Korean Reinsurance Switzerland AG

Financial Condition Report

1 January 2022 – 31 December 2022

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Details	
Issued by	Executive Management
Approved by	Board of Directors
Language	English
Report date	30 April 2023
Scope of application	Korean Reinsurance Switzerland AG

Contents

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 2022.

Section B addresses the most important figures relating to premium income, benefits and investment results in more detail. At the end of 2022, KRSA reported a net loss after taxes of EUR 13.0m and its statutory assets amounted to EUR 513.5m.

Section C describes how the Board of Directors, the Executive Management, the Internal Audit, the Risk Management and Compliance functions as well as 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 defines 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 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 2023. KRSA's market consistent assets amount to EUR 443.0m and consist of the reinsurer's share of technical provisions (37%), corporate bonds (14%), reinsurance receivables (28%), cash (19%) and minor positions (2%) like other assets and deposits. The liabilities amount to EUR 362.7m. 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 'A' rating. KRSA's target range for the SST ratio is 120-150%. In KRSA's fourth business year, a capital increase of EUR 20.0m has been completed in November 2022. The structure, level and quality of KRSA`s equity capital are also shown.

Section G shows the result of KRSA's SST performed as of 1 January 2023. With an SST ratio of 176% KRSA is sufficiently capitalized. The SST calculations result in a Target Capital of EUR 49.8m. The Risk Bearing Capital amounts to EUR 80.3m. Underwriting Risk is the largest component of the Target Capital. 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, Seoul, 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 reconfirmed the 'A stable' credit rating in August 2022.

2022 was marked by Russia's invasion of the Ukraine in February and the ongoing war impacting Europe's economy and energy prices. Inflation in Europe and the US has soared to the highest level since WWII, leading to interest rate hikes by central banks, impacting the market valuation of investments and triggering fears of recession. While KRSA's assets saw a considerable reduction of their market value, impairments were not required thanks to the high rating quality. In 2022 KRSA has received a further capital injection of CHF 19.6m (EUR 20.0m) from Korean Re to maintain its SST ratio in line with its defined risk appetite. Excess inflation also impacted KRSA's reserves which were adjusted accordingly.

For the next years, KRSA aims to continue diversifying its business portfolio creating less dependency on property cat business and broadening its product offerings to other non-life lines of businesses. It also expects to benefit from the broad price corrections in the reinsurance market and therefore be able to achieve the anticipated underwriting profitability. In the mid-term, KRSA intends to become a relevant player in the European non-life treaty business.

Deloitte AG, Pfingstweidstrasse 11, 8005 Zürich, is KRSA's external auditor.

B. Performance

In 2022, KRSA reported a net loss after taxes of EUR 13.0m. 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 reduces its insurance risk by placing proportional and non-proportional retrocession with its parent company.

The year 2022 saw also natural catastrophe events, namely three large hail storms affecting France in June and a series of winterstorms in February mainly affecting the Netherlands and Germany. The net impact of these events amounts to EUR 7.0m. The 2021 hailstorms "Volker" and "Xero" as well as the flood "Bernd" deteriorated further and contributed to this year's net loss with EUR 2.4m.

Net acquisition costs stood at EUR 9.3m and administrative expenses amounted to EUR 7.3m. The latter are largely driven by personnel expenses of total EUR 5.1m for the average 18.4 full-time employees.

KRSA is solely invested in high investment grade corporate bonds which are carried at amortized cost. Net investment income in 2022 was EUR 1.2m, stemming from bond's income and unrealized net gains.

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 carry forward the loss of EUR 13.0m to the next year.

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). 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 2022

	Residence
Yung Heub Song (Chairman)	Seoul, Korea
Jin Hyung Lee (Member)	Seoul, Korea
Reinhard Thoennissen (Independent Director)	Wallisellen, Switzerland
Sven Siegin (Secretary of the Board of Directors)	

The Board of Directors underwent some changes in 2022. At the Extraordinary General Meeting (EGM) of 28 July 2022 Mr. Yung Heub Song was elected Chairman replacing Mr. Chul Min Jang and Mr. Jin Hyung Lee was elected as board member replacing Mr. Ji Han Han. Independent Director Mr. Reinhard Thoennissen was reelected at the Annual General Meeting (AGM) on 26 April 2022 for the period 2022/2023. Furthermore, the AGM confirmed Deloitte AG as KRSA's external auditors for the 2022 fiscal year.

