



ANNUAL REPORT 2012

ksure

Make Your Trade Sure

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KOREA TRADE INSURANCE CORPORATION ANNUAL REPORT 2012

K-sure 20-year history

Although many changes have occurred in Korea as well as around the world since K-sure was established in July 7, 1992 under the name of KEIC, one thing has never changed, ie., our commitment to become a pillar supporting the Korean economy.

K-sure Profile

Korea Trade Insurance Corporation(K-sure) was established in July 1992 under the Trade Insurance Act of Korea with the goal of promoting the country's national competitiveness by boosting trade and overseas investment. As an export/import and investment insurer under the supervisory guidance of the Ministry of Trade, Industry and Energy we offer export, import, overseas investment, export bond and other insurance or guarantee programs and play the following roles:

- Extend a wide range of export/import(trade) insurance and guarantee programs to cover risk from the export and import of commodities and capital goods; overseas construction works and overseas investments; management of foreign exchange and interest rate fluctuations; export of cultural and other services; and other external transactions
- Provide credit information services including credit research and buyer/seller credit information management along with overseas debt collection services
- Strive to become a "public corporation trusted by the people of Korea" with emphasis on customer satisfaction based on ethical and innovative management aimed at integrity, transparency, sharing, and communication
- Duly offer trade insurance programs within an underwriting ceiling set and approved by the National Assembly each year using this amount in addition to contributions made by the government of Korea in the "Trade Insurance Fund" and responsibly manage the resulting reserve funds
- Boost the role of trade insurance aimed at leading stable trade and overseas investment activities, strengthening the national economy, and contributing to economic development for the people of Korea by promoting trade

K-sure 20-year history

Although many changes have occurred in Korea as well as around the world since K-sure was established in July 7, 1992 under the name of KEIC, one thing has never changed, ie., our commitment to become a pillar supporting the Korean economy.

K-sure History

1968 ~ 1978

- **1968**
Dec. The Export Insurance Act is adopted and proclaimed.
- **1969**
Feb. Korean Reinsurance Company(KOREAN RE) takes over the export credit insurance business from the government of Korea.
- **1977**
Jan. The Export-Import Bank of Korea takes over the export credit insurance business from KOREAN RE.

1979 ~ 1993

- **1979**
Jan. The governing authority of the export credit insurance business transfers to the Ministry of Finance to the Ministry of Commerce and Industry.
- **1992**
July Korea Export Insurance Corporation(KEIC) is formed to take charge of the export credit insurance business.
- Nov.** Export Credit Guarantee is launched.

1994 ~ 1999

- **1994**
Nov. Short-Term Export Credit Insurance, Agro-Fisheries Export Insurance, and Market Development Insurance are launched.
- **1996**
Dec. KEIC joins the OECD ECG and GOP Committee.

2000 ~ 2005

- **2000**
Feb. Foreign Exchange Risk Insurance is launched.
- **2003**
Mar. Reliability Insurance is launched.
- **2004**
Jan. The overseas debt collection services are started.
- **2005**
July Service Export Credit Insurance is launched.
- Sept.** The Resource Development product under Overseas Investment Insurance is launched.

2006 ~ 2007

- **2006**
Nov. Overseas Resources Development Fund Insurance is launched.
- Dec.** Overseas Business Financing Insurance is launched.
- **2007**
Dec. Cultural Export Insurance is launched.
- Dec.** Overseas Marketing Insurance is launched.

2008

- **2008**
Mar. Carbon Insurance Wrap is launched.
- Apr.** SME Plus+ Insurance is launched.
- May** Commodity Price Fluctuation Risk Insurance is launched.
- July** Agro-Fisheries Export Package Insurance is launched.
- Sept.** The total business volume exceeds KRW 100 trillion.
- Dec.** Comprehensive Overseas Resource Development Insurance is launched.

2009 ~ 2011

- **2009**
Apr. Export Financing Facility (EFF) is launched.
- May** The Customer Service Center opens.
- **2010**
July KEIC assumes the new name, Korea Trade Insurance Corporation(K-sure), and NEW VISION 2020 is proclaimed.

2012

- **2012**
Jan. The Anti-Corruption & Civil Rights Commission names K-sure to have one of the best transparency policy in Korea.
- Dec.** The total business volume exceeds KRW 200 trillion.

Highlights in 2012

Implementation of Special Measures for Export Expansion



Increased the target business volume as part of the contingency plans to better support trade (July~October)

We increased our 2012 target business volume by KRW 10 trillion to KRW 200 trillion from KRW 190 trillion set earlier in the year and set/implemented specific measures to realize the results at an early stage.

Between August and October 2012, we focused our resources to better support small-sized enterprise via export expansion amid a difficult global economy by pursuing measures to help Korean exporters actively penetrate the global market by increasing our underwriting limits, extending premium discounts, operating local support centers, etc.

Increased the number of "Trade Champs Club" members (June)

We organized the "Trade Champs Club" to extend our services tailored to the outstanding small and medium-sized enterprises chosen based on their potential to become a "hidden champion". We increased the number of its members from 70 to 121 to help boost their competitiveness through a systematic growth program.

* The law of Korea distinguishes SMEs into small-sized and medium-sized enterprises

Provided better local support through Mobile-K Office (November)

Through our Mobile K-Office, we provided credit information of some 80 importers in Africa and other emerging countries to our clients as it is difficult to obtain buyer credit information in these regions, in addition to extending USD 390 million in cover for these countries.

Strengthened Partnership with Related Institutions to Realize Synergic Effects



Major Events and Awards



Launched a joint support program in conjunction with commercial banks to better support Korean enterprises to penetrate emerging markets (June)

We constructed a seamless insurance-finance joint support system to boost business presence of Korean companies that penetrate emerging markets where we would grant preferential support to these companies through our insurance to make sure they recover their export proceeds, and also give financial institutions preferential interest rates.

Launching of a joint assistance program for those companies with advanced technologies (December)

We operate a joint assistance program in conjunction with Korea Technology Finance Corporation (Kibo) to expand overseas business presence of outstanding Korean small and medium-sized enterprises with advanced technologies. By doing so, we were able to connect our covers on overseas risk with financing by Kibo to protect and facilitate Korea enterprises on their overseas business.

Project Finance International Magazine chose K-sure "Global Multilateral of the Year 2012"

ChosunBiz recognized K-sure for its social contributions by "sharing love" with others (December)



Ksure
KOREA TRADE INSURANCE CORPORATION

Build a base that enables
trade to maintain sustainable
and quantitative growth

CEO's Message

Dear clients,

The year 2012 has been meaningful to us at K-sure as it has been our 20th anniversary of the foundation when we let people know about our growth and role toward making Korea one of the trade powerhouses in the world. We had a humble beginning 20 years ago but are now recognized as a global ECA that leads trade policy of the world as a young public corporation representing Korea.

Since the 2008 global financial crisis, we at K-sure had focused our efforts to better support Korean enterprises to actively penetrate the global market by transforming this crisis into early recovery as if to buck the trend. We mobilized our contingency management plans geared toward export support also in 2012 to diversify export markets and pioneer new ones. By doing so, our total business volume increased 5.2% from the previous year's KRW 192 trillion to KRW 202 trillion, which was the record high volume in our history. Our efforts were paid off by helping Korea reach USD 1 trillion in trade and become the 8th largest trading nation in the world for two consecutive years.

On top of the increased business volume, it was also in the same year when we set up a new paradigm to support "sustainable growth of the trade sector" by focusing on the following three areas.

First we focused on strengthening the export competitiveness of Korea by actively fostering small and medium-sized enterprises, which stand at the center of the Korean economy to help the country take giant steps toward achieving USD 2 trillion in trade by moving beyond the current USD 1 trillion mark. For example, we increased the number of the "Trade Champs Club" members from 70 to 121 and introduced various joint support programs by concluding MOUs with Shinhan Bank and other financial institutions to facilitate export financing.

Second we shifted our gear to aid Korean exporters to enter emerging markets, ie., a new export engine, while not sparing our capacity to help Korean enterprises capture emerging markets early on. We devised a new scheme for 86 strategically important niche markets

composed of ASEAN and Middle East countries, which are emerging as alternative to advanced markets. Particularly, we constructed the Mobile-K Office, the on-site system where exporters can obtain information on buyers from Africa locally and have their underwriting limits in real time.

Third 2012 has highlighted the role of K-sure with an increasing "pre-financing, post-contract award" trend, as more sponsors of large shipbuilding, plant and natural resources projects look for from their EPC contractors. This was why we extended CEO-marketing to large sponsors in the major plant project market in Saudi Arabia and other Middle Eastern countries for Korean contractors to enjoy benefits from a "second Middle East boom".

Moreover our MLT financing support hit a record at KRW 18 trillion by networking with global ECAs as well as financial institutions in the Middle East, China and Japan to boost the MLT market that faltered amid the global financial crisis. As such, Project Finance International Magazine selected the Ichthys LNG Project in Australia and three other deals backed by K-sure as "Deals of the Year" and named K-sure "Global Multilateral Year 2012".

Dear clients!

K-sure is the only policy financing support institution in Korea that covers overseas buyer risk with the mission to find and support difficult and risky deals. With this mission in mind, we will lay the platform for Korea to achieve USD 2 trillion in trade early by contributing to strengthening the two pillars for economic growth of Korea, ie., export promotion and job creation, with a gleaner's mindset who would not differentiate between small and large transactions.

We ask you for your continued support and interest. Thank you very much.

Kye R. Cho

Cho, Kye-Ryoong
Chairman and President
Korea Trade Insurance Corporation

The Role of K-sure for Trade in 2012

The year 2012 had been troublesome as the European debt crisis spread to advanced countries in the region. With Spain seeking bailout for the banking sector as well as for the entire nation, a majority of the Euro zone faced economic slump, credit deterioration, and other difficulties. Moreover, most advanced countries faced the dilemma of having to choose between austerity measures and stimuli for economic growth. On the other hand, emerging countries had their share of problem as they faced export slump, consequent to economic downturn in advanced nations. With growth slowing down for two years in a row, the global economy grew only 3.5% in 2012.

As for advanced countries, the US showed a slower recovery as the threat from the fiscal cliff highlighted. Despite large stimulus plans, Japan continued to show slow growth. In the case of EU countries, their economies showed recession or were in stalemate as they adopted tightening measures.

Despite this difficult global environment, continuing from 2011, Korea was able to maintain its USD 1 trillion in trade in 2012 as well as its recorded USD 548.2 billion in exports and USD 519.5 billion in imports. Particularly, the trade volume of Korea stepped up by a notch from the world's 9th to the 8th, setting a new record for Korea.

In addition to the adverse external condition, i.e., the global economic slump, the export platform of Korea faltered with a distressed business atmosphere and expanded overseas production base; however, Korea was able to come out a winner in trade as its petrochemical, semiconductor and automobile exports fared well. Petrochemical products particularly became the number one exports of Korea for the first time in history, thanks to increased supply and oil prices.

The Korean government's efforts to promote economic cooperation with other countries also came into fruition. Its active exploration into emerging markets resulted in a 10% increase in exports to ASEAN and Middle Eastern countries, as well as significant increases in trade with FTA partners, pulling total exports forward.

On the other hand, we at K-sure extended KRW 202 trillion trade support through various insurance and guarantee programs to assist those Korean enterprises seeking business routes, contributing to Korea achieving USD 1 trillion in trade for two consecutive years. Our global competitiveness was recognized as we were named "Global Multilateral of the Year 2012" by PFI Magazine and "Best Asia-Pacific ECA 2012" by Trade Finance Magazine.

2013 Outlook on Trade and Role of K-sure

Led by the US and China, the global economy is expected to improve in 2013 compared to the previous year. However, risk still exists as the European financial crisis continues and the US may tighten its fiscal policy. Despite stronger policy measures by advanced countries, global economic recovery is expected to be weak with simultaneous implementation of tightening measures geared toward fiscal soundness and slow recovery in employment. Nonetheless, China and other emerging countries are likely to recover slowly with increased consumption and relatively decent policy measures.

In 2013, a gradual recovery of the global economy with a rising demand of durable goods from advanced countries, economic recovery in the US and China, and other favorable factors are expected to impact positively on the global trade volume. However, the continuing global financial crisis and a not much favorable trading environment with the expansion of protectionism in each country would increase the global trade volume only slightly, limited at the 4% level, which is a little more than that of the previous year.

Along with a slow global economic recovery, Korean exports would recover as well; however, a strong Korean won is expected to continue in 2013 as well with accumulated positive current account on top of

quantitative easing by different countries around the world. Hence, export drop and negative performance by companies are unavoidable. Particularly, stalling exports are expected, especially those products that are sensitive to price competition with exports are expected to grow at a single-digit level, which is also expected with import growth with increased domestic consumption, stable oil prices, etc. In short, it would be a smooth ride for Korea achieving USD 1 trillion in trade volume.

This is the time that Korea needs to leap forward toward USD 2 trillion in trade from the current 1 trillion mark. By marching along with the country and under the goal of creating value as a global ECA, we will strive to help exporters in resolving their problems, actively aid Korean businesses to pioneer emerging markets, and take measures to help small and medium-sized enterprises transform into global companies.



