

# 3Q FY2002 Earnings Review

Shaper of Korean Financial Services Industry

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

### Overview

#### IR Team

irteam@bestez.com

#### Hong-Wook Kim, Manager

+82-2-768-3917

wookie@bestez.com

#### Insun Song, Assistant Manager

+82-2-768-2149

insuns@bestez.com

#### Haejin Chang

+82-2-768-3918

haejin77@bestez.com

#### Company Description

Establishment	September 1970
CEO	Mr. Jong-Soo Park
Employees	2,501
Network	Domestic 124 (2) branches Overseas 6 subsidiaries, 2 offices
Paid-in Capital	KRW 1,021 bln
Market Cap.	KRW 896 bln
Avg. Trading Vol.	1.48 mln/day
Price Range	KRW 4,290 ~ 10,600
Shares in Issue	204 mln
- Common	190 mln
- Preferred	14 mln
Major Shareholder	Korea Development Bank (Owenship of 39.1%)

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#### ■ Despite the bearish market, Net Income of 4.2 bln, Operating Income of 5.6 bln for the third quarter

Daewoo Sec. (the Company) realized operating income of KRW 5.6 bln and net income of KRW 4.2 bln this fiscal year's third quarter, resulting in accumulated operating income and net losses of KRW 50.8 bln, KRW 1.2 bln respectively.

Despite the continuing deterioration of the stock markets, the Company has been showing its prominence in both institutional and retail sales.

#### ■ Summarized Income Statement

[Table 1] Summarized Income Statement

(KRW bln)	FY02		QoQ	FY02	FY01	YoY
	3Q	2Q	%	~3Q	~3Q	%
<b>Operating Revenues</b>	173	157	10	546	545	-
<b>Operating Expenses</b>	167	154	8	495	583	-15
<b>Operating Income</b>	6	3	109	51	-38	
<b>Ordinary Income</b>	4	-37		-1	7	
<b>Net Income</b>	4	-37		-1	29	
<b>EPS (KRW)</b>	89	-772		-9	254	
<b>ROE (%)</b>	1.4	-12.5		-0.1	4.0	
<b>Adjusted EPS (KRW)*</b>	378	183	107	502	600	-16
<b>Adjusted ROE (%)*</b>	6.1	2.9	108	8.1	9.5	-14

\* 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}

※ This report is made before disclosure therefore all the figures and contents are subject to change.

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## Financial Highlights

### 1. Operating Income

*Operating Revenues increased 10% to KRW 173 bln*

Operating revenues increased to KRW 172.9 bln, 10% QoQ due to increase in interest income and gains from trading securities whereas commission received slightly changed in result of the flat markets continuing since the last quarter.

*Rather Brokerage Commission Received stabilized while Underwriting Commission leaped*

While the Company's market share slightly increased, the total market volume decreased. Thus, brokerage commission dropped 8% QoQ to KRW 65.5 billion. Underwriting commission considerably increased as the Company accomplished IPO of Paradise Co., Ltd. and NHN Corp. successfully. Commission on BCs remained fairly steady at KRW 8 billion. Accumulated commission on BCs considerably decreased compared to the same period of last year mainly because most of the matured CBO and high-yield funds were redeemed during the second quarter.

*Interest Income and Income from Trading Securities increased*

Interest income of this quarter increased by KRW 12 billion. Meanwhile, dividend and distribution income sharply declined compared to the second quarter. The main reason is that dividends on trading securities of certain corporations, of which fiscal years end in December or March of a following year, is generally paid in the second quarter. Income from trading securities increased 37% in total as gain on sales and valuation of trading securities evenly increased.

