Korean Reinsurance Switzerland AG

Financial Condition Report

12 July 2018 – 31 December 2019

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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 outlines the set-up phase of KRSA in 2018 and 2019. KRSA has received its reinsurance license from FINMA on 1 June 2019 and an 'A stable' credit rating from S&P on 28 June 2019. This was the starting point for actively approaching clients and brokers in the target business areas. KRSA has written two treaties in 2019 while the main underwriting started on 1 January 2020. At its first renewal, KRSA has written a book of business representing EUR 42.6m of gross written premiums.

Section B addresses the most important figures relating to premium income, benefits and investment results in more detail. KRSA's first overlong financial year stretches from 12 July 2018 to 31 December 2019. At the end of this period, KRSA reported a net loss after taxes of EUR 4.84m and the balance sheet amounted to EUR 56.95m.

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 of1 January 2020. KRSA's assets amount to EUR 56.8m and consist mainly of corporate bonds (78%) and cash (16%). The liabilities amount to EUR 2.8m. 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%. During the set-up process, a capital increase of EUR 53.43m has been completed in May 2019. The structure, level and quality of KRSA`s equity capital are also shown.

Section G shows the result of KRSA's first SST performed as of 1 January 2020. With an SST ratio of 167% KRSA is sufficiently capitalized. The SST calculations result in a Target Capital of EUR 27.3m. The Risk Bearing Capital amounts to EUR 45.1m. Underwriting Risk is the largest component of the Target Capital, driven by the natural catastrophe risks KRSA has written as of 1 January 2020.

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

A. Business Activities

Korean Reinsurance Company, the 10th largest reinsurer globally with more than USD 6.5bn premium, 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.

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

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 on 28 June 2019. This constituted the starting point for KRSA's approaching of clients and brokers in the European market.

After July 2019, the implementation projects for the setting up of the underwriting and the finance systems started. The finance system went live at the end of 2019, while the underwriting system will be finalized by mid-2020. In 2019, KRSA only wrote two treaties.

At its first renewal at 1 January 2020, KRSA has written a book of business representing EUR42.6m of GWP. The focus of the renewal was to smoothly transfer business from Korean Re to KRSA for clients who have accepted KRSA security. KRSA could successfully renew transferred programs and generate new business. 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.

Ernst & Young Ltd, Maagplatz 1, 8005 Zurich, is KRSA's external auditor.

As KRSA has just started to operate, all above mentioned activities since inception to end of 2019, can be considered as being "unusual events". Otherwise, there were no significant unusual events during the reporting period.

B. Performance

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

Net claims and claim expenses incurred remained limited at EUR 14k due to the above mentioned fact that virtually not business was written in 2019.

Total acquisition costs and administrative expenses were EUR 4.10m, of which the lion's share were personnel expenses for the average of 4.3 full-time equivalents and other administrative expenses such as consulting fees.

KRSA holds liquid, highly rated corporate bonds (average single A rating as of 31.12.2019), with a book value of EUR 44.57m. Income from investment activities amounted to EUR 169k, expenses of EUR 95k included some set up costs. The net income from investment contributed EUR 74k. The reporting period was marked by a challenging bond market and set up costs incurred, which resulted in a subdued return on investment of 0.2%.

Other financial income / expenses of EUR 112k included negative interest rates as well as the interest expense for the right of lease of our office. Other income/expenses of EUR 583k comprised the stamp duty for the capital increase.

The Board of Directors will propose to its shareholder to offset the loss of EUR 4.84m against KRSA's Organizational Fund. The remaining Organizational Fund stands EUR 2.52m after the offsetting.

C. Governance and risk management

KRSA is a 100% owned subsidiary of Korean Reinsurance Company. 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 2019, the CEO held also the function as CUO. The further mandatory functions of KRSA are the Internal Audit, Risk Management Function, Compliance Function and the Responsible Actuary.