Major Business Achievements

We let Korean exporters spread the wings of hope

Operating under contingency in 2012 to deal with the global financial crisis, our business volume exceeded KRW 202 trillion in the efforts to support diversifying export markets and pioneer new markets for Korean exporters. By doing so, we helped Korean exporters fully spread their wings of hope to advance into the global market.

KRW 206 Trillion

2013 Target Business Volume

Of our total target volume of KRW 206 trillion, small and medium-sized enterprises are to receive KRW 35 trillion in support, a 21% YOY increase.



2012 Business Performance and 2013 Business Plans



2012 Business Performance

KRW 202 Trillion in Cover (5.2% Year-on-Year Increase), a Safety Net for Korea Achieving USD 1 Trillion in Trade

We set our target business volume at KRW 190 trillion in early 2012 but increased this target by KRW 10 trillion to KRW 200 trillion in July by switching our mode of operation from normal to contingency to better assist Korean companies as the global financial crisis lingered on and the Korean economy faltered with exports taking sharp drop.

By end of 2012, we extended 101% of this new target with a total of KRW 202 trillion in our insurance and guarantee covers to facilitate export finance under deteriorated financing conditions and eliminate uncertainties from recoveries from those overseas transactions on credit, on top of offering buyer information for small and medium-sized enterprises to help them with their emerging market penetration.

Thus, we were able to play a leading role in Korea achieving USD 1 trillion in trade by graduating from the financial crisis early on through expanding exports and overseas market penetration in the EPC and other sectors, amid a difficult trading environment.

KRW 29 trillion was extended to support small and medium-sized enterprises to resolve their liquidity shortage, offered them premium discounts to reduce their financial burden, and operated a special unit to expedite help them resolve trading-related issues arising during the course of exportation. In short, we were able to help them grow and transform into global companies.

KRW 100 trillion of cover was extended to those enterprises entering emerging markets so they can overcome limitations in existing markets and pioneer future markets as new growth engines.

In addition, KRW 18 trillion of cover went into MLT financing to help Korean exporters win overseas generation, construction, resource development and other mega-projects by facilitating their financing; thus, we help them successfully bid on these projects in various locations in the world despite weak global financial markets.



Strengthened the Trade Insurance Business from Inside and Set Up a Stable Operation Platform

With the need for systematic and scientific risk management as the size of trade insurance continued to grow, we adopted an advanced risk management system to boost its accuracy by revising our exposure calculation methods and devising risk measurement models and other processes.

Early detection of risk became possible through pre- and post-monitoring, and we sought appropriate risk countering measures by introducing risk indices of other credit agencies to our internal risk management system. On the other hand, monitoring cycles were shortened and monitoring targets were revised. In short, we actively countered risk from the lingering global financial crisis. Particularly, a task force team was formed to constantly monitor risk from Greece, Spain, and other high risk countries.

We placed various efforts to improve our recoveries. For instance, we formed a consultative group composed of debt collection experts internally and externally who sought different strategies and adopted tailor-made tactics for each debt. We also expanded our international network for overseas debt collection and addressed cases of insured events early on.

Established a Customer-Friendly Support System to Listen to Their Voices

We tried to solve export-related problems of our customers as soon as possible through our customer center, and improved customer satisfaction using the "monitoring by customer" system, through which we would listen to their problems, receive their proposals, and reflect issues raised to our programs. As a result, K-sure was rated by the government to be one of the best institutions with an excellent CS index.

2013 Business Plans

On the global economy in 2013, economic recession is expected to continue in advanced countries, whereas strong growth would not be maintained in emerging countries as previously. In short, a lagging global economy is expected to persist. Hence, the Korean economy is also projected to show a slow growth with deteriorated external conditions.

A strong Korean won is expected to continue for the year, with a strongest won recorded in the beginning of the year. The role of our cover will be ever more important with not much prospect of improved global trade for Korean exporters in 2013 as well but more intense competition expected among major export nations in the world.



Our business goal for 2013 is “building a safety net for trade toward the era of USD 2 trillion in trade”, under which KRW 206 trillion is set aside for our business. This volume is KRW 4 trillion more than that of 2012. Particularly, the volume for small and medium-sized enterprises is substantially increased to KRW 35 trillion to facilitate financing for their business as they have difficulties amid a weak global economy and decreased domestic consumption. By doing so, we will contribute to their growth, working eventually toward economic recovery and creating decent jobs.

As for Specific Plans for the Trade Insurance Business :

First

we plan to seek specific measures tailored to small and medium-sized enterprises for each stage of their growth for them to advance into global companies. On the other hand, we will help to turn a company focusing on domestic consumption to an exporter through our all-around support program tailored to the characteristics of and demand by each company and provide favorable terms of trade insurance for those beginner exporters and starting-over exporters. In short, we are pursuing various measures to support small-sized enterprise.

For medium-sized enterprises, we will help them turn into global companies using the export credit liquidation, the Trade Champs Club, and other programs specifically tailored for these companies.

For small-sized enterprise that lag resources to obtain overseas buyer information, we will continue to expand our infrastructure to obtain more accurate and ready buyer information, anywhere in the world. On the other hand, various measures are devised to counter loss by small and medium-sized enterprises from a strong Korean won by offering more FX fluctuation insurance cover, consultation for FX risk management, and training sessions on how to manage FX fluctuations.

Second

for a sluggish global project finance market, we will continue to support Korean capital goods exporters and EPC contractors to win overseas project bids by financing through bond issuance. We will also diversify the source of finance by cooperating with international commercial banks, forming a joint financing system with policy-based financial institutions, and cooperating with global ECAs via coinsurance and reinsurance.

In addition, moving on from the Middle East where our financial support was concentrated as it had been the major EPC export market for Korea, we intend to focus also on Africa, Latin America and other regions to diversify export markets as well as to expand the market basis, while applying appropriate risk spread.



Third

for those exporters entering emerging markets, we will step up our market pioneering support to help them secure their presence via expanding their market shares. In short, we will strengthen our local support via our Mobile K-Office, through which they can obtain local buyer credit information and credit limits.

Moreover, we intend to strengthen our support to expand participation by Korean EPC contractors for resource and infrastructure development projects in emerging resource-rich nations by cooperating with global and policy-based financial institutions.

Fourth

we aim to continue strengthening our risk management in line with our increasing business volume. Monitoring cycles will be shortened for early detection of risk signs, while the internal monitoring control system will be improved for better compliance and the goal of strengthening risk monitoring. Furthermore, credit research and analysis by country and industry will be supplemented by cooperating with external research centers for the goal of preparing for uncertainties in the global market and secure the basis for stable business operation.



Fifth

we formed the overseas recoveries unit that concentrates specifically on recovering debts from abroad so that the debt recovery efforts would start as soon as an insured event occurs, while trying to increase recovery rates by rating foreign recovery agencies and compensating them accordingly, based on their debt collection performance.

Sixth

we will continue to donate our talents regularly to help the handicapped to gain independence, support the socially marginalized with such activities as helping them experience cultural events, and increase the sale of goods produced by socially responsible businesses. Moreover, we will form volunteer groups composed of K-sure employees and their families to volunteer regularly with the goal of boosting the sentiment of sharing and coexistence.

Despite the global as well as domestic difficulties last year, we faithfully fulfilled our role as a policy-based financial institution supporting exports that helped Korea achieve the goal of USD 1 trillion in trade. Continuing our role in 2013 as well, we will fortify our safety net for trade under Korea's goal of attaining USD 2 trillion in trade with our focus on globalizing small and medium-sized enterprises, financing overseas EPC and other SOC projects and penetrating emerging markets by Korean enterprises.

Overview on Underwriting

Underwriting

In 2012 exports were sluggish in general with a record drop in July due to the European debt crisis and other factors. This drop was the worst drop since October 2009 when exports plummeted to their lowest in the aftermath of the global financial crisis. Expecting poor export performance to continue, we implemented a set of contingency measures for the first time at the end of October after opening up a window for intense support using our trade insurance programs in mid August as we saw attaining the USD 1 trillion mark in trade would not be feasible with more difficulties expected for exporters.

The government of Korea lauded K-sure for its role in turning exports around to positive for the first time in 4 months as we covered a total of KRW 170 trillion by the end of October utilizing all our available resources. Continuing our all-out-support efforts until the end of the year, our business volume totalled KRW 202 trillion, a 5.3% year-on-year increase and the highest in the history of K-sure.

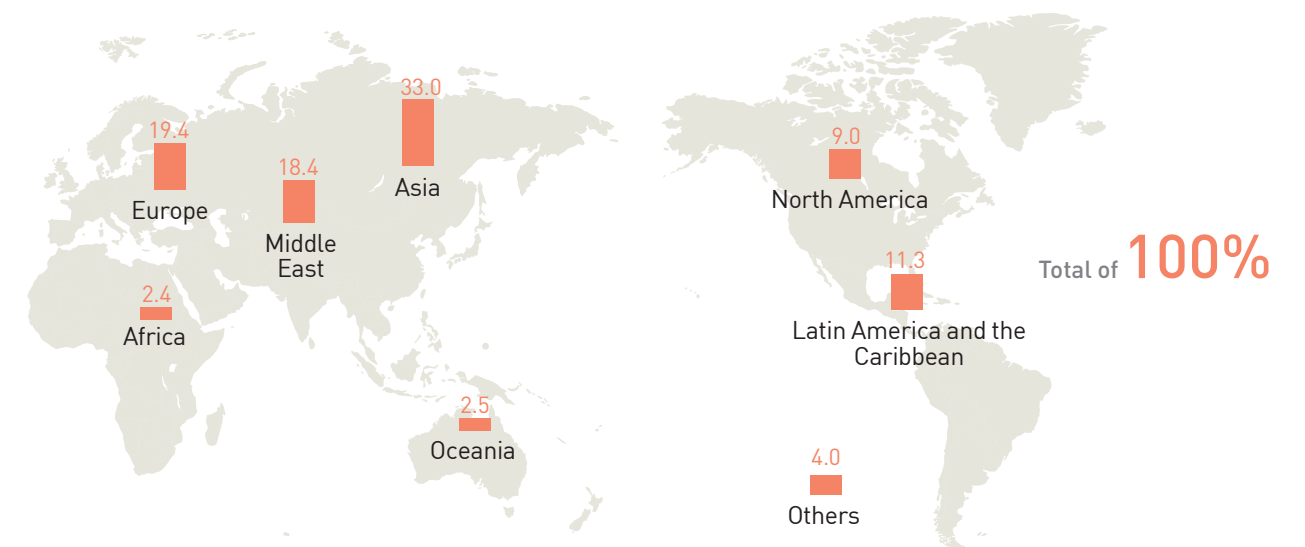
Business Volume

(Unit : case, KRW billion, %)

| Year | Number of cover | Business volume | YoY |
|-------------|-----------------|-----------------|------------|
| 2008 | 439,921 | 129,802 | 41.7 |
| 2009 | 535,864 | 164,960 | 27.1 |
| 2010 | 657,707 | 187,352 | 13.6 |
| 2011 | 721,226 | 192,180 | 2.3 |
| 2012 | 767,732 | 202,300 | 5.3 |

Outstanding Commitments by Region (end of 2012)

(Unit : %)



Outstanding Commitments

Outstanding commitments by end of 2012 stood at KRW 97 trillion, a 3.9% year-on-year increase.

By region, the outstanding commitment volume was the highest for Asia, followed by Europe and the Middle East. It increased the most for Africa, whereas the rate of increase was similar for most of the regions, except the Middle East where a 11.8% drop was seen.

Outstanding Commitments by Region (end of 2012)

(Unit : KRW billion)

| Region | Amount | Ratio out of total | YoY |
|---------------|---------------|--------------------|--------------|
| Asia | 32,045 | 33.0% | 2.53% |
| Middle East | 17,877 | 18.4% | △11.80% |
| Europe | 18,863 | 19.4% | 2.82% |
| North America | 8,709 | 9.0% | 19.63% |
| Latin America | 11,004 | 11.3% | 29.82% |
| Africa | 2,311 | 2.4% | 7.67% |
| Oceania | 2,451 | 2.5% | 62.2% |
| Others | 3,881 | 4.0% | △7.91% |
| Total | 97,141 | 100.0% | 3.90% |

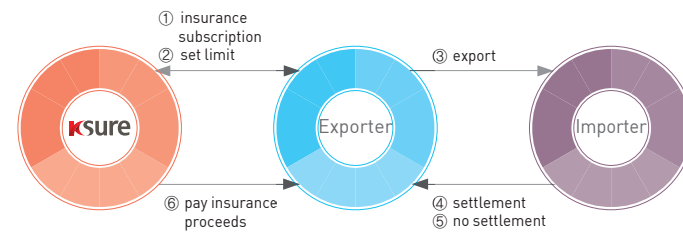
Short-Term Products

Introduction

Outline

Supporting those exporters or financial institutions involved in short-term transactions with a payment period of two years or less, Short-Term (ST) Export Credit Insurance covers commercial and political risk. The former includes export contract termination by importer, importer's default, importer's delay or refusal to settle export proceeds, etc. The latter includes a war or rebellion in the importing country, importing country limiting forex transactions, etc.

