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## Ratings On Korean Re Raised To 'A' Following Issuance Of Subordinated Capital Securities; Outlook Stable

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- Korean Re has issued subordinated capital securities, which we had rated 'BBB' as a proposed issuance.
- We are raising the financial strength and counterparty credit ratings on Korean Re to 'A' from 'A-'. At the same time, we are upgrading the subordinated capital securities to 'BBB+'.
- We have resolved the positive CreditWatch placements on the ratings on Korean Re. The outlook is stable.

HONG KONG (Standard & Poor's) Oct. 24, 2014--Standard & Poor's Ratings Services said today that it has raised its financial strength and counterparty credit ratings on Korean Re to 'A' from 'A-', following the insurer's issuance of subordinated capital securities. The outlook on the ratings is stable. At the same time, we raised the issue rating on the subordinated capital securities to 'BBB+' from 'BBB', which we had assigned to the proposed issuance on Sept. 30, 2014. On the same day, we had placed the ratings on Korea Re on CreditWatch with positive implications, based on our view that Korean Re could strengthen its capital and earnings to levels that are commensurate with higher ratings, depending on the details of the issuance.

Today's upgrade reflects a revision in our assessment of Korean Re's capital and earnings. Following its US\$200 million subordinated capital securities issuance, we believe it could further strengthen its capital and earnings over the medium term. We now assess its capital and earnings as "moderately strong" (its prospective capital stands significantly above the prospective risk-based

capital requirement at the 'BBB' confidence level, but slightly below the prospective risk-based capital requirement at the 'A' confidence level). Our view takes into account the insurer's business expansion prospects and profitability over the next 18 to 24 months. We regard the securities as having "intermediate" equity content. Accordingly, we are incorporating them as part of Korean Re's capital base in our capital assessment, based on final issuance documentation.

Our "moderately strong" assessment of its capital and earnings led us to also assess its financial risk profile as "moderately strong." The combination of a "very strong" business risk profile and "moderately strong" financial risk profile resulted in dual anchors of 'a+' and 'a' for Korean Re. However, as we assume in our base-case scenario that its capital will likely be on the weaker side of "moderately strong," we assigned Korean Re an 'a' anchor and upgraded it to 'A'.

The stable outlook reflects our view that Korean Re will maintain reasonable growth and profitability, supporting our capital assessment. In addition, we believe it will likely maintain its business profile at the current level. Its capitalization will remain as a key driver of our rating assessment over the next 24 months. We currently see the likelihood of an upgrade over the same period as remote, because we believe Korean Re's capitalization will not improve notably.

On the other hand, we could lower the ratings on Korean Re if its capitalization level deteriorates to lower adequate or below, which could happen because of the following:

- Considerably higher revenue growth (high double-digit annual growth) without further strengthening of capital base or profitability; or
- Unexpectedly large losses from a catastrophic event.

#### RELATED CRITERIA AND RESEARCH

##### Related Criteria

- Insurers: Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria Clarification On Hybrid Capital Step-Ups, Call Options, and Replacement Provisions, Oct. 22, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

##### Related Research

- Korean Re Placed On CreditWatch Positive After Proposed Subordinated

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Capital Securities Rated 'BBB', Sept. 30, 2014

- Korean Reinsurance Co., June 30, 2014

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