

To the General Meeting of
Korean Reinsurance Switzerland AG, Zurich

Zurich, 09 April 2020

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of Korean Reinsurance Switzerland AG, Zurich, which comprise the balance sheet, income statement, cash flow statement and notes, for the year ended 31 December 2019.



Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.



Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements for the year ended 31 December 2019 comply with Swiss law and the company's articles of incorporation.



Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd



Armin Imoberdorf
(Qualified
Signature)

Licensed audit expert
(Auditor in charge)



Sergio Sardo
(Qualified
Signature)

US Certified Public Accountant(CPA)

Enclosures

- ▶ Financial statements (profit and loss statement, balance sheet, cash flow statement and notes)
- ▶ Proposed appropriation of available earnings

Korean Reinsurance Switzerland AG

Annual Report

12 July 2018 – 31 December 2019

Details	
Issued by	Executive Management
Approval by	Board of Directors
Language	English
Report date	9 April 2020
Scope of application	Korean Reinsurance Switzerland AG

Contents

Management report	1
Board of Directors, Management and Auditors	3
Financial Statements.....	4
Profit and Loss Statement of a statutory basis.....	4
Balance Sheet on a statutory basis.....	5
Cash Flow Statement on a statutory basis	6
Notes to the financial statement.....	7
Appropriation of available earnings as proposed by the Board of Directors	13

Management report

Introduction

Korean Reinsurance Company ("Korean Re"), the 10th largest reinsurer globally with more than USD 6.5bn premium, founded Korean Reinsurance Switzerland AG ("KRSA" or the "Company") on 12 July 2018 with the goal to strengthen its European presence. KRSA currently focuses on Continental European P&C treaty business.

KRSA received its C1 reinsurance license from FINMA on 1 June 2019 and S&P issued an independent 'A stable' credit rating on 28 June 2019. This constituted the starting point for KRSA's approaching of clients and brokers in the European market. KRSA was successfully introduced at the 2019 Monte Carlo Conference, in September as well as at the Baden-Baden Reinsurance Meetings in October 2019.

Financial review

KRSA's first overlong financial year stretches from 12 July 2018 to 31 December 2019. KRSA reported in its first year of operation a net loss after taxes of CHF 5.26m (EUR 4.84m). Its balance sheet amounted to CHF 61.91m (EUR 56.95m). As only two small reinsurance contracts were written in 2019, liabilities remained low at CHF 3.25m (EUR 2.99m) and the shareholders equity of CHF 58.66m (EUR 53.96m) made up 95% of the balance sheet.

The main driver of the financial result were personnel expenses for the average of 4.3 full-time equivalents and other administrative expenses such as consulting fees. The net income from investment contributed CHF 81k (EUR 74k). KRSA holds corporate bonds with a book value of CHF 48.45m (EUR 44.57m). The reporting period was marked by a challenging bond market and set up costs incurred, which resulted in a subdued return on investment of 0.2%.

Other financial income / expenses included negative interest rates as well as the interest expense for the right of lease of our office. Other income/expenses comprised the stamp duty for the capital increase.

The Board of Directors will propose to KRSA's shareholder to offset the loss of CHF 5.26m against KRSA's Organizational Fund. The remaining Organizational Fund stands CHF 2.74m (EUR 2.52m) after the offsetting.

Risk management

Risk management as a component of the governance system serves to identify, assess, report and monitor risks to which KRSA is exposed. The operational organization of the Risk Management system comprises the Head of Risk Management & Compliance and the Risk Management Committee. Furthermore, the organizational structure of the Risk Management system follows the concept of "Three lines of defense".

With the three lines of defense approach, KRSA pursues the goal to identify and manage the risks at all levels throughout its entire business process. All departments, processes and systems are involved and different procedures have been implemented to achieve complete risk identification. The Internal Audit function has been outsourced to Korean Re.

KRSA has established an Internal Control System (ICS) under the responsibility of the Board of Directors. The Head of Risk Management & Compliance ensures that the KRSA-wide process and risk and control documentations are up to date and reviews whether these are implemented in the business routines.

KRSA's Risk Management Committee is responsible for the regular analysis of risk identification, risk assessment and the preparation and implementation of risk-mitigating measures. The Risk Management Committee consists of the Executive Management, the Head of Risk Management &

Compliance and the Responsible Actuary. The Committee focuses on Risk Governance and Risk Management topics in the broadest sense and takes place four times a year. In the financial year 2018-2019, an in-depth risk assessment was performed resulting in an overall risk profile which will be presented to the Board of Directors at the next meeting on 24 April 2020.