Short-Term Export Credit Insurance (Post-Shipment)



This program protects exporters from risky credit-based transactions and enables them to penetrate new markets by finding new importers by indemnifying exporters/policyholders in case of non-payment by importers. On the other hand, it helps financial institutions expand financing by facilitating them to finance export transactions that pose risk by nature.

Classification of ST Export Credit Insurance by Financing Function

Various factors are used to classify ST Export Credit Insurance with the most frequently used and meaningful classification done by a policyholder, i.e., by an exporter



or by a financial institution. Under this policyholder-based classification, ST Export Credit Insurance can function either as pure cover or cover on financing.

| Category | Pure cover (non-financing) | Cover on financing |
|-------------------|--|--|
| Policyholder | Exporter | Financial institutions |
| Covered target | Export proceeds, etc | Export receivables purchasing costs, etc. |
| Most used product | ST Export Credit Insurance (Post-Shipment) | Export Financing Facility (EFF) ST Export Credit Insurance (Forfeiting) |

Moving away from the past when we focused more on pure insurance, which covers the risk of importer's non-payment, we are boosting our competitiveness by expanding insurance on financing through such programs as forfeiting/factoring and other similar ST insurance products to meet an increasing demand by financial institutions that want to dodge risk from direct exposure.

Classification of Insurance by How a Program is Run

Based on how they are run, ST Export Insurance programs can be broadly divided into either specific or blanket insurance. Blanket insurance can further be divided into either semi-blanket or by-sector blanket cover.

Specific insurance covers a specific transaction for which the policyholder believes to have high risk. On the other hand, under blanket insurance, the policyholder (one subscribing the insurance) and the insurer (K-sure) conclude a blanket provision on all transactions for a certain scope, such as specific goods, settlement terms, etc., prior to the occurrence of the applicable transactions to be covered. Once this provision is in place, the policyholder is automatically covered. In other words, all transactions by the policyholder that fall under a certain set of scope are covered automatically under the blanket provision.

Comparison Between Blanket and Specific Insurance

| Category | Blanket insurance | Specific insurance |
|---------------|---|--|
| Outline | · All transactions that fall under a certain set of scope are covered (those transactions with settlement period less than 180 days) | · Insurance cover applied and extended per each transaction (those transactions with settlement period less than 2 years) |
| Advantages | Policyholder (User company) · Good for high risk transactions · Relatively low premia Insurer (K-sure) · Good for risk spread | · Selective cover on only those high risk transactions possible · K-sure can refuse cover on those high risk transactions |
| Disadvantages | Policyholder (User company) · Cover also required for low risk transactions Insurer (K-sure) · Obligation to cover even those high risk transactions | · Difficulty in covering high risk transactions · High premia than blanket policy · Risk spread difficult |



Major Program Improvements

Expand Support for Emerging Markets

After the global financial crisis in 2008, the center of global trade has shuffled, expanded, and became universal as it is being led by the G20 with the rise of China, India and other emerging countries, in place of the previous the G7 composed of the US and European and other advanced countries. As a result, the demand for our insurance products has increased as exports continue to expand to emerging countries.

On the other hand, exporters have many difficulties as they face the prevalent presence of non-transparent accounting practices, lack of credit information infrastructure, lagging regulations on accounting and related systems, and other challenges in many places in the world, which resulted in the rising demand of importer risk coverage.

Thus, we strengthened support to minimize those negative factors that would reduce exports to emerging markets starting in 2011, taking into account the needs of exporters and the special nature of these markets. On top of providing special support to the Middle East and the ASEAN region, we operate the "Mobile-K Office" through which K-sure employees actually visit the importer country to grant on-site support. As a result, the volume of emerging market support increased to KRW 85.7 trillion in 2012, which was a 7% increase compared to that of 2011.

Special Support for the Import of Important Strategic Commodities and Strengthening of Risk Management for Import Insurance

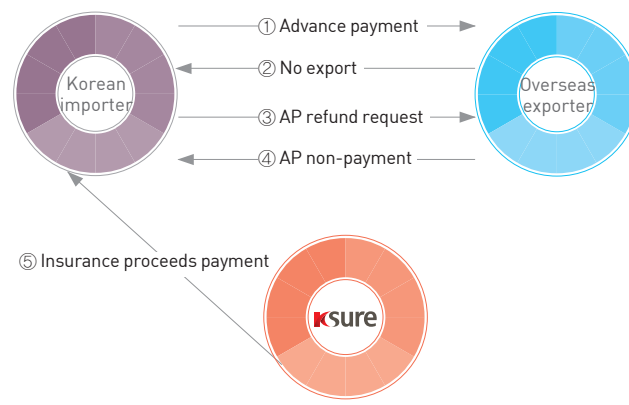
Amid the global economy where the competition to secure resources has intensified, a stable supply of major resources and commodities has become pivotal for the growth of the Korean economy, which depends

heavily on the import of the most needed resources. As such, K-sure adopted an import insurance scheme in July 2010 to cover the loss for Korean importers from political or commercial risk abroad, ensuing those import transactions that are on an advance-payment basis where we indemnify loss when importers cannot recover advance payments.

For example, we saw soaring grain prices with more than 20% increases in wheat and soybean prices as grain production plummeted from severe weather last year. We were able to curb the resulting inflation from food and feed price hikes by extending KRW 83.2 billion for grain imports in 2012, a 57% more than the volume for the previous year.

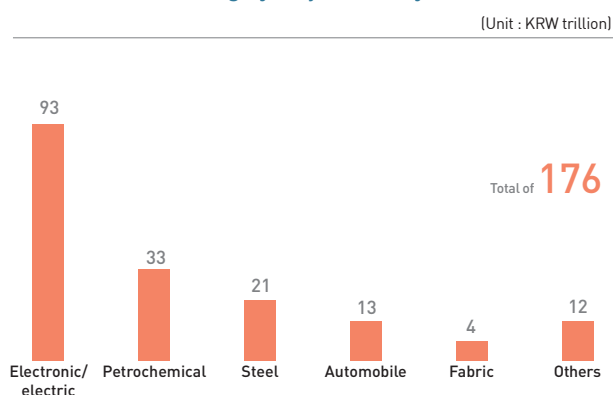
On the other hand, we strengthened our risk management through reducing the underwriting the ceiling per enterprise to grant stability to our portfolio that was lenient to certain enterprises and seeking importers with excellent credit ratings.

Support for AP Non-Payment Risk - for Importers (basic)

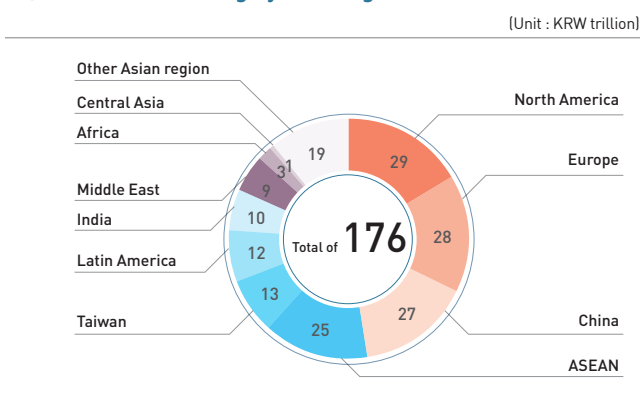


Overview on Underwriting Amounts

2012 Underwriting by Major Industry



2012 Underwriting by Each Region



Medium and Long-Term Products

Introduction

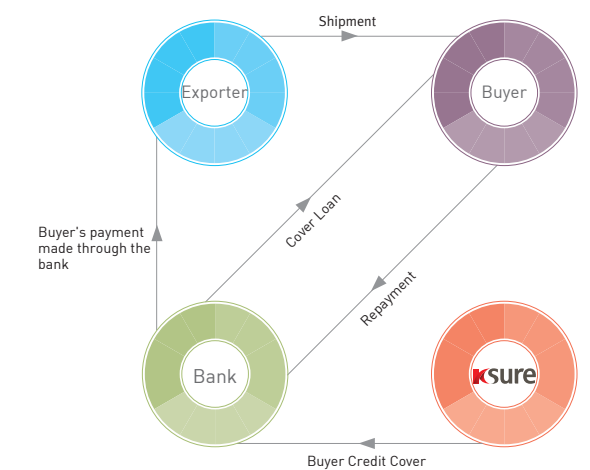
A majority being export transactions of capital goods that are needed in industrial facilities, MLT transactions typically involve large contracts, long term payment periods, and complex transaction structures. Rather than receiving their payments on a long-term basis, exporters in MLT transactions want to receive payments on a progressive basis as soon as they manufacture and ship their goods to reduce financial burden. Thus, buyers & importers usually obtain their own financing, at which time, lending institutions prefer ECA-backed financing as they want a safe recovery of their loans.

Our MLT line products can be divided broadly into two categories, i.e., one, those facilitating financing for the export of capital goods or the pursuing of overseas business and two, those insurance products covering the risk of non-payment of export receivables and overseas investment funds. The former includes MLT Export Credit Insurance, Overseas Business Financing Insurance, Export Bond Insurance, and Interest Rate Risk Insurance; and the latter, Overseas Construction Works Insurance, Overseas Investment Insurance, and Service Export Credit Insurance.

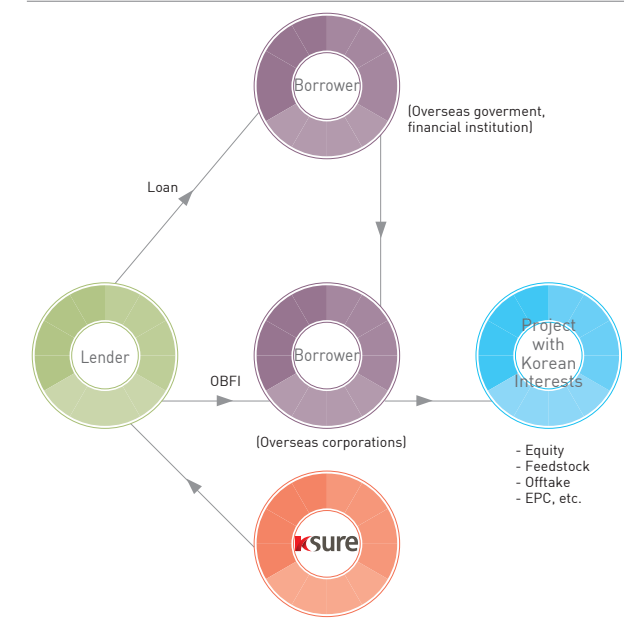
MLT Export Credit Insurance and Overseas Business Financing Insurance are the two products that represent K-sure's MLT insurance line. Covering those financial contracts with their payment periods longer than two years, MLT Export Credit Insurance covers the non-payment of principle and interest. For Overseas Business Financing Insurance, K-sure covers the non-payment of principle and interest in those longer than two year MLT contracts involving Korean investors overseas.

These two major products are used to complement international financing, by which they promote the export of plants, ships and other capital goods and actively support Korean companies' investment and natural resource development activities abroad.

MLT Export Credit Insurance



Overseas Business Financing Insurance



International presence of Korean companies has soared since 2004 backed by their operational know-hows and improved technological competitiveness. Their international presence is expected to become stronger as various projects are won in the Middle East and Asia and more construction companies expand their overseas markets as the domestic construction industry lags. Thus, the demand for ECA-backed loans is likely to grow continuously and K-sure's MLT insurance programs to become increasingly important.

Major Program Improvement and Business Performance

The 2012 MLT financing market did not fully recover to the pre-global financial crisis level as commercial banks were still hesitant to offer long-term loans in the aftermath of the European debt crisis. On the other hand, the scale of financing needed became ever larger with the introduction of mega-sized petrochemical and other projects. Thus, the ability to secure financing has become the decisive factor for capital goods exporters to win overseas projects, increasing the need for ECA participation in these projects.

On the other hand, European banks are hesitant to participate in new projects, unlike in the past when they had been in the frontline of project financing. This is because they need to expand their capital adequacy and to dispose assets to meet a tougher international regulatory environment on bank capital requirements with the implementation of the Third Basel Accord. As a result, the demand for ECA-backed financing is on the rise.

Despite a difficult financial situation, we tried to meet the demand for ECA-backed financing by expanding our MLT cover so that Korean exporters can continue on with their business activities abroad. As a result, Trade Finance Magazine named K-sure "Best Asia-Pacific ECA" for two years in a row. Furthermore, Project Finance Magazine recognized four projects including the Ichthys gas field development project in Australia supported by K-sure as Deal of the Year. In short, K-sure's standing and role rose in international financial markets. Along with the Ichthys Project, the Surgil natural gas development project in Uzbekistan represents our MLT cases in 2012. Once gas production starts from the Ichthys plants, the

proceeds from gas sale will be used to pay for the project on a long-term basis. This mammoth LNG development project utilizing project financing costs USD 41.9 billion to build its offshore, underwater and land facilities, where ECAs from Japan, Germany, and six other countries participated including K-sure and K-Exim of Korea.

