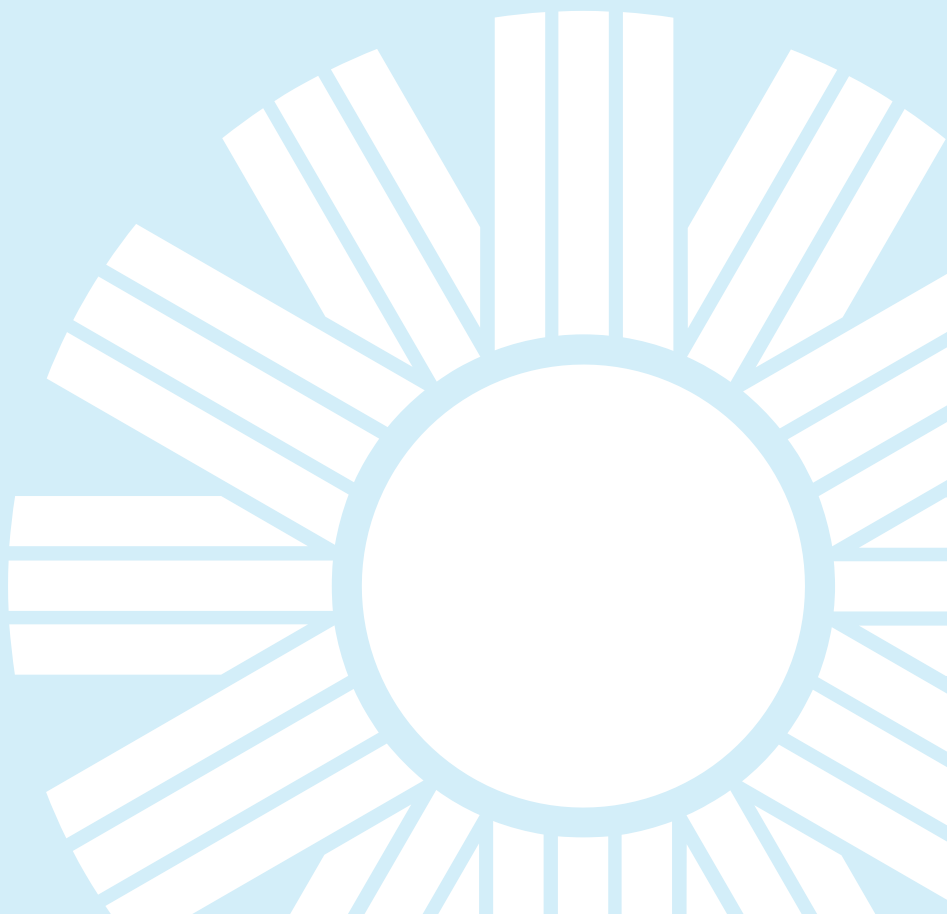


DONGBU  
INSURANCE

# FINANCIAL SECTION

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## Management's Discussion & Analysis

• Management's discussion and analysis may contain forward-looking statements provided to assist in the understanding of anticipated future financial performance. However, such performance involves risks and uncertainties that may cause actual results to differ materially from those expressed in forward-looking statements. The term 'the Company' and 'Dongbu' used here without any other qualifying description will refer to 'Dongbu Insurance Co., Ltd.'

### EXECUTIVE SUMMARY

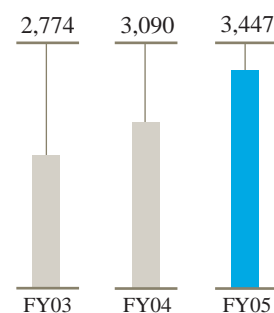
Summary Income Statement (KRW in billions)	FY2003	FY2004	FY2005	Change	
				Amount	%
Direct premiums written	2,774	3,090	3,447	357	11.6
Net premiums written	2,492	2,794	3,141	347	12.4
Net premiums earned	2,489	2,718	3,066	348	12.8
Losses	1,993	2,188	2,486	297	13.6
Loss ratio (%)	80.1	80.5	81.1		0.6%p
Net expenses	566	576	654	78	13.6
Expense ratio (%)	22.7	21.2	21.3		0.1%p
Underwriting income	(87)	(65)	(104)	(38)	N/A
Investment income	181	267	269	2	0.7
Net increase in catastrophe reserves	18	19	30	11	54.6
<b>Net income</b>	<b>46</b>	<b>113</b>	<b>123</b>	<b>10</b>	<b>9.0</b>

• The fiscal year 2005 presented hardship to the non-life insurance industry, namely natural disasters such as typhoon and heavy snowfall, runaway oil prices, the adverse impact of Korean won appreciation on exports, and languishing domestic demand. In addition, the non-life insurance industry also suffered from a surge in the loss ratio on automobile insurance. The culprits were heavy snow, a hike in auto maintenance costs and increased road traffic from the spreading five-day workweek.

