.

Procurement of Funds, by Year
(In billions of KRW)



(In millions of KRW, %)

	FY2006		FY2005		YOY Change
	Amount	Ratio	Amount	Ratio	
Borrowings (bonds issued)	1,244,668	12.6	805,746	10.4	54.5
Notes Issued	1,861,959	18.8	918,175	11.8	102.8
Deposits	4,753,087	48.0	4,171,038	53.7	14.0
Customers' Deposits Received	3,410,987	34.5	2,786,594	35.8	22.4
Subscription Guaranty Money Deposits	663,105	6.7	953,931	12.3	-30.5
Securities Market Stabilization Fund (SMSF) Deposits	28,498	0.3	40,806	0.5	-30.2
Deposits from Corporations	409,453	4.1	218,255	2.8	87.6
Subscription Deposits for IPO & Forfeited Shares	97,306	1.0	146,771	1.9	-33.7
Other	143,737	1.5	24,681	0.3	482.4
Bond Sales under RP	173,899	1.8	100,662	1.3	72.8
Borrowings from Trust Account	91,330	0.9	100,341	1.3	-9.0
Call Money	787,735	8.0	704,672	9.1	11.8
Shareholders' Equity	543,884	5.5	565,587	7.3	-3.8
Other	435,884	7.6	407,076	5.2	85.4
Total	9,892,445	100.0	7,773,297	100.0	27.3

Note) Based on average annualized balance

Based on our average annualized balance, total financing volume amounted to KRW 9.9 trillion at year-end, an increase of KRW 2.1 trillion (or 27.3%) from a year earlier. Total assets (which had sharply decreased since the transfer of customers' deposits to trust accounts in 2002) expanded for the third consecutive year. This was due to company-wide efforts to improve earnings—including cost cuts, self-rescue restructuring, and the expansion of our deposits, loans, and asset management operations. Our greatest source of funding was deposits (at 48.0%). This was followed by notes issued (at 18.8%), borrowings (at 12.6%), call money (at 8.0%), and shareholders' equity (at 5.5%).

Review of Business Operations Procurement of Funds

Borrowings

KSFC raises funds to support the securities industry and perform various public functions. These are primarily garnered through borrowings from banks and by issuing commercial papers (CPs) and corporate bonds. On the basis of our average annualized balance, borrowings in 2006 swelled by KRW 438.9 billion (54.5%) to KRW 1.2 trillion. Funds borrowed directly from banks are short-term by definition. KSFC ceased making direct borrowings in 1999, relying instead on loans on checking accounts during the day. However, we resumed direct borrowings in March 2006: on an average annualized basis, these amounted to KRW 356.4 billion. In addition, we initiated CP accounts for borrowing funds, totaling KRW 125.5 billion. The average annualized balance of our corporate bonds stood at KRW 762.7 billion.

Notes issued

We procure deposit-type funds through the issuance of notes. These monies mainly come from the government's national treasury funds, public money management funds, and securities firms' MMF products. Our volume of notes issued, based on the average annualized balance, ballooned by KRW 943.8 billion (or 102.8%) over the year to KRW 1.9 trillion. This was due to new deposits from national treasury funds and resumed deposits from public money management funds.

Deposits

The average annualized balance of deposits increased by KRW 582.0 billion (or 14.0%) over the year to KRW 4.8 trillion, making this the largest contributor to our financing volume. **Customers' Deposits Received** accounted for the largest proportion of these deposits. These are temporary deposits made by investors with securities firms or futures companies for the purpose of trading marketable securities that are re-deposited with KSFC for safekeeping and management.



This year, we entered into the area of foreign-currency deposits for futures trading at securities firms and futures companies. This occurred because of the inclusion of foreign currencies in margins for futures trading. We also began trading in deposits by beneficiaries at asset management companies (in relation to the sale of indirect investment securities and other products), insurance companies, and securities firms, pursuant to the introduction of MMF forward pricing system. As a consequence, the average annualized balance of customers' deposits received grew by KRW 624.4 billion (or 22.4%) over the year to KRW 3,411.0 billion.

Subscription Guaranty Money Deposits refer to deposits of subscription guaranty money that securities companies have received from their customers for subscriptions to public offerings or rights issues. The average annualized balance of this product decreased by KRW 290.8 billion (or 30.5%) to KRW 663.1 billion, mainly as the result of a decline in IPOs in a bearish stock market.

Subscription Deposits for IPO and Forfeited Shares offer investors relatively high interest rates and potential trading gains from allotted shares. Depositors can receive loans for subscription guaranty money, subscription agency services, and other benefits. Due to the abolition of IPO subscription benefits and weakened interest competitiveness in subscription deposits for



forfeited shares, the combined average annualized balance of these two products decreased by KRW 49.5 billion (or 33.7%) over the year to KRW 97.3 billion.

Securities Market Stabilization Fund (SMSF) Deposits are funds raised from the sale of stocks that have been purchased through the SMSF and temporarily deposited awaiting distribution to its members. The SMSF was established in 1990 to stabilize the securities market and alleviate supply and demand imbalances. Based on our average annualized balance, SMSF deposits contracted by KRW 12.3 billion (or 30.2%) to KRW 28.5 billion. The average annualized balance of other deposit products (such as deposits from securities institutions, deposits from corporations, ESOA deposits, and special deposits) amounted to KRW 141.9 billion, KRW 409.5 billion, KRW 290.0 million, and KRW 1.6 billion, respectively.

Bond Sales under RP

To procure funds, KSFC can sell its bond holdings (both governmental and corporate) to the national government, local governments, corporations, pension funds, financial institutions, and individuals with an agreement to repurchase them at a pre-designated time and price. The traded value of these products increased substantially, due to our pursuit of diversified financing sources following a rise in demand for funds. As a result, the average annualized balance stood at KRW 173.9 billion, up by KRW 73.2 billion (or 72.8%) from a year ago.

Borrowings from Trust Account

KSFC has offered trustee and custodial services since June 2004, receiving deposits of transitory idle cash positions of indirect investment assets from indirect investment institutions through its trust account under trustee agreements. The average annualized balance of borrowings from trust account, which is managed separately by trusters and indirect investment institutions, lessened by KRW 9.0 billion (9.0%) over the year to KRW 91.3 billion.

Call Money

Call money is a short-term fund raising vehicle that KSFC introduced in 2002 to facilitate the diversification of financing sources and interest arbitrage. The average annualized balance grew by KRW 83.1 billion (or 11.8%) to KRW 787.7 billion from a year ago.

Shareholders' Equity

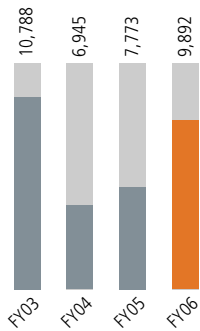
Shareholders' equity totaled KRW 584.8 billion at the end of fiscal 2006, down slightly from 2005. The annualized average balance dipped by KRW 21.7 billion (or 3.8%) to KRW 543.9 billion.



Operation of Funds

- KSFC mainly manages its procured funds through loans, bonds purchased under reverse RP, notes discounted, marketable securities, and fixed assets. Reserve funds, temporary idle funds and other short-term funds are managed through deposits or call loans.

Funds Operation, by Year
(In billions of KRW)



The average annualized balance of total funds managed by KSFC ballooned by KRW 2,119.1 billion (or 27.3%) to reach KRW 9,892.4 billion at year-end. There were four reasons for this impressive performance: an expansion in securities secured loans due to the formation of consortiums and business alliances by brokerage firms; an increase in ESOA loans and margin financing loans (due to product remodeling); a rise in bonds purchased under reverse RP (following an increase in deposits from national treasury funds and public money management funds); and an impressive upturn in the value of fixed assets.

Cash and deposits made up the largest weighting of other products at 32.9%. They were followed by marketable securities (at 26.4%), loans (at 14.1%), fixed assets (at 10.3%), bonds purchased under reverse RP (at 7.5%), notes discounted (at 6.8%), and call loans (at 2.0%).

(In millions of KRW, %)

	FY2006		FY2005		YOY
	Amount	Ratio	Amount	Ratio	Change
Loans	1,395,069	14.1	942,681	12.1	48.0
Gov't Bond Underwriting Loans	985	0.0	6,828	0.1	-85.6
Margin Financing Loans	56,143	0.6	49,689	0.6	13.0
Bond Dealer Loans	97,909	1.0	86,834	1.1	12.8
Working Capital Loans	18,333	0.2	26,510	0.3	-30.8
Receivables-in-Cash Financing Loans	89,797	0.9	115,444	1.5	-22.2
Securities-Secured Loans	534,034	5.4	381,313	4.9	40.1
ESOP Financing Loans	334,609	3.4	125,751	1.6	166.1
Loans to Refinance Securities-Secured Loans	260,862	2.6	146,955	1.9	77.5
Loans Secured by Subscription Deposits for Forfeited Shares	2,397	0.0	3,357	0.1	-28.6
Bonds Purchased under Reverse RPs	741,095	7.5	381,859	4.9	94.1
Notes Discounted	670,936	6.8	957,131	12.3	-29.9
Marketable Securities (Trading Securities)	2,616,131	26.4	2,291,711	29.5	14.2
Call Loans	197,259	2.0	30,292	0.4	551.2
Fixed Assets	1,020,083	10.3	387,711	5	163.1
Available-for-Sale Securities	962,873	9.7	269,315	3.5	257.5
Held-to-Maturity Securities	6,082	0.1	49,863	0.6	-87.8
Investment Assets	13,182	0.1	12,380	0.2	6.5
Tangible Assets	30,913	0.3	31,479	0.4	-1.8
Deferred Income Tax Assets	7,033	0.1	24,674	0.3	-71.5
Other	3,251,872	32.9	2,781,912	35.8	16.9
Total	9,892,445	100.0	7,773,297	100	27.3

Note) Based on average annualized balance

Review of Business Operations Procurement of Funds

Loans

The average annualized balance of our total loans shot up by KRW 452.4 billion (or 48.0%) to KRW 1,395.1 billion at the end of fiscal 2006. This was due to increases in securities secured loans, ESOA loans, and loans to finance securities-secured loans-all the result of company-wide efforts to strengthen our "win-win" alliances with securities firms, augment our product competitiveness (especially by reconfiguring already-existing products), and recalibrate our overall operations.

Margin financing loans provide securities firms with money or marketable securities required for their customers' margin transactions through the Korea Exchange's (KRX) settlement system. These loans are divided into money loans (for the settlement of customers' margin purchases) and stock loans (for their short sale). Although they are one of KSFC's traditional areas of business, margin financing loans had been experiencing a sharp decline in demand, due mainly to the impact of low interest rates and the growth of capital power following the enlargement of securities firms. However, these products experienced a sharp turnaround in March 2007, exceeding the KRW 100.0 billion mark as demand sharply surged. This growth flowed from the activation of margin transactions, which was in turn affected by the financial authority's receivables reduction policy. The average annualized balance of money loans amounted to KRW 56.1 billion in fiscal 2006, up KRW 6.5 billion (or 13.0%) from the previous year. Stock loans have been suspended since May 1986, but are slated to resume during 2007.