The significance of the Surgil natural gas development project in Uzbekistan priced at USD 4 billion lies with the fact that it was the first project in Central Asia to be funded via project finance (PF). Using our experience from the project as the steppingstone, we plan to boost our cover on MLT export financing in Central Asia.

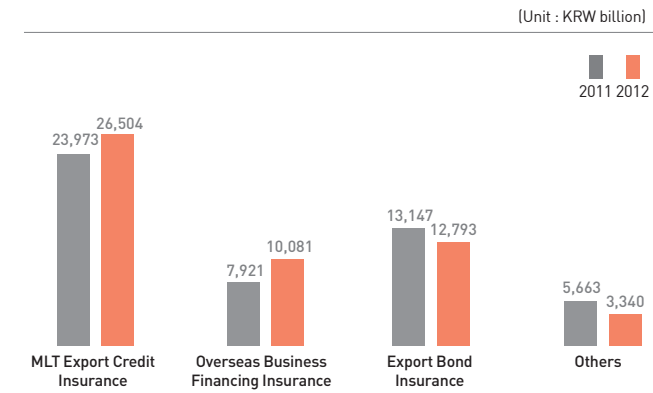
Korean EPC contractors are known for their quality work and the ability to meet deadline, however, they lagged in the ability to secure financing. Thus, we turned this weakness into an advantage by boosting their ability to secure financing through our PF cover so they can win more overseas projects.

Moreover, we focused our attention on actively seeking investment and development opportunities related to generation, road, port and other SOC projects abroad to help boost the national interest of Korea. Our proactive support increased the opportunities for Korean EPC contractors to win overseas projects and boosted international cooperative activities, through which we expect to ensue benefits such as securing production bases, promoting long-term export opportunities, and winning foreign dollars to continue in the future as well.

Overview on and Analysis of MLT Volumes

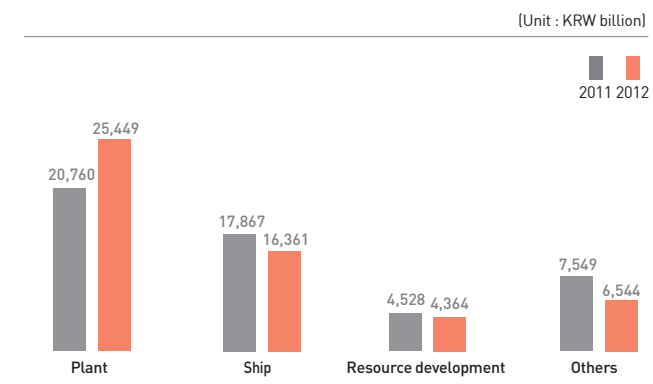
The total MLT volume for 2012 increased 4% year on year (based on outstanding commitment) with increased investments in generation, desalination and other projects and an increased demand for industrial development. As of the end of 2012, our total outstanding commitment stood at KRW 52.7 trillion, among which MLT Export Credit Insurance was responsible for KRW 26.5 trillion and Overseas Business Financing Insurance, KRW 10 trillion, which were an increase of 10.6% and 27.3% year-on-year, respectively.

Outstanding MLT Commitment by Product



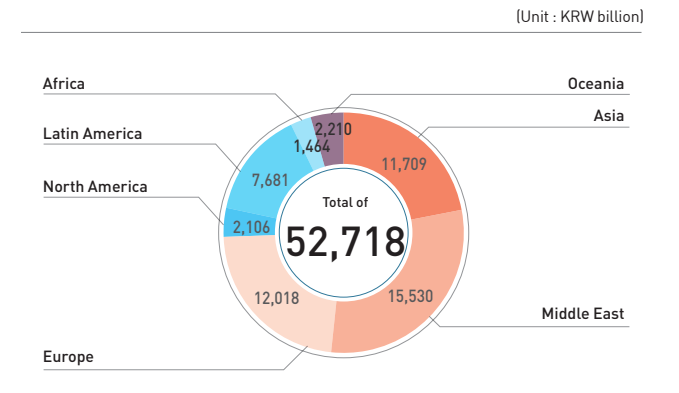
As for the commitment by industry, the overseas EPC industry took up KRW 25.4 trillion, which was 48% of the total commitment at KRW 52.7 trillion. This 22.6% year-on-year increase was the result of K-sure expanding its financial support as Korean companies continued to enter the overseas EPC market. At KRW 16.4 trillion, the outstanding commitment for the shipbuilding industry took up 31% of the total commitment, which was an 8.4% drop compared to that of 2011 due to a sluggish global shipping market in 2012.

Outstanding MLT Commitment by Industry



As for the outstanding commitment by region, the Middle East was offered the largest amount at KRW 15.5 trillion, followed by Europe and Asia. Although these three regions were responsible for 74% of our total commitment, the total shows a 6% point drop year-on-year as we continued to diversify our MLT regional portfolio by extending more support to Latin America and other emerging areas.

Outstanding MLT Commitment by Region (end of 2012)



2013 Business Plan

For 2013, we plan to expand our support to Latin America, Africa and other emerging regions to lead the efforts in boosting Korea's international trade and investment abroad. For the goal of assisting Korean companies to penetrate strategic markets early on, we raised our target underwriting volume for overseas EPC, shipbuilding and resource development projects that add value to overall industries and create decent jobs. On the other hand, we plan to concentrate on financing for small and medium-sized enterprises so they can participate in more overseas projects and eventually grow to become global companies.

Furthermore, we will strengthen our global network with financial institutions and other ECAs to continue expanding financing sources and to obtain stable financing so that we can channel our energy into offering more trade insurance support for those large government-sponsored projects throughout the world.

We at K-sure will actively meet the demand for trade insurance using a "choice and focus" strategy and continue to take part at the frontline of the Korean economy to help Korea take another giant step after the global financial crisis. Moreover, we will faithfully carry out our role as an ECA that leads global financial markets.

Export Credit Guarantee

Introduction

Broadly, our Export Credit Guarantee is divided into and operated as the Export Credit Guarantee(Pre-Shipment) and Export Credit Guarantee (Post-Shipment) programs.

Export Credit Guarantee (Pre-Shipment)

This is a type of joint guarantee scheme that K-sure provides for debts/financing needed to manufacture and process exports or procure materials for exports by an exporter who obtains financing from foreign exchange banks or financial institutions providing export financing by extending loans or issuing payment guarantees based on our guarantee.

The guarantee certificate is typically issued for a year and when needed, can be extended upon maturity. Previously, the renewal process was complex where an exporter was required to submit another set of documents meeting the new guarantee criteria and underwriting review was made accordingly at K-sure. Starting 2012, however, we did away with document submission and underwriting review. We only review whether the guaranteed amount would be needed to be reduced based on a checklist submitted by the exporter. With no need for issuing a new guarantee, the applicable foreign exchange bank is notified on the new guarantee terms. In short, the process was expedited so that exporters can renew our guarantees quickly and easily.

Export Credit Guarantee (Post-Shipment)

An exporter may receive his/her export proceeds immediately upon shipment from a foreign exchange bank in advance using bill of exchange or other shipping documents after it ships goods on credit. We issue an export credit guarantee, as securities since the foreign exchange bank generally asks for securities as it is paying the export proceeds with its own fund in the first place. We indemnify the bank when it cannot collect payment from the exporter due to importer's (or L/C bank's)

default on the payment of export proceeds, etc. This guarantee scheme is operated in conjunction with Short-Term Export Insurance so that the exporter has no recourse obligations, ie., the exporter is not required to pay K-sure, as K-sure offsets the debt to be paid through its guarantee using the insurance proceeds, provided that the exporter conducted the applicable export transaction accordingly with no fault of its own. On the other hand, we also have the Export Credit Guarantee (Nego) program where the exporter can only purchase the guarantee service without a linked insurance product when the exporter does not want extra coverage when the non-payment risk from the importer is low.

Benefits from Program Operation

Export Credit Guarantee (Pre-Shipment)

Upon the conclusion of an export contract, the exporter typically secure funds (trade finance) needed to procure raw materials or manufacture products from commercial banks. At this time, banks usually ask for some type of securities or collateral when extending trade financing; however, small-sized enterprise exporters lagging the collateral capacity have difficulties in obtaining funds.

Thus, we issue this unsecuritized export credit guarantee(ECG) by taking into account the exporter's financial status, export history, ability to carry out export, etc. for the goal of facilitating them with their export activities.

By obtaining export financing from a bank under K-sure's export credit guarantee coverage, the exporter can not only secure more funds than if it were to secure funds under its own credit but also at lower financing costs.

The bank extending export financing also benefits through K-sure's cover by minimizing the non-payment risk and improving their BIS ratios, while being able to actively expand its corporate lending capacity.

Export Credit Guarantee (Post-Shipment)

Exporters can obtain export proceeds from foreign exchange banks as soon as they ship their export goods

to importers abroad in export transactions based on credit, by leveraging on bills of exchange and other shipping documents. This ECG functions as securities since foreign banks typically ask for securities since they have to pay the export proceeds with their own funds first. In other words, K-sure indemnifies those foreign exchange banks that cannot collect their export proceeds from importers at the time of maturity after they paid export proceeds in advance by purchasing the shipping documents covered under this guarantee.

Overview and Analysis of Business Volumes

The business volume of ECG(Pre-shipment) continued to decrease from KRW 4.420 trillion in 2010 to 3.320 trillion in 2011 and KRW 2.831 trillion in 2012. This continued drop was because we switched backed to a normal operation mode of underwriting policy starting in late 2010 after we expanded the ECG volumes on a contingency basis in 2009 and 2010 to help the Korean economy recover from the global economic crisis.

On the other hand, the volume of ECG(Post-Shipment) continued to increase from KRW 1.803 trillion in 2010 to KRW 2.598 trillion in 2011 and KRW 3.296 in 2012. These increases are in parallel to the increased export volumes of Korea from USD 466 billion in 2010 to USD 555 billion in 2011 and USD 548 billion in 2012. There are two factors behind these increases, ie., one, an increased demand for the purchase of shipping documents and two, the efforts of K-sure in extending less Pre-Shipment ECG but more Post-Shipment ECG.

Thus, the total ECG volume decreased slightly from KRW 6.223 trillion in 2010 to KRW 5.918 trillion in 2011 but increased slightly to KRW 6.1276 trillion in 2012.

Export Credit Guarantee Volumes by Year

| Guarantee products | [Unit : KRW billion] | | | | | |
|--------------------|----------------------|--------------|--------------|--------------|--------------|--------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| ECG(Pre-Shipment) | 833 | 1,046 | 4,545 | 4,420 | 3,320 | 2,831 |
| ECG(Post-Shipment) | 326 | 516 | 1,419 | 1,803 | 2,598 | 3,296 |
| Total | 1,159 | 1,562 | 5,964 | 6,223 | 5,918 | 6,127 |



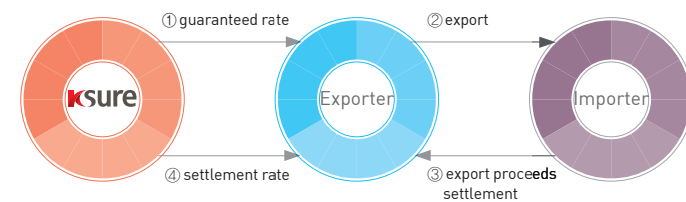
Foreign Exchange Risk Insurance

Overview

This product hedges foreign exchange risk by removing loss from foreign exchange rate fluctuations during the course of receiving or paying in foreign currencies.

This product is run similar to forward FX transactions at financial institutions, in which we compensate policyholders for their FX losses or clawback their FX gains, taking into account differences in FX rates between a specific time (guaranteed rate) and at the time of export proceeds settlement (settlement rate).

Flow Chart on FX Risk Insurance



In other words, exporters and overseas investors can secure stable profits and remove currency risk by fixing future cash flow in the Korean won in advance.

Moreover, exporters may hedge FX risk for a maximum period of up to three years, and overseas investors, up to 10 years, considering the long-term nature of overseas investments.

The four currencies covered under this program are the US dollar (USD), the European Euro (EUR), the Japanese Yen (JPY), and the Chinese Yuan (CNY).



Product Improvement

We made the following improvements in 2012 as we continue to enhance our Foreign Exchange Risk Insurance to protect Korean enterprises from exchange rate risk.

