

Korea Securities Finance Corporation
Annual Report 2014

Momentum



Korea Securities Finance Corp.
60th Anniversary



CONTENTS

- 02 Message from the CEO
- 06 Core Competences
- 11 Vision
- 12 Functions and Roles

Company Overview

- 14 Company Profile
- 15 Scope of Business and Services
- 16 Financial Highlights

Business Review

- 18 Summary
- 20 Raising Funds
- 24 Operating Funds
- 27 ESOP Support Services
- 29 Safekeeping and Management of Investors' Deposits
- 31 Safekeeping and Management of Collective Investment Assets
- 32 Securities Intermediary Services

Sustainability Review

- 34 Corporate Social Responsibility
- 36 KSFC Foundation

Financial Review

- 38 Consolidated Statements of Financial Position
- 40 Consolidated Statements of Comprehensive Income
- 43 Separate Statements of Financial Position
- 45 Separate Statements of Comprehensive Income
- 48 Consolidated Statements of Changes in Shareholders Equity
- 49 Consolidated Statements of Cash Flows

- 52 Milestones
- 54 Board of Directors
- 55 Organization
- 56 Business Network



**Our company is built upon 60 years of trust.
Since our establishment in 1955,
KSFC has grown alongside the Korean capital market.
As a partner for growth, we will continue to build trust
through our passion and dedication.
Now, we are looking toward the next 100 years,
during which we will continue to build
trust and partner for growth.
Through a shared vision,
we will provide support as a reliable win-win growth partner
of the capital market.**

Message from the CEO



We will put our shareholders and customers at the center of our business by achieving the management objective of “promoting mutual growth with the capital market by focusing on the securities financing function.”

Dear respected shareholders,

On behalf of Korea Securities Finance Corporation, I would like to express my deepest gratitude to you for the constant support and encouragement you gave us last year.

2014 was a difficult year for the financial investment industry because the recovery of the Korean economy was delayed due to the low-growth, low-interest rate trend and the slowdown of both advanced and emerging economies.

Despite such an unfavorable environment, KSFC performed well as we made continuous efforts to grow alongside the financial investment industry. Our total assets including trust accounts in FY2014 recorded KRW 53.3 trillion, a 27.1% increase from the previous year. Net income decreased to KRW 93.1 billion, a 19.3% decrease year-over-year. However, the annualized figure for last year's net income is KRW 124.1 billion, which is a 7.5% increase from the previous year.

Let me give you the highlights of some of KSFC's achievements in FY2014 by business type. First, loans to securities firms increased by 30.9%, year-over-year to KRW 6.2 trillion due to our aggressive sales and our mutual growth partnership with the financial investment industry. Our loans to retail customers increased by 21.8%, or KRW 0.6 trillion, to KRW 3.4 trillion. We recorded KRW 27.4 trillion in deposits, which is a 27.9% or KRW 6.0 trillion increase from the previous year, due to the acquisition of stable financial sources.

In asset management, we continued to generate stable profit by safely allocating investment assets and diversifying investments, considering the negative effect a low-interest environment has on profitability.

Meanwhile, our fee-earning business units have established a firm foundation for our custody business as we displayed high growth year-over-year by growing assets by 35.2%, or KRW 35.1 trillion, to KRW 134.7 trillion. This growth was enabled by increased trust volume and early stabilization of new businesses, including corporate bond administration and inter-dealer brokerage.

**This year marks the 60th anniversary of KSFC.
We will look back on our past in order to grow as a trusted company
for the market and our community moving forward.
We commit to become a better company with the mind set of
creating a touchstone for the next 60 years.**

In FY2014, we stayed true to our role as a securities finance company as we continued to diversify and stabilize our earning structure to achieve favorable results and increase our support for the financial investment industry. We were also able to boost our corporate image as we communicated with the community through a range of CSR activities via the KSFC Foundation, which was established in November 2013 to share the success and values derived from the markets and our customers with the community.

This year marks the 60th anniversary of KSFC. We will look back on our past in order to grow as a trusted company for the market and our community moving forward. We commit to become a better company with the mind set of creating a touchstone for the next 60 years.

Now I want to inform you about our management strategy for FY2015.

Dearest shareholders,

Under our objective of “creating a stable long-term growth platform based on trust,” we will do our best to enable the following tasks.

First, we will focus our capabilities on responding to the fast-changing financial environment and building the ground for new growth.

The convergence of ICT and finance will transform the face of the financial industry and create rippling effects both within and across different sectors within the industry. The fast-changing financial environment requires KSFC to constantly innovate and evolve.

By creating Vision 2020, our forward-looking business strategy, we will establish our company’s direction for growth and strengthen our position in the market by extending our infrastructure functions and developing new businesses.

Second, we will continue to become a “default free” and “accident free” financial company.

We learned that risk management is the most important factor for financial companies to maintain credibility in the finance market, as we were witness to a number of recent financial scandals and internal control failures at other financial institutions.

**Our success over the past 60 years was made possible
by your passionate support and care.
As we prepare for the next 60 years and beyond,
we will propel KSFC to a higher level and realize our management goals
by placing top priority on our customers and shareholders.**

As a trusted financial company, KSFC will continue to maintain best-in-class financial soundness and an up-to-date risk management system, while strengthening management quality.

Third, we will enhance our development of mutual growth partnerships to grow together with the market and our community.

For the past 60 years, we were able to grow despite fluctuations in the financial market due to our expertise and commitment to our customers who have remained loyal under every circumstance.

We have lowered our loan interest and fee rates and expanded our liquidity supply for our mutual growth partnership with the financial investment industry. Looking forward, we will continue to monitor trends in the industry and help revive financial market dynamics.

We will also spearhead financial consumer protection through management innovation, which includes business processes improvements. In addition, we will grow as a financial institution, alongside our community, as we dedicate ourselves to social responsibility through the KSFC Foundation.

Respected shareholders,

Our success over the past 60 years was made possible by your passionate support and care. As we prepare for the next 60 years and beyond, we will propel KSFC to a higher level and realize our management goals by placing top priority on our customers and shareholders.

I appreciate your ongoing commitment and support and hope that 2015 will be the first of many prosperous years to come.

Thank you.

**Jae-Seek Park
President & CEO**



01 History



Rich Experience and Insight

Based on our long history of 60 years, KSFC continues to grow as it settles into its industry-leading position. Leveraging our capability to expand with the Korean capital market, we will discover opportunities for new growth through our insights on industrial trends and potential gaps. Our 60-year long history of trust will upgrade into a 100-year long partnership.

02 Financial Infrastructure



Safety Net of the Capital Market

KSFC is at the forefront in supplying liquidity to the securities market and protecting investors, as we were established with the purpose of delivering 'sound growth for the capital market.'

By providing funds and securities for securities companies and investors, we contribute to the increase in demand for securities and the creation of a sound investment culture.

We also protect investors and support the stable growth of the capital market by safely managing investor's deposits.

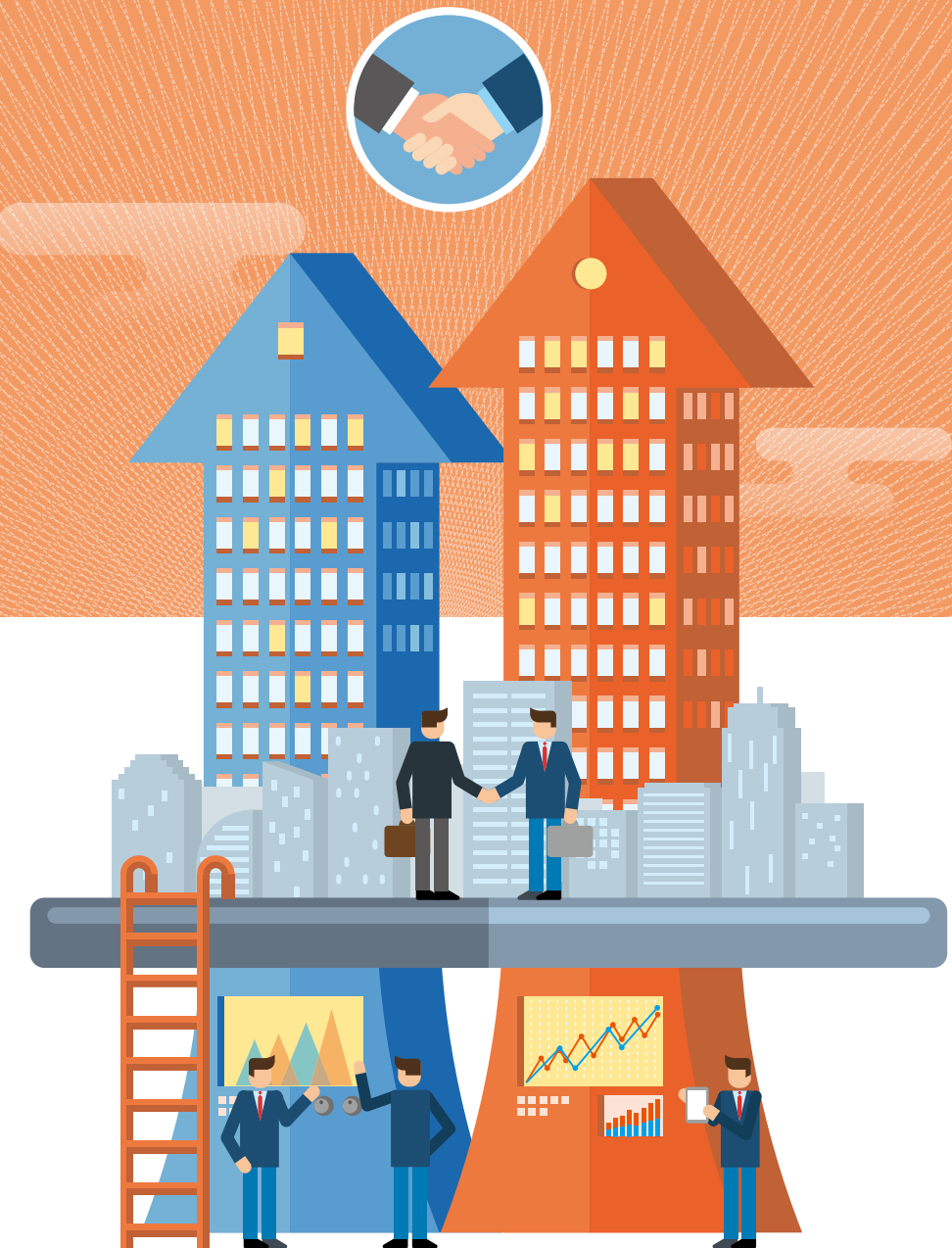
03 Financial Soundness



A Reliable Partner for Growth

KSFC is a reliable partner as evidenced by our excellent financial soundness. As an industry-leading financial institution with a domestic credit rating of AAA(outlook/stable), we maintain the highest level of financial soundness, with a BIS ratio that exceeds the recommendation of the Financial Supervisory Service. We also obtained a Aa3 international credit rating from Moody's. A Aa3 is the highest rating among Korean financial institutions and underscores our credibility in the capital market.

04 Win-Win Partnership



Collaborating for Shared Growth

KSFC is dedicated to promoting win-win partnerships not only with the securities industry, but also with investors. We pursue sound and solid partnerships for shared growth as we strive to revitalize the capital market based on our global leadership. We also actively communicate with market participants to help them maximize their capabilities.

05 Corporate Social Responsibility



Happiness through Care and Sharing

We strive to share our success with the local communities as a responsible corporate citizen. Under our goal of 'Sharing Hope, Sharing Love, Sharing Happiness,' we continue to endeavor to create a better world by giving back to society what we have received from our customers.

The KSFC Foundation is the heart and soul of our vision to create a welcoming and prosperous community where everyone has the opportunity to live a better life.

Vision

KSFC's Vision

We will grow together with the capital market. By becoming a win-win growth partner for the investor and market development, we will pave the way for the next 100 years together with our customers.

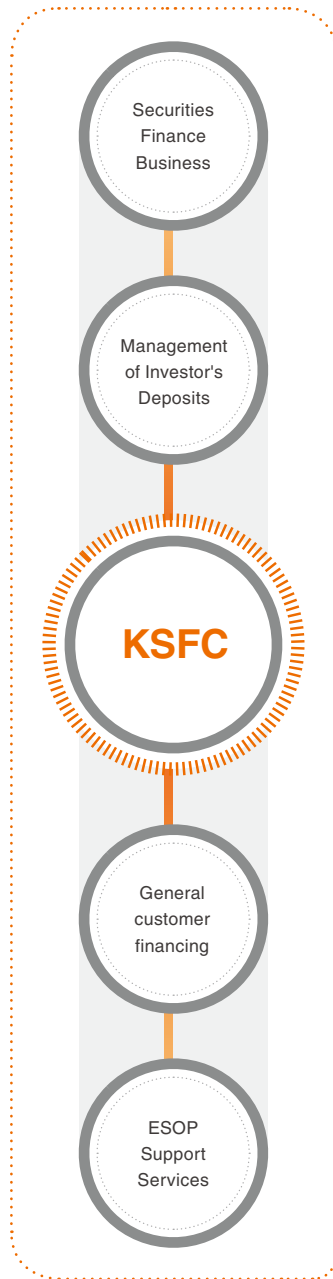
We are realizing our dream with our differentiated capabilities and laser-focused strategy. With passionate minds and continued efforts, we will become a reliable win-win growth partner of the capital market.

Mission

We pursue mutual growth with market participants by supporting the capital market and protecting investors



Functions and Roles



Korea Securities Finance Corporation (KSFC) was established in 1955 to supply liquidity and perform specialized tasks required by the securities market, contributing to the development of the domestic capital market.

