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Management Discussion & Analysis

MARKET REVIEW

FY 2003 was a constant challenge for Korean insurance companies as the domestic economy remained sluggish. Competition in the non-life insurance market intensified as new direct marketers seized 4.6% auto market share. At the same time, bancassurance products continued to expand, and automobile insurers suffered losses from increased accident claims and claims for damages from heavy snowfall and typhoons. Meanwhile, revenue from investment management was up because the financial market stabilized with the recovery of the KOSPI.

OPERATING RESULTS

Operating revenues for FY 2003 increased 5.9% year-on-year to surpass ₩3.17 trillion, thanks to steady growth in premium and reinsurance income and high returns from asset management. However, operating income decreased 13.2% from the year before to ₩83 billion. This drop is primarily attributable to higher claim-related expenses, including refund claims at surrender value. On the other hand, net income fell 42.8% to ₩45 billion in FY 2003 mainly because of increased claim expenses and impairment losses on available-for-sale securities belonging to LG Card, which suffered financial difficulties.

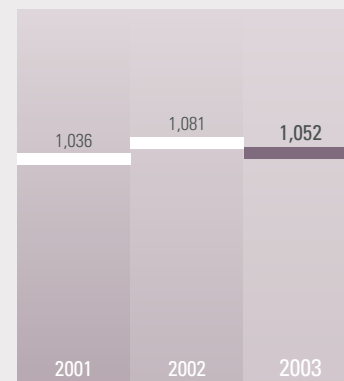
I. UNDERWRITING PERFORMANCE

Direct premiums written for FY 2003 increased 3.9% over the market growth rate of 3.4% to more than ₩2.8 trillion. The Company's overall share of the Korean market was 14.1%, 0.1%p higher year-on-year as its share of the commercial and long-term lines increased from 15.3% and 10.4% to 15.6% and 11.0%, respectively. On the other hand, the Company's share of the automobile insurance market declined 0.4%p to 13.3%.

(Unit: Billions of Won)

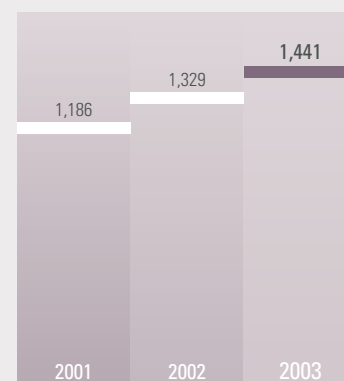
Direct premiums by business lines

	FY2001	FY2002	FY2003
Auto line			
Direct premiums written	₩ 1,036	₩ 1,081	₩ 1,052
YoY	12.9%	4.3%	(2.6%)
Market Share	13.9%	13.7%	13.3%
Long-term line			
Direct premiums written	₩ 1,186	₩ 1,329	₩ 1,441
YoY	6.2%	12.1%	8.4%
Market Share	14.9%	15.3%	15.6%
Commercial line			
Direct premiums written	₩ 221	₩ 262	₩ 281
YoY	37.5%	18.5%	7.5%
Market Share	10.1%	10.4%	11.0%
Total			
Direct premiums written	₩ 2,443	₩ 2,671	₩ 2,774
YoY	11.2%	9.3%	3.9%
Market Share	13.9%	14.0%	14.1%



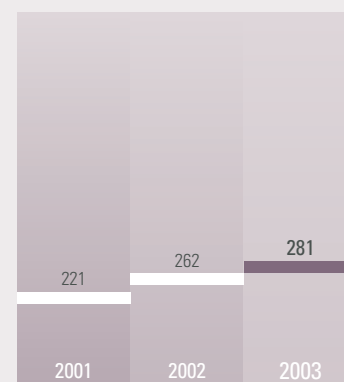
Auto line
Direct premiums written

(Unit: Billions of Won)



Long-term line
Direct premiums written

(Unit: Billions of Won)