• However, amidst continued competition in the auto insurance sector, the non-life insurance sector saw direct premiums written grow by 9.9% year-on-year (YoY) to KRW23.6 trillion in FY2005 as the aging population pushed up demand for long-term insurance products. By insurance type, auto and commercial lines increased by 3.2% and 8.7% YoY, respectively, while long-term lines expanded by 15.7% YoY to lead the overall growth of the non-life insurance industry in FY2005. Persons aged 65 years and older already comprised 7.8% of the Korean

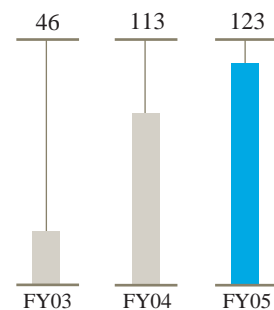
#### DIRECT PREMIUMS WRITTEN

(UNIT: KRW IN BILLIONS)



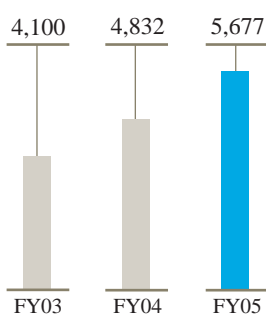
#### NET INCOME

(UNIT: KRW IN BILLIONS)



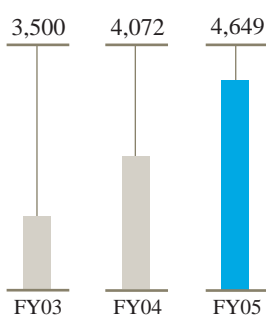
## TOTAL ASSETS

(UNIT: KRW IN BILLIONS)



## INVESTED ASSETS

(UNIT: KRW IN BILLIONS)



population in 2000. The Korean society continues to age at a rapid pace. The 20~49 year-old age group accounts for more than 50% of the population and the birth rate is on the decline. These trends have given a boost to long-term lines such as health insurance and casualty insurance. Bancassurance and new integrated insurance products are also helping to sustain growth of the domestic non-life insurance market.

- Striving to become a premier non-life insurer, Dongbu persistently pursues improvement in work processes and development of differentiated services. In terms of both premium growth and profitability, Dongbu outperformed the industry average; Dongbu recorded a 11.6% YoY growth in direct premiums written to KRW3,447 billion and boasted the highest adjusted return on equity (adj. ROE) of 18.5% in FY2005 among top-tier non-life insurance companies. Although fierce competition deteriorated the profitability of auto lines, net income rose by 9.0% YoY to KRW123 billion. Now, in terms of net income, the Company is ranked second among non-life insurers in Korea, exceeding the KRW100 billion mark for two consecutive fiscal years. In addition, Dongbu gained its combined market share by 0.2%p to 14.6% in FY2005 from 14.4% in FY2004, firming up its market leadership as the No. 2 non-life insurer in Korea.

Summary Balance Sheet (KRW in billions)				Change	
	FY2003	FY2004	FY2005	Amount	%
Invested assets	3,500	4,072	4,649	577	14.2
Insurance accounts receivable	84	76	84	9	11.4
Other assets	319	466	676	210	45.1
Separate account assets	198	219	268	49	22.4
<b>Total assets</b>	<b>4,100</b>	<b>4,832</b>	<b>5,677</b>	<b>845</b>	<b>17.5</b>
Policy reserves	2,917	3,495	4,126	631	18.1
Catastrophe reserves	216	236	266	30	12.8
Insurance accounts payable	185	169	176	7	4.0
Other liabilities	131	173	230	57	32.9
Separate account liabilities	198	219	268	49	22.4
<b>Total liabilities</b>	<b>3,647</b>	<b>4,292</b>	<b>5,066</b>	<b>774</b>	<b>18.0</b>
Common stock	35	35	35	-	-
Capital surplus	38	38	38	-	-
Retained earnings	314	410	504	94	22.9
Capital adjustments	66	57	33	(23)	(41.2)
<b>Total shareholders' equity</b>	<b>454</b>	<b>541</b>	<b>611</b>	<b>71</b>	<b>13.1</b>

