

# 1HFY2003 Earnings Release

Shaper of Korean Financial Services Industry

## Daewoo Securities (KS:06800)

### Uncertainties gone with the wind

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#### Company Description

Establishment Sep. 1970  
CEO Mr. Jong-Soo Park  
Employees 2,349  
Network 119 (1) branches, 1 PB  
Overseas 5 subsidiaries,  
1 office  
Paid-in Capital KRW 1,021bln  
Market Cap. KRW 865bln  
Shares in issue 204,176,641  
- Common 190,100,891  
- Preferred 14,075,750  
Price Range KRW3,270~5,890  
(Apr.~Sep. 2003)  
Majority Korea Development Bank  
Shareholder (Ownership 39.1%)

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#### Daewoo Sec. posted operating income of KRW 54.4 bln and net income of 25.3 bln for 1HFY03 (Apr.~Sep. 2003)

For the first 6 months in FY03, Daewoo Sec. posted operating income of KRW 54.5 bln. However, the Company prepared allowances of KRW 22.5 bln for cases filed by financial institutions with respect to redemption requests of beneficiary certificates and net income turned out KRW 25.3 bln. (2~4p)

Meanwhile, as of September, M/S in the stock brokerage ended 7.65% up by 2.7% YoY. (5~7p)

#### Finally Daewoo Sec. freed itself from lawsuits bondage

On October 23<sup>rd</sup>, the verdict on the lawsuits regarding redemption requests of beneficiary certificates came out. Now Daewoo Sec. is totally free from any uncertainties and difficulties.

#### Summarized PL

Table 1] Summarized Income Statement

(KRW bln)	FY03	FY02	YoY	FY03		QoQ
	1H	1H		2Q	1Q	
<b>Operating Revenues</b>	<b>366</b>	<b>373</b>	-2	<b>1,713</b>	<b>1,980</b>	-14
<b>Operating Expenses</b>	<b>311</b>	<b>328</b>	-5	<b>1,605</b>	<b>1,544</b>	+4
<b>Operating Income</b>	<b>54</b>	<b>45</b>	+20	<b>108</b>	<b>436</b>	-75
<b>Ordinary Income</b>	<b>26</b>	<b>-5</b>	+	<b>-112</b>	<b>367</b>	-
<b>Net Income</b>	<b>25</b>	<b>-5</b>	+	<b>-112</b>	<b>365</b>	-
EPS (KRW)	266	-57	+	-235	768	-
ROE (%)	4.4	-0.9	+	-3.9	12.7	-

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## Financials

### 1. Operating revenues

*Operating revenues of  
KRW 365.7 bln, down by  
2.0% in the 1HFY03*

While the stock markets trading value in the first half marked KRW 444 trln, down by 9.6% YoY, the Company managed to post operating revenues of KRW 365.7 bln, down by 2.0%, YoY. The market situation got weak and the trading value showed a plummeting move all time during the 2Q. Operating revenues was also down from KRW 198.0 bln in the 1Q to KRW 171.3 bln in the 2Q.

Commission received for the first half marked KRW 169.3 bln, down by 16.6% YoY. When the trading value fell off by 9.6%, the Company's brokerage commissions decreased to KRW 150.1 bln, down by 9.3% and this is due to the Company's uptrend market share in the offline trading, where the prices are relatively high (See 5p). Primary markets are still very stagnant, cutting down the Company's underwriting commissions more than 50% to KRW 5.7 bln (See 6p). Commissions on BC(beneficiary certificates) marked KRW 11.0 bln (See 7p). It is true that market commission rates on BC are on the decrease and the SK Global scandal was a big shock to BC markets. However, recently we launched discretionary wrap account product, 'MasterWrap' making a blueprint of new lucrative profit sources in the BC business.

Interest income for the first half was KRW 58.2 bln, almost same as the last year's KRW 60.0 bln. Pure interest income was KRW 33.7 bln and returns on customers' deposits in the KSFC KRW 24.5 bln. Dividends income and distribution income were KRW 1.1 bln and KRW 7.7 bln respectively.

As the KOSPI dropped low, valuation gains on current securities also dwindled in the 2Q. But total gains on securities in the first half marked KRW 128.2 bln, growing from KRW 95.5 bln last year. Especially valuation gains on stock and BCs showed a big rise.

