

Letter to Shareholders

2002 was a year in which Dongbu Insurance successfully responded to many challenges. Last year, the Korean insurance market was overshadowed by a weak global economy, capital markets, geopolitical uncertainties, and continued restructuring in the financial industry. Despite these challenging conditions, Dongbu Insurance delivered a remarkable performance during the year.

Strong Performance

Our net earnings in 2002, which marked its ninth consecutive year of return to our shareholders, amounted to ₩97 billion, excluding catastrophe reserve. This represented the industry's lowest combined ratio at 99.1%. Even more significantly, we were the first Korean insurance company to achieve an underwriting profit by recording ₩5.4 billion beyond our 18 billion catastrophe reserve, in effect outpacing all other Korean non-life insurers.

Our direct premiums written during fiscal 2002 grew at a rate of 9.3% to ₩2,671 billion, from ₩2,443 billion last year. Both the Long-term and Commercial Lines exceeded the market growth rate by 3% and 3.1% each, thus achieving a 15.4% and 10.4% market share. The growth in those two sectors helped us build a firm foundation for further growth and stable improvement in loss ratio. This came as a result of our successful implementation of the product portfolio allocation strategy that was geared towards the greater proportion of long-term protection products. Our consistent profit over the long-term will let us maintain our competitive position and financial strength during uncertain times.

Last year, we have also taken the initiative to reduce operating expenses, strengthen our financial position, and enhance our prospects for future growth.

On the auto lines side, we introduced "Promy" as our leading auto product, which is designed to provide optimal benefits to customers through over 400 automobile repair service networks across the country. This strategic product helped us sustain our competitive edge in Auto Line operations and expand our customer base by meeting the demands for high quality coverages.

We have likewise made significant progress in strengthening customer relations and improving overall efficiency in our operations. Our reconstruction of the Call Center, which integrates the operating and marketing information units of the system, supported this effort. Such activities have provided us with the foundation for future growth and an expansion of our customer base.

Meanwhile, the introduction of an integrated operating portal system did two things: provide our sales forces with access to operating and information system through the web; and enhance our operating and marketing activities. This, together with our Call Center, will increase value for our customers and our customer service capabilities. Clearly, our strategy for investing in technology aims to benefit both our customers and our company.

Strong Financial Position

Our financial position could only be described as "excellent" during the fiscal year of 2002. Our financial strength numbered among the strongest in the industry with a regulatory solvency ratio of 179.4%. In recognition of our superior financial strength and performance, A.M. Best granted Dongbu Insurance an A- (Excellent) rating for the second year in a row. We were also chosen by the global consulting agency, Bain & Company, as one of the ten best companies in Korea.



Such remarkable success under an increasingly challenging market environment required greater discipline and flexibility in our management and organizational structure. In 2002, we laid out objectives that aimed to build a corporate culture with the customer at the center of business. This year, we will continue investing in growth-oriented strategies, enhancing customer satisfaction, and maintaining our leadership position through innovative and first-to-market products and services.

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We will also continue to deliver real value to our customers by providing full financial solutions at the Dongbu Financial Center. The center encompasses financial services and products with insurance as our core business. This includes wealth management through securities brokerage, investment trust, savings bank, and capital services. We believe that our continued focus on investing in new and innovative strategies and maintaining a strong disciplined focus on measurement will eventually lead to superior, sustainable returns for our shareholders.

Our ultimate, long-term goal is to provide lasting value to our customers by delivering the right product and services. And to meet our long-term goal, we need to maximize our capabilities by

banking on the leadership and talents of our people. As part of our performance-driven strategies, since 1999 we have adopted a performance-based compensation system designed to nurture employee excellence, realize cost-efficiency, and make evaluations - based on the interest of our shareholders and customers - on a daily basis.

Our Commitment to Future Growth

In 2002, Dongbu Insurance performed well under the market environment. Despite the challenges, we were able to meet the objectives that we set a year ago. In 2003, we expect the environment to be more challenging for Korean financial institutions. Weak capital markets and competitive pressure on the auto insurance sector in Korea are likely to persist in 2003. Competition is expected to intensify with the expansion of direct markets, the introduction of bankassurance and corporate annuities, and the compensation of actual loss to life carriers.

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In order to accelerate our momentum for success in 2003, we will implement the following management plans while focusing on full participation, high efficiency, and independent management:

First, we will build a performance-based corporate culture. To implement the performance-based system fully, clearer and more challenging performance indicators must be established. This includes expanding the compensation amount according to the level of contribution through a fair and objective evaluation of each performance. This, and the balance between evaluation and compensation, is what the company intends to strengthen, while it continues to build a more concrete performance management system.

Second, we will invest in our people's capabilities. Maximizing our employees' potential and realizing a proactive corporate culture are the core competitive advantages that we need to win in today's rapidly changing business environment. While we build a human resource system that will advance talented employees, we will also need to focus on enhancing the productivity of the organization, and promoting ethical management that will contribute to having logical and transparent operations.

Third, we will continue to innovate our operational structure. Surviving the competition demands the principle of choice and concentration. In 2003, we intend to build a high growth operational structure by expanding high profit product lines, diversifying and specializing channels, and securing a stable asset management.

Fourth, we will improve our IT infrastructure and operational processes. In the years ahead, we will increase our market dominance by offering distinguished and varied customer services instead of competing over price. Last year, we improved our technological system and operational processes by equipping our sales organization with digital technology, and establishing the industry's best call center and marketing portal system. In 2003, we will continue the same path along the lines of the CRM structure, build an operational call center, and redesign the compensation process.

Our success and execution of future strategies will be impossible without the dedication of Dongbu's employees. I want to take this opportunity to thank all our people for successful management during difficult and uncertain times, and congratulate them for an exceptional performance in 2002. I believe our actions last year will position us, once again, with the renewed confidence to deliver enduring value to our customers and shareholders.



Lee, Su-Kwang
President and Chief Executive Officer