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Your Lifecycle Financial Partner Korea Housing Finance Corporation



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The Korea Housing Finance Corporation (KHFC) has already celebrated its fourth anniversary. The publication of our fourth annual report is not only a source of tremendous pride but a cause for us to make a new resolution. This feeling is particularly strong as KHFC achieved significant progress over the past year.

The year 2007 was significant to KHFC as it launched JooTaekYeonKeum (JTYK), a reverse mortgage product like those available in advanced countries, after two years of thorough preparation. With the launch of JTYK, KHFC established a "lifelong financial service" system true to its name that ranges from education and housing to retirement welfare.

Last year, KHFC faced a challenging environment characterized by instability in the international financial markets triggered by the sub-prime mortgage crisis in the U.S. and growing uncertainties in the Korean financial market represented by the rise in interest rates. Thanks to concerted efforts of its management and employees and support from the public, KHFC was able to weather the storm and accomplish remarkable achievements in every business area.

The increased supply of *bogeumjari* loans allowed KHFC to fulfill its role in encouraging private financial institutions to offer long-term and fixed-rate products and in advancing housing finance market in Korea. In the housing finance credit guarantee business, it strived to play a more important role by laying a solid foundation for financial independence through continual efforts to improve soundness and lowering guarantee fees through operational improvement. As a result, the supply of credit guarantees rose to a new record since the founding of KHFC.

Although JTYK was newly introduced, it performed far better than initially predicted, indicating that KHFC's newest business is setting in place quickly. The student loan credit guarantee business did much to expand opportunities for higher education to low-income households as the number of beneficiaries from low-income families increased.

In 2007, KHFC declared a new vision, "Lifecycle Financial Partner" and clarified its identity. In addition, we stayed ahead of others in management innovation as we introduced a matching HR system that focuses on competence and performance and completed a blueprint for reorganization.

Going forward, KHFC will do its best to answer the needs of the public, particularly low- and middle-income citizens, and fulfill our roles and responsibilities. Last but not least, we hope this annual report is helpful in raising your understanding of and trust in KHFC.

July 2008

Lim, Joo Jae
President & CEO
Korea Housing Finance Corporation

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#### Housing and Economy in 2007

## **General Economy**

In 2007, the Korean economy benefited from robust export growth and the continuing recovery in private consumption and facility investment. Real gross domestic product (GDP) rose 5.0%, about the same rate as in 2006.

Despite deteriorating trade conditions and meager improvement in employment, the recovery in private consumption continued from 2006, mostly in durable goods and non-durable goods, due to income growth and the wealth effect of rising equity prices. Facility investment showed high growth in the first half on strength in the machinery and transportation equipment industries. However, the annual growth rate remained at about the same level similar to 2006 owing to sluggishness in the semi-conductor industry in the second half. Construction investment reversed from last year's decline as investment in industrial and commercial buildings and civil works such as roads increased. Exports of industrial machinery, ships, and automobiles continued to rise.

The strength of the Korean won kept consumer prices relatively stable in the face of the sharply rising commodities prices, including oil. However, the deterioration of the terms of trade owing to the rising oil prices held the real gross national income (GNI) growth rate at only 3.9%, well below the real GDP growth rate.

In 2008, growing uncertainties in the external environment are likely to pose risks and affect the growth of the Korean economy. The Korean economy is expected to experience inflation and high downside risk as a result of the rising volatility in the international financial markets triggered by the U.S. sub-prime mortgage crisis and the deceleration of global economic growth due to the rising commodities prices.

#### **Economic Indicators**

(Unit: %)

	2005	2006	200-				
	2005	2006	2007	1Q	2Q	3Q	4Q
GDP	4.2	5.1	5.0	4.0	4.9	5.1	5.7
Private consumption	3.6	4.5	4.5	4.1	4.4	4.8	4.6
Facility investment	5.7	7.8	7.6	10.9	11.0	2.3	6.5
Construction investment	-0.2	-0.1	1.2	3.7	1.6	-0.1	0.4
Goods export	12.0	12.4	12.0	10.5	10.3	9.0	17.7
GNI	0.7	2.6	3.9	3.6	4.6	5.2	2.6

Note: All figures are year-on-year real growth rates, and the 2007 figures are estimates.

Source: The Bank of Korea

#### Housing and Economy in 2007

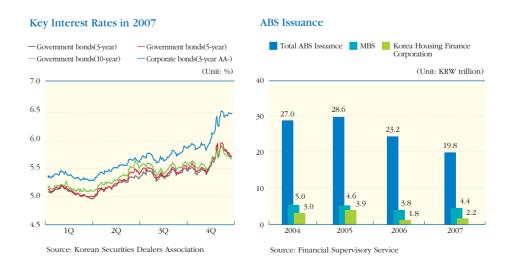
#### **Bond** market

In 2007, the yield on the benchmark five-year government bond rose to 5.76% by year-end, an increase of 76 basis points from the beginning of the year. This may be attributable to an imbalance in supply and demand, the Bank of Korea's tight monetary policy, and uncertainties in the swap market.

In the beginning of the year, the bond market was bearish as interest rates rose in the international financial market; however the interest rates turned downward by the end of the first quarter due to a flight to quality on fears of the sub-prime mortgage crisis in the U.S. and an economic recession. In the second quarter, the Financial Supervisory Service (FSS) restricted short-term foreign currency borrowings and foreign banks stepped aside in buying Korean bonds. Then, as the Bank of Korea suggested an increase in the target call rate, the bond yield began to go up. In the third quarter, the target call rate was increased by 0.25%p in July and again August, but its effect was offset by anticipation that the Bank of Korea would not be able to raise interest rates further and concerns that growing issuance of bank bonds and CDs would increase the interest rates on long-term bonds. As a result, the bond yield fluctuated within a limited range without significant change.

The bond yield, however, began to soar sharply in November. On November 29, the yield on the five-year government bond reached 6.09%, the highest in five years and four months. The surge may be attributable to an imbalance between supply and demand caused by a rising volume from continuing issuance of bank bonds and CDs and selling of government bond futures by foreign investors, which was aggravated by the instability in the swap market. The rise of the bond yield accelerated especially when investors who had anticipated more stable conditions in the swap market and bought government bonds for arbitrage trading of government bonds-currency swaps had to sell government bonds at their stop-loss prices as the swap market instability continued.

A total of KRW19.8 trillion in asset-backed securities (ABS), including mortgage-backed securities (MBS), was issued in Korea in 2007, a decline of 14.7% from 2006. It was attributed to the significant decrease of ABS issuance for real estate project financing with the slowdown in housing construction, which more than offset a 24.8% increase in issuance of KHFC MBS to KRW2.2 trillion.



## **Housing Market**

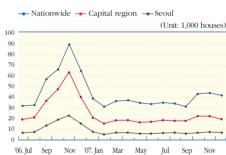
Unlike 2006, when housing prices skyrocketed, the housing market in 2007 was calm, although there were some signs of instability: the number of unsold houses soared sharply and there was a spate of bankruptcies of small and medium-sized construction firms.

The government announced additional measures to cool down the real estate market in the beginning of the year, including the imposition of a ceiling on pre-sale prices and restrictions on house-secured loans. In the financial market, interest rates went up. As a result of both these factors, housing prices in 2007 rose only 3.1%, which compared starkly with 11.6% in 2006. The rates of increase were down especially in the Gangnam area in Seoul and the capital region in general. House prices, however, rebounded in some areas such as the Seoul Gangbuk area and Incheon in anticipation of development projects and an easing in regulation after the presidential election.

#### House Price Increase Rate by Major Area

# 25.0 (Unit: %) 20.0 14.8 11.6 8.7 5.6 4.0 2.4 1.9 0.3 Nationwide Seoul Gangum Capital region Methoditan diss Others

#### **Apartment Transaction Volume**

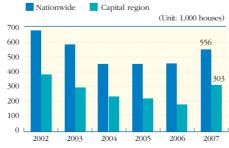


Note: The capital region includes Seoul, Incheon, and Gyeonggi. Others include all areas except for the capital region and metropolitan cities

Source: Ministry of Land, Transport and Maritime Affairs, Kookmin Bank

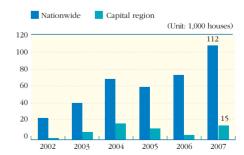
In 2007, a total of 555,792 housing units were built, an increase of 15.5% from the previous year. The numbers built in Seoul and the capital region rose by 58.3% and 81.8%, respectively, helping keep house prices more stable. The rise may be attributable to redevelopment and reconstruction projects in Seoul and the development of new suburban towns. However, the number of unsold newly built houses exceeded 100,000 for the first time since the financial crisis in the late 1990s. In the second half, the accumulation of unsold houses in provincial areas seemed to spread to the capital region, and the poor performance of the pre-sale housing market emerged as a threat to the overall housing market.

#### **Housing Units Built**



Note: The capital region includes Seoul, Incheon, and Gyeonggi Source: Ministry of Land, Transport and Maritime Affairs

#### Unsold Housing Units



#### Housing and Economy in 2007

## Housing Finance Market

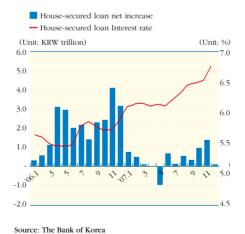
The housing finance market in 2007 was characterized primarily by soaring interest rates on house-secured loans and a slowdown in house-secured loan growth.

Owing to two rounds of target call rate increases by the Bank of Korea and tighter restrictions on loans by the supervisory authorities, the weighted average interest rate on house-secured loans offered by banks rose to 6.85% by the end of 2007, far above the 5.88% rate at the end of 2006 and the highest since March 2003.

The monthly average net increase in the volume of house-secured loans in the first half was only 6.9% over the same period of 2006. The growth has slowed significantly as a result of the stabilization in real estate prices and decline in housing transactions. However, as the growth rate accelerated somewhat in the second half due to the increase in collective partial payment loans in the capital region and seasonal demand, as of the end of 2007, the outstanding balance of house-secured loans totaled KRW221 trillion, an increase of KRW4 trillion compared to the end of the previous year.

In 2007, KHFC issued KRW3.6 trillion in *bogeumjari* loans, a 159% increase compared to the previous year. Origination in December totaled KRW451.2 billion, the highest monthly figure since March 2005. The surge in origination may be attributable to strong demand for KHFC's *bogeumjari* loan, a long-term, fixed-rate housing loan, due to rising market rates and growing concerns over interest rate volatility.

#### Commercial Bank House-Secured Loan Interest rate and Net Increase



## Bogeumjari Loan Interest Rate and Origination





# Operating and Business Performance



<sup>1</sup>\_ Securitization | 2\_ Housing Finance Credit Guarantees | 3\_ Reverse Mortgage Guarantees

#### Securitization

## Securitization





KHFC's securitization business was launched on March 17, 2004, when the business was transferred from the Korea Mortgage Corporation (KoMoCo). Its key responsibilities include issuance of the bogeumjari loan, a long-term and fixed-rate mortgage of KHFC, through partnerships with financial institutions; issuance of securities backed by mortgages and student loans transferred from these financial institutions; purchasing and holding bogeumjari loans; issuance of payment guarantees against MBS and SLBS issued by KHFC; granting credit to financial institutions for purchasing bogeumjari loans; and post-management of securitized assets and liabilities.

In fiscal year 2007, KHFC originated a total of KRW3.6 trillion in *bogeumjari* loans, helping some 42,179 households become home owners. Based on these loans, KHFC offered six issues of MBS totaling KRW2.2 trillion. In addition, KHFC provided KRW1.7 trillion in SLBS in four issuances using student loans as their underlying assets. By supplying MBS and SLBS to institutional investors, including banks, insurers, and pension funds, KHFC has been contributing to the growth of the long-term bond market in Korea.

## Supply of Bogeumjari Loans

The *bogeumjari* loan is the first long-term and fixed-rate installment housing loan product ever offered in Korea. In 2007, KHFC supplied KRW3.6 trillion in *bogeumjari* loans, a 157% increase from KRW1.4 trillion in 2006. Since its founding through 2007, KHFC provided KRW13.4 trillion in *bogeumjari* loans, to help 174,189 households become home owners. Despite an overall decline in sales of houses and demand for housing finance, KHFC had good performance in the supply of *bogeumjari* loans. It may be attributable to the public's affirmative recognition of long-term and fixed-rate housing loans, competitive interest rates, promotion of e-mortgage loans, development of new products, and proliferation of servicing institutions.

