

Korean Reinsurance Switzerland AG

Financial Condition Report

1 January 2020 – 31 December 2020

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Management Summary

Korean Reinsurance Switzerland AG ("KRSA" or "Company") is a 100% owned subsidiary of Korean Reinsurance Company, Seoul, Republic of Korea ("Korean Re" or "Group"). KRSA operates as an independent FINMA regulated Swiss reinsurance company, and, therefore, establishes this Financial Condition Report to meet the regulatory requirements set out in FINMA Circular 2016/2 "Disclosure - insurers".

Section A summarizes KRSA's business activities in the year 2020.

Section B addresses the most important figures relating to premium income, benefits and investment results in more detail. At the end of 2020, KRSA reported a net loss after taxes of EUR 7.43m and its statutory assets amounted to EUR 158.85m.

Section C describes how the Board of Directors, the Executive Management as well as the Internal Audit, Risk Management function, Compliance function and the Responsible Actuary are ensuring an effective corporate governance. KRSA's Risk Management function forms an integral part of the corporate governance and is based on the three lines of defense model. The Risk Management Committee is responsible for the implementation of the Risk Management process and proposes a risk strategy derived from the business strategy. The results of KRSA's ORSA process are incorporated into KRSA's strategic decisions.

Section D provides an overview of the risk profile of KRSA. In the Swiss Solvency Test (SST), the insurance risk, the market risk and the credit risk are calculated by an Expected Shortfall approach with a confidence level of 99% over a one-year time horizon. All other risk categories are assessed qualitatively. The overall risk profile is dominated by the natural catastrophe risk, which reflects the significant volume of property contracts covering natural catastrophe risks. The major risks of the overall risk profile are reported to the Board of Directors on a quarterly basis.

Section E shows the statutory balance sheet and market consistent balance sheet as of 1 January 2020. KRSA's market consistent assets amount to EUR 157.4m and consist of corporate bonds (34%), cash (25%), the reinsurer's share of technical provisions (21%), reinsurance receivables (18%) and minor positions (1%) like other assets and deposits. The liabilities amount to EUR 87.3m. The adjustments from the statutory balance sheet to the market consistent balance sheet are described in detail.

Section F outlines KRSA's capital management which is based on its risk appetite (defined by the SST ratio), the risk preferences per risk type and the maintenance of the S&P rating. KRSA's target range for the SST ratio is 120-150%. In KRSA's second business year, a capital increase of EUR 25m has been completed in November 2020. The structure, level and quality of KRSA's equity capital are also shown.

Section G shows the result of KRSA's second SST performed as of 1 January 2021. With an SST ratio of 165% KRSA is sufficiently capitalized. The SST calculations result in a Target Capital of EUR 44.8m. The Risk Bearing Capital amounts to EUR 70.1m. Underwriting Risk is the largest component of the Target Capital, driven by the natural catastrophe risks KRSA has written as of 1 January 2021. The solvency information in this report corresponds to that submitted to FINMA with KRSA's SST report and is still subject to regulatory review.

Section H refers to the external auditor's summary report.

A. Business Activities

Korean Reinsurance Company, the 11th largest reinsurer globally with more than USD 7.1bn premium (2020), founded Korean Reinsurance Switzerland AG on 12 July 2018 with the goal to strengthen its European presence. KRSA focuses on Continental European non-life treaty business. KRSA received its

C1 reinsurance license from FINMA with the effective date of 1 June 2019. Standard & Poor's issued an 'A stable' credit rating in June 2019 which was confirmed in October 2020.

On 1 January 2020 renewals, KRSA was able to retain the business previously underwritten by its parent company Korean Re and added a relevant portion of new treaties, resulting in a Gross Written Premium (GWP) in 2020 of EUR 51.96m. Covid-19 left its mark on the entire year affecting the KRSA's operation model, acquisition process, as well business performance. Despite the ongoing challenges, KRSA was able to expand its client reach and is on track with the implementation of its long-term business strategy. During the year, KRSA complemented its team with new colleagues and considerably strengthened its business capabilities. In line with its long-term business plan, KRSA received a capital injection of EUR 25m from Korean Re in November 2020.

For the next years, KRSA aims at diversifying its portfolio creating less dependency on property cat business and broadening its product offerings to other non-life lines of businesses. In the mid-term, KRSA intends to become a relevant player in the European non-life treaty business.

Deloitte AG, General-Guisan-Quai 38, 8022 Zurich, is KRSA's external auditor.

The most disruptive event in 2020 was the Covid-19 pandemic and it continues to affect the European insurance markets. There is an uncertainty regarding claims activity from additional lock-downs as well as ongoing legal and court actions for 2020 claims. KRSA is well capitalized to absorb the potential financial impact and benefits from a strong capital support by its parent company.

B. Performance

In 2020, KRSA reported a net loss after taxes of EUR 7.43m. KRSA is still in a build-up phase and in line with its business plan expects to generate profits from 2023 onwards. The main drivers of KRSA's financial result are the premium income, the loss result (including increase in technical reserves), administrative expenses and the investment result. KRSA ceded an average of 67% of its business to Korean Re.

The 2020 loss was driven by Covid-19 and its impact on business interruption insurance in European markets. Otherwise 2020 was a benign natural catastrophe event year. Overall, total net claims incurred were EUR 11.26m, leading to a net loss ratio including Covid-19 of 97% (54% excluding Covid-19).

Acquisition costs and administrative expenses of EUR 13.60m consisted of EUR 8.15m acquisition costs on assumed business and of EUR 5.45m administrative expenses. The latter are largely driven by personnel expenses of total EUR 3.89m for the average 12.6 full-time employees.

Covid-19 also left its mark on financial markets, aggravating volatility, while governments and central banks promoted massive quantitative easing with record-low interest rates. Although KRSA is solely invested in high investment grade corporate bonds and the market slump in April 2020 was largely overcome by year-end, the turbulences have led to a net negative investment result of EUR 96k.

