



CEO's Message

IN FY2005, DONGBU INSURANCE RECORDED A HEALTHY

11.6% INCREASE IN TOTAL SALES OVER THE PREVIOUS YEAR TO KRW3,447 BILLION.

NET INCOME PERFORMANCE WAS EQUALLY IMPRESSIVE AT KRW123 BILLION. THESE STRONG PERFORMANCES WERE DULY REFLECTED IN THE COMPANY'S SHARE PRICE.

We prevailed over this adversity to turn in an exceptional performance, thanks in no small measure to our adherence to disciplined underwriting practices and a realignment of the Company's product portfolio with the emphasis on long-term protection-type lines.

- In retrospect, FY2005 was another year of solid progress for Dongbu Insurance, despite challenging industry and market conditions.
- In the year under review, both Dongbu Insurance and the Korean non-life industry as a whole experienced a number of critical challenges and difficulties. Chief among them were worsening loss ratios and intensified price competition in the auto insurance line, where market inroads by online insurance providers limited our ability to achieve expanded growth and profitability.
- Nonetheless, we prevailed over this adversity to turn in an exceptional performance, thanks in no small measure to our adherence to disciplined underwriting practices and a realignment of the Company's product portfolio with the emphasis on long-term protection-type lines. At the same time, we continued to pursue profitability-based growth, maximized our operational efficiencies, and upgraded our competitive edge through constant process enhancements.
- For the fiscal period ended March 31, 2006, Dongbu Insurance recorded a healthy 11.6% increase in total sales over the previous year to KRW3,447 billion. Net income performance was equally impressive at KRW123 billion. These strong performances were duly reflected in the Company's share price, which surged more than two-fold from the previous fiscal year-end, while Dongbu Insurance's total market capitalization rose to KRW1,331 billion.

Looking ahead, more obstacles are visible on the horizon. High oil prices and the appreciation of Korean won against the U.S. dollar are dimming prospects for the Korean economy and slowing private consumption, which had shown signs of a rebound.

We will seek to further upgrade the efficiency of operational funds by eliminating waste and implementing strategic asset management, while maintaining risks at proper levels.

- Total assets posted a dramatic 17.5% advance to KRW5,677 billion, and our net premiums written and net income in FY2005 were the second highest among all domestic non-life insurers. With steady gains in other key areas, our plan to become Korea's top-ranked non-life insurer in all respects is right on track.

- Looking ahead, more obstacles are visible on the horizon. High oil prices and the appreciation of Korean won against the U.S. dollar are dimming prospects for the Korean economy and slowing private consumption, which had shown signs of a rebound. Furthermore, the rapid growth of the online insurance market will continue to exert heavy cost pressures on the Company. In response to these challenges, Dongbu Insurance will faithfully implement the following strategic initiatives:

- First, we will strengthen business capabilities.
- The Company's core competency is the competitiveness of our sales force, and as a result will strive to hone our marketing capabilities. For this purpose, we will dramatically bolster education & training programs for sales representatives so that they can become industry's most capable sales force. Furthermore, we will develop a stream of new, competitive products and offer differentiated customer services. Overall, we aim to become a world-class insurer in terms of growth and profitability in the near term.

- We have successfully developed a range of differentiated business models for overseas markets, which allow us to minimize initial investment expenses. In line with our future-oriented growth strategies, we opened a branch office in Hawaii in April 2006 and a representative office in Beijing, China, in July 2006. We will continue to explore new markets overseas.

- Second, we will raise corporate value.

- In the new fiscal year, we will seek to further upgrade the efficiency of operating expenses by eliminating waste and implementing strategic asset management, while maintaining risks at proper levels. Our fundamental objective is to continue to expand our profitability base.

- Another key goal is to achieve the industry's highest rate of growth, which will enable Dongbu Insurance to solidify our market dominance. In addition, we will seek to improve overall risk management to sustain sound growth and maintain financial stability under challenging market conditions.

- Third, we aim to maximize innovation results.
- Under the slogan, "Change & Challenge No. 1," Dongbu Insurance has consistently implemented a diverse range of management innovation activities. This year we will accelerate our innovation efforts to achieve maximum results.
- Notably, we will continue to build state-of-the-art IT infrastructure such as Enterprise Resource Planning (ERP) and execute management on a real-time basis, while deepening our performance-based management. During the past year we developed our ERP system and deployed it in the financial, accounting and asset management areas of operation. In September 2006, we will launch a Strategic Enterprise Management (SEM) system for strategic management and an Enterprise Data Warehouse(EDW) system for company-wide data management.
- With the dedication and hard work of all employees, Dongbu Insurance continues to solidify its position as leader in terms of corporate value. We will not rest on the laurels of our past achievements, but instead move aggressively to realize stable growth and maximize shareholder value.
- We are committed to making 2006 another stellar year of operation, while at the same time renewing our pledge to become a responsible and reliable corporate citizen, particular for the less fortunate members of our community. In so doing, we solicit once again your steadfast support and continued interest.



Soon Hwan Kim

Kim Soon-Hwan
PRESIDENT & CEO

An Interview With the CEO

Dongbu Insurance overhauls its way of doing things.

