

ANNUAL REPORT 2003

KSFC

ANNUAL REPORT



KOREA SECURITIES FINANCE CORP.

www.ksfc.co.kr

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FINANCIAL HIGHLIGHTS

KSFC Account

(In millions of KRW & In thousands of USD)

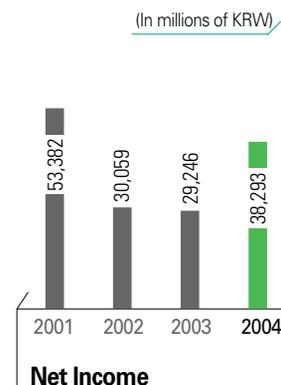
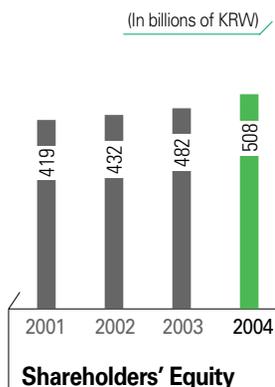
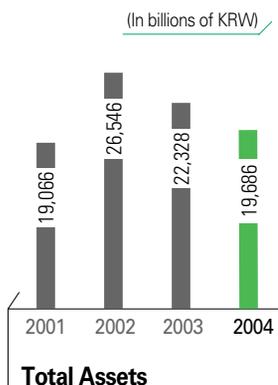
As of March 31	2004		2003	
	Korean Won	U.S. Dollars	Korean Won	U.S. Dollars
Total Assets	9,626,653	8,344,880	11,103,951	8,850,591
Total Liabilities	9,118,312	7,904,223	10,621,717	8,466,218
Shareholders' Equity (Common Stock)	508,341 (340,000)	440,656 (294,730)	482,234 (340,000)	384,373 (271,003)

Years ended March 31	2004		2003	
	Korean Won	U.S. Dollars	Korean Won	U.S. Dollars
Total Revenues	513,387	445,030	963,397	767,892
Total Expenses	456,255	395,505	921,587	734,566
Income before Income Taxes	57,132	49,525	41,810	33,325
Net Income	38,293	33,194	29,246	23,311
Net Income / Average Common Stock(%)		11.3		8.6
Dividends / Common Stock(%)		6.0		7.0

Trust Account

As of March 31	2004		2003	
	Korean Won	U.S. Dollars	Korean Won	U.S. Dollars
Total Assets	10,059,295	8,719,916	11,224,067	8,946,331
Trust Deposits	9,997,641	8,666,471	11,179,556	8,910,853
Other Liabilities	61,654	53,445	44,511	35,478

* The Korean Won amounts were translated into U.S. Dollars at the exchange rates of KRW 1,153.60 and KRW1,254.60 to USD1, the prevailing rates on March 31, 2004 and 2003, respectively.



* Total assets are the sum of KSFC and trust account.

KSFC PROFILE

KSFC was established for the purpose of supporting domestic economic development by contributing to the advancement of the capital market.



Korea Securities Finance Corporation
("KSFC")

PURPOSE OF ESTABLISHMENT

- Korea Securities Finance Corporation ("KSFC") was incorporated in October 1955 for the purpose of supporting economic development by contributing to the advancement of the capital market through the supply of funds to the securities market and other related activities. The company is the only specialized provider of securities financing allowed by the securities and Exchange Act.

FUNCTION AND ROLE

- As the only specialized provider of securities financing in Korea, the primary function of KSFC is to supply funds and marketable securities to the securities market. In addition, KSFC also provides customers' deposits management services to protect investor assets, ESOP (Employee Stock Ownership Plan) support services and other deposit/loan products to assist investors in carrying out effective asset management.

**Securities
Industry Support Services**

- KSFC contributes towards the development of the local securities market by providing specialized services, which include the supply of funds and related services necessary for issuing, trading and brokering of marketable securities such as stocks and bonds.
- Securities underwriting loans, margin financing loans, securities secured loans, securities lending & borrowing brokerage service, etc.

**Management of Customers'
Deposits**

- KSFC contributes to the stable growth of the securities market and protection of investors by safely managing customers' deposits, which have been temporarily deposited with securities companies or futures companies by investors, for the purchase of equity (or settlement of futures transactions).

ESOP Administration

- KSFC contributes to the promotion and development of ESOP, being the sole specialized service provider for ESOP in Korea. KSFC safely manages employee stocks deposited by ESOAs, provides advisory services in relation to the establishment and operation of ESOAs, and provides loans for the purchase of employee stocks.

Investor Financial Services

- KSFC contributes to the upgrading of investment activities of general investors by providing long-term, low-interest funding secured by equity, bonds, beneficiary certificates and CDs while also managing funds for customers through subscription-related deposits, with competitive interest rates and opportunity for stock trading gains.
-

BUSINESS NETWORK

Head office & 6 branches

NUMBER OF EMPLOYEES

235

OWNERSHIP STRUCTURE BY SHAREHOLDER GROUPS

(As of March 31, 2004)

Shareholder Groups	No. of Shareholders	No. of Shares	Ratio (%)
Banks	16	22,356,563	32.88
Securities Companies	28	25,831,759	37.99
Insurance Companies	6	1,098,235	1.61
Merchant Banking Corporations	14	2,326,985	3.42
Investment Trust Management Companies	5	360,000	0.53
Cooperatives	2	1,833,396	2.70
KSFC ESOA	1	1,712,963	2.52
Korea Stock Exchange, KOSDAQ & Korea Securities Depository	3	9,473,240	13.93
Other Juridical Persons	10	660,167	0.97
Individuals	526	2,346,692	3.45
Total	611	68,000,000	100.00

CEO MESSAGE



The year 2003 was a trying year as the global economy weathered the hardships posed by the war in Iraq, North Korea's nuclear ambitions, the threat of terror, and the SARS outbreak. Korea was also adversely affected by these external factors but sluggish private consumption was the main culprit in decreasing GDP growth rate to a rather disappointing 3% level, despite robust exports. Although the Korean economy suffered through a dismal 2003, the economies of the U.S. and Japan gathered steam, while China continued to grow at a rapid pace with its GDP growth rate at the 8% level.

The local securities market had to endure additional difficulties, namely the revelations of fraudulent accounting by SK Global and the crisis at LG Card. The KOSPI, which started off the year at 630p, slid to as low as 515p during the first half of 2003. The market did manage to regain energy towards the year's end, supported by strong export growth and an influx in foreign funds, to close the year at 810p, up by 180p from the beginning of the year.

As we move forward, we believe a proactive response and the commitment to exploring new opportunities are crucial to ensuring success in a rapidly changing environment.



Against a challenging backdrop, the Korea Securities Finance Corporation (KSFC) upheld its role, providing liquidity to the securities market and safely managing customers' deposits. On the other hand, efforts were made to profitability through the expansion of lending volumes and proactive asset management. Worthy of note is our preliminary steps to launch the trust service this year following the expansion into the trust business in 2002, which is in line with ongoing efforts at KSFC to enhance commercial capabilities and broaden scope of operations.

With overhanging uncertainties, both internal and external, our performance in FY03 was not entirely satisfactory. Assets decreased by 11.8% to 19.7 trillion won from the previous year, but the decline was largely ascribed to the redemption of bearer bonds issued back in 1998. Net income reached 38.3 billion won, representing an increase of 31% from FY02.

Contrary to the favorable economic outlook that prevailed as we ushered in 2004, domestic investment and consumption have not yet revitalized. External circumstances also cast a cloud on our economy, largely due to skyrocketing oil prices, the slowdown in China, and rising interest rates in the U.S. One bright spot for the Korean economy was solid growth in exports; however, there are growing concerns that export momentum may weaken going forward.

Another source of uncertainty is the rapidly changing landscape of the local financial industry since the Asian financial crisis of 1997. Sizing up by financial institutions to realize economies of scale and the convergence of business domains have been the prevailing trend in the financial market. Legal and regulatory shelters are now being cleared away and for KSFC the business environment is becoming even more challenging. Furthermore, increased sophistication of customer needs have increased the need for constant evolution for us to keep pace with the dynamic environment.

