

1H FY2002 Earnings Review

Shaper of Korean Financial Services Industry

Daewoo Securities Co., Ltd. (KS:06800)

Overview

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Company Description

Establishment September 1970
 CEO Mr. Jong-Soo Park
 Employees 2,482
 Network Domestic 125 (3) branches
 Overseas 6 subsidiaries, 2 offices
 Paid-in Capital KRW 1,021 bln
 Market Cap. KRW 1,003 bln
 Shares in Issue 204 mln
 - Common 190 mln
 - Preferred 14 mln
 Avg Trading Vol. 2.10 mln/day
 Major Shareholder Korea Development Bank
 (Owenship of 39.1%)
 1H Price Range KRW 5,010~10,600

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■ Operating Income of KRW 45.2 bln, Net Losses of KRW 5.4 bln in 1HFY02

Daewoo Sec.(the Company) realized operating income of KRW 45.2 bln this fiscal year's first half, which was increased compared to losses of KRW 32.2 bln in 1HFY01. However, non-operating losses including loss on stock market stabilization fund, investment securities losses from sales of Daewoo Hungary bank, make the Company to post net losses of KRW 5.4 bln.

■ Improved Efficiency and Profitability

Operating yield increased to 132.9% up by 18% YoY and Commission received per employee increased to KRW 350 mln by 17%. However, Expenses ratio dropped to 81.0%, down by 3%.

[Table 1] Summarized Income Statement

(KRW bln)	FY02		QoQ %	FY02	FY01	YoY %
	2Q	1Q		1H	1H	
Operating Revenues	157	216	-27	373	347	8
Operating Expenses	154	174	-11	328	379	-13
Operating Income	3	423	-93	45	-32	-
Ordinary Income	-37	31	-	-5	-18	-
Net Income	-37	31	-	-5	5	-
EPS (KRW)	-773	659	-	-57	62	-
ROE (%)	-12.3	10.4	-	-0.9	1.0	-
Adjusted EPS (KRW)*	909	1,847	-51	563	216	160
Adjusted ROE (%)*	7.6	15.4	-51	8.9	3.6	146

* Adjusted EPS and ROE based on adjusted ordinary income

※ Adjusted ordinary income = {Commission received – Commission expenses – (G&A – Credit loss expenses) + Interest income – Interest expenses} *100

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Financial Highlights

1. Operating Income

Commission Received boosted Operating Revenues by 8%

Operating revenues increased to KRW 373 bln, YoY 8%. Brokerage commission increased to KRW165 bln, 12% up YoY. However, brokerage commission on BCs ended 44% below last year and maintained the total commission received almost similar YoY. The decline in brokerage commission on BCs was mainly due to redemption of a large portion of high-commission funds, especially CBO and High Yield funds in this first half.

Operating Expenses decreased by 13%, Credit Loss Expenses 83%, G&A Expenses 25%

Operating expenses decreased to KRW 328 bln, YoY -13%. Although losses from trading securities increased, interest expenses and G&A expenses decreased 52% and 25% respectively, making up the expenses. Especially credit loss expenses and provision for allowances for guaranteed fell.

Operating Income of KRW 45 bln

Increase of operating revenues and decrease of operating expenses made the Company to mark **operating income of KRW 45 bln**. Last first quarter in FY01, operating losses KRW 32 bln occurred.

[Table2] Operating Profit & Losses

(KRW bln)	FY02		% Change	FY02	FY01	% Change
	2Q	1Q		1H	1H	
Operating revenues	157	216	-27%	373	347	8%
Commission received	82	121	-32%	203	206	-1%
Brokerage commission	71	95	-25%	165	148	12%
Underwriting commission	2	11	-84%	12	14	-12%
Commission on BCs	9	14	-39%	23	41	-44%
Interest income	26	34	-22%	60	66	-9%
Dividends & distribution income	4	1	214%	6	16	-65%
Income from trading securities*	39	57	-32%	96	60	60%
Others	6	4	67%	9	-	-
Operating expenses	154	174	-11%	328	379	-13%
Commission expenses	8	9	-8%	17	14	20%
Interest expenses	21	24	-9%	45	94	-52%
Losses from trading securities*	44	64	-30%	108	61	79%
General & administrative expenses	804	78	4%	158	211	-25%
Operating income	3	42	-93%	45	-32	-

* Trading securities: gain and loss on sales & valuation of trading securities and derivatives.