#### Monthly Origination of Bogeumjari Loans in 2007



By region, Gyeonggi Province accounted for the largest share of *bogeumjari* loans issued, with KRW1.4 trillion, followed by Seoul with KRW878 billion and Incheon with KRW357 billion. Hence, the capital region accounted for KRW2.7 trillion, or 74% of the total issuance nationwide. Including metropolitan cities in relevant regions, the Yeongnam region represented KRW547 billion, Chungcheong region KRW234 billion, and Honam region KRW118 billion. These figures roughly corresponded with the nationwide distributions of the population and housing.

Bogeumjari Loan Origination by Region in 2007

(Unit: KRW billion, No. of loans, %)

	Gyeong -gi	Seoul	In- cheon	Bu -san	Gyeong -nam	Chung -nam	Dae -gu	Ulsan	Dae- jeon	Gwang -ju	Chung -buk	Jeon -buk	Gyeong -buk	Gang -won	Jeon - nam	Jeju	Total
Amount	1,432 (39.8)	878 (24.4)	357 (9.9)	190 (5.3)	115 (3.2)	111 (3.1)	111 (3.1)	92 (2.6)	75 (2.1)	53 (1.5)	48 (1.3)	47 (1.3)	39 (1.1)	24 (0.7)	18 (0.5)	5 (0.1)	3,595 (100.0)
No. of loans	15,195 (36.0)	7,471 (17.7)	4,220 (10.0)	2,795 (6.6)	2,103 (5.0)	1,714 (4.1)	1,625 (3.9)	1,562 (3.7)	1,031 (2.4)	1,106 (2.6)	815 (1.9)	923 (2.2)	753 (1.8)	421 (1.0)	369 (0.9)	76 (0.2)	42,179 (100.0)

Note: Figures in ( ) represent percentages of total

In an effort to expand servicing by non-bank institutions, KHFC selected Hungkuk Life Insurance as a new partner and signed a working agreement on October 1, 2007. As of the end of 2007, bogeumjari loans were available through 21 financial institutions: 15 banks, five insurers, and one loan company. The top three bogeumjari loan issuing financial institutions, including Hana Bank, accounted for KRW2.5 trillion, or 70% of the total amount in 2007.



#### Securitization

Bogeumjari Loan Origination by Financial Institutions in 2007

(Unit: KRW billion, No. of loans, %)

	Hana Bank	KB	Woori Bank	Samsung Life	NACF	SCFB	KEB	IBK	Others	Total
Amount	1,666	519	316	258	185	168	111	80	292	3,595
	(46.3)	(14.4)	(8.8)	(7.2)	(5.1)	(4.7)	(3.1)	(2.2)	(8.1)	(100.0)
No.	18,068	5,760	4,046	2,926	2,904	1,854	1,458	947	4,216	42,179
of loans	(42.8)	(13.7)	(9.6)	(6.9)	(6.9)	(4.4)	(3.5)	(2.2)	(10.0)	(100.0)

Note: Figures in ( ) represent percentages of total

#### **Issuance of MBS**

MBS issued by KHFC is a beneficiary certificate with its payment guaranteed by KHFC. Its underlying assets are *bogeumjari* loans transferred from the financial institutions that had sold them according to the transfer criteria agreed with KHFC in advance. KHFC MBS is listed on the bond market division of the Korea Exchange and traded like regular bonds. KHFC issued senior MBS in eight different maturities (one, two, three, five, seven, ten, fifteen, or twenty-year) and 21-year maturity junior MBS.

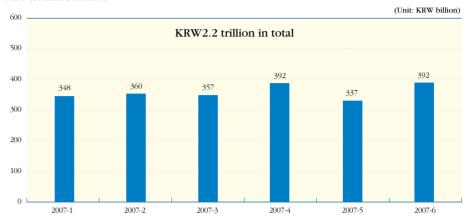
The yield on KHFC MBS is determined by the spreads against the benchmark government bond yield. The spreads had narrowed as a result of the rising investor confidence in KHFC and the improvement of MBS circulation.

Weighted Average Spread of MBS against Benchmark Five-year Government Bond



In 2007, KHFC offered KRW2.2 trillion in senior MBS in six separate issues. By maturity, five-year maturity MBS totaled KRW470 billion, accounting for the largest share (22%) of MBS issued for the year. MBS with seven-year maturity or longer accounted for 40%. From its founding through the end of 2007, KHFC issued KRW10.8 trillion in senior MBS, out of which 53% (KRW5.7 trillion) was long-term MBS with maturities of seven years or over. KHFC not only helped promote the long-term bond market but also fulfilled its role in raising funds for long-term housing finance.

#### MBS Issuance in 2007



Note: Issuance of junior MBS not included

The financial institutions investing in KHFC MBS issued in 2007 were banks, insurers, pension funds, investment trust companies, and securities firms. Among them, insurers invested KRW797 billion and accounted for the largest share, followed by banks with KRW625 billion.

#### MBS Investment by Maturity and Investing Institution in 2007

(Unit: KRW billion, %)

Institution	1-year	2-year	3-year	5-year	7-year	10-year	15-year	20-year	Total
Insurers	67	50	50	115	240	130	90	55	797(36)
Banks	20	140	160	205	100	0	0	0	625(29)
Securities firms	128	116	65	150	10	15	0	0	484(22)
Pension funds	0	0	0	0	30	145	55	0	230(11)
Investment trusts	10	20	20	0	0	0	0	0	50(2)
Total	225(10)	326(15)	295(13)	470(22)	380(17)	290(13)	145(7)	55(3)	2,186(100)

Note: 1) Figures in ( ) represent percentages of total  $\,$ 

2) Insurance accounts in banks were classified as insurance



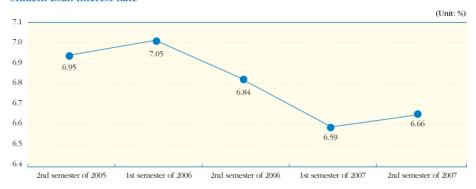
#### Securitization

#### **Issuance of SLBS**

KHFC issued its first SLBS in the second half of 2005. SLBS issued by KHFC is a beneficiary certificate with its payment guaranteed by KHFC. Its underlying assets are student loans transferred from financial institutions that have issued student loans guaranteed by the Student Loan Credit Guarantee Fund (90% guaranteed). Just like MBS, KHFC SLBS is traded in the form of regular bonds. KHFC applies the same issuance structure as MBS: it currently issues senior SLBS in eight different maturities (one, two, three, five, seven, ten, fifteen or twenty-year) and 21-year maturity junior SLBS.

Through the issuance of SLBS, KHFC raises funds for student loans from the capital market, which allows for extension of the repayment period of student loans from 14 years to 20 years and makes student loans available for many more students. Compared to the previous system, in which the interest rate differentials were covered by the government, it made the student loan policy much more effective. KHFC also helped stabilize the interest rates on student loans by improving the issuance structure and incorporating profit from securitization.

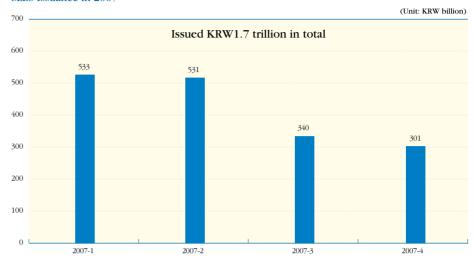
#### Student Loan Interest Rate



In 2007, KHFC offered KRW1.7 trillion in senior SLBS in four separate issues. By maturity, tenyear maturity SLBS totaled KRW440 billion, accounting for the largest share (26%) of SLBS issued for the year. SLBS with seven-year maturity or longer accounted for 58%. From the second half of 2005 through the end of 2007, KHFC issued SLBS totaling KRW3.6 trillion and helped about 1.3 million university students obtain student loans. In this way, KHFC made a major contribution toward realizing educational opportunities for all deserving students and promoting the long-term bond market.

The institutions investing in KHFC SLBS issued in 2007 were banks, insurers, pension funds, investment trust companies, and securities firms. Banks accounted for KRW571 billion, insurers KRW541 billion, and pension funds KRW500 billion.

#### SLBS Issuance in 2007



Note: Issuance of junior SLBS not included

#### SLBS Investment by Maturity and Investing Institution in 2007

(Unit: KRW billion, %)

								(	at w Dimon, 70)
Institution	1-year	2-year	3-year	5-year	7-year	10-year	15-year	20-year	Total
Banks	46	165	100	200	60	0	0	0	571(34)
Insurers	11	0	40	40	105	160	155	30	541(32)
Pension funds	0	0	0	30	110	280	80	0	500(29)
Investment trusts	33	0	20	0	0	0	0	0	53(3)
Securi- ties firms	10	0	25	5	0	0	0	0	40(2)
Total	100(6)	165(9)	185(11)	275(16)	275(16)	440(26)	235(14)	30(2)	1,705(100)

Note: 1) Figures in ( ) represent percentages of total 2) Insurance accounts in banks were classified as insurance



#### Securitization

## Post Management

As of the end of 2007, the securitized assets of KHFC totaled KRW12.4 trillion: KRW8.9 trillion in *bogeumjari* loans and KRW3.5 trillion in student loans. Cash assets raised through regular or early repayment of the principal and interest amounted to KRW2.0 trillion. Asset-backed securities issued by KHFC totaled KRW13.3 trillion: KRW9.6 trillion in MBS and KRW3.7 trillion in SLBS.

#### Securitized Assets and Liabilities as of the End of 2007

(Unit: No. of pools, No. of accounts, KRW billion)

	No. of	Secur	itized assets	Cash assets	ABS	
	Trust pool	No. of accounts	Outstanding loan balance	Casii assets	ADS	
Bogeumjari loans*	35	209,668	8,870	1,847	9,619	
Student loans	9	1,128,393	3,521	188	3,661	
Total	44	1,338,061	12,391	2,035	13,280	

<sup>\*</sup> Including KRW785 billion in purchase holdings

The repayment of securitized assets soared from KRW309 billion in 2004 to KRW1.8 trillion in 2006, but slipped slightly to KRW1.7 trillion in 2007. While the repayment amount of student loans is relatively minimal compared to *bogeumjari* loans, the repayment of *bogeumjari* loans rose significantly each year due to the rising prepayment and short grace periods. However, in 2007, the repayment of *bogeumjari* loans decreased by 17% as a result of an increase in interest rates on house-secured loans by commercial banks in the second half.

Prepayment, which greatly affects the cash flow of securitized assets, increased sharply from KRW236 billion in 2004 to KRW1.4 trillion in 2006 but declined somewhat in 2007. The prepayment rate of *bogeumjari* loans rose steadily from 0.68% in December 2004 to 2.06% in December 2006 and then plummeted to 0.97% in December 2007. This may be attributable to tighter restrictions on house-secured loans and the interest rate hikes by commercial banks.



Since its founding, KHFC issued KRW17.6 trillion in bond-type beneficiary certificates, including KRW13.7 trillion in MBS (including KRW2.9 trillion issued by and transferred from KoMoCo) and KRW3.9 trillion in SLBS. Repayment totaled KRW4.3 trillion, and the outstanding balance of ABS as of the end of 2007 was KRW13.3 trillion.

#### Issuance and Repayment of ABS as of the end of 2007

(Unit: KRW billion)

	Cumulative	R	Repayment details					
	issuance	Repayment at maturity	Prepayment (Call option)	Total	Balance			
MBS	13,695	2,183	1,893	4,076	9,619			
SLBS	3,865	204	-	204	3,661			
Total	17,560	2,387	1,893	4,280	13,280			



#### **Housing Finance Credit Guarantees**

## Housing Finance Credit Guarantees





The Housing Finance Credit Guarantee Fund (HFCGF) was established in 1988 to improve the welfare of the public and contribute to economic development through housing finance. By the end of 2007, HFCGF provided a total of KRW95 trillion in credit guarantees to 5,890,000 households and greatly improved housing conditions for low-income households.