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## 2. Operating expenses

*Operating expenses of  
KRW 160.5 bln*

Operating expenses for the first half dropped to KRW 311.3 bln, down by 5.1% YoY. Losses on securities also went down.

Table 2] Operating revenues/expenses

KRW bln	FY03		QoQ	FY03	FY02	YoY
	2Q	1Q		1H	1H	
<b>Operating revenues</b>	171.3	198.0	-13.5%	365.7	373.2	-2.0%
Commission received	81.9	87.4	-6.3%	169.3	202.8	-16.6%
Brokerage commissions	72.0	78.1	-7.8%	150.1	165.4	-9.3%
Underwriting commissions	3.8	1.9	103.1%	5.7	12.4	-54.4%
Brokerage commissions on BCs	5.2	5.7	-8.3%	11.0	22.7	-51.7%
Interest income	29.6	28.6	3.6%	58.2	60.0	-3.1%
Dividends and distribution	7.1	1.8	299.4%	8.8	5.5	61.5%
Gains on securities	51.8	80.0	-35.3%	128.2	95.5	34.2%
Others	0.9	0.4	165.5%	1.3	9.4	-86.2%
<b>Operating expenses</b>	160.5	154.4	3.9%	311.3	328.0	-5.1%
Commission expense	8.1	8.5	-4.3%	16.6	16.8	-0.9%
Interest expense	21.4	21.0	1.9%	42.3	45.0	-6.0%
Losses on securities	49.5	51.2	-3.3%	90.9	108.3	-16.0%
General & administrative expenses	81.4	73.7	10.5%	155.2	157.9	-1.7%
Salary	41.9	39.0	7.3%	80.9	75.7	7.0%
Credit losses & provisions	4.8	4.0	20.9%	8.8	10.4	-15.3%
<b>Operating income</b>	10.8	43.6	-75.3%	54.4	45.2	20.4%

Commission expense for the first half was KRW 16.6 bln, interest expense KRW42.3 bln.

Losses on securities decreased in 2 consecutive quarters. Big decrease of sales losses on the current securities contributed to KRW 90.9 bln of losses on securities, which is down by 16.0% YoY.

During the first half, the Company paid KRW 155.2 bln for general and administrative expenses. This is down by 1.7% YoY. Salary took up KRW 80.9 bln and credit losses expenses KRW 8.8 bln.

*Operating income of  
KRW 54.4 bln*

Collectively, operating income for the first half posted KRW 54.4 bln, up by 20.4% from KRW 45.2 bln.

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*Allowances of KRW 22.5 bln for lawsuits regarding redemption requests on BCs.*

*Net income of KRW 25.3 bln and operating income of KRW 54.4 bln coming closer to the goal, KRW 12.0 bln*

### 3. Bottom line and others

While non-operating income was KRW 10.9 bln, non-operating expenses came up to KRW 39.8 bln. It is because we provisioned KRW 22.5 bln for remaining lawsuits regarding redemption requests on beneficiary certificates.

We set our fiscal year's goal, net income of KRW 120.0 bln, assuming the daily market trading value of KRW 4 trln, KOSPI of 780.0Pt. The markets disappointed in the first 6 months, the daily trading value of KRW 3.6 trln and KOSPI of 697.5Pt.

In this tough situation, Daewoo Sec. struggled to show KRW 25.6 ordinary income and net income of KRW 25.3 bln. Despite the fact that this is KRW 266 of EPS and ROE of 4.4%, operating income of KRW 54.4 bln closed near to our goal of KRW 120.0 bln.

The company expects to achieve the goal without difficulty in the remaining 6 months in the growing expectations of the economy recovery and the money supply back to the securities markets.

### 4. Capital Adequacy Ratio

As of September 2003, the Company's capital adequacy ratio was 565.4%. Net working capital totaled KRW 1,169.2 bln and risk weighted assets amounted to KRW 206.8 bln.

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## Performances

### 1. Brokerages

Stock market trading value kept increasing moderately in the 1Q but showed a steep drop in the 2Q. Especially September hit a 6 month-low. Market trading value for the 1Q was KRW 444 trln, down by 9.6% from last year's KRW 500 trln.

