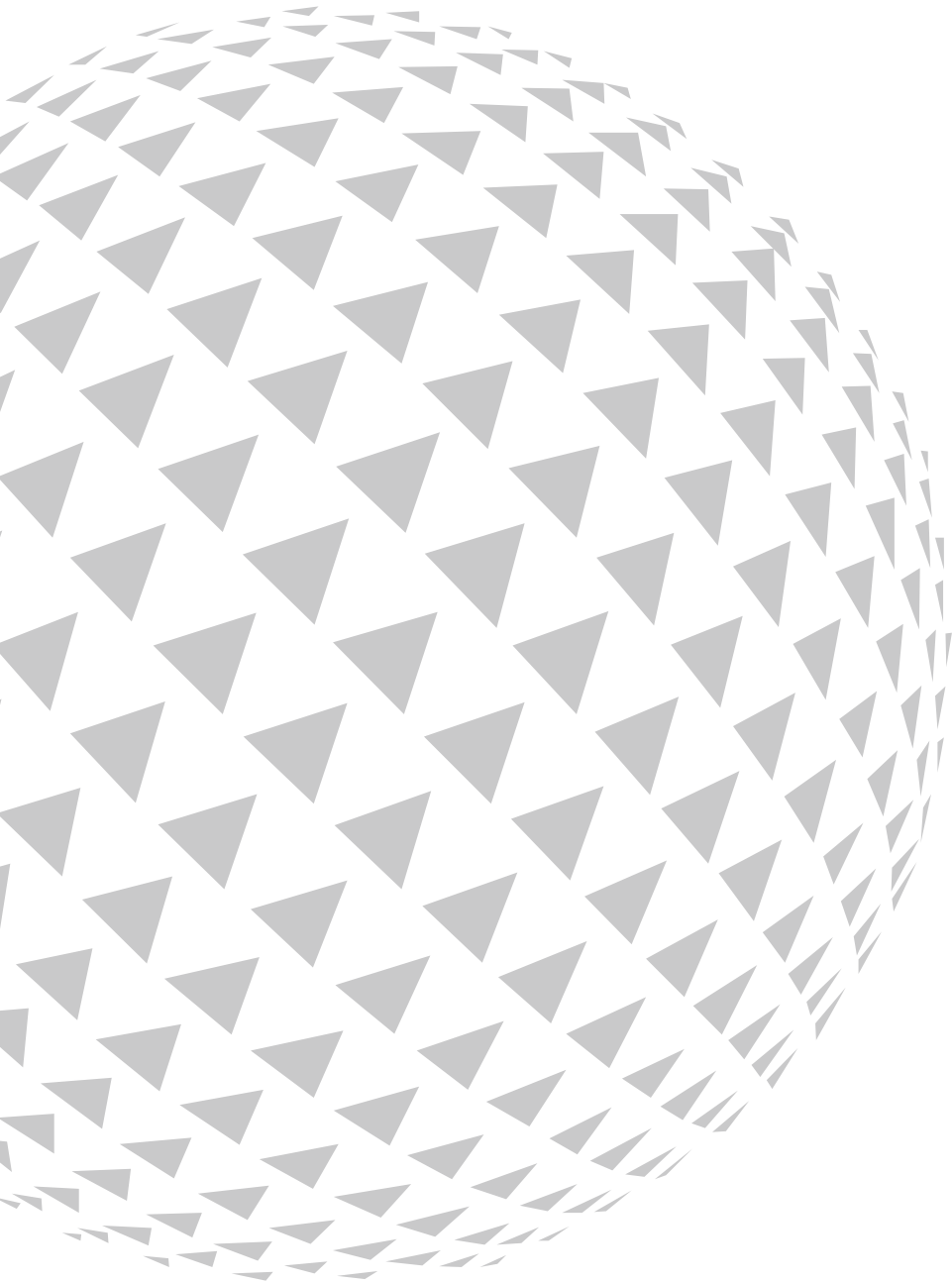


Growing Together

KSFC annual report 2010



Korea Securities Finance Corp.

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Pursuing the leading provider **of integrated securities and financial** **services that the market and** **investors want**

Korea Securities Finance Corporation



For more than five decades since the establishment in 1955 as the nation's only institution designated to handle securities financing, Korea Securities Finance Corporation (KSFC) has been contributing to the stability and development of the Korean capital market by providing various financial services ranging from securities financing for the stock market to deposits and loans for investors. In addition, the company is devoted to fulfilling our corporate responsibility by proactively taking part in a variety of social contribution activities. Based on continuous change and innovation, diversification, and professionalism, KSFC will try its best to achieve the goal of becoming the leading integrated securities and financial service provider in the capital market.





PASSION

A commitment to leading the domestic capital market

We have been always committed to contributing to the growth and development of the Korean securities market ever since the establishment. Now we at KSFC are striving relentlessly towards our vision of becoming the leading provider of integrated securities and financial services in the Korean capital market. More than simply serving our customers, we are endeavoring to innovate ourselves and meet changing needs of customers and the capital market.

PROFESSIONAL

A commitment to upholding sustainable growth

////////////////////////////////////

We anticipate, identify and seize opportunities to create value and long-term sustainable growth. With breadth and depth of experiences and knowledge, we are maintaining a robust business portfolio and focusing on delivering performances and superior returns.

Each staff at KSFC will continue to play a pivotal role in contributing to the development of financial market through active involvement and unwavering spirit of dedication in providing differentiated financial services and customer values.



RESPONSIBILITY

A commitment to working on tomorrow's happiness

KSFC has been in the forefront of creating a transparent and ethical corporate culture, while also working hard to provide mutual benefits to all of its businesses. This ethical management philosophy corresponds to current global standards, enabling KSFC to play an even more positive role in the lives of its customers, employees, business partners and shareholders. And we are committed to fulfilling the obligations as a corporate citizen so that the society advances along with the enterprise







MESSAGE FROM THE CEO

Dear valued shareholders!

I would like to express my sincere gratitude for your unsparing encouragement and support for the development of Korea Securities Finance Corporation (KSFC) for the past year.

The global economy made a recovery in 2010 thanks to robust growth in the emerging markets led by China and proactive macroeconomic policies of advanced countries including the additional quantitative easing and extended tax cuts of the US. The Korean economy also continued to grow backed by consistent expansion of exports and stable domestic demand.

Under such internal and external conditions, in FY2010, the assets of KSFC amounted to KRW43 trillion, up 3% from the previous year, and net income recorded KRW177.7 billion which was a 17% decline. Despite the decrease in net income, FY2010 was a good year for KSFC to address laying the foundation for stable growth which was an ongoing concern, in light of the fact that results in FY2009 had been boosted by exceptionally favorable market environments such as expansionary macroeconomic policies and international cooperation.

As for important business activities, total loans grew by 18% over the previous year to KRW6.3 trillion thanks to our aggressive operations, including notably maintaining cooperative ties with financial investment firms and approaching all of retail financing by keeping our focus on customer needs. Additionally, the size of our loans to financial investment firms including margin financing loans and collateral-based loans to support secured financing reached KRW4.5 trillion which was a 33% increase over the previous year. The achievement holds great meaning for us in that we not only strengthened our operational platform by implementing the conventional function of securities financing, but also played an instrumental role and function in supporting the capital market.

As for deposits, we further expanded our business thanks to the efficient management of short-term funds. Working off of our accumulated experience in the short-term capital market including with investors' deposit and government funds, we proactively attracted securities market funds and the surplus capital of financial institutions. As a result, short-term deposits recorded KRW10.5 trillion in FY2010, up 14% from the previous year.

The expansion of bond investments led to stable income from interest and eased volatility in the earnings. Our portfolio management was also focused on stability and profitability to create a balance with the revenue structure that is sensitive to interest rates. To this end, we strategically expanded investment financing and investment in securities.



In addition, we strived to secure capabilities for the custody business to serve as stable revenue bases in the future. As a result, we started to operate the RP brokerage service between financial institutions in April 1, 2011 after obtaining approval from the government in March 2011. This achievement is expected to not only contribute to expanding and stabilizing the short-term capital market, but to also secure stable revenue in the form of commissions by combining our synergy with that of existing businesses and strengthening our role in the custody market.

KSFC's financial position has been upgraded since the financial crisis in terms of stability of our revenue structure due to growth in our overall operations and expansion into the custody business including securities trust and SBL brokerage. I think our accomplishments can mainly be attributed to the recent favorable market environment although the dedication of our employees was also important.

Even though the conditions of the financial market in the future are uncertain, we will strive to become a key player needed and loved by the capital market and by financial investment firms for our unwavering enthusiasm and innovation in the new financial landscape.

Honorable shareholders!

The Korean economy is surrounded by various internal and external elements of concerns such as price increases, political instability in the Middle East and North Africa (MENA), financial turmoil in the southern Europe and the expansion of volatility in the asset market. Furthermore, discussions on improving the financial system are being carried out to prevent the cyclical creation and bursting of a bubble. Restructuring insolvent savings banks and discussions about reforming the short-term capital market are also underway.

To meet these changes efficiently, KSFC plans to execute the following core tasks with the goal of 'Reinforcing the Management of Co-prosperity through Trust and Stability.'

First, we will facilitate the supply of funds and securities in the capital market by further expanding our conventional function of securities financing.

Capital demands from financial investment firms are expected to increase due to the accelerated implementation of exit strategies caused by concerns about inflation. And the reformation of the short-term capital market will require securities firms to make a shift from the call market to the RP market in order to raise short-term funds.

Our role as a supplier of liquidity for securities firms will be enhanced by expanding loans including margin financing loans and encouraging the RP market. By doing so, KSFC will serve as a driver for sound development of the short-term capital market.

In addition, to facilitate the prime brokerage business, we will build a lending pool and benefit customers with the opportunity to create new revenue by lending securities. Such a new business model will allow us to consolidate our role as a supplier of funds and securities to the capital market.

We will continue to strive to become a key player needed and loved by the capital market and financial investment firms with our unwavering enthusiasm and innovation in the new financial landscape.

Second, we will reinforce our self-reliant management capability by strategically positioning ourselves to secure a mid- to long-term revenue base and increase capital.

To this end, we will focus on identifying unique businesses in which we have a competitive advantage, remodeling existing businesses, taking the initiative as a market-maker through RP brokerages, and expanding our role in the short-term capital market.

As a key supplier of funds and securities in the capital market, we are required to increase our paid-in capital to catch up with the conglomeration of financial institutions and the reformation of financial regulations. Therefore, issuing stocks to raise capital will be promoted after evaluating shareholders and market conditions.

Third, we will improve our management efficiency with innovations in human resource management and the organization restructuring.

So that KSFC will be able to respond to rapidly changing financial market environments and come up with a sustainable management platform, we will increase our efficiency by improving our internal management systems as a whole.

A fair and objective evaluation and reward system that can be accepted by all employees will be established to reinforce the competence of our human capital. In addition, we will continue to nurture creative talents by utilizing training programs customized to securities financing.

Fourthly and finally, we will commit ourselves to fulfilling our social responsibility, in so far as we are a corporate citizen providing unified securities and finance services to the capital markets, so that we can grow together with those we work with.

We are making systematic and consistent social contribution activities by donating to the Smile Microcredit Bank Foundation and expanding employee participation in the Matching Grant program. By ingraining donation activities into our corporate culture and continuing regular volunteer activities, we will ensure that our reciprocal management does not end as a one-off event. The fund allocated for social contribution will be also gradually expanded to reach 2~3% of net income to fully honor our social responsibilities.

Honorable shareholders!

We at KSFC will never forget that your interest and affection have been the backbone of our growth. Our management and employees are committed to putting forth the utmost efforts to achieve our management goals and grow together with customers and shareholders, which is the priority of our management.

I ask for your steadfast interest and support so that we can reap the fruit of our commitment and dedication.

Young Kwa Kim
President and CEO





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CREATING NEW VALUES FOR THE FUTURE

As Korea's unique securities finance corporation, we have a sincere responsibility to contribute to the stabilization and development of the domestic capital market. With passion, professionalism and responsibility, KSFC has earned a reputation as the best reliable partner of financial services to securities companies and investors. By continuously creating new values as well as committing ourselves to basic functions, we will achieve our vision to become the leading integrated securities and financial service provider in the capital market.

