

growth and greater profitability as robust performance of long-term lines offsets a slowdown in auto lines.

- As mentioned, the automobile insurance market is experiencing a slowdown because the number of registered vehicles is growing at a slower pace and price competition is set to heighten further as the major insurance firms enter the direct auto insurance market. However, the long-term insurance market should flourish as the need for health insurance expands and the sale of protection-type products via bancassurance is permitted. Moreover, a further decline in the loss ratio is foreseen for long-term lines as the expiry of high interest rate products will reduce the provisioning burden.

- In response to these challenges and rapidly changing business environment, Dongbu plans to implement the following strategic initiatives. First, the Company will reinforce business capabilities by bolstering education and training programs for sales force to hone marketing competitiveness. Dongbu will also develop a stream of new, competitive products and offer differentiated customer services to become a world-class insurer in terms of growth and profitability in the future.

- Second, Dongbu will maximize enterprise value by solidifying its dominant market position. The Company will improve overall risk management system to sustain sound growth and uphold financial stability under challenging market conditions. In addition, Dongbu plans to further expand its market presence toward overseas markets. Following the opening of the Hawaii branch in April 2006, the Company established its Beijing representative office in July of the same year. The Company will continuously pursue sustained growth in overseas markets.

- Third, the Company will accelerate its innovation efforts by implementing a diverse range of management restructuring measures. Dongbu prepares to build state-of-art IT infrastructure such as ERP systems and execute management on a real-time basis, while deepening the performance-based management. In September 2006, Dongbu will launch a strategic enterprise management (SEM) system for strategic decision making and an enterprise data warehouse (EDW) system for company-wide data management. Additionally, the Company will also be stepping up efforts to cultivate and secure superior human resources, thus building a progressive, future-oriented corporate culture.

Non-Consolidated Balance Sheets

As of March 31, 2006 and 2005

(Korean won in millions, US\$ in thousands)	FY2005	FY2004	FY2005
ASSETS			
Cash and deposits (Note 3,9,17,29)	₩ 98,905	₩ 139,541	\$ 101,347
Securities (Note 2,6,9,17,26)	3,176,873	2,824,659	3,255,327
Trading securities	48,117	398,877	49,305
Available-for-sale securities	2,997,202	2,302,882	3,071,218
Held-to-maturity securities	7,936	7,937	8,132
Equity securities using equity method	123,619	114,963	126,672
Loans (Note 2,4,5,26)	1,003,888	737,705	1,028,679
Fixed assets	406,882	393,194	416,930
Investment assets (Note 7)	122,074	117,715	125,089
Tangible assets (Note 2,7,9)	265,956	265,569	272,523
Intangible assets (Note 2,8)	18,852	9,910	19,317
Other assets (Note 2,4,5,6,10,17,21)	990,529	737,358	1,014,990
TOTAL ASSETS	5,677,076	4,832,458	5,817,273
LIABILITIES			
Policy reserve (Note 2,12,18)	4,125,764	3,494,826	4,227,650
Catastrophe reserve (Note 2,13)	265,655	235,572	272,216
Other liabilities (Note 2,6,10,12,14,17,19,21,22,26)	674,485	561,530	691,142
TOTAL LIABILITIES	5,065,904	4,291,928	5,191,007
SHAREHOLDERS' EQUITY			
Common stock (Note 15)	35,400	35,400	36,274
Capital surplus	37,913	37,913	38,849
Retained earnings (Note 2,15)	504,407	410,328	516,864
(Net income of ₩123,101 million in FY2005 and ₩112,952 million in FY2004)			
Capital adjustments (Note 2,6,16,22)	33,453	56,889	34,279
TOTAL SHAREHOLDERS' EQUITY	611,173	540,530	626,266
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	₩ 5,677,076	₩ 4,832,458	\$ 5,817,273

* Korean Won amounts for FY2005 are translated into U.S.dollars based on the basic exchange rate of KRW975.9 per US\$1.00 as of March 31, 2006.