Bond dealer loans are offered to bond underwriters and dealers as defined and/or licensed by the Securities and Exchange Act. They are classified into "government and public bond underwriting loans," "corporate bond underwriting loans," and "secondary market bond dealer loans." Government and public bond underwriting loans are extended to bond dealers to facilitate the smooth issuance of government and public bonds, such as monetary stabilization bonds issued by the Bank of Korea. Corporate bond underwriting bonds are provided to bond dealers for the underwriting of bonds issued by corporations, while secondary market bond dealer loans are supplied to bond dealers to help them in their dealings on the KRX or in the OTC market. In fiscal 2006, government and public bond underwriting loans were valued at a mere KRW 0.98 billion, based on an average annualized balance. This was a plunge of KRW 5.8 billion (or 85.6%) from a year ago, reflecting decreased demand. However, secondary market bond dealer loans grew by KRW 11.1 billion (or 12.8%) to KRW 97.9 billion. This was due to a rise in financial resources in the wake of increases in new customers and public funds.





Working capital loans are provided to securities firms, futures companies, other securities-related institutions, and insurers. The average annualized balance of these loans lessened by KRW 8.2 billion (or 30.8%) over the year. This resulted from a decline in demand for capital by securities firms due to relatively high interest rates compared to the call market.

Receivables-in-cash financing loans were introduced in November 2004, with a view to strengthening the foundations of and activating the securities market by supporting the efficient settlement of funds. These loans are provided to securities firms for the settlement of payments for stocks purchased by their customers. The average annualized balance of these products decreased by KRW 25.6 billion (or 22.2%) over the year to KRW 89.8 billion. Since the government announced its receivables reduction policy, which is slated to begin in May 2007.

Securities secured loans, which made up the largest portion of total loans, are offered to individual and corporate investors offering marketable securities as collateral. The value of these products surged by KRW 152.7 billion (or 40.1%) over the year to KRW 534.0 billion. This increase was largely due to our policy of dealing with increasingly intensifying competition in an aggressive and proactive manner.

ESOP financing loans are divided into "ESOP shares acquisition loans" (which are extended to ESOA members to finance acquisitions of their company's shares through the ESOP and "ESOP shares-secured loans" (which are provided to ESOA members using their deposited shares as collateral). The average annualized balance of ESOP financing loans shot up by KRW 208.9 billion (or 166.1%) from a year ago to KRW 334.6 billion. This was caused by a sharp rise in ESOP shares acquisition loans, which in turn reflected a dramatic increase in large-sum loans as the result of aggressive marketing.

Loans to refinance securities-secured loans were launched in March 2004 to support securities firms by providing funds with low interest rates for their own securities-secured loans, thereby contributing to the development of the securities industry and the utilization of marketable securities by investors. The average annualized balance reached KRW 260.9 billion at year-end, an increase of KRW 113.9 billion (or 77.5%) from the previous year.

In recent years, the value of **loans secured by subscription deposits for forfeited shares** with KSFC, which are provided to investors who wish to subscribe for forfeited shares, was extremely low. This was a reflection of unattractive issue prices and limitations on subscription rights by securities firms. The average annualized balance moved up by KRW 0.96 billion (or 28.6%) to KRW 2.4 billion.

Review of Business Operations Procurement of Funds

Bonds Purchased under Reverse RPs

Bonds purchased under reverse RPs are short-term fund management vehicles between financial institutions that can be used as an alternative to call loans. They are sold pursuant to a reverse repurchase (RP) agreement that commits the seller to repurchase these products from the buyer after a defined period of time has passed. The application of these products includes national treasury funds and public money management funds that are deposited through notes issued. The average annualized balance grew by KRW 359.2 billion (or 94.1%) over the year to KRW 741.1 billion, following a rise in deposits of such funds.

Notes Discounted

Notes discounted used to account for most of our operational assets, since they were seen as a vital means of supplying short-term funds to the securities market by discounting bills issued by companies. However, they have lost much of their allure since 1998. Lately, most of them had been taken by securities firms that had deposited guaranty money for the subscription of IPO shares, but the volume of these deposits has lessened as the result of a sluggish primary market in fiscal 2006. Consequently, the average annualized balance fell by KRW 286.2 billion (or 29.9%) over the year to KRW 670.9 billion.

Marketable Securities

Investments in marketable securities (including stocks, bonds, and beneficiary securities) have been on the rise since the beginning of the 2000's, reflecting the increasing importance of knowledgeable asset management. Investment securities held by KSFC include trading securities, trading available-for-sale securities, trading held-to-maturity securities as current assets, and available-for-sale securities and held-to-maturity securities as fixed assets. All marketable securities (excluding trading held-to-maturity securities and held-to-maturity securities) are evaluated on a mark-to-market basis. The average annualized balance of our marketable securities holdings as current assets increased by KRW 324.4 billion (or 14.2%) over the year to KRW 2,616.1 billion, while the value of investment securities as fixed assets grew by a dramatic KRW 649.8 billion (or 203.6%) to KRW 962.9 billion.

Call Loans

A major vehicle for managing idle short-term funds, call loans posted an impressive gain of KRW 167.0 billion (or 551.2%) to KRW 197.3 billion, based on their average annualized balance. This was due to a substantial rise in inflows of daily funds, such as deposits by beneficiaries and cash collaterals for SBL brokerage following the implementation of the following-day purchasing system for money market funds in July 2006.

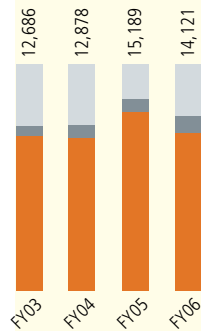
Custody and Management of Customer's Deposits

Funds deposited by investors for the purpose of trading stocks and futures in securities firms and futures companies must be re-deposited or entrusted to KSFC in order to meet the statutory requirements of the Securities and Exchange Act and the Futures Trading Act. As the sole custodial institution for customers' deposits, KSFC is obliged to manage customers' deposits separately from the proprietary accounts of securities firms or futures companies. This is done to protect investors from the possibility of insolvencies and bankruptcies among these same companies.

KSFC is responsible for the prudent management of separately entrusted customers' deposits by securities firms and futures companies. To guarantee the continuing safety of these assets, investment vehicles that may be utilized for customers' deposits are restricted to relatively risk-free financial instruments, such as government bonds, bank deposits, securities secured loans, MMFs, and others, in compliance with related laws and regulations.

All matters pertaining to deposits, withdrawals, and the management and settlement of accounts of customers' deposits are supervised by self-regulatory organizations, which are called Customers' Deposit Management Committees. Customers' deposits are managed as either deposits or trusts, as determined by depositing companies. For deposits, KSFC guarantees the repayment of principal plus an agreed rate of interest. Trusts are held in separate trust accounts, and the amount of repayment depends on their overall return on investment.

Customers' Deposits
(In millions of KRW)



	FY03	FY04	FY05	FY06
Deposit accounts	1,988	2,427	2,787	3,411
Trust accounts	10,698	10,451	12,402	10,710

Note) Calculated on average annualized basis

Review of Business Operations

ESOP-Related Services

The Employee Stock Ownership Plan (ESOP) promotes the welfare of employees and enhances their socio-economic status by allowing them to acquire company shares through an Employee Stock Ownership Association (ESOA).

As the sole provider of ESOP-related services in Korea (pursuant to the Securities and Exchange Act, the Basic Workers' Welfare Act, and other relevant laws and ordinances), KSFC has been a primary contributor to the plan's development and success. Our roles have ranged from offering advice on the establishment of ESOPs to providing them with financial support. Since May 2005, we have been operating the "ESOP Service Center." This offers research, training, and PR activities to improve the lot of Korean employees and encourage a positive and mutually respectful labor-management culture.

As of the end of fiscal 2006, 2,531 companies had established ESOAs, and 868 of them had entrusted 310.0 million shares to KSFC.

Trustee and Custodial Services

In conformity with the Indirect Investment Asset Management Business Act, KSFC provides both trustee and custodial services. As the first Korean securities-related institution to assume the role of a custodian, we have made diligent efforts to enhance our level of service and systemize our work processes. We earned an ISO 9001 certification for custodial services—another first for domestic financial institutions—in September 2005.

In fiscal 2006, assets under custody management exceeded KRW 17.2 trillion—7th in the industry overall. This success was mainly due to our customer-oriented business processes, customized services, and strategic marketing endeavors.

Securities Borrowing and Lending (SBL) Brokerage Service

Securities borrowing and lending (SBL) is an investment vehicle mainly utilized to earn low-risk income by means of arbitrage between individual stocks or markets. It is also used for hedging to fix returns in relation to exercising rights or at the time of long-term vs. short-term price variations and swap transactions for marketable securities. Basically, KSFC is an intermediary for borrowing and lending of equity or bonds.

KSFC's bonds borrowing and lending brokerage volume was worth more than KRW 2.5 trillion in fiscal 2006—KRW 1.3 trillion if based on our average annualized balance. This was our highest level ever, making us the leader in the industry. In the future, we will continue to meet the needs of our customers by offering even more "win-win strategies." We also intend to contribute to the growth and stabilization of the securities market by re-invigorating the RP market and increasing the level of support for RP-type CMA products at securities firms.