COMPANY PROFILE



Company Overview

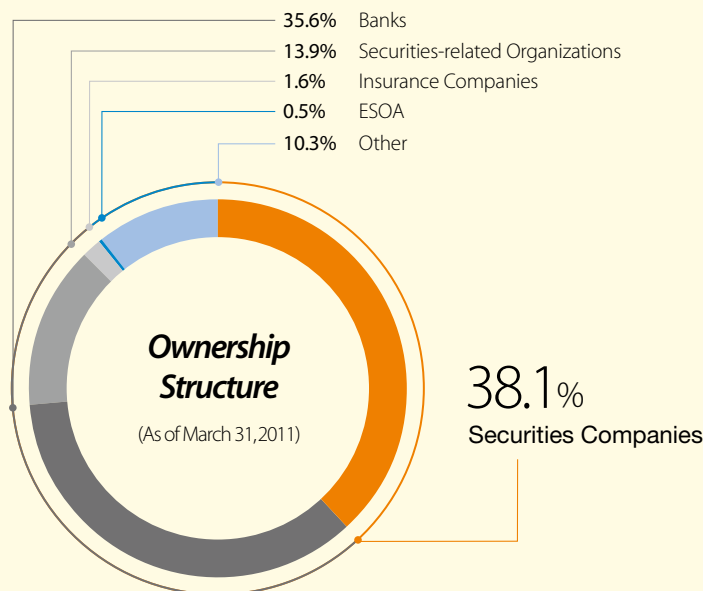
Company name	Korea Securities Finance Corporation
Establishment	October 11, 1955
CEO	Young Kwa Kim
Capital stock	KRW340.0 billion
Location	34-9, Yeouido-dong, Yeongdeungpo-gu, Seoul, Korea
No. of employees	282 persons

Pursuing the Best Integrated Securities and Finance Services Institution

Since its establishment in 1955 as the nation's only institution designated to handle securities financing, Korea Securities Finance Corporation (KSFC) has been contributing to the stability and development of the Korean capital market by supplying funds and securities to the market, supplying liquidity to the securities industry during financial crisis, protecting investors through disciplined management of investors' deposits, and supporting the establishment and development of employee stock ownership plans (ESOPs).

In addition, KSFC has contributed to creating securities demands and building a solid foundation for the growth of the stock market by stably supplying investors with funds and securities.

On the basis of accumulated trust and know-how for more than 50 years, KSFC will leapfrog into the best integrated securities and finance services institution as well as become the pillar of the stock market.



Highest Credit Rating

Financial soundness is the top priority at KSFC. We are operating funds of more than KRW43 trillion by utilizing advanced management techniques and securing stable bases for income generation. Since 2006, the credit ratings on KSFC bonds have maintained the highest place, AAA with stable outlook, by Korea Investors Service, Korea Ratings Corporation and NICE Investors Service.



Ethical Management Based On Strict Business Ethics

KSFC has drawn up and implemented the "KSFC Code of Ethics", which sets forth the ethical standards that we pursue and presents guidelines for the judgment of values and conduct followed by everyone at KSFC. Economic, legal and ethical responsibilities are specified as the basic duties, and transparency, rationality and legitimacy are criteria of the ethical decision-makings to be executed.

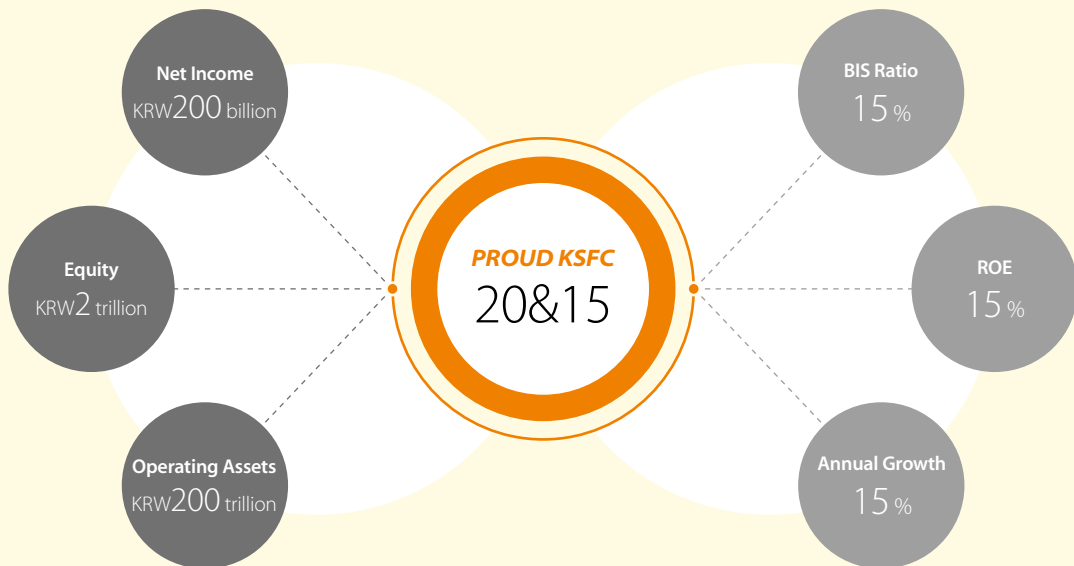
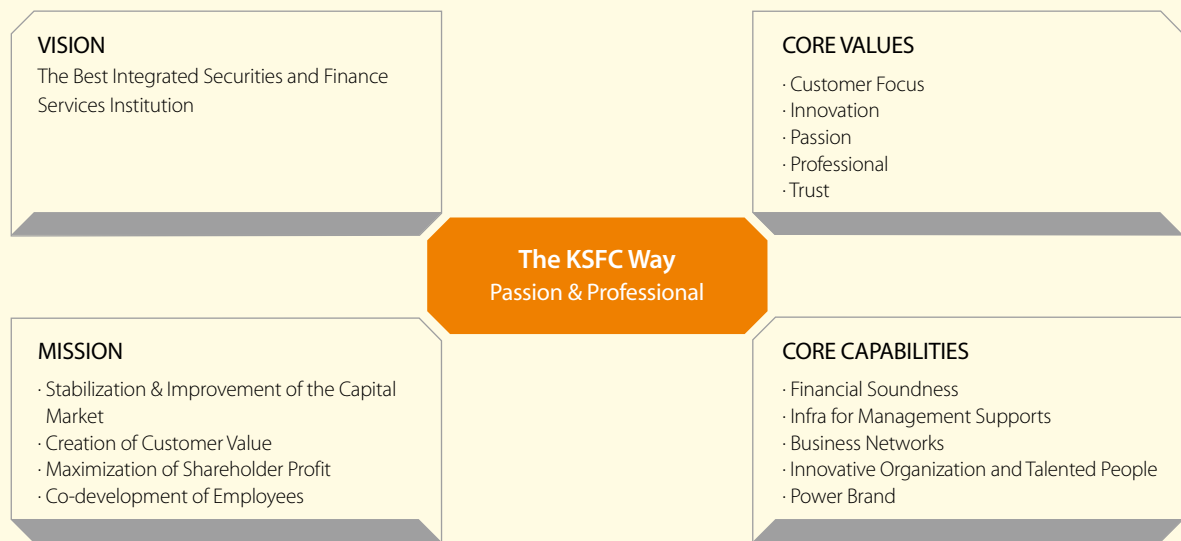
KSFC is also well aware that social contribution is integral to ensuring consistent credibility from our customers and mutual prosperity of both the corporation and society. We take part in a variety of social contribution activities through our "One Heart" volunteer group under the slogan of "Sharing Love and Growing Happiness".



VISION, MISSION, AND VALUE

Vision 2015

Our vision is to leapfrog into the leading provider of integrated securities and financial services in the Korean capital market.



FUNCTION AND ROLE

KSFC is a legally incorporated company licensed by the Financial Services Commission in accordance to the Financial Investment Services and Capital Market Act. Its purpose is to support the growth of the national economy by supplying liquidity to the securities market and performing specific functions that help the capital market develop.

Providing Securities-Based Market Liquidity

KSFC promotes market liquidity by providing capital and securities to financial investment companies, institutions related to financial investments, and collective investment firms. It also encourages the use of securities by investors and contributes to the expansion of the securities market by providing a variety of securities-based financing services to individuals and corporations.

Acting as a Financial Safety Net for the Capital Market

KSFC keeps investors' deposits separately from the proprietary accounts of the financial investment companies in which they place their deposits to protect investors' assets and contribute to the stability of the capital market.

Managing Funds Related to the Securities Market

KSFC manages idle funds, subscription guarantee money, and CMA funds from financial investment companies, as well as subscription deposits for forfeited shares and corporate idle funds. In addition, it manages national treasury funds and public capital management funds to promote the efficiency of the short-term capital market and stimulate the bond market. Through these activities, KSFC offers investors safe and profitable vehicles to manage funds while helping financial investment companies manage short-term liquidity.

Building the Capital Market's Infrastructure

KSFC brokers securities borrowing and lending (SBL) among institutional investors, promoting the use of SBLs and ensuring compliance to settlement terms, as well as enhancing the utility of securities. It also helps investment companies and investment trusts (funds) manage their assets, offering comprehensive asset management services that safeguard investors.

Supporting ESOPs

An employee stock ownership plan (ESOP) is an employee benefit scheme that promotes workers' welfare by encouraging them to purchase and hold stocks from their respective companies. As an entity designated for ESOP management, KSFC provides services for depositing, safekeeping, managing, and financing ESOP shares, as well as consulting and education for the creation and management of employee stock ownership associations (ESOAs).

SCOPE OF BUSINESS AND SERVICES

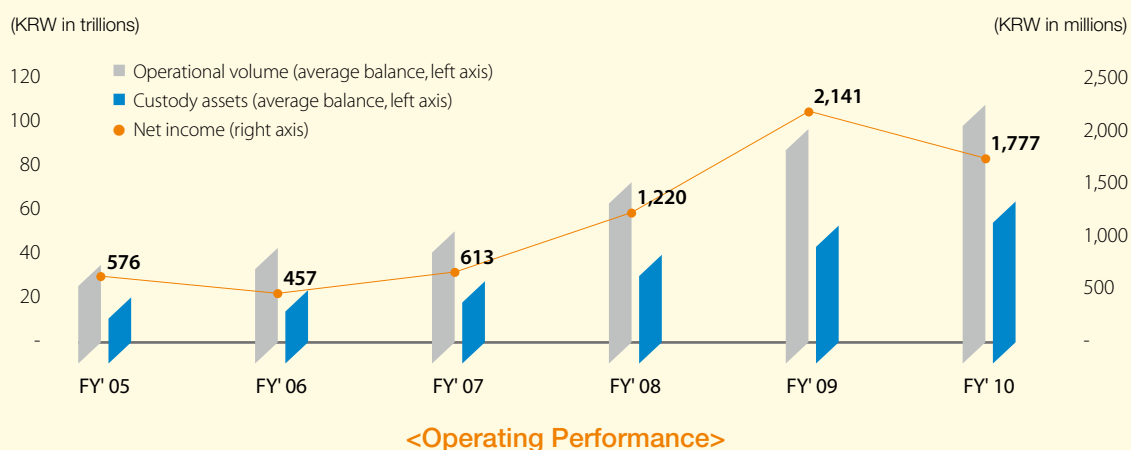
- Securities finance services in accordance to the Financial Investment Services and Capital Market Act.
- Obtaining authorization, licenses, and approvals from, as well as filing registrations with, the Financial Services Commission.

Type of Services	Services Targeting Financial Investment Firms	Services Targeting Private Investors and Corporations
Loans	<ul style="list-style-type: none"> • Securities Underwriting Loans • Margin Financing Loans • Stock Purchasing Loans • Working Capital Loans • Bond Dealer Loans • Loans to Refinance Securities-Secured Loans • Short-Term Note Trading at a Discount • Bond Purchase under Reverse RPs 	<ul style="list-style-type: none"> • Securities-Secured Loans • Loans Secured by Deposits • Short-Term Note Trading at a Discount
Deposits	<ul style="list-style-type: none"> • Subscription Guarantee Money Deposits • Deposits from Financial Investment Organizations • SPAC Deposits • Sales of Notes Issued • Bond Sales under RPs 	<ul style="list-style-type: none"> • Securities Subscription Deposits • Corporate Deposits • Sales of Notes Issued • Bond Sales under RPs
Management of Investors' Deposits	<ul style="list-style-type: none"> • Investors' Deposits in Deposit Accounts • Investors' Deposits in Trust Accounts 	
Trustee and Custody	<ul style="list-style-type: none"> • Trustee and Custody Services • Management of Entrusted Assets • Management of General Administrative Businesses 	
ESOP Support	<ul style="list-style-type: none"> • ESOP Support Services 	<ul style="list-style-type: none"> • ESOA Deposits • ESOP Shares Acquisition Loans • ESOP Shares-Secured Loans
SBL Brokerage	<ul style="list-style-type: none"> • Securities Borrowing & Lending (SBL) • SBL Brokerage 	

MANAGERIAL PERFORMANCE

Consolidating Profit Bases through Stably Expanding Businesses

The global economic growth has led mainly by the private sector since the financial crises, while recently some emerging countries are practicing exit strategies. KSFC has focused on expanding businesses through proactively responding market changes. As a result, the average balance of operational volume of the company expanded approximately 16%, or KRW14.9 trillion, over the previous year to KRW108.3 trillion in FY2010. The average balance of loans surged 29.8% from KRW4.7 trillion in the previous year to KRW6.1 trillion in FY2010. The average balance of custody assets also climbed 21.6% from KRW49.6 trillion in the previous year to KRW60.3 trillion in FY2010.



Introduction of IFRS

The introduction of the IFRS system has been accelerated by listed companies and financial institutions in 2011 before the compulsory execution in the first quarter of 2012. To efficiently meet market changes, KSFC also established internal accounting principles with the implementation of the effect analysis in accordance with the introduction of the IFRS. Currently, we are designing and building the processes and systems for IFRS and plan to report financial statements based on new financial reporting standards from October 2011.

