

Management's Discussion and Analysis :

Overview

Fiscal year 2001 was the first year in which the Korean non-life insurance industry reported positive return in five years since the Asian economic crisis in 1997. The 12 non-life insurance companies operating in Korea reported net income of ₩789.1 billion, an increase of more than ₩1 trillion from ₩551.1 billion net loss in fiscal year 2000. However, the growing demand for higher quality products and services have resulted in a flight to quality as individuals and businesses turned to the more financially stable and stronger insurance companies. This resulted in a further concentration of market share at the large insurers.

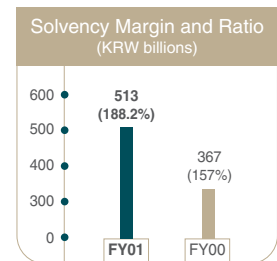
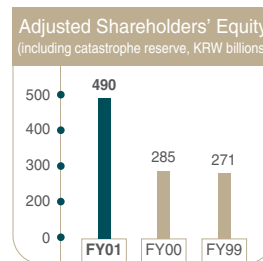
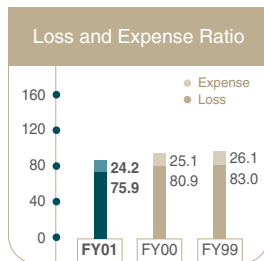
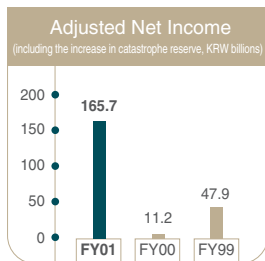
2001 was a defining year for Dongbu Insurance, demonstrated by its record business and financial performance.

Fiscal year 2001 was the 8th consecutive year of profit. The adjusted net income (net income including the increase in catastrophe reserve) grew ₩155 billion to ₩166 billion.

Loss and expense ratio in fiscal year 2001 improved 4.9%p and 1%p to 75.9% and 24.2%, respectively, over fiscal year 2000.

Adjusted shareholders' equity increased by ₩205 billion to ₩490 billion, an increase of 72%, compared to ₩285 billion over fiscal year 2000.

Solvency margin rose ₩146 billion to ₩513 billion from ₩367 billion in fiscal year 2000, resulting in a 31.2%p increase in solvency margin ratio to 188.2% for the year.



Summary of Results

For fiscal year 2001, the Company reported net income of ₩149.5 billion, or ₩2,383 per share, compared with ₩3.1 billion or ₩49 per share in fiscal year 2000. Fiscal year 2001 was the Company's eighth consecutive year of profit. Net income including the increase in catastrophe reserve (adjusted net income) was ₩165.7 billion, an increase of ₩154.5 billion from ₩11.2 billion in the same period last year. Primary factor contributing to this significant increase was an improvement in the Company's combined ratio to 100.1% in fiscal year 2001 from 106.0% in fiscal year 2000. For fiscal year 2001, loss and expense ratio, expressed in a percent of net premiums earned, were 75.9% and 24.2%, respectively, compared with 80.9% and 25.1% for fiscal year 2000. An improvement in underwriting efficiency was attributable primarily to effective cost-containment measures, which included the restructuring of the management system, personnel reductions, and consolidation of certain administrative and operational functions of the Company's regional structure. Another factor positively impacting the Company's operations was increase in net investment income, which grew 81.6% to ₩230.2 billion, compared with ₩126.7 billion in the same period last year. This growth was spurred by the buoyant equity market during the year, and was also a result of the Company's effective risk management practices.

In fiscal year 2001, direct premiums written totaled ₩2,443 billion, compared to ₩2,196 billion in fiscal year 2000, an increase of 11.3%. Of this total, 42.4% is derived from Auto Lines, 48.5% from Long-term Lines, and 9.1% from Commercial Lines. Consistent revenue growth during the year was the result of the Company's continued efforts to reform the management structure through the application of advanced management system such as the "Success Recruit Process", which is a program designed to enhance internal productivity through the recruitment of a superior sales force, as well as through the strengthening of underwriting criteria to emphasize profitability.