Commercial line
Direct premiums written

(Unit: Billions of Won)

Auto line

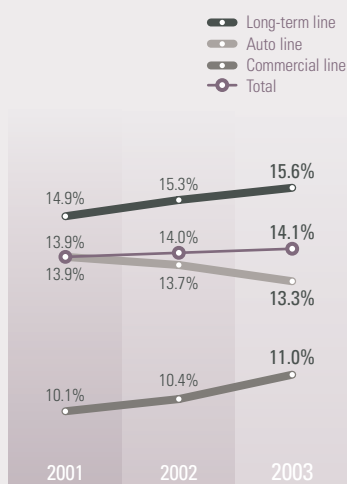
Fiercer competition by new direct sales marketers, who offer low priced policies, and a sluggish domestic automobile insurance market that grew only 0.4% reduced the Company's market shares by 0.4%p to 13.3% from a year earlier. During FY 2003, direct sales marketers aggressively broke into the market, increasing their share from 2.0%p in FY 2002 to 4.6% share on the basis of strong price competitiveness. The portion of new subscriptions for the extended automobile coverage products in the auto line rose from 47.3% to 58.7%, so the Company's loss in the auto line was less than the average loss (1.1%) for domestic non-life insurers. Direct premiums written of auto line for FY 2003 surpassed ₩1.05 trillion but were still 2.6% lower than the previous year.

Long-term line

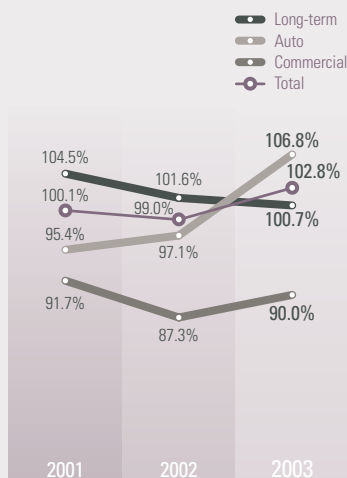
Direct premiums written of long-term line for FY 2003 totaled more than ₩1.44 trillions, up 8.4% year-on-year, while market share rose 0.3%p to 15.6%. Enhanced marketability of protection type policies and efficient operation of bancassurance channels enabled the Company to increase its market share 2.0%p to 17.2% of the new insurance market. The portion of protection-type policies in the long-term portfolio improved to 80.0% from 76.7% in FY 2002.

Commercial line

Direct premiums written of commercial line for FY 2003 was ₩281 billion, up 7.5% year-on-year, while the Company's market share rose 0.6%p to 11.0%. Stronger marketing to existing clients as well as expanding new clients have enabled kept the market shares rising for three consecutive years. 10.9% of growth in casualty insurance over the prior year brought the Company's market share to 11.0%, maintaining a strong position among Korea's leading non-life insurers.



Market Share



Combined ratio

(Unit: Billions of Won)

Loss & expense ratio

	FY2001	FY2002	FY2003
Net premiums earned	₩ 2,160	₩ 2,378	₩ 2,489
Incurred losses	1,639	1,797	1,993
Net operating expenses	522	558	566
Loss ratio	75.9%	75.5%	80.1%
Expense ratio	24.2%	23.5%	22.7%
Combined ratio	100.1%	99.0%	102.8%
Auto			
Loss ratio	66.0%	67.9%	77.8%
Combined ratio	95.4%	97.1%	106.8%
Long-term			
Loss ratio	85.6%	83.2%	83.5%
Combined ratio	104.5%	101.6%	100.7%
Commercial			
Loss ratio	53.9%	55.2%	55.8%
Combined ratio	91.7%	87.3%	90.0%

The loss ratio for FY 2003 was 80.1%, 4.6%p year-on-year increase principally due to 9.9%p increase in the loss ratio for automobile insurance. All Korean automobile insurers experienced a sharp increase in their loss ratios. The loss ratio for long-term insurance in FY 2003 was 83.5%, up 0.3%p from the previous year. However, the figure actually improves to 82.0%, 1.2%p less than in FY 2002, when the deferred acquisition cost is excluded. On the other hand, the loss ratio of commercial insurance was 55.8%, slight 0.6%p increase year-on-year because of massive ₩4.7 trillions in damages incurred by Typhoon Maemi in the summer in FY2003.