PROVIDING SECURITIES-BASED LIQUIDITY

We supply funds and securities to financial investment firms and retail investors
 KSFC provides financial investment firms, financial investment services-related organization and collective investment companies with liquidity by supplying funds and securities. We also contribute to the expansion of the securities market and improve the usefulness of securities owned by retail investors by offering individuals and corporations a variety of financial services that use securities as collateral.

ACTING AS A FINANCIAL SAFETY NET OF THE CAPITAL MARKET

We safely store and manage investors' assets
 KSFC supports the stable development of the Korean capital market by protecting investors and safeguarding their assets. We hold investor's deposits of investment brokers and dealers in separate accounts.

MANAGING FUNDS RELATED TO THE SECURITIES MARKET

We manage deposits from financial investment firms, corporations and private investors
 KSFC manages not only the idle funds of financial investment firms and companies, subscription guarantee money, CMA funds and securities subscription deposits but also national treasury funds and public money management funds. Through this, we stimulate the bond market and efficiently invest these funds in the short-term money market. As such, we offer investors a safe and profitable vehicle to manage funds and help financial investment firms manage short-term liquidity.

BUILDING THE INFRASTRUCTURE OF THE CAPITAL MARKET

We offer SBL and inter-dealer RP intermediary services, as well as custodian services for collective investment assets
 KSFC enhances the usefulness of securities through securities borrowing and lending (SBL) intermediary services, and contributes to the stabilization of a short-term financial market through institutional RP brokerage. In addition, we provide top-class custodian services through the diversification of assets held in trust and by handling ancillary services that better meet customer needs.

SUPPORTING ESOPS

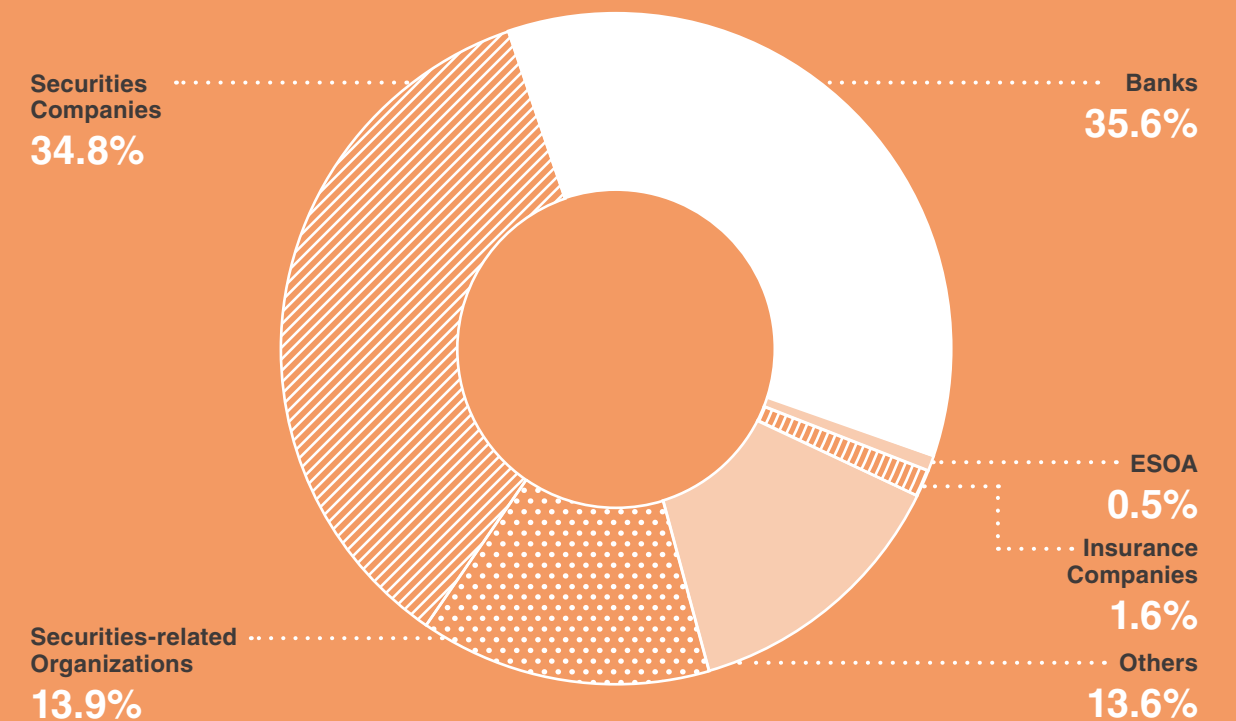
We provide depository, custody and financial services related to ESOP shares as an exclusive ESOP management institution
 An Employee Stock Ownership Plan (ESOP) is an employee benefit scheme that promotes workers' welfare by encouraging them to purchase and hold stocks of their employer companies. We have established and now operate an ESOP support center that provides consulting and education on the creation and management of Employee Stock Ownership Associations (ESOAs). We also offer depository and custody services for ESOP shares as well as related comprehensive financial services.

01

Company Overview

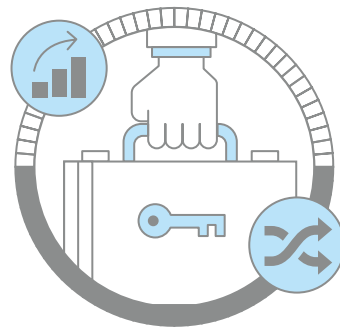
OWNERSHIP STRUCTURE

(December 31, 2014)



Company Profile

As the only securities finance company in Korea, KSFC is devoted to performing the diverse roles and functions needed for the development of the capital market and the national economy.



PLAYING A KEY ROLE FOR THE DEVELOPMENT OF THE CAPITAL MARKET

As Korea's only institution designated to handle securities financing, KSFC focuses on supplying funds and securities to the market and securities firms and protecting investors through the disciplined management of investor's deposits. We also assist in the establishment and development of employee stock ownership plans (ESOPs) and provide general financing services such as securities-backed loans. Our business portfolio has been expanded to include SBL intermediary, RP intermediary, corporate bond administration, and IDB, contributing to the creation of a solid foundation for the growth of the capital market.

AN EXCELLENT FINANCIAL INSTITUTION WITH A AA3 INTERNATIONAL CREDIT RATING

KSFC, whose first priority is financial soundness, is an excellent financial institution with a Aa3 international credit ratings, as well as AAA domestic credit ratings with a stable outlook that manages more than KRW 40 trillion using its advanced management techniques.

A FINANCIAL INSTITUTION THAT PURSUES ETHICS-BASED MANAGEMENT

Based on the KSFC Code of Ethics, we acknowledge our economic, legal, and ethical responsibilities as our primary duties. We adopt and apply the standards of transparency, rationality, and legitimacy in ethical decision making while leading the CSR movement by participating in various volunteer activities through our One Heart Volunteer Group under the slogan of "Sharing Love for Greater Happiness."

PROGRAMS FOR ETHICAL MANAGEMENT PRACTICE

Ethical Management Committee

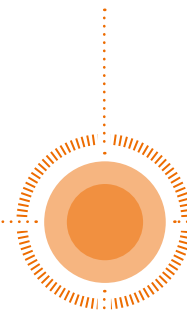
We operate a committee that superintends ethical management and make ethical decisions in order to strengthen the recognition on ethics and encourage employees to practice ethical management.

Self-Assessment of Adherence to Ethics/Compliance

Checklists regarding ethical conduct and key regulations are made for employees and senior officers for the purpose of regular self-assessment in order to promote ethical behavior and compliance.

Setting up the Code of Conduct

A detailed code of business conduct to achieve ethical management is set up and practiced by employees in an effort to establish a sound corporate culture.

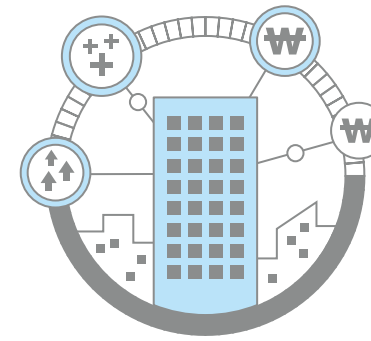


Frequent Ethics/Compliance Education

Various ethics/compliance education sessions are conducted to improve ethical behavior and practice, which contributes to enhancing corporate competitiveness.

Scope of Business and Services

We strive to develop and grow financial investment firms and the financial market and offer efficient services to securities investors.



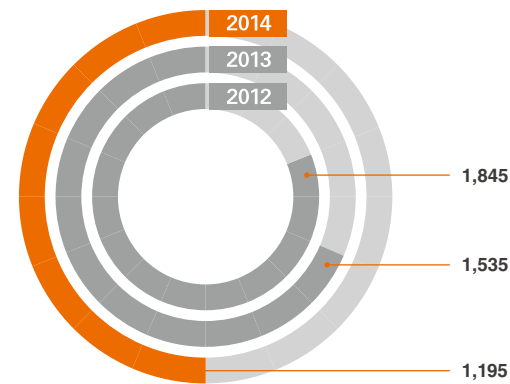
KSFC engages in securities financing services in accordance with the Financial Investment Services and Capital Markets Act and additional services licensed by, approved by, or registered with the Financial Services Commission. These services mainly include lending of funds or securities for trade in the securities and derivatives markets through the Korea Exchange, loans secured by securities, trust services, custody, management of collective investment assets, etc.

Type of Services	For Financial Investment Firms and Capital Market	For 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 Finance Securities-Backed Loans • Short-Term Note Trading at a Discount • Bond Purchase under RP 	<ul style="list-style-type: none"> • Securities-Backed Loans • Short-Term Note Trading at a Discount • Deposit-Backed Loans
Deposits	<ul style="list-style-type: none"> • Subscription Guarantee Money Deposits • Financial Investment Institutions' Deposits • Stock Market Stabilization Fund Deposits • Sales of Notes Issued • National Treasury and Public Fund Deposits • SPAC Deposits 	<ul style="list-style-type: none"> • Securities Subscription Deposits • Corporate Deposits • Sales of Notes Issued • Bond Sale under RP
Management of Investors' Deposits	<ul style="list-style-type: none"> • Investor's Deposits in Deposit Accounts • Investor's Deposits in Trust Accounts 	
Trustee and Custody	<ul style="list-style-type: none"> • Trustee and Custody Services • Management of Entrusted Assets • General Administration Management • Corporate Bond Administration 	
ESOP Support	<ul style="list-style-type: none"> • ESOP Stock Management • ESOP Stock-secured Loans • ESOP Support Services 	<ul style="list-style-type: none"> • ESOP Support Services • ESOP Stock-secured Loans
Securities Intermediation	<ul style="list-style-type: none"> • Securities Borrowing & Lending (SBL) Intermediation • RP Intermediation • Brokerage for Issuing Electronic Short-term Corporate Bonds 	<ul style="list-style-type: none"> • Securities Borrowing & Lending (SBL) Intermediation

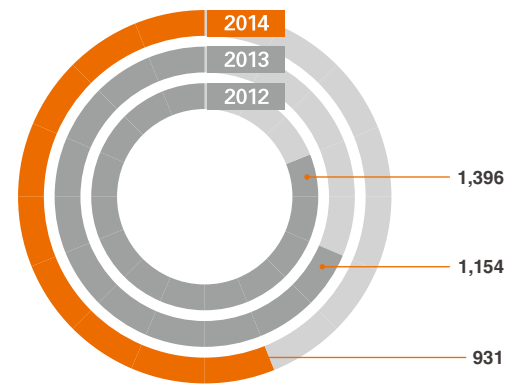
Financial Highlights

KSFC INCOME

Operating Income
(unit : KRW 100 million)



Net Income
(unit : KRW 100 million)

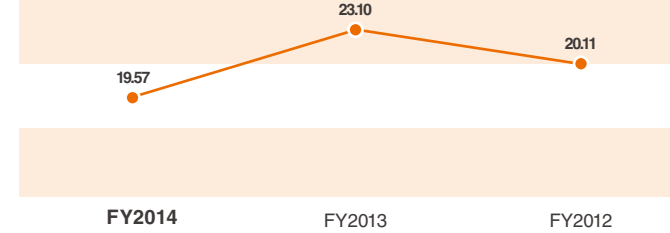


※ Operating income and net income decreased over the previous year due to the decreased number of operating months from 12 to 9, as the accounting period changed in FY2014.