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 2022

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

There was no change in KRSA's management in 2022.

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 and decide about 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 Board of Directors approves the yearly audit plan. Internal Audit produces an 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 addition, the Responsible Actuary will support the annual ORSA by 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 (e.g. climate 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 from underwriting / pricing to technical accounting / claims and finance. All departments, processes and systems are involved and different procedures are implemented to achieve a complete risk identification. The identified risks are evaluated either by quantitative modeling within the SST process or by qualitative expert assessments. The Risk Management Committee discusses and approves the overall risk profile on a quarterly basis and the most significant risks of the overall risk profile are reported to the Board of Directors on a quarterly basis.

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 is being 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 the basis of exposures, claims ratios, growth potential, business outlook and SST development. 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 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 documentation is up to date and reviews whether these are being implemented in the daily business routines. The KRSA ICS report is prepared for each financial year, listing the core processes and assessments of its 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. The Risk Management Committee focuses on Risk Governance and Risk Management topics in the broadest sense and takes place at least 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. 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 2022 with minor findings. The focus of the internal audit was on the adequacy and efficiency of the Risk Management system and the appropriateness of internal control procedures in Underwriting.

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, reserves, natural catastrophe 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. Due to the KRSA’s business portfolio man-made risk (such as terrorism) is not considered to be material.

The main risk mitigation measure taken by KRSA is the purchase of retrocession. KRSA has in place quota share treaties with its parent Korean Re. In addition, KRSA benefits from Korean Re's external 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 interest rate, spread and 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 valuation 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 eligible. Any deviation from these investment principles needs 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 KRSA's Asset Management Policy.

Credit Risk

Credit risk is defined as the potential losses due to the deterioration of 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. At the end of 2022 KRSA has put in place a collateral account to further reduce the credit risk to its parent. 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, IT, processes, and compliance risks as well as risks resulting from external events were identified and discussed in the Risk Management Committee and appropriate risk-reducing measures were defined.

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

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. This includes communications, 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 probability of this risk is low, but the impact in the event of an occurrence is classified as high given KRSA's geographic mandate, 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. The risk from natural catastrophes has decreased significantly due to lower than expected natural catastrophe business volumes and also due to the discounting effect based on the new FINMA yields released in January 2023. Due to higher reserves, the reserve risk has increased significantly as can be seen in the AER and IE2 risk components in the SST 2023. The decrease in the market value in 2022 is mainly driven by the drop of the market values of the bonds, which led to a reduction in market risk. Credit risk has also decreased significantly, mainly due to the use of collateral to further reduce the credit risk to Korean Re Group. All changes in the risk components in the SST 2023 compared to the results in the SST 2022 are described in detail in section G. Solvency.

E. Valuation

KRSA's assets of total EUR 513.5m (statutory BS) consists of the reinsurer's share of technical provisions (38%), corporate bonds (16%), reinsurance receivables (24%), cash (16%), and some other assets (6%).

The corporate bonds are liquid traded securities for which a market value as of 31.12.2022 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 2023 and 1 January 2022:

Balance Sheet EURm	Statutory BS 31.12.2022	Adjustments	SST BS 01.01.2023	SST BS 01.01.2022
Corporate bonds	84.7	-24.8	59.9	81.9
Investment funds: money market	3.3	-	3.3	0.5
Other assets	0.1	-	0.1	0.1
Accrued assets	0.1	-	0.1	0.1
Bank Credit Balance	83.9	-	83.9	57.9
Other fixed assets	0.1	-	0.1	0.1
Share of technical provisions from reinsurance	197.5	-34.9	162.6	143.7
Receivables from insurance and reinsurance companies	125.7	-	125.7	63.5
Receivables from reinsurance companies: ceded	*46.9*	-	*46.9*	*19.8*
Receivables from reinsurance companies: assumed	*78.8*	-	*78.8*	*43.7*
Deferred acquisition costs	9.2	-9.2	-	-
Other receivables	-	-	-	-
Deposits made under assumed reinsurance contracts	7.2	-	7.2	5.9
Intangible assets	1.7	-1.7	-	-
Total Assets	**513.5**	**-70.5**	**443.0**	**353.7**
Reinsurance: Non-life insurance business	288.3	-50.3	238.0	188.8
Claims Reserves (gross)	*232.3*	*-22.9*	*209.4*	*168.0*
Unearned Premium Reserve (gross)	*55.9*	*-27.3*	*28.6*	*20.9*
Liabilities from insurance business	105.0	-	105.0	57.7
Other liabilities	0.7	-	0.7	0.2
Accrued liabilities	1.7	-	1.7	1.8
Interest-bearing liabilities	1.1	-1.1	-	-
Deposits retained on ceded reinsurance	17.2	-	17.2	17.5
Total Liabilities	**414.0**	**-51.3**	**362.7**	**266.1**
Total Equity/RBC	**99.5**	**-19.2**	**80.3**	**87.6**