In 2007, the public function of HFCGF was improved to allow low-income households to obtain better housing as the self-sustaining financial base of the HFCGF was solidified through continual business innovation. To ensure the success of the HFCGF Innovation Plan (a mid-term innovation roadmap presented to the National Assembly in February 2006), initiatives in 2007 focused on increasing support to low-income earners to obtain housing, reducing asset degeneration and improving asset quality, and solidifying the self-sustaining financial foundation. As a result, over KRW5 trillion was supplied in credit guarantees, the highest volume since the founding of KHFC. In addition, the asset degeneration, which increased on a net basis by KRW11 billion in 2006, reversed and showed a net decrease in 2007. Furthermore, owing to the improvement of the financial institution contribution program and systematic management of loans, HFCGF's financial base will be viable without government contributions after 2008.

## **Fund Raising**

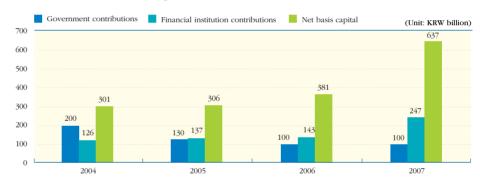
The Guarantee Fund is financed by contributions from the government, financial institutions, guarantee fee income, realization of claims against indemnity rights, returns from fund investment, and loans from government, financial institutions, and international organizations. In 2007, contributions totaled KRW914 billion, including KRW100 billion from the government, KRW247 billion from financial institutions, and KRW70 billion in guarantee fee income.

In May 2007, the KHFC Act enforcement rules were amended to improve the efficiency of the financial institution contribution system. This not only minimized the government's financial burden but also reduced the guarantee fee rates to relieve financial duress on low-income households.

# Basis Capital and Operating Multiples

The basis capital constitutes contributions from the government and financial institutions. A sum of these contributions and retained earnings is used to finance credit guarantees. In 2007, thanks to the significant net decrease in degeneration and increased contributions from financial institutions, net basis capital rose 67% to KRW637 billion.

#### Contributions and Net Basis Capital



The operating multiple is an indicator of the soundness of the credit guarantee operations. The operating multiple of the HFCGF is legally capped at 30 times the sum of the net basis capital and the loan payables. The multiple dropped to 11.0 times in 2007, the lowest level since 2000.

#### Operating Multiple by Year

	2004	2005	2006	2007
Operating multiple	22.1	17.6	14.4	11.0

## Issuance of Credit Guarantees

The basic purpose of credit guarantees in 2007 was to increase support to low-income households to obtain housing by expanding guarantee issuance. To this end, all-out efforts were made to maximize the public function of the Guarantee Fund by making guarantee products more competitive and stepping up marketing of credit guarantees. Despite a recession in the overall housing market, issuance of housing finance guarantees rose by KRW968 billion to a total of KRW5.1 trillion. Moreover, 88% of the total issuance, or KRW4.5 trillion, was used to support households, with the highest priority on making housing accessible to low-income families.

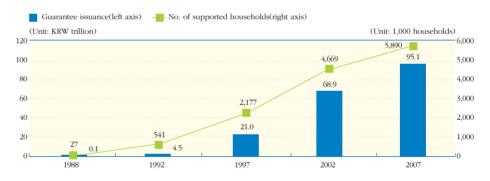
#### **Housing Finance Credit Guarantees**

Credit Guarantee Performance Since the Founding of KHFC



Since its establishment in 1988 through 2007, HFCGF provided a total of KRW69.4 trillion in credit guarantees to 3,640,000 common households. The fund also issued KRW25.7 trillion in guarantees to home builders for 2,250,000 housing units to make housing more available to low-income earners and provide more funding to small and medium-sized home builders.

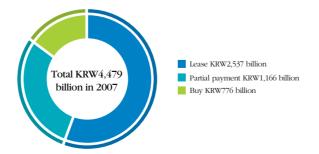
Credit Guarantee Performance Since the Founding of HFCGF



In 2007, credit guarantees on lease loans, a common means of financing for low-income households, totaled KRW2.5 trillion, or 50% of total guarantee issuance. Continual improvement of the credit scoring system has enabled better screening, which in turn has allowed for higher limits on lease loans and made more households eligible for them.

Credit guarantees issued on partial payments increased during the year by KRW364 billion to KRW1.2 trillion despite weakening of the guarantee issuance foundation due to government restrictions on LTV and the introduction of a post-construction sale system. The increase may have been a result of the promotion of new tailored products and proactive marketing.

Credit Guarantee Issuance for Household by Guarantee Type



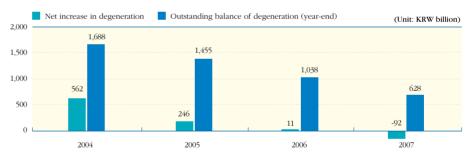
Although the construction of rental homes declined owing to the slowdown in the construction industry and deteriorating profitability, the issuance of guarantees to home builders for project financing increased in line with the government's introduction of the post-construction sale system. A total of KRW610 billion, an increase of KRW76 billion from the previous year, was issued in credit guarantees, helping to ease the capital shortage of small and medium-sized home builders.

## Post Management

Risk management initiatives, including on-going improvement of the screening systems and introduction of a target net increase rate of degeneration, caused the degeneration rate to decline for three consecutive years. The year 2007 saw an especially sharp decrease in degeneration of KRW92 billion, indicating the establishment of a robust guarantee issuance system.

When KHFC was founded in 2004, the outstanding balance of degeneration totaled about KRW1.7 trillion owing to the after-effects of the foreign currency crisis in the late 1990s. However, KHFC managed to reduce the outstanding balance to KRW0.6 trillion by the end of 2007 by proactive efforts for degeneration normalization and timely subrogation. KHFC made itself more financially independent as it can now completely cover subrogation with contributions from financial institutions.

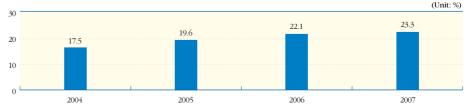
#### Net Increase in Degeneration\* and Outstanding Balance of Degeneration



<sup>\*</sup> Net increase in degeneration = Degeneration - normalization

In 2007, the loan collection environment and the debt service capacity of low-income borrowers both deteriorated. More borrowers became bankrupt or exempted, and income disparity widened. KHFC focused on managing the numerous small-amount claims by setting up an additional collection management center and built a loan management system for systematic loan collection. It also launched two special campaigns for recovery to help improve the financial condition of HFCGF, and indemnity rights totaling KRW123 billion were recovered.

#### Cumulative Recovery Rate of Indemnity Rights



<sup>\*</sup> Cumulative recovery rate: (Since the founding of HFCGF in 1988) Total recovery/total subrogation X 100

#### Reverse Mortgage Guarantees

## Reverse Mortgage Guarantees





JooTaekYeonKeum (JTYK) is a reverse mortgage scheme launched by KHFC on July 12, 2007. It allows senior citizens to put up their homes as security and receive monthly pensions from financial institutions. This program assures financial and housing security to senior citizens who own houses but lack cash income.

KHFC has so far issued KRW4.4 billion in reverse mortgage guarantees to 515 senior citizens. Its initial success indicates that these guarantees should do much to alleviate financial insecurity for senior citizens and ease the government's financial burden.

## **Product Design**

JTYK has two basic features: 1) senior citizens can receive monthly payments throughout their lives while living in their houses and 2) borrowers have an option to set aside up to 30% of their loan limit and withdraw it at any time for unexpected contingencies such as medical expenses.

From the standpoint of KHFC, JTYK has three major risks. The first is house price volatility risk. It occurs if housing prices do not rise as much as expected by KHFC. The second is interest rate volatility risk, which occurs if the interest rate on loans is higher than forecasted by KHFC. Third, there is longevity risk. This risk occurs if borrowers live longer than expected by KHFC. KHFC underwrites these risks from financial institutions through public guarantees, and instead of simply underwriting them, it designed a model to calculate optimal monthly payouts under a principle of balance of earnings and expenditures based on reasonable assumptions.

## **Fund Raising**

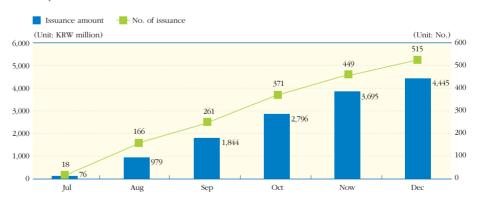
With the amendment of the KHFC Act in April 2007, Reverse Mortgage Guarantee Accounts were set up within the Housing Finance Credit Guarantee Fund and a financial base for the business was secured.

Basic funds required in the beginning to conduct the business will be raised through government contributions. Then, reserves for possible subrogation in the future will be covered with guarantee fees paid by borrowers and contributions from the government and financial institutions. In 2007, the first year in the business, net basis capital of KRW10.6 billion was raised through government contributions (KRW10 billion), financial institution contributions, and retained earnings.

#### **Issuance**

JTYK made a smooth entry into the market because it meets the needs of senior citizens in terms of product suitability, user-friendliness, and product simplicity. Since its launch in July 2007 through the end of 2007, KHFC issued JTYK guarantees of KRW4.4 billion to 515 senior citizens.

#### Monthly Cumulative Guarantee Issuance in 2007



## **Expected Benefits**

JTYK ensures housing stability and financial security for senior citizens. It enables the government to provide a social safety net for senior citizens at minimal cost. In addition, the equity in houses is liquidated into cash, which encourages consumption by senior citizens and eases the pressure on younger people to save for retirement. Overall, it should have stimulative economic effect by increasing consumption, investment, and employment.

#### Student Loan Credit Guarantees

## Student Loan Credit Guarantees





The Student Loan Credit Guarantee Fund (SLCGF) was established in August 2005 to assure equal opportunities for higher education, promote education at institutions of higher education based on competence and responsibility, and improve the effectiveness of financing for higher education.

In 2007, KHFC issued student loan credit guarantees totaling KRW1.9 trillion to 615,000 students. Compared to 2006, the number of beneficiaries and amount increased by 20% and 31%, respectively. The number of beneficiaries of interest-free or low interest-bearing student loans for low-income households increased sharply from 82,000 in 2006 to 169,000 in 2007. These figures indicate that KHFC has fully realized the objective of SLCGF: to allow any able and determined person to pursue higher education.

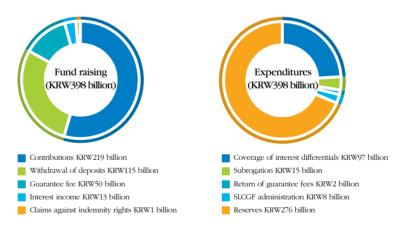
## Fund Raising and Operation

The Student Loan Credit Guarantee Fund is financed by contributions from the government and non-government parties, guarantee fee income, realization of claims against indemnity rights, returns from fund investment, loans from funds managed or invested in by the government, and other sources designated by the presidential decree to finance the SLCGF.

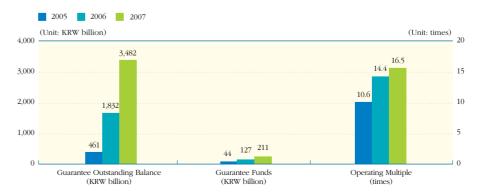
In 2007, funds raised totaled KRW398 billion, an increase of 30% from KRW305 billion in 2006. These funds included KRW219 billion from the government, KRW115 billion from withdrawal of deposits, KRW50 billion from guarantee fee income, KRW13 billion in interest income, and KRW1 billion from claims against indemnity rights. Expenditures included KRW97 billion to cover interest differentials, KRW15 billion for subrogation, KRW2 billion for return of guarantee fees, and KRW8 billion for SLCGF administration. Reserves of KRW276 billion were deposited with financial institutions.

The guarantee funds total about KRW211 billion after deducting the deficit (KRW13 billion) from the outstanding balance of government contributions for credit guarantee (KRW224), a 66% increase from KRW127 billion in 2006. However, the operation multiple soared to 16.5 times as credit guarantee issuance increased and the guarantee outstanding balance surged to KRW3.5 trillion.