Board of Directors

Board of Directors as of 31 December 2019	**Residence**
Chul Min Jang (Chairman)	Seoul, South Korea
Se Koan Oh (Member)	Seoul, South Korea
Reinhard Thoennissen (Independent Director)	Wallisellen, Switzerland
Sven Siegin (Company Secretary)	

Mr. Chul Min Jang and Mr. Se Koan Oh have been on the Board of Directors of KRSA since its foundation on 12 July 2018. Mr. Reinhard Thoennissen has joined the Board as independent member on 14 May 2019.

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

Executive Management as of 31 December 2019
Markus Eugster (CEO)
Jazmin Seijas Nogareda (CFO)
Won Joong Choi (COO)

FINMA issued its reinsurance license approval on 16 May 2019 effective as of 1 June 2019. The Executive Management has joined KRSA around the time of the license approval: Mr. Markus Eugster on 1 May, Ms. Jazmin Seijas Nogareda on 15 May and Mr. Won Joon Choi on 1 June 2019.

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, starting 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

The reporting period was the start-up phase of KRSA, in which the Corporate Governance and Risk Management were established. All roles and responsibilities were filled within the reporting year and all processes were established during this time. By the end of the reporting year, all roles and responsibilities had been filled and the processes were fully implemented.

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 form 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

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

The reporting period was the start-up phase of KRSA. All risks were identified and managed within the reporting year and all processes were set up during this time. At the end of the reporting year, a complete risk analysis was established from which a full risk profile was derived as a result of the ORSA process.

E. Valuation

KRSA's assets of total EUR 56.95m consists of corporate bonds (78%), cash (16%), the right of use of the office lease (3%) and smaller positions such as accrued assets and receivables.

The corporate bonds are liquid traded securities for which a market value as of 31.12.2019 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 right of use of the office lease was 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 2020:

Balance Sheet (EUR m)	Statutory BS 31.12.2019	Adjustments	SST BS 01.01.2020
Corporate bonds	44.99	(0.61)	44.38
of which banks and securities dealers	*12.45*	*0.03*	*12.48*
Other Assets	0.09	-	0.09
Accrued Assets	0.05	-	0.05
Bank credit balance	9.21	-	9.21
Other fixed assets	0.22	-	0.22
Share of technical provisions from reinsurance	0.10	(2.94)	(2.84)
Receivables from insurance and reinsurance companies	0.12	-	0.12
Receivables from reinsurance companies:assumed	*0.12*	-	*0.12*
Deferred Aquisition costs	0.00	(0.00)	-
Other receivables	0.00	-	0.00
Intangible Assets	2.16	(2.16)	-
Total Assets	**56.95**	(5.71)	**51.24**
Reinsurance: Non-life insurance business	0.14	4.74	4.88
Claims Reserves (gross)	*0.05*	*0.00*	*0.05*
Unearned Premium Reserve (gross)	*0.10*	*4.74*	*4.84*
Other liabilities from insurance business	0.13	-	0.13
Other liabilities	1.81	(1.57)	0.24
Other accrued expenses and deferred income	0.92	-	0.92
Total Liabilities	**2.99**	**3.17**	**6.16**
Total Equity/RBC	**53.96**	**(8.89)**	**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 on the asset and liability side (inwards premium reserve and outwards premium reserve) by adding expected future losses from the statutory Premium Reserve,
- No dividend payment is expected for 2020.

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 are different from the Statutory BS value because Korean Re accounts for them in the Statutory BS as the amortized value. 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 (business written as of 1 January 2020). This was then discounted to obtain the market consistent UPR. The discount factor was calculated as a weighted average of the discount factors per LoB, using the expected insurance loss per LoB as weight. The discount factors per LoB were constructed using the risk-free EUR yield curve from the Standard Model and assumed benchmark payment patterns.

E.2.3 Gross and Net Best Estimate Insurance Liabilities

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

Best Estimate Insurance Liabilities	Statutory BS 31.12.2019	SST BS 01.01.2020
Claims Reserves (gross)	0.05	0.05
Unearned Premium Reserve (gross)	0.10	4.84
Claims Reserves (net)	0.01	0.01
Unearned Premium Reserve (net)	0.03	7.71

The expected future net loss is larger than the expected future gross loss, which leads to the negative ceded technical provisions shown on the asset side.