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 2023.

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 2023. 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 2022 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 2023). 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 2023 and 1 January 2022:

Best estimate of insurance liabilities EURm	Statutory BS 2023	Statutory BS 2022	SST BS 2023	SST BS 2022
Reinsurance: Non-life insurance business	288.3	196.2	238.0	188.8
Claims Reserves (gross)	232.3	167.1	209.4	168.0
Unearned Premium Reserve (gross)	55.9	29.1	28.6	20.9
Equalization reserves and other statutory reserves (non-life): gross	0.0	0.0	0.0	0.0
Total	**288.3**	**196.2**	**238.0**	**188.8**

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 2023 Risk Margin is EUR 9.5m and corresponds to the expected discounted capital costs at the end of 2022 required by the insurance company to fulfil its insurance liabilities. It is estimated based on the expected Reserve Risk at the end of 2023 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 is required. KRSA's target range for the SST ratio is 120-150%.

KRSA's parent company Korean Re is the only source of capital. For the year 2022, a capital increase of EUR 20.0m 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 the adequate solvency and rating of KRSA. Accordingly, future 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 99.5m 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	Organiza-tion fund	Restruc-turing fund	Retained earnings	Voluntary retained earnings	Total equity
As of 31 December 2020	**8,761**	**58,317**	**2,522**	**9,364**	**-**	**-7,433**	**71,531**
Offset of prior period loss with	-	-	-2,522	-4,911	-	7,433	-
Capital Increase (26.11.2021)	-	41,500	-	-	-	-	41,500
Loss for the period	-	-	-	-	-	-20,579	-20,579
As of 31 December 2021	**8,761**	**99,817**	**-**	**4,453**	**-**	**-20,579**	**92,452**
Offset of prior period loss with	-	-	-	-4,453	-	4,452	-
Capital Increase (30.11.2022)	-	20,000	-	-	-	-	20,000
Loss for the period	-	-	-	-	-	-12,971	-12,971
As of 31 December 2022	**8,761**	**119,817**	**-**	**-**	**-**	**-29,098**	**99,480**

G. Solvency

G.1 Overview

KRSA performed the Swiss Solvency Test ("SST") as of 1 January 2023. 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 has been approved by FINMA in 2021.

The internal model for NatCat covers the modelling of natural catastrophe risks Windstorm Europe, Earthquake Europe and Flood Europe. 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 Verisk Analytics, with KRSA providing the necessary input data. The output of the Verisk Analytics 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 176% as of 1 January 2023. The results of the SST 2023 along those of 2022 for KRSA by risk are shown in the table below. The results are as submitted to FINMA on 30 April 2023.

Comments on individual risk components are as follows:

	SST 2023 in EURm	SST 2022 in EURm
One-year risk capital (SCR)	**40.4**	**48.7**
Target capital (TC)	**49.8**	**56.9**
Underwriting risk	18.0	21.5
Reserving risk	19.3	11.4
Diversification effect	-8.8	-8.6
Market risk	11.9	19.4
Credit risk	12.9	18.8
Diversification effect	-15.5	-16.8
Negative of expected financial result	-0.4	-0.5
Negative of expected insurance result	2.9	2.1
Scenarios effect	0	0
Additional effects	0	0
Market value margin (MVM)	9.5	8.3
Risk-bearing capital (RBC)	**80.3**	**87.6**
SST ratio	**175.6%**	**162.9%**

- **Underwriting Risk:** The Underwriting Risk consists of the risk components Natural Catastrophe risk (NE), Attritional Events Premium Risk (AEP) and Individual Events 1 (IE1). The risk component NE decreased significantly due to lower than expected natural catastrophe business volumes and also due to the discounting effect based on the new FINMA yields released in January 2023. The AEP and also the IE1 decreased mainly due to the discounting effect.

