

## Notes to Financial Statements

### 1. GENERAL

Dongbu Insurance Co., Ltd. ("the Company") was incorporated in November 1, 1968 with an initial capital of KRW500 million to engage primarily in non-life insurance-related businesses under the Commercial code of the Republic of Korea. In June 1973, the Company's common stocks were listed on the Korea Stock Exchange. In October 1995, the Company changed its name to Dongbu Insurance Co., Ltd. Pursuant to the resolution of the Board of Directors on June 11, 1999, the par value of the Company's common stock was split to KRW500 from KRW5,000 won. As of March 31, 2006, the amounts of issued common stock capital are KRW35.4 billion and Kim Jun-Ki, Kim Nam-Ho and Kim Ju-Won own 12.10%, 14.06% and 4.07% of the Company's stock, respectively. The Company and other Dongbu Group subsidiaries own 20.42%, while the remaining shares are owned by the public. The company is headquartered in Daechi-dong, Gangnam-gu, Seoul.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company maintains its official accounting records in Korean Won and prepares its statutory financial statements in Korean language (Hangul) in conformity with the generally accepted accounting practices of the Republic of Korea ("Korean GAAP") and Accounting Standards of the Insurance Industry. There have been some changes in the accounting practice in this fiscal year compared to the previous year, due to the initial application of new accounting practice SKAS (Statements of Korean Accounting Standards) 15, 16, and 17 and the change in profit recognition related to overdue insurance accounts payable. The significant accounting policies followed by the Company in preparing the accompanying financial statements are as summarized:

The Company has not recognized other liabilities on insurance of which extinctive prescription of insurance payment expired. However, the Company recognized liabilities with probable and reasonably estimable based on insurance payment empirical rate for the year ended March 31, 2006 and 2005. Due to the change in the accounting practice, net profit for the year reduced by KRW1,491 million and capital and net profit reduced by KRW4,078 million and KRW1,423 million, respectively, for the previous year. The major changes on the Company's financial statements for the past 3 years prior to this fiscal year are as follows;

	(KRW in millions)		
	FY2004	FY2003	FY2002
Accounts			
Deferred tax liabilities	10,847	7,885	7,622
Other liabilities	5,625	3,662	4,029
Unappropriated retained earnings	109,106	40,614	73,424
Ordinary income	149,638	59,511	104,291
Net income	112,952	45,570	78,429
Ordinary income per share (Won)	1,804	727	1,251
Net income per share (Won)	1,804	727	1,251

According to Statements of Korea Accounting Standards (SKAS) No. 15 "Investment in Associates", the Company's portion of profits and losses resulting from inter-company transactions are recognized in total from this fiscal year compared to net recognition in the prior years. Also, unrealized profits and losses resulting from sales of assets from the Company to investee are eliminated according to the ratio of ownership. Also, according to SKAS No. 16, "Income Taxes", differed income tax assets and differed income tax liabilities are changed to disclose net of taxes. Cumulative temporary differences in taxes related with capital accounts are changed to be directly recognized in the capital accounts. However, the financial statements for the year ended March 31, 2005 were not restated in accordance with the interim measures of this SKAS excepted for the recognition of expired insurance.

#### Reclassification of Balance Sheet Accounts

The accounts on the balance sheet have been reclassified in accordance with the Accounting Standards for the Insurance Industry to achieve a set of SKAS that are internationally acceptable and comparable, rather than presenting assets and liabilities in the order of annual-based liquidity.

#### Revenue Recognition

Revenues from premium income are recognized when such premium payments become due. However, when the first premium payments or lump-sum premium payment on an insurance policy is uncorrectable as of the first day of the insured period due to a payment extension allowed by the Company, the first premium payment or lump-sum premium payment may be recognized as revenue in the period in which the first day of insured period falls.

#### Allowance for Possible Loan Losses

The Company provides an allowance for possible loan losses based on forwarding looking criteria(FLC), pursuant to the Supervisory Regulations for the Insurance Industry (the "Supervisory Regulation") legislated by the Korean Financial Supervisory Service(FSS). In accordance with the FLC, the Company classified all credits into five categories as normal, precautionary, substandard, doubtful and estimated loss based on borrowers; repayment capability and historical financial transactions record. The Supervisory Regulation also requires the Company to provide the minimum rate of loss provision for each category balance: 0.5% (0.75% for household loans) or more for normal loans; 2.0% or more (5% for household loans) for precautionary loans; 20% or more for substandard loans; 50% or more for doubtful loans; and 100% for estimated loss.

If the loan loss provision (based on the roll-rate method), which is computed by the past loan loss rate, exceeds the guideline set forth in the relevant Supervisory Regulations, the Company is required to allocate additional provision amounts, as determined by the roll-rate method.

However, this requirement is not applicable to the government of the Republic of Korea and local self-governing governments as well as certain regular assets, excluding unrealized assets or prepayments.

If the book value of a loan differs from the value of its future cash flow due to the start of liquidation procedures or other reasons, the difference is stated as a loan loss provision (previously, discounted present value). It is reflected as a book value discount of the subject loan. The discounted present value, based on an effective interest rate method, is stated as interest income.

#### Valuation of Securities

Upon acquisition, the Company classifies securities into the following categories: trading, available-for-sale, held-to-maturity and securities, which are subject to the application of the equity method, depending on marketability, purpose of acquisition and ability to hold. For equity securities held for investments that are in companies over which the Company is positioned to exercise significant influence, the investees are accounted for using the equity method.

- Valuation of Trading Securities

Trading securities are stated using the individual moving method, to the extent of the aggregate acquisition costs and incidental expenses incurred at the time of acquisition. If the fair value of the trading securities differs from the book value determined, these securities are stated at fair value as of the balance sheet date and the valuation of gain, unrealized gains or losses are reflected in current operations.

- Valuation of Available-for-Sale Securities

Securities not classified as trading securities or held-to-maturity securities, are classified as available-for-sale securities. If the fair value of available-for-sale securities differs from the book value determined, these securities are stated at fair value as of the balance sheet date. Gain or loss on valuation of these securities is stated as capital adjustments.

The fair value of marketable securities is stated at market prices. The fair value of non-marketable securities is stated at the credibly determined value reflected by a reasonable discount rate provided from an independent credit rating agency or from a generally accepted valuation model. However, non-marketable equity securities of which fair value cannot be reliably estimated are stated at acquisition cost.

If the decline in the fair value or book value of equity securities is below the acquisition cost and the pervasive evidence of

impairment exists, the carrying value is adjusted to fair value and the resulting valuation loss is charged to current operations.

- **Valuation of Held-to-Maturity Securities**

Held-to-maturity securities are stated at acquisition cost plus incidental expenses. However, in case the face value of the securities differs from acquisition costs, the difference is amortized using the effective interest rate method over the remaining maturity period. However, government and public bonds are stated at acquisition cost as of the balance sheet date.

- **Valuation of Securities Using Equity Method**

For equity securities held for investments in companies over which the Company is able to exercise significant influence, the investees are accounted for the equity method. The difference between net asset value of an investee and its book value in the Company's balance sheet is reflected in the Company's financial statements; the difference from the investee's net profit (loss) to the Company's net profit (loss) in the form of equity method valuation profit (loss), retained earnings to retained earnings, and capital surplus or capital adjustment to capital surplus. However, the difference between the acquisition cost of an investee in the Company's investment asset account and the net asset value corresponding to the Company's ownership of the investee is amortized by straight-line method for the years less than 20 years.

#### Valuation of Tangible Assets

Tangible assets are stated at cost or appraised value as determined by independent appraisers. Expenditures that extend the useful lives or enhance the value of assets are capitalized as capital expenditures. Routine maintenance and repairs are expensed as incurred. Depreciation is computed using the decline-balance method over the following useful lives of the assets (except buildings and structures which are depreciated using the straight-line method.)

Descripton	Useful lives
Buildings	40 years
Structures	20 years
Furniture	4 years
Vehicles	4 years

#### Valuation of Intangible Assets

Intangible assets are stated at acquisition cost plus incidental cost and amortized over years (5 years for good will and 4 years for software) from the time the assets are booked during the straight-line method.

#### Compensation Receivables

Of the amounts paid for claims during the year, amounts receivables by exercising compensation and other rights or through disposal of secured assets acquired in the resolution of accidents are accounted for as compensation receivables.

Compensation receivables are calculated by multiplying the average recovery rate for the prior three years from the prior balance sheet date to the amounts of net claims for the prior 1 year from the prior year balance. Recovery ratio=(Refund from direct claims recovered + refund from reinsurance claim paid-refund on reinsurance) / (direct claims + reinsurance claim - reinsurance ceded).

#### Calculation of compensation receivables

Compensation receivables = Net claims of the prior 1 year (direct claims + reinsurance claim-reinsurance ceded) X recovery ratio

\*Compensation receivables for non-performing vehicles and guarantee insurance are accounted as informed by Korea Insurance Development Institute and guarantee insurance company, respectively.

#### Deferred Acquisition Costs

Acquisition costs derived from long-term contracts, including individual annuities, are deferred and amortized on a straight-line basis over the premium period or seven years, whichever is shorter. For cancelled contracts, any unamortized portion of deferred acquisition costs remaining on the cancellation date is amortized as a lump sum in the fiscal years in which such cancellation occurs.

### Premium Deficiency and Surplus

The Company amortizes policy acquisition costs in line with the Accounting Standards for the Insurance Industry. This deficiency is calculated by the following factors.

- Insurance Contracts for Reviewing Premium Deficiency

The Company reviewed individual annuity, fixed-interest and floating- interest contracts with or without dividends in premium deficiency as of March 31, 2006. General non-life contracts and group severance plans whose insurance period is less than one year have been excluded.

- Summary of Calculation on Premium Deficiency

Description	Rate of experience		Basis of calculation
Discount	5.27%		Average yield from asset management from April 1, 2005 to March 31, 2006
Expense ratio	Without dividends	90.7%	Actual expense ratio per expected expense rate on rescission of insurance contracts for this year
	With dividends	96.2%	
	Individual annuity	75.7%	
Rescission rate	Without dividends	2.14%	Average number of terminated contracts per new contract with sensitivity of interest
	With dividends	2.24%	
	Individual annuity	1.49%	
Payment rate	Without dividends	71.2%	Payment rate per risk premium for last three years
	With dividends	48.9%	
	Individual annuity	93.1%	

- Summary of Premium Surplus

Description	(KRW in billions)	
	Expected interest	Premium surplus
Without dividends	3.5 - 8.0%	690.6
With dividends	3.5 - 6.5%	0.02
Individual annuity	3.5 - 7.5%	(7.9)
Total		682.7

### Separate Account Assets (Liabilities)

In line with Article 108 of the Insurance Business Act and Article 34 of the Labor Standard Act, the Financial Supervisory Commission requires that the Company separate balance sheet accounts for assets and liabilities related to corporate pension policies from the other insurance plans. Assets and liabilities separately administered from the general accounts in asset management and income distribution are deemed assets and liabilities in segment reporting.

### Insurance Reserves

Supervisory regulations of the Insurance Business Act mandates that the Company maintain the policy reserves determined as follows:

- Policy Reserves

- 1) Reserve for outstanding claims

The reserve for outstanding claims is the accumulated estimated losses for the claims that are in dispute or litigation against fixed value that is determined in estimating the reserves for claims as of the balance sheet date and estimated losses for the insured event that have occurred prior to the balance sheet date but for which fixed value cannot be determined in estimating the reserve for claims.