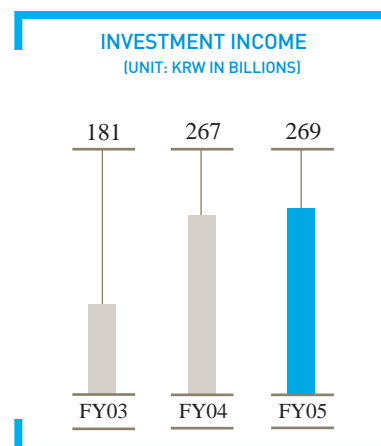
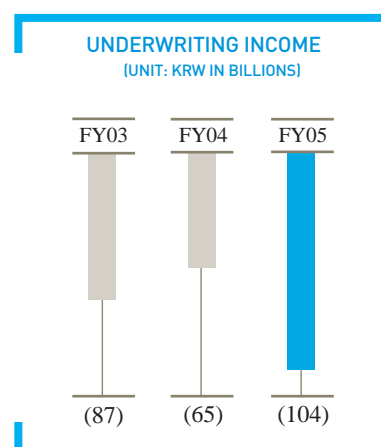
- Separately, total assets and invested assets amounted to KRW5,677 billion and KRW4,649 billion as of the end of FY2005, respectively, representing growth of 17.5% and 14.2% over the previous year. Shareholders' equity went up 13.1% YoY to KRW611 billion as of March 31, 2006. Financial soundness also improved with the solvency margin ratio climbing by 2.5%p to 220.7% in FY2005.

(KRW in billions)	FY2003	FY2004	FY2005	Change	
				Amount	%
Underwriting income	(87)	(65)	(104)	(38)	N/A
Investment income	181	267	269	2	0.7
Net income	46	113	123	10	9.0

#### UNDERWRITING PERFORMANCE

- Until FY2003, the domestic non-life insurance industry experienced slowdown in growth due to sluggish domestic economic recovery and intensifying competition within the industry. In terms of direct premiums written, the annual growth rate of domestic non-life insurance industry decelerated from 11.2% in FY2001 to 8.5% in FY2002 and 3.5% in FY2003. However, on the back of buoyant demand for long-term insurances and bancassurance, the non-life insurance market turned around with accelerating growth rate of direct premiums written to 8.8% in FY2004 and 9.9% in FY2005. Direct premiums written of the non-life insurance industry totaled KRW23.6 trillion in FY2005 due primarily to the notable growth in long-term lines.

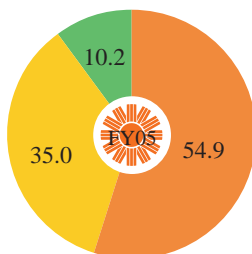
- Despite sluggish recovery of the domestic economy and intensifying competition in the non-life insurance industry, Dongbu outperformed the industry by achieving an increase of 11.6% in the direct premiums written to KRW3,447 billion in FY2005. In particular, Dongbu showed a remarkable growth of 14.8% and 15.2% in long-term and commercial lines, respectively, and also posted steady growth in auto lines at 5.9% YoY in FY2005. As a result, contribution of long-term lines to direct premiums written expanded to 54.9% in FY2005 from 52.0% in FY2003 and 53.3% in FY2004. Meanwhile, that of auto lines continued falling to 35.0% in FY2005 from 37.9% in FY2003 and 36.8% in FY2004 due to expansion of direct online auto insurances and intensifying price competition.



## COMPOSITION OF DIRECT PREMIUMS WRITTEN

(UNIT: %)

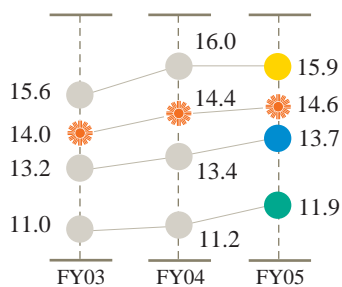
Long-term      Auto  
Commercial



## MARKET SHARE BY LINE

(UNIT: %)

Auto lines      Commercial lines  
Long-term lines      Combined



## Composition of direct premiums written

(%)	FY2003	FY2004	FY2005
Long-term	52.0	53.4	54.9
Auto	37.9	36.8	35.0
Commercial	10.1	9.8	10.2

• The Company's market share within the non-life insurance industry further rose by 0.2%p to 14.6% last fiscal year. By types of insurances, Dongbu expanded its market share of auto lines by 0.3%p to 13.7% and commercial lines by 0.7%p to 11.9%, whereas the market share of long-term lines edged down by 0.1%p to 15.9% in FY2005.