[Table2] Operating Profit & Losses

(KRW bln)	FY02		QoQ	FY02	FY01	YoY
	3Q	2Q	%	~3Q	~3Q	%
<b>Operating revenues</b>	<b>173</b>	<b>157</b>	10	<b>546</b>	<b>545</b>	-
Commission received	81	82	-1	284	325	-13
Brokerage commission	66	71	-8	231	240	-4
Underwriting commission	6	2	252	19	24	-22
Commission on BCs	8	9	-8	31	57	-46
Interest income	38	26	45	98	101	-3
Dividends & distribution income	1	4	-66	7	19	-64
Income from trading securities *	53	39	37	149	100	48
Others	-1	6		9	-	
<b>Operating expenses</b>	<b>167</b>	<b>154</b>	8	<b>495</b>	<b>583</b>	-15
Commission expenses	4	8	-49	21	21	1
Interest expenses	22	22	2	67	115	42
Losses from trading securities *	57	44	27	165	125	32
General & administrative expenses	85	80	6	243	322	-25
<b>Operating income</b>	<b>6</b>	<b>3</b>	95	<b>51</b>	<b>-38</b>	

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

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## *Operating Expenses of KRW 154 bln*

8% of increase in operating expenses primarily came from losses from trading securities.

As securities-related organizations exempted commissions for transaction from broekrages from October to December, the Company's trading commission was greatly reduced resulting in a decrease in commission expenses by 50 %. While loss on sales of trading securities increased by KRW 17 billion, loss on valuation of trading securities decreased by KRW 54 billion.

Due to payment of welfare expenses, salary expenses increased 28% QoQ. Nevertheless, the rest in general and administration expenses except for salary evenly reduced. Thus total general and administrative expenses increased by 6% only.

## *KRW 11 bln of Net Losses from Allowances and Guarantees*

In this quarter the Company completed making allowance for eliminating uncertainties, resulting in small additional credit loss expenses. In addition, reversal of allowance for guarantee of KRW 8.9 billion was made. Thus the net losses regarding allowance and guarantees posted KRW 11 billion.

[Table 3] Losses regarding allowances and guarantees

(KRW bln)	3QFY02 (accumulated)	3QFY01 (accumulated)
Reversal of allowance for allowances	-	-
Reversal of allowance for guarantees	9	-
Credit loss expenses	20	98
Provision for allowances for guarantees	-	4
<b>Net Losses</b>	<b>11</b>	<b>101</b>

According to the constant growing of operating revenues, the Company posted operating income of KRW 5.6 billion in the third quarter this fiscal year of 2002, accumulated of KRW 50.8 billion for the quarters ended December 31, 2002. This seems improvements compared to net losses of KRW 29.4 billion and operating losses of KRW 37.7 billion during the same period of last year.

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## 2. Non-Operating Expenses and Net Income

### *Big drop in Non-Operating Expenses*

In this quarter, net non-operating expenses sharply decreased to KRW 1.4 billion in contrast to KRW 39.7 billion in the last quarter, which was early on paid to eliminate uncertainties.

### *Stock Market Stabilization Fund Balance of KRW 45 bln*

KOSPI closed at 627.55P at the end of December, slightly declining from 646.42P at the end of September. But investment in stock market stabilization fund of KRW 25.1 billion was refunded in November, thus loss on valuation of investment in stock market stabilization fund decreased by KRW2.3 billion. The total balance of the fund is KRW 44.5 bln as of December. Stock Market Stabilization Fund Committee plans to complete liquidation of the fund by May 2003.

### *3QFY02 Net Income of KRW 4 bln*

In summary, Daewoo Securities posted net income of KRW 4.2 billion in the third quarter, resulting KRW 1.2 billion of accumulated net losses for the quarter ended on December 31, 2002. Though this result is rather poor accomplishment compared to net income of KRW 29.4 billion during the same period in the last fiscal year, operating gains exceeded operating losses and ordinary losses mostly came from non-operating activities. Thus, profitability of this quarter is improved to some extent.

## 3. Operational Profitability and Productivity

As interest income sharply increased and commission expenses decreased, operating yield, which shows operating efficiency, posted 119%, up by 6% QoQ. Increase in expenses ratio is regarded as contemporary due to increased salary. Commissions received per employee and brokerage commissions per employee slightly declined mainly due to decrease in commissions received.