- 2) Long-term savings type premium reserve

The Company maintains a reserve for the portion of premium (and investment income on such portion), which is refundable to policyholders upon maturity and amounts refundable for policy cancellation under long-term savings-type insurance.

- 3) Unearned premium reserve

Unearned reserve refers to the premium to be charged during a subsequent period, for premiums whose collection date is before the balance sheet date.

- 4) Reserve for participating policyholders' dividends

The company is required to maintain a reserve for participating policyholders' dividends based on regulations enacted by the Financial Supervisory Commission.

- 5) Excess participating policyholder dividend reserve

Excess participating policyholder dividend reserve refers to the amount to be reserved, in lump sum depending on the business performance, for appropriation for future dividends to policyholders or for additional accumulation as part of a policy reserve other than the reserve for policyholders' dividends, which is based on the regulations and contract terms.

#### 6) Catastrophe Reserves

Catastrophe reserves are required based on the regulations approved by the Governor of the Financial Supervisory Service. Non-life insurance companies may establish a catastrophe reserve in proportion to underwriting profit for the year. These reserves can be used against exceptionally large claims in the future.

#### Accrued Severance Benefits

Officers and staff with more than one year of service are entitled to receive severance benefits, upon termination of their service, based on their length of service and rate of pay at the time of termination. The Company has purchased severance benefit insurance and established deposits with Kyobo Life Insurance and Hungkuk Life Insurance. These deposits are presented as a deduction from the accrued severance indemnities. In addition, the Company and its employees are required to transfer a certain portion of monthly pay to the National Pension Fund in accordance with the National Pension Act. Individual severance insurance deposits to the National Pension Fund are presented as deduction from accrued severance indemnities.

#### Accounting for Foreign Currency Transactions and Translations

The Company maintains its accounts in Korean Won. Transactions in foreign currencies are recorded in Korean Won based on the prevailing rate of exchange on the transaction date. Transaction gains and losses are credited or charged to operation when these are occurred on the transaction date. The Korean Won equivalent of assets and liabilities denominated in foreign currency are translated in these financial statements based on the basic rate at the balance sheet date of 975.90 won / 1USD. Translation gains or losses are reflected in current operations.

### Income Tax Expenses

Income tax expense is the amount currently payable for the period added to or deducted from the changes in deferred income taxes. However, deferred income tax assets are recognized only the future tax benefits from accumulated temporary differences and any tax loss carry-forwards are realized. The difference between the amount currently payable for the period and income tax expense is accounted for as deferred income tax assets or liabilities and is offset against income tax assets and liabilities in the future period.

Deferred taxes are recognized only the extent that is probable that future taxable earnings will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. The temporary differences in the tax effects are reflected in the taxes in the period, while tax burden related with capital and deferred taxes are directly reflected in the capital adjustments.

### Valuation of Derivatives

The Company records the fair value or rights or obligations associated with derivative financial instruments as assets and liabilities as of the balance sheet date. The realized gains (losses) incurred from valuation are reflected in current operations.

### Reclassification of Prior Year Financial Statements

Some accounts of the prior-year financial statements were reclassified in line with the method of presenting accounts of the financial statements. However, this reclassification does not affect the net income or net assets which were reported in the prior fiscal year.

## 3. CASH AND BANK DEPOSITS

Cash and bank deposits as of March 31, 2006 and 2005 are as follows:

Description	Annual interest rate(%)	Korean Won		U.S. Dollar
		FY2005	FY2004	FY2005
Checking accounts	-	49	233	50
Passbook accounts	1	14,153	24,838	14,503
Time deposit	3.3~5.85	52,758	76,258	54,061
Deposits in foreign countries	-	16,239	2,621	16,640
Others	0.22 ~ 3.58	15,701	35,586	16,089
Total		98,900	139,535	101,342

\* Other deposits of KRW13 million and deposits in foreign countries of KRW3,925 million are restricted for maintenance of checking accounts and for overseas branch offices, respectively.

#### 4. ALLOWANCE FOR POSSIBLE LOSSES ON CREDITS

The classification of asset quality for the assets required for asset classification as of March 31, 2006 is as follows:

(KRW in millions)

	Rate (%)	Loans	Insurance receivable	Notes receivable	Other accounts receivable	Accrued income	Others	Total
Normal	0.5~0.75	994,770	29,049	2,973	50,002	4,846	-	1,081,642
Precautionary	2~5	8,544	5,704	-	260	64	-	14,572
Substandard	20	7,844	437	-	1,403	54	-	9,738
Doubtful	50~70	8,772	178	-	-	-	-	8,950
Estimated loss	100	767	2,046	-	2,342	-	1,057	6,211
Others		-	49,358	-	-	59,068	-	108,425
<b>Total</b>		<b>1,020,697</b>	<b>86,771</b>	<b>2,973</b>	<b>54,008</b>	<b>64,032</b>	<b>1,057</b>	<b>1,229,538</b>

\* Allowance for insurance receivables, net of insurance account payable by customers and account codes, is provided, and accrued income from financial institutions are excluded in the calculation of the allowance.

\*\* Allowance for prepaid loans and rental deposits

The details of allowance for the loan losses and ratio of allowance for doubtful loans to total loans as of March 31, 2006 are as follows:

(KRW in millions)

	Rate (%)	Loans	Insurance receivable	Notes receivable	Other accounts receivable	Accrued income	Others	Total
Normal	0.5~0.75	6,682	145	15	250	36	-	7,128
Precautionary	2~5	258	114	-	5	3	-	380
Substandard	20	1,569	87	-	281	11	-	1,948
Doubtful	50~70	7,214	89	-	-	-	-	7,303
Estimated loss	100	767	2,046	-	2,342	-	1,057	6,211
<b>Total</b>		<b>16,489</b>	<b>2,481</b>	<b>15</b>	<b>2,878</b>	<b>50</b>	<b>1,057</b>	<b>22,970</b>

\* The allowances for prepaid loans and rental deposits are included in allowances for non-trade accounts receivable and accrued income receivable, respectively, and are booked in balance sheet.

The details of allowance for loan losses and ratio of allowance for doubtful loans to total loans for the recent three years and the current fiscal year are as follows:

	(KRW in millions, %)			
	March 31, 2003	March 31, 2004	March 31, 2005	March 31, 2006
Loans	386,085	588,517	751,280	1,020,697
Insurance receivable	77,000	85,157	82,092	86,771
Notes receivable	1,989	3,349	4,079	2,973
Other accounts receivable	36,539	55,668	52,534	54,008
Dishonored notes receivable	-	10	9	-
Accrued income	71,601	67,604	61,033	64,032
Others	47	34	1,111	1,057
Total (a)	573,262	800,339	952,138	1,229,538
Allowance (b)	9,260	16,807	24,967	22,970
Ratio (b/a) %	1.62	2.10	2.62	1.87

## 5. LOANS AND ALLOWNCES

The Company provides a diversity of loans in accordance with Article 106 of the Insurance Business Act. The annual interest rates of the Company's loans as of March 31, 2006 range from 4.9% to 12.0%.

Remaining maturities of Korean Won-denominated loans of March 31, 2006 and 2005 are as follows:

	(KRW in millions)									
	Total	Policy loans	Within 3 months	Within 6 months	Within 1 year	Within 2 years	Within 3 years	Within 4 years	Within 5 years	Over 5 years
As of March 31, 2006	1,020,697	313,860	23,210	40,840	39,587	11,050	127,555	55,734	53,393	355,468
As of March 31, 2005	751,280	260,544	6,635	19,537	49,565	35,737	5,968	51,078	72,454	249,762

The composition of loans by country, industry and borrower as of March 31, 2006 are as follows:

### • By country

Description	(KRW in millions, %)	
	Won-denominated loans	
	Amount	Share (%)
Republic of Korea	1,020,697	100.00

## • By Industry

(KRW in millions, %)

Description	Won-denominated loans	
	Amount	Share (%)
Agriculture	600	0.06
Manufacturing	88,268	8.65
Utilities	2,290	0.22
Fisheries	2,994	0.29
Construction	4,230	0.41
Wholesale & retail	20,837	2.04
Financial & insurance	53,260	5.22
Lodging & restaurants	35,379	3.47
Transportation, warehouse, telecommunication	11,765	1.15
Other public & private services	19,788	1.94
Real estate lease	36,414	3.57
Services run by households	742,504	72.74
Educational service	1,621	0.16
Health and welfare	747	0.07
Total	1,020,697	100.00

## • By Borrower

(KRW in millions, %)

Classification	Use of fund	Won-denominated loans	
		Amount	Share (%)
Corporations	Operation, others	278,193	27.26
Households	Operation, others	742,504	72.74
Total		1,020,697	100.00

\* There is no individual or company as a borrower exceeding 10% of total loans of the Company.

The details of allowance for possible loan losses based on asset classification as of March 31, 2006 are as follows:

(KRW in millions)

	Beginning balance	Provision	Write-off	Recovery	Ending balance
Won-denominated loans	13,182	3,697	513	123	16,489

## Details of allowances by the type of loans

(KRW in millions, %)

Asset classification	Coverage ratio (%)	Won-denominated loans		Share (%)
		Balance of loans	Provision	
Normal	0.5~0.75	967,470	6,682	0.7
Precautionary	2~5	8,544	258	3.0
Substandard	20	7,844	1,569	20.0
Doubtful	50~70	8,772	7,214	58.3
Estimated loss	100	767	767	100.0
Others	-	27,300	-	-
Total	-	1,020,697	16,489	1.8

\* RP is not required for any allowance.

## Average amount of interest-bearing assets

(KRW in millions)

Account	Average amount of interest-bearing assets	Interest income during the current term
Loan	875,014	63,472

\* Average balance of loans = (beginning balance + ending balance) / 2

\*\* Under substandard is excluded unless it occurs interest income.

## Change in the discount of present value

(KRW in millions)

Description	Beginning balance	Increase	Decrease	Ending balance
Korea Express	368	-	59	309
Daerim Corp.	26	-	14	11
Mercury Co., Ltd.	2,761	-	336	2,425
Total	3,155	-	409	2,745

\* The change in the discount of present value for Mercury Co., Ltd. is booked as allowances according to the change in the related accounting practice.