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2. General and Administrative Expenses

Salary and Advertising Expenses were cut down drastically.

1H's general expenses excluding credit loss expenses were similar to last year's KRW 148 bln. In this second quarter, salary was cut down by 20% and advertising expenses by 38% QoQ.

[Table 3] General expenses excl. credit loss expenses

(KRW bln)	FY02		% Change	FY02	FY01	% Change
	2Q	1Q		1H	1H	
Salary	34	42	-20%	76	72	5%
Computer system operation expenses	6	6	8%	12	13	-12%
Rental expenses	4	3	15%	7	8	-7%
Miscellaneous expenses	1	1	-33%	2	2	-24%
Entertainment expenses	1	1	-1%	2	2	17%
Advertising expense	3	5	-38%	8	7	20%
Depreciation	9	9	2%	18	20	-12%
Research and study expenses	1	-	933%	1	-	671%
Training expenses	1	1	-2%	1	1	1%
Amortization of intangible assets	1	1	18%	1	1	20%
Tax and dues	2	2	-12%	4	6	-37%
Others	9	7	38%	16	15	8%
Total	70	77	-9%	148	148	-

* Salary consists of salary, severance pay and other benefits for employees.

Nothing but KRW 1 bln of Losses from Allowances and Guarantees

Last fiscal year the Company provisioned over KRW 60 bln, but this half the Company is free from major allowances.

[Table 4] Losses regarding allowances and guarantees

(KRW bln)	1HFY02	1HFY01
Reversal of allowance for allowances	-	-
Reversal of allowance for guarantees	9	-
Credit loss expenses	10	50
Provision for allowances for guarantees	-	13
Net Losses	1	63

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3. Non-Operating Expenses

The Company marked KRW 63 bln of **Non-Operating Expenses**.

Loss from market stabilization fund of KRW 20 bln

As KOSPI plummeted to year-low of 639.74p from April, the Company had to realize **loss on valuation of investment in the stock market stabilization fund of KRW 20 bln**. As of September, the balance of the stock market stabilization fund was KRW 67 bln.

Investment Securities Loss of KRW 24 bln for the sales contract of Daewoo Bank (Hungary) with KDB.

As an owner of Daewoo Bank (Hungary) Ltd., the Company had been reflecting losses from depreciation of Hungarian currency in capital adjustment account. **KRW 24 bln of the loss switched to investment securities loss** as the Company contracted to sell 100% of its shares of Daewoo Hungary Bank with Korea Development Bank on July.

Goodwill written off KRW 4 bln for Delta Information & Communication.

The Company has **written off goodwill of KRW 4 bln on Delta Information & Communication (Delta)**. Goodwill came from the difference between the price bought and Delta's net book value toward the 1.2 mln shares which are not confiscated. After careful consideration, the Company decided to take over 5 mln shares related to the fraud last August. It was to fulfill obligation and responsibility as a brokerage agency to uphold market stability and protect investors.

4. Bottom line

1HFY02 Net Losses of KRW 5.4 bln

In amount, the Company recorded **net losses of KRW 5.4 bln** in this first half. The record is slightly less than that of last fiscal year's, but, unfortunately, it is far behind than the Company's business plan. On the other hand, the Company gave relatively reasonable performance and cleaned up the other contingent liabilities under the unfavorable circumstances.

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5. Operational Profitability and Productivity

Improved Operating Yield & Productivity per Employee

Operating yield, one of which indicate operational efficiency, reached to 132.9%, up by 18% YoY. Expenses ratio slid moderately by 3% to 81.0%, which is interpreted as quite good under difficult market situations. Regarding productivity per employee, commissions received per employee also came in at KRW 350 mln, an increase of 17%.

