

2007 Korea Securities Finance Corp.  
annual report

# THE KSFC WAY

to specialty and growth



Korea Securities Finance Corp.

The Korea Securities Finance Corporation (KSFC), the nation's only securities financing organization, has been contributing to the Korean capital market's growth and development and investor protection since its establishment in 1955. Its services have included supplying funds and securities, giving backup for restructuring and liquidity both before and after the foreign exchange crisis in the late 1990s, the management of customers' deposits at all securities firms and futures companies to ensure the safety of their assets, and providing support for the employee stock ownership plan (ESOP).

KSFC has also helped to stimulate demand for securities and expand the securities market base by offering funds and securities to promote the use of securities by general investors. Building upon its half-century of tradition and accumulated know-how, the company is committed to buttressing the securities industry while taking the lead in advancing the capital market in its role as "a primary financial institution specializing in securities finance."

## A premier partner for both securities firms and investors in Korea

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**Mission Statement**

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

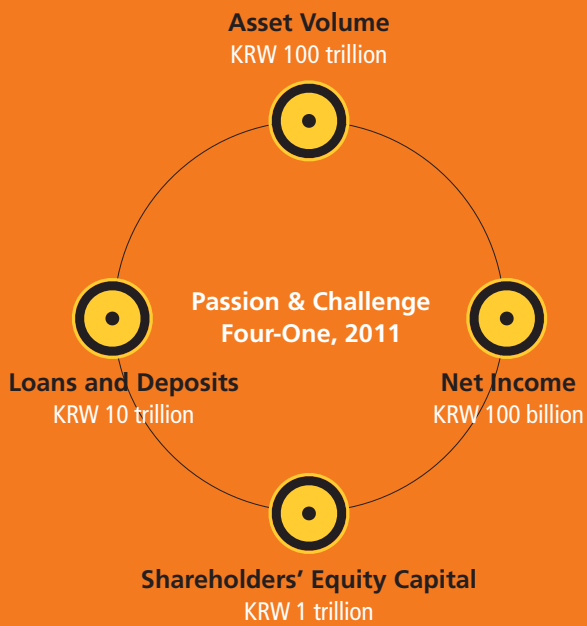
**Major Services**

- Securities financing services (according to the Securities Exchange Law)
- Others as authorized by the Financial Services Commission

**Major Business Activities**

	<b>Securities firms and securities market financing</b>	<b>General customer financing (individuals and corporation)</b>
• Loans	<ul style="list-style-type: none"> <li>· Securities Underwriting Loans</li> <li>· Margin Financing Loans</li> <li>· Stock Purchasing Loans</li> <li>· Working Capital Loans</li> <li>· Bond Dealer Loans</li> <li>· Loans to Refinance Securities-Secured Loans</li> <li>· Short-term Note Trading at a Discount</li> <li>· Bond Purchase under Reverse RPs</li> </ul>	<ul style="list-style-type: none"> <li>· Non-Secured and Securities-secured loans</li> <li>· Short-term Note Trading at a Discount</li> <li>· Loans secured by deposits</li> </ul>
• Deposits	<ul style="list-style-type: none"> <li>· Subscription Guaranty Money Deposits</li> <li>· Securities-Related Institutional Deposits</li> <li>· SMSF Deposits</li> <li>· Sales of Notes Issued</li> <li>· Treasury and Public Fund Deposits</li> </ul>	<ul style="list-style-type: none"> <li>· Subscription Deposits for IPO/Forfeited Shares</li> <li>· Corporations' Deposits</li> <li>· Sales of Notes Issued</li> <li>· Bond Sales under RPs</li> <li>· Electronic funds transfers</li> </ul>
• Management of Customers' Deposits	<ul style="list-style-type: none"> <li>· Customers' Deposits in KSFC Account</li> <li>· Customers' Deposits in Trust Account</li> </ul>	
• Trustee and Custodial Services	<ul style="list-style-type: none"> <li>· Trustee and Custodial Services</li> <li>· Management of Entrusted Assets</li> <li>· Management of general administrative businesses</li> </ul>	
• ESOP Support Services	<ul style="list-style-type: none"> <li>· ESOP deposits</li> <li>· ESOP Financing Loans</li> <li>· ESOP Support Services</li> </ul>	<ul style="list-style-type: none"> <li>· ESOP Support Services</li> </ul>
• SBL Brokerage	<ul style="list-style-type: none"> <li>· Securities Borrowing &amp; Lending Brokerage</li> </ul>	<ul style="list-style-type: none"> <li>· Securities Borrowing &amp; Lending Brokerage</li> </ul>

## Vision And Strategies



### VISION 2011

A primary financial institution specializing in securities finance and leading the capital market



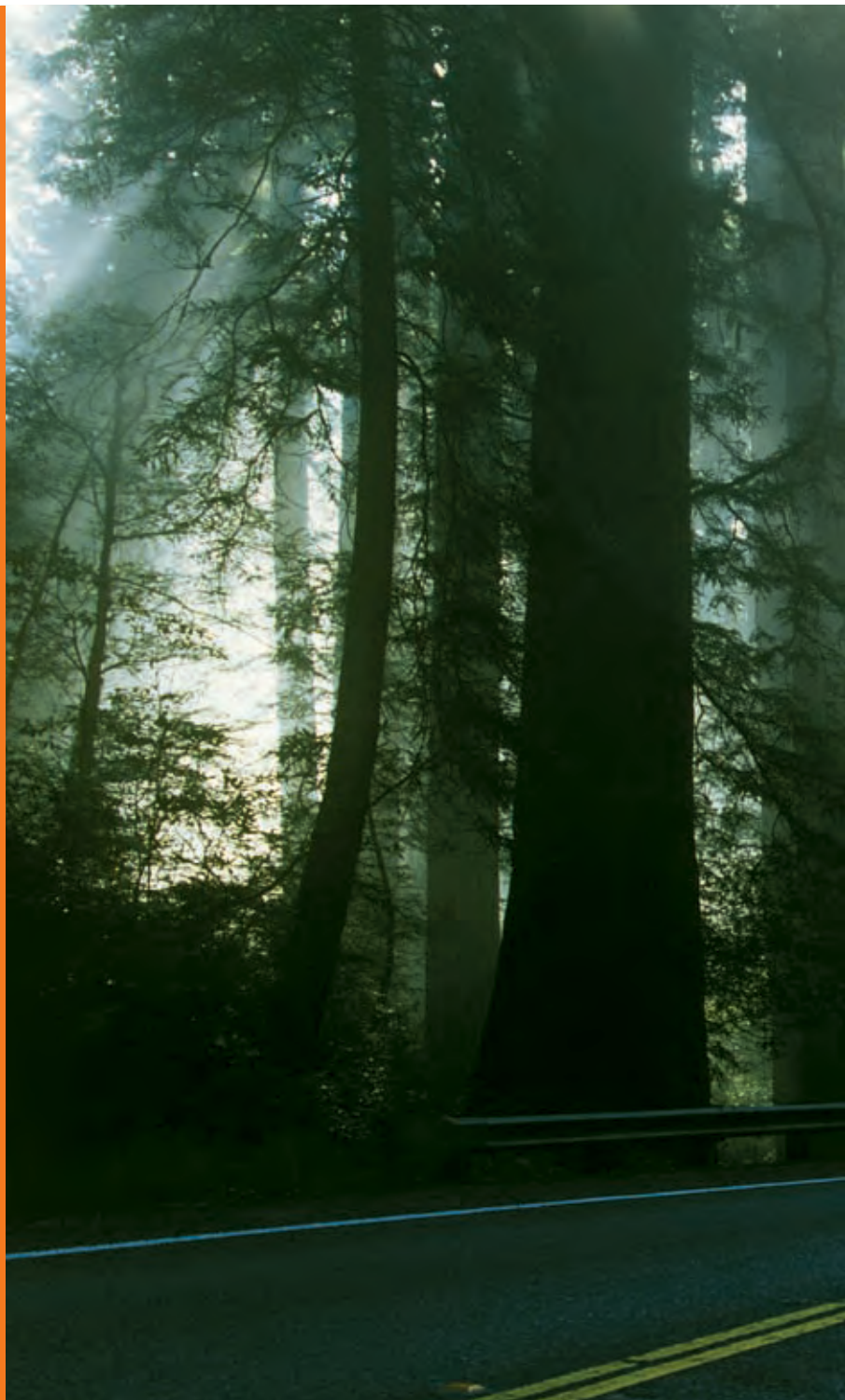
KSFC has dedicated itself to furthering the nation's economic development for more than half a century. Today, as always, we are striving to be the most dependable and reliable partner for Korea's securities firms and investors, while reinforcing our competitiveness and ability to address any changes in our operating environment.

**The way to success. It's The KSFC way!**



## Core Business Structure

- **Securities financing and lending**  
**Fund offerings**  
Securities-secured loans  
Margin financing loans  
M&A financing, etc.  
**Management of securities market-related fund**  
Management of customers' deposit  
idle public and treasury fund  
CMA fund, etc.
- **Custody**  
Trustee and custodial services  
ESOP management
- **Brokerage**  
Securities borrowing and lending brokerage  
RP trading
- **Asset management**  
Asset management (stocks, bonds, replacement investments)  
Trusts



## Paving the way to a successful tomorrow

Paving the way for customers and investors in the Korean securities market, KSFC hopes to achieve its vision and strategic goals as quickly as possible. To this end, we have selected “growth potential,” “advancement,” “innovativeness,” “stability,” and “profitability” as our core strategic goals. By fulfilling this agenda, we will continue to assist the market and private investors to realize their fullest growth potential.



We value and **appreciate** the unstinting support and **encouragement**





## of our shareholders.

To Our Many Valued Shareholders and Customers,

●  
Despite brisk exports, the Korean economy met a series of slowdowns during 2007, mainly due to the subprime mortgage debacle in the USA and escalating oil prices. Accordingly, the financial market experienced increasing inflows and outflows of foreign investment funds and rising volatility in stock prices and interest rates. In addition, competition among financial institutions continued to intensify as they moved to firm up their growth foundations in a financial environment in which the boundaries among business types kept collapsing due to loosened regulations and the enactment of the Capital Markets Consolidation Act.

●  
Despite this unpromising business landscape, KSFC managed to post healthy results. For example, assets rose by 23% over the year to 23.2 trillion won, while net income surged by 34% to 61.3 billion won, breaking the 60 billion won mark for the first time in our history. Return on equity (ROE) also improved by 2.2% year-on-year, rising to 10.1%.

●  
This jump in net income can be mainly attributed

to a 47% climb in interest income from the previous year. This was led by securities-secured loans, which almost doubled over the year to 3.7 trillion won, thanks to our customer-oriented sales operations and expertise. Income from asset management rose by 49%. This was fueled by bringing in real-market based asset management experts, introducing performance-oriented systems, and actively attracting new cash management account (CMA) funds at securities firms. Commission income ballooned by 28%, as we endeavored to make up for downturns in interest income in light of increasingly keen competition for loans.

●  
As a primary infrastructure organization within the Korean capital market, we faithfully performed our specialized ESOP support services, developed an employee ownership index (EOI), and ensured the safe management and operation of customers' deposits. In addition, we resumed our stock loans business (after a 22 year hiatus), developed a stock borrowing and lending market with a focus on small-cap stocks. Other efforts to improve our managerial efficiency included promoting a performance-oriented organizational culture, improving our loans and risk management systems, and establishing mid- to long-term information strategy plans to build next-generation IT systems.

●  
In 2008, economic growth in Korea is expected to decelerate greatly, mainly due to worries over inflation in the face of dramatic rises in the price of raw materials (including oil) and downturns in the world economy (including the USA). The



We will **increase** our competitiveness and earnings bases by **fortifying** our core capabilities, **building** new growth

era of unlimited competition in the financial market is also likely to become fully realized, as business territories will cease to exist due to eased regulations and the enactment of the Capital Markets Consolidation Act. To deal with these realities, we have decided that “market- and innovation-centered, future-oriented, and talent-preferred management” will be our primary strategic targets. As a result, we will pursue the following core tasks.

- First, we will fortify the foundations for sustainable growth by strengthening our market- and customer-centered core capabilities. To this end, we will add our business alliances with brokerage houses in such areas as beneficiary certificate-secured loans and joint marketing towards companies seeking initial public offerings. In addition, we will augment our funds offerings to

the stock market-mainly by increasing our volume of margin financing loans.

- We will also heighten our profile by increasing the management of CMAs at securities firms and funds at asset management companies. In addition, we will improve our funds brokerage functions in the short-term capital market and help reinvigorate the repurchase agreement (RP) and bond markets by extending RP trading with institutional investors. We will also concentrate on securing stable financing vehicles and carrying out our role as the manager of customers' deposits and ESOPs in the most efficient manner possible.

## engines, and being innovative in our thinking.

Secondly, we will increase our differentiated competitiveness and earnings bases by building new growth engines. To do so, we will continue expanding our level of financial assistance to investment banking operations, such as M&A banking for securities firms. We also intend to turn our trustee & custodial services into advanced custody operations that provide both securities lending and borrowing and credit granting, as opposed to mere funds custody and management. In addition, we will increase our supply of securities to the securities market by carrying forward the lending of security collateral and ESOP shares.

Finally, we will raise our managerial efficiency through continuous innovations. We will do this by improving on those systems and processes that hinder customer convenience

and building next-generation IT systems by way of business process reengineering (BPR). In addition, we will augment our performance-oriented evaluation and compensation systems to secure the very best human resources, hire outside experts when necessary, and cultivate the growth of financial professionals through improved training programs, both at home and overseas.

By translating these management objectives into action and thus expanding the supply and brokerage of funds and securities in the capital market, KSFC will grow into a comprehensive and competitive financial entity with unequaled expertise. As always, we will do our best to deliver the most satisfactory management results possible while continuing in our role as a “primary financial institution specializing in securities finance and leading the capital market.”

I look forward to your support and encouragement. Thank you.



Doo Hyung Lee  
President and CEO

### Improved mid- to long-term business structure

In line with ongoing changes in the financial environment, KSFC readjusted its core business structures into securities finance (including funds offering and the management of securities-related funds), custody, brokerage, and asset management.

To further the realization of our corporate vision, we established these five-year financial goals: to have KRW 100 trillion in total assets, KRW 10 trillion in loans and deposits, KRW 1 trillion in shareholders' equity capital, and KRW 100 billion in net income by 2011.

We also launched five new services to heighten the competitiveness of our core businesses. They include limited non-secured loans, custodial and general administrative services, and securities borrowing.

In addition, we increased our volume of equity capital, which we see as constituting our primary engine for future growth, by adding to our internal reserves through the development of a more rationalized dividend policy.

### Continued support for securities industry

KSFC resumed its practice of offering margin financing stock loans for individual investors after a hiatus of 22 years, enabling it to function even better as a safety valve for the securities market. This will complement our historical role of offering margin financing money loans.

In addition, we developed a stock borrowing and lending operation in January 2008. It will focus on small-capitalization stocks that meet our customers' ongoing needs.

We also expanded the range of securities that can be offered as collateral and improved our systems for evaluating secured securities. This reflects an ever-increasing demand for securities-secured loans.

Meanwhile, we eased the liquidity problems faced by securities businesses and helped to improve their financial soundness through the management of their CMA funds. This was done by forming business affiliations with these firms that allowed their customers to directly access our securities-secured loans.

Finally, we developed an Employee Ownership Index (EOI), which is used as a basis by which to measure increases in the productivity of ESOPs. A first in Korea, this began to be used in December 2007.

### Advanced business management systems

We strived to develop a more performance- and operations-centered corporate culture, mainly through the introduction of a graduated incentive program for all employees and a personnel policy that stresses the importance of sales. In addition, we established mid- to long-term plans for information strategies to build efficient next-generation IT systems, while also carrying forward a business process re-engineering (BPR). By revitalizing our Management Advisory Committee, which is composed of experts in the fields of securities and finance, we improved the efficiency of all our operations--including key management issues.

Lastly, we began a full-scale analysis of the status of our internal accounting management systems. This was done to heighten our international credibility and operational transparency.