### Evaluation of allowance for possible loan losses

The roll-rate method based on deferred rates for the past one year (April 1, 2005 to March 31, 2006) was applied to the unsecured private loan portfolio. As the estimated loan loss allowance is smaller than the allowance for possible loss loan losses required under the Supervision Regulation of the Insurance Industry, allowance for possible loan losses was set in line with the minimum allowance method, and as follows:

(KRW in millions)

Classification	Allowance for possible loan loss	
	Evaluation by loss ratio	Required by regulations
Normal	1	19
Precautionary	1	2
Doubtful	12	17
Estimated loss	247	252
Total	261	290

### 6. EVALUATION OF SECURITIES

The Company holds securities as a way of asset management in accordance with Article 106 of the Insurance Business Act, and the details of the securities are summarized as follows:

#### Details of securities

(KRW in millions)

Account Item	No. of shares ('000)	Owner ship (%)	Annual interest (%)	Acquisition value		Fair value		Book value	
				FY2005	FY2004	FY2005	FY2004	FY2005	FY2004
Trading securities									
Special bonds									
Monetary stabilization bonds	-	-		-	78,500	-	78,392	-	78,392
S&M industry finance debentures	-	-		-	9,675	-	9,647	-	9,647
Sub-total	-	-		-	88,175	-	88,040	-	88,040
Corporate bonds									
Kumho Petrochemical	-	-		10,000	6,778	10,962	6,790	10,962	6,790

(continued)

[KRW in millions]									
Account Item	No. of shares ('000)	Owner-ship (%)	Annual interest (%)	Acquisition value		Fair value		Book value	
				FY2005	FY2004	FY2005	FY2004	FY2005	FY2004
Beneficiary certificates	-	-							
Public & corporate bond type	-	-		5,076	50,223	5,281	51,851	5,281	51,851
Others	-	-		6,700	224,586	6,700	227,323	6,700	227,323
Sub-total	-	-		11,776	274,808	11,981	279,173	11,981	279,173
Securities denominated in foreign currencies	-	-							
Beneficiary certificates				27,550	27,676	25,174	24,874	25,174	24,874
Total trading securities	-	-		49,326	397,437	48,117	398,877	48,117	398,877
Available-for-sale securities									
Marketable securities									
Hana Financial Group	2,767	1.34		31,319	45,228	127,303	110,600	127,303	110,600
Dongbu Electronics	7,447	2.80		37,389	30,900	15,789	14,832	15,789	14,832
Hynix Semiconductor	-	-		-	232	-	740	-	740
Daerim Corporation	122	2.31		2,385	2,385	2,925	2,129	2,925	2,129
SK	140	0.11		7,342	-	9,128	-	9,128	-
Korea Line Corporation	26	0.26		677	-	526	-	526	-
LG Card	729	0.58		27,279	30,541	38,152	23,603	26,940	11,230
Seoul Securities	6,667	2.54		9,454	-	10,600	-	10,600	-
NCSoft	25	0.12		1,922	-	1,783	-	1,783	-
CURON	757	4.86		3,188	-	3,029	-	3,029	-
eSANG Networks	78	2.16		2,243	-	2,500	-	2,500	-
Sub-total				123,198	109,287	211,734	151,904	200,522	139,530
Equity securities of parties of special interest									
Dongbu World	20	1.98		-	-	-	-	-	-

(continued)

(KRW in millions)									
Account Item	No. of shares ('000)	Owner-ship (%)	Annual interest (%)	Acquisition value		Fair value		Book value	
				FY2005	FY2004	FY2005	FY2004	FY2005	FY2004
Unlisted equity securities									
T-One Tech.	24	6.36		300	300	-	-	-	-
Korea Information & Communication	3	0.83		300	300	30	40	30	37
Bioneer	-	-		-	1,200	-	79	-	79
Uniasset.com	600	6.91		370	370	99	166	99	150
Korea21 Venture	98	4.90		490	490	207	244	207	244
Shinhan Machinery	33	3.44		500	500	247	414	247	247
Shiltron	330	4.92		16,144	16,144	16,144	13,270	16,144	16,144
Pyungan Fiber	26	7.22		150	85	150	2,724	150	85
Korea Fisheries	0	0.03		-	-	-	-	-	-
Korea Securities Depository	0	0.01		3	3	3	20	3	3
Seoul Guarantee Insurance	81	0.04		-	27,431	-	-	-	-
Incheon Int'l Airport	5,550	3.26		27,431	465	27,431	24,215	27,431	27,431
Daerim (preferred 2)	19	0.53		465	-	465	-	465	465
Mercury	1,331	9.90		-	-	-	-	-	-
Korea Infra Fund 2	7	0.67		73	-	73	-	73	-
Balhae Infra Fund	84	8.40		840	-	-	-	840	-
Sub-total	8,187	-		47,066	47,288	44,850	41,173	45,690	44,884
Securities Total	19,439	-		170,264	156,575	256,584	193,076	246,212	184,415
Government & public bonds (note1)									
Government bonds, etc.			3-7.12	432,336	372,559	436,673	373,801	436,673	373,801
Special bonds (note1)									
Industrial finance debentures			3.47-4.38	18,762	10,579	18,729	10,558	18,729	10,558
Credit card receivables			4.95-7.0	90,000	49,853	90,345	51,132	90,345	51,132
Other financial debentures			4.20-7.86	271,488	245,878	270,946	251,009	270,946	251,009
Other special bonds			4.1-7.97	523,406	285,649	517,419	286,532	517,419	286,532
Sub-total				928,403	601,958	922,185	609,207	922,185	609,207

(continued)

[KRW in millions]									
Account Item	No. of shares ('000)	Owner-ship (%)	Annual interest (%)	Acquisition value		Fair value		Book value	
				FY2005	FY2004	FY2005	FY2004	FY2005	FY2004
Corporate bonds									
Hite and 129 others			0.0-10.6	711,142	368,590	709,257	369,685	709,257	369,685
Beneficiary certificates									
Treasury stock fund				-	3,000	-	-	-	-
Public & corporate type				136,000	-	137,389	-	137,389	-
Stock type				165,323	96,650	163,114	95,543	163,114	95,543
Others				1,040	-	1,047	-	1,047	-
Sub-total				302,363	99,650	301,550	95,543	301,550	95,543
Securities denominated in foreign currencies									
BNP Paribas & others			2.5-10.2	240,641	296,587	224,096	259,573	224,096	259,573
GAM fund & others				33,775	2,756	37,400	2,450	37,400	2,450
Sub-total				274,416	299,343	261,496	262,023	261,496	262,023
New Securities									
Asset-backed securities				-	346,322	-	349,110	-	349,110
Credit-linked securities			6.6-9.1	52,997	58,268	50,070	52,997	50,070	52,997
Sub-total				52,997	404,589	50,070	402,107	50,070	402,107
Other securities									
CPs				55,286	2,968	55,286	2,968	55,286	2,968
Mutual funds				10,067	-	10,712	-	10,712	-
Sub-total				65,354	2,968	65,998	2,968	65,998	2,968
Investment in partnerships									
Goldmoon Bio		9.80		490	490	56	30	30	30
Next Venture		6.67		477	601	1,045	1,000	477	601
KIF-STIC IT		15.06		753	-	743	-	753	-
MOST 6		9.62		2,500	2,500	2,412	2,500	2,500	2,500
Sub-total				4,220	3,591	4,256	3,530	3,760	3,132
Total available-for-sale securities				2,941,495	2,309,822	3,008,069	2,311,942	2,997,202	2,302,882

(continued)

(KRW in millions)

Account Item	No. of shares ('000)	Owner-ship (%)	Annual interest (%)	Acquisition value		Fair value		Book value	
				FY2005	FY2004	FY2005	FY2004	FY2005	FY2004
Held-to-maturity securities									
Government & public bonds (note1)			3.0-5.0	7,936	7,937	7,936	7,937	7,936	7,937
Equity securities using the equity method									
Equity method-based equity securities									
Dongbu Steel	1,748	5.86		6,463	6,463	50,301	55,270	25,777	26,104
Dongbu Construction	2,992	11.90		8,979	8,979	61,236	62,835	47,670	48,284
Dongbu Securities	1,666	11.24		12,325	12,325	19,168	16,371	18,571	15,708
Dongbu Life Insurance	5,319	31.21		16,393	16,393	29,820	23,037	30,601	23,867
Dongbu Claims Adjustment	200	100.00		1,000	1,000	1,249	1,131	1,000	1,000
Total equity securities using the equity method				45,161	45,161	161,774	158,644	123,619	114,963
Total				3,043,917	2,760,356	3,225,895	2,877,399	3,176,873	2,824,659

\* As of March 31, 2006, government & public bonds in the held-to-maturity securities category aggregating KRW5.8 billion and government & public bonds and special bonds in the available-for-sale securities group totaling KRW35.3 billion were pledged as collateral for trading derivatives and opening LOCs.

\*\* Among impaired losses on available-for-sale securities for LG Card bonds previous to this fiscal year, KRW26.9 billion was recognized as investment securities adopting the arithmetic average price for the bonds conducted by two independent outside valuation companies. However, due to the uncertainty of the normal operation of LG Card, the increase from the evaluation of is booked in capital adjustment account.

\*\*\* Among available-for-sale securities, KRW94 million worth available-for-sale securities reduction loss was incurred for non-listed stocks the NAV of which was reduced considerably.

\*\*\*\* KRW198 million worth inflow from capital reduction of Seoul Guarantee, the investment of which was all booked as available-for-sale securities reduction loss, was accounted as allocation from available-for-sale securities reduction loss.

## Gains or losses on valuation of securities are summarized as follow

(KRW in millions)

Classification		Types	Face value	Discount Acquisition cost	Gain or (premium) write-off	loss on valuation	Capital adjustment	Fair value
Trading securities	Securities denominated in the Korean won	Equity securities	-	-	-	77,630	-	-
		Government & public bonds	-	-	-	(56,234)	-	-
		Special bonds	-	-	-	972	-	-
		Corporate bonds	10,000	10,000	962	1,126	-	10,962
		Beneficiary certificates	11,776	11,776	205	5,902	-	11,981
		Other securities	-	-	-	383	-	-
	Securities denominated in foreign currencies		27,550	27,550	(2,376)	719	-	25,174
	Subtotal		49,326	49,326	(1,209)	9,123	-	48,117
Available-for-sale securities	Equity securities	Marketable equity securities	30,132	123,198	-	40,928	21,300	200,522
		Non-listed equity securities	35,978	47,066	-	888	-	45,690
		Subtotal	66,110	170,264	-	41,816	21,300	246,212
	Bonds	Government & public bonds	455,945	432,336	2,928	19,408	(13,765)	436,673
		Special bonds	927,852	928,403	(188)	47,068	(23,034)	922,185
		Corporate bonds	701,910	711,142	(1,524)	34,708	(12,485)	709,257
		Sub total	2,085,707	2,071,881	1,217	101,185	(49,284)	2,068,115
	Beneficiary certificates		302,363	302,363	-	30,822	989	301,550
	New types of securities	Asset-backed securities	424,301	-	-	-	-	-
		Credit-linked notes	52,997	52,997	-	4,402	(443)	50,070
		Subtotal	477,297	52,997	-	4,402	(443)	50,070
	Other securities		65,473	65,354	-	939	645	65,998
Securities denominated in foreign currencies		274,416	274,416	(1,456)	13,005	2,920	261,496	
Investment in partnerships		4,220	4,220	-	-	-	3,760	
	Total		3,275,587	2,941,495	(239)	192,168	(23,874)	2,997,202

(continued)

[KRW in millions]								
Classification		Types	Face	Acquisition	Discount	Gain or	Capital	Fair
			value	cost	(premium) write-off	loss on valuation	adjustment	value
Held-to -maturity securities	Bonds	Government & public bonds	7,936	7,936	-	263	-	7,936
	Total							
Equity securities using the equity method	Equity securities		59,621	45,161	-	17,918	2,026	123,619
	Total							
Grand total			3,392,469	3,043,917	(1,448)	217,661	(21,848)	3,176,873

The details of structured securities as of March 31, 2006 are as follows:

[KRW in millions]		
Classification		Amount
Equity securities-related	Exchangeable bonds	16,005
	Convertible bonds	5,165
Interest rate-related	Long-term government-bond rate (CMT) floating rate notes	19,960
	Double-index floating rate notes	10,090
	Inverse floating rate notes	38,273
	QUANTO	21,106
	RANGE NOTE	18,787
	CMS Spread Note	-
Credit risk-related	Credit-linked notes	50,070
Grand Total		179,455

The details of funds offered for private subscription as of March 31, 2006 are as follows;

							(KRW in millions)
Name of Funds	Acquisition value	Fair value	Equities	Bonds	S/T financial instruments	Derivatives	
Dongbu Dagachi							
Private Placement Bond 1	50,678	50,718	-	44,961	5,758	-	
Private Placement							
New Alchane Compound 2	20,000	21,473	17,012	-	2,251	2,210	
Private Placement							
New Alchane Compound 4	20,000	22,243	50	-	22,193	-	
Private Placement							
New Alchane Compound 5	15,000	17,196	7,535	1,998	5,011	2,652	
Private Placement							
New Alchane Compound 6	20,000	21,964	8,107	4,982	4,455	4,420	
Private Placement							
Evergreen Compound 2	20,000	22,284	17,313	-	2,761	2,210	
Dongbu Heaohrum							
Bond Compound 3	70	63	52	-	11	-	
Dongbu Heaohrum							
Bond Compound 4	10,533	10,763	389	7,706	2,668	-	
Prudential Private							
Placement Compound 4	16,598	20,487	18,634	-	1,854	-	
Dongbu Fire & Mirine (Macqurie 4)	16,300	16,600	-	-	16,600	-	
Dongbu Fire & Mirine (Infinity 5)	20,351	20,081	7,410	-	12,671	-	
Dongbu Dagachi							
Private Placement Bond 1	52,262	52,882	-	44,961	5,761	2,161	
Good Choice Private							
Placement K-1	10,492	10,739	4,603	-	6,136	-	
Macqurie IMM Absolute 2	29,917	30,647	8,334	18,819	4,378	(884)	
<b>Total</b>	<b>302,200</b>	<b>318,141</b>	<b>89,439</b>	<b>123,425</b>	<b>92,508</b>	<b>12,769</b>	

## Analysis of held-to-maturity securities by remaining contractual maturities

(KRW in millions)

Account		Within one year	One to five years	Five to ten years	Over ten years	Total
Trading securities	Corporate bonds	-	10,962	-	-	10,962
Available-for-sale securities	Government & public bonds	28,613	214,374	187,553	6,132	436,673
	Special bonds	53,710	377,687	391,822	98,966	922,185
	Corporate bonds	91,322	527,149	90,785	-	709,257
	Securities denominated in foreign currencies	32,540	59,694	103,222	28,640	224,096
	Asset backed	9,864	40,206	-	-	50,070
	CP	55,286	-	-	-	55,286
	Subtotal	271,336	1,219,110	773,383	133,738	2,397,568
Held-to-maturity securities	Government & public bonds	4,613	3,323	-	-	7,936
	Subtotal	4,613	3,323	-	-	7,936
	Total	275,949	1,233,395	773,383	133,738	2,416,465

## Disposal and valuation gains or losses on available-for-sale securities are as follows:

(KRW in millions)

Classification	Beginning balance	Increase	Decrease	Ending balance
Marketable equity securities	49,554	51,855	6,836	94,573
Government & public bonds	8,516	(432)	13,333	(5,249)
Special bonds	17,002	(3,312)	19,722	(6,032)
Corporate bonds	6,409	7,630	12,317	1,722
Beneficiary certificates	(1,768)	6,422	5,433	(780)
Securities denominated in foreign currencies	(3,145)	6,031	3,111	(225)
Asset-backed securities	7,798	(7,798)	-	-
Credit-linked notes	2,040	-	443	1,596
Others	-	645	-	645
Total	86,405	61,040	61,196	86,250

## Disposal and valuation gains or losses on equity securities using the equity method are as follows;

(KRW in millions)

Classification	Beginning balance	Increase	Decrease	Ending balance
Equity securities of related parties	3,700	-	2,026	1,674

## Interest incomes from securities for the years ended on March 31, 2005 and 2006 are as follows;

(KRW in millions)

Classification		2006	2005
Trading securities	Government & public bonds	640	727
	Special bonds	1,374	1,652
	Corporate bonds	171	303
	Securities denominated in foreign currencies	-	33
	Other securities	383	130
	Subtotal	2,568	2,845
Available-for-sale securities	Government & public bonds	19,956	16,520
	Special bonds	44,823	36,207
	Corporate bonds	33,596	20,098
	Beneficiary certificates	787	148
	Securities denominated in foreign currencies	11,874	9,998
	New types of securities	4,402	23,198
	Other securities	282	467
Subtotal	115,719	106,637	
Held-to-maturity securities	Government & public bonds	263	255
Total		118,550	109,736

## Composition of securities by country, securities type, and industry

## • By country

[KRW in millions]

Classification		Korean Won		Foreign currencies		Total	
		Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Trading securities	Republic of Korea (ROK)	22,943	100	-	-	22,943	47.68
	UK	-	-	25,174	100	25,174	52.32
	Subtotal	22,943	100	-	-	22,943	47.68
Available-for-sale securities	ROK	2,685,636	100	31,048	9.97	2,716,684	90.64
	USA	-	-	155,136	49.79	155,136	5.18
	Hong Kong	-	-	37,398	12	37,398	1.25
	Singapore	-	-	25,179	8.08	25,179	0.84
	France	-	-	22,135	7.1	22,135	0.74
	Others	-	-	40,669	13.05	40,669	1.36
	Subtotal	2,685,636	100	311,566	100	2,997,202	100
Held-to-maturity securities	ROK	7,936	100	-	-	7,936	100
Equity securities using the equity method	ROK	123,619	100	-	-	123,619	100
Total	ROK	2,840,134	100	31,048	9.22	2,871,182	90.38
	USA	-	-	155,136	46.07	155,136	4.88
	UK	-	-	25,174	7.48	25,174	0.79
	Hong Kong	-	-	37,398	11.11	37,398	1.18
	Singapore	-	-	25,179	7.48	25,179	0.79
	France	-	-	22,135	6.57	22,135	0.7
	Others	-	-	40,669	12.08	40,669	1.28
	Total	2,840,134	100	336,739	100	3,176,873	100

## • By securities type

(KRW in millions)

Classification		Korean Won		Foreign currencies		Total	
		Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Trading securities	Exchangeable bonds	10,962	47.78	-	-	10,962	22.78
	Beneficiary certificates	11,981	52.22	25,174	100	37,155	77.22
	Subtotal	22,943	100	25,174	100	48,117	100
Available-for-sale securities	Equity securities	256,924	9.57	-	-	256,924	8.57
	Fixed income bonds	2,023,014	75.33	177,600	57	2,200,614	73.42
	Floating rate notes	90,180	3.36	96,566	30.99	186,746	6.23
	Convertible bonds	5,165	0.19	-	-	5,165	0.17
	Exchangeable bonds	5,043	0.19	-	-	5,043	0.17
	Beneficiary certificates	301,550	11.23	37,400	12	338,950	11.31
	Others	3,760	0.14	-	-	3,760	0.13
	Subtotal	2,685,636	100	311,566	100	2,997,202	100
Held-to-maturity securities	Fixed income bonds	7,936	100	-	-	7,936	100
Equity securities using the equity method	Equity securities	123,619	100	-	-	123,619	100
Total	Equity securities	380,543	13.4	-	-	380,543	11.98
	Fixed income bonds	2,030,950	71.51	177,600	52.74	2,208,550	69.52
	Floating rate notes	90,180	3.18	96,566	28.68	186,746	5.88
	Convertible bonds	5,165	0.18	-	-	5,165	0.16
	Exchangeable bonds	16,005	0.56	-	-	16,005	0.5
	Beneficiary certificates	313,531	11.04	62,573	18.58	376,104	11.84
	Others	3,760	0.13	-	-	3,760	0.12
	Total	2,840,134	100	336,739	100	3,176,873	100

## • By industry

(KRW in millions)

Classification		Korean Won		Foreign currencies		Total	
		Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
<b>Trading securities</b>							
Debt securities	General companies	10,962	100	-	-	10,962	100
	Subtotal	10,962	100	-	-	10,962	100
Beneficiary certificates		11,981	100	25,174	100	37,155	100
Total		22,943	100	25,174	100	48,117	100
<b>Available-for-sale securities</b>							
Equity securities	Manufacturing	35,680	13.89	-	-	35,680	13.89
	Financial and insurance	175,554	68.33	-	-	175,554	68.33
	Others	45,690	17.78	-	-	45,690	17.78
	Subtotal	256,924	100	-	-	256,924	100
Debt securities	Government & public organizations	978,838	46.1	56,995	20.79	1,035,832	43.2
	Financial institutions	380,020	17.9	163,111	59.49	543,131	22.65
	General companies	764,543	36.01	54,061	19.72	818,604	34.14
	Subtotal	2,123,401	100	274,166	100	2,397,568	100
Beneficiary certificates		301,550	100	37,400	100	338,950	100
Others		3,760	100	-	-	3,760	100
Total		2,685,636	100	311,566	100	2,997,202	100
<b>Held-to-maturity securities</b>							
Debt securities	Government & public organizations	7,936	100	-	-	7,936	100
<b>Equity securities using the equity method</b>							
Equity securities	Manufacturing	25,777	20.85	-	-	25,777	20.85
	Construction	47,670	38.56	-	-	47,670	38.56
	Financial and insurance	50,172	40.59	-	-	50,172	40.59
Total		123,619	100	-	-	123,619	100

(KRW in millions)

Classification		Korean Won		Foreign currencies		Total	
		Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
<b>Grand total</b>							
Equity securities	Manufacturing	61,457	16.15	-	-	61,457	16.15
	Construction	47,670	12.53	-	-	47,670	12.53
	Financial and insurance	225,726	59.32	-	-	225,726	59.32
	Others	45,690	12.01	-	-	45,690	12.01
	Subtotal	380,543	100	-	-	380,543	100
Debt securities	Government & public organizations	986,773	46.06	56,995	20.79	1,043,768	43.19
	Financial institutions	380,020	17.74	163,111	59.49	543,131	22.48
	General companies	775,505	36.2	54,061	19.72	829,566	34.33
	Subtotal	2,142,299	100	274,166	100	2,416,465	100
Beneficiary certificates		313,531	100	62,573	100	376,104	100
Others		3,760	100	-	-	3,760	100
Total of securities		2,840,134	100	336,739	100	3,176,873	100

#### Equity securities using the equity method

The Company evaluated Dongbu Construction and three other companies over which it can exercise substantial influence using the equity method the equity securities and the results are as follows:

(KRW in millions)

Classification	Beginning book value	Retained earnings	Capital adjustment	Net income	Gain or loss on valuation	Dividend received	Investment account to be eliminated	Ending book value
Dongbu Construction	48,284	(53)	(2,420)	4,612	985	(3,740)	-	47,670
Dongbu Steel	26,104	(623)	238	1,213	1,526	(1,311)	(1,370)	25,777
Dongbu Securities	15,708	78	67	2,837	51	(167)	(4)	18,571
Dongbu Life Insurance	23,867	(48)	88	6,743	(49)	-	-	30,601
Total	113,963	(646)	(2,026)	15,405	2,513	(5,217)	(1,373)	122,619

- Selection criteria for equity securities to which the equity method is to be applied

They are selected by the level of control or influence the Company exerts on the investees such as participation in the investees' BOD meetings, exchange of management staff, disposals and acquisitions of the investees' main assets.