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, which is part of the 'Other liabilities' position and 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 2020 Risk Margin is EUR 0.7m and corresponds to the expected discounted capital costs at the end of 2020 required by the insurance company to fulfil its insurance liabilities. It is estimated based on the expected Reserve Risk at the end of 2020 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 first operating business year 2019, a capital increase of EUR 53.43m 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 54m 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	Retained earnings	Voluntary retained earnings	Total equity
As of 12 July 2018, date of incorporation of the company	867	-	-	-	-	867
Capital Increase	7,894	42,681	7,360	-	-	57,935
Loss for the period	-	-	-	-	-4,838	-4,838
As of 31 December 2019	**8,761**	**42,681**	**7,360**	**-**	**-4,838**	**53,964**

G. Solvency

G.1 Overview

KRSA performed the Swiss Solvency Test (“SST”) for the first time as of 1 January 2020. 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 2020 SST.

Based on the Company’s business plan and planned risk profile, KRSA is solvent on an economic basis with an SST ratio of 167% as of 1 January 2020. The results of the SST 2020 for KRSA by risk is shown in the table below. The results are as submitted to FINMA on 30 April 2020.

SST Model Component	SST 2020
Attritional Events Premium Risk (AEP)	1.5
Individual Events 1 (IE1)	8.4
Natural Catastrophe Events (NE)	21.9
Diversification (Premium Risk)	-9.2
Expected Shortfall Insurance	**22.5**
Market Risk	8.3
Expected Shortfall Market incl Scenarios	**8.3**
Diversification (Insurance & Market)	-6.1
Expected Shortfall Insurance and Market Risk	**24.7**
Expected Insurance Result	0.2
Expected Financial Performance over 1 year risk free	-0.3
ES[Insurance & Market] including expected result	**24.6**
Credit Risk	2.0
Insurance & Market & Credit risks = Target Capital	**26.6**
Risk Margin	0.7
Target Capital	**27.3**
Risk Bearing Capital	**45.1**
SST Ratio	**167%**

Comments on individual risk components are as follows:

- **Insurance Risk:** Underwriting Risk is largest component of the Target Capital. This is driven by Natural Catastrophe Events (NE) and reflects the property contracts covering Natural Catastrophe losses KRSA has written on 1 January 2020. Reserve Risk is zero due to the insignificant reserves booked as of 31 December 2019.
- **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.
- **Expected Insurance Result:** The Expected Insurance Result is in line with KRSA Plan and reflects the expected loss in 2020. Note that renewals on 1 January 2020 are considered as bound on the same date and hence included in the Risk Bearing Capital.
- **Expected Financial Result:** The Expected Financial Result is based on the FINMA Standard Model and reflects the expected financial return of KRSA bonds.
- **Credit Risk:** Credit Risk is based on the FINMA Standard Model. The largest KRSA asset position is the Bond investments, which are then the largest contributors to Credit Risk. In addition, Credit Risk also arises from losses expected to be ceded to the retrocession programme during 2020 and cash positions.
- **Risk Margin:** The 2020 MVM corresponds to the expected discounted capital costs at the end of 2020 required by the insurance company to fulfil its insurance liabilities. It is estimated based on the expected Reserve Risk at the end of 2020 and the FINMA Standard Model.
- **Risk Bearing Capital ("RBC"):** The RBC is based on the 31 December 2019 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.

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 January 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 2020 is shown in the following table:

Risk factor	Standalone Capital Requirements
Liability Cash Flows Valuation	0.5
Fixed Income Cash Flows Valuation	8.6
Delta-Normal Valuation term	0.1
Interest Rate Risk	8.0
Interest Rate EUR	7.1
Interest Rate USD	1.1
Spread	6.5
Exchange Rate	1.0
Total	**8.3**

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.