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 CHF 2.74m (EUR 2.52m) of the total loss of CHF 8.04m (EUR 7.43m) against KRSA's remaining organizational fund.

C. Governance and risk management

KRSA implements the strategic and other business directives of Korean Re while complying with the relevant Swiss corporate and supervisory provisions and with the Articles of Association and its other regulations.

C.1 Corporate Governance

The executive bodies of KRSA are the Board of Directors, the Chief Executive Officer (CEO) and the Executive Management, headed by the CEO. The Executive Management consists of the CEO, Chief Financial Officer (CFO), Chief Operating Officer (COO) and Chief Underwriting Officer (CUO). In 2020, 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.

Board of Directors

Board of Directors as of 31 December 2020

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

Mr. Chul Min Jang and Mr. Reinhard Thoennissen have been on the Board of Directors for the full year of 2020. Mr. Ji Han Han was elected on the annual general meeting on 29 June 2020, replacing Mr. Se Koan Oh.

By law, the Board of Directors is responsible for the ultimate direction of KRSA, the supervision and control of the KRSA's management and the determination of KRSA's organization. The Board of Directors has the powers and duties as described by the Organizational Regulations of KRSA.

Executive Management

Management as of 31 December 2020

Markus Eugster (Chief Executive Officer, CEO)
Jazmin Seijas Nogareda (Chief Financial Officer, CFO)
Won Joong Choi (Chief Operating Officer, COO)

There have been no changes to KRSA's management team in the year 2020.

The Board of Directors delegates the management of KRSA to the CEO and the other members of the Executive Management as described by KRSA Organizational Regulations. Fundamental decisions of the Executive Management are made in the Executive Management Committee. This Committee takes place regularly in order to discuss the operational implementation of the business strategy and the risk strategy of KRSA.

Control functions and Responsible Actuary

KRSA mandates the **Internal Audit function** to Korean Re as their Internal Auditor. Therefore, Internal Audit is organizationally and operationally independent of KRSA's other control functions. KRSA will be audited at least once a year, on rotating topics, the first time in 2020. The Board of Directors approves the yearly audit plan. Internal Audit produces an annually audit report for the attention of the Board of Directors.

The Head of Risk Management & Compliance carries out the roles of the **Risk Management function** and **Compliance function** of KRSA, which are described in the KRSA policies. The Risk Management function regularly carries out an independent assessment of the significant risks of KRSA and of the appropriateness of the Risk Management system and reports at least once a year directly to the Board of Directors. The Reporting to the Executive Management takes place in the Risk Management Committee. The Compliance function assesses the appropriateness of the principles, processes and control structures to comply with the legal, regulatory and internal regulations. Furthermore, the Compliance function assesses how KRSA deals with compliance violations and reports directly to the Board of Directors once a year about KRSA's key compliance risks.

The function of the **Responsible Actuary** is outsourced to KPMG AG. The Responsible Actuary reviews the level of technical reserves and the SST calculation annually. In additions, the Responsible Actuary will support the annual ORSA, performing the projection of the 3-year solvency capital requirements based on the SST. As part of the role, the Responsible Actuary will provide an annual Responsible Actuary Report to the Executive Management and to the Board of Directors.

C.2 Risk Management

Risk management as a component of the governance system serves to identify, assess, report and monitor short and long-term risks to which KRSA is exposed. The following risk types are considered relevant and thus taken into account in the KRSA Risk Management process:

- Insurance risk
- Credit risk
- Market risk
- Liquidity risk
- Operational risk
- Reputational risk
- Strategic risk
- Emerging risk

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 reflects the concept of "Three lines of defense". With this concept, KRSA pursues the goal to identify and manage the risks at all levels beginning from front office to back office. All departments, processes and systems are involved and different procedures are implemented to achieve complete risk identification. The identified risks are evaluated either by quantitative modeling within the SST process or qualitative by expert assessments. The overall risk profile will be discussed and approved by the Risk Management Committee on a quarterly basis, the most significant risks of the overall risk profile are reported to the Board of Directors.

Risk strategy

The risk strategy, which is derived from the business strategy, defines where, how and to what extent KRSA is prepared to take risks. The risk strategy will be updated annually with a forward-looking

approach, e.g. with regard to the underwriting for the following year, the needed retrocession and the development of the SST. The process takes into consideration the business development of the current year. Therefore, the Executive Management prepares key risk metric figures on exposures, claims ratio's, growth potential, business outlook and SST development as a basis. As a result, implications shall be derived on the (re)structuring of the retrocession program, on the investment strategy and other qualitative and quantitative measures.

The Risk Management Committee of KRSA is responsible to develop a proposal for the annual risk strategy, e.g. appetite and limits. The Board of Directors approves the risk strategy. The level of risk that KRSA is willing to accept is determined by a predefined range of the solvency ratio of the Swiss Solvency Test, the risk preferences per risk type and the maintenance of the S&P's rating.

Internal Control System (ICS)

The internal controls established by the first line of defense with the support of the second line relate to all programs and procedures that are continuously implemented by all employees in order to achieve the following objectives:

- Effectiveness and efficiency of all business operations
- Reliability of financial reporting
- Compliance with relevant laws and regulations

This control environment is part of the ICS framework, which is described in detail in the ICS policy of KRSA. The Board of Directors is responsible for ensuring that an appropriate ICS is in place. The implementation of the ICS is the responsibility of the Executive Management. The Head of Risk Management & Compliance ensures that the KRSA wide process, risk and control documentations are up to date and reviews whether these are implemented in the daily business routines. The KRSA ICS report is prepared for each financial year, listing the core processes and assessments of their risks and controls. Possible weaknesses and measures identified by the process owners and by the auditors are also included in the ICS report. This report is used by the Board of Directors to oversee KRSA's internal control system.