Fund Raising and Operation in 2007



#### Guarantee Outstanding Balance, Guarantee Funds and Operating Multiple



#### Student Loan Credit Guarantees

## Issuance of Credit Guarantee

In 2007, owing to the significant increase of guarantee funds and growing demand as a result of on-going improvement to the system, SLCGF issued KRW1.9 trillion in credit guarantees to 615,000 students.

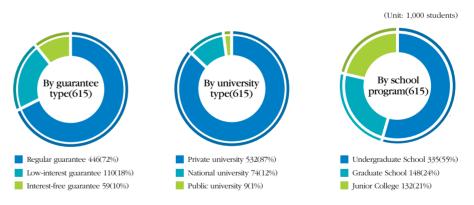
#### Issuance of Student Loan Credit Guarantees

(Unit: 1.000 students, KRW billion)

Guarantee	2nd semes	ster of 2005	20	06	2007		Cumulative	
type	No. of students	Amount	No. of students	Amount	No. of students	Amount	No. of students	Amount
Regular	141	359	433	1,227	446	1,414	1,020	3,000
Low interest	18	47	32	90	110	324	160	461
Interest-free	23	65	50	146	59	178	132	389
Total	182	471	515	1,463	615	1,916	1,312	3,850

The analysis of guarantee issuance in 2007 shows that, based on the number of beneficiaries, regular guarantees accounted for 72%, low interest-bearing guarantees for low-income students majoring in non-science and engineering accounted for 18%, and interest free guarantees for low-income students majoring in science and engineering fields accounted for 10%. Student loan support to students enrolled at private universities accounted for the largest share: 87% of total beneficiaries or 532,000 students. National universities and public universities represented 12% and 1%, respectively. In terms of university programs, undergraduate students represented the largest share with 335,000 students or 55% of total borrowers. Graduate schools and junior colleges accounted for 24% and 21%, respectively.

#### Guarantee Issuance in 2007 by Guarantee Type, University Type, and School Program



Note: Figures in ( ) represent percentages of the total number of beneficiaries

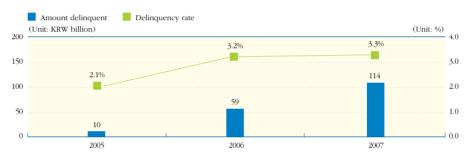
## Post Management

In order to prevent degeneration of the SLCGF and keep it solvent, KHFC established systematic management for every stage of delinquency. Delinquency management varies depending on overdue stages. A student delinquent less than two months is reminded to rectify the situation through SMS and e-mail at least twice every month from the time when a loan becomes delinquent. A student delinquent more than two months is dunned through mail and phone calls every month. When a loan becomes delinquent for over four months, a "Notice on Fulfillment of Guarantee Liabilities and Registration of Credit Management Information" is mailed to urge borrowers to handle the delinquency.

In an effort to prevent delinquency, the e-Learning Center, an on-going educational program, was opened within the student loan portal to help students, who lack financial knowledge, learn and practice sound credit management starting in their university years. KHFC received the Second Gyeonghyang Financial Education Award in October 2007 for its efforts at delinquency prevention.

As of the end of 2007, the delinquency rate at SLCGF was 3.3% (total amount delinquent KRW114 billion), up 0.1%p from the end of 2006. KHFC developed the Student loan Credit Scoring System (SCSS) in October 2006 to provide credit guarantees more selectively and reduce delinquency. In October 2007, the development of Behavior Scoring System (BSS) and a delinquency normalization model was launched to prevent and normalize delinquency efficiently.

#### Amount Delinquent and Delinquency Rate



Note: According to the Asset Soundness Classifications of the Financial Supervisory Service, only loans delinquent over one month are included in the delinquency data.

Suretyship obligations, which were first due in May 2006, amounted to KRW2.2 billion (779 cases) in 2006 and KRW14.7 billion (5,182 cases) in 2007. Out of these, KRW0.1 billion and KRW1.0 billion were recovered in 2006 and 2007, respectively.

#### **Indemnity Right Claims**

(Unit: KRW billion)

Year	2006	2007
Subrogated amount (No. of cases)	2.2 (779)	14.7 (5,182)
Recovered amount	0.1	1
Outstanding balance	2.1	15.8

As most SLCGF users do not have income or assets, indemnity rights cannot generally be recovered by exercising rights on collateral. For this reason, KHFC collects and utilizes information available from public institutions and offers voluntary or installment repayment schemes for the recovery of indemnity rights. On top of that, in January 2007, convenience for borrowers was greatly improved further as they can now sign up for installment repayment agreements via the Internet instead of visiting KHFC in person.

3. Organization & Operation





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#### Organization & Operation

## Housing Finance Operation Committee

The Housing Finance Operation Committee (HFOC) is the chief decision-making body within KHFC. It reviews and makes decisions upon all significant issues. The agenda may include establishment of basic directives for operations; establishment and modifications of work plans; amendments of the articles of incorporation; budget planning, revision, and settlement; criteria for mortgage transfers; establishment and modification of operation plans for the Housing Finance Credit Guarantee Fund; and indemnity rights write-offs.

HFOC has six members including the KHFC president & CEO as chairman, one government official representing the Financial Services Commission (FSC) and another from the Ministry of Land, Transport and Maritime Affairs (MLTM), one appointed by FSC from among executives of financial institutions or housing finance experts, and two appointed by FSC who are each recommended by MLTM and the Bank of Korea.

Regular meetings are held in February and December. An extraordinary meeting is held when the chairman deems necessary or a majority of members requests.

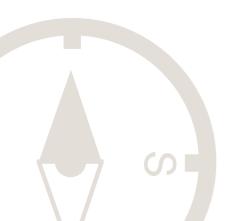
#### **Housing Finance Operation Committee Members**

Organization	Position	Name
Korea Housing Finance Corporation	President & CEO	Lim, Joo Jae
Financial Services Commission	Secretary General	Lim, Seung Tae
Ministry of Land, Transport and Maritime Affairs	Assistant Minister for Housing and Land	Lee, Jai Yeong
Korea University	Professor	Park, Kyung Suh
World Scholarship Foundation	Director	Lee, Dong Sung
Seoul Money Brokerage Services, LTD	Advisor	Park, Jae Joon

#### **Board of Directors**

The Board of Directors (BOD) is KHFC's chief executive body, chaired by the president & CEO. In addition to the president & CEO, it consists of executive directors and non-executive directors. The BOD examines and makes decisions on issues requiring the review and decision by the Housing Finance Operation Committee, matters including changes in capital, the passage and amendment of regulations regarding the BOD and its sub-committees, the sales of indemnity rights, and other matters recognized as necessary by the BOD and president & CEO. The auditor may attend the BOD meetings and state his opinions.

The president & CEO is appointed by the President of the Republic of Korea (ROK) through nomination by the chairman of FSC after the multiple recommendations of the Executive Recommendation Committee. The auditor is appointed and dismissed by the President of the ROK through nomination by the minister of the Ministry of Strategy and Finance after the multiple recommendations of the Executive Recommendation Committee and deliberation and voting by the Public Organization Operation Committee. The deputy president and executive directors are appointed or dismissed by the chairman of the FSC through nomination by the president & CEO after multiple recommendations of the Executive Recommendation Committee, while outside directors are appointed or dismissed by the chairman of FSC after the multiple recommendations of the Executive Recommendation Committee and deliberation and voting by the Public Organization Operation Committee.



#### Organization & Operation

The term of the president & CEO is three years, and that of other executives is two years. Based on the findings of performance evaluation according to applicable laws, their terms may be extended on a yearly basis.

In 2007, a total of 68 agenda, a significant increase from 47 agenda in 2006, was presented to BOD meetings. In the Law on the Operation of Public Institutions, the functions of the BOD have become more extensive, requiring the BOD vote on more agenda.

#### **BOD Members**

Title	Name	Title	Name	
President & CEO	Lim, Joo Jae	Non-executive Director	Kim, Kyung Hwan	
Deputy President	Park, Jae Hwan	Non-executive Director	Ahn, Dong Kyu	
Executive Director	Kim, Kang Yong Non-executive Director		Kim, Hee Kyung	
Executive Director	Choi, Byung Soo	Non-executive Director	Jo, In Je	
		Non-executive Director	Oh, Jong Nam	
		Non-executive Director	Kim, Bang Hee	

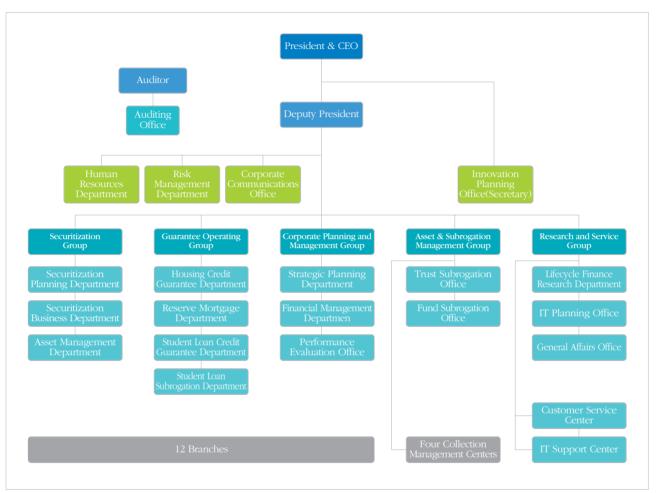
## Organization Structure

In 2007, KHFC assessed its organization and decided to shift to a strategy-focused organizational structure. Based on findings, the organization was restructured from the department & team system (two business groups, one business unit, 13 departments, four offices, and one center) to a real macro-team system led by team leaders (five groups, 12 departments, eight offices, and two support centers). The reorganization assures a flexible organization and speedy decision-making by streamlining the approval steps.

The housing finance credit guarantee, reverse mortgage guarantee, and student loan credit guarantee functions are all now under the Guarantee Operating Group. The loan collection management function, which was decentralized across business areas, is now centralized at the business group level. The research and service function on financial environment and business development and working-level support function for focused initiatives are also improved.

## Organization & Operation

## **Organization Chart**



Note: As of the end of April 2008

## **Full-time Employees**

	General					Secretary	Total
	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Secretary	Total
Count(persons)	16	34	78	119	166	8	421

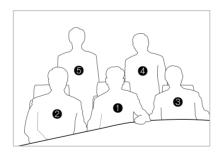
Note: Number of regular personnel as of the end of February 2008



## Internal Controls and Risk Management

## Organization Chart





1 President & CEO Lim, Joo Jae

2 Auditor Lee, Tae Seob

3 Deputy President Park, Jae Hwan

4 Executive Director Kim, Kang Yong

**6** Executive Director **Choi, Byung Soo** 

## Major Recognitions by Outside Organizations in 2007

	Organization	Recognition	
Improving customer service	The Korea Economic Daily	Received Gold Prize in the service category of the 7th Korea e-finance Awards (June 2007)	
	Kyunghyang Shinmun	Received Grand Prize in the organization category of the Kyunghyang Finance Education Awards (October 2007)	
	Korea Contact Center Association (KCCA)	Obtained KCCA CQM (August 2007)	
Strengthening ethics management and stepping up corporate social responsibility	Korea Independent Commission against Corruption	Selected as an outstanding organization in integrity in 2007 - 1st place among 10 pension fund-related organizations - 7th out of 333 organizations	
	Korea Employment Promotion Agency for the Disabled	Selected as an outstanding employer in hiring the disabled (June 2007)	
	Ministry of Maritime Affairs and Fisheries National Federation of Fisheries Cooperatives	Received the Third City-Fishing Village Exchange of the Year Award (December 2007)	
Increasing expertise for lifetime financing	League of American Communications Professionals	Received Bronze Prize in the print category (October 2007)	
	KHFC	Organized an international seminar (November 2007)  - Hong Kong Mortgage Corporation  - Japan Housing Finance Agency  - Officer in charge of Asia-Pacific in Bloomberg	
Increasing financing support for low- and middle-income households	Korea Association of Realtors	Housing finance products by KHFC are registered as a required course for realtor certification (approved in December 2007)	
Creating a financial hub in Northeast Asia		Signed MOU with Mongolia Housing Finance Corporation (November 2007)	



### Internal Controls and Risk Management

#### **Internal Controls**

KHFC established various internal controls to assure transparency and reinforce confidence in its work operations. The internal control systems largely consist of controls between executing departments and those performed by the auditor.