Securing Solid Growth Foundation through Dominating the Custody Market

KSFC has been focusing on expanding the custody business and dominating the market to diversifying its business portfolio and securing more stable profit bases. As a result, the average balance of securities trust remarkable increased to KRW43.9 trillion in FY2010 from KRW38.2 trillion in FY2009 and KRW27.2 trillion in FY2008. The average balance of SBL brokerage also expanded to KRW11.1 trillion in FY2010 from KRW7.1 trillion in FY2009 and KRW3.9 trillion in FY2008. In addition, the start of RP brokerage business between financial institutions, newly approved in March 2011, will allow us to play a role as a market maker. We are also widening the lending pool to create new business models in the SBL market.

FINANCIAL HIGHLIGHTS

KSFC Account (KRW in millions; USD in thousands)

• Financial Position

As of March 31	FY2010		FY2009	
	KRW	USD	KRW	USD
Total Assets	25,717,975	23,454,606	25,930,353	22,967,540
Total Liabilities	24,581,112	22,417,795	24,929,521	22,081,064
Shareholders' Equity	1,136,863	1,036,811	1,000,831	886,476
(Common Stock)	(340,000)	(310,078)	(340,000)	(301,151)

• Income Statements

Years ended March 31	FY2010		FY2009	
	KRW	USD	KRW	USD
Total Revenues	1,136,907	1,036,851	1,021,844	905,088
Total Expenses	896,595	817,688	732,444	648,755
Income before Income Taxes	236,818	215,976	281,042	248,930
Net Income	177,651	162,016	214,054	189,596

Trust Account (KRW in millions; USD in thousands)

• Financial Position

As of March 31	FY2010		FY2009	
	KRW	USD	KRW	USD
Total Assets	16,911,332	15,423,011	15,493,489	13,723,197
Trust Deposits	16,747,980	15,274,036	15,308,176	13,559,058
Other Liabilities	163,352	148,976	185,313	164,139

• Income Statements

Years ended March 31	FY2010		FY2009	
	KRW	USD	KRW	USD
Interest Income	418,243	381,435	364,486	322,840
Gain on Trading and Valuation of Securities	115,484	105,321	93,535	82,848
Total Expenses	533,727	486,755	458,021	405,687

- KRW amounts were converted to USD based on prevailing exchange rates of KRW 1,096.5/USD and KRW 1,129/USD on March 31, 2011 and March 31, 2010 respectively.

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Gifts

FT-A 10

12.0

11.5

11.0

10.5

10.0

9.5

9.0

8.5

8.0

7.5

7.0

6.5

6.0

5.5

5.0

4.5

4.0

3.5

3.0



LAYING THE FOUNDATION FOR STABLE AND SUSTAINABLE GROWTH

By proactively responding to rapidly changing financial market environments, KSFC succeeded in expanding operational volume and laying the foundation for stable and sustainable growth in FY2010. Our business portfolio was also diversified with the start of the RP brokerage business between financial institutions.

SUMMARY

FINANCIAL CONDITION

- Average balance of total assets increased 6.0% year-on-year to KRW30.30 trillion in FY2010. Cash and due from banks and securities rose by 2.8% and 18.9% year-on-year to KRW13.15 trillion and KRW8.68 trillion, respectively, while securities loans slightly decreased 0.1% to KRW8.42 trillion.
- Total liabilities recorded KRW29.35 trillion in FY2010, an increase of 5.5% over the previous year, of which deposits increased 7.8% to KRW23.22 trillion and borrowings and bonds payable decreased 8.7% to KRW4.56 trillion.
- Total shareholders' equity stood at KRW956.5 billion including capital stock of KRW340.0 billion, up 26.8% over the previous year.

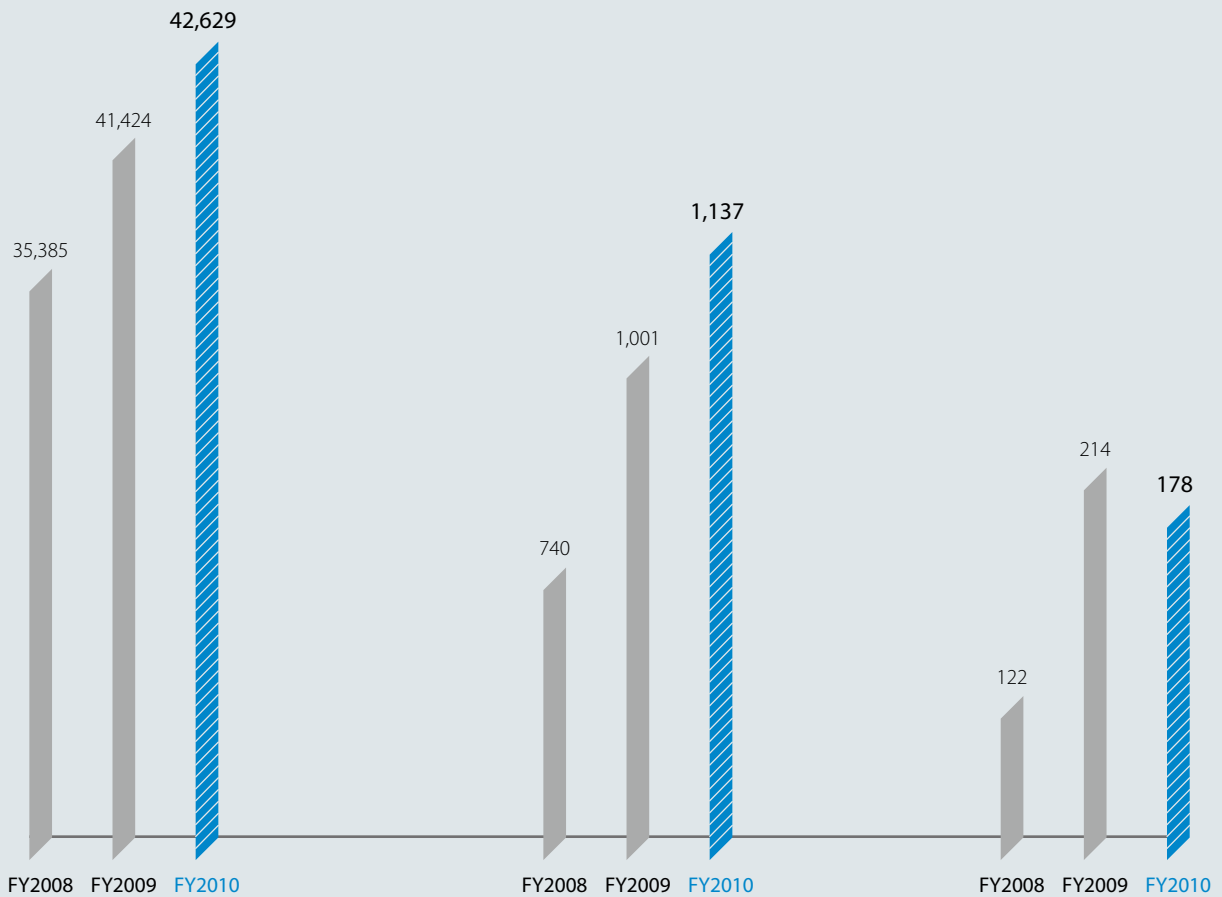
OPERATING PERFORMANCE

- Operating revenues increased 11.3% year-on-year to KRW1.14 trillion in FY2010. Interest income, gain on valuation and disposal of securities, and commission income showed increases of 10.2%, 9.1% and 86.7% to KRW859.5 billion, KRW180.1 billion and KRW51.6 billion, respectively. Fees and commission income from trust account were KRW17.2 billion, an increase of 12.9% over the previous year.
- Operating expenses surged 22.4% year-on-year to KRW896.6 billion, of which interest expense and commission expense increased 22.0% and 93.6% to KRW763.3 billion and KRW39.7 billion, respectively, while loss on valuation and disposal of securities fell 4.1% to KRW11.5 billion.
- Operating income recorded KRW240.3 billion, a decrease of 16.7% year-on-year. Net income also decreased 17.0% to KRW177.7 billion in FY2010.

ASSESSMENT

- It's not easy to proactively expand loan business due to recent fierce competition in the financial market. So, KSFC has focused on short-term funds management and custody business such as SBL brokerage and trusts. As a result, the growth of our total assets barely reached 6.0% in FY2010.
- During the fiscal year, rate of returns on major assets dwindled because fundraising costs surged by narrowed yield spread gap and climb of short-term interest rate. According to this, net income fell 17.0% from the previous fiscal year when it had recorded all-time high, and return on equity also decreased to 15.6% in FY2010 from 21.4% in FY2009. However, our return on equity was as excellent as ever.
- In March 2011, we obtained the approval of RP brokerage business between institutions which had been promoted to improve short-term financial market by the government. KSFC started the business since April 2011.

16.3%
5-year CAGR in total assets



Total Assets
(KRW in billions,
including trust accounts)

**Shareholders'
Equity**
(KRW in billions)

Net Income
(KRW in billions)

RAISING FUNDS

KSFC raises operating funds through equity, borrowings from financial institutions, bond issues, diverse forms of deposits, issuance of obligations, and bond sales under RPs.



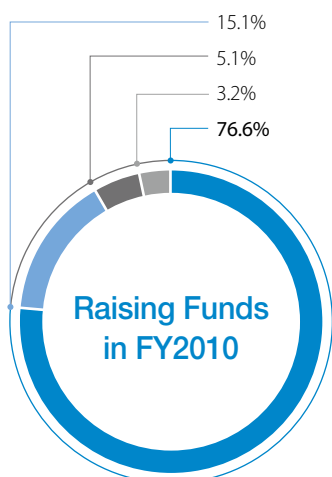
Stable Increase in Raising Funds

The average balance of funds raised in FY2010 increased 6.0% year-on-year to KRW30.3 trillion. The figure breaks down as follows: deposits from financial investment organizations took up 34.1%, while investors' deposits, notes issued, subscription guarantee money deposits and margin accounted for 17.2%, 16.7%, 4.2% and 4.2%, respectively. Proportion of deposits from financial investment organizations and margin showed remarkable increase, while that of funds raised by notes issued sharply declined.

Breakdown of Raised Funds (on the average annual balance basis)

(KRW in millions, %)

Classification	FY 2010		FY 2009		FY 2008	
	Amount	%	Amount	%	Amount	%
Deposits Received	23,224,359	76.6	21,536,061	75.4	16,481,879	69.8
Investors' deposits ¹⁾	5,209,859	17.2	6,021,632	21.1	5,629,394	23.8
Subscription guarantee money deposits	1,284,192	4.2	1,378,589	4.8	292,193	1.2
Deposits from securities market stabilization funds	26,957	0.1	15,531	0.1	22,359	0.1
Deposits from financial investment organizations	10,321,594	34.1	6,192,713	21.7	3,193,118	13.5
Deposits from corporations	1,058,515	3.5	978,592	3.4	638,685	2.7
Subscription deposits for IPOs	27	0.0	31	0.0	36	0.0
Subscription deposits for forfeited shares	40,875	0.1	45,519	0.2	50,885	0.2
ESOP deposits	1,118	0.0	692	0.0	787	0.0
SPAC deposits	219,921	0.7	8,666	0.0	0	0.0
Notes issued	5,058,934	16.7	6,891,466	24.1	6,651,830	28.2
Borrowings & Bonds Payable	4,563,694	15.1	4,999,243	17.5	5,029,431	21.3
Call money	1,018,141	3.4	1,076,117	3.8	1,141,141	4.8
Bonds sales under RPs	1,195,949	4.0	1,351,310	4.7	1,971,036	8.4
Borrowings ²⁾	1,173,507	3.9	1,923,644	6.7	1,415,269	6.0
Bonds payable	1,177,014	3.9	648,630	2.3	502,164	2.1
Other Liabilities	1,557,166	5.1	1,283,955	4.5	1,557,982	6.6
Margin ³⁾	1,272,894	4.2	689,746	2.4	834,901	3.5
Borrowings from trust accounts	185,834	0.6	524,577	1.8	652,496	2.8
Shareholders' Equity	956,540	3.2	754,411	2.6	547,702	2.3
Total	30,301,759	100.0	28,573,670	100.0	23,611,994	100.0



- Deposits Received
- Borrowings & Bonds payable
- Other Liabilities
- Shareholders' Equity

Note 1) including investors' deposits received from stocks, derivatives, principle derivatives, fund investments and foreign currency derivatives transactions

Note 2) including borrowings from banks and CPs

Note 3) including guarantees from stock loans, SBL brokerage and others



Deposits Received

The average balance of deposits received in FY2010 increased 7.8% from the previous year to reach KRW23.2 trillion, accounting for 76.6% of total raised funds. It had been 75.4% in FY2009.

Investors' Deposits

For the trading of stocks or derivatives, investors should primarily deposit their money to financial investment firms. These investors' deposits consist of compulsorily redeposited funds from financial investment firms in accordance with relevant regulations. In FY2010, the average balance of investors' deposits decreased 13.5% year-on-year to KRW5.21 trillion, contributing 17.2% to KSFC's total raised funds as opposed to 21.1% in FY2009.

