

1QFY2003 Earnings Review (Apr.~Jun. 2003)

Shaper of Korean Financial Services Industry

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

Overview

Company Description

Establishment September 1970
CEO Mr. Jong-Soo Park
Employees 2,414
Network Domestic 120 (1) branches
Overseas 5 subsidiaries, 2 offices
Paid-in Capital KRW 1,021 bln
Market Cap. KRW 896 bln
Price Range KRW 3,270 ~ 5,890
Avg. Trading Vol. 4.45 mln/day
Shares in Issue 204 mln
- Common 190 mln
- Preferred 14 mln
Major Shareholder Korea Development Bank
(Owenship of 39.1%)

■ First quarter of FY2003, Daewoo Securities posted Operating Income of KRW 43.6 bln and Net Income of KRW 36.5bln

Daewoo Sec. (the Company) showed profit from increased operating revenues and decreased operating expenses and non-operating expenses.

[Table 1] Summarized Income Statement

(KRW bln)	FY03	FY02	QoQ	FY03	FY02	YoY
	1Q	4Q	%	~1Q	~1Q	%
Operating Revenues	198	157	+26	198	216	-8
Operating Expenses	154	186	-17	495	174	-11
Operating Income	44	-29	n/a	44	42	+3
Ordinary Income	37	-59	n/a	37	31	+18
Net Income	37	-59	n/a	37	31	+17
EPS (KRW)	768	-1,245	n/a	768	658	+17
ROE (%)	12.8	-20.5	n/a	12.8	10.5	+22

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1QFY2003 Earnings Review (Apr.~Jun. 2003)

Financial Highlights

1. Operating Income

*Operating Revenues up by 26%,
to KRW 1,980 bln*

Thanks to favorable market trading in the first quarter, total trading volume in KSE and KOSDAQ market was KRW 229 trln. The Company's operating revenues also rose to KRW 198.0 bln, 26% QoQ.

*Brokerage Commission Received
skyrocketed by 38.7% while
Underwriting and BCs
Brokerage Commissions kept
staggering*

Commission received posted KRW 87.4 bln from 4Q's KRW 63.0 bln. KOSPI of fiscal year-low 525.51Pt mounted during the first quarter to boost KSE trading volume from KRW 105 trln to KRW 144 trln and KOSDAQ market volume from KRW 52 trln to KRW 85 trln. However, primary markets and beneficiary certificates markets were still in the tank and the Company's revenues in those areas decreased even more. Underwriting commissions and brokerage commissions on BCs were KRW 1.9 bln and KRW 5.7 bln respectively.

*Interest Income and Income
from Trading Securities
increased*

Interest income of this quarter closed at KRW 16.6 bln down from KRW 23.1 bln, decreased a little. However, 'gain on valuation of reserve for claims of customers' deposits (trust)', which ended KRW 3.8 bln in the last quarter jumped to KRW 12.0 bln this quarter. As a result, overall interest income increased 6%, to KRW 28.6 bln. 'Gain on valuation of reserve for claims of customers' deposits (trust)' comes from KSFC(Korea Securities Finance Corporation)'s trust gains on securities companies' customers' deposits.

Including gains from structured securities transactions, which came from OTC derivatives sales, gains related trading securities were KRW 80 bln. Among here, valuation gains on Hynix shares amounted to KRW 14.4 bln.

1QFY2003 Earnings Review (Apr.~Jun. 2003)

2. Operating Expenses

*Operating Expenses of
KRW 154 bln*

Losses regarding trading securities and general administrative expenses which take up most portion of operating expenses, drastically fell drag down the operating expenses to KRW 154.4 bln from KRW 186.3 bln.

Booming markets increased commission expenses to KRW 8.5 bln to 5.4 bln. Interest expenses increased a little to KRW 21.0 bln.

On the contrary, losses from trading securities dropped from KRW 74.2 bln to KRW 51.2 bln and general administrative expenses also decreased. Among general administrative expenses, salary and credit losses were the biggest drop, salary expenses down by 6%, from KRW 42.9 bln to KRW 39.0 bln and credit losses expenses down by 66%, from KRW 11.8 bln to KRW 4.0 bln. Credit losses expenses of KRW 4.0 bln came from new allowances for securities available for sale. Advertising expenses rose to KRW 2.9 bln.

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

Commission received and gains regarding securities raised operating revenues when losses regarding securities and general administrative expenses dragged down operating expenses, together making operating income of KRW 43.6 bln. Last quarter marked operating losses of KRW 29.1 bln. Operating income showed increase of 3% YoY.

[Table2] Operating Profit & Losses

(KRW bln)	FY03	FY02	QoQ %	FY03	FY02	YoY %
	1Q	4Q				
Operating revenues	198	157	26	198	216	-8
Commission received	87	63	39	87	121	-28
Brokerage commission	78	51	82	78	95	-17
Underwriting commission	2	3	-38	2	11	-82
Commission on BCs	6	7	-19	6	14	-60
Interest income	29	27	6	29	34	-15
Dividends & distribution income	2	1	45	2	1	945
Income from trading securities*	80	64	24	80	57	40
Others	-	2	-79	-	4	-90
Operating expenses	154	186	-17	154	174	-11
Commission expenses	9	5	58	9	9	-3
Interest expenses	21	20	6	21	24	-11
Losses from trading securities*	51	74	-31	51	61	-17
General & administrative expenses	74	87	-15	74	78	-5
Operating income	44	-29	-	44	42	3

* Trading securities FY02: gain and loss on sales & valuation of trading securities and derivatives.