## Market share by line

(%)	FY2003	FY2004	FY2005	Change
Auto lines	13.2	13.4	13.7	0.3%p
Long-term lines	15.6	16.0	15.9	(0.1%p)
Commercial lines	11.0	11.2	11.9	0.7%p
Combined	14.0	14.4	14.6	0.2%p

• In FY2005, Dongbu's net premiums earned increased by 12.8% YoY to KRW 3,066 billion compared to KRW 2,718 billion in FY2004 on the back of outstanding growth in long-term and commercial lines. Meanwhile, incurred losses jumped by 13.6% YoY to KRW 2,486 billion due primarily to the rise in auto line loss ratio; the loss ratio of auto lines increased 3.4%p to 75.1% in FY2005, whereas long-term line and commercial line loss ratio dropped by 1.1%p and 0.2%p to 87.2% and 49.3%, respectively. As a result, loss ratio nudged up 0.6%p to 81.1% in FY2005 from 80.5% in FY2004.

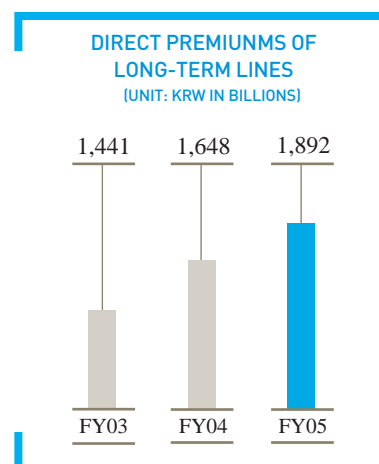
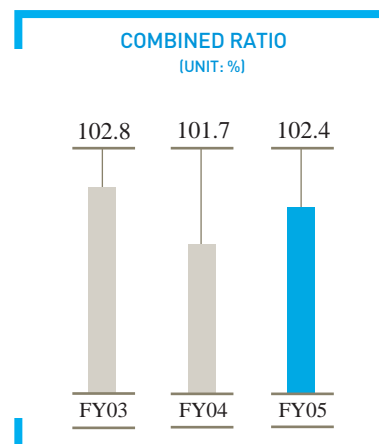
• On the other hand, the Company continued maintaining its solid advantage over competitors in terms of cost efficiency. Dongbu's expense ratio remained similar to the previous year's level, edging up marginally by 0.1%p to 21.3% in FY2005, which is about 3%p lower than that of other competitors. Overall, Dongbu's underwriting performance slightly slowed down as the combined ratio recorded 102.4% last fiscal year, an increase of 0.7%p, compared to 101.7% in FY2004.

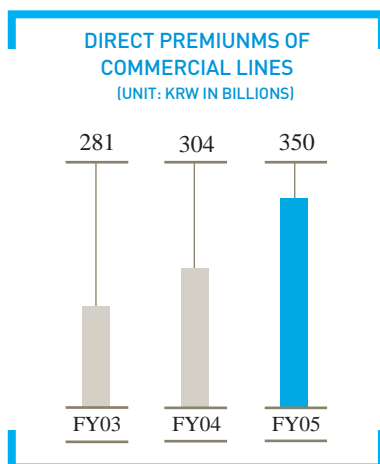
(KRW in billions)	FY2003	FY2004	FY2005	Change	
				Amount	%
Net premiums earned	2,489	2,718	3,066	348.2	12.8%
Incurred losses	1,993	2,188	2,486	297.2	13.6%
Loss ratio (%)	80.1	80.5	81.1	0.6%p	
Net expenses	566	576	654	78.5	13.6%
Expense ratio (%)	22.7	21.2	21.3	0.1%p	
Combined ratio (%)	102.8	101.7	102.4	0.7%p	

#### Long-term Lines

- Direct premiums written for long-term lines led the overall growth of the non-life insurance industry in FY2004, surging 15.7% YoY to KRW11,892 billion, on the back of the continued expansion in new contacts and bancassurance services. As mentioned, Dongbu has strategically allotted business resources to long-term and commercial lines, of which growth potential and profitability are outstanding, and has sustained its leading position in the long-term insurance segment. In particular, Dongbu, along with LIG Insurance, seize the top notch in the non-life insurance industry's bancassurance business with a 22.1% market share in FY2005, on the back of continued development of superior products that satisfy customer needs and effective marketing activities through BAM (Bancassurance Area Manager) program.