The overall risk profile is an essential component of the ORSA process, in which KRSA carries out a forward-looking self-assessment of the risk and solvency situation each year. KRSA's risk appetite is defined by its target SST ratio between 120% to 150%. KRSA's first SST report as of 1 January 2020 shows an SST ratio of 167%.

Extraordinary events (during reporting period)

As KRSA is in a "start-up phase" most activities could be considered extraordinary. After an initial project set-up phase until July 2018 a local project team started preparing the operation from August 2018 onwards. KRSA opened its Zurich based offices in March 2019. The CEO and CFO joined KRSA in May 2019 and the COO in June 2019 completing the Executive Management team. The remainder of the team was hired between June and November 2019.

After July 2019, the implementation projects for the setting up of the underwriting and the finance systems were launched. The finance system went live at the end of 2019, while the underwriting system will be finalized by mid-2020. In 2019 KRSA wrote two small treaties while the first European treaty renewal was successfully completed on 1 January 2020.

Current business & Outlook

KRSA has been able to successfully renew the business transferred from Korean Re and to generate new business. On January 1, KRSA has written a book of business representing EUR 42.6m of GWP. On the claims side, the winter storms in February will leave their marks, however, first estimates of KRSA's loss exposure are within expectations.

The growth plan for the coming years is ambitious but realistic and considers the still soft market environment. A financial loss is expected during the build-up years of the company up to and including 2022. The break-even point is expected to be reached in 2023, and KRSA expects to be profitable from that year onwards.

The COVID-19 outbreak in 2020 and the subsequent government measures have impacted the market dynamics (business travels, client & broker events) and the financial markets showed substantial corrections. As part of its Business Continuity Management, KRSA has a business continuity plan in place to ensure an ongoing operation during a pandemic outbreak. KRSA's infrastructure consists of cloud servers, remote working capabilities, and video and audio conferencing tools allowing the company to remain fully operational. KRSA's conservative investment strategy follows a buy and hold approach for its high investment grade rated and diversified corporate bond portfolio. Credit deteriorations, price movements and mitigating actions are closely monitored and discussed with the Korean Re investment team in Seoul. KRSA is operating exclusively as a non-life reinsurance company and its 2020 underwriting book consists of 90% property and motor treaty business. KRSA will assess the further implications of COVID-19 and take mitigating actions if deemed necessary.

Board of Directors, Management and Auditors

Board of Directors as of December 31, 2019

	Residence
Chul Min Jang (Chairman)	Seoul, Korea
Se Koan Oh (Member)	Seoul, Korea
Reinhard Thoennissen (Independent Director)	Wallisellen, Switzerland
Sven Siegin (Secretary of the Board of Directors)	

Management as of December 31, 2019

Markus Eugster (CEO)
Jazmin Seijas Nogareda (CFO)
Won Joong Choi (COO)

Auditors

Ernst & Young Ltd

In 2019, the CEO held also the function as CUO. The further mandatory functions of KRSA are the Internal Audit, Risk Management Function, Compliance Function and the Responsible Actuary.

Financial Statements

Profit and Loss Statement of a statutory basis

For period July 12, 2018 to December 31, 2019

(Expressed in thousands of CHF and EUR)

		12.07.2018 - 31.12.2019	12.07.2018 - 31.12.2019
	Note	CHF k	EUR k
Gross written premium	3	178	163
Retroceded premiums	4	-124	-114
Net premiums written		54	49
Change in unearned premium reserves (gross)	6	-105	-96
Change in unearned premium reserves (ceded)	6	73	67
Net premiums earned		22	20
Other insurance income		1	1
Technical income		23	21
Change in technical provisions	9	-51	-47
Change in reinsurers' share of technical provisions	9	36	33
Net claims and claim expenses incurred		-15	-14
Acquisition costs and administrative expenses	10, 13, 14	-4'453	-4'096
Reinsurers' share of operating expenses (acquisition & admin)		6	6
Net acquisition costs and administrative expenses		-4'447	-4'090
Technical expenses		-4'462	-4'104
Income from investment activities	11	184	169
Expenses from investment activities	12	-103	-95
Net income from investments		81	74
Other financial expenses		-122	-112
Operating result		-4'480	-4'121
Non-operating expenses		-633	-583
Profit/loss before tax		-5'113	-4'704
Income tax expense		-146	-134
Profit and Loss		-5'259	-4'838
Total Profit and Loss account		-5'259	-4'838