* Trading securities FY03 includes gain and loss on sales & valuation of structured securities

1QFY2003 Earnings Review (Apr.~Jun. 2003)

3. Non-Operating Expenses and Net Income

KRW 36.7 bln of ordinary income

While last quarter saw non-operating income of KRW 20.8 bln from affiliated companies' settlement of accounts and sales of non-current assets, this quarter just saw KRW 5.4 bln.

From this fiscal year on, gain/loss on equity method valuation is to reflect every quarter and gain/loss on valuation of investment stock market stabilization fund moved to capital adjustment in balance sheet. The fund, incurring loss of KRW 222 bln last fiscal year, made profits of KRW 100 bln this quarter.

The Company marked non-operating expenses of KRW 12.3 bln and ordinary income of KRW 36.7 bln.

1QFY03 Net Income of KRW 36.5 bln

Daewoo Securities recorded net income of KRW 36.5 billion this first quarter, up KRW 95.7 bln QoQ. This is 17% YoY, EPS of KRW 768 and ROE of 12.8%.

* CAR(Capital Adequacy Ratio)

KRW 36.7 bln of ordinary income

Net working capital totaled KRW 1,236.7 bln and risk weighted assets amounted to KRW 199.1 bln. CAR at the end of June 2003 is 621.2%, rising from 605.3% at the end of March 2003.

1QFY2003 Earnings Review (Apr.~Jun. 2003)

Appendix1. Balance Sheet

Unit: KRW million	Jun-03	Mar-03	Jun-02
Assets			
Current assets	2,633,627	2,356,403	2,187,904
Cash and bank deposits	222,813	248,725	110,775
Deposits	1,135,123	1,178,468	1,085,411
Current securities	1,040,733	821,534	792,130
Structured securities	7,207		
Options purchased	551	693	1,084
Loans	88,018	20,086	83,087
Other current assets	142,919	92,648	117,268
Allowance for credit loss (-)	3,738	5,750	1,851
Non-current assets	1,028,021	1,042,650	1,297,334
Non-current securities	497,802	524,784	393,824
Investment assets	121,651	124,854	125,963
Tangible fixed assets	290,018	296,945	308,811
Other non-current assets	118,549	96,068	468,735
Total assets	3,661,648	3,399,053	3,485,238
Liabilities			
Current liabilities	1,994,376	1,883,174	2,103,374
Call money	160,000	45,000	221,700
Short-term borrowings	40,000	78,000	124,505
Bonds sold under reverse resale agreements	158,989	89,245	37,458
Customers' deposits	1,224,631	1,266,006	1,157,985
Securities sold	844	680	1,078
Structured securities sold	99,087		
Short position in options	424	249	942
Others	310,402	353,994	559,082
Long-term liabilities	526,685	476,824	186,635
Debenture			
Long-term borrowings			
Allowance for guarantees	1,652	2,007	12,987
Reserve for severance and retirement benefits	25,167	23,352	17,729
Others	499,866	451,465	156,352
Total liabilities	2,521,061	2,309,998	2,289,385
Stockholders' equity			
Paid-in Capital	1,020,883	1,020,883	1,020,883
Capital surplus	250,724	250,724	250,724
Retained earnings	101,907	65,429	157,746
Capital adjustment	-232,928	-247,981	-234,123
Total stockholders' equity	1,140,586	1,089,055	1,195,230
Total liabilities & stockholders' equity	3,661,648	3,399,053	3,484,614

1QFY2003 Earnings Review (Apr.~Jun. 2003)

Appendix 2. Income Statement

1QFY03: April 2003 ~ June 2003, 4QFY02: January 2003 ~ March 2003, 1QY02: April 2002 ~ June 2002