*Continuous rising in KOSDAQ and offline trading market share*

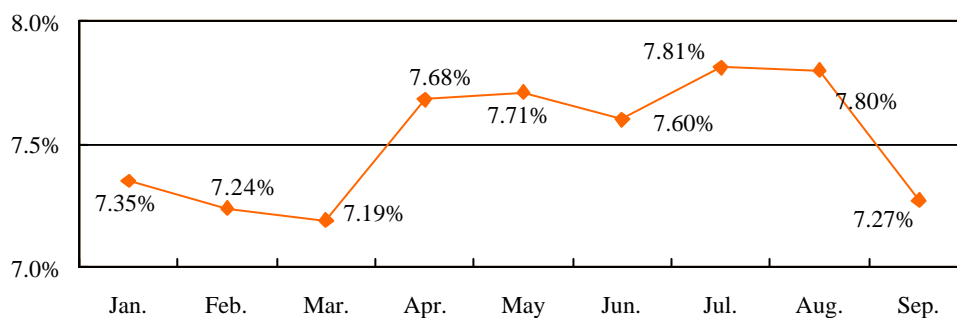
The Company's stock market share (KSE and KOSDAQ) was 7.65%. July showed a peak at 7.8% and went down to 7.2% in September, and we see this as a part of big domestic companies losing market shares when the foreign net buying grew. However, the Company's overall market share has been rising, especially offline trading by 2.59% YoY, which are favorable to strong profitability.

Table 3] Markets shares in brokerages

(KRW bln, %)		FY03		QoQ	FY03	FY02	YoY
		2Q	1Q		1H	1H	
Stock	Market Value	2,148	2,292	-6.3%	4,439	4,911	-9.6%
	M/S	7.62%	7.66%	-0.7%	7.65%	7.45%	+2.7%
	KSE	7.17%	7.40%	-3.1%	7.29%	7.14%	+2.1%
	KOSDAQ	8.48%	8.10%	+4.6%	8.29%	8.28%	+0.1%
	Offline M/S	2.64%	2.53%	+4.4%	2.59%	1.87%	+38.5%
	Online M/S	4.98%	5.13%	-2.9%	5.06%	5.58%	-9.3%
Futures	M/S	2.87%	2.62%	+9.5%	2.74%	2.77%	-1.1%
	Online M/S	2.17%	1.98%	+9.6%	2.07%	1.45%	+42.8%
Options	M/S	3.88%	4.20%	-7.6%	4.04%	4.24%	-4.7%
	Online M/S	2.63%	2.32%	+13.4%	2.47%	2.64%	-6.4%
Brokerage Commissions		72	78	-7.8%	150	165	-9.3%

Source : Internal data

Graph 1] Monthly stock market shares



Source : Internal data

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Since last year, the Company has been revising its overall branch network. We are also researching on each branch's trading areas to maximize branches' competency and efficiency among competitors. As a result, many branches have been newly open, joined, moved and closed. As of September, Daewoo Securities has 119 branches, 1 private banking branch and 1 office.

## 2. Investment banking

Recent investment banking markets seem to be in the recovering process. While IPO and corporate bonds issuing markets reduced 79%, 3%, right issues and ABS derivatives markets grew 232%, 33%.

### *Investment banking business still #1*

For the first half, the Company lead underwriting securities for LG Card, Dacom, Yedang Entertainment and Hahn Shin, holding its top position. The Company is also firming its position in new markets such as ELS (Equity-Linked Securities).

[Table5] Investment Banking M/S

KRW bln	Underwriting Amounts and Market Share					
	1HFY03		1HFY02		FY02	
IPO	45.2	12.8%	497.2	22.7%	606.0	29.1%
Rights issues	35.3	12.2%	20.2	20.0%	20.2	4.9%
Corporate bonds	627.4	10.0%	618.1	8.3%	1562.9	9.1%
ABS and others	760.0	6.8%	790.4	6.3%	2491.2	17.2%
ELS	137.9	5.6%				

Excludes between-affiliates businesses

Source : Internal data

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## 3. Wealth management

The Company's balance of BCs has started to recover after March's SK Global scandal. There has been a constant money inflow into MMF and equity-hybrid type funds. Nevertheless, along with the KOSPI falling in September, there was a sheer drop in equity-type funds.