To overcome the challenges that lie ahead and to secure renewed growth prospects, KSFC has adopted a management strategy that centers on sustained growth as a commercial financial organization and enhancement of corporate value. In the course of

pursuing our objectives, we promise to carry out the following: First, we will strive to strengthen our existing operations to reinforce our earnings base. KSFC has experienced steady growth over the years by faithfully executing its role as a facilitator of the development of the capital markets and also by expanding commercial capabilities. Harnessing our competitive edge and accumulated know-how, we will work to develop new strategies to further bolster our operations.

Second, we will endeavor to develop new capabilities oriented towards healthy coexistence between KSFC and securities firms. Considering our role as a securities market support mechanism, our relationship with the securities industry is a vital factor. Especially, our function of providing support for the securities industry has grown in importance due to the deteriorating climate of the local stock market. We work towards assisting securities firms to emerge stronger from their current difficulties and pump new life into the stock market.

Third, we will also concentrate our efforts on strengthening the infrastructure of the securities market. The local stock market has developed at a relatively slower pace compared to advanced nations and the local banking industry but nonetheless more changes are on the horizon for the securities industry. In particular, the legislation of the integrated financial business act is expected to increase the magnitude and pace of these changes significantly. To effectively cope with the impending changes and secure a firm foundation, we will have to work diligently towards meeting our objectives and clearly recognize the risks that we face.

As we move forward, we believe a proactive response and the commitment to exploring new opportunities are crucial to ensuring success in a rapidly changing environment. Building on the experience amassed through our 50-year history, we will continue to spare no efforts to fulfill our roles and ensure sustained growth.

A handwritten signature in black ink that reads "Serck Joo Hong". The signature is written in a cursive, flowing style.

Serck Joo Hong
President & CEO

COMPANY HISTORY

1950~1960's

October 1955

Established with paid-in capital of 7.5 million won invested by 28 securities firms.

February 1956

Listed shares on the Korea Stock Exchange (KSE).

February 1969

Received capital injection of 500 million won (a 50% stake in KSFC) from the government.

1970~1980's

November 1974

Delisted from the KSE.

May 1975

International Finance Corporation ("IFC") took a 12% stake in KSFC and provided a US\$ 5 million loan facility to support the Korean capital market.

January 1977

Took over the comprehensive administration service for ESOAs (Employee Stock Ownership Association) following the dissolution of Korea Investment Corporation.

July 1986

Commenced taking subscription deposits for IPO shares.



1990's

May 1990

Took deposits of Securities Market Stabilization Fund(SMSF).

December 1991

IFC completed the final sale of its stake in KSFC.

April 1997

Initiated management of Securities Investor Protection Fund(SIPF) to protect investors investing in the securities market. Eventually, the SIPF was transferred to the Korea Deposit Insurance Corp. in April 1998.

October 1998

Issued 2 trillion won of 5-year maturity bearer (non-real name) corporate bonds, which exempt holders from estate and gift tax pursuant to Act on Real Name Financial Transaction and Guarantee of Secrecy to raise funds required to rehabilitate the securities industry during the Asian financial crisis.

July 1999

In adherence to the amended Securities and Exchange Act and the Futures Trading Act, all securities companies and futures companies began to deposit their entire customers' deposits with KSFC to protect investors from any losses that may be incurred due to the bankruptcy of securities firms and futures companies.

2000's

January 2000

Issued corporate bonds with a one-year maturity in the amount of 2 trillion won to support the ailing Korea Investment Trust Corp. and Daehan Investment Trust Corp.

August 2000

Increased paid-in capital to 340,000 million won.

December 2002

Initiated management of Customers' Deposits through trust accounts.

October 2003

Repaid corporate bonds of 2 trillion won which were issued for the purpose of improving liquidity of Hyundai Investment & Securities in 1998.

December 2003

Developed an integrated information system equipped with state-of-the-art information-technology facilities and internet-banking systems.

January 2004

Launched a new secured financing support loan to provide a re-financing facility for securities secured loans of securities firm customers.

REVIEW OF OPERATIONS

KSFC is a unique specialized provider of securities financing in Korea, with the responsibility of supplying liquidity to the securities market, protecting investor assets and providing ESOP related services.



OPERATION OF FUNDS

- KSFC manages its funds by providing loans, discounting of short-term notes, investment in marketable securities, and purchase of bonds for RP. Short-term funds withheld to satisfy reserve requirements and temporarily idle funds are managed by utilizing deposit accounts and provision of call loans.

Total funding volume decreased in 2003 due to the switch-over of customers' deposits into trust accounts and the repayment of matured bearer corporate bonds, which in turn led to higher funding portfolio weighting of notes discounted and marketable securities.

As the industry-wide restructuring of investment trust securities companies reached the end of its arduous journey, we were able to fully recover the funds provided to Hyundai Investment & Securities ("HIS"). HIS was provided financial assistance in the form of long-term loans, which were funded by KSFC through the issuance of bearer corporate bonds, and bridge loans. KSFC played a major role in stabilizing and advancing the financial industry by injecting much needed funds into the investment trust companies, which were experiencing severe liquidity problems, following the Asian financial crisis.

Loans and securities are provided to the investor community in order to boost liquidity and promote healthy transactions.



Loans

» KFSC provides a diverse range of loan products to market players participating in the primary and secondary securities market. Our client base is comprised mainly of investment trust companies and securities firms, but recently expansion into the retail financing for individuals, corporations, and ESOAs has changed our loan portfolio composition.

Total loan volume decreased by 1.36 trillion won to 1.77 trillion won, a 43.4% drop, due to a precipitous contraction in working capital loans and bond dealer loans.

■ Margin Financing Loan

» Margin financing loan is a facility offered through securities firms for the purpose of providing investors with funds or stocks required to settle a stock purchase or sale (stock loan is not currently occurred) in margin transactions. Through margin financing loans, KSFC is able to create additional trading demand, which ultimately contributes to enhancement of stock liquidity and stabilization of the stock market. However, demand for margin financing loans continues to fall as increased day-trading and short-term investments have diminished need for margin transactions while securities companies have become more self-sufficient owing to copious cash liquidity. This has led to a decrease of the average annual balance by 38.2% from the previous year to 40.1 billion won.

■ Bond Dealer Loan

» Bond dealer loans are classified into public bond underwriting loans and market making loans for bond dealers where the former serves as a source of funds for primary bond dealers to underwrite bonds and the latter being available to secondary dealers within the bond market for the trading of bonds. Due to a shift in bond market policy direction away from the primary market to the secondary market, public bond underwriting loans have in effect been discontinued from January 2003, with no average annual balance being recorded as of the end of FY2003. On the other hand, the volume for market making loans increased by 20.2% to 174.8 billion won. Funds for these loans come from surplus national treasury held by the Bank of Korea and KFSC's own funding.

■ Working Capital Loan

» Working capital loan is a facility provided to securities-related institutions, KOFEX(Korea Futures Exchange), futures companies, and insurance companies, that is secured by marketable securities. A new secured financing support loan that enables securities firms to re-finance securities secured loans provided to customers was launched on March of 2004.

The average annual balance for working capital loans fell by 42.7% from the previous year to 1.22 trillion won as liquidity support loans that were provided to investment trust companies were redeemed upon maturity in October 2003.

■ Securities Secured Loan

» Long-term, low-interest loans secured by equity, bonds, beneficiary certificates or CDs that are provided to corporate and individual customers. To provide greater convenience to customers, securities secured loans are now offered both through off-line and on-line channels. Currently emerging as a core product in line with KSFC's focus on bolstering commercial operations, the average annual balance increased slightly by 3.6% year-on-year to 270.2 billion won.

■ Forfeited Shares Subscription Deposit Secured Loan

» Lending of funds needed to subscribe for forfeited shares to customers with subscription deposit account for forfeited shares in KSFC taking the respective deposit as collateral. On the whole, the demand for this loan facility has fallen somewhat as the advantage of subscribing for forfeited shares has recently diminished due to the reduced gap between issuance price and market price. However, deposit volume increased considerably compared to the previous year in 2003 due to an increase in IPOs and rights issues. The average annual balance stood at 1.98 billion won owing to a 150.9% year-on-year increase.