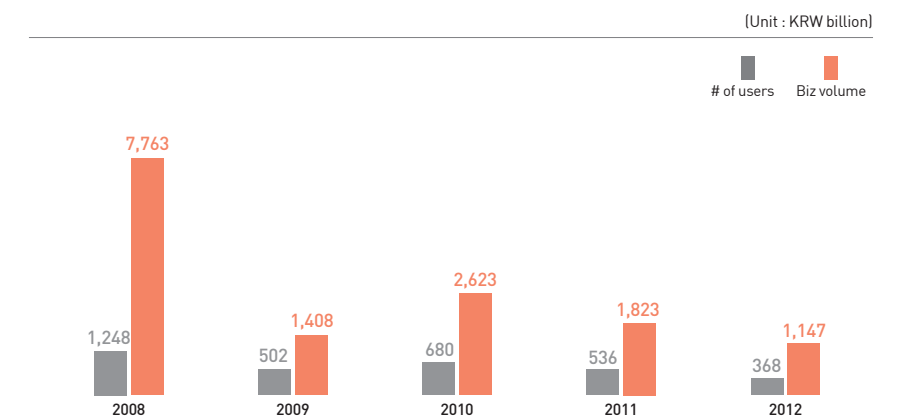
In addition to the typical FX risk insurance scheme where covered amounts are calculated based on policyholders' export performances of the previous year, we also set the coverage ceilings on individual policies where ceilings are calculated for special transactions so that we can now better manage risk by preventing speculative moves (over-hedging) beforehand.

Second, we no longer offer the FX Risk Insurance (forward-rollover type) product that has not been demanded by exporters. By doing so, we restructured our FX Risk Insurance portfolio to better meet the needs of Korean enterprises.

Business Volume

Compared to that of 2011, the amount covered under FX Risk Insurance dropped slightly to KRW 1.147 trillion in 2012 with 368 businesses using this product line with stable foreign exchange rates and better FX risk management.

FX Risk Insurance Business Volume for the Past 5 Years



* Excluding the business volumes and numbers of users of eliminated products

Claims and Recoveries

Claims

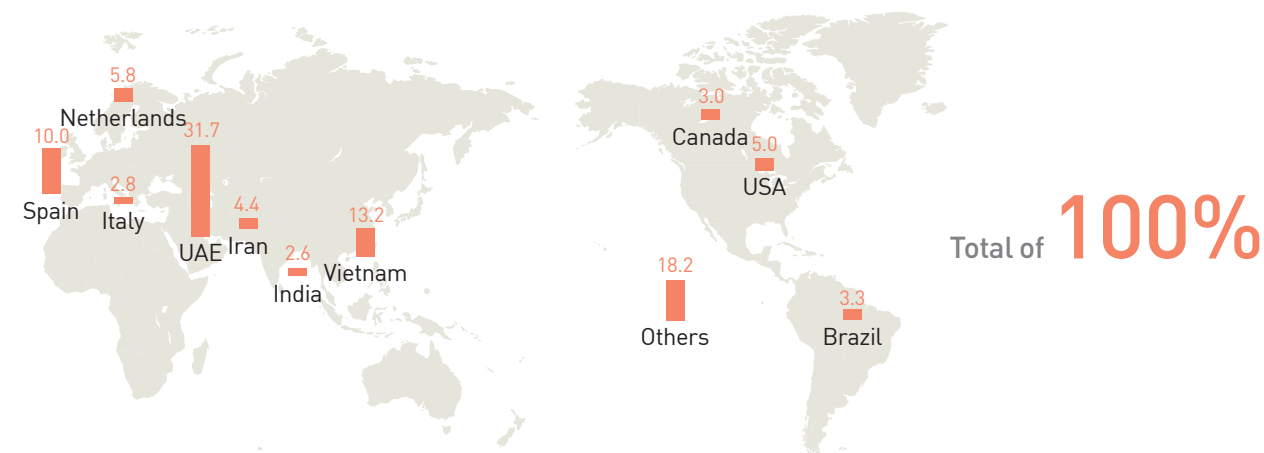
At KRW 346.3 billion, the claims paid in 2012 decreased by 54.5% compared to KRW 760.8 billion in 2011. The 2012 volume excludes the amounts of claims paid through FX Risk Insurance and Interest Rate Risk Insurance that were not actual losses as they were hedged through financial institutions.

At KRW 224.6 billion, the total amount of claims paid through our short-term product line increased 19.5% compared to KRW 188.0 billion in 2011. At KRW 121.7 billion, the total amount of claims paid through our medium- and long-term product line decreased 78.8% compared to KRW 572.8 billion in 2012.

By country, the most amount of claims came from the UAE, followed by Vietnam and Spain. By region, the Middle East (KRW 89.3 billion) took up the largest amount of claims, followed by Europe (KRW 61.0 billion) and Asia (KRW 49.3 billion).

2012 Claims Paid by Country

(Unit : %)



Note) Excluding derivatives (FX Risk Insurance, Interest Rate Risk Insurance) and export credit guarantees (Pre-shipment, NEGO, etc.)

Loss Rate and Claims Ratio

Excluding claims paid through FX Risk Insurance and Interest Rate Risk Insurance, the total loss ratio (total insurance proceeds paid/total premia collected) of 2012 was 46.3%, which was a 83.8%p improvement compared to 130.1% of 2011. This lower total loss ratio was due to increased premia collected (28.0%) along with decreased insurance proceeds paid out (54.5%).

In 2012, the recoveries totalled KRW 91.1 billion, which was a 13.7% drop compared to KRW 105.6 billion from 2011. However, the actual loss rate was 41.2% with a 69%p improvement from 110.2% in 2011, due to increased premia collected and decreased insurance proceeds paid out.

On the other hand, the claims ratio (total indemnification/total underwriting) hit the record high in 2003 at 0.63% but stabilized afterward with 0.40% in 2011 and 0.17% in 2012.

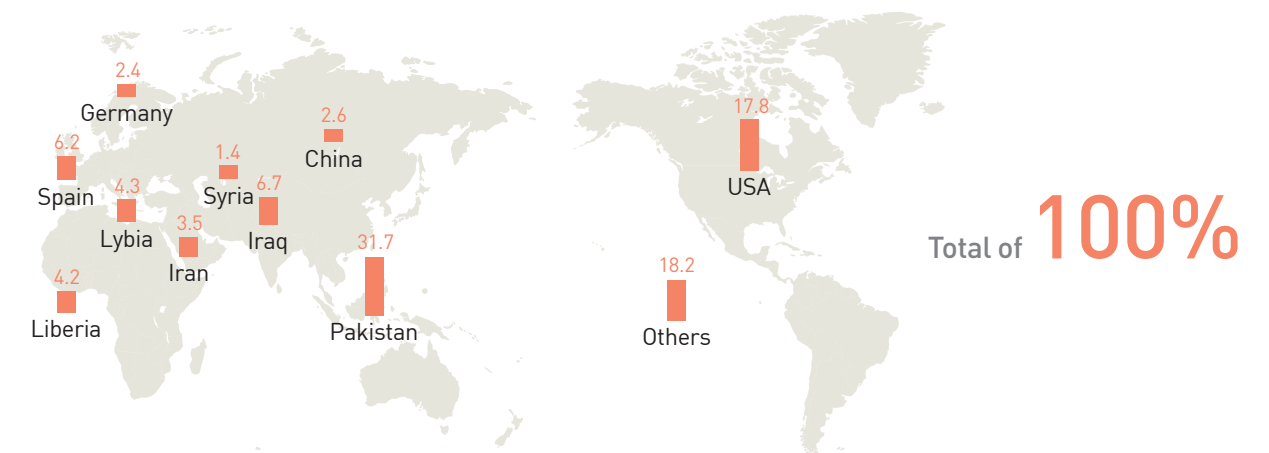
Recoveries

Overview

The total amount of recoveries made in 2012 was KRW 91.1 billion, which was a decrease of 13.7% from 2011 at KRW 105.6 billion. Out of this total collected, KRW 52.1 billion was collected from overseas, a 5.0% increase from KRW 49.6 billion in 2011 whereas KRW 39.0 billion, from Korea, a 30.4% drop from KRW 56.0 billion in 2011.

2012 Recoveries by Country

(Unit : %)



Note) Excluding derivatives (FX Risk Insurance, Interest Rate Risk Insurance) and export credit guarantees (Pre-shipment, NEGO, etc.)

Recoveries

(Unit : KRW billion)

| Type | 2011 | 2012 | YOY |
|----------------------|--------------|-------------|---------------|
| Overseas receivables | 49.6 | 52.1 | 5.0% |
| Domestic receivables | 56.0 | 39.0 | △30.4% |
| Total | 105.6 | 91.1 | △13.7% |

Recoveries by Product

Out of total recoveries in 2012, 75.8% was the receivables recovered under the short-term product line at KRW 69.0 billion. On the other hand, the rest, ie., 24.2%, was the receivables recovered under the MLT product line at KRW 22.1 billion.

Recoveries by Product

(Unit : KRW billion)

| Product | 2011 | | 2012 | |
|--------------|--------------|---------------|-------------|---------------|
| | Amount | Ratio | Amount | Ratio |
| ST | 74.4 | 70.5% | 69.0 | 75.8% |
| MLT | 31.2 | 29.5% | 22.1 | 24.2% |
| Total | 105.6 | 100.0% | 91.1 | 100.0% |

Recoveries by Country

The highest amount of recoveries came from Pakistan at KRW 18.3 billion, followed by the U.S. (KRW 10.3 billion) and Iraq (KRW 3.9 billion). By region, the most came from Asia (KRW 23.2 billion), followed by North America (KRW 10.9 billion), the Middle East (KRW 9.2 billion), and Europe (KRW 7.7 billion).

Credit Rating Service

Credit Information Service on Overseas Enterprises

We collect credit information of overseas buyers and offer this information to domestic sellers. This service of providing "overseas buyer credit information to domestic sellers" is possible through K-sure's overseas representative offices and 79 credit survey agencies in 43 countries around the world that concluded MOUs with K-sure.

As of the end of 2012, we have credit information on over 355,000 overseas buyers, which is the largest set of data collected by a Korean agency. The number of credit survey cases increased steadily over the past years in which we completed 55,989 cases of credit survey in 2012, which was an increase of 12% from 49,918 in 2011.

As of the end of 2012, we have credit information from over 50,000 domestic sellers that use our insurance services, in which the number of credit survey cases from domestic companies increased about 6% at 10,295 cases in 2012 compared to 9,699 in 2011. In short, our credit information survey service on overseas buyers and domestic sellers continues to grow.

By continent, the most number of credit survey came from Asia at 37.3%, followed by Europe (25.1%), Latin America (12.1%), and North America (12%). As for increases in credit survey cases, the highest increase was in Africa (38.2%), followed by Europe (18.6%) and Asia (12%). As such, compared to 2011, credit survey service was increased the most in Africa in 2012. By country, the rate of credit survey was the highest from the U.S. (10.7%), followed by China (10.3%), Japan (4.04%), and Brazil (4%).

We proactively conduct credit survey on those overseas buyers that are heavily covered by K-sure to promptly deal with increased volatility from these companies in the aftermath of the global financial crisis. To boost the quality of our credit information offered and improve customer satisfaction, we supplemented the contents of credit survey information and more frequently report the progress of credit research to our clients. We also introduced the on-line customer satisfaction survey where our clients assess the quality of our services.

In short, we improved our credit survey services that reflect the clients' needs as much and as soon as possible. In addition, we built the platform for quick research

through the construction of the process automatization system by connecting to overseas credit ratings agencies' networks to effectively deal with a soaring demand for overseas buyer credit information.

Plans for the Future

Conducting credit rating on overseas buyers and providing their credit information to our clients are expected to play a pivotal role in building the foundation for the growth of K-sure as they are crucial for healthy economic growth through export growth and sound management of Trade Fund as a leading indicator for trade insurance.

To this end, we continue to discover outstanding and competitive overseas credit research agencies by region, in which we systematically evaluate and manage these agencies for the goal of providing faster and accurate credit information, while further boosting the competitiveness of our credit information services.

At the same time, improving the existing credit evaluation system on overseas buyers is planned to provide more accurate and practical credit information. The introduction of a more accurate model for assessing overseas buyers will be done through reflecting country and industry features. Using this model, we will improve the accuracy and practical nature of credit assessment on overseas buyers and better assist Korean companies on their export activities.

Furthermore, the automatic rating system assessing overseas buyers' credits would be expanded to expedite meet increased needs for credit information in the aftermath of the global economic crisis, in addition to improving the contents of our credit reports toward improving the level of customer satisfaction.

Beyond its primary goal of better supporting exports, the credit rating and provision services are forms of the knowledge industry that will lead the future. Thus, we strive to assist Korean businesses to penetrate overseas markets seamlessly as we strengthen our internal growth capacity, improve work process, and boost our business competitiveness.

Country and Industry Risk Rating

The Country and Industry Risk Ratings Team analyzes country and industrial issues of various nations around the world quickly and accurately in order to manage risk and show directions when underwriting.

It is vital that we accurately understand political and economic situations and the country's ability to pay especially when we extend a large cover for a specific country. Thus, we prepare sociopolitical-trend and in-depth reports, covering a wide range of factors including various economic indices, sociopolitical stability, account settlement ability, evaluation from international markets, etc.

We also use in-depth data obtained from external experts to provide helpful information to our clients as industry analysis became increasingly important with the rise in large projects.

In 2012 the Country and Industry Risk Ratings Team published a total of 63 political and economic trend reports, 13 in-depth reports, and 132 spot news. The team also published and distributed the "Sovereign Credit Ratings Handbook" containing information on 206 countries around the world, with this information easily accessible on our improved website.

