

Risk Management

(Dongbu Insurance is Korea's first non-life insurer to implement a risk management system that incorporates capital allocation and performance evaluation based on VaR, ALM, credit VaR, and insurance risk management systems.)

- As with any financial services institution, Dongbu Insurance is exposed to an array of risks associated with the insurance business, asset-liability management, market variables, credit conditions, and internal operations. The Risk Management Committee (RMC), in accordance with directives issued by the Board of Directors, is responsible for overall risk management, including the setting of risk limits and ensuring that safeguards are in place to monitor risk levels.

- The RMC is comprised of the CEO and two directors, of whom one is an outside director. It is responsible for overseeing risk management overall and formulating basic policies for risk management activities. Of particular note, the RMC allocates available capital, within approved guidelines, by business unit and risk, in consideration of the company's solvency ratio, net worth, and net income for the current period. The RMC also manages the risks related to the company's assets and liabilities.

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- In recent years, the RMC's activities have included: adjustment of stock purchase limits in regard to M&A funds (October 2004), elimination of limits on securities outsourcing (November 2004), preparation of contingency plan (March 2005), and establishment of market risk limits for FY2005 and adoption of ALM guidelines (April 2005). The RMC is also working on an upgrade for the ALM system.

(Insurance Risk)

- The company establishes risk-tolerance levels for the annual target loss and expense ratios, in addition to managing the risks related to premiums, reserves, major catastrophes, and operating expenses.

(Credit Risk)

• As a means of enhancing its overall loan quality, the company inspects its credits regularly and whenever deemed necessary. This monitoring is focused on verifying that the loan was approved in accordance with applicable regulations, the borrower’s credit rating remains satisfactory, and a reasonable yield is being realized. The company extends “revolving credit” or demand loans, according to the financial capability of a borrower. The company installed a credit VaR (value-at-risk) management system in FY2003 to assess risk exposure related to asset values that can be impacted by the credit fluctuations of counterpart loans and bonds.



(Market Risk)

• Market risks refer to potential financial losses related to changes in market variables such as interest rates, foreign exchange rates, and stock prices. The securities trading and investment portfolios are both exposed to market risk. To monitor market risk of the trading portfolio, the company utilizes VaR and stop-loss limits. In addition, the company performs stress testing to evaluate market risk under different conditions. Stress testing forecasts anticipated changes, under various scenarios, to the market value of positions held by the company, assuming that no action is taken during a stress event to adjust the risk profile of a portfolio.



(Liquidity Risk)

• Liquidity risks are related to potential insolvency, default, or loss due to disparity between the inflow and outflow of funds. The company devises cash flow projections on a long-term basis and maintains liquid asset levels based on expected liquidity risks. Net cash flows and maturities are assessed and monitored, while continuously evaluating available sources of funds and any need to dispose of liquid assets. Close consultation with risk management units are essential to properly manage cash flow activities that will significantly impact the company’s liquidity, including large-scale investment or loan transactions, and payment of substantial insurance claims.

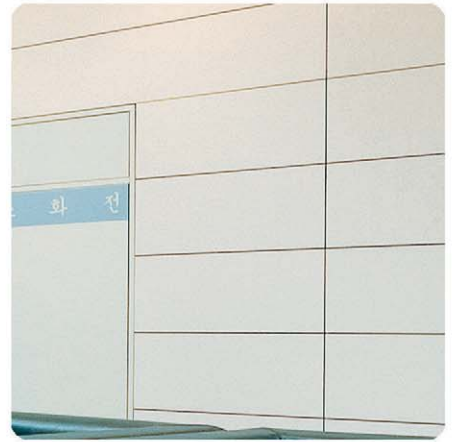
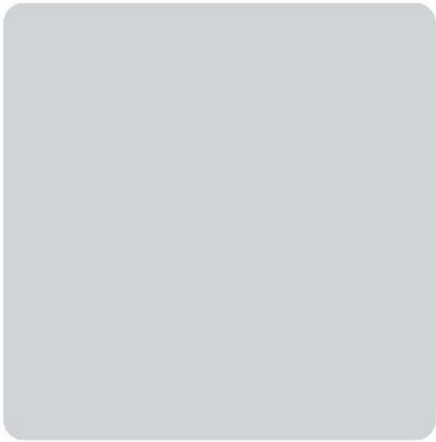
(Interest Rate Risk)

• Interest rate risks primarily result from differences between the timing of rate changes of interest-earning assets, such as special account insurance products, and interest-bearing liabilities, including derivatives. The Interest Rate Gap Analysis is applied to monitor differences in the amounts of assets and liabilities, at each maturity, and for re-pricing within a specific time frame.



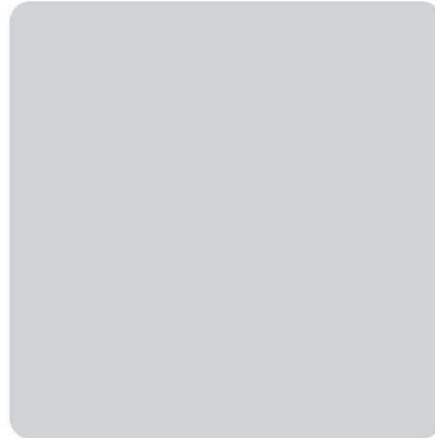
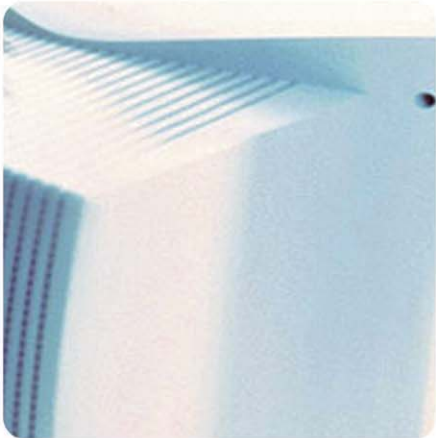
(Operational Risk)

• Operational risks are related to the company’s management and the strategic and legal aspects of its business operations. The company monitors and assesses the risks of its business operations, including matters related to security, information technology, management, and legal activities, as well as its corporate image.



Value for Customers

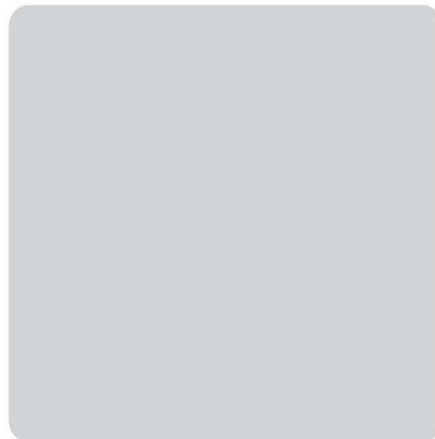
20_Customer Services 22_Insurance 25_Loan Service



Direct Premiums Written

3,090

(billion won)



Our top priority in management is to ensure the highest level of satisfaction among our customers through the development of innovative insurance products and services. We thus remain fully committed to creating optimal value for our customers.