- Deposits for spot trading, which are investors' deposits made by financial investment firms for trading securities and redeposited in KSFC, decreased by 69.2% year-on-year to KRW105.8 billion in FY2010. The decrease was mainly due to the invigoration of cash management accounts (CMAs) by securities investors and increasing trust accounts by financial investment firms.
- Deposits for derivatives trading, which are investors' deposits made by financial investment firms for trading index-linked futures or options and redeposited in KSFC, decreased 11.0% year-on-year to KRW2.89 trillion in FY2010.
- Deposits received from principle derivatives trading are deposits of funds for futures trading from financial investment firms who collect funds from investors exclusively for on-floor derivatives trading. The average balance of principle deposits from derivatives trading increased 27.1% year-on-year to KRW1.12 trillion in FY2010.
- Deposits received from collective investment securities, which are investors' deposits for collective investments made by financial investment firms and redeposited in KSFC, increased 18.3% year-on-year to KRW 952.7 billion in FY2010.
- Deposits received from foreign currency derivatives trading, which are deposited in KSFC in foreign currency by financial investment firms, increased 60.5% year-on-year to KRW139.6 billion in FY2010.

Average balance of procured funds in FY2010 was KRW30.3 trillion, an increase of 6.0% over the previous year.

Subscription Guarantee Money Deposits

Subscription guarantee money deposits are funds received from financial investment firms that are collected by investors who want to participate in IPOs or rights issues. In FY2010, the average balance of subscription guarantee money deposits decreased 4.2% year-on-year to KRW1.28 trillion, accounting for 4.2% of total funds raised during the fiscal year, as opposed to 4.8% during FY2009. These deposits are usually managed through the short-term notes discounted to financial investment firms, where limits are set up to the value of deposits.

Deposits from Financial Investment Organizations

Deposits from financial investment organizations are funds received from financial investment firms and organizations related to the financial investment industry that are used to facilitate their capital surplus. In FY2010, the average balance of deposits from financial investment organizations increased 66.7% year-on-year to KRW10.32 trillion, taking up 34.1% of total raised funds, compared to 21.7% in FY2009. The remarkable increase resulted mainly from a great influx of cash management accounts (CMAs) and surplus cash of financial investment organizations derived from an increase of short-term investment capital and investors' preference for risk-averse assets, of which demand deposits accounted for 84.3% or KRW8.70 trillion, while fixed-term deposits accounted for 15.7% or KRW1.62 trillion in FY2010.

Deposits from Corporations

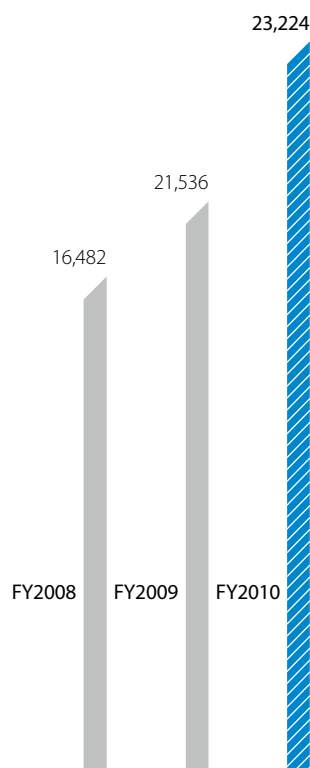
Deposits from corporations are a vehicle that helps private corporations, public institutions and organizations manage surplus cash. The average balance of deposits from corporations increased 8.2% year-on-year to KRW1.06 trillion, taking up 3.5% of total raised funds in FY2010 compared to 3.4% in FY2009. The growth rate of deposits from corporations dwindled due to a dent in the competitiveness of KSFC's deposit interest rates despite fluent liquidity in the market and our efforts to attract funds, of which demand deposits accounted for 65.9% or KRW697.4 billion, while fixed-term deposits marked KRW361.1 billion in FY2010.

Subscription Deposits for IPO and Forfeited Shares

Subscription deposits for IPO and forfeited shares are a savings vehicle that offers value-added services such as the provision of subscription guarantee money loans and subscription agency services. In FY2010, the popularity of these deposits fell sharply due to a dent in the merits of subscription as well as the flagging competitiveness of interest rates. Subscriptions deposits for IPO had a pronounced slump, only taking in an average balance of less than KRW100 million during the fiscal year. Subscriptions deposits for forfeited shares only took in KRW40.9 billion or 0.1% of raised funds - compared to 0.2% in the previous fiscal year - failing to fully perform its function as a savings vehicle for individual customers.

Deposits Received

(KRW in billions)



Special Purpose Acquisition Company (SPAC) Deposits

Special purpose acquisition company (SPAC) deposits are deposits made in accordance to the Financial Investment Services and Capital Market Act by a SPAC that gathers investors and issues shares for the sole purpose of merging with another corporation. The average balance for FY2010 skyrocketed by 25 times over the previous fiscal year to KRW219.9 billion, taking up 0.7% of total raised funds.

Notes Issued

Notes issued, a vehicle to raise deposit-type funds by issuing obligations, saw its average balance for FY2010 shrink by 26.6% to KRW5.06 trillion, and accounted for 16.7% of total raised funds, as opposed to 24.1% during FY2009. Sources of funds are usually national treasury funds, public money management funds, and securities companies' CMA accounts. These funds are managed in the market through RPs on exchange, MMFs, bank deposits, and call loans. The figure broke down as follows: KRW616.4 billion from national treasury funds, KRW1.86 trillion from public money management funds, and KRW1.55 trillion from financial investment companies' trust capital.



Borrowings & Bonds Payable

KSFC raises necessary funds by borrowing from banks, issuing commercial paper (CP) or bonds, bond sales under RPs and other methods. Total borrowings in FY2010 decreased 8.7% year-on-year to KRW4.55 trillion, accounting for 15.1% of total raised funds.

Call Money

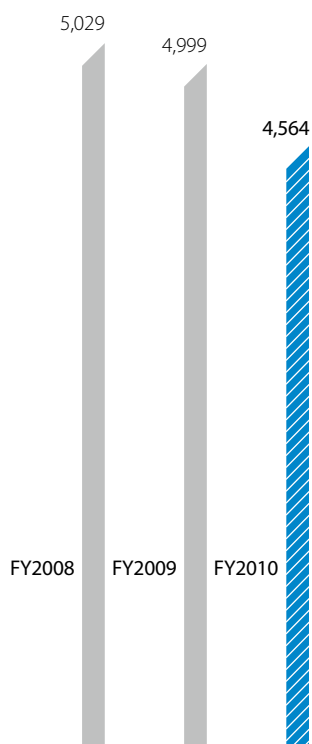
Call money is a primary source of short-term capital borrowings. The average balance of call money decreased 5.4% over the previous fiscal year to KRW1.02 trillion in FY2010, taking up 3.4% of total procured funds. The proportion had been 3.8% in FY2009.

Bonds Sales under RPs

Bonds sales under repurchase agreements (RPs) is a form of raising funds by selling bond holdings to corporations or individuals under the condition that they will sell them back on a previously agreed-upon date and price. The average balance of bonds sales under RPs decreased 11.5% year-on-year to KRW1.20 trillion in FY2010, taking up 4.0% of total raised funds. The proportion had been 4.7% in FY2009. Although this was a deposit vehicle geared toward individuals and corporations only, bond sales under RPs became a primary source of funds since 2003 when RP sales between institutional investors was first initiated. As KSFC gained the approval to broker RP transactions between institutional investors in March of 2011, raising funds from this category are expected to boost in the future.

Borrowings & Bonds Payable

(KRW in billions)



Borrowings

The average balance of borrowings from financial institutions decreased 39.0% year-on-year to KRW1.17 trillion in FY2010. The proportion dwindled to 3.9% from 6.7% in the previous fiscal year.

Bonds Payable

KSFC raises funds through issuing corporate bonds. The average balance of bonds payable in FY2010 was KRW1.18 trillion, up 82.7% over the previous year. The figure represented 3.9% of total raised funds, an increase of 1.6%p from 2.3% in the previous fiscal year.

Other Liabilities

The average balance of other liabilities, which are comprised of various margins and borrowings from trust accounts, recorded KRW1.56 trillion, a 21.3% increase from the previous fiscal year, and taking up 5.1% of total raised funds in FY2010. The proportion had been 4.5% in FY2009.

Margins

The average balance of margins increased 84.6% year-on-year to KRW1.27 trillion in FY2010, representing 4.2% of total raised funds. The proportion had been 2.4% in the previous fiscal year. It was comprised of KRW37.6 billion from stock loan, KRW1.22 trillion from SBL brokerage and KRW16.1 billion from other transactions.

Borrowings from Trust Accounts

Borrowings from trust accounts are deposits of idle cash in the fund investment assets of collective investment institutions through its trust account under trustee agreements, received by KSFC. The average balance in FY2010 decreased 64.6% year-on-year to KRW185.8 billion, taking up 0.6% of total raised funds, as opposed to 2.4% in FY2009.

Shareholders' Equity

The average balance of shareholders' equity in FY2010 increased 26.8% year-on-year to KRW956.5 billion. The proportion slightly increased to 3.2% from 2.6% in the previous fiscal year.

Capital Stock and Capital Surplus

KSFC's capital stock and capital surplus in FY2010 remained KRW340.0 billion and KRW21.8 billion respectively.

Retained Earnings

Retained earnings in FY2010 increased 34.9% year-on-year to KRW530.5 billion, contributed primarily by net earnings of KRW177.7 billion during the fiscal year.



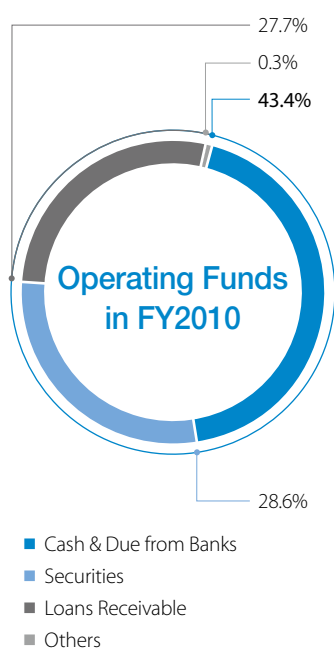
OPERATING FUNDS

KSFC's primary vehicles for managing funds are cash and deposits, securities investments, call loans, trading notes at a discount, bonds purchased under reverse RP, and various loans.



Pursuing High Efficiency in Operating Funds

The total volume of funds managed in FY2010 increased on average by 6.0% year-on-year to KRW30.30 trillion. Broken down into categories, cash and deposits in Korean Won contributed 42.9% of total funds managed, while trading securities, loans, and available-for-sale securities accounted for 18.6%, 15.9%, and 10.0%, respectively. And bonds purchased under reverse RPs and trading notes at a discount were 7.4% and 4.3%, respectively. In terms of contribution to total funds managed, trading securities grew substantially while bonds purchased under reverse RPs shrank noticeably during this fiscal year.



Breakdown of Operating Funds (on the average annual balance basis)

(KRW in millions, %)

Classification	FY 2010		FY 2009		FY 2008	
	Amount	%	Amount	%	Amount	%
Cash & Due from Banks	13,145,848	43.4	12,785,022	44.7	11,071,163	46.9
Cash & due in Korean Won	13,006,236	42.9	12,698,042	44.4	10,998,315	46.6
Cash & due in foreign currency	139,595	0.5	86,964	0.3	72,830	0.3
Securities	8,682,811	28.6	7,300,908	25.5	7,126,723	30.2
Trading securities	5,636,581	18.6	5,353,434	18.7	5,999,528	25.4
Available-for-sale securities	3,026,230	20.0	1,927,474	6.7	1,107,195	4.7
Held-to-maturity securities	20,000	0.0	20,000	0.1	20,000	0.1
Loans Receivable¹⁾	8,420,674	27.7	8,429,012	29.5	5,369,071	22.7
Call loan	36,685	0.1	99,124	0.4	16,447	0.1
Notes discounted	1,314,522	4.3	1,340,967	4.7	291,690	1.2
Bonds purchased under reverse RP	2,249,750	7.4	3,067,592	10.7	2,121,247	9.0
Loans	4,819,717	15.9	3,921,331	13.7	2,939,687	12.4
Tangible Assets	31,154	0.1	29,915	0.1	28,811	0.1
Other Assets	56,405	0.2	56,625	0.2	41,153	0.1
Total	30,301,759	100.0	28,573,670	100.0	23,611,994	100.0

Note 1) Allowances for bad debts are not included.



Cash & Due from Banks

Considering the funding system that leads to a very high percentage of short-term liquidity, KSFC keeps a large amount of capital in cash and due from banks on hand for secure and effective management of liquidity. In FY2010, the average balance of cash and due from banks increased 2.8% year-on-year to KRW13.15 trillion, taking up 43.4% of total managed funds, the highest percentage. The proportion had been 44.7% in the previous fiscal year.