On the other hand, we analyze various issues and changing circumstances of different countries through our spot news in order to strengthen our risk management so that we can monitor countries around the world regularly to take quick measures when a risk arises. Furthermore, regular monitoring is conducted and a checklist is prepared every quarter on those countries with significantly high political risk for the goal of mitigating and preventing political risk beforehand.

The team participates in the OECD's Country Risk Expert (CRE) Meeting held four times a year in order to accurately evaluate country ratings. As of December 2012, a total of 163 countries were evaluated based on the OECD criteria. We assessed the remaining 95 countries, which had not been rated by the CRE, based on our own criteria. Thus, we have a total of 258 country ratings.



Risk Management

We have set up the Risk Management Division and appointed Chief Risk Officer (CRO) to effectively manage risk that ensues underwriting. Under this division, the Risk Management Department and Risk Analysis Department were set up to manage the affairs related to RM in various programs and product lines, the trade insurance business, and the "Trade Fund".

Our Risk Management Committee was formed with the goal of promoting objectivity and expertise in risk management by appointing a majority of the committee members from outside our organization. The Committee's work scope has been expanded recently to include review on large covers, on top of its existing functions, i.e., the establishment of basic policy for risk management, measurement and evaluation of risk, set up of underwriting ceilings for each sector, and review on asset management policy.

We classify the risk that occurs during the normal course of our daily operation into three types, i.e., underwriting, financial and operational risk. Underwriting risk is defined as the risk related to the operation of the trade insurance business. Financial risk occurs during the course of managing the Trade Fund and our assets. Operational risk is defined as the risk due to mishandling of work, system errors, etc.

Underwriting risk can be further divided into credit risk and foreign exchange risk: The former is the risk of loss from defaults of exporters, importers, importing countries, etc., and the latter, the risk of loss due to foreign exchange rate fluctuations. Financial risk can be further divided into credit, market, and liquidity risk. Credit risk is the risk from defaults of fund deposited and bond issuing institutions, etc. Market risk is the risk coming from fluctuations in the prices of assets invested. Liquidity risk is the risk of loss from not being able to counter unexpected fund loss.

We are operating the "integrated risk management system" that manages credit, market, and the operational, and other types of risks using an integrated risk measurement engine and electronic data system. For integrated risk, the limit of the permitted risk is set in the beginning of each year based on the business plan and size of the available fund, while setting the limit for each risk. The integrated risk including each type of risk is measured every day to calculate the size of the limit left and other factors.

Being responsible for more than 80% of integrated risk, credit risk is measured using each of its risk factor, i.e., each exporter, importer, and importing country to calculate the potential for its occurrence. Based on the calculated outcomes, the expected loss, unexpected loss, and level of risk concentration are measured and reported regularly. In short, risk is managed in a systematic manner.

Market risk is monitored every day to manage the risk of loss coming from foreign exchange and stock price fluctuations. Liquidity risk is managed by calculating an optimum level of liquidity within a set confidence interval determined using errors between the planned and actual amounts of earnings and expenses from the past.

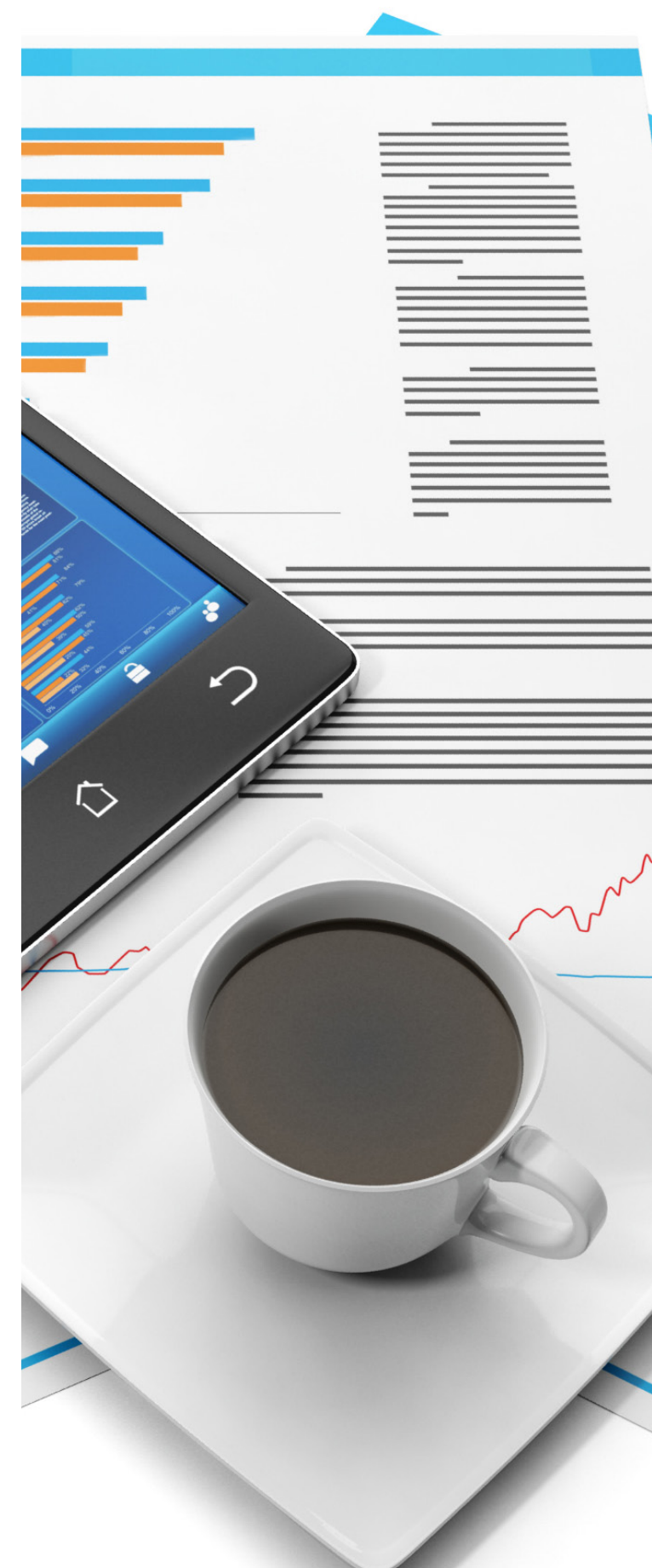
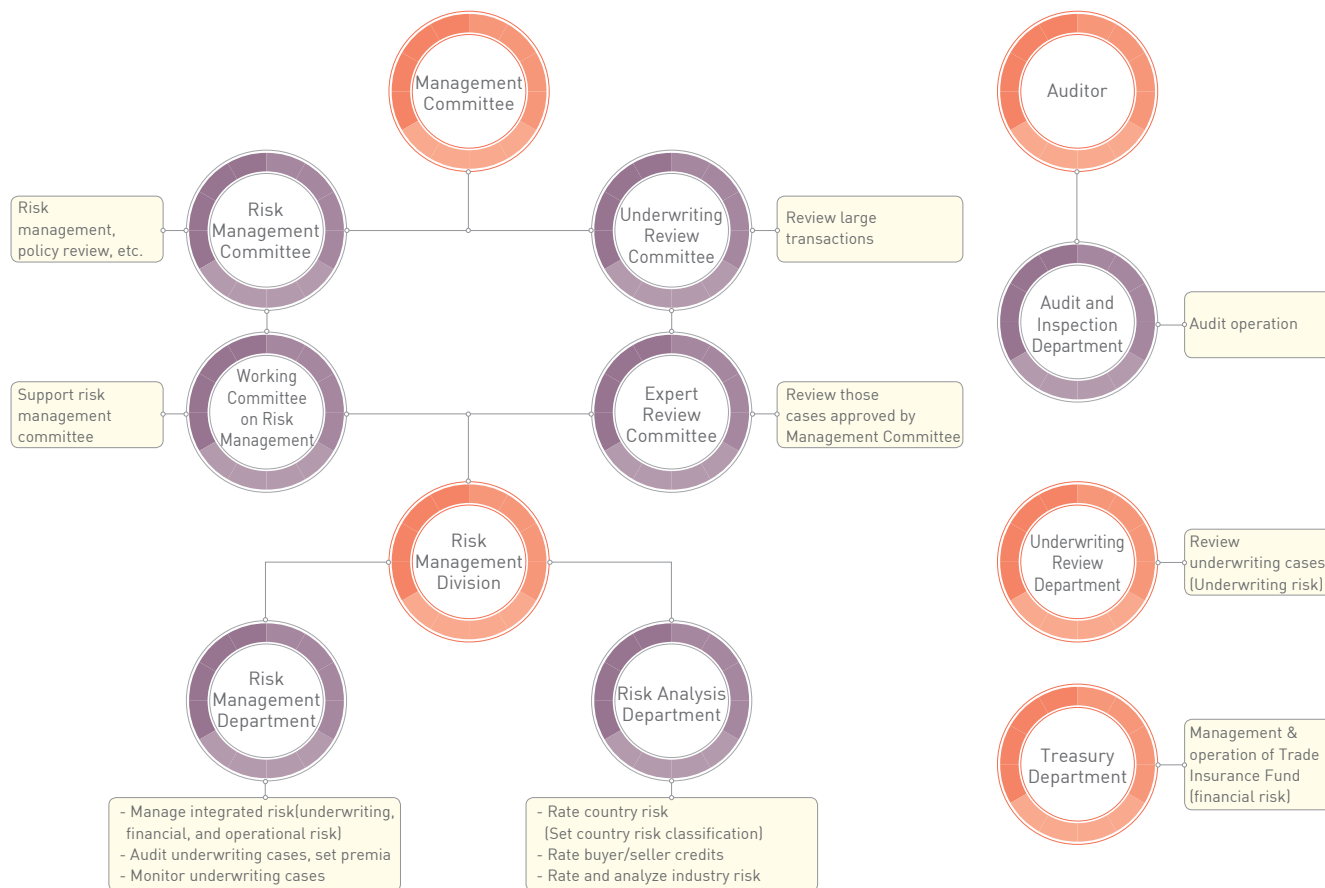
The operational risk management system, which is part of the integrated risk management system, is used as the platform composed of Risk and Control Self-Assessment (RCSA) and Key Risk Indicators (KRI), which are used to prevent operational risk beforehand.

Aside from these methods, various techniques and programs are used for systematic risk management. For instance, preliminary review and post-underwriting monitoring are conducted on a regular basis for large transactions, a credit ceiling is set for each importer and exporter; and risk spread is achieved using reinsurance.

A credit limit is set for each cover in each insurance product. If a cover were to be extended beyond this limit, the Underwriting Review Committee and the Management Committee must review and decide whether to extend the cover. Monitoring is conducted for each country, industry, seller, and buyer on a regular basis (monthly, quarterly, semi-annually) using such factors as the expected default rate to detect any out of the ordinary signs early on. Thus, risk is managed proactively via decreasing credit limits, seeking risk mitigating factors, etc.

In an effort to better manage risk, we concluded a treaty reinsurance agreement with Korean Reinsurance Company (KOREAN RE) for Short-Term Export Insurance for a stable operation of our business through risk diversification. Furthermore, the Expert Review Committee composed of experts in their own fields has been set up to review when covering large risky transactions.

K-sure's Risk Management Scheme



K-sure and the Community

K-sure solidified the framework for international cooperation through bilateral meetings

K-sure promoted strategic partnerships with global ECAs by sharing information on trade insurance policy and other issues by successfully hosting bilateral meetings with China, Japan, and France. Also, we have built a strategic business partnership network with major international financial institutions and other ECAs in order to expand the global platform for our trade insurance covers.

We strive to establish a sustainable operational system to meet our social responsibilities as a public corporation and grow with the people of Korea under the vision for ethical management.



International Cooperation

Strengthen Cooperation With Global Ecas Through Active Participation in the Berne Union



As a member of the Berne Union (the International Union of Credit & Investment Insurers), we played a leading role in its activities also in 2012 by actively voicing our opinions in the selection of agendas for various BU meetings, participating in the decision-making process, initiating various topics, etc.

We contributed in exchanges among the Berne Union members through active participation in the spring meeting in Belgium, annual meeting in Sweden, and other regular meetings.

Particularly, we played a significant role in actively countering negative impacts on ECA financing from the introduction and implementation of the Basel III starting in 2012, a global regulatory standard on bank capital adequacy, under cooperation with NEXI and other ECAs.

As part of regional activities within the Berne Union, we shared our knowledge with regional members by introducing how we operate our total credit ceiling of short-term insurance, automatic credit setting system, and sample cases during the RCG training program in Singapore.

* RCG (Regional Cooperation Group) : The meeting of 11 ECAs from the Asia-Pacific region.

Active Participation in Discussions on the Revision of OECD Export Credit Guidelines



We have been fully engaged in the OECD-related activities being part of the Korean delegations as the Participants to the Arrangement on Officially Supported Export Credits, Working Party on Export Credits and Credit Guarantees, Working Group of Experts on Premium and Related Conditions, and Country Risk Experts Meeting. In short, we are actively involved in discussions and setting up of various export credit-related guidelines in the OECD.