KHFC allocates, adjusts, and manages responsibilities systematically according to organization management regulations, including rules on the rank system, duties, and authorities. Each post is duly invested with authority to perform its functions and is held accountable.

The budget planning departments and the execution departments are separated for internal control. The risk management department is separated from the business departments and runs independently to assure systematic internal control on an on-going basis. The Fund Investment Review Committee, which reviews management plans for liquid assets, includes non-governmental outside experts to ensure availability of needed expertise and objectivity in its reviews and to reinforce control on fund investment. The asset management system and IT support for clearing and transfer effectively separate the investment and settlement functions, and systematically eliminate operational risks.

The auditor, who is independent of KHFC's decision-making and executing bodies, attends the Board of Directors meetings and the Executive Council and voices his opinion on internal controls. The Auditing Office, which is directly under the auditor, performs comprehensive, special, and regular audits on the organization and overall operations to raise the efficiency and transparency of business operations.

In 2007, KHFC shifted from pointing out mistakes only and focused on making recommendations and notices to suggest improvements to systems, regulations, and the business environment and contributed to increasing organizational value. It also stepped up preventive activities to establish a management system in which the internal control system can function effectively.

## Risk Management

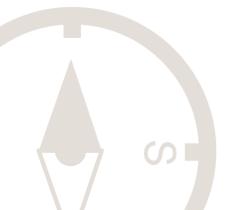
KHFC established a department dedicated to risk management directly under the deputy president to ensure professional risk management. It comprehensively manages the various risks and uncertainties in overall operations.

Each business unit at KHFC where risk resides bears the primary responsibility for managing it. The Risk Management Department, which is independent of the business units, performs checks and balances as well as preventive and post-risk management. It adequately decentralizes risks to prevent excessive concentration of risks in any area. It also sets the tolerable risk limit of each business unit based on its profit generation capacity and equity capital and monitors its compliance.

The main responsibilities of risk management include establishing the corporate-wide risk management strategy; setting, allocating, and managing risk capital limits; and pre-screening risks for the development of new products and introduction of new systems. The risk management department also manages market risk and credit risk in association with securitization, housing finance credit guarantees, and student loan credit guarantees; monitors the incidence of prepayment of *bogeumjari* loans; and analyzes other risks on an on-going basis to address changes in the business environment.

KHFC established the Risk Management Committee as the chief decision-making body for company-wide risk management. Chaired by the deputy president and including external directors, the committee develops strategy on risk management and sets total risk limits. In addition, the Risk Management Consultative Council reviews and makes decisions on pending issues, including limit-setting of each risk type; and the Risk Management Working Meeting, an inter-departmental working-level consultative body, facilitates risk management affairs.

For more proactive response to the rapidly changing financial environment, KHFC developed several IT systems for risk management, including the asset-liability management (ALM) system, structuring model, housing finance credit guarantee risk monitoring system, and market risk management system to efficiently manage interest rate risk by means of derivatives. In order to manage risk factors in reverse mortgage guarantees, a new business, KHFC developed a reverse mortgage guarantee risk simulation system. KHFC uses these systems to set and manage limits for risk capital and periodically analyzes risk factors in securitization, housing finance credit guarantees, and student loan credit guarantees to check the soundness of the trust and funds. In addition, all actions necessary are taken in managing operational risks to prevent the risk of loss stemming from inappropriate internal controls, errors in business procedures and systems, or mistakes or wrongdoing by employees.



#### Social Contribution

KHFC, a quasi-government organization, actively engaged in social contribution activities to gain the trust of the public and earn its respect. In an effort to fulfill their social responsibilities and practice "sharing," KHFC employees have voluntarily been raising the *Bogeumjari* Fund, a charity fund, by donating a certain amount from their salaries every month.



Key Social Contribution Activities

#### Participation in the Habitat Movement

Every year, KHFC participates in the Habitat Movement. It entails building homes for low-income families. In 2007, 75 KHFC employees participated in construction of the "Village of Hope" in Gyochon-ri, Mokcheon-eup, Cheonan three times (June, July, and October). KHFC also donated KRW20 million to the Habitat Movement.

#### Participation in Bank Love-Sharing Network Event

On November 12, 2007, the CEOs serving as members of the Korea Federation of Banks including KHFC President & CEO Ryu Jae-han made a donation to the Republic of Korea National Red Cross and visited the Seoul Metropolitan Hospital to participate in volunteer activities for handicapped children.

#### **Beautiful Saturday Event**

To take a part in the "sharing" and "recycling" campaign movement, KHFC organizes the Beautiful Saturday Event every year jointly with the Beautiful Store. On December 15, 2007, a total of 1,700 items donated by KHFC employees were sold by KHFC employee volunteers. The proceeds from the sales (KRW3,355,600) were donated to help people in need.

#### Volunteering in an Oil Spill Area (Taean Peninsula)

On December 20, 2007, 137 employees from the Korea Federation of Banks, Korea Development Bank, Citibank, and KHFC volunteered to clean up the beach in Taean that was spoiled by crude oil. On December 29, the Neighborhood Love Society, a volunteer group within KHFC, also helped clean up oil in Taean, with 22 KHFC employees participating.







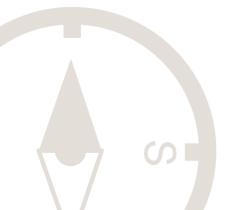
#### Year-end Donation Event

KHFC employees have been donating a certain amount from their salaries every month to raise the *Bogeumjari* Fund. On December 26, 2007, KHFC delivered the funds it had saved for the year to the Holt Ilsan Center, Beautiful Foundation, and Community Chest of Korea.

Key Achievements of Social Contribution and its Future Direction As a result of growing interest and volunteer participation by KHFC employees, in 2007, the number of donations increased to 27 cases from 12 in 2006, and the employees participated in 21 volunteer activities, up from nine year before.

KHFC received the Third City-Fishing Village Exchange of the Year Award from the Minister of Maritime Affairs and Fisheries. The award was given in recognition for engaging in various activities such as volunteering and cooperative buying of local specialties from Changhoo-ri, Ganghwado, a fishing village with which KHFC has a sisterhood relationship.

Going forward, KHFC will continue to engage in social contribution befitting "a lifetime financing partner for low- and middle-income citizens." It will fulfill its social responsibility as an enterprise and renew itself as a public financial company, reaching out more closely to the public and local communities.



# 2007 Financial Statements and Auditor's Review



- 1\_ Settlement of Accounts & Summary of Financial Statements | 2\_ Korea Housing Finance Corporation
- 3\_ Housing Finance Credit Guarantee Fund
- 5\_ Student Loan Credit Guarantee Fund

- 4\_ Reverse Mortgage Guarantee Accounts

#### Settlement of Accounts

#### **Settlement of Accounts**

In order to assure the transparency and maintain confidence in business operations, KHFC had the financial statements of the KHFC accounts, trust accounts, the Housing Finance Credit Guarantee Fund, Reverse Mortgage Guarantee Accounts, and the Student Loan Credit Guarantee Fund audited by an external accounting firm.

Under the Law on the Operation of Public Institutions Article 43 (submission of financial statements) Paragraph 2, the financial statements of KHFC need to be voted on by the BOD and the Housing Finance Operation Committee and submitted to Financial Services Commission and an accounting audit by an accounting firm is obligatory. The same is required for the Housing Finance Credit Guarantee Fund and the Reverse Mortgage Guarantee Accounts under the National Finance Act Article 73 (the settlement of the Fund) Paragraph 1 and Article 74 (Fund Operation Deliberation Council) Paragraph 2. Under the provisions of the Student Loan Credit Guarantee Fund Management and Operation Regulations Article 12 (settlements of funds) Paragraph 2, the financial statements of the Student Loan Credit Guarantee Fund need to be submitted to the Minister of Education Science and Technology. The financial statements of KHFC, the Housing Finance Credit Guarantee Fund, the Student Loan Credit Guarantee Fund, and the Reverse Mortgage Guarantee Accounts for fiscal year 2007 were audited by Ernst & Young HanYoung Korea, which declared all of them "adequate."

## **Summary of Financial Statements**

#### Korea Housing Finance Corporation (proprietary account)

Assets of KHFC's proprietary accounts totaled KRW1,284.5 billion, of which KRW160.9 billion were cash and deposits, KRW266.1 billion were securities, KRW782.7 billion were mortgage loans, KRW6.9 billion were tangible assets, and KRW67.9 billion were other assets (deposits, etc.). Liabilities totaled KRW821.1 billion, of which KRW791.0 billion were loan payables and KRW30.1 billion were other liabilities (allowance for payment guarantees, etc.). Owner's equity totaled KRW463.4 billion.

(Unit: KRW100 million)

Item	Amount	Item	Amount
I. Cash and Deposits	1,609	I. Loan Payables	7,910
II. Securities	2,661	II. Other Liabilities	301
III. Mortgage loans	7,827	Total Liabilities	8,211
IV. Tangible Assets	69	I. Paid-in Capital	4,266
V. Other Assets	679	II. Retained Earnings	368
		Total Owner's Equity	4,634
Total Assets	12,845	Total Liabilities and Capital	12,845

The paid-in capital of KHFC totaled KRW426.6 billion and included contributions from the Bank of Korea (KRW310.0 billion, 73%), the government (KRW60.0 billion, 14%), and the National Housing Fund (KRW56.6 billion, 13%). Retained earnings were KRW36.8 billion, including KRW5.4 billion in legal reserves and KRW31.4 billion in unappropriated retained earnings. Owner's equity totaled KRW463.4 billion.

KHFC realized KRW9.9 billion in net income on total revenue of KRW178.2 billion and total expenses of KRW168.3 billion. Total revenue included KRW36.4 billion in interest revenue on deposits and securities and mortgages, KRW37.0 billion in fee revenue, KRW67.9 billion in derivatives transaction and valuation gains, KRW35.3 billion in settlement revenue, and KRW1.6 billion in other revenue. Total expenses included KRW15.4 billion in interest and fees, KRW61.9 billion in mortgage disposal losses, KRW16.5 billion in derivatives transaction and valuation losses, KRW4.7 billion in transfers to allowance for payment guarantees, KRW63.8 billion in sales & administration expenses, KRW2.1 billion in other expenses, and KRW3.9 billion in income tax expenses.

#### Settlement of Accounts

(Unit: KRW100 million)

Revenue	Amount	Expenses	Amount
I. Interest Revenue	364	I. Interest Expense	137
II. Fee Revenue	370	II. Fee Expense	17
III. Derivative Transaction	679	III. Mortgage Disposal Losses	619
and Valuation Gains		IV. Derivative Transaction and	165
IV. Settlement Revenue	353	Valuation Losses	
V. Others	16	V. Transfers to Allowance for	47
		Payment Guarantees	
		VI. Sales & Administration expenses	
		VII. Others	21
		VIII. Income Tax Expenses	39
77 . 1		Total Expenses	1,683
Total Assets	1,782	Current Net Income	99

#### Korea Housing Finance Corporation (integrated trust account)

With the continued increase of securitized assets (mortgages and student loans) due to issuance of MBS and SLBS and repayment of earlier securitized loans, the total assets of the KHFC trust account at the end of 2007 amounted to KRW13.7 trillion, an increase of KRW2.3 trillion from the end of 2006. Cash and deposits totaled KRW1.0 trillion, securitizes were KRW1.0 trillion, securitized assets were KRW11.6 trillion, and other assets were KRW73.0 billion. The accumulated losses on trust totaled KRW5.4 billion, a decline of KRW3.1 billion from the end of the previous year. Liabilities totaled KRW13.7 trillion, of which KRW13.3 trillion were securitized liabilities, KRW164.8 billion were other liabilities, and KRW244.8 billion were accumulated gains on trust.