The expense ratio for FY 2003 was 22.7%, 0.8%p less than the previous year. This improvement resulted principally from ongoing restructuring to minimize costs and upgrade management systems to provide higher quality services. This determined effort enabled the Company to keep operation efficiency 1.8%p higher than the 24.5% average expense ratio of Korea's non-life insurance companies. Also, actual expense to budgeted expenses for FY 2003 came to 97.8%, making has managed to stay below budget for the third consecutive year the Company.

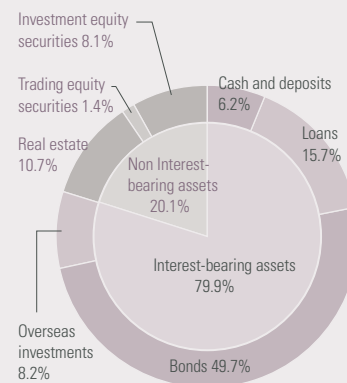
II. INVESTMENT PERFORMANCE

Invested assets for generating income stood at ₩3.50 trillion as of March 31, 2004, ₩366 billion increase from a year earlier. The growth was mainly due to a significant increase in loans as well as gains on the valuation of securities. The portion of interest bearing assets in the investment asset portfolio was 79.9%, about the same as the 80.5% recorded in FY 2002.

(Unit: Billions of Won)

Breakdown of invested assets

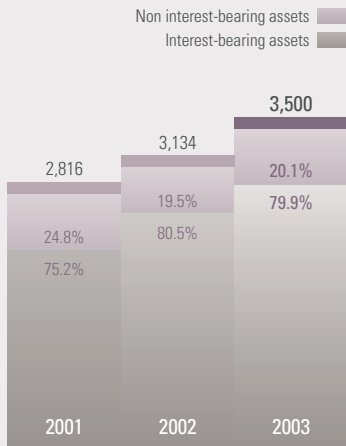
	FY2002		FY2003		Changes
Cash and deposits	₩ 242	7.7%	₩ 217	6.2%	₩ (25)
Loans	378	12.0%	551	15.7%	173
Bonds	1,716	54.8%	1,739	49.7%	23
Overseas investments	188	6.0%	288	8.2%	100
Interest-bearing assets	₩ 2,524	80.5%	₩ 2,795	79.9%	₩ 271
Real estate	₩ 376	12.0%	₩ 373	10.7%	₩ (3)
Trading equity securities	31	1.0%	48	1.4%	17
Investment equity securities	203	6.5%	284	8.1%	81
Non interest-bearing assets	₩ 610	19.5%	₩ 705	20.1%	₩ 95
Total	₩ 3,134	100.0%	₩ 3,500	100.0%	₩ 366



Composition of invested assets in FY2003

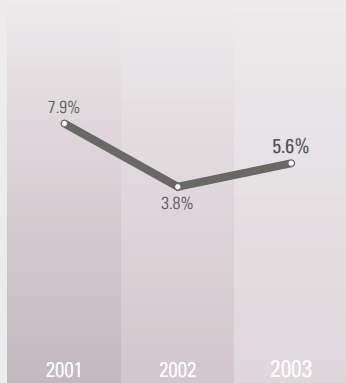
Investment profits for FY 2003 were ₩181 billions, ₩70 billions increase from the prior year. The ROIA for FY2003 increased 1.8%p over the previous year to 5.6% as the results of the high-yield (36.9%) performance of trading equity securities, 11.8% performance of investments equity securities, and 13.1% gains from overseas securities.