Risk Management Committee

KRSA's Risk Management Committee is responsible for the regular analysis of risk identification, risk assessment and the preparation and implementation of risk-reducing measures. The Risk Management Committee consists of the Executive Management, the Head of Risk Management & Compliance and the Responsible Actuary. Risk Management Committee focuses on Risk Governance and Risk Management topics in the broadest sense and takes place four times a year. The Committee is responsible for the following tasks:

- Responsible for analyzing the risk profile on a quarterly basis
- Monitoring of risk-bearing capacity and limits
- Proposal for the Risk Management strategy

Own Risk and Solvency Assessment (ORSA)

The ORSA is a forward-looking process and an integral part of KRSA's strategy and planning process, as well as of the overall risk management concept. 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. The Finance department prepares the financial planning. The planning period covers the current and the following three financial years. The Responsible Actuary uses the overall

risk profile and financial planning to calculate the capital requirements and to evaluate the projections of overall solvency needs and the scenarios. The Risk Management Committee discusses and approves the ORSA results and determines possible measures, which will be approved by the Board of Directors at the Board meeting. In the final step, the CEO, CFO, Responsible Actuary and Head of Risk Management & Compliance establish the ORSA report and submit it to the Board of Directors for approval.

Material changes in the corporate governance and risk management during the reporting period

KRSA's corporate governance and risk management are fully established. There were no material changes during the reporting period, neither in the roles and responsibilities nor in the processes of corporate governance and risk management.

Internal audit performed an audit in 2020 with minor findings. The focus of the internal audit was on the compliance with internal policies and the adequacy and efficiency of the internal control system.

D. Risk profile

This section describes the risks to which KRSA is exposed and the measures taken to minimize these risks. For the quantitative evaluation of risks, KRSA generally follows the formula used under the Swiss Solvency Test (SST) for calculation of the regulatory capital requirements. In the Swiss Solvency Test, the insurance risk, the market risk and the credit risk are calculated. The quantitative information about KRSA's risk profile can be found in Section G. All other types of risk are identified and qualitatively assessed through various processes as described in the section above.

Insurance Risk

Insurance risk shall be classified into premium risk, reserves risk, natural catastrophe risk and man-made risk. KRSA is exposed to natural hazards in Continental Europe such as floods, earthquakes and windstorms. Accumulation risk is included in natural catastrophe risk. Natural catastrophe risk is KRSA's largest risk, which is consciously taken in accordance with its business strategy and risk preference. Due to the KRSA's portfolio man-made risk (like terrorism) is considered to be not material. The main risk mitigation measure taken by KRSA is the purchase of retrocession. KRSA has in place a Quota Share contract with its parent Korean Re, ceding 70% of its property claims and 50% of all non-property claims, after application of XoL retrocession programs.

Market Risk

The market risk reflects the risk of losses from adverse change and volatility of market prices of invested assets. The market risk includes the interest rate risk, spread risk and the foreign exchange rate risk. Since KRSA's investments consist solely of corporate bonds, changes in the interest rate level (interest rate risk) and the risk premiums (spread risk), which depend on the issuer, have a significant impact on the value of the investments.

In order to mitigate the market risk, KRSA defines its asset management strategy in the separate Asset Management Policy. KRSA does not engage in derivatives trading. Bond investments and short-term investments are the only permitted investment categories. Only investment-grade bonds shall be considered investable. Any deviation from these investment principles need to be agreed by Korean Re's investment division and approved by KRSA's board of directors. Furthermore, there are several investment limits in place, which are defined in the Asset Management Policy.

Credit Risk

Credit risk is defined as the potential losses in the value of portfolio due to deterioration in the credit quality of counterparties. This includes failure of a borrower to meet its contractual obligation in

accordance with the agreed terms, counterparty risk from reinsurers (ceded business) and credit default risk from the investment management. KRSA mitigates credit risk exposure by adherence to strict rating requirements for their counterparties as defined in KRSA's Asset Management and Retrocession Policies. Special attention is being given to the dependence on Korean Re and the associated credit risk. KRSA's Retrocession Policy includes monitoring and mitigation measures which help to reduce this risk.

Operational Risk

Operational risk is the risk resulting from the inadequacy or failure of internal processes, systems, employees and external events. The definition includes compliance risks, but not reputational and strategic risks. In the KRSA risk management process, operational risks in the areas of people risks, IT risks, process risks, compliance risks and risks resulting from external events were identified and discussed in the Risk Management Committee and appropriate risk-reducing measures were defined. KRSA is newly created company with a small team, therefore key people risk can be considered a significant operational risk.

The risk minimizing measures for all the identified operational risks are defined in KRSA's overall risk profile and KRSA's risk control matrix, which is part of the internal control system.

Other material risks

Impact of Covid-19: There is a risk of possible future claims payments due to Covid-19, which are still unclear at this stage. Because KRSA has limited exposure to the areas most affected by Covid-19, such as event cancellation or business interruption, KRSA was not as strongly affected by Covid-19 impact compared to most of its peers. And, inevitably, Covid-19 provides a degree of uncertainty in the level of reserves held. The effects in the reserving risk will be reflected in the SST 2021.

Liquidity risk refers to the risk of loss that may arise because of insufficient funds due to an unexpected sudden change in cash flow. KRSA will need liquidity to pay claims, its operating expenses, and interest on its debt and declared dividends on its share capital, and replace certain maturing liabilities. KRSA has sufficient liquidity to pay claims in a timely manner to retain its main value proposition to ceding insurance companies.

KRSA monitors its liquidity position and holds cash in two highly rated banks. The majority of KRSA's fixed income instruments are traded in public exchanges and can be easily converted into cash.

Reputational risk is defined as the risk of negative economic impact that could result from damage to KRSA's reputation. Communication, market behavior, employee treatment, social media activity or any other activity, which could lead to a reputational risk for KRSA.

Reputational risk is managed through consistent branding and image management within Korean Re. KRSA uses a standardized set of policies and procedures to govern its general conduct of business and interactions with employees, contracting parties, rating agencies and supervisory authorities.

Strategic risk is defined as the risk of losses due to business decisions, poor implementation of processes or a lack of adaptability to changes in the market.