G.3 Credit Risk

KRSA uses the FINMA standard model for Credit Risk as described in the document "Technische Beschreibung für das SST-Standardmodell Kreditrisiko", dated 31. October 2019. The composition of the Credit Risk Target Capital for the SST 2020 is shown in the following table:

BS Position	Counterparty Type	Rating Issue S&P	Total Market Value	Weight	Credit Risk
Bank credit balance	Banks and securities dealers, initial term to maturity of claim of ≤ 3 months	AA	0.1	20%	0.0
		A	9.1	20%	0.1
Subtotal bank credit balance			**9.2**		**0.1**
Corporate bonds	Corporate positions	AA	4.1	20%	0.1
		A	21.2	50%	0.8
		BBB	6.6	100%	0.5
Subtotal corporate bonds			**31.9**		**1.4**
Corporate bonds: banks and securities dealers	Banks and securities dealers, initial term to maturity of claim of > 3 months	A	9.8	50%	0.4
		BBB	2.7	50%	0.1
Subtotal corporate bonds: banks and securities dealers			**12.5**		**0.5**
Other accrued expenses and deferred income	Corporate positions	Not Rated	0.1	100%	0.0
Other assets	Banks and securities dealers, initial term to maturity of claim of > 3 months	A	0.1	50%	0.0
Other receivables	Corporate positions	Not Rated	0.0	100%	0.0
Receivables from reinsurance companies: assumed	Corporate positions	BB	0.1	100%	0.0
Share of technical provisions from reinsurance: non-life	Corporate positions	AA	-0.1	20%	0.0
		A	-2.7	50%	-0.1
		BBB	0.0	100%	0.0
		BB	0.0	100%	0.0
		B	0.0	150%	0.0
Subtotal share of technical provisions from reinsurance: non-life			**-2.8**		**-0.1**
Expected ceded losses	Corporate positions	AA	0.0	20%	0.0
		A	0.3	50%	0.0
		BBB	0.0	100%	0.0
		BB	0.0	100%	0.0
		B	0.0	150%	0.0
Subtotal expected ceded losses			**0.3**		**0.0**
Total			**51.3**	**49%**	**2.0**

The table shows that the Credit Risk arises mainly from counterparties that correspond to banks or corporate. These counterparty's types correspond to the cash, the bonds and the expected ceded loss positions.

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 2020
Attritional Events Premium Risk (AEP)	1.5
Individual Events 1 (IE1)	8.4
Natural Catastrophe Events (NE)	21.9
Diversification (Premium Risk)	-9.2
Reserving Risk	0.0
Expected Shortfall Insurance	**22.5**

The components in the table above are as follows: Attritional Event Premium Risk ("AEP"), Individual Events 1 ("IE1"), i.e. large premium risk, and Natural Catastrophe ("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	SST 2020
EU Windstorm (gross)	134.0
EU Flood (gross)	56.6
EU Earthquake (gross)	91.0
TC gross	144.9

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 very small. For AEP the expectation is that losses will occur for all LoBs in 2020, whereas for IE1 the expectation is that large losses will be observed mainly for the Property LoB.

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 2019, are audited. Please refer to the report of the auditor in the KRSA Annual Report 2019.

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		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
1	Gross premiums		163										163				
2	Reinsurers' share of gross premiums		-114										-114				
3	Premiums for own account (1 + 2)		49										49				
4	Change in unearned premium reserves		-96										-96				
5	Reinsurers' share of change in unearned premium reserves		67										67				
6	Premiums earned for own account (3 + 4 + 5)		20										20				
7	Other income from insurance business		1										1				
8	**Total income from underwriting business (6 + 7)**		**21**										**21**				
9	Payments for insurance claims (gross)		-										0				
10	Reinsurers' share of payments for insurance claims		-										0				
11	Change in technical provisions		-47										-47				
12	Reinsurers' share of change in technical provisions		33										33				
13	Change in technical provisions for unit-linked life insurance		-										0				
14	Expenses for insurance claims for own account (9 + 10 + 11 + 12 + 13)		-14										-14				
15	Acquisition and administration expenses		-4,096										-4,096				
16	Reinsurers' share of acquisition and administration expenses		6										6				
17	Acquisition and administration expenses for own account (15 + 16)		-4,090										-4,090				
18	Other underwriting expenses for own account		-										0				
19	**Total expenses from underwriting business (14 + 17 + 18) (non-life insurance only)**		**-4,104**										**-4,104**				
20	Investment income		169														
21	Investment expenses		-95														
22	**Net investment income (20 + 21)**		**74**														
23	Capital and interest income from unit-linked life insurance		0														
24	Other financial income																
25	Other financial expenses		-112														
26	**Operating result (8 + 14 + 17 + 18 + 22 + 23 + 24 + 25)**		**-4,121**														
27	Interest expenses for interest-bearing liabilities																
28	Other income																
29	Other expenses		-583														
30	Extraordinary income/expenses																
31	**Profit / loss before taxes (26 + 27 + 28 + 29 + 30)**		**-4,704**														
32	Direct taxes		-134														
33	**Profit / loss (31 + 32)**		**-4,838**														