ASSETS (unit : 100 million KRW)

Division	FY2014	FY2013	FY2012
Total Assets	362,150	282,406	315,007
Total Equity	16,005	14,517	14,107
Total Liabilities	346,145	346,145	300,900

BIS RATIO (unit : %)



CREDIT RATING

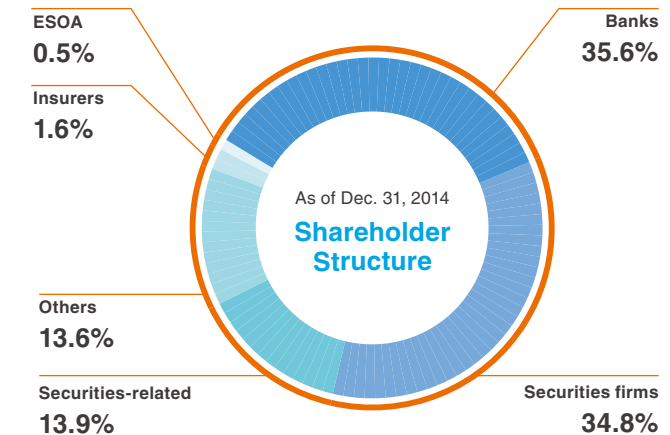
Domestic
(NICE Investors Services Co. / Korea Ratings / Korea Investors Service)

Long-Term Issuer Rating: **AAA**
Short-Term Issuer Rating: **AAA**
Outlook: **Stable**

International
(Moody's)

Long-Term Issuer Rating: **Aa3**
Short-Term Issuer Rating: **P-1**
Outlook: **Stable**

SHAREHOLDER STATUS

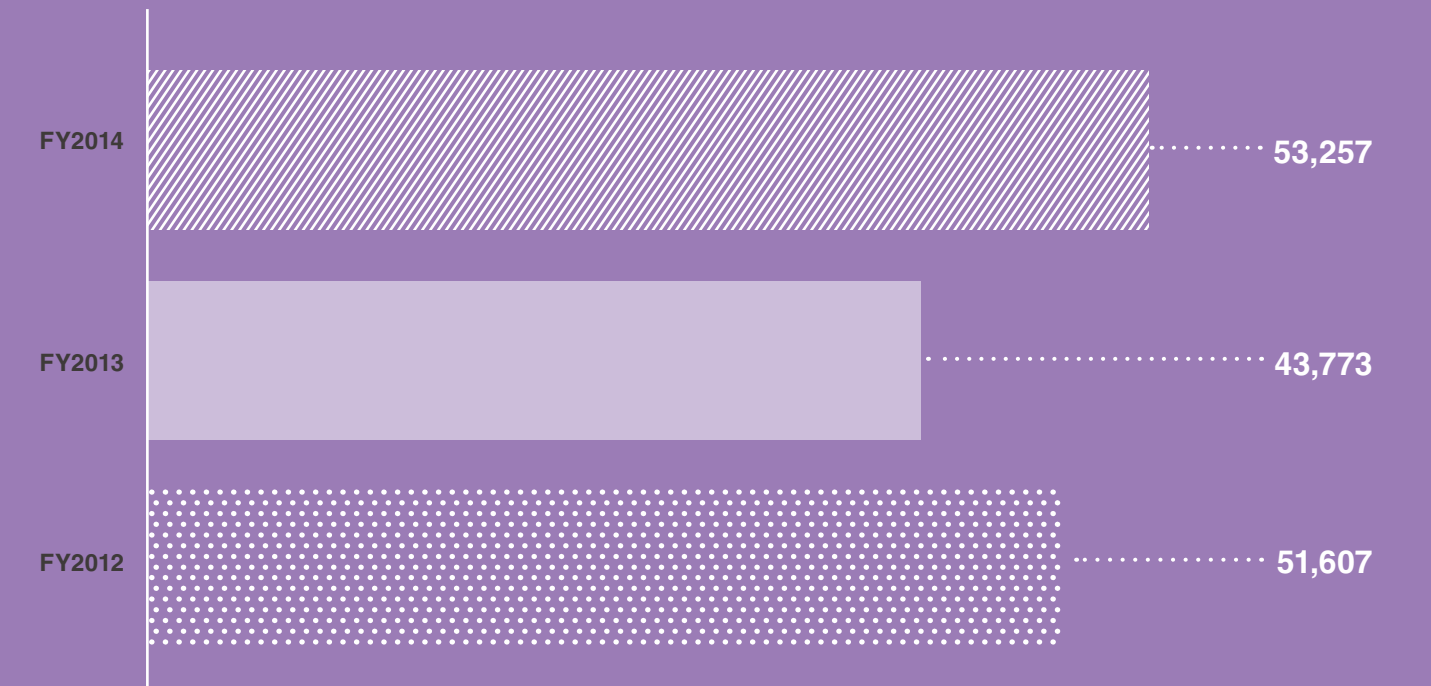


02

Business Review

TOTAL ASSETS

(KRW in billions, including trust accounts)



Summary

April 1, 2014 ~ December 31, 2014

In FY2014, we stayed true to our role as a securities finance company as we continued to diversify and stabilize our earning structure to achieve favorable results, and increase our support for the financial investment industry.

FINANCIAL POSITION

The average balance of total KSFC assets increased by 13.6% to KRW 37.93 trillion in FY2014. Cash and bank deposits, securities, and loans and receivables all increased year-over-year. Compared to the previous year, cash and bank deposits increased by 9.2% to KRW 12.42 trillion, securities by 7.1% to KRW 12.84 trillion, and loans and receivables by 26.7% to KRW 12.60 trillion.

Total liabilities in FY2014 stood at KRW 36.53 trillion, a 14.0% increase from the previous year. Deposit liabilities increased by 19.2% to KRW 30.51 trillion, while borrowings decreased by 3.8% to KRW 4.78 trillion.

Total shareholders' equity was KRW 1.40 trillion, which is a 4.0% increase from the previous year, and paid-in capital was KRW 340 billion, same as the previous year.

OPERATING PERFORMANCE

In 2014, operating revenues and operating expenses decreased over the previous year, but this was due to the decreased number of operating months from 12 to 9 with the change in the accounting period in FY2014.

Operating revenues stood at KRW 878.7 billion, a 22.8% decrease year-over-year. Interest income decreased by 23.5% to KRW 629.6 billion, gain on valuation and disposal of financial investment products decreased by 8.9% to KRW 140.7 billion, fee income decreased by 31.7% to KRW 59.4 billion, operating revenues from trust accounts decreased by 35.1% to KRW 11.8 billion, and dividend income decreased by 37.1% to KRW 31 billion.

Operating expenses amounted to KRW 759.2 billion, which is a 22.9% decrease from the previous year. Interest expenses decreased by 21.9% to KRW 638.6 billion, loss on valuation and disposal of financial investment products decreased by 18.2% to KRW 10.4 billion, fee expenses decreased by 35.2% to KRW 46.3 billion, and management expenses decreased by 26.2% to KRW 56 billion.

KSFC recorded KRW 119.5 billion in operating income, which is a year-over-year decrease of 22.1%. Also, net income decreased by 19.3% to KRW 93.1 billion.

※ Annualized operating income and net income were KRW 159.3 billion and KRW 124.1 billion, respectively.

ASSESSMENT

The asset management environment was unfavorable in FY2014 due to the continued low-growth, low-interest rate trend, a narrowing gap between short- and long-term spreads, and a depressed stock market. KSFC, however, continued to generate stable profits by expanding its fee-based business units. As a result, the company's operating volume (which includes its trust accounts and fee-based assets) increased by 21.5% to KRW 177.7 trillion over the previous year. Net income also resulted in KRW 93.1 billion, which is KRW 124.1 billion on an annualized basis.

The company's loans to financial investment firms increased by 30.9% to KRW 6.2 trillion while loans to retail customers increased by 21.8% to KRW 3.4 trillion year-over-year due to its aggressive sales activities and mutual growth partnership with the financial investment industry.

In addition, KSFC's fee-based assets grew by 35.2% to KRW 134.7 trillion over the previous year. This growth was enabled by increased custody assets and the early stabilization of new businesses, including corporate bond administration and inter-dealer brokerage. Through this, KSFC was able to enhance the operation platform of its custody business.



Raising Funds

KSFC's main sources of financing are deposits, bonds sold under RPs, borrowings from financial institutions, corporate bond issues, and equity capital. In FY2014, the company raised KRW 37.93 trillion on an average balance basis, which is a 13.6% increase from the previous year.

KSFC's main sources of financing are deposits, bonds sold under RPs, borrowings from financial institutions, corporate bond issues, and equity capital. In FY2014, the company raised KRW 37.93 trillion on an average balance basis, which is a 13.6% increase from the previous year. Of the total amount of funds raised, deposits from financial investment firms accounted for 43.7%, investor's deposits accounted for 16.7%, notes issued accounted for 12.1%, and bonds sold under RPs accounted for 6.7%. The proportions of notes issued and subscription guarantee deposits increased while deposits from financial investment firms and bonds sold under RPs decreased from the previous year.

DEPOSIT LIABILITIES

The average balance of FY2014's deposit liabilities, which include various deposits and notes issued, increased by 19.2% from the previous year and stood at KRW 30.51 trillion, accounting for 80.5% of total funds raised compared to 76.7% in FY2013.

Funds that investors entrusted to financial investment firms for the purpose of trading stocks and derivatives must be re-deposited with KSFC in accordance with relevant laws. The average balance of investor's deposits in FY2014 increased by 9.9% year-over-year to KRW 6.34 trillion, accounting for 16.7% of total funds raised (17.3% in FY2013).

Deposits for securities spot trading are funds that investors entrusted to financial investment firms for trading securities. The average balance of these deposits was KRW 14.6 billion.

The average balance of deposits for derivatives trading, which are deposits that investors entrusted to financial investment firms for trading stock index futures and options, was KRW 3.02 trillion.

KSFC also receives investor's deposits from derivatives-specializing institutions, which exclusively handle on-exchange derivatives trading. The average balance of deposits from derivatives-specializing institutions was KRW 769.3 billion.

The average balance of deposits for collective investment securities trading, which are deposits that investors entrusted to financial investment firms for trading collective investment securities, was KRW 2.28 trillion.

The average balance of deposits in foreign currencies, which are foreign currency deposits that investors entrusted to financial investment firms for financial trading, was KRW 256.2.

FY2014 BREAKDOWN OF RAISED FUNDS

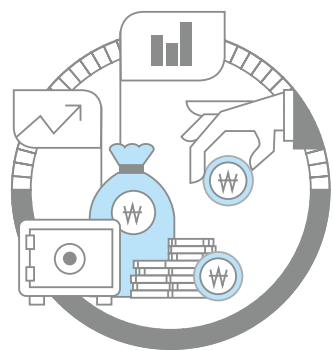
(Unit: Million won, %, based on average balance)

Classification	FY2014		FY2013		FY2012	
	Amount	%	Amount	%	Amount	%
Deposit Liabilities	30,512,130	80.5	25,605,842	76.7	26,304,940	75.2
Investors' Deposits ¹⁾	6,343,170	16.7	5,771,938	17.3	5,720,724	16.4
Deposits for Gold Spot Trading	3,323	0.0	19	0.0	-	-
Subscription Guarantee Deposits	1,414,721	3.7	596,603	1.8	535,447	1.5
Stock Market Stabilization Fund Deposits	24,425	0.0	29,242	0.0	16,603	0.0
Deposits from Financial Investment Institutions	16,578,905	43.7	15,065,983	45.1	14,994,970	42.9
Deposits from Corporate Customers	1,359,525	3.6	1,081,445	3.2	1,218,843	3.5
Subscription Deposits for IPO Stocks	1,444	0.0	132	0.0	992	0.0
Subscription Securities Subscription Deposits	135,322	0.4	102,695	0.3	64,441	0.2
ESOP Deposits	3,515	0.0	5,671	0.0	2,522	0.0
Deposits from Investment Advisory Business Entities	65	0.0	64	0.0	62	0.0
SPAC Deposits	73,489	0.2	35,542	0.1	187,984	0.5
Notes Issued	4,571,834	12.1	2,914,117	8.7	3,560,167	10.2
Special Deposits	2,392	0.0	2,391	0.0	2,185	0.0
Derivative Liabilities	0	0.0	0	0.0	34	0.0
Borrowings	4,077,454	10.7	4,239,725	12.7	5,046,322	14.4
Call Money	593,375	1.6	816,913	2.4	903,556	2.6
Bonds sold under RP	2,551,934	6.7	2,572,017	7.7	3,084,602	8.8
Borrowings ²⁾	932,145	2.5	850,794	2.6	1,058,164	3.0
Corporate Bonds	877,584	2.3	504,348	1.5	1,055,328	3.0
Other Liabilities	1,062,781	2.8	1,696,271	5.1	1,347,635	3.9
Guarantee Deposits ³⁾	713,775	1.9	1,393,386	4.2	1,085,617	3.1
Due to Trust Accounts	273,860	0.7	195,790	0.6	169,833	0.5
Deferred Tax and Others	75,147	0.2	107,095	0.3	92,185	0.3
Shareholder's Equity	1,400,370	3.7	1,346,937	4.0	1,210,921	3.5
Total	37,930,320	100.0	33,393,123	100.0	34,965,179	100.0

1) Sum total of deposits for securities spot trading, derivatives trading (including those from derivatives-specializing institutions), collective investment securities trading, and foreign currency derivatives trading

2) Sum total of bank borrowings and commercial papers

3) Sum total of stock loan guarantee deposits, SBL guarantee deposits, and other guarantee deposits



Deposits for gold spot trading are deposits that investors made with financial investment companies to participate in gold spot trading. The average balance of these deposits in FY2014 was KRW 3.3 billion. (The gold spot market was established on March 24, 2014.)

Subscription guarantee deposits are funds financial investment firms collected from investors who wish to participate in IPOs or rights issues. When a financial investment firm entrusts such deposits to KSFC, the company issues a discounted note and offers the firm money up to the amount of deposits the firm has made. In FY2014, the average balance of subscription guarantee deposits increased by 137.1% year-over-year to KRW 1.41 trillion, accounting for 3.7% of total funds raised (1.8% in FY2013).

In FY2014, the average balance of deposits from financial investment institutions increased to KRW 16.58 trillion, taking up 43.7% of total funds raised. This increase was due to the on-going low-interest rate trend, which caused the level of market liquidity to increase and CMA funds and surplus cash of financial investment firms to flow into KSFC.

Deposits from corporate customers are vehicles that help private corporations, public institutions, and organizations manage their surplus cash. In FY2014, the average balance of deposits from corporate customers amounted to KRW 1.36 trillion. This growth was the result of the increase in market liquidity and our efforts to attract large corporate customers.

