

Addendum to Financial Statements
For the financial period from 1 April 2013 to 31 December 2013

KOREAN REINSURANCE COMPANY – SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial period from 1 April 2013 to 31 December 2013

Branch Profile

Korean Reinsurance Company, Singapore branch (“the Branch”) is a segment of the Korean Reinsurance Company, a Company incorporated in the Republic of South Korea. The Branch is not a separately incorporated legal entity.

The Branch writes treaty general reinsurance of all classes of risk across around 30 markets, with a main focus on Indonesia, Malaysia, Thailand, Singapore, India and Pakistan. The business portfolio comprises of proportional and non-proportional treaty reinsurance business written in both the Offshore Insurance Fund (“OIF”) and Singapore Insurance Fund (“SIF”), whereby for the financial year of 2013 about 86% of the gross written premiums related to the OIF portfolio and about 14% related to the SIF portfolio.

The overall portfolio mix for the OIF has remained stable over the past 5 years, whereby Property is the key line of business amounting for more than 65% of gross written premiums. Other key business lines are Casualty and Others, Marine and Aviation Cargo, as well as Marine and Aviation Hull and Liability. In recent years, the Branch has focused efforts on growing its OIF non-proportional portfolio.

For the SIF, Fire is the key line of business amounting to about 60% of gross written premiums for financial year 2013. Other key business lines are Miscellaneous, Marine and Aviation Hull and Liability, as well as Marine and Aviation Cargo. Whilst Marine and Aviation Hull and Liability used to be a significant line of business of the Branch prior to financial year 2011, business volumes for this line have reduced significantly in recent years. This has been accompanied by a corresponding increase in Fire and Miscellaneous lines.

Regulatory Framework

The Branch is required to comply with the Insurance Act (Cap.142), Regulations and Notices as applicable to general reinsurance companies. With effect from 1 January 2014, the Branch is required to establish an ERM framework, risk management policy and risk tolerance statement in accordance to MAS Notice 126 (“the Notice”) Enterprise Risk Management for Insurers. In addition, the Branch is required to perform its own risk and solvency assessment (“ORSA”) to assess the adequacy of its risk management, and current and projected future solvency positions.

Governance Framework

Managing risks is an integral part of Korean Reinsurance’s core business. The Branch’s goal of risk management is, under the given available capital, to control the total risk exposures below an acceptable threshold, and to manage the Branch’s key risks effectively towards optimizing risk-adjusted returns.

The Branch’s Board of Directors (“Board”) has ultimate responsibility for the formulation, establishment, implementation and approval of the Branch’s Enterprise Risk Management (“ERM”) framework. Risk management is carried out under policies approved by the Board, as the Board provides written principles for overall risk management.

KOREAN REINSURANCE COMPANY – SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial period from 1 April 2013 to 31 December 2013

Governance Framework (continued)

The Branch operates a Three-Lines-of-Defence model.

- 1) The 1st line of defence consists of the Chief Executive Officer (CEO) and the key managers of the Branch. They are responsible for the day-to-day operations of the ERM framework to identify, assess, manage and report business risks.
- 2) The 2nd line of defence consists of the Branch's risk management personnel which reports to the Chief Risk Officer ("CRO") and in turn the Risk Management Committee ("RMC"), a Board Committee at the Head Office. The RMC, which is composed of two non-executive directors and the CRO, is entrusted with the authority of the Board to oversee the execution of the risk management strategy by the 1st line in accordance to Board-approved risk tolerance statements and limits.
- 3) The 3rd line of defence consists of the Head Office's audit committee. The audit committee, supported by the compliance team, inspects the 1st and 2nd lines to evaluate the approach and operational effectiveness of internal systems and controls.

The Branch and Head Office have established a risk management communication and reporting procedure, whereby risk management information is tabled to various committees periodically. The Branch and Head Office's risk management, compliance and audit teams take on a coordinated, holistic and multilateral approach in risk management to examine all material risk exposures of the Branch.