- Calculation method, write-off or amortization criteria for investments to be eliminated

Investments to be eliminated are allocated to amortizable assets and non-amortizable assets (inventories, land, construction in process, investment stocks). The amount allocated to amortizable assets was amortized for the weighted average useful lives of these assets while that allocated to non-amortizable assets was amortized at the time of the disposal of the appropriate assets.

- Equity securities using the equity method

(KRW in millions)

Company name	('000) No. of shares	FY2005				
		Ownership (%)	Acquisition value	Market value (Net asset value)	Ending book value	net worth
Dongbu Construction	2,992	11.9	8,979	51,605	47,670	61,236
Dongbu Steel	1,748	5.86	6,463	15,731	25,777	50,301
Dongbu Securities	1,666	11.24	12,325	14,995	18,571	19,168
Dongbu Life Insurance	5,319	31.21	16,393	-	30,601	29,820
Total	11,724		44,161	82,331	122,619	160,525

Company name	('000) No. of shares	FY2004				
		Ownership (%)	Acquisition value	Market value (Net asset value)	Ending book value	net worth
Dongbu Construction	2,992	11.9	8,979	33,805	48,284	62,835
Dongbu Steel	1,748	6.7	6,463	22,809	26,104	55,270
Dongbu Securities	1,666	11.26	12,325	6,131	15,708	16,371
Dongbu Life Insurance	5,319	31.21	16,393	-	23,867	23,037
Total	11,724		44,161	62,746	113,963	157,513

\* Preferred shares are included in the calculation of ownership.

• Amortization of investments to be eliminated

(KRW in millions)

Company name	FY2005			
	Beginning balance	Increase/decrease	Amortization	Ending balance
Dongbu Construction	14,551	-	985	13,565
Dongbu Steel	29,166	(3,116)	1,526	24,524
Dongbu Securities	649	(1)	51	598
Dongbu Life Insurance	(830)	-	(49)	(781)
Total	43,536	(3,117)	2,513	37,905

Company name	FY2004			
	Beginning balance	Increase/decrease	Amortization	Ending balance
Dongbu Construction	16,399	-	1,848	14,551
Dongbu Steel	31,228	-	2,062	29,166
Dongbu Securities	866	-	217	649
Dongbu Life Insurance	(2,802)	-	(1,972)	(830)
Total	45,692	-	2,155	43,536

• Valuation of equity securities using the equity method

(KRW in millions)

Company name	FY2005			
	Beginning balance	Gain or loss on valuation	Other increase/decrease	Ending balance
Dongbu Construction	48,284	5,597	(6,212)	47,670
Dongbu Steel	26,104	2,739	(3,066)	25,777
Dongbu Securities	15,708	2,887	(25)	18,571
Dongbu Life Insurance	23,867	6,694	40	30,601
Total	113,963	17,918	(9,262)	122,619

[KRW in millions]

Company name	FY2004			
	Beginning balance	Gain or loss on valuation	Other increase/decrease	Ending balance
Dongbu Construction	35,209	8,641	4,434	48,284
Dongbu Steel	18,161	10,145	(2,202)	26,104
Dongbu Securities	15,423	488	(203)	15,708
Dongbu Life Insurance	18,888	3,852	1,126	23,867
Total	87,681	23,127	3,156	113,963

- Adjustments of net asset values of the investees by applying the equity method due to different closing dates of the fiscal years

[KRW in millions]

Company name	Closing dates	FY2005			
		Reason	NAV before adjustment	Adjustment	NAV after adjustment
Dongbu Construction	Dec. 31, 2005	Different closing date	61,236	-	61,236
Dongbu Steel	Dec. 31, 2005	Different closing date	50,301	-	50,301
Total			111,537	-	111,537

Company name	Closing date	FY2004			
		Reason	NAV before adjustment	Adjustment	NAV after adjustment
Dongbu Construction	Dec. 31, 2004	Different closing date	62,835	-	62,835
Dongbu Steel	Dec. 31, 2004	Different closing date	55,270	-	55,270
Total			118,106	-	118,106

• Adjustments of net asset values of the investees by applying the equity method due to reflecting pre-adjusted financial statements

(KRW in millions)

Company name	Closing dates	Reason	FY2005		
			Before adjustment	Adjustment	After adjustment
Dongbu Life Insurance	Mar. 31, 2006	Pre-adjusted financial statement	29,820	-	29,820

  

Company name	Closing dates	Reason	FY2004		
			Before adjustment	Adjustment	After adjustment
Dongbu Life Insurance	Mar. 31, 2005	Pre-adjusted financial statement	23,037	-	23,037

• Abbreviated financial information of investees by applying the equity method including assets, liabilities, sales and net income

(KRW in millions)

Account	Dongbu Construction	Dongbu Steel	Dongbu Securities	Account	Dongbu Life Insurance
Current assets	642,147	636,357	426,351	Invested assets	1,167,515
Fixed assets	799,496	1,741,799	102,052	Non-invested assets	644,579
Total assets	1,441,643	2,378,156	528,404	Total assets	1,812,094
Current liabilities	768,392	1,129,454	326,144	Policy & catastrophe reserves	1,327,610
Long-term liabilities	1146,239	376,514	31,701	Other liabilities	388,946
Total liabilities	914,631	1,505,969	357,845	Total liabilities	1,716,556
Total shareholders' equity	527,012	872,188	170,559	Total shareholders' equity	95,538
Sales	1,370,639	2,395,383	190,703	Net premium earned	346,074
Operating income	35,886	33,743	32,057	Operating income	32,298
Ordinary income	48,141	10,998	35,512	Ordinary income	29,954
Net income	38,747	15,007	25,203	Net income	21,604

\* A 2005 3rd quarter accumulated performance for Dongbu Life Insurance and a whole fiscal year performance for the others.

• Market prices per share for marketable equities of investees by applying the equity method at the end of fiscal year

(KRW)

Classification	Dongbu Construction	Dongbu Steel	Dongbu Securities
Market price as of March 31, 2006	17,250	9,000	9,000
Market price as of March 31, 2005	11,300	13,000	3,680

• Affiliate to which the Company did not apply the equity method in spite of the ownership higher than 20%

(KRW in millions)

Company name	No. of shares	Ownership (%)	Acquisition cost	FY2005		FY2004	
				Market value (net asset value)	Ending book value	Market value (net asset value)	Ending book value
Dong Claims Adjustment	200,000	100	1,000	1,249	1,000	1,131	1,000

\* The equity method was not applied for the company above, as the total asset of the investee was less than KRW7.0 billion.

## 7. CHANGES IN TANGIBLE ASSETS

### Publicly disclosed values of land held by the Company as of March 31, 2006

(KRW in millions)

Account	Book value	Publicly announced value	Difference
Tangible asset(land)	118,554	94,846	(23,707)
Investment asset(land)	120,779	195,197	74,317
Total	239,333	290,043	50,710

## Increases and decreases in tangible assets for the current and previous years

## • Current year

(KRW in millions)

Classification	Beginning balance	Acquisition cost (capital expenditure included)	Disposal	Depreciation	Ending balance
Land	119,515	-	961	-	118,554
Buildings	130,798	249	1,015	3,610	126,422
Structures	2,052	-	-	131	1,921
Construction in process	121	152	152	-	121
Furniture	13,049	16,727	239	10,680	18,858
Vehicles	33	87	4	35	81
Total	265,569	17,215	2,372	14,456	265,956

## • Previous year

(KRW in millions)

Classification	Beginning balance	Acquisition cost (capital expenditure included)	Disposal	Depreciation	Ending balance
Land	136,709	12	17,205	-	119,515
Buildings	133,790	640	-	3,632	130,798
Structures	2,183	-	-	131	2,052
Construction in process	403	377	659	-	121
Furniture	13,730	9,066	86	9,661	13,049
Vehicles	9	51	-	27	33
Total	286,824	10,146	17,950	13,451	265,569

**8. CHANGES IN INTANGIBLE ASSETS**

Increases and decreases in intangible assets for the current and previous years are as follows;

Classification	(KRW in millions)	
	FY2005	FY2004
Beginning balance	9,910	7,158
Increase	14,778	7,945
Amortization	5,837	5,193
Ending balance	18,852	9,910

**9. INSURED ASSETS**

Insured assets as of March 31, 2006 and 2005 are as follows;

Insured assets	Insurance types	Insurance coverage		Insurance company
		FY2005	FY2004	
Cash and securities	Theft insurance	1,460	1,450	Meritz Fire & Marine Insurance
Buildings	Fire insurance	29,110	30,155	Meritz Fire & Marine Insurance
Furniture	Fire insurance	2,249	2,249	Meritz Fire & Marine Insurance
	Comprehensive insurance for movables,			
	Comprehensive insurance for financial institutions, etc.	7,176	7,165	Meritz Fire & Marine Insurance
	Liability insurance for company executives	50,000	30,000	Meritz Fire & Marine Insurance
<b>Total</b>		<b>89,996</b>	<b>71,019</b>	

\* The Company also has its vehicles insured to Meritz Fire & Marine Insurance.

**10. INSURANCE ACCOUNTS RECEIVABLE AND INSURANCE ACCOUNTS PAYABLE**

Insurance accounts receivable and insurance accounts payable as of March 31, 2006 and 2005 are as follows;

(KRW in millions)

Details	Insurance accounts receivable		Details	Insurance accounts payable	
	FY2005	FY2004		FY2005	FY2004
Insurance receivables	19,118	14,335	Claims payable	66,200	64,241
Due from agents	4,439	3,814	Due to agents	22,783	19,565
Co-insurance receivables	4,511	3,844	Premium refunds payable	3,970	4,383
Receivables related to agency business	10,851	14,007	Co-insurance payable	1,126	-
Reinsurance accounts receivable	40,744	35,288	Payables related to agency business	5,433	5,762
Overseas reinsurance premiums receivable	5,725	9,171	Reinsurance accounts payable	57,989	51,634
Deposits provided on reinsurance treaties ceded	1,383	1,633	Overseas reinsurance premiums payable	7,920	7,051
Subtotal	86,771	82,092	Refundable deposits on reinsurance treaties ceded	10,505	16,465
Allowances for bad debts	2,481	6,433			
Total	84,290	75,659	Total	175,925	169,101

**11. RECOGNITION OF ACQUISITION COSTS**

The details of acquisition costs by insurance type are as follows;

(KRW in millions)

Classification	Acquisition cost	Acquisition cost during the current period	Deferred acquisition cost	Amortization of deferred acquisition cost
Long-term insurance without dividends	545,925	296,622	249,304	103,718
Long-term insurance with dividends	91	54	37	48
Individual annuity	7,911	4,785	3,126	3,611
Total in 2006	553,927	301,461	252,466	107,376
Total in 2005	275,739	111,251	164,488	47,154

For the years ended on March 31, 2006 and 2005, changes in deferred acquisition costs are as follows:

(KRW in millions)

Classification	Beginning balance	Deferred acquisition cost during the period	Amortization of deferred acquisition cost	Ending balance
FY2005	169,320	252,466	107,376	314,410
FY2004	51,987	164,488	47,154	169,320