Cash & Due in Korean won

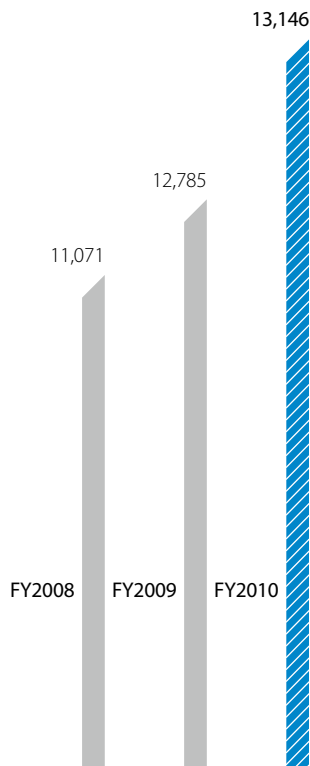
The average balance of cash and due from banks in Korean Won increased 2.4% year-on-year to KRW13.01 trillion, taking up 42.9% of total managed funds in FY2010, compared to 44.4% in FY2009.

Cash & Due in Foreign Currency

In accordance with relevant regulations, financial investment firms should deposit cash in KSFC for the transactions of foreign currency derivatives. The average balance of cash and due from banks in foreign currency in FY2010 increased 60.6% over the previous year to KRW139.6 billion, and represented 0.5% of total managed funds, compared to 0.3% in FY2009.

Cash & Due from Banks

(KRW in billions: %)



Securities

To overcome fiercer competition in the securities-secured loans market and secure more profitability, KSFC has expanded its securities investments. As a result, the average balance of securities rose by 18.9% over the previous year to KRW8.68 trillion, accounting for 28.6% of total managed funds, a slight increase from 25.5% in FY2009. Stocks including stake in other companies quadrupled year-on-year to KRW113.4 billion, and bonds and beneficiary certificates also increased 45.1% and 16.7% to KRW3.21 trillion and KRW5.34 trillion, respectively. Other securities were KRW209.1 billion, down 66.1%.

Trading Securities

KSFC acquires trading securities to obtain capital gains from short term trading. The average balance of trading securities increased 5.3% over the previous year to KRW5.64 trillion in FY2010, representing 18.6% of total managed funds compared to 18.7% in FY2009.

Available-for-Sale Securities

KSFC buys available-for-sale securities for long-term investment (one or more years). The average balance of available-for-sale securities in FY2010 reached KRW3.03 trillion, an increase of 57.0% over the previous year. The proportion increased 3.3%p from 6.7% in FY2009 to 10.0%.

Held-to-Maturity Securites

All the held-to-maturity securities are IBK bonds issued for supporting small & medium sized companies. The average balance of held-to-maturity securities stood at KRW20.0 billion, the same as the previous year.



Loans Receivable

KSFC's loans receivable comprise of call loans to manage funds in the very short term, notes discounted and bonds purchased under reverse RP to manage funds in the short term and various kinds of loans. They recorded a high increase of 57.0% in the previous year. But in this fiscal year, the average balance of loans receivable fell 0.1% year-on-year to KRW8.42 trillion, accounting for 27.7% (29.5% in the previous year) of total managed funds.

Call Loans

Call loans manage overnight loans mainly. They dwindled to KRW36.7 billion, down 63.0% from the previous year, accounting for 0.1% (0.4% in the previous year) of total managed funds.

Notes Discounted

The average balance of notes discounted recorded KRW1.32 trillion, down 2.0% year-on-year, due to a slump in the deposits of subscription guarantee money, the main source of funds for this account. They accounted for 4.3% of total managed funds in FY2010, compared to 4.7% in FY2009.

Bonds Purchased under Reverse RP

The average balance of bonds purchased under reverse RP stood at KRW 2.25 trillion, down 26.7% from the year before. They accounted for 7.4% of total managed funds in FY2010, compared to 10.7% in the previous year.

Loans

The average balance of loans reached KRW4.82 trillion, an increase of 22.9% year-on-year. They accounted for 15.9% of total managed funds in FY2010 (13.7% in the previous year).

- Margin financing loans are provided to securities companies for their customers' margin purchase or short sales. The average balance of margin financing loans jumped 25.4% over the previous year to KRW1.97 trillion in FY2010.
- Bond dealer loans are given to bond dealers after obtaining approval through the KRX's settlement system to support funding for the trade of bonds in the bond market. No bond dealer loan was given due to strong market liquidity and a slump in transactions of securities firms in FY2010
- Working capital loans support the liquidity of financial investment firms and related institutions, the Korea Exchange, and insurance companies by lending working capital in return for securities as collateral. The average balance of working capital loans rose 60.7% year-on-year to KRW112.7 billion in FY2010.



Average balance of operating funds by loans receivable in FY2010 was KRW8.4 trillion, similar to the result of the previous year.

- Loans to refinance securities-secured loans are given to financial investment firms to support their securities-secured loans, and prime rates and limits are determined on the basis of credit ratings and volume of shareholders' equity. The average balance of loans to refinance securities-secured loans soared 58.7% over the previous year to KRW900.6 billion in FY2010.
- Employee stock ownership plan (ESOP) share acquisition loans are extended to members of employee stock ownership associations (ESOAs) to purchase allocated shares. The same shares are used as collateral. The average balance of ESOP share acquisition loans swelled 22.2% over the previous year to KRW823.1 billion in FY 2010. It seems to be difficult for ESOP share acquisition loans to increase due to fiercer competition with banks in the future.
- Employee stock ownership plan (ESOP) share-secured loans are given to ESOA members using ESOP shares that they deposit into KSFC as collateral. The average balance of ESOP share-secured loans dropped 10.2% year-on-year to KRW11.7 billion in FY2010.
- Securities-secured loans are extended to private individuals or corporations that place securities as collateral. The average balance of securities-secured loans fell 4.4% over the previous year to KRW977.3 billion. Similar to ESOP share acquisition loans, it seems to be difficult for securities-secured loans to increase due to the entrances of banks and securities firms.
- Loans secured by deposits are loans extended to investors who place subscription deposits for forfeited shares or deposits from corporations as collateral. They stood merely at KRW24.2 billion in FY2010.

Breakdown of Loans (on the average annual balance basis)

(KRW in millions, %)

Classification	FY 2010		FY 2009		FY 2008	
	Amount	%	Amount	%	Amount	%
Margin financing loans	1,970,044	40.9	1,570,945	40.1	709,054	24.5
Bond dealer loans	0	0.0	3,277	0.1	42,404	1.4
Working capital loans	112,704	2.3	70,147	1.8	52,404	1.8
Loans to refinance securities –secured loans	900,629	18.7	567,370	14.5	503,448	17.1
Loans to support uncollected financing ¹⁾	0	0.0	0	0.0	2,153	0.1
ESOP share acquisition loans	823,098	17.1	673,523	17.2	481,181	16.4
ESOP share-secured loans	11,726	0.2	13,054	0.3	16,497	0.6
Securities-secured loans	977,283	20.3	1,021,903	26.0	1,117,993	38.0
Loans secured by deposits	24,233	0.5	1,112	0.0	4,553	0.1
Total	4,819,717	100.0	3,911,331	100.0	2,939,687	100.0

Note 1) As loans to support financial investment firms to pay for the uncollected amount of their customers' stock purchase, they ceased in May 2008 to activate margin financing loans by the Financial Supervisory Service.

ESOP SUPPORT SERVICES

KSFC is a designated depository for ESOP shares in accordance to the Basic Workers Welfare Act and conducts all administrative services related to the deposit and return of ESOP shares, as well as offers consultation on the creation and management of ESOAs to promote the development and expansion of ESOPs.





Number of ESOAs

As of the end of March 2011, the number of ESOAs established stood at 2,842 while the number of their members reached 1,193,000. These two figures increased by 88 and 45,000 from the year before, respectively. Detailed data are as follows: 673 companies and 854,000 members among listed companies on KRX, 829 companies and 110,000 members on KOSDAQ, and 1,340 companies and 230,000 members at other category.

Breakdown of ESOAs Establishment

(Numbers of companies and members)

Classification	As of March 2011		As of March 2010		As of March 2009	
	ESOA	Member	ESOA	Member	ESOA	Member
Companies listed on KRX	673	853,784	659	812,974	660	765,168
Companies listed on KOSDAQ	829	109,757	834	108,686	850	107,702
Other companies	1,340	230,247	1,261	227,361	1,171	220,410
Total	2,842	1,193,908	2,754	1,149,021	2,681	1,093,280

ESOP Shares Deposited

The number of ESOP shares deposited by 318,000 members of 1,007 ESOAs decreased 10.1% year-on-year to 377,253,000 shares, while the acquisition value of such shares increased 20.3% to KRW5.52 trillion as of the end of March, 2011.

- Deposited shares consisted of 224,680,000 shares of companies listed on KRX, 52,338,000 shares of companies listed on KOSDAQ and 100,235,000 shares of other companies. Total market capitalizations as of the end of March, 2011 were KRW8.15 trillion: KRW7.23 trillion of companies listed on KRX and KRW376.4 billion of companies listed on KOSDAQ and KRW548.7 billion of other companies. The ownerships were 1.4% for companies listed on KRX, 1.1% for companies listed on KOSDAQ, and 1.3% for other companies.

Breakdown of ESOP Shares Deposited

(Companies, members, thousand shares, KRW in millions)

Classification	As of March 2011		As of March 2010		As of March 2009		
	ESOA/ Shares	Member/ Acquisition Value	ESOA/ Shares	Member/ Acquisition Value	ESOA/ Shares	Member/ Acquisition Value	
ESOA	KRX Company	221	244,439	208	248,819	189	242,165
	KOSDAQ Company	269	19,394	271	18,935	266	19,047
	Other	517	53,856	506	58,540	484	59,323
	Total	1,007	317,689	985	326,294	939	320,835
Shares Deposited	KRX Company	224,680	4,665,289	238,676	3,720,778	189,143	3,419,615
	KOSDAQ Company	52,338	316,556	60,515	293,978	65,274	295,519
	Other	100,235	524,659	120,625	579,143	117,291	523,693
	Total	377,253	5,524,504	419,816	4,593,899	371,708	4,238,827

SAFEKEEPING AND MANAGEMENT OF INVESTORS' DEPOSITS

In accordance with relevant regulations, funds that are deposited in financial investment firms by investors for the trading of securities and derivatives should be fully redeposited in KSFC. And financial investment firms are able to choose to hold the funds as deposits or trusts. In the case of trusts, KSFC maintains and manages deposits in separate trust accounts and pays dividends according to operating performances.





Investors' Deposits in the Trust Accounts

The average balance of investors' deposits in the trust accounts increased 16.0% year-on-year to KRW17.71 trillion in FY2010, which comprised of KRW11.48 trillion for stock investors' deposit trusts, KRW4.44 trillion for derivate investors' deposit trusts, and KRW1.79 trillion for special money trusts. It accounted for 77.3% of total investors' deposits, up 5.6%p from 71.7% in the previous fiscal year.

- At the end of March, 2011, the number of financial investment firms to deposit in the trust accounts increased to 40 companies from 38 in the previous year.

Performance of Investors' Deposits Trust (on the average annual balance basis)

(KRW in millions)

Classification		FY2010	FY2009	FY2008
Investors' deposits in the trust accounts	Securities investors' deposit trusts	11,477,972	10,265,086	7,642,128
	Derivate investors' deposit trusts	4,441,825	3,984,173	3,279,646
	Special money trusts	1,794,448	1,026,583	0
	Total	17,714,245	15,275,842	10,921,774
Managing funds	Cash & due	13,373,406	11,390,536	6,056,447
	Bonds	73,172	0	469
	Securities			
	Beneficiary certificates	4,156,121	3,249,219	2,206,265
	CD	30,976	606,971	2,418,526
	Sub total	4,260,269	3,856,190	4,625,260
	Loans ¹⁾	0	0	7,233
	Call loans	14	0	31,541
RP	24,230	822	72,521	
Number of financial investment firms		40	38	32

Note 1) Manages mainly at working capital working capital loans, margin financing loans, etc.

Management of Deposits in the Trust Accounts

Operating objects and business partners for the management of deposits in the trust accounts are strictly regulated by relevant laws as they should be safely managed while maintaining enough liquidity.

- Cash and due which are managed through term deposits and MMDAs for safety expanded 17.4% year-on-year to KRW13.37 trillion, accounting for 75.5% of total deposits in the trust accounts. The proportion had been 74.6% in the previous year.
- Funds managed in the type of securities were KRW4.26 trillion, up 10.5% over the previous year. The figure comprised of KRW73.2 billion in bonds, KRW4.16 trillion in MMF and KRW31.0 billion CDs, and accounted for 24.1% of total deposits in the trust accounts (25.2% in the previous year).

SAFEKEEPING AND MANAGEMENT OF COLLECTIVE INVESTMENT ASSETS

KSFC has safely maintained and managed collective investment assets of collective investment firms to protect investors in accordance to pertinent regulations since June 2004.