■ ESOA Loans

» Loans provided to ESOAs, ESOA members and ESOA operating companies that are secured by employee shares, for the purpose of promoting ESOP. ESOA loans are categorized into employee stock purchase loan, employee stock secured loan and employee stock repurchase loan (lending to respective stock issuer). ESOA loan volume is recording healthy growth as the average annual balance reached 5.98 billion won, up 26.2% from the previous year.



Bond Purchase with RP

» This facility provides funds through the purchase of bonds under the condition the borrower will repurchase the bonds originally sold at a pre-designated price and time period. Eligible counterparts for trading are securities related institutions, banks, merchant banks, pension funds, government agencies, local municipal administrative agencies, corporations established under a special law. The shortage of arbitrage opportunities due to decreasing bond yields had induced the contraction of bond trading volumes while copious market liquidity reduced demand for credit. Consequently, average annual balance dropped significantly by 69.8% year-on-year to 176.1 billion won as of year-end FY2003.

Short-term Note Discounting

» As a main instrument of managing short-term funds, this facility provides funds to companies by discounting notes as specified by KSFC. A contraction in trading volume from Investment Trust Stabilization Funds due to an adjustment in the MMF investment weighting towards KSFC notes and recovery of loans provided to Hyundai Investment Trust & Securities had decreased average annual balance by 16.2% compared to the previous year to 3.78 trillion won.



PROCUREMENT OF FUNDS

- KSFC procures required funding through deposits from securities related institutions and individuals, borrowings from banks, notes issued, RP bond sales, call money, issue of corporate bonds, etc.

In fiscal year 2003, total funding volume decreased by 8.69 trillion won (44.6% decrease) to 10.80 trillion won (average balance) due to the conversion of customers' deposits into trust accounts and maturity redemption of corporate bond 98-1.

Deposits

- » KSFC receives deposits from the government, securities-related institutions, KSE/KOSDAQ listed companies, ESOAs and individuals.

Total average annual deposit balance decreased by 7.80 trillion won (73.1%) to 2.87 trillion won.

■ Customers' Deposits

- » Customers' deposits, which constitute a significant portion of total deposits, are categorized into customers' deposits for spot trading deposited by securities firms under the Securities and Exchange Act, customers' deposits for KOSPI futures and options trading deposited by securities firms under the Futures Trading Act and customers' deposits for other futures trading deposited by futures companies under the Futures Trading Act. Customers' deposits volume has decreased significantly as management method of most customers' deposits has been converted into trust structures. As of the end of FY03, average annual balance for customers' deposits stood as 1.99 trillion won, down 79.9% from the previous year-end.

■ Subscription Guaranty Money Deposits

- » Deposits made by customers with securities firms, for the purpose of subscribing to corporate public offerings or rights issues in order to receive allotment of shares, are re-deposited into KSFC. In spite of reduced deposit terms, greater number of offerings/rights issues and heightened subscription competition slightly increased the average annual balance by 2.0% year-on-year to 700.3 billion won.



■ Subscription Deposit for Forfeited Shares

» This is a convenient deposit product for the subscription of forfeited shares, which provides competitive deposit rates and trading gains from allotted shares. In addition, subscription guaranty money loans and subscription agency services are also provided, further improving customer convenience as an investment deposit product. Despite lower benefits from subscription-based investments, relatively higher interest rates keep the product competitive. Average annual balance for this deposit product rose significantly by 84.8% year-on-year to 68.1 billion won in FY2003.

■ The average annual balance of other deposit products such as SMSF (“Securities Market Stabilization Fund”) deposits, corporate deposits, ESOA deposits, and special deposits was 110.2 billion won.

Notes Issued

» KSFC promissory notes are issued to securities-related institutions, government, local municipal administrative agencies, pension funds, KSE/KOSDAQ listed companies, ESOAs, corporations and individuals to raise funds. Funds are raised mostly for the purpose of supporting the stabilization of the securities market and the capital raised is channeled to facilitate government policies.

Full redemption of loans extended to Hyundai Investment & Securities, lowering of mandatory portfolio weighting level for notes issued in MMF products, and lower national treasury levels due to increased fiscal spending pushed down the average annual issuance volume by 7.1% year-on-year to 4.43 trillion won in FY2003.

Issue of Corporate Bonds

» In accordance to the Securities and Exchange Act, KSFC may issue corporate bonds of up to 20 times its shareholders’ equity for the purpose of restructuring of the securities industry, bolstering of competitiveness and raising working capital. Average annual balance of corporate bonds decreased by 40.2% year-on-year to 1.93 trillion won owing to the maturity redemption of corporate bond 98-1, which was issued to raise funds needed to provide financial assistance to Hyundai Investment & Securities.

Short-term Borrowings

» KSFC has ceased to borrow funds from banks since 1999. However, borrowing through call money facilities was initiated from September of 2002 for the purpose of interest rate arbitrage transactions. Average call money balance surged in FY2003 by 190.1% to 398.7 billion won.

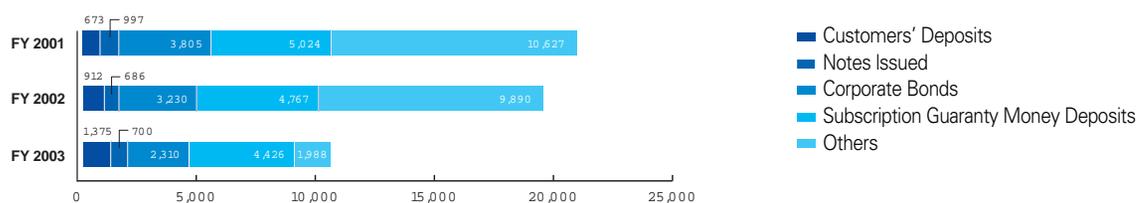
RP Bond Sales

» As a means of procuring funds, KSFC is able to sell its bond-holdings to corporations or individuals with a specific agreement to repurchase the bonds originally sold at a pre-designated price and time period. Due to a rise in fund procurement by RP Bond Sales for interest rate arbitrage transactions, average annual balance rose significantly by 184.7% from the previous year to 195.1 billion won.

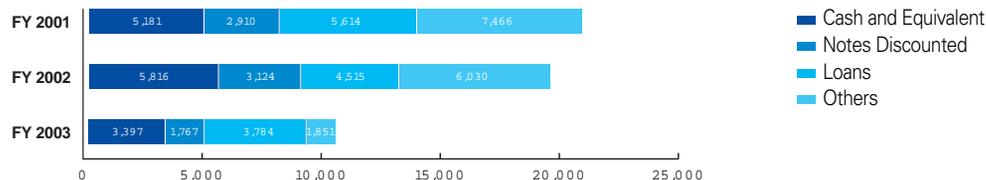
Procurement and Operation of Funds (Average Balance)

(Units: billions of won)

Procurement of Funds



Operation of Funds



Administration of Customers' Deposits

» Funds temporarily deposited by customers for the purpose of trading stocks and/or futures in securities firms and futures companies (customers' deposits) have to be re-deposited or entrusted to KSFC pursuant to the Securities and Exchange Act and the Futures Trading Act for the protection of investors.

As the sole custodian of customers' deposits under relevant regulations, KSFC contributes to the stabilization of the securities market by protecting customer assets even in the instance a securities firm or futures company goes bankrupt.

In particular, the amendment to relevant regulations carried out in December 2002 enables management of customers' deposits not only through the deposit method (segregation from KSFC's own account) but also through trust accounts. Following this change, out of the 59 depositing institutions, customers' deposits of 28 institutions are currently being managed using the trust method.

The customers' deposit management volume on an average annual balance basis was 1.99 trillion won for the deposit account segment and 10.70 trillion won for the trust segment in FY 2003. The average annual interest rate for the deposit account fell slightly to 3.9% for spot trading, 3.8% for KOSPI futures and options trading, and 3.9% for other futures trading. The yield for trust account was 4.1%.



ESOP Management Services

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

KSFC is the only provider of ESOP related services in Korea pursuant to the Securities and Exchange Act, Basic Workers Welfare Act and other relevant regulations. The key services provided by KSFC are custody & management of employee stock held by ESOAs and/or ESOA members, custody & management of ESOA funds, employee stock related financing, ESOA establishment /operations related advisory, and training of staff responsible for employee stock duties.