Balance Sheet on a statutory basis

As of December 31, 2019

(Expressed in thousands of CHF and EUR)

		31.12.2019	31.12.2019
Assets	Note	CHF k	EUR k
Fixed-interest securities		48'452	44'574
Cash and cash equivalents		10'009	9'208
Reinsurers' share of technical provisions	6	109	100
Property and equipment		243	224
Right of use asset		1'673	1'539
Deferred acquisition costs		3	3
Intangible assets		678	624
Insurance receivables	7	134	123
Other receivables	7	4	4
Other assets		97	90
Accrued assets	5	506	464
Total Assets		61'908	56'953
Liabilities			
Technical provisions	6	156	143
Lease liabilities	15	1'702	1'565
Reinsurance payables	7	136	125
Other liabilities	7	261	241
Accrued expenses and deferred income		995	915
Total Liabilities		3'250	2'989
Shareholder's equity (before appropriation of available earnings)			
	8		
Share capital		10'000	8'761
Legal capital reserves		54'394	50'041
Reserves from capital contributions		46'394	42'681
Organization fund		8'000	7'360
Legal retained earnings		-477	-
Revaluation reserve		-477	-
Voluntary retained earnings		-5'259	-4'838
Profit / loss carried forward		-	-
Profit / loss		-5'259	-4'838
Total Equity		58'658	53'964
Total Liabilities and equity		61'908	56'953

Cash Flow Statement on a statutory basis

As of December 31, 2019

(Expressed in thousands of CHF and EUR)

	31.12.2019	31.12.2019
	CHF k	EUR k
Profit / Loss before tax	-5,113	-4,704
Depreciation and amortization	49	45
Loss (gain) on investments fixed-interest securities	63	57
Increase (decrease) in technical provisions	156	143
Increase (decrease) reinsurance share of technical provisions	-109	-100
Increase (decrease) in deferred acquisition cost	-3	-3
Increase (decrease) right of use asset	-1,673	-1,539
Increase (decrease) insurance receivables	-134	-123
Increase (decrease) other assets	-607	-558
Increase (decrease) lease liabilities	1,702	1,565
Increase (decrease) reinsurance payables	136	125
Increase (decrease) other liabilities	1,256	1,156
Tax provisions	-102	-94
Tax settled	-44	-40
Cash flow from operating activities	-4,423	-4,070
Investment in financial assets	-48,514	-44,631
Purchase of property and equipment	-282	-259
Purchase of intangible assets	-690	-634
Cash flow from investing activities	-49,486	-45,524
Issuance of shares	10,000	8,761
Increase in capital reserves	54,395	50,041
Revaluation reserve	-477	
Cash flow from financing activities	63,918	58,802
Cash flows for the financial year	10,009	9,208
Statement:		
Cash and cash equivalents as of 12 July 2018	-	-
Effects of exchange rate changes on cash and cash equivalents	-	-
Cash and cash equivalents as of 31 December	10,009	9,208
Change in cash and cash equivalents	10,009	9,208

Notes to the financial statement

Korean Reinsurance Switzerland AG (KRSA or the Company) is a reinsurance company domiciled in Zurich, Switzerland. KRSA received its reinsurance license on June 1, 2019 from FINMA. The Company is a 100% owned subsidiary of Korean Reinsurance Company in Seoul, South Korea.

1. Basis of presentation

KRSA's financial statements are presented in accordance with the Swiss Code of Obligations and relevant insurance supervisory law, including the FINMA Insurance Supervision Ordinance (ISO-FINMA), revised December 15, 2015.

All amounts in the financial statements, unless otherwise stated, are shown in Thousand Swiss Francs (CHF k) and Thousand Euros (EUR k), rounded to the nearest Thousand, with the consequence that the rounded amounts may not add up to the rounded total in all cases. All variances are calculated using the actual figures rather than the rounded amounts.

The Board of Directors, via circular resolution on July 19, 2018, has agreed to an extended business year from July 12, 2018 to December 31, 2019.