Financial Strength

The Company's solvency margin is a key indicator of its financial position relative to the industry. At fiscal year-end 2001, the Company's capital position was second in the industry with a solvency margin and solvency ratio of ₩513 billion and 188.2%, respectively. During the year the Company received A- (Excellent) rating from A.M. Best, in recognition of its superior underwriting competency, consistent and excellent earnings performance and expense control, and strong capitalization. At fiscal year-end 2001, the Company's adjusted shareholders' equity (shareholders equity including catastrophe reserve) rose 72% to ₩490 billion from ₩285 billion at fiscal year-end 2000.

Premium Revenue by Lines

In billions of Korean won and millions of U.S. dollars

	FY 2001	USD	G/R	FY 2000	FY 1999
Auto	1,036	781	12.9%	918	773
Long-term (1)	1,186	894	6.3%	1,116	1,005
Commercial (2)	221	167	37.3%	161	143
Total	2,443	1,842	11.3%	2,195	1,921

Note 1 : Premium revenues are based on direct premiums written

Note 2 : Korean won is converted into U.S. dollars at the rate of ₩1,326.4 per U.S. \$1, the exchange rate effective as of March 31, 2002

(1) Long-term lines include accident, drivers', illness, property damage, and annuities

(2) Commercial lines include fire, marine, casualty, and overseas

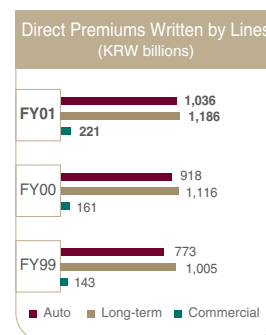
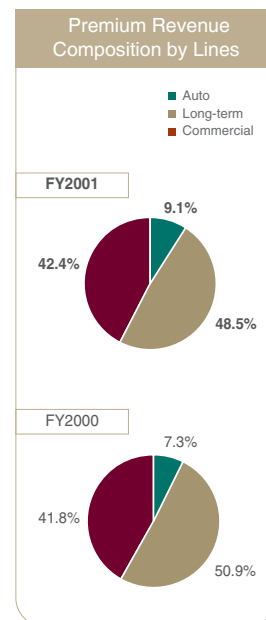
Management's Discussion and Analysis : *continued*

Auto Lines

Despite the increased competition posed by new entrants and progressive price deregulation over previous years, Auto Lines direct premiums written increased by 12.9% to ₩1,036 billion in fiscal year 2001, compared with ₩918 billion in fiscal year 2000. The increase can be attributed to an improved loss ratio, as well as the Company's differentiated marketing strategy focusing on premium-grade products and services. Loss ratio was down 4.9%p to 66.0% in fiscal year 2001 from 70.9% in fiscal year 2000. The decrease in the loss ratio was largely due to the result of fall in accident rates. In fiscal year 2002, the Company will implement new initiatives to further improve loss ratios and enhance customer communication and satisfaction through a high-quality claims services and integrated customer service network.

Long-term Lines

The Long-term Lines, which provide accident, illness, drivers', property damage, and annuities, had recorded direct premiums written of ₩1,186 billion in fiscal year 2001, an increase of 6.3% from ₩1,116 billion in fiscal year 2000. The protection type products totaled ₩847 billion, or an increase of 10.7%p over fiscal year 2000, comprising 71.4% of total Long-term Lines premium revenues. The increase was primarily attributable to a significant growth in the sale of illness insurance, which represented 14.7%, or an increase of 5.2%p over fiscal year 2000, of total protection type products. The Composition of savings type products, including annuities, decreased sharply by 10.7%p to 28.6% in fiscal year 2000 from 39.3% in fiscal year 2000. The Long-term Lines loss ratio decreased 4.7%p to 85.6% in fiscal year 2001 from 90.3% in fiscal year 2000. This decrease was primarily attributable to the increased sales in protection type products, particularly in health and accident insurance, as well as due to the continued decline of expected interest rate. The Company will maintain a tight focus on improving profitability and achieving sustained growth by concentrating on the marketing of protection type products, which carry relatively lower risk associated with interest rate fluctuations, and by developing innovative, customer-specific products and services.