KSFC also received deposits from special purpose acquisition companies (SPACs), which gather investors and issue shares for the sole purpose of merging with another corporation, in accordance with the Financial Investment Services and Capital Markets Act. The average balance of SPAC deposits stood at KRW 73.5 billion, constituting 0.2% of total funds raised.

Funds are also raised by issuing notes. The average balance of notes issued increased by 56.9% over the previous year to KRW 4.57 trillion in FY2014. Sources of funds include national treasury funds, public capital management funds, and financial investment firms' trust funds. These funds can be managed using on-exchange RPs, MMFs, bank deposits, or call loans based on each financial contract signed with respective customers.

BORROWINGS

KSFC raises necessary funds through bonds sold under repurchase agreements (RPs), borrowings from banks, issuance of commercial papers (CPs), and call money. The average balance of total borrowings in FY2014 dropped by 3.8% from the previous year amounting to KRW 4.08 trillion, which accounted for 10.7% of total funds raised.

Call money is a primary source of short-term borrowings. In FY2014, the average balance of call money decreased by 27.4% over the previous fiscal year to KRW 593.4 billion, taking up 1.6% of total funds raised (2.4% in FY2013).

Bond sale under RP is a method of raising funds by selling bond holdings to an individual or corporation under the condition that the individual or corporation will sell them back on a previously agreed-upon date and price. The average balance of bonds sold under RPs amounted to KRW 2.55 trillion in FY2014 and represented 6.7% of total funds raised. Bonds sold under RPs have become a primary source for raising funds since 2003 when the inter-dealer RP business was launched.

In FY2014, the average balance of borrowings from financial institutions increased by 9.6% from the previous year to KRW 932.1 billion, representing 2.5% of total funds raised (2.6% in FY2013).

CORPORATE BONDS

The average balance of corporate bonds issued increased by 74.0% to KRW 877.6 billion, representing 2.3% of total funds raised (1.5% in FY2013).

OTHER LIABILITIES

The average balance of other liabilities, which include guarantee deposits and due to trust accounts, decreased by 37.3% to KRW 1.06 trillion, accounting for 2.8% of total funds raised (5.1% in FY2013).

The total balance of guarantee deposits was KRW 713.8 billion in FY2014, with SBL guarantee deposits of KRW 640.4 billion, stock loan guarantee deposits of KRW 16.0 billion, and other guarantee deposits of KRW 57.4 billion. It decreased by 48.8% from last year and accounted for 1.9% of total funds raised (4.2% in FY2013).

Due to trust accounts is cash that collective investment schemes entrusted to KSFC. The average balance of due to trust accounts amounted to KRW 273.9 billion, a 39.9% increase from the previous year, making up 0.7% of total funds raised (0.6% in FY2013).

SHAREHOLDERS' EQUITY

In FY2014, the average balance of shareholders' equity increased by 4.0% over the previous year to KRW 1.40 trillion, making up 3.7% of total funds raised (4.0% in FY2013). Paid-in capital and capital surplus were KRW 340 billion and KRW 21.8 billion, respectively, the same as the previous year. Retained earnings increased by 9.4% year-over-year to KRW 978.4 billion.

Operating Funds

Cash and bank deposits, securities investments, various loans, discounted notes, bonds purchased under RPs, and call loans are the main methods used by KSFC for operating funds.

Cash and bank deposits, securities investments, various loans, discounted notes, bonds purchased under RPs, and call loans are the main methods used by KSFC for operating funds. Cash and due from banks in Korean won accounted for the biggest share with 32.1%, followed by loans with 20.2%, trading securities with 17.6%, available-for-sale securities with 16.3%, bonds purchased under RPs with 8.0%, and discounted notes with 4.9%. Compared to the previous year, loans increased while securities investments and cash and due from banks decreased.

CASH AND DUE FROM BANKS

KSFC operates a large portion of its funds in cash and due from banks for stable and efficient liquidity management, as short-term funds account for a significant percent of its total funds raised. The average balance of cash and due from banks in FY2014 stood at KRW 12.42 trillion, a 9.2% increase from the previous year, taking up 32.8% of total operating funds (34.1% in FY2013).

The average balance of cash and due from banks in Korean won increased by 9.9% to KRW 12.17 trillion, accounting for 32.1% of total operating funds (33.2% in FY2013). The average balance of cash and due from banks in foreign currencies was KRW 256.2 billion, a 14.0% drop over the previous year, taking up 0.7% of total operating funds (0.9% in FY2013).

SECURITIES

In FY2014, KSFC increased its investments in securities to enhance its profitability and to respond to the heightened competition in the securities-backed loan market. As a result, the average balance of securities rose by 7.1% from FY2013 to KRW 12.84 trillion, accounting for 33.9% of total operating funds (35.9% in FY2013).

Compared to the previous year, stocks (including equity investments) increased by 13.1% to KRW 497.3 billion while bonds increased by 3.0% to KRW 5.45 trillion. And beneficiary certificates increased by 18.4% over the previous year to KRW 6.43 trillion. Others (including derivatives-linked products) decreased by 44.3% year-over-year to KRW 465.2 billion.

Trading securities are purchased to generate short-term trading profits. The average balance of trading securities increased by 11.4% to KRW 6.67 trillion, constituting 17.6% of total operating funds (17.9% in FY2013).

Available-for-sale securities are purchased to produce long-term trading profits. KSFC recorded KRW 6.16 trillion in the balance of available-for-sale securities in FY2014, a 2.9% increase from the previous year, and this accounted for 16.3% of total operating funds (18.0% in FY2013).



LOANS AND RECEIVABLES

KSFC's loans and receivables are composed of call loans, discounted notes, bonds purchased under RPs, and other various loans. Call loans are used for managing funds in the very short term and discounted notes and bonds purchased under RPs are used for managing funds in the short- to medium-term. In FY2014, the average balance of loans and receivables increased by 26.7% from the previous year to KRW 12.60 trillion, taking up 33.2% of total operating funds (29.8% in FY2013).

The average balance of discounted notes jumped by 35.7% over the previous year to KRW 1.86 trillion, representing 4.9% of total operating funds (4.1% in FY2013). The increase was mainly due to the increase in subscription guarantee deposits. Bonds purchased under RPs is a loan product through which KSFC purchases bonds held by an institutional investor under the condition that the investor repurchases them at a later date. In FY2014, the average balance of bonds purchased under RPs was KRW 3.05 trillion, accounting for 8.0% of total operating funds. The average balance of loans was KRW 7.65 trillion, a 26.4% increase from the previous year, making up 20.2% of total operating funds.

FY2014 BREAKDOWN OF OPERATING FUNDS

(Unit: Million won, %, based on average balance)

Classification	FY2014		FY2013		FY2012	
	Amount	%	Amount	%	Amount	%
Cash and Due from Banks	13,325,437	38.1	11,371,507	34.1	12,423,227	32.8
Cash and Due from Banks in Korean Won	12,977,045	37.1	11,073,462	33.2	12,166,994	32.1
Cash and Due from Banks in Foreign Currencies	348,375	1.0	298,029	0.9	256,217	0.7
Securities	11,972,726	34.3	11,996,073	35.9	12,842,995	33.9
Trading Securities	6,207,012	17.8	5,985,783	17.9	6,669,248	17.6
Financial Assets Designated at Fair Value through Profit or Loss	24,514	0.0	14,950	0.0	4,511	0.0
Available for Sale Securities	5,741,200	16.4	5,991,825	18.0	6,164,908	16.3
Derivatives Assets	4,130	0.0	1,670	0.0	583	0.0
Loans and Receivables	9,577,311	27.4	9,946,674	29.8	12,604,188	33.2
Call Loan	76,849	0.2	97,068	0.3	50,182	0.1
Discounted Notes	1,177,065	3.4	1,371,198	4.1	1,860,070	4.9
Bonds Purchased under RP	2,822,149	8.1	2,430,305	7.3	3,048,659	8.0
Loans	5,501,247	15.7	6,048,102	18.1	7,645,277	20.2
Other Assets	85,596	0.2	77,199	0.2	59,327	0.1
Total	34,965,179	100.0	33,393,123	100.0	37,930,320	100.0

Through margin financing loans, KSFC provides financial investment firms with the funds and securities needed to finance their customers' margin trading. These loans are offered through the Korea Exchange. The average balance of margin financing loans amounted to KRW 2.69 trillion.

Using loans to finance securities-backed loans, KSFC provides financial investment companies with the funds they needed in their securities-secured loan business. The average balance of loans to finance securities-secured loans reached KRW 1.89 trillion.

Working capital loans are offered to financial investment companies, financial services-related institutions, the Korea Exchange, and insurance companies to assist their everyday operations. The average balance of working capital loans was KRW 90.4 billion.

ESOP share acquisition loans are provided to ESOA members to assist them in their acquisition of ESOP shares that have been allocated to them. To use this loan, the acquired shares must be used as collateral. The average balance of ESOP share acquisition loans stood at KRW 1.42 trillion.

ESOP share-secured loans are provided to ESOA members and are backed by deposited ESOP shares. The average balance of ESOP share-secured loans was KRW 8.8 billion.

General securities-secured loans are provided to corporate or individual customers and are secured by securities that they hold. The average balance of general securities-secured loans was KRW 1.54 trillion.

Loans secured by deposits are loans backed by deposits customers made with KSFC. The average balance of loans secured by deposits was KRW 70 million.

BREAKDOWN OF LOANS AND RECEIVABLES

(Unit: Million won, %, based on average balance)

Classification	FY2014		FY2013		FY2012	
	Amount	%	Amount	%	Amount	%
Margin Financing Loans	2,686,589	35.2	2,271,211	37.6	1,907,631	34.7
Working Capital Loans	90,448	1.2	143,740	2.4	122,304	2.2
Loans to Support Securities-secured Loans	1,890,224	24.7	1,333,953	22.1	883,517	16.1
ESOP Share Acquisition Loans	1,424,130	18.6	1,063,287	17.6	1,241,349	22.6
ESOP Share-secured Loans	8,830	0.1	7,786	0.1	9,171	0.1
General Securities-secured Loans	1,540,207	20.2	1,220,055	20.2	1,333,549	24.3
Loans Secured by Deposits	67	0.0	61	0.0	178	0.0
Total	7,640,495	100.0	6,040,093	100.0	5,497,699	100.0

ESOP Support Services

As the sole custodian of ESOP shares in accordance with the Framework Act on Labor Welfare, KSFC performs public functions related to the ESOP system.

As the exclusive custodian of ESOP shares in accordance with the Framework Act on Labor Welfare, KSFC offers ESOP-related services of public characteristics to promote and strengthen the ESOP system. The services provided by the company include counselling on ESOA establishment and management, safekeeping and management of ESOP shares, and practical education of ESOA managers. The company also assists ESOAs and their members financially through its ESOP share acquisition loans and ESOP share-secured loans.

By the end of FY2014 (December 31, 2014), the number of companies with ESOAs reached 2,706, which included 653 KOSPI-listed companies, 779 KOSDAQ-listed companies, and 1,274 other companies. And the number of ESOA members was 1,257,000, which included 907,000 members in KOSPI-listed companies, 114,000 in KOSDAQ-listed companies, and 236,000 in other companies.

The total number of ESOP shares deposited as of the end of FY2014 reached 424.648 million, with acquisition costs totaling KRW 6.41 trillion from around 375 thousand members in 911 companies. Of the total number of shares deposited, 292.956 million shares were from KOSPI-listed companies, 51.386 million from KOSDAQ-listed ones, and 80.306 million from others. As of the end of December 2014, the market capitalization of these shares stood at KRW 7.69 trillion, which included KRW 6.63 trillion from KOSPI-listed companies, KRW 409.5 billion from KOSDAQ-listed companies, and KRW 646.9 billion from other companies. The ownership of ESOP shares was 1.3% for companies listed on the KOSPI, 0.9% for companies listed on the KOSDAQ, and 1.9% for other companies.



BREAKDOWN OF ESOA ESTABLISHMENT

(Unit: Number of companies, number of members)

Classification	FY2014 (As of Dec. 31, 2014)		FY2013 (As of Mar. 31, 2014)		FY2012 (As of Mar. 31, 2013)	
	ESOA	Member	ESOA	Member	ESOA	Member
KOSPI-listed Companies	653	906,717	675	884,958	682	877,894
KOSDAQ-listed Companies	779	114,444	812	116,440	825	111,490
Other Companies	1,274	235,718	1,512	258,173	1,426	239,105
Total	2,706	1,256,879	2,999	1,259,571	2,933	1,228,489

* Note: the statistics for market share and ranking are based on average balances in trust published by the Korea Financial Investment Association

BREAKDOWN OF ESOP SHARES DEPOSITED

(Unit: Number of companies, number of members, thousand shares, million won)

Classification	FY2014 (As of Dec. 31, 2014)				FY2013 (As of Mar. 31, 2014)				FY2012 (As of Mar. 31, 2013)			
	ESOA		Shares Deposited		ESOA		Shares Deposited		ESOA		Shares Deposited	
	ESOA	Member	Share	Cost	ESOA	Member	Share	Cost	ESOA	Member	Share	Cost
KOSPI-listed Companies	246	300,077	292,956	5,486,391	241	252,840	286,254	4,452,421	233	276,847	287,939	5,136,743
KOSDAQ-listed Companies	271	23,493	51,386	302,124	253	19,812	48,180	301,211	263	21,955	57,284	351,361
Other Companies	474	50,953	80,306	621,917	538	55,619	88,479	572,368	527	55,898	93,683	544,703
Total	991	374,523	424,648	6,410,432	1,032	328,271	422,914	5,326,001	1,023	354,700	438,906	6,032,808

Safekeeping and Management of Investors' Deposits

According to the Capital Markets Act, a financial investment company must separately deposit securities and derivatives investors' investment funds with KSFC, and the funds can either be deposited in a deposit account or a trust account.