2. Summary of significant accounting policies

a. Investments

The company holds corporate bonds, which are carried at amortized cost using the effective interest rate method.

b. Right of use asset

KRSA recognizes its right to use the office space as an asset and amortizes over ten years using the effective interest rate method.

c. Deferred acquisition costs

Acquisition costs related to reinsurance business are deferred. The deferred costs are subsequently amortized over the period in which the related assumed premiums are earned.

d. Tangible assets

Property and equipment are valued at acquisition or production cost less accumulated depreciation and less value adjustments. Tangible assets are depreciated on a straight-line basis over four years. If there are signs of overvaluation, the book values are reviewed and, if necessary, value adjustments are made.

e. Intangible assets

Expenditure on software is capitalized and amortized on a straight-line basis over its useful life, not exceeding four years. If it is determined at the end of the year that the value in use of the software is less than the carrying amount, the value in use is used for the valuation (impairment).

f. Accrued assets

This amount relates primarily to interest income accruals, other accrued income and other prepaid expenses.

g. Reserves for unearned premiums (UPR)

UPR represent the portion of the premiums written relating to the unexpired term of insurance coverage as of the balance sheet date. In many insurance contracts, the insurance period for which the insurance company assumes a risk against a premium paid does not correspond to the Company's financial year. Thus, an amount equivalent to the unearned portion of the premium is set up as a reserve at the end of the financial year.

h. Reserves for losses and loss adjustment expenses

Reserves are established for reported claims and reserves for losses incurred but not yet reported (IBNR).

Equalization reserves are not required by the Swiss regulator FINMA for reinsurance companies. KRSA can establish equalization reserves if an underwriting profit is made and Executive Management will determine the amount to be added. In the reporting year no equalization reserves were added.

The measurement of technical provisions is based on actuarial calculations, which by their very nature involve a certain degree of uncertainty.

i. Investment income and expense

Realized capital gains/losses on investments occur when the sales price or redemption value is higher or lower than the carrying value at the time of sale. The gain/loss is the difference between carrying value and the sales price.

j. Exchange rates

KRSA maintains its accounts in EUR (functional currency). Income statement transactions in currencies other than EUR are recorded at a monthly average rate. At period end, monetary assets and liabilities in foreign currencies are revalued at the closing rate of the balance sheet date. Resulting exchange differences are included in the income statement.

For the statutory closing, the financial statements are presented in CHF. For this purpose, the EUR accounts are translated into CHF using the closing rate for the balance sheet and income statement, and historical rates for equity. A resulting currency translation difference is shown as a revaluation reserve in the equity.

The main exchange rates used are presented below:

EUR per 1 foreign currency unit		
	Balance Sheet	Profit and loss
	2019	2019
CHF	0.9200	0.9200
GBP	1.1801	1.1801
KRW	0.0008	0.0008
USD	0.8909	0.8909

Historical rates Equity	
EUR per 1 foreign currency unit	
	CHF
16.08.2018	0.8670
15.05.2019	0.9735

Other Comments

Other financial expenses

This position includes negative interest under various financial expenses, and the interest expense of the office lease.

Non-operating expenses

Non-operating expenses amount to the stamp duty paid for the capital increases in 2018 and 2019.

Direct tax expenses

Direct tax expenses include Swiss income and capital tax expense in Switzerland. In this financial year, only capital tax is due.

3. Gross written premium (GWP)

In 2019, KRSA wrote CHF 178k of premiums, consisting of two non-proportional property treaties.

4. Premiums ceded to reinsurers

KRSA retroceded 70% of its GWP to its parent company.

5. Accrued assets

	CHF k 31.12.2019	EUR k 31.12.2019
Accrued interest on investments	451	415
Prepay expenses	55	49
	506	464

6. Technical provisions

	Technical provisions (gross)		Reinsurers' share		Technical provisions written (net)	
	CHF k 31.12.2019	EUR k 31.12.2019	CHF k 31.12.2019	EUR k 31.12.2019	CHF k 31.12.2019	EUR k 31.12.2019
Unearned premium reserves	105	96	73	67	32	29
Loss reserves	51	47	36	33	15	14
Total	156	143	109	100	47	43