Along with Japan, Norway and other participants, we asserted our view that the revision would not be effective without participation by China and pushed for the existing discussions in the talks of the total overhaul of Sector Understanding on Export Credits for Ship (SSU) of OECD Council Working Party on shipbuilding (WP6).

Rise of the International Working Group on Export Credits

Despite being the largest export nation in the world, China does not abide by the OECD Arrangement on Guidelines for Officially Supported Export Credits as it is not a member of the OECD. Thus, the US-China Initiative, a working level meeting, was held in Washington D.C. in November 2012 in an effort to include China in the wake of introducing a new international guidelines on export credits.

Solidified the Framework for International Cooperation Through Bilateral Meetings



We are preparing for the second meeting in China in May 2013 for the discussion on SSU as Korea has one of the strongest shipbuilding industries in the world.

We promoted strategic partnerships with global ECAs by sharing information on trade insurance policy and other issues by successfully hosting bilateral meetings with China, Japan, and France.

These bilateral meetings were held in March (in Seoul with China's Sinosure), June (in Yeosu with Japan's NEXI), and November (in Seoul with France's Coface), where we exchanged views on expanding bilateral trade and the role of ECAs to recover the nations' economies after the global financial crisis.

In addition to Coface, we expanded regular and practical cooperative opportunities with ECAs from advanced European nations by planning annual bilateral meetings with Euler Hermes of Germany to be held starting in 2013.

Secured the Platform of Cooperation Through Concluding MOUs and Holding Bilateral Meetings with International Financial Institutions



We have built a strategic business partnership network with major international financial institutions and other ECAs in order to expand the global platform for our trade insurance covers.

We concluded MOUs with four international institutions including Reconstruction and Development Fund of Uzbekistan (May), EKN of Sweden (reinsurance agreement, May), ABN AMRO of the Netherlands (August) and Nord LB Bank of Germany (September).

More Trade Insurance-Related Experience Sharing Activities with Other Nations



We partook in the government's Knowledge Sharing Program by sharing our experiences with Vietnam to help the country introduce the export insurance scheme. We conducted training sessions to Vietnamese government officials, locally in Vietnam as well as in Korea.

Government officials from Indonesia and Namibia came to our head office to receive training on our trade insurance schemes. Furthermore, we exchanged various views and opinions on major topics with visitors from US Exim, Turkey's Deniz Bank and other similar institutions.

Corporate Social Responsibility

Operation Geared Toward Customer Satisfaction

As part of the efforts to adopt the CS management system and CS culture for the goal of meeting diversifying demands of our clients amid global recession and growing with them at the same time, K-sure received an excellent "Public Customer Service Index" in the survey conducted by the Ministry of Strategy and Finance in 2012, for the first time since its establishment.



Improved customer services by expanding the scope of the Customer Service Center

We improved the level of our customer services by expanding the scope of services through the Customer Service Center opened in May 2009 such as providing consultation to customers on new insurance products and making calls to customers on those expiring policies.

Set-up of K-sure-wide CS culture

We published 'K-sure Customer Satisfaction White Paper', which contained the results of comprehensive analysis on voice of customers (VOC), ie., customer complaints, praises, and suggestions, on each insurance product, each work process, and other applicable areas. The book is part of our efforts to set up K-sure-wide CS culture.



Customer ombudsman

We reflected our customers' opinions on our programs based on those suggestions registered through the Customer Ombudsman Committee composed of five clients. Through this constant monitoring of our services, we came up with ways to improve our services and reflected the outcomes to our work processes and systems.

Year-round CS campaign

We have the 1.1.1 and other year-round CS campaigns to settle CS management culture.

* The 1.1.1 campaign : Call one customer once a day

K-sure News Letter service

For better communication with our customers, we send K-sure News Letter and other information to let our customers know about changes in major programs, cover by country, etc.



Social Contribution Activities



We pursue best CSR practices based on our vision of becoming a public corporation that sets the 'sharing and service culture', through social contribution activities befitting our business.

For this goal, we perform various social contribution activities globally and extend practical and various support programs on a continued basis for the socially marginalized, those outside the social welfare network, and those in rural areas.



Boosted global social contribution activities

As a global ECA, K-sure employees volunteered to provide free medical services to foreign workers in Korea and local residents in Vietnam through "Doctors Without Borders". Furthermore, 15 employees volunteered to build and donate two houses in Indonesia through "Habitat for Humanity International" for the goal of providing everyone a place for decent living.

Volunteering for the socially marginalized

We volunteer at "Rafael's House", a shelter for severely handicapped children, on the first Thursday in each month to feed them, clean the place, and provide any other needed services. We also visit "Theresa's House", an orphanage, on the third Thursday in each month to tend to children.



We regularly volunteer to make Kimchi for the homeless, deliver coals for those living alone in poor neighborhoods, paint frescoes to make Seoul a better place to live.

Furthermore, we support movie-viewing and various other cultural events for children of the North Korean Defectors' Center and from multicultural families.



Volunteer in rural areas

We formed a sisterhood relation with a rural area in Paju (Geakhyun-2-ri) where we helped local people sow and reap ginsengs and beans.

Tending to the surroundings

K-sure employees volunteered to clean and tend to the surroundings of cultural sites near the head office including the Cheonggyecheon, Confucian shrine, and Bukchon-Insadong.

Ethical Management

We strive to establish a sustainable operational system to meet our social responsibilities as a public corporation and grow with the people of Korea under the vision for ethical management, ie., "clean K-sure trusted by the people of Korea and its customers".

Led by the Ethical Management Committee chaired by the president of K-sure, we pursue ethical management. The Integrity Ombudsman Committee composed of two external members was established to strengthen external monitoring and check for ethical management. We assess the level of ethical management of all the executives. To lead others by example in conducting their daily work, all of our management and employees signed the "executive integrity contract".

To get rid of the factors leading to internal corruption, we conduct the "identifying one ethical management task for one department" campaign to determine those tasks that are prone to corruption and improve how we operate. We also introduced the "solicitation registration system" where employees and executives can register electronically those solicitation cases on a voluntary basis. Moreover, we operate the whistle-blower protection and compensation program to detect and prevent corruption internally.

All of us at K-sure pledged for ethical management by taking the "integrity oath" in June 2012, in addition to letting new employees, those promoted, and executives take a mandatory five-hour training session on ethical management and integrity for the goal of making sure to settle the ethical management culture within the organization. Moreover, the "integrity club" is voluntarily formed by the employees and executives of K-sure who share their views through workshop on a regular basis, where they study the trends related to ethical management and discuss related issues.



As part of meeting international standards on ethical management, we place efforts to observe the 10 universally accepted principles under the UN Global Compact after becoming a participant in August 2010.

We operate a "counseling center" to address difficult issues that challenge our people. To protect the human rights of everyone, all of us at K-sure need to take sexual harassment preventive education each year.

We run the "open employment program" where we do not discriminate candidates based on their gender, education, place of birth, or other factors. Furthermore, we practice the 'equal society policy' where we employ those socially marginalized including the handicapped, children of those who made distinguished services to the nation, high school graduates, and others. Moreover, qualified employees have the freedom to join the labor union, through which various issues are resolved based on the win-win labor-management relationship.

We continue to offer trade insurance support for new and renewable energy and other environmentally friendly projects while observing the OECD guidelines on the environment. We seek our own ways to save energy through an increased use of LED lights and keeping optimum indoor temperatures during winter and summer. Through such efforts as adopting electronic document-based reporting to save papers, we tried to reduce burden to the environment.

We also ardently abide by the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. It is indeed a progress that the October 2011 Phase 3 Report on Implementing the OECD Anti-Bribery Convention in Korea mentioned K-sure imposing the "mandatory debarment of contractors found to have committed foreign bribery".

FINANCIAL SECTION

Auditor's Report

Report of Independent Auditors

To the Board of Directors of Korea Trade Insurance Corporation:

We at Samil PWC have audited the accompanying consolidated statement of financial position of Korea Trade Insurance Corporation in the management of its Trade Insurance Fund (hereinafter referred to as 'the Fund') as of December 31, 2012 and the related statements of comprehensive income, changes in capital, and cash flows in the fiscal year that ended as of December 31, 2012. Those who manage the Fund have the responsibility to prepare these financial statements, while our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the auditing standards for specific purposes by the Korea Institute of Certified Public Accountants. These standards require that we plan and perform the audit to obtain reasonable assurance on whether the financial statements are free of any material misstatement. The audit examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also evaluated the overall financial statement presentation as well as assessed the accounting principles used and significant estimates made by the management. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, these consolidated financial statements for 2012 present fairly, in all material respects, the financial position of Korea Trade Insurance Corporation, and the results of its operations and its cash flows for the period ended December 31, 2012 in conformity with the accounting regulations of the Fund and accounting principles generally accepted in Korea.

Ahn, Kyung-Tae

Chairman, Territory Senior Partner, CEO
Samil PricewaterhouseCoopers

Statement of Financial Position

The 44th term as of December 31, 2012 / The 43rd term as of December 31, 2011

Trade Insurance Fund

(Unit : KRW million)

| Account | The 44th (current) term | The 43rd (previous) term |
|---|-------------------------|--------------------------|
| | Amount | Amount |
| Assets | | |
| I. Cash & due from banks | 829,848 | 821,848 |
| II. Securities | 1,049,599 | 734,175 |
| 1. Available-for-sale securities | 1,049,599 | 734,175 |
| III. Tangible assets | 59,768 | 60,418 |
| IV. Investment properties | 33,976 | 33,832 |
| V. Intangible assets | 13,876 | 16,232 |
| VI. Other assets | 997,221 | 948,238 |
| 1. Premium receivables | 530,447 | 392,158 |
| Allowance for bad debts | (12) | (12) |
| 2. Account receivables | 85 | 107 |
| 3. Accrued incomes | 341,796 | 294,674 |
| Allowance for bad debts | (257,525) | (273,885) |
| 4. Income tax refund receivables | 1,739 | 1,801 |
| 5. Indemnity receivables | 277,156 | 311,818 |
| 6. Leasehold deposits | 20,227 | 20,097 |
| 7. Phone subscription deposit | 33 | 33 |
| 8. Guarantee deposits | 1,157 | 894 |
| 9. Long-term loans to employees | 2,214 | 2,686 |
| 10. Derivatives | 70,728 | 191,502 |
| 11. Others | 9,176 | 6,365 |
| Total assets | 2,984,289 | 2,614,743 |
| Liabilities | | |
| I. Reserves for contingencies | 1,830,828 | 1,461,347 |
| 1. Premium reserves for unexpired Insurance | 1,055,493 | 856,491 |
| 2. Payment reserves | 775,335 | 604,856 |
| II. Other liabilities | 102,013 | 131,467 |
| 1. Accounts Payables | 7,774 | 3,812 |
| 2. Accrued expenses | 399 | 444 |
| 3. Provision for severance benefits | 13,915 | 14,386 |
| 4. Prepaid premium | 2,419 | 10,498 |
| 5. Deposits | 316 | 369 |
| 6. Derivatives | 59,985 | 90,200 |
| 7. Lease deposits | 1,015 | 1,015 |
| 8. Trust | 15,939 | 8,417 |
| 9. Others | 252 | 2,327 |
| Total liabilities | 1,932,841 | 1,592,814 |
| Capital | | |
| I. Contributions | 2,129,824 | 2,069,824 |
| 1. Government contributions | 2,064,824 | 2,034,824 |
| 2. Other contributions | 65,000 | 35,000 |
| II. Accumulated other comprehensive income | (2,800) | (1,361) |
| 1. Gain/loss on valuation of available-for-sale Securities | (2,800) | (1,361) |
| III. Deficit | (1,075,576) | (1,046,533) |
| 1. Retained earnings before appropriations (undisposed deficit) | (1,075,576) | (1,046,533) |
| Total capital | 1,051,448 | 1,021,930 |
| Total liabilities and capital | 2,984,289 | 2,614,743 |

Income Statement

The 44th term: January 1, 2012 ~ December 31, 2012 / The 43rd term: January 1, 2011 ~ December 31, 2011