### Raised market credibility

In recognition of its expanded earnings bases and sound financial structure, KSFC was able to retain its prized "AAA (Stable)" credit rating--the highest level that can be attained. As a result of our mutually-beneficial relationships with securities firms, we received the "2007 Korea Economic Leader Award" from the Chosun Ilbo (in the "win-win" management category) in recognition of our expanded earnings bases and sound financial structure.

We also obtained a Capability Maturity Model Integration (CMMI) Level 3 Certification, an international standard measuring the quality of software and information technology for IT organizations and process standardization.

### Bolstered social contribution activities and ethics management

Putting its unfailing belief in the importance of its social responsibilities into practice, KSFC continued to emphasize such theme-based services as regular volunteer services by division and shared donations. This has led to a more systematized allocation of our social contribution activities.

We also emphasized the need for ethics management mindsets among all our employees. This was done mainly through the establishment of internal control business processes and system improvements, following the enactment of and revisions to the government's laws concerning money laundering.

### KSFC Account

(In millions of KRW & thousands of USD)

As of March 31	2008		2007	
	Korean won	U.S. dollars	Korean won	U.S. dollars
Total Assets	13,103,090	13,230,099	8,552,967	9,090,198
Total Liabilities	12,477,790	12,598,738	7,968,148	8,468,645
Shareholders' Equity	625,300	631,361	584,819	621,553
(Common Stock)	(340,000)	(343,296)	(340,000)	(361,356)

(In millions of KRW & thousands of USD)

Years ending March 31	2008		2007	
	Korean won	U.S. dollars	Korean won	U.S. dollars
Total Revenues	932,972	942,015	481,774	512,035
Total Expenses	847,543	855,758	419,162	445,491
Income before Income Taxes	85,429	86,267	62,612	66,545
Net Income	61,306	61,900	45,702	48,573
Net Income/Average Common Stock (%)	18.0		13.4	
Dividends/Common Stock (%)	6.0		5.0	

### Trust Account

(In millions of KRW & thousands of USD)

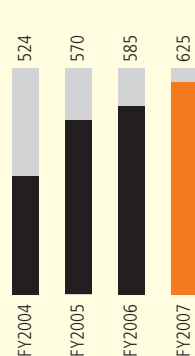
Years ending March 31	2008		2007	
	Korean won	U.S. dollars	Korean won	U.S. dollars
Total Assets	10,072,135	10,169,765	10,290,255	10,936,609
Trust Deposits	9,984,989	10,081,774	10,230,813	10,873,433
Other Liabilities	87,146	87,991	59,442	63,176

Note) The amounts in korean won were translated into U.S. dollars at the rates of KRW 990.4 and KRW 940.9 to USD 1-the prevailing rates on March 31, 2008 and 2007, respectively.

**Total Assets**  
(In billions of KRW)



**Shareholders' Equity**  
(In billions of KRW)



**Net Income**  
(In millions of KRW)



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

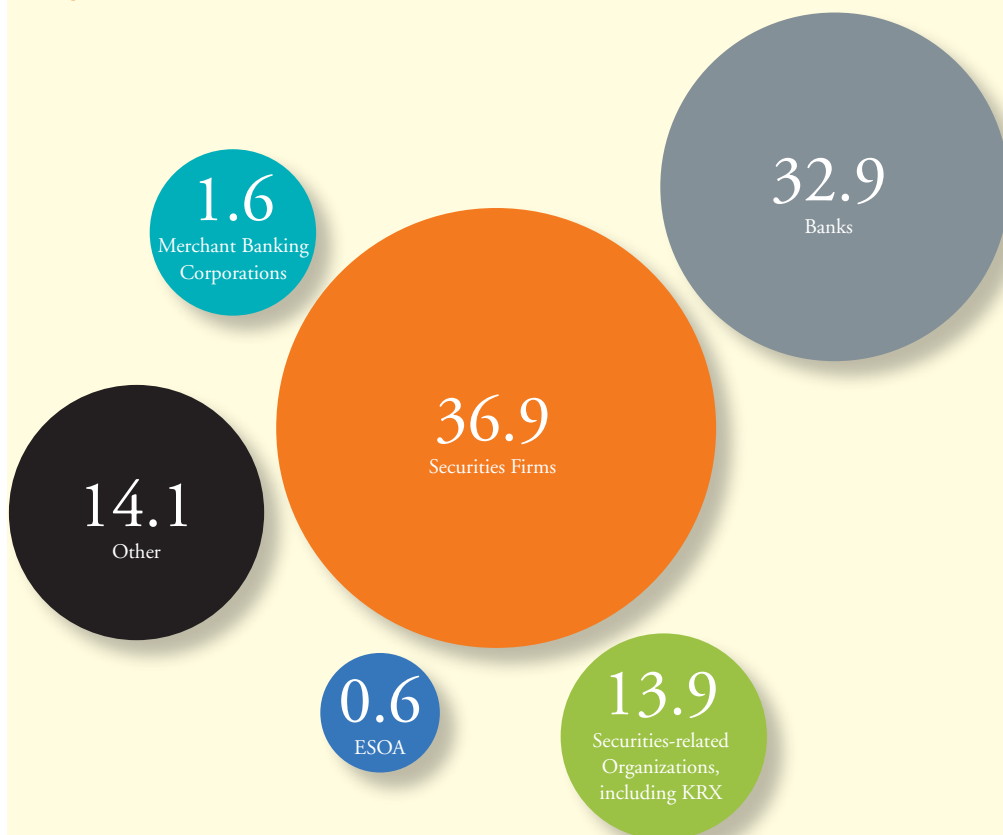
(As of March 31)

### Capital Stock

(As of March 31, 2008)

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.

### Investments in other companies

Company name	No. of shares	Ownership stake (%)
Korea Exchange (KRX)	424,746	2.12
KOSCOM	195,238	3.65
Korea Securities Depository	3,413	0.06

### Credit Ratings

Rating agency	Category	No. of shares	Ownership stake (%)
Korea Ratings	KSFC Bond (Non Guaranteed Bond)	AAA	2008.3.17
	CP	A1	2008.1.2
National Information & Credit Evaluation	KSFC Bond (Non Guaranteed Bond)	AAA	2008.1.3
	CP	A1	2008.1.3
Korea Information Service	KSFC Bond (Non Guaranteed Bond)	AAA	2008.1.3
	CP	A1	2007.9.28



## Review of Business Operations

We will study ongoing trends in securities finance in fiscal 2007 in two main areas: the procurement of funds, and operations. • Following that, we will analyze KSFC's core operations-the management of customers' deposits, Employee Stock Ownership Plan-related services, custodial services, and securities borrowing and lending brokerage.





16	Fiscal Year 2007 Milestone
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29	Securities Borrowing, Lending, and Brokerage Services

# FISCAL YEAR 2007 MILESTONE

KSFC recorded healthy earnings in fiscal 2007, with net income breaking the

KRW 60 billion mark for the first time in the company's history. The Korean stock

market also hit new highs, reaching the 2000-point mark on the KOSPI (Korean

Stock Price Index) and KRW 1,000.0 trillion levels in market capitalization.



The Korean stock market hit new highs in 2007, reaching the 2000 point mark on the Korean Stock Price Index, or KOSPI, with KRW 1,000.0 trillion in market capitalization. The year was marked by a sharp expansion of fund inflows, mainly due to improved corporate earnings and bullish movements in global securities markets, centering on such newly-emerging countries as China.

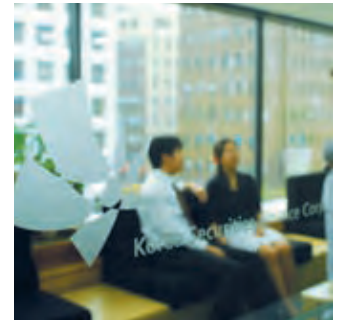
The KOSPI reached its strongest point ever (2,064.85, based on closing prices) on October 31, 2007, while market capitalization ballooned by more than KRW 300.0 trillion to reach KRW 1,029.3 trillion. At year-end, the KOSPI was at 1,897.13 (up 462.67, or 32.3%), while the KOSDAQ index was at 704.23 (up 98.08, or 16.2%).

During the year, Korea's banking industry was faced with a severe shortage of funds, resulting from the financial market's continuing instability (including high interest and exchange rates) and the full-scale entry of market funds into the capital market. Short-term market interest rates also skyrocketed, primarily due to the issuance of CDs in the wake of sluggish deposits at banks and a rise in the issuance of bank bonds.

Despite these conditions, KSFC managed to record an impressive year-on-year advance of 23.0% in assets, totaling KRW 23.2 trillion at the end of fiscal 2007 (March 31, 2008). Net income increased by 34.1% to KRW 61.3 billion, representing the company's largest-ever earnings. ROE rose by 2.2% to 10.1%.

During fiscal 2007, we reconfirmed our vision for long-term growth: to be "a primary financial institution specializing in securities finance and leading the capital market." In addition, we reorganized our business structure into four core services—securities financing and lending, brokerage, custody, and asset management. We also refurbished our traditional function of providing funds by concentrating on the extension of funds offerings to the securities market and the management of securities market-related funds. This was done to bolster our support for the securities industry.

In addition, we resumed the practice of offering stock loans to individual investors, after a hiatus of 22 years, thereby helping to ease liquidity burdens at securities firms. We also aided these players to strengthen their financial soundness by managing all their CMA funds, improved our brokerage of funds in the short-term capital market, and supported the activation of RPs and the bond market.



# PROCUREMENT OF FUNDS

KSFC's main financing sources include shareholders' equity, borrowings from financial institutions, the issuance of bonds, various kinds of deposits, and bond sales under RP.

Based on our average annualized balance, total financing volume amounted to KRW 16.5 trillion at year-end-an increase of KRW 6.6 trillion (or 66.9%) from a year earlier. This included rises from KRW 732.2 billion to KRW 2.0 trillion in borrowings, KRW 5.6 trillion to KRW 12.2 trillion in deposits, KRW 161.4 billion to KRW 335.3 billion in bond sales under RP, KRW 39.0 billion to KRW 826.7 billion in call money, KRW 53.3 billion to KRW 144.6 billion in borrowings from the trust account, and KRW 146.9 billion to KRW 333.9 billion in margins.



(In millions of KRW, %)

	FY2006		FY2007		YOY
	Amount	Ratio	Amount	Ratio	Change
<b>Borrowings</b>	<b>1,244,668</b>	<b>12.6</b>	<b>1,976,912</b>	<b>12.0</b>	<b>58.8</b>
Borrowings from Banks	356,419	3.6	824,044	5.0	131.2
Notes	125,500	1.3	548,128	3.3	336.8
KSFC Bonds	762,748	7.7	604,740	3.7	-20.7
<b>Deposits</b>	<b>6,616,601</b>	<b>67.0</b>	<b>12,177,505</b>	<b>73.8</b>	<b>84.0</b>
Customers' Deposits Received	3,410,987	34.5	4,647,564	28.2	36.3
Subscription Guaranty Money Deposits	663,105	6.7	664,293	4.0	0.2
Securities Market Stabilization Fund (SMSF) Deposits	28,498	0.3	36,598	0.2	28.4
Other Deposits from Securities-Related Organizations	141,869	1.4	1,088,227	6.6	667.1
Deposits from Corporations	409,453	4.1	389,096	2.4	-5.0
Subscription Deposits for IPO & Forfeited Shares	97,757	1.0	68,368	0.4	-30.1
Notes Issued	1,861,959	18.8	5,280,257	32.0	183.6
Other	2,974	0.0	3,102	0.0	4.3
<b>Bond Sales under RP</b>	<b>173,899</b>	<b>1.8</b>	<b>335,277</b>	<b>2.0</b>	<b>92.8</b>
<b>Call Money</b>	<b>787,735</b>	<b>8.0</b>	<b>826,697</b>	<b>5.0</b>	<b>4.9</b>
<b>Borrowings from Trust Account</b>	<b>91,330</b>	<b>0.9</b>	<b>144,595</b>	<b>0.9</b>	<b>58.3</b>
<b>Margins</b>	<b>186,919</b>	<b>1.9</b>	<b>333,865</b>	<b>2.0</b>	<b>78.6</b>
<b>Shareholders' Equity</b>	<b>543,884</b>	<b>5.5</b>	<b>552,841</b>	<b>3.4</b>	<b>1.6</b>
<b>Other</b>	<b>235,676</b>	<b>2.4</b>	<b>147,285</b>	<b>0.9</b>	<b>-37.5</b>
<b>Total</b>	<b>9,880,711</b>	<b>100.0</b>	<b>16,494,976</b>	<b>100.0</b>	<b>66.9</b>

( Note 1 ) Based on average annualized balance.

( Note 2 ) Customers' deposits received are the sum total of deposits for spot trading at securities firms, deposits for futures trading at securities firms, foreign-currency deposits for futures trading at securities firms, foreign-currency deposits for futures trading at futures companies, deposits for futures trading at futures companies, and deposits by beneficiaries at asset management companies, insurance companies, and securities firms.



Funding sources	
● Deposits	73.8%
● Borrowings	12.0%
● Call Money	5.0%
● Shareholders' Equity	3.4%
● Bond Sales under RP	2.0%



### Borrowings

KSFC raises funds primarily through borrowings from banks and by issuing commercial papers (CPs) and corporate bonds. Based on our average annualized balance, borrowings swelled by KRW 732.2 billion (58.8%) to KRW 2.0 trillion, accounting for 12.0% of total funds raised. In more specific terms, short-term funds (including borrowings from banks and CPs) increased due to a rise in demand for short-term working capital, such as margin financing loans.

KSFC ceased making borrowings from banks in 1999, relying instead on loans on checking accounts during the day. However, we resumed general borrowings in March 2006, and the average annualized balance of these amounted to KRW 824.0 billion in fiscal 2007. In addition, notes for borrowing funds through the issuance of CPs amounted to KRW 548.1 billion, while the average annualized balance of our corporate bonds decreased to KRW 604.7 billion.

Corporate bonds were issued on 28 separate occasions (total face value: KRW 7.9 trillion), beginning with the issuance of non-real-name KSFC bonds in October 1998 in support of Hyundai Investment and Trust. We issued KRW 140.0 billion on one occasion during fiscal 2007, and the balance of outstanding issues at year-end amounted to KRW 570.0 billion.

### Deposits

Our average annualized balance of deposits swelled by KRW 5.6 trillion (or 84.0%) over the year to KRW 12.2 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. Other types included deposits by beneficiaries at asset management and insurance companies, and securities firms, pursuant to the introduction of the MMF forward pricing system. As a consequence, total customers' deposits received ballooned by 36.3% over the year to KRW 4.6 trillion, representing 28.2% of total funds raised.

**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 marginally grew to KRW 664.3 billion. This resulted from a bearish stock market, due to a decline in the volume of subscription guarantee money following changes in the IPO system in May 2007.

**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 and subscription agency services. The average annualized balance of these decreased by 28.0% to KRW 67.9 billion, reflecting weakening interest rates.

**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 average annualized balance of these deposits increased by 28.4% to KRW 36.6 billion.

**Other Deposits from Securities-Related Organizations** skyrocketed by an astounding 667.1% to KRW 1.0 trillion (based on average annualized balance), mainly resulting from an expansion in deposits by CMA-related funds and asset management companies.

**Notes issued** refer to a product used to procure deposit-type funds through the issuance of obligations. These monies, mainly coming from the government's national treasury funds, public money management funds, and securities firms' CMAs, are primarily operated as RPs on exchange, MMFs, bank deposits, and call loans. These constituted the largest portion of our total financing volume, due to a sharp rise in funds related to CMAs at securities firms. According to revised accounting regulations from 2007, these products are now included as deposits. Our volume of notes issued, based on an average annualized balance, ballooned by 183.6% to KRW 5.3 trillion, while its weighting in our total financing volume expanded to 32.0% from 18.8% a year earlier.

### Bond Sales under RP

In order to procure funds, KSFC can sell its investment bonds or bond holdings 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. RP-type CMA funds from securities firms increased as we sought to diversify our funding sources. As a result, the amount of funds raised through bond sales under RP almost doubled, with the average annualized balance rising by 92.8% to KRW 335.3 billion.

### Borrowings from Trust Account

KSFC began to provide trustee and custodial services from June 2004, receiving deposits of transitory and 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 the trust account (which are managed separately by trustees and indirect investment institutions) swelled to KRW 144.6 billion (up 58.3% YoY).