(Unit: KRW100 million)

Item	Amount	Item	Amount
I. Cash and Deposits	10,213	10,213 I. Securitized Liabilities	
II. Securities	10,129	II. Other Liabilities	1,648
III. Securitized Assets	115,677		
IV. Other Assets	730		
Accumulated Losses on Trust	54	Accumulated Gains on Trust	2,448
Total Assets	136,803	Total Liabilities	136,803

Operating revenue of the integrated trust account totaled KRW793.7 billion, which included KRW64.7 billion in interest revenue on won-denominated deposits, KRW44.5 billion in interest revenue on securities, KRW498.0 billion in interest revenue on mortgages, KRW172.6 billion in interest revenue on student loans, and KRW13.9 billion in commission and others. Compared to the previous year, trust losses dropped by KRW1.2 billion to KRW1.3 billion. Operating expenses were KRW724.2 billion, including KRW468.4 billion in MBS interest expenses, KRW143.8 billion in SLBS interest expenses, KRW91.0 billion in commissions, and KRW21.0 billion in securities valuation losses. Trust profits for the year fell by KRW22.1 billion to KRW70.8 billion

(Unit: KRW100 million)

Revenue	Amount	Expenses	Amount
I. Operating Revenue	7,937	I. Operating Expenses	7,242
Interest on Deposits	647	MBS Interest Expenses	4,684
Interest on Securities	445	SBLS Interest Expenses	1,438
Interest on Mortgages	4,980 Commissions Paid		910
Interest on Student Loans	1,726 Securities Valuation Losses		210
Commission & Others	139 II. Non-operating Expenses		-
II. Non-operating Revenue	-	- III. Trust Profits	
III. Extraordinary Profit	-		
IV. Trust Losses	13		
Total Revenue	7,950	Total Expenses	7,950

## Housing Finance Credit Guarantee Fund

Assets as of the end of 2007 totaled KRW1.1 trillion, of which KRW245.0 billion were cash and deposits, KRW413.6 billion were securities, KRW432.6 billion were indemnity rights, and KRW35.7 billion were other assets. Liabilities totaled KRW490.2 billion, of which KRW282.4 billion were a provision for credit guarantee, KRW154.0 billion were IBRD loans (which are included when calculating the guarantee operating multiple), and KRW53.8 billion were other liabilities. The capital total was KRW636.7 billion, after deducting the capital adjustment and deficit KRW2.1 trillion from basis capital KRW2.8 trillion, which includes government contributions.

(Unit: KRW100 million)

Item	Amount	Item	Amount
I. Cash and Deposits	2,450	I. Provision for Credit Guarantee	2,824
II. Securities	4,136	II. Loan Payables	1,540
III. Indemnity Rights	4,326	III. Other Liabilities	538
IV. Other Assets	357	Total Liabilities	4,902
		I. Basis Capital	27,799
		II. Accumulated Deficit	21,417
		III. Capital Adjustment	(15)
		Total Capital	6,367
Total Revenue	11,269	Total Liabilities and Capital	11,269

Net losses in fiscal year 2007 were KRW91.5 billion on total revenue of KRW217.7 billion and total expenses of KRW309.2 billion. Total revenue included KRW58.4 billion in guarantee fees, KRW40.5 billion in interest revenue on deposits and securities, KRW3.5 billion in interest on arrears, KRW112.7 billion in transfers from credit guarantee provision, and KRW2.6 billion in other revenue including recovered bad debts previously written-off. Total expenses included KRW247.0 billion in indemnity right write-offs, KRW27.5 billion in administrative expenses, KRW13.2 billion in derivatives transaction losses, and KRW21.5 billion in other expenses including interest expenses.

#### Settlement of Accounts

(Unit: KRW100 million)

Revenue	Amount	Expenses	Amount
I. Guarantee Fees	584	I. Indemnity Right Write-offs	2,470
II. Interest Revenue	405	II. Administrative Expenses	275
III. Interest on Arrears	35	III. Derivatives Transaction Losses	132
IV. Transfers from Credit Guarantee Provision	1,127	IV. Others	215
V. Others	26		
Total Revenue	2,177	m . In	2.002
Net Losses	915	Total Expenses	3,092

In 2007, basis capital reached KRW2.8 trillion on contributions of KRW346.6 billion, including KRW100 billion from the government and KRW246.6 billion from financial institutions. However, after deducting a deficit and capital adjustment KRW2.1 trillion, net basis capital fell to KRW636.7 billion. The credit guarantee operating multiple slipped from 14.40 times in 2006 to 11.03 times.

#### Reverse Mortgage Guarantee Accounts

Assets totaled KRW10.8 billion, of which KRW8.1 billion were cash and deposits and KRW2.6 billion were tangible assets. Liabilities totaled KRW0.2 billion, including a provision of KRW0.1 billion for retirement allowances and a small sum in provision for reverse mortgage guarantees. The capital total was KRW10.6 billion.

(Unit: KRW million)

Item	Amount	Item	Amount
I. Cash and Deposits	8,121	I. Provision for Retirement Allowance	105
II. Tangible Assets	2,592	II. Provision for Reverse Mortgage Guarantees	44
III. Other Assets	72	III. Other Liabilities	41
		Total Liabilities	190
		I. Basis Capital	10,001
		II. Accumulated Profit	594
		Total Capital	10,595
Total Assets	10,785	Total Liabilities and Capital	10,785

For fiscal year 2007, net income of KRW0.6 billion was incurred on KRW2.5 billion in total revenue and KRW1.9 billion in total expenses. Total revenue included KRW2.4 billion in guarantee fees and a small sum in interest revenue, while total expenses included KRW1.9 billion in administrative expenses and a small sum for transfers to reverse mortgage guarantee provision and depreciation.

(Unit: KRW million)

Revenue	Amount	Expenses	Amount
I. Guarantee Fees	2,391	I. Administrative Expenses	1,849
II. Interest on Deposits	140	II. Transfers to Reverse Mortgage Guarantee Provision	44
		III. Depreciation	44
Total Revenue	2.521	Total Expenses	1,937
	2,531	Net Income	594

In 2007, KRW10.0 billion were raised in contributions, and retained earnings amounted to KRW0.6 billion. Net basis capital totaled KRW10.6 billion. The outstanding balance of guarantees was KRW4.4 billion, and the credit guarantee operating multiple was 0.42 times.

#### Student Loan Credit Guarantee Fund

Assets totaled KRW373.9 billion, of which KRW195.8 billion were deposits, KRW56.1 billion were short-term trading securities, KRW110.0 billion were securities held to maturity, and KRW12.0 billion were other assets. Liabilities totaled KRW103.7 billion, of which KRW49.8 billion were unearned revenue on guarantee fees, KRW53.1 billion were a provision for credit guarantees, and KRW0.8 billion were others. The capital total was KRW270.2 billion.

(Unit: KRW100 million)

Item	Amount	Item	Amount
I. Deposits	1,958	I. Unearned Revenue on Guarantee fees	498
II. Short-term Trading Securities	561	II. Provision for Credit Guarantees	531
III. Securities Held to Maturity	1,100	III. Other Liabilities	8
IV. Other Assets	120	120 Total Liabilities	
	I. Basis Capital		2,835
		II. Deficit	133
		Total Capital	2,702
Total Assets	3,739	Total Liabilities and Capital	3,739

For fiscal year 2007, a net loss of KRW15.4 billion was incurred on KRW42.6 billion in total revenue and KRW58.0 billion in total expenses. Total revenue included KRW27.3 billion in guarantee fees, KRW14.1 billion in interest revenue, and KRW1.2 billion in other revenue. Total expenses included KRW34.8 billion in transfers to credit guarantee provision, KRW12.8 billion in indemnity right write-offs, and KRW10.4 billion in other expenses.

#### (Unit: KRW100 million)

Revenue	Amount	Expenses	Amount
I. Guarantee Fees	273	I. Transfers to Credit Guarantee Provision	348
II. Interest Revenue	141	II. Indemnity Right Write-offs	128
III. Other Revenue	12	III. Other Expenses	104
Total Revenue	426	Total Exmanses	500
Net loss	154	Total Expenses	580

In 2007, KRW218.9 billion were raised in contributions and KRW96.6 billion were disposed. As of the end of 2007, basis capital amounted to KRW283.5 billion. The total capital of the fund was KRW270.2 billion, after deducting KRW13.3 billion in a deficit. The credit guarantee operating multiple increased from 14.41 times in 2006 to 16.53 times, which was based on KRW210.6 billion, a sum of KRW223.9 billion in balance of contributions for credit guarantees and KRW13.3 billion in a deficit.

## **Korea Housing Finance Corporation**

## Audit Report by External Auditor



10-2 Yeoeuido-dong, Yeongdeungpo-gu, Seoul Ernst & Young HanYoung

To the BOD of Korea Housing Finance Corporation

February 15, 2008

The financial statements of the Korea Housing Finance Corporation (hereinafter "KHFC") have been audited and reviewed. The Balance Sheet, Income Statement, Appropriation of Retained Earnings Statement, Statement of Changes in Shareholders' Equity, and Cash-flow Statement figures were produced as of December 31, 2007. The responsibility for producing the financial statements lies with the management of KHFC. The responsibility of the auditor is to audit the financial statements and express opinions thereon. The financial statements for the fiscal year ending December 31, 2006, which are provided for comparison, were audited by Daejoo Accounting Corporation. The audit opinion of Daejoo Accounting reported as of January 31, 2007 was "adequate."

The audit was performed in accordance with the Financial Auditing Standards of the Republic of Korea (ROK). The Standards required that audits be performed so as to be reasonably certain that no material distortions had been made to the financial statements. Audit evidence supporting the figures of the financial statements and publicly announced information was verified by means of sample testing. The audit includes not only overall evaluation on the contents of statements but also evaluations on the applied accounting principles and assumptions. It is believed that the auditing process provided a rational foundation for opinions to be demonstrated.

It is the opinion of the auditor that the presented financial statements adequately represent the financial position, the business performance, changes in retained earnings and capital, and the cash-flow of KHFC for the fiscal year ending December 31, 2007. The statements are sufficiently expressed in view of materiality in accordance with the corporate accounting standards generally accepted in the ROK.

Seung Wha Gweon

This Audit Report is effective as of February 15, 2008. Hereafter, from this date, any incident or condition having material impact on the attached financial statements that may occur shall require an audit report of modification.

# 1. Summary Balance Sheet of KHFC Account

Term 4: as of December 31, 2007 / Term 3: as of December 31, 2006

Item	Term 4		Term 3		Variance	
пеш	Amount		Amou	Amount		
I. Cash and Deposits		1,609		1,235	374	
Deposits	1,609		1,235		374	
II. Securities		2,661		2,639	22	
(1) Short-term Trading Securities		31		129	Δ98	
Financial Institution Notes	-		99		Δ99	
Beneficiary Certificates	31		30		1	
(2) Bonds Held to Maturity		2,630		2,510	120	
Treasury/Public Notes	400		1,000		Δ600	
Financial Institution Notes	650		1,401		Δ751	
Corporate Bonds	-		100		$\Delta 100$	
MBS	32		9		23	
RP	1,548		-		1,548	
III. Mortgages		7,827		2	7,825	
Mortgages Purchased	7,847		2		7,845	
(Allowance for Bad Debts)	(20)		(-)		Δ20	
IV. Tangible Assets		69		79	$\Delta 10$	
Tangible Assets	137		122		15	
(Accumulated Depreciation)	(68)		(43)		Δ25	
V. Other Assets		679		490	189	
Guarantee Deposits	357		327		30	
Accrued Revenue	97		74		23	
Derivative Assets	83		4		79	
Others	142		85		57	
Total Assets		12,845		4,445	8,400	
I. Loan Payables		7,910		100	7,810	
Short-term loans	6,510		-		6,510	
Disposal of RP	1,400		-		1,400	
Securities Payable	-		100		$\Delta 100$	
II. Other Liabilities		301		310	Δ9	
Allowance for Severance Liability	31		22			
(Retirement Insurance Deposit)	(5)	26	(4)	18	8	
Allowance for Payment Guarantee	235		188		47	
Others	40		104		Δ64	
Total Liabilities		8,211		410	7,801	
I. Capital Stock		4,266		3,766	500	
Paid-in Capital	4,266		3,766		500	
II. Retained Earnings		368		269	99	
Legal Reserve	54		43		11	
Retained Earnings Carried Forward	215		171		44	
Current Net Income	99		55		44	
Total Owner's Equity		4,634		4,035	599	
Total Liabilities and Owner's Equity		12,845		4,445	8,400	