Non-Consolidated Statements of Income

For the years ended March 31, 2006 and 2005

(Korean won in millions, US\$ in thousands)	FY2005	FY2004	FY2005
OPERATING REVENUES	₩ 3,836,055	₩ 3,432,174	\$ 3,930,787
Premium income (Note 2,23,26)	3,407,301	3,045,367	3,491,445
Reinsurance income	142,009	128,219	145,516
Interest income	187,624	166,048	192,257
Other income	99,122	92,540	101,570
OPERATING EXPENSES	3,760,307	3,339,255	3,853,168
Net provision for policy reserves	630,938	578,206	646,519
Net provision for catastrophe reserves	30,083	19,458	30,826
Claims expenses	1,232,654	1,059,850	1,263,094
Refund claims at surrender value	846,251	758,959	867,149
Reinsurance premiums paid	266,223	251,329	272,798
Operating and administrative expenses (Note 24,26)	618,162	585,304	633,428
Other operating expenses (Note 11)	135,996	86,150	139,355
OPERATING INCOME	75,749	92,919	77,619
NON-OPERATING INCOME	136,638	160,846	140,012
Gain on disposal of available-for-sale securities	77,195	46,462	79,102
Gain on disposal of derivatives	10,838	31,825	11,105
Gain on evaluation of derivatives (Note 22)	14,680	37,917	15,043
Gain on valuation of equity securities using equity method	17,918	23,127	18,360
Other non-operating income (Note 6,17,25)	16,007	21,515	16,402
NON-OPERATING EXPENSES	59,281	104,126	60,745
Loss on disposal of available-for-sale securities	3,083	6,958	3,159
Loss on impairments of available-for-sale securities (Note 6)	94	13,769	96
Loss on disposal of derivatives	13,409	20,188	13,740
Amortization of intangible assets (Note 8)	5,837	5,193	5,981
Loss on foreign currency transactions	2,936	7,241	3,008
Loss on foreign exchange translations (Note 17)	19,920	42,204	20,412
Other non-operating expenses (Note 25)	14,002	8,573	14,348
ORDINARY INCOME	153,106	149,638	156,887
INCOME BEFORE INCOME TAX EXPENSE (Note 19)	153,106	149,638	156,887
Income tax expense (Note 2,19)	30,005	36,687	30,746
NET INCOME	123,101	112,952	126,141
Net income per share (Won / US\$) (Note 20)	₩ 1,953	₩ 1,804	\$ 2.00

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Non-Consolidated Statements of Appropriations of Retained Earnings

For the years ended March 31, 2006 and 2005

(Korean won in millions, US\$ in thousands)	FY2005	FY2004	FY2005
RETAINED EARNINGS BEFORE APPROPRIATIONS	₩ 115,127	₩ 109,106	\$ 117,971
Retained earnings carried forward from prior year	(3,999)	(2,573)	(4,098)
Changes in retained earnings of			
equity securities using equity method (Note 15)	(3,974)	(1,272)	(4,072)
Net income	123,101	112,952	126,141
TRANSFER FROM VOLUNTARY RESERVE	1,697	14,798	1,739
APPROPRIATIONS	109,774	127,902	112,485
Legal reserve	2,700	2,505	2,767
Cash dividend (Note 27)	26,902	25,047	27,566
Voluntary reserve	80,000	100,350	81,976
Loss on disposal of treasury stocks	172	-	177
UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED OVER TO SUBSEQUENT YEAR	₩ 7,051	₩ (3,999)	\$ 7,225

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Non-Consolidated Statements of Cash Flows