### Margins

The term margins include margins for stock loans and securities lending and cash margins for securities borrowing and lending (SBL) brokerage. Their volume increased due to the generation of margins for stock loans following the resumption of this aspect of our operations, a rise in bonds L&B and an upturn in margins for L&B brokerage pursuant to an increase in funds related to the MMF forward trading system. Their average annualized balance surged by a dramatic 78.6% to KRW 333.9 billion.

### Shareholders' Equity

The annualized average balance of shareholders' equity edged up by 1.6% over the year to KRW 552.8 billion, accounting for 3.4% of our total financing. This included KRW 340.0 billion in capital stock, KRW 21.8 billion in capital surplus, KRW 199.5 billion in retained earnings, and KRW 9.4 billion in capital adjustments.



# FUNDS MANAGEMENT

KSFC manages the funds it has procured primarily as cash and deposits, loans, bonds purchased under reverse RP, notes discounted, securities investments, and call loans.





The total average annualized balance of funds managed by KSFC ballooned by KRW 6.6 trillion (or 66.9%) to KRW 16.5 trillion at year-end. This included the following gains: cash and deposits (up KRW 4.0 trillion to KRW 7.3 trillion), loans (up KRW 1.0 trillion to KRW 2.5 trillion), notes discounted (up KRW 42.6 billion to KRW 713.5 billion), securities holdings (up KRW 1.4 trillion to KRW 5.0 trillion), and call loans (up KRW 71.3 billion to KRW 268.6 billion). There was also a decrease in bond sales under reverse RP (down KRW 8.9 billion to KRW 732.2 billion).

We increased our short-term management of time deposits with high interest rates, MMDAs, and certificates of negotiable deposits in order to better manage our short-term liquidity needs. As a result, cash and deposits made up the largest weighting of other products (at 44.3%) at KRW 7.3 trillion. This was followed by securities holdings (at 30.4%), loans (at 14.9%), bonds purchased under reverse RP (at 4.4%), notes discounted (at 4.3%), and call loans (at 1.6%).



(In millions of KRW, %)

	FY2006		FY2007		YOY
	Amount	Ratio	Amount	Ratio	Change
<b>Loans</b>	<b>1,395,069</b>	<b>14.1</b>	<b>2,451,928</b>	<b>14.9</b>	<b>75.8</b>
Margin financing loans (Money loans)	56,143	0.6	741,278	4.5	1,220.3
Bond dealer loans	97,909	1.0	89,990	0.5	-8.1
Working capital loans	18,333	0.2	13,192	0.1	-28.0
Loans to refinance securities-secured loans	260,862	2.6	326,277	2.0	25.1
Receivables-in-cash financing loans	89,797	0.9	17,313	0.1	-80.7
ESOP financing loans	334,609	3.4	462,631	2.8	38.3
Securities-secured loans	534,034	5.4	798,899	4.8	49.6
Other	3,382	0.0	2,348	0.0	-30.6
<b>Bonds purchased under reverse RP</b>	<b>741,095</b>	<b>7.5</b>	<b>732,213</b>	<b>4.4</b>	<b>-1.2</b>
<b>Notes discounted</b>	<b>670,936</b>	<b>6.8</b>	<b>713,489</b>	<b>4.3</b>	<b>6.3</b>
<b>Marketable securities</b>	<b>3,585,087</b>	<b>36.3</b>	<b>5,018,488</b>	<b>30.4</b>	<b>40.0</b>
<b>Call loans</b>	<b>197,259</b>	<b>2.0</b>	<b>268,596</b>	<b>1.6</b>	<b>36.2</b>
<b>Other</b>	<b>3,291,265</b>	<b>33.3</b>	<b>7,310,262</b>	<b>44.3</b>	<b>122.1</b>
<b>Total</b>	<b>9,880,711</b>	<b>100.0</b>	<b>16,494,976</b>	<b>100.0</b>	<b>66.9</b>

( Note ) Based on average annualized balance.



**Asset management**

● Cash & Deposits etc.	44.3%
● Marketable securities	30.4%
● Loans	14.9%
● Bonds purchased under reverse RP	4.4%
● Notes discounted	4.3%
● Call loans	1.6%

## Loans

The average annualized balance of our total loans in 2007 swelled by KRW 1.0 trillion (or 75.8%) to reach KRW 2.5 trillion at the end of fiscal 2007. This sum represented 14.9% of our total funds under management. The greatest single contributor was securities-secured loans (32.6%), followed by margin financing loans (30.2%), ESOP-related loans (18.9%), loans to finance securities-secured loans (13.3%), and bond dealer loans (3.7%), receivables-in-cash financing loans (0.7%), and working capital loans (0.5%). The average annualized balance of government and public bond underwriting loans were valued at a mere KRW 0.74 billion, reflecting a low demand for these products.



**Margin financing loans** provide securities firms with money or marketable securities required for their customers' margin transactions through the KRX's settlement system. These loans are divided into money loans (for the settlement of customers' margin purchases) and stock loans (for short sales). Although they are one of KSFC's most traditional areas of business, margin financing loans performed sluggishly as the result of a plunge in demand. This was primarily due to continuing low interest rates and a growth of capital power following the enlargement of securities firms. However, these products experienced a sharp turnaround since the beginning of the year on the back of a bullish market and the growth of margin transactions following the abolition of the receivables-in-cash financing system in February 2007. The average annualized balance of money loans amounted to KRW 741.3 billion, a rise of KRW 685.1 billion (or 1,220.3%) from the previous year. This represented 30.2% of our total loans. The company discontinued the issuance of stock loans in the mid 1980s for two reasons: first, short sales had a negative influence on stock prices; secondly, we were experiencing a shortage of securities to lend. However, we resumed this practice in January 2008, in the belief that these products would help to slow down and stabilize the volatility of an overheated stock market and the expectation that they would lead to an expansion of supply volume in the market.

**Bond dealer loans** are offered to bond dealers through the Korea Exchange's (KRX) settlement system. The average annualized balance of these loans fell by KRW 7.9 billion (or 24.9%) over the year to KRW 90.0 billion, due to a reduced demand for financing following a rise in market interest rates.

**Working capital loans** are provided to securities-related institutions, futures companies, and insurers. Demand for these loans has backed off sharply since 2003, when the KRW 2.0 trillion advanced to Hyundai Investment and Securities through the issuance of non-real name bonds was repaid in full. Due to relatively higher interest rates compared to the call market. The average annualized balance of these loans decreased by KRW 5.1 billion (or 28.0%) over the year to KRW 13.2 billion to KRW 13.2 billion.

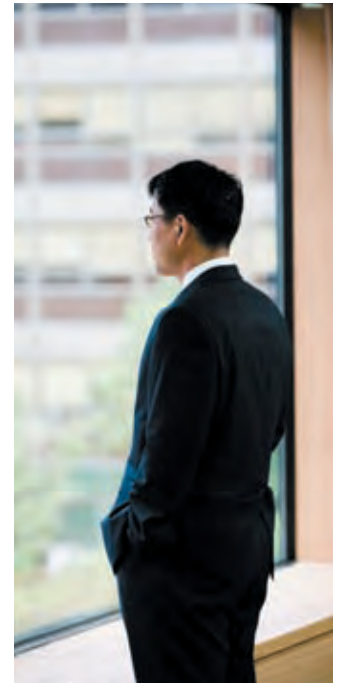
**Receivables-in-cash financing loans** are provided to securities firms for the settlement of payments for stocks purchased by their customers. The average annualized balance of these products decreased by KRW 72.5 billion (or 80.7%) over the year to KRW 17.3 billion, primarily because the Korean financial authority had abolished the receivables-in-cash financing system in May 2007.

**Securities-secured loans** are provided to individuals or corporations that have marketable securities as collateral. These loans have enjoyed continuous growth, thanks to our unstinting marketing efforts in the face of increasingly intensive outside competition-including the entry into the market by other financial institutions. As a result, the average annualized balance of these loans surged by KRW 264.9 billion (or 49.6%) over the year to KRW 798.9 billion, accounting for 4.8% of our total funds and 32.6% of total loans.

**ESOP financing loans** are divided into ESOP shares acquisition loans and ESOP shares-secured loans. ESOP shares-secured loans, which are provided to ESOA members using their deposited shares as collateral, increased by KRW 7.4 billion (or 205.9%) over the year to KRW 11.0 billion. ESOP shares acquisition loans, which are extended to ESOA members to finance acquisitions of their company's shares through an ESOP, expanded by KRW 120.6 billion (36.4%) to KRW 451.6 billion.

**Loans to refinance securities-secured loans** are offered to securities firms to refinance securities-secured loans. Their average annualized balance amounted to KRW 326.3 billion, a rise of KRW 65.4 billion (25.1%) from a year earlier.

In the "others" column, the average annualized balance of loans secured by subscription deposits for forfeited shares and IPO shares amounted to a mere KRW 1.6 billion.





### **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 average annualized balance of these products declined marginally by KRW 8.9 billion (or 1.2%) over the year to KRW 732.2 billion. This was due to a reduction in the application of RPs using deposits as resources and despite a rise in the application of these products using national treasury funds and public money management funds that are deposited through notes issued as resources.

### **Notes Discounted**

Notes discounted accounted for most of our operational assets, since they have historically acted as a vital means of supplying short-term funds to the securities market by discounting bills issued by companies. However, their weightings have decreased dramatically since 1998. The average annualized balance edged up by KRW 42.6 billion (or 6.3%) over the year to KRW 713.5 billion, led by a rise in Subscription Guaranty Money Deposits and project financing for securities firms through notes discounted.

### **Marketable Securities**

Investments in marketable securities (including stocks, bonds, and beneficiary securities) have been on the rise, reflecting the increasing importance of asset management and the difficulties in securing profitability through loans and deposits. Investment securities held by KSFC include trading securities, available-for-sale securities, and held-to-maturity securities. The average annualized balance of our securities investments increased by KRW 1.4 trillion (or 40.0%) over the year to KRW 5.0 trillion, making them the second-largest contributor to our total funds operated. In 2007, they made up 30.4% of our volume, placing a strong second to cash and deposits at 40.0%.

Trading securities refer to investments in marketable securities, such as stocks, bonds, and BCs. Their average annualized balance surged by KRW 1.6 trillion (69.8%) over the year to KRW 4.0 trillion. Available-for-sale securities are marketable securities that are purchased for long-term investment (i.e., over one year). Their average annualized balance fell by KRW 200.2 billion (or 16.5%) to KRW 1.0 trillion, due to a contraction in long-term investment bonds in the wake of increases in bond yield rates. The average annualized balance of held-to-maturity securities decreased by KRW 5.5 billion (or 21.7%) to KRW 20.0 billion.

Funds deposited by investors for the purpose of trading stocks and futures in securities firms and futures companies must be either re-deposited or entrusted to KSFC in order to meet the statutory requirements of the Securities Exchange Act and the Futures Trading Act. As the country's 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 serves to protect investors from the possibility of insolvencies and bankruptcies among these same companies.

## CUSTODY AND MANAGEMENT OF CUSTOMERS' DEPOSITS

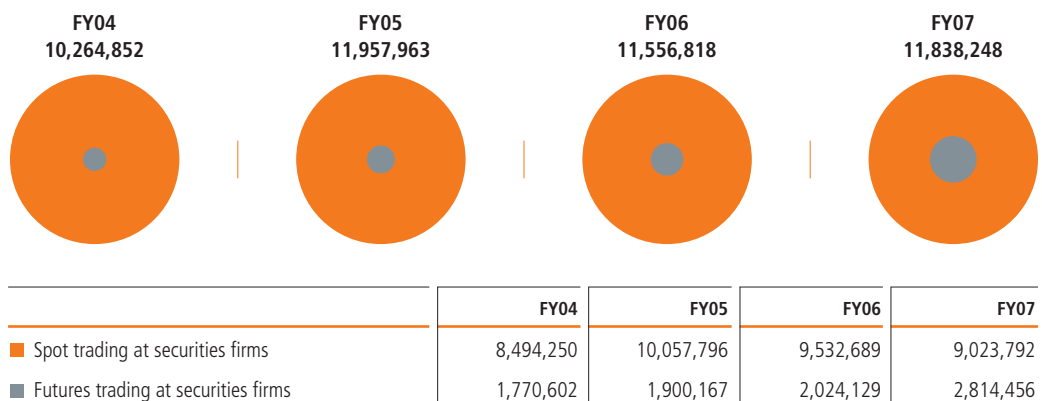
KSFC is responsible for the prudent management of separately-entrusted customers' deposits by securities firms and futures companies. To guarantee the continuing safety of these assets, investment vehicles that may be utilized for customers' deposits are restricted to relatively risk-free financial instruments, such as government bonds, bank deposits, securities-secured loans, MMFs, and others, in compliance with related laws and regulations. In addition, we ensure the transparency of our management of customers' deposits by operating two self-regulating organizations-the Customers' Deposit Management Committee and the Customers' Deposit Trust Management Committee.

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 account, and the amount of repayment depends on their overall return on investment.

### Customers' Deposits in the Trust Account

Customers' Deposits in the Trust Account have experienced healthy growth since the resumption of their operations in 2002. Deposits from 29 brokerage houses totaled approximately KRW 10.0 trillion at the end of fiscal 2007, accounting for 78.5% of customers' deposits for spot trading at securities firms and customers' deposits for futures trading at securities firms. Their average annualized balance amounted to KRW 11.8 trillion, a rise of KRW 281.4 billion (or 2.4%) from a year earlier. Customers' deposits for spot trading and customers' deposits for futures and options trading at securities firms amounted to KRW 7.2 trillion and KRW 2.8 trillion, respectively, at year-end.

Customers' Deposits in the Trust Account (In millions of KRW)



Note) Calculated on average annualized basis

## 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). KSFC has been a primary contributor to the plan's development and success, offering advice on the establishment of ESOAs and providing them with financial support.

At the end of fiscal 2007, the number of companies with ESOAs was 2,667 (including 659 listed on the Korea Exchange and 839 registered with KOSDAQ), a rise of 153 over the year. The number of ESOA members increased by 3.6%, to 1.08 million. The percentage of all listed companies that had formed ESOAs was 87.5%. 81.8% of these were registered on the KOSDAQ, while a mere 0.4% were other corporations. The ratio of ESOA members to non-ESOA members stood at 75.4% of all employees, compared to 75.7% in fiscal 2006.

The number of ESOAs that had entrusted their ESOP shares to KSFC increased by 49 over the year to 904 at year-end. 181 of these were listed companies, 253 were KOSDAQ-registered, and 470 were classed as "other." The total number of ESOA members rose by 9.3% to 290,000.

The number of deposited shares surged by 39.6% year-on-year to 443,593,000 (267,578,000 listed, 65,800,000 KOSDAQ, and 110,215,000 in other corporations). Their acquisition costs amounted to KRW 4.5 trillion.

## TRUSTEE AND CUSTODIAL SERVICES

In the area of funds management from beneficiary certificate sales by asset management companies and stock sales by investment companies, KSFC provides both trustee and custodial services for investor protection, in conformity with relevant laws and ordinances.

At the end of fiscal 2007, our volume of assets under custody management recorded KRW 22.9 trillion, ranking seventh in the industry with a market share of 6.6%. This remarkable success was mainly due to our customer-oriented business processes, customized services, quality management, and strategic marketing.



Securities borrowing and lending allows institutional investors and other borrowers that need marketable securities for investment purposes or settlements to borrow shares from institutional investors and other lenders that deal in marketable securities. In its role as an intermediary for the lending and borrowing of equity and/or bonds, KSFC guarantees the anonymity of all participants and the certainty of return.

### Bonds Borrowing and Lending Brokerage Service

KSFC's bonds lending and borrowing brokerage volume was valued at more than KRW 1.3 trillion in fiscal 2007, based on an average annualized balance. Bonds lending and borrowing relating to the MMF forward purchasing system shot up by 143.0% to KRW 279.0 billion from a year ago. This resulted from bonds borrowing by securities firms in the wake of a shortage of RP bonds available for sale to their customers due to the concentration of floating capital in MMFs. Volume in this area should continue growing due to changes in the interest rate structure at the Bank of Korea, which will be based on RP yield rates instead of call rates. Another factor will be an expected upturn in demand for arbitrage trading between government bond spots and futures.