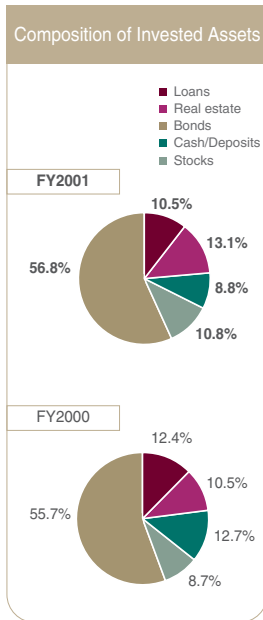
Loss Ratio by Lines

(%)

	FY 2001	FY 2000	FY 1999
Auto	66.0	70.9	71.5
Long-term	85.6	90.3	92.4
Commercial	53.9	52.2	41.2
Total	75.9	80.9	83.0

Commercial Lines

The Commercial Lines, which consist of Fire, Marine, Casualty, and Overseas, had excellent year. Direct premiums written rose 37.3% to ₩221 billion, compared with ₩161 billion in fiscal year 2000, resulting in an increase in the Company's market share from 9.2% in fiscal year 2000 to 10.1% in fiscal year 2001. The increase in premium revenues was attributable primarily to dramatic increases in the Fire, Aviation and Cargo Lines. Direct premiums written in the Fire Line, which accounts for 23.1% of the Commercial Lines, increased 24.4% over fiscal year 2000, due principally to the increased premium rates following the September 11 terrorist attacks in the United States. The growth was also spurred by a flight to quality by customers following the withdrawal of several insolvent non-life insurers. The Casualty Line, which represents the largest portion in the Commercial Lines with 52% share, reported direct premiums written of ₩115 billion in fiscal year 2001, up 45.6% from ₩79 billion in fiscal year 2000. This increase was attributable primarily to a significant growth in liability and property all risks. The Marine and Overseas Line direct premiums written in fiscal year 2001 also increased by 41.4% and 7.6%, respectively, over fiscal year 2000. Despite the terrorist attacks in September 11, the Commercial Lines loss ratio in fiscal year 2001 was maintained at a stable level with a slight increase of 1.7% to 53.9% from 52.2% in fiscal year 2000.



Investments

The primary objective of the Company's investment activities is to generate stable level of profit to preserve capital and ensure adequate liquidity to meet potential claims. The Company achieves this objective by balancing the duration of assets and liabilities within the designed expected return on investment. At fiscal year 2001, invested assets, consisting of cash and deposits, high grade securities, loans, and real estate, increased 21% to ₩2,816 billion over the previous year. Net investment income produced during fiscal year 2001 increased 81.6% to ₩230.3 billion, or return of 9.3%, from ₩126.8 billion in fiscal year 2000. In fiscal year 2001, the Company continued its strategy of increasing the portion of investments in long-term bonds in order to ensure greater security in an unpredictable interest rate environment. Investment bonds in fiscal year 2001 increased 151.1% to ₩973.5 billion from ₩387.7 billion in fiscal year 2000, accounting for 34.6% of total invested assets. However, to take advantage of the rising equity market during 2001, the Company also increased its equity portfolio, which produced a total return of 34.1% or ₩81 billion, to ₩176.6 billion from ₩62.3 billion in the previous year. The Company also invests in various types of loans and real estate (see Note 1,2, and 6 of financial statements). In fiscal year 2001, loans and real estate investments totaled ₩296.1 billion and ₩370.4 billion, respectively, representing 10.5% and 13.1% of total invested assets.

