UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

MANAGEMENT OF RISKS

The Group have adopted prudent strategies and techniques which aim to effectively identify, evaluate and manage risks for its reinsurance underwriting, life insurance underwriting and investments.

(i) Underwriting activities

The Group's reinsurance portfolio is made up of a mix of business spread across different geographic regions and classes, with emphasis towards Asian countries property damage, marine cargo and hull and miscellaneous non-marine classes. In addition to diversifying its underwriting portfolio, the Group does not actively seek acceptance of any liability reinsurance business from customers operating outside of the Asia Pacific region, in particular, the United States of America. In the Asia Pacific region, where there are core markets of the Group, liability reinsurance for motor, workers' compensation and general third party liability are written on a limited scale in order to provide customers in the region with comprehensive reinsurance services.

The Group focuses its life insurance business towards the PRC's life insurance market, offering a wide range of insurance products covering different types of individual and group life insurance, health insurance, accident insurance and annuity. With regard to the control of quality of the insurance polices underwritten, the Group has formulated strict operational procedures on underwriting and claims settlement in accordance with international practices, to control risks on insurance underwriting. Furthermore, the management will regularly review claims made under different types of insurance products and work out appropriate measures when necessary, to ensure the growth in business as well as to enhance the quality of the insurance policies underwritten at the same time.

(ii) Reinsurance Protection

The Group purchases reinsurance protections in order to increase its acceptance capacity, to diversify its risk exposure and to harmonize its net retention exposure to avoid any significant adverse impact to its financial performance which may be caused by single or multiple catastrophic losses. The reinsurance protections are chosen after careful consideration of the reinsurers' reputation and credit worthiness. In assessing the credit worthiness of reinsurers, the Group takes into account, among other factors, ratings and evaluation by recognized credit rating agencies, claims-paying and underwriting track record, as well as the Group's past transaction experience with them. The Group also spreads out the credit risk by reinsuring with a number of reinsurers who are domiciled in many different countries.

The Group also strengthens the acceptance capacity and claim-paying capacity, and diversifies risk exposure of its life insurance business through the arrangement of reinsurance protection.

In addition to the statutory reinsurance arrangements, TPL also arranges reinsurance contracts with a number of international and domestic reinsurance companies of reasonable credit-worthiness. While ensuring to satisfy the minimum statutory solvency requirements, TPL also applies prudence to determine its retention level.

(iii) Catastrophe exposure

The Group closely monitors its aggregate exposure to natural catastrophic perils around the world, and record down major catastrophic losses in a historical database. Aggregate exposure is reviewed and analyzed on a regular basis. The catastrophic exposure of the Group is protected by means of various excess of loss reinsurance protection facilities which limits the Group's maximum net retained loss to a tolerable level.

The Group also limits the maximum retained loss suffered from catastrophe exposure of its life insurance business to a tolerable level by entering into catastrophe reinsurance protection agreements.

(iv) Reserve adequacy

The Group exercises great care and effort in setting up the reserves for its reinsurance business. The reserves are estimated by the Group, using actuarial methods such as loss development methods and/or Bornhuetter-Ferguson method. The adequacy of the reserves is regularly reviewed.

The computation of the Group's reserves for its life insurance business follows the statutory requirements as stipulated by China Insurance Regulatory Commission and also in accordance with the internationally acceptable practices. The determination of annual reserves to be made are based on a conservative forecast of mortality rate, return of investment and interest rate to ensure the adequacy of the reserves.

(v) Foreign currency

The Group underwrites business originating from many parts of the world. It is potentially subject to currency fluctuation when claims are to be paid. The Group hedged the currency risk by holding deposits in a number of currencies and by premium income generated from the underwriting in the relevant foreign currency. The transfer of foreign currency exposure through appropriate reinsurance protection also provides the Group with additional hedging against such currency fluctuation risk. Members of the senior management are dedicated to monitor the book of foreign currencies held by the Group.

(vi) Investments

The Group's investment policy emphasizes asset quality and liquidity. However, its investments are subject to various exposures including market risks and credit risks, as well as interest rate risk. Prudent risk management procedures are in place with an aim to manage those risks. Market risks are the risks that changes in interest rates, foreign exchange rates or equity and commodity prices will affect the prices of monetary assets taken or held by the Group. The adoption of held to maturity approach of the fixed rate securities has provided the Group with steady income and the composition of the investment portfolio is geared towards stable recurrent income.