KRSA faces a strategic risk in the planning as it is dependent on its parent Korean Re. This dependence entails the risk that KRSA does not achieve its financial objectives in case of strategic changes at Korean Re. KRSA is in constant exchange with Korean Re regarding strategic assumptions and two of KRSA's board members are senior managers of Korean Re, sufficiently mitigating this risk.

Another strategic risk for KRSA is the revocation of the Solvency 2 equivalence of the Swiss solvency regime. The risk could lead to increasing regulatory pressure or the loss of market access (e.g. challenging the strategic rationale for KRSA). The probability of this risk is low, but the impact in the event of an occurrence is classified as high, making it one of KRSA's largest and most important risks.

Emerging risks are risks which may develop or already exist, that are difficult to quantify and may have a high loss potential. In addition, emerging risks are characterized by a high degree of uncertainty, and even basic information that would help to adequately assess the frequency and severity of a given risk is often lacking. The process for identifying emerging risks is part of KRSA's risk management. The most important emerging risks are presented and discussed in the Risk Management Committee.

Concentration risks: KRSA's main retrocessionaire is its parent company Korean Re which leads to a risk accumulation. Given the strategic alignment with Korean Re and the long-term approach, the risk is partially mitigated. The default of Korean Re was assumed in the 'existential threat scenario' in the ORSA process.

Material changes in the risk profile during the reporting period

All risks were identified, assessed and monitored by the Risk Management Committee. As described above, Covid-19 had a significant impact on underwriting risk and reserve risk in the reporting year which are also visible in the SST 2021. Otherwise, there were no other material changes in the risk profile of KRSA during the reporting period.

E. Valuation

KRSA's assets of total EUR 158.85m (statutory BS) consists of corporate bonds (32%), cash (25%), the reinsurer's share of technical provisions (21%), reinsurance receivables (18%), and some other assets (3%).

The corporate bonds are liquid traded securities for which a market value as of 31.12.2020 was used for the market-consistent balance sheet. In contrast, the statutory balance sheet carries the bonds at amortized cost using the effective interest rate method. The cash is held in bank accounts predominantly at a leading Swiss bank and was recognized as is in the market-consistent balance sheet. The ceded reserves are revalued at market value. The deferred acquisition cost and intangible assets were not considered at all (zero market value). The rest of assets were recognized at book value in the market-consistent balance sheet.

The following table shows the statutory balance sheet and market consistent balance sheet as of 1 January 2021 and 1 January 2020:

Balance Sheet EUR m	Statutory BS 31.12.2020	Adjustments	SST BS 01.01.2021	SST BS 01.01.2020
Corporate bonds	51.59	2.65	54.24	44.38
<i>of which banks and securities dealers</i>	19.52	0.96	20.48	12.48
Other Assets	0.09	-	0.09	0.09
Accrued Assets	0.06	-	0.06	0.05
Bank credit balance	39.64	-	39.64	9.21
Other fixed assets	0.18	-	0.18	0.22
Share of technical provisions from reinsurance	33.59	(0.93)	32.66	(2.84)
Receivables from insurance and reinsurance companies	29.01	-	29.01	0.12
<i>Receivables from reinsurance companies: assumed</i>	22.65	-	22.65	0.12
<i>receivables from reinsurance companies: ceded</i>	6.36	-	6.36	-
Deferred Acquisition costs	1.17	(1.17)	-	-
Other receivables	0.01	-	0.01	0.00
Deposits made under assumed reinsurance contracts	1.57	-	1.57	-
Intangible Assets	1.96	(1.96)	-	-
Total Assets	158.85	(1.41)	157.45	51.24
Reinsurance: Non-life insurance business	50.92	1.40	52.32	4.88
<i>Claims Reserves (gross)</i>	37.15	0.66	37.81	0.05
<i>Unearned Premium Reserve (gross)</i>	13.77	0.74	14.51	4.84
Other liabilities from insurance business	32.16	-	32.16	0.13
Other liabilities	0.40	-	0.40	0.24
Other accrued expenses and deferred income	1.34	-	1.34	0.92
Interest-bearing liabilities	1.40	(1.40)	-	-
Deposits retained on ceded reinsurance	1.09	-	1.09	-
Total Liabilities	87.32	(0.00)	87.32	6.16
Total Equity/RBC	71.53	(1.40)	70.13	45.08

The adjustments from the statutory balance sheet to the market consistent balance sheet are as follows:

- Removal of Deferred Acquisition Costs on the asset side,
- Removal of Intangible Assets on the asset side,
- Removal of counterpart of Intangible Assets on the liability side,
- Discounting of non-life claims reserves (inwards and outwards),
- Market-consistent valuation of Unearned Premium Reserve (“UPR”) on the asset and liability side (inwards premium reserve and outwards premium reserve) by adding expected future losses from the statutory Premium Reserve,
- Ceded Premium Deficiency Reserves (“PDR”) are set to zero as they are included within the adjusted UPR
- No dividend payment is expected for 2021.

E.1 Market Consistent Value of the Assets

There are observable market prices for all financial assets, and these have been revalued at market value in the SST BS. The market value of bonds is different from the Statutory BS value because Korean Re accounts for them in the Statutory BS as the amortized value.

Ceded Claims Reserves have been discounted, a market consistent evaluation of the ceded UPR has been done including also business inception on 1 January 2021. The ceded PDR have been set to zero as they are included within the adjusted UPR.

Deferred acquisition costs and intangible assets are not considered in the SST BS. For all other assets the statutory value has been taken as the SST BS value.

E.2 Best Estimate Value of the Liabilities

E.2.1 Discounted Best Estimate Claims Reserves

Discounted Best Estimate Claims Reserves have been estimated by multiplying the Statutory Best Estimate Reserves as of 31 December 2020 by a discount factor estimated using the risk-free EUR yield curve from the Standard Model and assumed benchmark payment patterns.