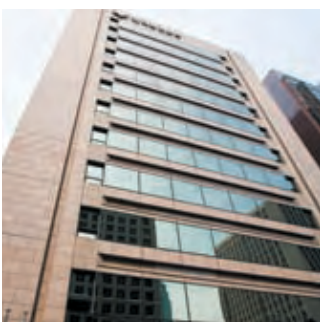
### Stock Borrowing and Lending Brokerage Service

KSFC gained the right to lend its stock holdings when it was allowed to offer a stock borrowing and lending brokerage service in December 2007. Our volume of transactions for stock borrowing and lending has increased dramatically since then, mainly due to our dealings with non-Koreans and foreign-based securities firms.

In addition, the maximum limit for securities borrowing by non-residents increased to KRW 50.0 billion from KRW 30.0 billion, with amounts in excess of that also being allowed subject to advance notice being given to the Bank of Korea. These less stringent regulations led to a rise of about 144.0% in borrowings by non-residents, which reached KRW 24.8 trillion at the end of fiscal 2007 (compared to KRW 10.2 trillion a year earlier).

Despite being a latecomer to stock borrowing and lending brokerage services, we expect to post our largest-ever results in fiscal 2008. This will be due to the diversity of our stock holdings, a rise in the use of our service by domestic stock lenders and borrowers, and the provision of supplementary benefits as a financial institution.

## SECURITIES BORROWING, LENDING, AND BROKERAGE SERVICES





## Financial Section

Despite unstable economic and stock market conditions, KSFC post healthy results.

- Assets rose by 23.0% over the year to KRW 23.2 trillion, while net income surged by 34.1% to KRW 61.3 billion, and return on equity (ROE) also improved by 2.2% year-on-year to 10.1%.





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## Independent Auditors' Report

ENGLISH TRANSLATION OF A REPORT ORIGINALLY ISSUED IN KOREAN

**Deloitte.**

**Deloitte Anjin LLC**

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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, 2008 and 2007, and the related statements of income, appropriations of retained earnings, the statement of changes in shareholders' equity 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, 2008 and 2007, and the results of its operations, changes in its retained earnings, the changes in shareholders' equity 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, changes in shareholders' equity 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 30, 2008

This report is effective as of April 30, 2008, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

## Balance Sheets

AS OF MARCH 31, 2008 AND 2007

	(Unit: Won in millions)	
	2008	2007
<b>ASSETS</b>		
Cash and due from banks (Notes 3, 17, 22 and 25)	₩5,769,574	₩3,101,257
Securities (Notes 4 and 17)	3,034,727	3,316,503
Loans (Notes 5, 6 and 17)	4,128,297	2,020,060
Property and Equipment (Note 7)	27,256	29,039
Other assets (Notes 8 and 9)	143,236	86,108
	<b>₩13,103,090</b>	<b>₩8,552,967</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Deposits (Notes 10, 17 and 22)	8,029,615	5,289,967
Borrowings (Notes 11 and 17)	4,147,156	2,315,454
Other liabilities (Notes 12, 13, 14, and 19)	301,019	362,727
	12,477,790	7,968,148
<b>SHAREHOLDERS' EQUITY (Note 16):</b>		
Common stock	340,000	340,000
Capital surplus	21,767	21,767
Capital adjustment	(10,158)	(9,371)
Accumulated other comprehensive income	(1,851)	1,515
Retained earnings	275,542	230,908
	625,300	584,819
	<b>₩13,103,090</b>	<b>₩8,552,967</b>

See accompanying notes to financial statements.

## Statements Of Income

FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

	(Unit: Won in millions except per share amounts)	
	2008	2007
<b>OPERATING REVENUE:</b>		
Interest income (Note 17):		
Interest on due from banks in local currency	₩373,384	₩142,791
Interest on due from banks in foreign currencies	3,086	904
Interest on securities	101,102	108,983
Interest on loans	227,806	138,636
	705,378	391,314
Gain on valuation and disposal of securities:		
Gain on disposal of trading securities	144,090	26,330
Gain on valuation of trading securities	45,660	41,188
Gain on disposal of available-for-sale securities	211	3,065
	189,961	70,583
Commission income	6,475	5,944
Foreign exchange trading income	4,786	953
Income from trust account (Note 2)	10,931	9,199
Dividends income	1,838	585
Other operating income:		
Gain on derivatives trading (Note 15)	2,546	379
Rental income	726	713
	3,272	1,092
Total operating revenues	922,641	479,670
<b>OPERATING EXPENSES:</b>		
Interest expenses (Note 17):		
Interest on deposits in local currency	580,952	267,201
Interest on deposits in foreign currencies	3,024	872
Interest on borrowings	72,886	23,042
Interest on bonds payable	28,473	24,579
Other interest expenses	79,247	53,568
	764,582	369,262
Loss on valuation and disposal of securities:		
Loss on disposal of trading securities	6,625	1,341
Loss on valuation of trading securities	8,553	2,401
Loss on disposal of available-for-sale securities	3,050	53
	18,228	3,795
Gain on valuation and disposal of Loans	11,360	1,829
Commission expenses	3,344	3,464
Foreign exchange trading losses	4,790	952
General and administrative expenses (Notes 18, 23 and 24)	41,187	37,161
Other operating expenses:		
Loss on derivatives trading (Note 15)	2,566	457
Other operating expenses	12	10
	2,578	467
Total operating expenses	846,069	416,930
<b>OPERATING INCOME</b>	<b>₩76,572</b>	<b>₩62,740</b>
(Continued)		

## Statements Of Income (Continued)

FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

	(Unit: Won in millions except per share amounts)	
	2008	2007
NON-OPERATING INCOME :		
Interest income	₩59	₩64
Income from severance insurance	314	202
Gain on disposal of property and equipment	178	91
Gain on disposal of investments	706	-
Reversal of Contingent liabilities (Note 14)	8,221	-
Miscellaneous Revenues	853	1,747
	10,331	2,104
NON-OPERATING INCOME :		
Loss on disposal of property and equipment	-	11
Loss on disposal of investments	13	-
Donation (Note 23)	874	1,083
Provision of Contingent liabilities (Note 14)	95	940
Loss on management of securities financing	3	-
Miscellaneous Losses	489	198
	1,474	2,232
INCOME BEFORE INCOME TAX	85,429	62,612
INCOME TAX EXPENSE (Note 19)	24,123	16,910
NET INCOME	<b>₩61,306</b>	<b>₩45,702</b>
NET INCOME PER SHARE (Note 20)	<b>₩919</b>	<b>₩684</b>

See accompanying notes to financial statements.

## Statements Of Appropriations Of Retained Earnings

FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

	(Unit: Won in millions)	
	2008	2007
RETAINED EARNINGS BEFORE APPROPRIATIONS:		
Beginning of the year	₩66	₩36
Net income	61,306	45,702
	61,372	45,738
APPROPRIATIONS:		
Legal reserve (Note 17)	7,000	5,000
Reserve for dividends	34,300	24,000
Cash dividends (Note 21)	19,980	16,672
	61,280	45,672
UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED FORWARD TO SUBSEQUENT YEAR	₩92	₩66

See accompanying notes to financial statements.

## Statements Of Changes In Shareholders' Equity

FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

(Unit: Won in millions)

	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total
As of April 1, 2006	₩340,000	₩21,767	₩(8,444)	₩4,497	₩211,926	₩569,746
Dividend	-	-	-	-	(26,720)	(26,720)
Retained earnings after appropriations	-	-	-	-	185,206	543,026
Net income	-	-	-	-	45,702	45,702
Valuation of available-for-sale securities	-	-	-	(2,982)	-	(2,982)
Purchase of treasury stock	-	-	(927)	-	-	(927)
As of March 31, 2007	340,000	21,767	(9,371)	1,515	230,908	584,819
As of April 1, 2007	340,000	21,767	(9,371)	1,515	230,908	584,819
Dividend	-	-	-	-	(16,672)	(16,672)
Retained earnings after appropriations	-	-	-	-	214,236	568,147
Net income	-	-	-	-	61,306	61,306
Valuation of available-for-sale securities	-	-	-	(3,366)	-	(3,366)
Purchase of treasury stock	-	-	(787)	-	-	(787)
As of March 31, 2008	<b>₩340,000</b>	<b>₩21,767</b>	<b>₩(10,158)</b>	<b>₩(1,851)</b>	<b>₩275,542</b>	<b>₩625,300</b>

See accompanying notes to financial statements.

## Statements Of Cash Flows

FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

	(Unit: Won in millions)	
	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	₩61,306	₩45,702
Adjustments to reconcile net income to net cash provided by (used in)		
operating activities:		
Provision for possible loan losses	11,359	1,829
Depreciation	2,413	3,209
Amortization on intangible assets	113	25
Provision for retirement and severance benefits	2,317	1,293
Loss on valuation of trading securities	8,553	2,401
Loss on foreign exchange translation	3,945	476
Provision for Contingent liabilities	95	941
Gain on valuation of trading securities	(45,660)	(41,188)
Interest income (amortization of available-for-sale securities)	(1,621)	(2,316)
Gain on disposal of property and equipment	(178)	(91)
Gain on disposal of investment assets	(706)	-
Gain on foreign exchange translation	(2,079)	(476)
Reversal of Contingent liabilities	(8,221)	-
Others, net	387	115
	(29,283)	(33,782)
Net decrease in trading securities	25,790	1,100,965
Net decrease in available-for-sale securities	290,071	121,778
Net decrease (increase) in loans	(2,119,596)	603,103
Net increase in prepaid expenses	(10,254)	(1,768)
Net increase in accrued income	(48,864)	(2,119)
Net decrease in deferred income tax assets	-	8,257
Net decrease in unearned revenues	(7,757)	(44,769)
Net increase in accrued expenses	14,967	2,068
Net increase in deferred income tax liabilities	19,815	10,722
Payment of severance benefits	(1,058)	(1,021)
Net increase in severance insurance deposits	(1,304)	(460)
Others, net	(19,701)	(40,616)
	(1,857,891)	1,756,140
Net cash provided by (used in) operating activities	(1,825,868)	1,768,060
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Disposal of property and equipment	352	315
Disposal of investment assets	2,034	2,144
Purchase of property and equipment	(805)	(3,024)
Purchase of intangible assets	(223)	(400)
Purchase of investment assets	(2,687)	(2,639)
Net cash used in investing activities	₩(1,329)	₩(3,604)

(Continued)



## Statements Of Cash Flows (Continued)

FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

	(Unit: Won in millions)	
	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in deposits	₩654,036,890	₩208,567,850
Increase in borrowings	13,121,300	28,723,200
Increase in call money	183,200,120	174,613,300
Increase in securities sold under repurchase agreements	7,900,142	1,226,824
Increase in guarantee deposits	67,475,519	27,110,987
Issuance of bonds	356,773	439,682
Increase in foregift	107,266	-
Increase in deposits Received	224	86
Increase in borrowings from Trust Account	27,387	-
Decrease in deposits	(651,299,109)	(210,246,875)
Decrease in borrowings	(12,341,500)	(27,962,000)
Decrease in call money	(182,552,120)	(174,826,900)
Decrease in securities sold under repurchase agreements	(7,407,675)	(1,408,199)
Decrease in guarantee deposits	(67,558,657)	(26,907,596)
Repayment of bonds payables	(445,710)	(779,480)
Decrease in foregift	(107,266)	-
Decrease in deposits Received	(609)	(99)
Acquisition of treasury stock	(787)	(927)
Payment of dividends	(16,674)	(26,710)
Net cash provided by (used in) financing activities	4,495,514	(1,476,857)
NET INCREASE IN CASH AND DUE FROM BANKS	2,668,317	287,599
CASH AND DUE FROM BANKS, BEGINNING OF YEAR	3,101,257	2,813,658
CASH AND DUE FROM BANKS, END OF YEAR	<b>₩5,769,574</b>	<b>₩3,101,257</b>

See accompanying notes to financial statements.

## Notes To Financial Statements

FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

### 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, 2008, 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 regarded as possible to realize the revenue.

#### 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 accumulated other comprehensive income. Accumulated other comprehensive income 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 accumulated other comprehensive income 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 accumulated other comprehensive income 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 accumulated other comprehensive income. 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.

#### ( 5 ) Reclassification of Securities

When held-to-maturity securities are reclassified to available-for-sale securities, those securities are accounted for at fair value on the reclassification date and the difference between the fair value and book value is reported in accumulated other comprehensive income as gain or loss on valuation of available-for-sale securities. When available-for-sale securities are reclassified to held-to-maturity securities, gain or loss on valuation of available-for-sale securities, which had been recorded until the reclassification date, continue to be included in accumulated other comprehensive income and be amortized using the effective interest rate method and the amortized amount is charged to interest income until maturity. The difference between the fair value at the reclassification date and face value of the reclassified securities to held-to-maturity securities is amortized using effective interest rate method and the amortized amount is charged to interest income. In addition, when certain trading securities lose their marketability, such securities are reclassified as available-for-sale securities at fair market value as of reclassification date.

### Transfer of Securities

When the realization, expiration or sale of the right to obtain the economic benefits arises and the control of securities is lost from the sale of the securities, the unrealized valuation gain or loss of securities included in the accumulated other comprehensive income is added to or deducted from the gain or loss on disposal of securities. The gain or loss is the difference between the net proceeds receivable or received and its carrying value. When securities are transferred without losing control of the securities, the transaction is recorded as secured borrowing transaction.

### Securities under Resale or Repurchase Agreements

Securities purchased under resale agreements are recorded as loans and securities sold under repurchase agreements are recorded as borrowings when the Company purchases or sells securities under resale or repurchase agreements.

## Notes To Financial Statements

FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

### 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, 2008.

The Company classifies credits as of March 31, 2008 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 (as substandard in case of exceeding in collective value) 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 (credits grades of 9 and 10 in case of exceeding in collective value as doubtful and estimated loss, respectively). In case of corporation trust lending, credits of grades of 1 to 5 are classified as normal, credits of 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:

#### 1) Company

Classification	Normal	Pre-cautionary	Standard	Doubtful	Estimated loss
All loans excluding loans secured by unlisted stock	0.85%	7.00%	20.00%	50.00%	100.00%
Loans secured by unlisted stock	0.85%	8.40%	24.00%	60.00%	100.00%

#### 2) Private

Classification	Normal	Pre-cautionary	Standard	Doubtful	Estimated loss
All loans excluding loans secured by unlisted stock	1.00%	10.00%	20.00%	55.00%	100.00%
Loans secured by unlisted stock	1.00%	12.00%	24.00%	66.00%	100.00%

Also, allowance for possible loan losses to be provided includes allowance on 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.

Due to such change of accounting estimation, allowances for possible loan losses increased by ₩2,283 million and net income decreased by ₩1,655 million for the year ended March 31, 2008.

### 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	15~25
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.

### Recognition of Impairment of Assets

When the book value of assets (other than securities and assets valued at present value) exceeds the collective value of the assets due to obsolescence, physical damage or a sharp decrease in market value and the difference is material, the book value are adjusted to collective value in the balance sheet and the resulting impairment loss is charged to current operations. If the collective value of the assets increases in subsequent years, the increase in value is credited to operations as gain until the collective value equals the book value of assets that would have been determined had no impairment loss been recognized. The Company assessed the collective value based on expected selling price or appraisal value.

### 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. 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.

Since April 1999, according to a revision in the National Pension Law, the Company and its employees each pay 4.5 percent of monthly pay to the Fund. The transferred national pension fund is presented as a deduction from accrued severance indemnities.

### 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. 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. Tax payable and deferred income tax assets or liabilities regarding to certain items are charged or credited directly to related components of accumulated other comprehensive income.

### 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.

### Contingent Liabilities

A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence 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.

## Notes To Financial Statements

FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

### 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 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 an accumulated other comprehensive income and the ineffective portion is recorded in current operations. The effective portion of gain or loss recorded as an accumulated other comprehensive income 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 accumulated other comprehensive income is added to or deducted from the asset or the liability.

### Accounting for Trust Account

The Company separately maintains the books of accounts and financial statements in connection with the trust operations (the trust account) from those of the Company accounts in accordance with the Trust Business Act. The Company receives fees for operation and management of the trust business, which are accounted as fees and commissions from trust account.