As of the end of the fiscal year, out of a total of 2,161 companies, which had established ESOAs, 764 ESOAs had deposited over 300 million shares at our company.

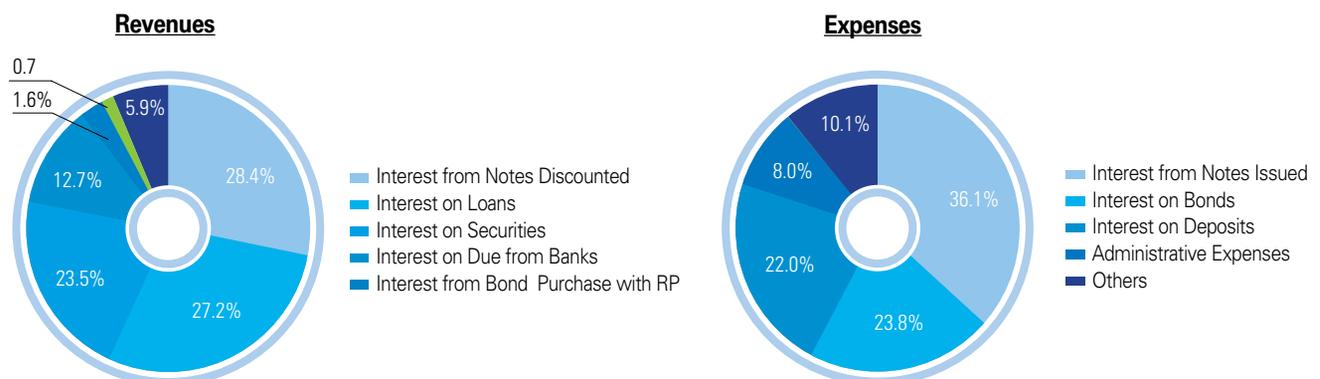
Securities Lending & Borrowing (SLB) Brokerage Service

» Securities lending and borrowing (SLB) is an investment vehicle mainly utilized to earn low-risk income through arbitrage between individual securities and/or markets. KSFC is an intermediary for lending and borrowing of equity or bonds.

In particular, driven by the active participation of market players and the increase of arbitrage trading of bonds, the market for bond lending grew significantly compared to the previous year, with the brokerage volume reaching 311.6 billion won on an average annual balance basis. However, the Korean securities lending market is still at a fledgling stage and active participation is the key to market development.

Revenues and Expenses

» In FY2003, operating income rose by 46.6% to 512.6 billion won while operating expenses including administrative expenses fell by 50.5% to 455.5 billion won. A 15 million won loss was incurred on the non-operating side, with non-operating income being 742million won and non-operating expenses standing at 757 million won. Net income before income taxes reached 38.3 billion won, up 31.2% from the previous year.





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The Shareholders and Board of Directors The Korea Securities Finance Corporation

We have audited the accompanying balance sheets of The Korea Securities Finance Corporation (the "Company") as of March 31, 2004 and 2003, and the related statements of earnings, appropriation of retained earnings and cash flows for the years then ended, all expressed in Korean Won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2004 and 2003, and the results of its operations, the changes in its retained earnings, and its cash flows for the years then ended in accordance with the Financial Accounting Standards, as established by the Financial Supervisory Commission of the Republic of Korea.

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

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

As discussed in note 2(a) to the financial statements, the Company adopted Statements of Korea Accounting Standards No. 2 through No. 9, effective from the first fiscal year beginning after December 31, 2002. Certain accounts of prior year's financial statements were reclassified to conform to the current year's presentation.

KPMG Samjong Accounting Corp.

Seoul, Korea
April 16, 2004

This report is effective as of April 16, 2004, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

BALANCE SHEETS / March 31, 2004 and 2003

	Millions of Won		Thousands of U.S. Dollars	
	2004	2003	2004	2003
Assets				
Current assets:				
Cash and cash equivalents (notes 3 and 8)	₩ 2,822,185	₩ 1,592,426	\$ 2,446,416	\$ 1,269,270
Short-term securities (notes 2 and 4)	3,177,892	1,948,758	2,754,761	1,553,290
Current portion of long-term securities (notes 7)	25,779	21,081	22,347	16,803
Loans (notes 2, 5 and 8)	539,935	3,405,251	468,044	2,714,213
Notes discounted (note 2)	2,434,812	2,891,024	2,110,621	2,304,339
Securities purchased under resale agreements (note 2)	69,300	79,300	60,073	63,208
Accrued income and other current assets (notes 6 and 8)	20,763	674,013	17,998	537,233
Total current assets	9,090,666	10,611,853	7,880,260	8,458,356
Long-term securities (notes 2 and 7)	391,010	379,070	338,948	302,144
Long-term loans (notes 2, 5 and 8)	76,268	54,941	66,113	43,792
Property and equipment (notes 2 and 9)	32,959	31,715	28,571	25,279
Other assets (notes 2, 10 and 16)	35,750	26,372	30,990	21,020
Total assets	₩ 9,626,653	₩ 11,103,951	\$ 8,344,882	\$ 8,850,591
Liabilities and Shareholders' equity				
Current liabilities:				
Short-term deposits received (note 8)	2,295,464	2,203,605	1,989,827	1,756,420
Notes issued	4,863,484	4,178,776	4,215,919	3,330,764
Call money	297,400	424,300	257,802	338,195
Securities sold under repurchase agreements	88,253	345,608	76,502	275,473
Current portion of bonds issued (note 12)	529,240	1,999,574	458,773	1,593,794
Accrued expenses and other current liabilities (notes 8 and 11)	263,136	699,056	228,100	557,194
Total current liabilities	8,336,977	9,850,919	7,226,923	7,851,840
Bonds issued (note 12)	773,651	763,728	670,641	608,742
Long-term deposits received (note 8)	3,948	4,200	3,422	3,348
Retirement and severance benefits (notes 2 and 13)	3,736	2,870	3,239	2,288
Total liabilities	9,118,312	10,621,717	7,904,225	8,466,218
Shareholders' equity				
Common stock of ₩5,000 par value				
Authorized – 128 million shares				
Issued – 68 million shares	340,000	340,000	294,730	271,003
Revaluation surplus and other capital surplus (note 9)	21,767	21,769	18,869	17,351
Legal reserve (note 14)	36,400	33,400	31,553	26,622
Appropriated retained earnings	77,170	74,970	66,895	59,756
Unappropriated retained earnings	38,298	29,266	33,199	23,327
Capital adjustment:				
Loss on valuation of investment securities (note 7)	(4,832)	(16,416)	(4,189)	(13,085)
Discount on stock issued	-	(293)	-	234
Treasury stock	(462)	(462)	(400)	(368)
Total shareholders' equity	508,341	482,234	440,657	384,373
Total Liabilities and shareholder's equity	₩ 9,626,653	₩ 11,103,951	\$ 8,344,882	\$ 8,850,591

See accompanying notes to financial statements.

STATEMENTS OF EARNINGS / Years ended March 31, 2004 and 2003

	Millions of Won		Thousands of U.S. Dollars	
	2004	2003	2004	2003
Operating expenses:				
Interest on bank deposits (note 8)	₩ 61,584	₩ 256,225	\$ 53,384	\$ 204,228
Interest on securities	42,194	138,193	36,576	110,149
Interest on loans and notes discounted (note 8)	273,139	422,801	263,771	337,001
Gain on trading of securities	74,201	77,975	64,321	62,151
Dividends	345	2,688	299	2,143
Commissions	2,899	3,072	2,513	2,449
Others (note 2)	58,283	58,288	50,523	46,459
	512,645	959,242	444,387	764,580
Operating expenses:				
Interest expenses (note 8)	389,534	863,835	337,668	688,534
Loss on trading of securities	3,932	11,523	3,408	9,185
Selling, general and administrative expenses (note 15)	35,798	34,977	31,032	27,879
Others (note 2)	26,235	9,387	22,742	7,482
	455,499	919,722	394,850	733,080
Operating income	57,146	39,520	49,537	31,500
Other income (deductions):				
Gain on disposition of long-term securities	-	3,180	-	2,534
Donations	(670)	(664)	(581)	(529)
Others (note 2)	656	(226)	569	(180)
	(14)	2,290	(12)	1,825
Earnings before income taxes	57,132	41,810	49,525	33,325
Income taxes (notes 2 and 16)	18,839	12,564	16,331	10,014
Net earnings for the year	₩ 38,293	₩ 29,246	\$ 33,194	\$ 23,311
Earnings per share of common stock in Won (notes 2 and 17)	₩ 564	₩ 430	\$ 489	\$ 343

See accompanying notes to financial statements.