E.2.2 Market Consistent Unearned Premium Reserves (UPR)

The undiscounted market consistent UPR was calculated by applying the expected combined ratio to the statutory UPR value and adding the net expected insurance loss/gain on bound but not incepted business ("BBNI", business written as of 1 January 2021). This was then discounted to obtain the market consistent UPR. The part of the market consistent UPR coming from the statutory UPR was discounted on a LoB level. The discount factors per LoB were constructed using the risk-free EUR yield curve from the Standard Model and assumed benchmark payment patterns. To the BBNI an overall discount factor was applied, it was calculated as a weighted average of the discount factors per LoB, using the expected insurance loss per LoB as weight.

E.2.3 Gross and Net Best Estimate Insurance Liabilities

The following table shows the statutory and market consistent gross and net Technical Provisions as of 1 January 2021 and 1 January 2020:

Best estimate of insurance liabilities EUR m	Statutory BS		SST BS	
	2021	2020	2021	2020
Reinsurance: Non-life insurance business	50.9	0.1	52.3	4.9
<i>Claims Reserves (gross)</i>	<i>37.1</i>	<i>0.0</i>	<i>37.8</i>	<i>0.0</i>
<i>Unearned Premium Reserve (gross)</i>	<i>13.8</i>	<i>0.1</i>	<i>14.5</i>	<i>4.8</i>
Fluctuation reserves and other statutory reserves (non-life): gross	-	-	-	-
Total	50.9	0.1	52.3	4.9

E.2.4 Market Consistent Value of the Remaining Liabilities

For all the non-technical provisions positions the statutory value has been taken as the market value, except for the lease liability ('Interest-bearing liabilities'), which is set to zero in the SST BS. The lease liability is viewed as a counterpart of the right of use asset, which was classified as an intangible asset and hence set to zero in the SST BS, therefore the same approach is taken for the lease liability.

E.3 Risk Margin

The 2021 Risk Margin is EUR 6.0m and corresponds to the expected discounted capital costs at the end of 2021 required by the insurance company to fulfil its insurance liabilities. It is estimated based on the expected Reserve Risk at the end of 2021 and the FINMA Standard Model.

F. Capital management

KRSA's capital management is based on its risk appetite, defined in particular by the target SST ratio, which is at least annually approved by the board of directors. The goal is to support long-term sustainable growth and to enhance the shareholder value on a continuous basis. To achieve these goals, a high credibility with all stakeholders worldwide as well as a high credit rating needs is required. KRSA's target range for the SST ratio is 120-150%.

KRSA's the parent company Korean Re is the only source of capital. For the second operating business year 2020, a capital increase of EUR 25m has been completed. The Group is committed to ensuring a sufficient capitalization and to invest further capital into KRSA if this is needed from a business perspective and essential for a good rating for the reinsurance operations in Switzerland. Accordingly, capital injections are planned in order to maintain the solvency ratio above the target range. No dividends are planned during the build-up phase.

The retrocession agreements with Korean Re are supporting KRSA's capital base. To be successful and to further increase the value and credibility of its operations, Korean Re has built a comprehensive framework for risk governance based on the central supervisions and controls of risks with clear accountability across all operations of the business.

Structure, level and quality of the equity capital

KRSA's total equity of EUR 71.53m consists of share capital, capital reserves, organization fund, retained and voluntary retained earnings. The share capital is composed of CHF 10,000,000.

EUR k	Share capital	Capital reserves	Organization fund	Restructuring fund	Retained earnings	Voluntary retained earnings	Total equity
12 July 2018, 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
Offset of prior period loss with Organization fund	-	-	-4,838	-	-	4,838	-
Capital Increase (06.11.2020)	-	15,636	-	9,364	-	-	25,000
Loss for the period	-	-	-	-	-	-7,433	-7,433
As of 31 December 2020	8,761	58,317	2,522	9,364	-	-7,433	71,531

G. Solvency

G.1 Overview

KRSA performed the Swiss Solvency Test ("SST") as of 1 January 2021. The solvency information in this report (e.g., risk-bearing capital, target capital) corresponds to that submitted to FINMA within KRSA's SST report and is still subject to regulatory review.

The SST model applied is a Partial Internal Model based on FINMA Standard Models for all modules except Natural Catastrophe Risk ("NatCat") which is covered by an Internal Model. The Internal Model for NatCat is provisionally approved by FINMA for use in the 2021 SST.

The internal model for NatCat covers the modelling of natural catastrophe risks Windstorm Europe, Earthquake Europe and Flood Europe. The internal model is needed as NatCat makes up over 50% of the target capital. The frequency-severity model used for IE1 is not sufficient to capture the NatCat risks. A vendor NatCat model allows for a more accurate and adequate modelling. The NatCat modelling is outsourced to AIR, with KRSA providing the necessary input data. The output of the AIR vendor model is used to model NatCat risks in the SST.

Based on the Company's business plan and planned risk profile, KRSA is solvent on an economic basis with an SST ratio of 165% as of 1 January 2021. The results of the SST 2021 along those of 2020 for KRSA by risk are shown in the table below. The results are as submitted to FINMA on 30 April 2021.

Comments on individual risk components are as follows:

Risk Composition	SST 2021	SST 2020
Attritional Events Premium Risk	9.49	1.46
Individual Events 1	17.44	8.36
Natural Catastrophe Events	25.47	21.86
Diversification	-22.85	-9.17
Underwriting Risk	29.55	22.51
Attritional Events Reserve Risk	2.86	0.00
Individual Events 2	14.72	0.00
Diversification	-2.74	0.00
Reserving Risk	14.85	0.00
Diversification	-13.08	0.00
Expected Shortfall Insurance	31.32	22.51
Market Risk	10.37	8.34
Credit Risk	10.62	2.01
Diversification	-13.45	-6.12
Expected Shortfall Insurance, Market and Credit Risk incl Scenarios	38.86	26.73
Expected Insurance Result	0.26	0.16
Expected Financial Performance over 1 year risk free	-0.32	-0.26
Insurance & Market & Credit risks = Target Capital	38.80	26.63
Risk Margin	5.98	0.66
Target Capital	44.78	27.29
Risk Bearing Capital	70.13	45.08
SST ratio	165%	167%

