

{ Letter to our Shareholders :

Fiscal year 2001 proved another successful year for Dongbu Insurance as we marked our eighth consecutive year of profit. Our financial success was a fitting accomplishment to the start of a new era in the history of the company as we completed the shift of the main headquarters to the new building in the Teheran Valley, the new heart of Korea's economy. This was not merely a physical move of our headquarter offices, but a first, historical step taken by the united Dongbu Financial Services group. Not only has this move created a strong, united image for Dongbu as a comprehensive financial services provider, it is also a strategic step towards enhancing the overall efficiency of the group's operations as we begin to integrate common business functions.

During fiscal year 2001, we shared in the resurgence experienced by the non-life insurance industry flowing on from strong growth in the domestic economy and a soaring stock market. The domestic non-life insurance sector in Korea grew at a rate of 11.2% compared to a 4.1% average growth rate over the past 5 years. This growth was partly due to the overall increase in premiums in commercial insurance lines as a result of the events of September 11 in the United States and also due to growth in Auto Insurance spurred by the increase in domestic sales of automobiles.

The 2001 fiscal year was by no means merely an

easy one. A few key developments in 2001 posed challenges to the industry. Two such developments were the continued deregulation of premium pricing and the removal of barriers between different sectors of the finance industry, both of which have raised competition a notch higher and heralded a shift in the paradigm of competition in the industry. Customers continued their flight to quality, resulting in an increased concentration of market share in the hands of a few top insurers, with the market share of the top 5 insurers increasing to 81.3%.

Amidst such change in the business environment, at Dongbu Insurance we turned fiscal year 2001 into a success by recording the highest return on revenue in the industry, and by coming second in the industry in terms of financial soundness. We recorded a dramatic rise in our net income and a corresponding jump in our adjusted return on revenue from 0.6% in 2000 to 7.7% in 2001. Our underwriting efficiency indicators also remained strong as we recorded the lowest expense ratio in the industry, while our loss ratio continued to follow a stable downward trend. Our solid performance in fiscal year 2001 contributed to the second highest solvency margin in the industry.

In fiscal year 2001, Dongbu insurance recorded excellent underwriting performance as it achieved a 100.1% combined ratio, the lowest in the industry.

We performed well in the area of underwriting, reducing losses by ₩105 billion compared to last year, a decrease that was mainly attributable to the fall in losses in Long-term lines, and Auto lines, where a reduction in accident rates and increase in revenues led to a 4.9%p improvement in the loss ratio.

In 2001, we built firm foundations for stable growth with increased profits resulting from a stabilization of loss ratio and a strategic shift in our product portfolio towards a greater proportion of long-term protection type products. These products offer a source of stable, long term earnings. We also introduced premium-grade auto insurance products offering a higher level of coverage and services to attract a new range of customers and in preparation for an era in which product competition is based on the quality and scope of coverage and services rather than merely price.

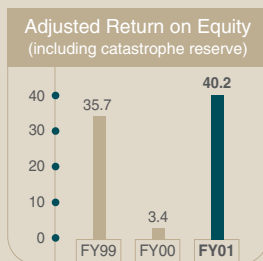
Asset management operations continued to provide a solid performance with stable returns. In 2001 we followed a strategy of increasing the proportion of long-term investment bonds to minimize risk associated with interest rate fluctuations. We recorded a favorable 9.4% return on invested assets attributable to prudent investment in trading stocks and the result of our balanced approach to asset management focused on interest-bearing assets such as investment bonds.



In the area of risk management, a key indicator of the capability of an insurance company, we completed the construction of the market VaR system in May, 2001, and the ALM system in December of the same year. The VaR system allows us to measure and control our level of market risk caused by fluctuations in the value of assets that are subject to market valuation such as securities. The ALM system allows us to manage risks associated with interest rates and liquidity and ensure we maintain a balanced and profitable mix of assets and liabilities. The company's efforts to build an advanced risk management system were recognized when it was awarded a "Best Practice" rating from the FSS.