In accordance with the Financial Investment Services and Capital Markets Act, the investment funds that investors entrust to financial investment companies for trading securities and derivatives must be deposited with KSFC. These funds can be managed either in a deposit account or in a trust account.

For deposit accounts, KSFC guarantees the return of the principal and pays the agreed interest. For trust accounts, however, the company does not guarantee the return of the principal while it pays dividends to the account holders each month based on the investment performance of their accounts.

In FY2014, the average balance of investor's deposits in trust accounts reached KRW 16.46 trillion, which included KRW 11.31 trillion of securities investor's deposits in trust, KRW 3.20 trillion of derivatives investor's deposits in trusts, and KRW 1.96 trillion of specified money trust. By the end of December 2014, investor's deposits in trust accounts accounted for 86.3% of total investor's deposits (86.5% as of the end of FY2013), which is the sum of investor's deposits in both deposit and trust accounts. Same as the previous year, 38 companies chose trust accounts for managing their investor's deposits while 21 companies chose deposit accounts.





Since deposits in trust must be managed safely while kept relatively liquid, the investment tools and eligible counterparties are strictly regulated by relevant laws. For security, some deposits in trust are managed using term deposits and MMDAs and are categorized as cash and bank deposits. The balance of cash and bank deposits related to deposits in trust reached KRW 12.10 trillion, accounting for 73.8% of total deposits in trust (74.0% in FY2013). The amount of investor's deposits invested in marketable securities reached KRW 4.21 trillion, accounting for 25.7% of the total (25.5% in FY2013).

CURRENT STATE OF INVESTOR'S DEPOSITS IN TRUST

(Unit: Million won, %, based on average balance)

Classification	FY2014	FY2013	FY2012
Investors' Deposit in Trust			
Securities Investors' Deposits	11,305,373	12,771,005	14,789,916
Derivatives Investors' Deposits	3,199,929	3,678,113	3,762,293
Specified Money Trust	1,958,049	2,062,796	2,029,105
Total	16,463,351	18,511,914	20,581,314
Management Performance			
Cash and Due from Banks	12,100,191 (73.8%)	13,622,552 (74.0%)	15,096,723 (73.8%)
Beneficiary Certificates	4,201,988 (25.6%)	4,695,556 (25.5%)	5,309,897 (26.0%)
Loans	735 (0.0%)	2,488 (0.0%)	1,245 (0.0%)
RP	76,302 (0.5%)	100,149 (0.5%)	36,012 (0.2%)
Total	16,385,877 (100%)	18,420,745 (100%)	20,443,877 (100%)
Number of Companies (As of end of FY)	38	38	39

Safekeeping and Management of Collective Investment Assets

Since June 2004, KSFC has been safely managing collective investment assets of collective investment schemes in accordance with relevant laws to protect investors.

Since June 2004, KSFC has been safely keeping and managing collective investment assets of collective investment schemes in accordance with relevant laws to protect investors.

Despite heightened competition, the average balance of custody assets in FY2014 reached KRW 61.99 trillion, which is a year-over-year increase of 13.7%. The company was able to increase its market share by 1.1% year-over-year to 14.8%, making it the number one player in the industry. Meanwhile, after being recognized for its reliability, KSFC was designated as the custodian of the public fund investment pool of the Ministry of Strategy and Finance on February 17, 2014.

CURRENT STATE OF TRUST BUSINESS

(Unit: Billion won)

Classification	FY2014	FY2013	FY2012
Trust Principal (Average Balance)	619,878	545,403	576,705
Market Share (Ranking)	14.82% (1)	13.70% (2)	15.49% (1)

* Note : The Statistics for market share and ranking are based on average balances in trust published by the Korea Financial Investment Association



Securities Intermediary Services

Securities borrowing and lending is the lending of securities to a borrower for his/her investment strategy or transaction settlement.

Through securities borrowing and lending (SBL), an institution can borrow securities and use them to implement its investment strategies or to settle its existing financial transactions. The lender in an SBL transaction receives an SBL fee. As an intermediary of SBL transactions, KSFC not only provides SBL-related brokerage and settlement services, but also oversees securities transfers, collateral management, and subrogated payments.

In FY2014, the average balance of securities borrowing and lending intermediation was KRW 19.80 trillion, which is a 3.4% decrease year-over-year. With the creation of the Money Market Intermediary Team in January 2014, KSFC launched various new businesses including RP brokerage and brokerage of electronic short-term bond issuing.

The average balance of stock borrowing and lending intermediation amounted to KRW 3.53 trillion, an increase of 21.0% year-over-year. The intermediation of KOSPI shares increased by 20.4% over the previous year to KRW 2.39 trillion, while that of KOSDAQ shares increased by 22.4% to KRW 1.15 trillion. The average balance of bond borrowing and lending intermediation decreased by 3.4% year-over-year to KRW 19.80 trillion. The intermediation of government bonds decreased by 4.5% to KRW 18.71 trillion while that of monetary stabilization bonds increased by 3.0% to KRW 866.3 billion. The intermediation of other bonds grew by 317.5% to KRW 226.3 billion. The average balance of RP intermediation increased by 37.6% over the previous year to KRW 6.09 trillion.

SBL AND RP INTERMEDIATIONS

(Unit: 100 million won, %, based on average balance)

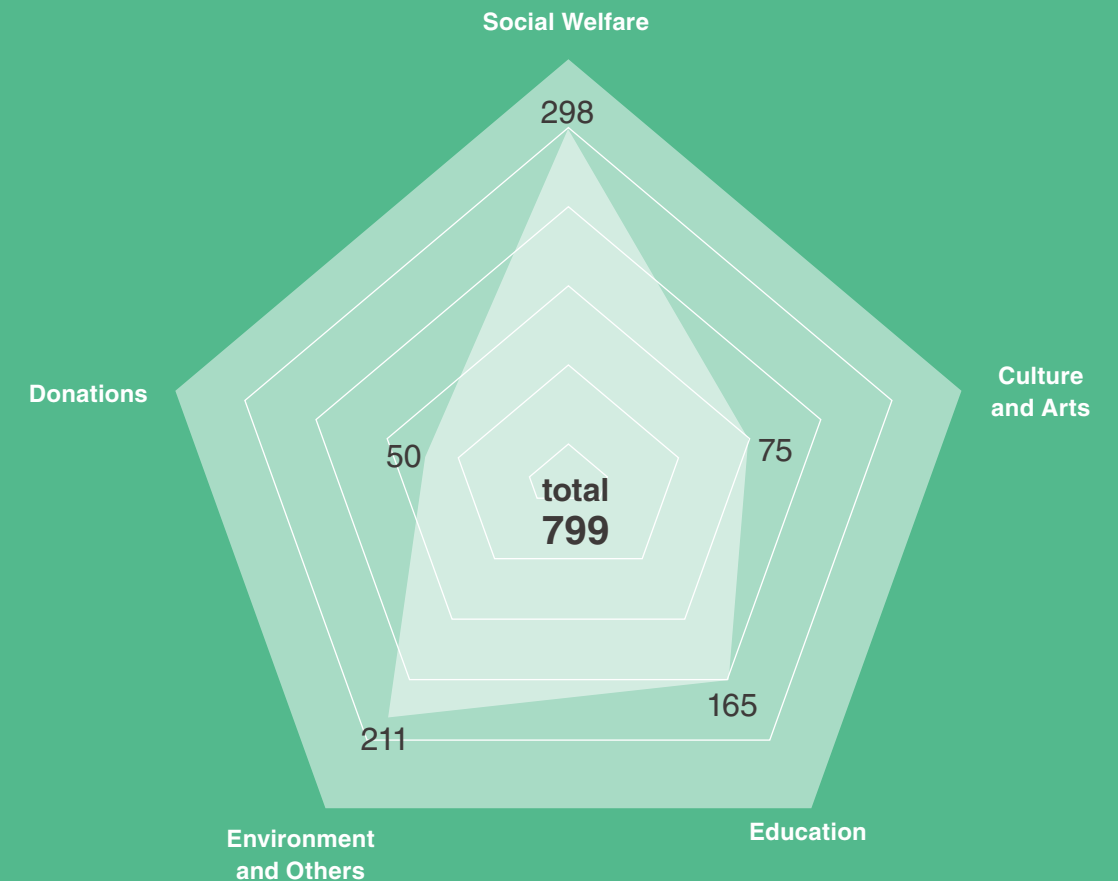
Classification		FY2014	FY2013	FY2012
① SBL Intermediation		233,302	234,069	188,461
Stocks	KOSPI	23,864 (67.6%)	19,822 (67.9%)	11,188 (75.2%)
	KOSDAQ	11,452 (32.4%)	9,353 (32.1%)	3,685 (24.8%)
	Total	35,316 (100.0%)	29,175 (100.0%)	14,873 (100.0%)
Bonds	Government Bonds	187,060 (94.5%)	195,942 (95.6%)	160,473 (92.4%)
	Monetary Stabilization Bonds	8,663 (4.4%)	8,410 (4.1%)	12,029 (6.9%)
	Other Bonds	2,263 (1.1%)	542 (0.3%)	1,086 (0.6%)
	Total	197,986 (100.0%)	204,894 (100.0%)	173,588 (100.0%)
② RP Intermediation		60,893	44,261	52,002

03

Sustainability Review

CSR ACTIVITIES

(FY 2014 / Unit: KRW in millions)



Corporate Social Responsibility

KEY AREAS OF SOCIAL CONTRIBUTIONS

SOCIAL WELFARE

We always stand shoulder to shoulder with our disadvantaged neighbors who live within the blind spots of the community such as infants, children, adolescents, women, the elderly, and the disabled.

ARTS AND CULTURE

We support the arts and cultural by promoting content creation and expanding their market base.

EDUCATION AND ACADEMICS

We support academic and educational organizations, while assisting with a range of programs for research and scholarships.

ENVIRONMENT

We take part in a variety of activities for disaster relief initiatives to preserve the beauty of nature and foster a safer community.



Our One Heart Volunteer Group continues to provide social contribution activities across a wide range of areas. We contribute to creating a better world by implementing socially responsible management.

SHARING LOVE FOR GREATER HAPPINESS

As a corporate citizen, we implement social responsible management. Through our practical and systematic social contribution activities, we are committed to giving back to our community what we have received from our customers and the market.

Our One Heart Volunteer Group participates in volunteer activities every month to give a helping hand where help it needed. We visit welfare centers and organizations such as the Mazzarello Center, Yeongdeungpo Regional Children Welfare Center, Dream Tree Village, and centers for multi-cultural families and the elderly. We also participate in activities that allow us to use our talents to help those in need. These activities include the briquette sharing, the kimchi sharing, and the free meal programs. In addition, we implement more systematic and efficient volunteer programs such the 1 city-1 village sisterhood program, through which we buy the agricultural produce of our sister village and deliver the produce to adolescents in institutional care and the elderly in welfare centers.

We also run a matching grant program with employees. Our employees donate a part of their salary every month and the company matches that amount to help people in need. This program was created through a long tradition of sharing with the less fortunate. The fund is used for supporting the daily activities and the welfare of disadvantaged children and adolescents.

We think we can achieve mutual growth by contributing to making a better world. Our sharing hope, love and happiness will pave the way to our goal.



VISION OF SOCIAL CONTRIBUTION

MISSION

Putting our socially responsible management principles into practice. (Sharing Hope, Sharing Love, Sharing Happiness)

CORE VALUE

We give back to our communities what we have received from our customers and the market. We contribute to making a better world by fulfilling our social responsibility as a corporate citizen. Through this, we will grow into a respected company.

SLOGAN

Sharing Love

We donate a portion of our profits to the community and put our socially responsible management principles into practice through our employees' charitable and volunteering activities. Through this, we pursue a world where we can live in harmony with our neighbors and share love.

Growing Happiness

We making sure that we provide practical support for beneficiaries so that our social contribution activities contribute to creating a better world where everyone lives a harmonious life.



KSFC Foundation

The KSFC Foundation proactively implements a range of social contribution programs with hopes of creating a brighter and friendlier world where people of all backgrounds can live a better life together.

KSFC FOUNDATION

The KSFC Foundation is the result of our wish to create a brighter and friendlier community. To give back to society the benefits received from the market, we established and launched a public welfare foundation in November 2013. The KSFC Foundation pursues three main strategic directions:

First, we provide credit recovery support to the financially marginalized.

This initiative provides a platform for people who have been marginalized due to credit issues from the economic and financial crisis in the 1990s and the 2000s. More specifically, we help people with bad credit in financing their legal costs that they need to bear to recover their credit.

Second, we provide scholarships and financial education programs.

The Foundation provides scholarships to underprivileged youths in order to end the cycle of poverty and to give them hope and a vision for the future so that they can become leaders of a brighter and healthier tomorrow.

Third, we supply social services for the disadvantaged in Korea and abroad.

The Foundation will support marginalized regions including underdeveloped countries, agricultural and fishing villages, and military bases in Korea and abroad. We will also pursue a variety of social welfare projects such as environmental improvement, as well as culture and arts sponsorship programs for the benefit of multicultural families, malnourished children, and marginalized people neglected by society so that they may pursue a better life.

We will not stop at establishing a public welfare foundation. We will make sure to provide long-term support to all of the volunteer programs of the Foundation so that they can be carried out smoothly. By planning and executing diverse social contribution programs that complement the purpose of the Foundation, we will continuously grow to become a trusted and respected company.