- In line with buoyant demand for protection-type products, the Company's direct premiums written for long-term lines jumped 14.8% YoY to record KRW 1,892 billion in FY2005. Dongbu's market share in the long-term line sector remained stable, edging down a mere 0.1%p to 15.9%. Despite additional provision burden of "incurred but not reported" (IBNR) losses, the loss ratio for long-term lines in FY2005 fell by 1.1%p to 87.2% on the back of the improvement in actual loss ratio in FY2005. Meanwhile, diversification of sales channels and introduction of new integrated insurance products caused the expense ratio to increase 1.6%p to 15.8% in FY2005. The combined ratio recorded 103.0%, a 0.5%p increase, as a result.





Long-term lines (KRW in billions)	FY2003	FY2004	FY2005	Change	
				Amount	%
Direct premiums written	1,441	1,648	1,892	244	14.8
Market share (%)	15.6	16.0	15.9	<i>(0.1%p)</i>	
Combined ratio (%)	100.7	102.5	103.0	<i>0.5%p</i>	
Expense ratio (%)	17.2	14.2	15.8	<i>1.6%p</i>	
Loss ratio (%)	83.5	88.3	87.2	<i>(1.1%p)</i>	

#### Commercial Lines

- While direct premiums written for commercial lines in the industry recorded KRW2,948 billion, an increase of 8.7% YoY, Dongbu's direct premiums written for commercial lines surged 15.2% YoY, outperforming the industry average growth rate by a large margin, to total KRW350 billion in FY2005. Dongbu has placed strategic focus on commercial lines as well as long-term lines and achieved the highest growth in commercial lines among non-life insurers. As a result, Dongbu continued expanding its market share by 0.7%p to 11.9% in FY2005. In particular, Dongbu has successfully reduced the dependency on the Group by strengthening its sales activities to strategic partners and developing new products.

- Noteworthy is that the loss ratio of commercial lines for Dongbu remained below the expected loss ratio for 4 consecutive years. The Company's loss ratio continued improving to 49.3% in FY2005 from 49.5% in FY2004 and 55.8% in FY2003. In addition, the expense ratio dropped by 8.4%p to 30.8% in FY2005. Thus, the combined ratio improved substantially, falling by 8.6%p to 80.1%. Dongbu boasted the lowest combined ratio in commercial lines among non-life insurance companies.

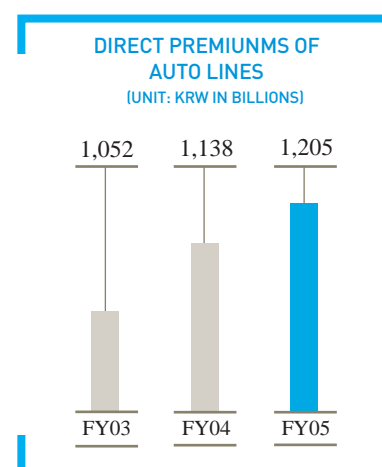
Commercial lines (KRW in billions)	FY2003	FY2004	FY2005	Change	
				Amount	%
Direct premiums written	281	304	350	46	15.2
Market share (%)	11.0	11.2	11.9	<i>0.7%p</i>	
Combined ratio (%)	90.0	88.8	80.1	<i>(8.6%p)</i>	
Expense ratio (%)	34.2	39.3	30.8	<i>(8.4%p)</i>	
Loss ratio (%)	55.8	49.5	49.3	<i>(0.2%p)</i>	

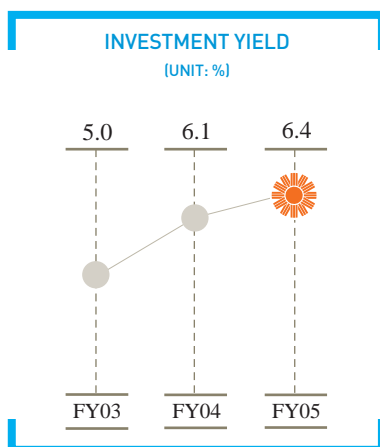
### Auto Lines

- Due to decelerating growth in the number of automobiles registered and intensifying price competition caused by expansion of online auto insurances, direct premium written for auto lines in the non-life insurance industry nudged up merely 3.2% YoY to KRW8,780 billion in FY2005. Dongbu's direct premiums written for auto lines recorded KRW1,205 billion in FY2005, revealing a growth of 5.9% YoY. Accordingly, the Company's market share in the auto line segment expanded by 0.3%p to reach 13.7% in FY2005.