- **Insurance Risk:** Underwriting Risk is the largest component of the Target Capital. This is driven by Natural Catastrophe Events ("NE") and reflects the significant volume of Property contracts covering Natural Catastrophe losses KRSA has written as at 01.01.2021. The increase in Underwriting Risk is driven by an increase in premium volumes for 2021.
- **Reserve Risk:** Reserve Risk was zero last year due to the insignificant reserves booked. This year the Reserve Risk is driven by reserves for Covid-19 related losses that were modelled in the Individual Events 2 (IE2).
- **Market Risk:** Market Risk is also a significant component of the Target Capital and follows the FINMA Standard Model. The largest risk arises from bond investments, and their Interest Rate Risk and Spread Risk. The increase in Market Risk is driven mainly by an increase in the bond investments.
- **Expected Insurance Result:** The Expected Insurance Result is in line with KRSA Plan and reflects the expected loss in 2021. Note that renewals on 1 January 2021 are considered as bound on the same date and hence included in the Risk Bearing Capital. The Expected Insurance Result is therefore based purely on mid-year renewals. The expected loss amount remained relatively stable, with an increase in expected premium offset by higher expected commissions and losses.
- **Expected Financial Result:** The Expected Financial Result is based on the FINMA Standard Model and reflects the expected financial return of KRSA bonds. The Expected Financial Result remained relatively stable.
- **Credit Risk:** Credit Risk is based on the new FINMA Standard Model. The largest KRSA credit exposures are to the Parent Company (due to intra-group retrocession, offset by payables) and Credit Suisse (KRSA's main banking partner) The increase in credit risk is driven by an increased volume of assets exposed to credit risk and the change in the credit risk model which reflects the high risk concentration in the two counterparties.

- **Risk Margin:** The 2021 MVM corresponds to the expected discounted capital costs at the end of 2021 required by the insurance company to fulfil its insurance liabilities. It is estimated based on the FINMA Standard Model. The Risk Margin has increased due to higher Reserve Risk and an increase in projected reserves.
- **Risk Bearing Capital (“RBC”):** The RBC is based on the 31 December 2020 KRSA Statutory Balance sheet to which some adjustment have been applied in order to move to a Market Value Balance Sheet as described in Section E. 100% of RBC is paid up capital, no other risk absorbing capital instruments are included. The increase in RBC stems from a capital injection of EUR 25m received during 2020.

G.2 Market Risk

KRSA uses the FINMA Standard Model for Market Risk as described in the document “Technische Beschreibung für das SST-Standardmodell Marktrisiko”, dated 31.10.2020. The delta-normal approach was used to estimate the market risk for all balance sheet items with the exception of the insurance cash flows and bonds, where the exact valuation method was used.

The composition of the Market Risk Target Capital for the SST 2021 and the SST 2020 is shown in the following table:

Risk factors (EUR m)	SST 2021	SST 2020	difference
Standalone interest rate risk	8.73	7.99	0.74
Standalone EUR rate risk	7.75	7.11	0.64
Standalone USD rate risk	1.17	1.08	0.09
Standalone spread risk	9.01	6.47	2.54
Standalone currency risk	1.25	1.02	0.23
Total	10.37	8.34	2.03

The total row shows the diversified expected shortfall across all market risk factors, whereas the other rows show the expected sub-diversified capital requirement where the sub-diversified capital requirements allow for diversification within the broad risk factors shown. Overall, the Target Capital is mainly driven by the interest rate and spread risk arising from the EUR bonds. The increase compared to last year is mainly due to an increase in the bond volume.

G.3 Credit Risk

KRSA uses the new FINMA standard model for Credit Risk as described in the document “Technische Beschreibung für das SST-Standardmodell Kreditrisiko (Opt-In)”, dated 31.10.2020. This model has been newly introduced for the SST 2021, and replaces the old Credit Risk model that was based on the Basel III model. The familiar Basel III approach is still present, but it is now being used alongside a new, stochastic model which is referred to as “Credit Risk Merton”. Korean Re has used the Credit Risk Merton model for all assets exposed to Credit Risk. The credit ratings of counterparties are from recognized credit-rating agencies. Credit Risk has been calculated for 2021 expected ceded loss and the relevant SST BS assets.

The following table shows the 10 largest counterparties according to their market values exposed to Credit Risk (EUR m).

Counterparty	Rating	Market Value gross	Market Value net
Korean Reinsurance Company*	A	73.62	49.67
CREDIT SUISSE	A	39.16	39.16
GRAZER WECHSELSEITIGE VERSICHERUNG	Not Rated	3.47	3.47
ACCREDITED INSURANCE	A	2.97	2.97
Allianz SE	AA	2.79	2.79
PROVINZIAL NORDWEST HOLDING AG	Not Rated	2.46	2.46
HELVETIA SCHWEIZ	A	2.00	2.00
NATIONAL GRID ELECTRICITY	A	2.00	2.00
PROLOGIS	A	1.89	1.89
UNILEVER	A	1.85	1.85
Top 10 Counterparties		132.21	108.26

* Including EUR 41.6m (gross) / EUR 28.0m (net) expected ceded losses

The largest part of the Credit Risk arises from the exposure to the Parent Company due to the Share of technical provisions from reinsurance, the Receivables from reinsurance companies and the Expected ceded losses, followed by the Credit Risk arising from cash held at Credit Suisse.

The 10 largest counterparties make up EUR 132.2m or 69% of the total exposure to Credit Risk based on the market value gross. For the Credit Risk calculation the exposure to Korean Reinsurance Company was netted with the reinsurance payables due from the parent company.