7. Receivables from and liabilities to third and related parties

CHF k	Third-party	Related-party	Total 31.12.2019
Insurance receivables	121	13	134
Policy holders and agents	-		
Reinsurance companies		13	
Brokers	121		
Other receivables	4		4
Insurance payables	12	124	136
Policy holders and agents	-		
Reinsurance companies		124	
Brokers	12		
Other liabilities	261		261
EUR k			
Insurance receivables	111	12	123
Policy holders and agents	-		
Reinsurance companies		12	
Brokers	111		
Other receivables	4		4
Insurance payables	11	114	125
Policy holders and agents	-		
Reinsurance companies		114	
Brokers	11		
Other liabilities	241		241

8. Statement of changes in equity

CHF k	Share capital	Capital reserves	Organiza- tion fund	Retained earnings	Voluntary retained earnings	Total equity
As of 12 July 2018, date of incorporation of the company	1'000	-	-	-	-	1'000
Capital Increase	9'000	46'394	8'000	-	-	63'394
Loss for the period	-	-	-	-	-5'259	-5'259
Revaluation reserve	-	-	-	-477	-	-477
As of 31 December 2019	10'000	46'394	8'000	-477	-5'259	58'658
EUR k						
As of 12 July 2018, date of incorporation of the company	867	-	-	-	-	867
Capital Increase	7'894	42'681	7'360	-	-	57'935
Loss for the period	-	-	-	-	-4'838	-4'838
As of 31 December 2019	8'761	42'681	7'360	-	-4'838	53'964

9. Change in technical provisions

	Technical provisions (gross)		Reinsurers' share		Technical provisions written (net)	
	CHF k	EUR k	CHF k	EUR k	CHF k	EUR k
	2019	2019	2019	2019	2019	2019
Change in loss reserves	51	47	36	33	15	14
Total	51	47	36	33	15	14

10. Audit fees

	CHF k	EUR k
	2019	2019
Audit services	28	26
Total	28	26

11. Income from investments

	Income*		Net unrealized gains		Net realized gains		Total	
	CHF k	EUR k	CHF k	EUR k	CHF k	EUR k	CHF k	EUR k
	2019	2019	2019	2019	2019	2019	2019	2019
Fixed-interest securities	174	160			10	9	184	169
Total	174	160	-	-	10	9	184	169

*Income includes interest coupons and recognized amortization.

12. Expenses from investments

	Current expenses*		Net unrealized losses		Net realized losses		Total	
	CHF k	EUR k	CHF k	EUR k	CHF k	EUR k	CHF k	EUR k
	2019	2019	2019	2019	2019	2019	2019	2019
Fixed-interest securities	31	28	65	60	7	7	103	95
Total	31	28	65	60	7	7	103	95

* Current expenses relate to external asset management fees.

13. Personnel expenses

Personnel expenses for the extended year ended 2019 amount to CHF 2,517k (EUR 2,316k) and are included in the line item "Acquisition costs and administrative expenses".

14. Depreciation of equipment and amortization of intangible assets

	CHF k	EUR k
	31.12.2019	31.12.2019
Property and equipment	38	35
Intangible assets	11	10
Total	49	45

15. Residual amount of lease obligations

	CHF k	EUR k
	31.12.2019	31.12.2019
1 to 5 years 31.12.2019 -31.12.2024	789	726
From 5th year 31.12.2024-31.12.2028	912	839
Total	1,702	1,565

16. Full-time equivalents

The annual average number of full-time equivalents for the extended year 2019 was 4.3.

17. Further points subject to mandatory disclosure (Art. 959c OR)

- KRSA holds no participations, or other investments.
- No hidden reserves have been released.
- No significant events have occurred since the balance sheet date (except for the events described on page 5 of the Management report).
- KRSA has no liabilities to pension schemes, no contingent liabilities, no restricted assets nor any other commitments.

Appropriation of available earnings as proposed by the Board of Directors

The Board of Directors will propose to its shareholder at the Annual General Meeting to offset the loss of CHF 5,259k with the Organizational Fund. The remaining Organizational Fund amount is CHF 2,741k as shown in the below table.

in CHF k and EUR k , as of December 31 2019

	CHF	EUR
Net loss after taxes	-5,259	-4,838
Available earnings	-5,259	-4,838
Organization fund amount to be released	5,259	4,838
Balance carried forward	-	-
Remaining Organizational fund amount	2,741	2,521

No dividend was proposed due to the year-end loss.