(Unit: Billions of Won)



Invested assets

(Unit: Billions of Won)



ROIA

Breakdown of investment profits

	FY2002	FY2003	Changes
Cash and deposits	₩ 10	₩ 9	₩ (1)
Loans	26	29	3
Bonds	104	76	(28)
Overseas investments	15	26	11
Interest-bearing assets	₩ 155	₩ 140	₩ (15)
Real estate	₩ 1	₩ 2	₩ 1
Trading equity securities	(61)	12	73
Investment equity securities	16	27	11
Non-interest-bearing assets	₩ (44)	₩ 41	₩ 95
Total	₩ 111	₩ 181	₩ 70
ROIA on interest-bearing assets	6.8%	5.4%	(1.4%p)
ROIA on non interest-bearing assets	(6.5%)	6.6%	13.1%p

(Unit: Billions of Won)

ROIA

	FY2001	FY2002	FY2003
Invested assets	₩ 2,816	₩ 3,134	₩ 3,500
Interest-bearing assets	2,121	2,524	2,795
Non interest-bearing assets	696	610	705
Investment profits	₩ 195	₩ 111	₩ 181
ROIA	7.9%	3.8%	5.6%

On the other hand, the Company boosted the quality of its assets by enlarging the allowance for bad debt securities such as reflecting ₩35 billions in impairment losses of debt securities, particularly those belonging to 50% of debt securities on LG Card.

III. CAPITAL SOURCES AND LIQUIDITY

Asset soundness

The Company maintains a proper NPL ratio to manage asset quality. On March 31 2004, the NPL and net NPL ratios were 3.9% and 2.0%, respectively, as opposed to the 3.8% and 2.6% figures in FY 2002. This indicates that more provisions were set aside in FY 2003 than in the previous year for securing strong asset soundness. Meanwhile, NPLs have remained below 4% of total loans for the past two years. An increased coverage ratio to NPLs brings the net NPL ratio to 2.0%, which is 0.6%p less than the previous year's ratio, while the NPL ratio has remained almost unchanged.

(Unit: Billions of Won)

Asset Quality	FY2002	FY2003	Changes
Loans	₩ 386	₩ 588	₩ 202
Normal	348	550	202
Precautionary	23	15	(8)
Below substandard	15	23	8
Provisions of loans	7	15	8
Provisions of the below substandard	4	11	7
NPL ratio	3.8%	3.9%	0.1%p
Net NPL ratio	2.6%	2.0%	(0.6%p)
Coverage ratio			
Provisions of NPL / NPL	31.7%	50.0%	18.3%p
Provisions of loans / NPL	52.3%	67.8%	16.5%p
Portfolio of bonds			
A- or above	98.0%	97.7%	(0.3%p)
BBB+ or below	2.0%	2.3%	0.3%p

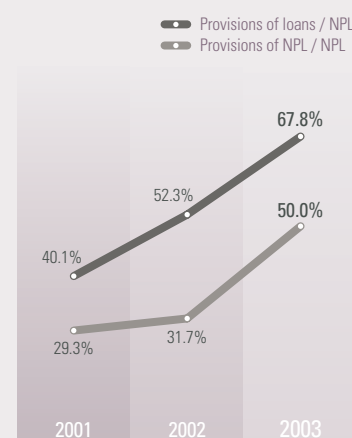
Approximately 98% in all bonds are normally to the high credit rated (A- and higher) companies, such as government or public corporations, and almost default-risk free companies whose asset portfolios have been deemed healthy by credit rating agencies.