- Meanwhile, the industry's auto line loss ratio in FY2005 jumped by 3.8%p to 76.6% as a result of heavy snow, auto repair cost hike, and increase in the frequency of vehicle operations caused by the spreading five-day workweek. On its part, Dongbu minimized the auto line business in the Company's insurance portfolio to 35.0% in FY2005 from 37.9% in FY2003 and 36.8% in FY2004 through profit-based management and prudent underwriting policy. As a result, the Company kept auto line loss ratio lower than the industry average: its loss ratio increased by 3.4%p to 75.1% in FY2005. In turn, while auto line expense ratio improved by 0.9%p to 29.3%, the combined ratio rose by 2.4%p to reach 104.4% in FY2005.

Auto lines (KRW in billions)				Change	
	FY2003	FY2004	FY2005	Amount	%
Direct premiums written	1,052	1,138	1,205	67	5.9
Market share (%)	13.2	13.4	13.7	0.3%p	
Combined ratio (%)	107.0	101.9	104.4	2.4%p	
Expense ratio (%)	29.2	30.2	29.3	(0.9%p)	
Loss ratio (%)	77.8	71.7	75.1	3.4%p	





### INVESTMENT PERFORMANCE

- Dongbu's investment policy aims to reduce and control market risks by maintaining a diversified investment portfolio with high credit-rating debt securities. The Company's total assets reached KRW5,677 billion at the end of FY2005, a 17.5% increase from KRW4,832 billion a year ago. Of total assets, invested assets accounted for 81.9%, and non-operating and other assets for 18.1%. Invested assets grew 14.2% YoY to reach KRW4,649 billion as of March 31, 2006 as a result of substantial increase in interest-bearing assets and equity investment. In addition, Dongbu was able to improve the quality of its investment portfolio, investment yield increased by 0.3%p to 6.4% in FY2005 and adjusted investment income surged 19.8% to record KRW269 billion.

(KRW in billions)	FY2003	FY2004	FY2005	Change	
				Amount	%
Total assets	4,100	4,832	5,677	845	17.5
Invested assets	3,500	4,072	4,649	577	14.2

(%)	FY2003	FY2004	FY2005	Change
Investment yield	5.0	6.1	6.4	0.3%p

\* Investment yield for FY2003 and FY2004 was readjusted based on revised accounting regulations related to gains/losses from foreign currency translations and foreign exchange transactions.

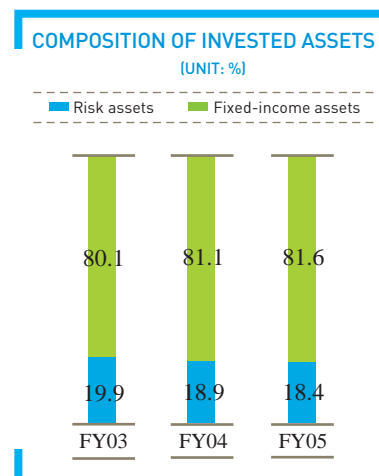
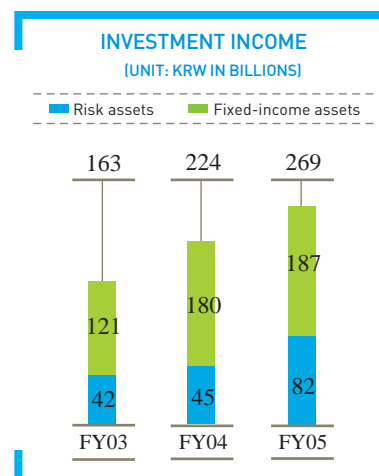
- This outstanding performance was primarily attributable to a substantial growth in income from equity investment. On the back of brisk stock market, Dongbu achieved investment yield of 19.9% from equities in FY2005. Therefore, income from equity investment soared by 83.5% YoY or KRW36 billion to KRW80 billion in FY2005 compared to KRW44 billion in the previous fiscal year. Meanwhile, despite prolonged low-interest circumstances, interest-bearing assets, which account for 81.6% of total invested assets, generated investment income of KRW187 billion, edging up 3.1% YoY, due to a continued growth in fixed-income assets. In particular, investment income from loans jumped 19.7% YoY to KRW55 billion in FY2005.