# Korea Housing Finance Corporation

## 2. Summary Income Statement of KHFC Account

Term 4: January 1, 2007 - December 31, 2007 / Term 3: January 1, 2006 - December 31, 2006

	Term 4		Term 3		Variance	
Item	Amou	Amount		Amount		
I. Operating Revenue		1,781		1,229	552	
(1) Interest Revenue	364		231		133	
Interest on Deposits	69		47		22	
Interest on Short-term Transaction Securities	1		-		1	
Interest on Bonds Held to Maturity	125		109		16	
Interest on Mortgages	169		75		94	
(2) Fee Revenue	370		313		57	
Payment Guarantee Fee	286		243		43	
Trust Commissions	70		59		11	
Prepayment Fee	3		1		2	
Other Commission Income	11		10		1	
(3) Other Operating Revenue	694		388		306	
Short-term Trading Securities Valuation Gains	1		-		1	
Mortgage Disposal Income	14		348		Δ334	
Derivatives Transaction (Valuation) Gains	679		30		649	
Transfer from Allowance for Bad Debts	-		10		Δ10	
(4) Settlement Revenue	353		297		56	
HFCGF Accounts Settlement Revenue	275		248		27	
SLCGF Accounts Settlement Revenue	59		49		10	
Reverse Mortgage Accounts Settlement Revenue	19		-		19	
II. Operating Expenses		1,644		1,154	490	
(1) Interest Expense	137		40		97	
Interest on Borrowings	137		40		97	
(2) Commission Expenses	17		8		9	
Fees Paid	17		8		9	
(3) Other Operating Expenses	852		553		299	
Mortgage Disposal Losses	619		148		471	
Derivatives Transaction (Valuation) Losses	165		274		Δ109	
Securities Payable Transaction Losses	1		-		1	
Bad Debt Expenses	20		-		20	
Transfers to Payment Guarantee Provision	47		131		Δ84	
(4) Sales & Administrative Expenses	638		553		85	
Salaries	298		280		18	
Advertisement Expenses	62		55		7	
Outsourcing Expenses	58		43		15	
Others	220		175		45	
III. Operating Income		137		75	62	
IV. Non-operating Revenue		1		1	-	
V. Non-operating Expenses		-		-	-	
VI. Income before Income Tax Expenses		138		76	62	
VII. Income Tax Expenses		39		21	18	
VIII. Net Income		99		55	44	

# 3. Summary Balance Sheet of Integrated Trust Account

Term 4: as of December 31, 2007 / Term 3: as of December 31, 2006

	Term 4		Term 3		Variance	
Item	Amo	Amount		Amount		
I. Cash and Deposits		10,213		13,960	$\Delta 3,747$	
Deposits	10,213		13,960		$\Delta 3,747$	
II. Securities		10,219		6,217	3,912	
Treasury/Public Notes	2,128		1,574		554	
Financial Institution Notes	8,001		4,643		3,358	
III. Securitized Assets		115,677		93,140	22,537	
(1) Mortgages	80,599		72,585		8,014	
Mortgages (principal)	80,858		72,581		8,277	
Mortgages (premium on purchase)	470		538		Δ68	
Mortgages (discount on purchase)	(729)		(534)		Δ195	
(2) Student Loans	35,078		20,555		14,523	
Student Loans (principal)	35,209		20,330		14,879	
Student Loans (premium on purchase)	214		246		Δ32	
Student Loans (discount on premium)	(345)		(21)		Δ324	
IV. Other Assets		730		750	$\Delta 20$	
Interest Receivables	2		4		Δ2	
Revenue Receivables	523		511		12	
Accounts Receivable	130		200		Δ70	
Advance Payments	75		35		40	
V. Accumulated Losses on Trust		54		85	Δ31	
Total Assets		136,803		114,152	22,651	
I. Securitized Liabilities		132,707		110,511	22,196	
(1) MBS	96,122		89,199		6,923	
MBS (senior)	95,476		88,480		6,996	
MBS (junior)	719		786		Δ67	
MBS (discount on issuance)	(73)		(67)		Δ6	
(2) SLBS	36,585		21,312		15,273	
SLBS (senior)	36,611		21,329		15,282	
SLBS (junior)	-		-		-	
SLBS (discount on issuance)	(26)		(17)		Δ9	
II. Other Liabilities		1,648		1,850	$\Delta 202$	
Advancements	789		1,116		Δ327	
Unearned Revenue	4		5		$\Delta 1$	
Accrued Trust Interest	758		655		103	
Unpaid Expenses	85		71		14	
Accounts Payable	12		3		9	
III. Accumulated Gains on Trust		2,448		1,791	657	
Total Liabilities		136,803		114,152	22,651	

# Korea Housing Finance Corporation

# 4. Summary Income Statement of Integrated Trust Account

Term 4: January 1, 2007 - December 31, 2007 / Term 3: January 1, 2006 - December 31, 2006

	Item	Term 4	4			Variance
		Amour	nt			ranance
I.	Operating Revenue		7,937		6,380	1,557
	(1) Interest on Deposits	647		413		234
	(2) Interest on Securities	445		212		233
	(3) Interest on Mortgages	4,980		4,763		217
	(4) Interest on Student Loans	1,726		785		941
	(5) Commission Income	134		195		Δ61
	(6) Others	5		12		Δ7
II.	Non-operating Revenue		-		11	Δ11
	(1) Gain on Prior Period Error Correction	-		11		Δ11
III.	Extraordinary Profit		-		133	Δ133
	(1) Debt Write-off	-		133		Δ133
IV.	Trust Losses		13		25	Δ12
	Total		7,950		6,549	1,401
I.	Operating Expenses		7,242		5,586	1,656
	(1) MBS Interest Expenses	4,684		4,170		514
	(2) SLBS Interest Expenses	1,438		642		796
	(3) Commissions Paid	910		769		141
	(4) Securities Valuation Losses	210		5		205
II.	Non-operating Expenses		-		34	Δ34
	(1) Loss on Prior Period Error Correction	-		34		Δ34
III.	Trust Profits		708		929	Δ221
	Total		7,950		6,549	1,401

## Housing Finance Credit Guarantee Fund

## Audit Report by External Auditor

10-2 Yeoeuido-dong, Yeongdeungpo-gu, Seoul Ernst & Young HanYoung

To the BOD of Housing Finance Credit Guarantee Fund

February 11, 2008

The financial statements of the Housing Finance Credit Guarantee Fund (Reverse Mortgage Guarantee Accounts not included, hereinafter "the Guarantee Fund") have been audited and reviewed. The Balance Sheet, Income Statement, Appropriation of Retained Earnings Statement, Statement of Changes in Shareholders' Equity, and Cash-flow Statement figures were produced as of December 31, 2007. The responsibility for producing the financial statements lies with the management of the Guarantee Fund. The responsibility of the auditor is to audit the financial statements and express opinions thereon. The financial statements for the fiscal year ending December 31, 2006, which are provided for comparison, were audited by Daejoo Accounting Corporation. The audit opinion of Daejoo Accounting reported as of January 31, 2007 was "adequate."

The audit was performed in accordance with the Financial Auditing Standards of the Republic of Korea (ROK). The Standards required that audits be performed so as to be reasonably certain that no material distortions had been made to the financial statements. Audit evidence supporting the figures of the financial statements and publicly announced information was verified by means of sample testing. The audit includes not only overall evaluation on the contents of statements but also evaluations on the applied accounting principles and assumptions. It is believed that the auditing process provided a rational foundation for opinions to be demonstrated.

It is the opinion of the auditor that the presented financial statements adequately represent the financial position, the business performance, changes in deficit and capital, and the cash-flow of the Guarantee Fund for the fiscal year ending December 31, 2007. The statements are sufficiently expressed in view of materiality in accordance with the corporate accounting standards generally accepted in the ROK and the National Finance Act (formerly, the General Law of Fund Management) and applicable regulations.

The following shall not effect the audit opinion; however, it is judged that the information benefits the reader in the process of making a rational decision.

## Housing Finance Credit Guarantee Fund

#### (1) Accounting of IBRD Loans and Related Transactions

As explained in Notes 2 and 10 of the Financial Statements, the Guarantee Fund procured IBRD loans totaling US\$200,000,000 from the Korea Development Bank at an interest of Libor+0.95% in May 1998 in order to increase the limit of guarantees. As of the end of the fiscal year, the balance was US\$ 110,000,000. To hedge the exchange rate and interest rate risk against the loan, the Guarantee Fund established currency swap contracts with Kookmin Bank, conditioning the swaps at a contracted exchange rate (W1,400/US\$1) and contracted interest rate (13.32%). For payments in KRW against the foreign exchange swap, the Guarantee Fund invested in KB fixed-term deposits and junior bonds in amounts of KRW105,100 million and KRW48,900 million, respectively, as of the fiscal year end. Based on the "Directives on Corporate Special Accounting and Settlement" established by the Ministry of Finance and Economy, founded on the National Finance Act Execution Decree (formerly, the General Law of the Fund Management Execution Decree), transactions on said IBRD loan will be valued at the exchange rate under the swap contract (W1,400/US\$1) until the 2007 fiscal year, and related derivatives and junior bonds will not be valued at fair prices.

#### (2) Contributions

As explained in Notes 11 and 12 of the Financial Statement, a significant portion of losses incurred in duly performing the essential functions of the Guarantee Fund is covered by contributions from the government and financial institutions. In this term, contributions from the government and financial institutions totaled KRW100 billion and KRW246,698 million, respectively.

Seung Wha Gweon

This Audit Report is effective as of February 11, 2008. Hereafter, from this date, any incident or condition having material impact on the attached financial statements that may occur shall require an audit report of modification.

# 1. Summary Balance Sheet

Term 20: as of December 31, 2007 / Term 19: as of December 31, 2006

Ta	Term	1 20	Term 19		37
Item	Amount		Amount		- Variance
I. Current Assets		7,494		7,767	Δ273
1. Cash and Deposits	1,349		1,678		Δ329
2. Securities	1,645		1,579		66
3. Indemnity Rights	20,465		19,867		598
(Allowance for Indemnity Rights Write-Offs)	(16,139)		(15,528)		Δ611
4. Other Current Assets	174		171		3
II. Fixed Assets		3,775		2,343	1,432
1. Long-term Deposits	1,101		1,051		50
2. Securities	2,491		1,090		1,401
3. Guarantee Deposit	78		74		4
4. Tangible Assets	103		126		Δ23
5. Intangible Assets	2		2		-
Total Assets		11,269		10,110	1,159
I. Current Liabilities		776		773	3
1. Accounts Payable	14		17		Δ3
2. Unearned Revenue	409		394		15
3. Unpaid Expenses	73		82		Δ9
4. Other Current Liabilities	280		280		-
II. Fixed Liabilities		4,126		5,523	$\Delta 1,397$
1. Loan Payables	1,260		1,540		Δ280
2. Provision for Credit Guarantee	2,824		3,950		Δ1,126
3. Allowance for Severance Liability	42		33		9
Total Liabilities		4,902		6,296	Δ1,394
I. Basis Capital		27,799		24,333	3,466
1. Government Contribution	14,820		13,820		1,000
2. Financial Institution Contribution	12,952		10,486		2,466
3. Reserves for Credit Guarantee	27		27		-
II. Capital Adjustment		(15)		(17)	2
1. Marketable Security Valuation Gain or Loss	(15)		(17)		2
III. Accumulated Deficit		21,417		20,502	915
1. Adjusted Accumulated Deficit Carried Forward	20,502		18,834		1,668
2. Net Losses	915		1,668		Δ753
Total Capital		6,367		3,814	2,553
Total Liabilities and Capital		11,269		10,110	1,159

# Housing Finance Credit Guarantee Fund

## 2. Summary Income Statement

Term 20: January 1, 2007 - December 31, 2007 / Term 19: January 1, 2006 - December 31, 2006