In another milestone, Dongbu Insurance obtained ISO9001 certification in 2001 for its operations in the areas of risk management services and related technical services in the non-life insurance sector including risk control, insurance consulting, information service and publications. The certification recognizes that the company maintains

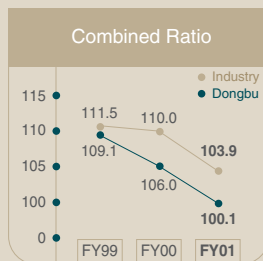
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global standards in the area of risk management, one of the key management requisites a insurance company needs to demonstrate its ability to manage operations effectively. The certification will have considerable impact, enhancing our corporate image and reputation, particularly in reference to foreign insurance companies operating in Korea.

One of the most significant achievements during the year was our receipt of an "Excellent" A- rating from global insurance rating agency, A.M.Best. This development testifies to our status as a truly world-class insurance company and is an important first step in becoming an insurance company of global standard and reach.

We also continued to build on our leadership in online insurance in Korea, when the Dongbu Insurance website was given the highest score among non-life insurance related websites in a review by I-biznet for the Best Website Awards hosted by The Korea Times. In 2001, then, it is clear that we reaffirmed our status as a consistent, and reliable performer in the Korean insurance industry.



Dongbu Insurance in the coming year

The effects of an economic decline in the US in the wake of September 11 and high-profile corporate collapses is expected to be minimized by a recovery in the domestic IT industry and an increase in consumer spending as Korea co-hosts the FIFA World Cup. Meanwhile, change in the industry will continue to accelerate as deregulation of pricing and the breakdown of the barriers between different sectors in the financial industry continues. The insurance market is expected to continue to expand in 2002 due to demand for protection-type insurance and in line with continued domestic economic demand.

In 2002, we are ready to take the next step toward building our vision of Dongbu as "A comprehensive financial services company that offers the best in customer service and is a leader in digital management." To secure a competitive position in the rapidly changing business environment, we will differentiate our products and services from those of our competitors on the basis of quality rather than through excessive price competition. We will continually improve our organization and systems while at the same time building on our core competencies such as gaining secure management stability through stable asset management and enhancements to our risk management system.

We plan to focus on three core areas for improvement

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in 2002: management culture, client-focused marketing and strengthening our core capabilities.

In the area of management culture, we will firmly focus on building our efficiency and ensure continued management transparency and will seek to show concrete evidence of our efforts through continued improvement in core efficiency indicators. We will further entrench the flourishing performance-based corporate culture in order to encourage excellence.

Amidst a continually changing management environment punctuated by corporate restructuring and mergers and takeovers, marketing focused squarely on the customer is one of the most successful methods of success. We plan to refocus our marketing strategy to aim squarely at increasing customer satisfaction and increasing customer value. These marketing activities will be strengthened by our corp of talented, high quality employees employed through the SRP (Success Recruiting Process). Through continued exploration and implementation of digital marketing methods, including planned enhancements to the existing mobile computing system, and an upgrade to the existing call center, we will position ourselves to respond rapidly to the needs and demands of consumers in the digital era.

Thirdly, we will build on our core competencies.

With the increase in competition due to industry consolidation, total price deregulation and tightened criteria for financial soundness (a development that will force insurance companies in a weaker financial position out of the business), Dongbu Insurance will strengthen its core capabilities in order to flexibly respond to market change and to continue our record of stable growth and revenue. The risk management system will undergo continued improvement, and we will maintain a balanced and diversified investment portfolio that minimizes operational risk and maximizes profit growth.

FY2001 was yet another year that we can look back on with satisfaction and pride. We thank both our shareholders and customers for the support and encouragement that has helped us deliver a consistently strong performance throughout the year. In 2002, we look forward to continuing our excellent record.



Lee, Su-Kwang
President and Chief Executive Officer