STATEMENTS OF APPROPRIATION OF RETAINED EARNINGS / Years ended March 31, 2004 and 2003

Date of Appropriation for 2004 : June 10, 2004

Date of Appropriation for 2003 : June 09, 2003

	Millions of Won		Thousands of U.S. Dollars	
	2004	2003	2004	2003
Unappropriated retained earnings:				
Balance at beginning of year	₩ 5	₩ 20	\$ 4	\$ 16
Net earnings for the year	38,293	29,246	33,194	23,311
	38,298	29,266	33,198	23,327
Appropriations:				
Legal reserve (note 14)	4,000	3,000	3,467	2,391
Reserve for dividends	13,900	2,200	12,049	1,754
Dividends	20,372	23,768	17,666	18,945
Amortization of discount on stocks issued	-	293	-	234
	38,272	29,261	33,176	23,323
Unappropriated retained earnings carried over to subsequent year	₩ 26	₩ 5	\$ 23	\$ 4

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS / Years ended March 31, 2004 and 2003

	Millions of Won		Thousands of U.S. Dollars	
	2004	2003	2004	2003
Cash flows from operating activities:				
Net earnings	₩ 38,293	₩ 29,246	\$ 33,194	\$ 23,311
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Depreciation and amortization	3,189	1,912	2,746	1,524
Provision for retirement and severance benefits	2,080	4,259	1,803	3,395
Gain on valuation of short-term securities, net	(1,255)	(11,315)	(1,088)	(9,019)
Gain on trading of short-term securities, net	(70,269)	(66,452)	(60,913)	(52,967)
Gain on disposition of long-term securities, net	-	(2,837)	-	(2,261)
Reversal of allowance for doubtful accounts	(18,659)	(11,096)	(16,175)	(8,844)
Decrease(increase) in accrued income and other current assets	653,247	(91,099)	566,268	72,612
Increase in other assets	(9,315)	(8,794)	(8,075)	7,009
Increase(decrease) in accrued expenses and other current liabilities	(436,119)	64,454	(378,050)	51,374
Payment of retirement and severance benefits	(1,817)	(2,669)	(1,575)	2,127
Others	444	815	385	650
Net cash provided by operating activities	159,819	(93,576)	138,539	(74,586)

STATEMENTS OF CASH FLOWS / Years ended March 31, 2004 and 2003

	Millions of Won		Thousands of U.S. Dollars	
	2004	2003	2004	2003
Cash flows from investing activities:				
Decrease in short-term securities	₩ 11,741,395	₩ 21,882,858	\$ 10,178,047	\$ 17,442,099
Decrease in loans	18,954,711	56,527,238	16,430,921	45,055,984
Decrease in notes discounted	446,134	1,481,761	386,732	1,181,062
Decrease in securities purchased under resale agreements	1,733,000	7,413,500	1,502,254	5,909,055
Disposition of long-term securities	24,952	3,036,445	21,630	2,420,249
Decrease (increase) in other assets	(59)	427	(51)	340
Decrease in long-term loans	2,036,172	28,882	1,765,059	18,238
Disposition of property and equipment	121	171	105	136
Increase in short-term securities	(12,879,005)	(20,725,317)	(11,164,186)	(16,519,462)
Increase in loans	(16,060,120)	(54,782,325)	(13,921,741)	(43,665,172)
Increase in securities purchased under resale agreements	(1,723,000)	(7,160,400)	(1,493,585)	(5,707,317)
Acquisition of long-term securities	(50,005)	(462,255)	(43,347)	(368,448)
Increase in long-term loans	(2,058,039)	(50,367)	(1,784,014)	(40,146)
Acquisition of property and equipment	(4,565)	(4,790)	(3,957)	(3,818)
Decrease(increase) in deposits for retirement and severance benefits	565	(1,748)	490	(1,393)
Net cash provided by investing activities	2,162,257	7,184,080	1,874,356	5,726,192
Cash flows from financing activities				
Increase in short-term deposits received	₩ 82,955,238	₩ 171,614,643	\$ 71,909,880	136,788,333
Increase in call money	86,994,300	31,028,800	75,411,148	24,732,026
Increase in securities sold under repurchase agreements	2,093,638	1,095,928	1,814,873	873,528
Increase in notes issued	684,707	-	593,539	-
Proceeds from bonds issued	9,952	45,395	8,627	36,183
Decrease in short-term deposits received	(82,863,379)	(187,234,299)	(71,830,252)	(149,238,242)
Decrease in call money	(87,121,200)	(30,604,500)	(75,521,151)	(24,393,831)
Decrease in notes issued	-	(126,984)	-	(101,215)
Decrease of securities sold under repurchase agreements	(2,350,993)	(751,300)	(2,037,962)	(598,836)
Decrease of long-term deposits received, net	(251)	(350)	(218)	(279)
Payment of current portion of bonds issued	(1,470,760)	(600,000)	(1,274,931)	(478,240)
Acquisition of treasury stock	-	(462)	-	(368)
Payment of dividends	(23,569)	(23,812)	(20,431)	(18,980)
Other	-	(418)	-	(333)
Net cash used in financing activities	(1,092,317)	(15,557,359)	(946,878)	(12,400,254)
Net increase (decrease) in cash and cash equivalents	1,229,759	(8,466,855)	1,066,019	(6,748,649)
Cash and cash equivalents at beginning of year	1,592,426	10,059,281	1,380,397	8,017,919
Cash and cash equivalents at end of year (note 3)	₩ 2,822,185	₩ 1,592,426	\$ 2,446,416	\$ 1,269,270

See accompanying notes to financial statements.

(1) The Company

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

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

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

As of March 31, 2004, the Company's major shareholders and ownerships are as follows:

Shareholders	Ownership (%)
Woori Bank	7.809
Korea Stock Exchange	6.492
Korea Development Bank	5.191
LG Investment & Securities	5.156
KOSDAQ	4.853

(2) Summary of Significant Accounting Policies

(a) Basis of Presenting Financial Statements

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

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

The Company adopted Statements of Korea Accounting Standards No. 2 through No.9 effective January 1, 2003. Certain accounts of prior year's financial statements were reclassified to conform to the current year's presentation. These reclassifications did not result in any changes to reported net earnings and shareholder's equity.

(b) Investments in Securities

Effective January 1, 2003, the Company adopted Statement of Korea Accounting Standards (SKAS) No. 8, "Investments in Securities." In accordance with SKAS No. 8, certain debt and equity securities should

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

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

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

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

As allowed by this standard, prior year investment balances have been reclassified to conform to the current year presentation.

(c) Allowance for Doubtful Accounts

The Company has classified financial soundness of accounts based on an analysis of collectability as normal, precautionary, substandard, doubtful or estimated loss. An allowance is then calculated at 0.5%, 2%, 20%, 50%, or 100%, respectively.

(d) Property and Equipment

Property and equipment are stated at cost and accumulated depreciation is reflected as deduction from the tangible asset. Expenditure that results in enhancement of the value or expansion of the useful lives of the facilities involved is capitalized as additions to tangible assets.

Depreciation is computed by the declining-balance method with applicable rates based on useful lives of the respective assets shown as follows(the straight-line method for buildings and structures).

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

(e) Intangible Assets

Intangible assets are stated at cost less accumulated amortization computed using the straight-line method over 15 years.

(f) Retirement and Severance Benefits

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

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

(g) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the current rates of exchange on March 31, 2004 and 2003 that are permitted by the Financial Accounting Standards. Resulting gains and losses are recognized in current results of operations. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Korean Won at the foreign currency exchange rate ruling at the date of the transaction.

(h) Derivatives

Derivative instruments are presented as assets or liabilities valued principally at the fair value of rights or obligations associated with the derivative contracts. The unrealized gain or loss from derivative transactions is recognized in current operations.