## 12. POLICY RESERVES

The Company is required to maintain insurance reserves in accordance with the supervisory regulations of the Insurance Business Act. The changes and compositions of policy reserves for the year ended on March 31, 2006 are summarized as follows:

(KRW in millions)

Classification	FY2005							FY2004
	Fire	Marine	Auto mobile	Casualty	Long-term	Individual annuity	Total	Total
Reserve for outstanding claims								
Beginning balance	24,210	21,564	243,852	66,383	73,943	6,192	436,144	429,114
Transfer-in	(753)	(4,909)	(7,862)	9,680	24,166	(2,355)	17,966	7,030
Ending balance	23,457	16,655	235,990	76,063	98,109	3,837	454,110	436,144
Long-term insurance premium reserve								
Beginning balance	-	-	-	-	2,046,084	502,459	2,548,543	2,065,045
Transfer-in	-	-	-	-	488,694	45,353	534,047	483,497
Ending balance	-	-	-	-	2,534,778	547,812	3,082,590	2,548,543
Unearned premium reserve								
Beginning balance	24,506	10,695	518,291	108,921	5,243	28	667,684	586,261
Prior period adjustment	-	-	-	-	-	-	-	2
Transfer-in	4,776	1,990	53,591	16,455	621	(2)	77,431	81,425
Ending balance	29,282	12,684	571,882	125,376	5,864	26	745,115	667,684

(continued)

(KRW in millions)

Classification	FY2005							FY2004
	Fire	Marine	Auto mobile	Casualty	Long-term	Individual annuity	Total	Total
Reserve for participating policyholders' dividends								
Beginning balance	-	-	-	-	592	9,081	9,673	7,507
Transfer-in	-	-	-	-	(302)	1,979	1,677	2,167
Ending balance	-	-	-	-	290	11,060	11,350	9,673
Excess participating policyholder dividend reserve								
Beginning balance	-	-	-	-	603	2,417	3,019	3,893
Transfer-in	-	-	-	-	(64)	(62)	(126)	(874)
Ending balance	-	-	-	-	539	2,355	2,893	3,019
Reinsurance reserve								
Beginning balance	14,411	16,655	2,404	37,836	11,345	439	83,089	93,359
Transfer-in	(1,095)	(5,317)	(1,446)	4,378	1,502	(439)	(2,418)	(10,270)
Ending balance	13,316	11,338	958	42,214	12,847	-	80,671	83,089
Reserve for unearned reinsurance								
Beginning balance	12,207	6,299	1,881	66,762	-	-	87,148	81,839
Transfer-in	(1,196)	903	(7)	2,776	-	-	2,476	5,310
Ending balance	11,010	7,202	1,874	69,538	-	-	89,624	87,148

\* Casualty insurance includes surety insurance and overseas accepted reinsurance.

\*\* KRW54,216 million in interim or maturity refunds payable and KRW1,555 million in annuities payable are accounted for claims payable.

**13. CATASTROPHE RESERVES**

Changes in catastrophe reserves for the years ended on March 31, 2006 and 2005 are as follows;

Classification	(KRW in millions)	
	FY2005	FY2004
Beginning balance	235,572	216,115
Increase :	30,083	19,458
Fire	1,631	1,092
Marine	262	860
Automobile	22,915	14,132
Casualty	4,488	3,060
Overseas premium insurance	363	200
Accepted reinsurance	424	112
Ending balance	265,655	235,572

**14. ACCRUED SEVERANCE INDEMNITIES**

Changes in accrued severance indemnities for the years ended on March 31, 2006 and 2005 are as follows;

Account	(KRW in millions)	
	FY2005	FY2004
Beginning balance	40,919	32,765
Severance payments	4,554	3,815
Provisions	12,583	11,108
Ending balance	48,948	40,059
Deductions : Contribution to the National Pensions Fund	679,639	733
Severance insurance deposits	28,865	22,699
Total	19,404	16,627

\* Accrued severance indemnities at the beginning balance includes the accumulated fund for retirement transferred from an affiliate worth KRW860 million.

**15. COMMON STOCKS**

Common stocks as of March 31, 2006 and 2005 are as follows;

Classification	FY2005	FY2004
No. of authorized common stocks	200,000,000 shares	200,000,000 shares
Per value of common stock	500 won	500 won
No. of issued common stocks	70,800,000 shares	70,800,000 sharers
Common stocks of capital	35.4 billion	35.4 billion

Changes in the retained earnings of investees by applying the equity method as of March 31, 2006 and 2005 are as follows;

(KRW in millions)

Classification	FY2005	FY2004
Increase (decrease) in the retained earnings of investees by applying the equity method	(646)	(1,272)
Increase (decrease) in the retained earnings by initial application of corporate tax accounting	(3,328)	-
Total	(3,974)	(1,272)

**16. TREASURY STOCKS**

Treasury stocks as of March 31, 2006 and 2005 are as follows;

(KRW in millions)

Classification	FY2005		FY2004	
	No. of shares	Amount	No. of shares	Amount
Treasury stocks purchased	7,501,650	29,655	7,501,650	29,655
Treasury stocks of treasury stock funds	-	-	679,610	2,464
Total	7,501,650	29,655	8,181,260	32,120

\* The company purchased its stocks to stabilize the stock price and plans to dispose of them when the time is right.

### 17. GAINS AND LOSSES ON TRANSLATION OF FOREIGN CURRENCY ON ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCY

Assets and liabilities denominated in foreign currency as of March 31, 2006 and 2005 are as follows;

(US\$ in thousand, KRW in millions)

Account	FY2005				FY2004	
	US\$	Korean Won in equivalents	Gains on translation	Losses on translation	US\$	Korean Won in equivalents
Assets :						
Cash	USD 0	₩ 0	-	0	USD 0	₩ 0
Deposits	18,165	17,727	312	1,259	11,310	11,584
Securities	345,055	336,739	1	17,706	343,173	351,512
Leasehold deposits	23	22	-	2	6	6
Due from agents	4,544	4,435	-	56	3,723	3,814
Reinsurance accounts receivable	5,158	5,034	19	210	7,220	7,396
Overseas reinsurance premiums receivable	3,417	3,335	20	188	3,270	3,349
Deposits provided on reinsurance treaties ceded	370	361	10	50	657	673
Subtotal	USD 376,732	₩ 367,653	361	19,472	USD 369,359	₩ 378,335
Liabilities:						
Due to agents	USD 73	₩ 71	1	-	USD 93	₩ 95
Reinsurance accounts payable	7,781	7,594	345	160	7,879	8,071
Overseas reinsurance premiums payable	3,102	3,028	446	282	3,680	3,769
Refundable deposit on reinsurance treaties ceded	828	808	53	5	1,333	1,366
Subtotal	USD 11,784	₩ 11,500	846	448	USD 12,985	₩ 13,301
Totals of gains (losses) on translation			1,207	19,920		

\* Currencies other than the U.S. dollar are converted into U.S. dollars using the exchange rate as of the end of the current fiscal year.

**18. CONTINGENCIES AND COMMITMENTS**

The details of notes provided as collaterals as of March 31, 2006 are as follows;

(KRW in millions)

Classification	Issuer	No. of issues	Amount	Purpose
Note	LG Electronics, etc.	3	3,599	To secure the refund of leasehold deposit

**Reinsurance treaty**

The Company assumes and cedes a portion of total insurance premiums with Korean Reinsurance Co., Ltd. and the remaining portion is covered by foreign reinsurers such as Lloyd of Great Britain. The Company gives and receives fees with Korean Reinsurance and foreign reinsures for policies assumed and ceded under these reinsurance treaties.

Ceded reinsurance transactions by insurance type for the year ended on March 31, 2006 are summarized as follows;

(KRW in millions)

Classification	FY2005							FY2004
	Fire	Marine	Automobile	Casualty	Long-term	Individual annuity	Total	Total
Reinsurance premiums	22,257	29,089	5,879	149,656	63,093	582	270,557	255,905
Refund of surrender value	196	1,139	148	2,851	-	-	4,333	4,577
Reinsurance claims	15,798	22,453	5,135	55,325	43,718	608	143,038	129,346
Refund of reinsurance claims	161	366	45	243	213	2	1,030	1,127
Claims survey fee received	533	411	-	2,676	794	3	4,416	4,977
Reinsurance commissions	6,444	3,679	403	31,453	4,148	-	46,127	40,709
Reinsurance profit commissions	-	434	71	478	11,030	-	12,013	8,306

Pending litigations as of March 31, 2006 are as follows;

(KRW in millions)

Classification	Type	Claims amount	Counterpart
Company as a defendant	Compensation claims	48,428	497 including Yong-Jin Kim
	Insurance claims	2,643	40 including Yang-Gun Kee
	Indemnity claims	8,170	161 including KOTMA
	Other claims	39,645	300 including Sung-Ju Lee
Total		98,885	
Company as a plaintiff	Indemnity claims	24,777	435 including Korea Trucking Association

\* For the above pending litigations as a dependent, the Company has reserved estimated losses as a reserve for outstanding claims under the policy reserve account and the results of the above lawsuits cannot presently be determined as of March 31, 2006.

#### 19. CALCULATION BASIS FOR AND DETAILS OF INCOME TAX EXPENSES AND DEFERRED INCOME TAX

The initial application of SKAS No.16 "Income Taxes" from the fiscal year does not require retroactive amendment for the financial statements previous to this fiscal year. For this fiscal year, however, the application resulted in the decrease in retained earnings at the beginning of the year and capital adjustment at the beginning of the year by KRW3,444 million and KRW24,107 million, respectively, and increase in deferred corporate tax liabilities by KRW27,551 million.