Investment income by source (KRW in billions)	FY2003		FY2004		FY2005	
	Income	Yield(%)	Income	Yield(%)	Income	Yield(%)
Deposits	8	3.9	5	3.3	5	4.3
Loans	29	6.3	46	7.3	55	6.5
Bonds	76	4.5	108	5.8	107	5.0
Overseas investments	8	3.5	20	6.5	19	5.6
<b>Fixed-income assets</b>	<b>121</b>	<b>-</b>	<b>180</b>	<b>-</b>	<b>187</b>	<b>-</b>
Equities	40	15.2	44	12.9	80	19.9
Real estate	3	0.7	1	0.2	2	0.5
<b>Risk assets</b>	<b>42</b>	<b>-</b>	<b>45</b>	<b>-</b>	<b>82</b>	<b>-</b>
<b>Total</b>	<b>163</b>	<b>5.0</b>	<b>224</b>	<b>6.1</b>	<b>269</b>	<b>6.4</b>

\* Investment income for FY2003 and FY2004 was readjusted based on revised accounting regulations related to gains/losses from foreign currency translations and foreign exchange transactions.

• Invested assets in the fixed income category (interest-bearing assets) include cash and deposits, loans, bonds, and overseas securities, while the non-fixed income category (risk assets or non-interest-bearing assets) includes equities and real estate investments. As part of an asset management strategy centered on interest-bearing assets to ensure a steady stream of income over the long term, loans surged 36.1% YoY to KRW1,004 billion and bonds rose 12.4% to KRW 2,333 billion as of March 31, 2006. Loans and bonds accounted for 71.8% of invested assets. To stabilize investment return and tighten risk management, Dongbu has continued to increase fixed-income assets such as loans and bonds to 81.6% of total invested assets in FY2005 from 80.1% in FY2003 and 81.1% in FY2004.

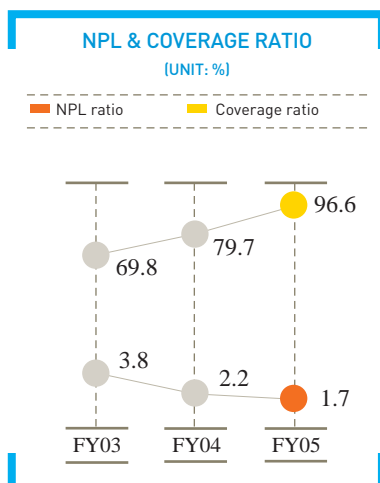
(%)	FY2003	FY2004	FY2005	Change
Cash & deposits	5.6	3.4	2.1	(1.3%p)
Loans	16.4	18.1	21.6	3.5%p
Bonds	49.9	51.0	50.2	(0.8%p)
Overseas securities	8.2	8.6	7.7	(0.9%p)
<b>Fixed-income assets</b>	<b>80.1</b>	<b>81.1</b>	<b>81.6</b>	<b>0.4%p</b>
Equities	9.3	9.8	10.5	0.7%p
Real estate	10.7	9.1	7.9	(1.2%p)
<b>Risk assets</b>	<b>19.9</b>	<b>18.9</b>	<b>18.4</b>	<b>(0.4%p)</b>



Invsted assets portfolio (KRW in billions)				Change	
	FY2003	FY2004	FY2005	Amount	%
Cash & deposits	196	140	99	(41)	(29.1)
Loans	572	738	1,004	266	36.1
Bonds	1,746	2,077	2,333	257	12.4
Overseas securities	288	350	356	6	1.7
<b>Fixed-income assets</b>	<b>2,802</b>	<b>3,304</b>	<b>3,792</b>	<b>488</b>	<b>14.8</b>
Equities	324	398	488	90	22.5
Real estate	373	370	369	(1)	(0.3)
<b>Risk assets</b>	<b>697</b>	<b>768</b>	<b>857</b>	<b>88</b>	<b>11.5</b>

#### ASSET QUALITY

• Dongbu's asset management has centered around bonds and loans so as to simultaneously maximize both profitability and stability of invested assets. In FY2005, total loans before provisioning increased by 35.9% YoY to reach KRW 1,020 billion. At the same time, NPL ratio lowered by 0.5%p to 1.7% as precautionary and below substandard loans in FY2005 remained unchanged. Dongbu's asset soundness has also continued to improve with coverage ratio of 96.6% as of the end of FY2004, an increase of 16.9%p.



NPL & Coverage ratio (KRW in billions)				Change	
	FY2003	FY2004	FY2005	Amount	%
Loans	588	751	1,020	269	35.9
Normal	550	725	995	269	37.1
Precautionary	15	9	9	-	(3.6)
Below substandard	22	17	17	1	3.2
Provisions	15	13	17	3	25.1
NPL ratio (%)	3.8	2.2	1.7		(0.5%p)
Coverage ratio (%)	69.8	79.7	96.6		16.9%p

(Loans before provisioning)

- With respect to bonds, Dongbu seeks stable income through portfolio balancing around high quality bonds with credit ratings of A- or above. As of the end of FY2005, bonds with credit ratings of A- or above account for 93.7% of Dongbu's bond portfolio, extremely limiting its exposure to default risk.