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Independent Auditors' Report

English Translation of a Report Originally Issued in Korean



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

We have audited the accompanying balance sheets of Korea Securities Finance Corporation (the "Company") as of March 31, 2007 and 2006, and the related statements of income, appropriations of retained earnings and cash flows for the years then ended, all expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2007 and 2006, and the results of its operations, changes in its retained earnings and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of Korea (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, 2007

Balance Sheets

AS OF MARCH 31, 2007 AND 2006

Korean won (In millions)	2007	2006
ASSETS		
CURRENT ASSETS:		
Cash and due from banks (Notes 3, 23 and 24)	€ 3,101,257	€ 2,813,658
Trading securities (Note 4)	2,241,912	3,304,090
Short-term investment securities (Note 4)	383,954	469,521
Short-term loans (Notes 5 and 6)	1,701,052	2,391,343
Other current assets (Note 8)	72,973	56,235
	<u>7,501,148</u>	<u>9,034,847</u>
NON-CURRENT ASSETS:		
Long-term investment securities (Note 4)	690,637	728,643
Long-term loans (Notes 5 and 6)	319,008	233,649
Property and equipment (Note 7)	29,039	29,460
Other non-current assets (Note 9)	15,904	19,284
	<u>1,054,588</u>	<u>1,011,036</u>
	€ 8,555,736	€ 10,045,883
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term deposits received (Notes 10 and 23)	€ 4,375,517	€ 3,965,784
Notes issued (Note 11)	913,518	3,001,982
Short-term borrowings (Note 12)	961,200	200,000
Call money (Note 12)	590,700	804,300
Securities sold under repurchase agreements (Note 12)	53,127	234,502
Securities money	203,391	-
Current portion of bonds issued (Note 13)	280,744	895,072
Other current liabilities (Note 14)	150,491	207,372
	<u>7,528,688</u>	<u>9,309,012</u>
FIXED LIABILITIES:		
Bonds issued (Note 13)	429,683	155,049
Long-term deposits received (Note 10)	933	1,227
Reserve for contingencies (Note 16)	8,221	7,281
Accrued retirement and severance benefits (Note 15)	3,392	3,568
	<u>442,229</u>	<u>167,125</u>
	<u>7,970,917</u>	<u>9,476,137</u>
SHAREHOLDERS' EQUITY (Note 17)		
Common stock	340,000	340,000
Capital surplus	21,767	21,767
Retained earnings		
(Net income of € 45,702 million for the year ended March 31, 2007 and € 59,612 million for the year ended March 31, 2006)	230,908	211,926
Capital adjustment	(7,856)	(3,947)
	<u>584,819</u>	<u>569,746</u>
	€ 8,555,736	€ 10,045,883

See accompanying notes to financial statements.

Statements of Income

FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

Korean won (In millions except per share amounts)	2007	2006
OPERATING REVENUE:		
Interest on bank deposits	£ 143,695	£ 90,184
Interest on securities	108,983	55,284
Interest on loans (Note 5)	138,636	95,049
Gain on disposal of trading securities	26,330	55,571
Gain on valuation of trading securities	41,188	33,487
Reversal of allowance for possible loan losses	-	11,047
Dividends	585	482
Commissions	5,944	3,993
Others	11,245	9,683
	<u>476,606</u>	<u>354,780</u>
OPERATING EXPENSES:		
Interest expenses	361,163	212,482
Loss on disposal of trading securities	1,341	2,121
Loss of valuation of trading securities	2,401	1,340
Provision for possible loan losses	1,829	-
Selling, general and administrative expenses (Note 18)	37,161	39,874
Others	12,983	3,445
	<u>416,878</u>	<u>259,262</u>
OPERATING INCOME	59,728	95,518
NON-OPERATING INCOME (EXPENSES):		
Loss on impairment of long-term investment securities (Note 4)	-	(11,297)
Gain (loss) on disposal of long-term investment securities, net	3,012	(161)
Donations (Note 22)	(1,083)	(1,057)
Provision for reserve for contingencies	(941)	(941)
Others	2,460	715
	<u>3,448</u>	<u>(12,741)</u>
ORDINARY INCOME	63,176	82,777
EXTRAORDINARY ITEM	-	-
INCOME BEFORE INCOME TAX	63,176	82,777
INCOME TAX EXPENSE (Note 19)	17,474	23,165
NET INCOME	£ 45,702	£ 59,612
ORDINARY INCOME PER SHARE (Note 20)	£ 684	£ 892
NET INCOME PER SHARE (Note 20)	£ 684	£ 892

See accompanying notes to financial statements.

Statements of Appropriations of Retained Earnings

FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

Korean won (In millions)	2007	2006
RETAINED EARNINGS BEFORE APPROPRIATIONS:		
Beginning of the year	€ 36	€ 44
Net income	45,702	59,612
	45,738	59,656
APPROPRIATIONS:		
Legal reserve (Note 17)	5,000	6,000
Reserve for dividends	24,000	26,900
Cash dividends	16,672	26,720
	45,672	59,620
UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED FORWARD TO SUBSEQUENT YEAR	€ 66	€ 36

See accompanying notes to financial statements.

Statements of Cash Flows

FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

Korean won (In millions)	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	€ 45,702	€ 59,612
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	3,209	3,369
Provision for retirement and severance benefits	1,293	2,698
Gain on valuation of trading securities, net	(38,787)	(32,147)
Gain on disposal of trading securities, net	(24,988)	(53,450)
Loss (gain) on disposal of long-term investment securities, net	(3,012)	161
Loss on impairment of long-term investment securities	-	11,297
Provision for reserve for contingencies	940	941
Provision for possible loan losses	1,829	-
Reversal of allowance for possible loan losses	-	(11,047)
Increase in other current assets	(19,616)	(28,377)
Decrease in deferred income tax assets	8,257	13,166
Increase in deferred income tax liabilities	10,722	-
Decrease in other current liabilities	(67,602)	(28,665)
Payment of retirement and severance benefits	(1,021)	(1,009)
Others	(2,241)	(9,025)
Net cash used in operating activities	(85,315)	(72,476)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from disposal of trading securities	19,039,015	11,833,691
Proceeds from disposal of short-term investment securities	469,521	192,349
Collection of short-term loans	193,855,962	146,532,519
Disposition of long-term investment securities	64,032	4,457
Proceeds from disposal of other non-current assets, net	(496)	1,282
Collection of long-term loans	209,091	79,320
Disposition of property and equipment	315	841
Acquisition of trading securities	(17,913,061)	(12,980,746)
Extension of short-term loans	(193,166,527)	(147,803,666)
Acquisition of long-term investment securities	(408,763)	(1,020,187)
Extension of long-term loans	(295,423)	(232,928)
Acquisition of property and equipment	(3,023)	(3,315)
Acquisition of intangible assets	(400)	-
Increase in deposits for retirement and severance benefits, net	(461)	(479)
Net cash provided by (used in) investing activities	1,849,782	(3,396,862)

(Continued)

Statements of Cash Flows (Continued)

FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

Korean won (In millions)	2007	2006
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in short-term deposits received	€ 119,192,026	€ 118,101,069
Proceeds from short-term borrowings	28,723,200	45,436,000
Increase in call money	174,613,300	161,558,800
Increase in securities sold under repurchase agreements	1,226,824	1,100,932
Increase in notes issued	89,376,264	96,760,601
Proceeds from bonds issued	439,682	439,677
Decrease in short-term deposits received	(118,782,294)	(117,199,682)
Repayment of short-term borrowings	(27,962,000)	(45,236,000)
Decrease in call money	(174,826,900)	(161,632,100)
Decrease in notes issued	(91,464,728)	(94,262,687)
Decrease of securities sold under repurchase agreements	(1,408,199)	(1,067,730)
Decrease of long-term deposits received, net	(307)	(878)
Increase in guarantee deposits, net	203,391	-
Payment of current portion of bonds issued	(779,480)	(453,680)
Acquisition of treasury stock	(927)	(512)
Payment of dividends	(26,720)	(13,386)
Net cash provided by (used in) investing activities	(1,476,868)	3,530,424
NET INCREASE IN CASH AND DUE FROM BANKS	287,599	61,086
CASH AND DUE FROM BANKS, BEGINNING OF YEAR	2,813,658	2,752,572
CASH AND DUE FROM BANKS, END OF YEAR (Notes 3 and 24)	€ 3,101,257	€ 2,813,658

See accompanying notes to financial statements.

Notes to Financial Statements

FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

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 into 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, 2007, 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 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, 2007.

The Company classifies credits as of March 31, 2007 based on borrowers' repayment capability and historical financial transaction record. Credits to general secured loans and loans for employees' stock acquisition are classified into 9 grades and others are classified into 10 grades. In case of loans secured by stock, credits of grades of 1 to 6 are classified as normal, credits of grade 7 as precautionary and credits of grades of 8 to 10 (credits of grades of 8 to 9 in case of general secured loans and loans for employees' stock acquisition) as substandard. In case of corporation trust lending, credits of grades of 1 to 5 are classified as normal, credits of

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grades of 6 to 7 as precautionary, credits of grade 8 as substandard, credits of grade 9 as doubtful and credits of grade 10 as estimated loss.

The allowance for possible loan losses are presented as a deduction from loans and the ratio of allowance for possible loan losses which are calculated in accordance with the credits classification and the collateral are as follows:

□ Company

Classification	Normal	Pre-cautionary	Standard	Doubtful	Estimated loss
All loans excluding loans secured					
by unlisted stock	0.7%	7%	20%	50%	100%
Loans secured by unlisted stock	0.7%	8.4%	24%	60%	100%

□ Private

Classification	Normal	Pre-cautionary	Standard	Doubtful	Estimated loss
All loans excluding loans secured					
by unlisted stock	1%	10%	20%	55%	100%
Loans secured by unlisted stock	1%	12%	24%	66%	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.

However, the Company does not provide allowances for call loans on securities purchased under resale agreements that are classified as normal.

The Company extended the scope of credits of grades 1 to 5 into 1 to 6 for credits classified as normal (in case of the corporation trust lending, credits of grades 1 to 4 into 1 to 5) and as required by the Supervisory Regulation, the Company raised the minimum coverage ratio for the loans classified as normal and precautionary in 2007. Also, the Company reduced the coverage ratio for loans secured by unlisted stocks and excess of estimated recoverable amount.

Due to such change of accounting estimation, allowances for possible loan losses increased by € 170 million and net income decreased by € 123 million for the year ended March 31, 2007.

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	30~46
Structures	20~25
Office equipment	4
Vehicles	4

Intangible Assets and Related Amortization

Intangible assets included in fixed assets are recorded at the production costs or purchase costs plus incidental expenses less discount if exist. Expenditures incurred in conjunction with the development of new products or technology and others, in which the elements of costs can be individually identified and future benefits expected, are capitalized as development costs. Intangible assets are amortized using the straight-line method over 4 years and presented after deducting amortized amount.

Other Liability Reserve

A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the Company is recognized as contingent liabilities when it is probable that an outflow of resources embodying economic benefits required and the amount of the obligation can be measured with sufficient reliability. Where the effect of the time value of money is material, the amount of the liabilities is the present value of the expenditures expected to be required to settle the obligation

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 interest in the deposit with the insurance company. Therefore, the deposit for severance benefits insurance is 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 Derivative Instruments

The Company accounts for derivative instruments pursuant to the Interpretations on Financial Accounting Standards 53- 70 on accounting for derivative instruments. Derivative instruments are classified as used for trading activities or for hedging activities according to their transaction purpose. All derivative instruments are accounted for at fair value with the valuation gain or loss recorded as an asset or liability. If the derivative instrument is not part of a transaction qualifying as a hedge, the adjustment to fair

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value is reflected in current operations.