The differences between income before income tax and taxable income are as follows;

(KRW in millions)

Classification	Temporary differences		Permanent differences	
	FY2005	FY2004	FY2005	FY2004
I. Taxable income and non-deductible expense				
1. Accrued revenue for prior period	40,397	40,165	-	-
2. Losses on valuation of trading securities in current period	107	359	-	-
3. Gains on valuation of trading securities in prior period	5,132	20,975	-	-
4. Losses on valuation of derivatives	20,234	8,779	-	-
5. Amortization of deferred acquisition cost	-	3,661	-	-
6. Reserve for R&D	1,697	14,798	-	-
7. Deposit insurance 9,747	9,747	8,087	-	-
8. Accrued severance indemnities	-	436	-	-
9. Depreciation	461	1,064	-	-
10. Overdue insurance accounts payable	5,420	-	-	-
11. Impairment losses on available-for-sale securities	-	15,812	-	-
12. Impairment losses on condominium memberships (ROK, Muju)	66	1,123	-	-
13. Amortization of deferred acquisition cost	2,072	-	-	-
14. Impairment losses on investment securities	2,530	-	-	-
15. Entertainment expense excess	2,530	-	-	-
16. Retained earnings (dividend)	-	-	1,470	2,299
17. Payment for additional income tax	-	-	5,060	0
18. Non-operating miscellaneous losses	-	-	-	0
Subtotal	87,864	115,258	6,983	2,792

(continued)

(KRW in millions)

Classification	Temporary differences		Permanent differences	
	FY2005	FY2004	FY2005	FY2004
II. Deductible expense and non-taxable income				
1. Accrued revenue for current period	44,481	40,397	-	-
2. Losses on valuation of trading securities in prior period	1,768	13,261	-	-
3. Gains on valuation of trading securities in current period	3,007	4,725	-	-
4. Gains on valuation of derivatives	14,680	37,917	-	-
5. Indemnity gains	-	5,306	-	-
6. Deposit insurance in prior year	8,087	8,048	-	-
7. Fictitious dividend (stock dividend)	-	4	-	-
8. Depreciation	688	290	-	-
9. Reserve for R&D	10,000	6,000	-	-
10. Impairment losses on investment securities	3,320	12,568	-	-
11. Acquisition taxes, etc.	0	-	-	-
12. Insurance payable	154	-	-	-
13. Equity method valuation gain in current period	2,411	-	15,507	23,127
14. Dividend income	-	-	2,722	4,511
15. Refund of income tax	-	-	11	1
16. Losses from the disposal of treasury stocks	-	-	238	-
17. Non-operating miscellaneous gains	-	-	-	1,213
Subtotal	88,595	128,516	18,478	28,851
Total	(731)	(13,258)	(11,495)	(26,059)

## Changes in significant cumulative temporary differences are as follows;

(KRW in millions)				
Account	Beginning balance	Increase	Decrease	Ending balance
Accrued interest income	(40,397)	(44,481)	(40,397)	(44,481)
Losses on valuation of securities	3,285	107	1,768	1,625
Gains on valuation of securities	(8,369)	(3,007)	(5,132)	(6,243)
Gains on valuation of derivatives	(43,753)	(14,680)	(20,234)	(38,199)
Losses on valuation of derivatives	883	-	-	883
Deferred acquisition cost including amortization	(2,872)	-	(2,072)	(800)
Indemnity receivables (indemnity gains)	(31,776)	-	-	(31,776)
Reserve for R&D	(9,536)	(10,000)	(1,697)	(17,839)
Deposit insurance	8,087	9,747	8,087	9,747
Impairment losses on condominium memberships	1,465	66	-	1,531
Depreciation	1,113	461	688	887
Catastrophe reserve	50,793	-	-	50,793
Impairment losses on investment securities	25,420	2,530	3,320	24,630
Acquisition tax, etc.	0	-	0	-
Accrued severance indemnities	436	-	-	436
Equity method valuation gain	-	(2,411)	-	(2,411)
Overdue insurance accounts payable	154	5,420	154	5,420
<b>Total</b>	<b>(45,068)</b>	<b>(56,247)</b>	<b>(55,516)</b>	<b>(45,798)</b>

## The major components of income tax expenses are as follows;

(KRW in millions)		
Classification	FY2005	FY2004
Income tax to be paid in current period	29,804	33,725
Increase in deferred income tax liabilities due to cumulative temporary differences	201	2,962
<b>Income tax expense</b>	<b>30,005</b>	<b>36,687</b>

The increase in deferred income tax liabilities due to the temporary difference for the fiscal year amounted to KRW22,811 million. At the same time, the initial application of SKAS No.16 "Income Taxes" from this fiscal year increased deferred income tax liabilities by KRW22,609 million from direct adjustment with retained earnings and capital adjustment, leaving the balance at KRW201 million.

#### Change in deferred income tax

In accordance with the supervisory regulations for the insurance industry, the Company does not classify the liquidity and non-liquidity for deferred income tax to be posted on the balance sheet as of the end of the current period. In addition, marginal tax rates are applied to the period-end balance of accumulative temporary differences.

(KRW in millions)

Classification	FY2005	FY2004
Ending balance	33,657	10,847
Beginning balance	10,847	7,885
Tax effects on changes in cumulative temporary differences	22,811	2,962

Meanwhile, the deferred income tax liabilities and assets in total amount basis as of the end of this fiscal year are as follows;

(KRW in millions)

Classification	Deferred income tax assets	Deferred income tax liabilities	Net deferred income tax liabilities
Current account	5,038	14,169	9,132
Fixed account	25,065	49,591	24,526
Total	30,102	63,760	33,657

#### Effective tax rates are as follows;

(KRW in millions)

Classification	FY2005	FY2004
Income tax expense	30,005	36,687
Income before taxes	153,106	149,638
Effective tax rates	19.6%	24.5%

## 20. ORDINARY INCOME PER SHARE AND NET INCOME PER SHARE

#### Ordinary income per share and net income per share

(KRW)

Classification	FY2005	FY2004
Ordinary income per common stock	1,953	1,804
Net income per common stock	1,953	1,804

## Calculation basis

(KRW in millions)

Classification	FY2005	FY2004
Adjusted ordinary income of common stocks	123,101	112,952
Net income of common stocks	123,101	112,952
Weighted average number of outstanding common stocks	63,017,196	62,618,740

## 21. SEPARATE ACCOUNTS

The Company maintains separate accounts on the balance sheet for the assets and liabilities related to retirement insurance and retirement annuity from those of other insurance policies. The followings are the corresponding balance sheet and income statement;

## Balance sheet and income statement related to retirement insurance

## • Balance sheet

(KRW in millions)

Account	Assets		Account	Liabilities	
	FY2005	FY2004		FY2005	FY2004
I. Cash and bank deposits	3,457	373	I. Other liabilities	607	474
1. Passbook accounts	157	173	1. Unpaid expenses	607	468
2. Other deposits	3,300	200	2. Deposits	-	6
II. Securities	253,222	211,538	II. General account credits	620	1,005
1. Equity securities	1,381	1,114	Total liabilities	1,226	1,479
2. Government & public bonds	21,381	9,992	III. Policyholder reserve	266,742	217,478
3. Special bonds	109,550	108,580	1. Insurance premium reserve	263,606	215,187
4. Corporate bonds	56,544	39,568	2. Reserve for participating policyholders' dividend	2,101	2,027
5. Beneficiary certificates	64,366	42,176	3. Excess participating policyholder dividend reserve	1,036	264
6. New type securities	-	10,107	Total policyholder reserve	266,742	217,478
III. Other assets	1,496	886			
1. Accrued interest	1,179	886			
2. Prepaid withholding tax	316	-			
IV. General account debits	9,794	6,160			
Total assets	267,969	218,957	Total liabilities and policyholder reserve	267,969	218,957



## • Income statement

(KRW in thousands)

Account	FY2005
I. Operating revenues	99,500
II. Operating expenses	99,827
III. Operating losses	327
IV. Non-operating incomes (interest income)	343
V. Non-operating expenses (Commissions on separate account management)	45
VI. Ordinary losses	29
VII. Other incomes	29
VIII. Net profit for the current period	-

22. DERIVATIVES

The outstanding contract amounts and resulting gains/losses on valuation by financial derivative as of March 31, 2006 are as follows;

(KRW in millions)

Derivatives	Risk hedging		
	Outstanding contract amounts	Gains/losses on evaluation	
		Current net income/loss	Capital adjustment
Currency forward	243,544	12,559	-
Currency swap	148,581	2,121	-
Interest rate swap	-	-	(1,184)
Total	392,125	14,680	(1,184)

The details of several financial derivative contracts for hedging against foreign exchange rate and interest rate fluctuations of foreign securities as of March 31, 2006 are as follows;

(KRW in millions)

Type	Bank	Contract date	Contract due date	Selling rate	Currency	Contract amount
Currency forward contracts	Korea Development Bank (KDB)	2005.12.09	2006.06.13	1,031.40	USD	4,300
	KDB	2005.09.15	2006.09.20	1,021.70	USD	20,680
	Kookmin Bank	2006.01.26	2006.07.26	967.2	USD	14,000
	Kookmin Bank	2005.11.14	2006.05.15	1,038.60	USD	10,400
	KDB	2005.09.21	2006.09.25	1,027.30	USD	23,000
	KDB	2005.11.14	2006.05.15	1,038.60	USD	10,400
	Kookmin Bank	2005.11.01	2006.05.03	1,040.00	USD	6,000
	Kookmin Bank	2005.11.15	2006.05.17	1,029.70	USD	16,000
	LGT Bank	2006.03.15	2006.06.15	0.8661	CAD	1,000
	LGT Bank	2006.03.15	2006.06.15	0.7301	AUD	2,750
	LGT Bank	2006.03.15	2006.06.15	1.223	EUR	7,000
	KDB	2006.01.17	2006.07.19	986	USD	3,000
	KDB	2005.12.26	2006.06.28	1,009.50	USD	1,800
	KDB	2006.01.04	2007.01.08	1,031.40	USD	1,364
	KDB	2005.12.26	2006.06.28	995.40	USD	33,000
	Currency swaps	Woori Bank	2003.06.18	2008.06.18	1,194.00	USD
KDB		2002.03.26	2007.03.26	1,316.50	USD	10,000
KDB		2003.03.12	2008.03.12	1,185.00	USD	20,000
Woori Bank		2003.07.14	2008.07.14	1,182.40	USD	20,000
KDB		2004.10.28	2012.11.08	1,130.50	USD	10,000
KDB		2005.06.28	2015.06.29	1,013.60	USD	10,000
KDB		2002.09.26	2007.09.26	1,225.00	USD	10,000
KDB		2002.12.17	2007.12.17	1,209.00	USD	3,000
Woori Bank		2004.08.23	2009.10.25	1,267.50	USD	10,000
Woori Bank		2004.08.31	2011.10.01	1,155.00	USD	15,000
Woori Bank		2004.11.12	2014.11.12	1,110.00	USD	3,000
Woori Bank		2004.09.16	2012.06.24	1,145.00	USD	10,000
Total					USD	363,544
					CAD	1,000
					AUD	2,750
					EUR	7,000

\* KRW37,473 million and KRW317 million in the gains and losses on valuation with regard to the above contracts are reflected in the gains/losses on valuation of derivatives. Each of them is accounted for as derivative assets and liabilities

The details of interest rate swap contract are as follows as of March 31, 2006;

(KRW in millions)						
Type	Bank	Contract date	Contract due date	Currency	Contract amount	Selling rate
Interest rate swap	IBK	2003-09-30	2010-09-26	KRW	20,000	5.20%

\* ₩1,184 million in the losses on valuation with regard to the above contract are reflected in the gains/losses on valuation of derivatives(capital adjustment), and are accounted for as derivative liabilities.