However, for derivative instruments for the purpose of hedging the exposure to the variability of cash flows of a forecasted transaction, the effective portion of the derivative's gain or loss is deferred as a capital adjustment, a component of stockholder's equity. The ineffective portion of the gain or loss is charged or credited to current results of operations.

(i) Income Taxes

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

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

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

(j) Contingent Liabilities

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

(k) Earnings Per Share

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

(l) Use of Estimates

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

(m) Dividends Payable

Effective January 1, 2003, the Company adopted Statement of Korea Accounting Standards No. 6, "Events Occurring After the Balance Sheet Date". Under this standard, dividends are not recorded until approved by the board of directors and shareholders. As a result, the Company adjusted stockholder's equity as of March 31, 2003 by W23,767 million. The amount represents the dividends recorded in 2003 but not yet approved. Under the new standard, for the comparative purposes, this amount was retroactively adjusted as of March 31, 2003.

NOTES TO FINANCIAL STATEMENTS / March 31, 2004 and 2003

(3) Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2004 and 2003 are summarized as follows:

(Millions of Won)

	2004		2003	
Cash on hand	₩	8	₩	5
Passbook accounts		3		8
Current accounts		45		76
Time deposits		351,000		260,000
MMDA		2,196,877		1,072,812
Certificates of Deposits		274,252		259,525
	₩	2,822,185	₩	1,592,426

(4) Short-term Securities

Short-term securities as of March 31, 2004 and 2003 are summarized as follows:

(Millions of Won)

	Cost(*)		Unrealized holding gains(losses)		Fair value	
	2004	2003	2004	2003	2004	2003
<Trading securities>						
Equity securities	₩ 867	14,805	665	(2,501)	1,532	12,304
Debt securities	236,856	597,668	(3,034)	(3,644)	233,823	594,024
Beneficiary certificates	2,897,561	1,293,129	15,749	4,703	2,913,310	1,297,832
Mutual funds	41,352	31,840	(12,125)	12,758	29,227	44,598
	₩ 3,176,636	1,937,442	1,255	11,316	3,177,892	1,948,758

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

(5) Loans

Loans (including long-term loans) as of March 31, 2004 and 2003 are summarized as follows:

(Millions of Won)

	2004		2003	
Call loans	₩	40,100		119,400
Margin financing loans		193,795		969,243
Working capital loans		45,000		2,077,400
Loans to support secured financing		22,615		-
Loans to ESOAs		77,083		56,249
Loans secured by ESOA stock		55		46
Securities secured loans		240,383		269,699
Loans secured by subscription deposit for forfeited shares		67		104
		619,098		3,492,141
Less allowance for doubtful accounts		(2,895)		(31,949)
	₩	616,203		3,460,192

Loans to Prudential Investment & Securities Co., Ltd. (Former Hyundai Investment & Securities Co., Ltd.) as of March 31, 2004 and 2003 are summarized as follows:

(Millions of Won)

	2004		2003	
Working capital loans	₩	-		2,000,000
Notes discounted		-		983,716
Margin financing loans		291		232
		291		2,983,948
Less allowance for doubtful accounts		(1)		(39,676)
	₩	290		2,944,272

NOTES TO FINANCIAL STATEMENTS / March 31, 2004 and 2003

The Company was redeemed loans to Prudential Investment & Securities Co., Ltd. amounted to W2,983,948 million, including W983,716 million of the unsecured notes. And the Company reversed allowance for doubtful accounts of W39,676 million as of March 31, 2004.

(6) Accrued Income and Other Current Assets

Accrued income and other current assets as of March 31, 2004 and 2003 are summarized as follows:

(Millions of Won)

		2004	2003
Accrued income	₩	18,456	645,704
Prepaid expenses		902	562
Prepaid income taxes		-	7,270
Others		1,405	20,477
	₩	20,763	674,013

(7) Long-term Securities

Long-term securities (including current portion of long-term securities) as of March 31, 2004 and 2003 are summarized as follows:

(Millions of Won)

		Cost or Amortized cost		Unrealized holding gains (losses)		Fair value	
		2004	2003	2004	2003	2004	2003
Available-for-sale equity securities:							
Liquid stock	₩	24,484	34,720	(2,428)	(5,643)	22,056	29,077
Illiquid stock(*)		4,506	4,506	-	-	4,506	4,506
		28,990	39,226	(2,428)	(5,643)	26,562	33,583
Available-for-sale debt securities:							
Government bonds		30,954	32,866	(1,191)	(2,372)	29,763	30,494
Finance debentures		234,566	242,078	2,419	(1,188)	236,985	240,890
Corporate debentures		77,112	82,397	(3,633)	(7,213)	73,479	75,184
		342,632	357,341	(2,405)	(10,773)	340,227	346,568
Held-to-maturity debt securities:							
Corporate debentures		50,000	19,999	-	-	50,000	20,000
	₩	421,622	416,566	(4,833)	(16,416)	416,789	400,151

(*) Fair value not available

(8) Balances and Transactions with its Shareholders

Major balances and transactions, in aggregate, with the shareholders of the Company as of and for the years ended March 31, 2004 and 2003 are as follows:

(Millions of Won)

		2004	2003
Deposits placed	₩	2,726,486	1,597,187
Loans		366,531	1,056,211
Accrued income		12,907	6,157
Deposits received		855,869	1,025,258
Accrued expenses		2,753	3,707
Interest income		94,833	333,337
Interest expenses		47,400	387,435

NOTES TO FINANCIAL STATEMENTS / March 31, 2004 and 2003

(9) Property and Equipment

Property and equipment as of March 31, 2004 and 2003 are summarized as follows:

(Millions of Won)

		2004	2003
Land	₩	15,627	15,651
Buildings		12,188	12,248
Structures		195	195
Office equipment		15,312	15,679
Vehicles		153	153
		43,475	43,926
Less accumulated depreciation		(10,516)	(12,211)
	₩	32,959	31,71

As of March 31, 2004, fixed assets of the Company are insured against fire and other casualty losses up to ₩14,036 million.

The Company revalued its property and equipment on July 1, 2000 and recorded revaluation surplus of ₩21,762 million.

(10) Other Assets

Other assets as of March 31, 2004 and 2003 are as follows

(Millions of Won)

		2004	2003
Guarantee deposits	₩	6,133	5,740
Loans to employees		8,701	9,024
Deferred income tax assets		19,296	9,981
Others		1,620	1,627
	₩	35,750	26,372

(11) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities as of March 31, 2004 and 2003 are summarized as follows:

(Millions of Won)

		2004	2003
Accrued expenses	₩	13,993	657,283
Unearned income		30,716	17,574
Income taxes payable		19,416	2,306
Dividends payable		236	37
Accrued interest on bonds		195,865	-
Others		2,910	21,856
	₩	263,136	699,056

NOTES TO FINANCIAL STATEMENTS / Years ended March 31, 2004 and 2003

(12) Bonds Issued

Details of bonds issued as of March 31, 2004 and 2003 are summarized as follows:

(Millions of Won)

	Maturities	Interest rate	2004	2003
1998-1	Oct 2003	6.50	529,240	2,000,000
2000-2	Jul 2005	2.00	160,000	160,000
2000-3	Aug 2005	2.00	10,000	10,000
2000-4	Sept 2005	2.00	80,000	80,000
2000-5	Dec 2005	1.00	23,000	23,000
2000-6	Dec 2005	2.00	70,000	70,000
2001-2	Jul 2006	0.87	30,000	30,000
2001-3	Sept 2006	0.04	105,200	105,200
2001-4	Sept 2006	0.04	30,000	30,000
2001-5	Oct 2006	0.21	105,200	105,200
2001-6	Dec 2006	0.71	105,100	105,100
2002-2	Nov 2007	0.01	45,000	45,000
2003-1	Aug 2008	3.42	10,000	-
			1,302,740	2,763,500
Less current portion			(529,240)	(2,000,000)
Add premium on bonds issued			286	365
Less discount on bonds issued			(135)	(137)
			₩ 773,651	763,728

(13) Retirement and Severance Benefits

Details of changes in the retirement and severance benefits for the years ended March 31, 2004 and 2003 are summarized as follows:

(Millions of Won)