[Table4] Efficiency indicators

(% , KRW mln)	FY02		QoQ	FY02	FY01	YoY
	3Q	2Q	%	~3Q	~3Q	%
Operating yield †1	119.1	112.8	6	125.2	124.8	-
Expenses ratio †2	97.9	95.4	3	85.8	74.3	15
Commissions received per employee †3	130	133	-2	154	175	-12
Brokerage commissions per employee †4	276	296	-7	323	322	-

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

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

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

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

# 3Q FY2002 Earnings Review

## Performances by Sector

### 1. Brokerage

*Stock market share recovering from 2Q and marking the third among major 5 brokerages*

In this quarter, the total stock market volume decreased by 6% QoQ to KRW 199.7 trillion and the daily trading volume from KRW 3.41 trillion to KRW 3.17 trillion. And yet, the Company's market share has risen since September, posted 7.30% in the first quarter, 7.49% in the second, and 7.53% in the third. In consequence, the Company ranked the third place among the securities companies as of end of December 2002. This is interpreted as a result of the Company's institutional sales increase, which has been growing. The Company's online market share takes up 72% of the total Company transaction volume, declining from the second quarter's 75%.

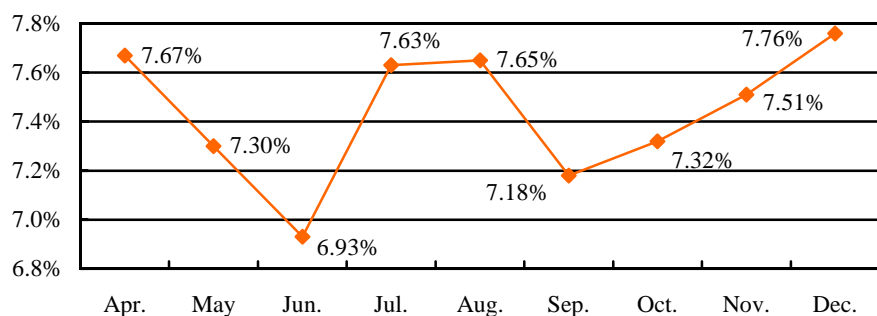
The Company's futures and options market share had no significant changes. However, Company selected it as a primary business plan of FY2002 to concentrate on. As a result, the market share in both futures and options is improved gradually from FY2001.

[Table 5] Brokerages

(KRW bln, %)		FY02		QoQ %	FY02	FY01	YoY %
		3Q	2Q		~3Q	~3Q	
Stock	Market Daily Volume	3,166	3,406	-7	3,696	3,519	5
	Daewoo's M/S	7.53%	7.49%	1	7.44%	8.09%	-8
	KSE M/S	7.37%	7.30%	1	7.19%	7.64%	-6
	KOSDAQ M/S	7.97%	8.08%	-1	8.13%	8.60%	-5
	Online M/S	5.36%	5.65%	-5	5.44%	5.80%	-6
Futures	M/S	3.05%	3.06%	-	2.88%	2.78%	4
	Online M/S	2.14%	1.80%	19	1.72%	1.18%	46
Options	M/S	4.17%	4.29%	-3	4.21%	4.09%	3
	Online M/S	2.40%	2.80%	-14	2.55%	2.25%	13

※ Source : Korea Stock Exchange, KOSDAQ Market

[Graph 1] Monthly market share in stock markets



※ Source : Korea Stock Exchange, KOSDAQ Market

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## 2. Investment Banking

### *No.1 in Investment Banking Business*

Despite the continuing bearish stock markets, the investment banking manpower of Daewoo Securities grows strong. In October the Company accomplished IPO of NHN Corp. and Paradise Co., Ltd. successfully. Also, the whole investment banking business unit maintains the strongest performance and is contributing to the Company's profit even in the absence of affiliated companies.

[Table6] IB Performance ( 3QFY2002 Accumulated )

IPOs	KRW 586 bln	#1 among major 5 brokerages
Right Issues	KRW 20 bln	#1 among major 5 brokerages
Corporate Bond Issues*	KRW 1,624 bln	#1 among major 5 brokerages, #1 in non-conglomerate sector
Derivatives Issues*	KRW 1,746 bln	#3 among major 5 brokerages, #1 in non-conglomerate sector

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

\* Bartering amounts excluded from Derivatives Issues

\* Major 5 brokerages include

※ Source : Internal data

## 3. Asset Management

The Company's beneficiary certificates sales are still under the effect of bearish markets. As a whole, the balance still lingers around KRW 3.64 trillion. However, equity type funds declined at the highest rate, reflecting the instability of capital market money while bond type funds expanded their portion in the total balance.