Also, the Company receives fees for deposit and management of the trust business as a trustee in accordance with the Act on business of operating indirect investment and assets, which are included in fees and commissions from trust account. The borrowings from the Company accounts related with trust business as a trustee in accordance with the Act on business of operating indirect investment are recorded as due from trust account of the Company accounts. In addition, all due from trust account of the Company accounts are borrowed from trust business as a trustee in accordance with the Act on business of operating indirect investment for the years ended of March 31, 2008 and 2007.

(Unit: Won in millions)

Classification	2008	2007
Fees and commissions from trust account:	₩10,931	₩9,199
Fee on trust account	6,256	5,644
Fee on trust account as a trustee	4,675	3,552
Account receivable interest from trust	-	3
Loss on trust account:	-	-
Account payable interest from trust	-	-

### 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 (₩991.70 and ₩940.30 to US\$ 1.00 at March 31, 2008 and 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 adopted SKAS No. 1 (Accounting Changes and Error Corrections) through SKAS No. 20 (Related Party Disclosures) (excluding SKAS No. 14) as of or before March 31, 2007, and SKAS No. 11 (Discontinued Operation) and SKAS No. 21 (Preparation and Presentation of Financial Statements) through SKAS No. 25 (Consolidated Financial Statements) have been adopted since April 1, 2007.

With the adoption of SKAS No. 21 (Preparation and Presentation of Financial Statements) and SKAS No. 24 (Preparation and Presentation of Financial Statements [Financial Industry]), the Company included the statement of changes in shareholders' equity in the financial statements, and reclassified the components of the balance sheets as follows:

Classification	Before	After
Assets	- Current assets - Non – current assets	- Cash and due from banks - Securities - Loans - Property and equipment - Other assets
Liabilities	- Current liabilities - Non – current liabilities	- Deposits - Borrowings - Other liabilities
Shareholders' Equity	- Common stock - Capital surplus - Retained earnings - Capital adjustments	- Common stock - Capital surplus - Capital adjustments - Accumulated other comprehensive income - Retained earnings

In addition, a discontinued operation is separately presented in the income statements and extraordinary items are no longer reported separately. The Company has reclassified the components of the income statements; such as, gains or losses relating to available-for-sale securities and sale of loans that were presented under non-operating revenue (expenses) are currently presented under operating revenue (expenses). The financial statements for the prior period were restated for comparative purposes due to the application of No. 21 and No. 24. The restatement did not affect the previously reported prior period's net income or shareholders' equity. But in case of balance sheet of prior year, deferred income tax liabilities accounted as a current liabilities were offset by deferred income tax assets accounted as a non – current assets. As a result, total amount of assets reduced by ₩2,769 millions.

The effect of the changes in the classification of the income statement for the years then ended March 31, 2007 is as follows:

(Unit: Won in millions)

Classification	Before	After	Effect
Operating Revenue	₩476,606	₩479,670	₩3,064
Operating Expenses	416,878	416,930	52
Operating Income	59,728	62,740	3,012
Non-operating Revenue	5,733	2,104	(3,629)
Non-operating Expenses	2,285	2,232	(53)
Income before Income Tax	63,176	62,612	(564)
Income Tax Expense	17,474	16,910	(564)
Net Income	₩45,702	₩45,702	-
Basic Net Income per Share	₩684	₩684	-

(\*) No gain (loss) of discontinued operation is stated separately because there is no gain (loss) of discontinued operation.

## Notes To Financial Statements

FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

In addition, the Company has reclassified the components of the cash flows; such as, changes in available-for-sale securities, held-to-maturity securities and loans that were presented under cash flows from investing activities are currently presented under cash flows from operating activities. The accompanying statement of cash flows for the years ended March 31, 2007, which is presented for comparative purposes, was restated due to the application of SKAS No. 21 and No. 24. The restatement did not affect the previously reported prior period's increase (decrease) of cash flow.

The statements of cash flows for the year ended March 31, 2007 before and after the restatement are as follows:

Description	(Unit: Won in millions)		
	Before	After	Effect
Cash flows from operating activities	₩(85,315)	₩1,771,459	₩1,856,774
Cash flows from investing activities	1,849,782	(3,603)	(1,853,385)
Cash flows from financing activities	(1,476,868)	(1,480,257)	(3,389)
Net increase in cash and cash equivalents	287,599	287,599	-
Cash and cash equivalents, beginning of the year	2,813,658	2,813,658	-
Cash and cash equivalents, end of the year	₩3,101,257	₩3,101,257	-

The Korea Accounting Standard Board (KASB) under the Korea Accounting Institute (KAI) revised the Statements of Korea Accounting Standards (SKAS) No. 5 (property and equipment), No. 9 (dilutive securities), No. 15 (equity method), No. 16 (income tax account), No. 19 (lease), No. 20 (disclosure of affiliated party), No. 24 (Preparation and Presentation of Financial Statements [Financial Industry]) and the Interpretations on Financial Accounting Standards 53-70 on accounting for derivative instruments. The Company early adopted the SKAS revised as of March 31, 2008. The major revision of SKAS is as follow:

Related SKAS	Major revision
SKAS NO. 16	<ul style="list-style-type: none"> <li>- Income taxes expenses include additional income taxes for prior years and refund of prior years' income taxes</li> <li>- The requirements of footnote are revised partially (Disclose both total effect of income taxes and allocation of income taxes within inter-period as a components of income taxes expenses) (Add on relation between income before income tax and income tax expenses, instead of eliminating the list of tax reconciliation)</li> </ul>

In addition, the financial statements for the prior period were restated for comparative purposes due to the application of revised SKAS above. The restatement did not affect the previously reported prior period's net income or shareholders' equity.

### 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 29, 2008.



3. CASH AND DUE FROM BANKS:

Cash and due from banks as of March 31, 2008 and 2007 are summarized as follows:

Classification	Annual Interest rate(%)	(Unit: Won in millions)	
		2008	2007
Cash and due from banks in Won:			
Cash	-	₩11	₩6
General deposits and others	-	36	70
Current deposit	-	62	40
Time deposit	5.63~6.88	1,082,000	258,000
Money Market Deposit Account (MMDA)	5.05~5.15	2,190,033	1,791,416
Cash management account (CMA)	5.15	200,000	-
Certificate of deposit (CD)	5.16~7.00	2,221,087	970,162
		5,693,218	3,019,688
Cash and due from banks in foreign currencies:			
Time deposit	0.44~3.31	76,345	25,456
Money Market Deposit Account (MMDA)	4.15	-	56,107
		76,345	81,563
		₩5,769,574	₩3,101,257

4. SECURITIES:

( 1 ) Securities as of March 31, 2008 and 2007 are summarized as follows:

Classification	(Unit: Won in millions)	
	2008	2007
Trading securities:		
Stocks	₩6,524	₩3,083
Mutual fund	21,425	38,143
Beneficiary certificates	1,486,143	1,276,115
Negotiable papers	123,234	-
Government and public bonds	23,157	76,784
Financial debentures	179,605	561,273
Corporate bonds	404,254	275,640
Others	8,887	10,874
	2,253,229	2,241,912
Available-for-sale securities:		
Stocks	4,765	4,726
Equity investment	8,381	801
Beneficiary Interest in Investment Funds	4,070	-
Government and public bonds	79,842	53,467
Finance debentures	396,906	741,698
Corporate bonds	267,534	248,780
Others	-	5,119
	761,498	1,054,591
Held-to-maturity securities:		
Others	20,000	20,000
	₩3,034,727	₩3,316,503

## Notes To Financial Statements

FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

( 2 ) The valuation of securities as of March 31, 2008 and 2007 consisted of the following:

March 31, 2008

(Unit: Won in millions)

Classification	Acquisition cost (*)	Adjusted value (**)	Fair value	Book value
Trading securities:				
Stocks	₩6,735	-	₩6,524	₩6,524
Mutual fund	20,000	-	21,425	21,425
Beneficiary certificates	1,448,622	-	1,486,143	1,486,143
Negotiable papers	123,228	123,228	123,234	123,234
Bonds	607,535	607,535	607,016	607,016
Others	10,000	10,000	8,887	8,887
	<b>₩2,216,120</b>	<b>₩740,763</b>	<b>₩2,253,229</b>	<b>₩2,253,229</b>
Available-for-sale securities:				
Stocks	4,712	-	38,547	4,765
Equity investment	17,740	-	8,381	8,381
Beneficiary Interest in Investment Funds	4,070	-	4,070	4,070
Bonds	747,889	748,147	744,282	744,282
	<b>₩774,411</b>	<b>₩748,147</b>	<b>₩795,280</b>	<b>₩761,498</b>
Held-to-maturity securities:				
Others	<b>₩20,000</b>	<b>₩20,000</b>	<b>₩20,000</b>	<b>₩20,000</b>

March 31, 2007

(Unit: Won in millions)

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	915,443	913,697	913,697
Others	10,000	-	10,874	10,874
	<b>₩2,192,074</b>	<b>₩915,443</b>	<b>₩2,241,912</b>	<b>₩2,241,912</b>
Available-for-sale securities:				
Stocks	4,712	-	34,569	4,726
Equity investment	1,272	-	801	801
Bonds	1,039,901	1,043,763	1,043,945	1,043,945
Others	5,000	-	5,119	5,119
	<b>₩1,050,885</b>	<b>₩1,043,763</b>	<b>₩1,084,434</b>	<b>₩1,054,591</b>
Held-to-maturity securities:				
Others	<b>₩20,000</b>	-	<b>₩20,000</b>	<b>₩20,000</b>

(\*) 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.

The fair values of trading and available-for-sale debt securities in Won were assessed by applying the average of base prices as of balance sheet dates, provided by the bond pricing service institutions.

( 3 ) Available-for-sale equity securities as of March 31, 2008 and 2007 consisted of the following:

March 31, 2008

(Unit: Won in millions)

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	0.03	₩206	₩259	₩259
Unlisted equity securities:					
Koscom Co., Ltd.	195,238	3.65	976	6,357	976
Korea Exchange	424,746	2.12	3,500	31,617	3,500
Korea Securities Depository	3,413	0.06	30	314	30
			4,506	38,288	4,506
Equity investments					
Hankang Restructuring Fund (*)	2,080,000	1.64	10,400	1,041	1,041
KTB2007 private investment company	7,340,000,000	4.35	7,340	7,340	7,340
			17,740	8,381	8,381
Beneficiary certificates					
Miraemaps frontier private real estate fund 24	-	-	4,070	4,070	4,070
<b>Total</b>			<b>₩26,522</b>	<b>₩50,998</b>	<b>₩17,216</b>

March 31, 2007

(Unit: Won in millions)

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	0.03	₩206	₩220	₩220
Unlisted equity securities:					
Koscom Co., Ltd.	195,238	3.65	976	5,723	976
Korea Exchange	424,746	2.12	3,500	28,377	3,500
Korea Securities Depository	3,413	0.05	30	249	30
			4,506	34,349	4,506
Equity investments					
Hankang Restructuring Fund (*)	2,080,000	1.64	1,272	801	801
<b>Total</b>			<b>₩5,984</b>	<b>₩35,370</b>	<b>₩5,527</b>

(\*) 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, 2008.

The unlisted equity are stated at acquisition cost because estimation of cash flow is not reasonable or the comparative company which are similar in business sector and volume is not exist or the valuation is considered as being unreliable due to difficulty to acquire basic information for valuation, their fair values could not be measured reliably.

## Notes To Financial Statements

FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

( 4 ) Assets of private beneficiary certificates included in trading securities as of March 31, 2008 and 2007 were as follows:

Classification	(Unit: Won in millions)	
	2008	2007
Stocks	₩116	₩9,820
Government and public bonds	-	10,875
Finance bonds	9,318	10,656
Call loans	1,801	4,701
Corporate bonds	9,975	-
Deposit due from banks	223	291
Other assets	-	3,286
Assets	21,433	39,629
Liabilities	8	1,486
Net assets	₩21,425	₩38,143

( 5 ) The portfolio of securities, by type, as of March 31, 2008 and 2007 consisted of the following:

Classification	2008		2007	
	Securities in local currency	Percentage (%)	Securities in currency	Percentage (%)
Trading securities:				
Stocks	₩6,524	0.21	₩3,083	0.09
Mutual fund	21,425	0.71	38,143	1.15
Beneficiary certificates	1,486,143	48.97	1,276,115	38.48
Fixed rate bonds	607,016	20.00	913,697	27.55
Negotiable papers	123,234	4.06	-	-
Others	8,887	0.30	10,874	0.33
	2,253,229	74.25	2,241,912	67.60
Available-for-sale securities:				
Equity securities	4,765	0.16	4,726	0.14
Equity investments	8,381	0.28	801	0.03
Beneficiary Interest in Investment Funds	4,070	0.13	-	-
Fixed rate bonds	744,282	24.52	1,043,945	31.48
Others	-	-	5,119	0.15
	761,498	25.09	1,054,591	31.80
Held-to-maturity securities:				
Fixed rate bonds	20,000	0.66	20,000	0.60
	₩3,034,727	100.00	₩3,316,503	100.00

( 6 ) Changes in the gain (loss) on valuation of available-for-sale securities, reflected in accumulated other comprehensive income for the years ended March 31, 2008 and 2007 were as follows:

March 31, 2008

(Unit: Won in millions)

Classification	Beginning	Increase	Decrease	Disposal	Ending
Available-for-sale securities:					
Equity securities	₩306	₩279	-	-	₩585
Bonds	1,665	-	3,859	(945)	(3,139)
Others	119	1	-	(119)	1
	2,090	280	3,859	(1,064)	(2,553)
Deferred income tax	(575)	(77)	(1,061)	293	702
	<b>₩1,515</b>	<b>₩203</b>	<b>₩2,798</b>	<b>₩(771)</b>	<b>₩(1,851)</b>

March 31, 2007

(Unit: Won in millions)

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	(1,705)	(90)	-	1,220	(575)
	<b>₩4,497</b>	<b>₩233</b>	<b>-</b>	<b>₩(3,215)</b>	<b>₩1,515</b>

( 7 ) Term structure of securities (except for stocks and equity investments) in available-for-sale and held-to-maturity securities as of March 31, 2008 and 2007 was as follows:

March 31, 2008

(Unit: Won in millions)

Classification	Government and public bonds	Finance bonds	Corporate bonds	Total
Available-for-sale securities:				
Less than 3 months	₩9,981	₩69,976	-	₩79,957
Less than 6 months	19,884	57,914	19,975	97,773
Less than 1 year	49,977	149,834	59,797	259,608
Less than 2 years	-	109,380	148,492	257,872
Less than 3 years	-	-	29,609	29,609
Less than 4 years	-	9,802	9,661	19,463
	79,842	396,906	267,534	744,282
Held-to-maturity securities:				
More than 10 years	-	20,000	-	20,000
	<b>₩79,842</b>	<b>₩416,906</b>	<b>₩267,534</b>	<b>₩764,282</b>

## Notes To Financial Statements

FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

March 31, 2007

(Unit: Won in millions)				
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	43,672	240,107	80,180	363,959
Less than 2 years	9,795	380,771	30,213	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
	53,467	741,698	248,780	1,043,945
Held-to-maturity securities:				
More than 10 years	-	20,000	-	20,000
	₩53,467	₩761,698	₩248,780	₩1,063,945

( 8 ) Securities provided as collateral as of March 31, 2008 and 2007 were as follows:

(Unit: Won in millions)			
Provided to	Face value		Provided for
	2008	2007	
Others	578,096	115,000	Securities sold under repurchase agreements
	₩578,096	₩115,000	

### 5. LOANS:

( 1 ) Loans as of March 31, 2008 and 2007 are summarized as follows:

(Unit: Won in millions)		
Accounts	2008	2007
Call loans	₩545,200	₩250,000
Notes discounted	68,900	42,200
Securities purchased under resale agreements	951,000	190,000
Margin financing loans	750,194	179,221
Working capital loans	22,600	-
Loans to support secured financing	246,762	280,544
Loans to support uncollected financing	2,399	103,521
Loans for employees' stock acquisition	502,961	443,146
Loans secured by employees' stocks	17,719	5,122
General secured loans	1,045,453	539,845
Loans secured by subscription deposit for forfeited shares	36	31
	4,153,224	2,033,630
Less: allowance for possible loan losses	(24,927)	(13,570)
	₩4,128,297	₩2,020,060