		2004	2003
Balance at beginning of year	₩	9,077	7,487
Provision for the year		2,080	4,259
Payments during the year		(1,817)	(2,669)
Balance at end of year		9,340	9,077
Less deposits for severance benefit insurance		(5,376)	(5,941)
Less national pension fund		(228)	(266)
	₩	3,736	2,870

(14) Legal Reserve

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

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

(15) Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2004 and 2003 are summarized as follows:

(Millions of Won)

		2004	2003
Salaries	₩	11,410	10,883
Other employee benefits		6,155	6,925
Provision for retirement and severance benefits		2,080	4,259
Welfare		2,728	2,773
Taxes and dues		2,836	2,473
Depreciation		3,188	1,911
Miscellaneous		7,401	5,753
	₩	35,798	34,977

NOTES TO FINANCIAL STATEMENTS / March 31, 2004 and 2003

(16) Income Taxes

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

Taxable earnings	Tax rate
Up to W100 million	16.5%
Over W100 million	29.7%

The components of income tax expense for the years ended March 31, 2004 and 2003 are summarized as follows

(Millions of Won)

	2004	2003
Current	W 28,461	25,370
Deferred (*)	(9,622)	(12,806)
	W 18,839	12,564
Beginning balance of deferred income tax assets	W 9,981	1,187
Adjustment to the income tax return of the prior years	(307)	(4,012)
Ending balance of deferred income tax assets	(19,296)	(9,981)
(*) Deferred income tax expense (benefit)	W (9,622)	(12,806)

The tax effects of temporary differences that resulted in significant portions of the deferred tax assets and liabilities as of March 31, 2004 and 2003 are as follows:

(Millions of Won)

	2004	2003
Deferred income tax assets:		
Unearned income	W 8,383	5,207
Impairment loss on investment securities	11,033	7,915
Loss on valuation of marketable securities	5,268	2,949
Depreciation	114	167
Allowance for possible loans losses	488	433
Others	5,110	304
	30,396	16,975
Deferred income tax liabilities:		
Accrued income	(3,151)	(1,180)
Gain on valuation of marketable securities	(7,949)	(5,814)
	(11,100)	(6,994)
Net deferred income tax assets	W 19,296	9,981

(17) Earnings Per Share

Earnings per share for the years ended March 31, 2004 and 2003 are calculated as follows:

(Millions of Won)

	2004	2003
Net earnings in Won	W 38,293,385,362	29,246,333,090
Weighted-average number of shares of common stock	67,907,560	67,959,430
Earnings per share in Won	W 564	430

(18) Economic Environment

In common with other Asian countries, the economic environment in the Republic of Korea continues to be volatile. In addition, the Korean government and the private sector continue to implement structural reforms to historical business practices including corporate governance. The Company may be either directly or indirectly affected by these economic conditions and the reform program described above. The accompanying financial statements reflect management's assessment of the impact to date of the economic environment on the financial position and results of operations of the Company. Actual results may differ materially from management's current assessment.

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The Shareholders and Board of Directors The Korea Securities Finance Corporation

We have audited the accompanying statements of trust assets and liabilities of The Korea Securities Finance Corporation (the "Company") as of March 31, 2004 and 2003, and the related statements of trust operations for the periods then ended, all expressed in Korean Won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the trust accounts financial statements referred to above present fairly, in all material respects, the financial positions of the Company's trust accounts as of March 31, 2004 and 2003 and the results of its trust operations for the periods then ended, in accordance with the accounting and reporting guidelines prescribed by the Korean trust and banking regulatory authorities and the Financial Accounting Standards, as established by the Financial Supervisory Commission of the Republic of Korea.

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

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

As discussed in note 7 to the financial statements, as of and for the periods ended March 31, 2004 and 2003, the trust accounts recorded accrued trust fees of W472 million and W458 million, and trust fees of W 5,653 million and W1,267 million from transactions with the Company.

KPMG Samjong Accounting Corp.

Seoul, Korea

April 16, 2004

This report is effective as of April 16, 2004, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

STATEMENT OF ASSETS AND LIABILITIES (Trust Account) / March 31, 2004 and 2003

	Millions of Won		Thousands of U.S. Dollars	
	2004	2003	2004	2003
Assets				
Cash and due from banks	₩ 5,410,601	₩ 4,750,177	\$ 4,690,188	\$ 3,786,208
Marketable securities (note 3)	3,875,136	4,651,608	3,359,168	3,707,642
Loans (note 4)	22,000	755,864	19,071	602,474
Call loans	31,800	555,500	27,566	442,771
Securities purchased under resale agreements	674,300	430,500	584,518	343,137
Other assets (note 5)	45,458	80,418	39,405	64,099
Total assets	₩ 10,059,295	₩ 11,224,067	\$ 8,719,916	\$ 8,946,331
Liabilities				
Trust deposits (note 8)	9,997,641	11,179,556	8,666,471	8,910,853
Other liabilities (note 6)	61,654	44,511	53,445	35,478
Total liabilities	₩ 10,059,295	₩ 11,224,067	\$ 8,719,916	\$ 8,946,331

See accompanying notes to trust account financial statements.

STATEMENT OF OPERATIONS (Trust Account) / For the years ended March 31, 2004 and 2003

	Millions of Won		Thousands of U.S. Dollars	
	2004	2003	2004	2003
Revenue:				
Interest income:				
Interest on due from banks	₩ 219,229	₩ 50,047	\$ 190,039	\$ 39,891
Interest on securities	136,107	34,159	117,985	27,227
Interest on loans	7,820	4,194	6,779	3,343
Interest on call loans	16,898	6,699	14,648	5,340
Interest on securities purchased under resale agreements	29,022	7,333	25,158	5,845
	409,076	102,432	354,608	81,645
Securities related gain:				
Gain on trading of marketable securities	25,773	9,300	22,341	7,413
Gain on valuation of marketable securities	34,232	4,175	29,674	3,328
	60,005	13,475	52,015	10,740
	₩ 469,081	₩ 115,907	\$ 406,624	\$ 92,386
Expenses:				
Dividends of trust profits to beneficiaries	₩ 437,710	₩ 102,839	\$ 379,430	\$ 81,970
Trust fees	5,653	1,267	4,900	1,010
Other	201	23	174	18
	443,564	104,129	384,504	82,998
Securities related loss:				
Loss on trading of marketable securities	24,288	2,252	21,054	1,795
Loss on valuation of marketable securities	1,229	9,526	1,065	7,593
	25,517	11,778	22,119	9,388
	₩ 469,081	₩ 115,907	\$ 406,624	\$ 92,386

See accompanying notes to trust accounts financial statements.

(1) Description of the Trust

The 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 Financial Supervisory Commission, made on November 8, 2002, to provide and administer funds for securities transactions.

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

(2) Summary of Significant Accounting Policies

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

(a) Basis of Presenting Trust Accounts Financial Statements

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

(b) Revenues and Expenses of Trust Accounts

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

(c) Trust Fees

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

(d) Marketable Securities

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

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

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

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

(e) Allowance for Loan Losses

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

Based on above classification, allowance for loan losses on trust assets are not provided as of March 31, 2003 as regards to loan classified as normal.

NOTES TO FINANCIAL STATEMENTS (Trust Account) / March 31, 2004 and 2003

(3) Marketable Securities

Marketable securities as of March 31, 2004 and 2003 are summarized as follows:

(Millions of Won)

		2004	2003
Government bonds	₩	99,125	170,612
Finance debentures		67,539	802,729
Special debentures		41,024	143,314
Beneficiary certificates		2,059,005	1,517,127
Negotiable certificate of deposits		1,608,443	2,017,826
	₩	3,875,136	4,651,608

(4) Loans

Loans as of March 31, 2004 and 2003 are summarized as follows:

(Millions of Won)

		2004	2003
Working capital loans	₩	22,000	722,000
Loans on debt securities collateral		-	33,864
	₩	22,000	755,864

(5) Other Assets

Other assets as of March 31, 2004 and 2003 are summarized as follows:

(Millions of Won)

		2004	2003
Accrued income	₩	42,181	36,228
Accounts receivable		1,129	19,762
Prepaid expenses		2,148	24,428
	₩	45,458	80,418

(6) Other Liabilities

Other liabilities as of March 31, 2004 and 2003 are summarized as follows:

(Millions of Won)

		2004	2003
Accounts payable	₩	1,596	6,907
Trust fees payable		472	458
Trust dividends payable		59,586	37,146
	₩	61,654	44,511

(7) Transactions with Related Company

As of and for the periods ended March 31, 2004 and 2003, the Trust recorded accrued trust fees of W472 million and W458 million, and trust fees of W5,653 million and W1,267 million from transactions with the Company.