Trade Insurance Fund

(Unit : KRW million)

| Account | The 44th (current) term | The 43rd (previous) term |
|--|-------------------------|--------------------------|
| | Amount | Amount |
| I. Operating income | 2,794,724 | 2,473,435 |
| 1. Premium income | 751,297 | 585,989 |
| 2. Claims recovered | 280,285 | 191,654 |
| 3. Reinsurance income | 16,891 | 14,173 |
| 4. Other operating income | 1,746,251 | 1,681,618 |
| 1) Interest income | 42,884 | 64,917 |
| 2) Gain on valuation and sale of securities | 12,728 | 467 |
| 3) Commissions | 1,165 | 1,053 |
| 4) Compensation income | - | 916 |
| 5) Reversal of unearned premium reserves | 856,491 | 682,053 |
| 6) Reversal of reserves for outstanding claims | 604,856 | 666,563 |
| 7) Gain on derivatives transaction | 119,257 | 190,976 |
| 8) Gain on valuation of derivatives | 49,080 | 26,658 |
| 9) Gain on Foreign exchange risk insurance transactions | 5,075 | - |
| 10) Gain on valuation of Foreign exchange risk insurance | 18,547 | 28,100 |
| 11) Gain on valuation of interest rate risk insurance | - | 437 |
| 12) Gain on foreign currency transactions | 9,793 | 17,349 |
| 13) Recovery of Allowance for bad debts | 16,360 | - |
| 14) Others | 10,015 | 2,131 |
| II. Operating expenses | 2,828,845 | 2,713,619 |
| 1. Claims Paid expenses | 382,036 | 839,112 |
| 2. Returns of premium income expenses | 170,057 | 53,106 |
| 3. Reinsurance expenses | 21,064 | 19,068 |
| 4. Other operating expenses | 2,167,946 | 1,722,922 |
| 1) Loss on valuation and sale of securities | 6,508 | 428 |
| 2) Fees | 3,919 | 1,030 |
| 3) Contribution to unearned premium reserve | 1,055,493 | 857,030 |
| 4) Contribution to reserve for outstanding claims | 775,335 | 604,317 |
| 5) Loss on derivative transactions | 71,545 | 181,767 |
| 6) Loss on valuation of derivatives | 6,293 | 43,866 |
| 7) Loss on Foreign exchange risk insurance transactions | 157,998 | - |
| 8) Loss on valuation of Foreign exchange risk insurance | 31,570 | 18,233 |
| 9) Loss on interest rate risk insurance | 5,443 | - |
| 10) Loss on foreign currency transactions | 42,774 | 4,317 |
| 11) Debt recovery expense | 9,147 | 8,088 |
| 12) Bad debts expense | - | 267 |
| 13) Other operating expenses | 1,921 | 3,581 |
| 5. Administrative expenses | 87,741 | 79,411 |
| 1) Personnel expenses | 40,995 | 35,661 |
| 2) Overhead expenses | 36,213 | 33,363 |
| 3) Severance benefit | 3,955 | 4,445 |
| 4) Depreciation expenses | 4,222 | 3,586 |
| 5) Depreciation of intangible assets | 2,356 | 2,356 |
| III. Operating loss | (34,121) | (240,184) |
| IV. Non-operating income | 5,082 | 5,664 |
| 1. Gain on disposition of tangible assets | 6 | 62 |
| 2. Rental revenue | 4,028 | 3,947 |
| 3. Others | 1,048 | 1,655 |
| V. Non-operating expenses | 4 | 161 |
| 1. Loss on disposition of tangible assets | 0.4 | 1 |
| 2. Others | 3 | 160 |
| VI. Net loss before income taxes | (29,043) | (234,681) |
| VII. Income tax expenses | - | - |
| VIII. Net income/loss | (29,043) | (234,681) |

Statement on Changes in Capital

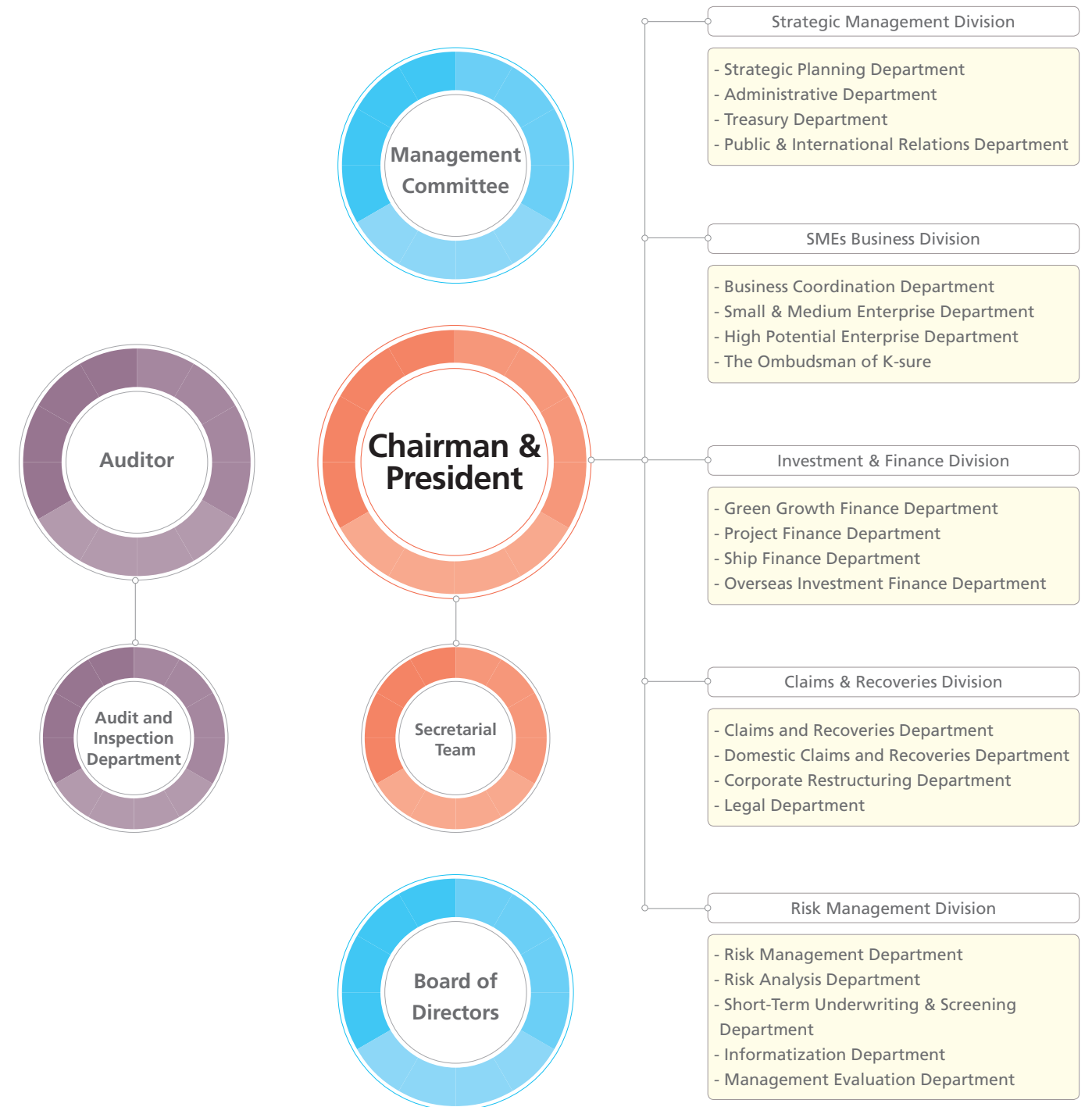
The 44th term: January 1, 2012 ~ December 31, 2012 / The 43rd term: January 1, 2011 ~ December 31, 2011

Trade Insurance Fund

(Unit : KRW million)

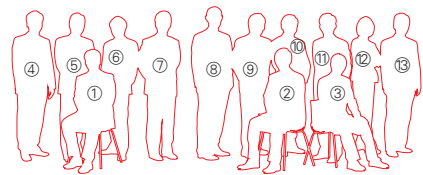
| Account | Contributions | Comprehensive income | Retained earnings (deficits) | Total |
|--|---------------|----------------------|------------------------------|-----------|
| January 1, 2011 (beginning of the previous year) | 2,039,824 | 26,123 | (911,852) | 1,154,095 |
| Government contributions | 130,000 | - | - | 130,000 |
| Deficits carried forward | (100,000) | - | 100,000 | - |
| Gain on valuation of available-for-sale securities | - | (27,484) | - | (27,484) |
| Net income/loss | - | - | (234,681) | (234,681) |
| December 31, 2011 (end of the previous year) | 2,069,824 | (1,361) | (1,046,533) | 1,021,930 |
| January 1, 2012 (beginning of the current year) | 2,069,824 | (1,361) | (1,046,533) | 1,021,930 |
| Government contributions | 60,000 | - | - | 60,000 |
| Loss on valuation of available-for-sale securities | - | (1,439) | - | (1,439) |
| Net income/loss | - | - | (29,043) | (29,043) |
| December 31, 2012 (end of the current year) | 2,129,824 | (2,800) | (1,075,576) | 1,051,448 |

Organizational Structure



Management

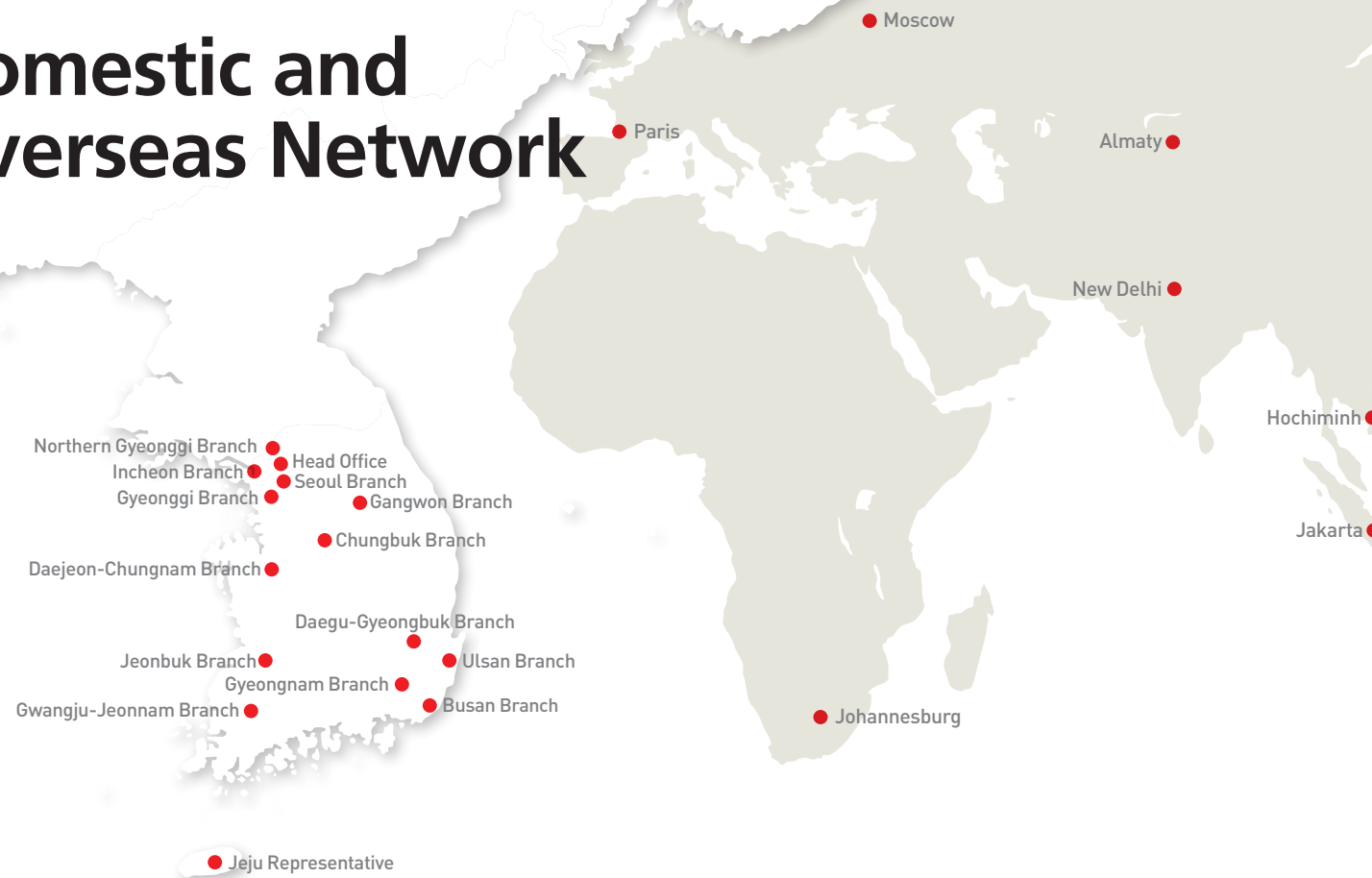
K-sure management is dedicated to support trade. Anchoring on expertise and know-how built in 20 years, each member of the management at K-sure gives the best to extend solid support to Korean enterprises striving for success.



- ① Chairman and President _ **Cho, Kye-Ryoong**
- ② Auditor _ **Son, Tae-Ho**
- ③ Deputy President _ **Kwon, Moon-Hong**
- ④ Executive Director _ **Kim, Sun-Ki**
- ⑤ Executive Director _ **Choo, Byung-Yang**
- ⑥ Executive Director _ **Lee, Kyu-Cheul**
- ⑦ Executive Director _ **Park, Sang-Hee**
- ⑧ Senior Non-Executive Director _ **Lee, Gae-Min**
- ⑨ Non-Executive Director _ **Lee, Jae-Kook**
- ⑩ Non-Executive Director _ **Kim, Dong-Sun**
- ⑪ Non-Executive Director _ **Kim, Dong-Soo**
- ⑫ Non-Executive Director _ **Oh, Mi-Young**
- ⑬ Non-Executive Director _ **Kwon, Oh-Nam**



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