Unit: KRW million	FY03	FY02	QoQ	FY03	FY02	YoY
	1Q	4Q	%	1Q	1Q	%
Operating Revenues	198,029	157,161	26	198,029	216,039	- 8
Commission received	87,366	63,034	39	87,366	120,546	- 28
Brokerage commissions	78,094	51,354	52	78,094	94,459	- 17
Underwriting commissions	1,864	3,006	- 38	1,864	10,651	- 82
Brokerage commissions on beneficiary certificates	5,714	7,013	- 19	5,714	14,134	- 60
Wrap commissions	121	205	- 41	121	461	- 74
Others	1,573	1,455	8	1,573	842	87
Interest income	16,568	23,076	- 28	16,568	33,687	- 51
Interest on margin loans	448	487	- 8	448	1,983	- 77
Interest on deposits with KSFC	7	6,161	- 100	7	13,333	- 100
Interest on deposits with institutions	2,641	3,339	- 21	2,641	2,948	- 10
Interest on call loans	494	597	- 17	494	963	- 49
Interest on advance for customers	313	128	144	313	1,178	- 73
Others	12,665	12,364	2	12,665	13,282	- 5
Dividends income	1,054	1,040	1	1,054	1,171	- 10
Distribution income	711	179	296	711	147	384
Gain on sales of current securities	10,804	5,554	95	10,804	7,603	42
Gain on sales of stock	5,902	1,293	356	5,902	2,903	103
Gain on sales of bonds	2,774	3,585	- 23	2,774	4,372	- 37
Gain on sales of beneficiary certificates	1,746	591	196	1,746	202	766
Others	381	85	347	381	126	202
Gain on valuation of current securities	23,225	12,821	81	23,225	3,907	494
Gain on valuation of stock	4,498	671	570	4,498	1,119	302
Gain on valuation of bonds	880	-527	- 267	880	1,921	- 54
Gain on valuation of beneficiary certificates	17,847	12,676	41	17,847	867	1,958
Others						
Gain on structured securities transactions	1,623			1,623		
Gain on valuation of structured securities	1,623			1,623		
Gain on valuation of trading securities sold		54				
Gain on structured securities sold transactions	550			550		
Gain on valuation of reserve for claims of customers' deposits (trust)	12,005	3,801	216	12,005		
Gain on derivatives transactions	43,769	45,924	- 5	43,769	45,449	- 4
Gain on futures transactions	8,859	9,195	- 4	8,859	16,011	- 45
Gain on exchange trading options transactions	34,501	37,097	- 7	34,501	29,438	17
Gain on OTC derivatives transactions	409	-368	- 211	409		
Other operating income	355	1,679	- 79	355	3,528	- 90
Reversal of allowance for allowances					3,528	
Reversal of allowance for guarantees	355	1,679	- 79	355		
Others						

1QFY2003 Earnings Review (Apr.~Jun. 2003)

Unit: KRW million	FY03	FY02	QoQ	FY03	FY02	YoY
	1Q	4Q	%	1Q	1Q	%
Operating expenses	154,409	186,297	- 17	154,409	173,731	- 11
Commission expenses	8,505	5,382	58	8,505	8,741	- 3
Trading commissions	6,106	3,557	72	6,106	4,783	28
Investment consultant fees	1,656	1,292	28	1,656	3,084	- 46
Other commissions	743	532	40	743	875	- 15
Interest expenses	20,971	19,770	6	20,971	23,578	- 11
Interest on borrowings from KSFC	825	423	95	825	2,532	- 67
Interest on customers' deposits	5,305	4,832	10	5,305	6,115	- 13
Interest on call money	1,869	1,865	0	1,869	1,683	11
Interest on debentures	11,716	11,514	2	11,716	12,428	- 6
Others	1,254	1,137	10	1,254	820	53
Loss on sales of current securities	3,083	24,578	- 87	3,083	13,348	- 77
Loss on sales of stock	714	2,921	- 76	714	11,056	- 94
Loss on sales of bonds	1,075	8,000	- 87	1,075	1,388	- 23
Loss on sales of beneficiary certificates	1,068	13,637	- 92	1,068	850	26
Others	226	19	1,069	226	53	324
Loss on valuation of current securities	2,308	4,257	- 46	2,308	12,445	- 81
Loss on valuation of stock	53	3,796	- 99	53		
Loss on valuation of bonds	1,482	404	266	1,482	2,185	- 32
Loss on valuation of beneficiary certificates	773	56	1,270	773		
Others					10,259	
Loss on structured securities transactions	303			303		
Loss on valuation of structured securities	303			303		
Loss on valuation of trading securities sold	166			166		
Loss on structured securities sold transactions	2,637			2,637		
Loss on derivatives transactions	42,728	45,344	- 6	42,728	35,536	20
Loss on futures transactions	8,102	9,965	- 19	8,102	15,776	- 49
Loss on exchange trading options transactions	34,218	35,489	- 4	34,218	19,751	73
Loss on OTC derivatives transactions	409	-110	472	409	8	4,857
Selling and administrative expenses	73,708	86,961	- 15	73,708	77,514	- 5
Operating income	43,620	-29,136	- 250	43,620	42,308	
Non-operating income	5,423	20,813	- 74	5,423	7,852	- 31
Rental Income	1,983	2,001	- 1	1,983	1,833	8
Gain on disposition of securities available for sale	17			17	285	- 94
Gain on equity method valuation		9,079			707	
Others	3,423	9,733	- 65	3,423	5,027	- 32
Non-operating expenses	12,296	50,840	- 76	12,296	18,873	- 35
Loss on disposition of securities available for sale	7,857			7,857	345	2,176
Securities reduction loss						
Loss on equity method valuation	686	-4,068		686		
Loss on valuation of investment in stock market stabilization fund		4,421			11,206	
Others	3,753	50,487	- 93	3,753	7,322	- 49
Ordinary income	36,747	-59,163		36,747	31,287	
Extraordinary gain						
Extraordinary loss	269	3	9,849	269	15	1,741
Net income	36,478	-59,166		36,478	31,272	