Balances of equity-hybrid and equity-type funds that are charged relatively high are on the decrease and the Company's brokerage commissions on BCs are no free from the situation. As the market commissions decline, a gap becomes wider and wider between commission income decrease and the balance decrease.

[Table6] Balances of wealth management products

KRW bln		FY03		QoQ	FY03	FY02	YoY
		End-Sep.	End-Jun.		End-Sep.	End-Sep.	
Bond-type	MMF	1,380.4	1,013.6	+36.2%	1,380.4	1,418.0	-2.7%
	Total	2,530.6	2,168.2	+16.7%	1,531.2	2,732.5	-44.0%
Hybrid-type	Bond-hybrid	430.1	534.4	-19.5%	430.1	619.7	-30.6%
	CBO	46.4	46.3	-	46.4	47.4	-2.1%
	HY	41.8	41.7	-	41.8	44.0	-5.0%
	Equity-hybrid	332.6	844.6	-60.6%	332.6	317.7	+4.7%
	Total	762.6	844.6	-9.7%	762.6	918.4	-17.0%
Equity-type		36.0	47.4	-24.1%	36.0	48.1	-25.2%
<b>Totals</b>		<b>3,343.4</b>	<b>3,394.7</b>	<b>-1.5%</b>	<b>3,343.4</b>	<b>3,690.0</b>	<b>-9.4%</b>
Commissions		5.2	5.7	-8.3%	11.0	227	-51.7%

Source : Internal data

***Daewoo Securities' discretionary wrap account product 'MasterWrap' and bancassurance launched***

The discretionary wrap account product 'MasterWrap' was newly launched in November. The Company has been prepared for it as an important part of total wealth management services. The product offers 2 advantages to customers at once, transparency of direct investment and stability of portfolio investment. It also offers the Company selling commissions and trading fees as well. It is expected to yield new profits in the circumstances of BC brokerage commission rates falling.

The Company also started to sell various insurance products of renowned insurance companies (bancassurance) in September.

With 'MasterWrap' and bancassurance, Daewoo Sec. took one step closer to real total financial services.

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## Appendix 1. Balance Sheet

Unit: KRW million	Sep-03	Jun-03	Sep-02	Jun-02
<b>Assets</b>				
Current assets	2,915,998	2,633,627	1,933,985	2,187,904
Cash and bank deposits	239,225	222,813	78,684	110,775
Deposits	1,372,352	1,135,123	953,397	1,085,411
Current securities	1,030,415	1,040,733	746,076	792,130
Structured securities	32,459	7,207		
Options purchased	9	551	74	1,084
Loans	38,336	88,018	59,822	83,087
Other current assets	207,275	142,919	97,437	117,268
Allowance for credit loss (-)	4,072	3,738	1,506	1,851
Non-current assets	985,462	1,028,021	1,169,492	1,297,334
Non-current securities	479,831	497,802	436,248	393,824
Investment assets	119,893	121,651	122,438	125,963
Tangible fixed assets	283,364	290,018	306,767	308,811
Other non-current assets	102,619	118,549	304,040	468,735
<b>Total assets</b>	<b>3,901,705</b>	<b>3,661,648</b>	<b>3,103,478</b>	<b>3,485,238</b>
<b>Liabilities</b>				
Current liabilities	2,333,138	1,994,376	1,662,382	2,103,374
Call money	110,000	160,000		221,700
Short-term borrowings	2,000	40,000	119,686	124,505
Bonds sold under reverse resale agreements	251,154	158,989	41,988	37,458
Customers' deposits	1,312,729	1,224,631	1,017,041	1,157,985
Securities sold	887	844		1,078
Structured securities sold	160,602	99,087		
Short position in options	1,052	424	111	942
Others	494,714	310,402	483,556	559,706
Long-term liabilities	429,146	526,685	277,870	186,635
Debenture				
Long-term borrowings				
Allowance for guarantees	710	1,652	3,126	12,987
Reserve for severance and retirement benefits	28,524	25,167	19,935	17,729
Others	399,911	499,866	254,809	155,919
<b>Total liabilities</b>	<b>2,762,284</b>	<b>2,521,061</b>	<b>1,940,252</b>	<b>2,290,008</b>
<b>Stockholders' equity</b>				
Paid-in Capital	1,020,883	1,020,883	1,020,883	1,020,883
Capital surplus	250,724	250,724	250,724	250,724
Retained earnings	90,720	101,907	121,038	157,746
Capital adjustment	-222,906	-232,928	-229,420	-234,123
<b>Total stockholders' equity</b>	<b>1,139,422</b>	<b>1,140,586</b>	<b>1,163,225</b>	<b>1,195,230</b>
<b>Total liabilities &amp; stockholders' equity</b>	<b>3,901,705</b>	<b>3,661,648</b>	<b>3,103,478</b>	<b>3,485,238</b>