G.4 Insurance Risk Non-Life

The results of the Non-Life Insurance Risk model and the stand-alone Insurance Risk Capital are summarized below:

SST Model Component	SST 2021	SST 2020
Attritional Events Premium Risk (AEP)	9.49	1.46
Individual Events 1 (IE1)	17.44	8.36
Natural Catastrophe Events (NE)	25.47	21.86
Diversification (Premium Risk)	-22.85	-9.17
Underwriting Risk	29.55	22.51
Attritional Events Reserve Risk (AER)	2.86	0.00
Individual Events 2 (IE2)	14.72	0.00
Diversification (Reserving Risk)	-2.74	0.00
Reserving Risk	14.85	0.00
Diversification (Insurance)	-13.08	0.00
Expected Shortfall Insurance	31.32	22.51

The components in the table above are as follows: Attritional Event Premium Risk ("AEP"), Individual Events 1 ("IE1"), i.e. large premium risk, Natural Catastrophe ("NE"), Attritional Event Reserve Risk ("AER") and Individual Events 2 ("IE2"), i.e. large reserve risk.

The increase compared to last year in the AEP, IE1 and NE components in the Underwriting Risk is due to an increase in premium volume, in particular for the property lines of business. The AER and IE2 components of the Reserve Risk have been modelled this year and the impact of three Covid-19 scenarios has been modelled within IE2. During the 2020 SST these components were not modelled due to an insignificant reserve volume.

The stand-alone NE risk on a gross basis, broken down in the different covered perils (European Windstorm, Flood and Earthquake) is summarized below:

NE Target Capital	SST 2021	SST 2020
EU Windstorm (gross)	170.13	134.04
EU Flood (gross)	111.51	56.58
EU Earthquake (gross)	91.61	90.97
Target Capital (net, undiscounted)	25.02	21.86

The largest component of the Target Capital is Underwriting Risk. This is driven by Natural Catastrophe Events (NE) and reflects the written property contracts covering Natural Catastrophe losses. The NE component is mainly driven by Windstorm risk. Due to the large NE component, the AEP and IE1 contributions is small. For AEP the expectation is that losses will occur for all LoBs in 2021, whereas for IE1 the expectation is that large losses will be observed mainly for the Property LoB.

The Reserve Risk is driven by IE2. IE2 covers non-experience scenarios and is dependent on the selection of these scenarios. In 2021 IE2 is mainly driven by scenarios considering Covid-19. AER models the risk of the booked case and IBNR reserves for all LoBs, excluding Covid-19 reserves which are covered in IE2.

H. Appendix

H.1 External auditor's summary report

The Financial Condition Report is not audited.

The financial statements of Korean Reinsurance Switzerland AG, which comprise the income statement, balance sheet, cash-flow statement and notes to the financial statements for the year ended 31 December 2020, are audited. Please refer to the report of the auditor in the KRSA Annual Report 2020.

<https://www.koreanre.ch/about-us>

H.2 Abbreviations

AG	Aktiengesellschaft (stock corporation)
bn	Billion (short scale definition)
BS	Balance Sheet
Ca.	Approximately (Latin: circa)
CEO	Chief Executive Officer
Cf.	Refer to (Latin: confer)
CFO	Chief Financial Officer
CHF	Swiss Franc
COO	Chief Operating Officer
CUO	Chief Underwriting Officer
EUR	Euro
FINMA	Eidgenössische Finanzmarktaufsicht (Swiss Financial Market Supervisory Authority)
GWP	Gross Written Premium
ICS	Internal Control System
k	Thousand
KRSA	Korean Reinsurance Switzerland AG
LoB	Line of Business
m	Million
ORSA	Own Risk and Solvency Assessment
P&C	Property and Casualty
Q	Quarter
Re	Reinsurance
S&P	Standard and Poor's (credit-rating agency)
SST	Swiss Solvency Test
UPR	Unearned Premium Reserves
USD	United States Dollar

H.3 Appendix: Quantitative tables

H.3.1 Performance Solo Reinsurance

Financial situation report: quantitative template
"Performance Solo Reinsurance"

Currency: EUR
Amounts stated in thousands

	Total		Personal accident		Health		Motor		Marine, aviation, transport		Property		Casualty		Engineering		Miscellaneous	
	Previous year	Reporting year	Previous year	Reporting year	Previous year	Reporting year	Previous year	Reporting year	Previous year	Reporting year	Previous year	Reporting year	Previous year	Reporting year	Previous year	Reporting year	Previous year	Reporting year
1 Gross premiums	163	51,959						8,654	4,340	163	35,754		127		3,035			49
2 Reinsurers' share of gross premiums	-114	-34,712					-4,327	-2,682	-114	-25,491		-63		-2,124				-24
3 Premiums for own account (1 + 2)	49	17,247					4,327	1,659	49	10,263		63		910				24
4 Change in unearned premium reserves	-96	-13,823					-5,033	-2,108	-96	-5,085		-3		-1,594				-0.4
5 Reinsurers' share of change in unearned premium reserves	67	8,244					2,515	1,053	67	3,558		1.4		1,115				0
6 Premiums earned for own account (3 + 4 + 5)	20	11,668					1,809	604	20	8,736		62		432				24
7 Other income from insurance business	1	1,307					218	109	1	899		3.19		76				1
8 Total income from underwriting business (6 + 7)	21	12,975					2,027	713	21	9,636		65		508				26
9 Payments for insurance claims (gross)	0	2,678					-263	-118	0	3,077		-1		-17				0
10 Reinsurers' share of payments for insurance claims	0	-1,951					132	59	-	-2,154		1		12				-
11 Change in technical provisions	-47	-37,183					-2,616	-1,303	-47	-32,204		-160		-878				-20
12 Reinsurers' share of change in technical provisions	33	25,192					1,300	724	33	22,475		80		618				-4
13 Change in technical provisions for unit-linked life insurance	0	-					0	0	0	0		0		-				0
14 Expenses for insurance claims for own account (9 + 10 + 11 + 12 + 13)	-14	-11,263					-1,447	-639	-14	-8,806		-81		-266				-24
15 Acquisition and administration expenses	-4,096	-13,599					-1,919	-904	-4,096	-9,979		-40		-746				-10
16 Reinsurers' share of acquisition and administration expenses	6	6,190					557	513	6	4771		15		332				3.15
17 Acquisition and administration expenses for own account (15 + 16)	-4,090	-7,408					-1362	-391	-4090	-5209		-25		-415				-7
18 Other underwriting expenses for own account	-	-1,168					-195	-98	-	-804		-3		-68				-1
19 Total expenses from underwriting business (14 + 17 + 18) (non-life insurance only)	-4,104	-19,839					-3,004	-1,127	-4,104	-14,818		-109		-748				-33
20 Investment income	169	830																
21 Investment expenses	-95	-926																
22 Net investment income (20 + 21)	74	-96																
23 Capital and interest income from unit-linked life insurance	0	-																
24 Other financial income		-																
25 Other financial expenses	-112	-108																
26 Operating result (8 + 14 + 17 + 18 + 22 + 23 + 24 + 25)	-4,121	-7,069																
27 Interest expenses for interest-bearing liabilities		-																
28 Other income		-																
29 Other expenses	-583	-154																
30 Extraordinary income/expenses		-75																
31 Profit / loss before taxes (26 + 27 + 28 + 29 + 30)	-4,704	-7,298																
32 Direct taxes	-134	-135																
33 Profit / loss (31 + 32)	-4,838	-7,433																