#### Portfolio of bonds in rating

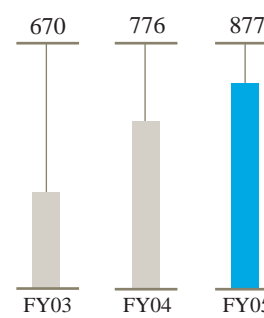
[%]	FY2003	FY2004	FY2005	Change
A- or above	97.7	97.4	93.7	(3.7%p)
BBB+ or below	2.3	2.6	6.3	3.7%p

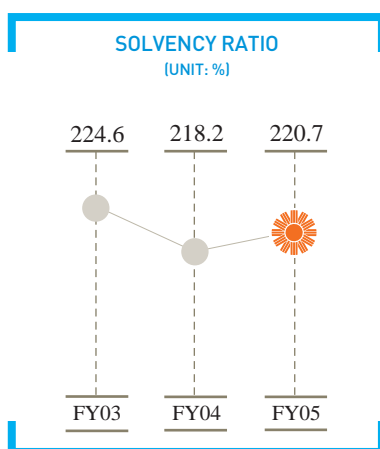
#### CAPITAL ADEQUACY AND LIQUIDITY

- As of March 31, 2006, Dongbu's total shareholders' equity jumped 13.1% YoY to KRW611 billion. While the Company's capital stock remained stable at KRW35 billion with total number of outstanding common stocks of 70,800,000 shares, buoyant net income made retained earnings surge by 22.9% YoY to KRW504 billion at the end of FY2005 compared with KRW410 billion a year ago. In addition, Dongbu raised catastrophe reserve by 12.8% YoY or KRW 30 billion to KRW266 billion as of March 31, 2006. As a result, the Company posted adjusted shareholders' equity of KRW877 billion at the end of FY2005, boasting competitive edges over competitors. Dongbu's adjusted ROE edged up by 0.2%p to 18.5% in FY2005 from 18.3% last fiscal year.

[KRW in billions]	FY2003	FY2004	FY2005	Change	
				Amount	%
Total shareholders' equity	454	541	611	71	13.1
Catastrophe reserves	216	236	266	30	12.8
Adjusted shareholders' equity	670	776	877	101	13.0

#### ADJUSTED SHAREHOLDERS' EQUITY (UNIT: KRW IN BILLIONS)





- Solvency margin requirements of Dongbu in FY2005 rose by 14.3% YoY or KRW 49 billion to KRW397 billion. However, Dongbu has successfully enhanced its solvency ratio and maintained the adequate capital structure. Its solvency ratio improved by 2.5%p to 220.7% in FY2005, the second highest level in the non-life insurance industry, as solvency margin jumped by 15.6% YoY or KRW118 billion to KRW875 billion.

(KRW in billions)	FY2003	FY2004	FY2005	Change	
				Amount	%
Solvency margin	697	757	875	118	15.6
Solvency margin requirements	310	347	397	49	14.3
Solvency ratio (%)	224.6	218.2	220.7	2.5%p	

#### RISK MANAGEMENT

- Dongbu's risk management system is integral to all business operations. The Company classifies overall risks as insurance, market, credit, liquidity, interest rate, and non-financial risks, consistently monitoring, assessing, and controlling relevant risks in line with risk management principles. From April to September 2005, Dongbu installed an upgraded asset/liability management (ALM) system. In September 2006, the Company intends to have in place a cutting-edge insurance risk management system based on Dynamic Financial Analysis.

- Separately, the Risk Management Committee (RMC) serves as the Company's decision-making body that independently assesses relevant risks, measures the asset portfolio through diversified investments, and analyzes credit risk factors through a series of checks and balances. Of significant note, the RMC determines the allocation of financial resources, based on approved guidelines and related risk factors, to individual business units, in consideration of the Company's solvency ratio, net worth, and net income for the current period.

#### FY2006 BUSINESS OUTLOOK AND KEY INITIATIVES

- Looking ahead, various economic and geo-political issues still linger. These include lofty oil prices, a strong Korean currency, weak domestic consumption and the North Korea issue. As a result, the Korean economy is expected to lose steam in 2006. Furthermore, the rapid growth of the online insurance market will continue to intensify competition within the industry and exert heavy pressure on profitability. Even so, the non-life insurance sector is positioned for sustained

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.