The accounting for derivative transactions that are part of a qualified hedge based both on the purpose of the transaction and on meeting the specified criteria for hedge accounting differs depending on whether the transaction is a fair value hedge or a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument designated as hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment (hedged item) that is attributable to a particular risk. The gain or loss both on the hedging derivative instruments and on the hedged item attributable to the hedged risk is reflected in current operations. Cash flow hedge accounting is applied to a derivative instrument designated as hedging the exposure to variability in expected future cash flows of an asset or a liability or a forecasted transaction that is attributable to a particular risk. The effective portion of gain or loss on a derivative instrument designated as a cash flow hedge is recorded as a capital adjustment and the ineffective portion is recorded in current operations. The effective portion of gain or loss recorded as a capital adjustment is reclassified to current earnings in the same period during which the hedged forecasted transaction affects earnings. If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the gain or loss in capital adjustment is added to or deducted from the asset or the liability.

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.

Accounting for Foreign Currency Transactions and Translation

The Company maintains its accounts in Korean Won. Transactions in foreign currencies are recorded in Korean Won based on the basic rate of exchange on the transaction date. The Korean Won equivalent of assets and liabilities denominated in foreign currencies are translated in these financial statements based on the basic rate (₩ 940.30 to US\$ 1.00 at March 31, 2007, respectively) announced by Seoul Money Brokerage Service, Ltd. or cross rates for other currencies other than U.S. Dollars at the balance sheet dates. Translation gains and losses are credited or charged to operations. Financial statements of overseas branches are translated based on the basic rate at balance sheet dates.

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) No.1 through No.25 for achieving a set of Korean accounting standards that should be internationally acceptable and comparable. The Company has implemented SKAS No.1 through No.17 in prior periods and adopted SKAS No.18 through No. 20 since April 1, 2006. In addition, SKAS No.21 through No.25 will be effective from the first fiscal year beginning on or after 31 March 2007.

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, 2007.

FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

3. CASH AND DUE FROM BANKS:

Cash and due from banks as of March 31, 2007 and 2006 are summarized as follows (Unit: Won in millions):

Classification	Annual interest rate (%)	2007	2006
Cash and due from banks in Won:			
Cash	-	£ 6	£ 6
General deposits and others	0.15	70	15
Current deposit	-	40	51
Time deposit	4.70~5.12	258,000	83,900
Money Market Deposit Account(MMDA)	4.55	1,791,416	1,843,030
Certificate of deposit (CD)	4.68~5.11	970,162	882,289
Cash management account (CMA)	3.75	-	4,367
		3,019,688	2,813,658
Cash and due from banks in foreign currencies:			
Time deposit	4.85	25,456	-
Money Market Deposit Account(MMDA)	0.44~4.85	56,107	-
		81,563	-
		£ 3,101,257	£ 2,813,658

4. SECURITIES:

(1) Securities as of March 31, 2007 and 2006 are summarized as follows (Unit: Won in millions)

Classification	2007	2006
Trading securities:		
Stocks	£ 41,226	£ 53,693
Beneficiary certificates	1,276,115	2,368,059
Government and public bonds	76,784	20,151
Financial debentures	561,273	651,994
Corporate bonds	275,640	210,193
Others	10,874	-
	£ 2,241,912	£ 3,304,090
Available-for-sale securities:		
Stocks	£ 5,527	£ 10,645
Government and public bonds	50,033	439,810
Finance debentures	741,698	497,867
Corporate bonds	252,214	199,842
Others	5,119	-
	£ 1,054,591	£ 1,148,164
Held-to-maturity securities:		
Others	£ 20,000	£ 50,000

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FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

(2) The valuation of securities as of March 31, 2007 and 2006 consisted of the following (Unit: Won in millions):

March 31, 2007

Classification	Acquisition cost (*)	Adjusted value (**)	Fair value	Book value
Trading securities:				
Stocks	€ 2,780	€ -	€ 3,083	€ 3,083
Mutual fund	24,302	-	38,143	38,143
Beneficiary certificates	1,239,549	-	1,276,115	1,276,115
Bonds	915,443	-	913,697	913,697
Others	10,000	-	10,874	10,874
	€ 2,192,074	€ -	€ 2,241,912	€ 2,241,912
Available-for-sale securities:				
Stocks	€ 5,984	€ -	€ 35,370	€ 5,527
Bonds	1,039,901	1,043,763	1,043,945	1,043,945
Others	5,000	-	5,119	5,119
	€ 1,050,885	€ 1,043,763	€ 1,084,434	€ 1,054,591
Held-to-maturity securities:				
Others	€ 20,000	€ -	€ 20,000	€ 20,000

March 31, 2006

Classification	Acquisition cost (*)	Adjusted value (**)	Fair value	Book value
Trading securities:				
Stocks	€ 4,038	€ -	€ 3,988	€ 3,988
Mutual fund	33,118	-	49,705	49,705
Beneficiary certificates	2,345,866	-	2,368,059	2,368,059
Bonds	882,584	-	882,338	882,338
	€ 3,265,606	€ -	€ 3,304,090	€ 3,304,090
Available-for-sale securities:				
Stocks	€ 11,891	€ -	€ 39,992	€ 10,645
Bonds	1,138,796	1,136,071	1,137,519	1,137,519
	€ 1,150,687	€ 1,136,071	€ 1,177,511	€ 1,148,164
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.

FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

(3) Available-for-sale equity securities as of March 31, 2007 and 2006 consisted of the following (Unit: Won in millions):

March 31, 2007

Classification	The number of shares	Percentage of ownership(%)	Acquisition cost	Fair value or net asset value	Book value
Listed equity securities:					
Daum Communications Co., Ltd.	3,500	0.02	€ 206	€ 220	€ 220
Unlisted equity securities:					
Hankang Restructuring Fund (*)	2,080,000	1.64	1,272	801	801
Koscom Co., Ltd.	195,238	3.65	976	5,723	976
Korea Securities Depository	3,413	0.05	30	249	30
Korea Exchange	424,746	2.12	3,500	28,377	3,500
	2,703,397		5,778	35,150	5,307
Total	2,706,897		€ 5,984	€ 35,370	€ 5,527

March 31, 2006

Classification	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	1.64	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
	10,670,110		€ 11,891	€ 39,992	€ 10,645

(*) 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 investment securities of € 5,052 million for the year ended March 31, 2005. The amounts collected are excluded from the acquisition cost as of March 31, 2007.

Notes to Financial Statements

FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

(4) Assets of private beneficiary certificates included in trading securities as of March 31, 2007 and 2006 were as follows

(Unit: Won in millions):

Classification	2007	2006
Stocks	€ 9,820	€ 17,076
Government and public bonds	10,875	19,171
Finance bonds	10,656	3,400
Call loans	4,701	9,931
Deposit due from banks	291	127
Other assets	3,286	-
Assets	39,629	49,705
Liabilities	1,486	-
Net assets	€ 38,143	€ 49,705

(5) The portfolio of securities, by type, as of March 31, 2007 and 2006 consisted of the following (Unit: Won in millions):

Classification	2007		2006	
	Securities in local currency	Percentage (%)	Securities in local currency	Percentage (%)
Trading securities:				
Stocks	€ 3,083	0.09	€ 3,988	0.09
Mutual fund	38,143	1.15	49,705	1.10
Fixed rate bonds	913,697	27.55	882,338	19.60
Beneficiary certificates	1,276,115	38.48	2,368,059	52.60
Others	10,874	0.33	-	-
	2,241,912	67.60	3,304,090	73.39
Available-for-sale securities:				
Equity securities	5,527	0.17	10,645	0.24
Fixed rate bonds	1,043,945	31.48	1,137,519	25.26
Other	5,119	0.15	-	-
	1,054,591	31.80	1,148,164	25.50
Held-to-maturity securities:				
Fixed rate bonds	20,000	0.60	50,000	1.11
	€ 3,316,503	100.00	€ 4,502,254	100.00

(6) Changes in the gain (loss) on valuation of available-for-sale securities, reflected in capital adjustments for the years ended March 31, 2007 and 2006 were as follows (Unit: Won in millions):

March 31, 2007

Classification	Beginning	Increase	Decrease	Disposal	Ending
Available-for-sale securities:					
Equity securities	€ 3,570	€ 23	€ -	€ (3,287)	€ 306
Bonds	2,632	181	-	(1,148)	1,665
Others	-	119	-	-	119
	6,202	323	-	(4,435)	2,090
Deferred income tax	(1,706)	(89)	-	1,220	(575)
	€ 4,496	€ 234	€ -	€ (3,215)	€ 1,515

FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

March 31, 2006

Classification	Beginning	Increase	Decrease	Disposal	Ending
Available-for-sale securities:					
Equity securities	€ 817	€ 2,753	€ -	€ -	€ 3,570
Bonds	3,193	2,149	(3,425)	715	2,632
	4,010	4,902	(3,425)	715	6,202
Deferred income tax	(1,103)	(1,348)	942	(197)	(1,706)
	€ 2,907	€ 3,554	€ (2,483)	€ 518	€ 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, 2007 and 2006 was as follows (Unit: Won in millions):

March 31, 2007

Classification	Government and public bonds	Finance bonds	Corporate bonds	Total
Available-for-sale securities:				
Less than 3 months	€ -	€ -	€ 10,004	€ 10,004
Less than 6 months	-	-	9,990	9,990
Less than 1 year	83,789	240,107	40,063	363,959
Less than 2 years	99,869	230,568	90,342	420,779
Less than 3 years	-	20,006	49,694	69,700
Less than 4 years	-	-	-	-
Less than 5 years	-	100,814	68,699	169,513
	183,658	591,495	268,792	1,043,945
Held-to-maturity securities:				
Less than 6 months	-	20,000	-	20,000
	€ 183,658	€ 611,495	€ 268,792	€ 1,063,945

March 31, 2006

Classification	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
Less than 5 years	-	-	-	-
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

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FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

(8) The loss on impairment and reversal of loss on impairment loss of available-for-sale securities recognized for the years ended March 31, 2007 and 2006 was as follows (Unit: Won in millions):

Accounts	2007		2006	
	Impairment	Reversal	Impairment	Reversal
Available-for-sale securities:				
Bonds in local currency	€ -	€ -	€ 11,297	€ -

(9) Securities provided as collateral as of March 31, 2007 and 2006 were as follows (Unit: Won in millions):

Provided to	Face value		Provided for
	2007	2006	
Tong Yang Investment Bank	€ -	€ 156,000	Securities sold under repurchase agreements
Others	115,000	90,000	Securities sold under repurchase agreements
	€ 115,000	€ 246,000	

5. LOANS:

(1) Loans (including long-term loans) as of March 31, 2007 and 2006 are summarized as follows (Unit: Won in millions):

Accounts	2007	2006
Call loans	€ 250,000	€ 170,000
Margin financing loans	179,221	79,713
Working capital loans	-	30,000
Loans to support secured financing	280,544	227,253
Loans to support uncollected financing	103,521	115,635
Loans for employees' stock acquisition	443,146	242,757
Loans secured by employees' stocks	5,122	2,258
General secured loans	539,845	561,304
Loans secured by subscription deposit for forfeited shares	31	41
Notes discounted	42,200	122,050
Securities purchased under resale agreements	190,000	1,085,709
	2,033,630	2,636,720
Less: allowance for possible loan losses	(13,570)	(11,728)
	€ 2,020,060	€ 2,624,992

FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

(2) The loans to financial institutions as of March 31, 2007 and 2006 were as follows (Unit: Won in millions):

Classification	2007	2006
Kiwoom.com Securities Co., Ltd.	€ 389,109	€ 221,309
SK Securities Co., Ltd.	110,306	152,640
Tong Yang Investment Bank	434	133,003
Hanhwa Securities Co., Ltd.	-	55,700
CJ Investment & Securities Co., Ltd.	7,618	50,000
Meritz Securities Co., Ltd.	-	50,000
Daewoo Securities Co., Ltd.	60,000	50,000
Kookmin Bank	150,000	50,000
Mirae Asset Capital Co., Ltd.	20,000	-
Hana Securities Co., Ltd.	-	30,000
Korea Investment & Securities Co., Ltd.	-	28,300
Seoul Securities Co., Ltd.	8,622	26,564
Etrade Securities Co., Ltd.	10,000	20,000
Good Morning Shinhan Securities Co., Ltd.	-	5,250
Kyobo Securities Co., Ltd.	-	10,100
Samsung Securities Co., Ltd.	18,700	-
Shinheung Securities Co., Ltd.	30,000	18,000
Dongbu Securities Co., Ltd.	36,947	18,154
Hyundai Securities Co., Ltd.	-	10,000
SC First Bank	100,000	-
Dongbu Capital Corp	3,000	-
Dongyang Capital Co., Ltd.	6,000	-
Others	750	3,632
	€ 951,486	€ 932,652

(3) The average balance of the interest bearing loans, and the related interest revenue as of and for the years ended March 31, 2007 and 2006 were as follows (Unit: Won in millions):

Accounts	2007		2006	
	Average balance	Interest revenue	Average balance	Interest revenue
Interest revenue:				
Call loan	€ 197,259	€ 8,913	€ 30,292	€ 1,258
Loans	1,395,069	82,243	818,676	52,179
Notes discounted	670,936	20,402	957,131	28,871
Securities purchased under resale agreements	741,095	27,078	381,859	12,741
	€ 3,004,359	€ 138,636	€ 2,187,958	€ 95,049

Notes to Financial Statements

FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

6. ALLOWANCE FOR POSSIBLE LOAN LOSSES:

(1) The allowance for possible loan losses as of March 31, 2007 are summarized as follows (Unit: Won in millions):

Classification	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Margin financing loans	£ 1,255	£ -	£ -	£ -	£ -	£ 1,255
Working capital loans	-	-	-	-	-	-
Loans to support						
secured financing	1,964	-	-	-	-	1,964
Loans to support						
uncollected financing	725	-	-	-	-	725
Loans for employees'						
stock acquisition	2,959	1,441	3	1	-	4,404
Loans secured by						
employees' stocks	36	-	-	-	-	36
General secured loans	4,869	20	2	-	-	4,891
Notes discounted	295	-	-	-	-	295
	£ 12,103	£ 1,461	£ 5	£ 1	£ -	£ 13,570

(2) The allowance for possible loan losses as of March 31, 2006 was summarized as follows (Unit: Won in millions):

Classification	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

(3) The changes in allowance for possible loan losses for the years ended March 31, 2007 and 2006 were as follows

(Unit: Won in millions):

Classification	2007	2006
Beginning balance	£ 11,728	£ 22,775
Provision for (Reversal of) allowance for possible loan losses	1,829	(11,047)
Recovery of bad debts	13	-
Ending balance	£ 13,570	£ 11,728

FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

7. PROPERTY AND EQUIPMENT:

(1) Property and equipment as of March 31, 2007 and 2006 were as follows (Unit: Won in millions):

Classification	Acquisition cost		Accumulated depreciation [slm1]	
	2007	2006	2007	2006
Land	€ 15,299	€ 15,369	€ -	€ -
Buildings	12,238	12,099	2,208	1,954
Structures	195	195	81	73
Office equipment	19,351	17,354	15,824	13,677
Vehicles	266	266	197	119
	€ 47,349	€ 45,283	€ 18,310	€ 15,823

(2) The changes in book value of property and equipment for the year ended March 31, 2007 consisted of the following

(Unit: Won in millions):

Classification	Beginning	Acquisition	Disposal	Replacement	Depreciation	Ending
Land	€ 15,369	€ -	€ 70	€ -	€ -	€ 15,299
Buildings	10,145	302	135	-	282	10,030
Structures	122	-	-	-	8	114
Office equipment	3,677	2,722	31	-	2,841	3,527
Vehicles	147	-	-	-	78	69
	€ 29,460	€ 3,024	€ 236	€ -	€ 3,209	€ 29,039

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

(Unit: Won in millions):

Classification	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

(3) The published value of land as March 31, 2007 and 2006 was as follows (Unit: Won in millions):

Classification	Book value		Published value	
	2007	2006	2007	2006
Land	€ 15,299	€ 15,369	€ 18,068	€ 14,272

(4) Property and equipment insured as of March 31, 2007 were as follows (Unit: Won in millions):

Type	Insured assets	Insured amount	Insurance company
Fire Insurance	Buildings	€ 12,920	Samsung Fire & Marine Insurance Co., Ltd.
Comprehensive insurance	Office equipment	3,187	Samsung Fire & Marine Insurance Co., Ltd.
Comprehensive insurance	Office equipment	2,265	Meritz Fire & Marine Insurance Co., Ltd.
Liability insurance	Others	380	Samsung Fire & Marine Insurance Co., Ltd.
		€ 18,752	

Notes to Financial Statements

FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

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
Comprehensive insurance	Office equipment	3,260	Samsung Fire & Marine Insurance Co., Ltd.
Liability insurance	Others	360	Samsung Fire & Marine Insurance Co., Ltd.
		€ 16,120	

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

Other current assets as of March 31, 2007 and 2006 were as follows (Unit: Won in millions):

Accounts	2007	2006
Accrued income	€ 35,741	€ 33,622
Prepaid expenses	10,994	9,226
Prepaid income tax	13,808	-
Current portion of deferred income tax assets	-	2,878
Others	12,430	10,509
	€ 72,973	€ 56,235

8. OTHER CURRENT ASSETS:

(1) Other non-current assets as of March 31, 2007 and 2006 were as follows (Unit: Won in millions):

Accounts	2007	2006
Guarantee deposits	€ 6,105	€ 6,334
Loans to employees	3,539	4,164
Deferred income tax assets (see Note 19)	2,769	7,018
Intangible assets	375	-
Others	3,116	1,768
	€ 15,904	€ 19,284

9. OTHER NON-CURRENT ASSETS:

(2) Intangible assets as of March 31, 2007 consisted of (Unit: Won in millions):

March 31, 2007

Classification	Acquisition cost	Accumulated amortization	Book value
Software	€ 400	€ (25)	€ 375

(3) The changes in intangible assets for year ended March 31, 2007 were as follows (Unit: Won in millions):

Classification	Beginning	Acquisition	Amortization	Ending
Software	€ -	€ 400	€ (25)	€ 375

FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

10. DEPOSITS RECEIVED:

Deposits received as of March 31, 2007 and 2006 consisted of the following (Unit: Won in millions):

Accounts	2007	2006
Short-term deposits in Won:		
Customers' deposits received	€ 3,345,734	€ 3,012,910
Subscription guaranty money deposits	39,200	444,858
Securities market stabilization fund deposits	13,553	27,971
Subscription deposits for IPO shares	1,063	11,304
Subscription deposits for forfeited shares	82,025	112,170
Others	812,564	356,571
	4,294,139	3,965,784
Short-term deposits in foreign currencies:		
Customers' deposits received	81,378	-
	4,375,517	3,965,784
Long-term deposits in Won :		
Others	933	1,227
	€ 4,376,450	€ 3,967,011

11. NOTES ISSUED:

Notes issued as of March 31, 2007 and 2006 consisted of the following (Unit: Won in millions):

Resources	2007	2006
National treasury	€ 213,000	€ 2,146,200
Money Market Funds	699,610	854,592
General	908	1,190
	€ 913,518	€ 3,001,982

12. BORROWINGS:

(1) Short-term borrowings as of March 31, 2007 and 2006 consisted of the following (Unit: Won in millions):

Accounts	Lenders	Annual interest rate (%)	2007	2006
Borrowings from banking institutions	Woori Bank and others	4.50~4.90	€ 500,000	€ 200,000
Other borrowings	Samsung Securities Co., Ltd.	4.91~5.09	461,200	-
			961,200	200,000

(2) Securities sold under repurchase agreements and call money as of March 31, 2007 and 2006 consisted of the following

(Unit: Won in millions):

Accounts	Financial Institution	Annual interest rate (%)	2007	2006
Call money	SH Asset Management			
	Co., Ltd. and others	4.50~4.57	590,700	804,300
Securities sold under repurchase agreements	Hanjin Shipping Co., Ltd.	4.70~4.73	€ 53,127	€ 234,502
	and others		€ 643,827	€ 1,038,802

Notes to Financial Statements

FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

13. BONDS ISSUED:

Details of bonds issued as of March 31, 2007 and 2006 are summarized as follows (Unit: Won in millions):

Classification	Issuance date	Maturities	Annual interest rate (%)	2007	2006
1998-1	Oct. 31, 1998	Oct. 31, 2003	6.50	€ 115,710	€ 179,690
2001-2	Jul. 02, 2001	Jul. 02, 2006	0.87	-	30,000
2001-3	Sept.12, 2001	Sept.12, 2006	0.04	-	105,200
2001-4	Sept.28, 2001	Sept.28, 2006	0.04	-	30,000
2001-5	Oct. 31, 2001	Oct. 31, 2006	0.21	-	105,200
2001-6	Dec. 31, 2001	Dec. 31, 2006	0.71	-	105,100
2002-2	Nov. 14, 2002	Nov. 14, 2007	0.01	45,000	45,000
2003-1	Aug. 28, 2003	Aug. 28, 2008	3.42	10,000	10,000
2005-1	Apr. 06, 2005	Apr. 06, 2008	4.23	100,000	100,000
2005-2	Jul. 21, 2005	Jul. 21, 2006	3.88	-	100,000
2005-3	Nov.08, 2005	Nov.08, 2006	4.75	-	30,000
2006-1	Feb. 01, 2006	Feb. 01, 2007	4.76	-	150,000
2006-2	Mar.01, 2006	Mar. 17, 2007	4.72	-	60,000
2006-3	Jun. 15, 2006	Jun. 15, 2009	5.08	110,000	-
2006-4	Jul. 27, 2006	Jul. 27, 2009	5.03	100,000	-
2007-1	Feb. 21, 2007	Feb. 12, 2010	5.06	20,000	-
2007-2	Feb. 23, 2007	Feb. 23, 2010	5.07	40,000	-
2007-3	Mar. 14, 2007	Mar. 14, 2010	5.06	50,000	-
2007-4	Mar. 29, 2007	Mar. 29, 2008	4.99	120,000	-
				710,710	1,050,190
Less: current portion				280,710	895,190
				430,000	155,000
Add: premium on bonds issued				-	127
Less: discount on bonds issued				(317)	(78)
				€ 429,683	€ 155,049
Current portion of bonds issued				€ 280,710	€ 895,190
Add: premium on bonds issued				49	-
Less: discount on bonds issued				(15)	(118)
				€ 280,744	€ 895,072

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, 2007, since the creditors didn't exercise the right of redemption, these were accounted for as current portion of bonds issued.

FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

14. OTHER CURRENT LIABILITIES:

Other current liabilities as of March 31, 2007 and 2006 are summarized as follows (Unit: Won in millions):

Accounts	2007	2006
Accrued expenses	€ 32,580	€ 30,513
Unearned income	8,273	53,041
Income tax payable	514	731
Dividends payable	393	383
Accrued interest on bonds	42,823	66,501
Borrowings from trust accounts	52,133	52,584
Current portion of deferred income tax liabilities (see Note 19)	10,722	-
Others	3,053	3,619
	€ 150,491	€ 207,372

15. ACCRUED RETIREMENT AND SEVERANCE BENEFITS:

Details of changes in the accrued retirement and severance benefits for the years ended March 31, 2007 and 2006 are summarized as follows (Unit: Won in millions):

Classification	2007	2006
Balance at beginning of year	€ 8,334	€ 6,645
Provision for the year	1,293	2,698
Payments during the year	(1,021)	(1,009)
Balance at end of year	8,606	8,334
Less: deposits for severance benefit insurance	(5,116)	(4,656)
Less: national pension fund	(98)	(110)
	€ 3,392	€ 3,568

16. CONTINGENCIES AND COMMITMENTS:

(1) The Company made a credit line agreement with several financial institutions, and the details are as follows

(Unit: Won in millions):

Financial institutions	Credit line	Interest rate (%)	Period
General purpose loans:			
Kookmin Bank	€ 100,000	MOR + 0.56	2007.03.22~2008.03.21
Korea Exchange Bank	20,000	Estimated market interest rate by banks + 0.70	2007.01.26~2008.01.26
Woori Bank	100,000	Fixed interest rate loans+ 0.60	2006.06.01~2007.06.01
SC First Bank	100,000	Rate of return of 3 months CD + 1.20	2007.01.26~2008.01.26
Shinhan Bank	200,000	Internal interest rate + 0.98	2007.03.22~2008.03.21
Citibank Korea	50,000	CD + 1.00	2007.03.22~2008.03.21
	570,000		
Overdraft:			
Kwangju Bank	50,000	0.7	2006.08.29~2007.08.29
Kookmin Bank	200,000	"	2007.03.22~2008.03.21
Industrial Bank of Korea	300,000	"	2007.01.26~2008.01.25
National Agricultural Cooperative	200,000	"	2006.11.17~2007.11.19
Pusan Bank	200,000	"	2006.12.01~2007.12.01
Shinhan Bank	600,000	"	2007.03.22~2008.03.21

Notes to Financial Statements

FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

Financial institutions	Credit line	Interest rate (%)	Period
Woori Bank	250,000	0.7	2006.06.01~2007.06.01
Korea Exchange Bank	300,000	"	2007.01.26~2008.01.26
SC First Bank	300,000	"	2007.01.26~2008.01.26
Hana Bank	200,000	"	2007.03.22~2008.03.21
Citibank Korea	€ 300,000	"	2007.03.22~2008.03.21
	<u>2,900,000</u>		
Short-term borrowings:			
Korea Exchange Bank	100,000	CD + 10bp	2007.03.09~2008.01.26
Woori Bank	500,000	Discussion with the bank considering market interest	2007.03.17~2008.03.17
Shinhan Bank	300,000	Rate of return of 3 years treasury bill + 0.15	2006.08.28~2009.08.28
	<u>900,000</u>		
	€ 4,370,000		

(2) Pledged notes as of March 31, 2007 consist of (Unit: Won in millions):

Classification	Amount	Counter-parties	Purpose
Note	€ 100,000	Woori Bank	Collateral of unsecured loans
100 billion	100,000	Woori Bank	"
100 billion	100,000	Korea Exchange Bank	"
100 billion	100,000	Korea Exchange Bank	"
100 billion	100,000	Shinhan Bank	"
	<u>€ 500,000</u>		

(3) Pending lawsuits

Changes in reserve for contingency liabilities for the year ended March 31, 2007 are as follow (Unit: Won in millions):

Classification	Beginning	Increase	Decrease	As of March 31, 2007
Reserve for contingency liabilities	€ 7,281	€ 940	€ -	€ 8,221

The Company is subject to lawsuit litigation 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. The Company partially won the case at the second trial in August 2005. But the Supreme Court sent back the case to Seoul high court of justice. The estimated losses of € 8,221 million as a result of the lawsuit are reflected in reserve for contingencies. In addition, the Company is faced with another lawsuit claiming € 121 million related to transfer of stocks, which is in progress.

(4) Contingency liability in connection with Securities Borrowing and Lending (SBL) brokerage

The Company has been engaged in Securities Borrowing and Lending (SBL) brokerage from September 2000, upon receiving approval from the Ministry of Finance and Economy pursuant to Article 147, Section 1, Paragraph 1, No 10 of the Securities and Exchange Act. The lender retains all economic rights to the securities such as bonus/rights issues, dividends and interest, except for voting rights. The balance of the SBL as of March 31, 2007 amounts to € 640,721 million, and the Company is obligated to discharge borrowers' liability against lenders when borrowers do not return securities until maturity date or termination due date. Against such contingency, the Company is provided collateral amounting to € 665,289 million (cash amounting to € 203,391 million and bonds amounting to € 461,898 million) from the borrowers.

FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

(5) Derivatives

The notional amounts outstanding for derivative contracts as of March 31, 2007 were as follows (Unit: Won in millions):

Classification	Outstanding contract amount			Total	Loss on valuation (I/S)		Accumulated gain (loss) on valuation (B/S)
	Total	Trading purpose	Hedging purpose		Trading purpose	Hedging purpose	
Futures:							
Government bond	€ 600	€ 600	€ -	€ (63)	€ (63)	€ -	€ -

17. SHAREHOLDERS' EQUITY:

(1) Common stock

As of March 31, 2007, 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) Capital surplus

The Company revaluated its tangible assets on July 1, 2000, and reserve for revaluation as of March 31, 2007 is as follows (Unit: Won in millions):

Date of revaluation	Reserve for revaluation	Effect on deferred income tax	Ending balance of reserve for revaluation
July 1, 2000	€ 21,764	€ 2	€ 21,762

(*) Over-depreciation of building amounting to € 5,018 thousand is accumulated as other capital surplus

(3) Retained earnings (Unit: Won in millions):

Classification	2007	2006
Legal reserve	€ 49,900	€ 43,900
Reserve for dividends	96,400	69,500
Other reserve	38,870	38,870
Retained earnings before appropriations	45,738	59,656
	€ 230,908	€ 211,926

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, when the Company appropriates for dividend. 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.

(4) Capital adjustments

As of March 31, 2007, details of capital adjustments are as follows:

1) Treasury stock

The Company obtained 1,310,152 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 € 222 million, gain on valuation of debt securities of € 1,207 million and gain on valuation of others of € 86 million (see Note 4) as of March 31, 2007.

Notes to Financial Statements

FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

18. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:

Selling, general and administrative expenses for the years ended March 31, 2007 and 2006 are summarized as follows

(Unit: Won in millions):

Accounts	2007	2006
Salaries	£ 16,952	£ 16,788
Provision for retirement and severance benefits	1,293	2,698
Other employee benefits (see Note 22)	2,501	2,739
Taxes and dues	1,843	2,015
Depreciation	3,209	3,369
Miscellaneous	11,363	12,265
	£ 37,161	£ 39,874

19. 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, 2007 and 2006 are summarized as follows (Unit: Won in millions):

Classification	2007	2006
Income before income tax	£ 63,176	£ 82,777
Taxable and non-deductible items:		
Temporary difference	71,218	119,061
Permanent difference	1,104	7,576
	72,322	126,637
Deductible and non-taxable items:		
Temporary difference	(110,080)	(172,630)
Permanent difference	(4,830)	(148)
	(114,910)	(172,778)
Taxable income	£ 20,588	£ 36,636

FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

(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, 2007 were as follows (Unit: Won in millions):

Classification	Beginning balance	Deduction	Addition	Ending balance	Current portion	Non-current portion
Unearned revenues	€ 27,306	€ -	€ -	€ 27,306	€ 27,306	€ -
Accrued interest of securities	(9,534)	(9,534)	(7,962)	(7,962)	(7,962)	
Accrued interest of bonds	(5,779)	(5,779)	(6,621)	(6,621)	(6,621)	
Amortization of bonds	465	465	(2,011)	(2,011)	-	
Loss on valuation of trading securities	6,606	6,606	-	-	-	
Gain on valuation of trading securities	(42,731)	(42,731)	(61,025)	(61,025)	(61,025)	
Accrued interest of certificate of deposit	(10,160)	(10,160)	(9,788)	(9,788)	(9,788)	
Impairment loss on available-for-sale securities	16,349	14,076	-	2,273	-	
Allowance for severance benefits	5,087	518	928	5,497	-	
Deposits for severance benefits	(4,656)	(518)	(979)	(5,117)	-	
Depreciation	344	16	-	328	-	
Special case of depreciation	(941)	(524)	-	(417)	-	
Depreciation for art painting	6	-	-	6	-	
Bad debt expenses	1,775	13	-	1,762	1,762	
Stock dividend	16,252	-	-	16,252	16,252	
Deemed dividend	7	-	-	7	-	
Extraordinary losses	1,023	-	-	1,023	1,023	
Provision of reduction entry	(25)	(10)	-	(15)	-	
Reserve for contingencies	7,281	-	941	8,222	-	
Treasury stock	1,267	-	30	1,297	-	
Loss on valuation of futures	-	-	63	63	63	
	€ 9,942	€ (47,562)	€ (86,424)	€ (28,920)	(38,990)	10,070
Statutory tax rate					27.5%	27.5%
Deferred income tax assets (liabilities)					€ (10,722)	€ 2,769

The difference between the auditor's report and the tax report of last period, which is € 337 million, and the amount of change due to appeal to tax tribunal, which is € 25,706 million, are reflected on the beginning balance.