H.3.2 Market Consistent Balance Sheet Solo

Financial situation report: quantitative template "Market-consistent Balance Sheet Solo"

Currency: EUR
Amounts stated in thousands

		Ref. date previous period	Adjustments previous period	Ref. date reporting year
Market-consistent value of investments	Real estate			-
	Shareholdings			-
	Fixed-income securities			44,383
	Loans			-
	Mortgages			-
	Equities			-
	Other investments			-
	Collective investment schemes			-
	Alternative investments			-
	Other investments			-
	Total investments			44,383
	Financial investments from unit-linked life insurance			-
	Receivables from derivative financial instruments			-
Market-consistent value of other assets	Cash and cash equivalents			9,208
	Receivables from insurance business			123
	Other receivables			4
	Other assets			364
	Total other assets			9,699
Total market-consistent value of assets	Total market-consistent value of assets			54,082

		Ref. date previous period	Adjustments previous period	Ref. date reporting year
Best estimate liabilities (BEL)	Best estimate of provisions for insurance liabilities			4,883
	Direct insurance: life insurance business (excluding ALV)			-
	Direct insurance: non-life insurance business			-
	Direct insurance: health insurance business			-
	Direct insurance: unit-linked life insurance business			-
	Direct insurance: other business			-
	Outward reinsurance: life insurance business (excluding ALV)			-
	Outward reinsurance: non-life insurance business			4,883
	Outward reinsurance: health insurance business			-
	Outward reinsurance: unit-linked life insurance business			-
	Outward reinsurance: other business			-
	Reinsurers' share of best estimate of provisions for insurance liabilities			2,842
	Direct insurance: life insurance business (excluding ALV)			-
	Direct insurance: non-life insurance business			-
	Direct insurance: health insurance business			-
	Direct insurance: unit-linked life insurance business			-
	Direct insurance: other business			-
	Outward reinsurance: life insurance business (excluding ALV)			-
	Outward reinsurance: non-life insurance business			2,842
	Outward reinsurance: health insurance business			-
	Outward reinsurance: unit-linked life insurance business			-
	Outward reinsurance: other business			-
Market-consistent value of other liabilities	Non-technical provisions			-
	Interest-bearing liabilities			-
	Liabilities from derivative financial instruments			-
	Deposits retained on ceded reinsurance			-
	Liabilities from insurance business			125
	Other liabilities			1,156
Total BEL plus market-consistent value of other liabilities	Total BEL plus market-consistent value of other liabilities			9,007

	Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities			45,075

H.3.3 Solvency Solo

Financial situation report: quantitative template "Solvency Solo"

Currency: EUR
Amounts stated in thousands

1000

		Ref. date previous period	Adjustments previous period	Ref. date reporting year
		in EUR thousands	in EUR thousands	in EUR thousands
Derivation of RBC	Market-consistent value of assets minus total from best estimate liabilities plus market-consistent value of other liabilities			45,075
	Deductions			-
	Core capital			45,075
	Supplementary capital			-
	RBC			45,075

		Ref. date previous period	Adjustments previous period	Ref. date reporting year
		in EUR thousands	in EUR thousands	in EUR thousands
Derivation of target capital	Underwriting risk			22,506
	Market risk			8,342
	Diversification effects			(6,124)
	Credit risk			2,006
	Risk margin and other effects on target capital			558
	Target capital			27,288

	Ref. date previous period	Adjustments previous period	Ref. date reporting year
	in %	in %	in %
SST ratio			167%