### 23. PREMIUM INCOME

Premium incomes of the current year by insurance type are as follows;

Classification	(KRW in millions)							FY2004 Total
	FY2005							
	Fire	Marine	Automobile	Casualty	Long-term	Individual annuity	Total	Total
Direct premiums written	55,209	47,556	1,205,092	248,089	1,810,619	80,606	3,447,171	3,089,853
Assumed reinsurance premiums	-	354	-	20,807	-	-	21,161	9,428
Refund of surrender value on direct premiums written	527	1,103	53,618	5,671	-	-	60,918	53,801
Refund of surrender value on assumed reinsurance premiums	-	8	-	104	-	-	112	113
Premium income	54,682	46,800	1,151,474	263,120	1,810,619	80,606	3,407,301	3,045,367

**24. OPERATING AND ADMINISTRATIVE EXPENSES**

Operating and administrative expenses for the years ended on March 31, 2006 and 2005 are summarized as follows;

Classification	(KRW in millions)	
	FY2005	FY2004
Wages and salaries	100,531	91,882
Provisions for severance and retirement benefits	12,428	11,053
Welfare benefits	21,451	19,087
General and administrative expenses	177,686	158,125
Acquisition and collection costs	90,771	100,401
Agency business commissions	160,431	153,486
Co-insurance commissions	2,594	2,433
Agency service commissions	823	1,017
Claims survey fee received	48,430	43,827
Reinsurance commissions	2,366	2,736
Reinsurance profit commissions	247	287
Interest on reinsurance deposits	408	969
<b>Total</b>	<b>618,162</b>	<b>585,304</b>

**25. PRIOR PERIOD ADJUSTMENTS**

Gains (losses) on prior period adjustments of 2006 and 2005 are summarized as follows;

			(KRW in millions)
Classification	Account	Description	Amount
FY2005	Losses on prior period adjustments	Correction in accounting for redemption of beneficiary certificates	126
		Correction in the valuation for foreign beneficiary certificate	21
		<b>Total</b>	<b>147</b>
FY2004	Gains on prior period adjustments	Correction in pre-matured marine reinsurance	2
		Correction in subordinated convertible bonds of KEB	1,361
		<b>Total</b>	<b>1,363</b>

**26. TRANSACTION WITH PARTIES OF SPECIAL INTEREST**

The number of shares and ownership held by the parties of special interest as of March 31, 2006 are as follows;

Company name	No. of outstanding shares	No. of shares held by the Company	Ownership (%)
Dongbu Claims Adjustment	200,000	200,000	100.00
Dongbu Life Insurance	17,040,000	5,318,572	31.21
Dongbu Securities	14,825,422	1,666,164	11.24
Dongbu Steel	26,847,456	1,747,851	5.86
Dongbu Construction	25,132,710	2,991,606	11.90

Significant transactions carried out with the parties of special interest in 2006 and 2005 are as follows;

(KRW in millions)

Company name	Account	Transaction	Amount	
			FY2005	FY2004
Dongbu Claims Adjustment	Gains	Premium income	3,618	1,529
	Losses	Research expenses	31,248	26,825
Dongbu Information Technology	Gains	Premium income	1,993	794
	Losses	IT expenses	45,959	30,888
Dongbu Life Insurance	Gains	Premium income	4,346	314
Dongbu Securities	Gains	Premium income	385	326
Dongbu Steel	Gains	Premium income	2,759	3,239
Dongbu Construction	Gains	Premium income	7,186	8,150
Other affiliates	Gains	Premium income	13,570	7,522
	Losses	Other expenses	366	222
Total	Gains	Premium income	33,857	21,875
	Losses	Other expenses	77,572	57,935

The claims and debts related to the parties of special interest as of March 31, 2006 are as follow;

(KRW in millions)

Company name	Account	Transaction	Amount	
			FY2005	FY2004
Dongbu Claims Adjustment	Debt	Rent	899	181
Dongbu Information Technology	Debt	Rent	9,803	4,742
Dongbu Life Insurance	Debt	Rent	5,534	5,331
Dongbu Securities	Debt	Rent	1,882	1,711
Dongbu Steel	Debt	Rent	1,653	1,671
Dongbu Construction	Debt	Rent	6,505	2,505
Dongbu Electronics	Claim	Project financing	65,000	65,000
Dongbu Capital	Claim	CP discount	5,000	5,000
Other affiliates	Debt	Rent	5,562	5,299
Total	Claim	Loans, etc.	70,000	70,000
	Debt	Rent	31,839	21,440

## 27. CALCULATION OF SHAREHOLDER DIVIDENDS, PAYOUT RATIO, AND DIVIDEND YIELD RATIO

### Calculation of dividends

(Shares, KRW in millions)

Type of stocks	No. of shares issued	Capital in common stocks	Dividend ratio	Dividend amount*	Initial date in reckoning
Common stocks	70,800,000	35,400	85%	26,902	April 1st, 2005

\* The dividend amount is calculated except for the treasury stocks (7,501,650 shares) held by the Company

### Payout ratio and dividend yield ratio

(KRW in millions)

Payout ratio			Dividend yield ratio		
Dividend amount	Current net income	Payout ratio	Dividend per share	Stock price	Dividend yield ratio
26,902	123,067	21.90%	425 won	18,800 won	2.2%

\* Stock price is as of March 31, 2006.

**28. ACCOUNTS AND AMOUNTS REQUIRED IN CALCULATING ADDED VALUES**

The accounts and amounts necessary to calculate added values for the current and previous periods are as follows;

Classification	FY2005					(KRW in millions)	
	Operating and administrative expense	Asset management expense	Real estate management expense	Real estate depreciation expense	Total	FY2004	
						Total	
Salaries	100,531	1,839	257	-	102,627	94,146	
Severance pay	12,428	151	4	-	12,583	11,108	
Welfare and benefit expenses	21,451	204	27	-	21,682	19,295	
Rent	23,023	-	-	-	23,023	21,264	
Depreciation	10,715	2,375	1,385	1,385	15,860	13,470	
Taxes and dues	30,043	752	2,665	-	33,460	28,907	
<b>Total</b>	<b>198,191</b>	<b>5,321</b>	<b>4,339</b>	<b>1,385</b>	<b>209,236</b>	<b>188,190</b>	

**29. CASH FLOW STATEMENT**

Cash and cash equivalents on the cash flow statement correspond to cash and bank deposits on the balance sheet. Significant transactions, which do not involve cash inflows and outflows for 2006 and 2005, are as follows;

Classification	(KRW in millions)	
	FY2005	FY2004
Gains on valuation of available-for-sale securities	23,874	14,667
Changes in retained earnings of equity securities using the equity method	(3,974)	(1,272)
Increase in equity method shareholders' equity	3,724	-
Decrease in equity method shareholders' equity	(5,816)	-
Transfer of land from tangible asset to investment asset	-	17,205
Transfer of construction in process to tangible asset	-	278

#### Reclassification of accounts on the previous period's cash flow statement

The accounts on the previous period's cash flow statement are reclassified as follows to facilitate comparison with the current year's financial statements;

[KRW in millions]

Account	Before reclassification	After reclassification
I. Cash flows from operating activities	582,569	582,569
1. Net income	114,375	112,952
2. Changes in assets and liabilities related to operating activities	(1,414,077)	(1,412,654)
Increase (Decrease) in deferred tax	3,501	2,962
Increase (Decrease) in other liabilities	-	1,963

#### 30. FINANCIAL INFORMATION OF THE LAST INTERIM PERIOD

The main financial information of the final interim periods (fourth quarter) which end on March 31, 2006 and 2005 are as follows;

[KRW in millions]

Classification	Jan.-Mar. 2006	Jan.-Mar. 2005
Revenues	1,017,276	868,817
Operating loss	8,867	12,861
Current net income	22,013	12,738
Net income and ordinary income per share	347 won	203 won

### 31. EMPLOYEE WELFARE AND OTHER BENEFITS

The main financial information of the final interim periods (fourth quarter) which end on March 31, 2006 and 2005 are as follows;

(Shares, KRW in millions)

Welfare fund small amount loan	Amount	KRW10 million (severance pay limit)
	Interest rate	Annual rate of 5%
Welfare fund key money loan	Amount	KRW30 million
	Interest rate	Annual rate of 2% (5% for the amount which exceeds KRW20 million)
Welfare fund house purchase loan	Amount	KRW40 million
	Interest rate	Annual rate of 2% (5% for the amount which exceeds KRW20 million)
Loans for various events	Amount	KRW3 million (severance pay limit)
	Interest rate	Annual rate of 5%
School grants for children (No limit to the no. of children)	Qualification	Children of the employees who are currently employed as of the payment date
	Payment limit	Kindergarten : Payment throughout a year within the monthly limit of KRW100,000 Middle and high schools : Entire amount Universities : Amount which corresponds to 80% of the payment limit
School grants for employees (for graduate course)	Qualification	Employees who have worked for three years and more
	Payment limit	Admission fee: 70%, Tuition, school supporting fee, etc.: 50%, other expenses: 100%
Leave for long service	Qualification	10 years : 3-day leave, a reward of KRW200,000
		15 years : 3-day leave, a reward of KRW300,000
		20 years : 5-day leave, a reward of KRW300,000
		25 years : 5-day leave, a reward of KRW400,000
		30 years : 7-day leave, a reward of KRW500,000
Subscription to accident insurance	All employees	Coverage : Death, disability and disease
		Subscription amount : KRW100 million per person (KRW50 million for disease)
Individual pension support	Qualification	All employees
	Payment limit	J3 and higher : 50% of the subscription premium within the limit of KRW70,000 J2 and lower : 50% of the subscription premium within the limit of KRW50,000

## Independent Auditor's Report

To the Shareholders and Board of Directors of Dongbu Insurance Co., Ltd.

May 12, 2006

- We have audited the accompanying non-consolidated balance sheets of Dongbu Insurance Co., Ltd. (the "Company") as of March 31, 2006 and 2005 and the related statements of income, appropriations of retained earnings and cash flows for the year then ended, all expressed in Korean Won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.
- We conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessments on the accounting principles used and significant estimates made by the management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
- In our opinion, the financial statements referred to present fairly, in all material respects, the financial position of the Company as of March 31, 2006 and 2005, and the results of its operations, the changes in its retained earnings and its cash flows for the year then ended, in conformity with financial accounting standards generally accepted in the Republic of Korea. (See Note 2) The translated amounts in the accompanying financial statements have been translated into U.S. dollars, solely for the convenience of the reader, on the basis set forth Note 2.
- As discussed in Note 1, The Company has not recognized other liabilities on insurance of which extinctive prescription of insurance payment expired. However, the Company recognized liabilities with probable and reasonably estimable based on insurance payment empirical rate for the year ended March 31, 2006 and 2005. Due to the change in the accounting practice, net profit for the year reduced by KRW1,491 million and total shareholders' equity and net income reduced by KRW4,078 million and KRW1,423 million, respectively, for the previous year.

- As discussed in Note 18, the Company has pending litigations. These litigations consisted of 435 cases, amounting KRW24,777 million as a plaintiff and 998 cases of KRW98,885 million as a defendant on indemnity and compensation claims, respectively, as of the year ended March 31, 2006. The Company has reserved estimated losses as a reserve for outstanding claims under the policy reserve account.
- As discussed in Note 19, the initial application of Statements of Korea Accounting Standards (SKAS) No. 16, "Income Taxes" from the fiscal year does not require retroactive amendment for the financial statements previous to this fiscal year. For this fiscal year, however, the application resulted in the decrease in retained earnings at the beginning of the year and capital adjustment at the beginning of the year by KRW3,444 million and KRW24,107 million, respectively, and increase in deferred corporate tax liabilities by KRW27,551 million.
- As discussed in Note 26, the Company, in transaction with parties of special interests, recorded income and loss amounting to KRW33,857 million and KRW77,752 million, respectively including transactions on claims survey fee amounting KRW31,248 million with Dongbu Automobile Claims Adjusting Co., Ltd. The Company also has loans amounting KRW70,000 million including KRW65,000 million worth loans to Dongbu Electronics Co., Ltd. (former Dongbu Anam Semiconductor Inc.) and debts amounting to KRW31,839 million in relation to transaction with parties of special interests, for the year ended March 31, 2006.

Shinhan Accounting Corp.  
Member firm of RSM International

**Notice to Readers:** This report is effective as of May 12, 2006, the auditor's report date. Certain subsequent events or circumstances may have occurred between the auditor's report date and the time of reading this report. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.