

## { Risk Management

Dongbu Insurance is the first among non-life insurers to introduce a risk management system that is particularly adapted to the characteristics of the insurance business.

Our corporate strategy is to secure a balance between meeting the liquidity requirement for policyholders and maintaining high asset quality

### **Integrated Risk Management**

Dongbu Insurance maintains a sophisticated system to scientifically manage the various risks that arise during operations, thereby ensuring that we can keep our customers safely insured. Our risk management system encompasses the major risk areas, from insurance risk to ALM risk, market risk, credit risk, and operational risk.

In 2002, we plan to complete the implementation of an integrated risk management system that, in addition to the systems described below, will incorporate capital allocation and performance evaluation through credit VaR and operational risk management systems.

Our efforts to build an advanced risk management system have borne fruit. In 2001, we were selected by the FSS as “Best Practice” in the category of insurance company risk management, and were rated 1st in the FSS management performance evaluation.



### **Insurance Risk**

In 2001, Dongbu Insurance became the first in the domestic non-life insurance industry to introduce a system that calculates loss ratio VaR by measuring the loss ratio fluctuation risk. Loss ratio is calculated by insurance line by reproducing the potential range of loss ratio fluctuations as used in the VaR system. The Company currently manages the underlying risk by setting a tolerance level for

Our goal is to maintain consistent revenue growth, while continuing to improve our risk profile



annual target loss and expense ratios, as well as managing reinsurance credit risk through a regular and ongoing monitoring system. These risk systems allow us to quantify risk, set appropriate risk tolerance levels and allocate appropriate levels of capital within those limits.

Through a revision of our rating criteria for overseas reinsurers during 2001 and the introduction of a monitoring system that regularly examines the credit ratings status of our insurance counterparts, we have established a strong basis for minimizing the risks associated with reinsuring overseas.

### **ALM Risk**

ALM (asset and liability management) risk is managed through the analysis of cash flows, duration gap, EaR (Earning at Risk), NPV (Net Present Value) and through scenario analysis. The ALM system allows us to measure and manage interest rate and liquidity risk through an analysis of interest rate exposures and to measure and



manage the fluctuation in NPV and short-term interest income.

The ultimate aim is to build an asset and liability portfolio that strikes a suitable balance of high return at a given risk level.

#### **Credit Risk**

Dongbu Insurance is in the process of implementing a credit VaR system to scientifically manage the risks associated with assets, such as borrower default or changes in asset value as a result of change in credit rating. The Company manages credit risk within set limits and is developing a system that measures the exposure risk on assets with values that are influenced by credit fluctuations in the counterparts (loans/bonds). Risk is minimized by spreading credit exposure by borrower, group, business or industry and by setting aside suitable allowance for loan losses.

#### **Market Risk**

The Company manages market risk by setting a maximum level of loss VaR within which the

Company can maintain a reasonable level of solvency margin ratio. Our Market VaR system allows us to measure and assess the level of risk on assets that are subject to market valuation (trading securities). The system also allows us to compute the maximum amount of tolerated losses as quarterly VaR limits. Assets are managed through a stop loss trigger to prevent increases in realizable losses.

#### **Operational Risk**

Dongbu Insurance separates the asset management division and the financial planning division independently. The Company also maintains a compliance team and audit team that are independent from the asset management section to ensure maximum transparency of operations. These teams monitor the domestic and overseas offices to ensure that all Dongbu employees and branches comply with the standards and procedures of the Company's risk management system, and monitor whether the Company has complied with the corporate policy and requirements of various government laws and regulations.