The Company appealed the tax assessed to National Tax Tribunal regarding profit generated from the contribution obliged from the majority shareholder, which was accepted.[slm2]

Notes to Financial Statements

FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

(3) Income tax expense for the years ended March 31, 2007 and 2006 is summarized as follows (Unit: Won in millions):

Classification	2007	2006
Income tax currently payable	€ 5,607	€ 10,139
Changes in deferred tax liabilities	10,736	14,732
Retained earnings and other capital surplus adjustments	1,131	(1,706)
Income tax expense	€ 17,474	€ 23,165

The change in deferred tax assets by appeal to tax tribunal, which is € 7,113 million, has been excluded from changes in deferred tax assets.

(4) The statutory income tax rates applicable to the Company, including resident tax surcharges, are 27.5 percent for the years ended March 31, 2007 and 2006, respectively. However, due to tax adjustments, the effective tax rates for the years ended March 31, 2007 and 2006 are 27.66 percent and 27.98 percent, respectively.

20. EARNINGS PER SHARE:

Earnings per share for the years ended March 31, 2007 and 2006 are calculated as follows (Unit: In Won):

Classification	2007	2006
Net income	€ 45,701,939,777	€ 59,612,146,658
Ordinary income net of tax effect	45,701,939,777	59,612,146,658
Weighted-average number of shares of common stock	66,799,615	66,857,762
Net income per share	€ 684	€ 892
Ordinary income per share	€ 684	€ 892

21. COMPUTATION OF ADDED VALUE:

The accounts for computation of value added are summarized as follows (Unit: Won in millions):

Classification	2007	2006
Salaries and wages	€ 16,952	€ 16,788
Severance and retirement benefits	1,293	2,698
Other employee benefits	2,501	2,739
Depreciation	3,209	3,369
Taxes and dues	1,843	2,015
Amortization expenses - intangible assets	25	-
	€ 25,823	€ 27,609

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, 2007 are estimated at € 2,501 million (see Note 18).

In addition, the Company donated € 1,083 million for the year ended March 31, 2007.

FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

23. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES:

Significant assets and liabilities denominated in foreign currencies as of March 31, 2007 were as follows

(Unit: Won in millions, US\$ in thousands, JPY in millions, EUR in thousands):

Classification	KRW equivalent	Foreign currencies		
		US\$	JPY	EUR
Assets:				
Cash and due from bank	€ 81,563	US\$ 67,021	¥ 2,204	€ 780
Liabilities :				
Short-term deposits received	€ 81,378	US\$ 66,837	¥ 2,203	€ 778

24. STATEMENT OF CASH FLOWS:

Significant transactions not involving cash inflows and outflows for the years ended March 31, 2007 and 2006 were as follows

(Unit: Won in millions):

Classification	2007	2006
Transfer to current portion of bonds payable	€ 45,000	€ 375,500
Transfer of long-term investment securities to short-term investment securities	383,196	472,927
Gain on valuation of long-term investment securities	(4,111)	2,191
Deferred income tax assets directly reflected in capital account	1,131	(1,706)

Internal Accounting Control System Review Report

English Translation of a Report Originally Issued in Korean

To the Chief Executive Officer of Korea Securities Finance Corporation:

We have reviewed the report of management's assessment of internal accounting control system ("IACS") of Korea Securities Finance Corporation (the "Company") as of March 31, 2007. In accordance with Article 2-2 of the Act on External Audit for Stock Companies (the "External Audit Law") of the Republic of Korea, the Company's management is responsible for assessing the design and operations of its IACS. Our responsibility is to review management's assessment and issue a report based on our review.

We conducted our review in accordance with Article 2-3 of the External Audit Law. Our review included inquiries of management and employees, inspection of related documents and checking of the operations of the Company's IACS. We did not perform an audit of the Company's IACS and accordingly, we do not express an audit opinion.

As this report is based on Interim Guidelines on Auditors' Review and Report on Management's Assessment of IACS, issued by the Korean Audit Standards Committee on March 29, 2005, it applies only from that date until the date the Final Standard for Management's Assessment of IACS and Final Standard for Auditors' Review and Report on Management Assessment of IACS becomes effective. A review performed based on the final standards may have different results and accordingly, the content of our report may be different.

Based on our review, no material weakness in the design or operations of the Company's IACS under Article 2-2 of the External Audit Law as of March 31, 2007 has come to our attention.

This report applies to the Company's IACS in existence as of March 31, 2007. We did not review the Company's IACS subsequent to March 31, 2007. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

Deloitte Anjin LLC

April 20, 2007

Independent Auditors' Report

English Translation of a Report Originally Issued in Korean



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

We have audited the accompanying statements of assets and liabilities of the trust accounts of Korea Securities Finance Corporation (the "Company") as of March 31, 2007 and 2006, and the related statements of operations for the years then ended, all expressed in Korean Won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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, 2007 and 2006 and the results of its trust operations for the years 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).

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.

Deloitte Anjin LLC

April 12, 2007

Statements of Assets and Liabilities(Trust Account)

AS OF MARCH 31, 2007 AND 2006

Korean won (In millions)	2007	2006
ASSETS		
Cash and due from bank (Note 3)	€ 5,194,307	€ 5,891,720
Securities (Note 4)	4,783,081	5,364,260
Loans (Note 5)	79,926	70,836
Call loans	30,700	209,600
Securities purchased under resale agreements	80,000	340,000
Other assets (Note 6)	122,241	80,173
Total Assets	€ 10,290,255	€ 11,956,589
LIABILITIES		
Trust deposits	€ 10,230,813	€ 11,890,972
Other liabilities (Notes 7 and 8)	59,442	65,617
Total Liabilities	€ 10,290,255	€ 11,956,589

See accompanying notes to financial statements.

Statements of Operations(Trust Account)

FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

Korean won (In millions)	2007	2006
REVENUE		
Interest income:		
Interest on due from banks	€ 268,930	€ 221,306
Interest on securities	131,318	124,567
Interest on loans	3,044	4,482
Interest on call loans	3,919	8,804
Interest on securities purchased under resale agreements	8,703	28,234
	<u>415,914</u>	<u>387,393</u>
Securities related gain:		
Gain on trading of securities	38,425	36,576
Gain on valuation of securities	38,399	38,245
	<u>76,824</u>	<u>74,821</u>
	€ 492,738	€ 462,214
EXPENSES		
Dividends of trust profits to beneficiaries (Note 9)	€ 485,145	€ 454,953
Trust fees (Note 8)	5,644	6,536
Other	193	273
	<u>490,982</u>	<u>461,762</u>
Securities related loss:		
Loss on trading of securities	851	452
Loss on valuation of securities	905	-
	<u>1,756</u>	<u>452</u>
	€ 492,738	€ 462,214

See accompanying notes to financial statements.

Notes to Financial Statements(Trust Account)

FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

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 the 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.

FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

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 computed 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, 2007 and 2006 consisted of (Unit: in millions of Won):

	2007	2006
Due from banks in local currency	€ 5,194,307	€ 5,891,720

4. SECURITIES:

Securities as of March 31, 2007 and 2006 are summarized as follows (Unit: in millions of Won):

	2007	2006
Finance debentures	€ 19,052	€ 48,452
Beneficiary certificates	1,693,787	2,183,112
Negotiable certificate of deposits	3,070,242	3,132,696
	€ 4,783,081	€ 5,364,260

5. LOANS:

Loans as of March 31, 2007 and 2006 are summarized as follows (Unit: in millions of Won):

	2007	2006
Working capital loans	€ -	€ 40,000
Margin financing loans	-	1,085
Bond margin financing loans	79,926	29,751
	€ 79,926	€ 70,836

6. OTHER ASSETS:

Other assets as of March 31, 2007 and 2006 are summarized as follows (Unit: in millions of Won):

	2007	2006
Accrued income	€ 121,987	€ 78,102
Accounts receivable	254	984
Prepaid expenses	-	1,087
	€ 122,241	€ 80,173

Notes to Financial Statements(Trust Account)

FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

7. OTHER LIABILITIES:

Other liabilities as of March 31, 2007 and 2006 are summarized as follows (Unit: in millions of Won):

	2007	2006
Accounts payable	€ 254	€ 984
Trust fees payable (see Note 8)	449	559
Trust dividends payable	58,739	64,074
	€ 59,442	€ 65,617

8. TRANSACTIONS WITH RELATED COMPANY:

As of and for the years ended March 31, 2007 and 2006, the Trust has trust fees payable of € 449 million and € 559 million, and incurred trust fees of € 5,644 million and € 6,536 million from transactions with the Company.

9. PERFORMANCE YIELD RATES:

Performance yield rates for the years ended March 31, 2007 and 2006 are calculated as follows (Unit: in millions of Won):

	2007		
	Dividends of trust profits to beneficiaries	Accumulated amount in Trust	Yield rate
Apr. 2006	€ 45,156	€ 398,092,191	4.14%
May. 2006	46,039	385,931,450	4.35%
Jun. 2006	40,757	346,945,715	4.29%
Jul. 2006	40,741	332,625,947	4.47%
Aug. 2006	40,083	317,238,063	4.61%
Sept. 2006	40,794	311,208,275	4.78%
Oct. 2006	42,099	330,245,577	4.65%
Nov. 2006	37,863	306,776,053	4.50%
Dec. 2006	38,135	310,187,363	4.49%
Jan. 2007	37,329	291,256,067	4.68%
Feb. 2007	35,441	268,030,042	4.83%
Mar. 2007	40,708	310,767,510	4.78%
	€ 485,145	€ 3,909,304,253	4.53%

FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

	2006		
	Dividends of trust profits to beneficiaries	Accumulated amount in Trust	Yield rate
Apr. 2005	£ 32,477	£ 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	44,496	387,105,757	4.20%
	£ 454,953	£ 4,526,776,573	3.67%

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, 2007 and 2006 are as follows (Unit: in millions of Won):

Assets and Liabilities

Accounts	2007		
	Trust for Spot Trading Customers' Deposit	Trust for Futures Trading Customers' Deposit	Total
Assets:			
Cash and due from banks	£ 4,155,909	£ 1,038,398	£ 5,194,307
Securities	3,493,880	1,289,201	4,783,081
Loans	79,926	-	79,926
Call loans	20,400	10,300	30,700
Securities purchased under resale agreements	80,000	-	80,000
Other assets	93,432	28,809	122,241
	£ 7,923,547	£ 2,366,708	£ 10,290,255
Liabilities:			
Trust deposits	£ 7,877,723	£ 2,353,090	£ 10,230,813
Other liabilities	45,824	13,618	59,442
	£ 7,923,547	£ 2,366,708	£ 10,290,255

Notes to Financial Statements(Trust Account)

FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

Accounts	2006		Total
	Trust for Spot Trading Customers' Deposit	Trust for Futures Trading Customers' Deposit	
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