KEY ACTIVITIES OF THE KSFC FOUNDATION

CREDIT RECOVERY SUPPORT PROGRAM

We help to repair the credit of financially marginalized people to support their economic recovery and allow them to start again.

SCHOLARSHIPS AND FINANCIAL EDUCATION

We provide scholarships and financial education programs to low-income, disadvantaged youths to develop their talent and unlock their potential.

SOCIAL SERVICES

We create a bright and friendly community through social service programs for the disadvantaged in Korea and abroad.

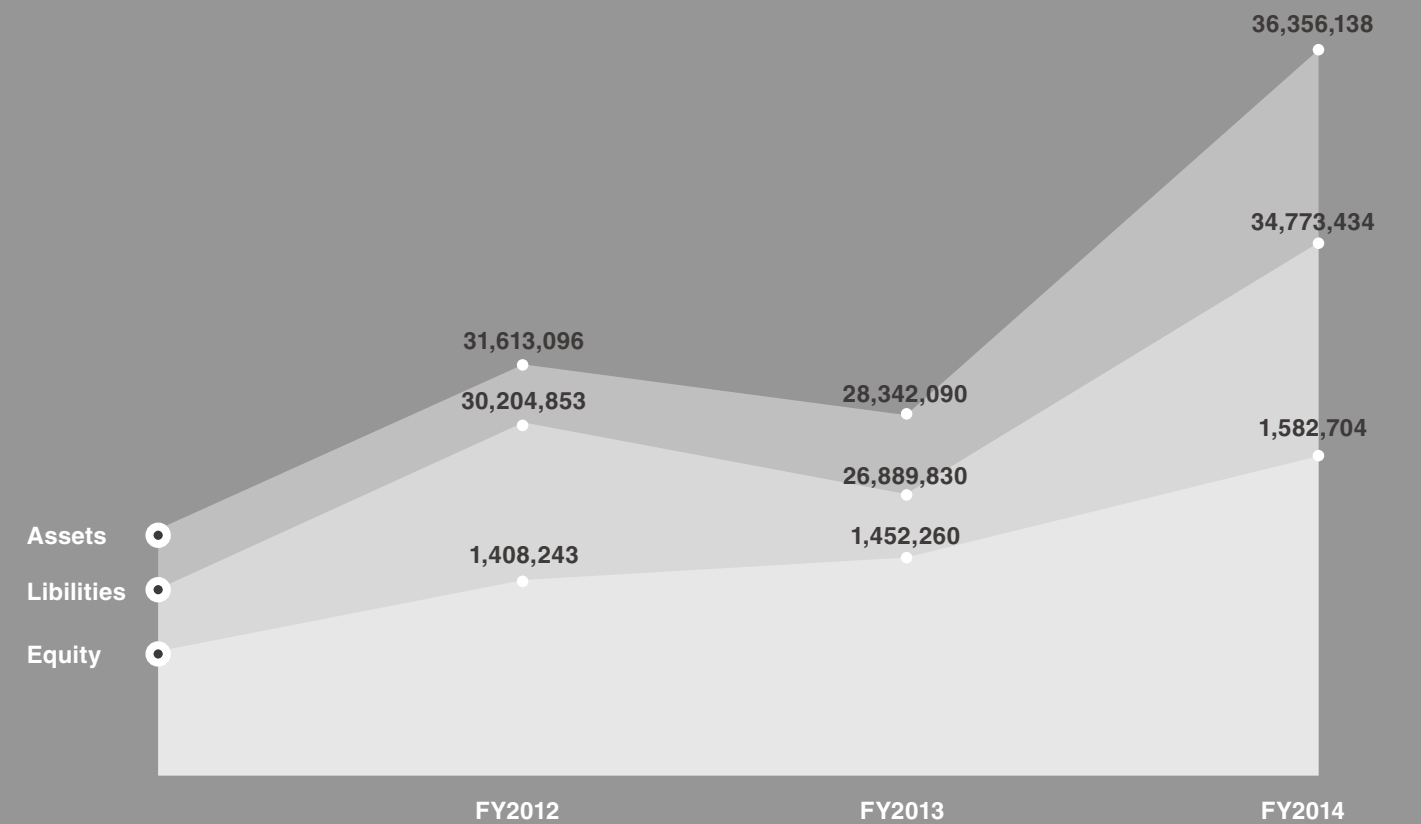


04

Financial Review

STATEMENT OF FINANCIAL POSITION

(Unit : KRW 100 million)



KOREA SECURITIES FINANCE CORP. AND SUBSIDIARIES

Consolidated Statements of Financial Position

As of December 31, 2014 and March 31, 2014

Korean won in millions		December 31, 2014		March 31, 2014	
Assets	Cash and due from banks	₩	12,211,344	₩	7,976,087
	Financial investments		11,239,539		10,378,783
	Derivative assets		1,097		1,338
	Loans		12,555,420		9,637,183
	Other assets:				
	Investments in associates		191,319		182,960
	Property, plant and equipment		28,958		27,655
	Intangible assets		7,773		10,805
	Prepaid expenses		6,258		11,782
	Accrued revenues receivable		99,184		98,441
	Investment assets		12,121		11,792
	Sundry assets		3,125		5,264
			348,738		348,699
	Total assets	₩	36,356,138	₩	28,342,090
Liabilities and equity	Liabilities				
	Depository liabilities	₩	27,358,692	₩	21,389,745
	Borrowings		5,164,115		4,213,716
	Bond payable		878,929		719,625
	Other liabilities:				
	Guarantee deposits		753,994		268,588
	Deposits for others		-		290
	Due to trust accounts		419,344		154,811
	Unearned revenues		1,250		823
	Accrued expenses payable		87,499		47,900
	Current tax liabilities		19,206		22,495
	Provisions		250		250
	Retirement benefit obligation		13,476		9,216
	Deferred tax liabilities		57,345		45,799
	Sundry liabilities		9,902		16,572
	Reclassification interest payment		9,432		-
			1,371,698		566,744
Total liabilities	₩	34,773,434	₩	26,889,830	

Korean won in millions		December 31, 2014		March 31, 2014	
	Owners' equity				
	Capital stock	₩	340,000	₩	340,000
	Capital surplus		21,767		21,767
	Capital adjustment		(7,700)		(7,700)
	Accumulated other comprehensive income		151,333		69,557
	Retained earnings		1,077,304		1,028,636
	(Regulatory reserve for credit losses: ₩50,964 million As of December 31, 2014 and ₩36,609 million As of March 31, 2014)				
	(Expected additional regulatory reserve for credit losses: ₩14,179 million As of December 31, 2014 and ₩14,355 million As of March 31, 2014)				
			1,582,704		1,452,260
	Non-controlling Interests		-		-
	Total equity		1,582,704		1,452,260
Total liabilities and equity	₩	36,356,138	₩	28,342,090	

KOREA SECURITIES FINANCE CORP. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the Years ended December 31, 2014 and March 31, 2014

Korean won In millions, except earnings per share amounts	December 31, 2014		March 31, 2014	
Operating income:				
Interest income				
Interest on due from banks	₩	223,151	₩	300,898
Interest on securities		158,278		229,817
Interest on loans		271,138		324,371
		652,567		855,086
Gain on valuation and sales of financial investments :				
Gain on sales of financial assets held for trading		88,569		83,680
Gain on valuation of financial assets held for trading		37,688		48,340
Gain on sales of financial assets designated at fair value through profit or loss		281		-
Gain on valuation of financial assets designated at fair value through profit or loss		916		1,347
Gain on sales of available-for-sale financial assets		5,455		12,962
Gain on redemption of financial liabilities held for trading		-		312
		132,909		146,641
Gain on derivative transactions :				
Gain on sales of derivatives		1,895		3,682
Gain on valuation of derivatives		538		272
		2,433		3,954
Transfer from allowance for credit losses		-		192
Gain on sales of loans		-		1,267
Commission received		59,438		87,040
Gain on foreign transactions		5,613		5,556
Trust fees and commissions received from trust accounts		11,795		18,180
Dividends income:				
Dividends income on financial assets held for trading		2,159		2,554
Dividends income on financial assets designated at fair value through profit or loss		-		1,199
Dividends income on available-for-sale financial assets		9,355		25,089
		11,514		28,842
Others		-		-
Total operating income	₩	876,269	₩	1,146,758

Korean won In millions, except earnings per share amounts	December 31, 2014		March 31, 2014	
Operating expenses:				
Interest expense:				
Interest on depository liabilities	₩	528,890	₩	646,840
Interest on borrowings and bond payable		39,553		46,159
Others		73,429		126,516
		641,872		819,515
Loss on valuation and disposal of securities:				
Loss on sales of financial assets held for trading		4,291		13,345
Loss on valuation of financial assets held for trading		1,143		3,488
Loss on valuation of financial assets designated at fair value through profit or loss		-		3
Loss on sales of available-for-sale financial assets		2,251		4,819
Impairment loss recognized on available-for-sale financial assets		4,429		-
Loss on redemption of financial liabilities held for trading		-		191
Loss on valuation of financial liabilities held for trading		4,291		-
		12,114		21,846
Loss on derivative transactions:				
Loss on sales of derivatives		514		3,950
Loss on valuation of derivatives		470		1,390
		984		5,340
Credit loss expenses		287		-
Commission expense		47,238		74,137
Loss on foreign transactions		5,614		5,559
Administrative expenses		56,030		75,904
Others		2,211		62
Total operating expenses	₩	766,350	₩	1,002,363
Operating profit	₩	109,919	₩	144,395

Korean won In millions, except earnings per share amounts	December 31, 2014		March 31, 2014	
Non-operating income (expenses):				
Gain on equity method valuation	₩	12,229	₩	11,819
Loss on equity method valuation		(2,992)		(518)
Gain on disposal of property, plant and equipment		6		-
Loss on disposal of property, plant and equipment		(41)		-
Other interest income		(2,417)		338
Donations		252		(3,912)
Others		393		(328)
		7,430		7,399
Net income before income tax expense		117,349		151,794
Income tax expenses		24,481		34,688
Net income		92,868		117,106
(Adjusted net income after regulatory reserve for credit losses: ₩102,751 million for the year ended December 31, 2014 and ₩143,801 million for the year ended March 31, 2014)				
Net income attributable to owner		92,868		117,106
Net income attributable to the non-controlling interests		-		-
Other comprehensive income (loss):				
Items that maybe reclassified subsequently to profit or loss		81,776		(42,248)
Total comprehensive income	₩	174,644	₩	74,858
Total comprehensive income attributable to owner		174,644		74,858
Total comprehensive income attributable to the non-controlling interests		-		-
Basic earnings per share	₩	1,366	₩	1,745

KOREA SECURITIES FINANCE CORP.

Separate Statements of Financial Position

As of December 31, 2014 and March 31, 2014

Korean won in millions		December 31, 2014		March 31, 2014	
Assets	Cash and due from banks	₩	12,211,204	₩	7,975,938
	Financial investments		11,429,133		10,611,709
	Derivative assets		1,066		583
	Loans		12,422,780		9,492,971
	Other assets:				
	Property, plant and equipment		28,958		27,655
	Intangible assets		7,773		10,805
	Prepaid expenses		3,604		10,225
	Accrued revenues receivable		95,458		93,647
	Investment assets		12,121		11,792
Sundry assets		2,935		5,264	
		150,849		159,388	
Total assets		₩ 36,215,032		₩ 28,240,589	
Liabilities and Shareholders' equity	Liabilities				
	Depository liabilities	₩	27,358,692	₩	21,389,745
	Borrowings		5,007,215		4,111,816
	Bond payable		878,929		719,625
	Other liabilities:				
	Guarantee deposits		753,994		268,588
	Deposits for others		-		290
	Due to trust accounts		421,340		156,066
	Unearned revenues		1,182		823
	Accrued expenses payable		87,322		47,812
	Current tax liabilities		19,206		22,495
	Provisions		250		250
	Retirement benefit obligation		13,476		9,216
Deferred tax liabilities		63,010		45,595	
Sundry liabilities		9,892		16,572	
		1,369,672		567,707	
Total liabilities		₩ 34,614,508		₩ 26,788,893	

Korean won in millions	December 31, 2014		March 31, 2014	
Shareholders' equity				
Capital stock	₩	340,000	₩	340,000
Capital surplus		21,767		21,767
Capital adjustment		(7,700)		(7,700)
Accumulated other comprehensive income		171,420		71,520
Retained earnings		1,075,037		1,026,109
(Regulatory reserve for credit losses: ₩50,964 million As of December 31, 2014 and ₩36,609 million As of March 31, 2014)				
(Expected additional regulatory reserve for credit losses: ₩14,179 million As of December 31, 2014 and ₩14,355 million As of March 31, 2014)				
Total equity	₩	1,600,524	₩	1,451,696
Total liabilities and equity	₩	36,215,032	₩	28,240,589

KOREA SECURITIES FINANCE CORP.