[Table5] Efficiency indicators

(% , KRW mln)	FY2002		% Change	FY2002	FY2001	% Change
	2Q	1Q		1H	1H	
Operating yield +1	122.7	142.2	-14%	132.9	112.4	18%
Expenses ratio +2	95.4	71.2	34%	81.0	78.6	3%
Commissions received per employee +3	135	201	-33%	166	166	-
Brokerage commissions per employee +4	298	393	-24%	345	296	17%

+1 Operating yield : (Commissions received + Interest/Dividends/Distribution income) / (Commissions expenses + Interest expense + Selling & general expenses – Credit loss expenses) x 100

+2 Expenses ratio: (Selling & general expenses – Credit loss expenses + Commissions expenses) / (Commissions received) x 100

+3 Commissions received per employee: Commissions received / # of total employees

+4 Brokerage commissions per employee: Brokerage commissions / # of stock sales employees

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Performances by Sector

1. Brokerage

Market Share moderately dropped, yet is recovering from 2Q

In this half, the stock market volume increased by 21% YoY, the daily trading volume by 23%, from KRW 3.23 trln to KRW 3.96 trln. The trend has been that big brokers' market share is getting lower and lower and the Company was no exception to see its market share drop by 9%. The main reason of the Company's recent market share deterioration is that several big brokers tried to expand their market share with aggressive promotions giving discount on commission rates. As the promotions ended in the second quarter, the Company's market share seems to be recovering. The Company's online market share as of September is 5.48% and this takes up 74% of the total Company transaction volume.

The Company's market share dropped 12% in the futures market and increased only 1% in the options market YoY. However, the second quarter market share is going up compared to the first quarter's yet.

[Table 6] Brokerages

(KRW bln, %)		FY02		% Change	FY02	FY01	% Change
		2Q	1Q		1H	1H	
Stock	Market Daily Volume	3,406	4,516	-25%	3,961	3,226	23%
	Daewoo's M/S	7.52%	7.40%	2%	7.45%	8.14%	-9%
	KSE M/S	7.33%	6.99%	5%	7.14%	7.59%	-6%
	KOSDAQ M/S	8.12%	8.39%	3%	8.28%	8.76%	-5%
	Online M/S	5.65%	5.35%	6%	5.48%	5.84%	-6%
Futures	M/S	3.06%	2.45%	25%	2.77%	3.15%	-12%
	Online M/S	1.80%	1.06%	69%	1.45%	1.31%	10%
Options	M/S	4.29%	4.18%	3%	4.24%	4.19%	1%
	Online M/S	2.80%	2.48%	13%	2.64%	2.08%	27%

※ Source : Korea Stock Exchange, KOSDAQ Market

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2. Investment Banking

Finest Achievements in Each Segment

Despite the bearish stock markets shrinking the investment banking markets, the Company is maintaining the strongest performance in each sector.

[Table7] IB Performance

IPOs	KRW 493 bln	#1 among Big 5
Right Issues	KRW 20 bln	#1 among Big 5
Corporate Bond Issues*	KRW 618 bln	#2 among Big 5, #1 in non-conglomerate sector
Derivatives Issues*	KRW 790 bln	#3 among Big 5, #1 in non-conglomerate sector

* Corporate Bond and Derivatives based on the amounts the Company underwrote.

* Bartering amounts excluded from Derivatives Issues

※ Source : Internal data

3. Asset Management

Redemption of CBO & HY funds dragged down the balance

Most of CBO and High Yield funds that came to maturity were redeemed and resulted in the decreased balance of beneficiary certificates. A low interest rate in the market may explain the upward tendency of MMF balance.

[Table 8] Sold beneficiary certificates

(KRW bln)		FY02		% Change	FY02	FY01	% Change
		end-Sep.	end-Jun.		end-Sep.	end-Sep.	
Bond type	MMF	1,418	1,574	-10%	1,418	1,602	-11%
	Total	2,733	2,630	4%	2,733	3,450	-21%
Hybrid type	CBO	47	330	-86%	47	839	-94%
	HY	44	45	-2%	44	181	-76%
	Total	918	1,258	-27%	918	1,699	-46%
Equity type		48	45	6%	481	22	123%
Total		3,690	3,933	-6%	36,900	5,171	-28%

※ Source : Internal data

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Other Hot Issues

Liquidating unmarketable loans through CRV

Liquidation of Non-Current Assets of KRW 954 bln

As the Company announced in July, the Company handed over KRW 954 bln of loans to Daewoo Capital to Daewoo Capital CRV and received KRW 99 bln of cash, KRW 72 bln of CRV shares in September. KRW 207 bln of CRV bonds will be received as well. The Company already provisioned 60% of KRW 954 bln and additional losses will be limited to KRW 3 bln while considerable flexibility is gained.

Contract to sell shares in Daewoo Bank (Hungary) Ltd.