Enterprise Risk Management Framework ("ERM")

The Branch's ERM framework covers the following material risks:

- a) Catastrophe risk
- b) Insurance risk
- c) Market risk
- d) Credit risk
- e) Liquidity risk
- f) Operational risk.

KOREAN REINSURANCE COMPANY – SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial period from 1 April 2013 to 31 December 2013

Enterprise Risk Management Framework (“ERM”) (continued)

(a) Catastrophe risk

Catastrophe risk is one of the largest risks to the Branch given the nature of its business to underwrite reinsurance business from various regions around the world. The objective is to maximize the Branch's profits while controlling the risks within a tolerance limit.

The Branch made a substantial loss from the Thai floods in 2011. This has led to a change in the Branch's underwriting approach. Further, the Branch reduced its exposure to natural catastrophe events and introduced event limits within contractual terms and conditions.

In view of the lack of predictability of the scope and intensity of flood damage, the Branch has enhanced its catastrophe risk management in various ways such as tightening the underwriting guidelines in catastrophe-prone areas, reducing exposures to high risk-accumulated zones and developing a proprietary flood risk analysis model.

The Branch outsources its catastrophe modeling program. However, it has introduced one of the global vendors' catastrophe model (AIR) in July 2013 to six major regions with priority for overseas accumulation risk management. General catastrophe exposure limits are set at 10% of solvency capital for most territories to restrict the risks accepted.

The Branch utilizes outward reinsurance, such as catastrophe event, excess of loss and quota share cover to limit exposure to catastrophe events. Its retrocession management is focused on retention profit stability control. The Branch reinsures its business with various retrocessionaires with majority of them having a credit rating of A- and above. In addition, the Branch minimises its concentration risk by diversifying its exposures to a panel of retrocessionaires.

(b) Insurance risk (see note 19(a))

The following tables disclose the geographical concentration of gross written premiums (by calendar year basis) in relation to the type of insurance risk accepted by the Branch:

Gross written Premium

	12 months ended 31 Dec 2013 \$'000	12 months ended 31 Dec 2012 \$'000
- Indonesia	8,313	6,915
- Malaysia	5,348	3,588
- Thailand	20,217	20,464
- Singapore	10,678	9,464
- India	7,093	7,359
- Pakistan	5,408	4,822
- Others	<u>21,205</u>	<u>22,636</u>
	<u>78,262</u>	<u>78,248</u>

KOREAN REINSURANCE COMPANY – SINGAPORE BRANCH

NOTES TO THE FINANCIAL STATEMENTS

For the financial period from 1 April 2013 to 31 December 2013

Enterprise Risk Management Framework (“ERM”) (continued)

- (c) Market risk (see note 19(b)(i))
- (d) Credit risk (see note 19(b)(ii))
- (e) Liquidity risk (see note 19(b)(iii))
- (f) Operational risk

Operational risk arises from any event or action that may potentially impact partly or completely the achievement of the Branch’s financial objectives resulting from inadequate or failed internal processes and systems, human factors, or external events.

The day-to-day management of operational risk is supported by an infrastructure of systems and procedures to monitor key business processes and transactions. In addition, the Branch has adopted the Head Office’s IT systems and network security to protect customer information from unauthorized access or disclosure.

The Risk Management team cooperates with the Compliance team and the corporate lawyer to ensure that any lawsuits, arbitration and important contracts that may affect the Branch’s or Head Office’s reputation are pre-inspected before execution.

INVESTMENTS

(a) Objectives

The Branch investment’s objectives are to seek preservation of capital and prudent liquidity management. It aims to achieve reasonable returns and capital growth by investing primarily in money market and Singapore Government Securities.

(b) Processes

All investment decision has to be routed to Head Office’s Asset Management Department for approval before any investment commitment is made by the Branch. The Branch will review its liquidity and asset-liability matching requirements on a regular basis and seek out investment opportunities in fixed deposits and Singapore Government Securities. The details of the investment will thereafter be provided to the Head Office’s Asset Management Department for review and approval before further is action taken to commit the investment.