- **Reserving Risk:** The Reserving Risk consists of the risk components Attritional Events Reserve Risk (AER) and Individual Events 2 (IE2). The increase in reserves leads to an increase in the AER and also to an increase in the scenario severities in the risk component IE2. This is only partially offset by the discounting effect.
- **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 decrease in market risk compared to the SST 2022 is mainly driven by the drop of the market values of the bond portfolio. Additionally there is a better duration and currency matching between Assets and Liabilities.
- **Expected Insurance Result:** The Expected Insurance Result is in line with KRSA Plan and reflects the expected loss in 2023. Note that renewals on 1 January 2023 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 Insurance Result has increased compared to the SST 2022 due to increased volumes and slight increase in overall net combined ratio on the business written after 1 January. The mid-year renewals have significantly increased compared to the prior year.
- **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. Credit risk decreased significantly, mainly due to the use of collateral to further reduce the credit risk to Korean Re Group. The credit risk still existing after application of the collateral results mainly from bank deposits, the exposure to Korean Re Group due to the share in technical provisions from reinsurance, receivables from primary insurance companies and expected ceded losses.
- **Risk Margin:** The 2023 MVM corresponds to the expected discounted capital costs at the end of 2023 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 increased reserve volume, which is partially offset by the reduction due to collateral account and discounting effect.
- **Risk Bearing Capital ("RBC"):** The RBC is based on the 31 December 2022 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 RBC in the SST 2023 decreased compared to the RBC in the SST 2022, but less than expected due to the discounting effect based on FINMA yields.

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 2023 and the SST 2022 is shown in the following table:

Risk factors	SST 2023	SST 2022	Difference
Diversification effects risk	-8.3	-15.1	-45.3%
Standalone interest rate risk	7.7	15.9	-51.6%
Standalone CHF rate risk	*0.2*	*0.0*	*0.0%*
Standalone EUR rate risk	*7.3*	*15.0*	*-51.6%*
Standalone USD rate risk	*0.7*	*1.1*	*-35.2%*
Standalone GBP rate risk	*0.0*	*0.0*	*0.0%*
Standalone spread risk	11.1	17.0	-34.7%
Standalone currency risk	1.4	1.6	-10.3%
Total market risk	**11.9**	**19.4**	**-38.3%**

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 decrease compared to last year is mainly driven by the drop of the market values of the bonds and the shorter average duration of the asset portfolio.

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 2023 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 Re Group	3	191.8	18.7
Zürcher Kantonalbank (ZKB)	1	34.8	34.8
KB Kookmin Bank	3	20.0	20.0
CREDIT SUISSE	3	15.4	15.4
CREDIT MUTUEL	3	13.7	13.7
ALLIANZ	3	11.7	11.7
BALOISE	3	11.4	11.4
HELVETIA	3	9.5	9.5
AXERIA IARD	4	8.3	8.3
CREDIT AGRICOLE	3	7.7	7.7
Top 10 Counterparties		**324.3**	**151.2**

Credit risk decreased significantly, mainly due to the use of collateral to further reduce the credit risk to Korean Re Group. The credit risk still existing after application of the collateral account mainly arises from cash held at ZKB and KB Kookmin Bank, followed by the Credit Risk arising 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.