Finishing touch for restructuring overseas network

In July, the Company made a contract with Korea Development Bank to sell its shares in Daewoo Bank (Hungary) Ltd.. Sales price is approximately USD 32.9 mln. As of March 2002, the book value of shares is about USD 25.8 mln. From the Bank, the Company already realized gains of KRW 33.3 bln including dividends income. Losses related to Hungary currency depreciation was all reflected in the investment securities reduction loss this quarter. Restructuring in the foreign operation is nearly coming to an end.

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Appendix1. Balance Sheet

Unit: KRW million

	FY2002		FY2001	
	Sep. 30, 2002	Jun. 30, 2002	Sep. 30, 2001	Jun. 30, 2001
Assets				
Current assets	1,933,985	2,187,904	2,132,003	2,496,618
Cash and bank deposits	78,684	110,775	216,479	297,211
Deposits	953,397	1,085,411	939,471	1,163,020
Trading securities	746,076	792,130	860,550	808,119
Long position in options	74	1,084	170	471
Loans	59,822	83,087	31,837	122,743
Other current assets	97,437	117,268	88,090	109,671
Allowance for credit loss on current assets	-1,506	-1,851	-4,595	-4,616
Non-current assets	1,169,492	1,297,334	1,394,954	1,483,256
Investment securities	436,248	393,824	362,059	398,614
Investment assets	122,438	125,963	148,823	158,011
Tangible fixed assets	306,767	308,811	334,775	341,309
Other non-current assets	304,040	468,735	549,298	585,322
Total assets	3,103,478	3,485,238	3,526,957	3,979,874
Liabilities				
Current liabilities	1,662,382	2,103,374	2,212,409	2,498,250
Call money	-	221,700	348,000	270,200
Short-term borrowings	119,686	124,505	187,174	509,645
Bonds sold under reverse resale agreements	41,988	37,458	61,012	69,491
Customers' deposits	1,017,041	1,157,985	989,999	1,148,531
Securities sold	-	1,078	3,697	3,455
Short position in options	111	942	117	263
Others	483,556	559,706	622,409	496,667
Long-term liabilities	277,870	186,635	468,744	560,292
Debenture	-	-	200,000	-
Long-term borrowings	-	-	275	284
Allowance for guarantees	3,126	12,987	44,990	31,526
Reserve for severance and retirement benefits	19,935	17,729	12,356	10,599
Others	254,809	156,352	211,123	518,345
Total liabilities	1,940,252	2,290,008	2,681,152	3,058,542
Stockholders' equity				
Stockholders' equity	1,020,883	1,020,883	842,320	842,320
Capital surplus	250,724	250,724	173,283	173,283
Retained earnings	121,038	157,746	76,653	138,085
Capital adjustment	-229,420	-234,123	-246,451	-232,356
Total stockholders' equity	1,163,225	1,195,230	845,805	921,332
Total liabilities & stockholders' equity	3,103,478	3,485,238	3,526,957	3,979,874

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Appendix 2. Income Statement

Unit: KRW million

	FY2002		% Change	FY2002	FY2001	% Change
	2Q	1Q		1H	1H	
Operating Revenues	157,196	216,039	-27	373,235	346,563	8
Commission received	82,275	120,546	-32	202,821	205,622	-1
Brokerage commissions	70,943	94,459	-25	165,402	147,710	12
Underwriting commissions	1,740	10,651	-84	12,391	14,005	-12
Brokerage commissions on beneficiary certificates	8,557	14,134	-39	22,691	40,666	-44
Wrap commissions	228	461	-51	688	724	-5
Others	807	842	-4	1,649	2,518	-35
Interest income	26,335	33,687	-22	60,022	65,861	-9
Interest on loans	6,035	4,011	50	10,046	7,142	41
Interest on deposits with KSFC	12,517	13,333	-6	25,850	24,817	4
Interest on deposits with institutions	943	2,948	-68	3,891	11,003	-65
Interest on call loans	381	963	-60	1,344	420	220
Interest on advance for customers	248	1,178	-79	1,426	2,408	-41
Others	6,212	11,254	-45	17,466	20,071	-13
Dividends income	2,582	1,171	120	3,753	1,781	111
Distribution income	1,559	147	960	1,706	13,750	-88
Gain on sales of trading securities	5,793	7,603	-24	13,396	22,764	-41
Gain on sales of stock	2,547	2,903	-12	5,450	12,619	-57
Gain on sales of bonds	2,862	4,372	-35	7,234	7,474	-3
Gain on sales of beneficiary certificates	305	202	51	507	2,497	-80
Others	79	127	-38	205	175	17
Gain on valuation of trading securities	-202	3,907	-105	3,706	6,152	-40
Gain on valuation of stock	-1,083	1,119	-197	36	1,103	-97
Gain on valuation of bonds	667	1,921	-65	2,588	1,893	37
Gain on valuation of beneficiary certificates	215	867	-75	1,082	3,156	-66
Others	-	-	-	-	-	-
Gain on valuation of trading securities sold	-	-	-	-	846	-
Gain on derivatives sold	32,964	45,449	-27	78,413	29,787	163
Gain on futures transactions	13,471	16,011	-16	29,482	18,198	62
Gain on exchange trading options transactions	18,503	29,438	-37	47,941	11,536	316
Gain on OTC derivatives transactions	990	-	-	990	52	1,797
Other operating income	5,890	3,528	67	9,419	-	-
Reversal of allowance for allowances	-3,528	3,528	-	-	-	-
Reversal of allowance for guarantees	9,419	-	-	9,419	-	-