	Item	Term 20	)	Term	19	· Variance	
	nem	Amount		Amou	ınt		
I	Operating Revenue		2,151		1,973	178	
	1. Guarantee Fees	584		611		Δ27	
	2. Interest on Arrears	35		56		Δ21	
	3. Interest on Deposits	196		208		Δ12	
	4. Interest on Securities	209		225		Δ16	
	5. Transfers from Credit Guarantee Provision	1,127		873		254	
П	Operating Expenses		3,024		3,607	Δ583	
	1. Interest Payments	71		80		Δ9	
	2. Commissions Paid	47		51		$\Delta 4$	
	3. Derivatives Transaction Losses	132		165		Δ33	
	4. Administrative Expenses	275		248		27	
	5. Indemnity Right Write-Offs	2,470		3,046		Δ576	
	6. Depreciation	29		17		12	
Ш	Operating Losses		873		1,634	Δ761	
IV.	Non-operating Revenue		26		29	Δ3	
	1. Recovery of Bad Debts Written-Off	24		18		6	
	2. Miscellaneous Revenue	2		11		Δ9	
V	Non-operating Expenses		68		63	5	
	1. Subrogation Payment Write-Offs	20		17		3	
	2. Bad Debt Administrative Expenses	33		35		$\Delta 2$	
	3. Miscellaneous Expenses	15		11		4	
VI	Ordinary Losses		915		1,668	Δ753	
VII	Losses before Income Tax Expenses		915		1,668	Δ753	
VIII	. Income Tax Expenses		-		-	-	
IX	. Net Losses		915		1,668	Δ753	

# 3. Summary Basis Capital Statement

Term 20: as of December 31, 2007 / Term 19: as of December 31, 2006

Item	Term 20		Term 19		Variance	
nem	Amou	Amount		ount	variance	
I. Basis Capital		27,799		24,333	3,466	
1. Basis Capital at Establishment	193		193		-	
Government Contribution	100		100		-	
Financial Institution						
Contribution	66		66		-	
Reserves for Credit Guarantee	27		27		-	
2. Contributions	27,606		24,140		3,466	
Government	14,720		13,720		1,000	
Financial Institution	12,886		10,420		2,466	
II. Accumulated Deficit		21,417		20,502	915	
1. Adjusted Accumulated Deficit Carried	20,502		18,834		1,668	
Forward						
2. Net Losses	915		1,668		Δ753	
III. Capital Adjustment		(15)		(17)	2	
1. Marketable Security Valuation Gains	(15)		(17)		2	
IV. Net Basis Capital		6,367		3,814	2,553	
V. Loan Payables		1,540		1,820	$\Delta 280$	
VI. Guarantee Balance		87,213		81,107	6,106	
VII. Operating Multiples		11.03 times		14.40 times	$\Delta 3.37$ times	

## Reverse Mortgage Guarantee Accounts

## Audit Report by External Auditor

到韓英會計法人 FRNST&YOUNG HANYOUNG

10-2 Yeoeuido-dong, Yeongdeungpo-gu, Seoul Ernst & Young HanYoung

To the BOD of Reverse Mortgage Guarantee Accounts

February 11, 2008

The financial statements of the Reverse Mortgage Guarantee Accounts (hereinafter "the Accounts") have been audited and reviewed. The Balance Sheet, Income Statement, Appropriation of Retained Earnings Statement, Statement of Changes in Shareholders' Equity, and Cash-flow Statement figures were produced as of December 31, 2007. The responsibility for producing the financial statements lies with the management of the Accounts. The responsibility of the auditor is to audit the financial statements and express opinions thereon.

The audit was performed in accordance with the Financial Auditing Standards of the Republic of Korea (ROK). The Standards required that audits be performed so as to be reasonably certain that no material distortions had been made to the financial statements. Audit evidence supporting the figures of the financial statements and publicly announced information was verified by means of sample testing. The audit includes not only overall evaluation on the contents of statements but also evaluations on the applied accounting principles and assumptions. It is believed that the auditing process provided a rational foundation for opinions to be demonstrated.

It is the opinion of the auditor that the presented financial statements adequately represent the financial position, the business performance, changes in retained earnings and capital, and the cash-flow of the Accounts for the fiscal year ending December 31, 2007. The statements are sufficiently expressed in view of materiality in accordance with the corporate accounting standards generally accepted in the ROK and the National Finance Act (formerly, the General Law of Fund Management) and applicable regulations

Seung Wha Gweon

This Audit Report is effective as of February 11, 2008. Hereafter, from this date, any incident or condition having material impact on the attached financial statements that may occur shall require an audit report of modification.

# 1. Summary Balance Sheet

Term 1: as of December 31, 2007

Itoms	Term 1				
Item -		Amount			
I. Current Assets		8,193			
1. Demand Deposits	621				
2. Time Deposits	7,500				
3. Other Current Assets	72				
II. Fixed Assets		2,592			
1. Tangible Assets	2,592				
Total Assets		10,785			
I. Current Liabilities		41			
1. Accounts Payable	40				
2. Unearned Revenue	1				
II. Fixed Liabilities		149			
1. Provision for Reverse Mortgage Guarantee	44				
2. Provision for Retirement Allowance	105				
Total Liabilities		190			
I. Basis Capital		10,001			
1. Government Contribution	10,000				
2. Financial Institution Contribution	1				
II. Accumulated Profit		594			
1. Net Income	594				
Total Capital		10,595			
Total Liabilities and Capital		10,785			

# **Reverse Mortgage Guarantee Accounts**

## 2. Summary Income Statement

Term 1: April 12, 2007 - December 31, 2007

(Unit: KRW million)

Item	Term 1				
пеш	Amount				
I. Operating Revenue		2,531			
1. Guarantee Fees	2,391				
2. Interest on Deposits	140				
II. Operating Expenses		1,937			
1. Administrative Expenses	1,849				
2. Transfers to Reverse Mortgage Guarantee	44				
Provision					
3. Depreciation	44				
III. Operating Profit		594			
IV. Profit before Income Tax Expenses		594			
V. Income Tax Expenses		-			
VI. Net Income		594			

# 3. Summary Basis Capital Statement

Term 1: as of December 31, 2007

Item	Term 1				
пеш	Amount				
I. Basis Capital		10,001			
1. Government Contributions	10,000				
2. Financial Institution Contributions	1				
II. Accumulated Profit		594			
1. Net Income	594				
III. Net Basis Capital		10,595			
IV. Guarantee Balance		4,420			
V. Operating Multiples		0.42 times			

#### Student Loan Credit Guarantee Fund

## Audit Report by External Auditor

到韓英會計法人 FRNST&YOUNG HANYOUNG

10-2 Yeoeuido-dong, Yeongdeungpo-gu, Seoul Ernst & Young HanYoung

To the BOD of the Student Loan Credit Guarantee Fun

February 11, 2008

The financial statements of the Student Loan Credit Guarantee Fund (hereinafter "the Guarantee Fund") have been audited and reviewed. The Balance Sheet, Income Statement, Appropriation of Retained Earnings Statement, Statement of Changes in Shareholders' Equity, and Cash-flow Statement figures were produced as of December 31, 2007. The responsibility for producing the financial statements lies with the management of the Guarantee Fund. The responsibility of the auditor is to audit the financial statements and express opinions thereon. The financial statements for the fiscal year ending December 31, 2006, which are provided for comparison, were audited by Daejoo Accounting Corporation. The audit opinion of Daejoo Accounting reported as of January 31, 2007 was "adequate."

The audit was performed in accordance with the Financial Auditing Standards of the Republic of Korea (ROK). The Standards required that audits be performed so as to be reasonably certain that no material distortions had been made to the financial statements. Audit evidence supporting the figures of the financial statements and publicly announced information was verified by means of sample testing. The audit includes not only overall evaluation on the contents of statements but also evaluations on the applied accounting principles and assumptions. It is believed that the auditing process provided a rational foundation for opinions to be demonstrated.

It is the opinion of the auditor that the presented financial statements adequately represent the financial position, the business performance, changes in retained earnings and capital, and the cash-flow of the Guarantee Fund for the fiscal year ending December 31, 2007. The statements are sufficiently expressed in view of materiality in accordance with the corporate accounting standards generally accepted in the ROK, the National Finance Act (formerly, the General Law of Fund Management) and applicable regulations, and the accounting guidelines of the Student Loan Credit Guarantee Fund.

Seung Wha Gweon

CEO

This Audit Report is effective as of February 11, 2008. Hereafter, from this date, any incident or condition having material impact on the attached financial statements that may occur shall require an audit report of modification.

## Student Loan Credit Guarantee Fund

## 1. Summary Balance Sheet

Term 3: as of December 31, 2007 / Term 2: as of December 31, 2006

Terror.	Term	ı 3	Term 2		Mariana
Item	Amor	unt	Amou	ınt	Variance
I. Current Assets		2,596		2,049	547
1. Deposits	1,958		1,998		$\Delta 40$
Demand Deposits	128		168		$\Delta 40$
Time Deposits	1,730		1,830		$\Delta 100$
RP	100		-		100
2. Short-term Trading Securities	561		-		561
Short-term Trading Securities	561		-		561
3. Indemnity Rights	10		1		9
Indemnity Rights	158		21		137
Allowance for Indemnity Rights Write-Offs	(148)		(20)		Δ128
4. Other Current Assets	67		50		17
Accrued Revenue	67		50		17
II. Fixed Assets		1,143		41	1,102
1. Bonds Held to Maturity	1,100		-		1,100
2. Tangible Assets, etc.	43		41		2
Total Assets		3,739		2,090	1,649
I. Current Liabilities		506		274	232
1. Other Current Liabilities	506		274		232
Accounts Payable	8		6		2
Unearned Revenue	498		268		230
II. Fixed Liabilities		531		183	348
Provision for Credit Guarantee	531		183		348
Total Liabilities		1,037		457	580
I. Basis Capital		2,835		1,612	1,223
1. Government Contribution	5,361		3,172		2,189
2. (Contribution to Cover Interest Difference)	(2,526)		(1,560)		Δ966
II. Retained Earnings		(133)		21	$\Delta 154$
1. Retained Earnings Carried Forward	21		35		$\Delta 14$
2. Net Income	(154)		(14)		$\Delta 140$
Total Capital		2,702		1,633	1,069
Total Liabilities and Capital		3,739		2,090	1,649

## 2. Summary Income Statement

Term 3: January 1, 2007 - December 31, 2007 / Term 2: January 1, 2006 - December 31, 2006

(Unit: KRW100 million)

Item -	Term 3		Term 2		Variance	
item -	Amount		Amount		- variance	
I. Operating Revenue		426		262	164	
1. Guarantee Fees		273		181	92	
Regular Guarantee Fees	210		152		58	
Low interest Guarantee Fees	38		11		27	
Interest-free Guarantee Fees	25		18		7	
2. Interest Revenue		141		81	60	
3. Short-term Trading Securities Valuation Gains		12		-	12	
II. Operating Expenses		580		276	304	
1. Guarantee Fee Refund		20		7	13	
2. Fees Paid		74		61	13	
3. Depreciation		10		5	5	
4. Other Operating Expenses		476		203	273	
Indemnity Right Write-offs	128		20		108	
Transfer to Credit Guarantee Provision	348		183		165	
III. Operating Income		(154)		(14)	$\Delta 140$	
IV. Net Income		(154)		(14)	$\Delta 140$	

## 3. Summary Basis Capital Statement

Term 3: as of December 31, 2007 / Term 2: as of December 31, 2006

Item	Term 3		Term 2		Variance	
Rem	Amou	ınt	Amount		r variance	
I. Basis Capital		2,835		1,612	1,223	
1. Contributions	2,835		1,612		1,223	
Government Contributions	5,361		3,172		2,189	
(Contribution to Cover Interest Difference)	(2,526)		(1,560)		Δ966	
II. Retained Earnings(A)		(133)		21	$\Delta 154$	
1. Retained Earnings Carried Forward	21		35		$\Delta 14$	
2. Net Income	(154)		(14)		$\Delta 140$	
III. Basis Capital Total		2,702		1,633	1,069	
Contributions for Credit Guarantee (B)		2,239		1,249	990	
Basis for Calculating Operating Multiples		2,106		1,271	835	
(C=A+B)						
Guarantee Balance		34,816		18,317	16,499	
Operating Multiples		16.53 times		14.41 times	2.12 times	

<sup>(</sup>B): Deducted KRW252.6 billion (paid) and KRW59.6 billion (scheduled to pay) to cover interest difference from government contributions (KRW536.1 billion)