(8) Performance Yield Rates

Performance yield rates for the years ended March 31, 2004 and 2003 are calculated as follows:

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

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.

2003	(Millions of Won)			
		Dividends of trust profits to beneficiaries	Accumulated amount in Trust	Yield Rate
Dec. 2003		3,080	25,668,701	4.38%
Jan. 2004		34,776	270,268,364	4.70%
Feb. 2004		32,475	264,093,071	4.49%
Mar. 2004		32,508	317,409,195	3.74%
	₩	102,839	877,439,331	4.28%

NOTES TO FINANCIAL STATEMENTS (Trust Account) / March 31, 2004 and 2003

(9) Condensed Financial Statements

Condensed Financial Statements of the Trust for Spot Trading Customers' Deposit and the Trust for Futures Trading Customers' Deposit as of and for the period ended March 31, 2004 and 2003 are as follows:

2004

Assets and Liabilities

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

Operations

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

NOTES TO FINANCIAL STATEMENTS (Trust Account) / March 31, 2004 and 2003

2003

Assets and Liabilities

(Millions of Won)

Accounts		Trust for Spot Trading Customers' Deposit	Trust for Futures Trading Customers' Deposit	Total
Assets :				
Cash and due from banks	₩	4,021,373	728,804	4,750,177
Marketable securities		3,990,499	661,109	4,651,608
Loans		755,864	0	755,864
Call Loans		489,500	66,000	555,500
Securities purchased under resale agreements		330,500	100,000	430,500
Other assets		68,651	11,767	80,418
	₩	9,656,387	1,567,680	11,224,067
Liabilities :				
Trust deposits	₩	9,618,060	1,561,496	11,179,556
Other liabilities		38,326	6,185	44,511
	₩	9,656,386	1,567,681	11,224,067

Operations

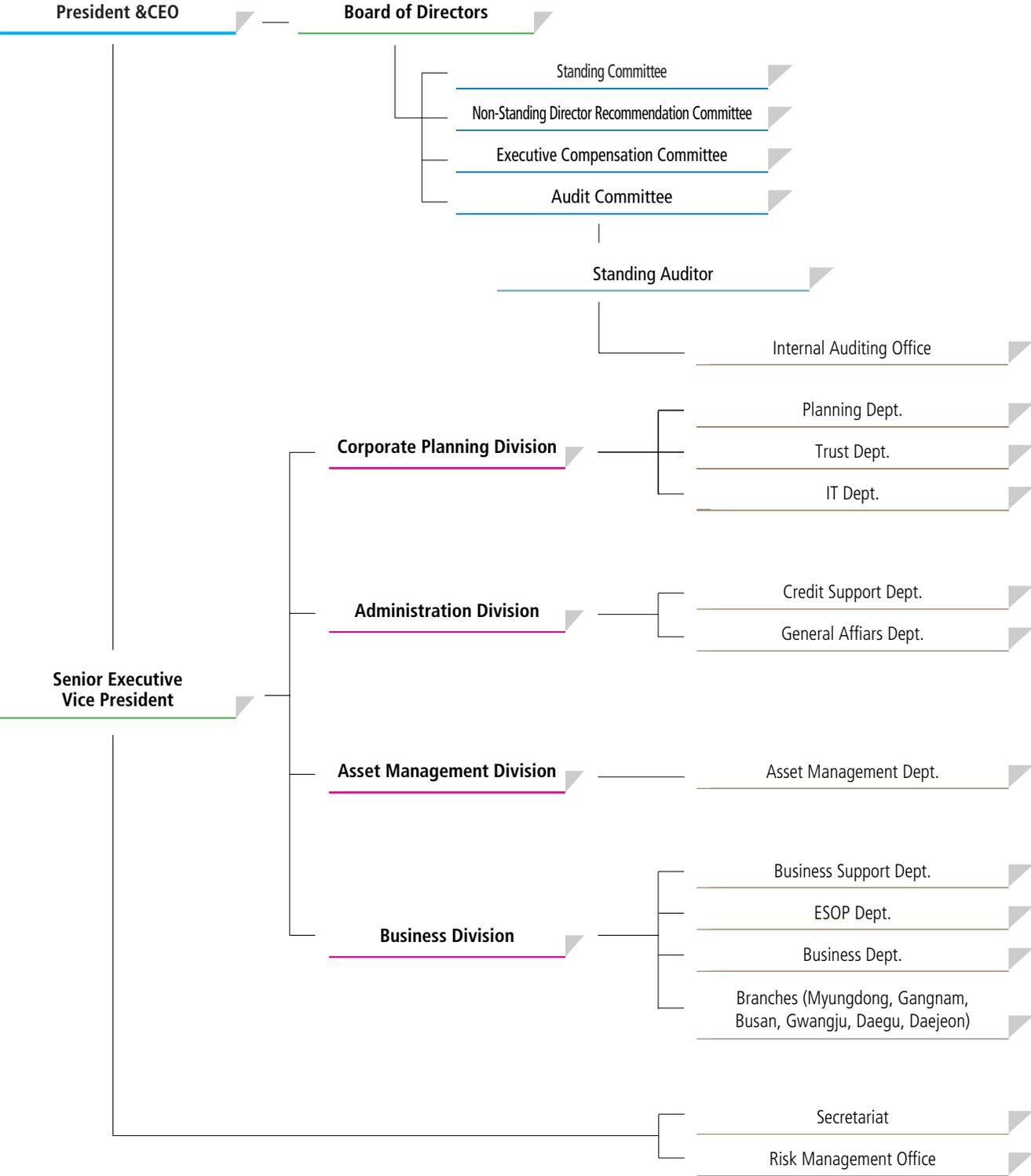
(Millions of Won)

Accounts		Trust for Spot Trading Customers' Deposit	Trust for Futures Trading Customers' Deposit	Total
Revenue :				
Interest on bank deposits	₩	42,051	7,996	50,047
Interest on securities		29,156	5,003	34,159
Interest on loans		4,118	76	4,194
Interest on call loans		6,076	623	6,699
Interest in securities purchased resale agreements		6,238	1,095	7,333
Securities related gain		11,942	1,533	13,475
	₩	99,581	16,326	115,907
Expenses :				
Dividends of trust profits to beneficiaries	₩	87,919	14,920	102,839
Securities related loss		10,562	1,216	11,778
Trust fees		1,081	186	1,267
Other		20	3	23
	₩	99,582	16,325	115,907

(10) Economic Environment

In common with other Asian countries, the economic environment in the Republic of Korea continues to be volatile. In addition, the Korean government and the private sector continue to implement structural reforms to historical business practices including corporate governance. The Trust may be either directly or indirectly affected by these economic conditions and the reform program described above. The accompanying financial statements reflect management's assessment of the impact to date of the economic environment on the financial position and results of operations of the Trust. Actual results may differ materially from management's current assessment.

ORGANIZATION CHART



MANAGEMENT

Board of Directors

STANDING DIRECTORS

Serck Joo Hong

President & CEO

Seong Kook Kim

Senior Executive Vice President

NON-STANDING DIRECTORS

Yong Ha Hwang

Former Executive Auditor, KEPCO

Jae Ryong Chung

Standing advisor, Law firms in Korea, Bae, Kim & Lee

Jin Suk Chun

CEO, Hana Securities Co.,Ltd

Jae Hoon Youh

Vice President, Youido Institute

STANDING AUDIT

COMMITTEE MEMBER & DIRECTOR

Kay Moon Paik

Standing Auditor

Executive Officers

Serck Joo Hong

President & CEO

Seong Kook Kim

Senior Executive Vice President

Kay Moon Paik

Standing Auditor

Sung Ik Kang

Managing Director

Seon Ho Chu

Managing Director

Sung Chan Park

Managing Director

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7-12, Daein-Dong, Dong-Gu, Gwangju, Korea

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