Separate Statements of Comprehensive Income

For the Years ended December 31, 2014 and March 31, 2014

Korean won in millions, except earnings per share amounts	December 31, 2014		March 31, 2014	
Operating income:				
Interest income:				
Interest on due from banks	₩	233,149	₩	300,895
Interest on securities		142,617		208,182
Interest on loans		263,849		314,156
		629,615		823,233
Gain on valuation and sales of financial investments :				
Gain on sales of financial assets held for trading		88,710		82,478
Gain on valuation of financial assets held for trading		43,543		55,622
Gain on sales of financial assets designated at fair value through profit or loss		281		16,330
Gain on sales of available-for-sale financial assets		8,130		
		140,664		154,430
Gain on derivative transactions:				
Gain on sales of derivatives		79		549
Gain on valuation of derivatives		538		25
		617		574
Transfer from allowance for credit losses		-		124
Commission received		59,438		87,040
Gain on foreign transactions		5,614		5,557
Trust fees and commissions received from trust account		11,795		18,180
Dividends income:				
Dividends income on financial assets held for trading		1,624		1,495
Dividends income on financial assets designated at fair value through profit or loss		-		1,199
Dividends income on available-for-sale financial assets		29,364		46,541
		30,988		49,235
Others		-		119
Total operating income	₩	878,731	₩	1,138,492

Korean won in millions, except earnings per share amounts	December 31, 2014		March 31, 2014	
Operating expenses:				
Interest expense:				
Interest on depository liabilities	₩	528,890	₩	646,841
Interest on borrowings and bond payable		39,553		46,158
Others		70,136		124,848
		638,579		817,847
Loss on valuation and sales of financial investments:				
Loss on sales of financial assets held for trading		2,747		5,305
Loss on valuation of financial assets held for trading		1,143		2,469
Loss on valuation of financial assets designated at fair value through profit or loss		-		3
Loss on sales of available-for-sale financial assets		2,119		4,982
Impairment loss recognized on available-for-sale financial assets		4,429		-
		10,438		12,759
Loss on derivative transactions:				
Loss on sales of derivatives		56		754
Loss on valuation of derivatives		54		609
Loss on hedged items		-		-
		110		1,363
Credit loss expenses		215		-
Commission expense		46,312		71,485
Loss on foreign transactions		5,614		5,558
Administrative expenses		56,031		75,904
Others		1,933		63
Total operating expenses	₩	759,232	₩	984,979
Operating profit		119,499		153,513

Korean won in millions, except earnings per share amounts	December 31, 2014		March 31, 2014	
Non-operating income (expenses):				
Gain on disposal of property, plant and equipment	₩	7	₩	-
Loss on disposal of property, plant and equipment		(41)		-
Other interest income		252		338
Donations		(2,417)		(3,912)
Others		393		(460)
		(1,806)		(4,034)
Net income before income tax expense		117,693		149,479
Income tax expense		24,565		34,128
Net income		93,128		115,351
(Adjusted net income after regulatory reserve for credit losses: ₩78,949 million for the nine months ended December 31, 2014 and ₩100,996 million for the year ended March 31, 2014)				
Other comprehensive income (loss):				
Items that may be reclassified subsequently to profit or loss		99,899		(43,549)
Total comprehensive income	₩	193,027	₩	71,802
Earnings per share	₩	1,370	₩	1,719

KOREA SECURITIES FINANCE CORP. AND SUBSIDIARIES

Consolid Statements of Changes in Shareholders Equity

For the Years ended December 31, 2014 and March 31, 2014

Korean won in millions	Capital stock	Capital surplus	Capital adjustment	Accumulated other comprehensive income	Retained earnings	Non-controlling interest	Total
April 1, 2013	₩ 340,000	₩ 21,767	₩ (10,158)	₩ 114,882	₩ 941,918	₩ -	₩ 1,408,409
Effect of changes in accounting policies	-	-	-	(3,077)	2,911	-	(166)
April 1, 2013 (Restated)	340,000	21,767	(10,158)	111,805	944,829	-	1,408,243
Dividends	-	-	-	-	(33,299)	-	(33,299)
Balance after appropriations	340,000	21,767	(10,158)	111,805	911,530	-	1,374,944
Loss on disposal of treasury stock	-	-	2,458	-	-	-	2,458
Net income	-	-	-	-	117,106	-	117,106
Loss on valuation of available- for-sale financial assets	-	-	-	(43,172)	-	-	(43,172)
Remeasurements of defined benefit plans	-	-	-	1,000	2	-	1,000
Negative capita change in equity method	-	-	-	(76)	-	-	(76)
March 31, 2014	₩ 340,000	₩ 21,767	₩ (7,700)	₩ 69,557	₩ 1,028,636	₩ -	₩1,452,260
April 1, 2014	₩ 340,000	₩ 21,767	₩ (7,700)	₩ 69,557	₩ 1,028,636	₩ -	₩1,452,260
Dividends	-	-	-	-	(44,200)	-	(44,200)
Balance after appropriations	340,000	21,767	(7,700)	69,557	984,436	-	1,408,060
Net income	-	-	-	-	92,868	-	92,868
Loss on valuation of available- for-sale financial assets	-	-	-	83,892	-	-	83,892
Remeasurements of defined benefit plans	-	-	-	(2,116)	-	-	(2,116)
December 31, 2014	₩ 340,000	₩ 21,767	₩ (7,700)	₩ 151,333	₩ 1,077,304	₩ -	₩1,582,704

KOREA SECURITIES FINANCE CORP. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Years ended December 31, 2014 and March 31, 2014

Korean won in millions	December 31, 2014		March 31, 2014
Cash flows from operating activities:			
Net income	₩	92,868	₩ 117,106
Adjustments to reconcile net income to net cash used in operating activities:			
Income tax expense		24,481	34,688
Interest expense (amortization of bond discount)		7,430	147
Interest income (amortization of available-for-sale financial assets)		5,551	11,019
Interest income (unwinding effect of allowance for credit losses)		(27)	(21)
Interest income (amortization of discount on present value of loans to employee)		(59)	(80)
Other interest incomwe (amortization of discount on present value of investment assets)		(115)	(146)
Net (gain) loss on valuation of financial assets held for trading		(36,545)	(44,852)
Net (gain) loss on sales of financial assets designated at fair value through profit or loss		(281)	-
Net (gain) loss on valuation of financial assets designated at fair value through profit or losses		(916)	(1,343)
Impairment loss recognized on available-for-sale financial assets		4,429	-
Net gain on sales of available-for-sale financial assets		(3,203)	(8,143)
Net (gain) loss on sales of derivatives		(1,381)	269
Net (gain) loss on valuation of derivatives		(68)	1,117
Net (gain) loss on sales of loans		-	(1,267)
Credit loss expense (transfer from allowance for credit losses)		287	(192)
Net gain on equity method valuation		(9,236)	(11,301)
Net (gain) loss on disposal of property, plant and equipment		34	-
Depreciation		1,335	2,674
Amortization		4,330	11,046

Korean won in millions	December 31, 2014		March 31, 2014	
Net gain on disposal of investment assets	₩	(270)	₩	(95)
Credit loss expenses for others		1,851		1
Post-employment benefit		2,056		2,726
Provision for allowance		-		250
Transfer from allowance		-		(6)
Miscellaneous loss		-		599
Net loss of reclassification interest payment		277		-
		(40)		(2,910)
Changes in assets and liabilities:				
Due from banks		521,289		1,515,629
Financial assets held for trading		(1,224,089)		1,713,336
Loans		(2,918,437)		(1,974,451)
Prepaid expenses		5,525		(3,518)
Accrued revenues receivable		(743)		39,534
Sundry assets		291		1,140
Depository Liabilities		5,968,946		(2,193,351)
Financial liabilities held for trading		-		(30,773)
Unearned revenues		428		286
Accrued expenses payable		39,600		(6,391)
Provisions		-		(58)
Post-employment benefit payment		(587)		(223)
Sundry liabilities		(6,543)		1,680
Income tax paid		2,385,680		(937,160)
		(42,334)		(27,552)
Net cash used in operating activities		2,436,174		(850,516)

Korean won in millions	December 31, 2014		March 31, 2014	
Cash flows from investing activities:				
Proceeds on sale of available-for-sale financial assets	₩	3,542,199	₩	5,047,673
Payments to acquire available-for-sale financial assets		(3,060,895)		(5,699,497)
Decrease of HTM financial assets		8,440		-
Payments to acquire financial assets held-to-maturity		-		(8,440)
Cash inflow due to derivatives contracts		2,204		645
Cash outflow due to derivative contracts		(514)		(1,144)
Proceeds on sale of investments in associates and others		48,577		34,035
Payments to acquire investments in associates		(47,700)		(74,633)
Proceeds from disposal of property, plant and equipment		8		9
Payments for property, plant and equipment		(2,681)		(1,604)
Payments for intangible assets		(1,298)		(5,183)
Proceeds from disposal of investments assets		1,668		4,043
Payments for investments assets		(1,753)		(2,468)
Net cash (used in) provided by investing activities		503,483		(706,564)
Cash flows from financing activities:				
Net payments for call money		(152,100)		(82,500)
Net proceeds from (payments for) securities sold under agreements to repurchase		1,202,498		(827,098)
Proceeds from borrowings		13,848,000		20,210,000
Payments for borrowings		(13,948,000)		(20,060,000)
Proceeds from issuance of bond payable		14,561,875		449,660
Payments for bond payable		(14,410,000)		(391,050)
Net payments for guarantee deposits		485,406		(408,442)
Net payments for supply and demand premium		-		-
Proceeds from deposits for others		(289)		290
Net proceeds from (payments for) due to trust accounts		264,532		34,490
Payments for cash dividends		(44,187)		(33,299)
Others		9,155		-
Net cash used in financing activities		1,816,890		(1,107,949)
Net (decrease) increase in cash and cash equivalents		4,756,546		(2,665,029)
Cash and cash equivalents, beginning of year		3,363,264		6,028,293
Cash and cash equivalents, end of year	₩	8,119,810	₩	3,363,264

Milestones

KSFC has worked and grew together with the market for the past 60 years, based a relationship of trust. Now we are ready to create a future of mutual growth as a reliable partner of the capital market.

- Oct. 1955** Established the Korea United Securities Finance Corporation (paid-in capital of KRW 7.5 million)
- Jan. 1956** Launched the business under a securities business license and listed it on the Seoul Stock Exchange
- Apr. 1962** Legally registered as a securities finance company with the enactment of the Securities Exchange Act

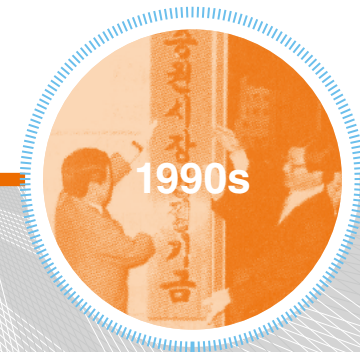
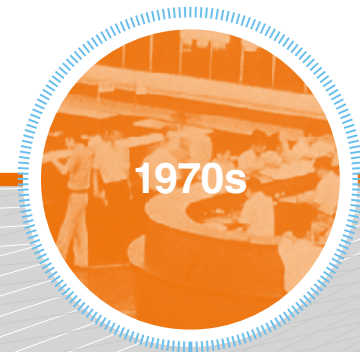
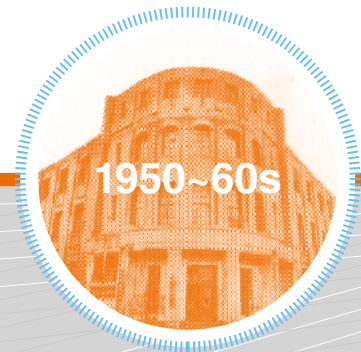
- Dec. 1971** Launched the settlement financing loan business with the introduction of margin trading
- Nov. 1973** Launched special securities-backed loan business to stabilize stock prices
- Mar. 1974** Launched the margin financing loan business with the integration of settlement financing loans and special securities-secured loans

- Mar. 1980** Opened the Myeong-dong branch
- Jul. 1982** Launched short-term notes trading business
- Apr. 1985** Built headquarters in Yeouido, Seoul, and relocated to the building
- Oct. 1985** Increased paid-in capital to KRW 40 billion

- Feb. 1990** Launched the IPO subscription deposit-backed loan business
- May. 1990** Launched the Stock Market Stabilization Fund (SMSF) deposit business
- Dec. 1991** Bought back the IFC's equity stake
- Oct. 1994** Opened the Daegu branch

- Aug. 2000** Increased paid-in capital to KRW 340 billion
- Dec. 2002** Launched the trust business for investor's deposits
- Jun. 2004** Launched the trustee and custodian business
- May. 2005** Opened the Center for Employee Stock Ownership

- Apr. 2010** Announced VISION 2015
- Jun. 2010** Built the next-generation IT system
- Apr. 2011** Launched the inter-dealer RP brokerage business
- Oct. 2011** Awarded with the Prime Minister's Merit Award for Sharing



- Jul. 1962** Renamed to Korea Securities Finance Corporation
- Feb. 1969** Increased paid-in capital to KRW 1 billion. Launched the securities borrowing and lending (SBL) business
- Mar. 1969** Launched the securities-backed loan business for individual customers
- May. 1969** Opened the Busan branch

- May. 1975** Increased paid-in capital to KRW 2 billion (12% equity stake owned by the IFC and USD 5 million worth of new borrowings)
- Jan. 1977** Accepted roles previously played by the Korea Investment Corporation before its dissolution (ESOP services, general securities-secured loans, etc.)
- Feb. 1977** Launched new services following the amendment of the Securities and Exchange Act (bond purchase under RP, bond sale under RP, issuance of short-term notes, and deposit services)
- Apr. 1978** Established the investor's deposit management business with the introduction of the centralized management system of investor's deposits

- Jul. 1986** Launched the IPO subscription deposit business
- Sep. 1987** Opened the Gangnam branch
- Dec. 1988** Increased paid-in capital to KRW 80 billion
- Oct. 1989** Opened the Gwangju branch