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Appendix 2. Income Statement (Continued)

	FY2002		%	FY2001	FY2001	%
	2Q	1Q		1H	1H	
Operating expenses	154,315	173,731	-11	328,045	378,757	-13
Commission expenses	8,059	8,741	-8	16,799	14,053	20
Trading commissions	5,287	4,783	11	10,069	7,413	36
Investment consultant fees	2,012	3,084	-35	5,097	4,761	7
Other commissions	759	875	-13	1,634	1,879	-13
Interest expenses	21,461	23,578	-9	45,039	93,613	-52
Interest on borrowings from KSFC	1,025	2,532	-60	3,557	4,544	-22
Interest on customers' deposits	5,533	6,115	-10	11,648	13,772	-15
Interest on call money	1,821	1,683	8	3,504	7,327	-52
Interest on debentures	12,169	12,428	-2	24,597	41,133	-40
Others	913	820	11	1,733	26,836	-94
Loss on sales of trading securities	10,466	13,348	-22	23,814	15,943	49
Loss on sales of stock	5,567	11,056	-50	16,624	7,443	123
Loss on sales of bonds	2,747	1,388	98	4,136	3,260	27
Loss on sales of beneficiary certificates	2,150	850	153	3,000	3,100	-3
Others	1	53	-99	55	2,140	-97
Loss on valuation of trading securities	2,760	14,977	-82	17,737	17,837	-1
Loss on valuation of stock	4,662	12,445	-63	17,107	3,928	336
Loss on valuation of bonds	-1,649	2,185	-175	536	475	13
Loss on valuation of beneficiary certificates	-253	347	-173	93	11,933	-99
Others	-	-	-	-	1,500	-
Loss on valuation of trading securities sold	-36	36	-	-	47	-
Loss on derivatives sold	31,232	35,536	-12	66,768	26,774	149
Loss on futures transactions	12,433	15,776	-21	28,210	18,059	56
Loss on exchange trading options transactions	17,417	19,751	-12	37,168	8,715	326
Loss on OTC derivatives transactions	1,382	8	16,660	1,390	-	-
Selling and administrative expenses	80,373	77,514	4	157,888	210,491	-25
Operating income	2,881	42,308	-93	45,190	-32,194	
Non-operating income	4,294	7,852	-45	12,145	26,250	-54
Gain on disposition of investment securities	442	285	55	727	20,176	-96
Gain on equity method valuation	-	707	-	707	-	-
Gain on valuation of investment in stock market stabilization fund	-	-	-	-	1,824	-
Others	3,852	6,859	-44	10,711	4,250	-
Non-operating expenses	43,867	18,873	132	62,740	11,985	423
Loss on disposition of investment securities	570	345	65	915	1,082	1,082
Investment securities reduction loss	23,651	-	-	23,652	-	-
Loss on equity method valuation	4,068	-	-	4,068	654	522
Loss on valuation of investment in stock market stabilization fund	8,865	11,206	-21	20,071	-	-
Others	6,713	7,321	-8	14,035	10,249	37
Ordinary income	-36,692	31,287		-5,405	-17,929	-70
Extraordinary gain	-	-	-	-	22,676	-
Extraordinary loss	15	15	6	30	97	-69
Net income	-36,708	31,272		-5,435	4,650	