6. ALLOWANCE FOR  
POSSIBLE  
LOAN LOSSES:

( 2 ) The loans to financial institutions as of March 31, 2008 and 2007 were as follows:

Classification	(Unit: Won in millions)	
	2008	2007
Banks	₩851,000	₩150,000
Securities	1,636,056	791,736
Others	85,633	9,750
	<b>₩2,572,689</b>	<b>₩951,486</b>

( 1 ) The allowance for possible loan losses as of March 31, 2008 are summarized as follows:

Classification	(Unit: Won in millions)					
	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Call loan	-	-	-	-	-	-
Margin financing loans	6,377	-	-	-	-	6,377
Working capital loans	192	-	-	-	-	192
Loans to refinance						
securities-secured loans	2,097	-	-	-	-	2,097
Receivables-in-cash						
financing Loans	20	-	-	-	-	20
Loans for Esop						
stock acquisition	4,142	1,062	141	39	5	5,389
Loans secured by						
employees' stocks	151	1	-	-	-	152
General secured loans	9,918	182	14	-	-	10,114
Loans secured by						
subscription deposit						
for forfeited shares	-	-	-	-	-	-
Notes discounted	586	-	-	-	-	586
Securities purchased						
under resale						
agreements	-	-	-	-	-	-
	<b>₩23,483</b>	<b>₩1,245</b>	<b>₩155</b>	<b>₩39</b>	<b>₩5</b>	<b>₩24,927</b>

## Notes To Financial Statements

FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

( 2 ) The allowance for possible loan losses as of March 31, 2007 was summarized as follows:

(Unit: Won in millions)

Classification	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Call loan	-	-	-	-	-	-
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
Loans secured by subscription deposit for forfeited shares	-	-	-	-	-	-
Notes discounted	295	-	-	-	-	295
Securities purchased under resale agreements	-	-	-	-	-	-
	<b>₩12,103</b>	<b>₩1,461</b>	<b>₩5</b>	<b>₩1</b>	<b>-</b>	<b>₩13,570</b>

( 3 ) The changes in allowance for possible loan losses for the years ended March 31, 2008 and 2007 were as follows:

(Unit: Won in millions)

Classification	2008	2007
Beginning balance	₩13,570	₩11,728
Provision for possible loan losses	11,359	1,829
Write-off of bad debts	(2)	-
Recovery of bad debts	-	13
Ending balance	<b>₩24,927</b>	<b>₩13,570</b>

## 7. PROPERTY AND EQUIPMENT:

( 1 ) Property and equipment as of March 31, 2008 and 2007 were as follows:

(Unit: Won in millions)

Classification	2008			2007		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Land	₩15,264	-	₩15,264	₩15,299	-	₩15,299
Buildings	12,157	2,473	9,684	12,238	2,208	10,030
Structures	223	90	133	195	81	114
Office equipment	20,087	17,918	2,169	19,351	15,824	3,527
Vehicles	39	33	6	266	197	69
	<b>₩47,770</b>	<b>₩20,514</b>	<b>₩27,256</b>	<b>₩47,349</b>	<b>₩18,310</b>	<b>₩29,039</b>



( 2 ) The changes in book value of property and equipment for the year ended March 31, 2008 consisted of the following:

(Unit: Won in millions)

Classification	Beginning	Acquisition	Disposal	Replacement	Depreciation	Ending
Land	₩15,299	-	₩35	-	-	₩15,264
Buildings	10,030	-	63	-	283	9,684
Structures	114	28	-	-	9	133
Office equipment	3,527	777	29	-	2,106	2,169
Vehicles	69	-	48	-	15	6
	<b>₩29,039</b>	<b>₩805</b>	<b>₩175</b>	-	<b>₩2,413</b>	<b>₩27,256</b>

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
	<b>₩29,460</b>	<b>₩3,024</b>	<b>₩236</b>	-	<b>₩3,209</b>	<b>₩29,039</b>

( 3 ) The published value of land as March 31, 2008 and 2007 was as follows:

(Unit: Won in millions)

Classification	Book value		Published value	
	2008	2007	2008	2007
Land	₩15,264	₩15,299	₩18,125	₩18,068

( 4 ) Property and equipment insured as of March 31, 2008 were as follows:

(Unit: Won in millions)

Type	Insured assets	Insured amount	Insurance company
Fire Insurance	Buildings	₩12,225	Hyundai Marine & Fire Insurance Co., Ltd.
Comprehensive insurance	Office equipment	3,007	Samsung Fire & Marine Insurance Co., Ltd.
Comprehensive insurance	Office equipment	2,388	Samsung Fire & Marine Insurance Co., Ltd.
Liability insurance	Others	380	Samsung Fire & Marine Insurance Co., Ltd.
		<b>₩18,000</b>	

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.
		<b>₩18,752</b>	

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

## Notes To Financial Statements

FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

### 8. OTHER ASSETS:

( 1 ) Other assets as of March 31, 2008 and 2007 consisted of:

(Unit: Won in millions)

Accounts	2008	2007
Intangible assets (see Note 9)	₩485	₩375
Prepaid expenses	21,248	10,994
Accrued income	84,605	35,741
Prepaid income tax payments	15,951	13,807
Investment assets	14,108	12,761
Sundry assets	6,839	12,430
	<b>₩143,236</b>	<b>₩86,108</b>

( 2 ) Sundry assets included in other assets as of March 31, 2008 and 2007 consisted of:

(Unit: Won in millions)

Accounts	2008	2007
Accounts receivables	₩84	₩522
Other advance payments	168	144
Advance payments of interest on loans	6,586	6,629
Prepaid VAT	1	-
Guarantee deposits	-	5,135
	<b>₩6,839</b>	<b>₩12,430</b>

### 9. INTANGIBLE ASSETS:

( 1 ) Intangible assets as of March 31, 2008 consisted of:

(Unit: Won in millions)

	Acquisition cost	Accumulated amortization	Book value
Softwear	₩623	₩138	₩485

Intangible assets as of March 31, 2007 consisted of:

(Unit: Won in millions)

	Acquisition cost	Accumulated amortization	Book value
Softwear	₩400	₩25	₩375

( 2 ) The changes in intangible assets for the years ended March 31, 2008 were as follows:

(Unit: Won in millions)

	Beginning	Increase	Amortization	Ending
Softwear	₩375	₩223	₩113	₩485

The changes in intangible assets for the year ended March 31, 2007 were as follows:

(Unit: Won in millions)

	Beginning	Increase	Amortization	Ending
Softwear	-	₩400	₩25	₩375

10. DEPOSITS:

( 1 ) Deposits as of March 31, 2008 and 2007 consisted of the following:

(Unit: Won in millions)

Classification	2008	2007
Demand deposits in Won:		
Customers' deposits received	₩4,565,266	₩3,345,734
Subscription guaranty money deposits	573,229	39,200
Securities market stabilization fund deposits	7,192	13,553
Other securities institute deposit	1,855,779	153,247
Subscription deposits for IPO shares	44	1,060
Subscription deposits for forfeited shares	25,759	37,781
Others	172,804	271,331
	7,200,073	3,861,906
Time deposits in Won:		
Other securities institute deposit	371,700	225,050
Notes payable	208,310	913,518
Others	173,337	208,115
	753,347	1,346,683
Deposits in foreign currencies:		
Customers' deposits received	76,195	81,378
	₩8,029,615	₩5,289,967

( 2 ) Notes issued as of March 31, 2008 and 2007 consisted of the following:

(Unit: Won in millions)

Resources	2008	2007
National treasury	-	₩213,000
Money Market Funds	205,291	699,610
General	3,019	908
	₩208,310	₩913,518

11. BORROWINGS:

( 1 ) Borrowings as of March 31, 2008 and 2007 consisted of:

(Unit: Won in millions)

Accounts	2008	2007
Call money	₩1,238,700	₩590,700
Securities sold under repurchase agreements	545,593	53,127
Borrowings in local currency	1,741,000	961,200
Debentures	622,060	710,710
Less : Discount on debentures	(197)	(332)
Add : Premium on debentures	-	49
	₩4,147,156	₩2,315,454

## Notes To Financial Statements

FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

( 2 ) Securities sold under repurchase agreements and call money as of March 31, 2008 and 2007 consisted of the following:

(Unit: Won in millions)				
Accounts	Financial institution	Annual interest rates (%)	2008	2007
Call money in local currency	Samsung investments Co., Ltd. and others	4.93	₩1,238,700	₩590,700
Securities sold under repurchase agreements	Hyundai securities Co., Ltd. and others	0.00~6.13	545,593	53,127
			<b>₩1,784,293</b>	<b>₩643,827</b>

( 3 ) Borrowings as of March 31, 2008 and 2007 consisted of the following:

(Unit: Won in millions)				
Accounts	Lenders	Annual interest rates (%)	2008	2007
Borrowings from banking institutions	Korea Exchange Bank and others	4.90~5.99	₩800,000	₩500,000
Other borrowings	Woori Bank and others	5.21~6.09	941,000	461,200
			<b>₩1,741,000</b>	<b>₩961,200</b>

( 4 ) Details of bonds issued as of March 31, 2008 and 2007 are summarized as follows:

(Unit: Won in millions)					
Classification	Issuance date	Maturities	Annual interest rate (%)	2008	2007
1998-1	Oct. 31, 1998	Oct. 31, 2003	6.50	₩52,060	₩115,710
2002-2	Nov. 14, 2002	Nov. 14, 2007	0.01	-	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
2006-3	Jun. 15, 2006	Jun. 15, 2009	5.08	110,000	110,000
2006-4	Jul. 27, 2006	Jul. 27, 2009	5.03	100,000	100,000
2007-1	Feb. 21, 2007	Feb. 12, 2010	5.06	20,000	20,000
2007-2	Feb. 23, 2007	Feb. 23, 2010	5.07	40,000	40,000
2007-3	Mar. 14, 2007	Mar. 14, 2010	5.06	50,000	50,000
2007-4	Mar. 29, 2007	Mar. 29, 2008	4.99	-	120,000
2008-1	Jan. 21, 2008	Jan. 21, 2011	5.90	140,000	-
				622,060	710,710
Add: premium on bonds issued				-	49
Less: discount on bonds issued				(197)	(332)
Current portion of bonds issued				<b>₩621,863</b>	<b>₩710,427</b>

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.

12. OTHER LIABILITIES:

( 1 ) Other liabilities as of March 31, 2008 and 2007 consisted of:

	(Unit: Won in millions)	
	2008	2007
Guarantee deposits	₩120,253	₩203,391
Deposit received	350	734
Borrowings from Trust Account	79,519	52,133
Unearned revenues	516	8,273
Accrued expenses	47,548	32,580
Accrued income tax	1,074	515
Contingent liabilities (see Note 14)	95	8,221
Accrued severance benefits (see Note 13)	9,865	8,606
Deposits for severance benefit insurance	(6,420)	(5,116)
Transferred to national pension fund	(89)	(97)
Deferred income tax liabilities (see Note 19)	26,491	7,953
Sundry liabilities	21,817	45,534
	<b>₩301,019</b>	<b>₩362,727</b>

( 2 ) Sundry assets among other assets as of March 31, 2008 and 2007 consisted of:

	(Unit: Won in millions)	
	2008	2007
Taxes withheld	₩1,680	₩1,317
VAT withheld	16	16
Dividends payable	392	393
Other advance receipts	8	8
Accounts payable	454	977
Accrued interest on bonds	19,267	42,823
	<b>₩21,817</b>	<b>₩45,534</b>

13. ACCRUED  
RETIREMENT  
AND SEVERANCE  
BENEFITS:

Details of changes in the accrued retirement and severance benefits for the years ended March 31, 2008 and 2007 are summarized as follows:

	(Unit: Won in millions)	
Classification	2008	2007
Balance at beginning of year	₩8,606	₩8,334
Provision for the year	2,317	1,293
Payments during the year	(1,058)	(1,021)
Balance at end of year	9,865	8,606
Less: deposits for severance benefit insurance	(6,420)	(5,116)
Less: transferred to national pension fund	(89)	(97)
	<b>₩3,356</b>	<b>₩3,393</b>

## Notes To Financial Statements

FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

### 14. 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
Credit loans:			
Korea Exchange Bank	₩20,000	Estimated market interest rate by banks + 0.70	2009.01.26
SC First Bank	100,000	Rate of return of 3 months CD + 1.20	2009.01.26
Kookmin Bank	100,000	MOR + 1.20	2009.03.20
Shinhan Bank	200,000	Internal interest rate + 0.70	2009.03.20
Woori Bank	200,000	Fixed interest rate loans + 0.60	2008.06.01
	620,000		
Overdraft:			
Korea Exchange Bank	200,000	0.70	2009.01.25
SC First Bank	300,000	"	2009.01.26
Industrial Bank of Korea	300,000	"	2009.01.30
Shinhan Bank	600,000	"	2009.03.20
Hana Bank	400,000	"	2009.03.21
Kookmin Bank	200,000	"	2009.03.20
Woori Bank	300,000	"	2009.03.17
Kwangju Bank	50,000	"	2008.08.29
National Agricultural Cooperative	200,000	"	2008.11.19
Pusan Bank	200,000	"	2008.12.01
	2,750,000		
Collateral loans:			
Korea Exchange Bank	100,000	Market interest rate	2009.01.26
Woori Bank	700,000	Discussion with the bank considering market interest	2009.03.17
Shinhan Bank	100,000	Rate of return of 3 years treasury bill + 0.15	2009.08.28
Shinhan Bank	500,000	Market interest rate	2008.06.01
	1400,000		
	<b>₩4,770,000</b>		

( 2 ) Pledged notes as of March 31, 2008 consist of:

(Unit: Won in millions)

Classification	Amount	Counter-parties	Sheets	Purpose
Note	₩941,000	Samsung securities and others	99	Commercial paper
Note	800,000	Shinhan Bank and others	71	Bank loans
Note	1,053,800	Woori investments and others	36	Call money
	<b>₩2,794,800</b>		<b>206</b>	

( 3 ) Pending lawsuits

Changes in reserve for Contingent liabilities for the year ended March 31, 2008 are as follow:

(Unit: Won in millions)

Classification	Beginning	Increase	Decrease	Ending
Reserve for Contingent liabilities	₩8,221	₩95	₩8,221	₩95

Changes in reserve for Contingent liabilities for the year ended March 31, 2007 are as follow:

Classification	(Unit: Won in millions)			
	Beginning	Increase	Decrease	Ending
Reserve for Contingent liabilities	₩7,281	₩940	-	₩8,221

The Company is subject to lawsuit litigation claiming ₩4,703 million related to the payment of anonymous bonds but eventually won the lawsuit at 9th May 2007. The company reverses all the provision for liabilities (₩8,221 million) in the current year. Having won over the lawsuit, the company claimed for the damage, cost and compensation (₩420 million) causing from former 2 lawsuits which is in progress.

On the other hand, the company was ordered from the court to transfer stocks in compensation for the debt written down by ₩221 million. The company recognized provision for liabilities amounting to ₩95 million which is difference between the fair value of stocks and pre-extinguishment.

( 4 ) Contingent 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, 2008 amounts to ₩1,367,220 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 Contingent, the Company is provided collateral amounting to ₩1,427,879 million (cash amounting to ₩107,972 million and bonds amounting to ₩1,319,907 million) from the borrowers.

## 15. DERIVATIVES:

( 1 ) Gains (loss) on derivatives transaction as of March 31, 2008 and 2007 consisted of the following:

Classification		(Unit: Won in millions)	
		2008	2007
Gain on derivatives transaction	Realized income due to redemption or ending pay-off	₩2,546	₩379
		<b>2,546</b>	<b>379</b>
Loss on derivatives transaction	Realized income due to redemption or ending pay-off	2,167	394
	Marking to market income for outstanding contract amount	399	63
		<b>₩2,566</b>	<b>₩457</b>

( 2 ) The notional amounts outstanding for derivative contracts as of March 31, 2008 were as follows:

Classification	(Unit: Won in millions)		
	Total	Trading purpose	Hedging purpose
Futures:			
Government bond	₩800	₩800	-

## Notes To Financial Statements

FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

### 16. SHAREHOLDERS' EQUITY:

#### ( 1 ) Common stock

As of March 31, 2008, 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 capital surplus as of March 31, 2008 and 2007 were as follows:

	(Unit: Won in millions)	
	2008	2007
Revaluation increment	₩21,762	₩21,762
Others (*)	5	5
	<b>₩21,767</b>	<b>₩21,767</b>

(\*) Over-depreciation of building is accounted as other capital surplus.