DONGBU INSURANCE PRESIDENT AND CEO KIM SOON-HWAN STRESSES THAT ETHICAL MANAGEMENT IS NO LONGER A CHOICE FOR ANY CORPORATE ENTERPRISE TODAY, BUT AN ABSOLUTE NECESSITY. NOW THAT ETHICAL AND TRANSPARENT MANAGEMENT HAVE TAKEN FIRM ROOT IN ALL ASPECTS OF ITS NON-LIFE INSURANCE OPERATIONS, THE COMPANY IS IDEALLY POSITIONED FOR CONTINUOUS PROFIT GROWTH. OF NOTE, THE COMPANY INTENDS TO FOCUS ON ITS MORE PROFITABLE LONG-TERM LINES, WHILE MOVING FORWARD WITH PREPARATIONS TO OPEN A REPRESENTATIVE OFFICE IN BEIJING, CHINA, IN THE NEAR FUTURE. AN INTERVIEW OF PRESIDENT KIM IS SUMMARIZED BELOW:

SINCE YOUR APPOINTMENT AS PRESIDENT & CEO OF DONGBU INSURANCE IN EARLY 2004, THE COMPANY HAS EXPERIENCED A DRAMATIC TRANSFORMATION, ACROSS THE BOARD. WHAT HAS BEEN THE DRIVING FORCE BEHIND YOUR SUCCESSFUL LEADERSHIP?

- I am proud to say that our ethical management has now taken firm root as a result of the constant adoption of change and innovation. Dongbu Insurance has overhauled its way of doing things and is moving forward with a new management innovation campaign known as "Change & Challenge No. 1."
- Our focus has been on sales activities that involve intense market competition. As such, all sales operations now conform to our high ethical standards, while the claims handling system has been renovated as well. The Company's customer-first management continuously implements innovative measures.

THE COMPANY'S ACHIEVEMENTS OVER THE PAST TWO YEARS HAVE BEEN MOST IMPRESSIVE, INCLUDING QUALITATIVE GROWTH THAT IS QUITE EXTRAORDINARY. HOW WAS ALL OF THIS POSSIBLE?

- Above all, there has been an almost three-fold growth in net income. In FY2003, net income amounted to KRW46 billion. However, the bottom line has exceeded the KRW100-billion mark in both FY2004 and FY2005. In fact, Dongbu Insurance ranked second, in terms of net income, among non-life insurers in Korea. I believe that this exceptional performance is primarily attributable to our profit-based management policy and advanced systematic operation, as well as the dedication and hard work of our employees and sales personnel.
- We also ranked second in regard to net premiums written, amounting to KRW3.14 trillion for the year ended March 31, 2006. Of note, the Company was the industry leader in terms of adjusted return on equity

9.0%

DONGBU INSURANCE ENJOYED A ROBUST 9.0% GROWTH RATE IN NET INCOME

123 billion

NET INCOME GREW TO KRW123 BILLION IN FY2005.

18.5%

ADJUSTED RETURN ON EQUITY

and adjusted return on assets, which reached 18.5% and 2.9%, respectively, thus confirming the soundness of our financial structure. And, we ranked second in the market capitalization, which reached some KRW1.33 trillion.

WHAT BUSINESS LINES MAKE UP THE PORTFOLIO OF DONGBU INSURANCE?

- Since 2004, we have focused on profit-based management. By line, long-term insurance operations generate the highest profit margins, while commercial lines also yield favorable results. In addition to long-term insurance operations, we will strive to strengthen our position in commercial lines, which are also profitable.
- Currently, long-term lines account for a 54.9% share of our insurance portfolio, auto coverage 35.0%, and commercial lines 10.2%. As for long-term operations, we focus on the sales of protection-type products. Long-term products provide added

benefits for sales agents and the Company, while also helping to optimize our corporate value for shareholders.

DONGBU INSURANCE RECENTLY OPENED A BRANCH OFFICE IN HAWAII. DO YOU HAVE PLANS TO ADVANCE INTO OTHER MARKET AREAS ABROAD?

- To bolster the Company's global competitiveness and diversify our overseas markets, Dongbu Insurance commenced operations in Hawaii in April 2006. We will initially focus on household-type products and gradually expand our portfolio lines. In addition, we also operate a branch in Guam.
- Furthermore, we opened a representative office in Beijing in July 2006, which will provide various client-oriented services for Korean enterprises as well as local businesses in China. Over time, additional business models will be developed based on demand through exhaustive market research.

WHAT DO YOU FORESEE FOR THE FUTURE OF KOREA'S NON-LIFE INSURANCE INDUSTRY?

- Based on the proposed Capital Market Integration Act, the barriers between financial service sectors will become even more blurred, resulting in more intensified competition. Dongbu Insurance will develop a diverse range of financial products, including investment-type and derivatives-related; reinforce our underwriting expertise; and foster professional asset managers. Overall, we are laying a solid foundation for the provision of first-rate services.



2.9%

ADJUSTED RETURN ON ASSETS

1.33 trillion

MARKET VALUE OF COMPANY STOCK
AGGREGATED TO KRW1.33 TRILLION.

6.4%

INVESTMENT YIELD