Adjusted shareholders' equity and solvency margin

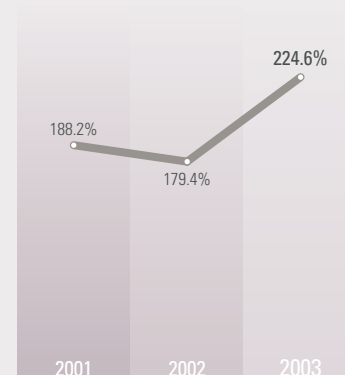
(Unit: Billions of Won)

Solvency margin & ratio	FY2002	FY2003	Changes
Solvency margin	₩ 536	₩ 697	₩ 161
Solvency ratio	179.4%	224.6%	45.2%p

Adjusted shareholders' equity was ₩673 billions, a strong 32.2%p increase over the year before mainly due to an increased capital adjustment of ₩101 billions from gains on valuation of available-for-sale securities.



Coverage ratio to NPL



Solvency ratio

In addition to insurance reserves, reserves for long-term premiums steadily increased to more than ₩2.06 trillions for 13.4% growth year-on-year as the result of higher revenues from long-term insurance and the application of deferred acquisition costs. On the other hand, the reserve for outstanding claims was also ₩336 billions, up 7.6% the ₩312 billions figure for FY 2002. The increase was due principally to a lack of reduction in traffic accidents.

The solvency margin ratio on March 31, 2004 stood at 224.6%, 45.2%p increase over the prior year and second highest ratio among domestic insurers. This increase can be attributed to the increase of both adjusted shareholders' equity and surplus reserve of surrender values.

IV. STOCKS MARKET INDEX AND DIVIDENDS

(Unit: won except market capitalization)

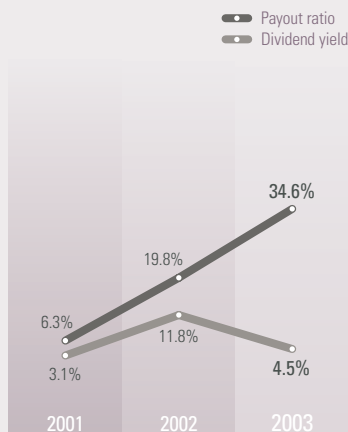
Capital market index (FY2004)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
KOSPI*	669.9	697.5	810.7	880.5
Highest price per share	₩ 3,220	₩ 3,830	₩ 4,500	₩ 5,530
Lowest price per share	2,120	3,070	3,300	4,020
Market Capitalization (billion)	228	247	287	389

* Index at the end of quarter

(Unit: Won)

Dividends	FY2001	FY2002	FY2003
Market price* per share	₩ 4,860	₩ 2,120	₩ 5,500
Dividends per share	150	250	250
Payout ratio	6.3%	19.8%	34.6%
Dividend yield	3.1%	11.8%	4.5%

* Price at the end of fiscal year



Dividends

The Company's dividend policy is to maximize the payout ratio and return part of profits to shareholders. Company management is committed to improving shareholders' value, and the Company achieved the highest payout ratio among Korea's non-life insurers by increasing the payout ratio in FY 2003, 14.8%p increase over the year before. The Company's transparent management as well as the high payout ratio have attracted foreign investors, who held 27.3% of outstanding shares, 20.8%p increase over the prior year, as of March 31, 2004.

V. EFFICIENCY ANALYSIS

	FY2002	FY2003	Changes
Profitability			
Profit margin	3.2%	2.6%	(0.6%)
Net profit margin	2.6%	1.4%	(1.2%)
ROA	2.3%	1.2%	(1.1%)
Adjusted ROA	2.8%	6.8%	4.0%
ROE	25.5%	11.8%	(13.7%)
Adjusted ROE	19.4%	10.7%	(8.7%)
Cash flows from operating activities to total assets ratio			
Cash flows from operating activities / total assets	10.1%	2.6%	(7.5%)
Growth			
Revenue growth rate	6.3%	5.9%	(0.4%)
Operating income growth rate	(47.2%)	(13.2%)	34.0%
Net income growth rate	(47.1%)	(42.8%)	4.3%
Total asset growth rate	12.3%	13.0%	0.7%
Asset turnover			
Asset turnover	0.87	0.82	(0.05)