### *The Asset Management Business Unit founded new*

The Company expects that asset management business will become a new cash cow in addition to brokerage, and makes every effort both in hardware and software. This January, the asset management business unit was newly founded in order to meet the needs of customers who request total and systematic asset management.

[Table 7] Sold beneficiary certificates

(KRW bln)		FY02		QoQ %	FY02	FY01	YoY %
		end-Dec.	end-Sep.		end-Dec	end-Dec	
Bond type	MMF	1,463	1,418	3	1,463	1,472	-1
	Total	2,753	2,733	1	2,753	2,900	-5
Hybrid type	CBO	46	47	-2	46	683	-93
	HY	44	44	-	44	64	-31
	Total	846	918	-8	846	1,391	-39
Equity type		37	48	-23	37	22	70
<b>Total</b>		<b>3,636</b>	<b>3,699</b>	<b>-2</b>	<b>3,636</b>	<b>4,312</b>	<b>-16</b>

※ Source : Internal data

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## Other Hot Issues

### Reorganization of Daewoo Securities

Daewoo Securities reorganized itself as a system focusing onto 'Business-line' and 'Customers' on January 1, 2003. The details are as followings.

1. Established a Business-line focused organization into Retail Brokerage Business Unit, Wealth Management Business Unit and On-line Brokerage Business Unit
2. Established a Customers focused organization to transfer marketing function into each business units in order to settle direct and prompt marketing strategies
3. Established Business Units focused responsible management system, strengthening performing and budget operating function of business units
4. Strengthening compliance function to protect customers, managing function of managing directors' compliance

### Issued non-guaranteed subordinated bonds of KRW 200 billion for refunding

The Company issued two-year non-guaranteed subordinated bonds of KRW 200 billion. This issue is to refund matured bonds that were issued last June. Through this, the Company financed usable cash at 7%, lower than the previous rate and also secured the flexibility of operation.

# 3Q FY2002 Earnings Review

## Appendix1. Balance Sheet

3Q FY2002: as of December, 2002, 2Q FY2002: as of September 2002

3Q FY2001: as of December 2001, 2Q FY2001: as of September 2001

Unit: KRW million	FY2002		FY2001	
	3Q	2Q	3Q	2Q
<b>Assets</b>				
Current assets	2,166,420	1,933,985	2,242,985	2,132,003
Cash and bank deposits	293,618	78,684	150,322	216,479
Deposits	914,920	953,397	1,226,590	939,471
Trading securities	781,134	746,076	697,554	860,550
Long position in options	354	74	624	170
Loans	81,359	59,822	78,940	31,837
Other current assets	98,121	97,437	93,336	88,090
Allowance for credit loss on current assets	3,086	1,506	4,382	4,595
Non-current assets	1,073,186	1,169,492	1,389,426	1,394,954
Investment securities	563,735	436,248	408,920	362,059
Investment assets	126,389	122,438	134,957	148,823
Tangible fixed assets	300,793	306,767	327,614	334,775
Other non-current assets	82,268	304,040	517,935	549,298
<b>Total assets</b>	<b>3,239,606</b>	<b>3,103,478</b>	<b>3,632,411</b>	<b>3,526,957</b>
<b>Liabilities</b>				
Current liabilities	1,800,051	1,662,382	2,012,954	2,212,409
Call money	131,000	-	211,000	348,000
Short-term borrowings	113,000	119,686	199,072	187,174
Bonds sold under reverse resale agreements	55,737	41,988	46,433	61,012
Customers' deposits	1,014,816	1,017,041	1,230,360	989,999
Securities sold	-	-	-	3,697
Short position in options	180	111	1,043	117
Others	485,318	483,556	325,046	622,409
Long-term liabilities	277,762	277,870	458,635	468,744
Debenture	-	-	200,000	200,000
Long-term borrowings	-	-	-	275
Allowance for guarantees	3,685	3,126	35,423	44,990
Reserve for severance and retirement benefits	21,004	19,935	13,591	12,356
Others	253,073	254,809	209,621	211,123
<b>Total liabilities</b>	<b>2,077,813</b>	<b>1,940,252</b>	<b>2,471,589</b>	<b>2,681,152</b>
<b>Stockholders' equity</b>				
Stockholders' equity	1,020,883	1,020,883	1,020,883	842,320
Capital surplus	250,724	250,724	250,725	173,283
Retained earnings	125,244	121,038	101,430	76,653
Capital adjustment	-	229,420	-	246,451
<b>Total stockholders' equity</b>	<b>1,161,793</b>	<b>1,163,225</b>	<b>1,160,822</b>	<b>845,805</b>
<b>Total liabilities &amp; stockholders' equity</b>	<b>3,239,606</b>	<b>3,103,478</b>	<b>3,632,411</b>	<b>3,526,957</b>