The 10 largest counterparties make up EUR 324.3m or 74.1% 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 (EURm)	SST 2023	SST 2022
Attritional Events Premium Risk (AEP)	15.1	17.7
Individual Events 1 (IE1)	10.3	11.1
Natural Catastrophe Events (NE)	9.0	13.5
Diversification (Premium Risk)	*-16.4*	*-20.9*
Underwriting Risk	18.0	21.5
Attritional Events Reserve Risk (AER)	15.9	9.5
Individual Events 2 (IE2)	14.4	8.4
Diversification (Reserving Risk)	-11.1	-6.5
Reserving Risk	*19.3*	*11.4*
Diversification (Insurance)	-8.8	-7.1
Expected Shortfall Insurance	**28.5**	**25.8**

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 in the Insurance Risk compared to last year is mainly driven by the increase in the risk components AER and IE2 due to the increase in reserves. This is partially offset by the discounting effect which is the main driver of the decrease of the Underwriting risk components AEP, IE1 and NE. 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 (EURm)	SST 2023	SST 2022
EU Winterstorm (gross)	151.6	230.1
EU Flood (gross)	112.6	193.4
EU Earthquake (gross)	77.9	135.6
Target Capital (net, undiscounted)	**9.0**	**13.3**

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 2022, are audited. Please refer to the report of the auditor in the KRSA Annual Report 2022.

https://www.koreanre.ch/our-business

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	107,027	172,823	121	287			12,669	27,560	5,571	13,953	76,435	105,593	2,088	8,412	10,143	16,858	-0	160
2	Reinsurers' share of gross premiums	-79,439	-105,337	-61	-3			-6,335	-2,165	-2,531	-157	-61,732	-89,765	-1,044	-318	-7,737	-12,809	0	-120
3	Premiums for own account (1 + 2)	27,588	67,486	61	283	-	-	6,335	25,395	3,040	13,796	14,703	15,828	1,044	8,094	2,406	4,049	-0	40
4	Change in unearned premium reserves	-14,972	-25,828	-0	-0			-1,179	-7,277	-892	-6,336	-9,599	-6,490	-620	-2,695	-2,682	-3,026	0	-4
5	Reinsurers' share of change in unearned premium reserves	10,602	6,064	0	-			627	-514	218	-1,392	7,634	5,781	310	-305	1,813	2,490	-0	3
6	Premiums earned for own account (3 + 4 + 5)	23,219	47,722	61	283	-	-	5,783	17,604	2,365	6,068	12,738	15,120	734	5,094	1,538	3,513	0	39
7	Other income from insurance business	2,106	9,921	-	-			-	-	-	-	-	-	-	-	-	-	2,106	9,921
8	**Total income from underwriting business (6 + 7)**	**25,325**	**57,642**	**61**	**283**	**-**	**-**	**5,783**	**17,604**	**2,365**	**6,068**	**12,738**	**15,120**	**734**	**5,094**	**1,538**	**3,513**	**2,107**	**9,960**
9	Payments for insurance claims (gross)	-38,195	-84,476	-0	-5			-3,360	-7,865	-950	-1,980	-33,264	-71,867	-5	-60	-397	-2,698	-218	-
10	Reinsurers' share of payments for insurance claims	26,848	66,338	0	2			1,680	3,484	477	493	24,411	60,424	3	19	278	1,916	-	-
11	Change in technical provisions	-128,853	-66,424	-109	-131			-8,593	-14,570	-2,647	-4,482	-111,217	-35,291	-1,650	-4,624	-4,636	-7,305	0	-21
12	Reinsurers' share of change in technical provisions	107,020	40,507	55	-29			4,339	-38	1,319	427	97,252	34,018	824	699	3,232	5,431	-0	-
13	Change in technical provisions for unit-linked life insurance	-	-	-	-			-	-	-	-	-	-	-	-	-	-	-	-
14	**Expenses for insurance claims for own account (9 + 10 + 11 + 12 + 13)**	**-33,180**	**-44,055**	**-55**	**-163**	**-**	**-**	**-5,933**	**-18,989**	**-1,802**	**-5,542**	**-22,819**	**-12,717**	**-829**	**-3,966**	**-1,524**	**-2,657**	**-218**	**-21**
15	Acquisition and administration expenses	-23,842	-39,645	-12	-26			-2,308	-5,141	-799	-1,523	-12,276	-19,944	-194	-1,203	-2,467	-4,547	-5,786	-7,261
16	Reinsurers' share of acquisition and administration expenses	13,604	23,078	7	0			1,309	1,094	394	271	9,928	17,834	115	182	1,850	3,681	0	15
17	Acquisition and administration expenses for own account (15 + 16)	-10,238	-16,568	-4	-25	-	-	-999	-4,048	-405	-1,252	-2,347	-2,110	-79	-1,020	-618	-866	-5,786	-7,246
18	Other underwriting expenses for own account	-2,719	-10,770															-2,719	-10,770
19	**Total expenses from underwriting business (14 + 17 + 18) (non-life insurance only)**	**-46,138**	**-71,393**	**-59**	**-188**			**-6,933**	**-23,037**	**-2,207**	**-6,794**	**-25,166**	**-14,827**	**-908**	**-4,986**	**-2,142**	**-3,523**	**-8,723**	**-18,037**
20	Investment income	1,070	1,819																
21	Investment expenses	-90	-569																
22	**Net investment income (20 + 21)**	**979**	**1,250**																
23	Capital and interest income from unit-linked life insurance	-	-																
24	Other financial income	-	-																
25	Other financial expenses	-123	-120																
26	**Operating result (8 + 14 + 17 + 18 + 22 + 23 + 24 + 25)**	**-19,956**	**-12,621**																
27	Interest expenses for interest-bearing liabilities	-	-																
28	Other income	-	-																
29	Other expenses	-420	-197																
30	Extraordinary income/expenses	-51	-																
31	**Profit / loss before taxes (26 + 27 + 28 + 29 + 30)**	**-20,428**	**-12,818**																
32	Direct taxes	-151	-154																
33	**Profit / loss (31 + 32)**	**-20,579**	**-12,971**																

