

Risk Management

RISK MANAGEMENT IS A FUNDAMENTAL COMPONENT OF THE DECISION-MAKING PROCESSES OF DONGBU INSURANCE.

IN FACT, THE COMPANY'S RISK MANAGEMENT SYSTEM IS INTEGRAL TO ALL BUSINESS OPERATIONS. IN LINE WITH THE COMPANY'S RISK-MANAGEMENT PRINCIPLES, RELEVANT RISKS ARE CONSTANTLY MONITORED, ASSESSED, AND CONTROLLED.



- Risk management is a fundamental component of the decision-making processes of Dongbu Insurance. In fact, the Company's risk management system is integral to all business operations. In line with the Company's risk-management principles, relevant risks are constantly monitored, assessed, and controlled.

- The Risk Management Committee serves as the Company's decision-making body that oversees the risks related to its insurance business lines, asset/liability management, credit conditions, and market variables. The Risk Management Committee (RMC), comprised of four directors (the CEO, one standing director, and two outside directors) is responsible for establishing risk-tolerance limits as well as overall risk-management policies and guidelines, under direction from the Board of Directors.

- Of significant note, the RMC determines the allocation of financial resources, based on approved guidelines and related risk factors, to individual business units, in consideration of the Company's solvency ratio, net worth, and net income results for the current period.

- In FY2005, the RMC's active involvement in risk-management matters was readily evident. In April 2005, the RMC determined the market-risk limits and asset-liability management (ALM) guidelines for FY2005. In October, the committee approved a set of revisions to the risk-management regulations and guidelines related to reinsurance transactions. The RMC also adjusted market-risk limits and ALM guidelines. From April to September 2005, Dongbu Insurance installed an upgraded ALM system. In September 2006, the Company intends to have in place a

cutting-edge insurance risk management system based on Dynamic Financial Analysis.

Insurance risk

- The Company establishes risk-tolerance limits to develop targets for the annual loss and expense ratios, in addition to managing the risks related to premiums, reserves, major catastrophes, and operating expenses. Insurance risk management activities are focused on restructuring of the portfolio composition.

Credit risk

- The Company assesses its credit factors regularly and whenever deemed necessary in an effort to enhance the overall quality of its loan portfolio. Credit monitoring focuses attention on the borrower's credit rating and the related loan yield. Since FY2003, Dongbu Insurance has maintained a credit VaR (value-at-risk) management system to assess the risk exposure that could impact asset values due to market fluctuation of counterpart loans and bonds.

Market risk

- To monitor the market risk arising from changes in market variables, such as interest rates, foreign exchange rates, and stock prices, Dongbu Insurance applies VaR controls and stop-loss limits. In addition, stress testing is performed to assess market risk under a range of market

conditions. Stress testing forecasts anticipated changes, under various scenarios, to the market value of the Company's investment positions, assuming that no action is taken during a particular scenario to adjust the risk profile of the investment holdings.

Liquidity risk

- Liquidity risk refers to the potential emergence of an incident of insolvency, default, or loss due to a disparity in the flow of funds. Dongbu Insurance develops cash-flow projections on a long-term basis and maintains an adequate amount of liquid assets based on anticipated liquidity demands. Moreover, net cash flow and asset/liability maturities are carefully scrutinized on a regular basis.

Interest rate risk

- Interest rate risk primarily involves differences in the timing of rate changes of interest-related assets and liabilities, such as separate-account insurance products and interest-bearing liabilities, including derivatives. As such, an Interest Rate Gap Analysis is applied to monitor differences of interest-related assets and liabilities, in regard to maturity terms and fluctuation of market value over a particular time frame.