#### ( 3 ) Retained earnings

	(Unit: Won in millions)	
Classification	2008	2007
Legal reserve	₩54,900	₩49,900
Voluntary reserve:		
Reserve for dividends	120,400	96,400
Reserve for facilities improvement	38,000	38,000
Reserve for business rationalization	870	870
Retained earnings before appropriations	61,372	45,738
	<b>₩275,542</b>	<b>₩230,908</b>

- 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 100percent 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.

- Voluntary reserve

Reserve for facilities improvement and reserve for business rationalization are accounted by appropriation of retained earnings at general meeting. The difference between the amount used and left could appropriate for dividend. In addition, the company had accumulated reserve for business rationalization according to Special tax treatment law until the year ended March 31, 2002. This reserve can only be used to reduce deficit or be transferred to capital.

#### ( 4 ) Accumulated other comprehensive income

See notes 4-(6)

#### ( 5 ) Capital adjustments

As of March 31, 2008, details of capital adjustments are as follows:

	(Unit: Won in millions)			
Classification	Beginning balance	Purchase	Disposal	Ending balance
Number of shares	1,310,152	91,481	-	1,401,633
Book value (Unit: Won in millions):	<b>₩9,371</b>	<b>₩787</b>	-	<b>₩10,158</b>



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

Classification	(Unit: Won in millions)			
	Beginning balance	Purchase	Disposal	Ending balance
Number of shares	1,199,475	110,677	-	1,310,152
Book value (Unit: Won in millions):	₩8,444	₩927	-	₩9,371

The Company obtained 1,401,633 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.

The average balance of the interest bearing assets and liabilities, and the related interest revenue and expenses as of and for the years ended March 31, 2008 and 2007 were as follows:

## 17. INTEREST REVENUE AND EXPENSES:

2008

		(Unit: Won in millions)		
		2008		
		Average balance	Interest revenue /expense	Interest rate (%)
Interest revenue:				
Due from banks	In local currency	₩7,188,501	₩373,384	5.19
	In foreign currencies	72,050	3,086	4.28
Securities	Bonds	1,928,179	101,102	5.24
Loans	Call loans	268,596	13,415	4.99
	Notes discounted	713,489	23,337	3.27
	Securities purchased under resale agreements	732,213	37,794	5.16
	Loans	2,451,928	153,260	6.25
		<b>₩13,354,956</b>	<b>₩705,378</b>	<b>5.28</b>
Interest expense:				
Deposits	In local currency	12,105,589	580,952	4.80
	In foreign currencies	71,915	3,024	4.20
Borrowings	Borrowing	1,372,172	72,886	5.31
	Debentures	604,481	28,473	4.71
	Call money (*)	826,697	39,940	4.83
	Securities sold under repurchase agreements (*)	335,277	17,103	5.10
		<b>₩15,316,131</b>	<b>₩742,378</b>	<b>4.85</b>

## Notes To Financial Statements

FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

2007		(Unit: Won in millions)		
		2007		
		Average balance	Interest revenue /expense	Interest rate (%)
Interest revenue:				
Due from banks (*)	In local currency	₩3,189,024	₩142,791	4.48
	In foreign currencies	41,250	904	2.19
Securities	Bonds	2,167,596	108,983	5.03
Loans	Call loans	197,259	8,913	4.52
	Notes discounted	670,936	20,402	3.04
	Securities purchased under resale agreements	741,095	27,078	3.65
	Loans	1,395,069	82,243	5.90
		<b>₩8,402,229</b>	<b>₩391,314</b>	<b>4.66</b>
Interest expense:				
Deposits	In local currency	4,711,868	267,201	5.67
	In foreign currencies	41,220	872	2.12
Borrowings	Borrowing	481,920	23,042	4.78
	Debentures	762,748	24,579	3.22
	Call money (*)	787,735	34,154	4.34
	Securities sold under repurchase agreements (*)	173,899	7,756	4.46
		<b>₩6,959,390</b>	<b>₩357,604</b>	<b>5.14</b>

(\*) Interest of call money and securities sold under repurchase agreements classified as other interest expenses.

(\*\*) In classified as other interest expenses, Interest of borrowing from trust account (₩6,343 million and ₩3,559 million at March 31, 2008 and 2007, respectively) and Interest of commission for guarantee deposits(₩15,861 million and ₩8,099 million at March 31, 2008 and 2007, respectively) are excluded from Interest expenses.

Selling, general and administrative expenses for the years ended March 31, 2008 and 2007 are summarized as follows:

Accounts	(Unit: Won in millions)	
	2008	2007
Salaries	₩18,123	₩16,951
Provision for retirement and severance benefits	2,317	1,293
Other employee benefits (see Note 23)	2,626	2,501
Taxes and dues	2,134	1,843
Depreciation	2,413	3,209
Miscellaneous	13,574	11,364
	<b>₩41,187</b>	<b>₩37,161</b>

### 18. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:

19. INCOME TAX:

( 1 ) Income tax expense (benefits) for the years ended March 31, 2008 and 2007 are summarized as follows:

(Unit: Won in millions)		
	2008	2007
Income tax currently payable	₩12,087	₩5,608
Changes in deferred tax assets and liabilities (*)	10,759	10,171
Deferred income tax expense reflected in capital	1,277	1,131
Income tax expense	<b>₩24,123</b>	<b>₩16,910</b>
(*) Changes in deferred tax liabilities	(26,491)	(7,953)
Changes in deferred tax assets (liabilities)	(15,732)	2,218
	<b>₩10,759</b>	<b>₩10,171</b>

( 2 ) The differences between income before income tax and income tax for the years ended March 31, 2008 and 2007 are as follow:

(Unit: Won in millions)		
Classification	2008	2007
Income before income tax	₩85,429	₩62,612
Tax according to current applicable tax rate (27.48%)	23,480	17,205
Adjustments:		
Non-taxable revenues	(73)	(35)
Non-taxable expenses	444	304
Additional (refund) income tax	272	(564)
Income tax	₩24,123	₩16,910
Effective tax rate	<b>28.24%</b>	<b>27.01%</b>

( 3 ) Details of changes in accumulated temporary differences for the year ended March 31, 2008 are as follows:

(Unit: Won in millions)				
Descriptions	Beginning balance(*)	Increase	Decrease	Ending balance
<Temporary differences to be deducted>				
Loss on impairment of securities	₩2,273	-	₩1,442	₩831
Accrued severance indemnities	5,565	1,333	574	6,324
Depreciation	329	-	16	313
Depreciation for art painting	6	-	-	6
Bad debt expenses	1,462	2	1,458	6
Special loss	1,023	-	-	1,023
Contingent liabilities	8,221	95	8,221	95
Treasury stocks	580	-	271	309
Depreciation of landscape	30	6	-	36
Valuation of derivatives	63	399	63	399
Gain or loss on foreign exchange translation	-	3	-	3
The amount for deferred income tax assets (**)	19,552	1,838	12,045	9,345
Tax rate (***)	27.5%			27.5%
Deferred income tax assets	<b>₩5,377</b>			<b>₩2,570</b>

(Continued)

## Notes To Financial Statements

FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

(Continued)		(Unit: Won in millions)		
Descriptions	Beginning balance(*)	Increase	Decrease	Ending balance
<Temporary differences to be added>				
Interest receivables of securities	(7,962)	(8,698)	(7,962)	(8,698)
Interest receivables of investment bonds	(6,621)	(10,822)	(6,621)	(10,822)
Available-for-sale securities	(2,288)	1,755	(2,288)	1,755
Valuation of securities	(44,528)	(42,082)	(44,528)	(42,082)
Interest receivables of CD	(9,788)	(39,505)	(9,788)	(39,505)
Severance insurance deposits	(5,116)	(1,781)	(574)	(6,323)
Special case of depreciation	(441)	-	(440)	(1)
Allowance for advanced depreciation	(16)	-	(14)	(2)
The amount for deferred income tax assets (**)	(76,760)	(101,133)	(72,215)	(105,678)
Tax rate (***)	27.5%			27.5%
Deferred income tax liabilities	₩(21,109)			₩(29,061)
Deferred income tax liabilities (net)	₩(15,732)			₩(26,491)

(\*) The difference between the auditor's report and the tax report of last period, which is ₩604 million (including tax effects, ₩166 million), and the amount of change due to reassessment of income tax, which is ₩28,339 million (including tax effects, ₩7,793 million), and the amount of change due to regular tax audit, which is ₩655 million [including tax effects, ₩(180) 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. As a result, the company refunded the tax related with the contribution obliged from the majority shareholder.

(\*\*) Deferred tax assets in respect of deductible temporary differences are recognized when it is probable that taxable profits will be available against which the deferred tax assets can be utilized.

(\*\*\*) 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.

( 4 ) Details of temporary differences directly reflected in the shareholders' equity for the years ended March 31, 2008 and 2007 are as follows:

Classification	2008			2007		
	Before tax	Tax effects	After tax	Before tax	Tax effects	After tax
Gain (loss) on available-for-sale securities	₩(4,643)	₩1,277	₩(3,366)	₩(4,112)	₩1,131	₩(2,981)

( 1 ) Basic net income per share

Basic net income per share were calculated for common stock by dividing net income available to common shareholders by the weighted average number of outstanding common stock. Net income per share for common stock for the year ended March 31, 2008 was computed as follows:

## 20. EARNINGS PER SHARE:

- Outstanding capital stock for the years ended March 31, 2008 was as follows:

Classification	Date	Number of shares	Number of shares x number of days
Number of common shares outstanding- beginning balance	April 1, 2007	₩68,000,000	₩24,888,000,000
Number of treasury stock outstanding- beginning balance	April 1, 2007	(1,310,152)	(479,515,632)
Sale of treasury stock	March 28, 2008	(91,481)	(365,924)
		<b>₩66,598,367</b>	<b>₩24,408,118,444</b>

Weighted average number of common shares outstanding for the years ended March 31, 2008:  $24,408,118,444 \div 366 \text{ days} = 66,688,848$  shares

- The basic net income per share for the years ended March 31, 2008 and 2007 were as follows:

	(Unit: In won)	
	2008	2007
Net income	₩61,305,944,530	₩45,701,939,777
Weighted average number of common shares outstanding (share)	66,688,848	66,799,615
Net income per share	<b>₩919</b>	<b>₩684</b>

( 2 ) Diluted net income per share

Diluted net income represents diluted net income divided by the number of common shares and diluted securities. But the company did not calculate diluted net income per share because diluted securities did not exist for the years ended March 31 2008 and 2007.

Details of the dividends, dividend yield ratio and dividend to net income ratio in current year are as follows:

Description	Amount	
	2008	2007
No. of shares entitled to receive dividends	66,598,367 shares	66,689,848 shares
Dividend per share (In currency unit)	₩300	₩250
Dividend rate	6%	5.00%
Dividends (In currency unit)	₩19,979,510,100	₩16,672,462,000
Net income (In currency unit)	₩61,305,944,530	₩45,701,939,777
Dividend to net income ratio	<b>32.59%</b>	<b>36.48%</b>

(\*) The treasury stock, which the company acquired for the years ended March 31, 2008 and 2007 are excluded from calculating dividends.

Significant assets and liabilities denominated in foreign currencies as of March 31, 2008 and 2007 were as follows:

Classification	KRW equivalent	(Unit: Won in millions, US\$ in thousands, JPY in millions, EUR in thousands)		
		US\$	JPY	EUR
2008				
Assets:				
Cash and due from bank	₩76,345	US\$ 63,856	¥ 1,176	€ 806
Liabilities :				
Deposits received	₩76,195	US\$ 63,709	¥ 1,176	€ 803

## 21. DIVIDENDS:

## 22. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES:

## Notes To Financial Statements

FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

2007

(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 :				
Deposits received	₩81,378	US\$ 66,837	¥ 2,203	€ 778

### 23. 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 years ended March 31, 2008 and 2007 are estimated at ₩2,626 million and ₩2,501 million, respectively (see Note 18).

In addition, the Company donated ₩874 million and ₩1,083 million for the years ended March 31, 2008 and 2007, respectively.

### 24. COMPUTATION OF ADDED VALUE:

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

Classification	(Unit: Won in millions)	
	2008	2007
Salaries and wages	₩18,123	₩16,951
Severance and retirement benefits	2,317	1,293
Other employee benefits	2,626	2,501
Depreciation	2,413	3,209
Amortization expenses - intangible assets	113	25
Taxes and dues	2,134	1,843
	₩27,726	₩25,822

### 25. STATEMENT OF CASH FLOWS:

( 1 ) Cash flows from operating activities are presented by the indirect method.

( 2 ) Significant transactions not involving cash inflows and outflows for the years ended March 31, 2008 and 2007 were as follows:

Classification	(Unit: Won in millions)	
	2008	2007
Changes in accumulated other comprehensive income from valuation of available-for-sale securities	₩(4,643)	₩(4,112)
Deferred income tax assets directly reflected in accumulated other comprehensive income (loss)	₩1,277	₩1,131

### 26. STATEMENT OF COMPREHENSIVE INCOME (LOSS):

The comprehensive income (loss) for the years ended March 31, 2008 and 2007 is as follows:

Classification	(Unit: Won in millions)	
	2008	2007
Net income	₩61,306	₩45,702
Other comprehensive income (loss):		
Gain (loss) on valuation of available-for-sale securities (Tax effect for the years ended March 31, 2008 and 2007: ₩1,277 million and ₩1,131 million)	(3,366)	(2,981)
	₩57,940	₩42,721

## Independent Accountant's Review Report on Internal Accounting Control System ("IACS")

English Translation of a Report Originally Issued in Korean

### To the Representative Director of Korea Securities Finance Corporation

We have reviewed the accompanying Report on the Management's Assessment of IACS (the "Management's Report") of Korea securities finance corporation (the "Company") as of March 31, 2008. The Management's Report, and the design and operation of IACS are the responsibility of the Company's management. Our responsibility is to review the Management's Report and issue a review report based on our procedures. The Company's management stated in the accompanying Management's Report that "based on the assessment of the IACS as of March 31, 2008, the Company's IACS has been appropriately designed and is operating effectively as of March 31, 2008, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association."

We conducted our review in accordance with the IACS Review Standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform a review, objective of which is to obtain a lower level of assurance than an audit, of the Management's Report in all material respects. A review includes obtaining an understanding of the Company's IACS and making inquiries regarding the Management's Report and, when deemed necessary, performing a limited inspection of underlying documents and other limited procedures.

The Company's IACS represents internal accounting policies and a system to manage and operate such policies to provide reasonable assurance regarding the reliability of financial statements prepared, in accordance with accounting principles generally accepted in the Republic of Korea, for the purpose of preparing and disclosing reliable accounting information. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness of IACS to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that the Management's Report referred to above is not fairly stated, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association.

Our review is based on the Company's IACS as of March 31, 2008, and we did not review its IACS subsequent to March 31, 2008. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in the Republic of Korea and may not be appropriate for other purposes or for other users.

*Deloitte Anjin LLC*

April 30, 2008

## Independent Auditors' Report(Trust Account)

English Translation of a Report Originally Issued in Korean

**Deloitte.**

**Deloitte Anjin LLC**

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

We have audited the accompanying balance sheets of the trust account of Korea Securities Finance Corporation (the "Company") as of March 31, 2008 and 2007, and the related statements of income 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 account as of March 31, 2008 and 2007 and the results of its trust operations for the years then ended, in conformity with the accounting standards for concurrent trust institutions and real estate trust companies prescribed by the Korean trust and banking regulatory authorities, regulation on supervision of trust business 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 and results of operations in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those knowledgeable about Korean accounting procedures and auditing standards and their application in practice.