H.3.2 Market Consistent Balance Sheet Solo

Financial situation report: quantitative template

Currency: EUR
Amounts stated in millions

		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	81.9		59.9
	Loans	0.0		0.0
	Mortgages	0.0		0.0
	Equities	0.0		0.0
	Other investments	0.5		3.3
	Collective investment schemes	0.5		3.3
	Alternative investments	0.0		0.0
	Structured products	0.0		0.0
	Other investments	0.0		0.0
	Total investments	82.4		63.3
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	5.9		7.2
	Cash and cash equivalents	57.8		83.9
	Reinsurers' share of best estimate of provisions for insurance liabilities	143.7		162.6
	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	143.7		162.6
	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	0.1		0.1
	Deferred acquisition costs	0.0		0.0
	Intangible assets	0.0		0.0
	Receivables from insurance business	63.5		125.7
	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	271.3		379.7
Total market-consistent value of assets	Total market-consistent value of assets	353.7		443.0

		Ref. date previous period	Adjustments previous period	Ref. date reporting year
BEL: Best estimate of liabilities (including unit linked life insurance)	Best estimate of provisions for insurance liabilities	188.8		238.0
	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	188.8		238.0
	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	17.5		17.2
	Liabilities from insurance business	57.7		105.0
	Other liabilities	0.2		0.7
	Accrued liabilities	1.8		1.7
	Subordinated debts	0.0		0.0
Total BEL plus market-consistent value of other liabilities	Total BEL plus market-consistent value of other liabilities	266.1		362.7

		Ref. date previous period	Adjustments previous period	Ref. date reporting year
	Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities	87.6		80.3

H.3.3 Solvency Solo

Financial situation report: quantitative template "Solvency Solo"

Currency: EUR
Amounts stated in millions

		Ref. date previous period	Adjustments previous period	Ref. date reporting year
		in EUR millions	in EUR millions	in EUR millions
Derivation of RBC	Market-consistent value of assets minus total from best estimate liabilities plus market-consistent value of other liabilities	87.6		80.3
	Deductions	0.0		0.0
	Core capital	87.6		80.3
	Supplementary capital	0.0		0.0
	RBC	87.6		80.3

		Ref. date previous period	Adjustments previous period	Ref. date reporting year
		in EUR millions	in EUR millions	in EUR millions
Derivation of target capital	Underwriting risk	25.8		28.5
	Market risk	19.4		11.9
	Diversification effects	-16.8		-15.5
	Credit risk	18.8		12.9
	Risk margin and other effects on target capital	9.8		12.0
	Target capital	56.9		49.8

	Ref. date previous period	Adjustments previous period	Ref. date reporting year
	in %	in %	in %
SST ratio	163%		176%