H.3.2 Market Consistent Balance Sheet Solo

Financial situation report: quantitative template		Currency: EUR Amounts stated in millions		
1000		Ref. date previous period	Adjustments previous period	Ref. date reporting year
Market-consistent value of investments	Real estate	0.0		0.0
	Participations	0.0		0.0
	Fixed-income securities	44.4		54.2
	Loans	0.0		0.0
	Mortgages	0.0		0.0
	Equities	0.0		0.0
	Other investments	0.0		0.0
	Collective investment schemes	0.0		0.0
	Alternative investments	0.0		0.0
	Structured products	0.0		0.0
	Other investments	0.0		0.0
Total investments	44.4		54.2	
Market-consistent value of other assets	Financial investments from unit-linked life insurance	0.0		0.0
	Receivables from derivative financial instruments	0.0		0.0
	Deposits made under assumed reinsurance contracts	0.0		1.6
	Cash and cash equivalents	9.2		39.6
	Reinsurers' share of best estimate of provisions for insurance liabilities	-2.8		32.7
	Direct insurance: life insurance business (excluding unit linked life insurance)	0.0		0.0
	Reinsurance: life insurance business (excluding unit linked life insurance)	0.0		0.0
	Direct insurance: non-life insurance business	0.0		0.0
	Direct insurance: health insurance business	0.0		0.0
	Reinsurance: non-life insurance business	-2.8		32.7
	Reinsurance: health insurance business	0.0		0.0
	Direct insurance: other business	0.0		0.0
	Reinsurance: other business	0.0		0.0
	Direct insurance: unit-linked life insurance business	0.0		0.0
	Reinsurance: unit-linked life insurance business	0.0		0.0
	Fixed assets	0.2		0.2
	Deferred acquisition costs	0.0		0.0
	Intangible assets	0.0		0.0
	Receivables from insurance business	0.1		29.0
	Other receivables	0.0		0.0
Other assets	0.1		0.1	
Unpaid share capital	0.0		0.0	
Accrued assets	0.1		0.1	
Total other assets	6.9		103.2	
Total market-consistent value of assets	Total market-consistent value of assets	51.2		157.4
BEL: Best estimate of liabilities (including unit linked life insurance)	Best estimate of provisions for insurance liabilities	4.9		52.3
	Direct insurance: life insurance business (excluding unit linked life insurance)	0.0		0.0
	Reinsurance: life insurance business (excluding unit linked life insurance)	0.0		0.0
	Direct insurance: non-life insurance business	0.0		0.0
	Direct insurance: health insurance business	0.0		0.0
	Reinsurance: non-life insurance business	4.9		52.3
	Reinsurance: health insurance business	0.0		0.0
	Direct insurance: other business	0.0		0.0
	Reinsurance: other business	0.0		0.0
	Best estimate of provisions for unit-linked life insurance liabilities	0.0		0.0
	Direct insurance: unit-linked life insurance business	0.0		0.0
Reinsurance: unit-linked life insurance business	0.0		0.0	
Market-consistent value of other liabilities	Non-technical provisions	0.0		0.0
	Interest-bearing liabilities	0.0		0.0
	Liabilities from derivative financial instruments	0.0		0.0
	Deposits retained on ceded reinsurance	0.0		1.1
	Liabilities from insurance business	0.1		32.2
	Other liabilities	1.2		0.4
	Accrued liabilities	0.0		1.3
Subordinated debts	0.0		0.0	
Total BEL plus market-consistent value of other liabilities	Total BEL plus market-consistent value of other liabilities	6.2		87.3
Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities		45.1		70.1

H.3.3 Solvency Solo

Financial situation report: quantitative template "Solvency Solo"		Currency: EUR Amounts stated in millions		
		Ref. date previous period in EUR millions	Adjustments previous period in EUR millions	Ref. date reporting year in EUR millions
Derivation of RBC	Market-consistent value of assets minus total from best estimate liabilities plus market-consistent value of other liabilities	45.1		70.1
	Deductions	-		0.0
	Core capital	45.1		70.1
	Supplementary capital	-		0.0
	RBC	45.1		70.1
		Ref. date previous period in EUR millions	Adjustments previous period in EUR millions	Ref. date reporting year in EUR millions
Derivation of target capital	Underwriting risk	22.5		31.3
	Market risk	8.3		10.4
	Diversification effects	-6.1		-13.5
	Credit risk	2.0		10.6
	Risk margin and other effects on target capital	0.6		5.9
	Target capital	27.3		44.8
		Ref. date previous period in %	Adjustments previous period in %	Ref. date reporting year in %
SST ratio		167%		165%