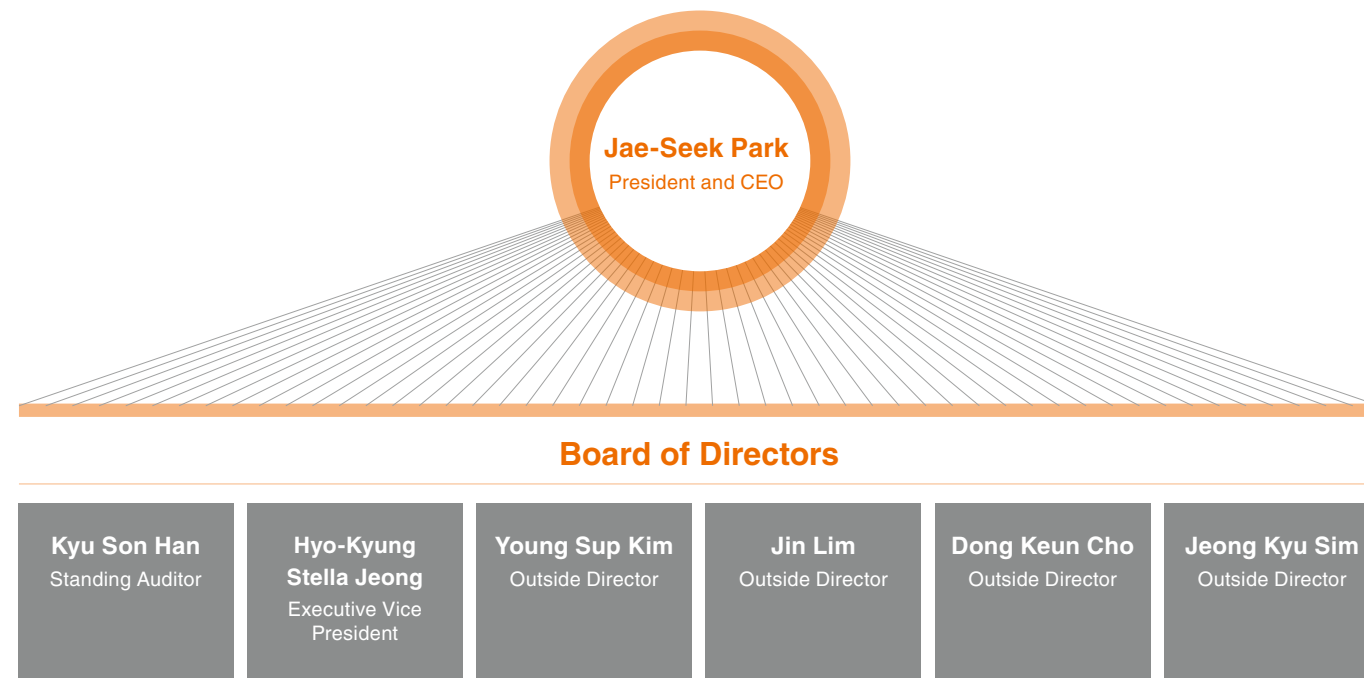
- Aug. 1996** Launched the forfeited share subscription deposit business and the forfeited share subscription deposit-backed loan business
- Oct. 1996** Opened the Daejeon branch
- Apr. 1997** Started managing the Securities Investor Protection Fund (SIPF) and launched the fund management business
- Oct. 1998** Issued non-real name corporate bonds worth KRW 2 trillion
- Jul. 1999** Changed the investor's deposit management business in accordance with the increased deposit requirement (100%)

- Sep. 2005** Obtained ISO 9001:2000 certification, an international quality management certification, for the securities custody business
- Apr. 2006** Obtained a AAA (outlook / stable) domestic credit rating
- May. 2007** Gained approval for the asset management business and the general administration business
- Jan. 2008** Resumed margin financing stock loans
- Jul. 2008** Obtained ISO 9001 certification for the ESOP business
- Jan. 2009** Awarded Grand Prize for Securities Industry Leader by Maeil Business Newspaper
- Jul. 2009** Launched the specific money in trust business

- Jan. 2012** Built the next-generation securities brokerage system
- Apr. 2012** Introduced K-IFRS (Korean version of International Financial Reporting Standards)
- Jan. 2013** Launched the corporate bond administration business
- Nov. 2013** Launched the inter-dealer brokerage business. Signed a Memorandum of Understanding (MoU) for Mutual Cooperation with China Securities Finance Corporation
- Nov. 2013** Established the KSFC Foundation
- Mar. 2014** Obtained a Aa3 international credit rating from Moody's
- Apr. 2014** Awarded with the 2014 Forbes Best CEO Award
- Feb. 2015** Signed MoUs for Mutual Cooperation with the Dubai Financial Market and Thailand Securities Finance Corporation
- Jul. 2015** Announced VISION 2020
- Sep. 2015** Started the administration of the private pension fund investment pool

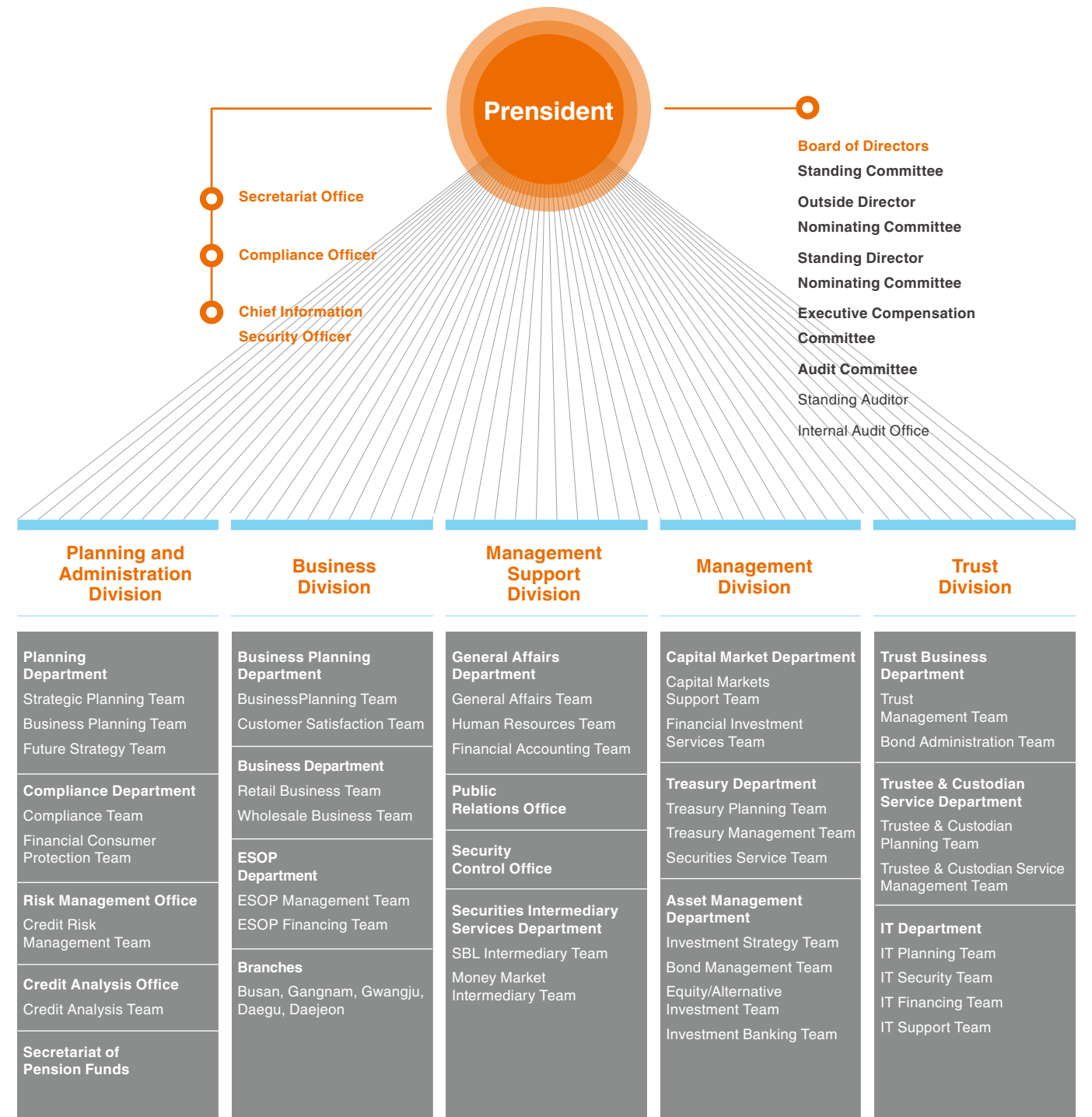
Board of Directors

We collaborate and share knowledge through seamless communication, while creating customer value through synergy optimization.

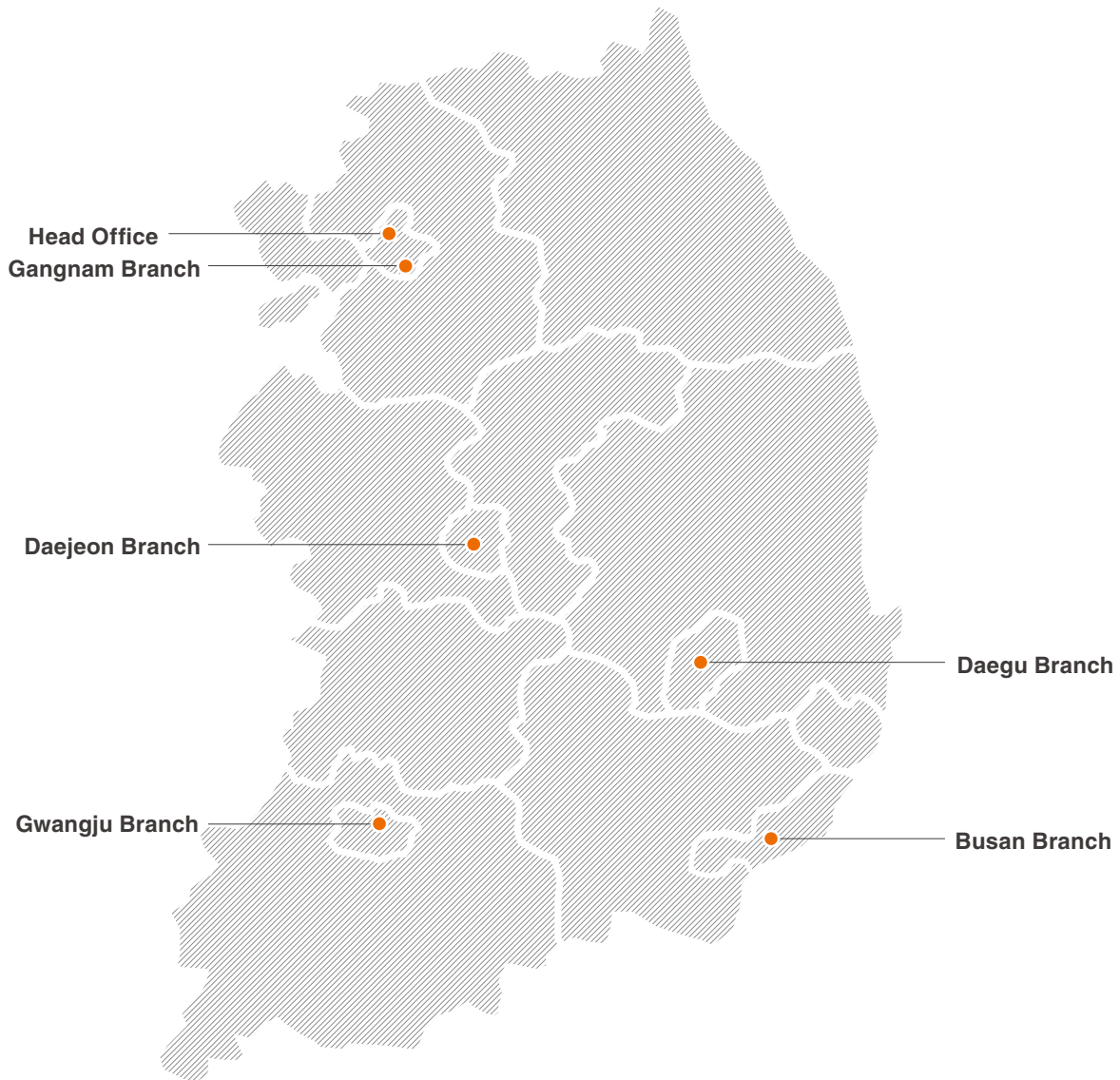


Organization

Our organization structure, which is strategically planned around KSFC's roles and functions, is the first component of our effective operation.



Business Network



Division	Phone Number	Address
Head Office	82-2-3770-8800	10, Gookjegeumyoong-ro 8-gil, Youngdeungpo-gu, Seoul, South Korea (34-9, Yeouido-dong)
Gangnam Branch	82-2-6934-0700	403, Gangnamdae-ro, Seocho-gu, Seoul, South Korea (1318-5, Seocho-dong)
Daejeon Branch	82-42-717-3000	69, Munye-ro, Seo-gu, Daejeon, South Korea (1508, Dunsan-dong)
Daegu Branch	82-53-717-0300	341, Dongdaegu-ro, Suseong-gu, Daegu, South Korea (43-8, Beomeo-dong)
Busan Branch	82-51-797-5000	709, Munhyeongeumyung-ro, Nam-gu, Busan, South Korea (1229-2, Munhyeon-dong)
Gwangju Branch	82-62-719-5100	52 Jukbong-daero, Seo-gu, Gwangju, South Korea (417-40 Nongseong-dong)