Operations

Accounts	2007		Total
	Trust for Spot Trading Customers' Deposit	Trust for Futures Trading Customers' Deposit	
Revenue:			
Interest on bank deposits	£ 216,394	£ 52,536	£ 268,930
Interest on securities	104,242	27,076	131,318
Interest on loans	3,044	-	3,044
Interest on call loans	3,470	449	3,919
Interest in securities purchased under resale agreements	7,052	1,651	8,703
Securities related gain	60,609	16,215	76,824
	£ 394,811	£ 97,927	£ 492,738
Expenses :			
Dividends of trust profits to beneficiaries	£ 388,735	£ 96,410	£ 485,145
Securities related loss	1,388	368	1,756
Trust fees	4,533	1,111	5,644
Other	155	38	193
	£ 394,811	£ 97,927	£ 492,738

FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

Accounts			2006
	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

Corporate History

1950s	1960s	1970s
Oct. 11, 1955	Mar. 31, 1962	Dec. 1, 1971
Established as Korea United Securities Finance Corporation with capital stock of KRW 7.5 million	Increased capital to KRW 30.0 million	Began extending settlement financing loans to securities firms following launch of the "margin transactions" system
Jan. 24, 1956	Jul. 5, 1962	Nov. 2, 1973
Listed on the Seoul Stock Exchange	Company name changed to Korea Securities Finance Corporation (KSFC)	Launched special securities secured loans for the stabilization of stock prices
Jan. 25, 1956	Jul. 25, 1962	Mar. 2, 1974
Increased capital to KRW 10.5 million	Increased capital to KRW 0.5 billion	Launched margin financing loans by combining settlement financing loans with special securities secured loans
	Jan. 4, 1963	Jul. 15, 1974
	Entrusted to execute money collections and payments for the Korean Stock Exchange	Launched securities underwriting loans
	Jan. 31, 1969	Nov. 15, 1974
	Discontinued money collections and payments services for the stock exchange	De-listed from the Korea Stock Exchange
	Feb. 1, 1969	May 13, 1975
	Began securities lending and borrowing business	Increased capital to KRW 2.0 billion
	Feb. 28, 1969	May 13, 1975
	Increased capital to KRW 1.0 billion (government stake 50%)	Introduced USD 5.0 million loans from International Finance Corporation (IFC)
	May 15, 1969	Jan. 10, 1977
	Opened Busan branch	Took over Employee Stock Ownership Plan (ESOP) administration and securities secured loans from the Korea Investment Corporation following its dissolution
		Mar. 15, 1977
		Entered into new businesses (e.g., bond trading, deposit-taking, and issuance of short-term notes) following revision of the Securities and Exchange Act
		May 17, 1977
		Increased capital to KRW 4.0 billion
		Apr. 1, 1978
		Began managing customers' deposits with securities firms, the KSE, and other securities-related institutions for greater investor protection



1980s

- Mar. 15, 1980 Opened Myungdong branch
- Apr. 15, 1980 Increased capital to KRW 8.0 billion
- Oct. 23, 1981 Increased capital to KRW 11.0 billion
- Jul. 10, 1982 Launched short-term note-trading business
- Aug. 17, 1983 Increased capital to KRW 20.0 billion
- Apr. 29, 1985 Moved headquarters to Yeouido, Seoul
- Oct. 30, 1985 Increased capital to KRW 40.0 billion
- Jul. 9, 1986 Launched subscription deposits service for IPO shares
- Sep. 15, 1987 Opened Gangnam branch
- Dec. 14, 1988 Increased capital to KRW 80.0 billion
- Dec. 31, 1988 Launched ESOA deposits and corporate deposits
- Oct. 16, 1989 Opened Gwangju branch

1990s

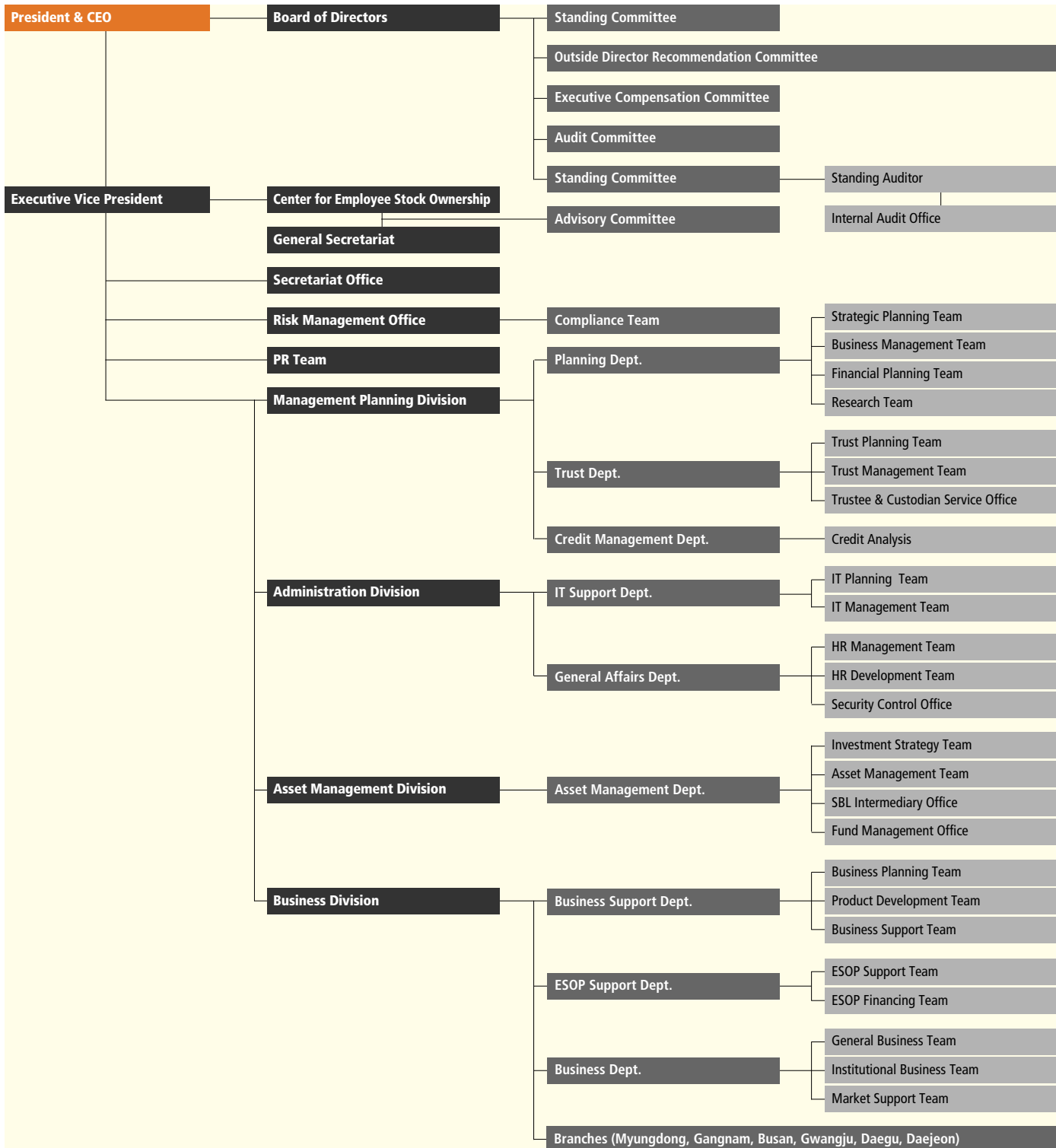
- Feb. 13, 1990 Began extending loans secured by subscription deposits for IPO shares
- May 25, 1990 Began accepting Securities Market Stabilization Fund (SMSF) deposits
- Oct. 13, 1994 Opened Daegu branch
- Nov. 18, 1995 Increased capital to KRW 160.0 billion won
- May 16, 1996 Launched customers' deposits for futures trading
- Aug. 16, 1996 Began subscription deposits for forfeited shares and loans secured by the same deposits
- Oct. 15, 1996 Opened Daejeon branch
- Apr. 1, 1997 Launched management and operation of Securities Investor Protection Fund (SIPF)
- Oct. 31, 1998 Issued non-real name KSFC bonds worth KRW 2.0 trillion
- Jul. 21, 1999 Entered into management of customers' deposits at all securities firms and futures companies

2000s

- Aug. 17, 2000 Increased capital to KRW 340.0 billion
- Nov. 9, 2000 Launched securities lending and borrowing brokerage service
- Dec. 20, 2002 Began management of customers' deposits through trust accounts
- Dec. 8, 2003 Established integrated information system
- Jan. 15, 2004 Launched loans to finance securities-secured loans for securities firms
- May 30, 2004 Began trustee & custodial services
- Nov. 29, 2004 Launched receivables-in-cash financing loans
- May 14, 2005 Unveiled new corporate identity (CI) and announced commitment to ethical management
- May 19, 2005 Established ESOP Service Center
- Sep. 7, 2005 Obtained ISO 9001 for securities trustee & custodial services
- Oct. 7, 2005 Hosted international conference on mutual development of Asian securities finance industry in commemoration of 50th anniversary
- Jan. 4, 2006 Received Special Prize at the 15th annual Hankyung Dasan Financial Awards Ceremony
- Apr. 3, 2006 Obtained "AAA (Stable)" credit rating from National Information and Credit Evaluation
- Jul. 1, 2006 Launched customers' deposits by beneficiaries
- Sep. 6, 2006 Began operation of business recovery center
- Oct. 2, 2006 Launched foreign-currency customers' deposit service
- Jan. 12, 2007 Established internal accounting control (K-SOX) system
- Mar. 16, 2007 Established BSC and Management Dashboard systems
- Jun. 26, 2007 Received the '2007 Korea Economic Leader Awards' from The Chosun Ilbo



Organization



Board of Directors

Standing Directors

Doo Hyung Lee	President and CEO
Sung Chan Park	Executive Vice-President

Outside Directors

Pal Ho Lee	Former Commissioner General National Police Agency
Yong Ki Lee	Member of Policy Research Committee Uri Party Foundation
Jung Joon Yoo	President and CEO of Hanyang Securities Co.
Soon Jick Hong	Advisor, Samsung SDI

Audit Committee Member & Director

Myung Rae Ha	Standing Auditor
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Executive Officers

Doo Hyung Lee	President and CEO
Sung Chan Park	Executive Vice-President
Myung Rae Ha	Standing Auditor
Seon Ho Chu	Managing Director(Business Division)
Sang Sun Hwang	Managing Director(Administration Division)
Gyo Chun Lee	Managing Director(Corporate Planning Division)

Business Network



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Gangnam Branch

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Busan Branch

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255-33, Bujeon 2-dong, Busanjin-gu, Busan, Korea

Gwangju Branch

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7-12, Daein-dong, Dong-gu, Kwangju, Korea

Daegu Branch

Tel: (82-53)741-4111
43-8, Beomeo-dong, Suseong-gu, Daegu, Korea

Daejeon Branch

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