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## Appendix 2. Income Statement

Unit: KRW million	FY03		QoQ	FY03	FY02	YoY
	2Q	1Q	%	1H	1H	%
<b>Operating Revenues</b>	<b>171,254</b>	<b>198,029</b>	-13.5	<b>365,729</b>	<b>373,235</b>	-2.0
Commission received	81,884	87,366	-6.3	169,251	202,821	-16.6
Brokerage commissions	71,991	78,094	-7.8	150,085	165,402	-9.3
Underwriting commissions	3,787	1,864	103.1	5,652	12,391	-54.4
Brokerage commissions on beneficiary certificates	5,239	5,714	-8.3	10,953	22,691	-51.7
Wrap commissions	95	121	-21.7	216	688	-68.6
Others	771	1,573	-51.0	2,344	1,649	42.2
Interest income	17,107	16,568	3.3	33,675	60,022	-43.9
Interest on margin loans	607	448	35.6	1,055	2,087	-49.4
Interest on deposits with KSFC	7	7	-5.8	14	25,850	-99.9
Interest on deposits with institutions	2,186	2,641	-17.2	4,827	3,891	24.1
Interest on call loans	369	494	-25.3	864	1,344	-35.7
Interest on advance for customers	69	313	-78.0	381	1,426	-73.2
Others	13,868	12,665	9.5	26,533	25,425	4.4
Dividends income	65	1,054	-93.9	1,119	3,753	-70.2
Distribution income	6,987	711	882.4	7,698	1,706	351.4
Gain on sales of current securities	11,961	10,804	10.7	22,765	13,396	69.9
Gain on sales of stock	6,030	5,902	2.2	11,932	5,450	118.9
Gain on sales of bonds	3,376	2,774	21.7	6,150	7,234	-15.0
Gain on sales of beneficiary certificates	2,202	1,746	26.1	4,096	507	708.1
Others	353	381	-7.5	587	205	186.1
Gain on valuation of current securities	1,439	23,225	-93.8	21,583	3,706	482.5
Gain on valuation of stock		4,498		2,608	36	7132.9
Gain on valuation of bonds	1,439	880	63.6	1,711	2,588	-33.9
Gain on valuation of beneficiary certificates		17,847		17,264	1,082	1495.7
Others						
Gain on structured securities transactions	1,723	1,623	6.2	3,207		
Gain on valuation of structured securities	1,723	1,623	6.2	3,207		
Gain on valuation of trading securities sold	6					
Gain on structured securities sold transactions	3,983	550	624.7	4,532		
Gain on valuation of reserve for claims of customers' deposits (trust)	12,505	12,005	4.2	24,510		
Gain on derivatives transactions	32,652	43,769	-25.4	76,087	78,413	-3.0
Gain on futures transactions	9,763	8,859	10.2	18,588	29,482	-37.0
Gain on exchange trading options transactions	21,043	34,501	-39.0	55,521	47,941	15.8
Gain on OTC derivatives transactions	1,847	409	351.5	1,978	990	99.8
Other operating income	942	355	165.5	1,297	9,419	-86.2
Reversal of allowance for allowances						
Reversal of allowance for guarantees	942	355	165.5	1,297	9,419	-86.2
Others						

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## Appendix 2. Income Statement (Continued)