Ranked 2nd in the Industry just in 6 Years

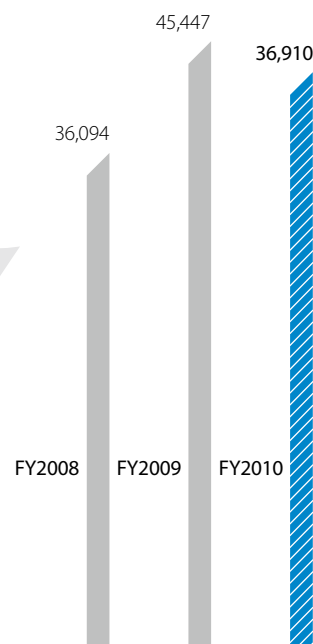
KSFC's performance was remarkable. We were late coming into the market, but now at the second in the industry just in 6 years after the launch of services.

- The company collected KRW43.75 trillion in funds on average, a year-on-year increase of 15.6% in FY 2010.
- But the amount at the end of the fiscal year fell 20.6% to KRW36.10 trillion from the end of the previous year due to a slump in the trust market and fiercer competition.
- Our market share dropped 1.3%p year-on-year to 12.0%. But the company continued to rank second in the trustee industry.



Entrusted Assets at the End of Fiscal Year

(KRW in billions)



Performances of Entrusted Assets

(KRW in billions)

Classification		FY2010	FY2009	FY2008
Performances	Balance at the end of fiscal year	36,910	45,447	36,094
	Annual average balance	26,906	37,856	43,750
M/S (rank)		9.6% (3rd)	13.3% (2nd)	12.0% (2nd)
Number of customers		63	55	50

SBL BROKERAGE SERVICES

Securities borrowing and lending (SBL) are transactions where securities such as stocks or bonds are lent and borrowed for a profit. As an intermediary, KSFC takes the initiative, brokers, and finalizes the sale of SBLs in addition to taking possession of securities, managing collateral, and acting as a proxy.





Achieved Remarkable Growth

In FY2010, the average balance of SBL brokerage transactions sharply increased 55.6% over the previous year to KRW11.10 trillion thanks to high growth of stocks and bonds transactions. With the approval of business by the government in March 2011, we have started the RP brokerage services since April 2011. Therefore, the brokerage business including SBL and RP is expected to create synergy effects and grow into one of major business of the company.

Stocks Borrowing and Lending Brokerage

The average balance of stocks borrowing and lending brokerage at the end of FY 2010 stood at KRW594.3 billion, up 131.5% from the previous year thanks to steady efforts to promote deals and an increase in guarantee securities for margin financing loans. The brokerage of KOSPI shares increased 122.4% year-on-year to KRW510.5 billion, and that of KOSDAQ shares soared 208.1% to KRW83.8 billion in FY2010.

Bonds Borrowing and Lending Brokerage

The average balance of bonds borrowing and lending brokerage grew 52.8% year-on-year to KRW10.51trillion thanks to an increase in the number of new borrowers and an increase in trade to gain profits from selling bonds with expansion of flexibility of interest rates. Government bonds and monetary stabilization bonds rose 44.4% and 219.3% year-on-year to KRW9.47 trillion and KRW1.00 trillion, respectively. Other bonds soared 860.6% to KRW31.7 billion.

Margin

Margin is cash charged from securities borrowers as collaterals for SBL transactions. It jumped 88.2% over the previous year to KRW1.22 trillion in FY2010.

Performances of SBL Brokerage Services (on the average annual balance basis)

(KRW in billions)

Classification	FY2010	FY2009	FY2008
Stock			
KOSPI	511 (85.9%)	230 (89.4%)	143 (94.6%)
KOSDAQ	84 (14.1%)	27 (10.6%)	8 (5.4%)
Sub total	594 (100.0%)	257 (100.0%)	151 (100.0%)
Bond			
Government bonds	9,474 (90.2%)	6,561 (95.4%)	4,902 (98.4%)
Monetary stabilization bonds	1,002 (9.5%)	314 (4.6%)	58 (1.2%)
Other bonds	32 (0.3)	3 (0.0%)	20 (0.4%)
Sub total	10,507 (100.0%)	6,878 (100.0%)	4,979 (100.0%)
Total	11,102	7,134	5,130
Cash deposit	1,219	648	809

SHARING LOVE FOR GREATER HAPPINESS



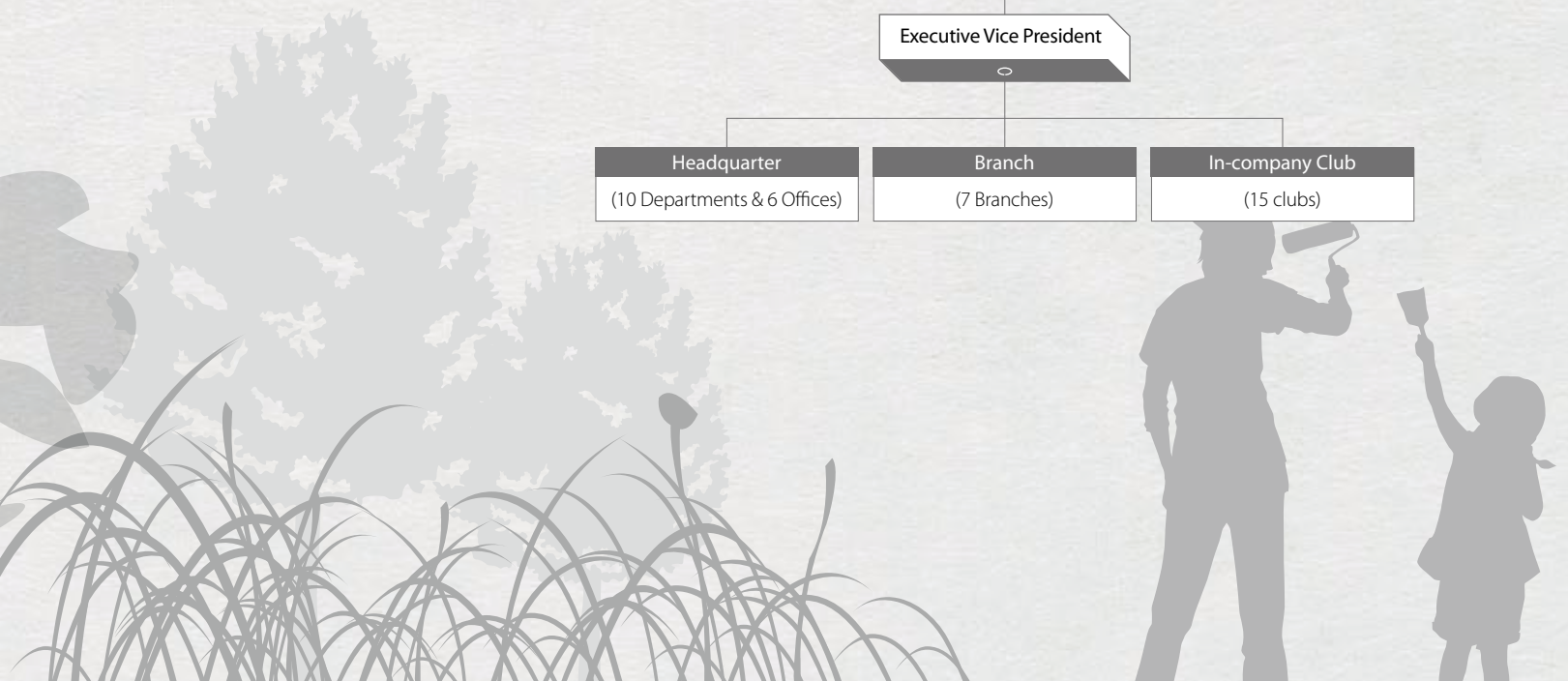
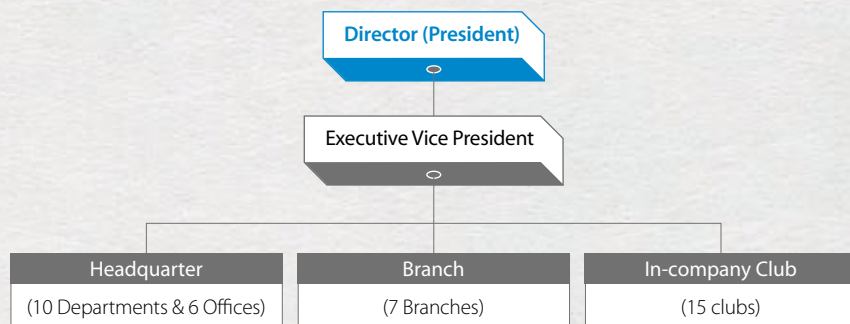
KSFC makes social contribution activities in a range of fields, including social welfare, seminar and education, sports, and arts to fulfill corporate social responsibility and carry out management for sharing love.

Especially, the “One Heart” volunteer group comprised of the management and employees engage in voluntary activities more than twice annually. They are also participating in the Double Matching Grant program - when the management and employees monthly donations from their salaries, the company contributes double the amount. It helps spread the culture of sharing enterprise-wide.

The “Nurturing the Hopes of Marginalized Children” has been our special social contribution project where the efforts of the volunteer group and donations are utilized. For children of low-income households, we provide books, develop small artificial-grass soccer fields, and hold various events for childcare facilities. We also sponsor after-school tutoring programs. Childhood cancer patients benefit from the medical expenses and organizations we support.

In addition, to enhance the quality of medical welfare for the low-income class, we offer medical equipments, and expenses required in improving facilities and purchasing medicine to charitable medical institutions. The marginalized and the elderly also receive help from diverse welfare projects we sponsor.

Organization of One Heart Volunteer Group



As for multicultural families, we support multicultural educational facilities and childcare centers. KSFC also makes efforts to strengthen the welfare of immigrant workers by providing continuous assistance to relevant facilities and medical institutions. Like this, our voluntary works and sponsorship activities have been proactively implementing for a diverse communities.

Particularly, in March 2010, KSFC signed an agreement with the Smile Microcredit Bank Foundation to contribute KRW10 billion for the Smile Microcredit program that supports people with low credit and income to secure self-sufficiency. Up until now, a total of KRW7.5 billion was delivered. Moreover, in May 2010, we established the ‘Social Contribution Team’ dedicated to social contribution activities. The team revised internal institutions to enable KSFC to carry out systematic and continuous social contribution activities.

To return in multiples the love we received from the financial market and customers, KSFC will expand the budget for donations to around 3% of net income, and continue to lend a helping hand to the society.





- 1_ An agreement on supporting medical expenses to children suffering from childhood cancer with the Korea Childhood Leukemia Foundation
- 2_ Volunteer works to serve kimchi-making for the winter
- 3_ Volunteer works to make and deliver bread to social welfare facilities
- 4_ Having a lovely time with children of multi-cultural families
- 5_ A love sharing event through rice-cake soup
- 6_ Donating a small-sized artificial turf field to the Dream Tree Village of Seoul City and holding a soccer academy for children





FINANCIAL REVIEW

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders Korea Securities Finance Corp.

We have audited the accompanying statements of financial position of Korea Securities Finance Corp. (the "Company") as of March 31, 2011 and 2010, and the related statements of income, appropriations of retained earnings, changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 2011 and 2010, and the results of its financial performance, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

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 financial performance, 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 who are knowledgeable about Korean accounting principles and auditing standards and their application in practice.

May 13, 2011

Ernst & Young Han Young

This audit report is effective as of May 13, 2011, the independent auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditors' report date to the time this audit report is used. Such events and circumstances could significantly affect the accompanying financial statements and may result in modifications to this report.