# 3Q FY2002 Earnings Review

## Appendix 2. Income Statement

3Q FY2002: October 2002 ~ December 2002, 2Q FY2002: July 2002 ~ September 2002  
 3Q FY2002 (accum.) : April 2002 ~ December 2002, accumulated 3Q FY2001 (accum.) : April 2001 ~ December 2001

Unit: KRW million	FY2002		QoQ	FY2002	FY2001	YoY
	3Q	2Q	%	3Q (accum.)	3Q (accum.)	%
<b>Operating Revenues</b>	<b>172,918</b>	<b>157,196</b>	10	<b>546,153</b>	<b>545,407</b>	0
Commission received	81,271	82,275	- 1	284,091	325,134	- 13
Brokerage commissions	65,458	70,943	- 8	230,860	239,920	- 4
Underwriting commissions	6,123	1,740	252	18,514	23,736	- 22
Brokerage commissions on beneficiary certificates	7,860	8,557	- 8	30,551	56,649	- 46
Wrap commissions	289	228	27	978	1,173	- 17
Others	1,540	807	91	3,189	3,657	- 13
Interest income	38,059	26,335	45	98,081	101,049	- 3
Interest on loans	7,706	6,035	28	17,752	11,094	60
Interest on deposits with KSFC	11,983	12,517	- 4	37,833	36,925	2
Interest on deposits with institutions	2,880	943	205	6,771	13,873	- 51
Interest on call loans	835	381	119	2,178	679	221
Interest on advance for customers	579	248	134	2,005	3,179	- 37
Others	14,075	6,212	127	31,541	35,299	- 11
Dividends income	877	2,582	- 66	4,630	1,782	160
Distribution income	516	1,559	- 67	2,222	17,043	- 87
Gain on sales of trading securities	7,646	5,793	32	21,042	32,630	- 36
Gain on sales of stock	3,165	2,547	24	8,615	16,250	- 47
Gain on sales of bonds	3,253	2,862	14	10,487	10,174	3
Gain on sales of beneficiary certificates	1,031	305	238	1,537	5,039	- 69
Others	198	79	152	403	1,167	- 65
Gain on valuation of trading securities	- 81	- 202	- 60	3,624	5,178	- 30
Gain on valuation of stock	- 31	- 1,083	- 97	5	2,438	- 100
Gain on valuation of bonds	- 1,305	667	- 296	1,283	502	156
Gain on valuation of beneficiary certificates	1,254	215	484	2,336	1,893	23
Others	-	-	-	-	345	-
Gain on valuation of trading securities sold	-	-	-	-	-	-
Gain on derivatives sold	45,189	32,964	37	123,603	62,592	97
Gain on futures transactions	9,734	13,471	- 28	39,216	34,784	13
Gain on exchange trading options transactions	35,701	18,503	93	83,642	27,755	201
Gain on OTC derivatives transactions	- 246	990	- 125	744	52	1,325
Other operating income	- 559	5,890	- 109	8,859	-	-
Reversal of allowance for allowances	-	3,528	-	-	-	-
Reversal of allowance for guarantees	- 559	9,419	- 106	8,859	-	-
Others	-	-	-	-	-	-