*Deloitte Anjin LLC*

April 11, 2008

This report is effective as of April 11, 2008, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditor's report date and the time the auditor's report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.



## Balance Sheets(Trust Account)

AS OF MARCH 31, 2008 AND 2007

	(Unit: Won in millions)	
	2008	2007
<b>ASSETS:</b>		
Cash and due from bank (Note 3)	₩4,199,658	₩5,194,307
Securities (Note 4)	5,528,941	4,783,081
Loans (Note 5)	-	79,926
Call loans	10,000	30,700
Securities purchased under resale agreements	130,000	80,000
Other assets (Note 6)	203,536	122,241
<b>Total Assets</b>	<b>₩10,072,135</b>	<b>₩10,290,255</b>
<b>LIABILITIES:</b>		
Trust deposits	9,984,989	10,230,813
Other liabilities (Notes 7 and 8)	87,146	59,442
<b>Total Liabilities</b>	<b>₩10,072,135</b>	<b>₩10,290,255</b>

See accompanying notes to financial statements.

## Statements Of Income(Trust Account)

FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

	(Unit: Won in millions)	
	2008	2007
<b>REVENUE:</b>		
Interest income:		
Interest on due from banks	₩314,037	₩268,930
Interest on securities	191,002	131,318
Interest on loans	215	3,044
Interest on call loans	2,048	3,919
Interest on securities purchased under resale agreements	9,033	8,703
	516,335	415,914
Securities related gain:		
Gain on trading of securities	37,879	38,425
Gain on valuation of securities	71,629	38,399
	109,508	76,824
	<b>₩625,843</b>	<b>₩492,738</b>
<b>EXPENSES:</b>		
Dividends of trust profits to beneficiaries (Note 9)	₩618,469	₩485,145
Trust fees (Note 8)	6,256	5,644
Other	247	193
	624,972	490,982
Securities related loss:		
Loss on trading of securities	789	851
Loss on valuation of securities	82	905
	871	1,756
	<b>₩625,843</b>	<b>₩492,738</b>

See accompanying notes to financial statements.

## Notes To Financial Statements(Trust Account)

FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

### 1. DESCRIPTION OF TRUST:

Korea Securities Finance Corporation (the "Company") established the trust account 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 account (the "Trust") consists 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 Act, 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 Act. 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 standards for concurrent trust institutions and real estate trust companies prescribed by the Korean trust and banking regulatory authorities, including requirements of the Trust Business Act 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 Account

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

#### Trust Fees

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

#### Securities

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

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

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

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

### Credit-Assessment Allowances

The Trust establishes credit-assessment allowances 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. However, all of the certain trust assets, which are not marked-to-market are classified as normal, for which credit-assessment allowances are supposed to be provided. The trust is without profit preservation. Therefore, credit-assessment allowances are not recognized at all.

### 3. CASH AND DUE FROM BANKS:

Cash and due from banks as of March 31, 2008 and 2007 consisted of:

	(Unit: Won in millions)	
	2008	2007
Due from banks in local currency	₩4,199,658	₩5,194,307

### 4. SECURITIES:

Securities as of March 31, 2008 and 2007 are summarized as follows:

	(Unit: Won in millions)	
	2008	2007
Finance debentures	₩19,036	₩19,052
Beneficiary certificates	1,720,634	1,693,787
Negotiable certificate of deposits	3,789,271	3,070,242
	<b>₩5,528,941</b>	<b>₩4,783,081</b>

### 5. LOANS:

Loans as of March 31, 2008 and 2007 are summarized as follows:

	(Unit: Won in millions)	
	2008	2007
Bond margin financing loans	-	79,926
	-	<b>₩79,926</b>

### 6. OTHER ASSETS:

Other assets as of March 31, 2008 and 2007 are summarized as follows:

	(Unit: Won in millions)	
	2008	2007
Accrued income	₩202,403	₩121,987
Accounts receivable	1,133	254
	<b>₩203,536</b>	<b>₩122,241</b>

### 7. OTHER LIABILITIES:

Other liabilities as of March 31, 2008 and 2007 are summarized as follows:

	(Unit: Won in millions)	
	2008	2007
Accounts payable	₩1,134	₩254
Trust fees payable (see Note 8)	446	449
Trust dividends payable	85,566	58,739
	<b>₩87,146</b>	<b>₩59,442</b>

## Notes To Financial Statements(Trust Account)

FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

### 8. TRANSACTIONS WITH RELATED COMPANY:

As of and for the years ended March 31, 2008 and 2007, the Trust has trust fees payable of ₩446 million and ₩449 million, and incurred trust fees of ₩6,256 million and ₩5,644 million from transactions with the Company.

### 9. PERFORMANCE YIELD RATES:

Performance yield rates for the years ended March 31, 2008 and 2007 are calculated as follows:

(Unit: Won in millions)

	2008		
	Dividends of trust profits to beneficiaries	Accumulated amount in Trust	Yield rate
Apr. 2007	₩44,870	₩342,660,710	4.78%
May. 2007	48,439	367,813,547	4.81%
Jun. 2007	53,636	402,882,777	4.86%
Jul. 2007	58,651	436,545,451	4.90%
Aug. 2007	55,574	412,533,398	4.92%
Sept. 2007	52,681	377,821,610	5.09%
Oct. 2007	55,153	380,910,231	5.28%
Nov. 2007	48,166	354,557,944	4.96%
Dec. 2007	48,435	344,989,068	5.12%
Jan. 2008	64,563	311,730,588	7.56%
Feb. 2008	46,972	291,565,351	5.88%
Mar. 2008	41,329	308,788,155	4.89%
	₩618,469	₩4,332,798,830	5.21%

(Unit: Won in millions)

	2007		
	Dividends of trust profits to beneficiaries	Accumulated amount in Trust	Yield rate
Apr. 2005	₩45,156	₩398,092,191	4.14%
May. 2005	46,039	385,931,450	4.35%
Jun. 2005	40,757	346,945,715	4.29%
Jul. 2005	40,741	332,625,947	4.47%
Aug. 2005	40,083	317,238,063	4.61%
Sept. 2005	40,794	311,208,275	4.78%
Oct. 2005	42,099	330,245,577	4.65%
Nov. 2005	37,863	306,776,053	4.50%
Dec. 2005	38,135	310,187,363	4.49%
Jan. 2006	37,329	291,256,067	4.68%
Feb. 2006	35,441	268,030,042	4.83%
Mar. 2006	40,708	310,767,510	4.78%
	₩485,145	₩3,909,304,253	4.53%

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, 2008 and 2007 are as follows:

Assets and Liabilities

(Unit: Won in millions)

Accounts	2008		
	Trust for Spot Trading Customers' Deposit	Trust for Futures Trading Customers' Deposit	Total
<b>ASSETS:</b>			
Cash and due from banks	₩2,897,475	₩1,302,183	₩4,199,658
Securities	4,143,808	1,385,133	5,528,941
Call loans	-	10,000	10,000
Securities purchased under resale agreements	50,000	80,000	130,000
Other assets	162,269	41,267	203,536
	<b>₩7,253,552</b>	<b>₩2,818,583</b>	<b>₩10,072,135</b>
<b>LIABILITIES:</b>			
Trust deposits	₩7,189,482	₩2,795,507	₩9,984,989
Other liabilities	64,070	23,076	87,146
	<b>₩7,253,552</b>	<b>₩2,818,583</b>	<b>₩10,072,135</b>

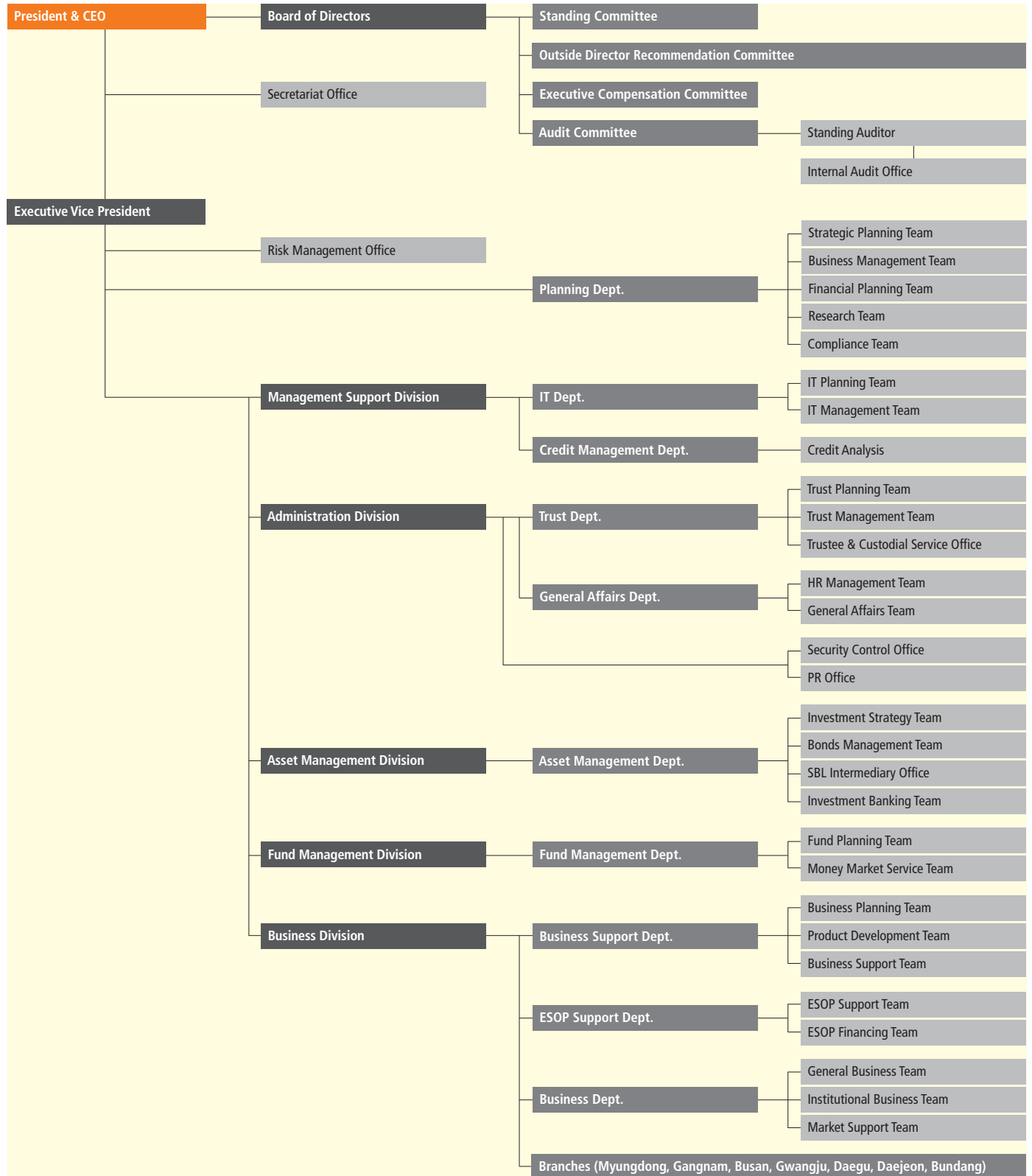
(Unit: Won in millions)

Accounts	2007		
	Trust for Spot Trading Customers' Deposit	Trust for Futures Trading Customers' Deposit	Total
<b>ASSET:</b>			
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
	<b>₩7,923,547</b>	<b>₩2,366,708</b>	<b>₩10,290,255</b>
<b>LIABILITIES:</b>			
Trust deposits	₩7,877,723	₩2,353,090	₩10,230,813
Other liabilities	45,824	13,618	59,442
	<b>₩7,923,547</b>	<b>₩2,366,708</b>	<b>₩10,290,255</b>

## Notes To Financial Statements(Trust Account)

FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

Operations		(Unit: Won in millions)		
Accounts	2008			Total
	Trust for Spot Trading Customers' Deposit	Trust for Futures Trading Customers' Deposit		
<b>REVENUE:</b>				
Interest on bank deposits	₩240,731	₩73,306	₩314,037	
Interest on securities	149,493	41,509	191,002	
Interest on loans	215	-	215	
Interest on call loans	1,791	257	2,048	
Interest in securities purchased under resale agreements	6,066	2,967	9,033	
Securities related gain	78,332	31,176	109,508	
	<b>₩476,628</b>	<b>₩149,215</b>	<b>₩625,843</b>	
<b>EXPENSES:</b>				
Dividends of trust profits to beneficiaries	₩471,061	₩147,408	₩618,469	
Securities related loss	608	263	871	
Trust fees	4,769	1,487	6,256	
Other	190	57	247	
	<b>₩476,628</b>	<b>₩149,215</b>	<b>₩625,843</b>	
(Unit: Won in millions)				
Accounts	2007			Total
	Trust for Spot Trading Customers' Deposit	Trust for Futures Trading Customers' Deposit		
<b>REVENUE:</b>				
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	
	<b>₩394,811</b>	<b>₩97,927</b>	<b>₩492,738</b>	
<b>EXPENSES:</b>				
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	
	<b>₩394,811</b>	<b>₩97,927</b>	<b>₩492,738</b>	



## 1950s

- Oct. 11, 1955 Established as Korea United Securities Finance Corporation with capital stock of KRW 7.5 million
- Jan. 24, 1956 Listed on the Seoul Stock Exchange
- Jan. 25, 1956 Increased capital to KRW 10.5 million

## 1960s

- Mar. 31, 1962 Increased capital to KRW 30.0 million
- Jul. 5, 1962 Company name changed to Korea Securities Finance Corporation (KSFC)
- Jul. 25, 1962 Increased capital to KRW 0.5 billion
- Jan. 4, 1963 Entrusted to execute money collections and payments for the Korean Stock Exchange
- Jan. 31, 1969 Discontinued money collections and payments services for the stock exchange
- Feb. 1, 1969 Began securities borrowing and lending business
- Feb. 28, 1969 Increased capital to KRW 1.0 billion (government stake: 50%)
- May 15, 1969 Opened Busan branch

## 1970s

- Dec. 1, 1971 Began extending settlement financing loans to securities firms following launch of the "margin transactions" system
- Nov. 2, 1973 Launched special securities secured loans for the stabilization of stock prices
- Mar. 2, 1974 Launched margin financing loans by combining settlement financing loans with special securities secured loans
- Jul. 15, 1974 Launched securities underwriting loans
- Nov. 15, 1974 De-listed from the Korea Stock Exchange
- May 13, 1975 Increased capital to KRW 2.0 billion
- May 13, 1975 Introduced USD 5.0 million loans from International Finance Corporation (IFC)
- Jan. 10, 1977 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 Myeongdong 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
- Mar. 7, 1992 Began offering tax preference subscription deposits for IPO shares
- Sept. 15, 1993 All securities firms allowed to handle subscription deposits for IPO shares on behalf of KSFC
- 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 borrowing and lending brokerage service
- Dec. 20, 2002 Began management of customers' deposits through trust account
- 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 service 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
- Mar. 21, 2007 Launched CMA fund deposits at securities firms
- Sept. 19, 2007 Acquired international IT standard CMMI Certification
- Jan. 22, 2008 Launched margin financing stock loans
- Apr. 1, 2008 Opened Bundang branch



**Standing Directors**

•

**Doo Hyung Lee**

President and CEO

**Sung Chan Park**

Executive Vice-President

**Outside Directors**

•

**Jung Joon Yoo**

President and CEO, Hanyang Securities Co.

**Soon Jick Hong**

Executive Vice-President of Samsung SDI

**Hyun-Yun Cho**

Professor, Catholic University of Korea

**Chan Woo Jeong**

Senior Researcher, Korea Institute of Finance

**Audit Committee Member & Director**

•

**Myung Rae Ha**

Standing Auditor

**Executive Officers**

•

**Doo Hyung Lee**

President and CEO

**Sung Chan Park**

Executive Vice-President

**Myung Rae Ha**

Standing Auditor

**Sang Sun Hwang**

Managing Director(Administration Division)

**Gyo Choon Lee**

Managing Director(Management Planning Division)

**Chan Seok Yang**

Managing Director(Asset Management Division)

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•

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•

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•

### Gangnam Branch

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•

### Busan Branch

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### Gwangju Branch

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### Bundang Branch

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**Korea Securities Finance Corp.**