STATEMENTS OF FINANCIAL POSITION

As of March 31, 2011 and 2010
(Unit: Korean won in millions)

		FY2010	FY2009
ASSETS	Cash and due from banks	10,865,966	10,095,255
	Securities:		
	Trading securities	4,124,746	4,696,067
	Available-for-sale securities	4,119,056	2,217,444
	Held-to-maturity securities	20,000	20,000
		8,263,802	6,933,511
	Loans receivable, less allowance for possible loan losse	6,393,396	8,710,049
	Property and equipment	28,922	29,941
	Other assets:		
	Intangible assets	24,319	667
	Derivative assets	297	-
	Prepaid expenses	2,873	6,771
	Accrued income	114,561	106,209
	Investments in memberships	15,908	14,850
	Sundry assets	7,931	33,100
		165,889	161,597
	Total assets	25,717,975	25,930,353
LIABILITIES AND EQUITY	Deposits	18,514,947	19,138,964
	Borrowing liabilities	4,902,764	4,769,318
	Other liabilities:		
	Guarantee deposits	828,903	663,841
	Deposits received	3	-
	Due to trust accounts	192,662	183,217
	Derivative liabilities	1,800	8,958
	Unearned revenues	4,014	4,149
	Accrued expenses	52,118	43,325
	Income taxes payable	16,583	55,963
	Contingent liabilities	154	53
	Severance and retirement benefits	2,148	3,178
	Deferred income tax liabilities	53,525	54,695
	Sundry liabilities	11,491	3,861
		1,163,401	1,021,240
	Total liabilities	24,581,112	24,929,522
	Equity:		
	Paid-in stock	340,000	340,000
	Capital surplus	21,767	21,767
	Capital adjustments	(10,158)	(10,158)
	Accumulated other comprehensive income	82,627	82,627
	Retained earnings	702,627	702,627
	Total equity	1,136,863	1,000,831
	Total liabilities and equity	25,717,975	25,930,353

STATEMENTS OF INCOME

For the years ended March 31, 2011 and 2010
(Unit: Korean won in millions, except for share amounts)

	FY2010	FY2009
Operating revenues:		
Interest income:		
Interest on due from banks	401,725	362,038
Interest on securities	156,766	135,490
Interest on loans	301,005	282,069
	859,496	779,597
Gain on valuation and disposal of securities:		
Gain on disposal of trading securities	84,004	80,855
Gain on valuation of trading securities	72,040	76,920
Gain on disposal of available-for-sale securities	19,743	7,237
Reversal of impairment loss on available-for-sale securities	4,328	-
Others	-	40
	180,115	165,052
General fees and commission income	51,636	27,658
Gain on foreign currency transactions	8,734	12,657
Fees and commission income from trust accounts	17,226	15,255
Dividend income	15,402	14,327
Other operating income:		
Gain from derivatives valuation and transactions	4,298	7,153
Rental income	-	144
Interest income on other deposits	-	1
	4,298	7,298
Total operating revenue	1,136,907	1,021,844

STATEMENTS OF INCOME (continued)

For the years ended March 31, 2011 and 2010
(Unit: Korean won in millions, except for share amounts)

	FY2010	FY2009
Operating expenses:		
Interest expense:		
Interest on deposits	583,001	458,015
Interest on borrowings and bonds	92,396	94,045
Other interest expense	87,927	73,863
	763,324	625,923
Loss on valuation and disposal of securities:		
Loss on disposal of trading securities	8,268	5,610
Loss on valuation of trading securities	2,451	232
Loss on disposal of available-for-sale securities	767	1,087
Impairment loss on available-for-sale securities	-	5,049
	11,486	11,978
Provision for possible loan losses	6,708	10,736
General fees and commission expenses	39,730	20,519
Loss on foreign currency transactions	8,734	12,663
Administrative expenses	59,013	45,053
Other operating expenses:		
Loss from derivatives valuation and transactions	7,566	5,556
Others	34	16
	7,600	5,572
Total operating expenses	896,595	732,444
Operating income	240,312	289,400
Non-operating income (expenses):		
Gain on disposal of property and equipment, net	64	17
Donations	(4,037)	(9,325)
Others	479	950
	(3,494)	(8,358)
Income before income taxes	236,818	281,042
Income tax expenses	59,167	66,988
Net income	177,651	214,054
Basic earnings per share	2,667	3,214

STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

For the years ended March 31, 2011 and 2010
(Unit: Korean won in millions)

	FY2010	FY2009
Retained earnings before appropriations:		
Unappropriated retained earnings carried forward from the prior year	106	111
Net income	177,651	214,054
	177,757	214,165
Appropriations:		
Legal reserve	18,000	22,000
Other reserves	126,300	152,100
Cash dividends	33,299	39,959
	177,599	214,059
Unappropriated retained earnings to be carried forward to the next year	158	106

STATEMENTS OF CHANGES IN EQUITY

For the years ended March 31, 2011 and 2010
(Unit: Korean won in millions, except for share amounts)

	Paid-in stock	Capital surplus	Capital adjustments	Accumulated other comprehensive	Retained earnings	Total
As of April 1, 2009	340,000	21,767	(10,158)	11,265	377,520	740,394
Cash dividends	-	-	-	-	(26,639)	(26,639)
Net income	-	-	-	-	214,054	214,054
Unrealized gain on available-for-sale securities	-	-	-	70,437	-	70,437
Unrealized gain on derivatives	-	-	-	2,585	-	2,585
As of March 31, 2010	340,000	21,767	(10,158)	84,287	564,935	1,000,831
As of April 1, 2010	340,000	21,767	(10,158)	84,287	564,935	1,000,831
Cash dividends	-	-	-	-	(39,959)	(39,959)
Net income	-	-	-	-	177,651	177,651
Unrealized gain on available-for-sale securities	-	-	-	(4,703)	-	(4,703)
Unrealized gain on derivatives	-	-	-	3,043	-	3,043
As of March 31, 2011	340,000	21,767	(10,158)	82,627	702,627	1,136,863

STATEMENTS OF CASH FLOWS

For the years ended March 31, 2011 and 2010
(Unit: Korean won in millions)

	FY2010	FY2009
Cash flows from operating activities:		
Net income	177,651	214,054
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	3,322	1,018
Amortization of intangible assets	6,525	226
Provision for severance and retirement benefits	2,216	2,324
Amortization of bonds	622	218
Gain on valuation of trading securities, net	(69,589)	(76,687)
Gain on disposal of tangible assets, net	(64)	(17)
Loss (gain) on valuation of derivative instruments, net	(3,440)	3,700
Provision for possible loan losses	6,709	10,736
Gain on foreign currency translation, net	-	(12,591)
Provision for contingency	100	53
Others, net	67	8
Changes in operating assets and liabilities:		
Trading securities	640,910	1,009,276
Available-for-sale securities	(1,910,212)	(664,404)
Loans receivable	2,309,944	(4,391,200)
Prepaid expenses	3,899	1,605
Accrued income	(8,352)	22,648
Sundry assets	(4,516)	(14,239)
Unearned revenues	(135)	3,661
Accrued expenses	8,793	6,113
Income taxes payable	(39,380)	25,114
Sundry liabilities	7,630	1,901
Deferred income taxes	1,754	(3,980)
Payment of severance and retirement benefits	(4,755)	(1,619)
Others, net	1,512	(484)
Total adjustments	1,007,092	(4,005,608)
Net cash provided by (used in) operating activities	1,131,211	(3,862,566)

	FY2010	FY2009
Cash flows from investing activities:		
Acquisition of property and equipment	(2,308)	(4,810)
Proceeds from disposal of property and equipment	69	129
Proceeds from disposal of investments in memberships	5,397	1,249
Acquisition of intangible assets	(511)	(564)
Acquisition of investments in memberships	(6,504)	(1,675)
Net cash used in investing activities	(3,857)	(5,671)
Cash flows from financing activities:		
Placement of deposits	3,327,401,354	2,461,070,208
Withdrawal of deposits	(3,328,025,372)	(2,456,993,752)
Proceeds from borrowings	10,740,000	22,005,000
Repayment of borrowings	(11,065,000)	(22,170,000)
Proceeds from call money	228,883,500	239,674,400
Repayment of call money	(229,064,300)	(238,710,400)
Proceeds from securities sold under repurchase agreements	158,849,501	171,492,302
Repayment of securities sold under repurchase agreements	(158,190,501)	(172,484,500)
Proceeds from issuance of bonds	400,764	619,049
Redemption of bonds issued	(421,140)	(320,540)
Increase (decrease) in due to trust accounts	9,445	(1,440,226)
Increase in guarantee deposits	158,284,478	97,948,937
Decrease in guarantee deposits	(158,119,416)	(97,740,957)
Increase (decrease) in other deposits, net	3	(310)
Payment of dividends	(39,959)	(26,639)
Net cash provided by (used in) financing activities	(356,643)	2,922,572
Net increase (decrease) in cash and due from banks	770,711	(945,665)
Cash and due from banks at the beginning of the year	10,095,255	11,040,920
Cash and due from banks at the end of the year	10,865,966	10,095,255

STATEMENTS OF FINANCIAL POSITION

(Trust Account)

As of March 31, 2011 and 2010
(Unit: Korean won in millions)

		FY2010	FY2009
ASSETS	Cash and due from banks	12,294,217	11,396,044
	Securities	4,480,305	3,853,266
	Securities purchased on resale agreements	-	150,000
	Call loans	5,000	-
	Accrued income	131,810	94,179
	Total assets	16,911,332	15,493,489
LIABILITIES	Trust deposits	16,747,980	15,308,176
	Other liabilities	163,352	185,313
	Total liabilities	16,911,332	15,493,489

STATEMENTS OF INCOME

(Trust Account)

For the years ended March 31, 2011 and 2010
(Unit: Korean won in millions)

	FY2010	FY2009
Revenues		
Interest income:		
Interest on due from banks	414,358	335,932
Interest on securities	3,305	28,535
Interest on securities purchased on resale agreements	579	19
Interest on call loans	1	-
	418,243	364,486
Gain on valuation and disposal of securities:		
Gain on trading of securities	37,462	26,452
Gain on valuation of securities	78,022	67,083
	115,484	93,535
Total revenues	533,727	458,021
Expenses		
Trust profits to beneficiaries	523,968	439,538
Loss on trading of securities	319	10,310
Trust fees	9,335	8,050
Others	105	123
	533,727	458,021
Total expenses	533,727	458,021

MILESTONES

1955

Oct. Established as Korea United Securities Finance Corporation (capital stock: KRW 7.5 million)

1956

Jan. Listed on Seoul Stock Exchange

1971

Dec. Began extending settlement financing loans to securities firms following launch of the margin transactions system

1973

Nov. Launched special securities secured loans for the stabilization of stock prices

1974

Mar. Commenced margin financing loans by integrating settlement financing loans and securities-secured loans

1974

Nov. De-listed from the Korean Stock Exchange (KSE)

1980

Mar. Opened the Myungdong branch

1982

Jul. Launched short-term note trading business

1985

Apr. Moved headquarters to Yeouido, Seoul

1985

Oct. Increased capital to KRW 40.0 billion

1950

1970

1980

1960

1962

Apr. Became a judicial securities finance company following the enactment of the Securities and Exchange Act and under its jurisdiction

Jul. Renamed as the Korea Securities Finance Corporation

1969

Feb. Increased capital to KRW 1.0 billion

Feb. Commenced money and stock loans in the form of securities borrowing and lending transactions

Mar. Commenced extending securities-secured proxy loans to the general public

May Opened the Busan branch

1975

May Increased capital to KRW 2.0 billion. Introduced USD 5.0 million loans from International Finance Corporation (IFC stake: 12%)

1977

Jan. Took over employee stock ownership plan (ESOP) administration and securities secured loans from the Korea Investment Corporation following its dissolution

Mar. Entered into new businesses (e.g., bond trading, deposit-taking and issuance of short-term notes) following revision of the Securities and Exchange Act

Apr. Began managing customers' deposits with securities firms for greater investor protection