Unit: KRW million	FY03	FY02	QoQ	FY03	FY02	YoY
	1Q	4Q	%	1Q	1Q	%
<b>Operating expenses</b>	<b>160,473</b>	<b>154,409</b>	3.9	<b>311,327</b>	<b>328,045</b>	-5.1
Commission expenses	8,136	8,505	-4.3	16,641	16,799	-0.9
Trading commissions	5,505	6,106	-9.8	11,611	10,069	15.3
Investment consultant fees	1,617	1,656	-2.4	3,273	5,097	-35.8
Other commissions	1,014	743	36.5	1,758	1,634	7.6
Interest expenses	21,375	20,971	1.9	42,346	45,039	-6.0
Interest on borrowings from KSFC	416	825	-49.6	1,242	3,557	-65.1
Interest on customers' deposits	4,801	5,305	-9.5	10,107	11,648	-13.2
Interest on call money	1,197	1,869	-36.0	3,066	3,504	-12.5
Interest on debentures	11,535	11,716	-1.5	23,251	24,597	-5.5
Others	3,426	1,254	173.2	4,680	1,733	170.0
Loss on sales of current securities	5,374	3,083	74.3	8,457	23,814	-64.5
Loss on sales of stock	1,066	714	49.2	1,781	16,623	-89.3
Loss on sales of bonds	2,534	1,075	135.7	3,609	4,136	-12.7
Loss on sales of beneficiary certificates	1,627	1,068	52.3	2,711	3,000	-9.7
Others	148	226	-34.6	357	55	555.2
Loss on valuation of current securities	7,622	2,308	230.2	6,849	17,737	-61.4
Loss on valuation of stock	7,039	53	13077.7	5,202	17,107	-69.6
Loss on valuation of bonds		1,482		874		
Loss on valuation of beneficiary certificates	583	773		773	94	724.8
Others					536	
Loss on structured securities transactions	2,564	303	747.4	2,728		
Loss on valuation of structured securities	2,564	303	747.4	2,728		
Loss on valuation of trading securities sold	35	166	-79.1	201		
Loss on structured securities sold transactions	3,615	2,637	37.1	6,252		
Loss on derivatives transactions	30,307	42,728	-29.1	72,700	66,768	8.9
Loss on futures transactions	9,114	8,102	12.5	17,181	28,210	-39.1
Loss on exchange trading options transactions	20,984	34,218	-38.7	55,179	37,168	48.5
Loss on OTC derivatives transactions	208	409	-49.1	340	1,390	-75.6
Selling and administrative expenses	81,445	73,708	10.5	155,153	157,888	-1.7
<b>Operating income</b>	<b>10,781</b>	<b>43,620</b>	-75.3	<b>54,401</b>	<b>45,190</b>	20.4
<b>Non-operating income</b>	<b>5,859</b>	<b>5,423</b>	8.0	<b>10,924</b>	<b>12,145</b>	-10.1
Rental Income	1,998	1,983	0.7	3,981	3,769	5.6
Gain on disposition of securities available for sale	14	17	-16.5	31	727	-95.8
Gain on equity method valuation	345					
Gain on recovery of write-offs	2,632	176	1392.9	2,809	2,165	29.7
Others	870	3,247	-73.2	4,104	5,484	-25.2
<b>Non-operating expenses</b>	<b>27,823</b>	<b>12,296</b>	126.3	<b>39,775</b>	<b>62,740</b>	-36.6
Loss on disposition of securities available for sale	2,601	7,857	-66.9	10,458	915	1042.6
Securities reduction loss						
Loss on equity method valuation		686		341	20,071	-98.3
Loss on valuation of investment in stock market stabilization fund					4,068	
Others	25,222	3,753	572.1	28,975	37,686	-23.1
<b>Ordinary income</b>	<b>-11,184</b>	<b>36,747</b>		<b>25,551</b>	<b>-5,405</b>	
<b>Extraordinary gain</b>						
<b>Extraordinary loss</b>	<b>3</b>	<b>269</b>	-98.8	<b>272</b>	<b>30</b>	803.9
<b>Net income</b>	<b>-11,187</b>	<b>36,478</b>		<b>25,279</b>	<b>-5,435</b>	