# 3Q FY2002 Earnings Review

## Appendix 2. Income Statement (Continued)

Unit: KRW million	FY2002		QoQ	FY2002	FY2001	YoY
	3Q	2Q	%	3Q (accum.)	3Q (accum.)	%
<b>Operating expenses</b>	<b>167,289</b>	<b>154,315</b>	8	<b>495,334</b>	<b>583,084</b>	15
Commission expenses	4,134	8,058	- 49	20,933	20,638	1
Trading commissions	1,600	5,287	- 70	11,669	9,116	28
Investment consultant fees	1,798	2,012	- 11	6,895	7,805	- 12
Other commissions	735	759	- 3	2,369	3,718	- 36
Interest expenses	21,816	21,461	2	66,855	115,117	- 42
Interest on borrowings from KSFC	1,789	1,025	75	5,346	6,142	- 13
Interest on customers' deposits	5,088	5,533	- 8	16,736	19,243	- 13
Interest on call money	1,636	1,821	- 10	5,140	9,564	- 46
Interest on debentures	12,373	12,169	2	36,970	50,003	- 26
Others	930	913	2	2,663	30,165	- 91
Loss on sales of trading securities	14,452	10,466	38	38,266	41,374	- 8
Loss on sales of stock	7,603	5,567	37	24,227	16,826	44
Loss on sales of bonds	1,144	2,747	- 58	5,279	7,678	- 31
Loss on sales of beneficiary certificates	5,664	2,150	163	8,665	13,473	- 36
Others	40	1	3,038	95	3,398	- 97
Loss on valuation of trading securities	- 2,525	2,760	- 191	15,212	32,631	- 53
Loss on valuation of stock	- 2,190	4,662	- 147	14,917	445	3,252
Loss on valuation of bonds	- 241	1,649	- 85	295	803	- 63
Loss on valuation of beneficiary certificates	- 94	253	- 63	-	31,383	-
Others	-	-	-	-	-	-
Loss on valuation of trading securities sold	-	-	-	-	-	-
Loss on derivatives sold	44,493	31,232	42	111,260	51,099	118
Loss on futures transactions	9,617	12,433	- 23	37,826	27,414	38
Loss on exchange trading options transactions	34,621	17,417	99	71,789	22,402	220
Loss on OTC derivatives transactions	255	1,382	- 82	1,645	1,284	28
Selling and administrative expenses	84,920	80,373	6	242,808	322,224	- 25
<b>Operating income</b>	<b>5,629</b>	<b>2,881</b>	95	<b>50,818</b>	<b>37,677</b>	
<b>Non-operating income</b>	<b>2,254</b>	<b>4,294</b>	- 48	<b>14,399</b>	<b>54,773</b>	74
Office rental income	1,966	1,936	2	5,735	4,929	16
Gain on disposition of investment securities	-	442	-	727	20,897	- 97
Gain on equity method valuation	-	-	-	707	-	-
Gain on valuation of investment in stock market stabilization fund	-	-	-	-	27,216	-
Others	287	1,916	- 85	7,230	1,730	318
<b>Non-operating expenses</b>	<b>3,669</b>	<b>43,867</b>	- 92	<b>66,410</b>	<b>10,201</b>	551
Loss on disposition of investment securities	24,815	570	4,252	25,730	1,332	1,831
Investment securities reduction loss	- 23,527	23,651	-	125	0	-
Loss on equity method valuation	-	4,068	-	4,068	656	520
Loss on valuation of investment in stock market stabilization fund	- 2,288	8,865	- 126	17,783	-	-
Others	4,670	6,713	- 30	18,704	8,213	128
<b>Ordinary income</b>	<b>4,213</b>	<b>36,692</b>		<b>1,192</b>	<b>6,895</b>	
<b>Extraordinary gain</b>	<b>-</b>	<b>-</b>		<b>-</b>	<b>22,676</b>	
<b>Extraordinary loss</b>	<b>7</b>	<b>15</b>	- 54	<b>37</b>	<b>144</b>	74
<b>Net income</b>	<b>4,206</b>	<b>36,708</b>		<b>1,229</b>	<b>29,427</b>	