For the years ended March 31, 2006 and 2005

(Korean won in millions, US\$ in thousands)	FY2005	FY2004	FY2005
CASH FLOWS FROM OPERATING ACTIVITIES	₩ 556,583	₩ 582,569	\$ 570,328
Net income	123,101	112,952	126,141
Expenses not involving cash outflows	847,214	779,670	868,136
Provision for severance benefits	12,583	11,108	12,894
Depreciation	14,475	13,470	14,832
Provision for doubtful accounts	4,051	8,160	4,151
Loss on foreign currency translation	18,861	38,619	19,327
Loss on disposal of trading securities	2,494	12,802	2,555
Loss on disposal of available-for-sale securities	3,083	6,958	3,159
Loss on impairments of available-for-sale securities	94	13,769	96
Increase in policy reserve	630,938	578,206	646,519
Increase in catastrophe reserve	30,083	19,458	30,826
Loss on disposal of derivatives	13,409	20,188	13,740
Others, net	117,144	56,932	120,036
Income not involving cash inflows	140,590	170,069	144,062
Gain on disposal of trading securities	7,244	12,148	7,423
Gain on disposal of available-for-sale securities	77,195	46,462	79,102
Gain on valuation of equity securities using equity method	₩ 17,918	₩ 23,127	\$ 18,360

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Non-Consolidated Statements of Cash Flows

For the years ended March 31, 2006 and 2005

(Korean won in millions, US\$ in thousands)	FY2005	FY2004	FY2005
Gain on evaluation of derivatives	₩ 14,680	₩ 37,917	\$ 15,043
Gain on disposal of derivatives	10,838	31,825	11,105
Others, net	12,715	18,590	13,029
Changes in assets and liabilities related to operating activities	(273,142)	(139,984)	(279,887)
Decrease (increase) in insurance accounts receivables	(4,679)	3,065	(4,795)
Decrease (increase) in other receivables	(1,520)	4,538	(1,558)
Decrease (increase) in accrued revenues	(1,066)	6,571	(1,093)
Decrease (increase) in compensation receivables	(8,450)	(5,306)	(8,658)
Decrease (increase) in separate accounts receivables	(49,112)	(20,950)	(50,325)
Decrease (increase) in deferred acquisition cost	(252,466)	(164,488)	(258,701)
Decrease (increase) in prepaid expenses	(30,460)	(3,226)	(31,212)
Increase (decrease) in unpaid claims	6,824	(16,059)	6,993
Increase (decrease) in separate accounting debits	49,112	20,950	50,325
Others, net	18,675	34,920	19,137
CASH FLOWS FROM INVESTING ACTIVITIES	(574,935)	(622,688)	(589,133)
Cash inflows from investing activities	8,968,424	7,809,853	9,189,900
Proceeds from disposal of trading securities	7,816,909	5,841,887	8,009,949
Proceeds from disposal of available-for-sale securities	565,857	965,295	579,831
Decrease in call loans	69,500	440,500	71,216
Decrease in policyholder loans	258,633	221,553	265,020
Decrease in real estate loans	147,327	72,260	150,965
Decrease in unsecured loans	55,930	80,156	57,311
Decrease in derivatives deposits	-	133,922	-
Decrease in derivatives	17,663	20,177	18,099
Others, net	36,605	34,103	37,509
Cash outflows from investing activities	9,543,358	8,432,541	9,779,033
Acquisition of trading securities	7,460,671	5,825,871	7,644,914
Acquisition of available-for-sale securities	1,202,676	1,438,627	1,232,376
Increase in call loans	69,500	419,000	71,216
Increase in policyholder loans	311,866	268,527	319,568
Increase in derivatives deposits	-	133,343	-
Others, net	498,645	347,173	510,959
CASH FLOWS FROM FINANCING ACTIVITIES	(22,285)	(15,655)	(22,835)
Cash inflows from financing activities	2,762	-	2,831
Disposal of treasury stocks	2,762	-	2,831
Cash outflows from financing activities	25,047	15,655	25,666
Payment of cash dividend	25,047	15,655	25,666
NET INCREASE IN CASH AND CASH EQUIVALENTS	(40,637)	(55,774)	(41,640)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	139,541	195,315	142,987
CASH AND CASH EQUIVALENTS, END OF YEAR	₩ 98,905	₩ 139,541	\$ 101,347

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