1986

Jul. Launched subscription deposits service for IPO shares

1987

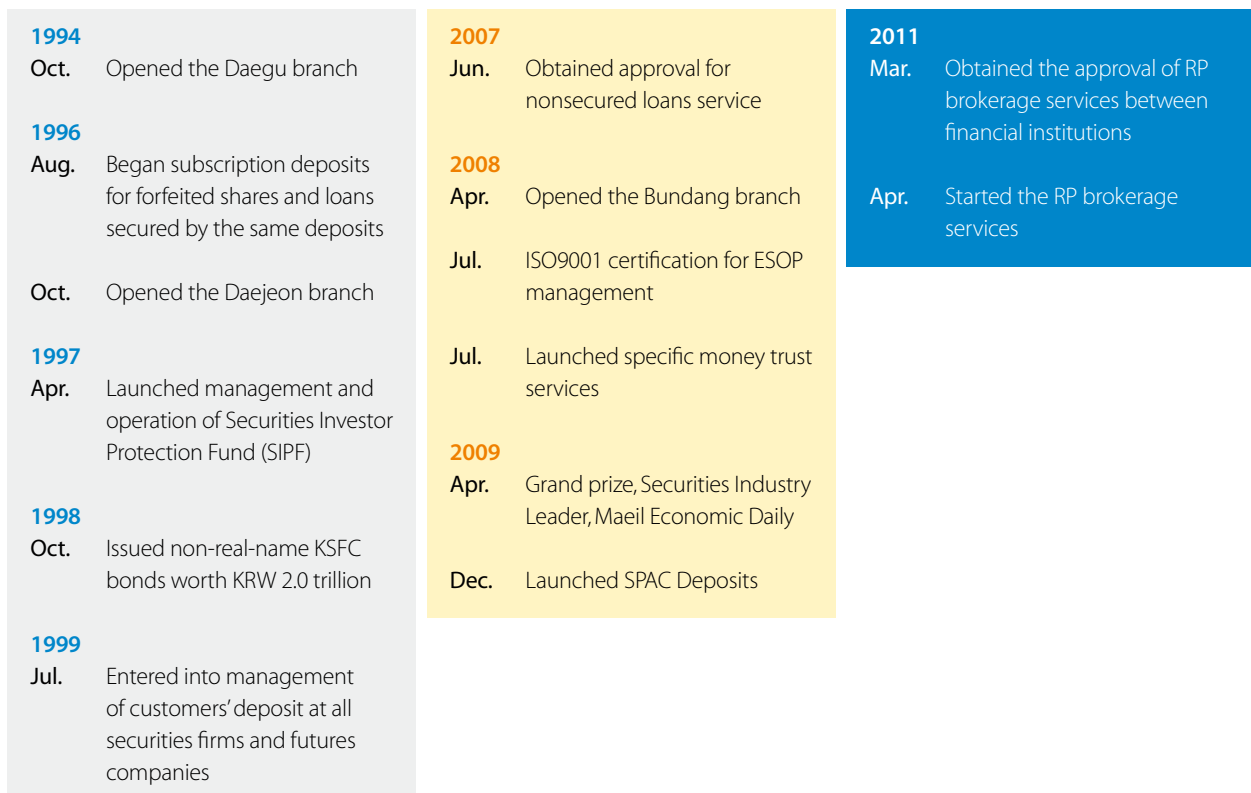
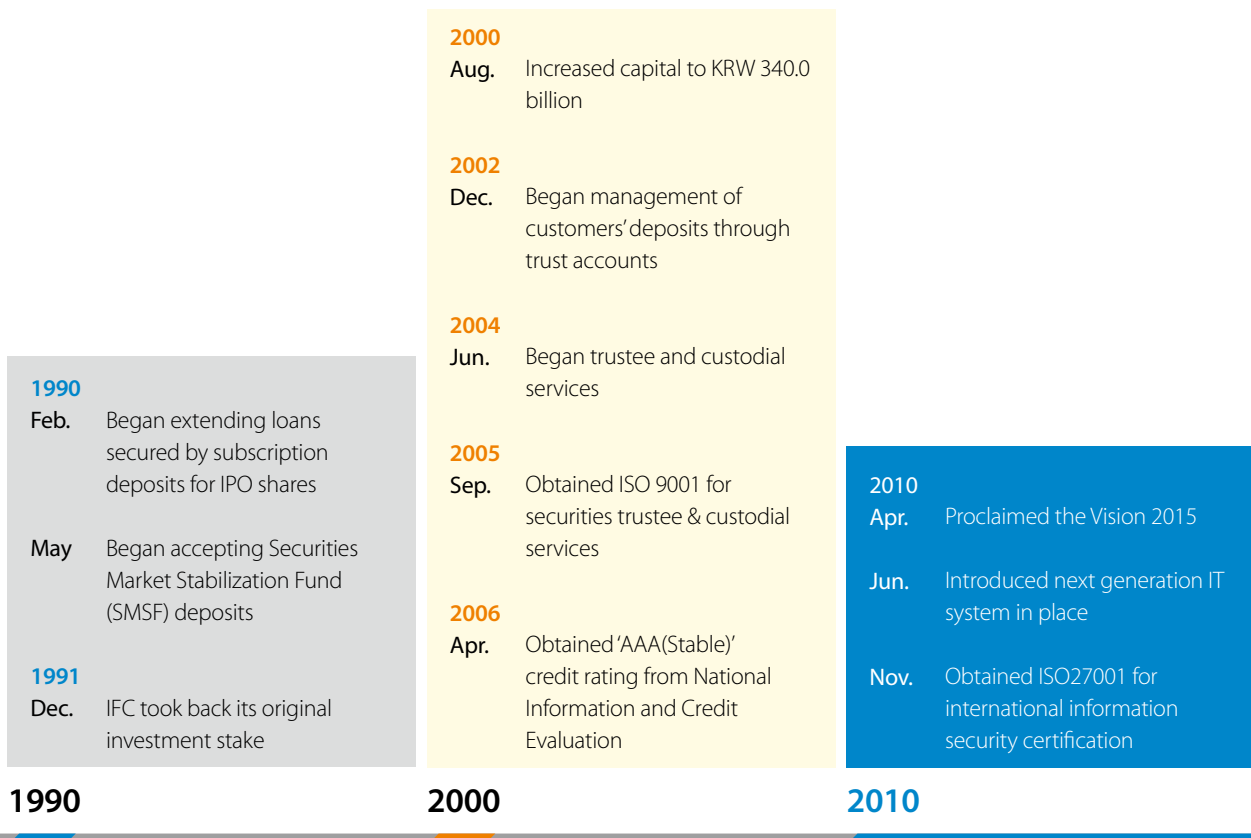
Sep. Opened the Gangnam branch

1988

Dec. Increased capital to KRW 80.0 billion

1989

Oct. Opened the Gwangju branch



BOARD OF DIRECTORS

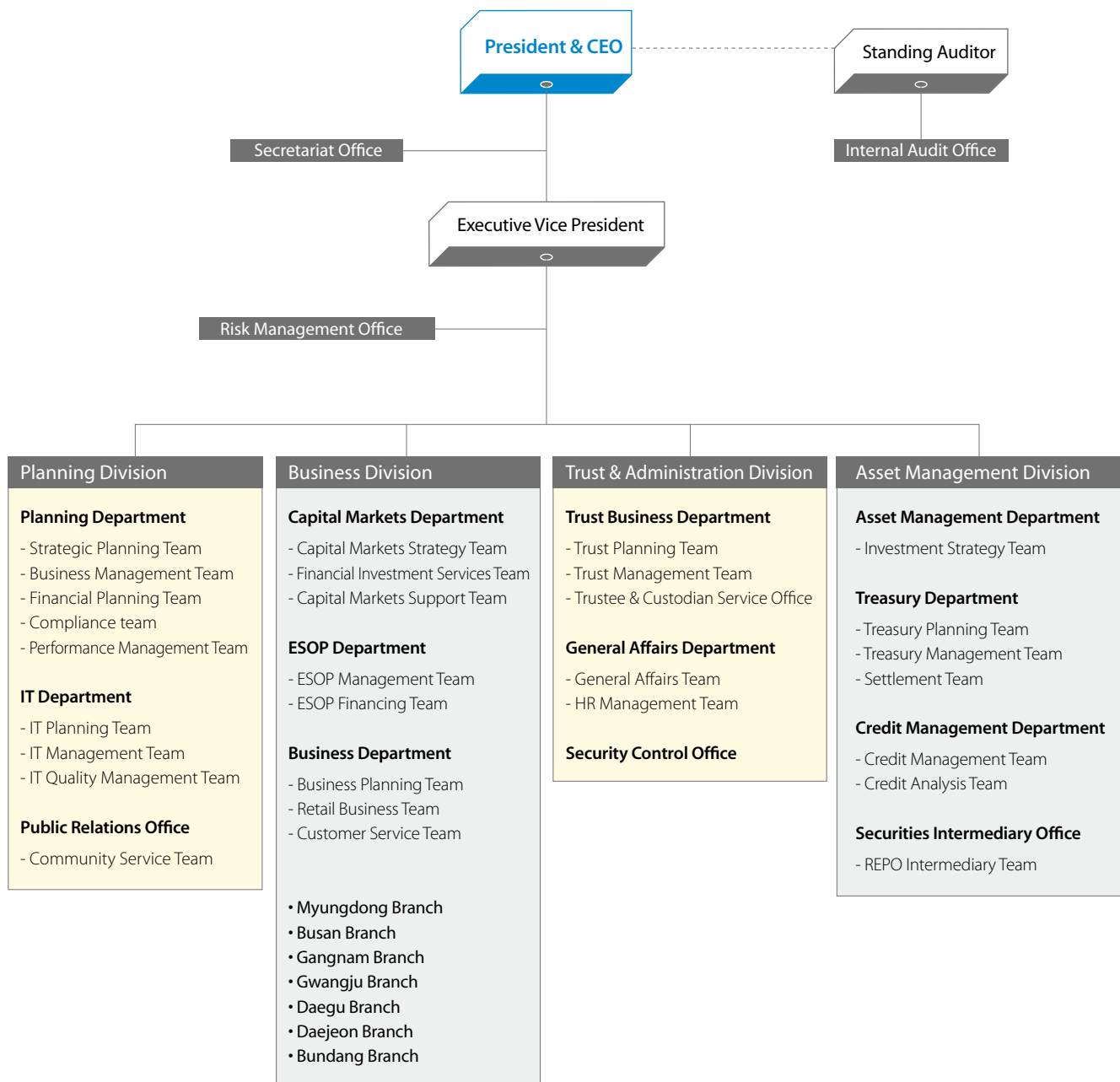
(As of July 1, 2011)

Young Kwa Kim	<i>President and CEO</i>
Sun Jai Lee	<i>Executive Vice President</i>
Hee Rak Kim	<i>Standing Auditor</i>
Tai Gi Kim	<i>Outside Director</i> <i>(Professor of Economics, Dangoon University)</i>
Hyung Koo Lee	<i>Outside Director</i> <i>(Former Minister of Labor)</i>
Key Young Park	<i>Outside Director</i> <i>(Professor of Administration, Jeonbuk University)</i>
Young Il Cho	<i>Outside Director</i> <i>(Lawyer, the Law Office of Young Il Cho)</i>

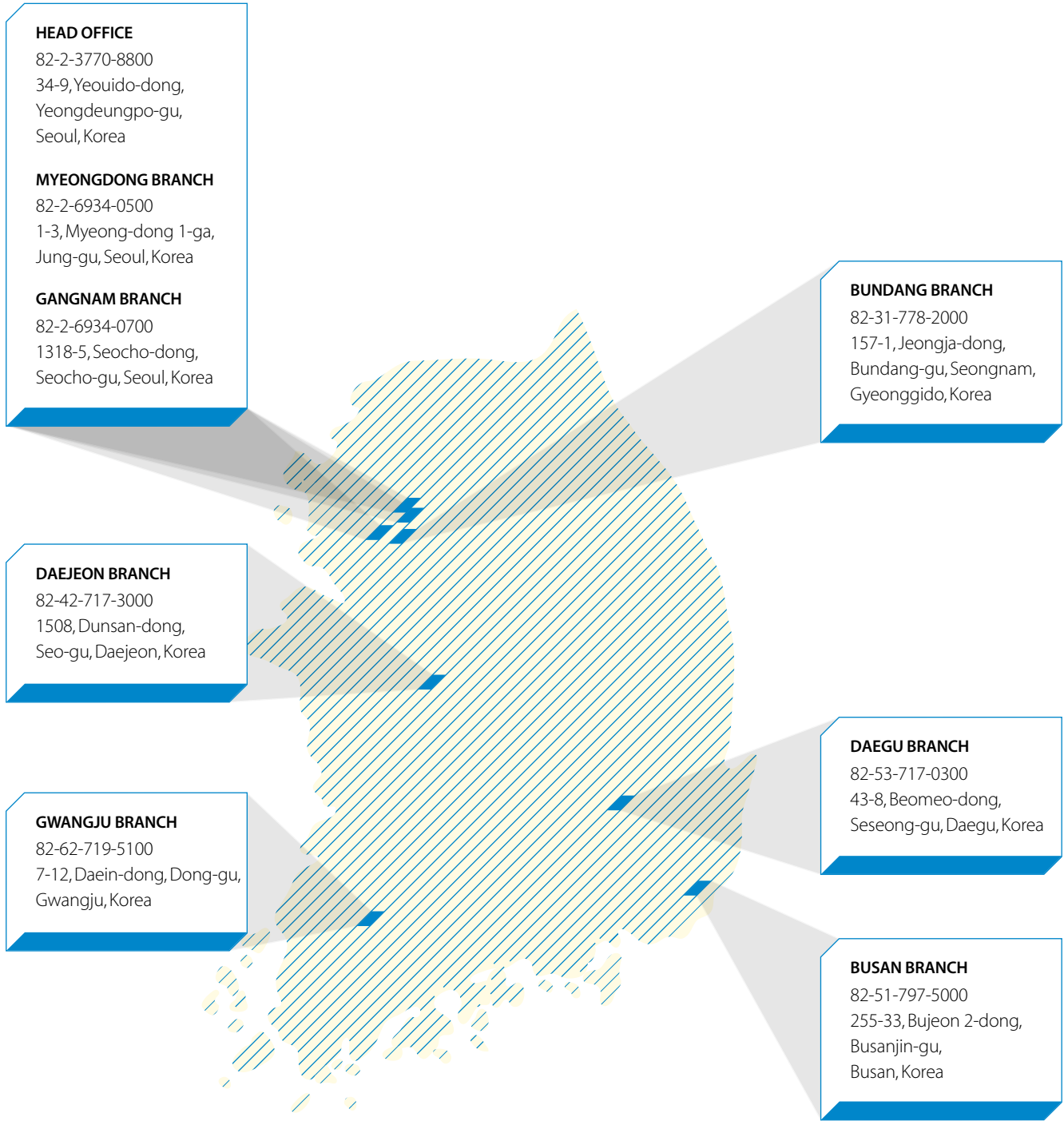
Management Committee	
Young Kwa Kim	President & CEO
Sun Jai Lee	Executive Vice President
Hee Rak Kim	Standing Auditor
Chan Seok Yang	Managing Director (Business Division)
Jong Wook Kim	Managing Director (Asset Management Division)
Moon Hoon Lee	Managing Director (Planning Division)
Seong Gwan Park	Managing Director (Trust & Administration Division)

ORGANIZATION

(As of May 1, 2011)



BUSINESS NETWORK



We at KSFC will be committed to putting forth the utmost efforts to achieve our management goals and grow together with customers and shareholders.



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